

Service Performance Reporting – AASB Research

AASB Staff Paper

Background

- 1 The purpose of the first stage of the project is to develop an AASB Exposure Draft that will propose a Standard on Service Performance Reporting by not-for-profit entities (including public and private sector).

Introduction

- 2 The project was initiated in 2009 and technical issues were last discussed by the Board in April 2012. At its April 2012 meeting the AASB decided to describe service performance reporting as incorporating information about the following aspects of an entity:
 - (a) the entity's objectives;
 - (b) obtaining and using the entity's resources;
 - (c) providing the entity's outputs;
 - (d) achieving the entity's outcomes; and
 - (e) the entity's ability to continue to provide intended goods and services (i.e. sustainability).
- 3 The Board also decided that users of service performance information are the same users as those outlined in the AASB Conceptual Framework, which could be articulated using more inclusive terminology, for example 'investors' could be described as 'resource providers'.
- 4 Further, the purposes for which users require service performance information are to determine:
 - (a) whether the entity is performing efficiently and effectively against its objectives and it meeting or is able to meet the needs of its service recipients;
 - (b) whether to commence or continue providing resources to the entity;
 - (c) the amount of resources to contribute to support the entity's objectives; and
 - (d) whether the entity will be able to continue to provide intended goods and services in future periods.
- 5 Since April 2012, the following papers were sent to SPR Project Advisory Panel members for comment:
 - (a) Overview
 - (b) Paper A – The relevance of an entity's objectives:

- (c) Paper B – Obtaining resources;
- (d) Paper C – Inputs;
- (e) Paper D – Outputs;
- (f) Paper E – Outcomes; and
- (g) Paper F – Reporting Objectives.

6 These papers incorporated the decisions made by the Board up to and including the April 2012 Board meeting. The remainder of this agenda paper provides a summary of these papers.

Paper A – The relevance of an entity’s objectives

7 Paper A considered the relevance of an entity’s objectives to service performance reporting. The paper developed a description of objectives and considered whether information about objectives is needed to meet the common information needs of users of general purpose financial reports.

8 The paper considered that an entity’s objectives should:

- (a) be described in terms of what an entity ‘realistically aims to achieve’;
- (b) be limited to an entity’s ‘external’ aims (being those that relate to the entity providing goods and services to beneficiaries) and not include ‘internal’ aims(e.g. having a certain mix of genders on the management board, obtaining \$1M of funding);
- (c) be sufficiently specific to enable users to understand what an entity is aiming to achieve;
- (d) include an entity’s program-level and its entity-level aims;
- (e) not be restricted with respect to the time-horizon to which the objectives can relate;
- (f) include explicit aims (i.e. aims explicitly stated in documentation, e.g. an entity’s mission statement) and implicit aims (e.g. aims implicit from an entity’s activities), but exclude explicitly expressed aims that are not relevant to the entity’s current activities; and
- (g) include both externally imposed aims (e.g. by a regulator or donor) and aims determined internally by an entity.

9 As a result of these objectives, an appropriate description of **objectives** was proposed as:

“what an entity realistically aims to achieve in providing goods and services. Objectives should be sufficiently specific to enable users to understand what an entity realistically aims to achieve.”

- 10 The paper concluded that objectives should be reported because it would serve the information needs of users by enabling them to understand what an entity is aiming to achieve, and thus provide context for assessing the entity’s performance in obtaining resources, using resources as inputs, providing outputs and achieving outcomes.

Paper B – Obtaining Resources

- 11 Paper B developed a description of resources, considered issues relating to reporting performance information about the resources an entity obtains and developed a possible principle for reporting such information.

- 12 The paper noted that references to resources in existing frameworks indicated that resources:

- (a) include, but are not limited to, assets; and
- (b) include but are not limited to, inputs.
- (c) Broadly, resources include scarce goods and services obtained by the entity.

- 13 An appropriate description of **resources** was proposed as:

“the scarce goods and services an entity obtains that are available for use by the entity in achieving its objectives.”

