



Project:	Service Performance Reporting	Meeting	June 2024 (M205)
Topic:	A working definition of 'service'	Agenda Item:	3.1
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Contact(s):	Robert Keys rkeys@asb.gov.au Fridrich Housa fhousa@asb.gov.au	Project Priority:	Medium
		Decision-Making:	Medium
		Project Status:	Decide on a working definition of 'service'

OVERVIEW OF PAPER

Objective

1. The objective of this agenda item is for the Board to **decide** on a suitable working definition of 'service' to help maintain clarity of the scope and direction of the project as it progresses.

Background

2. Paragraph 5 of the Board's not-for-profit (NFP) Service Performance Reporting (SPR) [Project Plan](#) states that the aim of the project is to "... improve the quality of SPR ... as input to ... users' decisions relating to NFPs." The focus of the Project Plan's first key milestone, and therefore this paper, is to develop a working definition of 'service' as that term is used in the phrase 'service performance reporting'.¹
3. Developing a working definition of 'service' does not imply that a formal definition would need to be included in any SPR pronouncement that might be developed. The question of whether a pronouncement should include a definition of 'service' is beyond the scope of this paper – it is not scheduled to be addressed until later in the project (see paragraph 52 below).
4. However, although beyond the scope of this paper, given the diversity of NFPs and the varied contexts in which they operate, this paper acknowledges that the inclusion of a formal definition of 'service' in a SPR pronouncement could risk limiting an NFP's ability to report in ways that reflect its unique 'service' objectives. In that regard, it is notable that the approach taken in [NZ PBE FRS 48 Service Performance Reporting](#) is to emphasise the overarching principles of SPR that can be adapted to a spectrum of activities and outcomes, rather than confining the pronouncement to a rigid definition of 'service'. However, in the Australian context, it is notable that the Board received some feedback on its proposals in Exposure Draft [ED 291 Not-for-Profit Entity Definition and Guidance](#) that clarification of terms such as 'goods and services' is important. Furthermore, although in the context of [AASB 1059 Service Concession Arrangements: Grantors](#) the Board considered and decided not to include a formal definition of 'public service' in the Standard, the proposed definition was useful in focusing the

¹ By way of further background, paragraphs 42 to 49 of the Board's May 2023 [Agenda Paper 4.2](#) (which was a precursor to the Project Plan) raised as Issue G the notion of 'service' and discussed the merits of focusing the scope of the project on 'service' performance or expanding the scope to include other aspects of NFPs' performance.

project and, ultimately, developing the Standard, which includes guidance on ‘public service’ (see paragraph BC18 in AASB 1059). The expectation is that a working definition of ‘service’ will similarly assist the Board in progressing the SPR project.

5. It is anticipated that a working definition of ‘service’ will help the Board by:
 - (a) ensuring a common understanding among Board members and stakeholders of the scope of the project;² and
 - (b) clarifying the relationship/demarcation between:
 - (i) service performance and other aspects of a NFP’s performance;³ and
 - (ii) the SPR project and other AASB projects that address aspects of or are related to NFP performance reporting.⁴

The AASB’s NFP Project Advisory Panel was provided with an opportunity to comment on an early working draft of this paper. Panel members’ comments have been reflected in this final draft of the paper. Feedback received from the panel members on the draft paper and on other agenda items addressed at the Advisory Panel meeting on 10 May 2024 were summarised in agenda paper 3.5 of the 6-7 June Board meeting.

Summary of staff recommendations and structure of paper

6. Overall, this paper recommends the following working definition of ‘service’ is adopted for the purpose of the SPR project:

goods or services provided directly by an NFP, or funded by the NFP but provided directly by another entity, to recipients (other than the NFP itself) in pursuit of the NFP’s objectives.

In arriving at this recommendation, the paper is structured as follows:

- (a) A working definition of ‘service’ based on existing SPR-related frameworks’ notions of service (paragraphs 7 to 37):
 - (i) The elements of a working definition of ‘service’ (paragraphs 7 to 16);

2 Agreement on the scope of the project at the outset is expected to help determine the direction of the project and thereby help mitigate the risk of project inefficiencies and the need for re-work as the project progresses.

3 Although the focus of this paper is on a working definition of ‘service’ rather than ‘service performance’, the two notions are inextricably linked. In particular, a working definition of ‘service’ is expected to help clarify the meaning of ‘service performance’ and therefore the type of information that would be characterised as ‘service performance information’. In places, this paper draws on the relationship between the two notions, but resists speculating about what metrics or other information about inputs, activities, outputs, outcomes and impacts would fall within the scope of ‘service performance reporting’. Those issues will be considered later in the project, as well as assurance implications. The aim of this paper is to develop a working definition of ‘service’ without speculating on what is to be reported on. However, where relevant, this paper acknowledges and briefly addresses anticipated stakeholder concerns about what the implications of a definition of ‘service’ might mean for disclosures.

4 In relation to paragraph 5(b)(ii), the SPR Project Plan acknowledges that projects such as Sustainability Reporting and Management Commentary focus on aspects of an entity’s performance that, depending on the scope of those projects, might partially or conceivably fully but not solely encompass SPR. At a minimum, there are relationships between the projects that need to be understood to ensure consistency in Board decisions across projects. This paper does not come to any conclusions on those relationships because to do so would require definitions of the scopes of ‘sustainability reporting’ and ‘management commentary’, which are the subject of ongoing work as part of those projects. A working definition of ‘service’ is expected to help in planned future Board deliberations of the relationship between the SPR project and other projects (identified as key milestones 3 and 8 in the SPR Project Plan).

- (ii) Suitable terminology for a working definition of ‘service’ (paragraphs 17 to 33); and
 - (iii) A staff recommended working definition of ‘service’ (paragraph 34);
- (b) The relationship of ‘service’ to other aspects of an NFP’s performance (paragraphs 38 to 48):
 - (i) The relationship between service performance and non-financial performance (paragraphs 41 to 46); and
 - (ii) The relationship between service performance and financial performance (paragraphs 47 and 48);
- (c) Overall assessment (paragraph 49);
- (d) Next steps (paragraph 50 to 52);
- (e) Update on other aspects of the Project (paragraph 53); and
- (f) Appendix A: Definitions/descriptions of ‘service’ adopted in existing frameworks.

A working definition of ‘service’ based on existing SPR-related frameworks’ notions of service

7. Appendix A of this paper indicates the extent to which selected existing frameworks define ‘service’ in the context of service performance or similar reporting. Those frameworks provide precedents that have informed the discussion in this paper.
8. This section of the paper first distils from Appendix A the key elements that could be included in a working definition of ‘service’. It then considers the terminology that could best capture the essence of those elements in an Australian context, before concluding with a staff suggested working definition of ‘service’.

The elements of a working definition of ‘service’

9. Summarising Appendix A, none of the selected frameworks provide a formal definition of ‘service’. However, within their contexts, their implicit notions of ‘service’ become evident. In particular, their notions appear to comprise four key elements: (1) **goods or services** (2) **provided** (3) to **recipients** (4) in pursuit of **objectives**.
10. All four elements are implicit or explicit in all of the frameworks considered in Appendix A. However, in relation to ‘provided’, only the NZ Standard (in paragraphs 18(d) and 19(c)) explicitly addresses the circumstance where “an entity makes grants to other entities to be used by those entities in delivering goods and services” and that granting entity reports on both its funding activities and on “the goods and services provided by those other entities” (paragraph 19(c)). Accordingly, the following subsection considers the appropriateness of the ‘provided’ element capturing that circumstance.

'Service' provided by another entity

11. It is anticipated that some stakeholders would disagree with the 'provided' element capturing the goods and services of another entity in the way contemplated in paragraph 10 immediately above. In particular, some stakeholders might object on:
- (a) conceptual grounds, if they have a view that the inclusion inappropriately implies that the NFP has a level of responsibility for the service performance given the absence of the NFP's ability to control that performance.⁵ However, a counter argument is that although the fundraising NFP does not directly control the service performance of the service provider, the fundraising NFP might have some discretion as to whether it provides funding to that service provider or another better performing service provider. The NZ Standard addresses this issue by not necessarily requiring disclosure about the goods or services. Paragraph 19(c) of the NZ Standard states "If an entity makes grants to other entities to be used by those entities in delivering goods and services, the entity needs to exercise judgement in deciding whether to report solely on its funding activities [*i.e., its direct service*] or to include information about the goods and services provided by those other entities" (italicised text added). The judgement might be based on a NFP's assessment of its ultimate level of responsibility and control over performance;
 - (b) cost/benefit grounds, if information about goods or services provided directly by another entity is to be disclosed. However, although as noted in the footnote to paragraph 5(b)(i)(ii) above that the consequences of a definition of 'service' for the information that would need to be disclosed is beyond the scope of this paper, it is notable that the inclusion of an element does not necessarily mean that information about it would need to be disclosed; and
 - (c) the implications for assurance grounds. This possible objection is merely noted here as it is scheduled to be addressed as part of the Project Plan's key milestone 7 "Assess the relationship of service performance information to GPFS/GPFR and assurance".
12. In pursuing their own service objectives, the entire model of some NFPs is based on raising funds for the purpose of directly funding the activities of other entities that provide goods and services directly to recipients. In those cases, reporting by the fundraising NFP about the goods and services provided by funded entities would be particularly relevant. Accordingly, on balance, consistent with the Board's decision reflected in the SPR Project Plan of adopting the NZ Standard as the primary point of reference, this paper proceeds on the basis that goods and services provided by another entity in the circumstances contemplated in paragraph 19(c) of the NZ Standard should be captured by the 'provided' element of the working definition of

