3.2 Non-Financial Assets

Note 3.2A: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment and Intangibles

Reconciliation of the opening and closing balances for 2017

	Land	Buildings & leasehold improvements	Total land and buildings	Plant and equipment	Computer software [1]	Total
	$'000	$'000	$'000	$'000	$'000	$'000
As at 1 July 2016						
Gross book value	1,561,229	1,532,071	3,093,300	321,421	183,027	3,597,748
Accumulated depreciation, amortisation and impairment	-	(53,996)	(53,996)	(58,008)	(76,399)	(188,403)
Total as at 1 July 2016	1,561,229	1,478,075	3,039,304	263,413	106,628	3,409,345
Additions:						
By purchase	37,857	119,592	157,449	114,943	12,570	284,962
Internally developed	-	-	-	-	15,173	15,173
Revaluations and impairments recognised in other comprehensive income	62,970	(28,265)	34,705	(2,626)	-	32,079
Reversal of impairments recognised in net cost of services	-	-	-	846	-	846
Depreciation and amortisation expense	-	(97,638)	(97,638)	(59,839)	(13,810)	(171,287)
Disposals:						
Other disposals	-	(1,000)	(1,000)	(10,447)	(1,666)	(13,113)
Total as at 30 June 2017	1,662,056	1,470,764	3,132,820	306,290	118,895	3,558,005
Net book value as of 30 June 2017 represented by:						
Gross book value	1,662,056	1,545,056	3,207,112	393,871	197,424	3,798,407
Accumulated depreciation, amortisation and impairment	-	(74,292)	(74,292)	(87,581)	(78,529)	(240,402)
Total	1,662,056	1,470,764	3,132,820	306,290	118,895	3,558,005

1. The carrying amount of computer software included $48.023m purchased software and $70.872m internally generated software.

Revaluations of non-financial assets

All revaluations were conducted in accordance with the revaluation policy stated at Note 7.2: Fair Value Measurements. Land and buildings managed by the Overseas Property Office were independently valued by Colliers International Valuation and Advisory Services (CIVAS) as at 30 June 2017. In accordance with DFAT's 3-year revaluation plan, works of art were independently re-valued as at 30 June 2017 by Jones Lang Lasalle (JLL).

There is a revaluation increment of $62.970m for land (2016: increment of $84.253m), a decrement of $25.412m for buildings (2016: increment of $74.769m) and an increment of $0.849m for plant and equipment (works of art) (2016: increment of $12.368m for plant and equipment) which were recorded in the asset revaluation reserve.

Contractual Commitments for the Acquisition of Property, Plant, Equipment and Intangible Assets

DFAT has a number of contractual commitments in place for the purchase and / or development of buildings, leasehold improvements, plant, equipment and intangible assets, aged as follows:

	2017 ($'000)	2016 ($'000)
Within 1 year	**42,276**	79,962
Between 1 to 5 years	**7,513**	17,586
More than 5 years	**-**	-
Total commitments	**49,789**	97,548

The majority of these commitments relate to contracts in place for the development, refurbishment and upgrade of properties in DFAT's diplomatic network, and are managed through the Overseas Property Office.

Commitments are GST or VAT inclusive where relevant. Total GST / VAT included in the total contractual commitments in place for the purchase and / or development of property, plant, equipment and intangible assets 2017: $0.186m (2016: $2.971m).

Note 3.2A: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment and Intangibles (continued)

Reconciliation of the opening and closing balances for 2016

	Land	Buildings & leasehold improvements	Total land and buildings	Plant and equipment	Computer software [1]	Total
	$'000	$'000	$'000	$'000	$'000	$'000
As at 1 July 2015						
Gross book value	1,575,435	1,457,479	3,032,914	291,584	167,858	3,492,356
Accumulated depreciation, amortisation and impairment	-	(149,282)	(149,282)	(83,116)	(78,247)	(310,645)
Net book value 1 July 2015	1,575,435	1,308,197	2,883,632	208,468	89,611	3,181,711
Additions:						
By purchase	-	126,555	126,555	89,975	8,914	225,444
Internally developed	-	-	-	-	28,763	28,763
Revaluations and impairments recognised in other comprehensive income	84,253	142,429	226,682	12,368	-	239,050
Reversal of impairments recognised in net cost of services	-	-	-	16	-	16
Assets held for sale	(98,459)	(7,864)	(106,323)	-	-	(106,323)
Depreciation and amortisation expense	-	(88,517)	(88,517)	(42,588)	(16,573)	(147,678)
Other movements						
Asset transfers	-	(39)	(39)	(704)	743	-
Disposals:						
Other disposals	-	(2,686)	(2,686)	(4,122)	(4,830)	(11,638)
Net book value 30 June 2016	1,561,229	1,478,075	3,039,304	263,413	106,628	3,409,345
Net book value as of 30 June 2016 represented by:						
Gross book value	1,561,229	1,532,071	3,093,300	321,421	183,027	3,597,748
Accumulated depreciation, amortisation and impairment	-	(53,996)	(53,996)	(58,008)	(76,399)	(188,403)
Total	1,561,229	1,478,075	3,039,304	263,413	106,628	3,409,345

1. The carrying amount of computer software included $41.364m purchased software and $65.264m internally generated software.

