



**Inland Revenue**  
Te Tari Taake

# Improving Policy Capability

A case study of Inland Revenue's experience of applying the Policy Capability Framework, and their commitment to using it as a health check every six months.

## Key points

- In 2017, Inland Revenue (IR) embarked on a five-year business transformation programme to modernise the tax system, including ways of working.
- The new strategy didn't immediately resonate with policy staff who weren't convinced they needed to change.
- By applying the Policy Capability Framework, IR was able to bring policy staff on board through using language and framing the issues in a way that resonated with them.
- IR has committed to applying the Policy Capability Framework every six months as a health check, to maintain focus on the policy improvement outcomes they want to achieve.



**The  
Policy  
Project**

Responsive today,  
shaping tomorrow

## Inland Revenue's business transformation journey

IR is responsible for collecting most of the revenue that government needs to fund its programmes, and administers a number of social support programmes. It has a critical role to play in maintaining and enhancing the integrity of the tax system.

As one of the largest government departments, IR has over 5,500 staff mostly in operational roles with a medium-sized policy function (approximately 70 people).

In February 2017, IR embarked on a multi-year business transformation programme until 2021 to modernise the tax system. This includes streamlining processes and policies, upgrading online services, implementing a new operating model and different ways of working. The ultimate goal of the business transformation programme is to make it easier for New Zealanders to pay their taxes and receive their entitlements.

## The challenge for policy

IR developed a corporate strategy to provide direction and maintain focus throughout the business transformation programme and beyond.

### Inland Revenue's corporate strategy

**Customer:**

putting customers at the centre of everything we do.

**People:**

working as part of IR is unique, exciting, fulfilling and career-enhancing.

**External collaboration:**

work with external parties to innovate, gain insight and achieve wider government economic and social outcomes.

**Information and intelligence:**

our decisions and actions, for delivering today and shaping our future, are intelligence-led.

**Policy agility:**

policy change is faster, cheaper and better—fit for a changing world.

**Digital:**

we fully embrace our place in the digitally-connected world.

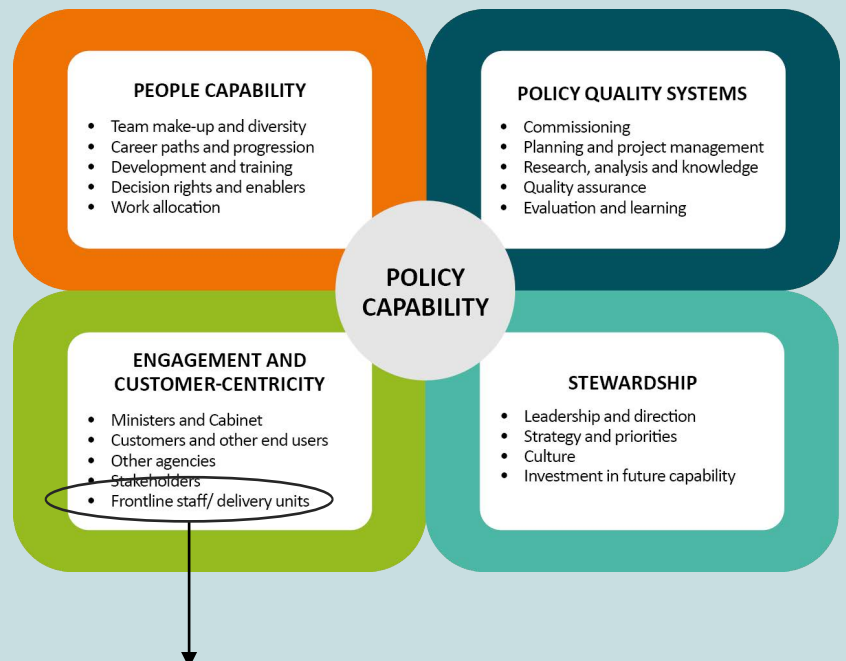
A challenge to implementation was that the corporate strategy didn't immediately resonate with policy staff who weren't convinced they needed to change their ways of working. They were achieving high policy quality scores (for a sample of papers assessed by a panel after delivery to ministers) and positive feedback from the Minister.

# The Policy Capability Framework

The Policy Capability Framework is an organisational improvement tool that describes the key components of policy capability that enable the delivery of quality policy advice. The Framework was co-designed with the policy community and provides a common language for agencies to reflect on policy performance and identify areas for improvement, while being flexible enough to apply in different operating contexts. It can be used by policy managers to improve the policy performance of the teams they lead, or senior leadership to improve the policy performance of the agencies they lead. The Framework sets out the four components of policy capability:

- **People capability** – having the right skills, in the right place, at the right time.
- **Policy quality systems** – systems and processes for delivering quality advice
- **Engagement and customer-centricity** – with the customer defined as both citizens as users and ministers
- **Stewardship** – investing in capability for the future

## Policy Capability Framework



Tools are available from 'light touch' to 'deep dive', to support agencies in applying the elements of each policy capability component in the Framework.

