QUEENSLAND TREASURY

SUBMISSION TO AASB RE AASB ED 270 *Service Performance Reporting*

Specific matters for comment

1. 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?

Queensland Treasury (Treasury) **agrees** with these high level principles for reporting service performance information. These principles are consistent with other performance reporting frameworks that we are aware of within Australia and Queensland. In order to make an informed judgement about the performance of not-for-profit (NFP) entities, users need access to reliable service performance information.

Treasury **is concerned** with the inclusion of the efficiency and effectiveness requirement of sub-section (d) and the level of prescription applied to reporting service performance information that is subsequently imposed by paragraphs 65 and 66.

Queensland's experience of service performance reporting has been that measurement of efficiency and effectiveness is very difficult to achieve particularly in a NFP service delivery environment. Entities often struggle to determine (and agree with management) appropriate performance indicators. The identification and capture of data to support measurement of these indicators is also difficult, particularly at the "outcome" level as achievements are often quite subjective.

2. **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?

Treasury **does not support** the mandatory application of the [draft] Standard to NFP public sector entities that are already subject to other service performance reporting requirements.

ED 270 outlines that the AASB has issued this [draft] Standard in response to concerns raised by constituents that existing financial reporting disclosures may not adequately meet the needs of users of NFP financial statements. Whilst Treasury agrees that this is the case for some entities, ED 270 also briefly acknowledges that "…some entities may already be subject to service reporting requirements…". Treasury feels that the AASB has failed to fully appreciate the significant level of service performance information currently produced at the State and National level by public sector NFP entities.

In Queensland, the Department of Premier and Cabinet is responsible for determining the service performance information to be reported through the Queensland Government Performance Management Framework. This framework is mandatory for all Queensland Government NFPs and requires the reporting of planned and actual service performance in entities' Service Delivery Statements and Annual Reports respectively. We understand that other States have similar performance reporting requirements and, as discussed in the response to Question 4, States and the Australian Government also provide information under the Report on Government Services (RoGS) framework. On this basis, Treasury does not agree that the AASB has appropriately identified the information gap that is claimed to exist in this sector.

Treasury is also concerned that the prescriptive nature of the [draft] Standard will result in duplication of effort or necessitate significant changes to existing service performance reporting requirements where these do not neatly fit within the [draft] Standard's requirements (to avoid inconsistencies). Treasury notes that IPSASB *Recommended Practice Guideline 3*, upon which this [draft] Standard is based, is less prescriptive about the information required than the [draft] Standard.

3. **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?

Treasury **does not support** this [draft] Standard being applied to for-profit public sector entities.

Treasury appreciates the AASB's wish to maintain sector neutrality in standard setting; however, as acknowledged in ED 270, the focus and objectives of for-profit entities are significantly different to those of NFPs.

In relation to Queensland's for-profit public sector entities, Treasury believes that users are already provided sufficient information under the requirements of the *Government Owned Corporations Act 1993* (Qld). This Act requires, amongst other things, that a Government Owned Corporation (GOC) provide sufficient information in its annual report to enable users to make an informed assessment of the operation of the GOC and its subsidiaries, including enabling an assessment of performance against the GOC's statement of corporate intent.

Treasury makes no comment about the appropriateness of applying this [draft] Standard to private sector for-profit entities.

4. **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 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?

Treasury **does not support** this [draft] Standard applying to NFP entities that prepare consolidated general purpose financial statements, particularly WoG and GGS entities.

Treasury notes the AASB's concern that some important information, that would be material at the group level, may not be reported due to the Standard not applying to a controlled entity. Treasury considers that, if that was to arise, it would be because those entities are either for-profit in nature or else not reporting entities. As stated in response to question 3 above, Treasury does not support application to for-profit public sector entities. In addition, if an entity is not a "reporting entity", then presumably there are not users who need information about the entity.

Treasury **is concerned** that the AASB has not considered the practicality of implementing this [draft] Standard at the WoG or GGS level. While it is true that some governments publish high-level objectives at the WoG level, we do not consider that these would generally be able to be reported against. Often these objectives are of an aspirational nature and reflect general intentions for example "improving service delivery", "more responsive government", "building regions", "closing the gap" etc. These high-level aspirations may give the public an understanding of a government's intention but they are not meaningful or measurable at that level.

In order for a government to achieve its vision, these overarching statements must be translated to specific actions and outputs at the entity level. It is at this level that aspirations become service performance objectives. It is also the case that performance indicators at this level cannot be aggregated at a WoG level (e.g. increased vaccination rates and improved school attendance of indigenous children may both contribute to "closing the gap" but it makes no sense to aggregate these items). If achievements were to be reported at the WoG level, it could only be a replication of information already reported publicly at the entity level.

Given the GGS represents the NFP sector of WoG, any application to WoG would, based on the current scope of the [draft] Standard and Treasury's response to Question 3, only relate to GGS entities.

Queensland's experience with high-level "plans" is that they can be quite political documents. While they may represent a government's view at a point in time, these plans can be changed rapidly as a result of elections, changes in party leadership and in response to issues emerging within sections of the community. Such instability is not conducive to consistent, comparable reporting.

In order to achieve consistent and comparable service performance reporting across the State/Territory and Australian Governments, the Australian Productivity Commission developed the Review of Government Service Provision (RoGS) process. RoGS data is prepared by all States and the Australian Government on an annual basis in accordance with agreed measures maintained by Productivity Commission. This data covers the main service areas of government and in our view provides a superior level of comparability than allowing each State/Territory and the Australian Government to develop and report against their own objectives.

5. **This [draft] Standard proposed that the reporting entity for which service performance information is reported shall be the same as that used for the entity's financial statements.**

Do you agree with this proposal? Why or why not?