5 Similar considerations arise in the context of sustainability reporting (in relation to what is referred to as direct and indirect emissions and what reporting on them means for the boundaries of a sustainability reporting entity and the entity's sustainability reports), for example as noted in Bayne, L. (2022) "Understanding reporting boundaries in annual reports: a conceptual framework", *Accounting, Auditing & Accountability Journal*, Vol. 35 No. 5, pp. 1316-1348. <https://doi.org/10.1108/AAAJ-01-2020-4387>. Furthermore, the breadth of sustainability-related financial disclosure requirements was considered by the International Sustainability Standards Board (ISSB) in [staff paper 3B](#) of its October 2022 meeting, which noted in paragraph 100 that, as part of general purpose financial reporting, companies already produce management commentary that provides insights into factors that have affected the entity's performance and financial position and factors that could affect the entity's ability to create value and generate cash flows in the future. These factors span across the value chain including the activities of diverse subsidiaries and dependencies. The issue will also be revisited in the context of SPR as part of the SPR Project Plan's key milestone 7 "Assess the relationship of service performance information to GPFS/GPFR and assurance".

'service'. Paragraphs 22 and 23 below consider how best to articulate the 'provided' element to ensure it appropriately captures those NZ paragraph 19(c) and other circumstances.

Question for Board members

Q1. Do members agree that the key elements of a working definition of 'service' should include: goods or services; recipients, provided (including by another entity, in the circumstances described in paragraph 10), and objectives? If not, why not?

'Inputs' as a fifth element

13. An additional element that could be contemplated for inclusion in the working definition of 'service' is '**inputs**'. This is because inputs are a prerequisite to the goods and services provided to recipients and therefore some stakeholders might regard 'inputs' as an essential element. However, whilst acknowledging the relevance and relationship of inputs to service, none of the frameworks considered in Appendix A include it as an element in their explanations of 'service'. To understand why, it is informative to consider what the frameworks regard as the focus of SPR.
14. The SPR related frameworks in Appendix A address an NFP's performance in providing goods or services from inputs⁶ (e.g., funds and volunteers). However, even though the Productivity Commission's Report on Government Services (RoGS) explicitly depicts 'service' as comprising inputs, processes and outputs (see the diagram in paragraph 14 of Appendix A below), RoGS and the other frameworks do not regard inputs performance (e.g., fundraising performance or performance in attracting volunteers) as part of service performance per se.
15. It is notable that, even if the working definition of 'service' excludes 'inputs', it would not preclude information about inputs performance from being disclosed in its own right or as contextual information to any service performance information that might be disclosed. Inputs performance disclosed in its own right could be cross-referenced or otherwise linked to service performance reports or other relevant performance reports. That possibility is briefly discussed further in paragraphs 38 to 48 below, which consider the relationship of 'service' to some other aspects of a NFP that could be the subject of performance reporting.
16. On balance, consistent with the precedent set by relevant frameworks, this paper proceeds on the basis that 'inputs' should not be included as an element of the working definition of 'service' and therefore 'inputs performance' is not an element of 'service performance' (although it is an aspect of performance).

6 The NZ Standard refers to resources rather than inputs.

Questions for Board members

Q2. Do members agree that ‘inputs’ to the goods and services provided to recipients should not be included as an element of a working definition of ‘service’? If not, why not?

Q3. Are there any other elements of the working definition that should be included?

Suitable terminology for a working definition of ‘service’

17. General terms to depict the elements labelled above as ‘goods or services’, ‘provided’, ‘recipients’ and ‘objectives’ are to be expected. This is because the nature of the goods or services provided by a NFP, the manner in which they are provided, the recipients, and the objectives being pursued by the NFP are likely to be specific to that NFP. It would not be possible, appropriate nor necessary to provide an exhaustive list of all conceivable types of goods and services, all manners of delivery, all types of recipients, or all types of objectives in a definition, although accompanying examples could be provided.
18. However, the question remains as to what terminology would be the most appropriate for each element in the Australian context. This is because any attempt to develop a generally acceptable working definition of ‘service’ inevitably encounters difficulties in deciding which terms best capture the intended underlying concepts. Because this paper (and project) accepts that ‘service’ is the appropriate overarching term to reflect the intended underlying concept,⁷ it is necessary to rely on the terms in the working definition to capture the essence of that concept.
19. This subsection considers issues related to choosing the most appropriate terminology for each of the elements.

The ‘goods and services’ element

20. Matters to consider if the term ‘goods or services’ rather than another potentially more suitable term were to be adopted in the definition of ‘service’ include:
 - (a) the confusion that could arise from using the word ‘services’ as one component of ‘service’. However, the usage of both terms together does not appear to have created insurmountable problems in other frameworks and contexts; and
 - (b) that some NFPs (e.g., faith-based NFPs, policy advocacy NFPs) might conclude that they do not provide what they regard as ‘goods or services’ in pursuit of their service objectives, but rather they provide something more intangible that is not quantifiable. Consideration could be given to addressing this issue by:

⁷ Some might argue that the project should be renamed to, for example, ‘Impact Reporting’. However, retaining the title ‘Service Performance Reporting’ is consistent with the Project Plan. Furthermore, staff prefer the generic term ‘service’ as it does not pre-empt the type of service performance information that might or might not be disclosed in a service performance report. Although some informal feedback from some NZ stakeholders questions whether the NZ Standard provides sufficient information on measuring impacts, as noted in footnote 22 of the AASB May 2023 [agenda paper 4.3](#): “As reflected in the discussion in paragraphs BC23 to BC30 of the Basis for Conclusions accompanying NZ PBE FRS 48, the NZ Accounting Standards Board (NZASB) moved away from the proposal to require reporting on impacts. This was due to several reasons, including inconsistent use of the term and difficulties in attributing observed changes to a specific entity. While users may use information in a Statement of Service Performance to assess impact, providing that information is not an objective of PBE FRS 48.”

- (i) replacing the term ‘goods or services’ with the more generic but arguably more technical term of ‘outputs’, or even ‘outcomes’. However:
 - (1) there might be concern that adopting either of those terms at this stage of the project would pre-empt the type of service performance information that is to be disclosed;⁸
 - (2) the terms would be viewed unfavourably by some stakeholders if the terms are interpreted as placing too much emphasis on measurement.⁹ Also, staff have received feedback from an NFP PAP member that ‘impact’ and ‘outcome’ terminology is not broadly used, adequately monitored or consistently applied across NFPs, and
 - (3) there is precedent for moving away from such terms. In particular, NZASB removed references to ‘outputs’ and ‘outcomes’ from the May 2023 version of [Tier 3 \(NFP\) Standard Reporting Requirements for Tier 3 Not-for-Profit Entities](#), and thereby aligned the Tier 3 Standard with NZ PBE FRS 48, which is applicable to Tier 1 and Tier 2 public benefit entities. Similarly, the NZASB removed references to ‘outputs’ and ‘outcomes’ from Tier 4 Standards;
- (ii) replacing the term ‘goods or services’ with the term ‘activities’, as suggested by a stakeholder in relation to faith-based NFPs (noted in paragraph 34(a) of Appendix A below). It is notable that the Standard on Assurance Engagements [ASAE 3500 Performance Engagements](#) issued by the Australian Auditing and Assurance Board (AUASB) uses (and defines) the term ‘activity’ rather than ‘service’.¹⁰ However, the term ‘activities’ would not readily address the ‘indirect’ provision of goods or services in circumstances where for example a fundraising NFP passes funds on to another entity that uses the funds to provide goods or services. In the fundraising NFP’s case, although it is indirectly providing the goods or services, a definition of ‘service’ that uses the term ‘activities’ rather than ‘goods or services’ would not readily capture the NFP’s performance in indirectly providing goods or services (see the discussion above in paragraphs 11 and 12); and
- (iii) providing an accompanying explanation of ‘goods or services’ that refers to their broad nature that includes things that are of a highly intangible nature that may not be quantifiable. This approach would be consistent with the way in which NZ and IPSASB RPG3 provide examples of different types of ‘goods or services’.

21. On balance, consistent with the more commonly used terminology in the related frameworks and an expectation that the term is generally understood in the Australian context, this paper proceeds on the basis that the phrase ‘goods or services’ with, if considered necessary,

8 Despite that concern, arguably adoption of the term ‘outputs’ or ‘outcomes’ in the definition of ‘service’ would not necessarily preclude the reporting of information about inputs, activities, outputs, outcomes or impacts as part of service performance reporting. Consistent with the comment made in the footnote to paragraph 5(b)(i) above, the staff recommended working definition of ‘service’ in this paper is to help define the scope of the project, not the scope of the types of information that might be disclosed – that question is scheduled to be considered later in the project.

