GOVERNMENT OF NIUE

FIXED ASSETS POLICY

July 2024

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1 OVERVIEW

1.1 AUTHORITY, SCOPE, AND RELATED DOCUMENTS

This policy is approved by Cabinet, and controlled and enforced by Treasury.
This policy applies to the wider public sector, i.e. all departments (including boards) within the Government of Niue, and all state owned entities (with the exceptiion that entity Board approve their capital expenditure).
Related documents include:

- Niue Treasury Instructions 2002 (issued under section 35 of the Niue Public Revenues Ordinance 1959).
- Public Revenues Treasury Rules 1960.
- Niue Procurement Policy 2024.
- Tender Terms of Reference.
- Consolidated Financial Statements of the Government of Niue, Summary of Significant Accounting Policies.

1.2 DEFINITIONS

- Fixed Asset: an asset that is used over a longer period of time. In accounting terms such assets are generally referred to as "Property, Plant & Equipment" and "Intangible Assets". Refer section 1.3.
- Acquisition/Capital Expenditure: the process of acquiring a fixed asset. Refer sections 1.4 and 3.
- Disposal: the process of selling or discarding a fixed asset, or of accounting for a fixed asset that is no longer in use or owned by the entity. Refer section 4.
- Depreciation: the accounting process of spreading the expense of a fixed asset over its estimated useful life. Refer section 6 and Appendix 1.
- Tender: a formal procurement or sale process (controlled by an independent Tender Board for significant purchases), whereby offers are invited from multiple suitable suppliers or buyers, enabling a rational selection of the best solution for the organisation.

1.3 FIXED ASSETS

Capital expenditure is expenditure incurred for the acquisition of assets that are used over a longer period (officially: "more than one production cycle"), usually more than one year. Such expenditure is recognized as assets on the balance sheet, rather than directly as operational expenditure in the Income Statement. These assets are then depreciated over their estimated useful lives; the annual depreciation is recognised as expenditure.
It is Cabinet policy to require Cabinet approval for all capital expenditure that exceeds certain thresholds (refer section 3).

1.4 TYPES OF ASSET ACQUISITIONS

The Government acquires assets in various ways:

- Through the recurrent capital expenditure vote.
- Through donor funded asset purchases.
- Through internal development projects (usually donor funded), generally for construction projects.

- Through donations of assets.

How Treasury accounts for these different types of acquisitions is explained in more detail in Appendix 3.

2 POLICY REQUIREMENTS

2.1 GOVERNMENT OF NIUE

- All purchases of fixed assets (whether recurrent or donor funded) by Government departments and all purchases by Government departments towards internally developed fixed assets must follow the standard Government procurement rules (refer the Procurement Policy).
- All acquisitions of fixed assets (including donated assets) over certain thresholds (refer section 3) must be approved by Cabinet prior to commitments being entered into. The Cabinet paper must include at least:
  - Why the asset is needed.
  - A reliable estimate of all costs, including freight, taxes and commissioning.
  - A complete and reliable list of all estimated ongoing costs, including maintenance, subscriptions, levies, etc.
  - An estimate of its useful life and how the asset will be disposed after the end of that. And if sold, an estimate of the realisable net market value (estimated sales price minus costs such as freight and decommissioning expenses).
  - Whether this is an additional asset, or a replacement. If the latter, what is the asset number in the Finance Department's Fixed Assets Register, and what is its net book value. Also, what will be done with the replaced asset (including estimates of sale price and costs, if any).
- All receipts of donated assets must be notified to Treasury, including the estimated value, so that Treasury can account for the donation.
- Assets shall be depreciated over their estimated useful lives in accordance with the schedule in Appendix 1.
- All sales of fixed assets must be approved by Cabinet prior to committing to them.
- All decommissioning of fixed assets of a net book value exceeding $5,000must be approved by Cabinet prior to commencement.
- Depreciation rates and the list of sensitive assets are determined by the Financial Secretary. Changes to these lists (even though they are appended to this Policy) are not considered changes to this Fixed Assets Policy itself.
- All non-compliance with acquisition and disposal requirements must be reported to Cabinet at the earliest opportunity.

