

ANNUAL REPORT

2019-20



NT
BUILD



Portable long service leave
Northern Territory construction industry

ntbuild.com.au



NT Build - portable long service leave

Annual Report 2019-20

Objective of the report

The objective of the report is to satisfy the requirements of section 68 of the *Construction Industry Long Service Leave and Benefits Act 2005* by presenting the Minister responsible for NT Build with a summary of the activities of the Board during the 2019-20 financial year.

It also provides the Northern Territory Legislative Assembly, government agencies, stakeholders and other interested parties with an account of the performance of NT Build during the year in relation to the activities, achievements and operations of the construction industry portable long service leave scheme.

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Letter to Minister

The Hon Nicole Manison MLA
Minister for Mining and Industry
Legislative Assembly of the Northern Territory
Darwin NT 0800

Dear Minister

RE: NT BUILD ANNUAL REPORT 2019-20

On behalf of the NT Build Board, I am pleased to present you with the fifteenth NT Build Annual Report, for the year ended 30 June 2020.

The report details the activities and achievements of NT Build during its fifteenth year of operation and has been prepared in accordance with the provisions of Section 68 of the *Construction Industry Long Service Leave and Benefits Act 2005* (the CILSLB Act).

I advise that, to the best of my knowledge and belief, the system of internal control within NT Build provides reasonable assurance that:

- proper accounts and records of the Board's transactions and financial affairs are kept and the financial statements included in this report have been prepared from proper accounts and records and are in accordance with the CILSLB Act;
- there are adequate controls over the incurring of the Board's liabilities ;
- all payments out of the Board's money are correctly made and properly authorised;
- adequate control is maintained over the Board's property and property in the Board's custody, control and management;
- there is no indication of fraud, malpractice, major breach of legislation or delegation, or major error in or omission from the accounts and records;
- all employment matters have been handled in accordance with *Public Sector Employment and Management Act 1993* and the CILSLB Act, as appropriate.

As required by section 69 of the CILSLB Act, you are advised that the Auditor-General has audited NT Build's financial statements for the year ended 30 June 2020 and her comments are contained in this report.

May I also draw your attention to section 68(5) of the CILSLB Act, which requires that a copy of this Report be tabled in the Legislative Assembly within six sitting days of receipt.

Yours sincerely



MICHAEL MARTIN OAM
Chairperson, NT Build Board

28 October 2020

Chairperson's Report

During the past year the Scheme has experienced the challenges of the COVID-19 pandemic and responded to these by taking a number of actions by both the Board and Management level.

The Board was very concerned with the impact of COVID on its funds under management and its solvency ratio. The Board held a number of special meetings to develop a strategy to monitor its financial position and solvency ratio. The Board were also provided with weekly reports from Management and I am pleased to report that while the Scheme did experience volatility in financial markets, its financial position has always been sustainable with strong solvency. I thank Management as well as our implemented consultants and our actuary for their vigilance and timely reporting that is still required under the COVID environment.

As the Registrar has commented, NT Build's financial position has been significantly improved in this financial year, as we were able to recognise the final payment of \$19.5M from Inpex for the liability created by the workforce on the LNG Project. The funds have now been paid since the end of the financial year, and this concludes the enormous amount of work undertaken by NT Build to secure the payment. On behalf of the Board, I thank the Registrar and all of his team who have worked so diligently over 8 years to ensure that the necessary records were available for the actuary to assess the liability from such a large LNG construction project.

The Board recognises that the LNG project is the first completed under the major project provisions of the CILSLB Act. The Board will review the process to identify any possible improvements and advise the Minister of its findings.

As mentioned previously the investment of some \$80 million in funds management continues to be a major focus of the NT Build Board, which continues to assess and review our investment strategy in consultation with the Department of Treasury and Finance and our fund manager JANA. The Board regularly discusses and monitors the Scheme's solvency ratio and risk factors that will impact this ratio. COVID required special focus on our investment as I mentioned earlier. However, before COVID, the Board was very active in assessing and reviewing its investment strategy.

I take this opportunity to thank my fellow board members for their contribution over the past 12 months and their input into the strategic issues addressed by the Board during the year especially their response to the challenges of COVID. Each board members' input and commitment has again been critical to our effective response.

The Registrar has covered several relevant matters in his report which I will not repeat here but I recommend his Report. The Registrar continues to work closely with the Board and provides an effective level of support to the Board. On behalf of the Board, I thank him for his support, diligence and commitment during the year and the manner in which he was able to keep the Board advised on the response to COVID.

Finally, I again pay tribute to the significant contribution and commitment of all NT Build staff during a very challenging year. Their dedication has been evidenced by successful outcomes over the 12 months and the continued success of the Scheme.



MICHAEL MARTIN OAM
Chairperson

Registrar's Report

Due to the Scheme continuing to mature, more workers became eligible for benefit payments. This was also largely due to the completion of the construction phase of the major LNG Gas Plant project. A total of 1459 benefit claims were processed during the year. This represented a decrease of 358 claims in comparison to the 2018-19 numbers. Eligibility for paying these benefits was possible in large part due to the National Reciprocal Agreement, which recognises workers' service in all other Australian jurisdictions and the maturing service of local construction industry workers.

Although the Scheme still recorded new registrations from workers, an overall decrease in active workers of approximately 18% as at 30 June 2020 has been recorded. This decrease is a result of both a data cleanse of records for worker's who had been inactive for a period of more than four years and the exodus of workers following the completion of the construction phase of the LNG Gas Plant project.

The current active registration numbers are within the normal historical parameters of the Territory construction industry workforce. Registrations are expected to remain at these levels due to the general economic downturn that is affecting the Northern Territory construction industry.

The Scheme recorded a total levy income of \$21.61 million in 2019-20. This represented a significant increase in comparison to the \$1.38 million recorded in 2018-19. The amount of \$2.111 million related to general construction activity, while \$19.499 million related to a final levy payment for the major LNG Gas Plant project. This levy payment will reimburse the Scheme for benefits already paid and cover future

benefit entitlements for the large number of employees who worked on this project. This significant levy contribution is also reflected in the Scheme's equity of \$42.3 million recorded for this reporting period (up from the \$23.5 million reported in 2018-19).

In comparison to the 2018-19 period, the liability valuation for 2019-20 also decreased \$7.524 million, primarily as a result of the amount of benefit payments made to workers.

At the end of this reporting period, the Scheme continues to hold a sustainable net asset position.

This reporting period was also significant due to the impact of COVID-19. The pandemic required an examination of the Scheme's operating systems and the need for staff to work remotely. I am pleased to advise that, whilst there were some teething issues, NT Build is well placed to continue operations should the need to operate remotely re-emerge.

I wish to thank staff for their continued commitment. The achievements made this year would not have been possible without the extraordinary effort of our small dedicated team. I also wish to again acknowledge and thank the members of the Board for their continued support and guidance.



THEO TSIKOURIS
Registrar

Part 1: Introduction and Overview



2019-20 Highlights

- Made 1459 benefit payments to workers who have been involved in the NT construction industry at a cost to the Scheme of approximately \$7.3 million (down from the 1817 payments at a cost of \$8.85 million made in 2018-19).
- Monitored the Scheme's financial position to ensure its ongoing financial sustainability in the current low levy (0.1%) and high project value threshold (\$1 million) environment.
- Supported the completion of the fifth formal triennial review of the Scheme by the appointed actuary, resulting in the retention of the below break-even levy rate of 0.1% for the medium term.
- Facilitated the Ministerial determination of the major project excess levy to ensure the payment of sufficient funds to reimburse benefits already paid and cover future benefit entitlements for registered employees who worked on the major project.
- Recorded approximately \$21.61 million in contributions from levy payers, including \$19.499 million relating to the major project, (up from the \$1.38 million reported in 2018-19).
- Recorded estimated total accumulated liabilities of \$55.40 million (a decrease of \$6.73 million in comparison to the 2018-19 period). Scheme's assets continue to cover liabilities.
- Actively encouraged the registration of eligible workers and relevant employers.
- Recorded an overall increase in net assets for the year of \$18.80 million (compared to the increase of \$0.38 million recorded 2018-19).
- Trialled, reviewed and refined remote working capabilities, during the early stages of the COVID-19 pandemic phase, to support safety of staff and clients and ensure ongoing delivery of services were achieved.
- Monitored and reviewed the investment program to support the ongoing financial viability of the Scheme.
- Monitored and reviewed the operation of primary business systems to ensure operational savings, improvements and efficiencies are maximised.
- Monitored, reviewed and implement operational systems to maximise revenue collection and minimise administrative costs for NT Build and maximise stakeholders convenience.
- Decrease in active worker registrations and an increase in employer registrations during the year. Total active registrations of 11 504 workers and 631 employers recorded with the Scheme as at 30 June 2020.
- Monitored staff and workload demands to ensure efficient and timely processing of the high number of benefit claim requests.

2020-21 Priorities

- Closely monitor the Scheme's financial position and report on its ongoing financial status in the current low levy (0.1%) and high project value threshold (\$1 million) environment.
- Continue to monitor and review the investment program to identify appropriate opportunities to support the ongoing financial viability of the Scheme.
- Continue to monitor and review the operation of primary business systems to ensure operational savings, improvements and efficiencies are maximised.
- Continue to monitor, review and implement operational processes to maximise revenue collection and minimise administrative costs for NT Build and maximise stakeholders convenience.
- Actively encourage the registration of all eligible workers and relevant employers.
- Reinstate strong compliance audit regime, following recovery from the COVID-19 pandemic phase, to ensure Scheme levy revenue is maintained.
- Monitor staff and workload demands to ensure efficient and timely processing of the increasing number of benefit payments.

About the organisation

NT Build is a statutory corporation established by the *Construction Industry Long Service Leave and Benefits Act 2005* (the CILSLB Act) which came into effect on 1 July 2005.

The purpose of the Scheme as set out in the CILSLB Act is:

To provide long service leave and long service leave benefits to Territory construction workers.

The establishment of the Scheme in the Northern Territory completed a network of similar schemes in all Australian jurisdictions. The Territory construction industry and its employees are therefore no longer at a disadvantage in respect of this form of benefit.

The Scheme is administered by a Board, called NT Build, which comprises a chairperson, and up to six members nominated by the Minister.

NT Build is not an agency within the meaning of the *Financial Management Act 1995* or the *Public Sector Employment and Management Act 1993* and as such no general allocation of funding is provided to NT Build through the Territory Budget.

Under the Administrative Arrangements Order in force for the period ended 30 June 2020 the ¹Department of Trade, Business and Innovation had the principal responsibility for the general administration of the CILSLB Act. However, in accordance with the CILSLB Act, the Board holds the specific responsibility for the day-to-day management of the Scheme and for providing advice and making recommendations to the Minister about the operation of the legislation.

The Scheme, including staffing and operational expenses, is self funded through the collection of a levy imposed on eligible construction work undertaken in the Territory and investment earnings. This revenue is used to fund the payment of long service leave benefits accrued by construction workers while working on defined projects in the Territory.

The staff of NT Build are Northern Territory Public Sector employees who are made available to the NT Build Board under an agreed full cost recovery arrangement.

The NT Build Board is responsible for expending the Scheme's money and has its own financial reporting requirements. The Board has therefore prepared this annual report on the performance of the Scheme for submission to the responsible ¹Minister.

¹ Following the General Election held on 22 August 2020, a new Administrative Arrangements Order (AAO) was issued on 8 September 2020 announcing changes to the structure of the public service. Under the latest AAO principle responsibility for the general administration of the CILSLB Act was allocated to the newly formed Department of Industry, Tourism and Trade. While the Minister for Business and Innovation was the responsible Minister as at 30 June 2020, this report has been submitted to the Minister for Mining and Industry as the current Minister responsible for the Scheme.

General overview – portable long service leave scheme

Key features

The Scheme enables workers in the construction industry to qualify for long service leave based on their service in the industry rather than service with the same employer. Workers can therefore work for any number of employers in the construction industry and continue to accumulate long service leave benefits.

Some key features of this Scheme include:

- Long service leave coverage consistent with interstate arrangements. (The Northern Territory Government is party to the reciprocal arrangements agreement between all States and the Australian Capital Territory.)
- Benefits consistent with current building and construction industry and NT long service leave standards.
- The Scheme is funded through a levy determined by the Minister.
- Maintenance of a register recording the number of service days worked by each registered worker within the construction industry in the Northern Territory.
- A statute based scheme, governed by a board consisting of an chairperson and members appointed by the Minister to oversee the management of the Scheme.

Workers

The Scheme enables the Territory's building and construction workers to benefit from the introduction of a portable long service leave scheme based on their service to the industry rather than service with the same employer. Workers can therefore work for any number of employers in the construction industry.

The portability also extends across state borders under the National Reciprocal Agreement.

A registered worker can be credited with a maximum of 220 days of qualifying service each financial year. A total of 6.5 days long service leave credit is accrued for each 220 days. Once a worker has accrued 65 days long service leave credit (i.e. Equates to 10 years service), they can apply for 65 days (i.e. 13 weeks) long service leave or, with the agreement of their employer, take leave in separate periods of not less than 5 days. Workers need to subsequently accrue a further 32.5 days long service leave credit before they can apply for further leave.

Special pro rata provisions are also contained in the CILSLB Act for workers who die, retire or cease to perform construction work. Long service leave benefits accrued under this Scheme are paid by NT Build upon application by the worker or their authorised representative.

To be eligible for registration under the Scheme a worker must:

- be employed to carry out construction work on a site in the Northern Territory;
- work for the private sector, i.e. Not for the government (including the Territory, local, interstate or Commonwealth governments);

- not be working in an administrative, clerical, office-based managerial or professional capacity;
- spend at least 50% of their work time at the construction site for the work; and
- work a minimum of three days in any reporting period (i.e. Six months).

Workers employed either full-time, part-time, as a casual or as a labour-only contractor (i.e. Those who have an ABN) are eligible to register.

Work undertaken on both residential and commercial construction, civil and maintenance jobs, whether big or small, is recognised as counting towards a long service leave benefit.

Employers

As noted previously, the Scheme enables workers to qualify for long service leave based on their service to the industry rather than service with the same employer. Workers can therefore work for any number of employers in the construction industry.

The Scheme is funded by:

- a levy on specified construction work in the Northern Territory; and
- investment earnings.

Most employers of construction workers will therefore not have to make any financial contribution to the Scheme, as this will be the obligation of project developers. However, in certain circumstances where an employee has been continuously employed by the one employer, that employer may have to contribute or pay for long service leave that accrued before 1 January 2005 under the Northern Territory private sector *Long Service Leave Act 1981*.

Once a worker has been registered, employers are required to keep adequate records to account for any eligible workers employed. An employer return form is completed twice a year advising NT Build of the number of days worked by all registered employees and any other information required by NT Build. The information provided by employers is used to update registered workers' records.

An eligible employer under the Scheme is one:

- that employs an eligible construction worker to carry-out construction work;
- that is in the private sector (i.e. Is not in the Territory, local, interstate or Commonwealth government sectors); and
- whose usual business is to carry out or offer to carry out construction work for reward.

An employer must register with NT Build within one month of commencing to employ a construction worker who is registered with NT Build.

Alternatively, an employer who employs one or more eligible workers may elect to register their workers with NT Build for the accrual of portable long service leave at the same time they register their business.

For the purpose of this Scheme, construction work covers commercial, domestic, industrial and civil construction. Construction work includes workers performing repair, maintenance, extension and demolition, and is recognised regardless of whether the work performed is subject to the levy liability.

Long service levy

The Scheme is funded by a levy (determined by the responsible Minister) imposed on specified construction work undertaken in the Northern Territory and from investment earnings.

The levy is payable on all eligible construction projects and is calculated as a percentage of the total cost of the work. The cost of construction work is the sum total of all contract prices for the work, covering aspects such as the cost of labour, materials (including prefabricated goods and installation), equipment, design, project management, consultancy and any other cost that directly or indirectly relates to the work.

The levy does not apply to:

- Class 1a(i) and Class 10(a) buildings under the Building Code of Australia (being single detached dwellings, including related private garages, carports, sheds, or the like); or
- construction work undertaken for not-for-profit organisations in respect of voluntary labour and donated materials.

Mining is also exempt from the levy.

