
PERFORMANCE IMPROVEMENT FRAMEWORK

Formal Review of the New Zealand Customs Service (Customs)

OCTOBER 2012

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

Lead Reviewers' Acknowledgement

As Lead reviewers for this Performance Improvement Framework review of the New Zealand Customs Service (Customs), we want to acknowledge the very important input provided by Customs' staff. From the Chief Executive to front line staff we received wonderful assistance and support.

It is important to note that Customs carried out a comprehensive self-review as background to this review, which proved to be insightful, balanced and very useful to us in many ways. Overall, we agreed with most of the conclusions reached in the self-review and in some areas we thought that Customs should have rated themselves higher. On the other hand, in a small number of areas we have rated Customs lower than in their self-review.

We also want to acknowledge the contribution provided by Neil Mann who is a former Deputy Chief Executive Officer of the Australian Customs and Border Protection Service. As an Expert Advisor, Neil was involved in all aspects of this review and we found his insights to be extremely valuable given the direct experience he has had in Australian Customs.

**Performance Improvement Framework
Formal Review: New Zealand Customs Service**

**State Services Commission, the Treasury, and the Department of the Prime Minister and Cabinet
Wellington, New Zealand**

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AGENCY'S RESPONSE

Introduction

Customs values the work undertaken by the Lead reviewers and would like to thank all the stakeholders who contributed their time and expertise to the review.

I am reassured by Customs' PIF review findings, as they strongly reinforce our position as a high-performing organisation, and confirm our current direction as outlined within the Customs' Statement of Intent, Four-year Budget Plan, Workforce Strategy, and Business Technology Strategy. In my response, I give examples of how we intend to achieve success in each of the six areas envisioned by the Lead reviewers as necessary for Customs to reach the desired future excellence horizon.

Response

1. Continue developing a technology enabled border with optimised protective, facilitative, and revenue collection activities

Joint Border Management System (JBMS)

Customs and the Ministry for Primary Industries (MPI) will implement both tranches of the JBMS to realise the benefits of our investment in IT systems and risk and intelligence capabilities.

The 'one-stop-shop' Trade Single Window (TSW) and a global data standard will provide increased assurance around legitimate trade and travel. This will include identification and management of risks before they enter the supply chain, highly targeted interventions on shore, and improved post entry assurance processes to ensure correct revenue is paid.

This approach also supports the Better Public Services results – (9) NZ businesses having a one-stop online shop for all government advice and support and, (10) New Zealanders can complete their transactions with government easily in a digital environment.

In the near future JBMS activities will be focused on the graduated implementation of tranche one (to April 2013) and confirming the tranche two business case. Activities include:

- delivering the TSW and Risk and Intelligence products
- transitioning Customs internally through the changes
- implementing industry engagement plans to communicate progress and cost-recovery
- contingency planning, including independent quality assurance services to reassure stakeholders of a smooth system 'go live' even where risks develop; and post-deployment decision making
- completing the tranche two business case with MPI, and achieving government sign-off to proceed with implementation from mid 2013.

Technological Advancements

Other technological developments focus on achieving increased efficiency and security, including:

- providing more efficient passenger facilitation through SmartGate automated processing, enhancing and expanding its use

- promoting supply chain confidence through technological enhancements such as the current mobile x-ray equipment and x-ray image transfers
- providing more efficient, future-proofed enforcement outcomes by fully implementing best practice digital investigative surveillance technologies in 2012.

2. Develop an increasingly more collaborative and coordinated approach to the delivery of seamless border services

- *Service delivery*: Customs is embracing a collaborative approach with border agencies, including co-location, shared training, and the streamlining of processes.
- *Functional leadership*: ongoing enhanced functional leadership of the National Maritime Coordination Centre (NMCC) and Integrated Targeting Operations Centre (ITOC), both important examples of a coordinated and collaborative border approach.
- *Sector leadership*: Customs and MPI are progressing the Border Future Direction initiative, reducing duplication to deliver a seamless customer border experience.

3. Further progress a customer voluntary compliance centric approach to the delivery of border services

Customs is maximising voluntary compliance at the border by enhancing client service tools and communication, reducing interactions with compliant customers and more effectively managing risks from non-compliance. Reviews of several functional areas including Trade Assurance will provide service delivery innovations and better integration.

4. Ensure a future proofed and highly engaged workforce

Customs' Workforce Strategy focuses on culture, change leadership, capacity, and capability. Its clear road map and implementation plan will enable Customs to respond to increasing expectations around delivering better services with reducing baselines, and supports the shift towards Customs increasingly being a technology-led and risk-enabled organisation and the capability demands that come with that.

In particular the Workforce Strategy provides a future pathway to attract and retain specialist skills including a greater focus on female representation, retention, and progression within the organisation. Initiatives in 2012/13 include:

- a review of the remuneration structure, including, how to better reward high performance and be competitive in attracting specialist skills
- processes to manage succession, retain talent, and support staff specialisation
- reviewing diversity in leadership roles, including women and ethnic representation
- reviewing recruitment practices to ensure alignment with operating model changes
- a review of professional development programmes.

5. Develop an increasingly more robust understanding of the external operating environment and collaborative approach to future strategic thinking, such as on, policy and risk management

- Jointly implementing the cross-agency Border Management Risk Strategy as part of the Future Direction work programme. This will provide a common agency approach for use of intelligence and risk targeting of non-compliant activity at the border.

- Pursuing a more strategic ‘border sector’ and future focused approach to policy development, clustering together policy expertise from agencies where practicable, and leveraging findings from the 2012 review of policy capability and capacity.
- Continuing Customs’ overseas posts that provide a strategic border and NZ Inc. perspective of the external operating environment that helps to inform and influence bilateral and operational outcomes.
- Evolving the Integrated Targeting Operations Centre (ITOC) that provides a multi-agency approach to the assessment of intelligence and targeting of border risks.
- Increasing participation in our secure export and trusted trader schemes providing assurance to international markets that NZ is a low risk and secure market place.
- Enhancing understanding of customer behaviour and needs, industry drivers, and international pressures and risks, to inform operational delivery and strategic policy.

6. Further grow a culture where leaders continually encourage innovation, delegate decision making, and debate and communicate transparent evidence based decisions to review priorities and continually improve

- Customs’ leaders and external stakeholders are engaging in a review of the organisation’s purpose, philosophy and values.
- A new Continuous Improvement Strategy will support a culture of innovative thinking and processes to capture and implement new ways of working.
- A review of committees and governance brings improvements like more effective delegation and communication of the thinking behind decisions.
- A review of the finance, planning and reporting functions is one of several functional reviews already underway to, amongst other things, enhance planning and value management to identify priority improvement opportunities and delivery options.
- The Business Technology Strategy (2012 to 2016) provides a pathway to achieving optimal business value from technology investments and meet the needs of the future operating environment.
- Recent review of the communications function will enhance staff communication and introduce electronic communication channel opportunities.

Summary

Customs is a high performing organisation and I am confident that the Reviewers’ future success vision can be achieved and in turn raise the organisation’s performance even higher.

Carolyn Tremain

Comptroller of Customs

LEAD REVIEWERS' VIEW

In undertaking this review the Lead reviewers considered: "What is the contribution that New Zealand needs from the New Zealand Customs Service and, therefore, what is the performance challenge?"

The Performance Challenge

The operating environment

Customs' operating environment is changing at an increasing rate. Economic growth worldwide is expected to improve in the next few years with resulting increases in trade volumes and passenger numbers across the border. Shifting patterns of trade and travel present new and significant risks. Criminal activity is becoming more sophisticated and global security risks are increasing. Customs collects about 15% of Crown revenue but the amounts collected are affected by economic activity, changing trade patterns and new modes of commerce.

At the same time, like other public sector agencies, Customs faces fiscal restraint and the challenges of delivering more with less. The push for better public services means Customs will need to seek further opportunities to work in a more integrated way with other agencies at the border.

Customs now

Customs is widely regarded as a successful and adaptive organisation. In recent years it has shown its ability to quickly implement a number of important and forward looking changes and successfully deal with many and varied operational challenges.

It is held in high regard by the Minister of Customs and by its key stakeholders. Ports, airports, freight companies, importers and exporters are very positive about Customs and the way it engages with them. Customs recognises that trade facilitation is an important role for the economic benefit of New Zealand. It is continuing to adapt to current priorities and demands, including successfully balancing protection of the border with facilitation of travel and trade, based on robust risk assessment models.

Customs scores well in public surveys of service quality and trust, and has a strong international reputation. In particular, it works very well with New Zealand's closest neighbours and major trading partners.

Customs has a well deserved reputation for operational efficiency and effectiveness. This was demonstrated by the recent successful implementation of SmartGate automated border processing technology, for use by New Zealand and Australian electronic passport holders, on time and within budget, and the introduction of the Integrated Targeting and Operations Centre to facilitate and coordinate risk and intelligence analysis and targeting by the border sector and enforcement agencies.

In response to its operating environment Customs is changing from a labour intensive to a capital intensive organisation. It is introducing intelligence driven and technology supported border management processes, which are helping it to meet increasing trade and passenger volumes while better targeting risk. Customs has a dedicated and highly experienced staff that possesses a strong sense of commitment to the organisation and its objectives.

Customs in the future

Customs has adjusted well in recent years to the changing operating environment, and seems well aware of what it needs to do for the future. But the challenges are considerable, both in the way it needs to work and in identifying and acquiring the organisational capabilities needed to support the new ways of working.

While recognising its many achievements, Customs must continue to evolve from a regulator of the border to a facilitator of New Zealand's economic interests. The border will always present real and evolving challenges and Customs must ensure it is alive to these changes. In doing this Customs must also continue to find the right balance between protecting the community and pursuing the imperatives to enhance economic prosperity.

Protecting the border has and will continue to require close alignment with other border agencies. In some areas Customs has stepped up and taken the lead for border agencies and the Joint Border Management System (JBMS) is a good example of this. Customs will need to enhance its capability and approaches to recognise the different drivers around risks for the border as a whole, and play an active and positive role for the overall benefit of New Zealand.

Increasingly, Customs officers must be able to apply sophisticated technology to assess and target risk and to facilitate legitimate trade and travel. This requires new skills and aptitudes and changes in recruitment, training and development. Customs must strive to work seamlessly with the other border sector agencies across the border continuum – that is, pre-border, at the border and post-border. At the same time, Customs needs to ensure that it continues to meet its core border protection and revenue responsibilities. These are not easy challenges.

Challenges which are vital to a successful transition include:

- *Joint Border Management System (JBMS) Project Delivery*

This project is planned to deliver a more effective and efficient linkage with other government agencies and industry to support the clearance of goods, people and craft across the border. It is not only the biggest IT project undertaken by Customs; it also depends upon the successful collaboration of other border agencies – primarily MPI.

As well as successfully commissioning JBMS Tranche 1 to enable a phased 'go live' date by April 2013, Customs is also currently developing a business case to seek funding for Tranche 2. Irrespective of what additional funding may be received from government, Customs needs to have a clear direction and detailed plans for the ongoing expansion of the use of technology as a key enabler to achieve its outcomes. The implementation of this second stage of the JBMS project will be an important development to realise the full potential of this significant investment in technology and Customs will need to continue to consider what future expansion in the use of technology may be needed.

- *Increased collaboration and engagement*

In order for Customs to continue to deliver improvements in productivity and facilitate economic growth for New Zealand, further enhancement in the collaboration and operational alignment between border agencies and associated organisations is essential. The Customs senior leadership team recognises the importance of this collaboration and appreciate that this requires understanding and accommodation of the different objectives and risk profiles of other organisations, particularly those relating to biosecurity.

The current Future Directions for the Border Sector project, which is an initiative of the three Border Sector Ministers and involves Customs, MPI and Immigration New Zealand, should provide the framework to maximise the benefits of this collaboration through developing mature and sustainable collaborative processes and behaviours and formal governance for sharing intelligence, risk assessment and intervention. The challenge is to ensure that all levels of the three organisations adapt and operate accordingly.