Besides those disclosed in Note 3.2C: Assets Held for Sale, no other land and building assets are expected to be sold within the next 12 months.

Accounting Policy

Non-financial assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

Non-financial assets acquired at no cost, or for nominal consideration, are initially recognised as assets and income at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor's accounts immediately prior to the restructuring.

Asset Recognition Threshold

Purchases of property, plant and equipment are recognised initially at cost in the Statement of Financial Position, except for purchases costing less than $5,000 (2016: $5,000), which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to 'make good' provisions in property leases taken up by DFAT where there exists an obligation to restore the property to its original condition on termination of the lease. These costs are included in the value of DFAT's leasehold improvements with a corresponding provision for the 'make good' disclosed in Note 3.4A: Other Provisions.

Depreciation

Depreciable property, plant and equipment assets are written-down to their estimated residual values over their estimated useful lives to DFAT using, in all cases, the straight-line method of depreciation. Depreciation and amortisation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

Depreciation rates applying to each class of depreciable asset are based on the following typical useful lives:

Asset Class	2017	2016
Buildings	Based on remaining useful life	Based on remaining useful life
Leasehold Improvements	Lesser of lease term or up to 15 years	Lesser of lease term or up to 15 years
Plant and Equipment (other than Works of Art)	3 to 25 years	3 to 25 years
Plant and Equipment (Works of Art)	100 years	100 years

Revaluations

Following initial recognition at cost, property, plant and equipment are carried at fair value less subsequent accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure the carrying amount of assets did not differ materially from the assets' fair value as at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reversed a previous revaluation decrement of the same asset class that was previously recognised in the surplus / deficit. Revaluation decrements for a class of assets are recognised directly in the surplus / deficit except to the extent that they reversed a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the re-valued amount. Assets held overseas are valued in local currencies and translated into Australian dollars at the exchange rates current at balance date.

De-recognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Impairment

All assets were assessed for impairment at 30 June 2017. Where indications of impairment existed, the asset's recoverable amount was estimated and an impairment adjustment made if the asset's recoverable amount was less than its carrying amount.

The recoverable amount of any asset is the higher of its fair value less costs of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if DFAT were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

Intangibles

DFAT's intangibles comprise purchased and internally developed software for internal use. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Software is amortised on a straight-line basis over its anticipated useful life. The useful lives of the entity's software are 5 to 10 years (2016: 5 to 10 years).

All software assets were assessed for indications of impairment as at 30 June 2017.

Accounting Judgements and Estimates

Restrictions on Title

Due to the diplomatic nature of the overseas property portfolio, some properties have restrictions on title. Restrictions on title vary depending on local Government rules and regulations, such as long term title that prohibits the Commonwealth of Australia from profiting from sale of land. Whilst the effect of restrictions on some titles can be quantified, there are others than cannot, such as those titles held in limited or unsophisticated markets. As part of the valuation process, consideration is given to the restrictions on title.

Assets Under Construction

Assets under construction (AUC) are recorded at acquisition cost. They include expenditure to date on various capital projects carried as AUC. AUC projects are reviewed annually for indicators of impairment and all AUC older than 12 months prior to the reporting date are externally revalued to fair value. Prior to rollout into service, the accumulated AUC balance is reviewed to ensure accurate capitalisation of built or purchased assets.

	2017 $'000	2016 $'000
Note 3.2B: Inventories		
Inventories held for sale		
Finished goods	**47,118**	47,586
Total inventories	**47,118**	47,586

During 2017, $42.991m of inventory held for sale was recognised as an expense (2016: $44.315m).

Accounting policy

Inventories held for sale are valued at cost. Costs incurred in bringing each item of inventory to its present location and condition include the cost of direct materials and labour plus attributable costs that can be allocated on a reasonable basis.

Note 3.2C: Assets Held for Sale		
Land	**98,459**	98,181
Buildings	**7,864**	7,833
Total assets held for sale	**106,323**	106,014

The land and buildings held for sale above relate to properties held in Jakarta and Bangkok, where new properties have or are currently being constructed to replace the older properties. The properties were classified as Assets Held for Sale at the end of the 2015-16 financial year.

Accounting policy

Non-current assets are classified as held for sale if the carrying amount is to be recovered principally through a sale transaction rather than through continuing use. On classification as held for sale, the asset is measured at the lower of its carrying amount and fair value less costs to sell. Any write down to fair value less costs to sell is recognised as an impairment loss. Assets which have been classified as held for sale are no longer subject to depreciation or amortisation.

Note 3.2D: Other Non-Financial Assets		
Property prepayments	**29,106**	36,302
Other prepayments	**30,809**	58,137
Total other non-financial assets	**59,915**	94,439

No indicators of impairment were identified for other non-financial assets (2016: nil).