Element	Lead Question	Lines of inquiry
Frontline staff / delivery units	How well does the policy team engage across the agency, including with delivery units?	Are policy processes characterised by end-to-end partnerships between the policy team and other agency staff? How well does the policy team engage with delivery / frontline units (including delivery staff in other agencies where applicable) to understand the interface with end users and implementation requirements? Does implementation typically proceed smoothly, with room for iteration, without being negatively impacted by unforeseen issues?

There are lead questions and lines of inquiry for the different elements to guide agencies in having a conversation about performance and identify priority areas for improvement. Maturity ratings (see below) are available for agencies to apply. When using the maturity ratings, agencies consider their current performance and where they want to get to in the future, and on that basis strategise to identify the actions needed to get there.



**Informal**  
Ad hoc practices that are person, team and/or situation specific.



**Enabled**  
Policy processes, capability and support systems in place.



**Practiced**  
Formal systems and practices enacted, generally effective but require concerted effort to embed.



**Embedded**  
Systems and practices part of culture, used consistently and confidently, record of success. Regular review drives continuous improvement.

## Enabling a conversation on policy performance

*“In our early thinking about the future direction of IR’s policy function, the Policy Capability Framework gave us a frame of reference that we could meaningfully connect with. We realised that the challenges IR policy was facing were not unique to us, and it gave us the confidence that we were on the right track with our thinking. Drawing connections to the framework helped us tell that story with our people” – Carolyn Elliott, Acting Policy Lead*

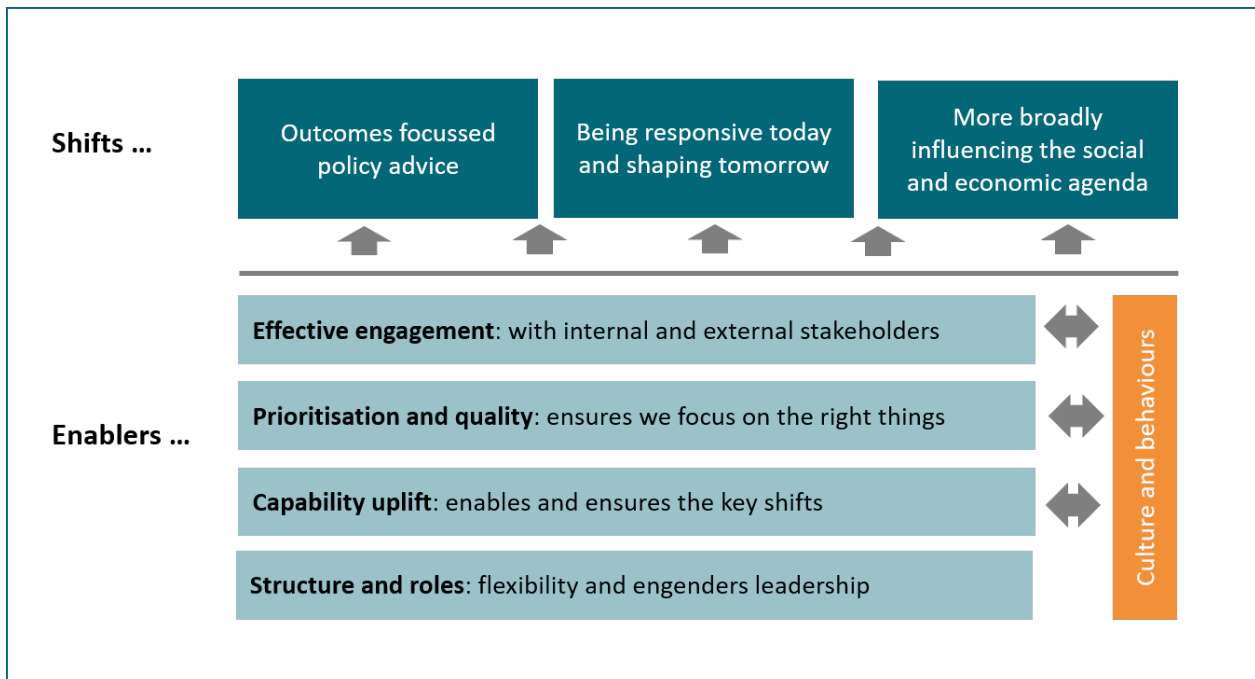
By applying the Policy Capability Framework, IR was able to demonstrate the broader trends, such as changing customer expectations, were not unique to IR but something the policy system overall was responding to through a customer centric approach. The Policy Capability Framework used language and framed the issues in a way that resonated with the policy staff and connected with their identity as an advisor and steward of the tax system.

IR engaged internal and external stakeholders to seek their views on how IR policy was performing and how it could improve in the future. The outcomes of this engagement affirmed the relevance of the Policy Capability Framework and its fitness-for-purpose for IR’s required capability uplift. Workshops were held with policy staff to work through the findings and what this meant for how they develop policy and the changes needed for the future.

IR used the Policy Capability Framework’s frame of reference to have conversations about policy performance. The outcome was a new operating model for IR policy that is future focused and responds to the broader trends, such as changing customer expectations.

