



TE TAI ŌHANGA
THE TREASURY

Improving external performance reporting

December 2020
Treasury update

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The Treasury URL at December 2020 for this document is <https://www.treasury.govt.nz/publications/guide/improving-external-performance-reporting>

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Purpose – The Treasury wants to support agencies improve performance reporting

This document aims to support agencies to improve their performance reporting to Parliament and the public. The intended audience is staff and managers with responsibilities for external reporting, such as statements of performance expectations, annual reports and Estimates. We think that this reporting may be improved by ensuring there is performance information that reflects:

- ▶ funding and activity changes arising as a **result of COVID-19**
- ▶ a new **standard** for non-financial performance reporting coming into effect in 2022, and
- ▶ the opportunities to use **evaluation information**.

What makes good performance reporting is not static and requires a mind-set and process of continuous improvement. As situations change and agencies learn and develop, what was fit-for-purpose at one time does not always remain so. To reflect a continuous improvement approach, this guidance is based around improvement prompts, rather than a set of requirements, covering the factors listed above.

For this document, ex-ante refers to “before the event”. Public sector performance information is contained in a variety of external reporting, such as the Estimates, statements of intent and statements of performance expectations.

Context – External performance information is important

Performance information provides Parliament and the public with an understanding of how well agencies are serving the public now and how well they are set up to serve the public in the future. The way in which the Public Sector accounts for its performance is critical to maintaining the trust and confidence of the public, and should also support ongoing performance improvement.

Up front (ex-ante) information should set agencies up to be able to tell a meaningful story about what was delivered, how it was delivered, and what was achieved with the funding received.

Future updates will be frequent and follow the reporting cycle

We will review and refresh our reporting guidance at least annually. Each update will spotlight different aspects that align to the reporting cycle and timeframes. The next update will be in early 2021 and will focus on performance reporting in 2020/21 annual reports.

We want our guidance to include practitioner suggestions, approaches and examples of what works well. Please email us on performanceinfo@treasury.govt.nz with suggestions for this, or with any ideas on how our guidance could be improved

Do check legislative requirements, talk to your auditors, and consult other Treasury guidance

This document provides general advice on non-financial agency performance reporting in the **Public Finance Act 1989** (PFA) and **Crown Entities Act 2004** (CEA). Agencies should also check the specific requirements in those acts, and the more specific guidance documents available on the Treasury website.

Agencies will also need to talk to their auditors in considering changes to performance information.

Improvement prompt – How well does your ex-ante performance information reflect COVID-19 related activity and impacts?

COVID-19 has seen significant new funding and new activities for many agencies. This activity and funding *may* need to be reflected in ex-ante performance information.

We expect *material* funding in relation to COVID-19 will be reflected in agencies' ex-ante performance information to ensure meaningful reporting can be provided on what was achieved. Agencies will need to provide ex-ante performance information on those activities either started or changed in nature and scope, due to COVID-19, if these are continuing into the future period.

Information for new appropriations

Any new appropriations created for the Government's COVID-19 Response and Recovery are subject to the Supplementary Estimates process. All supporting information for an appropriation is needed for the Estimates process. The minimum requirements are:

- ▶ Intention statement – What is intended to be achieved through this appropriation.
- ▶ Performance information – How performance will be assessed for this appropriation.
- ▶ Performance reporting – Who, and in which document, is reported to the House for this appropriation (unless exempt from performance reporting).

We encourage you to start the process by engaging with the Treasury via your Vote Analyst in the first instance.

Developing performance information

In developing your ex-ante performance information for the Estimates or the Statement of Performance Expectations, departments and Crown entities will need to consider two broad questions:

- ▶ What is the level of change in funding, operations and activities in the coming year due to COVID-19? Should this be reflected in our performance information?
- ▶ What performance information should be used to report on COVID-19 related work?

Audit New Zealand has developed a series of bulletins on reporting in light of the impacts of COVID-19. The bulletins provide useful advice on answering the above questions. For non-financial information, please see [Bulletin 2: Implications of COVID-19 emergency for service performance reporting – guidance for preparers of performance information.](#)

Improvement prompt – Can you select performance information using or reflecting the new standard for non-financial performance reporting?

Background on the new standard

In 2017, the External Reporting Board (XRB) released the [Public Benefit Entity Financial Reporting Standard 48 Service Performance Reporting](#) (PBE FRS 48 or 'the standard'), a new standard for service performance reporting. The objective of the new standard is to establish principles and requirements for an entity the selection and presentation of service performance information. Under the Public Finance Act¹ and the Crown Entities Act² service performance information in annual reports must be prepared in accordance with generally accepted accounting practice, which includes the new standard.

