

SERVICE PERFORMANCE REPORTING

EXTRACTS FROM DRAFT OF EXPOSURE DRAFT
PBE FRS 4[X]—SERVICE PERFORMANCE REPORTING
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Public Benefit Entity Financial Reporting Standard 4[X] *Service Performance Reporting* (PBE FRS 4[X]) is set out in paragraphs 1–50. All the paragraphs have equal authority. PBE FRS 4[X] should be read in the context of its objective, the Basis for Conclusions and Standard XRB A1 *Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Section A: Objective, Core Principle, Scope, Definitions

Objective

1. The objective of this Standard is to prescribe the manner in which an entity should present a statement of service performance for the purpose of comparability across different periods, and between different entities. To achieve this objective, this Standard sets out the elements of service performance and the required content of a statement of service performance.

Core Principle

2. The aim of a statement of service performance is to report meaningful information on the goods or services an entity has produced and why the entity has produced those goods and services, to enable users to assess the entity's performance in supplying those goods or services, including the effectiveness and efficiency with which they are supplied, and so enable an entity to discharge its accountability.

Scope

3. This Standard applies to public benefit entities in Tier 1 and public benefit entities that are eligible for, and elect to apply, Tier 2 PBE Standards, except for entities reporting performance information on appropriations in accordance with the Public Finance Act 1989 that, in accordance with that Act, are permitted to, and report performance information, other than in a single statement of service performance.
4. An entity whose statement of service performance complies with this Standard shall make an explicit and unreserved statement of such compliance. A statement of service performance or other performance information shall not be described as complying with this Standard unless it complies with all the requirements of this Standard.
5. If a financial report contains both the consolidated financial statements of a controlling entity that is within the scope of this Standard as well as the controlling entity's separate financial statements, a statement of service performance is required only in respect of the consolidated entity.

Definitions

6. The following terms are used in this Standard with the meanings specified:

Accountability is the requirement for one party to account to another party for its performance over a given period.

Actual performance refers to the results achieved against the performance targets or standards set at the start of the reporting period. Actual performance is also referred to as "performance achievement".

Inputs are resources used by an entity to produce goods and services.

Outcomes are the effects, or consequences, of an entity's activities. Intermediate outcomes are the contributions made to an outcome by a specified set of outputs. Often referred to as "intermediate outcomes", they represent the relatively immediate or direct effect on stakeholders of the entity's outputs.

Output measures are the characteristics of outputs that are important to recipient of the output. Measures commonly relate to some or all of the following characteristics:

- (a) Quantity;
- (b) Quality;
- (c) Timeliness;
- (d) Location; and
- (e) Cost.

Outputs are goods and services produced by an entity delivered to an external party.

Performance refers to how well an entity performs against its objectives. Performance can relate to a wide range of elements, such as outcomes and outputs. Performance may also be expressed in relational terms, such as efficiency (i.e., relationship of inputs to outputs) or effectiveness (i.e., relationship of outputs to outcomes).

Performance targets or standards describe the precise levels of performance an entity is seeking to deliver or achieve within the performance period (usually a year). Performance targets can be expressed as numbers, percentages or ratios (or other ways), and as point estimates or as a range.

Production processes are the practices and methods adopted by an entity to convert its inputs into its outputs.

PBE Standards means Public Benefit Entity Standards issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the External Reporting Board.

Public benefit entities (PBEs) are reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.

Stakeholders are the users of an entity's financial report to whom the entity is primarily accountable.

A **statement of service performance** is a report describing the performance of the reporting entity. [Alternatively: A **statement of service performance** is a report that describes what an entity has done.]

