

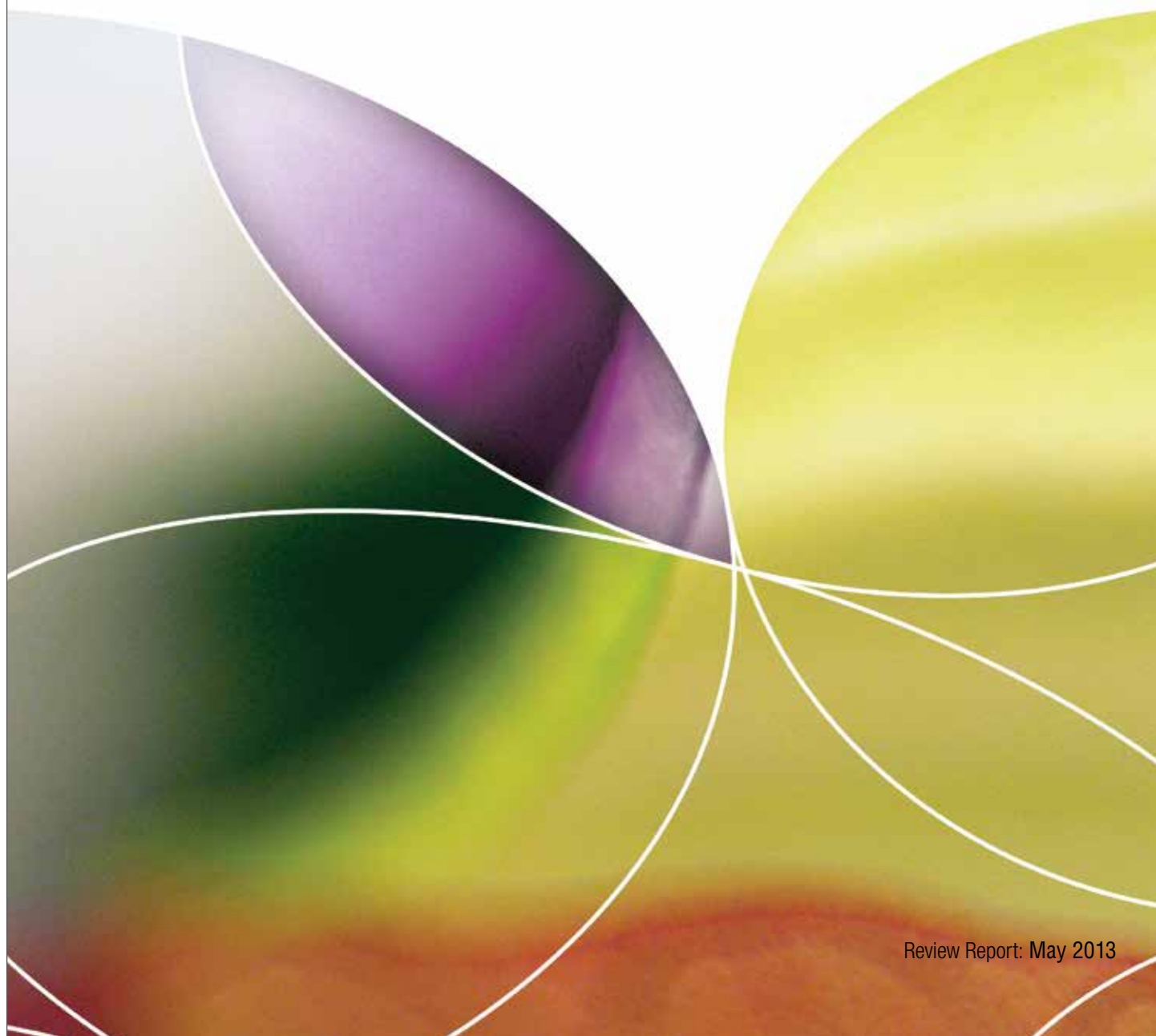


**Australian Government**  
**Australian Public Service**  
**Commission**

CAPABILITY REVIEW

# Australian Taxation Office

*Effective leadership Diverse workforce Capable organisations and workforce Employee conditions APS Values*



Review Report: May 2013



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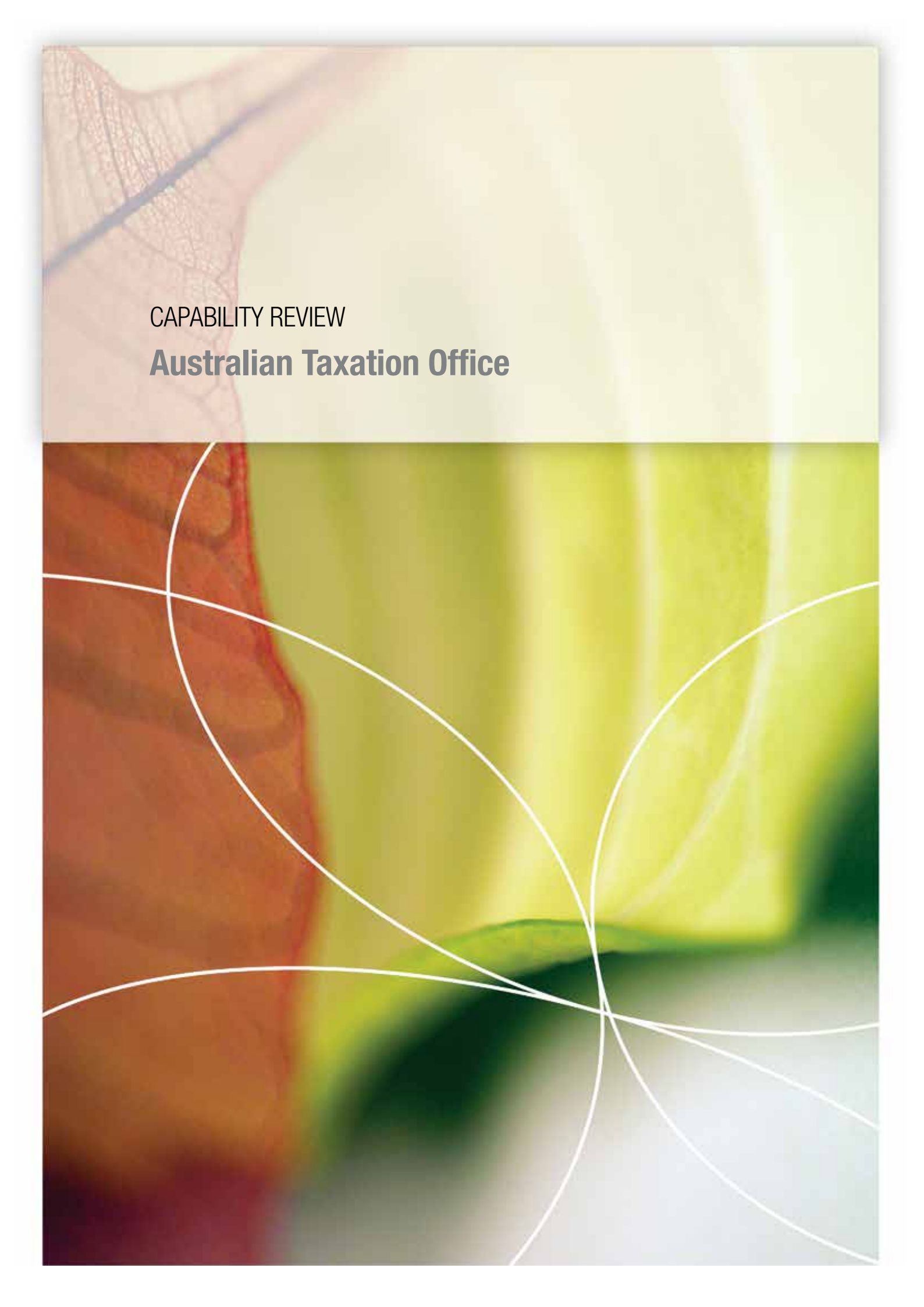
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The background of the cover is an abstract composition. The top half features a light cream-to-yellow gradient with a faint, translucent pinkish-red organic shape on the left. The bottom half is a blurred image of a plant, showing a reddish-brown leaf on the left and a bright yellow-green leaf on the right. Overlaid on the bottom half are several thin, white, curved lines that intersect to form a stylized, flower-like or leaf-like pattern.

CAPABILITY REVIEW

**Australian Taxation Office**



## Foreword

The 2010 report *Ahead of the Game: Blueprint for the Reform of Australian Government Administration* recommended that the Australian Public Service Commission (APSC) undertake reviews to assess capability in key agencies and to identify opportunities to raise the institutional capability of the service as a whole.

The methodology used by the APSC to conduct these reviews has been gradually refined to more closely reflect the Australian context in which the review program is being conducted.

On the occasion of this review, I would like to thank the Australian Taxation Office staff at all levels for the enthusiasm and openness in which they engaged with the review process.

I would also like to thank Dr Michael Keating AC, the chair of the review team, other senior members of the team, Ms Rachel Hunter and Mr Robert Griew, and my own team from the APSC who support and advise them. Once again, this review has shown the merits of bringing together a team of such high calibre and diversity of experience.



Stephen Sedgwick AO  
Australian Public Service Commissioner





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## 1. About the review

A capability review is a forward-looking, whole-of-agency review that assesses an agency's ability to meet future objectives and challenges.

This review focuses on leadership, strategy and delivery capabilities in the Australian Taxation Office (ATO). It highlights the agency's internal management strengths and improvement opportunities using the model set out in Figure 1. A set of 39 questions is used to guide the assessment of each of the 10 elements of the model. Those assessments are included in Section 4 of this report.

Capability reviews are designed to be relatively short and take a high-level view of the operations of an agency. They focus primarily on its senior leadership, but are informed by the views of its staff who attend a series of workshops.

External stakeholders are also interviewed, including relevant ministers, private sector companies, state delivery organisations, peak bodies, interest groups, clients and central agencies.

The fieldwork for the capability review of the ATO was undertaken between 28 January 2013 and 3 May 2013.

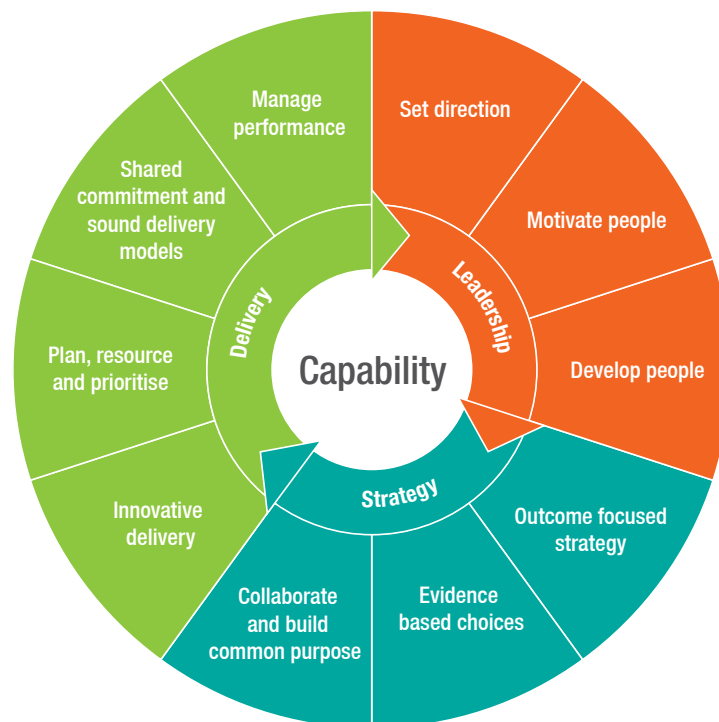


Figure 1—Model of capability

## 2. About the agency

The ATO is the government's principal revenue collection agency and administers a wide range of tax legislation. It has an important role in various other economic and social policies as a large payer of government funds, administrator of major elements of the superannuation system, custodian of the Australian Business Register and provider of valuation services through the Australian Valuation Office. The work of the ATO touches the lives of all Australians. Revenue collected supports most publically funded services and plays a vital role in ensuring Australia's prosperity.

Every day the ATO connects with a substantial number of Australians. Last year the ATO's client contact services answered more than 8 million telephone calls, received 5.5 million pieces of correspondence and assisted more than 486 000 people who visited its shop fronts.

The ATO relies on information and communication technology (ICT) to conduct much of its business and in 2012–13 anticipates an ICT spend of approximately \$759 million.

In 2011–12, the ATO:

- had an operating budget of \$3.4 billion
- had 24 740 employees
- had 262 members of the Senior Executive Service (SES) with an average tenure of 23 years in the ATO
- collected \$301 billion in net tax, including \$215 billion income tax, \$46.2 billion in goods and services tax and \$25.5 billion in excise
- raised \$11.4 billion through compliance activities
- was the custodian of \$323 million in superannuation guarantee charge
- paid almost \$8.4 billion in transfers and payments
- re-united more than 1 million people with \$5.5 billion in lost superannuation

The ATO's strategic statement 2010–15 sets out the organisation's vision, strategic themes and values. The vision is that 'Australians value their tax and superannuation systems as community assets, where willing participation is recognised as good citizenship'. The ATO considers that by administering the tax and superannuation systems in a fair and equitable manner, it encourages willing participation and community confidence in its administration. It aims to do this by helping people understand and meet their rights and obligations, assisting with access to benefits, managing non-compliance with the law and striving to enhance its capabilities to better support and protect taxpayers.