The standard is published on the XRB website here: <https://www.xrb.govt.nz/accounting-standards/not-for-profit/pbe-frs-48/>. The XRB have also published an explanatory guide for Tier 2 not-for profit entities, which public sector agencies may also find useful and is available here: <https://www.xrb.govt.nz/accounting-standards/not-for-profit/explanatory-guide-eg-a10/>

A summary of the standard has been published by BDO (one-page overview of the key elements) which may be useful, particularly for communication purposes.³

The following table lists some of the key principles of the new standard.

Summary of Key Principles

An entity must present service performance information that is useful for accountability and decision-making purposes in the same report as the financial statements
Presentation of service performance information together with financial statements enables users to make assessments of the entity's performance.
In selecting and presenting service performance information an entity applies the qualitative characteristics (relevant, faithful representation, understandability, timeliness, comparability, and verifiability) of information and the pervasive constraints (materiality, cost-benefit and balance between the qualitative characteristics).
Application of the qualitative characteristics and appropriate balancing of the constraints on information results in service performance information that is appropriate and meaningful to users.

¹ Refer to Section 19C(3) of the Public Finance Act
<http://www.legislation.govt.nz/act/public/1989/0044/latest/DLM6184290.html>

² Refer to Section 153 of the Crown Entities Act
<http://www.legislation.govt.nz/act/public/2004/0115/latest/DLM330555.html>

³ http://www.bdo.nz/BDO_NZ/media/bdo/PBE-FRS-48.pdf

We recommend agencies start early to incorporate the new standard into their reporting

We encourage agencies to review and consider the new standard and how they will apply it.

The standard is effective for reporting periods starting **on, or after**, 1 January 2022. Departments and Crown entities will be subject to the new standard and must apply it in their annual reports covering the period from 1 July 2022 to 30 June 2023. The standard does allow for early application (some universities have already adopted the standard in their reporting for 2019⁴).

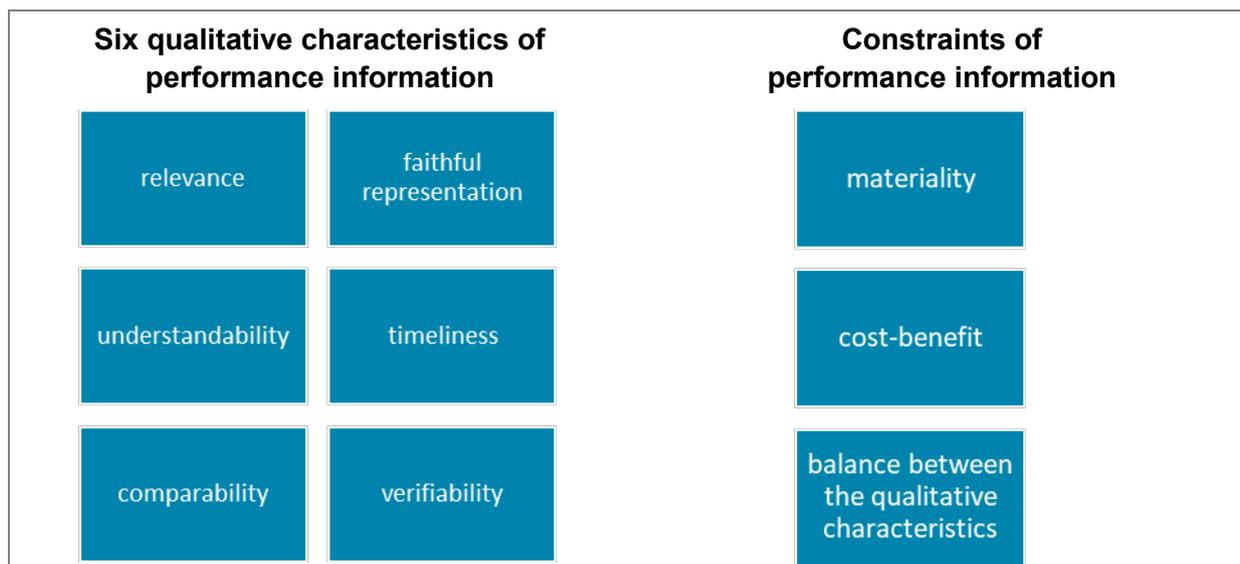
The Treasury and the Office of the Auditor-General encourage departments and Crown entities to consider early application of the new standard (either formally or informally). Early preparation and adoption will help agencies in selecting and presenting their non-financial service performance information and result in more appropriate and meaningful performance reporting to users. It will also allow enable agencies to be more considered in developing their reporting towards the new standard over a longer timeframe.