Terms defined in other PBE Standards are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Section B: Elements of Service Performance

Elements

7. **The elements of service performance are outputs and outcomes.**
8. Management systems and production processes transform inputs into outputs and the outputs that are produced influence outcomes.
9. Inputs are the resources used by an entity to produce goods and services. Examples of inputs include: labour, capital assets such as land, buildings and vehicles, cash and other financial assets, and intangible assets such as intellectual property.
10. Accountability for inputs, such as labour costs, finance costs and use of assets, is generally demonstrated in financial statements.
11. Input information alone does not provide useful service performance information. Input information identifies resources consumed but does not assist users in understanding what is produced and delivered or the relationship between inputs and outputs (such as information on the cost of outputs) that is useful service performance information.
12. Therefore, for the purposes of this Standard, inputs are part of the process but are not considered to be an element of service performance on which information needs to be reported in the statement of service performance.
13. Outputs are the goods and services produced by an entity. Outputs are “what” the entity delivers. Examples of outputs include civil defence, education and health services, law enforcement, licensing and inspection services, rubbish collection, maintenance of roads, tourism promotion, and purchase of military capability. Although some outputs are supplied solely by public sector entities others, such as education, advocacy and emergency food and shelter, may be supplied by entities in all sectors.
14. Output performance information is critical for understanding what is produced and delivered. Output performance information is also useful for understanding efficiency and effectiveness of an entity. However, information on the production and delivery of outputs is only one aspect of service performance reporting.
15. Outcomes are the effects, or consequences, of an entity’s activities. Outcomes are the reason “why” the outputs are produced. Examples of outcomes are improving the health status of children, reducing the level of violent crime; and increasing sustainable economic growth.
16. Information on outcomes provides the rationale for output delivery. Information on the links between outputs and outcomes provides contextual information for service performance reporting. Although other mechanisms such as regulations, transfers of resources between groups in the community, and ownership of assets may also be used to influence outcomes, the delivery of outputs is the most common way in which public benefit entities seek to influence outcomes. Service performance reports may include contextual information explaining the linkages between desired outcomes and outputs and an assessment of the contribution of outputs to outcomes.
17. Therefore, for the purposes of this Standard outputs and outcomes are considered to be elements of service performance on which information needs to be reported in a statement of service performance.

Section C: Content of a Statement of Service Performance

18. To achieve the aim of a statement of service performance, this Standard requires entities to exercise judgement to determine the appropriate balance of information to report in their statement of service performance, depending on their particular facts and circumstances.
19. All entities exist to produce some form of output. Therefore, all entities are required to report some information on outputs. Also, all entities exist to influence particular outcomes, and the outputs they produce directly or indirectly influence outcomes. Therefore, all entities are required to report some information on the outcomes they influence.
20. In addition, entities are required to report more comprehensive information on either outputs or outcomes (or both) depending on whether they are accountable for the delivery of outputs or accountable for influencing outcomes.
21. Entities cannot be accountable only for outcomes. In order to influence outcomes, outputs must be produced. Therefore, even entities that are accountable for outcomes produce outputs. This is also the case where an entity that is accountable for outcomes delegates the production of outputs required to influence their outcomes. Although the entity delegates the production of outputs to another entity the first entity is still accountable for the production of those outputs.
22. Some entities may be accountable for both the delivery of outputs and for influencing outcomes. Entities must exercise judgement to determine the most appropriate balance of reporting on outputs and/or outcomes in order to meet the aim of a statement of service performance.

Information to be Reported by All Entities

Outputs

23. **A statement of service performance shall include a description of the goods and services produced by an entity.**

Outcomes

24. **A statement of service performance shall include a description of:**
 - (a) **The outcomes that the entity is seeking to influence; and**
 - (b) **Where the reporting entity seeks to influence the outcomes of another entity or the reporting entity's outcomes are determined by another entity, the relationship between the reporting entity's activities and outcomes and those of the other entity.**

Additional Information to be Reported Depending on Circumstance

25. **An entity shall provide additional information on outputs or outcomes where necessary to achieve the aim of a statement of service performance.**
26. **Factors to consider in determining whether an entity is accountable for outputs or accountable for outcomes are set out in paragraphs 27. If, after considering these factors, an entity concludes that it is accountable for:**
 - (a) **outputs, an entity shall report in its statement of service performance information in accordance with paragraphs 28 - 32;**
 - (b) **outcomes, it shall report in its statement of service performance information in accordance with paragraphs 33 - 34; or**
 - (c) **both outputs and outcomes, it shall report in its statement of service performance information in accordance with paragraphs 28 -34. An entity that is accountable for both outputs and outcomes shall exercise judgement to determine the most appropriate balance of reporting on outputs and/or outcomes in order to meet the aim of a statement of service performance.**