9 The question of measurement is an unresolved matter to be addressed later in the project.

10 Paragraph 16(a) of ASAE 3500 defines ‘Activity’ as “a government or private sector provision of products or services, system, operation, function or programme which may be conducted within a single entity or across multiple entities, departments, agencies, joint ventures or other organisations within a single jurisdiction or across multiple jurisdictions.”

explanatory clarification that the services might be highly intangible, is adopted in a working definition of 'service'.

The 'provided' element

22. Matters to consider if the term 'provided' rather than another potentially more suitable term were to be adopted include that, inconsistent with the view expressed in paragraph 12 above, it would be interpreted as either referring to only directly provided goods or services or to all direct and indirect impacts of the NFP. Consideration could be given to addressing this issue by using terminology of:
- (a) 'provided directly or indirectly'. However, using the term 'indirectly' could be regarded by some as still too broad, by capturing all the downstream consequences of the goods or services provided by or facilitated through a NFP and implying an unreasonable level of disclosures.¹¹ It might also create confusion given that other frameworks use the term indirectly in a different sense;¹²
 - (b) 'facilitated by the NFP' or 'attributable to the NFP'. Although that terminology avoids problems with the dichotomy of directly and indirectly, it is arguably vague and still too broad; and
 - (c) 'provided directly by the NFP, or funded by the NFP but provided directly by another entity,'. Although some might regard this as overly wordy and cumbersome, it has the advantage of limiting the notion of 'indirectly' provided goods or services to just the one degree of separation contemplated by paragraph 19(c) of the NZ Standard and thus overcoming the concerns raised in (a) and (b) above.
23. On balance, to reflect an NFP's service objectives and clarify the intention of the 'provided' element for consistency with paragraph 19(c) of the NZ Standard, this paper proceeds on the basis that the element 'provided' is best articulated as suggested in paragraph 22(c) above: 'provided directly by an NFP, or funded by the NFP but provided directly by another entity,'.

The 'recipients' element

24. Potential problems with adopting the term 'recipients' rather than another more suitable term in the definition of 'service' include that 'internal' recipients would be captured. This would be inconsistent with the nature of general purpose financial reporting being about the relationship of a reporting entity with the rest of the world rather than about the entity's internal activities, processes, plans or policies. Consideration could be given to addressing this issue by using terminology of:
- (a) 'external recipients'. IPSASB RPG 3 adopts the term 'external recipients', noting in paragraph 16: "The receipt of services by recipients external to the entity is a critical factor in deciding whether services are outputs, rather than services consumed internally as part of an entity's production of outputs." Also, adopting such a phrase would be consistent with the phrase 'external users', which is commonly understood in the context of general purpose financial reporting. However, using the term

11 The early draft of this paper considered by the NFP PAP suggested adopting the term 'provided directly or indirectly'. Some PAP members raised concerns about the implications of such terminology.

12 The International Public Sector Accounting Standards Board (IPSASB) Recommended Practice Guide RPG3 *Reporting Service Performance Information* refers to 'direct or indirect', but uses the distinction in the sense of whether a service is provided to an individual (which RPG3 refers to as direct) or the community as a whole (which RPG3 refers to as indirect to the individuals in the community). Paragraph 25 of NZ PBE FRS 48 also touches on this type of direct or indirect provision of goods or services.

‘external’ could be misunderstood to suggest that service provided by a membership-based NFP (e.g., a co-operative) to its members would be excluded from ‘service’;¹³

- (b) ‘parties’. However, that would not be consistent with the terminology used in various places in the AASB’s Conceptual Framework. For example, the phrase ‘recipients of goods and services’ is used when identifying users of NFP financial information in paragraph AusOB2.1 of the AASB Conceptual Framework. The term might also inadvertently capture ‘internal’ parties; and
 - (c) ‘recipients (other than the NFP itself)’ or, based on paragraph 18(a) of the NZ Standard, ‘individuals, entities or groups (including members)’.¹⁴ Although some might regard this as overly wordy and cumbersome, it has the advantage of treating the NFP as an entity in its own right, separate from all other entities including the NFP’s owners, managers, employees and members. It focuses on the relationship of the entity with the recipients to which its service objectives relate. It also accommodates circumstances where entities within a consolidated group prepare separate service performance reports that include information about the services they provide to other entities within the group (but would exclude that information from ‘consolidated’ group service performance reports).¹⁵
25. On balance, staff think ‘recipients (other than the NFP itself)’ is suitable. If necessary, explanatory text could be added to make it clear that the ‘NFP itself’ is a separate entity from the NFP’s ownership group or its members.

The ‘objectives’ element

26. The term “not-for-profit entity” is defined in Appendix A of [AASB 102 Inventories](#) as “... an entity whose principal **objective** is not the generation of profit ...” (paragraph Aus6.1 – emphasis added). Other terms commonly used in the context of ‘objectives’ include ‘aims’, ‘goals’, ‘targets’, ‘vision’, ‘mission’, ‘purpose’. Some of these terms are used interchangeably in some contexts, but are used with subtle or even fundamentally different meanings in other contexts.
27. On balance, consistent with the terminology most commonly used in the context of ‘service’ in Australia and other related contexts and frameworks, this paper proceeds on the basis that the term ‘objectives’ is the most suitable for inclusion in a working definition of ‘service’.
28. However, even if it is accepted that the term ‘objectives’ is preferred over other similar or synonymous terms, the question might arise as to whether it is too broad given that many NFPs have multiple objectives, not all of which are ‘service’ objectives. In relation to that question, it is notable that in places the NZ Standard refers to ‘service performance objectives’,

13 The early draft of this paper considered by the NFP PAP suggested adopting the term ‘external recipients’. Some PAP members raised concerns about the implications of such terminology.

14 The NZ Standard also uses the drafting technique of referring to ‘in general’ to ensure ‘members’ are not excluded from being service recipients. For example, paragraph 23 states: “In generally, performance measures and/or descriptions shall have an external focus. However, this does not preclude an entity from providing information on internal activities, processes, plans or policies if it considers that this information provides important context for its service performance.”

15 An issue to be addressed in due course is whether, consistent with AASB ED 270 and NZ PBE FRS 48, a SPR pronouncement should apply to entities that prepare consolidated financial statements. The early draft of this paper considered by the NFP PAP did not address circumstances where an entity within a group provides a service to another entity in the group. This final version explicitly addresses the issue in response to a comment made by a PAP member.

which leaves no doubt as to which are the relevant objectives. However, including that phrase in a working definition of 'service' would be circular.¹⁶

29. To overcome concerns about NFPs having multiple objectives not all of which are service objectives, some stakeholders might argue that, to the extent an NFP's principal financial objectives are the subject of existing accounting standards, the term 'objectives' could be replaced with the narrower phrase 'non-financial objectives'. In response to those who counter argue that such phraseology is inappropriate because it would preclude the reporting of financial information about service performance under the 'service' umbrella, as noted earlier in this paper the phrase itself does not dictate the type of information to be disclosed.
30. Another argument that might be advanced against adopting 'non-financial objectives' phraseology is that some NFPs might express their service objectives in financial terms – for example, a NFP that has a service objective of fundraising for other NFPs – and therefore might argue that they are excluded by the definition. However, expressing a service objective in financial terms (e.g., NFP A's service objective is to raise \$X to fund NFP B's running of a homeless shelter) does not mean that a service ultimately being met through the provision of funds is pursuing a 'financial objective' per se. The fundraising objective is a means to meeting a service objective and could be equally expressed in non-financial terms as, for example, to provide support for NFP B's provision of goods or services to homeless people.
31. A stronger argument for not adopting 'non-financial objectives' phraseology in a working definition of 'service' is that it is unnecessary and potentially confusing. This is on the basis that a simple reference to 'objectives' in a working definition of 'service' would be used in the context of the other elements, being 'goods or services' and 'recipients (other than the NFP itself)', which means that effectively there is already a clear nexus to service objectives, particularly with the linking phrase 'in the pursuit of'.
32. On balance, based on the above discussion, this paper proceeds on the basis that it would be unnecessary and potentially confusing to use the term 'non-financial' to further limit the intended effect of the 'objectives' element in the working definition of 'service'.
33. However, in anticipating the volume of disclosures that might be a consequence of such an element, some stakeholders might argue that there could be merit in restricting the reference to 'key objectives' given that many NFPs have multiple service objectives and it is only the key service objectives that would be relevant to users.¹⁷ In response, it is notable that the NZ Standard addresses the concern of voluminous disclosures resulting from multiple service