It is also important for Customs to increase its engagement with and knowledge of other key stakeholders, particularly the international transport and trade services industries. Customs must be able to continually adapt its practices to align with industry business models and look for opportunities to add value to the services it provides. To do this, it must understand the stakeholders' business objectives, to anticipate issues and develop solutions to support the inwards and outwards flow of goods and travellers. It must also involve its stakeholders more systematically in planning for the changes in the services it provides.

This engagement could be enhanced through a more formal recognition by Customs and other border agencies of the role that key stakeholders such as airports, sea ports, NZ Post, express couriers, customs brokers and freight forwarders perform as co-producers or partners in the delivery of border enforcement and facilitation outcomes. More formal recognition may support the close working relationships that already exist at the local level, by for example, encouraging joint planning and deployment of resources to achieve the optimal delivery of services.

Customs participates in several sectors including the border, security, economic development and revenue sectors. To achieve its outcomes it needs to understand these sector overlaps and roles, and it can increase its strategic and operational engagement with agencies such as Inland Revenue, the Treasury, Police and the Ministry of Business Innovation and Employment.

- *Capability and capacity*

The nature of Customs work is changing rapidly from labour intensive to become more technology driven. In the past five years the ratio of non-personnel to personnel operating costs has increased from 25/75 to 45/55. This is mainly driven by an increase in the costs of supporting technology investments, and this rebalancing will continue. This will impact the organisation in many ways. It will require major changes to the skill base of its workforce, both through recruitment and retraining, and will require greater organisational and workforce agility and flexibility.

The workforce has to change from a 'career service' model with an enforcement focus to a more multi-dimensional model. This new model will require specialist skills to be more frequently recruited externally, and lateral hires from other government agencies and the private sector will become increasingly common. Customs needs to be an employer of choice for the best and brightest of the workforce in order to maximise the benefits of the sophisticated technology that will enable it to adapt and operate effectively in a rapidly changing world. Recruitment strategies need to change, not only for specialist areas where greater career development opportunities are required, but also for the operational workforce who will need to have stronger technological skills. To build capability, Customs must be proactive in encouraging diversity and flexibility in the workplace, for example by considering the factors that affect the retention of women and their progression to management roles.

In facing this changing environment, it will be important for Customs to understand and retain those elements of its current workforce approach that have led to its strong delivery capability, while building its strategic and other skills. The need for these changes is recognised in Customs' PIF Self-review report and in its future thinking documents.

- *Leadership and Performance Management*

Customs has traditionally been regarded as an 'enforcement agency'. It has a uniformed operational staff and a strong culture of compliance with rules and discipline in a top-down decision-making hierarchy. These characteristics are now being balanced with a facilitative culture and an increasing focus on enabling the organisation to become more agile and innovative. We note that in recent years Customs has greatly improved its willingness to engage and work with industry and to treat legitimate traders and travellers as clients. The challenge now is to maintain its reputation as an effective border protection agency while working more collaboratively with other agencies and industry, notwithstanding their different objectives. Can Customs maintain its operational focus and effectiveness while continuing to grow a broader range of capabilities and contributing to a wider range of economic objectives?

We suggest that the senior leadership team should also focus on how to improve accountability and timely intervention to manage poor performance and encourage continuous improvement. Managers should be accountable for their staff development and management plans, to establish consequences for poor performance and to link good performance to recognition, promotion and remuneration.

The appointment of a new chief executive has provided an opportunity for advancing the next significant shift in culture, to empower staff to think critically and act effectively in an increasingly complex and dynamic work environment. These culture changes are led from the top and there is evidence that they are beginning to have effect, but there is further to go. This year Customs will undertake a programme to assist its senior leaders to energise and inspire peak performance throughout the organisation. This will help to equip managers to improve employee engagement. Management practices also need to be reviewed to ensure that poor performance is addressed promptly and good performance is appropriately recognised.

- *Policy*

Customs has a strong operational focus but this needs to be complemented by the strategic capacity to anticipate the risks and opportunities New Zealand faces in an increasingly connected world, and to work effectively across the range of sectors that Customs needs in order to deliver its outcomes. The Policy group was reorganised in 2011 to improve effectiveness and find more space for the future focused work. Currently it is playing a key role in leading Customs' contribution to the Future Directions for the Border Sector initiative. The Policy group needs to continue to develop its strategic capability and ensure that it is delivering robust analysis and rigorous evaluation. It needs to ensure that it is also contributing across sectors such as security, economic development and revenue.

- *Performance measurement*

Customs needs to refine the performance measures that drive its business. For example this could include more analysis of positive and negative reporting on intelligence and targeting activity to inform risk assessment and continuous improvement; developing more evidence on efficiency; undertaking sampling and analysis to determine its success in collecting revenue; and evaluation (at a process, impact or outcome level) of its key interventions. Performance information will support continuous improvement in service delivery and the prioritisation of resources and interventions in a budget constrained environment. To be effective, performance measures need to be clearly linked to improvements in delivery and there is scope to more strongly link staff performance with recognition and reward.

- *Revenue*

Customs is responsible for collecting around 15% of the total government revenue each year. Not all of this is collected at the border. The responsibility to collect excise on petroleum, alcohol and tobacco has an historical link to Customs and relates to goods management expertise and control points in goods distribution that are akin to a border. Customs' revenue responsibilities are an important source of government funding and continuing focus on compliance is merited. We suggest that Customs should also review the revenue implications of the rapidly growing area of global internet purchases.

Customs should have a good understanding of trends and patterns in the international and domestic economy that may have an impact on revenue in general and on compliance behaviour in particular. This will assist Customs to understand where there is a risk that liabilities for customs duty, GST or excise may not be properly declared, assess the extent of these risks and develop appropriate strategies to deal with these risks. For example, a compliance assurance programme that provides an assessment of the risks associated with non-compliance with the rules of origin, valuation and entitlements to preferential customs duty rates would give greater confidence that the correct amount of Crown revenue is being collected.

Future State – Four-year Excellence Horizon

The environment

The Government's focus on growing the economy through increased productivity requires Customs to increase its facilitation role to assist increasing trade and travel, not only with traditional markets but also with emerging markets in Asia and South America. At the same time the looming threat of recession and violent protest in some developed economies, and insurgency and increasing poverty in some developing countries, brings added risks to our border. The extent of global organised crime in drugs, money laundering and firearms is increasing and a rise in people smuggling, trafficking and illegal migration is forecast. Heightened global tensions bring with them the risk of terrorism. The South Pacific region also faces instability, through risks of internal conflict, economic challenges and susceptibility to adverse impacts of climate change, extreme weather events and other natural disasters.

The New Zealand public sector faces the challenge to deliver increased value for money and to increase productivity and efficiencies within a tight fiscal environment. Customs needs to continue to evolve its new business model and strategy to ensure it is equipped to meet these challenges.

Business strategy

The changing environment is well identified by Customs in its Strategic Outlook to 2017. The real challenge is how to implement the changes needed to deal with it effectively. We consider that this will require a joined-up and technology-led approach to the border. The greatest opportunities for change will come from adopting a model where all of the agencies whose responsibility involves border activity, whether it is trade, travel or protection, develop more streamlined collaborative processes to deliver their outcomes. This will be enabled primarily by each agency making full use of the advances in technology to enable targeted risk analysis and advance clearance procedures. It will also involve greater collaboration and information-sharing with international border agencies so that analysis and identification of risks can happen much earlier in the chain.

What will success look like?

- 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. This will involve the other border agencies and as appropriate other agencies such as New Zealand Police, the intelligence services, Maritime New Zealand, the Aviation Security Service and New Zealand Post. It will be enabled by sophisticated technology, including the smooth adoption of both tranches of JBMS, including the Trade Single Window, with external interfaces to other agencies and to key stakeholders.
- There will be close collaboration and coordination of roles between the border sector agencies. The management and governance of this business strategy will need to be overarching so that clear lines of responsibility apply. Each agency will be individually accountable and responsible but delivery will be seamless and duplication of process will be eliminated wherever possible.
- Clients – whether traders or travellers – will have less interaction at the border. Most risk assessment, and thus the decision whether to intervene, will take place at an earlier stage, away from the border. This approach may, for example, enable significant streamlining of the management of arriving travellers, at least for SmartGate users and potentially for others.

- Customs' own 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. What distinguishes a great organisation from an ordinary one is the calibre of its people. Customs will score highly as an 'employer of choice' and will continue to be highly respected for its integrity and capability nationally and internationally.
- Strategic planning will be strengthened so that Customs has a commanding understanding of its external environment. This will be demonstrated by how it prioritises work, its ability to contribute to the Government's policy debate and the influence it has on strategic border issues. Its risk management systems will reflect international best practice.
- 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. The senior leadership team will provide strategic leadership to the organisation. It will be able to debate and implement the difficult trade-offs and prioritisations required to maximise delivery and performance both within the organisation and the border sector generally. Communication practices will enable staff to be well aware of priorities for the organisation and the background to key decisions. The management structure will be such that it facilitates this excellent communication up and down the organisation.

David Butler
Lead Reviewer

Patsy Reddy
Lead Reviewer

CENTRAL AGENCIES' OVERVIEW

The Government's clear priority is to deliver better public services to New Zealanders, within a tight operating budget. Government agencies are expected to review and change how they operate to focus on the most effective and efficient use of resources and to deliver better public services to New Zealanders.

The Performance Improvement Framework is used by a small group of respected Lead reviewers to review agencies to provide insights into how well the agency is positioned for the future. Chief executives value the opportunity to engage with Lead reviewers to discuss those insights, as do we.

We, as central agency chief executives, also benefit from Lead reviewers' insights about the State Sector and the opportunities that exist to improve its operation. Ministers, the public and agency stakeholders are entitled to information about agency and sector performance and to know what is being done to lift that performance.

The Lead reviewers for the Customs review posed the question: "What is the contribution that New Zealand needs from Customs and, therefore, what is the performance challenge?" They then set out in the 'Four-year Excellence Horizon' what Customs would look like if it was performing as an excellent organisation four years from now.

Customs plays a key role as the regulator of the border – protecting the community, at a time when global risks are increasing. It balances this successfully with its vital facilitation role to assist increasing trade and travel, in support of New Zealand's economic interests.

Customs is widely regarded as a successful and adaptive organisation. At the same time the review identifies the challenges Customs faces such as handling increasing trade and travel volumes, fiscal restraint and delivering more with less, working seamlessly with the other border agencies, continuing to introduce sophisticated technology and ensuring that it has the required skill mix and aptitudes among its staff for the changing environment.

Customs' response notes these challenges and how it is going to meet them. We are committed to supporting Customs as it adapts to meet its changing environment and to further improve its performance.

Iain Rennie
State Services Commissioner

Gabriel Makhoul
Secretary to the Treasury

Andrew Kibblewhite
Chief Executive, Department of the
Prime Minister and Cabinet

SUMMARY OF RATINGS

Results

GOVERNMENT PRIORITIES	RATING
Trade	
Travel	
Protection	
Revenue	
Major Project - Joint Border Management System	

CORE BUSINESS	RATING (EFFECTIVENESS)	RATING (EFFICIENCY)
Clearance and enforcement services related to craft		
Clearance and enforcement services related to goods		
Clearance and enforcement services related to passengers and crew		
Information and intelligence services		
Policy advice		
Revenue collection		
	RATING	
Regulatory impact		

Rating System

 Strong	 Well placed	 Needing development	 Weak	 Unable to rate/not rated
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Organisational Management

LEADERSHIP, DIRECTION AND DELIVERY	RATING
Vision, Strategy & Purpose	
Leadership & Governance	
Culture & Values	
Structure, Roles and Responsibilities	
Review	

EXTERNAL RELATIONSHIPS	RATING
Engagement with the Minister(s)	
Sector Contribution	
Collaboration & Partnerships with Stakeholders	
Experiences of the Public	

PEOPLE DEVELOPMENT	RATING
Leadership & Workforce Development	
Management of People Performance	
Engagement with Staff	

FINANCIAL AND RESOURCE MANAGEMENT	RATING
Asset Management	
Information Management	
Efficiency	
Financial Management	
Risk Management	

Rating System

 Strong	 Well placed	 Needing development	 Weak	 Unable to rate/not rated
--------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------

AGENCY CONTEXT

Established in 1840, Customs is one of the country's oldest government departments. Over time its role has broadened from a focus on revenue gathering to that of protecting New Zealand's border, facilitating international trade and travel, and collecting Crown revenue.