2.2 STATE OWNED ENTITIES

- All asset acquisitions shall comply with the State Owned Entities' procurement policies. Where such policies are absent, the State Owned Entities shall follow processes that are consistent with those of the Government. This includes obtaining and assessing all information that, for the Government, is required in the Cabinet paper (refer above).
- The Boards of the State Owned Entities shall set thresholds above which all capital expenditure must be approved by the Boards and below which capital expenditure may be approved by the General Manager or Chief Executive Officer. Further delegation is not allowed.

- From a wider Public Sector perspective, all asset acquisitions by State Owned Entities are considered sensitive assets; refer section 3.
- All receipts of donated assets must be notified to the Finance department, including the estimated value, so that the Finance Department can account for the donation.
- The depreciation rates listed in the schedule in Appendix 1 apply likewise to State Owned Entities.
- All sales of fixed assets must be approved by the State Owned Entity's Board prior to committing to them.
- All decommissioning of fixed assets that have not reached the end of their estimated useful lives must be approved by the State Owned Entity's Board prior to commencement.
- Depreciation rates are determined by the Financial Secretary. Changes to this lists (although it is appended to this policy) are not considered changes to this fixed assets policy itself.
- All non-compliance with acquisition and disposal requirements must be reported to the State Owned Entity's Board at the earliest opportunity.

3 CAPITAL EXPENDITURE THRESHOLDS AND SENSITIVE ASSETS

The current capital expenditure thresholds, above which Cabinet approval is required, are:

- Sensitive assets: $1,000 (NCT inclusive) and higher.
- Other assets: $5,000 (NCT inclusive) and higher.

Sensitive assets are assets that have a higher risk of more than incidental personal use or that need tracking for other purposes. These therefore have a lower capitalisation threshold of $1,000 (NCT inclusive). Examples of sensitive assets include: personal computers, mobile phones, core electronic equipment such as switches and other Internet devices, larger printers (i.e. other than personal desktop printers), and air conditioners and other building fit-outs. Refer Appendix 2 for the full list of sensitive assets.

All other assets (i.e. assets that are not listed in Appendix 2) are not considered sensitive assets. In other words, the capitalisation threshold for these assets is $5,000. Examples of non-sensitive assets include: furniture and whiteware, desktop printers, Wi-Fi routers, buildings and building renovations (other than normal maintenance), containers for storage, vehicles, machinery and equipment, and medical equipment.

(The concept of sensitive assets applies in practice only to the Government. Because state owned entities are smaller and cannot always implement all the same internal controls that are typically maintained in larger organisations, a more detailed level of Governance oversight is required and all assets acquired by state owned entities are considered sensitive assets, and the lower capitalisation threshold always applies to them. In addition, for materiality reasons, their Boards may determine a capitalisation threshold even lower than $,1000 (NCT inclusive) if the small size of their entities so justifies.)

Sensitive assets are determined by the Financial Secretary. Some assets may be difficult to classify as sensitive or non-sensitive; in the case of doubt a determination should be sought from the Financial Secretary.

4 DISPOSALS

The term "disposal" has two distinct meanings:

- The actual sale or decommissioning (discarding) of an asset.
- Accounting for the fact that an asset is no longer in possession of the entity or is of no more use to the entity.

Policy requirements regarding disposals are listed in section 2. These requirements relate to the actual disposal of the asset.

Disposals of assets that have occurred for whatever reason, must be accounted for, whether or not the policy requirements were complied with. Not processing an asset disposal (i.e. not removing it from the entity's Balance Sheet) simply because the disposal was not formerly approved, would result in an overstated Balance Sheet position.

When an asset is no longer fit for use by the entity and is decommissioned, a decision will need to be made whether it can still be used, or will need to be scrapped. The following rules apply:

- Management should ask the Finance Department whether the asset has reached its estimated useful life (i.e. it has been fully depreciated and has no book value, and if not what the remaining net book value is).
- Management must assess whether the asset:
  - Can be sold (either for use or for scrap).
  - May be of some future use (e.g. for parts).
  - Is of no further use for anybody at all and must be scrapped.