The levy does not apply to work for which the total contract prices for the construction work is less than:

- \$1 million in value - for work started on or after 7 April 2014, or
- \$200 000 in value - for work started from 1 July 2005 to 6 April 2014.

For construction work that costs \$1 billion or less the amount of the levy is

calculated as a set percentage of the cost of the work.

A two tier levy regime applies to projects with costs in excess of \$1 billion. Under this two tier regime the 'standard' prescribed levy rate, which applies to all eligible construction projects under the Scheme, is applied to the first \$1 billion. For the portion of the project costs that exceed the \$1 billion threshold, a project specific levy rate is applied. This excess rate is determined by the Minister, on actuarial advice, and is to be sufficient to yield the amount likely to be required to fund the long service benefits of the registered employees who carry out the particular construction work.

The 'standard' prescribed levy rates that apply to eligible construction works undertaken in the Territory are:

- 0.1% for work started on or after 7 April 2014, regardless of completion date.
- 0.3% for work started from 1 April 2012 to 6 April 2014, regardless of completion date.
- 0.4% for work started from 1 July 2009 to 31 March 2012, regardless of completion date.
- 0.5% for work started from 1 July 2005 to 30 June 2009, regardless of completion date.

It is the responsibility of the person for whom the work is to be done to notify NT Build of the work, prior to commencement.

Interest penalties and fines may be imposed if the levy is not paid when required.

Statistical highlights

Workers

Registration numbers

The CILSLB Act defines a construction worker as a person who carries out construction work either as an employee or as a contractor (who only supplies their own labour). Construction workers can also be engaged on a full-time, part-time or casual basis.

As shown in the table and chart below, the total number of active worker registrations recorded by the Scheme reflected a continued decrease of 2550 workers in comparison to the previous reporting period. This variance consists of 2265 less employees and 15 more labour-only contractors.

This decrease is a result of both;

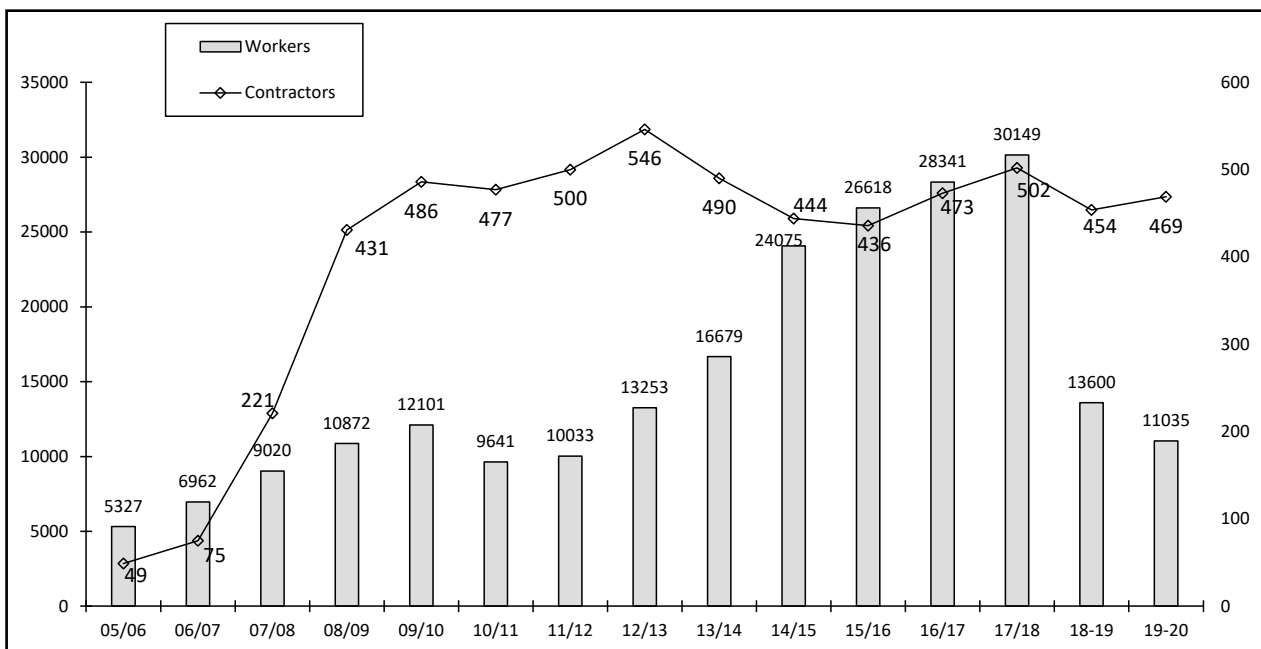
- a data cleanse of records for worker's who had been inactive for a period of more than four years,
- progressive exodus of workers as major construction phases relating to the LNG project were completed, and
- general downturn in construction activity in the Northern Territory.

Going forward, the current active registration numbers are within the 'norm' and more reflective of the Territory construction industry workforce, without the impact of the one-off major project.

Table 1.1: Total number of active worker registrations

| Total Active Registrations | June 2017 | June 2018 | June 2019 | June 2020 |
|----------------------------|-----------|-----------|-----------|-----------|
| Approved | 28 814 | 30 651 | 14 054 | 11 504 |

Chart 1.1: Active employee and labour-only contractor registrations



Section 13(1)(a) of the CILSLB Act requires the Registrar to deregister a person who has not been credited with any qualifying service for a continuous period of four years. The first of this deregistration process occurred in September 2010, with on going automated deregistrations.

A data cleanse project undertaken in 2018-19, also resulted in a significant increase in the overall number of worker's who had been inactive for a period of more than four years being deregistered.

In addition, section 13 of the CILSLB Act also provides for the deregistration of a worker who ceases to carryout construction work, retires or dies.

As at 30 June 2020 the Scheme recorded a total of 29016 deregistered workers (an increase of 4196 from the previous reporting period).

The number of deregistered workers also reflects the highly transient nature of the Northern Territory construction industry workforce.

While these deregistered workers are no longer active in the Territory construction industry a majority of the workers are still believed to be actively working in the construction industry interstate.

Under the terms of the National Reciprocal Agreement, a person deregistered with the NT Build Scheme may be eligible to have their service credits reinstated if they are registered with an interstate scheme and have continued to work in the construction industry interstate.

Each Australian state and territory is party to the National Reciprocal Agreement. This

Agreement provides for a worker's service credits while working in the building and construction industry in any of the states or territories, to be recognised as part of that worker's qualifying period of service for the purpose of determining their long service leave entitlement.

This means that workers are able to have construction industry service worked both with multiple employers and across multiple jurisdictions combined towards accruing a long service leave entitlement.

While it is possible that a proportion of the Scheme's deregistered workers will have their NT service reinstated under the terms of the National Reciprocal Agreement, the actual portion of service credits that will be reinstated will only be known over time.

Anecdotal evidence also suggests that, for whatever reason, there remains a number of workers in the local construction industry that would be eligible to participate in the Scheme but have not registered.

Some of the likely issues affecting Scheme registrations includes:

- Very high turnover of employment in the local construction industry.
- Proportion of the Territory construction industry workforce operating as labour-only contractors rather than employees. Industry feedback also supported anecdotal evidence that there may be a significant number of eligible labour-only contractors in the Northern Territory who are not registered with the Scheme.
- Voluntary nature of the NT Build Scheme (whereas most equivalent interstate schemes are compulsory).

Benefit payments

A worker who has accrued a long service leave credit can apply to use the credit. The benefit rate for the payment of the credit is determined by the Board, having regard to the average weekly ordinary time earnings for the construction sector published by the Australian Bureau of Statistics.

The rate is reviewed annually, generally on 1 July, and the defined rate is applied to both workers and contractors.

This process provides greater certainty in predicting future liabilities than is the case for a number of interstate schemes.

A review of the benefit rate to be applied for the 2019-20 period, using the standard methodology, resulted in a negative movement in the payment rate. The Board, however, decided in this instance to retained at the previous years rate of \$1325 per week for a further twelve months.

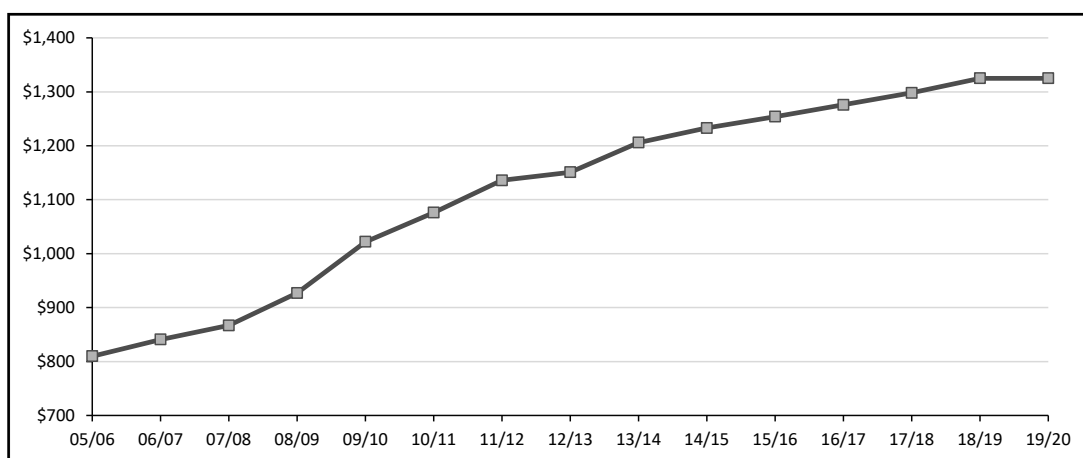
Chart 1.2 below illustrates the annual movement in the benefit rate since the commencement of the Scheme.

The CILSLB Act also contains special pro rata provisions to enable a long service leave benefit to be paid to workers who retire, cease to perform construction work or die.

Generally a worker must accrue 65 days long service leave credit (i.e. 2200 eligible service days = 10 years service) before they can apply to use their first credit of long service leave. Once accrued, the leave may be taken in separate periods of not less than 5 days.

Subsequent credits of long service leave can be used after every additional accrual of 32.5 days long service leave credit (i.e. 1100 service days = 5 years service).

Chart 1.2: Annual movement in benefit rate



As the NT Build Scheme has now matured, the number of workers who have accrued a long service leave entitlement has also increased.

As reflected in the table 1.2 below, these claims resulted in a total expense of approximately \$7.3 million gross for benefit payments made in respect of work performed in the Northern Territory.

The number of claims processed during this reporting period decreased by 19.7%, resulting in a decreased cost to the Scheme of approximately \$1.53 million for benefits paid in comparison to the high of the 2018-19 reporting period.

A total of 7524 claims have been paid since the Scheme commenced.

Future annual totals are, however, not expected to match the high of the previous year, which was predominately the result of the completion of major construction phases relating to the major LNG project.

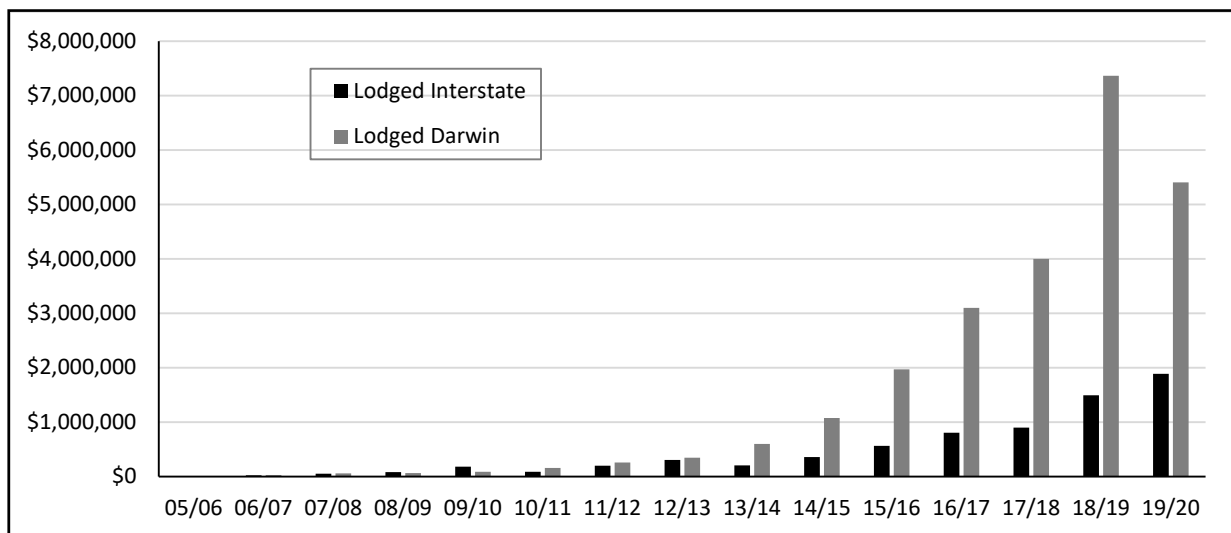
Being party to the National Reciprocal Agreement has also enabled NT Build to recognise service credits and make benefit payments both before the Scheme matured and before a worker achieves ten years of service within the Territory.

Chart 1.3 below illustrates the Scheme's financial liability for benefit claims that were lodged direct with NT Build and those lodged through a reciprocal interstate portable long service leave scheme.

Table 1.2 Benefit claims processed

| Benefit Claims | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|----------------------------------|----------------|----------------|----------------|----------------|
| Lodged through interstate scheme | 346 | 365 | 582 | 676 |
| Lodged through NT Build | 608 | 797 | 1235 | 783 |
| Total claims lodged | 954 | 1162 | 1817 | 1459 |

Chart 1.3: NT benefit payments by place of lodgement



Registration profile

Table 1.3: Age profile

| | June 17 | June 18 | June 19 | June 20 |
|-------------|---------|---------|---------|---------|
| Average age | 39 | 39 | 39 | 39 |
| Oldest # | 82 | 83 | 84 | 84 |
| Youngest * | 15 | 15 | 15 | 16 |

*Registrations are accepted from apprentices working in the construction sector, including school based apprentices
 #Includes workers who have been inactive for less than 4 years and therefore not yet deregistered

Table 1.4: Days of service

| | June 17 | June 18 | June 19 | June 20 |
|------------------------------|---------|---------|---------|---------|
| Total estimated service days | 14.07M | 16.55M | 18.30M | 19.26M |

Scheme demographic

The continued success of the Scheme in terms of providing benefits to Northern Territory construction industry workers and contributing to the attraction of skilled workers to the Territory is evidenced by the following table and chart.

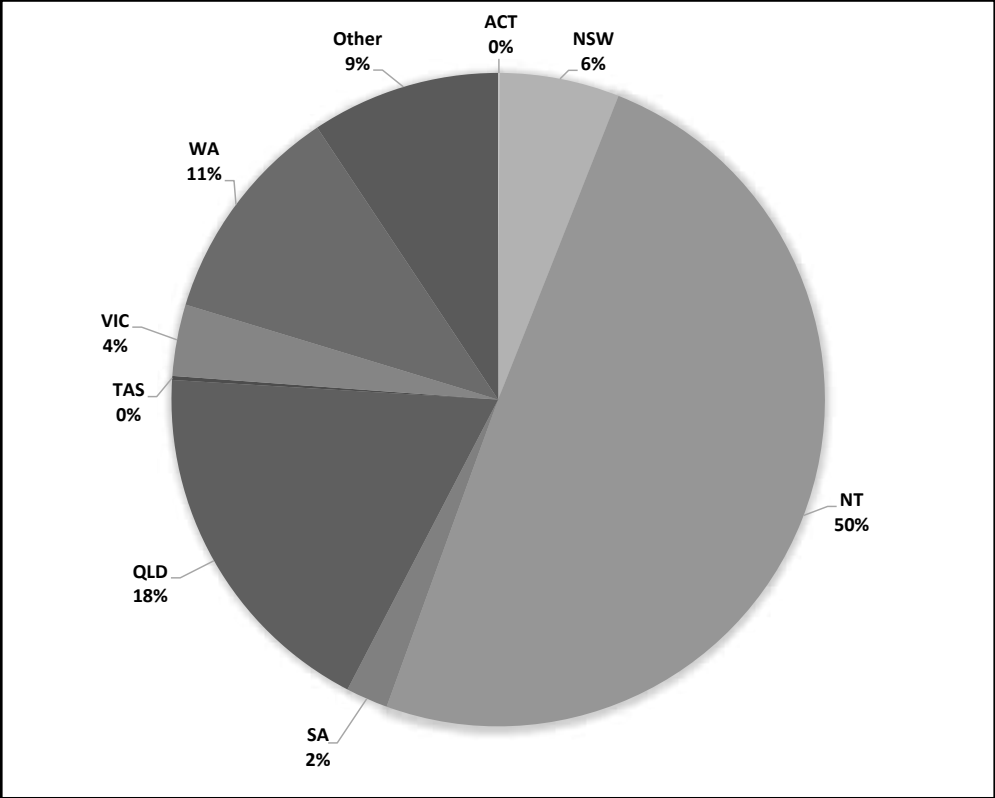
While these show that approximately 49.5% of the Scheme's active registered workers record a Territory contact address, the table and chart also helps to illustrate the transient nature and mobility of the workforce in the construction industry across state and territory borders.

