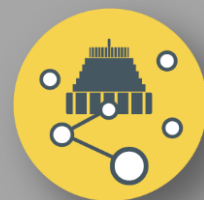




Inland Revenue
Te Tari Taake



Our Corporate Strategy – *Policy Agility*

June 2016

Policy Agility: Executive Summary

What is our vision?



Policy change is faster, cheaper and better – fit for a changing world.

What does that mean?

Policy agility for IR means we...

- Develop quality advice at the right pace and in the right way
- Are joined up, inclusive, and influential
- Have a learning approach to design and implementation
- Make the best use of our assets – information and intelligence, human capital, relationships, and deep technical know how

Why does that matter?

Growing our policy agility is critical to IR being response ready, maintaining our world class tax system, and navigating in an increasingly complex and changing world. To meet stakeholder and customer expectations, IR needs to retain and grow mind-sets, skill-sets and tool-sets to provide high quality and timely policy advice – this advice being evidence based, future focused, credible, and addressing current issues and opportunities.

How will we implement this approach?

Getting “match fit”

To ensure we are ready to maximise the value from BT, and also take advantage of agility gains in the short-medium term, there are a number of areas that we can focus on.

These include people, process and platform improvements both within the PAS business unit, and across end to end policy design and implementation.

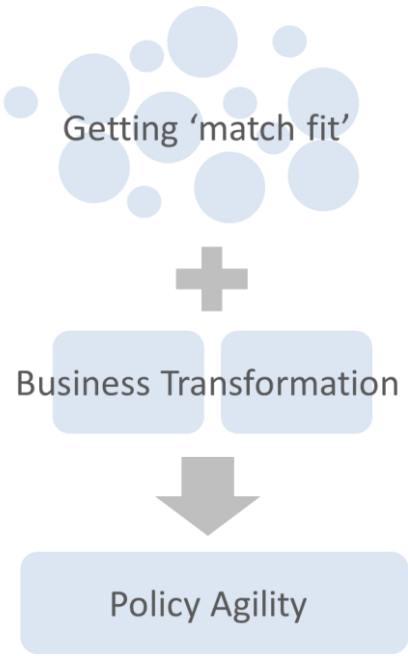
Better implementation, which requires :

- A new technology platform
- Working better across the business, continually learning and improving
- An organisational design that supports our new ways of working
- Understanding of the drivers of flexibility and limitations in our system and processes
- Capability uplift in impact assessment (i.e. operating in a new environment)

Information and analytics capability to enable:

- **Identification** of policy issues
- **Modelling** impacts of policy proposals, including economic, revenue, compliance, behavioural and administrative impacts.
- **Evaluation** of policy

This increased capability is crucial to reach our target state.



What are our vehicles for change?

Organisational change initiatives	Getting match fit	Choices
<p>Business Transformation is building a flexible tax and social policy platform that will enable:</p> <ul style="list-style-type: none">▪ Faster and cheaper implementation▪ Better analytics▪ An organisational structure that integrates end to end policy <p>The components of Policy Agility delivered through BT are in later phases i.e. starting mid-2018</p>	<p>There are considerable gains to be made through activity over the short-medium term – before BT delivered activity.</p> <p>These shifts will yield some agility gains, but are mostly about being ready to make the most of what BT delivers – being ‘match fit’.</p>	<p>Within the non-BT space, there are areas where investment choices can be made. Investment in areas such as analytics, people capability and closed loop learning could accelerate the realisation of agility benefits.</p>

How will we measure our success?

Focus	Description
Design	Performance measures will encourage collective responsibility, for both quality design and good implementation
Advice	Ministers can make decisions based on full and realistic advice. Measures are likely to reflect Ministerial perception as well as peer/expert review.
Implementation	All Ministerial decisions can be implemented. ‘Time to market’, or similar measures, ensure implementability is considered at all stages of policy design.
Influence	IR is considered an economic thought leader. Measures of success will reflect inclusion (i.e. we are in the conversations), and impact of our contribution.

Purpose and Strategic Alignment

Purpose and Scope

The purpose of this document is to outline how we will ensure IR’s policy capability is agile and future focussed, to maintain the quality and integrity of the tax and social policy systems today and in the future.