Factors to Consider in Assessing Accountability for Outputs or Outcomes

27. **Judgement is required to determine whether an entity is accountable for outcomes or outputs and the appropriate balance of information to report on outputs or outcomes to achieve the aim of a**

statement of service performance. The balance of information reported will vary from entity to entity. In determining what an entity is accountable for, and the appropriate balance of information to report, an entity shall have regard to:

- (a) **The nature and purpose of the entity;**
- (b) **The autonomy with which an entity operates: The greater an entity's autonomy, the more likely it is that the entity will need to report more information on outcomes;**
- (c) **Whether the entity is governed by officials that are elected by the public and that are accountable to the public for outcomes: If an entity's officials are elected by the public, it is likely that the entity will need to report more information on outcomes in its statement of service performance in order to discharge its accountability to the public who elected the officials;**
- (d) **Whether the entity is acting as an agent carrying out activities delegated to it or whether the entity is acting as principal: An entity that is acting as an agent is likely to be accountable for outputs. However, both outputs and outcomes can be delegated. Therefore, it is important to consider what has been delegated i.e. the delivery of outputs or the influencing of outcomes;**
- (e) **The information that is necessarily reported in order to demonstrate to users that the reporting entity has discharged its accountability;**
- (f) **Whether the entity has published information about the outcomes it seeks to influence; and**
- (f) **The reliability with which outputs or outcomes can be measured.**

The existence of any single factor above on its own does not necessarily lead to the conclusion that the reporting entity is accountable for outputs or influencing outcomes. All factors should be considered and judgement should be exercised in the circumstances. Also, the above list of factors is not exhaustive. All facts and circumstances should be considered.

Outputs

Description of Outputs

28. **If a reporting entity concludes that it is accountable for outputs, each output reported in the statement of service performance shall, where relevant, be described in terms of:**
- (a) **The quantity of output produced;**
 - (b) **The quality of output achieved;**
 - (c) **The timeframe within which the output was delivered; and**
 - (d) **The physical location where the output was delivered.**

Key Performance Measures

29. **For each output an entity shall disclose key performance measures. Key performance measures shall include measures of quantity, quality and timeliness as appropriate.**

Cost of Outputs

30. **The expenditure on each output shall be disclosed and reconciled to total expenditure in the statement of financial performance.**
31. In addition, entities are encouraged to quantify and disclose the non-monetary cost of outputs such as contributions from volunteers.

Other information

32. An entity shall report additional information that is necessary to achieve the aim of a statement of service performance and is relevant to users' understanding of the entity's service performance. Additional information may include (but is not limited to) an allocation of revenue to each category of the entity's outputs. Disclosing revenue by category of output provides users with useful information about the level of fundraising activity and grants or donations received to fund specific outputs.

Outcomes

33. **If a reporting entity concludes that it is accountable for outcomes, the statement of service performance shall include the following:**
- (a) **Descriptions of the population or target group for which each outcome is sought;**
 - (a) **Measures of influence of outcomes sought including measures of:**
 - (i) **the current status of the population or target group expressed in terms of the outcome sought;**
 - (ii) **the degree of influence on the outcome sought such as the percentage change in the status from prior periods;**
 - (b) **Where appropriate and necessary for an understanding of the entity's service performance, descriptions and measures of the influence of intermediate outcomes during the period;**
 - (c) **Commentary on factors which affect the entity's ability to influence outcomes. This might include commentary on working relationships with volunteers and employees, decisions to broaden or narrow the delivery of services, or external factors such as economic, legal or geographical factors; and**
 - (d) **A description of the involvement of other entities known to influence the outcomes of the reporting entity.**
34. **An entity shall report additional information that is necessary to achieve the aim of a statement of service performance and is relevant to users' understanding of the entity's service performance. Additional information may include (but is not limited to) an allocation of revenue to each category of the entity's outcomes. Disclosing revenue by category of outcome provides users with useful information about the level of fundraising activity and grants or donations received to fund specific outcomes.**

