

Annual Report Guidance for Departments

Asset Performance Indicators

Version 2.0

August 2017

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The Treasury URL at August 2017 for this document is
<http://www.treasury.govt.nz/statesector/investmentmanagement/review/assetperfreporting>

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What's New?

This document replaces the Annual Report Guidance sent to the Investment-Intensive agencies in May 2016.

Version	Audience	Format	Date
Draft version	Investment-Intensive Agencies (excluding DHBs)	Email	11 March 2016
Version 1.0	Departments in scope of the circular	Published	12 May 2016
Version 2.0	Departments in scope of the circular	Published	25 August 2017

What has changed?

The requirement for the Asset Performance Indicators reporting have been refined from those initially released in the first published guidance in May 2016.

We have learnt lessons from the first round of the asset performance reporting for 2015/16 which was reported to us in August 2016 and this helped with the update of this guidance. We have been working and continue to work on Asset Performance reporting with agencies to whether directly or through the Asset Management Community of Interest (AMCoI) to learn lessons and make improvements. We are also working with the Office of the Auditor General (OAG) on auditing the asset performance measures.

We have again agreed with the OAG to meet Cabinet's Asset Performance reporting requirements for the 2016/17 financial year by collecting agency information and publishing consolidated asset performance data in the Government's report – *Investing for New Zealand*¹.

We highly recommend departments read the Auditing Standard AG-4 - *The audit of service performance reports*² as it complements this guidance.

The effect of the agreement with OAG is that Cabinet requirements will now be implemented progressively over time. At this stage, agencies should plan to meet the Cabinet requirements by publishing the required asset performance information in their 2017/18 annual reports.

We have clarified terms used in this guidance, clarified minimum reporting requirements, explained the relationship with other documents and assessments, and signalled future developments in relation to asset performance reporting.

¹ Investing for New Zealand
<http://www.treasury.govt.nz/statesector/investmentmanagement/publications/ipannualreport/2015-16>

² Auditing Standard AG-4: <http://www.oag.govt.nz/2014/auditing-standards/docs/ag-4-rev-service-performance.pdf>

About This Guidance

This guidance document sets out the requirements on departments to report on Asset Performance Indicators in accordance with the expectations as set out in paragraphs 61 and 62 of the Cabinet Office Circular CO (15)5: <http://www.dpmc.govt.nz/cabinet/circulars/co15/5>

This guidance document should be read by Chief Financial Officers, those responsible for Asset Management, those responsible for preparing for the Asset Performance Indicators reporting, and those responsible for preparing the department's annual report.

The requirements/guidance outlined in this document apply until this document is updated or replaced. This document is scheduled for review in 2018. This guidance can be read in conjunction with the Investor Confidence Rating Assessment and Moderation Guidance³ for Element 8.

This document has been written by the Investment Management and Asset Performance team in the Treasury with input from the Vote teams, investment-intensive agencies, the Office of the Auditor-General, and Audit New Zealand.

Questions and Feedback

You should use this document as your first point of reference for any questions you have around the requirements.

General enquiries about the information contained in this guidance, not addressed in this guidance, may be directed to investmentmanagement@treasury.govt.nz

Any agency-specific questions should be addressed to your Treasury Vote team.

Any comments as to how we could improve this guidance may be directed to guidance@treasury.govt.nz

Further information

This document is part of a suite of guidance around the implementation of the Cabinet Office Circular (CO) 15(5). Other documents to consider can be found on the Treasury's Investment Management and Asset Performance (IMAP) site:

<http://www.treasury.govt.nz/statesector/investmentmanagement>

³ Guidance on the Investor Confidence Rating (ICR) Assessment and Moderation: <http://www.treasury.govt.nz/statesector/investmentmanagement/review/icr/information/assessment/investmentmanagement-icr-assessment.pdf>

1 Context, Mandate, and Scope

1.1 Context

According to the Treasury's Investment Statement 2014, understanding what the Crown owns and owes, and how it uses those assets and liabilities to provide services, enables improved performance, more informed views on whether past resource allocations remain appropriate, and better decisions to be made for the future.

