



THE TREASURY

Kaitohutohu Kaupapa Rawa

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External Reporting Board
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Dear Warren,

Exposure Draft NZASB 2016-6: Service Performance Reporting

We thank the NZASB for releasing this Exposure Draft (ED) on Service Performance Reporting. The Treasury is submitting on this ED given the close relationship between the ED and our stewardship role with regard to the Public Finance Act 1989 (PFA) and Crown Entities Act 2004 (CEA), which set out the legislative requirements for reporting service performance information for public sector public benefit entities in central government.

Treasury's role also includes, in conjunction with the State Services Commission, supporting state sector system performance so we have a strong interest in the objective of this ED to present performance information that is useful for accountability and decision-making purposes. We note and welcome that the objective and dimensions in the ED in broad terms support more meaningful reporting, which was one of the objectives for the 2013 state sector reforms captured in changes to the PFA and the CEA.

We believe that this ED, mindful of the feedback below, will further help reinforce the importance of service performance reporting for public benefit entities as well as provide a useful framework for improving the quality of this reporting.

However there is one area that we want the NZASB to amend:

- Changing the proposed information to be reported in paragraph 33 of the ED from the outputs, outcomes and impacts framework.

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And there are two areas that we want the NZASB to consider:

- Clarifying in the scope that where an entity may be legislatively required to report performance on only some of their services, in such instances this standard applies to only those services, and
- Expanding the third dimension of service performance to read: "*What impact did the entity have and how does the entity know it has had this impact?*"

Yours sincerely



Warwick White
Principal Advisor, Fiscal and State Sector Management

Question 1

Do you agree that the dimensions of service performance in the ED are a useful way of identifying the information to be reported by public benefit entities? If not, why not?

We agree that the dimensions of service performance in the ED are useful. In particular, we support use of a few key, critical questions (such as 'what did the entity do' and 'why') for agencies to address. This approach balances the need for having standard expectations and requirements (ie these questions must be answered) while retaining the flexibility needed for agencies to determine how best to answer these questions, mindful of the potentially infinite range of activities that this standard may cover.

In addition, as was mentioned at one of the NZASB's Road Trip presentations, many users of a Service Performance Standard are likely to be non-accountants. So expressing the requirements in a manner that resonates with a broad audience is critical if we are to get the focus on improving the quality of the performance story rather than a focus on complying with an 'accounting standard'.

We also note that these dimensions are broadly consistent with the PFA and CEA, with their focus on "what is intended to be achieved" and "how performance will be assessed", as well as the Results Based Accountability framework¹.

Having said that, we urge the NZASB to consider if the dimensions of service performance would be more complete if "*What impact did the entity have?*" was expanded to include "*and how does the entity know it has had an impact (using performance indicators to support that description where possible)*"? This is a further nudge to encourage the use of supporting information and evidence to explain how an entity assesses the contribution its activities have made and incorporates the reference to performance indicators profiled in paragraph 33(c) of the ED.

Using evidence and external information to verify performance is difficult to do in some instances, however we consider the ED sufficiently covers this challenge and how to respond (for example, see paragraphs 42 and 44).

Question 2

Do you agree that application of the qualitative characteristics and appropriate balancing of the pervasive constraints on the information will result in appropriate and meaningful service performance information? If not, please explain why not and identify any alternative proposals.

We agree that applying the qualitative characteristics will result in appropriate and meaningful service performance information.

¹ <https://www.familyservices.govt.nz/about-funding/results-based-accountability/resources/rba-guidelines-and-tools.html>

- see the Results Based Accountability Guidelines and Resources document

However, while the discussion on the qualitative characteristics is understandably an abridged version of that in the PBE Conceptual Framework, we consider that there needs to be more context given regarding the qualitative characteristics. Notably, that judgements and trade-offs need to be made between the different characteristics. This could be achieved by including the text below from the PBE Conceptual Framework:

“Each of the qualitative characteristics is integral to, and works with, the other characteristics to provide in GPFRs information useful for achieving the objectives of financial reporting. However, in practice, all qualitative characteristics may not be fully achieved, and a balance or trade-off between certain of them may be necessary.”

Or it could be achieved by cross-referencing the standard to the relevant section of the PBE Conceptual Framework.