The ATO has a strong focus on meeting commitments to government and is responsible for delivering a range of initiatives. For example, last year the ATO put in place administrative arrangements to progress or give effect to more than 30 government measures including the Stronger Super measures and new resource rent taxation arrangements. Continuing confidence in the ATO's delivery capability is illustrated by the range of major government initiatives it has been given responsibility for, such as the household stimulus package, the flood levy and the package of superannuation reforms.

The ATO currently manages its work under four functions called sub-plans. These sub-plans cover the roles of:

- **Corporate Services and Law**, which is to interpret legislation, provide advice to the Treasury on policy implementation, manage stakeholder relationships and undertake corporate functions including finance, people management and governance.
- **Compliance**, which is to help taxpayers to comply and undertake targeted compliance activities.
- **Operations**, which is to provide a link with the community through contact centres, debt collection and processing.
- **Enterprise Solutions and Technology**, which is to design, build, test and maintain systems and infrastructure.

The ATO is re-structuring its organisational arrangements and Second Commissioners' subplan responsibilities. Corporate Services and Law will be renamed Law Design and Practice and the corporate services functions will be part of an enlarged sub-plan centred on operations and infrastructure.

The ATO has a large, decentralised workforce with a presence in 46 sites across all states and territories.

Figure 2 provides the number of staff and percentage of male and female staff by state and territory. In June 2012, 24 740 people worked at the ATO, which represents approximately 14 per cent of the Australian Public Service (APS). Over the past five years the ATO has recruited and trained 1372 people as part of its graduate program and last year 259 graduates participated in this well-regarded program. The ATO's agency exit rate<sup>1</sup> in 2011–12 was 5.4 per cent, lower than the APS average of 9 per cent. Remarkably, more than 20 per cent of the ATO's people had more than 20 years of service in the organisation.

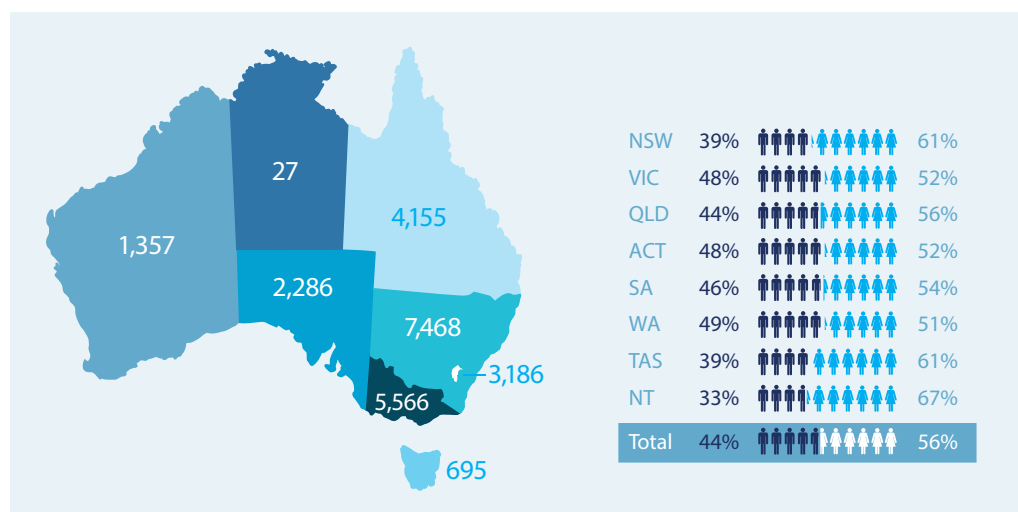


Figure 2—Staff numbers by state

<sup>1</sup> The agency exit rate includes promotions and transfers to other APS agencies as well as separations from the APS

The typical ATO employee is a 44-year-old female working at the APS 6 level with a university-acquired accounting degree and is in the auditing work function. It is likely that she was recruited for tax reform in 2000 and so currently has approximately 13 years of tenure.

The ATO has a strong relationship with other tax administrations internationally and engages extensively with global partners in forums such as the Joint International Tax Shelter Information Centre and the Organisation for Economic Co-operation and Development (OECD).

The ATO is part of the Treasury portfolio and works with the Treasury to contribute administrative experience to policy development and implementation. The ATO also works closely with other government departments, actively collaborating in cross-agency taskforces, projects and committees, such as Project Wickenby.<sup>2</sup>

One of the ATO's values is 'being consultative, collaborative and willing to co-design'. Accordingly, the ATO makes a significant investment in consulting the community, including through an elaborate network of consultative forums, which it uses to engage with stakeholders, including industry representatives, tax professionals, software developers and business representatives.

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<sup>2</sup> Project Wickenby is a cross-agency taskforce established in 2006 to detect and deal with the relatively few Australian taxpayers hiding considerable sums of money overseas to avoid paying tax.



### 3. Summary assessment

The ATO's vision is for Australians to value the tax and superannuation systems as community assets, where willing participation is recognised as good citizenship. These five strategic themes support the achievement of this vision:

Encourage	Support	Protect	Enhance	Champion
People support and understand the benefits of participation—they are engaged and willingly participate.	We help and assist people to understand their rights and responsibilities so they are able to fulfil their obligations easily at minimum cost.	We protect people and the community by deterring, detecting and dealing with those who have not complied.	We are passionate about improving our capabilities to be more innovative, agile and responsive to challenges and opportunities.	We champion the interests of both individual taxpayers and the community, advising government on ways to improve the operation of Australia's tax and superannuation systems.

#### A firm foundation

The ATO has a strong track record of delivering its core business of tax and superannuation administration and is focused on delivering its commitments to the Australian Government. It is the Government's principal revenue collection agency and receives the majority of tax revenue on time, voluntarily and without complaint. All interlocutors from across the APS commented favourably on the ATO's capabilities in public administration and willingness to collaborate.

The degree of commitment and engagement of staff at all levels is commendable, and a credit to the work done to date in developing and promoting the ATO's corporate vision and strategic themes.

These achievements are significant for such a large, geographically dispersed organisation dealing with complex matters.

The ATO's many strengths provide it with a firm foundation for building capability that will increase its capacity to get ahead of the game and drive agility, responsiveness and improved performance.

The review team was impressed by the clear intent of the Commissioner of Taxation, and his Second Commissioners, to lead reform of the ATO. In reaching the conclusions made within this report, we note that much depends on the leadership's ability to further articulate the future direction of this reform, and the organisation's ability to deliver upon it.

#### The need for transformational change and cultural shifts

The ATO's people are rightly proud of their capacity to deliver the government's legislative program and act as committed and effective stewards of the nation's taxation and superannuation systems. However, for the ATO to continue to be a high-performing organisation, it needs to undergo transformational change. The taxpayer community will demand greater access to improved services in a digital world, including a single point of access for engaging with government. The policy agenda will continue to challenge existing resources, and there will be an ongoing expectation that scarce resources be used more efficiently. Tax avoidance efforts will continue to become more sophisticated. Expectations are growing for a whole-of-government

approach to problem solving. The challenge for the ATO is to transform its existing processes, systems, culture and its highly capable workforce to be more agile, responsive, efficient and effective.

In its 100-plus year history, the ATO has invested heavily in developing its people, processes and systems. It has historically been considered a world leader, innovating in many areas, such as:

- developing e-tax and pre-filing tax returns
- developing the tax practitioners' portal
- introducing the compliance model and risk differentiation framework to differentiate engagement with taxpayers based on an assessment of likelihood and consequences of non-compliance
- implementing Annual Compliance Arrangements with large business to exchange information and provide practical certainty about tax outcomes that underpin commercial decisions.

However, its vision and strategic themes alone have not provided the ATO with sufficient impetus to continuously progress major innovations. Its capability to progress transformational innovation has slowed. A top-down, longer-term, enterprise-wide strategy is needed to take the ATO forward to achieve its vision by directing innovative efforts, and guiding workforce development and future ICT capabilities.

While many internal stakeholders still perceive the ATO as a world-leading tax administrator, other internal and external stakeholders consider that other administrations have caught up and overtaken the ATO in a number of areas, particularly in the provision of electronic services. A challenge facing all revenue authorities is the ability to make use of natural systems already in place in taxpayers' business and personal lives to fully pre-fill individuals' tax returns. Denmark is the most advanced country, with 78 per cent of individuals' tax returns completely pre-filled. The ATO is some way off on delivering these types of changes. Another challenge is for APS agencies to provide a single entry point for citizens and businesses to access government services and meet reporting obligations. The ATO has built the technology to achieve this for businesses through its Standard Business Reporting initiative. Take-up for the initiative by other agencies and businesses has been limited, but is growing. Denmark, Ireland, Norway and the United Kingdom are the most advanced here, with digital and eGovernment strategies now in place.

The ATO is proud to call itself a 'can do' organisation and has been widely acknowledged internally and externally for its ability to deliver under pressure, particularly when set clearly defined stretch targets by government. However, this pride—coupled with the way people think about stretch targets as 'crises' rather than part of business-as-usual—results in behavioural norms that are not entirely healthy for the organisation. The ATO is able to respond to a crisis in an agile way by establishing a task force to overcome usual processes (moving resources where they are needed, bringing together decision makers and streamlining reporting and control structures). However, it is unable to bring this approach to internally-driven change and business-as-usual activities in the absence of an externally mandated stretch target.

The prevailing culture in the ATO is one of collaboration, professionalism, technical accuracy and integrity of process. When taken to the extreme, this culture results in what review participants almost universally described as risk aversion. A cultural predisposition to avoid rather than appropriately manage risk manifests as:



- elevation of decision making
- protracted processes of internal consultation and debate that delay outcomes
- a feeling of disempowerment at all levels
- perceived lack of support for staff if a mistake is made.

Over the last decade or so, the ATO has struggled to embed certain concepts and approaches, particularly those of an enterprise nature, in a way that realises efficiencies and achieves demonstrable behavioural change within. One such example is the work to date on effectiveness measures, introduced as ‘a quantum shift’<sup>3</sup> in the approach taken to evaluating organisational performance. While the review has achieved some success in refining key performance indicators, it has not yet been able to:

- streamline and simplify organisational reporting, through a single and independent business area, to more effectively support executive decision making
- address some of the more challenging effectiveness questions, such as how to identify early gaps in revenue collection to thereby better influence tax design.

The executive needs to drive initiatives such as this by harnessing the experience, knowledge and significant authority of senior managers, particularly at the SES Band 2 level. In addition to collaborating on business-as-usual these senior managers must be charged with progressing agreed strategic changes, and measuring and reporting performance, knowing they will be held accountable for that performance and progress achieved. A reorganisation of internal committees, so they focus on the delivery of strategy, not debating it, is also critical.

The ATO is a service organisation. A service culture is strong in the operational areas of processing and call centres, but a paradigm shift is needed in other areas that struggle to reconcile their role as regulator and service provider. For example, Compliance and Law areas would benefit from greater recognition of timeliness as an integral part of delivering a quality result. Similarly, some Corporate Services areas need greater recognition of the needs of internal clients.

Further, in designing ongoing improvements in service delivery, the ATO would benefit from a greater understanding of, and willingness to, embrace community feedback, even where this challenges existing assumptions about ATO performance or client expectations.

The ATO has acknowledged its need to design and implement a transformational service agenda. The review team considers that priority areas for attention in driving the ATO of the future are:

1. developing a forward-looking, enterprise-wide strategy
2. developing ICT efficiency and agility
3. building the future workforce
4. streamlining governance arrangements and structures
5. improving external connectedness.

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<sup>3</sup> ‘Embedding ATO Effectiveness Steering Committee Charter’

## Driving the ATO of the future

It has been widely acknowledged throughout the review that the ATO is facing a period of transformation. Internal and external stakeholders are looking to the ATO's executive for leadership and coherent and cohesive direction and guidance from an enterprise perspective to ensure momentum for strategic shifts is maintained. To date, the ATO's vision and strategic themes have not readily transferred into new ways of improving the taxpayer experience and increasing compliance. The executive needs to consider how the vision and themes will be achieved by:

- clearly articulating what the ATO of the future should look like
- detailing how the organisation will go about achieving it
- ensuring senior managers are held accountable for meeting these requirements.

### Forward-looking, enterprise-wide strategy

There have been almost unanimous reports that the ATO's vision and strategic themes are well understood and supported by staff at all levels. While the ATO is starting to position itself for the future, it is yet to define a unified, strategic, transformational plan that details *what* the ATO will look like in the future and *how* it will achieve its vision. For example, other leading revenue raising agencies in OECD countries are committing to achieving in the next few years:

- joined-up government through a single point of access to government
- single capture of core data and sharing across government
- common secure electronic identifiers
- digitalisation of all transactions, other than in exceptional circumstances
- single account for taxpayers covering multiple taxes
- fully pre-filled tax returns using natural systems in real time to be accessible online to reduce the cost of compliance and improve that compliance.

In the absence of a strategic plan, the ATO's present corporate strategies and business line plans are largely not integrated and have to some extent been retro-fitted to accord with the vision. At least until very recently, most strategies and plans (with the exception of the Operations sub-plan) have had a strong focus on business-as-usual, with required strategic shifts in these documents difficult to determine.