16 NZ avoids the circularity because it does not formally define 'service'.

17 Some stakeholders might argue that the term 'principal objective' should be adopted, for consistency with the definition of NFP (that is cited in paragraph 26 above). However, the definition of NFP is expressed only in the negative (i.e., what the principal objective of a NFP is not rather than what the principal objective is). Therefore a reference to 'principal objective' in a working definition of 'service' might be confusing and unhelpful in circumscribing the notion of 'service', unless the definition of NFP were to be amended to include a positive expression, perhaps along the lines of paragraph BC6 of AASB [ED 270](#), which states that "... in the NFP sector, an entity's primary objective is not the generation of profit but rather the provision of goods and/or services for the community or social benefit." Staff note that in April 2021 the Board decided to discontinue the Not-for-Profit Entity Definition and Guidance project and to retain the current 'not-for-profit entity' definition in Australian Accounting Standards. The Board noted the initial feedback in response to the Invitation to Comment [ITC 37](#) *The AASB's Standard-Setting Frameworks for For-Profit Entities and Not-for-Profit Entities* requested more guidance but did not indicate significant issues with the current definition. The Board also recognised that while the majority of the respondents to Exposure Draft ED 291 *Not-For-Profit Entity Definition and Guidance* showed support for the proposals, many raised reservations about the clarity of the implementation guidance, the level of judgement required and the expected transition effort and cost for some entities. The Board acknowledged the stakeholders' concerns and concluded that the potential benefits of the proposals are unlikely to justify the cost of their implementation.

objectives by layering the disclosure requirements.¹⁸ Furthermore, consistent with the argument about ‘provided’ in paragraph 11(b) above, determination of a working definition of ‘service’ should not be influenced by what the disclosures might be – the determination of the disclosures is a separate question from the definition. In any event, it is not necessary to limit the range of possible service objectives that might be included in the definition as the overarching concept of materiality would be expected to be a natural filter and thereby limit the volume of disclosures.¹⁹

Staff recommendation on the working definition of ‘service’

34. Based on the above discussion about the elements, and the terminology thereof, for a working definition of ‘service’, staff recommend the following working definition is adopted for the purposes of the SPR project:

goods or services provided directly by an NFP, or funded by the NFP but provided directly by another entity, to recipients (other than the NFP itself) in pursuit of the NFP’s objectives.

Question for Board members

Q4. Subject to consideration of the discussion in paragraphs 38 to 48 below, do members agree with the above staff recommended working definition of ‘service’? If not, why not and what alternative articulation of the definition is preferred?

35. Notably, the above recommended working definition does not limit the way in which an NFP might identify and describe its ‘service’. Accordingly, even NFPs within the same sub-sector of NFPs that are undertaking similar activities might articulate their ‘service’ differently. It would be beyond the scope of a working definition to achieve consistent definitions of individual NFPs’ ‘service’, although that might be something, perhaps through a co-ordinating body, the individual NFPs within a sub-sector could agree on.
36. Furthermore, the recommended working definition does not help in distinguishing one type of service from another type of service in circumstances where a NFP undertakes more than one service. Such a distinction is not relevant in the context of this paper, because this paper is focused on the scope of the SPR project and, as discussed in the next major section, distinguishing ‘service’ from non-service.
37. Accordingly, the following section uses the staff recommended working definition as the basis for discussing the relationship of ‘service’ to other aspects of a NFP that could be the subject of performance reporting. In particular, the discussion assesses the extent to which the recommended working definition is effective in distinguishing the ‘service’ aspect of a NFP’s performance from other aspects of performance. The discussion will help identify issues

18 The NZ Standard adopts two stages: (1) disclosure of contextual information about why the entity exists, what it intends to achieve, and how; and (2) disclosure of what specifically the entity has done during the period towards that. It anticipates disclosure of only a few broad primary objectives, and anything more granular is a way of demonstrating what the entity has done towards the broad objectives.

19 The AASB has issued guidance on materiality (see AASB [Practice Statement 2 Making Materiality Judgements](#), which incorporates guidance from IFRS Practice Statement 2 *Making Materiality Judgements*). Furthermore, [AASB ED 311 Management Commentary](#) (issued June 2021), which incorporates the IASB’s ED on *Management Commentary*, proposes including similar guidance in Chapter 12 *Making materiality judgements*, which would provide further guidance on how to apply the materiality concept to management commentary.

relevant to dealing with the relationship's implications for performance reporting that will be addressed later in the project.

The relationship of 'service' to other aspects of a NFP's performance

38. There are many aspects of a NFP's performance that contribute to a NFP's overall performance. The SPR project's focus on 'service' implies that service performance differs in nature from other aspects of performance. Significantly, it also implies that separate identification of service performance information in overall performance reporting is relevant to users. Consistent with that implications, paragraph 29 of the NZ Standard states: "An entity shall clearly identify the service performance information presented ...". Not separately identifying service performance information could risk giving that type of information inadequate prominence with insufficient detail for the assessment.²⁰
39. There are different vehicles in which some or all service performance information could be conveyed. Apart from stand-alone service performance reports, other vehicles such as general purpose financial reports, management commentary or a sustainability report could contain some or all service performance information as well as information about other aspects of performance. As noted earlier, the relationship of SPR to different reporting vehicles is outside the scope of this paper and instead will be addressed as part of the Project Plan's key milestones 3, 7 and 8.²¹ However, the discussion in this section will contribute to those future deliberations.
40. The relationship between service performance and financial performance is especially pertinent given the focus of the AASB's accounting standards. Accordingly, this section considers the relationship of service performance to 'non-financial' performance separately from its relationship to 'financial' performance.²²

The relationship between service performance and non-financial performance

41. Some examples of common terminology used to describe non-financial performance aspects of a NFP that are not focused on 'service' performance include:
 - (a) legal compliance performance
 - (b) occupational health and safety (OH&S) performance
 - (c) performance as an employer
 - (d) social performance
 - (e) ethical performance
 - (f) governance performance
 - (g) environmental performance

20 The validity of the presumption that separate identification of service performance information from other aspects of performance (and indeed even the presumption that the reporting of service performance information is useful, and justifiable on cost/benefit grounds) will be the subject of further research as part of the Project Plan's key milestones 2 and 6, which arose from the comment on page 8 of the Feedback Statement on Agenda Consultation *ITC 46 AASB Agenda Consultation 2022-2026* that "The project should investigate the demand for service performance reporting, including understanding user needs and costs and benefits, before committing to developing a standard."

21 Key milestone 3 is "The relationship of the first working draft SPR principles developed under key matter 2 to Sustainability Reporting"; key milestone 7 is "Assess the relationship of service performance information to GPFS/GPFR and assurance"; and key milestone 8 is "The relationship with other projects (Management Commentary, NFP Conceptual Framework, NFP Financial Reporting Framework, IASB's Primary Financial Statements)".

22 The term 'financial performance' is used in this paper to refer to a NFP's performance in relation to liquidity, solvency and profitability, being the type of performance that is the focus of AASB accounting standards. Accordingly, the term 'non-financial performance' as used in this Paper does not exclude all financial aspects of a NFP. For example, although 'fundraising performance' is likely to be of a financial nature, it is treated as an aspect of non-financial performance for the purpose of this paper.

- (h) fundraising performance
 - (i) administration performance.²³
42. Each non-financial aspect of performance listed in paragraph 41 above is likely to have some kind of relationship with ‘service’ performance. The types of relationships include those where:
- (a) the performance achieved in the non-financial aspect has an impact on service performance. For example, OH&S compliance performance is important to the NFP’s ability to continue to provide service. Similarly, a NFP’s fundraising performance (measured perhaps as the proportion of funds raised used to raise those funds) and administration performance (measured perhaps as the proportion of a charity’s costs incurred on administration costs) would be expected to have an impact on the NFP’s ability to provide or continue providing service to a certain level. For the purpose of the following discussion, and based on the earlier discussion in paragraphs 13 to 16, this type of relationship of a non-financial non-service aspect of performance to service performance is an ‘input’ relationship; and
 - (b) the scope of a non-financial aspect of performance encompasses, overlaps or coincides with service performance or vice versa. This relationship could arise depending on the nature of the service being provided relative to the nature of the other aspects of performance. For example, the environmental performance of a NFP established with the sole objective of improving and maintaining the quality of a local waterway (i.e., the NFP’s ‘service’) could be regarded as encompassing that NFP’s service performance.²⁴
43. The ‘input’ relationship referred to in paragraph 42(a) was addressed in paragraphs 13 to 16 above, which concluded that ‘inputs’ is not an element of the working definition of ‘service’ and therefore ‘inputs performance’, despite its possible impact on service performance, is not a component of ‘service performance’ per se. Accordingly, any of the examples listed in paragraph 41 above that are effectively inputs to service are excluded from the scope of service performance by the paragraph 34 recommended working definition of ‘service’. In that respect, the suggested working definition is effective in distinguishing ‘service’ from other aspects of an NFP.
44. Unlike the ‘input’ relationship, the type of relationship referred to in paragraph 42(b) suggests that various aspects of performance are not mutually exclusive. Indeed, given the nature of the terminology used in relation to different aspects of performance, it is unlikely that the different aspects of performance could ever be defined in a mutually exclusive way. Accordingly, if ‘service’ performance information is to be separately identifiable, it would be necessary to ensure only terminology that captures the essence of an aspect of performance is

23 Apart from ‘service’, this paper does not attempt to define the scope of each aspect of a NFP’s performance. It is sufficient for the purpose of this paper to acknowledge that each aspect has differing degrees of specificity and potential overlap with each other. Because the different aspects use presumed non-synonymous terms that depict their underlying concepts, each aspect differs from the others in some meaningful respect. That is not to say that in practice some terminology might be used synonymously in describing some aspects of performance – for example, some might regard ‘administration performance’ and ‘management performance’ as synonymous. Whether they are synonymous or not would depend on the definitions adopted for the concepts depicted by each of those terms. For the purpose of this paper, each of the examples in paragraph 41 is regarded as being non-synonymous with all of the other examples (but not necessarily mutually exclusive, as noted in paragraph 44 below). In the absence of agreed definitions of each aspect, this paper is limited in the extent to which it can discuss each one.