Robust performance measures are vital to effective asset management. It allows an organisation to assess how well it is meeting its expectations and objectives, both at an organisational and asset level. It provides a method for comparing performance across entities, and a tool for identifying and assessing areas for improvement and levels of service. This can lead to greater utilisation of Crown assets and helps ensure that assets meet needs more effectively. This in turn will allow governments to provide more services at lower cost.

"Further develop and utilise metrics for the measurement and monitoring of the performance of Crown assets in meeting government objectives" has been a key focus area for the Treasury since the release of the 2014 Investment Statement. The mandatory requirements in this guidance supports this focus.

1.2 Mandate

Mandatory: Cabinet Office Circular CO(15)5:

Expectations relating to reporting on investment performance by agencies

Paragraph 61: Agencies must report on relevant asset performance indicators in their Annual Reports.

Expectations relating to asset management

Paragraph 62: Agencies must capture and use in internal management and decision-making processes, relevant indicators of past and projected asset performance, such as asset utilisation, condition and fitness for purpose.

Cabinet Office Circular CO (15)5 includes requirements to report on asset performance. The Treasury is working with agencies and the Office of the Auditor-General to roll-out this policy in several steps over time:

- For the **2016/17** reporting period, investment-intensive agencies⁴ must report the required information to the Treasury by 1 September 2017. The Investment Management and Asset Performance (IMAP) team will publish it in the Treasury's *Investing for New Zealand* annual report⁵. This means for the 2016/17 reporting period, investment-intensive agencies are not required to publish the asset performance indicators in their own annual reports.

⁴ List of investment-intensive agencies: <http://www.treasury.govt.nz/statesector/investment-intensive-agencies>

⁵ For the Treasury's Investment Management and Asset Performance Annual Report for 2014/15, please see the Managing Government Investment Projects 2014/15 report: <http://www.treasury.govt.nz/statesector/investmentmanagement/publications/ipannualreport/2014-15>

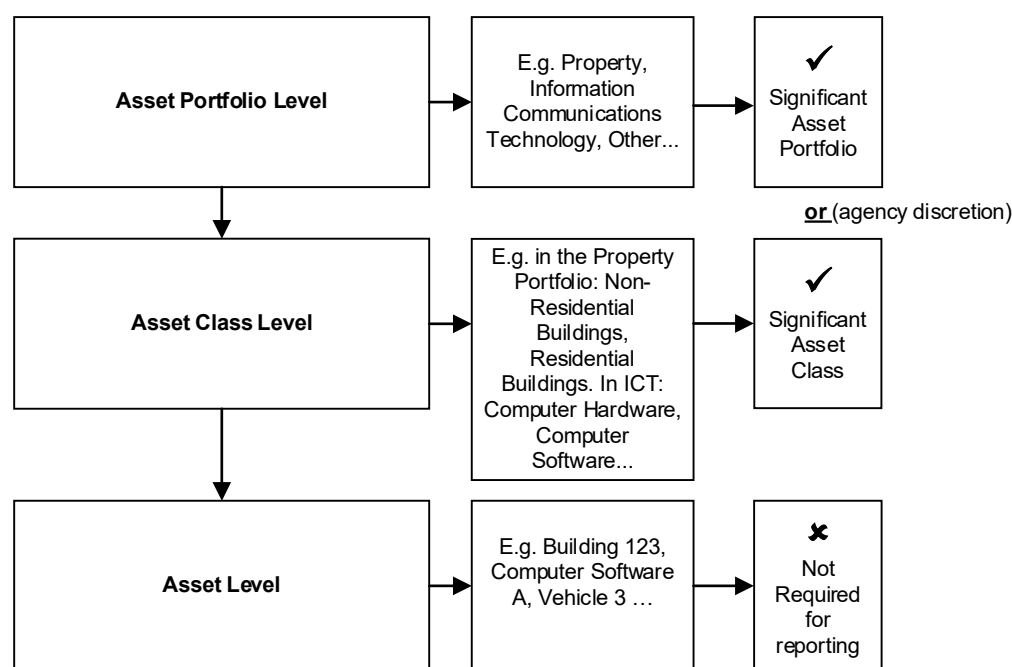
- At this stage, investment-intensive agencies should plan to meet the Cabinet requirements by publishing the required asset performance information in their 2017/18 annual reports.
- Non-investment-intensive agencies are on a slower path to implement, as the compliance burden is not fully understood. However, it is good practice to report asset performance internally and non-investment-intensive agencies should use it for their decision-making.

