

At a glance

Tier 3 and Tier 4 Public Sector Reporting Requirements

Proposed improvements to Tier 3 and
Tier 4 (PS) Standards

Consultation document

A decorative graphic consisting of four slanted rectangular bars in shades of green, grey, blue, and orange.

May 2022

Submissions due: 30 September 2022



What is this consultation about?

The Tier 3 (PS) Standard

The Tier 3 (PS) Standard sets out the reporting requirements for Tier 3 public sector entities when preparing their annual Performance Reports. The Standard is accrual-based, which means that an entity is required to provide information about its financial performance and position, together with non-financial information about what the entity has achieved during the financial year.

The objective of the Tier 3 (PS) Standard is to provide readers with a Performance Report containing useful and relevant information about the entity's performance for the previous year – both in financial and non-financial terms. This annual reporting is fundamental to ensuring that transparency, accountability and trust in the public sector is maintained.

The Standard is used by public sector entities with total expenses under \$2 million but more than \$140,000.

The Tier 4 (PS) Standard

The Tier 4 (PS) Standard sets out the reporting requirements for Tier 4 public sector entities when preparing their annual Performance Reports. The Standard requires an entity to provide information about the cash received and cash paid over the past financial year, together with non-financial information about what the entity has done over the same period.

The objective of the Tier 4 (PS) Standard is to provide readers with a Performance Report containing useful and relevant information about an entity's performance for the previous year – both in financial and non-financial terms. This annual reporting is fundamental to ensuring that transparency, accountability and trust in the public sector is maintained.

The Standard is used by public sector entities with annual operating payments under \$140,000.

Why amend the Tier 3 and Tier 4 public sector reporting requirements?

Achieving an appropriate balance between the cost and benefit of preparing Tier 3 and Tier 4 Performance Reports is an ongoing focus. In 2020 we consulted with the public sector to assess where improvements could be made to the Tier 3 and Tier 4 reporting requirements, not just in terms of simplification and ease of reporting, but also in terms of the usefulness of the information produced.

The feedback provided three key messages.

- Overall, the Tier 3 (PS) Standard and Tier 4 (PS) Standard are working well and are achieving their desired objectives.
- There were some key areas where improvements to the Tier 3 (PS) Standard were encouraged.
- There was strong support from some respondents to reduce the length and complexity of the Tier 4 (PS) Standard to support increased adoption and consistent application.

In response, we are proposing amendments to improve the Tier 3 (PS) Standard and simplify and improve the Tier 4 (PS) Standard. This is the focus of this consultation.



Proposed amendments to the Tier 3 reporting requirements

Service performance reporting

New and updated guidance to help entities tell their story

- Removing references to “outcomes” and “outputs”
- New guidance on “significant activities and achievements” and “appropriate and meaningful measures and/or descriptions” to help entities explain what they have done during the financial year.
- New guidance around consistency of service performance reporting from year to year.

Asset valuation

Introducing simplified accounting requirements if an entity chooses to revalue certain assets.

- Property, plant and equipment – option to revalue based on an independent valuation (or a local council rateable value for land and buildings).
- Revaluation gains / losses recognised directly in accumulated funds through asset revaluation reserve .
- Investment property – same accounting requirements as for property, plant and equipment
- Financial investments that are publicly traded – option to measure at market value. Changes in market value recognised in the statement of financial performance.
- Additional note disclosures.

Opting up

Clarification of requirements when opting up to Tier 2 PBE Standards

- Where Tier 2 PBE Standards require items to be recognised in other comprehensive revenue and expense, the Tier 3 (PS) Standard allows those items to be recognised directly in accumulated funds.
- Creating a new Appendix C, which contains guidance on when and how to opt up to Tier 2 PBE Standards for certain transactions – if a Tier 3 public sector entity so chooses.

Required categories

Introducing additional categories and clarifying the application of existing categories

- Increase in the number of required categories for presenting revenue and expenses.
- Additional categories or detail regarding revenue and expenses for the period may be presented in the notes.
- Refer to **Appendix A** for the proposed required categories.



