CAPABILITY REVIEW

Australian Customs and Border Protection Service

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

Review Report: May 2013

Australian Customs and Border Protection Service

Foreword

The 2010 report *Ahead of the Game: Blueprint for the Reform of Australian Government Administration* recommended that the Australian Public Service Commission undertake regular and systemic reviews to promote improved capability in key agencies and to assess the institutional capability of the service as a whole.

In 2011, the Australian Government began a full program of capability reviews of all departments and three major agencies.

On the occasion of this review, I would like to thank the Australian Customs and Border Protection Service (the agency) for its professional and enthusiastic participation. All staff who participated in interviews and workshops were generous with their time and displayed great passion for the work of protecting Australia's borders, in particular the newly appointed Chief Executive Officer, Michael Pezzullo, and his senior management team.

We recognise that the agency is about to embark on a significant change agenda as it transforms to a modern border agency able to confront the challenges of the border environment. These challenges are many and complex, including the processing of steadily increasing volumes of routine arrivals of passengers and goods for compliance and enforcement purposes, while facilitating the smooth flow of people and goods into and out of the country. The challenge of this increasing workload is further complicated by the tight fiscal environment and the added complexity of managing a significant additional workload occasioned by irregular maritime arrivals.

I believe this report is most timely, in that it provides the agency with an independent insight into its capabilities and a foundation on which to determine its capability development priorities in moving forward.

I would also like to thank Lieutenant General Mark Evans, AO DSC (Ret'd) the chair of the Senior Review Team, and the other senior members of the team, Ms Akiko Jackson, Ms Elizabeth Kelly and Dr Heather Smith. As with past reviews, the bringing together of such a high-calibre team has been of significant value to the review process and delivery of this report.

Stephen Sedgwick AO
Australian Public Service Commissioner

Context

The operational environment the Australian Customs and Border Protection Service (the agency) confronts in the 'border space' is continually evolving. New challenges bring added complexity to its operations. The agency is managing increased volumes of people and trade across Australia's borders. Transnational crime and international terrorism have become increasingly sophisticated.

To counter these challenges, the traditional view of the border is evolving. Rather than a geographical line around the country, the border is now seen as having spatial depth in front of and behind the physical border itself. Agencies with border responsibilities need to be able to operate within a whole-of-government framework that provides security within the border space. Within this framework the agency has specific responsibilities related to border interventions, law enforcement, compliance, and facilitating travel and trade.

In addition to external pressures, internally the agency also has a confluence of issues that have provided further stimulus for change. Despite recent operational successes, parts of the agency have recently been the focus of serious investigations related to issues of integrity and misconduct. The agency has also come under increasing political and public scrutiny. The Minister for Home Affairs has identified a pressing need for the agency to reform and has established the Customs Reform Board to identify key issues to be addressed.

A new Chief Executive Officer (CEO) has recently been appointed who has acknowledged the need, and feels empowered, to transform the agency to one which emphasises law enforcement through automation and re-skilling parts of its workforce. The CEO has established an internal Reform Taskforce, which is partnered with an external change agent, to effect the necessary change management strategy and action the findings of this capability review and the Customs Reform Board.

This review has focused on the agency's capability to deliver against future objectives. The review team has not engaged in the debate as to the future role of the agency in relation to other government departments or agencies, or to where its emphasis should lie.

Contents

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 Customs and Border Protection Service. It highlights the agency's internal management strengths and weaknesses 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 sharp and to take a high-level view of the strategic operations of the agency. They focus primarily on its senior leadership, but are informed by the views of its middle management, who attend a series of workshops, and an analysis of agency documentation and reports.