Table 1.5: No. of active workers by contact location

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|--------------|---------------|---------------|---------------|---------------|
| ACT | 23 | 32 | 10 | 8 |
| NSW | 2 219 | 2 487 | 1 098 | 683 |
| NT | 14 525 | 14 189 | 6 197 | 5 699 |
| QLD | 5 879 | 6 060 | 2 731 | 2 108 |
| SA | 669 | 713 | 337 | 240 |
| TAS | 153 | 160 | 34 | 23 |
| VIC | 1 435 | 1 605 | 594 | 407 |
| WA | 2 248 | 3 156 | 1 763 | 1 261 |
| Other* | 1 663 | 2 249 | 1 290 | 1 075 |
| Total | 28 814 | 30 651 | 14 054 | 11 504 |

*Other includes: 'unknown' and/or a non-Australian contact location

Chart 1.4: Percentage of active workers by contact location, 2019-20



Employers

Eligible employers are identified through either self registration or by notification on a worker registration form. The numbers are shown in the following table.

Table 1.6: Active employer registrations

| | June 2017 | June 2018 | June 2019 | June 2020 |
|-----------|-----------|-----------|-----------|-----------|
| Employers | 554 | 557 | 588 | 631 |

Section 81(1)(a) of the CILSLB Act empowers the Registrar to compel a person who employs construction workers to provide any information relating to that employment. Where an employer fails to comply with a section 81(1)(a) notice the person could be prosecuted for failure to comply with the notice.

Issuing of section 81(1)(a) notices aims to streamline the administrative effort required to effect successful and timely prosecution of employers who choose not to fulfil their statutory obligation to notify NT Build about the number of days of service each registered employee worked and any periods of long service leave granted by the employer to any registered employee.

No notices were issued under this provision during 2019-20 reporting period.

Levy payment and compliance

The levy rate has been reduced over time, with the current rate of 0.1% coming into effect from 7 April 2014. The exemption threshold value was also increased from \$200,000 to \$1 million at that time. Examples of other exemptions to the levy include; Class 1a(i) and Class 10(a) buildings under the Building Code of Australia and mining and works.

Under section 33(4) of the CILSLB Act the Minister is to determine the levy percentage on construction projects in excess of \$1 billion. During this reporting period one project of such value was completed, requiring this provision of the CILSLB Act to be applied for the first time. A determination of a project specific percentage rate for the excess levy amount of the major project was made, resulting in a levy contribution of \$19.499 million. This levy will reimburse the Scheme for benefits already paid and cover future benefit entitlements for registered employees who worked on that major project.

The Scheme's levy income during the 2019-20 period therefore reflects a significant increase of approximately \$20.2 million in comparison to the previous reporting period.

Table 1.7 below provides a summary comparison of total levy contributions recorded from project developers.

Table 1.7: Summary - levy payer contributions

| | June 2017 | June 2018 | June 2019 | June 2020 |
|-------------------------------|-----------|-----------|-----------|-----------|
| Total levy income # (approx.) | \$2.4M | \$1.6M | \$1.4M | \$21.6M |

#includes accrual of full levy amount where payment by an instalment plan has been granted

The maturity of the Scheme, combined with the completion of the construction phase of the major LNG project, also saw the significant number of benefits paid to workers during 2019-20.

Excluding the anomaly of the one off significant levy payment recorded this year, the trend of benefit payments exceeding levy revenue is expected to continue in future years. This trend is largely due to the downturn in the NT construction sector and the current levy collection structure (of 0.1% on projects over \$1 million and significant exemptions for the housing and resources sectors).

NT Build has continued to enjoy a high level of compliance by project developers with the assistance of the office, and especially the activities of Field Officers.

Section 81(1)(b) of the CILSLB Act empowers the Registrar to compel a person to provide any information relating to construction work on which the levy is or may be imposed.

Where a levy payer fails to comply with a section 81(1)(b) notice the person could be prosecuted for failure to comply with the notice.

Issuing of section 81(1)(b) notices aims to streamline the administrative effort required to effect successful and timely prosecution of developers who choose not to fulfil their statutory obligation to notify NT Build of the project commencement and paying the levy.

As demonstrated in table 1.8 below, no notices were issued during the 2019-20 reporting period.

The Board continues to pursue compliance issues to ensure that the Scheme is administered equitably.

Table 1.8: Summary - section 81(1)(b) action

| YEAR | B/FWD | New Notices | Finalised | C/FWD |
|----------------|--------------|--------------------|------------------|--------------|
| 2019-20 | - | - | - | - |
| 2018-19 | 2 | 1 | 3 | - |
| 2017-18 | - | 2 | - | 2 |
| 2016-17 | - | 1 | 1 | - |

Debt recovery

The NT Build Board has authorised the Registrar to recover debts owing to the Scheme directly through the engagement of a debt collection agent and, if necessary, through the small claims court.

The use of debt collection agents is generally reserved for those instances where a levy payer, who has been issued an invoice by NT Build in relation to a levy amount owing, defaults on the payment of their levy obligation and after other efforts to secure payment have failed.

Table 1.9: Summary - debt recovery action

| YEAR | B/FWD | New Action | Finalised | C/FWD |
|----------------|--------------|-------------------|------------------|--------------|
| 2019-20 | - | - | - | - |
| 2018-19 | 2 | - | 2 | - |
| 2017-18 | 1 | 1 | - | 2 |
| 2016-17 | 1 | 2 | 2 | 1 |

Investment of funds

As noted in the Financial Statements included in this report, NT Build continued to invest accumulated funds from revenue raised through the collection of levies.

The Scheme is fully self-funded through the collection of a levy imposed on construction work undertaken in the Territory and earnings from invested accumulated funds. This revenue is used to fund the payment of long service leave benefits accrued by construction workers while working in the Territory and to meet the Scheme's operational expenses.

The sound investment of the accumulated funds of the Scheme plays an increasingly vital role in ensuring there will be sufficient funds to meet both immediate and longer term liability.

The Scheme completed its fifteenth year of operating on 30 June 2020. While the liabilities of NT Build will in the main continue to be longer term, the payment of benefits to workers continued to remain high during 2019-20.

Excluding the anomaly of the one off significant levy payment recorded this year, going forward, the trend of benefit payments exceeding levy revenue is expected to continue in future years. This trend is largely due to the downturn in the NT construction sector and the current levy collection structure (of 0.1% on projects over \$1 million and significant exemptions for the housing and resources sectors). This is expected to have a material impact on the Scheme's long term sustainability.

The Scheme's investment strategy is managed through a combination of:

- direct cash investments; and
- a multi-asset class, multi-manager fund provided by our implemented consultant JANA Moderate Trust.

This strategy also encompasses a rolling three year forward outlook for projecting the short-term financial status of the Scheme. Given the often cyclical nature of the construction industry generally and the high potential impact of large resource development projects in the Territory, the Board considers that projections beyond this horizon are suitable only for actuarial purposes.

In order to sustain the financial viability of the Scheme, in the context of the ongoing volatility of the global financial markets and the low levy collection structure, the Board closely monitors and refines the Scheme's financial assets to ensure any adverse exposure of its investments are minimised.

During the 2019-20 period, the Board continued the practice of having all standard quarterly investment income distribution amounts deposited into the Scheme's operational bank account and not reinvested with JANA to support cash flow.

This practice meant that during this reporting period \$6 million was redeemed from JANA to support the Scheme's monthly cash flow.

At the conclusion of the 2019-20 reporting period, the Scheme's assets continue to cover liabilities.

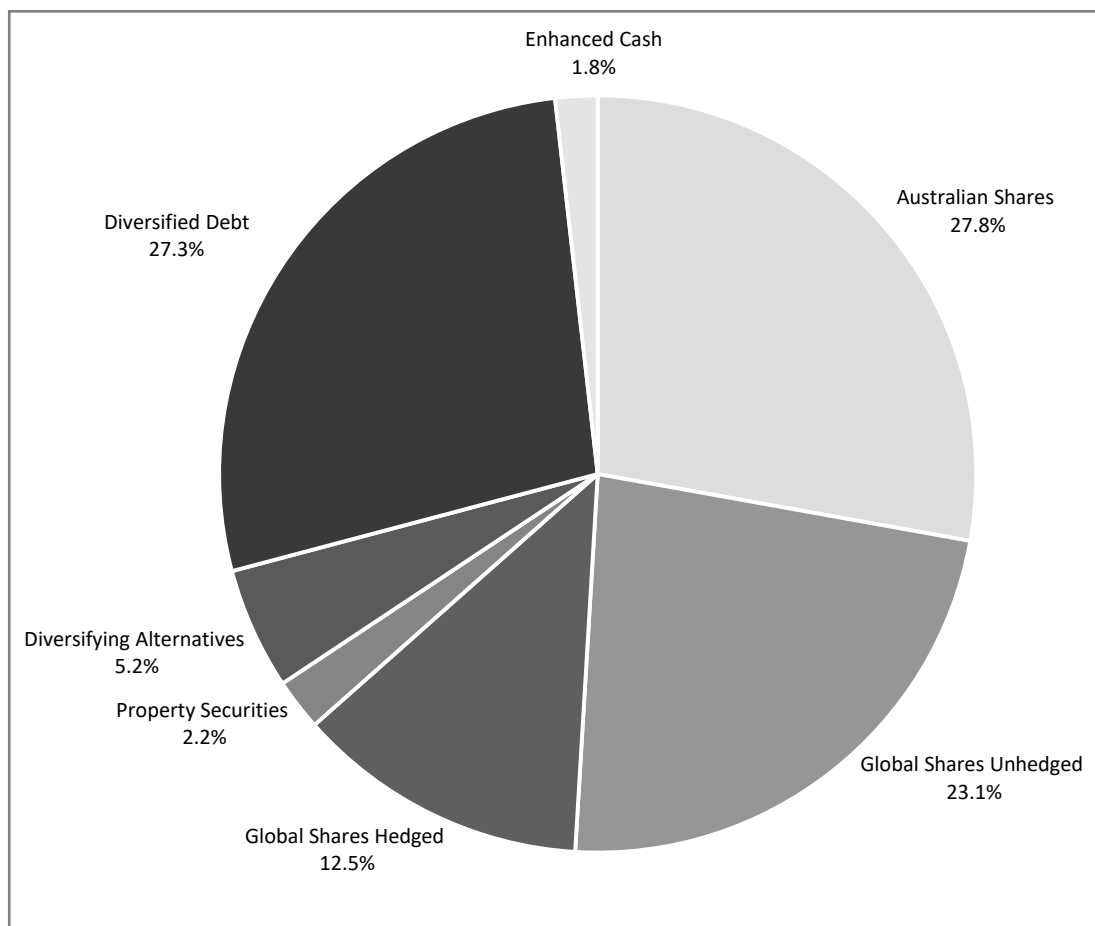
While the following table 1.10 reflects a summary of the actual amount of money either redeemed from or transferred to the fund managers for investment, information regarding the performance of the Scheme's investments is provided in the Financial Statements included in Part 3 of this Report.

Chart 1.5 below illustrates the actual asset allocations of the Scheme's JANA managed portfolio as at 30 June 2020.

Table 1.10: Summary - actual funds transferred / (redeemed) for investment

| Fund Managers | Total funds invested as at 30 June 2019 | Net Funds invested/ (redeemed) during 2019-20 | Total funds invested as at 30 June 2020 |
|---------------|---|---|---|
| MLC/JANA | \$64.6M | (\$6.0M) | \$58.6M |

Chart 1.5: Actual asset allocations of JANA managed portfolio - 30 June 2020



Actuarial advice

Long service leave liability

A number of factors affect the actuary's ability to reliably measure the Scheme's liability. These factors can include:

- The extent of established historical data available to enable an accurate assessment of the Scheme's liability;
- Extent and range of non-levied construction work undertaken that is exempt from payment of the levy and for which worker benefit liability will still apply;
- Expenses estimated in administering the Scheme;
- Level of worker registrations and service turnover;
- Period of service credits accumulated before a benefit payment is claimed;
- Benefit payment rate applied and the salary growth rate for the construction industry; and
- The extent to which either service credits are abandoned without benefit payments accruing, or vested benefits at exit from the Scheme never being claimed.

Having regard for the above factors, the Scheme's consulting actuary Cumpston Sarjeant Pty Ltd assesses and recommends a liability amount for accrued long service leave benefits to be adopted for accounting purposes as at 30 June each year.

Initially a simple aggregate model was used when assessing the Scheme's liability but, from the 2014-15 assessment and going forward, a more sophisticated individual projection model has been adopted.

The 2016-17 reporting period also saw a changed approach to setting the discount rate (from risk-free to asset-based) which had an impact on the liability valuation.

Initial year's liability estimates had been calculated using a risk-free discount rate based on the yield on Commonwealth bonds. However in 2016-17 an asset-based discount rate approach was adopted for that and future financial reporting periods for valuing NT Build Scheme liabilities. This change saw a large one-off impact on the liability valuation for 2017 as reflected in Chart 1.6 of the following page.

The key assumptions made by the Actuary in performing the liability valuation for this 2019-20 reporting period are covered in detail in the Notes to the financial statements included in Part 3 of this Report.

Taking those assumptions into account, the greatest unknowns in the liability valuation are those regarding member movements (exit rates and reactivation rates).

Other elements such as unreported service and the rate of claiming benefits in service are as not as important. Further Scheme experience over time will refine the assumptions made and gradually reduce uncertainty in the valuation.

For accounting purposes as at 30 June 2020 the actuary recommended a liability of \$54.428 million for accrued long service leave benefits be adopted.

This valuation represents a net decrease of \$7.524 million from the previous 2018-19 estimate.

The NT Build Board will continue to engage an independent actuary to determine its long term liabilities.

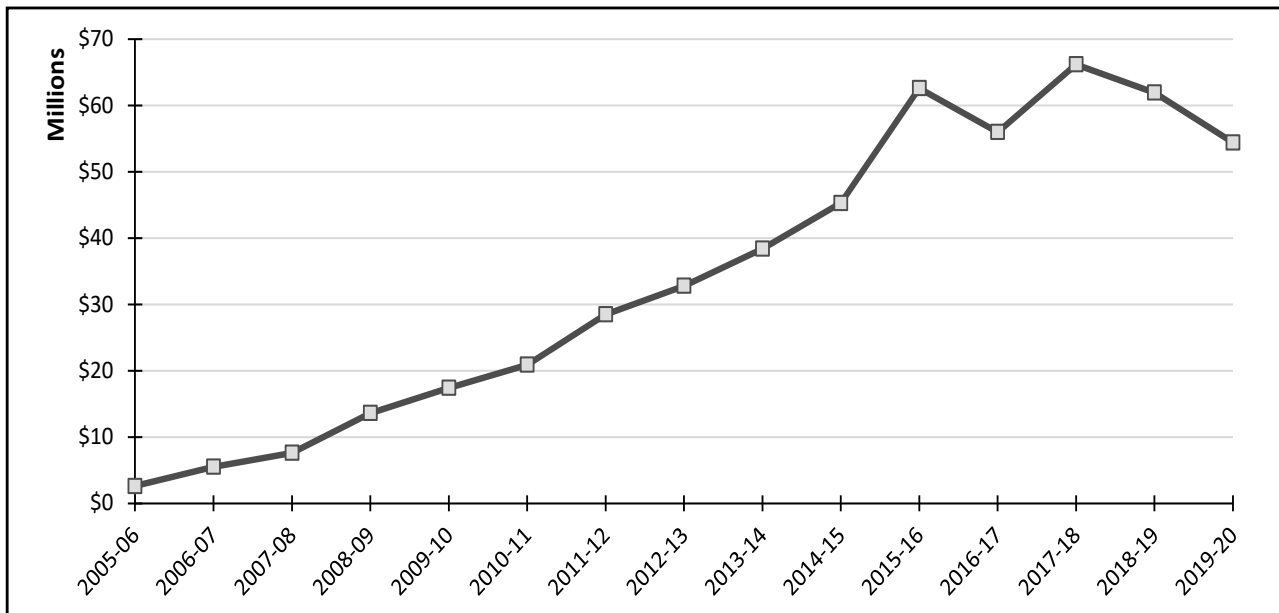
Accordingly, the provision of \$54.428 million has been disclosed on the Statement of Financial Position of the Board as at 30 June 2020 included in this Report.