24 In this example, although reporting described as ‘environmental performance’ could include some or all information about the NFP’s service performance, this paper assumes that service performance reporting would never fully encompass environmental performance reporting (nor any other aspect of performance), as explained in paragraph 45 below.

adopted, and that any relationship it has with another aspect of performance (perhaps service performance) is acknowledged through links or cross-referencing. This would be consistent with paragraph 4 of the NZ Standard, which states that “This Standard does not apply to other non-financial information presented in a general purpose financial report (for example, information about an entity’s performance relating to its environmental goals or values), unless this information is directly linked to its service performance.”

45. In some cases, the terminology adopted (such as ‘environmental performance’) might appear to fully and solely encompass a particular NFP’s ‘service performance’, as reflected in the example in paragraph 42(b) above.²⁵ In that example, the NFP’s environmental performance might be broader than its service performance. This is because an assessment of the NFP’s environmental performance would be expected to entail an assessment of information beyond the extent to which the quality of the local waterway has changed (i.e., information in addition to the NFP’s service performance would be needed for a more fulsome accounting of the NFP’s environmental performance). For example, an assessment of ‘environmental performance’ would also presumably require information about how the NFP coped with the impact of the environment in which the NFP operated (e.g., perhaps the effect of global warming and upstream activities on water quality) and how the NFP’s activities affected the environment beyond the local area (e.g., perhaps the NFP’s overall carbon footprint), none of which would be consistent with the paragraph 34 working definition of ‘service’.²⁶
46. In relation to how the relationship between service performance and other aspects of performance might impact the reporting of performance information, continuing with the example in paragraph 42(b) and the comments in paragraph 45, the additional environmental performance information might provide context for service performance information (and other performance aspects of the NFP) and/or might be appropriately linked or cross-referenced to or from related service performance information that is reported and labelled as such.

The relationship between service performance and financial performance

47. Reports on service performance and financial performance do not necessarily adopt the same language. This is because service performance reporting entails the language of goods and services (which is often not financial) whereas financial performance reporting always entails financial language.²⁷ That is, each type of reporting looks at the performance of a NFP through a different lens as a way of satisfying user needs. The [AASB Not-for-Profit Entity Standard-Setting Framework](#) notes circumstances for NFP-specific guidance in Australian Accounting Standards to address information needs of NFP users.²⁸ Consistent with the focus of a NFP being its service objectives, the SPR project is predicated on the need for NFP specific

25 Depending on the nature of a NFP’s focus, it is also conceivable that a NFP’s ‘service performance’ could fully encompass its ‘environmental performance’. However, for the purposes of illustrating the point being made in this section of the paper, it is only contemplated that ‘environmental performance’ encompasses ‘service performance’.

26 This paper does not profess to comprehensively identify the information that would be expected to be included in an ‘environmental performance report’. Furthermore, it is beyond the scope of this paper to debate whether the impact of the NFP’s clean-up activities on downstream localities (i.e., one of the potential, perhaps even unintended, impacts of the NFP’s service) should be characterised as information relevant to an assessment of service performance or environmental performance. That is a subject to be considered later in the project (as to the extent to which SPR should include information about inputs, activities, outputs, efficiency, effectiveness, outcomes and impacts). Similarly, this paper does not address issues relating to the measurement of performance, for example the extent to which there should be quantified measures and whether those measures should be on a gross (e.g., outputs) or net (e.g., outputs minus inputs) basis. These issues do not need to be resolved at this stage because they are issues related to the nature of service performance information and performance measurement rather than the nature/working-definition of ‘service’ per se.

27 Some approaches to SPR use financial language. Some use financial language to convey some aspects of service performance. Others use financial language as the main language for conveying service performance – for example, a social return on investment (SROI) approach, which is referred to in paragraph 53(d) below.

28 See, for example, paragraph 23 of the AASB’s NFP Standard-Setting Framework.

guidance in reporting to satisfy users' needs and that users of NFP performance information need service performance information.²⁹ Despite this, the relationship between the two types of performance could be described as symbiotic. Financial performance provides a context for and has an impact on service performance, and vice versa.

48. The NZ Standard deals with the relationship between service performance and financial performance by anticipating that service performance information would be presented with appropriate links to financial information, without specifying how those links should be presented. In particular, paragraph 9(b) of the NZ Standard states that "Completeness implies that the service performance information presents an overall impression of the entity's service performance with appropriate links to financial information."

Overall Assessment

49. Adopting the staff recommended (or any other) working definition of 'service' for the purpose of SPR is unlikely to avoid overlap with an NFP's reporting of performance in at least some other aspects. This is only in part due to there being no generally agreed terms and definitions of those other aspects. The very nature of the way different aspects of performance are characterised means that some overlap is inevitable. Despite this, providing the context of, and clearly labelling information as related to, 'service performance' when and only when it satisfies an agreed definition of 'service' would help users navigate through the various aspects of performance that might be reported.³⁰ The question of how the information is presented and the extent of links or cross-references to or from service performance information is an open question beyond the scope of this paper.

29 As reflected in the AASB's Conceptual Framework, the focus of the AASB's accounting standards is on meeting user needs for information about an entity's financial performance relating to liquidity, solvency and profitability. Whilst of some relevance to NFP users, those users are typically more or at least equally interested in service performance. This is reinforced through paragraphs BC5 and BC6 of the Basis for Conclusions accompanying AASB ED 270, which stated that: "The Board noted that the primary objective of a for-profit entity is to obtain a return on investment for investors. Therefore, to evaluate the entity's achievement of this objective, profit is frequently used as a measure of performance ... Generally, this information can be gained from the financial statements." (BC5). "However, in the NFP sector, an entity's primary objective is not the generation of profit but rather the provision of goods and/or services for the community or social benefit. Therefore, to enable users to assess whether a NFP entity has met its objectives it is necessary for such entities to report on its service performance ..." (BC6).

30 As a way of addressing overlapping performance reports, although beyond the scope of this paper, the principle described in paragraph 44 of providing context and clear labelling could be adopted for all aspects of an NFP that might be the subject of performance reporting. For example, depending on the definitions of different aspects of an NFP, it is conceivable that some aspects will overlap with other aspects. By way of example, 'OH&S' might wholly or partially fall under the broader notion of 'legal compliance'. And some aspects of fundraising performance might be reflected in a report on compliance with fundraising laws that falls within 'legal compliance'. The performance of a NFP as an employer might also overlap with the NFP's level of legal compliance and ethical performance.

Question for Board members

Q5. Do members agree that:

- (a) the staff recommended working definition in paragraph 34 is effective in circumscribing the aspect of an NFP that is 'service';
- (b) it is not necessary (nor possible) to define 'service' in a way that would not potentially overlap with other aspects of an NFP;
- (c) the staff recommended working definition would be an effective tool in identifying the overlap; and
- (d) future consideration needs to be given to the impact any overlaps should have on the way 'service' performance is reported and linked/cross-referenced to the reporting of other aspects of performance (including financial performance)?

If not, why not?

Question for Board members

Q6. Do members agree that the staff recommended working definition of 'service' in paragraph 34 provides a sufficient basis to help:

- (a) ensure there is a common understanding amongst Board members and stakeholders about the scope of the SPR project; and
- (b) future deliberations on how to deal with the relationship of SPR with other performance related:
 - (i) reports that a NFP might publish; and
 - (ii) AASB projects (in particular the Sustainability Reporting project and the Management Commentary project)?

Next Steps

- 50. Staff will use the working definition of 'service' as the foundation for progressing the SPR project through the remaining key milestones itemised in the Project Plan. The next milestone is key matter 2: a first working draft of generic and scalable SPR principles as a basis for initial consultation with targeted stakeholders. The first phase of that milestone is a paragraph-by-paragraph review of the NZ Standard, which is the primary point of reference in developing the first working draft. The review will be available for the Board's deliberations at a future meeting later in the year.
- 51. Paragraph 18 of the SPR Project Plan anticipates the NFP Project Advisory Panel (PAP) being consulted throughout the project. Indeed, as noted in paragraph 5 above, that PAP had some input in developing this paper. However, the focus of that PAP recently (and thus its composition) was to be consulted on the NFP Financial Reporting Framework project

particularly regarding implications for smaller NFPs in the private sector. It is therefore arguably not sufficiently representative for the SPR project, which will have broader reporting implications for all Tiers of NFPs in both the public and private sectors. Accordingly, as anticipated in paragraph 16 of the SPR Project Plan and consistent with the [Terms of Reference for AASB Project Advisory Panels](#), to supplement the input that will continue to be sought from the NFP PAP, the staff view is that it would be timely to reconstitute and appoint a dedicated SPR PAP comprising key stakeholder groups/individuals with a particular interest and expertise in SPR, including members from impact reporting areas and considering members of the SPR PAP prior to the project being reactivated in 2022. Therefore, and in accordance with the *Terms of Reference*, the Board’s approval is sought in this regard. Also in accordance with the *Terms of Reference*, potential members of the PAP would be identified by the AASB staff and Board members and final selection of PAP members would be approved by the Chair of the AASB.