It sets out the approach that we will use, and describes progressive changes in what we are currently doing needed to achieve our policy agility vision, and support the wider aspiration of IR for the Future. Our approach is intended to be an adaptive one that will both guide us as we transform, and reflect IR’s evolving policy environment.

The **Policy Agility Strand** draws together various components of better practice policy design and implementation, and describes the shifts in capability, approach, and process to allow IR to be response ready in our changing world. It provides a guiding framework to inform more detailed planning processes across a number of areas of IR, and measures to assess the successful development and delivery of policy agility capability.

Strategic Alignment

Policy Agility is a **critical component** to deliver on the commitments made in the BT business case, as well as our three strategic objectives...



Grow voluntary compliance by making it easier for people to get it right



Reduce compliance costs



Make Government policy changes faster and more cost effectively

The **Policy Agility** utilises the six shifts outlined in **Inland Revenue’s Future State Organisation** and aligns with the **Target Operating Model** business capabilities. Business Transformation provides a key delivery mechanism for the capability required.



The **People Strand** is a key enabler – setting out how we will develop and maintain a workforce with the skills, knowledge, experience and attitudes we need in the future.

Policy Agility enables the people strand by providing a strong employee value proposition.



The **Digital Strand** also plays a role, as our technology infrastructure will shape the design of the customer experience and support an analytics capability to inform our policy capability.

Policy Agility enables IR to think digitally – to structure itself around natural interactions with IR that make sense for people.



The **External Collaboration Strand** sets out how we will collaborate and engage across government, service providers, and other partners.

Policy Agility provides the vehicle for demonstration of the benefits of collaboration, and sets out the terms of engagement for policy delivery partners.



The **Information and Intelligence Strand** sets out how we develop and maintain the intelligence capability required to identify, inform, and evaluate policy. This is a **critical enabler** of the Policy Agility Strand.

Policy Agility ensures that our powers to collect, use and share information and intelligence are fit for the future.



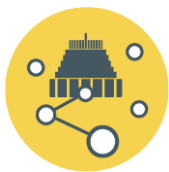
The **Customer Strand** guides us in becoming a truly customer-centric organisation.

Policy Agility enables IR to build a customer-centric approach, through legislation that is easy and simple for customers to understand and comply with.

The change delivered through **Business Transformation** underpins everything we do. The BT programme enables us to reach our desired target state for Policy Agility by building a flexible platform for tax and social policy, enabling:

- ✓ Faster and cheaper implementation;
- ✓ Better analytics; and
- ✓ An organisational design that integrates end to end policy.

Policy agility – fit for a changing world



What is Policy Agility?

End-to-end policy that needs access to good information and insights to be more effective, responsive and evidence based.

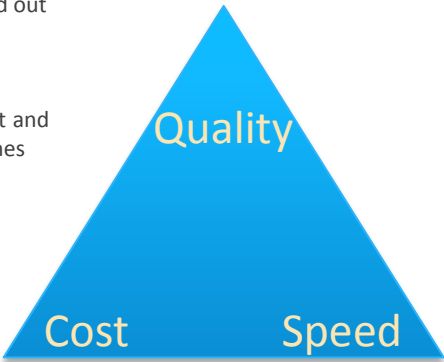
Scope of Policy Agility

Policy, for the purposes of this document, means ‘Big P’ - everything that flows into, and out of, **legislative change**. That is, identification to design, legislation, implementation and evaluation

It is important to note that Inland Revenue **shares responsibility** for policy development and advice with the Treasury, and other social policy agencies. This co-ownership distinguishes **Policy Agility** from the other five strands that make up IR’s corporate strategy.