Treasury **agrees** that the reporting entity for service performance reporting should be the same as for financial statement preparation. We believe it is important for users to be able to view the financial and non-financial information together (and on the same basis) to gain a complete understanding of an entity's performance.

6. **This [draft] Standard allows an entity to present its service performance information in:**

(a) the same report as the financial statements;

(b) a separately issued report; or

(c) in a variety of different reports.

Do you agree that this [draft] Standard should not specify the location of service performance information? Why or why not?

If you disagree with the approach proposed in this [draft] Standard how do you consider entities should present service performance information and why?

Treasury **agrees** that the [draft] Standard should allow flexibility in the location of service performance information. Currently Queensland Government entities are required to report service performance information in their annual report and in the annual State Budget papers (where that entity is included in the State Budget process) but separately from the general purpose financial statements. Treasury **does not support** service performance information being included in general purpose financial statements, to ensure the audit mandate and processes

7. This [draft] Standard allows for an entity's service performance information to be reported for a different time period to that of the entity's financial statements. Do you agree with this proposal? Why or why not?

Treasury **<u>supports</u>** the proposal to allow service performance information to be reported for a different time period than the entity's financial statements, provided that this fact is properly disclosed. Generally it would be expected that service performance information should be presented for the same period as the financial statements, however, we appreciate that this may not be appropriate for all entities. We are aware that the regulators of some sectors (e.g. education) require service performance reporting on a calendar year basis.

8. 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?

Treasury **<u>does not agree</u>** with all of the defined terms in Appendix A. Treasury is concerned that a number of concepts in the [draft] Standard are inconsistent with the Report on Government Services definitions already established by the Australian Productivity Commission and Queensland's own Performance Management Framework. Examples of concepts/terms that appear inconsistent are service performance objectives, performance indicators and effectiveness. The AASB should ensure consistency with existing performance reporting framework definitions to avoid confusion for both preparers and users of this information.

9. 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?

Consistent with Treasury's response to previous questions, Treasury **does not support** this [draft] Standard (in its current form) being mandatory for all NFP entities. On reason is that, based on experience to date, NFP entities in both the public and private sectors will struggle to determine and accurately measure effectiveness and efficiency in service delivery.

However, the most fundamental Treasury concern is that the proposed requirements exceed what is currently required under existing service performance reporting frameworks. Paragraphs 65 and 66 and the accompanying application guidance paragraphs (AG48 – AG53) require reporting of a substantial amount of detail. In those paragraphs, lists of various aspects of performance are linked by the word "and" rather than "or", implying that each aspect needs to be addressed in the reported information. The illustrative examples are considered to be very simplistic and provide minimal assistance in interpreting how much detail is required in real-life situations. Treasury is concerned that such detail would require significant re-writing of existing service performance guidelines and requirements in order for Queensland Government entities to be compliant.

10. 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?

Treasury **does not support** the proposed application date of 1 July 2018. As outlined in responses to other questions, introduction of this [draft] Standard in its current form would necessitate a significant amount of rework and legislative change to align government performance management frameworks to the requirements of the [draft] Standard. Treasury does not consider that this could be achieved in time to commence useful reporting for periods from 1 July 2018.

Treasury also notes that quite a number of substantial new accounting standards will become effective in the coming years, particularly AASB 9 *Financial Instruments*, AASB 16 *Leases*, and the new standards on Income of NFP Entities, and Service Concession Arrangements: Grantors. We are very concerned that there will not be sufficient capacity within entities to manage the introduction of this [draft] Standard in addition to the considerable work to be undertaken in implementing the requirements of the other new and amending standards scheduled to commence.

As outlined in the response to Question 12, Treasury would prefer that implementation of any standard on reporting service performance information be delayed pending the outcome of the AASB's review of the Financial Reporting Framework in Australia.

General Matters for Comment

11. Whether:

(a) there are any regulatory issues 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?

As discussed in responses to other questions, Treasury **is concerned** that significant regulatory and legislative change would be required to enable mandatory application of the [draft] Standard to Queensland Government NFP entities.

Treasury again questions the existence of an information gap in relation to public sector NFP reporting given the level of service performance reporting that already exists for these entities. Consequently, Treasury **does not believe** that the [draft] Standard will result in *additional* information that would be useful to users.

Treasury **is concerned** that the increased reporting burden imposed by this [draft] Standard may not be in the best interests of some sectors of the Australian economy. As discussed in the response to Question 12, Treasury is of the view that the AASB should incorporate the implementation of principles in this [draft] Standard into a comprehensive review of reporting requirements for smaller entities (particularly small NFPs).

12. Other issues

Treasury considers that the AASB should incorporate the implementation of reporting service performance information into its review of the Australian Financial Reporting Framework. We believe that the AASB has the opportunity to fundamentally change the way that smaller entities, and in particular small NFPs, report on their performance in financial and non-financial terms. Further, we see no evidence that the AASB has considered the potential to apply the Reduced Disclosure Requirements to the proposals in the [draft] Standard.

It is often commented that the current general purpose financial reporting requirements for NFPs do not provide users with *enough* information to fully understand an entity, but at the same time NFP entities are producing pages and pages of financial statement disclosures that users have difficulty in understanding and/or find meaningless or confusing. This raises the question whether the issue is not so much with the *quantity* or *quality* of information being produced, but that the *subject matter* of the information does not meet users' needs.

Treasury believes that the AASB should consider what level of financial reporting would be appropriate for such entities if additional service performance information is to apply. We do not believe that these decisions should be considered separately as the development of *useful* reporting of overall performance will rely on achieving the right balance of financial and non-financial information.

Treasury is also concerned that without some relief from the existing financial reporting burden, smaller entities will not have the capacity to properly implement service performance reporting (particularly in terms of the detail of this [draft] Standard).