- 14 The paper proposed that the following information would be useful to users:

- (a) an entity’s *means of obtaining resources* (e.g. fundraising drive, ad hoc donations), to enable users to appreciate the diversity of the entity’s means of obtaining resources, and highlight the entity’s dependence on a given means of obtaining resources or its ability to pursue its objectives;
- (b) an entity’s *sources of resources* (i.e. resource providers, e.g. members of the public, government), to enable users to assess the sustainability of certain sources of resources and therefore the sustainability of the entity;
- (c) the *nature of resources* an entity obtains including:
 - (i) the *types* of resources an entity obtains (e.g. cash, or volunteer hours), to enable users to assess whether those resources would meet the needs of its service recipients;
 - (ii) the *characteristics* of resources an entity obtains (e.g. qualifications of volunteers), to enable users to assess whether these characteristics are appropriate to meet the needs of the entity’s service recipients;
 - (iii) *restrictions* on the use of resources (e.g. where resources must be used for a specific program), to enable users to understand any limitations on an entity’s ability to provide outputs and meet its objectives; and

- (iv) *conditions and other stipulations* attached to resources (e.g. where an entity must meet a performance criterion), to enable users to assess an entity's ability to retain the resources or obtain future resources; and
- (d) the *quantities of resources* an entity obtains (quantified using a basis [e.g. number of volunteer hours, or monetary value of supplies] that reflects how the entity quantifies its resources for internal management purposes), to enable users to understand the extent to which an entity is able to provide outputs and achieve its objectives.

15 Accordingly, the following principle that could be applied by entities to report information about obtaining resources was proposed:

An entity shall report information that enables users to evaluate the performance of the entity in obtaining resources. To satisfy this principle an entity shall report information about the means it uses to obtain resources, the providers of those resources, and the nature and quantity of those resources. In doing so, an entity shall:

- (a) report the means it uses to obtain resources;
- (b) report resource providers in categories based on the nature of the resource providers and significance to the entity;
- (c) in relation to the nature of resources, report information about the types and characteristics of those resources, any restrictions and/or conditions on the use of the resources and any stipulations relating to the resources that have not been met by the end of the reporting period; and
- (d) in relation to the quantity of resources, quantify the resources based on how it quantifies those resources for internal management purposes.

An entity shall apply judgement to determine the level of detail of information to report and the manner in which that detail should be presented in order to satisfy this principle.

Paper C – Inputs

16 Paper C developed a description of inputs, considered issues relating to reporting information about an entity's performance in relation to its inputs and developed a possible principle for reporting such information.

17 This paper proposed that inputs should include:

- (a) resources used directly in providing outputs (direct inputs), including resources used for work in progress; and
- (b) resources used indirectly on other aspects of the entity's activities that support the provision of outputs (indirect inputs).

18 An appropriate description of **inputs** was proposed as:

“the resources used by an entity in pursuing its objectives”

19 The paper discussed the importance of distinguishing between direct and indirect inputs. Direct inputs are characterised as those inputs that directly impact on the quantity and/or quality of the outputs an entity provides or that it will provide in the future (i.e. work in progress). Indirect inputs are those resources that do not have a direct impact on the quality or quantity of an entity’s outputs. They may affect outputs indirectly (e.g. by supporting the operations of the entity as a whole), but do not contribute to an identifiable specific output being provided.

20 Information that would be useful to users is as follows:

- (a) the *function* of inputs (i.e. the purpose for which those resources were used), including:
 - (i) reporting direct and indirect inputs separately, to give users a clear understanding of how those resources contributed to the performance of an entity;
 - (ii) the *function of direct inputs* (involving an attribution of direct inputs to specific outputs, programs or objectives, e.g. a suicide prevention centre may report that it used the services of 20 counsellors and relate these inputs to the specific outputs, programs or objectives for which they were used), to enable users to understand how the entity uses resources to achieve its objectives;
 - (iii) the direct inputs used for *work in progress*, including:
 - a. the direct inputs used for work in progress in a period;
 - b. the aggregate direct inputs used for work in progress to date;
 - c. the progress made toward completion of outputs; and
 - d. the total direct inputs used for outputs that were work in progress in a prior period;to enable users to understand the progress made by an entity towards providing outputs and achieving its objectives, the resources the entity used for a given output, and how the entity might use resources for similar projects in the future, and
 - (iv) the *function of indirect inputs* (reported in categories [e.g. administration, fundraising] that reflect the way indirect inputs are categories for internal management purposes) to enable users to understand how those resources contributed to the performance of an entity. It was not thought necessary to require entities to report specified categories of indirect inputs, nor to require entities to allocate indirect inputs to outputs or objectives, however, it was not proposed to preclude entities from providing such an allocation.