1.3 Scope of asset performance reporting:

The department must report the asset performance either at the **significant⁶ asset portfolio** or **significant asset class** level, at its discretion. Asset level reporting, however, is not required.

This reporting must include assets that are on the department’s balance sheet or not on the department’s balance sheet (i.e., as-a-service assets or leased assets) but used by the department to deliver their services, or managed by the department⁷.

Figure 1: Levels of Asset Performance reporting



Significant asset portfolios for a department may be Property, Information Communications Technology (ICT), and any specific asset portfolios that are critical to service delivery. However, the department may decide it is more appropriate to report at the **significant asset class** level, a lower level than the significant asset portfolio.

While the level of reporting is at the discretion of the department, it needs to describe the rationale for choosing either level in the annual reporting.

⁶ The interpretation of “significant” in this guidance is consistent with the interpretation in the CO (15)5, being those assets, classes, or portfolios that have a high degree of importance in terms of its likely impact on and likely consequences for the agency.

⁷ This is typically known as non-departmental assets or assets managed on behalf of the Crown by the department.

Example: Rationale reporting at the significant asset portfolio level

Assets have been grouped into Property, Information Communication and Technology (ICT) and Fleet portfolios. This grouping reflects the underlying asset management practices with the Department. Other asset have been excluded for reporting due to their lesser significance (criticality) to delivering our core services.

The department may choose to report at the significant asset class level if there are notable differences in performance measures used, results achieved, or targets set for the different asset classes, which makes aggregation into the asset portfolio level difficult. Significant asset classes should align with those reported on the Crown's Financial and Information System (CFISNet).

Example: What could be included in a significant asset portfolio?

The Property portfolio may consist of the following owned and leased asset classes (as aligned with CFISNet reporting): Land, Non-Residential Building, Residential-Building, Plant & Equipment, and Furniture & Fittings.

The ICT portfolio may consist of the following owned and leased asset classes (as aligned with CFISNet reporting): Computer Hardware, Computer Software – both Internally generated and Purchased.

When reporting at the significant asset class level, in most cases, for most departments, the Treasury expects significant asset classes to be reported on will be:

- Non-Residential Building
- Residential Building
- Computer Hardware
- Computer Software (to include both internally generated and purchased), and
- Other specialist asset classes where applicable.

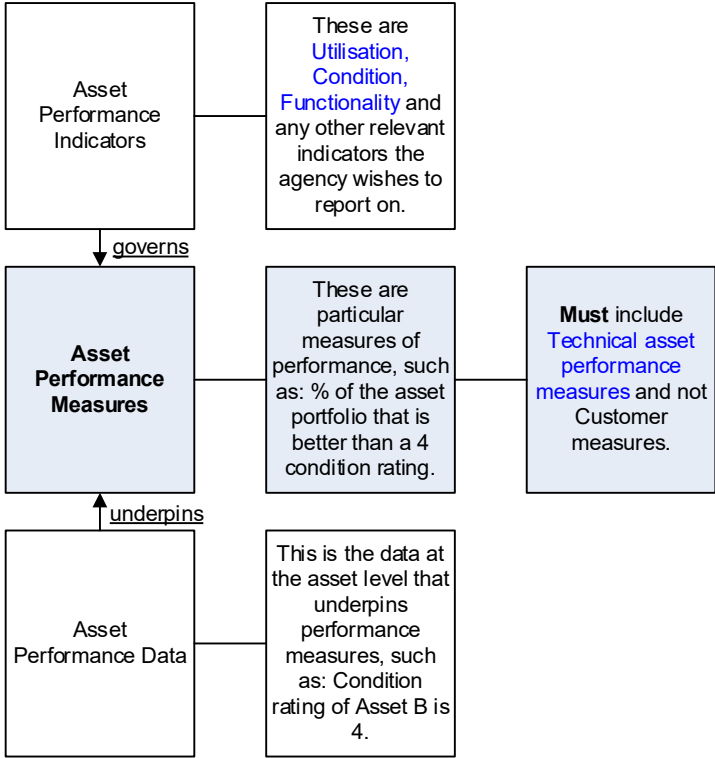
In most cases, the Treasury expects departments to cover several significant asset classes in their reporting, not just a single significant asset class.

