
PERFORMANCE IMPROVEMENT FRAMEWORK

Follow-up Review of the New Zealand Customs Service

JULY 2014

State Services Commission, the Treasury and the Department of the
Prime Minister and Cabinet

Lead Reviewer's Acknowledgement

I want to thank Carolyn Tremain, the Chief Executive and Comptroller of the New Zealand Customs Service (Customs), for making herself available for frequent and ongoing discussions during this Follow-up Review. I also had very good access to senior people in Customs and to a number of people who deal with Customs on a day-to-day basis. This included freight forwarders, customs agents and airport operators.

I want to particularly thank Jenny Juno from Customs for her support and guidance in carrying out this Review. Jenny arranged interviews, obtained relevant papers and, given her experience in Customs, was able to provide very useful context on a number of occasions.

**Performance Improvement Framework
Follow-up Review: The New Zealand Customs Service**

**State Services Commission, the Treasury, and the Department of the Prime Minister and Cabinet
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INTRODUCTION

A Performance Improvement Framework (PIF) Review of the New Zealand Customs Service (Customs) was published in October 2012. It considered, “What is the contribution New Zealand needs from Customs and therefore what is the performance challenge?”

The Review noted that Customs is a successful organisation with strong relationships with its stakeholders but will face an operating environment that is changing at an increasing rate. It was also noted that Customs is transitioning from a regulator of the border to a facilitator of New Zealand’s economic interests, requiring it to think differently about some of its traditional approaches.

In particular, the PIF report noted the following challenges would need to be addressed by Customs:

- Successful delivery of the Joint Border Management System (JBMS)
- Increasing collaboration and engagement
- Improving capability and capacity
- Strengthening leadership and improving performance management
- Improving the strategic capability for policy development
- Refining performance measurement and strengthening revenue collection.

This Follow-up PIF Review considered whether Customs’ Four-year Excellence Horizon continues to be appropriate and whether Customs’ direction of travel is right and on track to deliver its strategy and fulfil its Four-year Excellence Horizon.

David Butler
Lead Reviewer

AGENCY'S RESPONSE

Customs welcomed the opportunity for Mr David Butler, Lead Reviewer, to undertake the Performance Improvement Framework (PIF) Follow-up Review in May 2014 and I would like to thank him for his insightful report.

The Follow-up Review offers a progress report on whether Customs' direction remains appropriate and is on track to deliver more integrated, efficient and responsive border management.

Our performance was informed by and assessed following analysis of information and meetings with our senior leaders, staff and key stakeholders. I am grateful to all who contributed to the Follow-up Review process.

In the two years since the 2012 PIF Review, it is pleasing to see we have made significant progress in many areas towards the Four-year Excellence Horizon. The commitment and dedication of our people has greatly contributed to us being a highly regarded and successful organisation.

Our greatest challenge has been in the development and implementation of JBMS. While the Trade Single Window component of JBMS has been successfully introduced, there is more work to do to bed this down. We are also progressing the work to implement the Risk and Intelligence tools. As a priority, we will continue to address the complex issues to deliver the JBMS and realise its benefits.

Customs has undergone significant change since the 2012 PIF Review. The Follow-up Review recognises the significant improvements we have made in organisational and cultural change, specifically in the areas of leadership, governance and strategic thinking. It was pleasing to see the Follow-up Review recognise the shift change in our operating environment, developed as part of our Towards Customs 2020 Strategy.

It is also pleasing to see the Review recognise our continued excellent track record of protecting the border, and noting the number of initiatives under way to improve border operations efficiency and enhance our service to customers.

The areas identified by the Reviewer as requiring particular and ongoing focus will continue to be prioritised and addressed through our 120-day planning process. I have the confidence that our people have the capability and desire to meet these challenges.

The Lead Reviewer's findings provide us with reassurance that we are well placed to continue our journey towards Customs 2020.

Carolyn Tremain

Chief Executive and Comptroller of Customs

EXECUTIVE SUMMARY

The overall finding of this Follow-up PIF Review is that Customs continues to be a highly regarded and successful organisation and is now aspiring to lift its performance further.

The Four-year Excellence Horizon set out in the 2012 PIF report is still valid but would benefit from having a clearer focus on the Government's Better Public Services Programme (BPS). While Customs is on track to deliver on the Four-year Excellence Horizon in all areas and has made a valuable contribution to BPS, a continued focus is required for seamless delivery of border services, as well as engagement and diversity of the workforce.