Outcomes and Priorities

Customs will advance New Zealand's prosperity and security by focusing on the following outcomes and priorities:

Protection — New Zealand is more safe and secure through reduced risk to New Zealand's interests arising from international trade and travel.

Priority will be given to increasing disruption of supply and dismantling criminal networks, particularly for illicit drugs and people smuggling, and maintaining responsiveness as risks change.

Trade — New Zealand's trade flows more freely through improved access to markets, and more secure and efficient border processes.

Priority will be given to streamlining and simplifying trade facilitation, and promoting secure and efficient trade, particularly with Australia and China.

Travel — Travel to and from New Zealand flows more freely through more secure and efficient border processes.

Priority will be given to more efficient, streamlined, and secure passenger facilitation, particularly for trans-Tasman and Asia-Pacific travel.

Revenue — the rate of collection of due Crown revenue is maintained for New Zealand.

Priority will be given to protecting and maintaining the Crown revenue base through a focus on revenue compliance and efficiencies.

Services

Customs provides the following services:

Clearance and enforcement services relating to people, goods, and craft crossing the border. These services facilitate trade and travel, and protect New Zealand's interests, where Customs:

- clears people and their possessions through direct interaction or self-clearance technology, and collects information
- clears goods, and provides trade and supply chain security assurance
- clears craft arriving in and departing from New Zealand
- applies a range of interventions, investigations, audits, and enforcement activities to manage border and revenue risks.

Revenue collection services where Customs receipts and processes revenue owed to the Crown for Customs and other agencies; provides revenue assurance, and credit and debt management.

Information, intelligence, and risk assessment services to external clients to protect New Zealand’s security. This includes infrastructure and services of the National Maritime Coordination Centre, such as tasking of government’s maritime assets for civilian surveillance and response, and information and advice to improve maritime domain awareness.

Policy advice and international services, obligations and assistance, and ministerial support.

Snapshot

In 2011/12 Customs will:

- facilitate trade valued at more than \$85 billion (involving 6 to 8 million import and export transactions)
- facilitate travel of more than 10 million people
- collect \$10.7 billion, or about 15 percent of Crown revenue.

In 2011 Customs seized the equivalent of 620 kilograms of methamphetamine precursors thereby avoiding up to \$71 million of potential harm to New Zealand.

Customs has about 1,200 staff, located across the country. Customs has offices at all the main international airports and ports. Internationally Customs is represented in Bangkok, Beijing, Brussels, Canberra and Washington DC.

The past and future trends in total operating expenditure for Vote Customs are:

Customs’ Operating Funding - 2009/10 to 2015/16



RESULTS SECTION

Part One: Delivery of Government Priorities

This section reviews the agency’s current ability to deliver on its strategic priorities agreed with the Government. It is based on the completeness of the agency’s plans, the stage at which the priority is at, and the capability and capacity of Customs to deliver on the priority. The report is also informed by consideration of identified risks.

<p>Government priority 1: Trade Streamline and simplify trade facilitation and promote secure and efficient trade with key trade partners</p>	
<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Strong</p> <p>Border clearance processes operate efficiently and rate highly in international comparisons largely due to the extensive use of electronic reporting of cargo information and Customs risk management approach. Customs clears the vast bulk of imports and exports quickly while focusing its interventions on cargo that exhibits indicators of risk or where the level of risk is unknown.</p> <p>Customs measures its facilitation performance and actively seeks to identify process improvements that will improve trade facilitation outcomes. Most recently, Customs has taken the lead role in the design and implementation of a Trade Single Window and improved risk management capability. The investment in Tranche 1 of JBMS promises further trade facilitation benefits for importers by potentially reducing the time and cost associated with meeting Customs, biosecurity and food safety requirements</p> <p>Customs has contributed to the negotiation and implementation of Free Trade Agreements and has been proactive in working with international customs administrations to favourably position New Zealand exporters. This has included putting in place the Secure Export Scheme and entering into a number of mutual recognition agreements with key trade partners that should result in a lower likelihood of New Zealand exports facing delays when crossing the borders of destination.</p> <p>There is potential for Customs to provide better support to traders by increasing its focus on providing better targeted information and electronic tools designed to improve voluntary compliance. For example, Customs could provide information to help traders and cargo service providers avoid common pitfalls or errors. Customs could also use its risk management expertise to identify low risk traders and assist them with information and services to better enable them to meet border requirements.</p> <p>There is an opportunity for Customs’ good working relationships with international customs administrations to be leveraged further to provide practical assistance to New Zealand exporters where they encounter difficulties in relation to border clearance for their goods.</p>

<p>Government priority 2: Travel</p> <p>More efficient, streamlined, and secure passenger facilitation, particularly for trans-Tasman and Asia-Pacific travel</p>	
<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Strong</p> <p>Customs’ facilitation performance at New Zealand’s international airports is in line with international standards. However, its ability to maintain this level of performance will be put under significant pressure as the growth in international traveller numbers returns to the long-term trend as the global financial crisis recedes.</p> <p>Customs is well placed to meet this challenge through its development of SmartGate, the automated border processing system. Already over 60% of eligible travellers choose to use SmartGate on arrival and departure. Customs worked quickly to develop SmartGate for use in processing in-bound travellers at New Zealand airports and to extend its use to process out-bound travellers. The decision to adopt technology that allows integration with Australia’s automated border system provides the opportunity to create a domestic-like trans-Tasman travel experience.</p> <p>The investment in SmartGate has resulted in lower processing costs per passenger and reduces the need for additional recruitment of Customs officers and investment by airport operators in additional airport infrastructure.</p> <p>Currently available to New Zealand and Australian e-passport holders, there is potential to extend SmartGate access to other nationalities and to upgrade the technology to improve the traveller experience. SmartGate could also be utilised for processing the growing number of cruise ship passengers.</p> <p>Customs has commenced work with airlines to explore the feasibility of integrating its border clearance process with airline check-in processes – an exciting opportunity to radically streamline the international travel process.</p> <p>More could be done to work at the whole-of-airport level with airport operators and the other stakeholders within the airport environment to collaborate on improving the passenger experience. For example, although the implementation of SmartGate has improved processing times at Customs’ primary line, travellers still experience delays while their baggage is delivered to the carousels and MPI staff undertake baggage inspections. This example demonstrates the need for a whole of airport approach to measure arrival facilitation performance from the moment aircraft arrive at the terminal through to the moment passengers reach the kerb outside the terminal.</p> <p style="text-align: right;">contd...</p>

	<p>For its part, Customs has embarked on a performance improvement programme in the Airports group as a pilot for the development of an organisation-wide performance measurement system. This work should position Customs to not only optimise its own performance but contribute usefully to whole-of-airport performance improvement initiatives. A greater focus on peak period facilitation performance (eg, busiest hour of the day) and more regular feedback from passengers (eg, monthly) are two examples of performance information that would provide more useful information for managers to use to improve performance.</p> <p>The Future Directions for the Border Sector initiative provides Customs and the other border sector agencies with the opportunity to look beyond the current passenger clearance processes and organisational arrangements to develop more efficient processing models for the future. It will be important for any proposed models to be tested for their impacts on facilitation performance. A well-developed performance measurement model will be a key requirement to enable this analysis.</p> <p>We have rated this priority as ‘Strong’ because of Customs’ excellent performance to date in facilitating travel. While we indicate here that there is more to do, Customs is aware of these next challenges and has work underway to address them.</p>
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Government priority 3: Protection
 Disrupt organised crime through a focus on illicit drugs and web of related crimes involving finances, prohibited goods like child pornography and people smuggling

<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Well placed</p> <p>Customs uses information and analysis to identify cargo and travellers that may present a risk to the community and as result of its interventions can demonstrate positive results in terms of the significant seizures of illicit drugs and other prohibited or regulated goods, and the identification of persons of interest. There is further work required to demonstrate the overall impact that this is having on protection outcomes as well as to measure the effectiveness and efficiency of the specific risk targeting strategies Customs employs. A more rigorous monitoring of the effectiveness and costs of particular intervention strategies would assist Customs to further refine its risk profiling and intervention processes.</p> <p>Customs has established effective working relationships with other customs administrations and law enforcement agencies in New Zealand and overseas. These efforts, combined with technology advances and post-border investigative activity, have resulted in the exchange of valuable intelligence and joint operations to detect, disrupt and deter trans-national crime syndicates seeking to import illicit drugs and other threats to the New Zealand community.</p> <p style="text-align: right;">contd...</p>
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	<p>The establishment of the Integrated Targeting and Operations Centre (ITOC) and the National Maritime Coordination Centre are examples of Customs using its relationships with other agencies to improve its capability to protect the community by enhancing its access to intelligence and the capabilities of intelligence, defence, law enforcement, immigration and biosecurity agencies together with Customs to more effectively deal with threats at the border.</p> <p>A continued focus on this joined-up approach together with investment in greater intelligence sharing and data analytics should result in greater effectiveness and protection outcomes.</p> <p>ITOC is still maturing as a whole of government capability. While it is accepted that it will take some time for its potential to be fully realised, participating agencies should move now to formally set priorities and performance measures for the Centre.</p> <p>A specific focus on the evaluation of the effectiveness of profiles and alerts managed by ITOC would provide a greater assurance that the level of intervention with passengers, goods and craft is cost-effective.</p>
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<p>Government priority 4: Revenue Protect and maintain the Crown revenue base through a focus on revenue compliance and efficiencies</p>

<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Well placed</p> <p>Revenue collected by Customs exceeded \$10 billion in 2010/11 which is approximately 15% of Crown revenue. Not only is this a substantial amount to collect, the percentage paid on time compared to what was due is very high (99.7%).</p> <p>During the last few years when many businesses have been under economic stress, Customs took steps to work with viable businesses which were suffering short-term liquidity problems, to allow them time to meet their obligations. This approach was at least in part instrumental in a relatively small amount of debt being written off as uncollectable.</p> <p>The Auditor-General carried out two Performance Audits of the Customs' revenue collection function, the first in June 2007 and the second in July 2011. Both these reports commented favourably on the efficiency of the revenue collection function.</p> <p style="text-align: right;">contd...</p>
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	<p>The July 2011 report noted that, between 2004/05 to 2009/10, the target for collecting additional revenue (\$15 million per annum) was met or exceeded (significantly in many years). During our review we questioned the value of having the same additional revenue target each year, in rapidly changing economic circumstances. This is particularly the case as this target is exceeded in most years and for example, the additional revenue collected was \$30 million in 2007/08, \$45 million in 2008/09 and \$65 million in 2009/10. The Auditor-General’s reports noted that in some years there may be one off cases for over say \$10 million, which in part explains the difference between planned and actual additional revenue.</p>
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Government priority 5: Major Project - Joint Border Management System (JBMS)