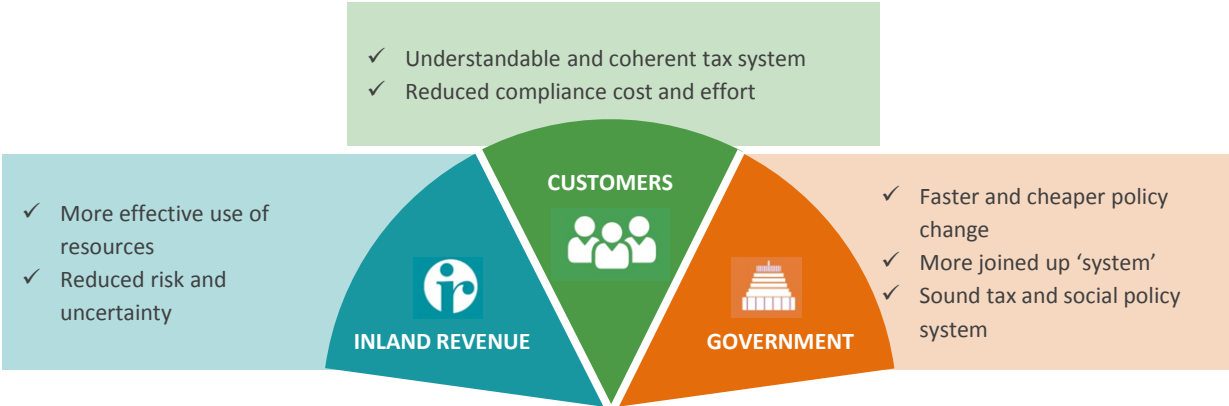
Agility reflects our ability **to shift, to change and adapt**; to provide the best possible policy advice given the environment we operate within.

Being agile can mean being able to change more quickly, and more cost effectively. It can also mean investing in getting it right the first time, and avoiding cost and time further down the track.



What will it achieve?

A focus on developing greater Policy Agility will have benefits for customers, Inland Revenue and the Government.



In 2025, Policy is an **organisational capability**. Across IR, there is a broad understanding of how and why policy decisions are made.

- ✓ We will use **better intelligence** to know that we are focussing energy in the right areas
- ✓ Policy change will be faster and smoother – through better systems, and a better integrated process
- ✓ Policy design is not constrained by systems
- ✓ We have the **right mix** of people, systems, frameworks and relationships
- ✓ We engage a wide variety of experts in our design process
- ✓ We consult in a meaningful way, and produce **high quality, implementable policies**
- ✓ We use information in intelligent ways to inform, test and evaluate policy
- ✓ We’re around the table, helping to set the agenda for government priorities
- ✓ We know what other agencies are working on, and **we work collaboratively** toward outcomes for NZ
- ✓ We’re recognised for providing insightful, quality advice

Approach

How do we develop Policy Agility?

The target state for Policy Agility requires a focus on developing a set of inter-related capabilities. Some of these will require greater investment, and more change, than others.

	CAPABILITY	FUTURE STATE
Why (OUR PURPOSE)	Stewardship	We contribute (where appropriate) to broader economic outcomes for New Zealanders
	Future focus	We are spending our time and resources focussing on the right things, and we know what is on our horizon
How (INPUTS)	Intelligence	We use information more intelligently through the policy process - to identify problems and opportunities, model impacts and evaluate policy.
	External Relationships	We engage with the right people, at the right time. We understand the value of investing in our networks and relationships as assets.
	People	We have smart people, and maximise the value of their technical knowledge, technology, data and relationships.
	Frameworks	We invest in the development and socialisation of core frameworks, so that we can apply them readily when we need them.
What (OUTPUTS)	Influence	We are at the table (or influencing those who are) when government priorities are being set. We are seen as trusted and credible.
	Implementation	Our advice considers implementation, and once policy decisions are made, implementation is smooth and effective.
	Advice	We provide high quality, credible advice that strikes the right balance between good economic policy, and implementable policy.

How will we implement this approach?

Achieving our target future state requires significant change. Some of this will be delivered through Business Transformation, and other shifts will come from non-BT activity, both ahead of and alongside BT itself. Key focus areas are outlined below.

1 Getting “match fit” – short and medium term activity to ensure we are ready to maximise the value from BT, and also take advantage of agility gains.