The executive needs to drive the development of a top-down, longer-term, enterprise-wide strategy and embrace innovative thinking that is aligned to the strategy. The strategy must include not only business-as-usual activities but the strategic shifts needed for the future. The next level plans (for example, investment, ICT, workforce and risk management) should then link directly to the enterprise strategy and cover how specified outcomes at least three years ahead will be achieved, rather than being limited to a list of tasks for the following year. They should also be integrated where necessary (including across sub-plans) and include timelines, targets, measures of success and accountability mechanisms to ensure that business lines remain focused on the enterprise goals.

An Embedding ATO Effectiveness Steering Committee has been driving a project to embed effectiveness measurement across the ATO. However, it has not yet been able to achieve serious monitoring of strategic outcomes, for example monitoring program effectiveness against outcomes to allow earlier identification of threats to revenue collection, the core responsibility of the ATO.





The ATO has an enterprise performance management framework for planning and reporting, which could usefully be improved to support the executive by making better use of the talent in the Office of the Chief Knowledge Officer to coordinate, consolidate, analyse and impartially report on performance information to better measure effectiveness and better organise and monitor business-as-usual performance.

The absence of an enterprise strategy, combined with the commitment of staff to achieving the vision, presents a risk that staff will interpret the vision in their own way and delivery could be inconsistent and not integrated across the ATO. This represents an opportunity lost as the ATO is failing to fully harness staff enthusiasm for the vision by channelling their enthusiasm toward an enterprise-wide, agreed strategy.

### ICT efficiency and agility

Along with its people, ICT is the lifeblood of the ATO. It underpins most, if not all, of the work the ATO performs and has an impact on its ability to be agile, responsive and ultimately perform to meet service delivery and stakeholder expectations.

ICT was an area of frustration often mentioned by staff and the community throughout the review. Internal stakeholders feel that all too often, the ability to progress aspects of their business is stifled by a lack of capacity in the ICT forward work plan to accommodate demand. This affects immediate needs and future-focused innovation. External stakeholders have commented that the ATO is falling behind community expectations and forward-thinking overseas revenue agencies with its electronic service offerings.

To better support the delivery of ICT services into the future, the ATO needs to increase its capability to:

1. manage and prioritise demand for ICT services
2. consider options to enhance the supply of ICT service.

The ATO has a significant investment in ICT—\$759 million for 2012–13 (Figure 3). Most of this investment is allocated to keeping systems and infrastructure running (\$558 million), with the remainder (\$201 million) allocated to new work. The ATO defines ‘new work’ as a combination of non-discretionary (specific government initiatives and legislative change) and discretionary initiatives. After catering for non-discretionary work (\$168 million), a disproportionately small percentage of the ICT budget (4 per cent) is available for discretionary initiatives. Currently, this discretionary work is not managed with an enterprise approach, but rather through a process of bottom-up planning whereby each sub-plan submits its desired list of new initiatives for consideration by the Business Solutions business line. This results in Enterprise Solutions and Technology attempting to manage large (potentially) disparate ‘wish lists’ in a first-in-best-dressed fashion, without sufficient consideration of strategic value-add to the ATO as a whole.

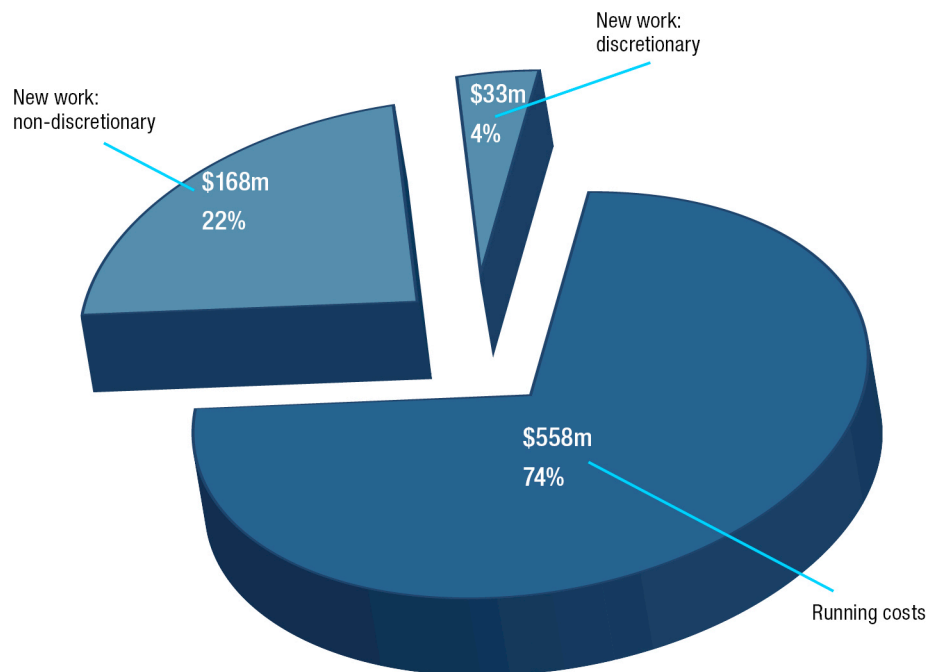


Figure 3—ICT expenditure break-down

Not surprisingly given these ratios, despite Business Solutions' remit to lead, design and deliver innovative, future-focused solutions, its attention has been largely on non-discretionary work.

In recognition of these problems, an investment fund of \$70 million over two years (\$30 million in 2012–13 and \$40 million in 2013–14) has recently been established to invest in the ATO's transformational service agenda, predominantly in the ICT space. By comparison to external benchmarks<sup>4</sup>, this amount does not appear to be sufficient to deliver the required transformation.

The Enterprise Solutions and Technology sub-plan is aware of, and actively planning to ameliorate, the challenges presented by the need to run and maintain ICT core business, manage ever-increasing demand for services and create the space to implement the changes needed. It acknowledges that the same approaches used in the past to deliver its programs of work are unlikely to ensure success in meeting future ICT challenges and is drafting an ICT strategy to better manage demand and improve supply.

Without wanting to pre-empt the content of the finalised ICT strategy, the review team considers it is heading in the right direction and must progress as a matter of priority because legislative imperatives are unlikely to diminish. The future ICT requirements of the ATO need

<sup>4</sup> Gartner IT Key Metrics Data—2012 IT Enterprise Summary Report indicates that participants in the IT Key Metrics Data Survey invest in ICT as follows: 'Run the business' 66%; 'Grow the business' 20%; 'Transform the business' 14%. ATO's \$33 million investment in transformation for 2012–13 equates to 4%.



to be strongly led by the executive's strategic direction and determined as a result of a symbiotic relationship between Enterprise Solutions and Technology and business lines. ICT priorities must be set through a whole-of-system and whole-of-organisation approach. Efficiencies in running costs need to be found to balance the delivery of commitments to government and changes identified as part of a transformational service agenda. Better management of demand and capacity is needed, and back-end and corporate systems need to be refreshed to align with contemporary better practice.

### Building the future workforce

The ATO's people are its greatest asset. They are committed to and proud of the organisation, and are enthusiastic about their work and its value to the Australian community. The environment in which the ATO operates is rapidly evolving, with legislative change and pressure to keep pace with technological advances presenting a constant challenge. The capabilities of the ATO's people are critical to its ability to operate as an agile, responsive and high-performing organisation. These capabilities must continue to evolve to deliver the vision and develop the organisation to become a modern tax administration in an increasingly complex and digitised environment.

#### *Workforce development*

To date, the process of prioritising workforce development initiatives has largely been driven by the priorities identified in performance appraisal discussions between individuals and their immediate supervisors. Moving forward, the ATO's strategic plan needs to identify the future skills and workforce capabilities it will require as the basis for determining workforce development priorities. Following on from this, people frameworks, strategies and tools to build workforce capability need to be better integrated with each other and with the ATO's strategic direction.

A comprehensive, agency-wide job profiling exercise was recently completed, with the required capabilities for each role articulated. The ATO is now mapping individual capabilities against these profiles through a process of self-assessment and manager approval. Results will be validated against other mechanisms already in place, such as a manager survey, quality assurance mechanisms and reviewing service standards performance. As part of this validation, consideration is needed for a 'manager's manager' sign-off process, to mitigate the risk of potential biases in individual joint assessments with their immediate supervisor. This will allow the executive to assess the ATO's overall capability strength and to inform decisions about where capabilities need to be augmented to deliver the vision and strategy. Once this exercise is complete, the challenge for the ATO will be to fully exploit and proactively use this valuable information and keep it up to date and relevant to address longer-term capability issues.

#### *Pressing development needs*

The ATO's current workforce development is heavily skewed towards technical capability. Given the requirement for transformational change, it is critical that greater focus and increased resources be allocated to developing 'softer' capabilities such as strategic thinking, leadership and management skills (including the ability to lead and manage change), communicating effectively and building relationships.

The graduate program has been cited almost universally as the ATO's strategy to develop its future leadership cohort. While some managers actively extend the principles of regular rotation and talent management to other classification levels in the agency, this is not universal.

Increasing mobility in this way, including further secondments to and from other government agencies, the private sector and industry groups would provide a broader level of understanding and interaction between the ATO and its stakeholders. External stakeholders have strongly argued that the ATO would benefit from broadening its employee skill base and experience of government and business in this way.

### Streamlining governance arrangements and structures

The ATO has invested heavily in developing and embedding a robust internal governance framework and acknowledges that maintaining an appropriate governance system that is fit-for-purpose and effectively manages risks is a challenge. Throughout the review, internal stakeholders consistently agreed with this position, regularly expressing concern about the:

- efficacy of internal committees
- elaborate nature of corporate management practice statements and instructions
- need for greater integration between various governance mechanisms to better inform strategic planning and decision making.

Further embedding of the site leadership<sup>5</sup> model to achieve improved business performance, and rationalisation of some functions across regional sites has also been suggested.

#### *Flexibility and efficiency of governance arrangements*

While internal committees currently provide opportunities for communication and information sharing across sub-plans and business lines, it was regularly reported to the review team that there is a need to review the purpose, functionality, effectiveness and accountability of these committees. Internal stakeholders have commented that not all committees have sufficient authority for their decisions to remain binding, with implementation of initiatives sometimes resisted later on by internal parties. When operating effectively, internal committees will have a clear mandate and instruction from the executive to progress the implementation of the strategic plan, not debate its premises.

The current rules-driven governance framework, including corporate management practice statements and instructions, is elaborate and formulaic. It can be difficult for staff to sort through the plethora of rules to locate and understand what is important to guide their behaviour. This presents risks to the ATO that:

- employees, either unable or unwilling to sift through the array of information to locate what they need, will act regardless of the required enterprise approach
- employee behaviour is so heavily prescribed that they will struggle to make decisions in situations where the rules are not apparent or where judgement needs to be applied.

To support organisational agility, the ATO would benefit from streamlining its governance arrangements and adopting a principles-based model, pushing delegations down by developing employees in principles-based decision making and empowering them to make decisions and develop their capability in applying judgement.

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<sup>5</sup> The ATO utilises a 'Site Leadership' model including site leaders and champions to enhance staff engagement through facilitating community spirit, social cohesion and collaboration across the business in the site.



Notwithstanding this, the ATO's approach to business continuity planning and quality assurance is excellent and provides examples of very good practice that could be shared internally and across the APS. A pragmatic approach to embedding the enterprise framework has been used to good effect, and has been tested and refined following disasters and test scenarios.

#### *Integrating governance mechanisms*

The ATO has made a significant investment in its intelligence, corporate governance, risk management, planning, measurement and reporting functions and is in the fortunate position of receiving extensive external scrutiny. However, these functions have not yet achieved the desired results as they do not yet operate as an effective, fully integrated system. The ATO acknowledges that this is an ongoing challenge. The review team considers that this challenge is one that should be actively pursued.

A well-articulated, enterprise-wide strategy should drive this integration. The ATO may wish to consider the structural arrangements to best support this, for example an enhanced unit that coordinates and analyses over-the-horizon planning and performance information for the ATO as a whole.

#### *Site leadership*

The shift from a regional to a national business operating model has been well supported by the site leadership initiative. There is no sense of a national office and regional office divide so often prevalent in other such large, geographically dispersed organisations. This is a testament to site leadership's success. However, sites are at different levels of maturity and the ATO needs to ensure that each one continues to move through implementation from a mechanism to improve social cohesion to a mechanism that improves business cohesion and goes on to drive productivity benefits.

#### *Location strategy*

The ATO's location strategy does not appear to have clearly identified parameters to guide which functions would best be performed in which locations. Therefore, a situation has arisen where staff can be located in a site with few or even no other officers from their business area. The term "orphans" is used to describe these officers, indicating cultural acceptance of the issue without acknowledging the associated problems. This has cost implications for the ATO, as compensatory structures (such as increased travel) are put in place to administer this highly distributed model. Staff performance management and mentoring presents particular challenges. The ATO needs to assess what critical mass of co-located staff is needed for each function to drive improved business outcomes.

#### *Summary*

In summary, the ATO needs to review and rationalise its internal governance arrangements and structure to ensure the best features are preserved, while:

- rationalising internal committees to improve their purpose, functionality and accountability
- streamlining corporate management practice statements and instructions
- integrating intelligence, risk, evaluation, planning and reporting
- increasing site leadership's contribution to productivity improvements within sites
- reducing the spread of staff across locations where a critical mass is needed to improve business outcomes.