<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Needing development</p> <p>Perhaps one of the greatest challenges currently facing Customs is the successful delivery of Tranche 1 and the ongoing design and development of Tranche 2 of JBMS.</p> <p>Tranche 1 of JBMS was described to us as the largest information technology programme ever undertaken by Customs. Not only will Customs be reliant on this new system but the border operations of MPI will also depend on JBMS. It must also be interoperable in the future with the Immigration Global Management System which is being developed by Immigration New Zealand.</p> <p>JBMS is well advanced and is scheduled to go live on 1 April 2013. Given the risks associated with an information technology programme of the size and complexity of JBMS, a number of steps have been taken to mitigate risks. These include:</p> <ul style="list-style-type: none"> • an early pilot commencing in October for a number of users to test functionality • the early use of the existing CusMod system by MPI staff through the MAF-PAX application (this is already happening) • the continuation of CusMod for 18 months from 1 April 2013 to allow for time for industry stakeholders to transition. <p>Stakeholders and staff</p> <p>In our discussions with stakeholders we heard that Customs has been active in consulting on the design of JBMS and in some cases these discussions have occurred over a period of three to four years. There were consistently positive comments made about this engagement and confidence expressed in the Customs officials who were leading this work. There were only a small number of stakeholders who were not particularly aware of JBMS.</p> <p style="text-align: right;">contd...</p>
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	<p>An issue for Customs to carefully manage will be the planned increase in fees to partially recover the costs of JBMS. Stakeholders are aware of this possibility and some did not seem to be worried saying they would pass the fee onto their customers. However, others said they were concerned about any increase in fees and although they have been actively involved in consultation, the issue of fees had not been canvassed in any detail. Customs needs to treat this issue as a material risk, and manage the issue and communication with all parties well. We are informed that a programme of direct consultation with industry is due to commence shortly.</p> <p>Another complexity with the planned fee increase will be that when JBMS is implemented by 1 April 2013, clients will only be able to use JBMS if the software they use has been redeveloped. We understand that for many software providers the changes are not large and the stakeholders we spoke to generally thought that as updating software will present a business opportunity, most software providers would be ready on time. Customs should keep a close watch on this and respond to any issues which may arise.</p> <p>We received feedback during our review from Customs staff that they are not very aware of the progress of JBMS. We were informed that there are comprehensive communication plans for Customs staff and these have been held off so that both Customs and MPI staff could be informed about JBMS at the same time. We understand that a programme of staff communications should commence shortly. There is pressure on resources as this programme advances and Customs must ensure that it provides adequate support for JBMS following implementation.</p> <p>Programme management and decision making</p> <p>Overall, there are good project management disciplines used for JBMS as well as good governance frameworks. Strong directional leadership for JBMS is being provided by the chief executives of Customs and MPI. This is very pleasing given the ‘joined up’ nature of this initiative and the need for clear escalation and decision making practices.</p> <p>During our review we were advised that the relationship between Customs and MPI has been at times co-operative and at times competitive. With the strong leadership and clear messaging from the chief executives it is now clear to both organisations that co-operation is what is expected. It is also important to note that MPI has recently appointed several senior officials who have good experience with complex information technology programmes and this should be a great benefit to the programme as a whole.</p> <p>We asked about the joint decision making needed for ‘go live’ and how JBMS will be governed during the first month or two after deployment. The latter is particularly important as with a system deployment of this size and complexity and despite the best possible planning, things could go wrong.</p> <p style="text-align: right;">contd...</p>
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Customs has recently engaged additional expert assistance to advise on governance needed post-deployment. There will need to be very clear accountability for making decisions post-deployment which could impact on either Customs or MPI or perhaps both agencies. If a committee is used as part of this governance, the role of the chair in making decisions which affect both agencies will need to also be very clear.

At the time of deployment there will be a range of issues which need to be managed. There will almost certainly a number of risks each agency faces with a decision to deploy and clear mitigation strategies will need to be developed for each of these risks. These strategies will need to be agreed, up front, by both agencies.

In the period immediately following implementation it may sometimes be difficult to find the root cause of problems, including system performance problems. The newness of the Trade Single Window and the Risk and Intelligence tools may make analysis complex and challenging. It may therefore be difficult to advise Ministers and clients about what the problem is and when a fix may be implemented. It would be worthwhile to consider now how Customs will keep its Minister informed in the period following deployment.

As both Customs and MPI will in time be dependent on JBMS for their border protection activity there will be a 'single point of failure' for both departments. Disaster recovery planning will need to be robust and both departments need to be actively involved in planning this. Furthermore, during the period of transition both departments will be operating in a legacy and new system environment and this will also present many challenges which need to be planned for as soon as possible.

Scope control

Tranche 1 will provide a Trade Single Window as well as some new Risk and Intelligence tools. The Trade Single Window seems well advanced and in many ways this is the lower risk part of JBMS. The current EDIFACT Translator within CusMod, which is no longer supported, will be replaced in Tranche 1 and the new translator is being built by the main contractor and is based on a known product.

It was concerning to hear that the scope for the Risk and Intelligence tools had not been finalised at the time we undertook our review (late April 2012). Added to this we were advised that the main contractor was having difficulty in bedding down these new tools and although we were not able to explore this in any detail, it is an issue which Customs needs to address.

There are many examples of information technology programmes having struggled or failed due to poor scope control and scope control for JBMS should be addressed as quickly as possible. The scope should be locked down and any further changes should only be agreed at the most senior level and only for absolutely essential changes.

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	<p>External reviews and independent assurance</p> <p>Audit New Zealand has conducted several Independent Quality Assurance Reviews of JBMS but the most recent was in July 2011. Various Gateway Reviews have also been undertaken but the most recent was May 2011. Another Gateway Review is scheduled for later this year. Further, an experienced person from outside Customs with some prior involvement in JBMS has recently been engaged to advise the Group Manager responsible for the JBMS programme.</p> <p>We believe it would be very beneficial to further strengthen the independent assurance of the JBMS programme by engaging a very experienced IT professional (or organisation) who has had direct technical experience in implementing programmes of the size and complexity of JBMS. An Independent Technical Assurer should carry out a comprehensive examination of all aspects of the programme including governance, complexity of IT design and architecture, IT security, decision making practices, progress against milestones, key person risks, test pass rates, scope control, preparedness for implementation including staff training, stakeholder engagement and risk mitigation.</p> <p>Customs should also consider how an Independent Technical Assurer could be involved in the decision to ‘go live’. Many organisations will require an Independent Technical Assurer to sign off a decision to deploy a major new system. This gives business executives added visibility of risks and planned mitigations.</p> <p>The Chief Executive of Customs has already given consideration to engaging an independent advisor who would report to the chief executives of Customs and MPI, and the acting chief executive of the Labour Group within the Ministry of Business, Innovation and Employment. We fully support this approach.</p> <p>Current and future challenges</p> <p>Customs is under resource pressure with the JBMS initiative. As noted Tranche 1 is well advanced and work is underway to further develop the Business Case for Tranche 2. In many cases the same experts are needed for both pieces of work and therefore key person burnout may become a problem. Senior leaders are aware of this issue and are taking steps to mitigate this risk.</p> <p>It is planned to retire both CusMod and the Quantum (the MPI system) following the implementation of Tranche 2. Experience from other organisations is that the effort needed to retire legacy systems is often greater than expected and when possible, plans should be developed to clarify exactly when needs to be put in place to retire these legacy systems. This is not an immediate priority but should be addressed as soon as practicable.</p> <p style="text-align: right;">contd...</p>
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Conclusion

Overall JBMS has all the hallmarks of a well-managed programme of work and key personnel have considerable experience in the successful delivery of information technology. However, there are a several key issues to monitor and address which include:

- preparedness of stakeholders to move to the new Single Trade Window and the availability of software to do so. The issue of increased fees will need to be carefully managed
- ensure that there is positive and ongoing engagement with MPI
- finalise the decision making process for “go live” of Tranche 1 of JBMS
- finalise the governance to be used post deployment and in particular how Ministers and stakeholders are to be informed of any issues with performance of JBMS
- finalise the scope of the Risk and Intelligence tools as soon as possible
- arrange for expert Independent Technical Assurance of the programme of work and consider how an Independent Technical Assurance role could assist with the decision to go live
- develop a strategy to brief key stakeholders and IT commentators before deployment of Tranche 1.

RESULTS SECTION

Part Two: Delivery of Core Business

This section reviews the agency’s effectiveness and efficiency in delivering its core business. The report is based on a judgement about the current performance of the agency and the trend that they have demonstrated over the last 3 – 4 years.

Core business 1: Clearance and enforcement services related to craft	
<p>PERFORMANCE RATING</p> <p>Effectiveness</p>  <p>Efficiency</p> 	<p>Performance Rating (Effectiveness): Well placed</p> <p>Performance Rating (Efficiency): Needing development</p> <p>Customs currently boards all arriving craft. If craft have been assessed as representing a high risk, these are subject to a planned intervention. A further minimum of 3% of craft that are not assessed as high risk are also subject to a further intervention. More effective targeting of craft related risks is expected to result from improvements in the automation of intelligence processing and risk targeting after JBMS implementation.</p> <p>The implementation of the Integrated Targeting and Operations Centre and effective working relationships with other customs administrations and overseas law enforcement agencies assist in the effective targeting of high risk vessels.</p> <p>Customs maintains a high level of operational readiness to undertake interventions with craft, including response teams for rummaging vessels and, where necessary, divers to check vessels’ hulls.</p> <p>In our view the current requirement to visit all arriving craft is not an efficient use of resources. New joint systems to manage craft clearances will provide a basis in the future for a more integrated response across the border agencies which may result in enhanced efficiencies. Improved risk assessment processes may also provide an opportunity to reduce the percentage of vessels visited on arrival.</p> <p>Customs should further explore the potential for greater use of risk based approaches in the clearance of vessels.</p>

Core business 2: Clearance and enforcement services related to goods	
<p>PERFORMANCE RATING</p> <p>Effectiveness</p>  <p>Efficiency</p> 	<p>Performance Rating (Effectiveness): Well placed Performance Rating (Efficiency): Well placed</p> <hr/> <p>Customs monitors a range of performance indicators that suggest the facilitation of legitimate trade is internationally competitive. Feedback from industry stakeholders indicates that satisfaction with Customs’ services is consistently high.</p> <p>Customs has taken a proactive approach to assisting New Zealand exporters maintain access to key trade partners’ markets through its Secure Exports Scheme and mutual recognition agreements. These bilateral arrangements and effective working relationships with other customs administrations enable Customs to share intelligence to better target risks associated with goods entering New Zealand.</p> <p>There are challenges posed to effective risk assessment of goods entering New Zealand by mail as there is no pre-arrival reporting of this cargo. The increasing volume of parcels arriving in New Zealand by mail poses a challenge into the future. Customs and MPI have collaborated on a project to improve the efficiency of processing of mail at the Auckland International Mail Centre that will help contain the costs of processing increasing volumes of parcels.</p> <p>All other cargo is risk assessed prior to arrival and is subject to a risk based intervention including x-ray, detector dog, and physical inspection.</p> <p>Results from the 2010 Time Release Survey, other international performance benchmarks and industry feedback suggest that clearance performance is very good, and that there are limited opportunities for significant increases in facilitation. Further progress will depend on further take-up of electronic pre-arrival reporting of cargo. This may be facilitated further for sea cargo by the introduction of the Trade Single Window, tightening the requirements for pre-arrival lodgement of import information, and sharing information with ports, stevedores, freight forwarders and brokers to assist in their logistics planning.</p> <p>While efficiency is good, we note that there are some opportunities for improvement. Customs has implemented a new operational port model at Wellington and Christchurch that provides for increased workforce flexibility. Multi-functional teams now process both craft and aircraft as well the full range of cargo inspection work functions based on the daily demand. Customs should continue to explore the benefits from adopting similar flexible working approaches elsewhere in its operations. There are also opportunities to explore whether there are efficiencies to be achieved through the out-sourcing of activities such as the un-pack and re-pack of cargo held for inspection. The current use of highly trained Customs officers for this kind of work does not appear to be as efficient as the use of less expensive workforce options.</p> <p style="text-align: right;">contd...</p>

	<p>The Productivity Commission in its recent report into international freight transport services commented that border agencies should continue to enhance their performance measures and review their procedures. The Future Directions for the Border Sector project provides an opportunity to examine whether further efficiencies are possible through a strengthened partnership with MPI.</p>
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Core business 3: Clearance and enforcement services related to passengers and crew

