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Dear AASB Team

The Council of Rural Research and Development Corporations appreciates the opportunity to comment on the AASB's Exposure Draft 270, *Reporting Service Performance Information* (the "ED").

1.0 BACKGROUND - COUNCIL OF RURAL RESEARCH AND DEVELOPMENT CORPORATIONS

The Council represents the 15 RDC's operating across the agriculture, fishery and forestry industries in Australia. The objectives of RDC's are to bring industry and researchers together to establish research and development strategic directions and to fund projects that provide industry with the innovation and productivity tools to compete in global markets.

The RDC model is funded jointly by industry and government, therefore, the end users of the service performance reporting are limited to an extent, and are generally in a position to demand reports tailored to meet their particular information needs.

Five of the RDCs are Federal statutory authorities that are covered by whole-of-government accounting and reporting rules and procedures. On this basis they are already providing reports that provide reports that largely comply with the proposed ED270, and any response from these agencies will be provided through government structures. The remaining 10 RDCs are industry-owned, not-for-profit companies. The industry-owned RDCs include information in their annual reports to meet the specific needs and requirements of their members.

This submission relates specifically to the industry-owned RDCs, to the explicit exclusion of the five statutory authorities.

2.0 SUMMARY OF CRRDC MEMBER CONCERNS

The view expressed by members is that the significant costs that will be incurred in producing an annual reporting document that meets the standardised reporting requirements proposed in the ED will far outweigh any benefits that will be generated. RDC's believe that the performance information desired and required by stakeholders is currently reported in a format that is structured to the activities they are engaged in. A requirement to follow specific guidance as proposed by the standard will potentially result in additional costs to provide information in the annual report that is not required by its users and potentially detracts from the information that is relevant to the users.

3.0 PROCESS FOR OBTAINING MEMBER FEEDBACK

The Council commissioned a survey of our members in order to collect feedback and comments on specific elements of the ED.

3.1 Summary of comments on the ED

In summary, RDC's are against the proposed mandatory application of the ED for not-for-profit entities because:

1. the application is not practical;
2. the cost of the application will be excessive;
3. the application overlooks the fact that the service performance reporting is market driven, and stakeholders of not-for-profit entities have strong power to demand specific information and drive both financial and non-financial information disclosure in the annual report; and
4. the application of the ED does not meet its intended objective which is to increase transparency of service performance to end users.

4.0 THE APPLICATION IS NOT PRACTICAL

4.1 One size fits all

The ED does not provide a framework that would result in consistency or comparability in measures or assessment of service performance. It is "one (standard) size" fits all. All not-for-profit entities have been treated as homogenous. For example, a medical research organisation is very different to a "meals for the homeless" organisation. They may both be not-for-profit but they are in different sectors and have very different business cycles and methods of operating. A workable framework would need to recognise and cater for differences between different sectors in its guidelines.

4.2 Outcome reporting not practical

The ED requires entities to report on the outcomes as one of the performance indicators of the achievement of the service performance. However, a number of RDCs collaborate, making it difficult to attribute outcomes. There's a risk of double counting, as it may result in multiple organisations claiming credit for the same outcome. The ED also claims that there should be a strong, direct causal link between an entity's actions and its outcomes. When outcomes are expressed in the terms of impact on society, the outcomes are rarely attributable to a single organisation's efforts.

In addition, not all entities can identify outcomes for the activities carried out. For example, in scientific research, there are often no outcomes or outputs in the research and development phase, as the purpose of the research is to gain new knowledge.

4.3 Period of project span

Many projects are run over many years, choosing an arbitrary time period (like a financial year) over which to measure performance will not work. The time period should be chosen to reflect the period over which the benefits will be realised. The ED claims that information should be provided annually, but there are occasions when the returns are not immediate so reporting over a longer period is more appropriate. RDC's have long period strategic plans with numerous projects and programs operated towards the achievement of common objectives. They do not complete on a neat annual cycle, and for much of that time, the outputs and outcomes are negligible until the final performance evaluation is conducted after the completion of the strategic cycle.