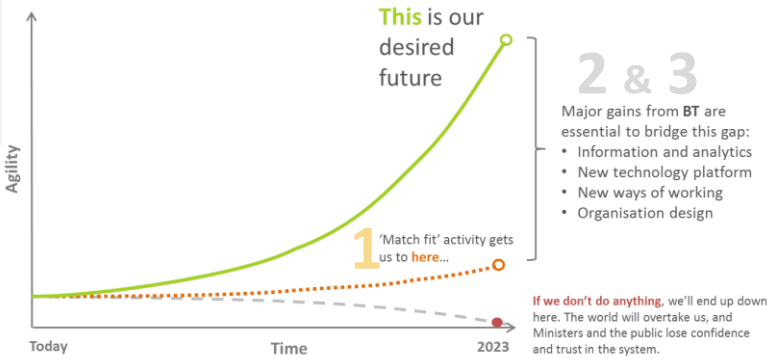
2 Better implementation – faster and cheaper, working in more joined up ways across IR and Government

3 Information and analytics capability to enable:

- Identification of policy issues
- Modelling of impacts, including economic, revenue, compliance, behavioural and administrative.
- Evaluation of policy

This increased capability is crucial to reach our target state.

4 Investment choices - there are areas where investment choices can be made. Increased investment in areas such as analytics and people capability could accelerate the realisation of agility benefits.



How we'll achieve it

GETTING 'MATCH FIT'



There are a number of core areas where, over the short-medium term, the **Policy Agility Strand** provides direction for activity – primarily within the Policy group, but also more broadly across IR.

The increased organisational capability will not get us all the way to our desired future, but it will ensure we are 'match fit' and ready when the larger scale change (i.e. BT) arrives – from 2018 onwards.

Below are some of the indicative delivery mechanisms, based on what we know now. There will be continuous iterations of this 'match-fit' activity, as we progress and learn more.

CAPABILITY	Delivery mechanism (examples)
People	<p>Recruiting for agility – considering future capabilities when recruiting today, working with 'best of breed' across sector to define the capabilities required</p> <p>Succession planning and risk management – mitigate key person risk, consider whether current pathways produce best return on investment. Considering knowledge transfer and retention.</p> <p>Intensive capability uplift for Policy – early initiative through BT capability</p> <p>Inform organisational design – provide the best current thinking into BT on how policy agility can be enhanced through organisational design</p>
Frameworks	<p>Modernising the Generic Tax Policy Process (GTPP) – likely to be multiple phases; review, consolidate and invest. Further detail of considerations included in appendix 1.</p> <p>Increasing economic capability – succession planning and future focus</p> <p>Defining social policy framework – i.e. 'BBLR' for social policy</p>
External relationships	<p>Increasing the external network – for example, working better with researchers/academics – greater engagement with researchers improves policy quality and agility</p> <p>Risk management – invest in relationships to maintain trust and confidence through change, both domestic and international.</p> <p>Consultation impact assessment – considering IR wide consultation schedule and impact on stakeholders – seeks to maximise value and avoid consultation fatigue</p>
Future focus	<p>Tax policy work programme review - coherent and consistent prioritisation process, ensuring resource is dedicated to the right activities</p> <p>Environmental scanning – developing a framework and standard practice for identification of possible future policy issues</p> <p>Best current thinking for the future – building up capability to stay up to date with current developments in research and applying to big picture economic considerations. Includes focus on influencing/thought leadership across government.</p>

How we'll achieve it

THE BIG ROCKS – crucial, BT delivered/enabled

Ministers want:

- Good advice on impacts of policy proposals
- A broad range of options (not constrained by systems)
- To be able to implement whatever policy they choose, quickly and without surprises.

There are two key areas of focus:

Business Transformation

Implementation

Intelligence

Implementation

We provide advice that gives best possible understanding of implementation impacts. Once policy decisions are made, the changes are implemented quickly and smoothly.

The end to end policy lifecycle needs to work efficiently, supported by process, technology and structure designed to be adaptable.

Key enablers of this include:

- A joined up approach to policy – considering it as an **end to end capability**
- A **new tax and social policy platform** (through Business Transformation) which should
 - be able to be reconfigured relatively easily to implement policy change quickly;
 - lower the cost of implementing policy changes;
 - allow the implementation of policy options that are currently not practicable due to the high cost and risk of implementation.
- **Feedback loops within IR**, across business partners and customer groups, which will be used to inform and drive policy development.
- **Customer centric design** ensures that policy is more effective, reducing compliance cost and effort and increasing overall compliance.