The following table and chart illustrate the annual valuation of the Scheme's long service leave liability recorded to date.

Table 1.11: Summary - accrued long service leave liability

| | |
|---------|---------|
| 2019-20 | \$54.4M |
| 2018-19 | \$62.0M |
| 2017-18 | \$66.2M |
| 2016-17 | \$56.0M |
| 2015-16 | \$62.6M |
| 2014-15 | \$45.3M |
| 2013-14 | \$38.4M |
| 2012-13 | \$32.8M |
| 2011-12 | \$28.5M |
| 2010-11 | \$20.9M |
| 2009-10 | \$17.4M |
| 2008-09 | \$13.6M |
| 2007-08 | \$7.6M |
| 2006-07 | \$5.5M |
| 2005-06 | \$2.6M |

Chart 1.6: Rate of long service leave liability accrual



Section 91 actuarial review

Under the CILSLB Act, the Scheme's actuary must at least once every three years undertake a review of the:

- administration of the Scheme (including any financial aspect of the administration);
- methods used in working out long service benefits; and
- the levy rate.

The report on the findings of each review are presented to the Minister responsible for the Scheme and are tabled in the Legislative Assembly.

Current review

A fifth triennial review was undertaken during this 2019-20 reporting period, for the period ending 31 December 2019 and resulted in the Minister:

- Retaining the current levy rate of 0.1% of leviability activity.

Other key findings of the report note:

- Scheme currently has a small surplus that has decreased sharply in recent weeks due to investment market falls.
- Surplus is expected to be supplemented by Inpex levy income in coming months.
- Notwithstanding Inpex levy, Scheme surplus is expected to decline over coming years, eroding the Scheme solvency margin.
- Scheme is projected to fall into deficit towards the end of this decade.
- Economic impacts of coronavirus may be wide ranging and very severe, and scenarios considered in the Report do not attempt to capture all potential impacts.

- Current levy rate of 0.1% may not be sustainable in the longer term.
- Current levy rate of 0.1% of leviability activity is below break-even levy rate estimated to be between 0.29-0.35%.

Previous reviews

The first review of the Scheme was conducted during 2008-09 for the period ending 30 June 2008 and resulted in the Minister:

- Approving a 20% temporary reduction in the levy rate, from 0.5% to 0.4% for two years, commencing from 1 July 2009 until 30 June 2011; and
- Introducing a \$1 billion threshold for the purpose of calculating the levy on large scale construction projects, effective from 1 July 2009.

A second triennial review was undertaken during 2011-12 for the period ending 30 June 2011 and resulted in the Minister:

- Approving an ongoing 25% reduction in the levy rate, from 0.4% to 0.3%, effective from 1 April 2012.

A third actuarial review was conducted during 2014-15 for the period ending 30 June 2014 and resulted in the Minister:

- Retaining the levy rate (previously reduced from 0.3% to 0.1% in April 2014) at 0.1% of leviability activity.

The report on the third review also noted that:

- the 0.1% levy rate is below the break-even levy rate and may not be sustainable in the longer term;
- while the then high level of surplus was not desirable and it was appropriate that

it be reduced over time via a levy rate below the break-even rate, some level of surplus in the Scheme is necessary to have the resilience to cope with the following known variables that may impact on the surplus position,

- Investment performance
 - Liability measurement
 - Levy income; and
- the projected levy income appears to be lower than the Scheme accruing costs, and so Scheme surplus will be eroded over coming years. Although this was not a concern in the short to medium term due to existence of a surplus, in the longer term the levy rate may have to rise to ensure financial viability of the Scheme.

A fourth triennial review was undertaken during the 2016-17 for period ending 31 December 2016 and did not result in the Minister needing to take any immediate action. However, key findings from this review indicated that the:

- Scheme's moderate surplus is expected to decline in the next two years (with a chance it may fall into deficit) due to the Inpex liabilities accruing, however the surplus will again increase once the Inpex levy is paid at the end of the construction phase;
- current levy rate of 0.1 % is below the break-even rate of 0.19% - 0.23%, however due to the high level of surplus, it is recommended that the 0.1% levy rate remain unchanged for the time being; and
- key consideration for the ongoing sustainability of the Scheme is the Inpex levy, and the Minister will need to make a determination regarding the levy rate before it falls due.

Future review

The next triennial review of the Scheme is scheduled to be conducted for the period ending December 2022 at the latest.

Section 33(5) Report

This reporting period also saw the actuary requested to prepare a report under Section 91 (6) of the CILSLB Act, to enable a percentage for the excess amount of levy to be determined by the Minister in accordance with section 33 of the CILSLB Act, upon the completion of a major project.

This project was the first to be assessed under the provisions of the CILSLB Act, that applies to projects with construction costs in excess of \$1 billion.

The report was tabled in the Legislative Assembly on 23 June 2020.

Part 2: Operational Governance



Part 2 Operational governance

The Board

Functions and powers

The *Construction Industry Long Service Leave and Benefits Act 2005* (CILSLB Act) sets out the Board's main functions as well as the powers that the Board may exercise in performing those functions. The functions of the Board in administering the portable long service leave scheme (provided for in section 55 of the CILSLB Act) include:

- administration of the Scheme; and
- providing advice and making recommendations to the Minister concerning the operation of the CILSLB Act.

In exercising its powers and carrying out its functions, the CILSLB Act obliges the Board to do so in a manner that is reasonable and accords with and furthers the object of the Act.

Membership

The Scheme is administered by a Government appointed Board. Under the provisions in the CILSLB Act, the constitution of the Board consists of:

- a minimum of five members made of the Chairperson and four other members; and
- up to two additional members.

A person may be eligible for appointment to the Board if they hold suitable qualifications, or have suitable knowledge or experience, relating to the functions of the Board.

Board members are able to hold office for a period of up to five years, and may be reappointed.

The number of public sector employees that may be appointed to the Board is

also capped to a maximum of two. This restriction ensures majority industry participation in the administration of NT Build and keeps the Scheme, established for the benefit of industry, at arm's length from government.

Changes in board membership during the 2019-20 period saw the re-appointment of Michael Martin, Dick Guit, Michael Milatos and Rosemary Campbell for a further full term.

The membership of the NT Build Board on 30 June 2020 was as follows.

| | |
|--------------------|--|
| Chairperson | Michael Martin OAM Former senior NT public servant; Chair of NT Government Remuneration Tribunal |
| Other members | Dick Guit Director of Master Builders Australia (national); Immediate Past President - MBA NT; Chair of the Master Builders Fidelity Fund; Director/Chair of the Industry Capability Network NT; Member of the NT Government: TeamNT Executive and Strategic Defence Advisory Board; Director Charles Darwin University Council |
| | Michael Haire Member Electrical Trades Union (ETU) |
| | David Malone Executive Officer Master Builders NT |
| | Michael Milatos Director Cento Pty Ltd |
| Additional members | Sarah Rummery Assistant Under Treasurer Economics Department of Treasury and Finance |
| | Rosemary Campbell Director Merit Partners |

Conducting business

Meetings

During this reporting period the Board convened a total of 11 times, including 8 regular meetings and 3 occasions involving specific matters that required attention between scheduled meetings.

Details regarding members' participation at meetings is provided in the Financial Statements included in this report.

Remuneration

Board members are remunerated in accordance with the rates and conditions determined under the *Assembly Members and Statutory Officers (Remunerations and Other Entitlements) Act 2006*; based on a classification that recognises the range of duties, powers and responsibilities assigned to the Board.

Details regarding payments to members is provided in the Financial Statements included in this report.

General decisions

In the course of the 11 meetings of the Board, 54 general items of business were resolved, covering a range of issues concerning governance, scheme administration and the financial and operational management of NT Build.

Board Policies

One policy, relating to the defined weekly benefit level was issued during this reporting period.

All policies of the Board are intended as a guide only and are not intended to bind the Board to any particular action or decision about the nature of construction work or affecting the operation or administration of the portable long service leave scheme.

Copies of all policies are published on the website at: ntbuild.com.au

Ministerial directions

Section 67 of the CILSLB Act enables the Minister to give a direction to the NT Build Board relating to the exercising of its powers or the performance of its functions.

No directions pursuant to section 67(1) of the CILSLB Act were given during the year ending 30 June 2020.

Disclosure of interests

As required under the CILSLB Act a register of the interests of members of the Board is maintained. All members submit an initial declaration stating any interests of relevance to Board business and a process has been implemented to ensure any new or amended declarations are disclosed at each meeting.

Reconsideration/reviews

Under Section 84 the CILSLB Act, a person affected by a decision made by either the Registrar or the Board may request the Board to formally reconsider that decision.

Table 2.1 below illustrates that no applications for reconsideration were received during this reporting period.

Similarly, under Section 85 of the CILSLB Act, a person who has applied to the Board for a reconsideration of a decision may, if dissatisfied with the decision, apply to the Local Court for a review of the Board's reconsidered decision.

No applications for a review by the Local Court were received during the 2019-20 reporting period.

Table 2.1: Summary - applications for reconsideration lodged - Section 84

| YEAR | B/FWD | LODGED AGAINST | | RESOLVED | C/FWD |
|---------|-------|-----------------------|-------------------|----------|-------|
| | | decision of Registrar | decision of Board | | |
| 2019-20 | - | - | - | - | - |
| 2018-19 | - | 1 | - | 1 | - |
| 2017-18 | - | 3 | - | 3 | - |
| 2016-17 | - | - | - | - | - |

The Office

Registrar

The CILSLB Act requires that a Registrar (who is to be an employee within the meaning of the *Public Sector Employment and Management Act 1993*) be formally appointed by the Board for the Scheme. Mr Theo Tsikouris is the appointed Registrar for the Scheme.

The specific powers and primary functions of the Registrar are set out in the CILSLB Act. The functions of the Registrar in administering the portable long service leave Scheme (provided for in section 77 of the CILSLB Act) include:

- Administering the Scheme in accordance with any directions given by the Board;
- Exercising any powers or functions delegated by the Board;
- Maintaining construction worker and employer registers;
- Approving of forms to be used for the Scheme; and
- Approving registration requests and deregistrations for the Scheme.

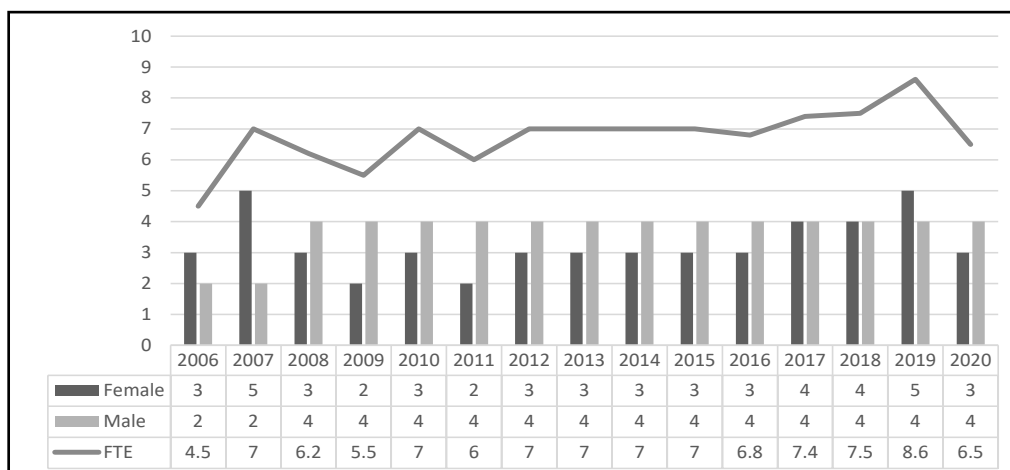
Staff

Section 59 of the CILSLB Act enables the Board to engage any person to assist it in exercising its powers and performing its functions. For administrative efficiency however the Board made the decision to source employees from within the Northern Territory Public Sector (NTPS) rather than employ directly.

In accordance with the Administrative Arrangements Order, in force for the period ended 30 June 2020, responsibility for the administration of the CILSLB Act was allocated to the Department of Trade, Business and Innovation (DTBI). This means that, for administrative purposes, NT Build reported direct to the Minister for Business and Innovation. Likewise, the staff of NT Build were employees of DTBI, made available to the NT Build Board under an agreed full cost recovery arrangement.

As illustrated in the chart below, the staffing profile for NT Build as at 30 June 2020 consisted of seven staff.

Chart 2.1: Staffing FTE and profile as at 30 June 2020



For the purpose of managing staff, the Registrar and other public sector employees made available to the Board are engaged under the standard NT Public Sector employment arrangements. In addition, the Registrar has been provided with delegations equivalent to those applicable to an NTPS Chief Executive Officer under the provisions of the *Public Sector Employment and Management Act 1993*, in relation to the staff of NT Build.

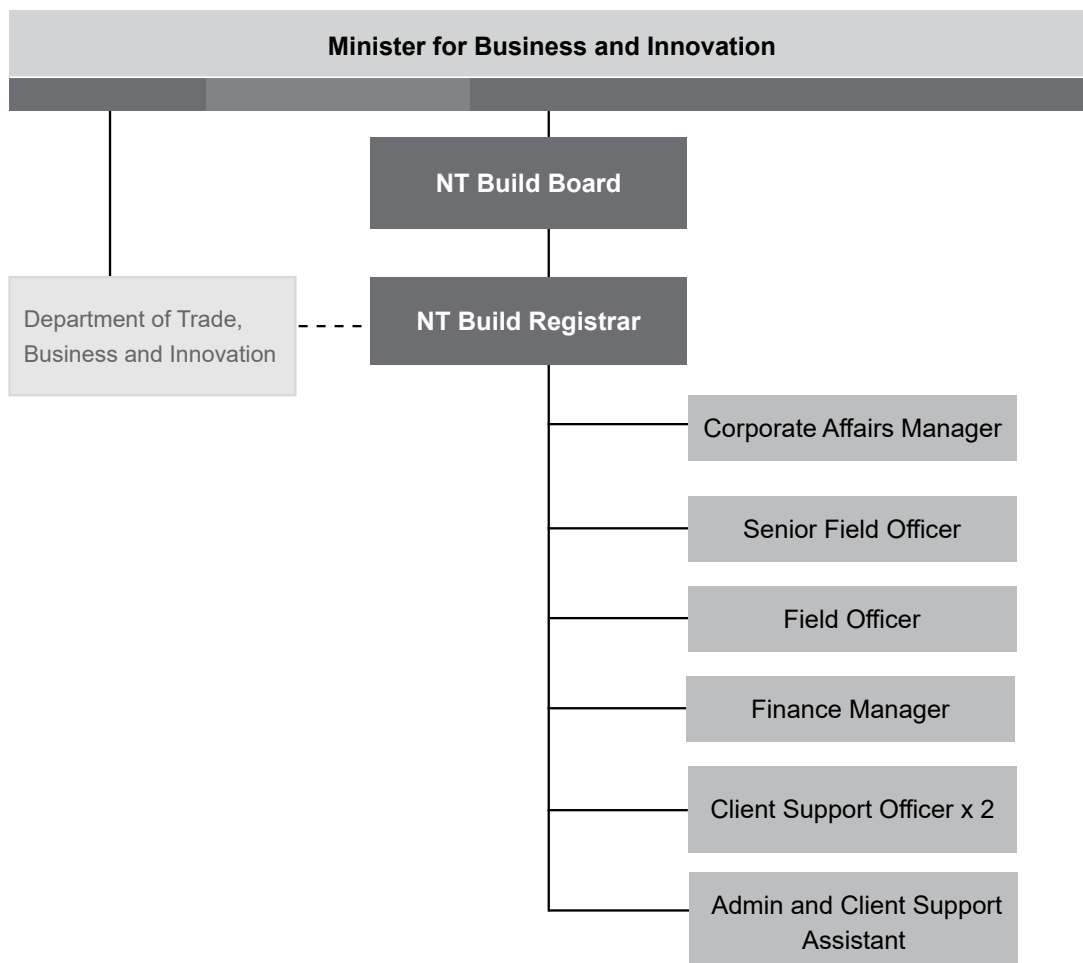
Disclosure of interests

In accordance with the Northern Territory Public Sector Code of Conduct, NT Build staff are required to disclose any financial or other interests held by them immediately upon becoming aware that a potential conflict between personal interest and official duty, whether real or apparent, has arisen or is likely to arise.