<p>PERFORMANCE RATING</p> <p>Effectiveness</p>  <p>Efficiency</p> 	<p>Performance Rating (Effectiveness): Well placed Performance Rating (Efficiency): Well placed</p> <p>Customs identifies high risk travellers through the analysis of pre-arrival passenger information by the Integrated Targeting and Operations Centre and profiling and behavioural analysis by airport staff. Passengers and crew may also be subject to dog and x-ray screening and may be referred to Customs from MPI staff.</p> <p>Customs also manages an extensive range of alerts (almost 40,000 annually) on arriving and departing passengers on behalf of other agencies that are based on specific intelligence or court orders. Feedback from these agencies indicates a high level of satisfaction with Customs’ performance.</p> <p>As a result of this risk-based approach, around 99% of arriving travellers processed at the primary line proceed without any further Customs’ intervention. Of the 1% of arriving passengers that are subject for further risk assessment at the secondary area, around 25% are subject to some form of intervention. More focus on evaluating the effectiveness of profiles and alerts, and the circumstances where interventions do not result in detection outcomes, will further lessen the need to intervene with legitimate travellers.</p> <p>The management of passenger profiles and alerts is managed by ITOC which provides a national targeting service for all international airports. As it matures and access is provided to a wider range of data sources and more sophisticated data analysis tools through the implementation of JBMS, its effectiveness in identifying high risk passengers is expected to be further enhanced.</p> <p>We have commented under Government Priority 2 on Customs’ strong performance in facilitating streamlined and efficient passenger facilitation. Initiatives such as SmartGate and technology enabled targeting have resulted in lower processing costs per passenger, while still providing the appropriate level of protection and risk assessment. This performance demonstrates Customs’ commitment to efficiency. However as we have noted, more work could occur with the other border agencies and stakeholders in the airport and cruise ship environments to collaborate on streamlining the passenger experience. A focus on peak-period facilitation through use of multi-functional teams and sharing technology and development of more relevant processing measures would assist.</p>
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Core business 4: Information and intelligence services	
<p>PERFORMANCE RATING</p> <p>Effectiveness</p>  <p>Efficiency</p> 	<p>Performance Rating (Effectiveness): Well placed Performance Rating (Efficiency): Well placed</p> <p>Each year Customs provides between 1,600 and 1,800 intelligence and risk products for use by national and international agencies. These products include operational risk products that identify and assess the nature and level of risk that craft, individuals, groups, events and commodities could present to the Government’s outcomes. Other intelligence products that are considered to be of interest to other agencies are also disseminated.</p> <p>In 2010/11 these external clients expressed 100% satisfaction with the intelligence and risk products disseminated by Customs.</p> <p>Customs also provides information services to other agencies, including managing the border management system on behalf of Customs and MPI to support common functions at the border, providing capability for other agencies to use this system to manage border alerts and create electronic messages and providing data to other agencies such as Statistics New Zealand. In 2010/11, 100% of agencies expressed satisfaction with Customs’ management of border alerts.</p> <p>Customs operates the National Maritime Coordination Centre (NMCC) on behalf of a range of government agencies to maximise the efficient and effective use of the Government’s maritime patrol and surveillance assets, and related information, for civilian purposes. The NMCC works with civilian agencies to determine the most appropriate mix of surveillance assets to pursue New Zealand’s sovereignty, safety and security, economic and foreign policy interests in the maritime environment. As part of its operations, the NMCC coordinates the collection and dissemination of classified and unclassified maritime information to support maritime domain awareness. In 2010/11, the NMCC met 100% of civilian demand for the provision of patrol and surveillance assets and achieved 100% satisfaction with the responsiveness, transparency and prioritisation of its coordination tasking.</p> <p>While client satisfaction ratings are very high, Customs acknowledges that there is scope to better understand the value of the risk and intelligence products produced. This is an area that would benefit from a more rigorous approach to performance measurement as part of the current development of a Customs management information system.</p>

Core business 5: Policy advice	
<p>PERFORMANCE RATING</p> <p>Effectiveness</p>  <p>Efficiency</p> 	<p>Performance Rating (Effectiveness): Needing development</p> <p>Performance Rating (Efficiency): Needing development</p> <hr/> <p>Customs has a significant role in providing quality policy advice to the Government on issues relating to trade, travel, border protection, security and revenue. The Policy Group has a reputation for providing reliable and prompt responses to the Government on customs issues. It has been successful in delivering support for business cases for key strategic projects such as SmartGate and JBMS. The most recent NZIER review of the quality of Customs’ policy advice assessed it as ‘adequate’. The agency seeks to raise this quality rating in future assessments. Its goal is to be a lead provider of border management policy expertise.</p> <p>Customs is a heavily operational agency and this means that the Policy Group has tended to be driven by the need to respond to the operational delivery requirements of Customs and the other border agencies. It also has a significant international services policy dimension. The Policy Group tends to be overstretched and can on occasion have limited resource available for the more strategic work. At present its activities are primarily a mix of operational and responsive work which is demand driven. A realignment of the policy function in 2011 created four work streams, three of which are closely aligned to operational areas. To be more influential in shaping government policy, we suggest that the Policy Group needs to be more future focused and strategic.</p> <p>In past years there has been a view that Customs has been overly ‘customs-centric’ in its policy views. This remains an issue at an operational level in the organisation and the Policy Group can help reposition this perspective. The Policy Group needs to be able to maintain an overarching perspective which can drive strategic thinking to feed into the Government as well as respond to immediate and operational issues.</p> <p>Ensuring deeper and two-way engagement with other agencies (both domestic and international) during the development of policy would also be valuable. This would reduce the risk of fragmented decision making and duplication of effort, particularly in relation to the border agencies. We note that this form of relationship is currently being adopted in the formation of policy advice regarding Future Directions for the Border Sector, an initiative which has been set up by the Ministers for Primary Industries, Customs and Immigration. The project, which is a part of the Government initiatives to deliver better public services more efficiently, aims to make travel and trade easier, improve the efficiency of border services and ensure border security and biosecurity protection are maintained or enhanced. This approach which develops a clustering culture for policy advice should ensure the views offered to the Government are well integrated. It is a model which should be continued.</p> <p style="text-align: right;">contd...</p>

	<p>As all of these areas are fundamental to the effective operation of Customs we see potential for this future thinking policy advice to be strongly influenced by Customs’ policy input. Customs has valuable operational experience to offer which will result in better policy options being available to Ministers. The Policy Group should continue to develop its strategic capability to ensure that it is delivering rigorous evaluation and robust analysis. It should also continue to work effectively with the other government agencies as appropriate to ensure the advice given is aligned and encompasses an ‘all-of-government’ perspective. As well as a more formal clustering approach by the Border Agency Policy Groups, this might also be assisted through secondments of subject matter experts from other agencies.</p> <p>In terms of efficiency, Customs ranked in the middle in the Scott Review of Expenditure on Policy Advice for cost per standard unit of policy advice. It recorded 30.35 FTEs involved in policy, and policy appropriations of \$4.57 million - a figure which had grown 75% between 2005/06 and 2010/11 in response to increasing border risks. Evaluating efficiency for policy teams is not straightforward but Customs needs to consider further work to measure the efficiency of its policy function and how it prioritises its policy work programme.</p>
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Core business 6: Revenue collection

<p>PERFORMANCE RATING</p> <p>Effectiveness</p>  <p>Efficiency</p> 	<p>Performance Rating (Effectiveness): Well placed Performance Rating (Efficiency): Well placed</p> <p>Overall, the Customs’ revenue collection function is sound and efficient. There has been a strong focus on maintaining revenue collection during recent periods of economic difficulty. As well changes related to an increase in the rate of GST appear to have been well managed. We make comments under Government Priority 4 on the excellent collection rates and the efficiency of an approach which promotes voluntary compliance, with supporting audit and assurance programmes.</p> <p>Customs has well developed approaches to manage risks but during our review we became concerned about the focus given to revenue collection compared to the other responsibilities such as protecting the border and facilitating trade and travel. This is to a degree understandable but as revenue collected by Customs is approximately 15% of Crown revenue, we believe that more specific attention should be given to forecasting and managing this revenue stream from an end-to-end perspective.</p> <p>For example, Customs should have a good understanding of trends and patterns in economic activity in New Zealand, more detailed information in respect of industries and businesses which may have an obligation to pay revenue and compare this to other publically available information. As appropriate this analysis should be undertaken with support from the Treasury and Inland Revenue.</p> <p style="text-align: right;">contd...</p>
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	<p>Further Customs should ensure that it is aware of any anomalies in the end-to-end revenue stream. A good example of this, which was raised on a number of occasions during our review, is the ability of certain commercial importers to claim GST refunds from Inland Revenue before they are required to pay GST to Customs on imports. This arises because of a difference in the timing of obligations to pay GST and entitlements to receive GST refunds. Customs should ensure that officials in government departments such as the Treasury and Inland Revenue are aware of any such anomalies.</p> <p>Customs should also develop a more detailed understanding of the various streams of revenue it collects, actively participate with the Treasury in developing revenue forecasts and where able, make real time data available to other government departments such as the Ministry of Transport.</p> <p>Finally, Customs should further enhance its understanding of revenue in the rapidly growing area of internet purchases. This is particularly the case in respect of the increase in low value private imports. Working with other departments as required, Customs should have well developed strategies to ensure New Zealanders are aware of their obligations when purchasing goods offshore. Customs should also explore ways of making collection of revenue as efficient as possible and it would be worthwhile to work more broadly with the private sector to explore alternative approaches to revenue collection. In undertaking this work Customs should also consider ways to enhance its ability to test the value declared on imports to ensure there is no under declaring. Given the rapidly increasing volume of offshore purchases systemic solutions would need to be developed.</p>
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Regulatory impact

<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Well placed</p> <p>Customs administers the Customs and Excise Act 1996 and related regulations, and at the border exercises powers under 60 Acts on behalf of other agencies, such as the Ministry of Economic Development, Immigration New Zealand and the Ministry of Justice.</p> <p>Examples of recent regulatory work include amendments to legislation to allow for automated passenger processing including the use of biometric data, and for the exchange of information internationally to identify and mitigate risks. Customs has begun preliminary work to review the legislative framework, driven by the changing nature of border interventions.</p> <p>The Treasury has not assessed the quality of Regulatory Impact Statements prepared by Customs, but this is understandable as the number is small. Customs has an annual regulatory plan and undertakes some regulatory scanning but this does not seem to be part of a comprehensive regulatory management system.</p> <p style="text-align: right;">Contd...</p>
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	<p>We also interpret Customs’ regulatory approach in terms of its work to facilitate international trade and travel. This facilitation role has developed over recent years and is commented on elsewhere in this report. It helps to give assurance that Customs is considering the burden of regulation and the compliance costs faced by business and individuals at the border, and is helping to mitigate them. As such it contributes to the rating in this area.</p>
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ORGANISATIONAL MANAGEMENT SECTION

Part One: Leadership, Direction and Delivery

<p>Vision, Strategy & Purpose</p> <p>How well has the agency articulated its purpose, vision and strategy to its staff and stakeholders? How well does the agency consider and plan for possible changes in its purpose or role in the foreseeable future?</p>	
<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Strong</p> <p>Customs has a clear vision, well developed operational strategies and a strong purpose. Its vision is based on “Leadership and excellence in border management that enhances the security and prosperity of New Zealand”. Its mission is “To protect New Zealand’s border and revenue in order that New Zealanders may live in safety while actively participating in the global community”. It was clear to the Lead reviewers that the people we met in Customs were well aligned to this vision and mission.</p> <p>As noted above, Customs’ operational strategies are well developed and its medium-term strategies are currently largely shaped around the new JBMS system. JBMS will offer a wide range of opportunities for New Zealand to have a more seamless border experience for travellers, importers and exporters and their representatives, as well as allowing Customs and MPI to more effectively identify and treat operational risks faced at the border.</p> <p>Customs’ stakeholders reported very favourably on the engagement they have with the department, Customs’ willingness to adapt and change as well as their overall approach to take an end-to-end perspective. A good example of this is the improvements made at Auckland Airport where Customs successfully worked with airport management to facilitate the smooth movement of passengers while still allowing Customs to have a strong focus on at-risk passengers.</p> <p>It has been recognised by Customs that it is timely to revisit its strategic planning processes to ensure there are new and well structured opportunities for the senior leadership team to engage with stakeholders. This will provide the opportunity to ensure that strategic opportunities are understood so plans can be developed to take advantage of these opportunities. Given the changing nature of the border and increasing international trade and movement of people, this will be important work for Customs.</p> <p>Finally, Customs is actively involved in the Future Directions for the Border Sector work programme referred to earlier in this report. This programme is to explore how the border sector agencies can operate together more efficiently while keeping a firm focus on border security. Customs has a good track record in adapting to new priorities and directions and is therefore well placed to implement any changes agreed to by ministers.</p>

