

# Infrastructure assets disclosure in Australian public sector annual reports

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## Abstract

Recent Australian public sector reforms have raised concerns about the disclosure of infrastructure asset information as a basis for improved accountability. This paper examines whether specific infrastructure asset information identified in relevant literature is disclosed in practice. A cross-sectional, content analysis of 1999 annual report disclosures made by 73 Australian public sector entities operating in economic infrastructure industries revealed a low level of, and considerable diversity in, disclosures, particularly relating to the physical condition of infrastructure assets, their maintenance and performance measurement. Such disclosure was found to be driven by government reporting guidelines rather than the use of corporate form.

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*Keywords:* Infrastructure assets disclosure; Australian public sector; Corporation

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## 1. Introduction

This paper examines reporting of physical economic infrastructure assets in the annual reports of Australian public sector entities. *Infrastructure* can be divided into economic, social and human capital categories (National Commission of Audit, 1996, p. 180). Economic infrastructure, which is examined here, includes physical facilities such as communications, transport networks and power, water and sewerage distribution systems. In financial

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accounting, infrastructure assets have been defined as “. . .all non-current assets comprising the public facilities that provide essential services and enhance the productive capacity of the economy. They include roads, bridges, railroads, water supply and sewerage systems, power generation and distribution networks” (Tasmania Treasury and Finance, 1995, para A2). Although the nature of economic infrastructure is well understood, the reporting of *infrastructure assets* in annual reports remains controversial (Hay, 1994; McCrae & Aiken, 2000; Walker, Clarke, & Dean, 1999, 2000a, 2000b).

Previous research has presented arguments about the best methods of accounting for and reporting on infrastructure asset values (Burns, 1993; Currie, 1987; Hay, 1994; Lee, 1999; Rowles, 1992; Van Daniker & Kwiatkowski, 1986; Walker et al., 1999, 2000a, 2000b). In addition to asset valuation, these authors suggested that other information such as maintenance, physical condition and performance measurement is relevant to stakeholders for decision-making. However, current reporting guidance mainly focuses on asset valuation. Such focus is a result of the adoption of the accrual basis of accounting and the money measurement convention as part of the public sector reform process.

Within public sector infrastructure service industries, such as electricity, water and transport, structural reform through corporatisation and market competition was introduced with the aim of improving the efficiency of service provision in these “natural monopolies”. In parallel with this development, concern arose that corporatisation could weaken annual reporting on the grounds of commercial sensitivity (Coates, 1990a, 1990b; Guthrie, 1990, 1993). Disclosure of information about infrastructure assets is important as corporatisation and market competition is often seen as a precursor to private sector involvement in the operation and provision of economic infrastructure services, particularly with the recent growth in public–private partnerships and the consideration of commercial confidentiality in outsourcing (Barrett, 2001; Grimsey & Lewis, 2002; Hilmer, Rayner, & Taperell, 1993; Walker & Walker, 2000). Transparency is critical to maintain public accountability under such dynamic environment (Barrett, 2001; Grimsey & Lewis, 2002; Parker & Gould, 1999; Productivity Commission, 1998). This paper is motivated by a concern to establish whether the relevant infrastructure asset information is disclosed. In particular, it seems likely that entities may not disclose relevant physical infrastructure asset information in their annual reports, if current reporting guidance remains narrowly focused on asset valuation.

Few empirical studies have been conducted into reporting practices relating to infrastructure assets (e.g. Lee, 1999; Thomson, 1993; Walker et al., 1999). Lee (1999) surveyed infrastructure asset reporting practices in New South Wales and the perceptions of users of public sector financial reports that provide information about infrastructure assets. User demand for information about maintenance, physical condition and asset management information was established. A gap was discovered between the information users expected and what had actually been reported in the annual reports. While the previous study focused on the state of New South Wales, this paper extends the scope of study to examine the reporting of information about infrastructure assets by federal government, other states and territories.

Given the importance of disclosures of relevant infrastructure information by public sector entities and concerns regarding the transparency of corporatised public sector entities, this paper seeks to address the following research questions:

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