Written declarations have been submitted by all relevant NT Build staff when appropriate.

Organisation structure

The following diagram represents the organisation structure as at 30 June 2020.



Information management

Information Privacy and Access (FOI)

As a 'body corporate' established under Northern Territory legislation, NT Build is an identified entity for the purpose of reporting under section 98 of the *Information Act 2002*.

In accordance with section 98 of the *Information Act 2002*, NT Build had no requests to report for the access to information held by NT Build during the 2019-20 financial year.

- ***Managing Access***

NT Build strives to make general information of interest available to any interested party, where such information is allowable under the CILSLB Act and does not interfere with the essential public interest, individual privacy or the effective operation of NT Build. In most cases, levy payers and registered workers and employers seeking access to their own information held by NT Build can obtain the information more quickly under the provisions of the CILSLB Act rather than by making an application for access under the *Information Act 2002*.

- ***Managing Privacy and Protection***

NT Build respects the privacy of individuals and is committed to collecting, using, storing and managing personal information in a manner that complies with the Information Privacy Principles.

More information is published on our internet site at: ntbuild.com.au

Records management

Part 9 (Records and Archives Management) of the *Information Act 2002* provides for the establishment and implementation of records management standards. Adequate records management underpins the access, correction and privacy components of the *Information Act 2002* by ensuring that Government information (records) can be found, read and reproduced in response to requests.

Notwithstanding that NT Build is a 'body corporate' established by Northern Territory legislation, the Department of Trade, Business and Innovation (DTBI) is the agency designated under the Administrative Arrangements Order with responsibility for the general administration of the CILSLB Act, as at 30 June 2020.

For the purpose of Part 9 of the *Information Act 2002*, all records relating to the administration of the CILSLB Act handled by NT Build are managed in accordance with the DTBI records management framework and policies.

Information systems

- ***Office environment***

The Northern Territory Government's information technology services are managed through a number of out sourced service provision arrangements. NT Build operates within the standard Northern Territory Government information technology server environment.

- ***Business system***

The business system utilised to support the administration of the NT Build Scheme provides a user friendly and intuitive client self-service functionality. The Formation Technology Group has been engaged to provide ongoing maintenance and technical support of the system.

Communication and marketing

General marketing activities

Throughout the reporting period a number of customer focused marketing activities were implemented.

These have included:

- Advertising in relevant industry publications and directories;
- Maintenance of the NT Build website;
- Production and maintenance of a range of targeted customer information bulletins and fact sheets; and
- Delivery of formal and informal presentations to targeted customers, including conducting regional visits to Katherine, Nhulunbuy, Tennant Creek and Alice Springs, as well as local site visits and information sessions.

Industry consultation

Information sessions and briefings

During the reporting period NT Build staff provided a range of information and briefing sessions to construction industry organisations, such as:

- General presentations at industry forums;
- Targeted presentations to employer and developer groups; and
- Tailored on-site briefing sessions to employees, employers and developers.

Presentations to the Board

During the reporting period two presentations were made to the Board on matters of interest to the effective administration of the Scheme.

- *Liaison with other construction industry long service leave schemes*

As a party to the National Reciprocal Agreement, NT Build continues to liaise with other state and territory construction industry long service leave schemes for the purpose of processing benefit claims lodged by registered workers.

In addition, the Registrar and nominated board members participate in regular meetings with the chief executives and chairpersons of equivalent interstate construction industry portable long service leave schemes for the purpose of exchanging ideas on scheme coverage, administrative practices, legislation, investments, and information technology.

Hosting of these meetings are managed on state/territory rotation basis. Formal meetings that had been scheduled for 2020 were cancelled due to the impact of COVID-19 pandemic on staffing and remote operational practices implemented across all state and territory schemes.

Insurance and risk management

Insurance

As a self funded statutory body corporate, insurance policies relating to public liability, vehicle and property damage and workers compensation have been endorsed by the Board to mitigate any financial risk to the Scheme.

Finance, Risk and Audit (FRA) committee

The FRA committee has been established by the Board for the purpose of providing:

- reasonable assurance to the Board that NT Build's core business goals and

objectives are being achieved in an efficient and economical manner, within an appropriate framework of internal control and risk management; and

- strategic oversight and focus on the key financial and strategic risks and controls across NT Build but does not replace the appropriate function of the Board.

The endorsed terms of reference for the FRA include the requirements for the committee;

- composition to be reviewed at least biennially and its members will be appointed, replaced or removed at the discretion of the Board;
- to consist of a minimum of three members, with two constituting a quorum;
- to meet as frequently as is necessary to undertake its role effectively and in any event at least three times per year;
- to report to the Board through the Chair of the committee by written report at Board meetings, including recommendations for Board consideration.

Current members appointed to the FRA committee are Rosemary Campbell (Chair), Michael Milatos and Sarah Rummery.

During this reporting period the FRA committee convened a total of four times, including three regular meetings and one ad hoc occasion involving a specific matter that required attention between scheduled meetings.

Financial sustainability

The NT Build Board is responsible for the administration of the Scheme which entails, amongst other things, investing the assets of the organisation and monitor the Scheme's solvency.

Logically, sufficient levies would be collected and accumulated (through investments) to fund accruing liabilities of the Scheme.

Following the findings in the report in the actuary's last two triennial reviews (February 2017 and June 2020), the Board notes that the Scheme is not sustainable in the long term at the current 0.1% levy rate.

• *Solvency management*

NT Build is a Scheme established to pay benefits in the future, based on past service in the NT construction industry.

The effective monitoring and management of the solvency of the Scheme is therefore crucial to ensuring NT Build has the necessary funds to meet the current and future long service leave obligations of registered building and construction industry workers in the Northern Territory.

The Board's capital management plan, which provides a framework for the regular monitoring the Scheme's solvency position, is reviewed annually.

Financial and internal audit services

As the contracted financial advisers for the Scheme, TDH Chartered Accountants continued to provide NT Build with independent financial, accounting and taxation advice and services.

During the reporting period the following range of services were provided under the contracted consultancy arrangement.

- On-going ad-hoc general advice in regard to the accounting and taxation implications of NT Build activities.
- Preparation of annual Financial Statements for statutory auditing and reporting.

- Advice and assistance with the delivery of a compliance audit program.

Fraud control and prevention

NT Build has a zero tolerance for fraudulent activity or behaviour by employees, contractors and third party service providers. Not only is it a criminal offence, it reduces the funds available for administering the portable long service leave scheme and undermines public confidence in the Board, the office and the Scheme.

Fraud prevention is the responsibility of all NT Build board members and staff. Both board members and staff play an essential part in reducing NT Build's exposure to fraudulent activity by:

- behaving in an ethical way that is consistent with the Northern Territory Public Sector Codes of Conduct, the NT Government Boards Handbook and relevant provisions contained in the CILSLB Act; and
- reporting and managing any incidents of suspected fraud consistent with the ICAC's Whistleblower Protection Guidelines and Directions and Mandatory Reporting Directions and Guidelines.

Levy compliance program

NT Build operates a 'Strategic audit and levy compliance program' to support its strategic audit framework. This framework introduced an annual audit program aimed at strengthening levy compliance and supporting the effective and efficient administration of the Scheme, whereby routine audits of selected construction projects are to be conducted to ensure that levy payers are declaring and remitting the correct amount of levy that is required.

All audits are undertaken by contracted external auditors. For this purpose, a panel contract arrangement has been established for the purpose of conducting levy compliance audits.

The final report prepared by the auditor of a compliance review, including audit findings, are considered by the FRA Committee prior to the Board's consideration and determination of any further action.

Where, as a result of the audit findings, the reconciled cost of the construction project results in a finding that the actual cost was less than the original estimate, NT Build will refund the overpaid portion of the levy payment.

This includes a full refund where the reconciled total cost of the construction project is determined to be less than:

- \$1 million for projects that started on or after 7/4/2014; or
- \$200,000 for projects that started before 7/4/2014, regardless of completion date.

However, if the total cost of construction is determined to be more than the amount originally notified to the Board, the levy payer will be required to pay the additional amount of levy. An interest penalty may also be applied.

The following Table 2.2 provides a summary of the status of the levy compliance audits undertaken.

As a result of the COVID-19 pandemic, the two audits initiated during the later half of the reporting period, were subsequently postponed.

Table 2.2: Summary of the audits undertaken

| | B/FWD | STARTED | FINALISED | C/FWD |
|---------|--------------|----------------|----------------------|--------------|
| 2019-20 | - | 2 | - | 2 |
| 2018-19 | 3 | - | 3 ^{(2a)(d)} | - |
| 2017-18 | 3 | 3 | 3 ^{(2a)(b)} | 3 |
| 2016-17 | 2 | 3 | 2 ^(d) | 3 |

- (a) = Additional levy and interest penalty payable - audited final construction cost more than reconciled project cost declared.
 (b) = Partial levy refunded - audited final construction cost less than reconciled project cost declared.
 (c) = Full levy refunded - audited final construction cost assessed as less than \$200 000 levy exemption amount.
 (d) = No levy adjustment required - audited final construction cost same as reconciled project cost declared.

External audit

As required under the provisions of the CILSLB Act the annual statutory audit of the financial statements relating to the Board's operation for the year ended 30 June 2020 was undertaken by the NT Auditor-General.

The audited financial statements and accompanying report from the Auditor-General are included in the following Part 3 of this Annual Report.

Legal advice

Legal support services for NT Build are predominately provided by the Northern Territory Government Department of the Attorney-General and Justice. As such, the Solicitor for the Northern Territory provides both general and high level advice on the interpretation and application of the CILSLB Act, including the undertaking of any prosecutions on behalf of NT Build when necessary.

When required or appropriate, the Solicitor for the Northern Territory facilitates the outsourcing of a request for legal services for specialist advice or assistance. No out sourced legal services were engaged during this reporting period.

Part 3: Financial Accountability





Part 3 Financial accountability

Financial Statements for year ended 30 June 2020

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Independent auditor's report to the NT Build Board



Auditor-General

Independent Auditor's Report to the Board NT Build

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Opinion

I have audited the accompanying Financial Report of NT Build which comprises the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the Financial Report, including a summary of significant accounting policies and other explanatory information, and Board Members' Declaration.

In my opinion the accompanying Financial Report of NT Build has been prepared in accordance with Australian Accounting Standards, giving a true and fair view of the financial position of NT Build as at 30 June 2020, and of its financial performance and its cash flows for the year then ended.

Basis for Opinion

I conducted the audit in accordance with *Australian Auditing Standards*. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of my report.

I am independent of NT Build in accordance with the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the Financial Report in Australia. I have fulfilled my other ethical responsibilities in accordance with the Code.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

I draw attention to Note 13(b) to the financial statements which describes the uncertainty related to the Long Service Leave liability valuation as carried out on 14 August 2020. My opinion is not qualified in respect of this matter.

Responsibilities of the Board for the Financial Report

The Board of NT Build is responsible for the preparation of the Financial Report that gives a true and fair view in accordance with Australian Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of the Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the Financial Report, the Board is responsible for assessing NT Build's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate NT Build or to cease operations, or has no realistic alternative but to do so.

The Board is responsible for overseeing the financial reporting processes of NT Build.

Independent auditor's report continued:



Auditor-General

Page 2 of 2

Auditor's Responsibilities for the audit of the Financial Report

My objectives are to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the Financial Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NT Build's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on NT Build's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the Financial Report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report however, future events or conditions may cause NT Build to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the Financial Report, including the disclosures, and whether the Financial Report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Julie Crisp
Auditor-General for the Northern Territory
Darwin, Northern Territory


7 October 2020

Board members' declaration

The members of the NT Build board declare that:

1. the financial statements and notes for the year ended 30 June 2020 are in accordance with the Northern Territory *Construction Industry Long Service Leave and Benefits Act 2005* and:
 - a. comply with Accounting Standards, as stated in basis of preparation in Note 1 to the financial statements, and
 - b. give a true and fair view of the financial position and performance of NT Build.
2. In the opinion of the members of the Board, there are reasonable grounds to believe that NT Build will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board and signed for and on behalf of the Board of NT Build.

Board Member 

Board Member 

Dated this 6th day of 10 2020

Statement of Profit or Loss and other comprehensive income

for the year ended 30 June 2020

| | Note | 2020 \$ | 2019 \$ |
|---|------|-------------------|----------------|
| Contributions from levy payers | | 21,613,652 | 1,378,466 |
| Other income | 4 | 2,120,399 | 14,465,507 |
| Employee benefits expense | | (1,002,702) | (1,025,641) |
| Depreciation and amortisation expense | | (152,530) | (82,113) |
| Fees and allowances | | (39,848) | (39,334) |
| Long service leave benefits payments | | (10,767,452) | (17,973,093) |
| Long service leave scheme revaluation - current | | 7,524,000 | 4,220,000 |
| Occupancy costs | | (25,774) | (95,381) |
| Other expenses | | (461,940) | (468,365) |
| Finance expenses | | (12,660) | - |
| Net surplus/(deficit) for the year | | 18,795,145 | 380,046 |
| Total comprehensive income for the year | | 18,795,145 | 380,046 |

NT Build has initially applied AASB 15, AASB 16 and AASB 1058 using the cumulative effect method and has not restated comparatives. The comparatives have been prepared using AASB 15, AASB 117, AASB 1004 and related interpretations.

The accompanying notes form part of these financial statements.

Statement of financial position

as at 30 June 2020

| | Note | 2020 \$ | 2019 \$ |
|--------------------------------------|------|-------------------|-------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 6 | 1,011,704 | 945,373 |
| Trade and other receivables | 7 | 19,589,296 | 279,187 |
| Other financial assets | 8 | 76,290,793 | 84,206,723 |
| TOTAL CURRENT ASSETS | | 96,891,793 | 85,431,283 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 9 | 691,471 | 8,661 |
| Intangible assets | 10 | 79,535 | 159,070 |
| TOTAL NON-CURRENT ASSETS | | 771,006 | 167,731 |
| TOTAL ASSETS | | 97,662,799 | 85,599,014 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 11 | 281,572 | 179,818 |
| Lease liabilities | 12 | 76,640 | - |
| Short-term provisions | 13 | 10,900,000 | 9,800,000 |
| Other financial liabilities | 14 | 11,140 | 2,051 |
| TOTAL CURRENT LIABILITIES | | 11,269,352 | 9,981,869 |
| NON-CURRENT LIABILITIES | | | |
| Lease liabilities | 12 | 605,157 | - |
| Long-term provisions | 13 | 43,528,000 | 52,152,000 |
| TOTAL NON-CURRENT LIABILITIES | | 44,133,157 | 52,152,000 |
| TOTAL LIABILITIES | | 55,402,509 | 62,133,869 |
| NET ASSETS | | 42,260,290 | 23,465,145 |
| EQUITY | | | |
| Reserves | 15 | 296,867 | 296,867 |
| Retained earnings | | 41,963,423 | 23,168,278 |
| TOTAL EQUITY | | 42,260,290 | 23,465,145 |

NT Build has initially applied AASB 15, AASB 16 and AASB 1058 using the cumulative effect method and has not restated comparatives. The comparatives have been prepared using AASB 15, AASB 117, AASB 1004 and related interpretations.

The accompanying notes form part of these financial statements.

