

## Chapter 9 – Statement of Service Performance

### Key points

- An entity uses a statement of service performance to provide information (predominantly non-financial) on its outputs.
- Outputs are the goods and services produced by the entity and provided to external parties.
- Although they are unlikely to be required to present a statement of service performance, not-for-profit entities are strongly encouraged to do so. This is because outputs are often funded by one party but provided to others. Also, outputs may be funded by members but determined largely by the entity itself.
- Although the statement focuses on outputs, information on the rationale for selecting those outputs and their contribution to the entity's broader objectives should also be provided.
- General readers can be overwhelmed by too much information – focus on significant aspects of performance.

### Reporting on service performance

- 9.1 Traditional financial statements provide information on aspects of a not-for-profit entity's financial performance but they are of limited use in assessing other aspects of a not-for-profit entity's performance. Generating a surplus is not generally a key objective for not-for-profit entities. In contrast with profit-oriented entities, not-for-profit entities often provide goods and services to constituents free of charge and seek resources from people and organisations that do not expect economic benefits in exchange. Their objectives vary but it is common for not-for-profit entities to seek to provide an optimal level of service within the level of resources available, or to provide goods and services that impact positively on members or groups within the community.
- 9.2 Not-for-profit entities require information on service performance in order to assess how well they have achieved their objectives with the resources available, and to demonstrate accountability to those who provide funds to the entity. Because a not-for-profit entity's objectives are not primarily about increasing net worth, the entity's non-financial information is often of higher interest than the financial statements.
- 9.3 Service performance reporting usually evolves over time. First an entity needs to consider some key questions such as:
- what are the entity's products and services;
  - who is the entity providing these products and services to;
  - what is the entity trying to achieve;
  - what processes does the entity use to produce its goods and services;
  - what type and level of information do users want; and
  - what are the key performance messages that the entity wants to communicate?
- 9.4 Initial measures may be fairly basic using the data that is currently available. However, performance indicators are likely to become more sophisticated over time as an entity refines its views on what it wants to measure and gradually works on generating the data it wants. Methods of assessing performance include benchmarking, indicators such as success in meeting stakeholder expectations and expert assessments. Whatever stage of development an entity is at, focusing on key measures is critical. Information overload is a common problem in service performance reporting.
- 9.5 A statement of service performance is one way of presenting service performance information. This Chapter provides guidance on presenting a statement of service performance.<sup>50</sup>

### What is a statement of service performance?

- 9.6 An entity uses a statement of service performance to report on the goods or services that it has supplied. The statement reports predominantly non-financial information. The statement provides:
- narrative and statistics on an entity's performance in supplying goods and services; and
  - information on how the entity's existence and operations affect the community.
- 9.7 NZ IAS 1 *Presentation of Financial Statements* (paragraphs NZ 126.1 to NZ 126.10) sets the presentation and disclosure requirements for a statement of service performance. Technical Practice Aid 9 *Service Performance Reporting* (TPA-9) (2002)<sup>51</sup> provides guidance on the specification, measurement and reporting of service performance. Although some of

<sup>50</sup> The Office for the Community and Voluntary Sector also provides guidance on performance measurement in the context of government funding of non-government organisations. Information provided in this context is usually more detailed than the information in general purpose financial reports.

<sup>51</sup> Technical practice aids are issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants for the general information and guidance of members and other interested parties. TPA-9 was published before the adoption of NZ IFRSs but is still a useful source of guidance. TPA-9 is available on the Institute's website at <http://www.nzica.com>

the guidance in these documents is more oriented to public sector entities, which may have a legal obligation to report service performance, it is also relevant to not-for-profit entities.

## Which entities are required to prepare a statement of service performance?

- 9.8 Although not-for-profit entities are rarely required to prepare a statement of service performance, they are strongly encouraged to do so. The statement of service performance can be used by not-for-profit entities to demonstrate accountability for the use of resources or compliance with legislation, regulations or contractual arrangements.
- 9.9 NZ IAS 1 (paragraph NZ 126.3) encourages an entity to prepare and present a statement of service performance if:
- the entity receives significant revenue intended to benefit third parties without giving reciprocal benefit or consideration to the party providing the revenue; or
  - the entity has non-financial objectives of such importance that non-financial performance reporting is significant to readers of the financial statements.
- 9.10 A common situation is that members of a not-for-profit entity will pay a subscription or registration fee but the governing body of an entity will decide what outputs the entity will produce with that revenue. In such cases a statement of service performance provides members with important information on the services provided. This information is not available in the financial statements but is necessary to understand the financial performance of the entity.
- 9.11 Similarly, a statement of service performance is important in fulfilling the accountability obligations of an entity which receives grants or contracts with the government or other bodies to provide services to others.
- 9.12 A statement of service performance is therefore likely to be a relevant and important accountability statement for many of not-for-profit entities.

## Accountability and inputs, outputs and outcomes

- 9.13 In order to demonstrate accountability to external users such as funding providers, a not-for-profit entity needs to report on how well it met agreed service performance levels and obligations during the period. Service performance reporting is most effective in demonstrating accountability when there are clear service performance expectations at the start of the period which can be reported against at the end of the period.