- (b) the *nature* of inputs, including;
 - (i) the *types* of inputs, on the same basis adopted for resources; and
 - (ii) the *characteristics* of inputs, on the same basis adopted for resources; and
- (c) the *quantities* of inputs (quantified using a basis that reflects how the entity quantifies its resources for internal management purposes), to enable users to determine whether the entity performs efficiently against its objectives, and the extent to which it would be able to continue to provide outputs in future periods.

21 Accordingly, the following principle that could be applied by entities to report information about using resources as inputs was proposed:

An entity shall report information that enables users to evaluate the performance of the entity in relation to inputs. To satisfy this principle an entity shall report information about the function of inputs, and the nature and quantity of those inputs. In doing so, an entity shall:

- (a) report direct and indirect inputs separately;
- (b) in relation to direct inputs:
 - (i) attribute direct inputs to the outputs, programs or objectives for which they are used; and
 - (ii) report direct inputs used for outputs that have not yet been provided at the end of the reporting period (i.e. work in progress), including the direct inputs used for work in progress in a period, the aggregate direct inputs used for a work in progress to date, the progress made toward completion of the outputs, and the total direct inputs used for an output that was a work in progress in a prior period;
- (c) in relation to indirect inputs, report indirect inputs in categories that reflect the way indirect inputs are categorised for internal management purposes, and explain the sorts of activities included under each category of indirect inputs;
- (d) in relation to the nature of inputs, report information about the types and characteristics of those inputs; and
- (e) in relation to the quantity of inputs, quantify the inputs based on how it quantifies those inputs for internal management purposes.

In addition to reporting indirect inputs separately from direct inputs, an entity may also allocate indirect inputs to the outputs or objectives for which they were used.

An entity shall apply judgement to determine the level of detail of information to report and the manner in which that detail should be presented in order to satisfy this principle.

Paper D – Outputs

22 Paper D developed a description of outputs, considered issues relating to reporting information about an entity’s performance in relation to its outputs and developed a possible principle for reporting such information.

23 The paper proposed an appropriate description of **outputs** could be:

“the goods and services provided by an entity to beneficiaries for the purpose of achieving its objectives”.

24 Information that would be useful to users about outputs is as follows:

(a) the *nature* of an entity’s outputs, including:

(i) *types* of outputs; and

(ii) *characteristics* of outputs;

to enable users to assess whether the entity is meeting the needs of its beneficiaries and whether it will be able to continue to provide the outputs in the future;

(b) *quantity* of an entity’s outputs, to enable users to assess whether the entity is performing economically, efficiently and effectively against its objectives, and to form expectations about the quantity of outputs it would be likely to provide in the future; and

(c) the *beneficiaries* of an entity’s outputs (including specific criteria entities use to determine whether a beneficiary is eligible to receive an output, e.g. whether beneficiaries need to be in a certain income or age bracket) to enable users to understand who was eligible to receive an entity’s outputs, and to assess how the entity has performed in providing outputs to meet the needs of its beneficiaries, and the extent to which the entity has achieved its objectives.

25 Accordingly, the paper proposed the following principle that could be applied by entities to report information about outputs.

An entity shall report information that enables users to evaluate the performance of the entity in providing outputs. To satisfy this principle an entity shall report information about the nature and quantity of its outputs provided, and the beneficiaries of those outputs. In doing so, an entity shall:

(a) in relation to the nature of outputs provided, report information about the types and characteristics of those outputs;

- (b) in relation to the quantity of outputs provided, quantify the outputs based on how it quantifies those outputs for internal management purposes; and
- (c) in relation to the beneficiaries of outputs, include any criteria that beneficiaries need to meet to be eligible to receive an output.