  Where practicable, expert opinion (e.g. from a mechanic) should be sought on the options.
- If the asset still has a net book value exceeding \$5,000, then Cabinet approval must always be sought before proceeding with disposal.
- For state owned entities, if the asset still has a net book value, then Board approval must always be sought before proceeding with disposal.
- If the asset is to be sold, then Cabinet (for state owned entities: Board) approval must also be sought before proceeding with disposal.
- If approval for sale has been received, Management may decide to first tender the sale among the entity's employees. If this does not result in a sale, then the sale must be publicly tendered.
- If the asset cannot be sold but may have a use in the future (e.g. for parts), then management must ensure that the asset is kept in a secure and safe place.
- If the asset can only be scrapped, then management must ensure that this is done in an environmentally safe manner.
- Management must keep the Finance Department informed of all actions during the disposal process:
  - That a sale is intended. This will enable the Finance Department to mark the asset as "held for disposal".
  - That an asset is held for parts or otherwise. This will enable the Finance Department to account for the disposal (and, if the value of the parts justifies it, account for it under inventories).
  - That a sale has been concluded, and for what price. This will enable the Finance Department to account for the disposal, to generate a (NCT) invoice for the sale, and to ensure that the consideration for the sale is received in full and on time.
  - That an asset will be scrapped. This will enable the Finance Department to account for the disposal.

5 CARE OF FIXED ASSETS

Taking good care of assets is the responsibility of Management and of all employees who use the asset. Furthermore, any other employees who witness or reasonably suspect that an asset is not taken good care of, have a duty to report this to Management (or, where Management does not respond appropriately, to the Secretary of Government, the Financial Secretary, or the Board of the state owned entity).

Management must ensure that:

- The department's or the state owned entity's Fixed Assets Register is kept up to date at all times, and sent to the Financial Department immediately when requested.
- Appropriate asset maintenance plans are kept and adhered to, and that the annual budget has sufficient funds for repairs, maintenance and replacement. Where Management has concerns around this that are out of its control to resolve, then Management must report this to the Secretary of Government, the Financial Secretary, or the Board of the state owned entity.
- All assets are safeguarded, i.e. kept locked up where appropriate, and protected from the elements.

Management must report to the Finance department:

- All intended and incurring capital expenditure.
- All donated assets that it receives.
- All disposals, as per section 4.
- All significant impairments that are not the result of normal wear and tear.

6 ACCOUNTING FOR FIXED ASSETS

Treasury maintains a Fixed Assets Register that lists all Government assets and that automatically processes depreciation in the Government's financial system. Departments are required to maintain their own asset lists to help them manage their assets; they are required to send a copy to Treasury immediately after the end of each financial year or earlier if requested. State owned entities have the same process.

Treasury and the state owned entities' Finance Departments are responsible for the timely and correct accounting for all fixed assets related transactions, including:

- Capital expenditure. Appendix 3 describes in more detail how Treasury accounts for the various types of capital expenditure. State owned entities' capital expenditure usually mirrors the Government's recurrent capital expenditure process, but sometimes the other types of capital expenditure apply.
- Disposals. Refer section 4.
- Depreciation. Depreciation is generally calculated and processed after the end of the year, after all other fixed asset related transactions have been processed and the Fixed Assets Register has been reviewed. All depreciation regimes within the Government and the state owned entities are based on straight line depreciation, with no residual values.
- Impairments. Managers should report impairments that are not the result of normal wear and tear, to the Finance Department. Also, the Finance Department should be mindful of potential impairment indicators.

Major renovations are treated as capital expenditure if they increase the functionality and/or the estimated useful life of the existing assets. In the Fixed Assets Register, they can be added to the cost of the existing assets as long as this does not result in inappropriate fluctuations in depreciation; re-estimating the estimated useful life of the whole asset is often appropriate.