Statement of changes in equity for the year ended 30 June 2020

2020

| | Retained Earnings | Implementation Funding | Total |
|--------------------------------|----------------------|---------------------------|-------------------|
| | \$ | \$ | \$ |
| Balance at 1 July 2019 | 23,168,278 | 296,867 | 23,465,145 |
| Surplus for the year | 18,795,145 | - | 18,795,145 |
| Balance at 30 June 2020 | 41,963,423 | 296,867 | 42,260,290 |

2019

| | Retained Earnings | Implementation Funding | Total |
|--------------------------------|----------------------|---------------------------|-------------------|
| | \$ | \$ | \$ |
| Balance at 1 July 2018 | 22,788,232 | 296,867 | 23,085,099 |
| Surplus for the year | 380,046 | - | 380,046 |
| Balance at 30 June 2019 | 23,168,278 | 296,867 | 23,465,145 |

NT Build has initially applied AASB 15, AASB 16 and AASB 1058 using the cumulative effect method and has not restated comparatives. The comparatives have been prepared using AASB 15, AASB 117, AASB 1004 and related interpretations.

The accompanying notes form part of these financial statements.

Statement of cash flows

for the year ended 30 June 2020

| | Note | 2020 \$ | 2019 \$ |
|---|------|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Levies received and other income | | 10,235,658 | 17,985,896 |
| Payments to employees | | (1,003,833) | (946,433) |
| Interest received | | 8,177 | 43,719 |
| Long service leave payments | | (10,747,806) | (17,929,537) |
| Payments for goods and services | | (436,199) | (791,305) |
| Net cash provided by/(used in) operating activities | 21 | <u>(1,944,003)</u> | <u>(1,637,660)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of listed managed funds | | (3,902,996) | (4,000,000) |
| Proceeds from sale of listed managed funds | | 6,000,000 | 3,200,000 |
| Net cash provided by/(used in) investing activities | | <u>2,097,004</u> | <u>(800,000)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Payment of lease liabilities | | (86,669) | - |
| Net cash provided by/(used in) financing activities | | <u>(86,669)</u> | <u>-</u> |
| Net increase/(decrease) in cash and cash equivalents held | | 66,332 | (2,437,660) |
| Cash and cash equivalents at beginning of year | | 945,372 | 3,383,032 |
| Cash and cash equivalents at end of financial year | 6 | <u>1,011,704</u> | <u>945,372</u> |

NT Build has initially applied AASB 15, AASB 16 and AASB 1058 using the cumulative effect method and has not restated comparatives. The comparatives have been prepared using AASB 15, AASB 117, AASB 1004 and related interpretations.

The accompanying notes form part of these financial statements.

Notes to the financial statements

for the year ended 30 June 2020

Reporting Entity

The financial report covers NT Build as an individual entity. The financial report was authorised for issue in accordance with a resolution of the board members on 6 October 2020.

NT Build has its principal office at Charlton Court, Woolner, Northern Territory. The entity was established in 2005 under the Northern Territory *Construction Industry Long Service Leave and Benefits Act 2005* and it administers this Act which provides a portable long service benefits scheme to building and construction workers in the Northern Territory and is a not-for-profit entity for reporting purposes under Australian Accounting Standards.

The functional and presentation currency of NT Build is Australian dollars and rounded to the nearest dollar.

1. Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with the Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Northern Territory Construction Industry Long Service Leave and Benefits Act 2005*.

The significant accounting policies used in the preparation and presentation of these financial statements are provided below and are consistent with prior reporting periods unless otherwise stated.

The financial statements are based on historical costs, except for the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

2. Change in Accounting Policy

Leases - Adoption of AASB 16

NT Build has adopted AASB 16 *Leases* using the modified retrospective method from 1 July 2019 and therefore the comparative information for the year ended 30 June 2019 has not been restated and has been prepared in accordance with AASB 117 *Leases* and associated Accounting Interpretations.

NT Build as a lessee

Under AASB 117, NT Build assessed whether leases were operating or finance leases based on its assessment of whether the significant risks and rewards of ownership had been transferred to NT Build or remained with the lessor. Under AASB 16, there is no differentiation between finance and operating leases for the lessee and therefore all leases which meet the definition of a lease are recognised on the statement of financial position (except for short-term leases and leases of low value assets).

NT Build has elected to use the exception to lease accounting for short-term leases and leases of low value assets, and the lease expense relating to these leases are recognised in the statement of profit or loss on a straight line basis.

Practical expedients used on transition

AASB 16 includes a number of practical expedients which can be used on transition, NT Build has used the following expedients:

- contracts which had previously been assessed as not containing leases under AASB 117 were not re-assessed on transition to AASB 16;
- lease liabilities have been discounted using the Northern Territory Treasury Corporation's institutional bond rate as the incremental borrowing rate at 1 July 2019;

continued: Notes to the financial statements - 30 June 2020

2. Change in Accounting Policy (continued)

Leases - Adoption of AASB 16 (continued)

- right-of-use assets at 1 July 2019 have been measured at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments;
- the right-of-use asset was adjusted by the existing onerous lease provision (where relevant) at 30 June 2019 rather than perform impairment testing of the right-of-use asset;
- excluded leases with an expiry date prior to 30 June 2020 from the statement of financial position and lease expenses for these leases have been recorded on a straight-line basis over the remaining term;
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

NT Build leases buildings and motor vehicles. These lease contracts are typically for 5 years, however buildings include extension options.

NT Build has recognised right-of-use assets of \$670,136 and lease liabilities of \$670,136 at 1 July 2019, for leases previously classified as operating leases.

Payments for short-term leases and low value leases have been expensed on a straight-line basis, instead of recognising a right-of-use asset and lease liability. Short-term leases are leases with a lease term of 12 months or less with no purchase option. Low value assets are assets with a fair value of \$10,000 or less when new and not subject to a sublease arrangement.

The right-of-use assets are subject to remeasurement principles consistent with lease liability including indexation and market rent review that approximates fair value and only revalued where a trigger or event may indicate their carrying amount does not equal fair value.

| | |
|---|-----------------------|
| | \$ |
| Operating lease commitments at 30 June 2019 financial statements | 259,769 |
| Operating leases excluded under AASB 16 | (76,078) |
| Extension options reasonably certain to be exercised not included in the commitments note | 647,900 |
| Short-term leases included in commitments note | (8,566) |
| Leases for low value assets included in commitments note | (56,004) |
| Effect of discounting | (96,886) |
| Lease liabilities recognised at 1 July 2019 | <u>670,135</u> |

3. Summary of Significant Accounting Policies

(a) Revenue and other income

Revenue from contracts with customers

The core principle of AASB 15 is that revenue is recognised on a basis that reflects the transfer of promised goods or services to customers at an amount that reflects the consideration NT Build expects to receive in exchange for those goods or services. Revenue is recognised by applying a five-step model as follows:

continued: Notes to the financial statements - 30 June 2020

3. Summary of Significant Accounting Policies (continued)

(a) Revenue and other income (continued)

Revenue from contracts with customers (continued)

1. Identify the contract with the customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognise revenue as and when control of the performance obligations is transferred

Generally the timing of the payment for sale of goods and rendering of services corresponds closely to the timing of satisfaction of the performance obligations, however where there is a difference, it will result in the recognition of a receivable, contract asset or contract liability.

None of the revenue streams of NT Build have any financing terms.

Specific revenue streams

The revenue recognition policies for the principal revenue streams of NT Build are:

Long service leave levies

Levies are measured at the fair value of the consideration received or receivable and is presented net of returns, discounts and rebates.

Other income

Other income is recognised on an accruals basis when NT Build is entitled to it.

(b) Income Tax

As a public authority constituted under a law of the Northern Territory, the income of NT Build is exempt from income tax under Div 50-25 of the *Income Tax Assessment Act 1997* and no charge for income tax expense is required.

(c) Goods and services tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payable are stated inclusive of GST.

Cash flows in the statement of cash flows are included on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

continued: Notes to the financial statements - 30 June 2020

3. Summary of Significant Accounting Policies (continued)

(d) Property, plant and equipment

Classes of property, plant and equipment are carried at cost less, where applicable, any accumulated depreciation and impairment. Costs include purchase price, other directly attributable costs and the initial estimate of costs of dismantling and restoring the asset, where applicable.

Plant and equipment

Plant and equipment are measured using the cost model. All items of property, plant and equipment with a cost, or other value, including costs directly attributable to bringing the asset to the location and condition necessary for it to capable of operating in the manner intended by the NT Build Board, equal to or greater than \$5,000 are recognised in the year of acquisition and depreciated as outline below. Items of property, plant and equipment below the \$5,000 threshold are expensed in the year of acquisition.

Depreciation

Property, plant and equipment, excluding freehold land, is depreciated on a straight-line basis over the assets useful life to NT Build, commencing when the asset is ready for use.

Leased assets and leasehold improvements are amortised over the shorter of either the unexpired period of the lease or their estimated useful life.

The depreciation rates used for each class of depreciable asset are shown below:

| Fixed asset class | Depreciation rate |
|----------------------------------|-------------------|
| Furniture, Fixtures and Fittings | 10% |
| Office Equipment | 20% |
| Computer Equipment | 33.3% |
| Computer Software | 33.3% |
| Leasehold improvements | 20% |
| Right-of-Use - Buildings | 9% |
| Right-of-Use - Motor Vehicles | 20% |

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

When an asset is disposed, the gain or loss is calculated by comparing proceeds received from disposal with its carrying amount and is taken to profit or loss.

For right-of-use assets, the net present value of the remaining lease payments is often an appropriate proxy for the fair value of relevant right-of-use assets at the time of initial recognition. Subsequently, right-of-use assets are stated at cost less amortisation, which is deemed to equate to fair value.

(e) Intangible Assets

Software development

Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

continued: Notes to the financial statements - 30 June 2020

3. Summary of Significant Accounting Policies (continued)

(e) Intangible Assets (continued)

Software development (continued)

The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development costs are measured at cost less accumulated amortisation and accumulated impairment losses.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project which is 5 years.

Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

The amortisation rate used for this class of asset is 20%.

(f) Financial instruments

Financial instruments are recognised initially on the date that NT Build becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

Financial assets

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification

On initial recognition, NT Build classifies its financial assets into the following categories, those measured at:

- amortised cost
- fair value through profit or loss - FVTPL
- fair value through other comprehensive income - equity instrument (FVOCI - equity)
- fair value through other comprehensive income - debt investments (FVOCI - debt)

Financial assets are not reclassified subsequent to their initial recognition unless NT Build changes its business

continued: Notes to the financial statements - 30 June 2020

3. Summary of Significant Accounting Policies (continued)

(f) Financial instruments (continued)

Financial assets (continued)

model for managing financial assets.

Amortised cost

Assets measured at amortised cost are financial assets where:

- the business model is to hold assets to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows are solely payments of principal and interest on the principal amount outstanding.

NT Build's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest rate method less provision for impairment.

Interest income, foreign exchange gains or losses and impairment are recognised in profit or loss. Gain or loss on derecognition is recognised in profit or loss.

Fair value through other comprehensive income

Equity instruments

NT Build has a number of strategic investments in listed and unlisted entities over which they do not have significant influence nor control. NT Build has made an irrevocable election to classify these equity investments as fair value through other comprehensive income as they are not held for trading purposes.

These investments are carried at fair value with changes in fair value recognised in other comprehensive income (financial asset reserve). On disposal any balance in the financial asset reserve is transferred to retained earnings and is not reclassified to profit or loss.

Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI.

Financial assets through profit or loss

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at FVTPL.

continued: Notes to the financial statements - 30 June 2020

3. Summary of Significant Accounting Policies (continued)

(f) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

Impairment of financial assets is recognised on an expected credit loss (ECL) basis for the following assets:

- financial assets measured at amortised cost
- debt investments measured at FVOCI

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, NT Build considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on NT Build's historical experience and informed credit assessment and including forward looking information.

NT Build uses the presumption that an asset which is more than 30 days past due has seen a significant increase in credit risk.

NT Build uses the presumption that a financial asset is in default when:

- the other party is unlikely to pay its credit obligations to NT Build in full, without recourse to NT Build to actions such as realising security (if any is held); or
- the financial assets is more than 90 days past due.

Credit losses are measured as the present value of the difference between the cash flows due to NT Build in accordance with the contract and the cash flows expected to be received. This is applied using a probability weighted approach.

Trade receivables and contract assets

Impairment of trade receivables and contract assets have been determined using the simplified approach in AASB 9 which uses an estimation of lifetime expected credit losses. NT Build has determined the probability of non-payment of the receivable and contract asset and multiplied this by the amount of the expected loss arising from default.

The amount of the impairment is recorded in a separate allowance account with the loss being recognised in finance expense. Once the receivable is determined to be uncollectable then the gross carrying amount is written off against the associated allowance.

Where NT Build renegotiates the terms of trade receivables due from certain customers, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in profit or loss.

Other financial assets measured at amortised cost

Impairment of other financial assets measured at amortised cost are determined using the expected credit loss model in AASB 9. On initial recognition of the asset, an estimate of the expected credit losses for the next 12 months is recognised. Where the asset has experienced significant increase in credit risk then the lifetime losses are estimated and recognised.

continued: Notes to the financial statements - 30 June 2020

3. Summary of Significant Accounting Policies (continued)

(f) Financial instruments (continued)

Financial liabilities

NT Build measures all financial liabilities initially at fair value less transaction costs, subsequently financial liabilities are measured at amortised cost using the effective interest rate method.

The financial liabilities of NT Build comprise trade payables and lease liabilities.

(g) Impairment of non-financial assets

At the end of each reporting period NT Build determines whether there is an evidence of an impairment indicator for non-financial assets.

Where an indicator exists and regardless for indefinite life intangible assets and intangible assets not yet available for use, the recoverable amount of the asset is estimated.

Where the recoverable amount is less than the carrying amount, an impairment loss is recognised in profit or loss.

Reversal indicators are considered in subsequent periods for all assets which have suffered an impairment loss.

(h) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

(i) Leases

(i) Comparative year

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the life of the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(ii) Right-of-use asset

At the lease commencement, NT Build recognises a right-of-use asset and associated lease liability for the lease term. The lease term includes extension periods where NT Build believes it is reasonably certain that the option will be exercised.

The right-of-use asset is measured using the cost model where cost on initial recognition comprises of the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration less any lease incentives received.

The right-of-use asset is depreciated over the lease term on a straight line basis and assessed for impairment in accordance with the impairment of assets accounting policy.

continued: Notes to the financial statements - 30 June 2020

3. Summary of Significant Accounting Policies (continued)

(i) Leases (continued)

(iii) Lease liability

The lease liability is initially measured at the present value of the remaining lease payments at the commencement of the lease. The discount rate is the rate implicit in the lease, however where this cannot be readily determined then the Northern Territory Treasury Corporation's institutional bond rate is used as the incremental borrowing rate.

Subsequent to initial recognition, the lease liability is measured at amortised cost using the effective interest rate method. The lease liability is remeasured whether there is a lease modification, change in estimate of the lease term or index upon which the lease payments are based (e.g. CPI) or a change in NT Build's assessment of lease term.

Where the lease liability is remeasured, the right-of-use asset is adjusted to reflect the remeasurement or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Exceptions to lease accounting

NT Build has elected to apply the exceptions to lease accounting for both short-term leases (i.e. leases with a term of less than or equal to 12 months) and leases of low-value assets. NT Build recognises the payments associated with these leases as an expense on a straight-line basis over the lease term.

(j) Long Service Leave Benefits Provisions

(i) Long Service Leave Benefits Expense

Employees and contractors who are registered with NT Build accrue 65 days (13 weeks) long service leave after they have been credited with 2,200 qualifying service days (equivalent to 10 years) in the building and construction industry for service after 1 July 2005. Workers receive credit of 6.5 days long service leave for each 220 days

Leave may be claimed after the employee or contractor has been credited with a total 65 days of long service leave for the first time or they have been credited with 32.5 days of additional long service credits after the employee or contractor was credited with 65 days of long service leave.

(ii) Accrued Long Service leave Benefits Liability

Liabilities for long service leave are recognised as part of the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees and contractors to the end of the reporting period using the projected unit credit method. Consideration is given to expected future salaries and wage levels, experience of employee departures and periods of service. Expected future payments are discounted using appropriate asset based rate at the end of the reporting period with terms to maturity and currency that match, as closely as possible, the estimated cash outflow.