## External connectedness

### *Consultation*

The ATO's staff is committed to the principles of consultation, collaboration and co-design, and consulting with the community is an ATO priority. Notwithstanding the investment in its consultation program, there is mixed feedback from stakeholders on the extent the ATO acts on feedback. This presents an opportunity for more consistent consideration, action and response to the feedback gained through consultation forums, community surveys and complaints mechanisms. The current review of external consultation is welcomed, as the number of committees, their structures and mandates could be rationalised to improve their effectiveness.

### *Relationships within government and with other jurisdictions*

Representatives of government who participated in the review presented a generally positive view about the ATO's ability to deliver its commitments to government. Relationships with APS agencies and international tax administrations are effective. While there was an unsatisfactory period in the most important relationship between the ATO and the Treasury, where communication between them was not fully effective, this relationship continues to strengthen through the steps taken in both agencies; namely a recently updated protocol providing for early involvement by the ATO in policy development, and structural changes to ensure closer partnership.

To achieve maximum benefit from these changes, the ATO has recognised the need to increase its policy advising capabilities and bring a solutions-based approach to achieving intended policy outcomes and addressing existing unintended consequences. This is being addressed through the ATO's new Integrated Tax Design business line.

### *Strategic relationship management*

In response to feedback from the large business sector, the ATO has made progress on a number of initiatives. These include Annual Compliance Arrangements, pre-assessment reviews, use of alternative dispute resolution and the establishment of an independent appeals function for large business income tax audit positions. The Annual Compliance Arrangements have been particularly useful in transforming relationships by giving taxpayers more certainty and increasing compliance. Notwithstanding these advancements, some matters still require attention. While the review recognises that the ATO will always need to defend against aggressive tax positions, more is needed to:

- better understand the commercial environment and practices
- improve the timeliness of advice
- consult more openly.

### *The way forward*

The ATO is at a turning point. It can choose to try to maintain stasis, with the risk of slipping backwards, or transform. Transformational changes, such as those suggested throughout this review, will increase the ATO's capacity to get ahead of the game and drive agility, responsiveness and improved performance. Strong, top-down leadership along with a long-term, enterprise-wide strategy is necessary to guide this transformation. Effective leadership, starting from the executive and cascading throughout every level of leadership is critical. Assigning accountability to senior tax officers for the success of strategy implementation will create ownership and maintain focus.

## 4. More detailed assessment of agency capability

This section provides an assessment framed by the leadership–strategy–delivery structure of the capability review model.

Assessments were made according to the rating descriptions set out in Figure 4.





	<b>Strong</b>	<ul style="list-style-type: none"> <li>Outstanding capability for future delivery in line with the model of capability.</li> <li>Clear approach to monitoring and sustaining future capability with supporting evidence and metrics.</li> <li>Evidence of learning and benchmarking against peers and other comparators.</li> </ul>
	<b>Well placed</b>	<ul style="list-style-type: none"> <li>Capability gaps are identified and defined.</li> <li>Is already making improvements in capability for current and future delivery, and is well placed to do so.</li> <li>Is expected to improve further in the short term through practical actions that are planned or already underway.</li> </ul>
	<b>Development area</b>	<ul style="list-style-type: none"> <li>Has weaknesses in capability for current and future delivery and/or has not identified all weaknesses and has no clear mechanism for doing so.</li> <li>More action is required to close current capability gaps and deliver improvement over the medium term.</li> </ul>
	<b>Serious concerns</b>	<ul style="list-style-type: none"> <li>Significant weaknesses in capability for current and future delivery that require urgent action.</li> <li>Not well placed to address weaknesses in the short or medium term and needs additional action and support to secure effective delivery.</li> </ul>

Figure 4—Rating descriptions

The review team's assessment of the ATO's capability is outlined in the tables below.





## Leadership

Set direction		Well placed
Motivate people		Well placed
Develop people		Development area

## Strategy

Outcome-focused strategy		Development area
Evidence-based choices		Well placed
Collaborate and build common purpose		Well placed

## Delivery

Innovative delivery		Development area
Plan, resource and prioritise		Well placed
Shared commitment and sound delivery models		Development area
Manage performance		Well placed





## 4.1 Leadership summary

### Set direction

- The corporate vision is succinct, powerful, understood and supported by employees at all levels.
- The executive has recognised the need to elaborate where the ATO needs to be in the future and is beginning to position the ATO accordingly. This will require consistent, top-down direction about the ATO's future priorities.
- While a collegiate culture exists among the senior executive cohort, the leadership needs to further consolidate behaviour in support of 'one ATO'.
- Changes introduced in recent years have been incremental and driven by operational or business needs, but successful communication about change has not always occurred across the ATO, and implementation has sometimes been inconsistent. Transformational change will depend upon all leaders' and managers' ability to articulate the future direction and take the workforce along.

### Motivate people


- Employees have a strong commitment to the ATO's corporate vision. Most report that they enjoy their work and believe it to be of genuine worth to the community. The agency culture is predominantly one of professionalism, technical accuracy and integrity of process.
- However, there are mixed signals in relation to staff engagement and the management of change.
- Employees report they are not sufficiently empowered to make appropriate decisions.

### Develop people

- The ATO faces an increasing requirement for specialised technical skills with an ongoing need for technical expertise in ICT systems and sophisticated law and audit skills to enable it to succeed in delivering its core business.
- The ATO needs to develop greater capability in the area of tax policy advice to ensure better policy outcomes and quality advice to government, and in external communications and the management of sensitive issues.
- Tension exists between the value placed on highly specialist technical skills and on other people capabilities, including leadership and management. An increased share of learning and development (L&D) resources needs to be directed to 'softer' people capabilities.
- Succession planning and talent management is mixed across the agency.
- The performance appraisal system is robust, but the management of under-performance in particular can be problematic.

Comments and ratings against the components of the leadership dimension follow.

## Set direction

Guidance Questions		<p>1 Is there a clear, compelling and coherent vision for the future of the organisation? Is this communicated to the whole organisation on a regular basis?</p> <p>2 Does the leadership work effectively in a culture of teamwork, including working across internal boundaries, seeking out internal expertise, skills and experience?</p> <p>3 Does the leadership take tough decisions, see these through and show commitment to continuous improvement of delivery outcomes?</p> <p>4 Does the leadership lead and manage change effectively, addressing and overcoming resistance when it occurs?</p>
Rating		Well placed

*From vision to reality*

The ATO corporate vision, that ‘Australians value their tax and superannuation systems as community assets, where willing participation is recognised as good citizenship’, is powerful, succinct and compelling. It describes what the ATO is striving to deliver to the community into the future. Employees at all levels know the vision, support its intent and understand how it relates to their everyday work. In the 2012 State of the Service employee census, 84 per cent of ATO respondents agreed they have a clear understanding of how their work contributes to the work of the ATO.

The vision is supported by five strategic themes: Encourage, Support, Protect, Enhance, and Champion. These describe the ways in which the ATO will achieve its vision. The challenge for the ATO’s executive is to provide greater direction on how these strategic themes will deliver the vision, with greater focus on how the ATO will operate and engage with customers in the longer term.

Site leadership has successfully contributed to communicating and generating commitment to the corporate vision and promoting cohesion across regions. While the program is at different stages of maturity across the various sites, it needs to continue to evolve from creating a more unified social culture to establishing greater focus on business cohesion and productivity outcomes. The ATO may wish to consider giving site leadership more authority to drive business performance and assume a greater leadership role for teams located away from their functional leaders.

Many internal communications channels are used to promote corporate messages and these have been very successful in transmitting the vision and strategic themes. However, in some business lines some staff still report that they are unclear on the rationale for and implications of change. The challenge is for all leaders and managers is to ensure that messages about change are effectively cascaded to all levels of staff.

A move to rationalise the amount of information going to the executive and provide more useful analysis is underway. The executive is positioning itself to make better use of the expertise in the agency, and in this way be better placed to make difficult, enterprise-wide decisions. They need to uniformly support and communicate the decisions they take, and all leaders should be held to account for implementation.

### *Leading transformational change*

Over the last few years, change in the ATO has been predominantly incremental and driven from the bottom up, in response to operational or business needs. The ATO has a deserved reputation for responding quickly and effectively to externally driven change demanded by the Australian Government. However, transformational change, initiated by the ATO itself, has been inhibited by a number of factors. These include change fatigue following the implementation of the major Change Program, pressure from other externally driven demands, a culture of risk aversion, a perceived shortage of resources and a search for consensus. Lack of insistence on timely implementation of decisions has in some instances limited internally driven change. The lesson is that the achievement of transformational change in future will require strong and cohesive messages from executive leadership to drive the innovation required by the ATO vision.

It is a generally held view by ATO employees and external stakeholders that the current executive has recognised the nature of the changes needed, and that the leadership has an appetite for these changes and the capacity to drive them. To be successful, the executive needs to collaborate effectively and actively mobilise change. Successful change management will also need the active and positive support of the powerful SES Band 2 group, which represents a cohort that is very knowledgeable and well respected, with very long tenure; however, this cohort can manifest the ATO tendency to be risk averse and over process issues, slowing decisions. The SES Band 2 cohort, sub-plans and business lines should be required through their future plans to support enterprise-wide innovation and take an integrated, outcomes focused approach to supplement top-down initiatives from the ATO Executive and from the strategic plan.


The tendency to use particular individuals as change agents to manage and deploy change in the organisation reflects the need to invest more broadly in leadership and change management skills.

ATO workplaces are changing, in particular resulting from the impact of technology on service delivery. The results being achieved by leading overseas revenue collection agencies suggest that arguably these changes in the ATO should be more extensive and happening faster. This will require management initiatives in place to communicate and manage this change, and a number of workplaces have recently taken such initiatives. In particular, the Operations sub-plan has put in place an effective consultation and communication strategy to keep staff informed of predicted changes resulting from upcoming innovation in delivery.

The 2012 State of the Service employee census shows that only 31 per cent of ATO staff respond positively to the way change is managed in the agency. While this is consistent with the overall APS result (32 per cent) it remains an issue of concern for the ATO.



## Motivate people

Guidance Questions		<p>1 Does the leadership create and sustain a unifying culture and set of values and behaviours which promote energy, enthusiasm and pride in the organisation and its vision?</p> <p>2 Are the leadership visible, outward-looking role models communicating effectively and inspiring the respect, trust, loyalty and confidence of staff and stakeholders?</p> <p>3 Does the leadership display integrity, confidence and self-awareness in its engagement with staff and stakeholders, actively encouraging, listening to and acting on feedback?</p> <p>4 Does the leadership display a desire for achieving ambitious results for customers, focusing on impact and outcomes, celebrating achievement and challenging the organisation to improve?</p>
Rating		Well placed

### *Getting the best from a committed workforce*

A committed workforce is as an organisational strength for the ATO. Employees embrace the corporate vision and are proud of the work they do for the community. Site leadership is actively contributing to the development of a positive and unified culture.

The 2011 ATO Staff Engagement Survey shows a strong level of positive staff engagement, reported at 79 per cent. However, there is some evidence that levels of engagement for APS level 1-4 staff are a little lower in comparison to levels for staff at higher classifications.<sup>6</sup> The ATO People business line is engaged in a program of work looking to understand the reasons for these results with a view to improving the way in which staff engage with their workplace.

The ATO also has a relatively high rate of unplanned leave.<sup>7</sup> ATO People is currently undertaking an extensive project on managing unscheduled absences in an effort to more fully understand if this is a reflection of staff engagement, and take measures to address the problem.

The challenge for the senior executive in influencing the culture in such a large and geographically dispersed organisation is to communicate a single, positive message about the agency's future direction to all employees. All leaders must support and model the behaviours required to effect change and achieve the agency vision.

<sup>6</sup> The 2011 ATO Staff Engagement Survey finds that results for APS level 1-4 staff are 3 to 5 points lower while results for EL and SES staff are 7 to 16 points higher.

<sup>7</sup> The 2012 *State of the Service Report*, the ATO has the highest rate of unscheduled absence in the APS, at 15.5 days (APS median rate is 11.1 days).



### *Empowering people*

An internal ATO survey of some 165 frontline managers and leaders across seven sites reported 'an overwhelming feeling of disempowerment', associated with 'elevated decision making (devaluing of roles) and a culture of blame and risk aversion. A trend indicating people are not feeling trusted and their expertise is not being recognised was evident.'<sup>8</sup>

Further, it was widely reported by employees at interview that they experience a defensive and risk averse culture where decision making has been escalated upwards, leaving them feeling de-motivated by their inability to progress certain initiatives. Some perceive that employees get little support if decisions made within their delegation and with diligence exposes the agency to criticism or risk.

The ATO has a reputation among some external stakeholders of having a culture that is risk averse and defensive. Stakeholders consider that ATO decisions are delayed as a result of excessive process and the inability of individuals to commit to an agency view. This can have a negative impact on effective engagement and relationship building.

To maintain effective people capability, employees need to be trusted to make decisions appropriate to their roles and responsibilities, and equipped to do so through training and development (in addition to formal delegation). Furthermore, employees need to believe they are supported by the ATO for properly made decisions, through frameworks for risk and issues management.