52. In due course, prior to drafting the next due process document (key milestone 10), by which time further input from stakeholders will be available, staff will bring an analysis and recommendation to the Board for deliberation on the need for a formal definition/description of ‘service’ in any pronouncement that might be developed.

Question for Board members

Q7. Do members have any comments on the staff recommended next steps? In particular, do members approve establishment of an SPR PAP and agree that staff should proceed to identify relevant key stakeholder groups/individuals to be invited to form a SPR PAP as approved by the Chair?

Update on other aspects of the Project

53. Staff are continuing to monitor relevant activities undertaken by others that might impact on the SPR project. For the information of Board members, relevant activities/publications not previously brought to the Board’s attention include:
- (a) AASB [Working Paper No. 24-02](#) *The cost of auditing service performance information* by Xikai Chen and Tom Scott (5 March 2024), which considers some of the implications of the NZ PBE FRS 48 requirement for SPR audits. In summary, it found that initial adoption of the NZ Standard gave rise to an increase in audit fees of 14.5%, although there was no change in audit or filing lag. These findings will be particularly relevant to the AASB’s key milestone 7 (which will include an assessment of the relationship between SPR and assurance) and more generally in assessing costs and benefits;³¹
 - (b) UNSW Centre for Social Impact publication [Roadmap to Social Impact](#) (2021).³² It provides a recommended step-by-step guide to planning, measuring and communicating social impact. It will be a useful reference as the SPR project

31 Page 8 of the Feedback Statement on Agenda Consultation *ITC 46 AASB Agenda Consultation 2022-2026* states that “The project should investigate the demand for service performance reporting, including understanding user needs and costs and benefits, before committing to developing a standard.” (emphasis added)

32 Ramia, I., Powell, A., Stratton, K., Stokes, C., Meltzer, A., Muir, K. (2021). *Roadmap to outcomes measurement. Your step-by-step guide to planning, measuring and communicating social impact.* Centre for Social Impact.

progresses and the Board considers current SPR practice and emerging aspirational SPR best practice,³³

- (c) Chartered Accountants Australia and New Zealand (CAANZ) [Measuring social impact for better reporting](#) (October 2023) was written by CAANZ to provide guidance for outcome and impact reporting in the context of NZ PBE FRS 48. This publication might provide a useful reference as the SPR project progresses, particularly because it is written with specific reference to the NZ Standard, which the Board has decided to adopt as the primary point of reference in developing a first work draft of SPR principles for initial consultation with Australian stakeholders; and
- (d) an [article](#) in the February/March 2024 Australian edition of CAANZ's Acuity magazine *In the spreadsheets, or on the streets?* by Ben Falkenmire (pages 50 to 53). Although the staff view is that the article would have benefited from seeking views from the AASB prior to publication (for example, the AASB is not "waiting to see how things go in New Zealand"), the article refers to some aspirational approaches to SPR (e.g., mutuals values measurement (MVM) and social return on investment (SROI)) that are available to the more sophisticated and well-resourced NFPs that could help inform the Board as it progresses the SPR project.
- (e) The Australian Institute of Company Directors' (AICD) [Not-for-Profit Governance Principles](#) (April 2024) has updated the previous 2013 and 2019 editions to reflect the evolving governance environment including heightened board focus on organisational culture, stakeholders and sustainability. Especially Principle 5 - Performance and accountability is directly addressed by this project as it notes (page 48) that "NFPs of all sizes and types are increasingly expected to be able to demonstrate their performance in a transparent and accountable manner to stakeholders and the broader community. This expectation of transparency of performance extends beyond financial reporting measures to encompass concepts of 'effectiveness', 'impact', and 'sustainability.'" Also of relevance to the AASB SPR project is the AICD's resource for NFP directors: [Impact Measurement and Governance](#) (October 2023).

Question for Board members

Q8. Are members aware of any other relevant recent activities/publications not listed immediately above that would be useful as a reference for the Board in progressing the project?

33 For example, paragraph 17 of NZ PBE FRS 48 states that "If an entity uses a performance framework, theory of change or intervention logic at its highest level of management or in the governance of the entity, the contextual information should also draw upon that performance framework, theory of change or intervention logic." The UNSW paper provides guidance for an entity in developing a performance framework and explains some of the available approaches, including 'theory of change' and 'logic model'.

Appendix A: Definitions/descriptions of 'service' adopted in existing frameworks

1. Consistent with using the New Zealand Accounting Standard NZ PBE FRS 48 *Service Performance Reporting* as the primary point of reference for detailed work on the SPR project, this Appendix considers that Standard before considering whether any other frameworks, also acknowledged in the Project Plan, throw any light on what the Board could adopt as a working definition of 'service'.

NZ PBE FRS 48 *Service Performance Reporting*

2. The NZ Standard does not include a definitions section. However, paragraph 2 describes 'service performance information' and thereby gives insight into the meaning of 'service' by stating that 'service performance information is "information about what the entity has done during the reporting period in working towards its broader aims and objectives, together with supporting contextual information". Although the reference to 'working towards ... broader aim and objectives' constrains the notion of 'service' to some extent, paragraph 2 could be read broadly, encompassing everything (not just what is commonly understood to be service) a NFP might do in pursuit of its broader aims and objectives. Even the NZ emphasis on the disclosure of contextual information could be read as not constraining the notion of 'service' greatly. For example, paragraph 15(a) requires service performance information to "Provide users with sufficient contextual information to understand why the entity exists, what it intends to achieve in broad terms over the medium to long term and how it goes about this".
3. Although NZ paragraphs 2 and 15(a) do not seem to explicitly exclude the examples of non-service aspects of performance included in the list in paragraph 41 of the body of this paper, paragraph 4 of the NZ Standard states that "This Standard does not apply to other non-financial information presented in a general purpose financial report (for example, information about an entity's performance relating to its environmental goals or values), unless this information is directly linked to its service performance." And paragraph BC18 states that "The NZASB also acknowledged that PBEs may include other types of non-financial information such as environmental information and sustainability information in an annual report, but considered that such reporting was broader than service performance reporting." Accordingly, the NZ Standard seems to mainly rely on its requirements and commentary paragraphs to be read with a general understanding of the difference between 'service' and 'non-service'.
4. In so doing, the NZ Standard uses examples as a way of circumscribing 'service'. For example, paragraph 18 suggests that 'service'³⁴ is something that is provided through the direct or indirect delivery of goods and services by stating that "an entity shall explain the main ways in which it carries out its service performance activities. For example: (a) Delivering goods and services directly to individuals, entities or groups (including members); (b) Working together with other entities that share common objectives; (c) Contracting with other entities to deliver goods and services on their behalf; or (d) Making grants to other individuals or entities." It is apparent that NZ treats the examples in paragraph 18(b) to (d) as including indirect ways a NFP delivers goods and services to recipients. For example, in relation to (d), paragraph 19(c) notes that "the entity needs to exercise judgement in deciding whether to report solely on its funding activities" [*arguably a direct financial service it is providing*] "or to include information

34 It is notable that the NZ Standard distinguishes 'service' (singular) from 'services' (plural), with 'service' encompassing both services and goods.

about the goods and services provided by other entities” [*arguably goods and services provided indirectly by the entity*].³⁵

5. Paragraph 23 of NZ FRS PBE 48 states “In general, performance measures and/or descriptions shall have an external focus. However, this does not preclude an entity from providing information on internal activities, processes, plans or policies if it considers that this information provides important context for its service performance.” Notably, the reporting of information about internal factors is characterised as context for service performance and therefore is not regarded as service performance per se.
6. The NZ Standard also does not define ‘outputs’ or ‘objectives’. Although the Standard uses the term ‘outputs’, it more commonly refers to ‘goods and services’, providing examples rather than a definition of ‘goods and services’. Furthermore, no clarification is provided of the term ‘objectives’, and the term is used on occasions with related notions of ‘aim’, ‘goal’ or ‘target’.
7. In terms of the relationship of ‘service’ to financial information, in the context of applying the PBE Conceptual Framework’s qualitative characteristics to service information, paragraph 9(c) of the NZ Standard states “Completeness implies that the service performance information presents an overall impression of the entity’s service performance with appropriate links to financial information.” This suggests that financial performance is linked to but separate from service performance.