The greatest challenge Customs has faced since the PIF Review has been the development and implementation of JBMS. This has consumed a lot of Chief Executive and senior management time, has proved to be more difficult than expected and there are complex issues yet to be addressed to fully implement and gain the planned benefits of JBMS.

Customs has maintained high levels of performance in 'protecting the border' and has successfully commenced far-reaching organisational and cultural change, as set out in a new strategy called 'Towards Customs 2020'. Customs is making good progress but now needs to further step up and increasingly be an intelligence-led, risk-enabled and technology-driven border management agency to process growing volumes of trade and travel, without diminishing border security or creating unacceptable and costly delays.

Customs has absorbed growth in passenger and trade volumes over the past four years and forecasts continued growth. In future years, Customs' ability to continue to absorb cost pressures from volume growth will be tested.

Scope of Follow-up Review

In addition to considering whether Customs' Four-year Excellence Horizon continues to be appropriate and if Customs is on track to deliver its strategy and fulfil its Four-year Excellence Horizon, the Chief Executive has asked that the Follow-up PIF Review also consider :

- Leadership and governance
- Policy
- Approach to modernising the border
- Security, privacy and information management.

These four issues are dealt with first.

Leadership and Governance

Since the PIF Review, there has been a significant change and improvements in Customs' leadership and governance. The senior team roles have been streamlined with one Deputy Comptroller taking the lead for Transformation and Technology and another leading all Operational activity. There are group manager-level leaders for People and Capability; Finance, Strategy and Performance; Policy; and Legal who report to the Chief Executive. They meet with the Chief Executive as an Executive Board.

This is a much smaller senior leadership team, accountabilities are now clearer, communications are streamlined and there is stronger alignment. The senior team works well together with real energy and commitment evident. It was common to hear them say there are high levels of trust and respect for each other. This is a welcome development.

Towards Customs 2020 Strategy

A key development since the PIF Review was the completion in September 2013 of a new strategy called 'Towards Customs 2020'. This strategy describes Customs' changing operating environment, the reasons why Customs needs to continue to change and details where shifts are required. It also sets out Customs' purpose, beliefs and character.

The 'Towards Customs 2020' strategy also explains why Customs has to evolve from a regulator of the border to a facilitator of New Zealand's economic interests, while continuing to effectively manage risks. This was a key issue raised in our PIF Review and good contextual information supporting the need for this shift is provided.

There is now a more sophisticated understanding and discussion about Customs' role, particularly evident at the senior manager levels. It is common to hear references to the Compliance Model Customs now uses and concepts such as, "high assurance, light touch". In staff focus group discussions these concepts were also referred to, showing at least an initial understanding of what needs to be different.

Another important part of the 'Towards Customs 2020' strategy are the 11 key challenges to make compliance "easy to do and hard to avoid". Five challenges relate to better service delivery and six to aligning organisational capabilities and resources. A 120-day planning cycle (described below) has been introduced to deliver on these challenges. This is a good example of a real improvement in strategic thinking and driving the pace of change, which is now increasingly evident in Customs.

The journey of culture change in Customs will require ongoing attention and focus. For example, Customs needs to maintain its investigation and enforcement expertise based on intelligence, risk analysis and targeting but sometimes this work will need to be carried out in a different way. One of the objectives of Customs' Compliance Model is to increase the likelihood that improved attitudes to compliance will be adopted in the future, even where someone has been investigated and penalties imposed. Tax agencies have been on this journey for a number of years and Customs is working closely with the Inland Revenue Department (IRD) as these different approaches are further developed.

Leadership Development

To better equip its senior managers to successfully lead these changes, there is now a new Leadership Framework that identifies what is expected of leaders and also sets out Leadership Principles for leaders to aspire to. The Leadership Framework and principles make sense and resonate well with Customs' people.

As always, to continue to bring these to life will require ongoing role modelling and communication by the Chief Executive and other members of Customs' Executive Board. There is a strong commitment to continue to do this and the Board members are positive about what they can contribute and achieve.