The Finance Department should perform periodic asset verifications. These should cover:

- Existence: whether all assets in the Fixed Assets Register are still in use.
- Completeness: whether all assets that are in use, are actually in the Fixed Assets Register (i.e. has all capital expenditure been recorded as such and not as operational expenditure, and have all donated assets been accounted for).
- Valuation: whether all assets are in a reasonable state and not impaired.
- Safety: whether all assets are properly safeguarded.

An asset verification does not necessarily have to cover all assets at the same time; a rolling asset verification plan is acceptable. However, all asset classes should be covered at least once every five (land, infrastructure, parks, and buildings and site improvements) or three (all other assets) years.

An asset verification includes:

- Comparing the central Fixed Assets Register with the departmental Fixed Assets Registers where the latter are deemed reliable.
- Performing physical in situ stock-takes where feasible.
- Comparing the Fixed Assets Register with other registers. For example, the vehicles can be verified against the Police Department's register of Government vehicles.

APPENDIX 1: ASSET CLASSES, DEPRECIATION RATES, AND RULES

All assets are categorised into asset classes, which are used to determine the assets' potential estimated useful lives and for disclosure in the Financial Statements of the Government and the state owned entities. The table below lists all asset classes and the types of assets therein that are currently in use. It is reviewed and updated regularly by the Financial Secretary and the Government Accountant; changes to the table are not considered to be changes to the Fixed Assets Policy.
Any planned deviations from the contents of this table must be approved in advance by the Financial Secretary and/or the Government Accountant.
This table applies to new assets. Where significant, re-estimating the estimated useful lives of existing assets may be appropriate.

Asset Class	Types of Assets	Dep. Rate Range	Rules/Comments
Land	-	No depreciation	Only owned land.
Infrastructure	Roads – significant work	3.3%	If the pavement is good quality.
	Roads – chip seal resealing	8%	Treat sealed car parks as roads.
	Street lights	5%	
	Sea tracks and other parks	5%	
	Cabling, pipes and towers	3.33%	
	Transformers and switchgear	5%	
	Airport runway	1.7 – 3.3%	Repaving: 3.3%.
	Wharf	4%	
	Water tanks	10%	
	Water bores	5%	Pumps and equipment.
	Water treatment plant	10%	
Buildings	Mostly concrete buildings	2 – 2.8%	
	Lighter, wooden and other	3.3 – 20%	I RECKON NEVER ABOVE 10%
	Airconditioners	10%	If later addition/replacement.
	Solar water heaters	5%	If later addition/replacement.
	Other fitouts	4 – 33%	If later addition/replacement.
	Leasehold improvements	5%	If no expectation of earlier vacation.
	Renovations	Up to building life	Assess whole of building remaining life.
	Storage containers	10%	Faster if not in good condition.

Asset Class	Types of Assets	Dep. Rate Range	Rules/Comments
	Fencing	5%	
	Landscaping and soft paths	10%	
	Sealed paths	5%	
	Septic tanks	2.5%	If later addition/replacement.
Machinery	Mechanical plant and eq.	5 – 40%	
	Fuel tanks and pipes	5 – 20%	
	Quarry and roading plant	5%	
	Waste recycling plant	5%	
	Generators	5%	
	Solar power plants	2.5%	
	Winches and stationery cranes, hoists	5%	
	Heavy workshop machinery	5%	
	Welding equipment	5%	
	Water blasters, vacuum cleaners, etc.	10%	
	Pumps and compressors	10%	Excludes water bores (refer Infrastructure).
	Push mowers	10%	Assume heavy usage.
	Large power tools	10%	E.g. chainsaws, jackhammers.
	Medium gardening power tools	20%	E.g. small brush cutters.
	Small handheld power tools	20%	E.g. drills.
	Whitewear and kitchen equipment	10%	
	Airport and hospital trolleys	10%	
	Road and other signs, cones, etc.	5%	
	Fish Aggregation Devices (FADs)	5%	
	Non-medical X-ray scanners	10%	
	Airport plant	5%	E.g. air stairs, luggage trailers, etc.
Vehicles	Passenger vehicles	20%	Start name with rego: “6789 – “.
	Light trucks	10%	
	Heavy trucks, tractors, diggers, etc.	5%	
	Fire engines	10%	