<p>Leadership & Governance</p> <p>How well does the senior team provide collective leadership and direction to the agency?</p>	
<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Well placed</p> <p>Customs has a new Chief Executive and the transition to the new leader has proceeded smoothly. There is a relatively large senior leadership team who are well aligned to the priorities and challenges faced by the department. There are also good governance arrangements in place and coupled with highly developed risk management practices, this allows the senior team to provide clear leadership and direction to the department on operational priorities.</p> <p>Customs has been successful in moving from an organisation where decisions were more often made within business groups to having a well-defined hierarchy of organisation-wide committees. However, the Customs’ PIF Self-review noted that decision making is not sufficiently devolved which results in senior leaders becoming overly transactional in their approach. There has been a tendency for decision-making to be referred up rather than taken at lower management levels. During our review we noted the same issue and for example, the matters discussed at senior leadership team meetings generally had a strong operational flavour. We also recognise there will, from time-to-time, be significant or high risk operational activity that members of the senior management team need to be involved in.</p> <p>During our review we also became aware that middle managers are keen to have a greater sense of responsibility and have more authority to make decisions. We were pleased to hear this and the opportunity is there to have a new decision making model where managers are actively supported to think through issues and make decisions but within predetermined boundaries. Consistency of decision making is important to Customs and therefore any new decision making model would need to address this.</p> <p>Customs faces a period of sustained change with the implementation of JBMS. The most senior leaders in Customs will need to ensure they have the capacity to skilfully lead the organisation during this period of uncertainty and appropriate devolution of decision making would assist.</p> <p>We also suggest that consideration be given to changing the senior management structure. This might assist communication and enable the senior leadership team to be better placed as a forum to decide the difficult trade-offs and prioritisations required to maximise delivery and performance, both within the organisation and the border sector generally.</p>

<p>Culture & Values</p> <p>How well does the agency develop and promote the organisational culture, behaviours and values it needs to support its strategic direction?</p>	
<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Well placed</p> <p>Voluntary compliance underpins the efficient movement of trade and people across the New Zealand border. Consequently one of the most important challenges for Customs is to ensure it operates in a way that continually builds on community confidence. If Customs can do this, voluntary compliance will at least be maintained and more likely enhanced.</p> <p>Employees show a strong feeling of loyalty to Customs. They believe in the goals of the organisation and project a committed and positive image externally. This contributes to the high levels of support that Customs enjoys from New Zealanders. It is a well respected organisation and we heard many positive comments from stakeholders about Customs being reliable, approachable and responsive. Customs ranked third (behind the New Zealand Fire Service and New Zealand Police) in a 2011 UMR Research telephone survey which asked respondents whether government departments were doing a good job. It is evident that there are high levels of integrity in the organisation which Customs must maintain and reinforce as needed.</p> <p>Law enforcement underlies Customs’ strong culture but it has moved in recent years to balance this with its facilitation role and an expectation that the community can access good service. The feedback we received is that Customs does this well.</p> <p>However, the organisation and its employees must respond to the demands of the changing environment. An opportunity for improvement is for Customs to maintain the strengths of its current culture while building greater opportunities for innovation. This will support the drive for continuous improvement in levels of service and economic facilitation by Customs. During our review we noted that staff were not always aware of how they could make suggestions for improvements and, if they had previously put forward ideas, they stated that they did not always receive feedback.</p> <p>With the implementation of JBMS it is likely that staff will have many ideas and suggestions for improvements to this new system. They will be looking for ways to raise these and we believe there is an opportunity to use this implementation to step up practices. The development of a new innovation programme could be considered to sit alongside the implementation of JBMS.</p>

<p>Structure, Roles and Responsibilities</p> <p>How well does the agency ensure that its organisational planning, systems, structures and practices support delivery of government priorities and core business?</p> <p>How well does the agency ensure that it has clear roles, responsibilities and accountabilities throughout the agency and sector?</p>	
<p>PERFORMANCE RATING</p> 	<p>Performance Rating: : Well placed</p> <p>Customs is a well run organisation. Senior leaders give careful consideration to the environment they operate in, the opportunities available and the risks the organisation faces. They learn from others and the implementation of SmartGate is a good example of this. The people in Customs align themselves well to the important role they have in protecting the border.</p> <p>The systems in place for planning, setting priorities and moving to action are well developed. At the same time we have suggested already that the process for planning at a more strategic level could be enhanced.</p> <p>Customs has stepped up to the challenge of advancing cross-agency border protection work and the development of JBMS is a good example of this. The Single Trade Window in Tranche 1 of JBMS is a further demonstration of the influencing role Customs has had.</p> <p>Within Customs there are clear roles and responsibilities and during our review we became aware of a specific delineation between operational and non-operational roles. There was evidence that there is still some way to go in ensuring that planning and prioritisation cuts across all areas in Customs, and that there is greater alignment and involvement between the operational and policy areas. Senior leaders are aware of these issues and the need to make further progress in this area.</p> <p>In the PIF Self-review report, Customs noted that the current business model is concentrated on operational activity and that this needs to be reviewed. It was also noted that a more appropriate alignment between operational and non-operational activity is needed. We agree with this view and also note that with the implementation of JBMS and in particular Tranche 2, the operating model would need to be reconsidered.</p>

<p>Review</p> <p>How well does the agency monitor, measure, and review its policies, programmes and services to make sure that it is delivering its intended results?</p>	
<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Needing development</p> <p>Customs has extensive information holdings but does not always make best use of it to measure the effectiveness of its programmes. To a degree it suffers from a ‘data rich, knowledge poor’ syndrome. Further, there is no ‘negative’ reporting in respect of particular interventions and the only information collected is when an intervention has been successful. Consequently, it is likely that Customs is undertaking interventions when it does not need to.</p> <p>The Customs’ PIF Self-review report noted:</p> <ul style="list-style-type: none"> • there is no research and evaluation strategy and plan • it does not routinely review and evaluate the effectiveness of its policies and programmes • it is not standard business practice to review the results of programmes against expected impacts and outcomes • research and evaluation activities are limited, not evenly spread and not a feature of the reporting function. <p>Customs is undertaking a review of its reporting capability and wants to move to a more integrated organisational approach to planning and reporting. It is anxious to enshrine monitoring and reporting mechanisms and to make strategic and operational decisions with the benefit of high quality information and analysis.</p> <p>In undertaking this review Customs should consider issues such as the evidence base it needs to measure the cost-effectiveness of initiatives such as the Secure Export Scheme. It should also consider what additional information it may need to collect, and decide to stop collecting information it does not need to plan and prioritise. Customs should also explore the use of modern analytical practices as used in some private and public sectors organisations to strengthen its ability to gain valuable insights.</p> <p>Customs also needs to reconsider some of its performance measures to ensure they are more aligned to the expectations of the community. An example is the target of processing 90% of travellers in 45 minutes at international airports when it easily exceeds this performance measure on all but the busiest days of the year. Another example is the additional revenue target of \$15 million which has stayed at the same level for several years although in most years the target is exceeded, often by large amount.</p>

ORGANISATIONAL MANAGEMENT SECTION

Part Two: External Relationships

Engagement with the Minister(s) How well does the agency provide advice and services to its Minister(s).	
PERFORMANCE RATING 	Performance Rating: Strong Feedback from the Minister of Customs indicates a high level of satisfaction in all aspects of Customs' performance including its responsiveness to Government priorities and its ability to deliver results. Customs has appropriate quality assurance processes in place to ensure the quality of correspondence to the Minister including policy papers, Parliamentary questions, and regular performance reports. Current performance measures for timeliness of outputs for the Minister are being met.
Sector Contribution How well does the agency provide leadership to, and/or support the leadership of other agencies in the sector?	
PERFORMANCE RATING 	Performance Rating: Well placed Customs is recognised as playing an effective leadership role in bringing relevant government agencies together to work with industry to improve the traveller experience. Under the leadership of the former Comptroller of Customs, Customs chaired and supported the Border Sector Governance Group during its establishment phase. During this period significant progress was made in establishing a whole-of-government framework for border management and a range of tangible improvements to border sector collaboration. These improvements include the establishment of the National Maritime Coordination Centre and the Integrated Targeting and Operations Centre (ITOC), as well as the implementation of SmartGate and the business case for JBMS. The relationship between Customs and MPI has matured significantly as indicated by the extent to which they have co-located office accommodation through New Zealand and risk targeting officers within ITOC. Business improvement initiatives are regularly undertaken between these agencies, including for example working with NZ Post on process improvements in the assessment and clearance of mail at the International Mail Centre. contd...

	<p>As part of the Future Directions for the Border Sector work underway, there are further opportunities for the border agencies to review their business processes and seek to better integrate how they operate to minimise the delays and inconvenience experienced by travellers.</p> <p>In this context, it is worth noting that other border sector agencies see the border as an important part, but only part of their overall operations. Customs, on the other hand, is singularly focused on end-to-end border management. This makes Customs uniquely placed to play an on-going leadership role within the border sector. However, the review team received feedback that Customs may not always fully appreciate the specific border risks and challenges faced by its partners at the border. There is an acknowledgement that this concern is reducing over time, especially at senior levels within Customs.</p> <p>In advocating future improvements to collaboration at the border, Customs will need to ensure that it understands where there is a need to adapt its approaches to better accommodate the full range of challenges facing other border sector agencies. This is particularly relevant in the development with MPI of intelligence and risk management capabilities that will need to be tailored to effectively address biosecurity risks.</p> <p>Customs also enjoys the trust and respect of law enforcement and intelligence agencies. This trust has resulted in close working relationships between Customs and these agencies resulting in effective sharing of intelligence, effective management of joint operations and the sharing of capability. Customs also participates in the economic development and revenue sectors. We suggest it could do more to understand these sector overlaps and roles, and increase its engagement with agencies such as Inland Revenue, the Treasury, and the Ministry of Business Innovation and Employment.</p>
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Collaboration & Partnerships with Stakeholders	
How well does the agency generate common ownership and genuine collaboration on strategy and service delivery with stakeholders and the public?	
PERFORMANCE RATING 	Performance Rating: Well placed
	<p>Customs is well regarded as a partner by airports, airlines and other agencies operating within the international aviation environment.</p> <p>Airport operators appreciate Customs' active participation in whole-of-airport initiatives to optimise operational performance and to achieve longer-term facilitation objectives. For example, significant support was provided by Customs to ensure that visitors coming to New Zealand for the Rugby World Cup experienced a smooth and friendly welcome. Customs' ability to implement SmartGate in time for this international event demonstrates its ability to work closely with industry stakeholders to achieve mutual benefits.</p> <p>There is an opportunity for stakeholder collaboration to be further strengthened by Customs and MPI participating more formally in a whole-of-airport facilitation performance improvement strategy in partnership with airport operators, airlines, aviation service industries and other government agencies.</p> <p>Customs has strong relationships with key participants in the trade services sector including ports, stevedores, shipping lines and agents, terminal operators, freight forwarders and customs brokers. These relationships are particularly effective at the operational level where generally the knowledge and helpfulness of customs officers is highly valued.</p> <p>In both the aviation and maritime environments, there is a risk that these relationships depend on the personal expertise and relationship skills of individual customs officers. There may be a need for Customs to ensure that these local relationships are supported by clear transition arrangements when key Customs personnel change roles and for clear escalation points to be established for industry to access when there are issues that are not able to be resolved at the local level. The nomination of Customs' contact people for specific industry sectors is worthy of consideration to provide Customs with an ability to ensure industry issues are registered and prioritised for action, and to ensure a consistent response is implemented nationally.</p> <p>More generally, there would be value in Customs developing an over-arching stakeholder management strategy to ensure that there are appropriate mechanisms in place to understand and meet stakeholder needs. For instance we suggest the nomination of a 'key account holder' from within the top levels of management to take responsibility for maintaining a personal connection with each major stakeholder.</p>