Leadership development now has a clearer focus, with a range of opportunities aligned to areas of developmental need. Performance management is also now more commonly seen as working better but some Customs staff believe there is further to go. A real strength of Customs is its very supportive and caring environment, where people rally to help when someone is facing difficulty. There were some comments that Customs' environment does not always lend itself to addressing performance problems and although it is difficult to judge, the extent to which this may be correct needs to be considered and, where needed, addressed by the senior leaders.

Succession Planning

Customs has given careful attention to the succession planning challenges it faces and an updated workforce strategy 2012-2016 has been finalised, which describes the capabilities needed today and in the future and sets out strategies to address identified gaps.

For example, higher-level skills will be needed with the enhanced use of risk and intelligence tools and Customs is working more closely with intelligence agencies and, where possible, arranging secondments. Further, Customs is aware that staff with specialist data mining and predictive modelling capability will need to be recruited and existing intelligence staff in the Integrated Targeting Operations Centre will need to be trained in how to make best use of the new risk capabilities in JBMS. Like other organisations that have made this sort of transition, Customs will continue to learn about how to best use these tools as skilled people become more familiar with them and the insights that can be gained.

There are now a number of senior people who are new to Customs, which has enabled new perspectives and experiences to be gained. This is a good development. Continuing to find the right mix of people with the knowledge of the business and others with fresh ideas, will be important to ensure Customs considers and debates issues from diverse perspectives

Improved service to customers

Since the PIF Review, a new Customer Insight and Service Design and Change leadership role has been established and a new Customer Service Charter is being developed. The aim is to enhance customer insight to support a culture of innovation directed at providing information and services that are more accessible and easy to work with.

Continuous improvement approaches are being used to rethink key areas of operations including, for example, departures from Auckland International Airport, where the biggest volumes are dealt with. There is a very energised multi-agency team looking for ways to improve the overall efficiency of operations and experience of customers.

An Ideas Management System has been trialled with a very good response. 'Crowd voting' is being used to decide the final contenders, where teams will develop proposals for specific improvements. This should ensure there is stronger buy-in to priorities as changes are implemented.

Although this work is relatively new, it is showing promising signs and with some early wins. This will likely grow in momentum and help develop a more innovative culture in Customs.

Progress Measurement

The newness of some of Customs' strategic priorities means that progress measures have not been fully tested. However, the 120-day planning approach requires a clear description of the result sought, the deliverables needed for each result area, what specifically will be completed in the 120-day plan cycle, what the expected outcomes are and traffic light tracking of progress. There is a strong commitment from senior leaders to this planning and delivery approach, which will enable changes to be driven at a quick pace.

Customs does have a number of good performance indicators for operational work and a draft Strategic Scorecard has been developed for key areas including: Intelligence-led; People and Culture; Customer-focus; and Border Modernisation. Once finalised, this will enable Customs to track progress for these important areas of change.

Policy

The PIF Review highlighted that Customs' policy work needed development. It was noted that as an operational department the Policy Group tended to be driven by the need to respond to operational delivery policy issues and suggested that as a result insufficient time was available for more strategic policy work.

There is now a new highly experienced Group Manager leading policy work, the structure of the Policy Group has been changed to clarify accountabilities and reporting lines and a 'one group' approach to deliver the work programme has been adopted. A new operating model for the Policy Group has been agreed and it is now well placed to deliver both operational and more strategic policy work.

The 120-day planning approach has been used effectively by the Policy Group to set clear deliverables to not only meet the work programme but to implement tools, technology systems and processes to support policy work.

It is early days but there are promising signs of improvement. It will be necessary to drive forward these changes as amongst other policy work, a complete review and rewrite of the Customs and Excise Act 1996 is being considered.

Approach to modernising the border

A key initiative to modernise the border has been the work Customs and the Ministry for Primary Industries (MPI) have been undertaking to develop and implement JBMS. The Trade Single Window (TSW) component of JBMS provides traders with one electronic interface to streamline and simplify border clearance processes for industry and reduce data duplication.

JBMS is a significant capital investment and as noted in the PIF Review, TSW alone represents the largest information technology programme ever undertaken by Customs. This work has proved to be more difficult than envisaged and with the decision to stage implementation over a series of releases, the delivery date has been extended.

A number of areas of concern were raised in the PIF Review about JBMS. Following the Review Customs addressed these concerns, including obtaining specialist technical advice, contracting with a very experienced IT specialist to work with and assist the team, strengthening governance and engaging a highly skilled person to provide ongoing independent assurance for the programme. Customs has also employed additional specialists in legal and commercial services and moved a Deputy Comptroller to lead this initiative.