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

Figure 1—Model of Capability
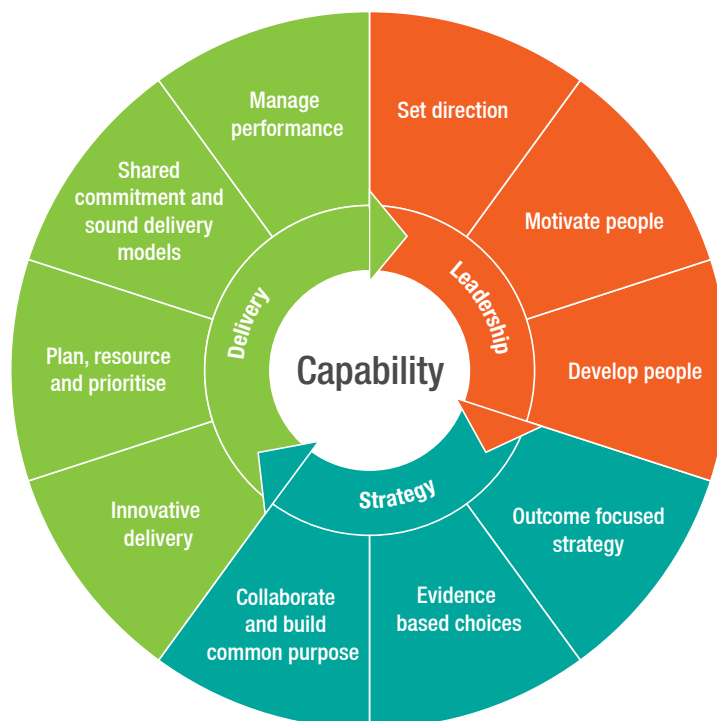
2. About the agency

The agency's mission is to protect the safety, security and commercial interests of Australians through border protection designed to support legitimate trade and travel and ensure collection of border-related revenue and trade statistics.

The agency also delivers a number of border services for other agencies. To do this, it works with an extensive range of stakeholders, including Australian Government and state and territory organisations, industry, international partners and the broader community.

The agency is one of Australia's oldest, originating before Federation when the six colonies were frequently engaged in border disputes. The Australian Customs Service was renamed the Australian Customs and Border Protection Service in 2008, following the inaugural National Security Statement, which recognised the important role the agency plays in contributing to national security issues through its presence in the passenger, cargo, maritime and international domains.

The border environment that the agency works in is challenging and complex and has continued to evolve over the past decade. During this time, the volume of trade, travel and civil maritime surveillance tasks have dramatically increased, travel routes and supply chains have become more complicated, and criminal networks have become more sophisticated, agile and innovative.

Each week, the agency:

- clears more than half a million international passengers and more than 270 ships
- inspects around 2,000 containers, almost 30,000 air cargo consignments and hundreds of thousands of letters and parcels
- conducts surveillance of nearly three million square nautical miles of Australia's maritime domain to combat multiple maritime threats.

In 2011–12, the agency made more than 400 drug seizures a week on average, with 3,500 kilograms of drugs and precursors detected. The agency also stopped more than 5,000 undeclared firearms, replicas, air guns, parts and accessories from entering Australia, and collected $7.9 billion in revenue on behalf of the Australian Government.

The agency employs more than 5,500 officers, located in Australia and internationally. Central Office is in Canberra, with other offices located in state and territory capital cities, 29 regional ports and eight international locations.

The focus of the agency's business model on frontline operations is seen through its structure, with more than 41% of the workforce employed as Customs Level 1 officers—Australian Public Service (APS) Level 3 equivalents. The workforce also has an average tenure of approximately 12 years.

The agency operates through two major programs with two non-aligned divisions (one a taskforce) reporting directly to the CEO Mr Michael Pezzullo (Figure 2).