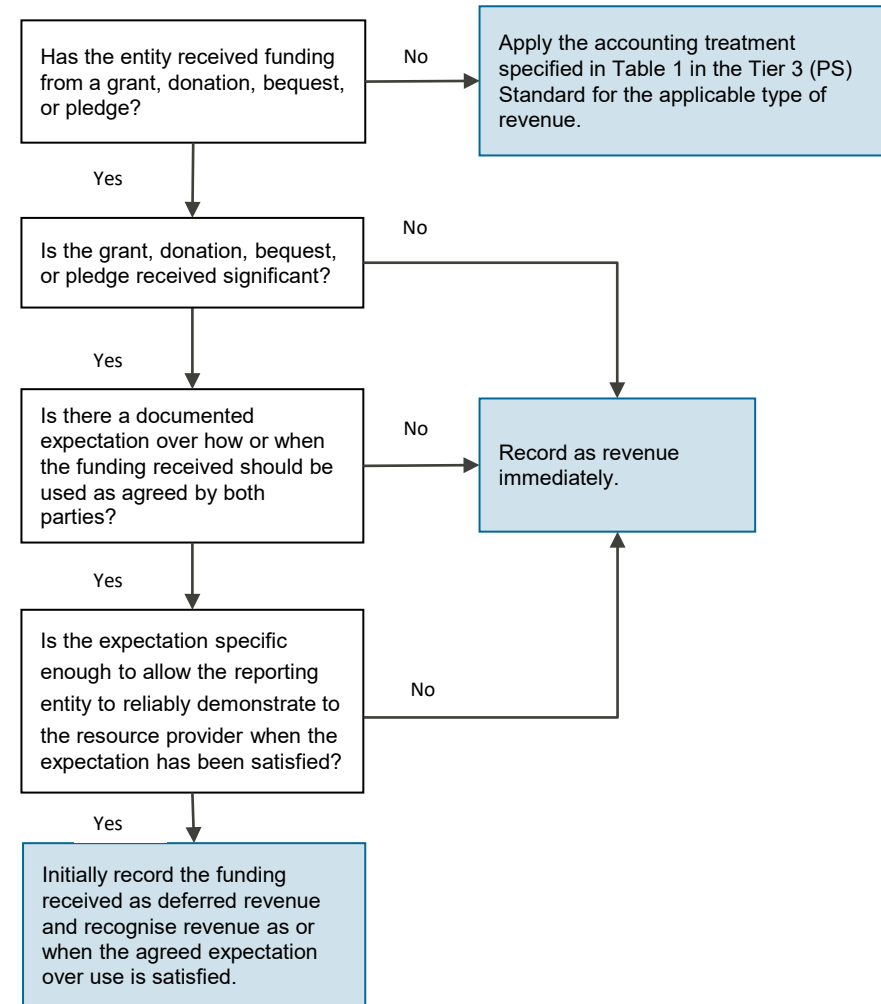
Proposed amendments to the Tier 3 reporting requirements

Revenue recognition

Increased flexibility over grant, donation and bequest revenue recognition

- The existence of “use or return” conditions are no longer required for the deferral of grant, donation and bequest revenue. Instead, there must be a “documented expectation over use” of the significant funding received. This change allows for a greater number of circumstances where an entity can defer revenue recognition after receipt.
- Expectations must be documented (most commonly in writing) and agreed between the entity and resource provider. An entity’s own internal expectations over use of the funding are not relevant.
- The expectations should be specific enough for an entity to reliably demonstrate satisfaction of the expectations to the resource provider (whether or not the resource provider monitors progress).
- Judgement is required when determining when (or over what period) revenue should be recognised.
- Where there are no expectations over use revenue is recognised immediately (i.e. not deferred).

The new revenue recognition approach:



Accumulated funds

Increased transparency over an entity’s approach and rationale for retaining accumulated funds

- New disclosures to allow users to understand how an entity manages its accumulated funds
- Requirement to provide a brief description of when and how accumulated funds are expected to be used to advance the reporting entity’s objectives
- Removing the requirements related to the presentation of restricted reserves.
- An entity can continue to choose to establish different types of equity reserves.



Appendix A: Required categories in the Tier 3 Performance Report

Revenue categories

Proposed categories

Donations, koha, bequests, and other fundraising revenue received from the public

Grants from non-government organisations

General funding received from central or local government

Revenue from service delivery grants/contracts (central or local government)

Revenue from service delivery grants/contracts (non-government)