The first component of JBMS is the TSW, which has been working since 1 August 2013 (rather than the planned 1 April 2013 start date). Over 35% of inward transactions and 100% of outward transactions are now being processed through TSW. A cautious approach has been used where importers and exporters have been progressively moved to the new system and very recently Fonterra began using TSW, which was an important step forward.

There is more work to do to completely bed down and progressively move customers to TSW. The existing system, CusMod, is being used for processing transactions as traders transition to TSW, thus mitigating risks. It was always planned for CusMod to remain operational as part of the Tranche 1 phase of JBMS.

Once the Tranche 1 phase of JBMS is fully operational, consideration will be given to the next stage of development, including the ongoing use or reliance on CusMod. Decisions will be made taking into account the cost/benefit and risk profile of the Customs border management systems.

There is also more work needed to fully implement the risk and intelligence tools in JBMS. These tools are also proving difficult to develop and the PIF Review noted concerns that the scope of the risk and intelligence tools had not been finalised.

The risk and intelligence tools will use the World Customs Organisation's latest data standard and are essential to enhance Customs' ability to identify and manage risks. Customs is working closely with IBM to complete this work and have sought highly skilled independent technical advice as this has progressed. The software being used is familiar to IBM and it has implemented similar tools in at least one other Customs agency.

Customs has done exceptionally well in keeping traders and stakeholders informed of the progress of JBMS and they are very positive about the way Customs has managed TSW. They all commented that Customs should continue to be cautious and be sure the system is working well rather than rush any expansion of TSW.

There needs to be a continued and sustained effort to drive JBMS to completion. This work has been going on for some time and has been very difficult for the people involved. It would be useful to again test the expert assistance and support available to ensure success in this very important initiative.

SmartGate is operating very well, with increasing take up. Customs achieved the target of processing 60,000 per week in 2013, well ahead of the 2015 target date. The number of countries where travellers with electronic passports can use SmartGate has expanded to include the United Kingdom and United States on departures. Options to further expand SmartGate are being considered.

Customs is also considering the possible automation of the departure card process and new mobile clearance devices for cargo. An initiative under way called the 'Border Operations Transformation Project' is focused on the options to deploy the large number of staff in Auckland differently to improve the efficiency and effectiveness of border operations and provide enhanced career opportunities.

Since the PIF Review, Customs has made some good progress in thinking through and taking steps to modernise the border. The difficulties experienced with JBMS have, as noted, required a lot of senior attention. It is a credit to Customs that despite these difficulties there has been some new thinking and good progress in other areas of border operation transformation.

Security, privacy and information management

Customs has earned high levels of trust from the people it deals with and the community more broadly. It is common for Customs' people to refer to the importance of the integrity of their operations and there are good practices in maintaining confidentiality of information.

Customs officers are aware of the sensitivity of the commercially confidential information they access to do their work and are respected by other agencies such as MPI and the New Zealand Police. Customs also has an excellent relationship with the border agencies of many other countries, in particular, Australia and the United States.

A key feature of Customs thinking about its ongoing success is how it can use information to improve efficiency and effectiveness. Approaches to analysis and risk management are clear examples of this and the risk and intelligence tools in JBMS will enable Customs to take a significant step forward.

However, Customs does not have an information management system and various practices are used to capture and electronically file documents. This needs to be addressed. Remote access for staff is another area that should be improved. Sometimes Customs officers use their own smartphones to access information to verify business details. Staff are anxious to have the tools they need to do their jobs and provide higher levels of service to customers. Whatever changes are made they need to be communicated clearly so staff understand what can and cannot be implemented.

FOUR-YEAR EXCELLENCE HORIZON

The ideas and concepts set out in the Four-year Excellence Horizon described in the PIF Review are still valid but would benefit from having a clearer reference to the Government's BPS programme.

The Customs Four-year Plan and the 'Towards Customs 2020' Strategy include all aspects of the Four-year Excellence Horizon, with specific references to BPS.

Including a Four-year Excellence Horizon in the key strategic planning documents is a good approach to capture, detail, prioritise and decide a course of action for achieving the specific goals of a Four-year Excellence Horizon.

Is Customs on track to deliver its strategy and fulfil its Four-year Excellence Horizon?