2 Reporting Requirements

2.1 Terms Used

For the purpose of the guidance, the definition and relationship between **Asset Performance Indicators**, **Asset Performance Measures**, and **Asset Performance Data** can be found in figure 2.

Figure 2: Relationship between and definition of asset performance indicators, measures, and data.



2.2 Mandatory Requirements

The mandatory asset performance reporting requirements⁸ are as follows:

- For the purposes of meeting paragraph 62 in the CO (15)5, the department must (where relevant*) provide asset performance information on the following asset performance **indicators**:
 - utilisation
 - condition, and
 - functionality (fitness for purpose).

*For some agencies, the Treasury acknowledges that not all of the indicators may be relevant due to the nature of the assets. For example, where assets need to be available but not utilised, then the agency may use an availability indicator instead of an utilisation indicator (see section 2.3 for other indicators).

⁸ The mandatory requirements are closely aligned to the requirement for Element 7 of the Investor Confidence Rating. Please see the “Assessment and Moderation Guidance on the Investor Confidence Rating (ICR)” for Element 7 for more details: <http://www.treasury.govt.nz/statesector/investmentmanagement/review/icr/assessment>

- The department must provide asset performance **measures** that fit into the above indicators (where relevant) and report on **results** of such measures.
- The department must provide **technical** asset performance measures for each of these indicators. **Technical asset performance measures** aims to reveal the state of the asset and generally reflect potential 'failure modes' of the asset. Technical performance measures focuses on how effectively the organisation provides the service.
- The department must report asset performance measures on both **owned and leased assets** covering the above three asset performance indicators. Where the department procures assets as part of a service agreement (As-a-Service), it should treat them the same way as leased assets. For leased assets where a third party provides reporting, the department should input that reporting information into the Annual Report to meet this requirement.
- Pre-requisites for reporting asset performance measures is that they are **meaningful** to the department and material to the performance of the department's core services.
- The department must provide asset **performance targets** against each measure.
 - Departments must set targets that are both realistic and appropriate to the level of services delivered. Where there are notable reductions in performance targets or actuals for the reporting periods, departments should have supporting documentation.
 - Target performance levels must be agreed at the start of each reporting period with the approving authority. It is best practice to have asset performance targets agreed at the Minister or Board level, however, executive level sign-off will also be accepted where this makes more sense.
 - Agreed performance targets and no agreed performance targets:
 1. Agreed performance targets: Since the requirement for annual reporting of Asset Performance Indicators was implemented in 2016, the Treasury expects that existing measures submitted for the 2015/16 reporting period will have existing performance targets that have already been set and can be verified.
 2. No performance targets: where approvals of the performance targets were not in place (not agreed with the approving authority), the agency will meet the coverage requirement for that indicator and that significant asset portfolio but an adjustment will be made through the verification process because the performance target cannot be verified.
- For 2016/17, Treasury requires a minimum reporting period of two years. This compares the result from the current year (2016/17) with the previous year (2015/16). However, the Treasury recognises that departments' measures may change through time as departments undertake continuous improvements to the measures.

2.3 Discretionary

- The department may provide other asset performance indicators (than the three indicators listed in the Mandatory section) in the annual report at its discretion. Please refer to the Treasury's Social Asset Reporting Framework⁹ for other asset performance indicators that may be reported on, such as Availability, Operating Cost, and Maintenance Costs (Planned and Reactive).
- The department may include customer levels of service measures but it cannot be used to satisfy this requirement.
- Although activity measures can be useful management information, they cannot be used to satisfy the reporting requirements as set out in this guidance. Examples of activity measures may include the number of condition assessments performed annually or the quality and frequency of contractor services or customer levels of service measures.
- For auditing purposes, the department needs to have evidences of performance data at the asset level which underpins the results for the asset performance measures provided for annual reporting.

3 Auditing

The Treasury is currently working with the Office of the Auditor-General (OAG) on a pilot study on the approach for auditing asset performance information in the annual reports. The objectives of the pilot are as follows:

- Assist agencies to fully meet Treasury 2017/18 annual report requirements;
- Inform changes to Treasury guidance;
- Explore scope for efficiencies between annual report and ICR; and
- Estimate audit resource implications.