An entity shall apply judgement to determine the level of detail of information to report and the manner in which that detail should be presented in order to satisfy this principle.

Paper E – Outcomes

- 26 Paper E developed a description of outcomes, considered whether reporting information about an entity's performance in relation to its outcomes would be within the scope of general purpose financial reporting, and whether it would provide useful information to users and if so, developed a possible principle for reporting such information.
- 27 The paper proposed that outcomes:
- (a) should be restricted to the consequences of the outputs an entity provides (and therefore not include the consequences of the entity obtaining or using resources to provide those outputs);
 - (b) can be distinguished from outputs based on the degree of influence an entity has over them;
 - (c) should not be limited only to consequences for the immediate beneficiaries of an entity's outputs, but include consequences for the broader community;
 - (d) should be restricted to those consequences to which the entity's outputs can reasonably be expected to have made a significant contribution;
 - (e) should include intended, unintended, positive and negative consequences of an entity's outputs; and
 - (f) could include both short-term and long-term consequences, provide they are consequences to which the entity's outputs can reasonably be expected to have made a significant contribution.
- 28 The paper proposed that an appropriate description of **outcome** would be:
- “the consequences of an entity's outputs together with other factors, where the outputs can reasonably be expected to have made a significant contribution to those consequences”.
- 29 Paper E questions whether an entity's outcomes should be reported. It suggested that this is an issue particularly where an entity may not be able to reliably determine the outcome of its output, or where significant judgement is required about the cause-and-effect relationship between an output and outcome. However, despite these limitations

the paper suggested that information about outcomes would be useful to users, because an entity provides outputs in order to achieve a certain outcome(s), such that information about outcomes is necessary to enable users to understand whether an entity is achieving what it sets out to achieve.

- 30 Consequently, where an entity is able to obtain information about outcomes achieved, it should report that information if that information comes from a reliable sources (and state the source of that information to enable users to form an independent view on the reliability of that source). Outcome information based on external information can include both qualitative and quantitative information about outcomes. Entities should be required not to ignore information about outcomes that is reasonably available (but should not be required to undertake an exhaustive search for such information or to incur unreasonable cost for obtaining such information).
- 31 If an entity determines that outcome information cannot be obtained, management assessment of the outcomes achieved would provide useful information to users (although it may be appropriate to report such information as management commentary rather than including it in the financial reports).
- 32 Entities should report information about external factors that they are aware of or reasonably expect to contribute to or affect (either positively or negatively) the outcomes that result from the outputs they provide.
- 33 Accordingly, the following principle that could be applied by entities to report information about outcomes was proposed:

An entity shall report information that enables users to evaluate the performance of the entity in respect of its outcomes. To satisfy this principle an entity shall:

- (a) report qualitative and/or quantitative information about outcomes where such information is reasonably available to the entity, and report the source of that information. An entity need not undertake an exhaustive search for information about outcomes, or incur unreasonable cost for obtaining such information, but it shall not ignore information about outcomes that is reasonably available.
- (b) report management's assessment of the outcomes where information about outcomes is not otherwise reasonably available to the entity; and
- (c) report factors that are reasonably probable to significantly influence reported outcomes, and the impact they are expected to have on reported outcomes.

An entity shall apply judgement to determine the level of detail of information to report and the manner in which that detail should be presented in order to satisfy this principle.