Customs has made good progress in many areas but the difficulties experienced through the development and delivery of JBMS have resulted in less progress than otherwise would have likely been achieved. Overall, given the amount of senior executive attention needed for JBMS, the progress made elsewhere is very commendable.

The Four-year Excellence Horizon described what success will look like in six areas, namely:

- Customs will build on its excellent record of protecting the border and facilitating travel and trade to be part of a seamless delivery of border services
- There will be close collaboration and coordination between the border sector agencies
- Clients – whether traders or travellers – will have less interaction at the border
- Customs' workforce will reflect the growing reliance on, and use of, sophisticated technology, the benefits of increased diversity will be apparent and the workforce will be well trained and highly engaged
- Strategic planning will be strengthened so that Customs has a commanding understanding of its external environment
- Customs' leaders will establish the parameters where decision-making is appropriately delegated and staff are supported to be part of an innovative and agile culture.

A progress assessment follows:

Customs will build on its excellent record of protecting the border and facilitating travel and trade to be part of a seamless delivery of border service

Customs' excellent track record in protecting the border has been maintained and there have been improvements in a number of areas. Customs continues to work well with MPI, the New Zealand Police, Immigration New Zealand, the intelligence agencies, Maritime New Zealand and New Zealand Post. The TSW has enabled a more seamless border service to be progressed. However, this has been hampered through the extended delivery schedule set for the implementation and completion of JBMS.

There will be close collaboration and coordination between the border sector agencies

There continues to be close collaboration and coordination with other border protection agencies and in particular MPI and Immigration. Although each agency is concerned with different risks, this does not prevent them working together closely. These relationships will need to continue to be nurtured and enhanced and any concerns escalated and resolved.

Clients – whether traders or travellers – will have less interaction at the border

The experience for traders and travellers has improved. The TSW has assisted a number of importers and exporters to take advantage of a more streamlined approach to meet their obligations. SmartGate has been expanded and further expansion is being considered. Customs is continuing to get better at managing arriving travellers and deciding, at an early stage, when to intervene. The current continuous improvement work will further improve travellers' experiences. Of course the risk and intelligence tool in JBMS will enable Customs to further improve in these areas.

Customs' workforce will reflect the growing reliance on, and use of, sophisticated technology, the benefits of increased diversity will be apparent and the workforce will be well trained and highly engaged

There have been some good improvements in accountabilities and a strengthening of the senior team. People new to Customs have brought new ideas and perspectives. The overall engagement index, however, was similar in 2013 as in 2012, which is below the State Sector benchmark.

Customs' frontline staff believe their salaries are below what people in other organisations are paid for similar responsibilities and for some this is a significant issue. A number of Customs staff also believe they do not have the suite of tools they need to do their jobs more efficiently and may be unaware of what may be planned. There has been little shift in overall diversity since the PIF Review and, given the average length of tenure in Customs, this will take some time to address. Staff remain highly trained for their current roles and there is a stronger focus on professional development, performance management and leadership development.

Strategic planning will be strengthened so that Customs has a commanding understanding of its external environment

There has been very good improvement in strategic planning with the development of the 'Towards Customs 2020' strategy. Further, the 120-day planning process enables a clear focus to be given to priorities, deliverables and progress. Customs has also enhanced the strength of the relationships it has with stakeholders and was particularly successful in keeping them informed during the development and implementation of TSW.

Customs' leaders will establish the parameters where decision-making is appropriately delegated and staff are supported to be part of an innovative and agile culture

With the establishment of the Customs Executive Board, the senior leaders are now better able to provide clear strategic leadership. There are enhanced practices in respect of debating and agreeing priorities and tracking progress. The senior team is visible and there have been improvements in internal communications. The reorganisation of Operations is a step forward. It brings together intelligence, investigations and enforcement under one Group Manager. Another Group Manager is responsible for revenue and assurance and a third for border operations. Some of these changes are relatively new and therefore yet to demonstrate their full benefit.

Change Capability

During this Follow-up Review, some staff and several stakeholders questioned the amount of change under way and whether it was too much. Clearly, there is a lot happening but it seems to be well planned and thought through. It would be beneficial for the Customs Executive Board to discuss this at a future meeting to explore whether the extent of change presents any issues for the change capability of Customs. In particular, this should be viewed from a staff perspective to ensure changes are sequenced appropriately.