On balance we support having the relevant text inserted into the standard (or a combination of this and cross-referencing) rather than only cross-referencing, as having a stand-alone standard will help users in interpreting the requirements, particularly if they do not have ready access to the PBE Conceptual Framework.

We consider having the trade-off/balance discussion explicitly in the standard reduces the risk that an entity or auditor interprets that all the qualitative characteristics must be met in all circumstances.

We also consider that providing comparability against other entities is more difficult for service performance reporting compared with financial reporting, given the variety of different activities undertaken by entities. Similarly, comparability over time will be more challenging where qualitative descriptions are used. It would be useful if either in the ED, or subsequent guidance, to acknowledge this challenge. While we support comparability, where possible, care is needed not to focus on quantitative measures if they do not sufficiently tell the performance story.

Question 3

Do you agree with the use of the term “appropriate and meaningful”? If not, please explain why not and identify any alternative proposals.

We agree that the term “appropriate and meaningful” is useful, especially to help entities step back and review the detail of their service performance information to ensure that it is an appropriate selection of information and an appropriate volume of performance information.

Question 4

Do you agree with the proposed information to be reported? If not, please explain why not and identify any alternative proposals

Paragraph 33 states "An entity's service performance information shall include the following:

- (a) *Outputs and performance indicators for outputs;*
- (b) *Outcomes that the entity is seeking to influence and the links between the entity's outputs and those outcomes; and*
- (c) *A description of the impact that the entity has had on the outcomes that it is seeking to influence and performance indicators to support the description."*

We do not agree with the specific requirements in paragraph 33 in relation to outputs, outcomes and impacts. Rather, we consider that agencies should be required to report on the dimensions: "What did the entity do?", "Why did the entity do it?", and "What impact did the entity have?" (or an amended version of these as proposed in our response to Question 1).

Outputs, outcomes and impacts provide a lens through which to structure the performance story to respond to these questions. And they could be provided as examples for how to respond to the dimensions, but requiring explicit reporting on outputs, outcomes and impacts (as opposed to the dimensions) in our view could detract from the intent of the ED.

In our experience requiring reporting on codified labels such as outputs, outcomes and impacts as a proxy for the dimensions:

- shifts the focus to debating definitions and complying with these labels, (ie is it an impact, an outcome, an intermediate outcome, an intention, an objective?) rather than telling the performance story required from the dimensions. This focus on labels and the need for flexibility in how they are used is evident even in the ED with its discussion on (undefined) 'intermediate outcomes'.
- may not resonate with a particular agency or its stakeholders. Where these labels don't resonate with senior leadership teams or are seen as too inflexible for how they tell their performance story it can result in lack of ownership and confidence in the reporting, and lead to a compliance approach in order to meet an accounting standard requirement. For example, some agencies may have quite a defined role and why they do it may be prescribed for them. Explaining why they do what they do at the level of "impacts on society" may not be relevant or meaningful in all instances.

Reinforcing the unproductive debate that can occur through requiring use of these labels is the interplay in how outcomes and impacts are referred to in the ED.

Outcomes are defined in paragraph 24 in terms of impacts, impacts and intermediate outcomes are referred to in the ED but are undefined, while paragraph 33 requires performance information to include the impact on outcomes. If these terms remain, the confusion of these definitions and requirements needs to be resolved before the Standard is released.

The above points are some of the reasons that the PFA was amended in 2013 to remove explicit reference to outcomes, objectives and outputs². In its place was the requirement to focus on “what is intended to be achieved” and “how performance will be assessed.”

Reintroducing these terms through the standard would create a confusion between the legislative requirements, which provides a broader framework (consistent with the dimensions), and the GAAP requirements.

We urge the NZASB to remove all the codified labels from the standard.

Question 5

Do you agree that cross referencing to information outside of the service performance section of the general purpose financial reports should be permitted? If not, why not?

We agree, and also note that this is consistent with the flexibility introduced in 2013 to the PFA. We discuss in response to Question 6 the need for this flexibility to help ensure that reporting against appropriations by departments can also be used to meet the requirements of a Service Performance Reporting standard.

We are also mindful that Chief Executives of Public Service departments, and Boards of Crown Entities have legislated responsibilities, respectively, in responding to the collective interests of government and in collaborating with other public entities. We welcome the presentation flexibility in the ED as this will support efforts to report on “collective impact” in a meaningful way.