### *Guiding people through change*

ATO workplaces, especially processing areas and areas providing legal advice, are experiencing significant change. A number of these workplaces have management initiatives in place to maintain a positive workplace environment where employees report being kept informed about change and being able to continue to contribute to organisational performance. The challenge remains to communicate effectively with all employees affected by change. In the ATO, the majority of staff at the APS 6 level and above hold leadership roles. A L&D strategy for building capability in change management for team leaders and other leaders will assist in this process.

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<sup>8</sup> Update on leadership and management project to ATO People Line Executive, 20 March 2013.

## Develop people

Guidance Questions		<ol style="list-style-type: none"> <li>1 Are there people with the right skills and leadership across the organisation to deliver your vision and strategy? Does the organisation demonstrate commitment to diversity and equality?</li> <li>2 Is individuals' performance managed transparently and consistently, rewarding good performance and tackling poor performance? Are individuals' performance objectives aligned with the strategic priorities of the organisation?</li> <li>3 Does the organisation identify and nurture leadership and management talent in individuals and teams to get the best from everyone? How do you plan effectively for succession in key positions?</li> <li>4 How do you plan to fill key capability gaps in the organisation and in the delivery system?</li> </ol>
Rating		Development area

### *Building the ATO workforce of the future*

Foundation blocks are in place for the ongoing development of the ATO's people capability, including its People Strategy 2012–2015, the L&D Strategic Plan 2012–2013, high-level workforce plans, including at sub-plan level, and recent work on job profiling and capability mapping.

The challenge for the ATO is to build on this work and go on to implement agency-wide workforce planning and integrated L&D strategies that focus on future delivery and have a direct line of sight to the vision. The skills required to enable transformational change, achieve the vision and meet future community expectations need to be identified. An agency-wide plan then needs to be developed to fill predicted gaps.

Succession planning is conducted for the most part at the business line and team level and its focus and efficacy is mixed. Future people capability will depend on a more proactive, agency-wide approach, particularly for critical positions. Graduates are frequently referred to as a talent pool for the future, including in the context of succession planning into SES roles. Even though the graduate retention rate is high (over the last six years, 1331 of 1540 graduate recruits have remained with the agency), the graduate program cannot be the only solution for delivering future leadership. Other talented people should be identified and provided with similar opportunities for career development through planned rotation.<sup>9</sup>

The ATO is facing significant challenges in building its workforce. There will be increased reliance on higher level skills with many of the least skilled jobs disappearing because of automation. In addition, the ATO workforce is ageing, and succession planning will become even more important. It is critical that the agency has the right skills in strategic human resources to give effect to the necessary changes, and that management practices support the recruitment, development and management of the workforce required.

<sup>9</sup> For the past three years, the ATO Graduate Program was recognised in 'Best Graduate Program' in the individual career section in the Australian Graduate survey 2012.

### *The skills needed*

Technical expertise in ICT systems as well as sophisticated law and audit skills are all critical to the ongoing success of the ATO in delivering its core business.

The recently announced, new integrated tax design business line will require skills in policy advising and the capacity to effectively communicate the ATO's view to the Treasury, the wider APS and government. The machinery-of-government change that moved the policy design function to the Treasury some 10 years ago saw a decline in the capacity of the ATO to influence tax design. ATO employees would also benefit from having access to development opportunities providing a broader, whole-of-government perspective, to improve the ATO's capacity to share information, inform its own strategic direction and influence whole-of-government initiatives.

Increased mobility, including secondments to government agencies, companies and industry groups would provide a broader level of understanding and interaction between the ATO and its larger stakeholders. The general view, particularly from external stakeholders, is that ATO employees are insulated from government and industry and would benefit from exposure to an 'other than ATO' perspective.

The ATO needs to improve how it identifies, communicates and manages sensitive issues, including those that are politically sensitive. There have been incidents where a proactive approach to advising the Minister or considering a media or stakeholder response to a particular issue would have seen sensitive matters handled in a more considered way, with better outcomes achieved, particularly in terms of public perceptions and trust.

### *A flexible workforce*

Given that the ATO is facing considerable change, it will need to increase the share of the L&D budget devoted to the development of a flexible workforce that can adapt to meet future delivery needs. To enable agility in the organisation and progress change, value should be placed on more general capabilities, such as the ability to think strategically, communicate effectively and build relationships.

The successful management of change in the ATO will also require an increased share of the L&D budget for development of management and leadership capabilities. At present, employees can be appointed to a position for their technical skills, without sufficient account being taken of their management skills or the need to develop these skills. As a consequence, managers may lack the necessary skills to manage both people and organisational change. Noting that the ATO has management roles across classification levels, there is a particular need to provide development and support strategies for team leaders.

### *Maximising the impact of learning and development*

The centralisation of the L&D function has enabled an enterprise approach to improving performance and resource allocation. However, reviews from business areas are mixed as to the availability of L&D to suit their needs, and the relevance and efficacy of courses offered. The L&D Strategic Plan 2012–2013 reflects that the ATO is beginning to more actively engage with business areas to identify their L&D needs.

At the same time, more top-down direction is required so training and development is better aligned with the vision. The development of an overall ATO strategy should help by addressing future workforce needs. The workforce plan would then be positioned to actively develop the

ATO workforce in accordance with that assessment of current and future skills and capability needs. In effect, this requires a more strategic approach from L&D, and requires sub-plans and business lines to consider and integrate their longer-term strategic workforce plan when working in partnership with L&D to identify capability development requirements.

### *Managing individual performance*

Managing individual performance, including poor performance, is not done consistently well. The ATO's performance management framework makes it clear that corporate plans right down to team plans should be cascaded throughout the organisation to inform expectations for individual performance. However, the effectiveness of the framework depends on the skills and commitment of individual managers. Some areas have a 'tick and flick' approach to performance appraisal. In some instances employees work in different locations to their direct supervisor which creates particular problems in giving feedback and mentoring advice. The risk is that the agency is missing an opportunity to improve performance, and some employees are not seeing positive benefits for their job satisfaction or career development.

Performance management should also identify circumstances in which staff may need to be re-skilled so they can continue to contribute to organisational performance in accordance with the ATO's strategic needs.

The 2012 State of the Service employee census found that only 22 per cent of ATO respondents agreed that the ATO dealt with underperformance effectively. In circumstances of underperformance, managers report that the level of support from the ATO People business line is inconsistent and depends on the individual case manager. Managers find that the time and effort required to address poor performance is prohibitive. The agency allows processes to stall, taking a risk-avoidance approach which fails to adequately consider that the inability to resolve underperformance can have enormous costs in time, money, and lost productivity, including through a negative impact on fellow workers and agency culture.

Improving performance management is a critical aspect of leadership and management development and support strategies, and for ensuring appropriate management processes.



## 4.2 Strategy summary



### Outcome-focused strategy

- The ATO has a strategic statement which outlines the vision, values and strategic themes. However, it serves largely as a high level statement of corporate aspiration, rather than a strategic plan that directs and integrates all other frameworks and processes.
- The ATO does not yet have a strategic plan articulating at an enterprise level how it will achieve its vision and what its future capability should look like. The executive needs to drive the development of a longer-term, enterprise-wide strategy, that focuses on business-as-usual and on shifts needed for the future. To achieve the vision, this strategy needs to articulate direction, priorities, timelines, targets, measures of success and accountabilities.
- To design what its future service to the community will look like, the ATO should benchmark itself against other leading tax administrations and accelerate whole-of-government approaches to service delivery.
- The ATO has a set of indicators and service standards that cover outputs across its business. It is possible to map these across its Portfolio Budget Statement and business planning documents. Recently the ATO has been reviewing these indicators through the Embedding ATO Effectiveness Steering Committee to embed effectiveness measurement across the ATO. Notwithstanding this work, the ATO, including through its effectiveness measures project, has not with sufficient vigour attended to the challenge of serious monitoring of outcomes.

### Evidence-based choices

- The ATO has strong analytical capabilities and is an APS leader in this field. The expertise of analytics professionals in the Office of the Chief Knowledge Officer is utilised to analyse the wealth of collected data and develop analytical models to improve processes.
- The ATO has potential to further leverage this capability at a business line and enterprise level to improve business performance by using analytical models.
- There is a need to improve capability in management reporting to provide the executive with a higher order analysis of available data to inform strategy development.
- The organisation seeks to deliver against community expectations and there are examples illustrating a level of responsiveness to feedback. In situations where this is not the case, external stakeholders emphasised the need for greater transparency. The ATO needs to consider whether a more targeted approach is needed to more effectively understand community expectations and analyse and respond to feedback.


### Collaborate and build common purpose

- The ATO works collaboratively with other government departments and tax administrations. It needs to continue to improve policy advising capability and, in particular, how it works with the Treasury to ensure a greater contribution to better policy outcomes.

- The ATO has a strong commitment to the principles of consultation, collaboration and co-design. For example, the ATO utilises a first-class simulation centre to test products with clients and re-shape them based on community feedback. However, ATO consultative structures are overly extensive (currently more than 60). The ATO has recognised the need to review and streamline these arrangements to ensure they are effective and offer an appropriate return on investment.
- Stakeholders generally reported a strong relationship between the ATO and the small business sector and that the ATO has taken significant steps to differentiate responses to tax administration for large business (for example, the risk differentiation framework). Whilst recognising the need to defend against aggressive tax positions, stakeholders encouraged the ATO to continue to work with large business to improve timely advice and a deeper understanding of the commercial environment.

Comments and ratings against the components of the 'strategy' dimension follow.

#### Outcome-focused strategy

Guidance Questions		<p>1 Does the organisation have a clear, coherent and achievable strategy with a single, overarching set of challenging outcomes, aims, objectives and measures of success?</p> <p>2 Is the strategy clear about what success looks like and focused on improving the overall quality of life for customers and benefiting the nation?</p> <p>3 Is the strategy kept up to date, seizing opportunities when circumstances change?</p> <p>4 Does the organisation work with political leadership to develop strategy and ensure appropriate trade-offs between priority outcomes?</p>
Rating		Development area

#### *Developing a strategy to deliver against the vision into the future*

Whilst the vision is clear and embraced by staff, the ATO does not yet have a strategic plan that articulates *how* it will achieve its vision. While the strategic statement contains five strategic themes, these are high level and not, of themselves, a strategy. As its highest priority in terms of positioning the organisation for the future, the executive needs to drive the development of a challenging top-down, longer-term, enterprise-wide strategy including targets and milestones, that focuses not only on business-as-usual, but also on the capability shifts needed. The absence of a strong statement of enterprise direction, priorities and performance expectations presents the risk that staff interpret the vision from an individual or business area perspective, which may not deliver the alignment and capability the organisation needs. Enterprise strategy should be informed by an integrated view of the organisation from a risk and intelligence perspective and then, in turn, drive planning frameworks.

The ATO has recognised the importance of integrating its governance mechanisms, including risk, intelligence, planning, measurement and reporting processes to achieve strategic outcomes, and is moving to do so. However, without clear direction from a more detailed, longer-term

strategic plan for the ATO as a whole, planning documents covering workforce development, ICT investment and risk planning do not have a clear line of sight to agency wide objectives that will achieve the vision, and are not sufficiently well integrated with other planning documents. Similarly, in the absence of an enterprise strategic plan, the business lines and subplans are currently at different stages of maturity in their development of an approach for the future. The sub-plan overviews should link directly to the enterprise strategy and address how specified outcomes at least three years ahead will be achieved, rather than being limited to a list of tasks for the next year.

Some examples of lower-level strategies developed at sub-plan or business line level are broadly aligned with the vision. For example, the tailored approach to debt collection during the global financial crisis aligned with the strategic theme of encouraging high levels of willing community participation in the system by taking taxpayer circumstances into account. However, some staff have indicated that the annual planning process for business areas largely involves retrofitting existing strategies to the vision rather than having the vision shape the way the organisation approaches its work.

The ATO was previously considered to be at the forefront of tax administration globally, but according to OECD data, appears to be falling behind other leading tax administrators in some areas. It needs to focus on continuous improvement and transformative change to achieve its vision of a system where Australians value their tax and superannuation systems as community assets and where willing participation is recognised as good citizenship. Given continuing advancements in technology, globalisation and increasing complexity of taxpayers' arrangements, it is imperative that the ATO continues to invest in innovative capability. Failing to do so will effectively see the ATO go backwards in terms of effective tax administration, particularly its ability to manage compliance risk in an increasingly global and complex tax environment.


A greater focus on leveraging natural systems already in place in taxpayers' business and personal lives has the potential to make the tax system easier for taxpayers to navigate and comply whilst achieving significant compliance dividends for the ATO. For example, leveraging the natural system that businesses use to meet their payroll obligations to receive information and payment in regards to taxation obligations has the benefit of convenience for the taxpayer and the benefit of automatic compliance for the ATO. Future capability should also respond to whole-of-government directions including a single point of access for the community to connect with government electronically. In progressing this, it should be possible to further leverage the existing capability of Standard Business Reporting, which provides a single point of access through which businesses may interact with participating government agencies.

A well-articulated strategy for business transformation should guide decisions about investment, innovation and performance expectations. The strategy should authorise innovation which is critical to the future state and success of the organisation. This requires the executive to articulate what future success looks like in terms of the effectiveness, not just the efficiency, of the organisation. The ATO has a set of indicators and service standards that cover outputs across its business. It is possible to map these across its Portfolio Budget Statement and business planning documents. Recently the ATO has been reviewing these indicators through the Embedding ATO Effectiveness Steering Committee. This is a useful activity, and revised indicators to be published shortly in the 2013 Portfolio Budget Statement will show the benefit of attention to issues of specificity and utility. Notwithstanding this work the ATO, including through its effectiveness measures project, has not with sufficient vigour attended to the challenge of serious monitoring of outcomes. For example, monitoring program effectiveness against outcomes would allow much earlier identification of threats to revenue collection, the core responsibility of the ATO.