AASB Pronouncements

AASB’s [*Framework for the Preparation and Presentation of Financial Statements*](#)

8. Paragraph AusOB2.1 of the current AASB Conceptual Framework applicable to NFP’s uses the phrase ‘recipients of goods and services’. Although the Framework does not use the term ‘service’ in the context of ‘service performance’, which is a phrase also not mentioned, it does use the term ‘service’ when discussing the ‘service potential’ of assets and its relationship to the notion of ‘future economic benefits’. In particular, paragraph Aus49.1 states that “In respect of not-for-profit entities ..., in pursuing their objectives, goods and services are provided that have the capacity to satisfy human wants and needs. ... Future economic benefits or service potential is the essence of assets. Future economic benefits is synonymous with the notion of service potential and is used in this *Framework* as a reference also to service potential. ...”.³⁶

[*AASB 140 Investment Property*](#)

9. Paragraph Aus9.1 of AASB 140 uses the term ‘service’ in the phrase ‘service delivery objectives’: “In respect of not-for-profit entities, property may be held to meet service delivery objectives rather than to earn rental or for capital appreciation. In such situations the property will not meet the definition of investment property and will be accounted for under AASB 116, for example: (a) property held for strategic purposes; and (b) property held to

35 Although not explicitly stated in the Standard, this quoted part of paragraph 19(c) presumably highlights that SPR reporting is driven by what the entity is responsible for rather than how it is provided. It would not be expected that a service delivered indirectly that is ultimately not within an entity’s realm of responsibility would necessarily be reported on.

36 Notably, INPAG ED 1 (see paragraph 20 below) and the IPSASB Conceptual Framework (see paragraph 27 below) distinguish the term ‘service potential’ from ‘future economic benefits’. The AASB’s current Conceptual Framework adopts a different drafting style for dealing with any perceived difference between service potential and future economic benefits. The AASB’s current NFP Conceptual Framework project noted this difference in staff paper 6.1 for the March 2024 meeting and that it may need to be further considered in future projects if deemed necessary for example if the Board decides to explore whether to consider IPSAS 47 *Revenue*.

provide a social service, including those which generate cash inflows where the rental revenue is incidental to the purpose for holding the property.”

[AASB 1052 Disaggregated Disclosures](#)

10. AASB 1052 applies to:

- (a) local governments. It requires disaggregated disclosure of assets, income and expenses to be classified according to ‘function or activity’. Although it uses the phrase ‘function or activity’ rather than ‘service’, paragraph 13 states “This Standard requires disclosure of information about the assets, income and expenses of the local government according to the broad functions or activities of the local government, whether they be related to **service** delivery or undertaken for commercial objectives.” (emphasis added); and
- (b) government departments. Paragraphs 15 to 21 require disclosure of “**service** costs and achievements”, which includes “disclosure of information about the expenses, income, assets and liabilities attributable to the major activities ...” (emphasis added). Paragraph 17 notes that “Government departments are required to achieve **service** delivery as well as financial objectives.” (emphasis added). Paragraphs 20 and 21 provide guidance on identifying major activities of government departments.

Notably, AASB 1052 does not define ‘service’. It appears to regard the relationship between ‘service’ and ‘activity’ in terms of ‘activity’ being undertaken for the purpose of delivering a ‘service’.

11. In due course it will be necessary to consider the implications of the SPR Project for AASB 1052, which is in effect a legacy Standard that arose out of the AASB project completed in 2007 that withdrew AASB 27 *Financial Reporting by Local Governments* and AASB 29 *Financial Reporting by Government Departments*. At the time, paragraph BC11 of AASB 1052 stated “A longer-term separate project on disaggregated disclosures for local governments and government departments will be progressed in due course.” Since then, the Board has initiated a post-implementation review of selected public sector pronouncements, including AASB 1052. For the latest, see AASB May 2023 [agenda item 5](#), in particular [agenda paper 5.3](#), which is the most recent draft of ‘AASB Invitation to Comment *Post-implementation Review of Selected Public Sector Pronouncements*’. Currently, the plan is to commence the post-implementation review of AASB 1052 in the first quarter of 2026. Although not explicitly mentioned in the SPR Project Plan’s discussion of cross-cutting issues (see paragraph 30 of the Project Plan), the implications of the relationship between the SPR project and the post-implementation review of AASB 1052 will be considered as part of the SPR Project Plan’s key matter 8 “The relationship with other projects”.

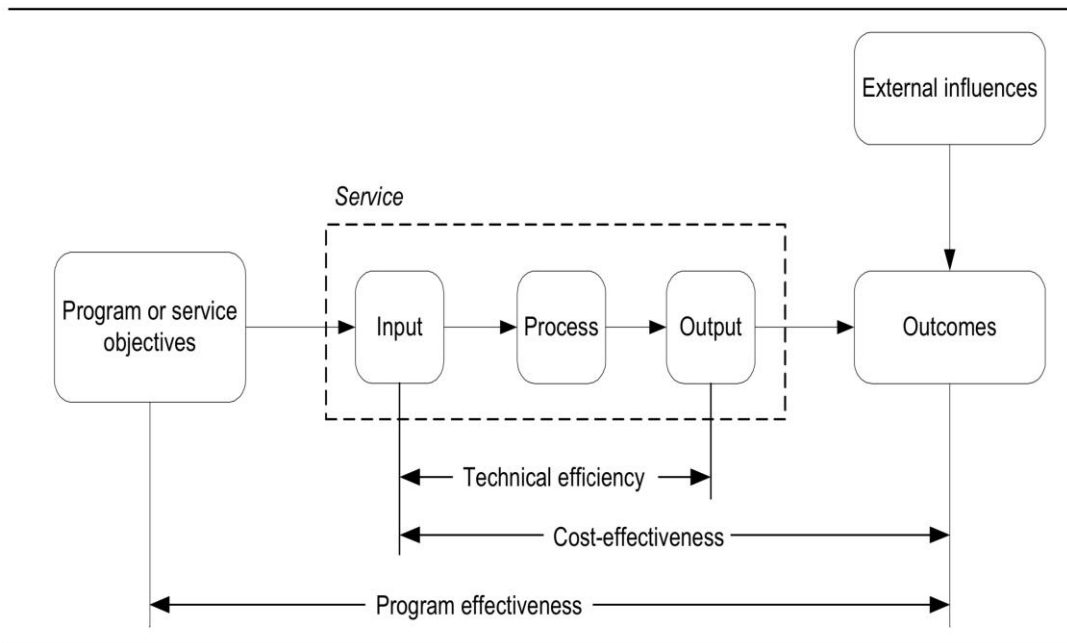
Productivity Commission Report on Government Services (RoGS)

12. In describing the scope of RoGS, the Productivity Commission’s website states: “Government provides a range of services to individuals, households and the community. The Report focuses on ‘social services’, which aim to enhance the wellbeing of people and communities by improving largely intangible outcomes (such as health, education and community safety). The Report contains performance information on childcare, education and training, health, justice, emergency management, community services, social housing, and homelessness across 17 service areas. The service areas included in

the Report were chosen based on [a set of formal criteria](#).”(hyperlink to the set of formal criteria added).

13. Although RoGS includes a [glossary](#), it does not include a formal definition of ‘service’, ‘services’, ‘social services’ or ‘government services’. RoGS focuses on a particular class of services, being social services, explicitly acknowledging that they can result in both tangible and intangible outcomes.
14. The Productivity Commission’s framework for measuring the performance of government services in the RoGS is set out in the following diagram:³⁷

Figure 1 The Report of Government Services framework



Source: SCRGSP (2006)

15. Notably, RoGS circumscribes ‘service’ as comprising three sequential components (input, process, output) and links it most directly to the determination of ‘technical efficiency’. It goes on to relate that depiction of ‘service’ to outcomes, concluding that the relationship is relevant to determining ‘cost-effectiveness’. And relating ‘service’ and its outcomes back to program/service objectives, RoGS concludes that that relationship is relevant to determining ‘program effectiveness’. Although the question of service performance reporting, and therefore questions about the determination of efficiency and effectiveness, is outside the scope of this paper, a question relevant to this paper is whether the depiction of ‘service’ as comprising input, process and output is useful in developing a working definition of ‘service’ for the purpose of the SPR project.
16. Arguably any aspect of a NFP’s performance, whether service or some other aspect, such as any of those mentioned in paragraph 41 of the body of this paper, could be depicted in a similar way. For example, for a NFP to achieve any level of ‘environmental performance’, such as to reduce a NFP’s carbon footprint by five per cent, would require inputs (e.g., installation

37 Source: Steering Committee for the Review of Government Service Provisions 2006, *Report on Government Services 2006*, Productivity Commission, Canberra (page 1.13 of chapter 1 *The approach to performance measurement*), as duplicated in Productivity Commission [Staff Research Note](#) *On efficiency and effectiveness: some definitions* (May 2013).

of a wind turbine for energy generation) that are subjected to a process (e.g., operating and maintaining the wind turbine) to result in an output (e.g., energy with lower CO2 emissions). Accordingly, the RoGS framework depicted in the diagram above is not unique to 'service'. Although it will be relevant once the question of service 'performance' is addressed by the Board, it is not necessarily helpful in circumscribing 'service' and distinguishing it from non-service.