² Refer to pages 8 and 9 of this paper for the rationale for PFA changes. [Better Public Services Paper 5: Amendments To The Public Finance Act 1989](#)

Question 6

Do you agree with the proposed scope in relation to:

- (a) public sector public benefit entities with existing legislative requirements to report service performance information;*
- (b) public sector public benefit entities currently without existing legislative requirements to report service performance information; and*
- (c) not-for-profit public benefit entities?*

Our submission is from the perspective of public sector public benefit entities and we strongly support them being included in the scope of a future standard.

We agree that where there is no existing legislative requirement in the public sector that entities are encouraged to apply the standard, but agree that it should not be required. We think Parliament is the appropriate body to determine who reports on service performance information as they act for the public interest.

Within central government, agencies may be legislatively required to report on service performance but may be exempted from reporting on some of their activities. For example, s.15D of the PFA permits the Minister of Finance to exempt reporting against appropriations in certain instances, while the s.149E of the CEA requires reporting only for "reportable outputs" (as defined in s.136 of the CEA).

To make it clear that the standard is to be applied within the legislative requirement, we suggest adding words along the following lines to the scope discussion in paragraph 21 "*An entity may be legislatively required to report performance on only some of their services, in such instances this standard applies to only those services*".

With regard to central government departments, the requirement to report against appropriations exists independent of a department's reporting requirement (see sections 19A to 19C of the PFA). This is because appropriations cover both departmental and non-departmental activities (ie appropriations cover activities outside the departmental reporting entity).

The PFA also states (refer s.45) "*the annual report of a department must provide information that is necessary to enable an informed assessment to be made of the department's performance ...*". While this is a separate legal requirement to the need to report against appropriations, in practice reporting by departments against their departmental appropriations contributes to providing an informed assessment of performance.

We consider that, given the flexibility in how service performance information can be presented (paragraphs 52-56 of the ED), departments would use the reporting against departmental appropriations to discharge their reporting requirements under a Service Performance Reporting Standard.

Question 7

Do you agree that a two year implementation period would be appropriate?

The Treasury supports a two year implementation period if it is supported by appropriate guidance.

Question 8

Do you agree with the proposal to change the title of PBE IPSAS 1 Presentation of Financial Statements to Presentation of Financial Reports and the proposed amendments to that Standard? If not, please explain why not and indicate your preferred alternative approach.

We agree with the changes to that standard because we believe that financial statements and service performance information are both required to assess the performance of public benefit entities.

We think that the title should be changed to *Presentation of Financial and Performance Reports* because the proposed title (with its focus on “financial”) doesn’t clearly convey the inclusion of service performance information.

Question 9

What type of guidance should the NZASB develop to support entities preparing service performance information in accordance with the proposed standard?

We consider that guidance should help with reporting progress towards “Why” an entity exists given the challenge that such reporting is expected to be done annually but progress is a multi-year story.

The guidance should include examples of good (and bad, or not so good) performance reporting, as well as examples (even stylised) of the range of way in which performance information may be presented.

Finally, the above examples should also include reporting using qualitative measures and descriptions.

Question 10

Do you have any other comments on ED NZASB 2016-6?

Paragraph 42 refers to links between outputs, intermediate outcomes and ultimate outcomes. We suggest that this be recast to focus on an entity explaining its intervention logic or performance framework, why they chose to deliver their mix of goods and services, and to acknowledge that there is rarely a linear relationship (between an output, an impact, and an outcome). More commonly a combination of activities lead to a change, which may lead to achieving a strategic objective or outcome, and so in describing this intervention plan, where appropriate agencies

should focus reporting on the combination of goods and services they provide (allowing them to say something about the mix of their interventions).

Commonly a combination of activities performed by *numerous entities* leads to a desired change, and entities should reflect this in their own intervention logic/plan. That is, who are they partnering with, needing to support and reliant on to effect change? Relevant entities should be developing aspects of their performance frameworks together e.g. when designing and reporting on what they intended to achieve, why, and how they know they had an impact. The Better Public Service Results and targets are one type of collective impact (or intermediate outcome) measure.

In its guidance or standard the NZASB needs to highlight the importance of having some sort of performance framework or expectations before the start of the year. Ex-ante set up and thinking needs to be highlighted before entities can successfully report ex-post.