Queensland Government

Department of the
Premier and Cabinet

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29 AUG 2016

Ms Kris Peach
Chair and Chief Executive Officer
Australian Accounting Standards Board
PO Box 204
COLLINS ST WEST VICTORIA 3000

Dear Ms Peach

Thank you for the opportunity to provide feedback on the Australian Accounting Standards Board (AASB) Exposure Draft 270: *Reporting Service Performance Information* (ED 270).

Firstly, I would like to commend the AASB for recognising the importance of reporting non-financial performance information in the not-for-profit sector. It is vital that the public, as service users, have access to the right information to better assist them with their decision-making.

The Queensland Government is committed to integrity and accountability and actively seeks to ensure the public sector delivers services that are of value to the community. As part of this commitment, my department has continued to drive the implementation of the Queensland Government Performance Management Framework (the PMF) since 2008. This important role involves providing whole-of-Government advice and leadership on the full suite of public sector performance information in Queensland. Due to its long-term involvement in non-financial performance management, my department has taken the opportunity to review the ED 270 and provide the enclosed response to eight of the 12 specific questions posed by the AASB.

One of my department's main concerns, as detailed in the enclosed response, is that the rationale for applying the ED 270 to public sector not-for-profit entities is not well defined or justified. Unlike private sector not-for-profit entities, Queensland Government departments and statutory bodies are already subject to robust performance management. While the high-level principles are supported, the very detailed requirements in the ED 270 are not supported as they are inconsistent with the PMF and national frameworks and would be costly to implement.

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I trust this information is of assistance to the AASB. However, should you require any further information, please contact Ms Nicole Tabb, Director of the Performance Unit in my department by email at nicole.tabb@premiers.qld.gov.au or on telephone (07) 3003 9192.

Again, thank you for the opportunity to provide comment on the AASB's ED 270.

Yours sincerely

Dave Stewart
Director-General

***Encl**

DEPARTMENT OF THE PREMIER AND CABINET (Qld)

Submission in response to the Australian Accounting Standard Board's Exposure Draft 270 – *Reporting Service Performance Information*

In 2008, the Queensland Government established a formal and coordinated approach to performance management that aimed to provide a clear line of sight between planning, measuring and monitoring results and public reporting. Known as the Queensland Government Performance Management Framework (the PMF), it improves the analysis and application of performance information to support accountability, inform policy development and implementation and create value for customers, stakeholders and the community. Compliance with the PMF is mandated through the *Financial and Performance Management Standard 2009 (Qld)* (FPMS 2009), which is subordinate legislation to the *Financial Accountability Act 2009 (Qld)* (FA Act 2009).

The Queensland Department of the Premier and Cabinet (DPC) is responsible for administering the PMF and providing whole-of-Government advice and support on its implementation. This important role includes, but is not limited to:

- reviewing and providing guidance on the full suite of planning, monitoring and reporting material produced at whole-of-Government, agency and individual levels;
- setting the minimum requirements for departments and statutory bodies in relation to planning, measuring and monitoring performance and public reporting; and
- seeking out the latest research and theories with the aim of continually improving the frameworks in place.

Due to its longstanding involvement in non-financial performance management, DPC has taken the opportunity to review the Australian Accounting Standard Board (AASB) Exposure Draft 270 – *Reporting Service Performance Information* (ED 270) and provide responses to 8 of the 12 'specific matters for comment' within ED 270.

Q1 – Principles

Paragraph 20 proposes the principles for reporting service performance information. These principles state that an entity reports service performance information that:

a) is useful for accountability and decision-making purposes;
b) shall be appropriate to the entity's service performance objectives;
c) clearly shows the extent to which an entity has achieved its service performance objectives; and
d) should enable users to assess the efficiency and effectiveness of the entity's service performance.

Do you agree with these principles? Why or why not?

DPC supports the high-level principles of the draft Standard, which are consistent with those found in other performance management frameworks in Australia and Queensland. The community expects that not-for-profit entities, whether they are primarily funded through taxation revenue or charitable donations, deliver services that are of value to them. How the actual delivery of these services creates value for an entity's customers and stakeholders should be measured and this information should be used to improve decision-making and service delivery.