The pilot study is intended to be completed in a phased approach and is jointly led by the Treasury and the OAG. A group of volunteer agencies have agreed to participate in the pilot study. The focus will be on sharing learnings and findings will be shared with the Asset Management Community of Interest (AMCoI – see page 12) and used to guide further updates to this published guidance.

The Treasury highly recommend that departments understand the Auditing Standard AG-4 *The audit of service performance reports*¹⁰. The auditors will comply with this standard when they are auditing the asset performance information.

⁹ The Treasury's Social Asset Reporting Framework:
<http://www.treasury.govt.nz/government/investmentstatements/2014/17.htm>.

¹⁰ Auditing Standard AG-4: <http://www.oag.govt.nz/2014/auditing-standards/docs/ag-4-rev-service-performance.pdf>

4 Relationships with other Documents and Assessments

4.1 Department's Estimates and Statement of Intent Documents

The department needs to be aware that it does not need to put asset performance measures into the departmental estimates or Statement of Intent documents for it to be reported in the annual report. There is scope for the department to include information in its annual report other than what is specified in Section 45 of the Public Finance Act 1989¹¹. In particular, section 45(2)(g) states: *any other matters that relate to or affect the department's operations that the department is required, has undertaken, or wishes to report on in its annual report.*

The Treasury is however, working towards having this requirement better align with the timing of these documents, and may look into getting the asset performance measures into these documents.

4.2 Asset Management Maturity

For investment-intensive agencies, the Treasury assesses the maturity of the department's asset management practices, which includes the quality of asset management reporting, as part of the ICR Element 1. The department may choose to provide information on its asset management maturity, but is not required to fulfil these requirements. The quality of the asset performance measures and the performance against these measures will reflect the department's asset management maturity over time.

4.3 Asset Management Plans and Long Term Investment Plans

There is no need to publish other details from the department's Asset Management Plans (AMP) or Long Term Investment Plan (LTIP) to fulfil these requirements. However, the Treasury expects the measures reported to be embedded into the department's AMPs and LTIP, and used for regular reporting within the department. For investment-intensive agencies the quality of the department's AMPs is assessed as part of the ICR in Element 1 – Asset Management Maturity. In addition, the Treasury expects to see information on the future state of assets through the LTIP as part of the assessment for Element 3 – Quality of the LTIP.

4.4 Asset Performance in the Investor Confidence Rating

For investment-intensive agencies, Asset Performance is assessed in Element 8 of the Investor Confidence Rating. Measures provided to fulfil these requirements must also be included for the assessment in Element 8.

¹¹ Please see: <http://www.legislation.govt.nz/act/public/1989/0044/latest/DLM162486.html>

Alignment between ICR requirements and Annual reporting requirements

	ICR Element 8 Asset Performance Indicators	Asset Performance in Annual Reporting
Frequency of reporting or assessment	Every 2 years	Yearly
Submission	To the Treasury depending on when the agency is being assessed for their ICR. Submitted in the ICR Form for Agencies Lag Indicators which uses last two financial years of asset performance data submitted.	To the Treasury by 1 September 2017 for the 2016/17 year. Submitted in the format that is consistent with the agency's annual report or in a separate document using the worked example in the Annual Report Guidance Asset Performance Indicators - Annex 1.
Target audience	Corporate Centre and Ministers	General public, Corporate Centre, Office of the Auditor-General and Audit NZ
Data Requirements:		
<i>Performance measures</i>	Selected by the agency and in consultation with Corporate Centre	As for ICR
<i>Time horizon (history of data)</i>	Previous two financial years	For 2016/17 and beyond, previous two financial years is required
<i>Data Level (information level)</i>	At the Significant Asset Portfolio level (typically 2 or 3), or the Significant Asset Class, or the Significant Asset level as determined by the agency in consultation with Corporate Centre.	At the Significant Asset Portfolio level (typically 2 or 3), or the Significant Asset Class is required as determined by the agency in consultation with Corporate Centre.
<i>Target performance</i>	As agreed with Board or Minister, or where not available - the executive level	As for ICR
Weighting of results	Portfolio results are weighted according to the weights used in Asset Management Maturity (Element 1) where weightings exist.	Not weighted
Assessment	Self-assessment verified by The Treasury	Self-assessment
Verification and Adjustments: Coverage (portfolios and indicators) and Quality checks	The Treasury verifies the information provided for portfolio coverage and whether the measures cover all 3 indicators required (Utilisation, Condition, and Functionality). Then a further verification by selecting a sample of information provided for evidence of actuals and targets. Adjustments may be made to the raw score after verification if the information does not cover the full requirements or cannot be verified.	From when the agencies publish the asset performance information in their agency annual reports, the auditors are obligated to review the information for material inconsistency and misstatement of fact.
Moderation	Treasury moderates results across each tranche and compared against previous tranches of assessment.	No moderation