Identifying appropriate and meaningful ex-ante performance information

The PFA and CEA gives agencies significant flexibility in what performance information they provide.

The standard also describes a range of performance information that may be used (quantitative measures, qualitative measures and qualitative descriptions). Selecting information requires judgement and the standard sets out the factors to be considered. While the standard it is not compulsory until January 2022, it is a useful for helping determine what information could be used. **Section 20** of the standard states that reporting shall provide users with *“an appropriate and meaningful mix of performance measures and/or descriptions for the reporting period”*. To identify what these should be, agencies should consider the six qualitative characteristics of performance information described in the standard and appropriately balance the constraints of performance information (see below).

⁴ See the 2019 annual reports of the [University of Canterbury](#), [University of Otago](#) and [Victoria University of Wellington](#) for how they have incorporated PBE FRS 48 as early adopters.



Further information contained in the standard that may be useful:

- ▶ **Sections 9 to 10** describe the qualitative characteristics, and
- ▶ **Sections 20 to 28** describe different types of performance information and key considerations.

Considering the type of performance information that will be most relevant

The James Q. Wilson matrix of types of organisation can be a useful tool to help identify the type of performance information that is going to be most relevant. The adapted James Q. Wilson matrix below defines services based on observable outcomes and observable outputs to indicate the types of performance information that may be most useful.

Adapted James Q. Wilson matrix for types of performance information

		Observable Outcomes	
		Yes	No
Observable Outputs	Yes	Production eg, administering income support to seniors <i>[quantitative measures are likely to be useful]</i>	Procedural eg, data analytics and evidence services/policy advice <i>[a mix of quantitative and qualitative reporting may be most useful]</i>
	No	Craft eg, improving employment and social outcomes support <i>[a mix of quantitative and qualitative reporting may be most useful]</i>	Coping eg, Care and protection services <i>[qualitative information such as evaluation may be more useful]</i>

Improvement prompt – Can you start considering how your reporting may need to change to reflect the new standard?

Most of these changes relate to annual reports and we will **cover this in more depth in future updates**, however it will be beneficial to start consideration of these requirements now.

Some aspects of PBE FRS 48 will require changes to reporting

Existing legislative requirements and reporting practice mean departments and Crown entities are likely to comply with most of the particular requirements set out in the standard. However there a few key differences which will require changes relating to:

- ▶ identifying and selecting appropriate and meaningful ex-ante performance information (previously covered)
- ▶ disclosing judgements made in the selection and/or reporting of performance information
- ▶ requiring comparative performance information
- ▶ requiring consistency of reporting.

Below is our interpretation of the standard’s requirements. We recommend agencies also look at the requirements in the standard itself, which goes into more detail than we have in this guidance.

Ensuring disclosure of the judgements made in the selection and reporting of performance information

The standard states that entities shall disclose those judgements that have the most significant effect on the selection, measurement, aggregation and presentation of service performance reported.

Users need to know why, in reporting on its service performance, an entity has chosen to do something one way rather than another. These judgements are presented as part of the service performance information. A summary of the requirements to disclose judgments used is provided below, together with some things to think about.

What PBE FRS 48 requires – paragraph 44	Consider
<p>“An entity shall disclose those judgements that have <i>the most significant effect</i> on the:</p> <ul style="list-style-type: none"> • selection • measurement • aggregation, and • presentation <p>of service performance information reported <i>that are relevant to an understanding</i> of the entity’s service performance information.</p>	<p>Not all judgements have to be disclosed.</p> <p>There are two parts to this requirement.</p> <ul style="list-style-type: none"> • Identify the judgements that have the most significant effect on the service performance information reported. • Decide which judgements are relevant to a user’s understanding

Requiring comparative information

Section 37 of the Standard is about comparative information and states:

“An entity shall report comparative information in respect of the preceding period. An entity may also be required by legislation, or may elect, to report comparative information in respect of previously published prospective service performance information. An entity shall report comparative information for all amounts reported in the current period and, where relevant, for the narrative and descriptive information reported in the current period. Explanations for major variances shall be given.”