The ATO is focussed on delivering against immediate priorities. This is reflected in its more detailed planning, which is undertaken on an annual cycle and largely concentrates on business-as-usual, with some small shifts to manage emerging or year-specific issues. The ATO has developed a draft three-year plan as a working document and is currently seeking feedback on it from Band 2 SES. While the draft plan proposes a three-year outlook, it remains focused on incremental change to business-as-usual rather than on transformative change. Indeed, reported tasks differ little from one year to the next.

In summary, the executive needs to articulate *what* the ATO should look like in 2020 as well as *how* it will create capacity to make the changes needed to get there, including changes needed to the ICT strategy to create required capacity. The current incremental approach to strategy will inhibit the ATO's ability to continue to meet the service expectations of the community and respond to increasing complexity in compliance risks. The organisation needs to balance current delivery with taking actions today that will make a difference tomorrow, and needs to align resources in a way that helps it drive transformational change.

#### Evidence-based choices

Guidance Questions		<ol style="list-style-type: none"> <li>1 Are policies and programs customer focused and developed with customer involvement and insight from the earliest stages? Does the organisation understand and respond to customers' needs and opinions?</li> <li>2 Does the organisation ensure that vision and strategy are informed by sound use of timely evidence and analysis?</li> <li>3 Does the organisation identify future trends, plan for them and choose among the range of options available?</li> <li>4 Does the organisation evaluate and measure outcomes and ensure that lessons learned are fed back through the strategy process?</li> </ol>
Rating		Well placed

#### *Harnessing analytical capability*

Given the fiscal restraints that will likely face all government agencies, it is becoming imperative to find more effective and efficient ways of working. In a self-assessment tax system that has in excess of 14.9 million taxpayers, it is crucial to use available information to identify efficient ways of focusing the ATO's resources to administer the tax and superannuation systems.

The ATO's investment in analytics, including targeted recruitment of highly talented analytics professionals, has resulted in a strong capability in this field. This has helped the ATO develop sophisticated analytical models to better target compliance activities, reduce unnecessary impacts on taxpayers and identify taxpayers who need assistance in complying with their obligations. The ATO's work in this field places it as a leader in the APS and, as a result, the ATO has been selected to lead a whole-of-government Data Analytics Centre of Excellence.

The application of the ATO's analytical expertise is best demonstrated in its analysis of the wealth of collected data and development of analytical models to refine business-as-usual processes, such as compliance and debt collection strategies. For example, the models that determine the likelihood of payment allow collection activities to focus on debts more likely to remain unpaid in the absence of proactive collection activity. Other examples include the ATO's use of data matching that links information stored by various government agencies, call centre voice analytics to improve client-focused delivery, and refined audit case selections to limit unnecessary disruptions to taxpayers.

Given its investment in analytics, there is potential to further leverage this ATO capability at a business line and enterprise level to improve business performance. For example, analytics may be useful in helping the ATO address issues of corporate performance, such as high unplanned leave rates, and develop and report on measures of effectiveness. Further, analytics capability could be better harnessed to improve management reporting and the early identification of issues that have an impact on organisational performance.

#### *Understanding and delivering against community expectations*


Given the vision is one of a system where the community values the tax and superannuation systems as community assets, a level of alignment between the ATO's approach and community expectations will be critical in implementing a strategy to deliver the vision.

The vision and strategic themes are strongly community focused, with the emphasis now generally being on a tax system that the community values as an asset, rather than one focused purely on revenue collection. The ATO seeks to deliver against community expectations. This permeates through many strategies adopted in administering the tax system. For example, the ATO has exercised a compassionate approach following natural disasters, providing priority refund processing and additional time to meet taxation obligations (including the lodgement of forms and payment of debts) so taxpayers can concentrate on the more immediate and pressing issues that a natural disaster presents, and tend to tax affairs later. The ATO also assists taxpayers to reconstruct their records if these were destroyed in a natural disaster.

Stakeholder feedback indicates that a more targeted approach is needed to build organisational understanding of community expectations. For example, the ATO's ICT electronic service offering has fallen behind community expectations. Additionally, the ATO has been challenged by the corporate sector at times about the time taken to provide advice on technical issues. While it is important to provide well-considered advice, timeliness is an integral part of the quality of advice. The organisation seems to have polarised views about measures of performance for timeliness and technical accuracy. Both are important and so the ATO needs to work with the community to find better ways to deliver accurate, timely advice.

The ATO has undertaken research to better understand community expectations and in response will be implementing some new service standards from 1 July 2013. These changes will be positive, providing they are informed by comprehensive analysis of community expectations and implementation of the broader change needed to more closely align the ATO's administration with community expectations.

## Collaborate and build common purpose

Guidance Questions		<ol style="list-style-type: none"> <li>1 Does the organisation work with others in government and beyond to develop strategy and policy collectively to address cross-cutting issues?</li> <li>2 Does the organisation involve partners and stakeholders from the earliest stages of policy development and learn from their experience?</li> <li>3 Does the organisation ensure the agency's strategies and policies are consistent with those of other agencies?</li> <li>4 Does the organisation develop and generate common ownership of the strategy with political leadership, delivery partners and citizens?</li> </ol>
Rating		Well placed

### *Connectedness across government*

Given the ATO's community-facing role and its strong understanding of the operation of the taxation and superannuation systems, it is well placed to see the impacts of policy on the ground and, accordingly, to contribute to better tax policy outcomes. The ATO's established relationship with the Treasury is articulated through a recently revised protocol seeking to ensure earlier ATO involvement in the policy development process. Stakeholders acknowledged that the ATO's policy relationship with Treasury is critical to effective tax design and implementation. Although there have been substantial improvements in the last year or so, the ATO has recognised it needs to further increase its policy advising capability so it can fully engage with the Treasury on tax design.

Notwithstanding the independence of the ATO, the organisation also needs to be able to understand the policy and political environment in which tax law operates so it can improve the quality of advice to government and influence good tax design. The ATO needs to continue to build its capability to identify potential or actual revenue leakage beyond policy intent, strengthen evidentiary support for raising such issues and communicate these issues in a more timely and effective way. While there are examples of the ATO identifying substantiated threats to the revenue base and communicating effectively with government about these threats and possible solutions, this needs to become common practice. In response, the ATO is restructuring to co-locate tax design-related functions and staff to enable the Second Commissioner, Law to take a more strategic approach to influencing tax law design.

The ATO has effective relationships across government and with other tax administrations internationally. It makes a significant contribution to government, particularly where there is a joint project, mutual client base or mutual goal. Other agencies speak highly of the productive relationships they have with the ATO.

### *Consultation and responding to feedback*

The ATO is committed to the principles of collaboration, consultation and co-design. Consultation mechanisms include consultative forums, community surveys and a first-class simulation centre, which is used across government for user-testing products with the



community. The ATO also has extensive external scrutiny arrangements, including feedback from the Inspector-General of Taxation, Auditor-General, Commonwealth Ombudsman and the Joint Committee of Public Accounts and Audit. Other mechanisms, such as community surveys and complaints, provide the ATO with a strong source of intelligence.

While there are examples of genuine consultation and examples where consultative committees have given rise to innovative and collaborative approaches to issues, feedback from external stakeholders indicates there is scope to improve the way the ATO consults with the community. A number of external stakeholders are represented on multiple consultative structures and while they welcome the opportunity to contribute, they believe there is merit in streamlining these arrangements. Accordingly, the ATO's review of consultative arrangements is timely as the number of committees, their structure and mandates could be rationalised to improve effectiveness.

Views are mixed about the degree to which the ATO is responsive to feedback. As a positive example, in response to concerns that the community was unable to access the ATO's tax technical experts, the ATO moved technical experts to front line areas to provide opportunities for engagement with taxpayers earlier. At a hearing before the Joint Committee of Public Accounts and Audit, the Commonwealth Ombudsman, Auditor-General and community representatives who appeared as witnesses advised of a high level of responsiveness to feedback. In contrast, in his submission to the Tax Forum, the Inspector-General of Taxation noted that:

“... consultative forums only provide an input to ATO decision-making, allowing stakeholders to identify and raise problems and concerns. However, there is some dissatisfaction with the degree to which such input is reflected in the final outcome.”

External stakeholders indicated that while the ATO is generally open and honest about its intended approach, and will consult on the way its approach will operate in practice, sometimes it comes to a consultation with a view already formed and it is challenging to refine the approach through genuine consultation. Some scrutineers and members of consultative forums advised that the ATO can be dismissive of feedback, particularly where it conflicts with a strongly entrenched view that the ATO holds about its own performance or client expectations. This presents an opportunity to more consistently consider and respond to community feedback and proactively manage emerging issues. Given the ATO's important role in ensuring the integrity of the tax system, there will be situations requiring it to act other than in accordance with community feedback. The ATO needs to clearly communicate when this is the case so stakeholders understand why their feedback has not been reflected.

#### *Strategically managing relationships with stakeholders*

Stakeholder feedback indicated that the ATO has developed a strong relationship with the small business community. However, feedback was mixed about the extent to which the ATO was seen to understand and respond to the commercial realities of the large business community. The ATO has made significant changes to the way it manages risk and engages with large business. Initiatives include Annual Compliance Arrangements, pre-assessment reviews, use of alternative dispute resolution, the establishment of independent appeals and the application of (and open conversations regarding) the risk differentiation framework. In particular, external feedback indicates that Annual Compliance Arrangements have significantly improved the relationship between participating large businesses and the ATO. Formerly adversarial relationships are transforming into open and transparent ones with benefits for the ATO with compliance and benefits for the large business with certainty of tax affairs.

## 4.3 Delivery summary

### Innovative delivery

- The ATO has an enterprise innovation framework in place to support innovation. While it references transformational change, it essentially facilitates bottom-up, continuous process improvement. Staff appreciate the opportunity to put ideas forward for consideration.
- Once a highly innovative agency, the ATO's appetite for progressing transformational change has diminished. A number of factors have contributed to this, but a sense of the opportunity cost of the status quo is needed. It is not an option to stand still.
- Greater top-down direction to guide innovative thinking and streamline idea assessment is needed. A cultural and process shift is also required to gain traction more quickly for new ideas that are consistent with this top-down direction.
- Notwithstanding the above, many of the ATO's business areas are exploring innovative ways to re-engineer their business approaches to improve service outcomes and performance.

### Plan, resource and prioritise

- The ATO's vast, geographically dispersed workforce manages its core work very well, with the majority of revenue received on time, voluntarily and without complaint.
- The agency is highly effective at delivering under pressure when problems and objectives are clearly defined, especially when an external challenge is imposed. It is less able to do this to achieve internally generated change.
- Business planning is task focused and effective at supporting short-term delivery of business-as-usual, operational activities. While line-of-sight exists from business plans to strategic themes, plans are not sufficiently driven by the intent of these themes and could be improved by including clear implementation steps and measurement plans.
- While the ability to move resources to address strategic shifts or work pressures exists internally in some sub-plans, the ATO is yet to achieve effective resource management at an enterprise level. The Resource Forum requires greater support and direction from the executive on ATO priorities to effectively manage the significant shifts of resources at an enterprise level that transformational change might well involve.
- The ATO needs to get better at feeding back the opportunity costs of new policy ideas to government, to stabilise its operating environment and manage demand on its systems and people management.

### Shared commitment and sound delivery models

- The ATO will be at its best when it is clear in its identity as a service provider. This does not need to undermine its role as a regulator and tax administrator but it will provide a unifying set of standards to support professional dealings with taxpayers and efforts to improve the experience of the great majority of its clients.




- The ATO has been central to whole-of-government approaches to increase the ease of citizens' engagement with government. Similarly, efforts to leverage natural systems to improve service offerings and reduce compliance burden can improve efficiency and effectiveness, as has been achieved to a significant extent in other jurisdictions. The organisation needs to commit resources and the executive needs to show leadership for a move in this direction if this is to be achieved.
- The ATO is shifting towards an enterprise approach to many aspects of its business. This has seen a shift to a national business model as well as the implementation of central ICT systems, centralised corporate functions and reporting. This is positive and will be necessary for transformational change.
- Site leadership has achieved considerable benefits for the ATO. This model needs to continue to evolve for greater focus on business cohesion and performance.
- While ATO's governance arrangements structures are well embedded, streamlining is required to simplify the elaborate corporate management practice statements and instructions and replace them with a more principles-based approach to decision making which will allow staff to develop and exercise judgement. The number, effectiveness and mandate of internal committees also needs review.
- ICT priority setting requires better management of demand and capacity, with a whole-of-system, whole-of-organisation approach needed to increase business-as-usual efficiency and deliver service efficiencies in line with better practice.