Revenue from commercial activities

Interest, dividends, and other investment revenue

Other revenue

Expense categories

Proposed categories

Expenses related to public fundraising

Employee remuneration

Other employee related expenditure

Expenses related to commercial activities

Other expenses related to the delivery of entity objectives

Grants and donations

Other expenses



Proposed amendments to the Tier 4 reporting requirements


Simplification of the Tier 4 (PS) Standard

Reducing complexity to meet user needs and promote increased adoption

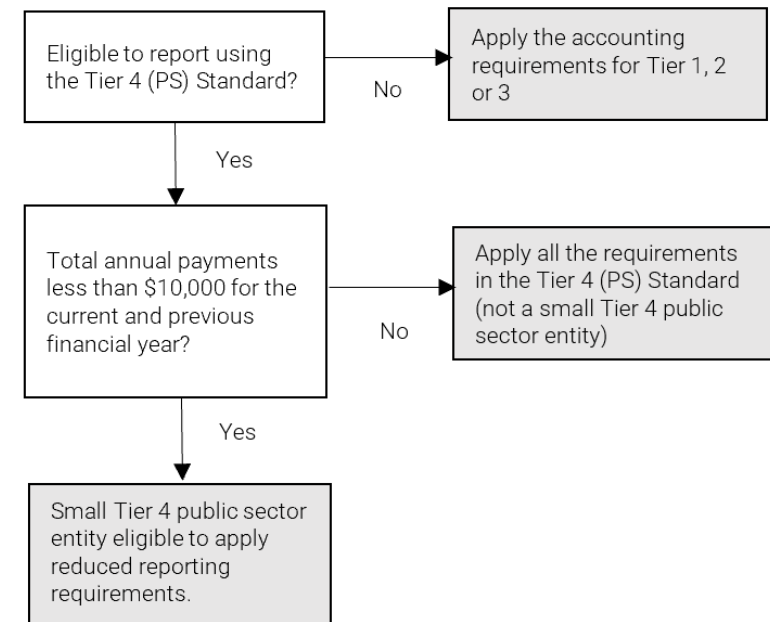
- We have completed a comprehensive review of the Tier 4 (PS) Standard to identify opportunities to simplify and re-express the existing requirements using plain English and removing technical accounting terms.
- Optional disclosures removed, allowing for a focus on minimum reporting requirements.
- The process of simplification has resulted in the page count of the Tier 4 (PS) Standard being reduced from 31 pages to 19.

Reduced reporting requirements for “small” Tier 4 public sector entities

Meeting the needs of smaller public sector entities

- Compared to other Tier 4 entities, small Tier 4 public sector entities face greater resource constraints. Also, due to the simplicity of their operations, some of the requirements in the Tier 4 (PS) Standard often do not provide useful information about these entities.
- To make it easier for these entities to produce useful information in their Performance Reports, a small Tier 4 public sector entity is not required to comply with all the requirements in the Tier 4 (PS) Standard – those requirements marked with a triangle cross symbol  are not mandatory.

Defining a “small” Tier 4 public sector entity





Proposed amendments to the Tier 4 reporting requirements

Service performance reporting

New and updated guidance to help entities tell their story

- Removing references to “outcomes” and “outputs”
- Retain the requirement for a Tier 4 public sector entity to report on what it is seeking to achieve over the medium to long term (i.e. its objectives) and the significant activities undertaken during the period to achieve those objectives.

Statement of Resources and Commitments

No longer required, but certain disclosures are necessary

- The Statement of Resources and Commitments is no longer deemed necessary for entities applying cash-based standards.
- Disclosure is required for significant assets and liabilities in the notes to the Performance Report.
- Significant assets – disclose either the amount paid or the estimated current value. The value of land and buildings may be estimated using rateable values.
- Significant amounts owing to external parties – disclose the amount expected to be paid in the future to fully settle the liability.

Required categories

Introducing additional disaggregation and clarifying the application of existing categories

- Increase in the number of required categories for presenting cash received and cash paid.
- Additional categories or detail regarding cash received and cash paid for the period may be presented in the notes.
- Refer to **Appendix B** for the proposed required categories.



Appendix B: Required categories in the Tier 4 Performance Report

Cash received categories

Proposed categories

Donations, koha, and bequests from the public
Grants from non-government organisations
General funding received from central or local government
Funding from service delivery grants/contracts
Sale of goods or services (commercial activities)
Interest or dividends received
Other cash received

Cash paid categories

Proposed categories

Fundraising costs
Employee remuneration
Other employee costs
Costs related to sale of goods or services (commercial activities)
Other costs related to delivery of entity objectives
Grants and donations paid
Other cash paid



Over to you...

We are keen to hear your feedback and this can be provided formally and informally.

The full consultation document can be found here: <https://www.xrb.govt.nz/consultations/accounting-standards-open-for-consultation/tier-3-and-4-reporting>

To provide feedback you can:



The consultation closes 30 September 2022