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Q2 – Scope (application for public not-for-profits)
It is proposed that the [draft] Standard will be applicable to NFP entities in both the private and public sector. The performance of these entities cannot typically be evaluated from the financial statements alone. Accordingly, users of NFP entity reporting require further information for accountability and decision-making purposes.
Do you agree that it is appropriate that the [draft] Standard apply to NFP entities in both the private and public sectors? Why or why not?

DPC does not support the draft Standard being applied to public sector not-for-profit entities.

ED 270 highlights that the AASB originally initiated a project on reporting service performance information as part of its response to concerns expressed by constituents that the disclosures required for private sector not-for-profit entities by existing Australian Accounting Standards were not sufficiently targeted to the needs of users. It further states that there was a risk that other information specific to private sector not-for-profit entities needed by users was not being disclosed, or was not being disclosed in a consistent manner. However, ED 270 does not provide any justification for why the draft Standard should apply to public sector not-for-profit entities.

For Australian, state and territory governments, public sector entities are held accountable by the Parliament that, in turn, represents the people who elected them. As public sector entities spend taxpayers' money to deliver services, it is important that they are held accountable for performance. To assist the Parliament ensure government is efficiently and effectively carrying out its duties, the Australian Government and all other jurisdictions have varying frameworks which govern how and when service performance information is to be reported.

In Queensland, government departments and statutory bodies are required to comply with the PMF. The purpose of the PMF is to ensure the public sector delivers services that are of value to the community in a manner that upholds public sector ethics principles. It requires departments and statutory bodies to publicly report service performance information through annual reports and the annual budget process. The Queensland Auditor-General supports the PMF through providing independent audit services and reports to Parliament to enhance public sector accountability; and undertaking performance audits of all or any particular activities to enable the general public to assess whether the objectives of the public sector entity are being achieved economically, efficiently and effectively and in compliance with all relevant laws. Departments and statutory bodies are subject to further scrutiny as part of public, annual Estimates Committee Hearings where Ministers (and certain senior public servants and officers) are questioned regarding the proposed expenditures and service performance for their relevant portfolio area.

The draft Standard does not take into account the considerable amount of service performance information already produced by the Australian, state and territory governments or the existing and established frameworks in place for managing and scrutinising this information. Beyond individual jurisdictional requirements, the public sector is also subject to other legislative and administrative requirements to report service performance information. For example, state and territory public sector entities are required to provide service performance information as part of the annual *Report on Government Services* (RoGS), National Partnership Agreements and reports by other independent bodies (e.g. formalised reviews, commissions of inquiry, etc).

These long-standing service performance reporting frameworks collectively provide sufficient information for users for accountability and decision-making purposes. For that reason, DPC does not believe the AASB has accurately identified or articulated any "information gap" for public sector non-for-profit entities. There may also be a misconception that public sector not-for-profit entities already preparing performance information under these existing frameworks will not be significantly impacted by the application of the draft Standard. While the high-level principles are consistent with the objectives of performance management frameworks in Queensland and other states and territories, the very detailed requirements in ED 270 are not. Changing the Queensland Government's standards to meet the detailed requirements in ED 270 would likely be costly to implement and necessitate significant consultation; education and communication with stakeholders, as well as changes to legislation.

DPC is also concerned that ED 270 is more onerous and prescriptive than the international standard it was based on – IPSASB *Recommended Practice Guideline* 3 *Reporting Service Performance Information.* In particular, paragraph 38 of the *Recommended Practice Guideline* (IPSASB RPG) only requires that "(a) service performance objectives; (b) performance indicators; and (c) the total costs of the services" be displayed. Whereas in paragraph 65 of ED 270, it requires "(a) an entity's service performance objectives; (b) performance indicators (including (i) inputs; (ii) outputs; (iii) outcomes; (iv) link between inputs and outputs and/or outcomes (efficiency); and (v) link between outputs and/or outcomes and service performance objectives (effectiveness)); (c) the total costs of goods and/or services; and (d) assumptions and methodologies adopted" be reported.

Q3 – Scope (application for for-profit entities)
The AASB discussed whether this [draft] Standard could be applied by for-profit entities at a future date. The Board noted that the principle objectives of NFP entities and for-profit entities are different and, therefore, user needs are potentially different. However, the Board is of the view that users of for-profit reporting may also benefit from for-profit entities reporting service performance information.
Do you agree that the application of this [draft] Standard could be extended in the future to include for-profit entities? Why or why not?