5 Assistance

5.1 Further Assistance

The Treasury is available to work with the department to select the appropriate asset portfolios and asset performance measures to fulfil this requirement. There are efficiencies that the department may gain with the requirements of the Investor Confidence Rating (ICR) Element 8, in terms of the selection of asset portfolios, asset performance measures and setting performance targets.

5.2 Asset Management Community of Interest and Public Sector Intranet

The Asset Management Community of Interest (AMCoI) was set up to support any government investment-intensive agency employee with the responsibility of introducing, managing or monitoring the performance of an asset. The AMCoI has been the Treasury's main way of communicating the changes to the requirements on Asset Performance reporting, and is supporting the development of the guidance and the draft Library of Asset Performance Measures (see below).

Participation to the AMCoI has been good and the Treasury encourages agencies who are not part of the AMCoI to attend.

An AMCoI page has been set up on the Public Sector Intranet¹². This page contains the calendar for upcoming meetings, the Terms of Reference and Documents such as meeting minutes, agendas, presentations, the draft Library of Asset Performance Measures and other resources as they are available.

5.3 Library of Asset Performance Measures (draft)

The Treasury, with support of the Government Property Group (GPG), the Government Chief Information Office (GCIO) and in consultation with some other agencies and through the AMCoI developed a Library of Asset Performance Measures. This supports the departments and provides examples for the types of measures it may use to meet these requirements. The department should not view this list as an exhaustive or prescriptive list, it should treat this as a live document aiming for continual improvement. The Treasury welcome any feedback on the library and will take on board suggested changes. The Treasury will update the library as further more improvements are made.

5.4 Worked Example of Annual Reporting

The Treasury, in consultation with some other agencies, has developed a worked example which may be used by departments for both their reporting to the Treasury and going forward for the department's individual annual report. Please see Annex 1 for the worked example. This worked example is now available to download on the Public Sector Intranet under the AMCoI documents page. Again the worked example is being offered as additional assistance to the department with the view it is at the discretion of the department to adopt the example for their reporting.

¹² Asset Management Community of Interest page on the Public Sector Intranet: <https://www.psi.govt.nz/home/communities/amcoi>

5.5 In Development:

Future Development – Metadata standards

The department needs to be aware that the Treasury's National Infrastructure Unit (NIU) is currently supporting the development of asset management metadata standards as part of the Strengthening Asset Management Practices initiative. The asset management metadata standards will cover Building and Housing, Water, and Roads are currently being finalised, but is available in draft. Please contact the Treasury if you would access. The Treasury will endorse the adoption of metadata standards to underpin asset level performance data in investment-intensive agencies.

5.6 Inability to meet requirements

The Treasury expects all investment-intensive agencies that have reported on Asset Performance in 2015/16 to be able to meet the requirements with improved measures and performance against targets. However, the Treasury acknowledges that it takes time for improvements to be embedded and a department may not be able to meet some of the requirements in the 2016/17 year depending on its asset management practices and potential changes to the measures.

Partial meeting the requirements can be accepted as long as there is reasonable explanation where the requirement is not met. For example, where the department does not have asset performance practices in place to collect some asset performance information. The Treasury expects the department to work towards fully meeting these requirements in the 2017/18 year and going forward.

The department however, must acknowledge in the 2016/17 year that it is aware of the requirements, and that it is working towards improving its asset management practices and meeting these requirements in the 2017/18 year.

Annex 1: Worked Example of Asset Performance Reporting

Asset Performance Indicators for [Agency Name]

[Agency]’s Asset Portfolios

Assets have been grouped into Property, Information Communication and Technology (ICT) and Fleet portfolios because we were able to aggregate at the significant asset portfolio level for reporting.