Decisions on the choice of policy instruments are made using rigorous criteria, and proven design frameworks, so that policy options are feasible and can be delivered.

Intelligence - evidence based policy

We will invest in the collection, analysis and use of information and intelligence for:

- **Early identification** of areas for policy improvement, from gaps in the tax base, to emerging issues from our broader environment that may require policy responses..
- **Developing frameworks** to consider policy issues, for example working with academics and researchers to extend the frameworks we have
- **Testing the impacts** of policy proposals to understand how they will affect the economy, customer behaviour, the tax bases, and the administration of the system
- **Evaluating policy**, and understanding both economic and administrative effectiveness, and using these insights to improve subsequent policy design

Core assumptions and risks

Core assumptions

CORE ASSUMPTIONS:

- Growing our policy agility is critical to IR being response ready, maintaining our world class tax system, and navigating in an increasingly complex and changing world.
- Agility is a necessary capability for IR, as we collaborate more broadly and work in different ways across our ecosystem.
- A focus on quality as well as speed and cost is necessary to ensure we stay ahead of an increasingly complex environment.
- Policy capability sits structurally within IR, and responsibility for tax policy advice is joint with Treasury.
- IR’s ‘core’ business doesn’t change, but we have the capability and capacity to respond to future government expectations.
- Government focus continues to drive toward an ‘agency agnostic’ approach to policy and delivery.
- Any material changes in the Business Transformation programme scope or phasing would affect delivery mechanisms designed to build **Policy Agility**.

Strategic risks

Risks mitigated by Policy Agility	Risks to achieving Policy Agility
<p>Policy Agility seeks to mitigate a number of organisational risks:</p> <ul style="list-style-type: none">• Loss of trust and confidence – by providing Ministers a better range of options, and better information about the options. In the public, by reviewing consultation practises, modernising GTPP, to ensure that the tax community and the wider public retain confidence in IR, our policy advice and in the tax and social policy systems.• Revenue / tax base – in an increasingly complex world, policy agility ensures IR has the right capability to stay a step ahead – anticipating environmental shifts and being ready to respond.• Quality – speed – cost – as part of IR’s transformation, we’ve committed to delivering agility which will enable policy change to be made faster and more cost effectively. The policy agility strand sets out the key areas of focus to ensure future quality, as well as speed and cost effectiveness.	<p>Advanced analytics capability – the Information and Intelligence strand, and the Customer Value Work stream (through IIC) set out the analytics capability envisaged for IR. Advanced intelligence and analytics is a critical enabler for Policy Agility.</p> <p>Business continuity – our people are critical to delivering Policy. The transition to new ways of thinking and working causes considerable people risk. This is being mitigated through working closely with the People Strategy / BT and the PAS leadership. Early initiatives include an intensive capability uplift, and reviewing Policy recruitment practise.</p> <p>Environment – Changes to Inland Revenue’s role, the regimes it administers or the customers it serves may happen at a faster rate than IR can adapt – before we have a chance to get ‘match-fit’.</p> <p>Budget/resourcing – ‘match-fit’ activity has been broadly assumed to be budget neutral, primarily within the PAS budget. However if significant other pressures arise, reprioritisation may put aspects of the Policy Agility ‘match-fit’ activity at risk.</p>

Performance measures

Measures of success

The current Policy performance measures do not reflect or encourage agility. Work is underway to identify alternatives, with a focus on developing **lead indicators** that can **diagnose and signal** areas for improvement. Key focus areas include:

- Integration of end to end policy design (strategic foresighting through to implementation)
- Measure quality of strategic decision making (i.e. *what* we advise on) as well as the quality of the policy design/advice given
- Evaluation of the policy objectives (economic evaluation) as well as the administrative effectiveness

The framework below sets out a multi-level approach to measuring Policy Agility. **Current best thinking**, including the Policy Quality framework from The Policy Project, alongside IR’s **case study approach**, as outlined in the BT business case, form the core of this framework.



Outlined below are some of the key areas Policy Agility performance measures should seek to give confidence in. These are indicative only, and not intended to be exhaustive.