DPC does not support the draft Standard being applied to public sector not-for-profit entities and would not support the draft Standard being extended, at a future date, to public sector for-profit entities. The draft Standard highlights that the objectives of not-for-profit and for-profit entities are very different. This is also the case in the public sector. Queensland currently has a number of Government Owned Corporations (GOCs) which conduct activities and provide services in a commercially-oriented manner. Sectors in which GOCs operate in Queensland include energy, transport, funds management, port operations and water. While GOCs may on occasion have wider public policy objectives, they operate in a commercial environment to deliver returns on government's investment (for profit).

As with public sector not-for-profit entities, DPC believes that users of public sector for-profit reporting receive sufficient information under Queensland's current regulatory framework. For example, s120 (1) (a) of the *Government Owned Corporations Act 1993* (Qld) provides that 'each annual report of a GOC must contain the information that is required... to enable an informed assessment to be made of the operation of the GOC and its subsidiaries, including a comparison of the performance of the GOC and its subsidiaries with the GOC's statement of corporate intent.'

As per DPC's response for question 2 (for public sector not-for-profit entities), DPC does not believe the AASB has accurately identified or articulated any "information gap" that would warrant the application of the draft Standard to public sector for-profit entities.

Q4 – Scope (application for consolidated funds)
The AASB discussed whether the requirements of this [draft] Standard should apply to entities that prepare consolidated financial statements including whole-of-government (WoG) and the general government sector (GGS) financial statements. The Board decided that if the [draft] Standard did not apply to entities preparing consolidated financial statements, some important information might not be reported, particularly if a controlled entity was not required to apply this [draft] Standard. Further, it was noted that some governments prepare a strategic plan for the WoG (not just individual agencies). Therefore, this [draft] Standard could be applied in relation to those WoG plans.

Do you agree that this [draft] Standard should apply to all NFP entities that prepare consolidated general purpose financial statements (including WoG and GGS financial statements)? Why or why not?

DPC does not support the application of the draft Standard to NFP entities that prepare whole-of-government (WoG) financial statements or general government sector (GGS) financial statements.

The Board's rationale for seeking to apply the draft Standard to NFP entities that prepare WoG and GGS financial statements is that 'some important information might not be reported' by the controlled entities. It is DPC's view that performance information currently reported by Queensland Government departments and statutory bodies, in accordance with Queensland's existing framework (as discussed in DPC's response to question 2), is sufficient. Again, DPC does not believe the AASB has accurately identified an "information gap" that would warrant the application of the draft Standard to NFP entities that prepare WoG and GGS financial statements.

This question suggests that the draft Standard could be applied to WoG strategic plans. However, no guidance is provided as to what constitutes a WoG plan. In Queensland, section 10 of the FA Act 2009 requires the government to prepare and table in the Legislative Assembly, a statement of the government's broad objectives for the community. Under the FA Act 2009, the government is also required to regularly report to the community about the outcomes achieved against those objectives.

While broad objectives for the community may be set at a WoG level, it is difficult to measure outcomes at the WoG level. This is because the government's broad objectives for the community can only be achieved through coordinated service delivery across multiple agencies. For this reason, the legislative requirement for the government to regularly report on the government's objectives for the community is fulfilled at the agency (entity) level via mechanisms such as annual reports.

If the draft Standard was to be applied to NFP entities that prepare WoG and GGS financial statements, the indicators used to assess performance would likely duplicate indicators already reported at the individual entity level. For example, one of the Queensland Government's objectives for the community is to 'deliver quality frontline services'. As there is no agreed single indicator to measure the performance of a government's wide range of frontline services, it would likely result in a need to use a significant number of indicators already being reported by individual entities that relate to frontline service delivery.

Further, unlike financial performance information, it is not possible to simply aggregate non-financial performance information from agencies to achieve meaningful information at the WoG level. For example, it is not possible to calculate an overall performance score for frontline services by taking performance information relating to emergency department wait times and adding it to performance information relating to public housing wait times.

Q8 – Terms (glossary)
The [draft] Standard includes defined terms in Appendix A. Do you agree that the proposed defined terms in Appendix A appropriately explain the significant terms in the [draft] Standard? Why or why not?
Do you agree with these defined terms? Why or why not?
Are there additional terms that should be defined in Appendix A to assist application of the [draft] Standard?