### Manage performance

- The ATO has strong financial management, internal audit and business continuity approaches.
- The ATO has an extensive set of aligned and cascading performance measures in place, with a substantial body of reporting activities undertaken at all levels of the organisation.
- There is a strong internal analytics capability in the Office of the Chief Knowledge Officer, including real-time access to data analysis for monitoring performance. However, this information is not utilised by the executive for this purpose.
- The ATO is attempting to streamline, simplify and advance organisational reporting to support management decision making. To ensure that executive are provided with useful reports, this work must include the products of the Office of the Chief Knowledge Officer and an independent and objective assessment of the data this team has marshalled to strengthen performance management of day-to-day business and transformational change.
- Staff and managers need to be better equipped to manage risk so as to improve efficiency and timeliness of decision making.

Comments and ratings against the components of the delivery dimension follow.

## Innovative delivery

Guidance Questions		<ol style="list-style-type: none"> <li>1 Does the organisation have the structures, people capacity and enabling systems required to support appropriate innovation and manage it effectively?</li> <li>2 Does the leadership empower and incentivise the organisation and its partners to innovate and learn from each other, and the front line, to improve delivery?</li> <li>3 Is innovation explicitly linked to core business, underpinned by a coherent innovation strategy and an effective approach towards risk management?</li> <li>4 Does the organisation evaluate the success and added value of innovation, using the results to make resource prioritisation decisions and inform future innovation?</li> </ol>
Rating		Development area

### Delivering innovative solutions

The ATO has previously implemented various innovative approaches, such as:

- developing e-tax and pre-filling tax returns
- developing the tax practitioners' portal
- introducing the compliance model and risk differentiation framework to differentiate engagement with taxpayers based on an assessment of likelihood and consequences of non-compliance
- implementing Annual Compliance Arrangements with large business to exchange information and provide practical certainty about tax outcomes that underpin commercial decisions.

Many areas in the ATO continue to identify and explore innovative ways to re-engineer their business approaches, to increase service outcomes, realise efficiencies and improve effectiveness. Current significant examples include leveraging natural systems, making greater use of analytics, increasingly digitising service offerings, and working with other agencies towards a single point of access for dealing with government.

A significant number of internal and external interviewees suggested the ATO would benefit from a cultural paradigm shift to support greater innovation, especially top-down, executive-driven innovation. This should include ATO officers proactively discussing reforms with the Treasury, becoming more forward and outward looking, streamlining internal and external consultation, embracing emerging technologies and encouraging fresh thinking. It should also involve greater mobility between the broader APS and private sector.

Internal and external interviewees also noted the importance for the ATO to continue to innovate in areas where it has previously held a comparative advantage, such as with electronic service offerings and consultative arrangements. This will help the ATO to be a world leader in these areas. Some OECD publications, such as the forthcoming *Tax Administration in Advanced and Emerging Economies: Comparative Information Series 2013*, show that the ATO is starting to lag behind other revenue offices internationally.

*Idea assessment*

Substantial internal commentary noted that it can take years before a new idea or innovation gains sufficient traction and support within the ATO to be progressed beyond the idea stage. This is often due to the time it takes to gain cultural acceptance, identify and allocate resources, and define idea, scoping and implementation responsibilities. This may be exacerbated when an idea is outside of existing ATO paradigms. The ATO's current approach is to progress senior approval for innovative activities through its Corporate Design Forum (a committee of SES Band 2 officers). Due to the large number of people involved, however, this impedes fast decision making and is an example of over-consultation. The ATO would benefit from a more streamlined process for top-down innovation to accelerate decision making

To streamline idea assessment, the ATO could consider greater top-down, or centralised, direction and decision making to identify key areas where it should explore major innovative business solutions, who is responsible for scoping and presenting ideas, and who is responsible for approving the transition from idea to implementation. These ideas should flow from the long-term strategic plan and clear executive mandate for specific outcomes and reforms. The ATO's current process is often extended due to significant internal discussion, consultation in pursuit of internal consensus and the need for broad support at senior levels before an idea can progress. While democratic, this approach hinders organisational agility and may be drawn out due to conflicting perspectives of organisational direction. The need for a streamlined approach to innovation is also highlighted when the ATO is compared to other revenue offices. For example, the United Kingdom's Her Majesty's Revenue and Customs department recently implemented real-time tax reporting for employee-related obligations, while the ATO has been internally considering this idea for a number of years.


*Business improvement*

The ATO has a solid approach to bottom-up innovation with a formal enterprise innovation framework, an ICT innovation system through which staff can submit ideas, and business line campaigns designed to gather staff ideas on specific issues, such as unplanned leave and staff development needs. Many staff below SES level commented that they appreciate the opportunity to contribute to this bottom-up approach to innovation. Substantial internal commentary also noted that a full ICT forward work program regularly hinders the ability to implement staff ideas, including recent ones that won ATO innovation prizes for the significant benefits they could deliver to the agency.

*Realising the benefits of innovation*

Further streamlining the ATO's approach to innovation is especially important to ensure the organisation is well placed in key, rapidly evolving areas such as internal and external ICT, changing workforce needs, and global shifts towards increasingly digitised service delivery. In turn, faster implementation of new ideas and solutions will support the ATO to become more agile, responsive and prepared for future and external challenges. These challenges include aligning with whole-of-government service delivery approaches, managing ageing workforce demographics, dealing with advanced approaches to tax avoidance, delivering against increasing government expectations, examining the impact of increasing globalisation on business reporting and dealing with other challenges associated with a rapidly evolving world.

## Plan, resource and prioritise

Guidance Questions		<ol style="list-style-type: none"> <li>1 Do business planning processes effectively prioritise and sequence deliverables to focus on delivery of strategic outcomes? Are tough decisions made on trade-offs between priority outcomes when appropriate?</li> <li>2 Are delivery plans robust, consistent and aligned with the strategy? Taken together will they effectively deliver all of the strategic outcomes?</li> <li>3 Is effective control of the organisation's resources maintained? Do delivery plans include key drivers of cost, with financial implications clearly considered and suitable levels of financial flexibility within the organisation?</li> <li>4 Are delivery plans and programs effectively managed and regularly reviewed?</li> </ol>
Rating		Well placed

### *Business-as-usual*

The ATO's vast, geographically dispersed workforce manages its core work well, with almost all revenue received on time, voluntarily and without complaint. Each year, the ATO successfully manages a significant influx of work at 'Tax Time'<sup>10</sup> with a high level of consistency and integrity. Its approach to planning supports its ability to manage business-as-usual and the peaks and troughs of work that occur each year. The ATO has proven highly effective at tracking work and moving resources and work within sub-plans to meet demands. However corporate processes are less able to support this form of prioritisation and resource sharing between sub-plans.

There is internal and external praise for the ATO's ability to deliver the government's policy agenda, especially when under externally-imposed time pressures to deliver defined results. The prevailing view in the ATO is that this represents its ability to 'deliver in a crisis.' The ATO would do well to use this approach to help build its capability to deliver internally-driven reforms and improve the processes that people seek to work around when managing a crisis. The ATO needs to shorten decision-making times and streamline processes between idea, decision and action.

### *Annual planning*

Annual planning is task oriented and focused on delivering business-as-usual activities. While planned tasks are mapped to high-level strategic objectives, plans are not necessarily driven by these objectives, nor do they reflect their intent. In the absence of an enterprise-wide, long-term strategy, it is difficult for the ATO's planning processes to identify and plan for new initiatives.

Annual planning is not universally recognised internally as part of the ATO's overarching planning framework. Many business lines conduct it as a stand-alone task and do not always align it with strategic intent. An improved planning framework should be driven by strategy and integrate risk, people, financial and measurement considerations.

<sup>10</sup> This is the peak lodgement season for individual tax returns. It runs from 1 July to 31 October each year.

### *Project management*

The ATO's strong project management framework has been broken into tiers based on size, cost, risk and complexity. Roles, responsibilities and governance structures are clearly defined and tailored to their particular tiers. The suite of templates and guidance materials is clear and well laid out. While on the whole, management of project deliverables appears strong, more work is required in some areas to ensure change management and communication is an integral part of project management and to ensure internal and external stakeholders are appropriately consulted, informed and prepared for changes that may result from a project's implementation.

### *Setting priorities*

The ATO's first priority is to deliver its commitments to government. However, the ATO also needs to shift and address critical corporate capability requirements, which are crucial for its future. Some of these requirements have already fallen behind internal and external expectations (such as electronic service offerings) and need to catch up.

The ATO's 'can do' culture can prevent it from stopping some tasks as new initiatives are added, even when these tasks may no longer be relevant to present priorities. The ATO may wish to consider conducting a review of the work of its business areas to ensure resources are focused on high-value activities. Similarly the ATO needs to get better at feeding back the opportunity costs of new policy ideas to government, to stabilise its operating environment and manage demand on its system and people management sufficient to drive a greater proportion of internally generated and longer term strategic initiatives.


Historically, the ATO has been able to offset its budget pressures through additional external funding for increased revenue collection activities. Given that tight fiscal circumstances are expected to continue, the ATO may be better placed to mitigate risk in its internal budget through efficiencies, rather than reliance on additional external funding. Where additional funding is accessed, greater return on investment would be gained by increasing expenditure on capability to support long-term delivery.

Decisions on shifts of resources are made through a Resource Forum. Evidence suggests, however, that the forum does not have sufficient authority to make strategic shifts. This is compounded by a lack of support from the sub-plans that are in place. In the past this has resulted in large stop—start spending of the enterprise budget. Some improvements have been made to reallocate resources across the ATO, though processes for doing so could be made more agile.

Strong leadership will be important to give the Resource Forum direction, articulating ATO priorities and ensuring sub-plans operate with the 'one ATO' mind set.



### Shared commitment and sound delivery models

Guidance Questions		<ol style="list-style-type: none"> <li>1 Does the organisation have clear and well understood delivery models which will deliver the agency's strategic outcomes across boundaries?</li> <li>2 Does the organisation identify and agree roles, responsibilities and accountabilities for delivery within those models including with third parties? Are they well understood and supported by appropriate rewards, incentives and governance arrangements?</li> <li>3 Does the organisation engage, align and enthuse partners in other agencies and across the delivery model to work together to deliver? Is there shared commitment among them to remove obstacles to effective joint working?</li> <li>4 Does the organisation ensure the effectiveness of delivery agents?</li> </ol>
Rating		Development area

#### *ATO's operating model*

The ATO delivers its work through a national program management model and has started to take an enterprise approach to delivering corporate outcomes across its business lines (for example, risk management, reporting and L&D).

The Change Program was a large-scale business transformation intended to support the ATO's shift to an enterprise approach. A large component of this was the implementation of a central enterprise processing, case management and customer relationship management system (Siebel), which replaced more than 180 stand-alone systems.

While the implementation of Siebel was a success (notwithstanding technical issues when it was released) the Change Program did not completely fulfil its intended outcome of transforming business. Interviewees have described instances of staff using the system as they would have used their old systems (that is, business processes were not transformed), of areas continuing to use legacy systems replaced by Siebel and of people having to manually extrapolate and manipulate data to create bespoke reports because system-generated ones do not provide executive with the information they require. More work is required in redesigning business processes, transforming people capability and better leveraging the reporting capabilities of Siebel.

#### *Location strategy*

As a geographically dispersed organisation with many functions, the ATO can offer its staff many different job opportunities and in various locations. However, lack of guidance on optimum staff location by function and business need has enabled staff location to be driven by personal preference. In many instances, small numbers of staff are located away from their teams. These arrangements are not as effective as co-location because they create additional cost implications and challenges for staff supervision, performance management and wellbeing and engagement. The ATO may benefit from greater rationalisation of functions between sites, with a strategy on how the ATO can best leverage its geographically-dispersed locations to deliver business outcomes, with sufficient staff consultation and job matching.

### *Consistency versus client centric service delivery*

The ATO has a plethora of defined processes, to support consistent delivery across a vast, geographically dispersed workforce. Its customer service areas are well scripted and this enables the ATO to deliver consistent advice and support to the community. It has, however, been suggested that the level of prescription does not provide adequate flexibility for staff to exercise, or build the capability to, exercise judgement. This is especially important when ATO officers need to tailor service delivery to individual client circumstances.

The Debt business line has started a process to replace some prescriptive call-centre scripts with broader client service guidelines. This is intended to provide staff with the support they need to exercise judgement while tailoring service to individual client needs. Achieving this shift will require support from leaders to empower and support staff to make decisions based more on principle and judgment. Other business areas may benefit from considering such an approach, though balance will be needed to ensure consistent approaches are followed.

This direction will require a less risk averse culture and, therefore, greater capacity for risk analysis and management by staff and middle management. The reported sense of disempowerment by staff and managers in parts of the ATO also speaks to this need. The ATO will require much greater risk management skills if it is to respond to calls from some external interlocutors for more pragmatic moves in this direction.

### *Governance arrangements*

The review team received feedback suggesting that the ATO has a high degree of inefficient internal bureaucracy, including overly prescribed processes and complicated governance structures. Corporate management practice statements and instructions are cumbersome and inflexible. Substantial efficiencies could be realised by streamlining internal processes, systems and reporting to focus staff efforts on higher-value activities.

The overly prescribed approach to management has deskilled employee ability to exercise judgment and apply common sense. There is a view that staff lack support to step outside of process to make and commit to decisions. This is played out in the elevation of decision making and delay in responsiveness to providing technical advice. Staff need to be better equipped and supported to exercise judgement and manage risk so they can improve timeliness of decision making and providing advice to the community.