Experiences of the Public How well does the agency meet the public’s expectations of service quality and trust?	
<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Strong</p> <p>Customs enjoys a high degree of trust and confidence amongst the New Zealand public as shown by a range of surveys. Customs undertakes a telephone survey of the travelling public every two years (as part of an annual stakeholder survey approach which also includes telephone research and interviews with commercial clients and other stakeholders). In the latest telephone survey the average travelling public result for “reporting a good service experience” was 83% and the trust rating was 82%. Over the last decade Customs’ performance has consistently improved in the annual UMR ratings of government agencies from a 59% total “doing a good job” rating in 2001 to 73% in 2011. This current rating is compares favourably to other participating agencies and is bettered only by the New Zealand Fire Service (90%) and the New Zealand Police (78%).</p> <p>Surveys such as these indicate a high performing agency. At the same time there are opportunities for more detailed information about the quality of the public’s interactions with Customs, and for Customs to implement a more rigorous approach to understanding the public’s needs and the measurement of service delivery outcomes. For example, there would be value in more frequent and detailed surveys of international travellers (including foreign nationals) to assess the factors that determine a good traveller experience and to focus performance improvement initiatives, in conjunction with the other border agencies.</p>

ORGANISATIONAL MANAGEMENT SECTION

Part Three: People Development

<p>Leadership & Workforce Development</p> <p>How well does the agency develop its workforce (including its leadership)?</p> <p>How well does the agency anticipate and respond to future capability requirements?</p>	
<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Well placed</p> <p>Customs has recently completed a Workforce Strategy to 2015/16 as a companion document to its Four-year Budget Plan. This is a comprehensive and well-structured document. The strategy recognises that Customs faces challenges in the development of its workforce capability and in particular that stronger senior leadership is needed to support transformational change to realise the benefits of the implementation of advanced technology and to move to a more innovative culture. This is essential not only to ensure the benefits of JBMS and other technological advances are fully realised but also to enable an integrated service delivery across the border sector agencies.</p> <p>The Customs’ PIF Self-review report notes significant achievements over the past several years, coming from a low base with no formal people development or leadership strategies and ‘a workforce development primarily focused on operational expediency ... not linked to strategic direction’.</p> <p>The Customs’ Leadership Career Path Framework is well structured and appears comprehensive and relevant. It comprises four levels of leadership training and the top level – Leaders@Customs – won the Human Resources Institute Initiative of the Year award for 2009/10. Customs has also supported the development of a security studies programme at Massey University.</p> <p>The introduction of a Career Development Board has enabled a systematic approach to assessment of staff with leadership potential who have progressed to a management role in the organisation. There are five categories of management and separate meetings are held annually for each. The assessment involves the assignment of a priority rating used to allocate training and development expenditure and career management and succession planning for key management roles. This is a systematic and rigorous process.</p> <p style="text-align: right;">contd...</p>

A role rotation policy for operational staff was reintroduced in 2007. This policy is controversial within the organisation. It is strongly supported by more senior customs officers who have gone through it and recognise its value in developing all round skills and experience, but it is criticised by some younger staff and specialists who see it as too rigid and a barrier to career development. Some staff suggested that it creates a ‘one size fits all’ approach and that some roles are not suited to rotation – particularly those in technical areas where it may take several years to learn and gain effective skills.

We question whether this policy is sufficiently flexible to attract and retain the skills needed to drive transformational change in an increasingly technology-led environment. While it has been effective in developing customs officers with all-round skills it is evident that the organisation will increasingly require specialised skills and this will necessitate more flexibility in both recruitment and training structures.

We received feedback from industry stakeholders that rotation of key officers can have a significant impact on their relationship with Customs. This is not surprising given the experience and capability of officers will vary. However, it is important for Customs to ensure that officers receive thorough pre-briefing and continuing support as they move into new roles. This should include seeking and evaluating regular feedback from industry stakeholders.

In the 2012 Employee Engagement Survey a number of staff identified leadership and career development as factors which need to be improved. Concerns expressed included the lack of career path for specialist roles and poor management abilities at lower and middle levels of management, exacerbated by the rotation policy which can mean relatively inexperienced staff can be placed in management positions requiring detailed knowledge

Customs has a relatively aging workforce. The average age is 42.5 with 17% of the workforce aged 55 and older. This could result in gaps in experience and expertise over the next few years as retirements occur, which will need to be anticipated and managed. Women are not well represented, particularly in management roles, where only 18% of managers are female. The 2012 Employee Engagement Survey showed that younger staff (aged under 29) and those with a 3-4 year tenure are less engaged than other groups. The decreases in engagement ratings since the 2010 survey have been greater for women than men, particularly with regard to learning and development and career opportunities. These declines may be in part reflecting a general climate of anxiety about economic conditions and change in the public sector, but there are some indicators (such as the lack of women in management roles) that require further analysis and response.

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	<p>In an environment which requires strong technological skills to optimise the effectiveness of new technologies, Customs needs to be seen as an innovative and dynamic workplace. A hierarchical ‘command and control’ culture has been a valuable tool in building a strong sense of purpose and instilling standards of excellence and discipline in the workforce with a strong enforcement culture. However, this now needs to be moderated to encourage innovation and a high performance. Recruitment strategies also need to change, not only for specialist areas where greater career development opportunities are required, but also for the operational workforce who will need to have stronger technological skills. To enable Customs to attract ‘best-in-class’ employees, managers will have to embrace the changes and be proactive in encouraging diversity and flexibility in the workplace.</p> <p>Succession planning for critical roles is undertaken through the Career Development Board process. This is a well mapped and rigorous procedure which will be refined to embrace the changes highlighted in the Talent@ Customs review, which is currently underway. It will need to reflect the skills and aptitudes required to provide the cultural change leadership for an increasingly technology-driven organisation.</p>
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<p>Management of People Performance</p> <p>How well does the agency encourage high performance and continuous improvement among its workforce?</p> <p>How well does the agency deal with poor or inadequate performance?</p>	
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<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Needing development</p> <p>Over the past six years Customs has developed and implemented personal performance plans for all staff. They require the setting of annual objectives for each staff member and a mid-year and end of year one-on-one review with their immediate manager. An individual’s performance therefore impacts their potential increase in remuneration. Performance outcomes are assessed for consistency. There are separate performance rating frameworks for general staff and for managers and specialist staff. A performance management plan is agreed between a manager and staff member where he or she fails to meet expectations through the performance management process or through a positive management process during the year.</p> <p style="text-align: right;">contd...</p>
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	<p>These processes are detailed and well documented. Expectations of staff are clearly defined in them but the effectiveness of the performance management process is not highly regarded by staff. The performance and feedback responses in the 2012 Engagement Survey are relatively negative compared both with the 2010 survey and the State Sector benchmark, particularly relating to dealing with poor performance (a 38.5% score versus the State Sector benchmark of 55.1%). Several staff commented that the performance system fails to deliver tangible results. They spoke of ‘hitting a brick wall’ or ‘glass ceiling’ in their pay and promotion structure. This applied particularly to those employees in specialist areas. Employees can feel forced into the management and rotation structure which seems inflexible and unfair.</p> <p>We question whether the performance management training of managers is adequate. Is there enough peer review and continuing training of managers to recognise and deal with poor performance? Are the performance measures sufficiently targeted to encourage performance improvement? This is even more challenging given the current fiscal environment where the opportunity for remuneration adjustments is tightly constrained.</p> <p>There is also a view that some employees are able to ‘coast’ and are not subject to active performance management. We note that this perception, if not addressed, can be demotivating for other employees. One staff member commented in the Engagement Survey “A system where staff who are consistently good performers are rewarded no differently than the consistent poor performers is broken and needs to be replaced.”</p> <p>We suggest that the senior leadership team should focus on how to improve accountability and timely intervention to manage poor performance. Managers in turn need to be held accountable for their staff development and management plans, to establish consequences for poor performance and to link good performance to recognition, promotion and remuneration.</p>
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<p>Engagement with Staff</p> <p>How well does the agency manage its employee relations?</p> <p>How well does the agency develop and maintain a diverse, highly committed and engaged workforce?</p>	
<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Needing development</p> <p>There is a strong feeling of loyalty and commitment to purpose evident among the workforce. Employees believe in the goals of the organisation and take an active interest in what happens in Customs. They project a committed and positive image externally, as demonstrated in the recent award Customs received from Randstad New Zealand as the most attractive public sector employer in New Zealand. This was based a survey of over 7,000 New Zealanders who rated Customs third overall most attractive employer in New Zealand. There is a real sense of pride in Customs’ success. Although it is a relatively small agency it is seen to have significant influence and achieve great results for New Zealand. It has a low rate of voluntary turnover (6% pa) overall, though rates are notably higher at between two and five years of service.</p> <p>Customs has a relatively high union participation and over 61% of staff are covered by a Collective Employment Agreement. Approximately half of the total workforce belong to the Customs Officers Association. In recent years relationships with the unions have improved significantly. The senior leadership team deals very effectively with unions through the Working Together Effectively Forum which meets every 6-8 weeks. Typically two Group Managers and the HR managers attend. This forum has facilitated significant changes to employment conditions and a joint problem solving model to manage issues, including more flexible rosters which have been introduced in Christchurch and Wellington. This augurs well for the collective renegotiation process which is due to take place in 2013.</p> <p>On the other hand, some of the lowest scores in the 2012 Employee Engagement Survey relate to recognition and feeling valued by the organisation and the number of employees who scored as ‘disengaged’ has increased from 11.9% to 21.2%, which is higher than the 2012 State Sector benchmark of 17.6%. The engagement is lowest among staff in the 25-29 age bracket and among women generally. These results need to be addressed to ensure the service is able to attract and maintain a diverse workforce. We suggest that some of the factors which may be driving dissatisfaction, such as the impact of shift allowances and rotational policies, will need to be discussed with the unions in advance of this renegotiation.</p> <p style="text-align: right;">contd...</p>

	<p>There is also dissatisfaction with communication in the organisation. Some staff feel they are not kept informed and in particular that they get inadequate feedback from the senior leadership team. In some areas, such as the implementation of the JBMS, this communication gap has led to unhelpful anxiety and speculation about the status of the project. The use of and access to online communication through the intranet should help bridge this gap though some staff noted that in some areas this information was not kept up to date.</p> <p>The senior leadership team has recognised the need to improve its internal communications and has recently conducted a review which has led to a restructuring of the Communications team. We recommend internal communications should be given more focus by the senior leadership team and that staff should be regularly reminded of the information available online through the Long Room.</p>
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ORGANISATIONAL MANAGEMENT SECTION

Part Four: Financial and Resource Management

Asset Management How well does the agency manage agency and Crown assets, and the agency balance sheet, to support delivery?	
PERFORMANCE RATING 	Performance Rating: Strong
	<p>Customs has a number of key assets which enable the department to achieve its outcomes effectively and efficiently. This includes various x-ray equipment both fixed and mobile, key information technology systems particularly CusMod, various boats and motor vehicles.</p> <p>In 2011 an independent report, commissioned by the Treasury, identified Customs' capital investment and financial funding strategies as areas of strength, and appropriate for an agency of its size. In particular this report concluded that future capital asset intentions were supported by planning for future needs with related financial profiles which are governed through the Capital Planning Working Group. It also noted that asset performance is measured and weighed alongside critical risks.</p> <p>CusMod is a critical system for Customs and the planned replacement of this system with JBMS is a clear example of one of Customs' key asset replacement programmes.</p>
Information Management How well does the agency utilise information & communications technologies to improve service delivery?	
PERFORMANCE RATING 	Performance Rating: Well placed
	<p>Customs is heavily dependent on its core operating systems to effectively and efficiently carry out its role. In particular this includes the CusMod system which is now being also used by MPI through the implementation of MAF-PAX. The vast majority of Customs' transactions are undertaken electronically and many stakeholders referred positively to the ease of doing business with Customs. It operates on a 24 hour 7 days a week basis and there are very few instances of core systems not being available.</p> <p>Customs is heavily dependent on information and communications technologies to effectively deal with increasing volumes of passengers and trade. Customs has successfully implemented SmartGate which has already exceeded planned volumes in the processing of inbound and outbound passengers.</p> <p style="text-align: right;">contd...</p>