Paper F – Reporting Objectives

- 34 Paper F considered issues relating to reporting information about an entity's objectives and developed a possible principle for reporting such information.
- 35 The paper proposed that reporting an entity's objectives would include:
- (a) reporting information about an entity's objectives; and
 - (b) reporting an entity's performance against those objectives.
- 36 Paper F considered that information that would be useful to users about the entity's objectives with respect to:
- (a) the outcomes the entity aims to achieve, to allow users to assess whether these outcomes reflect what users consider to be important;
 - (b) the outputs an entity aims to provide, to enable users to understand how an entity aims to achieve certain outcomes, and the extent to which it is able to meet the needs of its beneficiaries. Information about the outputs an entity aims to provide would include:
 - (i) the nature of those outputs;
 - (ii) the quantity of those outputs, where a certain quantity of outputs is necessary to achieve an outcome, or is an externally imposed requirement for the entity; and
 - (iii) the beneficiaries of those outputs; and
 - (c) the time horizon within which it aims to achieve a specific objective, to enable users to understand when intended beneficiaries can expect the provision of goods and services, and to assess the entity's performance over the time period.
- 37 Further, where an entity specifies interrelated objectives of different levels of specificity (i.e. high-level and low-level, or long-term and short-term objectives), it would also be useful for an entity to explain the relationship between objectives of different levels of specificity. This would enable users to understand how the achievement of an entity's lower-level objectives leads to the achievement of its higher-level objectives.
- 38 Where an entity has aims that are explicitly expressed in documentation but which are not related to the entity's current activities and hence not reflected in the entity's objectives, the entity shall state those aims, identify which documentation they are expressed in, and explain that they are not reflected in its current objectives if it is reasonable to expect that users could otherwise consider those aims to be objectives on the basis of that documentation.
- 39 Accordingly the following principle that could be applied by entities to express their objectives for the purpose of service performance reporting was proposed:

An entity shall report information that enables users to understand its objectives. To satisfy this principle, an entity shall report information about:

- (a) the outcomes it aims to achieve;
- (b) the outputs it aims to provide and how they relate to the outcomes it aims to achieve, including:
 - (i) the types and characteristics of those outputs;
 - (ii) the quantity of those outputs, where a certain quantity of outputs is necessary to achieve an objective, or is a specified requirement for the entity; and
- (c) the time period for achieving the objectives, where a time period is established by the entity or specified externally.

Where an entity has different levels of interrelated objectives, it shall explain the relationship between higher-level and lower level objectives.

Where an entity has aims that are explicitly expressed in documentation but that are not relevant to the entity's current activities and hence not reflected in the entity's objectives, the entity shall state those aims, identify which documentation they are expressed in, and explain that they are not reflected in its current objectives.

An entity shall apply judgement to determine the level of detail of information to report and the manner in which that detail should be presented in order to satisfy this principle.

- 40 The paper also discussed reporting an entity's performance against its objectives and suggested that to meet the common information needs of users, an entity should report its actual performance with respect to the outputs it provides and the outcomes it achieves relative to its objectives. Where there are major variances between an entity's performance and its objectives, it would be useful for the entity to explain the reason for such variances to enable users to understand factors affecting the entity's performance.
- 41 Where an entity has long-term objectives that it has not yet achieved or ongoing objectives (e.g. providing an ongoing service), it may be particularly useful to provide intermediate, and more specific performance measures (or key performance indicators), to serve as a clear indication of how an entity is performing against its objectives.
- 42 Where an entity's objectives change, it would be useful to users for the entity to report against its new objectives and explain the reason why its objectives changed.
- 43 Accordingly the following principle that could be applied by entities to report their performance against their objectives was proposed:

An entity shall report information that enables users to evaluate its performance against its objectives.

To satisfy this principle, an entity shall report information about the outputs it provides and the outcomes it achieves relative to the objectives they are intended to achieve. Where an entity's performance varies materially from its objectives, the entity shall explain the reasons for these variances.

Where an entity has different levels of interrelated objectives, it shall explain how its performance against its shorter-term or lower-level objectives relates to its performance against its longer-term or higher level objectives. Where an entity is pursuing longer-term objectives that have not yet been achieved, it shall report its progress against those objectives and state whether it still expects to be able to meet those objectives.

Where an entity's objectives change, the entity shall report its previous objectives, explain how and why they have changed, and report its performance against its new objectives.

An entity shall apply judgement to determine the level of detail of information to report and the manner in which that detail should be presented in order to satisfy this principle.