This section of the standard requires performance information for the previous period, even if this a new indicator. For qualitative or descriptive information agencies will need to consider if this will be relevant, as it may be impractical to provide this information.

The implication of this is mostly for new measures and being able to provide information for the previous period.

Further material on providing comparative information is in Sections 36 -39 of the new standard.

Requiring consistency of reporting

Section 40 of the standard highlights the importance of providing consistent performance information, and explaining the changes make and their impact. It states:

“An entity shall report service performance information consistently. If an entity changes what it reports or how it reports its service performance information, it shall explain the nature of those changes and their effect on the current period’s service performance information.”

Further information on this aspect is contained in Sections 40 to 43 of the new standard.

Improvement prompt – can evaluation be used in your performance information?

We believe making greater use of evaluation is one way agencies could improve their non-financial performance information. We recognise that planning for and using evaluation in this way requires time, resource, and planning to build this into agency operations and then to reflect this in performance reporting. This section provides improvement prompts and examples to support you to work with others in your agency to consider whether you wish to make greater use of evaluation.

Evaluation can help your agency better serve the public and understand performance

Evaluation is essentially about assessing the value, quality or effect of your activities and programmes.⁵ Evaluation of government policies and programmes is critical to the efficiency and effectiveness of public policy and for accountability.⁶ It can help agencies assess expenditure and programme performance against all aspects of implementation, delivery, and outcomes.

Agencies can deploy different types of evaluation such as process, outcomes, or impact evaluation, and at different stages through developmental, formative, and summative evaluation.⁷ Evaluation goes beyond monitoring because it also applies assessment and critical thinking to monitoring and other data.

We want agencies to use evaluation more and be transparent about its use in their operations. This is because agencies have been appropriated public funding from Parliament and need to demonstrate what they are achieving with it. We expect agencies to consider how best to build evaluation into programme design, implementation, and budgets – particularly when new programmes and activities begin. We also expect this to be reflected in agencies' performance reporting where appropriate, as discussed further below.

⁵ There are several different definitions of evaluation. For example, the United Kingdom (UK) Treasury Magenta Book Guidance for Evaluation says:

“Evaluation examines the actual implementation and impacts of a policy to assess whether the anticipated effects, costs and benefits were in fact realised. Evaluation findings can identify ‘what works’, where problems arise, highlight good practice, identify unintended consequences or unanticipated results and demonstrate value for money, and hence can be fed back into the appraisal process to improve future decision-making.

⁶ Evaluation in the Australian Public Service: current state of play, some issues and future directions, Australia New Zealand School of Government research paper, Gray and Bray, 2019.

⁷ Helpful starting places include:

- [‘Making sense of evaluation: A handbook for everyone’](#) by the Social Policy Evaluation and Research Group
- [‘Getting your organisation ready to do evaluations’](#) guide on the Social Wellbeing Agency hub
- [‘What Works’ website by Community Research](#)
- [‘Rainbow Framework’](#) and the [Evaluation Capacity Development Group Toolkit](#) by Better Evaluation
- [‘Guidance Note on Best Practice Monitoring, Evaluation and Review’](#) by the Treasury.

Evaluation can make your performance reporting more appropriate and meaningful

Evaluation can form part of the appropriate and meaningful mix of your agency's non-financial performance information. Alongside other qualitative measures and information, it can:

- ▶ support the public and Parliament to understand what changes occur or not occur due to new or existing programmes
- ▶ broaden performance indicators beyond numerical targets and binary 'Achieved/Not Achieved' indicators, in a way that meets the new requirements of the standard
- ▶ provide more context for identified trends in performance
- ▶ enhance 'how your agency assesses performance' in year-end reporting like annual reports and statements of performance expectations.

PBE FRS 48's introduction and PFA's existing flexible requirements are an opportunity to increase your agency's use of evaluation and improve performance reporting

Below are five suggestions to help agencies start the journey of incorporating evaluation more into performance reporting.