Asset Class	Types of Assets	Dep. Rate Range	Rules/Comments
	Ambulances	10%	
	Forklifts	4%	
	Ride-on mowers	10%	Assume heavy usage.
	Trailers	5%	
	Boats	5%	
Electronic Equipment	Personal computers	33%	
	Thin clients	20%	
	Switches, routers, etc.	20%	
	Transmission equipment	20%	E.g VHF radios, satellite receivers.
	Servers	10-20%	
	Cabling	10%	
	Printers, scanners and copiers	20%	
	Medical equipment	10%	Unless motivated otherwise.
	Aviation equipment	10%	
	Telephony equipment	10%	
	Office machinery (binders etc.)	10%	Classification under EE is acceptable.
	Meteorological equipment	5%	
Furniture and Fittings	Normal furniture and cabinets	10%	
Software	Main systems	10%	Unless suggested otherwise.
	Productivity software	33.3%	

APPENDIX 2: SENSITIVE ASSETS

Currently identified sensitive assets include:

- Personal computers. (It is recommended that personal computers are purchased in bulk and kept in inventory until required.)
- Mobile phones.
- Core electronic equipment such as switches and other Internet devices.
- Larger printers (i.e. other than personal desktop printers).
- Airconditioners and other building fit-outs.

Currently, all other assets are not considered sensitive assets. In other words, the capitalisation threshold for these assets is $5,000 (NCT inclusive). It is impossible to provide a complete list of non-sensitive assets, but here is a non-exhaustive list:

- Furniture and whiteware.
- Desktop printers.
- Wifi routers.
- Buildings and building renovations (other than normal maintenance).
- Containers for storage.
- Vehicles.
- Machinery and equipment.
- Medical equipment.

Over time, the Financial Secretary is likely to consider more types of assets sensitive or explicitly non-sensitive.

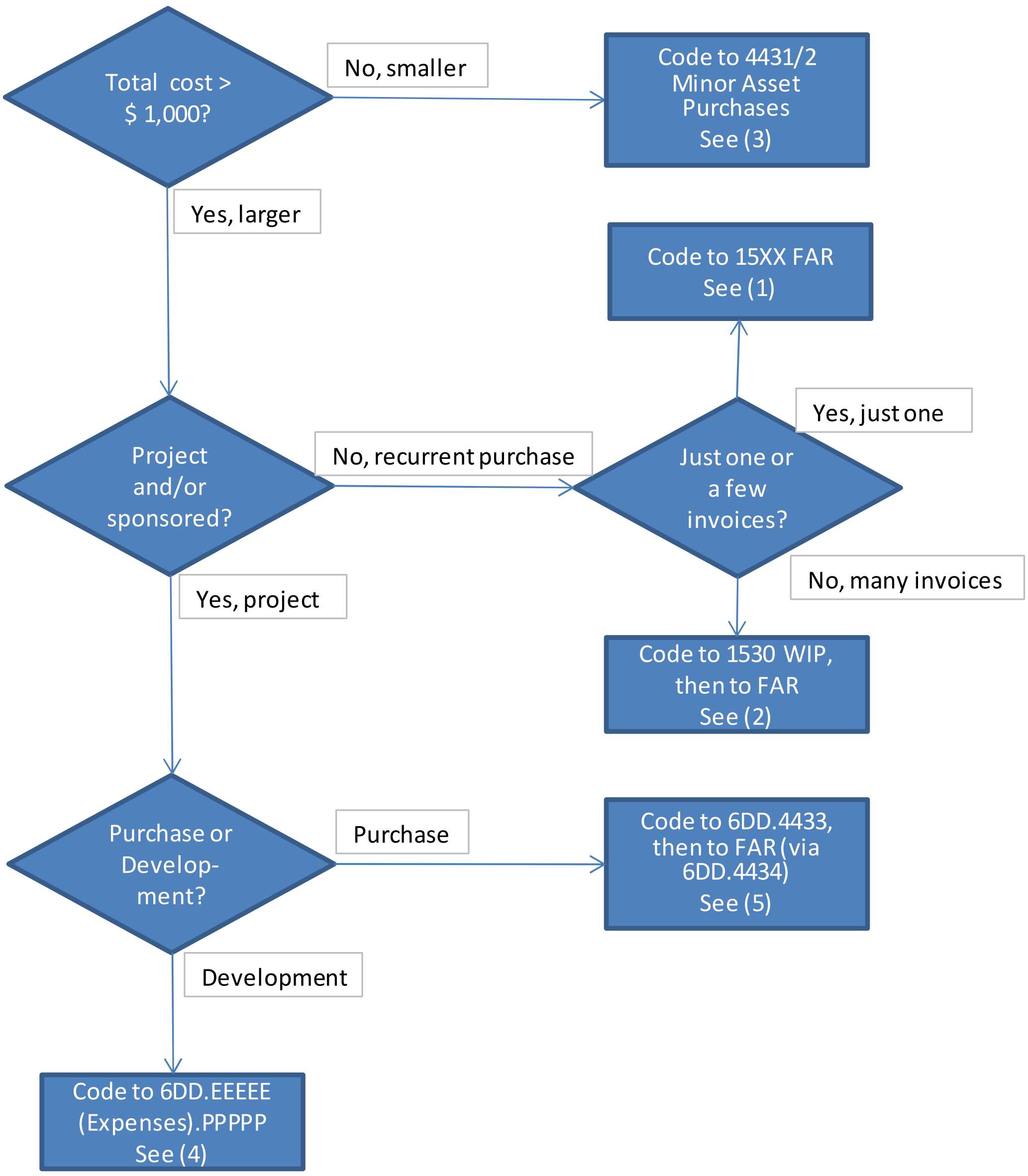
APPENDIX 3: ACCOUNTING FOR CAPITAL EXPENDITURE