Reporting Planned Service Performance

35. **Where an entity is required to report planned service performance information, the entity shall present in its statement of service performance the information required by paragraphs 38–41.**
36. **Other entities are encouraged to report planned service performance information. Entities that choose to report planned service performance information shall report the information required by paragraphs 38–41.**
37. **Providing a comparison of planned and actual service performance for the reporting period and commenting on changes to planned service performance during the reporting period and variances between planned and actual service performance for the reporting period assists in explaining to users the entity's service performance. In particular, it helps explain whether the entity has delivered the goods and services it expected to deliver.**

Comparison of Planned and Actual Service Performance

38. **An entity shall present in its statement of service performance planned and actual service performance for the reporting period. The information shall be sufficiently specific to enable performance to be assessed.**
39. **Planned and actual service performance information for the reporting period shall be reported consistently with one another.**
40. **Performance measures and targets form part of the description of planned performance. The actual performance measures reported shall be the same as those reported in the planned service performance information for the same reporting period unless a change in performance measures is necessary to provide users with more relevant and reliable information. If an entity changes the performance measures used, an explanation of, and reason for, the change shall be disclosed.**

Changes to, and Variances From, Planned Service Performance

41. **An entity shall comment on significant changes to planned service performance during the reporting period and variances between actual service performance in the reporting period and planned service performance for the same period. The comments should identify both the variances as well**

as the factors leading to them. These factors might include factors such as resource constraints or explicit decisions by government or the entity, the effect of external factors or inefficiencies in processes.

Overarching Considerations

Materiality and aggregation

42. In determining what to report in its statement of service performance an entity first identifies the outputs the entity delivers and the outcomes the entity seeks to influence. Once the entity has identified its outputs and outcomes, the entity must consider the materiality of individual outputs and outcomes and the appropriate level of detail at which to report outputs and/or outcomes in order to provide users of the entity's statement of service performance with relevant and understandable information. This is a similar concept to aggregation of financial elements in financial statements.

Materiality

43. Materiality depends on both the nature and amount of an item, statement or fact. Therefore, judgement is required to determine appropriate materiality taking into account all circumstances surrounding the entity, its service performance, and the users of the reported information. If information reported on a particular matter could affect a user's decision-making, then that matter should be reported.
44. A statement of service performance would incorporate all material, relevant, outputs and outcomes of the reporting entity. This may include those outputs and outcomes that have been subcontracted to another party. It may also include those outputs and outcomes funded other than through non-exchange revenue—for example, outputs or outcomes funded through user charges.

Aggregation

45. While comprehensive coverage is important, the aggregation of similar outputs and outcomes is expected in most cases. Aggregation of outputs and aggregation of outcomes should be at a level that conveys a meaningful understanding of outputs and outcomes reported.
46. Outputs may be aggregated according to the type and nature of the outputs.

Measurement Base

47. This Standard requires entities to report performance measures in some circumstances. Ideally the same basis of measurement is used throughout the reporting period. This enables the user to compare planned performance with actual performance at the end of the reporting period.
48. Using the same basis of measurement over time allows for long-term trend analysis. Although the ability to compare results over a number of reporting periods is desirable, the comparability of information should not be pursued at the expense of refining performance measures and strengthening the accuracy and usefulness of the measurement base. The start of a new reporting period, or the start of the planning cycle, is an appropriate time to consider changes in the basis of measurement. Entities, in discussion with key stakeholders and other relevant parties, should assess the measures being used and determine whether there is room to further refine those measures.