DPC disagrees with the defined terms included in Appendix A, of the draft Standard, and a number of the descriptions and examples throughout ED 270, as they are largely inconsistent with the approach to the nationally recognised framework and definitions detailed in the Australian Productivity Commission's RoGS.

Heads of Government (now the Council of Australian Governments (COAG)) established the Review of Government Service Provision in 1993, to provide information on the equity, efficiency and effectiveness of government services in Australia, through the publication of RoGS on an annual basis. The RoGS general performance framework reflects the service process through which service providers transform inputs into outputs and outcomes in order to achieve desired policy and program objectives. For each service, service providers (e.g. public sector not-for-profit entities) have a number of objectives that relate to desired outcomes for the community. To achieve these objectives, an entity will provide services and/or fund service providers to deliver services.

The impact of these outputs on individuals, groups and the community are the outcomes of the service. In RoGS, the rate at which inputs are used to generate outcomes is referred to as 'cost effectiveness'. Often, outcomes (and to a lesser extent, outputs) are influenced by factors external to the service. The RoGS service process framework distinguishes between technical efficiency (the ratio of inputs to outputs) and cost-effectiveness (the ratio of inputs to outcomes), and also recognises that other influences affect overall program effectiveness (the extent that outcomes achieve the objectives of the service).

The key differences between the service process framework already known and used widely across Australia through RoGS, and the framework proposed within the draft Standard include:

- differences in the terms and definitions used for measuring the transformation of inputs into outputs (technical efficiency) and inputs into outcomes (cost-effectiveness);
- RoGS has a more focused definition of effectiveness as outputs are not considered measures of effectiveness; and
- RoGS recognises and accepts external influences as uncontrollable elements that will likely impact on performance.

While designed for the government sector, the RoGS general performance framework could also be applied to the private not-for-profit sector. As detailed within the Preface of the draft Standard, similar to governments, 'in the NFP sector, an entity's primary objective is not the generation of profit but rather the provision of goods and/or services for the community or social benefit'. The objectives of private sector NFP entities could therefore be measured, and reported on, in a similar manner to public sector entities.

In regard to specific issues with definitions and terminology contained within the draft Standard, DPC recommends that the AASB, at a minimum, considers the changes suggested below.

Service performance objective:

- Paragraph 16 states that 'Service performance objectives may span a number of reporting periods', however provides little guidance as to what considerations an entity should make in setting its objectives, what role they play in the larger performance network or for how long they should last. The AASB may wish to consider providing further guidance material on what an objective is, why it is important, its relationships and the considerations an entity should make in formulating them.
- Paragraph 51 states 'so as not to overwhelm users, an entity will need to consider which key service performance objectives will provide users with the most useful information for accountability and decision-making purpose.' DPC agrees with the premise that service performance information should support accountability and decision-making, however paragraphs 50-61 would benefit from further discussion on the importance of 'materiality'. The concept of 'materiality' is mentioned elsewhere in the draft Standard and it is DPC's view that this is an important consideration when determining what information an entity should report to users. In 2005, the Queensland Auditor-General commented (Report to Parliament No. 5 for 2005: *Results of Performance Management Systems Audits of Output Performance Reporting – Phase 2*) 'for performance measures to be meaningful and relevant they need to be representative of the more material activities.'
- Paragraph 30 and Appendix A define a service performance objective as 'A description of the planned *result(s)* that an entity is aiming to achieve through its service performance'. Further, paragraph 31 states that 'a service performance objective may be expressed using performance indicators of inputs, outputs, outcomes, efficiency and effectiveness or through a combination of one or more of these performance indicators.' DPC suggests that these definitions and explanations be clarified. Adopting the RoGS general performance framework, the Queensland PMF provides that an objective should be clear and measurable, state what the agency wants to achieve and focus on outcomes.

Performance indicators:

- Paragraphs 31 and 35 and AG29 state 'Inputs, outputs, outcomes, efficiency and effectiveness are types of performance indicators'. This approach is inconsistent with the RoGS general performance framework and the PMF. Under RoGS and the PMF, measures of 'efficiency' and 'effectiveness' are considered service performance indicators. 'Inputs' and 'outputs' can be used to calculate measures of efficiency and effectiveness and 'outcomes' refer to what is being measured.
- Paragraph 33 and Appendix A describe that a performance indicator can be a narrative or qualitative description used by an entity to communicate its achievement of service performance objectives to users. DPC does not agree that a narrative description can be considered a performance indicator. While narrative and qualitative descriptions have value and can be used to assist a user to understand performance, they are not performance indicators. This is because performance indicators (as stated in AG25) should provide users with a basis to compare service performance over time. Narrative and qualitative descriptions do not lend themselves to this purpose.
- While paragraphs 54-61 and AG40-45 provide some guidance for selecting appropriate indicators, no firm guidance is provided around the number or variety of indicators required. For example, in Queensland, under the FA Act 2009 the operations of departments and statutory bodies should be carried out efficiently, effectively and economically. In line with this focus, departments and statutory bodies are to ensure that each service area (reported in

the State Budget Service Delivery Statements) has at least one measure of efficiency and at least one measure of effectiveness. Given that one of the draft Standard's principles is to provide performance information that enables 'users to assess the efficiency and effectiveness of the entity's service performance', the AASB may wish to consider setting a recommended number of performance indicators, or type of performance indicators, for each service performance objective.

- Paragraphs 61 and 66(b) suggest that reporting entities will need to provide performance indicators that support how it has influenced an outcome. It is DPC's belief that this requirement will be very difficult and/or costly to achieve as this information is not always readily available. DPC recommends the AASB remove this requirement so that entities are not required to have indicators showing the exact influence they have had on outcomes.
- AG36 provides an illustrative figure of the relationships between service performance objectives, inputs, outputs and outcomes. DPC strongly recommends that the AASB consider making use of a nationally agreed framework such as that used in RoGS for the reasons already explained above.

Effectiveness:

- Paragraphs 48 and 65(b)(v), Appendix A and AG35-36 (including the figure) suggest that effectiveness measures describe the relationship between an entity's outputs and its service performance objectives. This approach is inconsistent with the RoGS general performance framework and the Queensland PMF, where effectiveness measures focus on outcomes. By focusing on outputs, users cannot truly assess service effectiveness.

Q9 – Status
The AASB's view is that this [draft] Standard should be mandatory as it, in conjunction with an entity's financial statements, provides useful information for users to assess the performance of NFPs in relation to an entity's service performance objectives. Providing this information will further assist users for accountability and decision-making purposes.
Do you agree that this [draft] Standard should be mandatory for NFP entities? Why or why not?

As per the response to question 2, DPC does not support the draft Standard application (mandatory or optional) to public sector not-for-profit entities.

Q10 – Implementation
It is proposed that this [draft] Standard will be applicable for annual reporting periods beginning on or after 1 July 2018. Early application will be permitted.
Do you agree with the proposed application date of 1 July 2018? Why or why not?

DPC does not agree with the proposed application date of 1 July 2018, particularly if the draft Standard will apply to the public sector.

As detailed in DPC's response to question 8, there are a number of inconsistencies between the draft Standard and Queensland's PMF. If public sector entities were required to comply with the draft Standard (in its current form), a comprehensive review of Queensland's current framework would be required. This would necessitate significant consultation, education and communication with stakeholders, and changes to legislation.

Other than providing a scheduled application date of 1 July 2018, the draft Standard provides very little information about how the entities will be prepared for implementation or assisted once the draft Standard is in force. Should the AASB decide to issue this Standard, DPC suggests that the AASB consider whether they, or another entity, could provide further guidance and support to agencies. Consideration should be given to providing initial support to prepare agencies for implementation (i.e. by running workshops and information sessions), as well as ongoing support and guidance.

Q11 – General feedback

The AASB would particularly value comments on the following, whether:

a) there are any regulatory or other issues arising in the Australian environment that may affect the implementation of the proposals by not-for-profit entities, including any issues relating to public sector entities, such as GAAP/GFS implications?
b) overall, the proposals would result in reporting that would be useful to users?
c) the proposals are in the best interests of the Australian economy?

For the reasons outlined above, DPC does not support the draft Standard being applied to public sector entities (not-for-profit or for-profit) or entities that prepare WoG and GGS financial statements. Given Queensland's comprehensive PMF, application of the draft Standard is unlikely to result in a benefit to the end user (the people of Queensland). There is no evidence to suggest that implementation of the draft Standard would result in the provision of better or more useful information.

Mandating compliance with the draft Standard (in its current form) would increase the regulatory burden. Consistent with best policy practice, DPC recommends the AASB consider whether the goals of the draft Standard can be achieved without increasing the regulatory burden.