- 1 **Understand** what your agency currently does in evaluation and who is involved with evaluation inside your agency. Making greater use of evaluation means your agency may need to strengthen their:
 - ▶ current or potential evaluation capability
 - ▶ links or connections to academia and evaluators
 - ▶ ability to gather or generate good qualitative and quantitative information and data, and
 - ▶ capacity to analyse this information and data to create knowledge and evidence.
- 2 **Report** on your agency's current and future use of evaluation. We encourage agencies to share how they plan to use evaluation in how they plan and make decisions. Recent Strategic Intentions by departments have started disclosing how they plan to use evaluation in their ongoing operations.⁸

⁸ Recent examples include:

- Sports New Zealand seeking to address urgent business needs like evaluation as part of optimising organisational capability and performance, and continuing to use evaluation as part of their Strategic Reporting Framework and wider impact measurement
- Ministry for Social Development stating the critical importance of evaluation for making evidence-based policy decisions and understanding what services work and for whom
- Ministry for the Environment establishing evaluation hubs and building up their own evaluation capability
- Ministry of Foreign Affairs establishing an evaluation function to look at organisational delivery of results and value, and
- Ministry of Transport coordinating its Evaluation Strategy with other related planning documents and projects.

- 3 **Publish** evaluations and case studies on agency websites and provide hyperlinks to published evaluations in their performance reports. For example, the Ministry of Social Development and Ministry of Business Innovation and Employment reference a number of evaluation reports in their Annual Reports and publish some of their evaluation reports on their websites.
- 4 **Disclose judgements** about when you have used evaluation as part of your agency's **performance** information, as per paragraph 48 of the standard. Your judgements may depend on factors like:
 - ▶ The nature of the programmes such as the types of services or area it is addressing – see the James Q Wilson matrix earlier in this document. Evaluation could be more applicable for programmes with less observable outputs.
 - ▶ The type of changes you aim to see – current and observable problems are easier to measure changes in, compared to preventative, one-off or less tangible changes.
 - ▶ The time period you are assessing performance over – we encourage agencies to be open that it may take more than a year for programmes' impacts to be realised and be able to be evaluated.
- 5 **Work with** auditors early to develop appropriate indicators in your Annual Reports and Estimates that can draw on evaluation.

Example of evaluation in performance reporting – The Productivity Commission

The Productivity Commission is a useful example of how evaluation is reflected and used in performance reporting. You could consider how some of what they do could be applied to some of the initiatives and programmes you report on. The James Q. Wilson matrix earlier in this guidance indicates where qualitative information would be useful to help understand performance.

The Commission regularly uses evaluation in assessing their performance against their outcomes framework.⁹ They use evaluation in some of their output indicators. They do this because their diverse and qualitative work is not easily captured in fixed quantitative targets, and the impact of what they do may take more than a year to come about.

They use a range of methods – independent expert peer reviews, participant and stakeholders surveys, focus group insights, and other monitoring. They also regularly publish their evaluation results online.

⁹ See pages 11-13 of the Commission's [2020-24 Statement of Intent](#) and pages 4, 8-10, and 14 of their [2020-21 Statement of Performance Expectations](#)

Appendix One – networks and agencies to find other resources and tools to improve your performance reporting

The following provides some useful links to other websites and resources

Office of the Auditor General

The Controller and Auditor-General is an Officer of Parliament. The work of the OAG gives Parliament, public organisations, and the public independent assurance that public organisations are operating, and accounting for their performance, in keeping with Parliament's intentions.

The OAG has a strong interest in improving the performance reporting by departments and Crown entities and publishes advice and reports. In 2019 the OAG released a report on Public Accountability¹⁰ and a follow-up report is planned for release in 2021.

<https://oag.parliament.nz/>

Audit New Zealand

Audit New Zealand carries out annual audits of hundreds of public entities on the Auditor-General's behalf to give taxpayers and ratepayers assurance that public entities are appropriately reporting on how they spend public money and on the services they have provided.

Audit New Zealand has previously provided advice on public sector performance reporting.

<https://auditnz.parliament.nz/good-practice/public-sector-reporting>

Planning and Performance Network (PPN)

The network aims to keep its members engaged and informed, with a focus on collaboration to develop good practice and share knowledge, skills and information in the areas of organisational strategy and planning development and performance management. The network is run by a committee of volunteers. Further information on the PPN, including contact details for joining, is available on their community page on the Public Sector Intranet (PSI).

<https://www.psi.govt.nz/home/communities/planning-and-performance-network/>

¹⁰ <https://oag.parliament.nz/2019/public-accountability>

Te Kawa Mataaho Public Service Commission

The role of Te Kawa Mataaho Public Service Commission is to provide leadership and oversight of the public service and ensure the purpose of the Public Service Act is carried out.

The Public Service Commissioner is the Head of Service and provides leadership of the Public Service, including the performance and integrity of the system.

<https://www.publicservice.govt.nz/>