The efficacy of internal committees is mixed. These committees have proliferated as a way of sharing information across disparate work areas. Feedback suggests, however, that the balance needs to shift from sharing information to discussing matters of strategy, and that greater direction and support is required from the executive to ensure committees have, and are able to exercise, appropriate authority. The ATO may wish to consider reviewing and rationalising its internal committees so they:

- deliver intended outcomes and achieve a suitable return on investment
- have a strategic focus
- are not used in place of more suitable information sharing mechanisms
- are time-bound, for specific purposes.



### *ICT direction, prioritisation and agility*

The ATO delivers a large ICT agenda with constant pressure to meet government imperatives and service delivery expectations. Previously considered to be at the forefront of technology in the Australian Government, the ATO has now fallen behind other agencies. Internal and external stakeholders expressed frustration with ICT responsiveness and service offerings.

Internally, frustrations exist with the currency of some corporate systems and the latency in implementing incremental system changes (fixes and improvements). Examples of where the ATO is falling behind better practice include:

- a cumbersome, hard-to-navigate and out-of-date intranet
- the absence of an electronic records and document management system for ATO corporate records (noting that community tax records are carefully managed in central systems)
- ageing desktop software.

While internal interlocutors recognise the need to improve these systems, they all form part of an ICT back-log which the ATO is struggling to overcome.

Externally there is praise for technology-based initiatives the ATO has delivered in the past, but this type of progress appears to have stalled. Overwhelmingly, external feedback has suggested that technology service offerings have fallen behind contemporary practice and are not aligning with community expectations. These offerings range from the currency of the ATO website and ability to interact through portable devices through to a single point of access for the community. Comparisons have been made with international revenue collection agencies that have already achieved such advancements. The ability to reduce physical interaction with the community—for instance through natural systems or integrated technologies—would create considerable savings and help increase voluntary compliance.

The ICT budget is, however, heavily committed, with only 4 per cent available for discretionary work (that is, process improvement, internal efficiency and new service offerings to the community). This balance of resource allocation is currently hampering the ATO's ability to move forward and presents a risk that business will stall as service offerings fail to keep pace.

The ATO manages an active agenda of government-driven ICT work. Legislative imperatives are unlikely to diminish, so to find capacity to get ahead, the ATO must find efficiencies to improve the supply of ICT service. While the review is not positioned to comment on how to best identify efficiencies, it has been suggested to the review that savings can be made by improving technologies, decommissioning legacy applications and quarantining work on systems that are set to be superseded.

Currently, internal demand is captured in a forward work program which is developed through a bottom-up planning process. In addition, no regulation of new work is being proposed. This sees the ATO managing large, potentially disparate wish lists (that are subject to change) in a first-in, best-dressed fashion without consideration of overall business value. The review was provided with a report commissioned by the ATO that makes a number of recommendations on improvements that will help better manage internal demand.






The ATO has demonstrated commitment to improving ICT service delivery through the development of its ICT Strategy 2013–15 which aims to:

- better manage demand through a re-engineered ICT management framework to prioritise work from a whole-of-agency perspective, and on greatest business benefit
- improve supply by looking at the workforce it needs, major process redevelopment and breakthrough thinking to dramatically increase capacity, which supplies options such as new technologies and alternative ways of sourcing funding.

The ability to manage demand and increase supply must be accompanied by strong strategic ICT direction and leadership. ICT priorities must be clearly set and aligned with the ATO's longer-term strategy. Leadership must commit to ceasing work that will not provide benefit, and prioritise work that will provide the greatest benefit to the tax system (ATO and the community). As the government's fiscal environment continues to provide challenges and community expectations become more ambitious, a well thought out strategic ICT direction will be imperative for the ATO to achieve its transformational agenda and once again be at the forefront of electronic service offerings.

### Manage performance

Guidance Questions		<p>1 Is the organisation delivering against performance targets to ensure achievement of outcomes set out in the strategy and business plans?</p> <p>2 Does the organisation drive performance and strive for excellence across the organisation and delivery system in pursuit of strategic outcomes?</p> <p>3 Does the organisation have high-quality, timely and well-understood performance information, supported by analytical capability, which allows you to track and manage performance and risk across the delivery system?</p> <p>4 Does the organisation take action when not meeting (or not on target to meet) all of its key delivery objectives?</p>
Rating		Well placed

### Measures and reporting

The ATO has clearly aligned measures from its Portfolio Budget Statements to its annual report and business plans. Measures cascade from programs, to program outcomes, deliverables and key performance indicators. The ATO has 75 published measures, most of which focus on business-as-usual outputs, with a handful targeted at supporting business transformation.

A plethora of reporting is undertaken at business level, often with the need for manual intervention by staff to create reports, or to include information outside system-generated reports. Rationalisation and automation of reporting processes would increase efficiency, support data accuracy and ensure the organisation is focused on the analysis of priority measures.

A number of activities are aimed at streamlining organisational reporting, including:

1. an effectiveness review of measures, being led by the Compliance sub-plan
2. an executive performance report, requested by the executive
3. a prototype dashboard to draw on real-time data from across the organisation, being led by the Office of the Chief Knowledge Officer
4. a service standards dashboard as part of the service standards project, being led by the Corporate Relations business line.

As part of its effectiveness review, the ATO has produced a refined set of key performance indicators for the forthcoming Portfolio Budget Statement and plans to review its other organisational measures over time. The ATO's effectiveness work has not yet addressed some of the more challenging effectiveness questions, such as how to identify early gaps in revenue. While the Office of the Chief Knowledge Officer has drawn on strong analytics capability to develop its extensive prototype dashboard, more work is needed to develop the easily digestible features that would be expected of a mature dashboard. The service standards project underway has not yet progressed to a broader conversation on how the ATO could best leverage business data to provide meaningful feedback on how it is performing and progressing as a service agency.

While work is underway to streamline and simplify organisation reporting to support management decision making, the ATO needs to bring to fruition the range of initiatives to improve reporting and monitoring of its delivery performance. It may benefit from:

- developing a single organisational view on reporting methodologies, potentially by bringing together the ATO's extensive capacity into, or to be led by, a single business area directly accountable to the executive
- better integrating and rationalising intelligence, corporate governance, risk management, planning, measurement, and reporting processes.

The ATO may also benefit from improving how it presents analysis in reports, as the current approach provides the executive with a lot of data to analyse.

### *Risk management*

The ATO uses two enterprise risk models, its Enterprise Risk Management Framework which identifies risks and assigns treatments, and its Health of the System Assessments which identifies and tracks risks by work type and trends and is fed into the enterprise planning process through the Corporate Design Forum and Plenary Governance Forum. The ATO has also run Risk in Focus sessions with SES Band 2s to explore risk management issues in more detail and help embed greater concentration on risk management in the organisation's culture and support greater integration of risk management with business planning. The ATO may consider how to combine its two enterprise risk models and more closely integrate them into business planning.

The ATO's culture supports staff to avoid, rather than mitigate, risks. This increases bureaucracy, decreases productivity and elevates decision making to senior officers. To ensure risk is appropriately managed, the ATO may benefit from more clearly identifying organisational risk tolerances and processes that support the suitable devolution of decision making.

Many internal and external comments noted the high quality of the Compliance sub-plans' risk models. Some analysis suggested that while the ATO has become more transparent with its

compliance risk analyses approach in recent years, the community continues to ask for more and there is still a reluctance from the ATO to fully open up. Some perceptions are that, in respect of large businesses, the ATO's first response is to adopt an enforcement mentality and never admit to 'getting it wrong'. The organisation may need to do more to address these perceptions.

As already mentioned, for the ATO to improve its management of risk, significant priority is needed to build capacity in risk management among both staff and managers.

#### *Business controls*

Central agencies commented on the quality of the ATO's financial management. Internal comments noted the strength of the ATO's internal audit area and its proactive commitment to improving business performance. The ATO was also shortlisted for the 2011 and 2012 Business Continuity Institute's international awards for the high quality of its business continuity approach.



## 5. The agency's response

Over the past century the Australian Taxation Office (ATO) has successfully served the nation, but we recognise in today's rapidly changing global environment we need to do more if we are to keep pace with advancing technology and continue to deliver the service that the community rightly expects.

This review of our organisational capability is particularly opportune. We are at a point where we need to make changes that will better position us to move forward. In this context, findings from the review fit well with the broader transformational reform agenda I have begun that will shape and define our future direction.

The capability review report (the report) is realistic. It gives an impartial assessment and insightful analysis of how we are currently placed, and where we need to improve or shift our focus to meet future challenges. I am pleased the report cites our consistently strong performance in the day-to-day delivery of our core business of tax and superannuation administration and recognises some of our more significant achievements.

The backbone of our success is undoubtedly the collective commitment, dedication and motivation of our highly capable and hardworking staff. However, as the report points out, to be a high performing organisation of the future, we also need the right strategy, systems and processes that will build on our strengths.

Five broad priority areas that will help me drive the ATO of the future have been drawn to my attention in the report. I would like to make preliminary comments on each of these high-level priority areas.

### Developing a forward-looking enterprise-wide strategy

The report notes the ATO has worked hard in recent years to successfully develop and promote a corporate vision and strategic themes that are well understood by staff. However, while we are already taking steps to position ourselves for the future, I agree we also need to clearly set out our organisation's direction and how we will get there. An enterprise-wide ATO strategy describing our strategic shifts and the pathway to achieve them needs to be equally well understood.

The development of an overarching ATO strategy will provide the platform to actively shape and drive transformational change over the coming years as part of a broader program of strategic reforms we have started to put in place.

### Developing ICT efficiency and agility

Our ICT capability is a critical aspect of how we perform as an organisation. We are proud we have always successfully delivered a large non-discretionary ICT agenda to meet government imperatives and service delivery. However, I agree with the report's finding that our service technology has not kept pace with contemporary business practices or community expectations.

While our ICT capacity over the last decade has been largely directed to the need to redevelop our core transactional systems, major investment in these systems has positioned us to now focus on designing and implementing innovative business strategies and technology-enabled service solutions. To achieve the shifts and efficiencies needed to meet future challenges, we have already embarked on a program of work to better manage ICT demand and capacity.



### Building our future workforce

I welcome the report's finding that our workforce is professional and committed, and understands how our work impacts on the lives of all Australians. As an organisation we entrust our leaders and managers with responsibility for the successful delivery of our work program, and recognise that the skills they need to fulfil their important role are critical.

I agree with the report's finding that to better support and develop our people a greater focus is needed on non-technical capabilities such as leadership and management, communication and relationship skills. Work has already begun in this area. For example our highest level technical leaders are taking on broader leadership roles and we are renewing our leadership and management development program. However there is more to do to further build our people's skill base and experience.

The report identified a culture within the ATO of seeking to avoid, rather than appropriately manage, risk. I agree there is an opportunity to unlock the potential of our people and achieve better business outcomes by strengthening our risk management capabilities.

### Streamlining governance

While I am pleased the report found our business continuity planning and quality assurance processes are strong I recognise our governance structures are overly complex and would benefit from streamlining and simplification. The report made a number of suggestions that will help guide me in this regard.

Work has commenced on a strategic review of our internal administrative systems and approaches so we can deliver more effective and simplified governance practices that will support sound, evidence-based decision making.

### Improving external connectedness

As acknowledged by the review, our relationships across government and with the community are critically important. I have already instigated some reforms to the way we work and foreshadowed others. I have set in motion internal structural changes designed to increase our focus and efforts towards a 'solutions-based' approach to policy and law design while continuing to build our collaborative relationship with Treasury. This endeavour recognises that to achieve good tax policy outcomes for government and the community, it is essential to harness both policy and administrative expertise.

Consultation is vital as it helps ensure buy-in from stakeholders and a thorough examination of issues. I agree with the report's suggestion that we need to refresh our thinking and approach to consultation and feedback. I am currently reviewing our consultative arrangements to better position us to establish a more effective framework that will ensure we speak with the right people about the right issues in a timely way and then act on the feedback.

### Concluding comments

As I noted earlier in my response, this review has come at an opportune time for the ATO as we position ourselves for the future. We are at a pivotal moment where, as an organisation, we must embrace change and move forward or fall behind and risk our hard-earned reputation as a trusted and respected tax administration. For this reason, I accept and appreciate the report's content and findings.

I am buoyed by the support and commitment my leadership team has given the review. We see the capability review as a building block that will help us shape our future direction and drive the transformational changes needed to ensure the ATO is well placed to meet today's needs and tomorrow's challenges.

I would like to thank the Australian Public Service Commissioner, Stephen Sedgwick AO for providing such a high calibre team of senior reviewers and support staff. My personal thanks go to the senior reviewers: Dr Michael Keating, Mr Robert Griew and Ms Rachel Hunter for the balanced and measured way they applied their wealth of experience and expertise throughout the review.

Lastly, I am in no doubt that ATO staff will view the report as a positive and exciting opportunity for us to work together and successfully build on our strong foundations.

A handwritten signature in black ink, appearing to read 'Jordan', with a horizontal line underneath.

**Chris Jordan AO**  
**Commissioner of Taxation**

## 6. Abbreviations and acronyms

Abbreviation or acronym	Description
APS	Australian Public Service
APSC	Australian Public Service Commission
ATO	Australian Taxation Office
Executive	Secretary and deputy secretaries
ICT	Information and Communications Technology
L&D	learning and development
OECD	Organisation for Economic Co-operation and Development
SES	Senior Executive Service