Policy design and advice	Influence	Implementation
Are we giving advice on the right things? Is the advice we are giving of high quality?	Are we proactively sought out for advice?	Was implementation fast? Were there any surprises?
Are Ministers able to choose their first option? Was the Ministers choice constrained?	Are we surprised by other agencies legislation?	Did it cost what was expected?
Were all foreseeable impacts of the policy advised on? Was the policy supported by data and analytics? Did the Minister know who would be affected by the policy, and the what extent?	Are we leading or following in key government conversations?	Did the policy have the impact expected?
To what degree was the departmental impact considered?	How much of our work programme do we control?	Are there any unintended impacts?
Was the policy/advice progressed at the right speed? Was the external and internal engagement appropriate?		

Appendix 1 - GTPP

Modernising GTPP

A key factor of agility is having the right capability to frame and analyse a problem *before* it is required. The example below shows how considering our existing frameworks in a future context allows us to identify opportunities for capability uplift.

Modernise the Generic Tax Policy Process (GTPP)

GTPP has served us well, and continues to do so. A modernised version of GTPP provides the core framework for tax into the future. Below is a high level outline of the key considerations:

Strategic	Tactical	Operational	Legislative	Implement/ Review
<i>Government economic, fiscal and revenue strategies</i>	<i>18 month tax policy work programme, IR policy work and resource plans</i>	<i>Policy design and consultation</i>	<i>Drafting, bill process, select committee, passage of legislation</i>	<i>Implementation of legislation, post implementation evaluation, review</i>
Do we have enough influence on the wider system agenda?	Is our funding and resource mix right? Are we focussing on the right things?	How do we get the most out of the information and technology we have access to? Our customers worlds are evolving. What does fit-for-purpose consultation look like in a customer focussed, digital world?	How could this process be more agile? Where do we trade-off between speed and quality?	Efficiency of making change - where is the right balance between legislation and CIR discretion? How do we get the right focus on evaluation when there is the ‘tyranny of the present’?

One of the strengths of the current frameworks is that they are widely understood. It is important that the principles are coherent and clear, as well as the specific rules.

Continuing pro-active engagement with the tax community, international experts, and academics will enable us to maintain sound frameworks, ready for when they are needed.

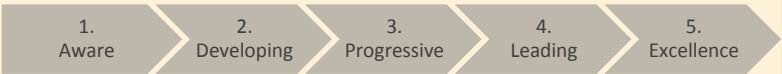
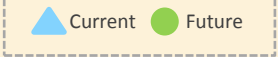
BUT what about social policy? Is GTPP sufficient? The ‘match-fit’ work-streams - modernising GTPP, and strengthening our economic frameworks - will consider whether we should have separate frameworks for social policy, for example: *What would the social policy version of BBLR look like?*

Appendix 2 – TOM alignment

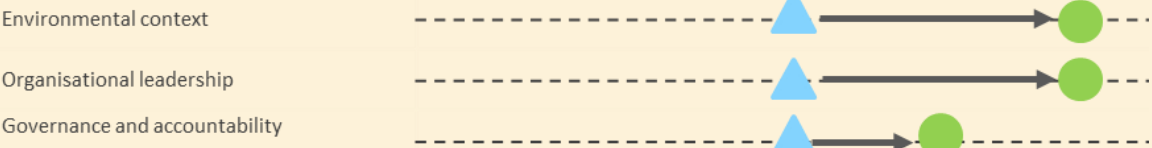
TOM capabilities

The **TOM maturity assessments** considered 14 capabilities relating to Policy.

The **Policy Agility Strand**, through both the ‘match fit’ and BT activity, sets out how we will achieve these capability shifts.



Operational Strategy and governance



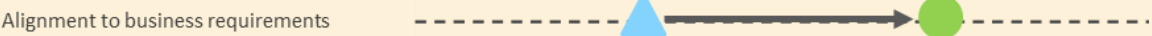
People



Process



Technology



Information and metrics



Integration of processes:
Current – “Not good enough at the end-to-end view”

Environmental context :
Current – “there is a tension between free & frank, and considering input”
Future vision = **key economic agency**

Organisational leadership:
Future vision = “IR’s people are considered **thought leaders**, and their **insight is consistently sought** by Government and Ministers”

Fit for purpose data:
Current – “Don’t have the detail needed to identify costs, impacts etc.”