17. Because RoGS includes inputs as a component of 'service', it could be read as suggesting that a NFP's performance in acquiring inputs (e.g., volunteers or funds) would be a part of SPR rather than a separate but related other aspect of performance. However, on closer consideration, it is evident that RoGS does not regard performance in acquiring inputs (e.g., fundraising performance) as being a part of service performance. It treats inputs as a means to a service rather than a service in its own right. That is, from a RoGS perspective, 'service' is output focused and therefore RoGS is concerned with performance in converting inputs into outputs rather than performance in acquiring inputs.
18. RoGS defines 'output' as "The service delivered by a service area, for example, a completed episode of care is an output of a public hospital", which notably does not refer to 'goods or services'.³⁸
19. RoGS does not explicitly define 'objective'.

INPAG [ED1](#) *International Non-Profit Accounting Guidance Part 1*

20. Section 35 of INPAG ED1 sets out [proposed] narrative reporting requirements for NFPs and addresses performance information more generally rather than specifically focusing on service performance information. Therefore, although referring to 'services' and 'goods and services' in places, INPAG ED1 does not throw any additional light on the meaning of 'service' in the context of service performance reporting.
21. Page 10 discusses 'service potential', stating that:

"NPOs often hold assets in order to **provide services and goods in accordance with their objectives** rather than to generate and maximise cash flows. In this way, NPOs hold assets for their service potential rather than to generate financial returns." (emphasis added)

"INPAG proposes to include the concept of service potential to recognise that NPOs operate for the benefit of the public rather than to make profit. The concept of service potential has been included within the paragraphs on measurement in Section 2 to emphasise the rationale for NPOs activities, which are to provide a benefit to the public."

"Service potential has also been separated from the concept of 'economic benefit'. This creates a distinction between economic resources that are managed to provide an economic benefit, generally through cash generation, and those that are managed for their service potential, which may not result in cash generation."
22. Paragraph G4.9 of INPAG ED1 uses the term 'output' when discussing a NFP's operating cycle: "... the operating cycle of an NPO is the time taken to convert inputs or resources into outputs. For instance, an NPO may receive donations or grants and use these resources to deliver services to meet the NPO's objectives." Paragraph IG35.17 goes on to say: "The performance

³⁸ If the word 'service' is included in the definition of the word 'output' that is included in the definition of the word 'service', there would be a risk of creating a circular logic loop. By not defining 'service', RoGS has not created such a logic loop.

measures and descriptions that an NPO selects will depend on its performance objectives, the nature of its activities and whether it wants to focus on inputs, outputs, outcomes and/ or impact.”

IPSASB [RPG3](#) Reporting Service Performance Information

23. Despite including a definitions section in RPG3, the IPSASB does not formally define ‘service’. Paragraph 1 states “Service performance information is information on the services that the entity provides ...” without clarifying the meaning of ‘services’. However, in providing an explanation of RPG3’s definition of ‘outputs’, paragraph 15 provides examples of what ‘services’ (which is a term used to encapsulate goods) include, as noted in the following paragraph.
24. Paragraph 8 of IPSASB RPG3 defines outputs as “...the services provided by an entity to recipients external to the entity.”³⁹ Paragraphs 15 and 16 go on to explain:
15. Services provided by an entity to external recipients include:
- (a) Services provided directly to individuals and institutions—for example, health or education services or the provision of goods such as food or books;
 - (b) Services provided indirectly to individuals and institutions—for example, services which aim to develop, promote, protect or defend a community, institution, country, or community values and rights;
 - (c) Transfers to individuals and institutions—for example, cash transfers and the provision of economic incentives such as tax incentives;
 - (d) Policies, regulations or legislation to achieve public policy goals, which includes, for example, revenue related legislation and the enforcement of such legislation; and
 - (e) Collection of taxes and other revenues.
16. The receipt of services by recipients external to the entity is a critical factor in deciding whether services are outputs, rather than services consumed internally as part of an entity’s production of outputs.
25. It is apparent that RPG3 uses the notion of indirect services more narrowly than how the notion is used in NZ (see paragraph 4 above). RPG3 seems to use ‘indirect’ only in relation to circumstances where a service is provided to a group of people, rather than individually, where each individual in the group benefits. In contrast, the NZ Standard also encapsulates circumstances where a service is provided to individuals or a group by, for example, funding or working with another NFP to provide the service.
26. It is relevant to this paper to also consider the implications of paragraph 15(d) of RPG3 (being an entity providing a service of collecting taxes and other revenues) and to what extent it would be more aptly described as relating to ‘fundraising’ (referred to in paragraph 41(h) of the body of this paper) rather than ‘service’. Paragraph 15(d) of RPG3’s relationship to service performance is similar to that discussed in paragraph 45 of the body of the paper in relation to the terminology used to depict a range of aspects of performance and the extent to which they overlap or coincide with other aspects of performance. In this case, a NFP (such as a public sector tax collection authority) is providing a direct ‘service’ to the government (being the ‘external recipient’ of the service) in the form of ‘collection of taxes and other revenues’. How the government might use those funds to provide service would not be a reflection on the tax collection authority’s service performance. Although the term ‘fundraising’ could be

39 IPSASB avoids the logic loop referred to in the footnote to paragraph 18 above because it does not include a definition of ‘service’.

used to describe the service provided by the tax collection authority to the government, arguably that terminology is more suited to a situation where a NFP is responsible for raising its own funds (including the government as a consolidated entity) that will be used to provide service, in which case the 'fundraising' is not providing a 'service' to an 'external recipient'. Rather, the NFP's fundraising performance is a separate, albeit related, aspect of the NFP's performance. The NFP's service performance would relate to the NFP's performance in using (rather than raising) those funds to provide goods and services to external recipients in pursuit of the NFP's 'service performance objectives'.

27. The IPSASB's [Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities](#) uses the term 'service potential' in the context of assets. Unlike the AASB's Conceptual Framework, which as noted in paragraph 8 above treats 'future economic benefits' as synonymous with 'service potential', the IPSASB's Conceptual Framework separates future economic benefits from service potential. In so doing, it relates service to an entity's objectives. In particular, paragraph 5.8 states: "Service potential is the capacity to provide **services that contribute to achieving the entity's objectives**. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows." (emphasis added)
28. Despite making frequent reference to 'service performance objectives' (defined in paragraph 8 of RPG3 as: "... a description of the planned result(s) that an entity is aiming to achieve expressed in terms of inputs, outputs, outcomes or efficiency"), IPSASB RPG3 does not define 'objectives'.

AASB ED 270 Reporting Service Performance Information

29. AASB ED 270 includes an Appendix A of Defined Terms. Although it does not define 'service', it defines 'service performance' as "The delivery of goods and/or services with the intention of having a positive impact on society or segments of society."
30. Notably, although ED 270 was heavily based on IPSASB RPG3, RPG3 does not include a definition of 'service performance'. In explaining the basis for including the definition in ED 270, paragraph BC38 states that "The Board decided that because performance reporting has a broader scope than service performance, a definition of 'service performance' should be included in the [draft] Standard to narrow the type of information that should be reported."
31. In relation to the proposed definition of 'service performance', paragraph 4 of agenda paper [13.1](#) of the December 2016 meeting provides a summary of the feedback received on ED 270 through formal written responses and roundtable discussions. It states that "The majority of constituents generally agreed with the principles and objectives of the draft Standard, and were supportive of ... the defined terms in Appendix A of ED 270."
32. Paragraph 57 of agenda paper 13.1 goes on to note that: "Some constituents made the following comments on the defined term 'service performance':
 - (a) the definition being based on 'delivery of goods and/or services' overly emphasised outputs and not the 'performance', defined by the constituent as "quality/quantity of goods and service provided". This constituent also requested the removal of the phrase 'with the intention of having a positive impact', as it may cause confusion when an output has a positive impact on one segment but a negative impact on another.... *[this comment was attributed to KPMG]*

- (b) the discrepancies between definitions with ED 270 and the Productivity Commission’s Report on Government Services. Constituents commented that ED 270 defined ‘service performance objectives’ as “a description of the planned results”, and that this form of measurement can be expressed through a number of different performance indicators, whereas the RoGS calls for an objective that is clear and measurable. ... *[this comment was attributed to Queensland Department of the Premier and Cabinet, and Queensland Treasury].*” (Italicised text added)
- 33. Paragraph 58 of agenda paper 13.1 notes that “Some constituents requested definition or guidance for additional terms that are used in the draft Standard of ... ‘Goods and Services’ ...” (this comment was attributed to KPMG).
- 34. Participants at roundtables organised to discuss ED 270 were specifically asked if there were any issues with the terminology used in ED 270. Comments included (recorded in paragraph 60 of agenda paper 13.1):
 - (a) “goods and services may not be indicative of an entity’s endeavours, particularly for faith organisations and that perhaps ‘activities’ would be more suitable”; and
 - (b) “the term ‘service performance’ by itself should not be used at *[sic]* can be confused with service performance objective”. (Italicised text added).
- 35. Paragraph 61 of agenda paper 13.1 notes that “Some participants suggested using terms associated with social impact reporting whilst others suggested aligning terms with those used in existing performance reporting frameworks.”