4.4 Cross referencing between financial information and performance information

The relationship between financial information and performance information is not always direct. Requiring the two to be reported together implies an obligation to reconcile the two different reports and the relationship between financial information and performance information is not always directly consequential. The reconciliation might be complex leading to misunderstanding. For example, in agricultural research projects are delivered over many years. The projects will have milestones along the way but the output of the project may not be assessable until completion. In the case of developing a new variety of sugar cane, this is a 12-year process. The output (the new variety) occurs in year 12, but the cost of this output will be in years 1 to 12.

A reconciliation of the year 1 to 12 cost of output to the year 12 total cost per financial statement would be very time consuming for the organisation and would not provide meaningful information to the user. Therefore, it would be difficult to do and there would be little or no benefit in doing so.

5.0 THE COST OF THE APPLICATION IS EXCESSIVE

The ED adds significant cost to the reporting process, as the entity must consider and include all aspects of the performance information. This may prove excessive, particularly when entities have more than 20 projects at any one time and the measures of performance are not immediately available. The inclusion of the requirements in an accounting standard is likely to result in a significant increase in audit costs.

Not-for-profit entities operate under tight budgets and are continually challenged on how much is spent on corporate overheads. While the government is in the process of trying to address and reduce regulatory burden to ensure funds are directed to projects and research that benefit the economy the ED imposes additional regulatory burden which appears to conflict with the government's aim.

6.0 THE APPLICATION OVERLOOKS THE MARKET FORCES THAT DRIVE PERFORMANCE REPORTING

The ED overlooks the fact that the main users of many not-for-profit entities' reports are the government bodies that provide these entities with funding. Therefore the funding body has the power to influence reporting contents and obtain the information relevant to its needs by specific requests. The principles of service performance reporting are already being imposed by stakeholders and the market.

All RDCs are subject to funding agreements with the Commonwealth through the lead portfolio agency, the Department of Agriculture and Water Resources. Through this mechanism the government is able to impose specific funding and reporting conditions, such as those required for compliance with the *Public Governance, Performance and Accountability (PGPA) Act 2013*. This Act requires the reporting entity to report on how the activities of the company will contribute to achieving the Australian Government's key priorities and objectives. There are also similar regulatory reporting requirements set out in PGPA 2014 and PGPA 2015. These reporting principles are already in line with the ED, and RDCs are already reporting service performance under various shareholder agreements and for regulatory compliance.

Market forces and stakeholders' expectations drive the reporting, and the reporting contents are tailored to users upon specific request. Applying additional "one size fits all" mandatory reporting requirements are unnecessary.

7.0 THE ED DOES NOT MEET ITS INTENDED OBJECTIVE WHICH IS TO INCREASE TRANSPARENCY OF SERVICE PERFORMANCE TO THE END USERS

RDC's also argue that performance indicators are subjective and can be misleading. The potential exists that businesses may report what appears effective by setting themselves low estimates of service performance and objectives that are easily achieved. In such instances the service performance report presents as high achievement, however the actual results and outcomes if targets had been more appropriately established may be considered to be substandard. The ED also encourages the entity to tell its own service performance "story".

The inherent subjectiveness of the "story" may see it used as a "marketing" document rather than documenting the service performance of the entity.

8.0 RESPONSE TO MATTERS RAISED BY AASB FOR COMMENT IN ED270

The appendix to this letter contains the RDCs' response to the matters raised in the ED requesting specific comment.

9.0 CONCLUSION

In conclusion whilst RDC's accept that ED270 provides a framework that may be used to provide guidance to entities as they seek to consider and establish appropriate levels of performance reporting of their activities, as a group RDC's do not agree with the proposed mandatory nature of the document.

RDC's contend that reporting of service performance information is regulated already by the market. In many cases entities have included in their funding agreements requirements to provide specific reporting on their performance.

In summary RDC's argue:

- One size fits all applicability will not work for all organisations
- Outcome reporting will be problematic when a number of entities engage in a project
- The life cycle of projects does not link with the structured annual financial reporting cycle
- There is not always a clear link between financial information and performance information.