INTRODUCTION

There are different ways of acquiring assets, and these need different ways of processing:
1 Recurrent asset purchases, not funded by donors.
2 Recurrent assets, not funded by donors, but with multiple invoices.
3 Minor asset purchases (which are not considered capital expenditure).
4 Asset development, managed through projects.
5 Asset purchases, sponsored by donors and/or managed through projects.
6 Donated assets.

This appendix describes in some detail how to account for these ways of acquiring assets, using Treasury's processes and account codes. The state owned entities may have different processes and account codes, but the results at Financial Statements level must be the same. Below is a summary flowchart showing the decision-making process around capital expenditure, i.e. excluding donated assets. The following sections describe in more detail how Treasury accounts for each way of acquiring assets (including donated assets).

Summary Flowchart



AD 1) RECURRENT ASSET PURCHASES, NOT FUNDED BY DONORS

Treasury uses Greentree, which has an integrated Fixed Assets Register, which allows updating in real-time, i.e. when purchase invoices are processed. This requires an asset to be created in the Fixed Assets Register before the invoice is processed and/or the purchase order is created. When the purchase order is created and/or the invoice is processed, the purchase is not only coded to the appropriate General Ledger account, but also to the asset. The Fixed Assets Register is linked to a number of General Ledger accounts on the Balance Sheet, depending on the asset classes. For normal Government departments, the "cost centre" is the main Balance Sheet: 010. The object accounts range from 1511 (Land) through to 1523 (Intellectual Property). In other words, the transactions enter the General Ledger (through Accounts Payable) as follows:

Dt 010.15XX.AAAAAA Fixed Assets (where "AAAAAA" is the asset number)
Cr Accounts Payable

AD 2) RECURRENT ASSETS, NOT FUNDED BY DONORS, BUT WITH MULTIPLE INVOICES

Some recurrent asset purchases have the complication of a single asset acquisition being paid through multiple invoices, and not necessarily from the same supplier. Examples are: progress payments, customs charges, freight, etc. These purchases are characterised by a small number of invoices (at most three or four), which are received and paid over a short period of time (usually less than a month).

One way to deal with this would be to create a project code (internally funded), but this would result in needless complications.

