

Circular 1999/3
Fire Service Act 1975 - section 48
Fire Service levy
Property in Course of Construction or Alteration

1.0 General

1.1 The New Zealand Fire Service Commission ("Fire Service") is responsible for the efficient administration of the Fire Service Act 1975. The following Statement is issued to assist those to whom the Act applies in regard to the Fire Service Levy.

1.2 Wherever, in the following, there is reference to the Act or to its numbered sections these references are to the Fire Service Act 1975 and sections of that Act.

1.2 The Fire Service believes that the intent of the Fire Service Levy collection system is that it should be fair and equitable. Consequently the Fire Service will closely examine any Insurance arrangements that it considers may be constructed so as to reduce the amount of the Levy intended.

1.4 In issuing statement the Fire Service wishes to acknowledge the assistance given by The Insurance Council of New Zealand Inc, The Corporation of Insurance Brokers of New Zealand and the Independent Insurance Brokers Association (NZ) Inc.

2.0 Statement of Policy regarding Property in the Course of Construction or Alteration – Contract Works Insurance

2.1 This Statement of Policy is issued as a means of assisting compliance in the calculation of the Fire Service Levy in terms of the Act in regard to fire insurances applicable to property in the course of construction or alteration.

- In the course of auditing compliance with Levy payments the Fire Service will apply the intent of the Statement of Policy on all policies renewed or incepted after 1 October 1999.
- Where the construction of new property is insured under an insurance contract that includes the risk of fire, and the insurance sum insured on the property represents the estimated completed value of all of the property then, for the purpose of Levy calculation, that sum insured shall be used as the Indemnity Value of that property.
- Provided that if in the opinion of the Fire Service the insurance is subject to first loss limits or similar arrangements that detract from insured value and a fair representation of the completed value of the property the Fire Service reserves the right to recalculate the Levy.
- It should be noted that the Fire Service Levy is not payable on such items as removal of debris or fees which may be necessary for reinstatement.

- No variation of method of Levy calculation, or discount in Levy, will be allowed for existing completed property that is also insured within a contract works insurance.
- If the construction insurance continues to apply after the end of the period of construction and/or during any period of maintenance the Levy will be calculated on that value without discount for the period of that insurance. Provided that no levy will be payable if it can be shown that the completed construction project is insured by permanent insurance on which Levies have been paid.
- No Levy is payable under a construction insurance policy on the period of maintenance or defects liability where the contract of insurance only insures a legal liability during the maintenance or defects liability period.
- All Levies are payable at inception of the policy of insurance and for the period of the insurance.

3.0 Single Project Insurance

3.1 Option A

3.1.1 Where the construction of new property is insured under an insurance contract that includes the risk of fire and the insurance sum insured on the property represents the estimated completed value of all of the property then such sum insured shall be deemed to represent the indemnity value of the Property and the Levy shall be calculated on that value at the rate of Levy less 50%, pro-rata for the period of the insurance contract.

An example of this option would be:-

Say - Contract Works Insurance Sum Insured \$2m.
Say - Period of Insurance 6 months.

Calculation of Levy payable at inception would be:-

$\$2m @ \text{Rate of Levy (Currently .076\%)} * 50\% * \text{Pro Rata 6 Months} = \380.00

3.2 Option B

3.2.1 The sum insured, as described in Option A above, on which the Levy is calculated, may be progressively increased on a monthly or greater period basis. Such sums insured, shall represent the estimated value of Property to be actually completed at the end of each applicable period

3.2.2 The Levy rate shall apply to the sum insured adjusted pro rata for the period of increment without discount.

An example of this option above, where the completed value is \$2,000,000 and the period of insurance is for 6 months, would be:-
Say - Value of work and Sum Insured during 1st month after inception \$500,000

Say - Value of additional work during following 2 months \$500,000 giving Sum Insured of \$1m.

Say - Value of additional work during following 3 months \$1,000,000 giving Sum Insured of \$2m.

Calculation of Levy payable at inception would be:-

\$500,000 @ rate of Levy (currently .076%) * Pro Rata 1 Month = \$31.67
plus

\$1,000,000 @ rate of Levy (currently .076%) * Pro Rata 2 Months = \$126.67
plus

\$2,000,000 @ rate of Levy (currently .076%) * Pro Rata 3 Months = \$380.00
Total \$538.34

4.0 Annual Declaration Construction Insurance

4.1 Where the Insurance of new construction incepts on declaration by the Insured to the Insurer within a Declaration Construction Insurance Policy, and the declared sums insured represent the estimated completed value of all of the property, then such sum insured declared will be deemed to be the indemnity value of that Property. The Levy payable may be calculated by use of either of the options described above for Single Project Insurance for the period(s) of insurance declared.

5.0 Annual Turnover Construction Insurance

5.1 If the Insurance on Property whilst in the course of construction is based on the Insured's total estimated turnover then, for the purpose of the Levy calculation, such value will be treated as the indemnity value of that property. The levy shall be calculated on that value less 50% pro-rata for the period of the insurance.

5.2 However where this form of insurance insures Property in the course of construction, and the period of construction is for more than 1 year then the discount of 50% will not apply to any Work that is completed and continues to be insured in any subsequent period(s).

5.3 Whenever the insurance on contract work is made subject to a requirement that the Insured shall make a declaration to the Insurer so that a premium adjustment may be made then the Levy will also become adjustable.