RDC's do not believe the AASB should seek to establish mandatory reporting requirements for all not for profit entities. It may be that in specific circumstances regulators or funding bodies require reporting for particular entities and may in such circumstances determine that ED270 be mandated for use. Such an approach ensures that funding bodies and members continue to control reporting that meets individual user and entity requirements

If you have any questions regarding this submission or would like to discuss these issues further, please contact the Council of Rural RDCs Secretariat on 02 6270 8875 or by email to secretariat@crrdc.com.au.

Yours faithfully

Tim Lester
Operations Manager

ATTACHMENT A

SPECIFIC MATTERS FOR COMMENT

The ED indicates that the AASB would particularly value comments on the following:

Q1. Paragraph 20 proposed the principles for reporting service performance information. These principles state that an entity reports services 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?

Comments

Whilst in principle there is an agreement that the reporting of service performance information is an important element of reporting there are concerns that the establishment of an obligatory standard will not in all circumstances be appropriate. The standard should be in the form of a guidance statement. In some instances specific criteria are set by funding bodies and these can be adopted and may represent a much simpler form of report.

Q2. 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?

Comments

Private sector entities are privately funded and their existence will be immediately impacted by their investors/stakeholders choosing to re-direct their investment if the entity does not perform and communicate with their audience. On the other hand, public entities are funded by taxpayers or levy payers and have a much larger stakeholder group. Individual dissatisfaction will not impact the existence of the publically funded NFP and there is the public interest for accountability and transparency however it is noted that Government set out regulations and specific reporting requirements for the public sector entities; therefore the ED is duplicating and potentially increasing the reporting requirements that are already in place.

Q3. 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?

Comments

The extension of the standard to for profit entities should only be as guidance, not mandatory, as market forces and stakeholder expectations are already driving the reporting. It is in the interest of for-profit entities, especially disclosing entities, to provide shareholders with performance accountability or risk declining share value.

Q4. 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 ED 270 12 PREFACE reported, particularly if a controlled entity was not required to apply this [draft] 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?

Comments

Concerns exist that in a consolidated entity there may be significant complications to the creation of measures relative to the reported objectives at each level of a group.

Q5. This [draft] Standard proposes 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?

Comments

There is a concern that application on an entity basis may be difficult when entities collaborate on projects with a number of other organisations, making it difficult to attribute outcomes. There may be a risk of multiple organisations claiming credit for the same outcome.

Clarity should be provided to ensure that additional audit costs are not imposed on organisations due to the inclusion if the ED under the Australian Accounting Standards. The proposed standard will result in a significant impact on audit costs on not for profits/charities as well as the costs that arise from identifying and reporting the relevant performance information.

Q6. 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?

Comments

Our members believe that the performance information should be required to be included with the financial report however there should remain the ability for organisations to have a certain level of flexibility in regards to the format and location within the annual report of such information.

Q7. 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?

Comments

Providing the ability to report performance reporting on a different time period is likely to be confusing and seems to suggest the financial and performance reporting are not linked.

Q8. 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?

Comments

No issues.

Do you agree with these defined terms? Why or why not?

Comments

No issues

Are there additional terms that should be defined in Appendix A to assist application of the [draft] Standard?

Summary of responses:

Attempt should be made at defining "cost of output". If it takes five years to create an output and the output is delivered externally in year 5, what is the cost of output in years 1, 2, 3, 4 and 5?

Q9. 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?

Comments

The standard should be converted to a guidance statement, it should not be mandatory. Organisations should be accountable to their own stake/share holders and that there isn't a need for this to be made mandatory. Many NFP entities, particularly those reporting to the Australian Government, have service agreements that already have strict reporting and compliance requirements; there is no need to have an additional layer of reporting imposed.

Q10. 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?

Comments

RDC's do not believe the standard should become a specific obligation for not-for-profit entities to comply with.

GENERAL MATTERS FOR COMMENT

Q11. Whether:

(a) there are any regulatory 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?

Comments

RDC's do not consider the mandatory standard to be an appropriate addition to reporting requirements.

Q12. Unless already provided in response to the matters for comment 1-10 above, the costs and benefits of the proposals relative to the current Australian Accounting Standards, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

Comments

The potential impacts include additional audit costs, additional staff or working hours to collect and present the information in the layout required, additional editing and layout costs – graphic designs, increased printing costs due to increased number of pages. All of the above result in significant incremental effort and cost being required to comply.