### Focus on outputs

- 9.14 The statement of service performance should focus on reporting performance in terms of the goods and services produced by the entity (delivery of outputs).
- 9.15 Examples of outputs produced by not-for-profit entities include:
- services to members (for example, information and advice, library services, clubhouse services, making submissions on legislation);
  - distribution of grants; and
  - provision of goods and services to third parties (for example, advocacy, training, counselling, housing, specialised equipment).
- 9.16 The criteria for outputs may be specified in contracts or agreements with external parties such as members or funding providers. If this is not the case, it can be helpful to think how the goods and services of the entity would be described in a contract and what the terms and conditions of such a contract would be.
- 9.17 Outputs and the basis of aggregating outputs must be clearly and accurately specified at the start of the reporting period.
- 9.18 It is important to distinguish outputs from:
- inputs;
  - outcomes;
  - management systems;
  - internal outputs; and
  - processes.

## Inputs

- 9.19 Inputs are the resources used to produce the goods and services (outputs) of the entity. They include personnel, travel, motor vehicles, and land and buildings. Input information provides information about what an entity has spent money on but not what the entity has produced. Statements of service performance do not therefore focus on inputs.
- 9.20 Some entities may have to report on inputs to demonstrate to external funding providers that resources provided to the entity have been spent in accordance with certain conditions.

## Outcomes

- 9.21 Outcomes are the impacts on, or consequences for, the community resulting from the existence and operations of the entity. The statement of service performance should explain how the entity's outputs and other activities contributed to the entity's broader objectives such as outcomes.
- 9.22 It is important to distinguish between an entity's outputs and other activities and the outcomes that an entity is seeking to influence because:
- it can be difficult to measure the contribution that particular outputs make to an outcome;
  - more than one entity may be involved in the same types of activities, making it very difficult to hold any single entity accountable for a particular outcome;
  - there are often a number of other influences, such as government policy or regulations, that may impact on the extent to which an entity's output can influence outcomes; and
  - the impact of an output on an outcome may take a long time to emerge.

## Management systems, internal outputs and processes

- 9.23 Management systems are the supporting systems and policies used by an entity in conducting its business. Processes are the way the entity converts inputs into outputs.
- 9.24 Internal outputs (also referred to as intermediate or management outputs) are:
- goods or services processed by one part of the entity and delivered to another part of the same entity; or
  - steps along the way in the entity's processes which contribute directly to the delivery of another output.
- 9.25 Management systems, internal outputs and processes are needed to support the delivery of outputs to external parties. Although they are not outputs, information on them is needed for internal management purposes and may be useful for readers of general purpose financial statements.

## What is required in a statement of service performance?

- 9.26 The requirements for a statement of service performance are set out in NZ IAS 1. It requires that:
- the statement should describe and disclose the quantity, quality, timeliness, locations and cost of outputs produced by the entity during the reporting period (similar individual outputs may be aggregated); and
  - the statement should present both planned and actual service performance. Unlike other statements, comparatives with the preceding period are not required.
- 9.27 The statement should also identify the outcomes or strategic goals the outputs are intended to contribute to. However, the predominant focus should be on the outputs produced.
- 9.28 Although not required by NZ IAS 1, it is helpful for readers if the statement of service performance indicates the formal process by which the entity's outputs were selected and specified. For example, outputs may be determined by an entity's governing body, a government agency, another external funding provider or a mix of all three.
- 9.29 Ideally, a statement of service performance would include the following information in respect of each output, or group of similar outputs:
- a description of the goods or services actually delivered;
  - measure(s) of the quantity of output units delivered;
  - measure(s) of the quality of output delivered;
  - a measure of the time and place of delivery, if this is important to the receiver of the output; and
  - the cost of the outputs delivered.
- 9.30 In practice an entity may begin by developing a simplified statement of service performance and gradually provide more information over time.

9.31 The NZ *Framework* also requires that non-financial and supplementary information must be understandable, relevant, reliable and comparable (paragraph NZ 101.3).

## Statement format

9.32 The format of a statement of service performance is not prescribed. Different organisations are likely to use various formats, depending on the nature and scope of their outputs. When establishing a format for the statement a not-for-profit entity should choose a presentation which best allows the reader to understand what services were delivered.

## Focus on key aspects of performance

9.33 In preparing a statement of service performance for inclusion in a general purpose financial report, judgement is needed in selecting the information that is of most interest to external users and ensuring that users are not overwhelmed with too much information. Judgement is needed in respect of:

- the aggregation of similar outputs. Aggregation should be at a level that conveys a meaningful understanding of the outputs purchased without obscuring what is being purchased and/or burying the reader in detail; and
- the level of detail that is provide in reporting variances between projected and actual performance. Although any variations between projected and actual performance may be relevant within the entity, external users will generally be most interested in major variances or variances which have possible adverse consequences for the entity. The concept of materiality is relevant when deciding which variances to report. If information reported on a particular variance could affect the user's decision-making, then that variance should be reported, together with the reason for the variance.