Calculating levy for property in course of construction or alteration

Note	This guideline was amended as part of the implementation of the Fire and Emergency New Zealand Act 2017. The Fire and Emergency New Zealand Act 2017 provides for a number of levy provisions under the Fire Service Act 1975 and the Fire Service Regulations 2003 to continue in force for a transitional period from 1 July 2017 until the commencement of Part 3 of the Fire and Emergency New Zealand Act 2017 (see clause 26 Schedule 1 to the Fire and Emergency New Zealand Act 2017).

Introduction

When to use	Use this guideline to help you comply with levy obligations for property that is under construction or alteration that is insured against loss or damage from fire. This type of insurance is also known as 'contract works' insurance. This guide replaces Circular 1999/3 Property in Course of Construction or Alteration.
Who it applies to	Anyone required to pay levy under the Fire and Emergency New Zealand Act 2017.
Contents	• Guidelines • Project construction insurance • Annual turnover construction insurance • Definitions

Guidelines

Background	Where property under construction is insured under a contract of fire insurance, and the cover represents the estimated completed value of the property, the contract will likely, for most of its period of cover, provide insurance in excess of the indemnity value of the property. It is uncommon and impractical to continually obtain valuations of the indemnity value of the property over the course of its construction. Therefore, for the purpose of section 48(6)(d)(ii) of the Fire Service Act 1975, Fire and Emergency New Zealand has determined how to establish the amount for which the property is insured in these circumstances, for levy calculation purposes. **Note:** Levy is not payable on items such as removal of debris or other fees which may be necessary for reinstatement.

Reassessment	Fire and Emergency may reassess the amount for which property is insured if, in Fire and Emergency's opinion, the insurance is structured in a way that does not provide a fair and reasonable amount for which the property is insured for the purpose of section 48(6) of the Fire Service Act 1975.
Adjustments	Where there is any change to the amount insured within the period of insurance the levy payable may be adjusted.
Maintenance period	Contract works insurance may also include a maintenance period. Levy is payable on a maintenance period, until expiry of the contract of fire insurance. **Note:** If property is simultaneously covered by two or more contracts of insurance against the risk of fire, levy is assessable on each contract.
Existing or completed property	Existing or completed property may also be insured within contract works insurance. In these circumstances, the amount for which the property is insured (for levy calculation purposes) must be determined in the usual manner, on a pro-rated basis for the period of the insurance contract.

Project construction insurance

Use this table as a guide for calculating levy when property is insured against the risk of fire under a contract works insurance policy:

Option	Where…	then the insured amount for the levy calculation is…	Example
A	• property under construction or alteration is insured under contract works insurance, including loss or damage from fire, or a contract of fire insurance, and • the sum insured or indemnity value of the property represents the estimated completed value	50% of the sum insured or indemnity value, on a pro-rated basis for the period of the insurance contract.	Property under construction is insured under contract works insurance (including loss or damage from fire) with a $2 million sum insured (representing the estimated completed value of the property) for a 6-month period. The levy payable at the start of the contract is $530 and is calculated as follows: • ((sum insured * 50%) * rate of levy) * period of insurance = levy payable; or • ((2,000,000 * 0.5) * 0.106/100) * 6/12 = $530, where the: ○ sum insured under the contract is $2 million, ○ rate of levy is $0.106 for each $100 of the amount of insurance cover, and ○ period of insurance is 6 months.

<table>
<tr><th>Option</th><th>Where…</th><th>then the insured amount for the levy calculation is…</th><th>Example</th></tr>
<tr>
<td>B</td>
<td>property under construction or alteration is insured under contract works insurance, including loss or damage from fire, and
the property’s sum insured or estimated indemnity value progressively increases (no more than once a month) at the end of each applicable period, and
the progressively increased sums insured or estimated indemnity values are a fair and reasonable estimate of the indemnity value of the property at the end of each such applicable period</td>
<td>the estimated indemnity value of the property at the end of each applicable period, on a pro-rated basis.</td>
<td>Property under construction is insured under contract works insurance (including loss or damage from fire) with a $2 million estimated completed value for a 6-month period as follows:
<table>
<tr><th>At the end of month…</th><th>Sum insured and estimated indemnity value of the property is…</th></tr>
<tr><td>three</td><td>$500,000</td></tr>
<tr><td>five</td><td>$1 million</td></tr>
<tr><td>six</td><td>$2 million</td></tr>
</table>
The levy payable at the start of the contract is $485.83 and is calculated as follows:
((sum insured at end of applicable period * rate of levy) * applicable period of insurance) + [same formula for other applicable periods] = levy payable; or:
((500,000 * 0.106/100) * 3/12) + ((1,000,000 * 0.106/100) * 2/12) + ((2,000,000 * 0.106/100) * 1/12) = $485.83, where the:
sums insured at the end of each applicable period are $500,000, $1,000,000 and $2,000,000 respectively
rate of levy is $0.106 for each $100 of the amount of insurance cover, and
applicable periods of insurance are 3 months, 2 months, and 1 month respectively.</td>
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Annual turnover construction insurance

Use this table as a guide for calculating levy when property is insured against the risk of fire under a contract works insurance policy using an annual turnover method:

Where…	then the insured amount for the levy calculation is…	Example

• property under construction or alteration is insured under contract works insurance (including loss or damage from fire), and
• sum insured or other amount of insurance cover is based on the insured's total estimated turnover
	amount for which property is insured for levy calculation purposes will be 50% of the insured's total estimated turnover (on a pro-rata basis for the period of the insurance contract)	Property under construction is insured under annual turnover construction insurance for a 9-month period. The insured has an estimated annual turnover of $2 million.
		
		The levy payable at the inception of the contract is $795 and is calculated as follows:
		
		• ((estimated annual turnover * 50%) * rate of levy) * period of insurance = levy payable; or
		• ((2,000,000 * 0.5) * 0.106/100) * 9/12 = $795, where the:
		  ○ insured's estimated turnover and amount of insurance under the contract is $2 million,
		  ○ rate of levy is $0.106 for each $100 of the amount of insurance cover, and
		  ○ period of insurance is 9 months.

Definitions

Annual turnover construction insurance	Contract works insurance can be arranged on a project specific or annual basis. Annual policies automatically cover all of the contracts which fall within agreed parameters, up to a specified value.
Contract works policy	A type of insurance contract that covers loss of, or damage to, property that is being built or altered. Also known as construction insurance.
Maintenance period	A contract works policy may include a maintenance period, or defects liability period. Loss or damage discovered during this period is covered by the insurance contract, if the cause of the loss or damage was the contract works.
Property	As defined in section 47B of the Fire Service Act 1975 (FSA), any real or personal property situated in New Zealand; but does not include the categories of property set out in Schedule 3, or any property which is the subject of cover under a contract of marine insurance as defined in the FSA. Includes buildings and plant and any other assets covered by the contract works policy.

Document information

Owner	Chief Financial Officer
Last reviewed	31 August 2017
Review period	Yearly

Record of amendment

Date	Brief description of amendment
31 August 2017	This guidance was reviewed as part of the implementation of the Fire and Emergency New Zealand Act 2017 and replaces Circular 1999/3 Property in Course of Construction or Alteration.