(k) Long service levy

A two tier levy regime is applied for the calculation of the long service levy on all eligible construction projects undertaken in the Northern Territory.

continued: Notes to the financial statements - 30 June 2020

3. Summary of Significant Accounting Policies (continued)

(k) Long service levy (continued)

1. A 'standard' prescribed levy rate is applied to the first \$1 billion of the projects construction costs. The following 'standard' levy rates apply:

- 0.1% on projects started from 7/4/2014 - regardless of completion date;
- 0.3% on projects started from 1/4/2012 to 6/4/2014 - regardless of completion date;
- 0.4% on projects started from 1/7/2009 to 31/3/2012 - regardless of completion date; and
- 0.5% on projects started from 1/7/2005 to 30/06/2009 - regardless of completion date.

The levy rates listed above are applicable for all eligible construction projects of at least:

- \$1 million or more in value for projects that commenced on or after 7/4/2014; or
- \$200,000 or more in value for projects that commenced between 1 July 2005 and 6 April 2014, regardless of completion rate.

2. A project specific levy rate, determined by the responsible Minister and informed by actuarial advice, is applied to the projects that exceed the \$1 billion threshold.

(l) Going concern

The financial report has been prepared on a going concern basis. The Board continued to proactively monitor the financial solvency of the Scheme through the use of regular actuarial advice (including the annual liability valuation and triennial review mechanism) and the review of its investment and accounting policies.

The Scheme has recorded a net surplus of \$18,795,145 as at the end of this current reporting period.

While the Scheme currently has a moderate surplus net asset position, it is predicted to gradually decline over the following years as growth in liabilities continue to accrue at a greater rate than expected income. The underlying concern expressed by the actuary in his 2020 triennial actuarial review report dated March 2020, that the current levy rate of 0.1% is well below the break-even rate, remains.

Notwithstanding the concerns, the Board remains satisfied that adequate governance practices and review mechanisms are in place for the ongoing monitoring of the financial sustainability of the Scheme.

(m) Adoption of new and revised accounting standards

NT Build has adopted all standards which became effective for the first time at 30 June 2020. The adoption of these standards has not caused any material adjustments to the reported financial position, performance or cash flow of NT Build. Refer to Note 2 for details of the changes due to standards adopted.

(n) Standards and interpretations issued but not yet effective

No Australian accounting standards have been early adopted for 2019-20.

Several other amending standards and AASB interpretations have been issued that apply to future reporting periods but are considered to have limited impact on NT Build.

continued: Notes to the financial statements - 30 June 2020

3. Summary of Significant Accounting Policies (continued)

(o) Critical accounting estimates and judgements

NT Build make estimates and judgements during the preparation of these financial statements regarding assumptions about current and future events affecting transactions and balances.

These estimates and judgements are based on the best information available at the time of preparing the financial statements, however as additional information is known then the actual results may differ from the estimates.

The significant estimates and judgements made have been described below.

Long service leave benefits - Note 3(j), Note 13(a): Provisions

Non-current liabilities in respect of long service leave benefits are measured as the present value of estimated future cash outflows based on the appropriate asset based rate, estimates of future salary and wage levels and employee periods of service. The accuracy of provisions is the key estimate included in these financial statements as noted in Note 13(a).

Allowance for impairment losses - Note 7 - Trade and other receivables

The value of the provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the aging of receivables, historical collection rate and specific knowledge of the individual debtors financial position.

4. Other Income

| | 2020 | 2019 |
|----------------------------------|------------------|-------------------|
| | \$ | \$ |
| Other Income | | |
| - Interest received | 8,177 | 37,577 |
| - Investment income | 4,458,773 | 7,338,726 |
| - Movement in equity investments | (6,014,884) | (2,256,409) |
| - Manager fee rebate | 195,955 | 203,371 |
| - Reciprocal income | 3,472,378 | 9,142,242 |
| | <u>2,120,399</u> | <u>14,465,507</u> |

5. Expenses

| | 2020 | 2019 |
|---|---------|--------|
| | \$ | \$ |
| Depreciation and Amortisation: | | |
| - Depreciation and amortisation expense | 152,530 | 82,113 |
| Remuneration of auditor: | | |
| - auditing the financial report | 24,000 | 24,000 |
| Fees and allowances | | |
| - board member fees | 39,848 | 39,334 |

continued: Notes to the financial statements - 30 June 2020

6. Cash and Cash Equivalents

| | 2020 | 2019 |
|--------------|------------------|----------------|
| | \$ | \$ |
| Cash on hand | 200 | 200 |
| Cash at bank | 1,011,504 | 945,173 |
| | <u>1,011,704</u> | <u>945,373</u> |

7. Trade and Other Receivables

| | 2020 | 2019 |
|---------------------|-------------------|----------------|
| | \$ | \$ |
| CURRENT | | |
| Trade receivables | 65,032 | 245,802 |
| Accrued levy income | 19,499,000 | - |
| Prepayments | 25,264 | 33,385 |
| | <u>19,589,296</u> | <u>279,187</u> |

(a) Accrued levy income

Under section 33(4) of the *Construction Industry Long Service Leave and Benefits Act 2005*, the Minister is to determine the levy percentage on construction projects in excess of \$1 billion.

During the current financial year a project of such value had been completed. In the previous year, as the project had yet to be completed and the levy rate had not been determined, the levy income receivable was unable to be accurately calculated and was simply disclosed as a contingent asset.

The actuarial report recommending the percentage to be determined by the Minister for the excess levy amount was tabled in the Legislative Assembly on 23 June 2020, enabling the final levy payment of \$19.499 million (calculated to be 0.11799% of the excess cost of the construction work) to be calculated.

The Minister's determination of the applicable levy rate was subsequently notified in the Government Gazette on 15 July 2020.

(b) Impairment of receivables

NT Build applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance provision as at 30 June 2020 is determined as follows, the expected credit losses incorporate forward looking information.

8. Other Financial Assets

(a) Financial assets at fair value through profit or loss

| | 2020 | 2019 |
|---------------------------|-------------------|-------------------|
| | \$ | \$ |
| CURRENT | | |
| MLC (NCIT) Moderate Trust | 76,290,793 | 84,206,723 |
| | <u>76,290,793</u> | <u>84,206,723</u> |

continued: Notes to the financial statements - 30 June 2020

8. Other Financial Assets (continued)

(b) Breakdown of investment split

| | 2020 | 2019 |
|-----------------------|------------|------------|
| | % | % |
| - Australian shares | 28 | 27 |
| - Global shares | 36 | 36 |
| - Bonds | 34 | 34 |
| - Property Securities | 2 | 3 |
| Total | 100 | 100 |

9. Property, plant and equipment

PLANT AND EQUIPMENT

Furniture, fixtures and fittings

| | | |
|---|----------|----------|
| At cost | 30,223 | 30,223 |
| Accumulated depreciation | (30,223) | (30,223) |
| Total furniture, fixtures and fittings | - | - |

Office equipment

| | | |
|-------------------------------|----------|----------|
| At cost | 12,181 | 12,181 |
| Accumulated depreciation | (12,181) | (12,181) |
| Total office equipment | - | - |

Computer equipment

| | | |
|---------------------------------|----------|----------|
| At cost | 4,642 | 4,642 |
| Accumulated depreciation | (4,642) | (4,642) |
| Total computer equipment | - | - |

Leasehold Improvements

| | | |
|-------------------------------------|--------------|--------------|
| At cost | 309,944 | 309,944 |
| Accumulated amortisation | (303,862) | (301,283) |
| Total leasehold improvements | 6,082 | 8,661 |
| Total plant and equipment | 6,082 | 8,661 |

Right-of-Use - Buildings

| | | |
|---------------------------------------|----------------|----------|
| Under lease | 639,295 | - |
| Accumulated depreciation | (58,118) | - |
| Total Right-of-Use - Buildings | 581,177 | - |

Right-of-Use - Motor Vehicles

| | | |
|--|----------------|----------|
| Under lease | 116,511 | - |
| Accumulated depreciation | (12,299) | - |
| Total Right-of-Use - Motor Vehicles | 104,212 | - |
| Total right-of-use | 685,389 | - |

continued: Notes to the financial statements - 30 June 2020

9. Property, plant and equipment (continued)

(a) Movements in carrying amounts of property, plant and equipment

| | Leasehold Improvements \$ | Right-of-Use - Buildings \$ | Right-of-Use - Motor Vehicles \$ | Total \$ |
|---|---------------------------------|-----------------------------------|---|----------------|
| Year ended 30 June 2020 | | | | |
| Balance at the beginning of year | 8,661 | - | - | 8,661 |
| Recognition of right-of-use assets on initial adoption of AASB 16 | - | 639,295 | 30,814 | 670,109 |
| Additions - right of use asset | - | - | 85,697 | 85,697 |
| Depreciation | (2,579) | - | - | (2,579) |
| Amortisation - right of use asset | - | (58,118) | (12,299) | (70,417) |
| Balance at the end of the year | 6,082 | 581,177 | 104,212 | 691,471 |

| | Leasehold Improvements \$ | Right-of-Use - Buildings \$ | Right-of-Use - Motor Vehicles \$ | Total \$ |
|---------------------------------------|---------------------------------|-----------------------------------|---|--------------|
| Year ended 30 June 2019 | | | | |
| Balance at the beginning of year | 11,239 | - | - | 11,239 |
| Depreciation expense | (2,578) | - | - | (2,578) |
| Balance at the end of the year | 8,661 | - | - | 8,661 |

10. Intangible Assets

| | 2020 \$ | 2019 \$ |
|---|---------------|----------------|
| Intangible assets | | |
| Cost | 397,675 | 397,675 |
| Accumulated amortisation and impairment | (318,140) | (238,605) |
| Net carrying value | 79,535 | 159,070 |
| Total Intangibles | 79,535 | 159,070 |

continued: Notes to the financial statements - 30 June 2020

10. Intangible Assets (continued)

(a) Movements in carrying amounts of intangible assets

| | Intangible assets | Total |
|--------------------------------------|----------------------|---------------|
| | \$ | \$ |
| Year ended 30 June 2020 | | |
| Balance at the beginning of the year | 159,070 | 159,070 |
| Additions | | |
| Amortisation | (79,535) | (79,535) |
| Closing value at 30 June 2020 | 79,535 | 79,535 |

| | Intangible assets | Total |
|--------------------------------------|----------------------|----------------|
| | \$ | \$ |
| Year ended 30 June 2019 | | |
| Balance at the beginning of the year | 238,605 | 238,605 |
| Amortisation | (79,535) | (79,535) |
| Closing value at 30 June 2019 | 159,070 | 159,070 |

11. Trade and Other Payables

| | 2020 | 2019 |
|----------------|----------------|----------------|
| | \$ | \$ |
| CURRENT | | |
| Trade payables | 98,470 | 24,590 |
| Other payables | 183,102 | 155,228 |
| | 281,572 | 179,818 |

Trade and other payables are unsecured, non-interest bearing and are normally settled within 30 days. The carrying value of trade and other payables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

12. Lease liabilities

| | 2020 | 2019 |
|-------------|----------------|----------|
| | \$ | \$ |
| Current | 76,640 | - |
| Non-current | 605,157 | - |
| | 681,797 | - |

continued: Notes to the financial statements - 30 June 2020

13. Provisions

| | 2020 | 2019 |
|-------------|-------------------|-------------------|
| | \$ | \$ |
| Current | 10,900,000 | 9,800,000 |
| Non-current | 43,528,000 | 52,152,000 |
| | <u>54,428,000</u> | <u>61,952,000</u> |

(a) Movement in carrying amounts

| | 2020 | 2019 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Opening balance | 61,952,000 | 66,172,000 |
| Actuarial valuation adjustment - based on asset-based discount rate | (7,524,000) | (4,220,000) |
| | <u>54,428,000</u> | <u>61,952,000</u> |

(b) Actuary valuation adjustment

The NT Build Long Service Leave liability valuation was carried out on 14 August 2020 by Cumpston Sarjeant Pty Ltd, Consulting Actuaries, in respect of the year ended 30 June 2020.

For each future year the amounts of entitlement expected to be paid in service and on termination of membership have been determined by making a projection based on assumed rates of claiming benefits in service, rates of death, retirement, and resignation, and assumed escalation in the benefit rate. The resulting cash flows have then been converted to a present value by discounting from the expected date of payment to the valuation date at the assumed discount rate.

The greatest unknowns in the liability valuation are the assumptions regarding member movements (exit rates and reactivation rates), and regarding the ability of the scheme to remain in contact with inactive members so as to pay available deregistration benefits. The current economic uncertainty is significant, and asset returns remain quite uncertain. Other elements such as the rate of claiming benefits in service are not as important. Further scheme experience over time will refine the member movement assumptions made and gradually reduce uncertainty in the valuation from this area, although the effect of uncertainty in asset returns will remain as a significant source of uncertainty on the current asset allocation.

continued: Notes to the financial statements - 30 June 2020

13. Provisions (continued)

(c) Reconciliation of current year movement

The following reconciliation details the current year actuary movement based on the above assumptions.

| | \$ (million) |
|---|---------------------|
| Liability previously determined excl. expenses as at June 2019 | 55.3 |
| plus Interest on liability @ 6.0% for one year to 2020 | 3.3 |
| less Expected payments during FY20 from accrued liability at 2019 | (5.1) |
| Expected liability excluding expense at 2020 for pre-2019 service | 53.5 |
| Change to assumed future investment return | 5.5 |
| Change to valuation approach related to service recommendation | (7.4) |
| Change to other demographic assumptions | (6.6) |
| Expected pre-2019 liability at 2020 on new valuation basis | 42.9 |
| plus Experience gains/losses | - |
| Benefit payments higher than projected | (2.1) |
| Benefit rate increase on 1/7/20 higher than expected | 1.2 |
| Other experience gains/losses | 0.4 |
| Liability at June 2020 for service to June 2019, excluding expenses | 42.2 |
| plus Liability for service accruals in FY20 | 5.1 |
| Total liability excluding expenses at 30 June 2020 | 47.3 |
| Liability for expenses @ 15% of liability | 7.1 |
| Total liability including expenses at 30 June 2020 | 54.4 |

*progression may not tally precisely due to rounding

The most significant elements of the above progression include:

- Significant changes in benefit inflation rate and assumed future investment earnings compared to 2019. Those assumptions now both take short and medium term features explicitly into account, and the assumed investment return has reduced as a result of revised investment outlook in the last 12 months;
- A change in the valuation treatment for inactive workers, based on newly compiled data during the last year. The changed method for identifying the expected number of inactive workers that will recommence active service in NT reduced liability by \$7.4M from otherwise. This area of the valuation has been an area of significant uncertainty in recent years, and the analysis underlying the Triennial Ministerial Review in March 2020 was able to significantly reduce the uncertainty in this area;
- Changes to valuation demographic assumptions flowing directly from the reassessment of demographic assumptions as part of the Triennial Ministerial Review in March 2020. This reduced liability by \$6.6M, with the most significant component of reduction relating to lower assumed probabilities of eventual payment of liability for short-serving inactive members;
- Benefit payments in FY20 were \$2.1M higher than expected in 2019, resulting in a moderate reduction in liability compared to prior expectations;
- The benefit rate increased on 1 July 2020 by 5.6%, significantly higher than assumed in the 2019 assessment, leading to a moderate \$1.2M increase in liability compared to prior expectations.

Taking all of these factors into account, the greatest unknowns in the liability valuation are the assumptions regarding member movements (exit and service recommencement rates). Other elements such as unreported service and the rate of claiming benefits in service are not as important. Further scheme experience over time will refine the assumptions made and gradually reduce uncertainty in the valuation.

continued: Notes to the financial statements - 30 June 2020

14. Other Financial Liabilities

| | 2020 | 2019 |
|-----------------------------|---------------|--------------|
| | \$ | \$ |
| CURRENT | | |
| Amounts received in advance | 11,140 | 2,051 |
| | <u>11,140</u> | <u>2,051</u> |

15. Reserves

| | 2020 | 2019 |
|-------------------------------|----------------|----------------|
| | \$ | \$ |
| Implementation Funding | | |
| Opening balance | 296,867 | 296,867 |
| Total Reserves | <u>296,867</u> | <u>296,867</u> |

In 2005, when the NT Build office was established, the Office of the Commissioner for Public Employment (OCPE) provided the above funds for the 'fitout' of the NT Build offices. These were used to renovate the existing building and refurbish the office accordingly. The amount was transferred to NT Build from OCPE and treated as an Equity transfer.