Recurrent asset purchases that require multiple invoices should be coded to 010.1530 Work in Progress (WIP/Asset Purchase Clearing). Once all invoices have been processed, the balance can be journalled out of this account and into the Fixed Assets Register (using the coding explained in (1) above).

To summarise, the transactions are as follows:

1 Processing of invoices (through Accounts Payable):
   Dt 010.1530 Work in Progress/Asset Purchase Clearing
   Cr Accounts Payable
2 Once all invoices have been processed, clearing Work in Progress (through a journal):
   Dt 010.15XX.AAAAAA Fixed Assets
   Cr 010.1530 Work in Progress/Asset Purchase Clearing

Alternatively, Greentree allows for the processing of multiple purchases to a single asset, but care needs to be taken in selecting the correct asset and ensuring that the same asset is not created multiple times with different asset numbers, and in selecting the correct start date for depreciation.

AD 3) MINOR ASSET PURCHASES (NOT CAPITAL EXPENDITURE)

Some assets are asset purchases by their nature, but their cost do not warrant capitalising them; they are treated as operational expenditure through the Income Statement. As per section 3, above, sensitive assets are not capitalised if their cost is below $1,000 (NCT inclusive), and other assets are not capitalised if their cost is below $5,000 (NCT inclusive). These minor assets are coded to DDD.4431 Minor Asset Purchases (where "DDD" is the department or cost centre code), or to DDD.4432 Minor Software Purchases. In other words, the transaction enters the General Ledger (through Accounts Payable) as follows:

Dt DDD.4431/2 Minor Asset/Software Purchases
Cr Accounts Payable

AD 4) ASSET DEVELOPMENT, MANAGED THROUGH PROJECTS

Many of the Government's largest assets are not purchased, but developed internally, over a period of time; they are generally considered construction projects. Most of these projects are funded by donors.
For these projects, a project code is created in Greentree. Purchases under the project are not only coded to the usual account codes, but also to the project code. Thus, all the expenses relating to the project are collected under a single project code. When the asset is completed and ready for use, this expenditure is journalled into the Fixed Assets Register. The transactions can be summarised as follows:

1 Expenses (supplier invoices):
   Dt 6DD.4EEE.PPPPP (where "6DD" is the project related cost centre, "4EEEE" is the appropriate expense account and "PPPPP" is the project code)
   Cr Accounts Payable
2 Transfer of expenditure into the Fixed Assets Register (at completion or at year-end to account for work in progress at balance date), through a journal:
   Dt 010.15XX.AAAAAA Fixed Assets
   Cr 6DD.8112 Internally Developed Assets (no project code)

AD 5) ASSET PURCHASES, SPONSORED BY DONORS AND/OR THROUGH PROJECTS

Sometimes assets are purchased outright with donor funds, rather than being developed internally. These assets cannot be coded straight to Fixed Assets, because there still is a need to record them under a project code. The solution is to first code them to a dedicated expense account in the 6DD group, attaching a project code, and then to transfer them into the Fixed Assets Register, crediting a different dedicated expense account in the 6DD group (but without a project code). Two different expense accounts are needed for this process, so that the balances of these accounts show the total amount of purchases. The transactions are as follows:

1 Purchase of asset:
   Dt 6DD.4433 Project Asset Purchases
   Cr Accounts Payable
2 Transfer to Fixed Assets Register (through a journal):
   Dt 010.15XX.AAAAAA Fixed Assets
   Cr 6DD.4434 Project Asset Clearing (no project code)

AD 6) DONATED ASSETS

Often donors donate assets through a straight hand-over, without any money going through the Government's accounts. Examples are vehicles and construction projects where the donor manages the project itself. Despite no funds going through the Government accounts, the asset still needs to be recognised on the Government's Balance Sheet when it takes possession of the asset. The main challenges with donations are: to ensure that Treasury is aware of the donation, and to estimate the value (cost) of the donation (refer section 2). Once the donation has been valued, the transaction is as follows:

Dt 010.15XX.AAAAAA Fixed Assets
Cr 6DD.3512 Donated Assets (Income)