Section D: Transition and Effective Date

49. **A public benefit entity shall apply this Standard for annual financial statements covering periods beginning on or after 1 July 201x. Earlier application is permitted.**
50. **Performance information for prior years that is reported as comparative information for the initial year of application shall be restated to conform to the requirements of this Standard, unless the necessary information is not available and the cost to develop it would be excessive.**

Basis for Conclusions [Draft extracts only]

Need for Service Performance Reporting

- BC1. The information in annual reports should allow users (such as donors, service recipients, ratepayers, the community, and the wider public) to assess how a public benefit entity has performed in relation to its stewardship of assets, and the efficiency, effectiveness, and cost-effectiveness of operations.
- BC2. By definition, public benefit entities have a primary objective of providing goods or services for community or social benefit. The entity's annual report should therefore contain information on actual service delivery, and where relevant, a comparison of actual and forecast service delivery.
- BC3. In the commercial sector, the primary aim of organisations is to make a profit or to maximise shareholder value. Financial statements assist in assessment of the extent to which organisations are achieving this aim. In contrast, generally a public benefit entity aims to improve the well-being of the community through delivering services. Public benefit entities normally receive funding from one party but deliver goods and services to third parties. Financial statements prepared under NZ IFRS provide limited information on this non-financial performance, which is particularly important for public benefit entities.
- BC4. To help address this difficulty, service performance reporting is necessary. A Public benefit entity will meet an important element of its accountability obligations by producing a statement of service performance. It will also have the advantages of:
- (a) allowing external stakeholders to make informed judgements about an entity's achievements or influence with public resources; and
 - (b) reflecting the extent to which the entity has complied with significant legislative requirements.

Development of Service Performance Reporting

- BC5. PBE IPSAS 1 included non-integral implementation guidance on service performance reporting. This guidance was based on that previously set out in Technical Practice Aid 9 *Service Performance Reporting* (New Zealand Institute of Chartered Accountants, 2007) (TPA-9). In developing PBE IPSAS 1 *Presentation of Financial Statements*, the NZASB noted that TPA-9 did not have authoritative support.
- BC6. The NZASB agreed, as a short-term measure pending activation of a new project on service performance reporting, to include guidance based on TPA-9 as non-integral implementation guidance accompanying PBE IPSAS 1. In developing guidance to be incorporated in a separate standard, the NZASB agreed that the guidance should be appropriate for application by both public sector and not-for-profit entities.
- BC7. The NZASB then undertook a project to develop a standard on service performance reporting.

Elements

Inputs

- BC8. Accountability for inputs, such as labour costs, finance costs and use of assets, is generally demonstrated in financial statements. In a statement of service performance, input information alone does not provide useful service performance information. Rather, it is the relationship between inputs and outputs (such as information on the cost of outputs), that provides the most useful information on service performance.

Additional Information to Report on Outputs or Outcomes

Intervention Mix

- BC9. Entities that are accountable for influencing outcomes are not required to: (i) explain the linkages between desired outcomes and outputs; (ii) provide an assessment of the contribution of outputs to those outcomes; or (iii) explain the basis on which outputs have been selected, sometimes referred to as the intervention logic. This is because these entities are accountable for influencing outcomes, not production of outputs. Therefore, users are most interested in whether or not outcomes have been influenced. Whilst information on the mix of interventions might be nice to have, this information is not essential in order for a user to assess the entity's service performance.

BC10. Also:

- (a) Although it may be possible to attribute cause-and-effect to some degree, it is frequently difficult to do so reliably, and there may be additional factors affecting the outcome. For example: (i) a number of entities may be involved in delivery of these outputs, making it very difficult to hold any single entity accountable for a particular outcome; (ii) there are often a number of other policy actions, such as regulations, that influence outcomes; and (iii) the effect of an output on an outcome may take an unpredictable and/or long amount of time to emerge; and
- (b) There is not always a 1:1 relationship between outputs and outcomes. Often many outputs contribute to one outcome. In other cases, one output may contribute to a range of outcomes.

Therefore, the cost of collecting and providing the detailed information is likely to outweigh any benefit of reporting the information.

BC11. However, some information of this nature is provided through disclosure of minimum information on outputs and outcomes.