	<p>Customs is introducing new technologies such as risk profiling tools in border protection, including to support initiatives such as the Integrated Targeting Operations Centre. In particular Tranche 1 of JBMS is expected to considerably enhance Customs risk and intelligence tools. These developments demonstrate that Customs is continually looking for improvements in how it can use technology.</p> <p>The new JBMS system will enhance Customs’ ability to deliver on increasing expectations of Ministers and the community but this will take some time to implement and there will be a number of challenges to face in bringing this to a reality. JBMS is discussed and rated as a priority in this report, and the rating given in this section reflects the soundness and reliability of the existing information management functions at Customs.</p>
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<p>Efficiency How robust are the processes in place to test for efficiency and make efficiency improvements? How well does the agency balance cost and quality when considering service delivery options?</p>	
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<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Needing development</p> <p>Customs has a long and rich history with its senior officers having extensive experience in varied parts of Customs’ operations. The New Zealand community rates Customs highly and has a high level of confidence that Customs is performing its job well.</p> <p>The Customs’ PIF Self-review report noted that although there is a robust managing for outcomes framework, Customs has struggled to implement organisation wide measures of efficiency. This limits its ability to comprehensively benchmark its activities and in some areas make sound decisions around priorities. Decisions are more often based on the experience of its officers and anecdotal evidence rather than sound analysis of relevant facts. This issue is also discussed under the heading Review.</p> <p>However, there are some good examples of high level efficiency measures such as passenger unit processing costs. Further, Customs has developed some new resourcing models around ‘surge teams’ to deal with staffing pressures in Christchurch following the February 2011 earthquake.</p> <p>Customs accepted in its PIF Self-review that ‘Efficiency’ is an area where improvement is needed.</p>
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Financial Management
 How well does the agency manage its financial information and ensure financial probity across the business?

<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Well placed</p>
	<p>Over recent years Customs has seen a shift from where financial management was mainly related to the payment of salaries of staff, to one more focused on the purchase and maintenance of capital equipment and information and communications technology.</p> <p>There is a Four-year Budget Plan which has received positive feedback from the central agencies. In 2011 Audit New Zealand’s Departmental Internal Control Evaluation rated Customs well at 4.15 out of 5. Working Capital and Crown Revenue management were rated as excellent and overall Customs was rated as good. During our review we noted that Customs observes good practices in regard to its financial and management reporting.</p> <p>However, the funding for Tranche 2 of JBMS may be the most challenging financial management issue which will be faced by the department over the next few years. If additional capital and operating funding is not received or Phase 2 is only partially funded by government, there will be an ongoing increase in operating costs to maintain both the CusMod and JBMS systems. This may go on for some years until sufficient functionality can be moved to JBMS to allow CusMod to be retired.</p>

Risk Management
 How well does the agency manage agency risks and risks to the Crown?

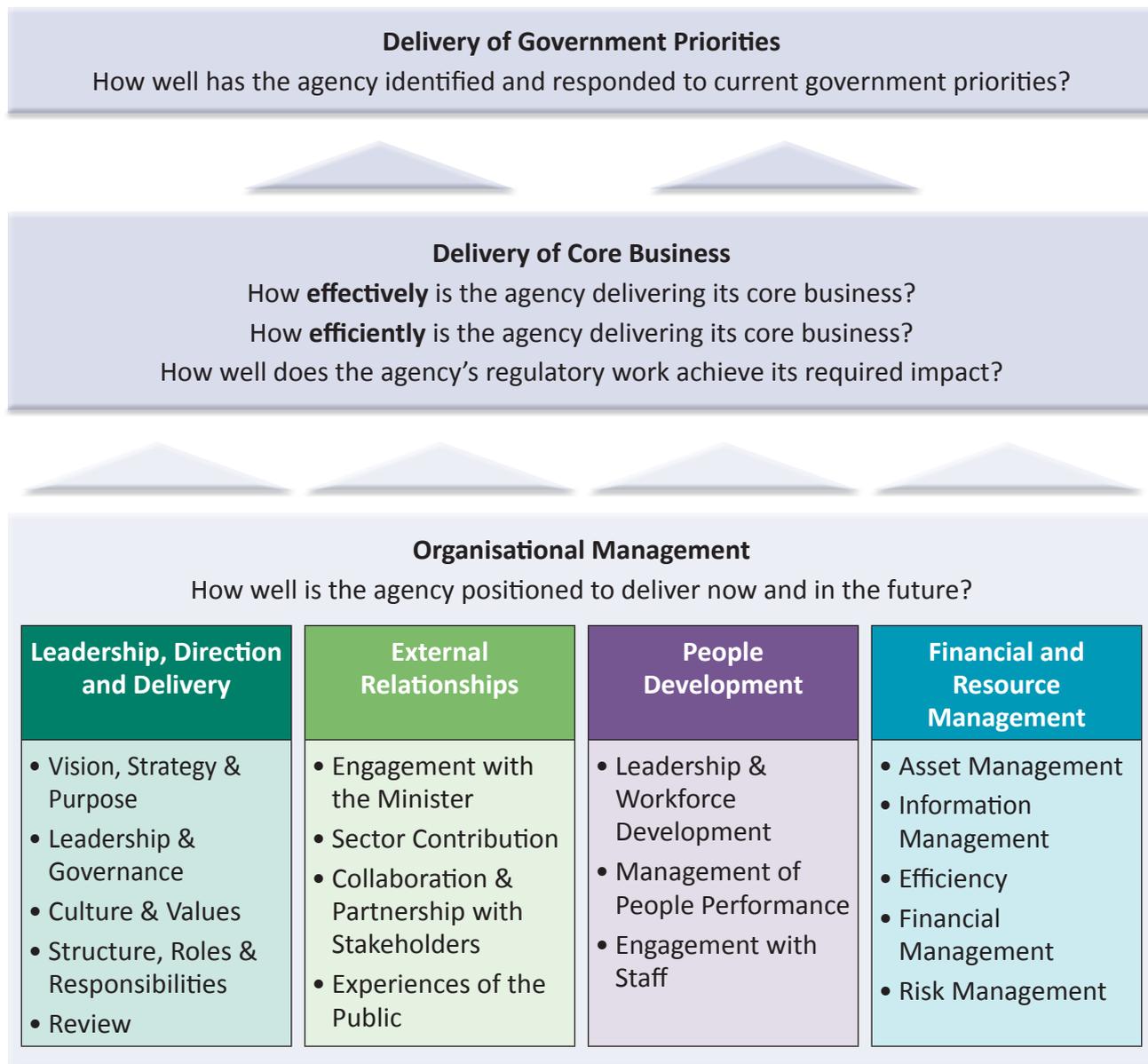
<p>PERFORMANCE RATING</p> 	<p>Performance Rating: Well placed</p>
	<p>Over a number of years Customs has invested in enhancing its risk management practices. For example, in 2011 a new Risk Management Framework was developed which was based on international risk management standards (ISO 31000). Customs is well connected into the World Customs Organisation and is viewed as a leader in risk management. Customs is aware of practices and developments in risk management in other Customs administrations and well informed about the further enhancements needed.</p> <p>Customs is well placed to effectively target its interventions based on risks. It plans to further strengthen these practices by fully implementing an integrated whole-of-Customs risk management system that provides ongoing systemic assessment, treatment and monitoring of risks. This will also improve the centralisation of the development of risk management strategies for both strategic and operational risks.</p> <p style="text-align: right;">contd...</p>

Financial and Resource Management

	<p>In addition to the annual involvement of senior management in preparing an organisational risk profile, the Audit and Risk Committee oversees risk management practices. It is relevant to note that there are robust internal audit practices which target internal risks and this work is also governed by the Audit and Risk Committee.</p>
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APPENDIX A

Overview of the Model



Lead Questions

Results	
Critical Area	Lead Questions
Government Priorities	1. How well has the agency identified and responded to current government priorities?
Core Business	2. How effectively is the agency delivering this core business area? 3. How efficiently is the agency delivering this core business area? 4. How well does the agency's regulatory work achieve its required impact?

Organisational Management		
Critical Area	Element	Lead Questions
Leadership, Direction and Delivery	Vision, Strategy & Purpose	5. How well has the agency articulated its purpose, vision and strategy to its staff and stakeholders? 6. How well does the agency consider and plan for possible changes in its purpose or role in the foreseeable future?
	Leadership & Governance	7. How well does the senior team provide collective leadership and direction to the agency? 8. How well does the board lead the Crown Entity? <i>(For Crown Entities only)</i>
	Culture & Values	9. How well does the agency develop and promote the organisational culture, behaviours and values it needs to support its strategic direction?
	Structure, Roles & Responsibilities	10. How well does the agency ensure that its organisational planning, systems, structures and practices support delivery of government priorities and core business? 11. How well does the agency ensure that it has clear roles, responsibilities and accountabilities throughout the agency and sector?
	Review	12. How well does the agency monitor, measure, and review its policies, programmes and services to make sure that it is delivering its intended results?
External Relationships	Engagement with the Minister(s)	13. How well does the agency provide advice and services to its Minister(s)?
	Sector Contribution	14. How well does the agency provide leadership to, and / or support the leadership of other agencies in the sector?
	Collaboration & Partnerships with Stakeholders	15. How well does the agency generate common ownership and genuine collaboration on strategy and service delivery with stakeholders and the public?
	Experiences of the Public	16. How well does the agency meet the public's expectations of service quality and trust?
People Development	Leadership & Workforce Development	17. How well does the agency develop its workforce (including its leadership)? 18. How well does the agency anticipate and respond to future capability requirements?
	Management of People Performance	19. How well does the agency encourage high performance and continuous improvement among its workforce? 20. How well does the agency deal with poor or inadequate performance?
	Engagement with Staff	21. How well does the agency manage its employee relations? 22. How well does the agency develop and maintain a diverse, highly committed and engaged workforce?
Financial and Resource Management	Asset Management	23. How well does the agency manage agency and Crown assets, and the agency balance sheet, to support delivery?
	Information Management	24. How well does the agency utilise information & communications technologies to improve service delivery?
	Efficiency	25. How robust are the processes in place to test for efficiency and make efficiency improvements? 26. How well does the agency balance cost and quality when considering service delivery options?
		Financial Management
	Risk Management	28. How well does the agency manage agency risks and risks to the Crown?

APPENDIX B

List of Interviews

This review was informed by input provided by a number of New Zealand Customs Service staff, relevant Ministers, and by representatives from the following businesses, organisations and agencies.

Agency/Organisation
Air New Zealand Limited
Auckland International Airport Limited
Board of Airline Representatives NZ Inc
BusinessNZ
Christchurch International Airport Limited
Conference of Asia Pacific Express Carriers
Customs Brokers and Freight Forwarders of NZ Inc
Customs Officers Association
Department of Labour
DHL Express New Zealand
Fonterra Co-operative Group Limited
Importers Institute
Mainfreight New Zealand
Ministry of Economic Development
Ministry of Foreign Affairs and Trade
Ministry for Primary Industries
Ministry of Transport
New Zealand Police
New Zealand Post Limited
New Zealand Retailers Association
Port of Otago Limited
Ports of Auckland Limited
TNT Express Worldwide NZ
Tourism New Zealand
Wellington International Airport Limited
Zespri International Limited