Asset Portfolio	Asset classes within [Agency]’s Portfolio
Property	Land, Non-Residential Buildings, and Furniture and Fittings.
ICT	Computer Hardware and Computer Software
Fleet	Cars and Vans

Other asset have been excluded for reporting due to their lesser significance (criticality) to delivering our core services.

Asset Portfolio Quantity (optional, may be reported elsewhere in the Annual Report)

Asset Portfolio Description	Asset Purpose	2014/15 Quantity / Capacity	2014/15 Net Book Value	2015/16 Quantity / Capacity	2015/16 Net Book Value
Property	To enable the delivery of core services through provision of branches for office accommodation.	14 Owned Land with Buildings 23 Leased Buildings	\$450M	14 Owned Land with Buildings 25 Leased Buildings	\$445M
ICT	To enable the delivery of core services through provision of computer hardware and software.	240 Major Computer Hardware 20 Major Computer Software (internally generated)	\$95M	280 Major Computer Hardware 21 Major Computer Software (internally generated)	\$100M
Fleet	To enable staff to travel to our customers to provide our core services.	120 owned vehicles	\$90M	123 owned vehicles	\$75M

Asset Performance

Property asset performance measures

The following asset performance measures apply to both our owned and leased assets in our Property portfolio.

The targets for 2014/15 were agreed at the Executive level at the beginning of the reporting period. For 2015/16 and 2016/17 targets were explicitly agreed at the beginning of each reporting period with our Minister.

Measure	Indicator	2014/15 Target	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target
% of buildings with a condition rating greater than 3	Condition	>60%	58%	>60%	61%	>65%
% occupancy rate of our buildings	Utilisation	>95%	88%	>95%	90%	>95%
% our branches provide two or more disabled access-ways	Functionality	100%	97%	100%	97%	100%

Information Communications Technology (ICT) asset performance measures

The following asset performance measures apply to both our owned and leased assets in our ICT portfolio.

The targets for 2014/15 were agreed at the Executive level at the beginning of the reporting period. For 2015/16 and 2016/17 targets were explicitly agreed at the beginning of each reporting period with our Minister.

Measure	Indicator	2014/15 Target	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target
% of time our systems are available	Availability	100%	99.8%	100%	99.9%	100%
% our ICT assets with a condition rating of poor	Condition	<15%	22%	<15%	18%	<15%
% of users who are able to access the network and systems remotely	Functionality	>60%	58%	>60%	61%	>65%
% of our services completed in the digital environment	Utilisation	>75%	62%	>75%	73%	>80%
% of front line staff utilising mobile technology with clients	Utilisation	>75%	60%	>75%	68%	>75%

Fleet asset performance measures

The following asset performance measures apply to both our owned and leased assets in our Fleet portfolio.

The targets were explicitly agreed at the beginning of each reporting period with our Minister.

Measure	Indicator	2014/15 Target	2014/15 Actual	2015/16 Target	2015/16 Actual	2016/17 Target
% our fleet assets with a condition rating of greater than 3	Condition	>85%	90%	>85%	89%	>85%
% fleet meet/exceed target fuel economy (6.9 L/100km of travel)	Functionality	>95%	93%	>90%*	93%	>90%
% of our fleet utilised for official business	Utilisation	>90%	63%	>90%	71%	>90%

*Note: Our functionality measure target has been dropped and agreed by our Minister as the current fleet already meets the business functionality requirement. We have limited budget to replace our fleet portfolio and the business made the decision that funding is better placed in other poor performing areas of our asset portfolio with a higher priority.

Annex 2: Checklist

Not all of the items on the checklist will be applicable for the 2016/17 reporting, however, they will become applicable from 2017/18 onwards.

Level of reporting defined and rationale described (section 1)

Asset performance indicators covering: Utilisation, Condition, and Functionality (fitness for purpose) (section 2.2)

Asset Performance Measures and Results (section 2.2)

Explicit Performance Targets agreed by approving authority (section 2.2)

Technical Asset Performance Measures (section 2.2)

Covering both Owned and Leased assets (section 2.2)

Meet minimum reporting period (section 2.2)