16. Commitments

Operating Leases expiring in 5 years

Commitments are those contracted as at 30 June where the amount of the future commitment can be reliably measured. Following the adoption of AASB 16 Leases, operating lease commitments as reported in 2019, satisfying eligibility criteria, have now been recognised as a lease liability on the statement of financial position and in Note 12.

NT Build leases computer equipment and entered into a software licencing operating lease expiring in 5 years with a right of renewal for a further 5 years, however this agreement may be terminated by either party by giving 6 months notice. Future operating lease commitments not recognised as liabilities are payable as follows:

| | 2020 | 2019 |
|--|---------------|----------------|
| | \$ | \$ |
| Minimum lease payments under non-cancellable operating leases: | | |
| - not later than one year | 97,010 | 202,771 |
| - between one year and five years | - | 56,998 |
| - later than five years | - | - |
| | <u>97,010</u> | <u>259,769</u> |

17. Financial Risk Management

NT Build is exposed to a variety of financial risks through its use of financial instruments.

This note discloses NT Build's objectives, policies and processes for managing and measuring these risks.

NT Build's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets.

continued: Notes to the financial statements - 30 June 2020

17. Financial Risk Management (continued)

NT Build does not speculate in financial assets.

The most significant financial risks to which NT Build is exposed to are described below:

Specific risks

- Liquidity risk
- Credit risk
- Market risk - currency risk, interest rate risk and price risk

Financial instruments used

The principal categories of financial instrument used by NT Build are:

- Trade receivables
- Cash at bank
- Investments in listed shares
- Trade and other payables

Objectives, policies and processes

The Board has overall responsibility for the establishment of NT Build's financial risk management framework. This includes the development of policies covering specific areas such as foreign exchange risk, interest rate risk, liquidity risk, credit risk and the use of derivatives. Whilst retaining ultimate responsibility, in December 2015 the Board established a Finance, Risk and Audit (FRA) Sub-committee. This FRA Sub-committee, which consists of three members and met four times during the 2019-20 reporting period, is charged with providing reasonable assurance to the Board that NT Build's core business goals and objectives are being achieved in an efficient and economical manner, within an appropriate framework of internal control and risk management. The Committee also provides strategic oversight and focus on the key financial and strategic risks and controls across NT Build but does not replace the appropriate function of the Board.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and NT Build's activities.

The NT Build staff management team has the responsibility for designing and operating processes that ensure the effective implementation of the objectives and policies within the adopted framework. The Board's risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the results of NT Build where such impacts may be material. The Board receives regular reports and updates from the Registrar through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. Further details regarding these policies are set out below.

Liquidity risk

Liquidity risk arises from NT Build's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that NT Build will encounter difficulty in meeting its financial obligations as they fall due.

continued: Notes to the financial statements - 30 June 2020

17. Financial Risk Management (continued)

Liquidity risk (continued)

NT Build's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities as and when they fall due. NT Build maintains cash and marketable securities to meet its liquidity requirements for up to 30-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

NT Build manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business.

Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day period are identified monthly.

At the reporting date, these reports indicate that NT Build expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances and will not need to draw down any of the financing facilities.

Financial guarantee liabilities are treated as payable on demand since NT Build has no control over the timing of any potential settlement of the liabilities.

The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward. The amounts disclosed in the table are the undiscounted contracted cash flows and therefore the balances in the table may not equal the balances in the statement of financial position due to the effect of discounting.

The table below reflects the undiscounted contractual maturity analysis for financial assets and liabilities (excluding lease liabilities for the current year - refer to note 12.).

Financial asset and liability maturity analysis - Non-derivative

| | Weighted average | | Floating Interest Rate | | Within 1 Year | | Total | |
|---|------------------|------|------------------------|-------------------|------------------|------------------|-------------------|-------------------|
| | Interest rate | | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | 2020 | 2019 | \$ | \$ | \$ | \$ | \$ | \$ |
| Financial assets - cash flows realisable | | | | | | | | |
| Cash and cash equivalents | 1.00 | 1.05 | 1,011,704 | 945,373 | - | - | 1,011,704 | 945,373 |
| Trade, term and loans receivables | - | - | 19,559,464 | 239,828 | - | - | 19,559,464 | 239,828 |
| Other investments | 4.60 | 9.30 | 76,290,793 | 84,206,723 | - | - | 76,290,793 | 84,206,723 |
| Financial liabilities due for payment | | | | | | | | |
| Trade and other payables (excluding estimated annual leave) | - | - | - | - | (281,599) | (179,817) | (281,599) | (179,817) |
| Total anticipated outflows | | | 96,861,961 | 85,391,924 | (281,599) | (179,817) | 96,580,362 | 85,212,107 |

The timing of expected outflows is not expected to be materially different from contracted cashflows.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to NT Build.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposure to wholesale and retail customers, including outstanding receivables and committed transactions.

continued: Notes to the financial statements - 30 June 2020

17. Financial Risk Management (continued)

Credit risk (continued)

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Trade receivables and contract assets

The receivables of NT Build arise as a result of a statutory obligation on various entities undertaking building and construction work of \$1 million or more in value for projects that started on or after 7/4/2014, or \$200,000 or more in value for projects that started before 7/4/2014, regardless of completion date. As a result, NT Build cannot implement any credit policies beforehand to ensure that individual risk on each customer is minimised.

The maximum exposure to credit risk for trade receivables at the end of the reporting period by type of payment terms is as follows:

| | 2020 | 2019 |
|----------------|---------------|----------------|
| | \$ | \$ |
| Instalment | - | 60,447 |
| Non-instalment | 65,032 | 185,355 |
| | <u>65,032</u> | <u>245,802</u> |

Other financial assets held at amortised cost

The NT Build does not hold any other assets at amortised cost.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Sensitivity analysis

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +1.00% and -1.00% (2019: +1.00%/-1.00%), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions and economist reports.

continued: Notes to the financial statements - 30 June 2020

17. Financial Risk Management (continued)

The calculations are based on the financial instruments held at each reporting date. All other variables are held constant.

| | 2020 | | 2019 | |
|-------------|---------|---------|---------|---------|
| | +1.00% | -1.00% | +1.00% | -1.00% |
| | \$ | \$ | \$ | \$ |
| Net results | 773,025 | 773,025 | 851,251 | 851,251 |
| Equity | 773,025 | 773,025 | 851,251 | 851,251 |

(a) Fair value estimation

| | 2020 | 2020 | 2019 | 2019 |
|--|--------------------|-------------------|--------------------|-------------------|
| | Net Carrying Value | Net Fair Value | Net Carrying Value | Net Fair Value |
| | \$ | \$ | \$ | \$ |
| Financial assets | | | | |
| Cash and cash equivalents | 1,011,704 | 1,011,704 | 945,373 | 945,373 |
| Trade and other receivables | 19,589,296 | 19,559,464 | 279,187 | 239,828 |
| Financial assets at fair value through profit or loss: | | | | |
| Investments | 76,290,793 | 76,290,793 | 84,206,723 | 84,206,723 |
| | 96,891,793 | 96,861,961 | 85,431,283 | 85,391,924 |
| Financial liabilities | | | | |
| Trade and other payables | 281,573 | 281,599 | 179,817 | 179,817 |
| Lease liabilities | 681,797 | 681,797 | - | - |
| | 963,370 | 963,396 | 179,817 | 179,817 |

18. Key Management Personnel Remuneration

NT Build is a statutory corporation established by the *Construction Industry Long Service Leave and Benefits Act 2005* (the CILSLB Act) to provide a portable long service leave benefit scheme to building and construction workers in the Northern Territory. It is not an agency within the meaning of the *Financial Management Act 1995* or the *Public Sector Employment and Management Act 1993*.

Under the Administrative Arrangements Order in force for the period ended 30 June 2020 the Department of Trade, Business and Innovation had the principal responsibility for the general administration of the CILSLB Act. However, in accordance with the CILSLB Act, the Board holds the specific responsibility for the day-to-day management of the Scheme and for providing advice and making recommendations to the Minister about the operation of the legislation.

Key management personnel of NT Build are those persons having authority and responsibility for planning, directing and controlling the activities of NT Build. These include the Minister for Business and Innovation, The Hon Michael Gunner MLA, the Registrar, Mr Theo Tsikouris and the NT Build Board as listed below.

The names of the members of the Board who held office during the year are Mr Michael Martin OAM, Mr Dick Guit, Mr Michael Haire, Mr David Malone, Mr Michael Milatos, Ms Rosemary Campbell and Ms Sarah Rummery.

The details below exclude the salaries and other benefits of the Minister for Business and Innovation as the Minister's remunerations and allowances are payable by the Department of the Legislative Assembly and consequently disclosed within the Treasurer's Annual Financial Statements.

continued: Notes to the financial statements - 30 June 2020

18. Key Management Personnel Remuneration (continued)

The details below also exclude the salaries and other benefits of a Board Member who is an employee of the Department of Treasury and Finance as their remunerations and allowances are payable by the Department of Treasury and Finance and consequently disclosed within the Department of Treasury and Finance Annual Financial Statements.

The aggregate compensation of key management personnel of NT Build is set out below:

| | 2020 \$000 | 2019 \$000 |
|------------------------------|---------------|---------------|
| Short-term employee benefits | 243 | 244 |
| Long-term benefits | - | - |
| Post-employment benefits | 30 | 30 |
| Termination benefits | - | - |
| Total | 273 | 274 |

Attendance at meetings

| | Eligible Meetings* | Meetings Attended |
|-------------------|-----------------------|----------------------|
| | \$ | \$ |
| Sarah Rummery | 11 | 11 |
| Dick Guit | 11 | 8 |
| Michael Haire | 11 | 5 |
| David Malone | 11 | 8 |
| Michael Milatos | 11 | 10 |
| Michael Martin | 11 | 11 |
| Rosemary Campbell | 11 | 11 |

* Excludes 'other' business involving general Board or Chair participation, such as: participation on subcommittees, attendance at National Conference/Forums, official functions, travelling days, Ministerial discussions and ad hoc general meetings attended by the Chair - lawyer, Auditor-General, accountant, registrar, etc.

19. Contingencies

Contingent Liabilities

In the opinion of the members of the Board, NT Build did not have any contingent liabilities as at 30 June 2020 (30 June 2019: \$Nil).

20. Related Parties

(a) The NT Build's main related parties are as follows:

NT Build is a government administrative entity and is wholly owned and controlled by the Territory Government. Related parties of NT Build include:

- the Portfolio Minister and key management personnel (KMP) because they have authority and responsibility for planning, directing and controlling the activities of NT Build directly;
- spouses, children and dependants who are close family members of the Portfolio Minister or KMP;
- all public sector entities that are controlled and consolidated into the whole of government financial statements;

continued: Notes to the financial statements - 30 June 2020

20. Related Parties (continued)

- (a) The NT Build's main related parties are as follows: (continued)
- and
 - any entities controlled or jointly controlled by KMP's or the Portfolio Minister or controlled or jointly controlled by their close family members.

Key management personnel - refer to Note 18.

Other related parties include close family members of key management personnel and entities that are controlled or significantly influenced by those key management personnel or their close family members.

- (b) Transactions with Northern Territory Government controlled entities

NT Build's ongoing sources of funding are from the collection of a levy imposed on eligible construction work undertaken in the Territory and investment earnings. No general allocation of funding is provided to NT Build through the Territory Budget or the Central Holding Authority.

The following table provides quantitative information about related party transactions entered into during the year with all other Northern Territory Government controlled entities:

| | Revenue from related parties | Payments to related parties | Amounts owed by related parties | Amounts owed to related parties |
|-------------------------------|------------------------------|-----------------------------|---------------------------------|---------------------------------|
| | 2020 | 2020 | 2020 | 2020 |
| | \$ | \$ | \$ | \$ |
| Related Party | | | | |
| All NT Government Departments | - | 1,166,622 | - | 116,313 |
| | - | 1,166,622 | - | 116,313 |
| Related Party | | | | |
| All NT Government Departments | - | 1,189,516 | - | 103,208 |
| | - | 1,189,516 | - | 103,208 |

NT Build's transactions with other government entities are not individually significant.

continued: Notes to the financial statements - 30 June 2020

21. Cash Flow Information

Reconciliation of net income to net cash provided by operating activities:

| | 2020 | 2019 |
|---|--------------------|--------------------|
| | \$ | \$ |
| Net surplus for the year | 18,795,145 | 380,046 |
| Cash flows excluded from net surplus attributable to operating activities | | |
| Non-cash flows in profit: | | |
| - depreciation and amortisation | 152,530 | 82,113 |
| - interest on lease liabilities | 12,660 | - |
| - movement in market value of investments | 6,014,884 | 2,256,409 |
| - manager fee rebate | (195,958) | (203,371) |
| - distribution income capitalised | (3,902,999) | - |
| - scheme liability expenses | (7,524,000) | (4,220,000) |
| Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries: | | |
| - (increase)/decrease in trade and other receivables | (15,415,232) | 124,410 |
| - (increase)/decrease in other assets | - | 6,143 |
| - (increase)/decrease in prepayments | 8,121 | 2,442 |
| - increase/(decrease) in income in advance | 9,089 | 2,051 |
| - increase/(decrease) in trade and other payables | 101,757 | (67,903) |
| Cashflows from operations | <u>(1,944,003)</u> | <u>(1,637,660)</u> |

(a) Changes in liabilities arising from financing activities

| | 1 July | Recognised on AASB 16 adoption | Acquisition | Lease liability repayment | Other non- cash movement | 2020 |
|--|----------|--------------------------------------|---------------|---------------------------------|--------------------------------|----------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Leases - motor vehicles | - | 30,814 | 85,697 | (15,545) | 996 | 101,962 |
| Leases - buildings | - | 639,295 | - | (71,124) | 11,664 | 579,835 |
| Total liabilities from financing activities | - | 670,109 | 85,697 | (86,669) | 12,660 | 681,797 |

(b) Non-cash financing and investing activities

During the year, NT Build recorded right-of-use assets for the leases of buildings and motor vehicles with an aggregate value of \$685,389 as disclosed at Note 9.

State/Territory schemes

- recognised under the National Reciprocal Agreement for the provision of long service in the building and construction industry

Australia Capital Territory

Construction Industry Long Service Leave Authority

Trevor Pearcey House
Unit 1, 28 Thynne Street
Bruce ACT 2617
Tel: (02) 6247 3900
Email: construction@actleave.act.gov.au
Web: www.actleave.act.gov.au

Queensland

QLeave

Unit 1
62 Crockford Street
Northgate QLD 4013
Toll Free: 1300 753 283
Email: member@qleave.qld.gov.au
Web: www.qleave.qld.gov.au

Tasmania

TasBuild

Level 3
6 Bayfield Street
Rosny Park TAS 7018
Tel: (03) 6294 0807
Web: www.tasbuild.com.au

Western Australia

MyLeave Construction Industry Long Service Leave Scheme

Level 3
50 Colin Street
West Perth WA 6005
Toll Free: 1800 198 136
Email: hi@myleave.wa.gov.au
Web: www.myleave.wa.gov.au

New South Wales

Long Service Corporation

32 Mann Street
Gosford NSW 2250
Toll Free: 13 14 41
Email: info@longservice.nsw.gov.au
Web: www.longservice.nsw.gov.au

South Australia

Portable Long Service Leave

155 Fullarton Road
Rose Park SA 5067
Tel: (08) 8332 6111
Email: hello@portableleave.org.au
Web: www.portableleave.org.au

Victoria

CoInvest

478 Albert St
East Melbourne Vic 3002
Toll Free: 1300 COINVEST
Email: info@coinvest.com.au
Web: www.coinvest.com.au

Ausleave

Ausleave

A co-operative venture by portable long service leave authorities across Australia - providing centralised access to information about each state and territory's scheme.

Web: www.ausleave.com.au

NT Build – portable long service leave

Street: Units 32-33 / 12 Charlton Court
Woolner NT 0820

Post: PO Box 36644
Winnellie NT 0821

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Office phone: (08) 8936 4070

Fax: (08) 8936 4080

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Web: ntbuild.com.au

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