## A new operating model for Inland Revenue policy

The new operating model for IR policy is underpinned by three critical shifts in the ways of working and five enablers to deliver the critical shifts.



To support the critical shifts in ways of working, IR policy has moved to a new structure. This involves larger flexible teams organised around products and customer types known as 'domains' (e.g. business and entity taxation, families and individuals). As part of the agile approach to working, project and networked teams are formed as needed across the policy domains and the wider organisation.

The aim is for the new IR policy operating model to result in a difference for staff, leaders, the organisation and the customer:

### What will staff notice is different?



"We are more open and can contribute ideas which support government's broader objectives"

"We collaborate and engage with customers to co-design solutions"

"Involving a diverse range of people means we get a better range of innovative ideas"

### What will leaders notice is different?



"Our people combine their technical knowledge and expertise with input from others to develop better solutions"

"Our people know how to engage effectively with a diverse range of customers through the policy design process, which means we have better policy outcomes"

"We are a key player at the table, along with the Treasury, Ministry of Social Development, Ministry of Primary Industries and the Ministry of Business, Innovation and Employment"

### What will IR notice is different?



"IR's policies are more connected with the government's economic and social objectives. We're connected to our purpose."

"We have policy solutions that are evidence based, and understood by our customers"

"Prototypes that policy develops and tests are well thought through and consider a range of perspectives"

### What will customers notice is different?



"Policy developed at IR is innovative, and sustainable over time"

"Better connections across government have helped contribute to vibrant, healthy and sustainable communities"

"IR understands my situation, and we've worked together to develop a solution that works for New Zealanders"

## Continued focus key to improvement

*“We have a number of shifts to achieve that can be easily grouped under a global description of ‘just being better at developing and providing policy advice’. And that sort of generalised aspiration isn’t very helpful. The benefit of the Policy Capability Framework and the maturity matrix is that, we understand what they mean and they help us to be specific and to target capabilities that we want to improve” – Mike Nutsford, Policy Lead*

IR policy has committed to applying the Policy Capability Framework every six months as a policy team health check. These checks help track where they are now and what they need to change to fully embrace the new operating model. The results of applying the Policy Capability Framework is one indicator IR uses, among others, to track progress of the business transformation programme in the policy area.

Every six months, IR brings together a cross-section of their policy function to form a Policy Capability Review Team. They also invite people from other areas (e.g. HR, Research, Strategy) to join the Review Team to provide a non-policy perspective.

As a conversation prompt during the review, each member is asked to signal which maturity rating they think best describes IR for each of the capability elements in the Policy Capability Framework. Drawing on evidence and examples, they discuss the ratings as a group to arrive at a single maturity rating for each capability element.

IR uses the maturity rating scale to provide a rating for each of the capability elements, and then calculates an average score out of four for their overall policy capability. Based on the maturity ratings and what’s important to IR, they identify the three capability elements they want to focus on maturing and identify the steps they will take to achieve this. For example, in FY2018-19 IR focused on improving engagement of other agencies and stakeholders, enhancing planning and project management and quality assurance, and policy outcomes and building capability for the future.

### Inland Revenue’s tips for applying the Policy Capability Framework

- ✓ **High maturity isn’t required for every capability.** Agencies don’t need to achieve ‘embedded’ maturity for every capability element. Different elements will be more important than others, depending on your agency’s context.
- ✓ **Lower maturity doesn’t mean the agency’s policy advice is poor.** The maturity ratings don’t reflect the quality of your agency’s policy advice, but identify the capabilities for improvement to deliver quality advice into the future.
- ✓ **The conversation is important.** Taking time to have the conversation about policy capability is as important as the maturity ratings.
- ✓ **Don’t moderate to the middle.** Be careful when moderating the conversation to not move to the middle maturity for every capability element.
- ✓ **Pros and cons of referring to previous results.** Referring to the results of the last Policy Capability Review helps track performance, but may bias the assessment of current performance.

## A senior leader's Perspective

"We felt we were already a good 'Policy Shop' and this was backed up by feedback from ministers – yet we also realised that to stay at the front of our game we would have to continuously improve our capability. The Policy Capability Framework gelled with us and I will be using the capability maturity matrix to help me track whether or not we are achieving our development goals"

– Emma Grigg, Acting Deputy Commissioner



## How the Policy Capability Framework can help

IR continues to apply the Policy Capability Framework as a regular health check with a view to helping to:

- **maintain focus** – regularly applying the Policy Capability Framework keeps IR's focus on the outcomes it wants to achieve.
- **make it real** – the Policy Capability Framework helps make the new operating model real for people and the concrete steps that are needed to get there.
- **identify issues early** – identifying any issues early through regularly applying the Policy Capability Framework means they can be addressed before they become problems.
- **align with best practice** – IR uses the Policy Capability Framework to align with best practice and build consistency in how the system thinks about policy capability.
- **enable staff** – staff are enabled to take the initiative to act in ways that align with the desired capabilities identified through applying the Policy Capability Framework.