Figure 2—High-level organisation structure
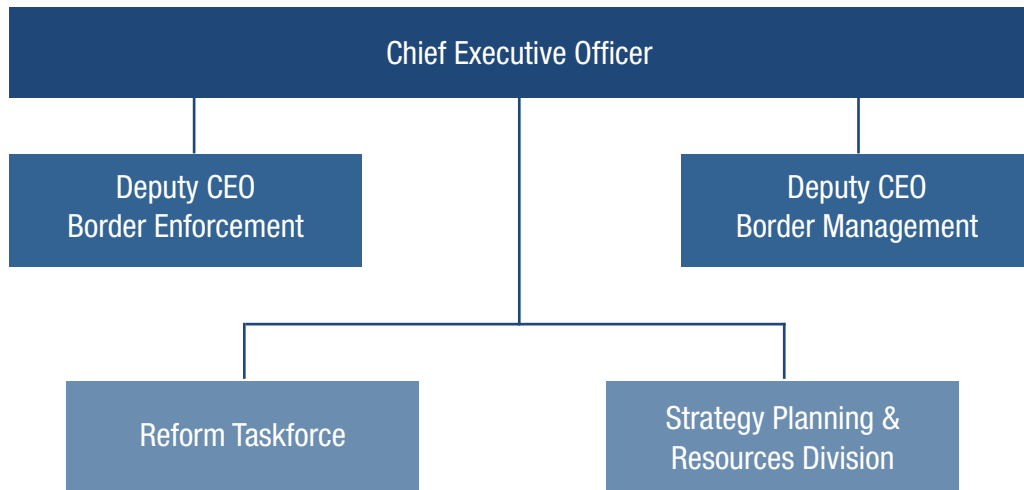
The multi-agency taskforce Border Protection Command also operates within the agency and reports to the Deputy CEO Border Enforcement, while also having accountability to the Department of Defence.

In 2012–13, the agency has departmental operating funding of $1,022 million. In addition, the agency has $64.97 million in departmental capital budget funding, and $59.68 million in capital funding for the acquisition of new *Cape Class* patrol vessels.

The agency, as set out in its annual plan, aspires to be:

- the community's trusted agent for border protection
- respected by industry for the support it gives to legitimate trade and travel
- valued as a partner by other law enforcement and regulatory agencies.

3. Summary assessment

Introduction

The agency has experienced a very demanding operational period over the last decade. During that time previous CEOs initiated changes in the agency resulting in the current operating model. This has provided a foundation from which further change can occur. Given the increasing tempo and complexity of the agency's operational environment, it is not, in its current form, well positioned to continue to perform effectively.

In recognition of these pressures the agency has initiated a strategic change program based on a transformational approach, the initial phases of which are already taking shape. The CEO is responsible for providing leadership to the agency and its people through this reform process. Considerable effort will need to be given to ensuring that the workforce understands the necessity for change and the agency's future vision. Considerable effort will also be needed to ensure the agency is engaged in conversation on the pathway to change.

The review team acknowledges that the agency has begun working on initiatives for change, building on strong points and mitigating against weaknesses. While transformation will take several years, the review team concludes that these key focus areas need early attention:

- **Leadership** is inconsistent across the agency. Robust leadership is key to guiding the agency into the future. Leadership that is visible, unified, responsive, self-aware, and provides clear direction is a fundamental requirement.

- **Workforce** is currently underdeveloped. It needs to be flexible and adaptive. Greater priority needs to be given to workforce planning, training and development.

- **Business model** is not fully effective in supporting the agency's operational activities. It should provide agility and align delivery capabilities.

- **Enabling information technology** (IT) fails to adequately support the agency's business model. It should serve business needs and support appropriate governance and effectiveness measurement.

The two most critical issues are: leadership throughout the agency and its workforce. The alignment of the agency to one team, operating with a clear vision, purpose and end state, a universally understood and agreed ethos and values, and a single overriding culture built on the foundations of professionalism and integrity, requires immediate action.

The agency today

The agency is a complex organisation. Its centre of gravity is clearly in its operational functions, a number of which are necessarily process driven. It is a 'doing', service delivery organisation with its strength in its ability to do its job across a number of domains day in and day out, 365 days of the year. The agency has gained praise from its stakeholders on its operational and tactical performance and its willingness to collaborate to achieve common objectives. It sees itself as a 'can do' organisation that can fix the immediate problem at hand, quickly and effectively.

The agency can be proud of its past achievements and how it has continued to perform its current tasks in a challenging environment. It is operationally resilient and collaborates well with stakeholders in the border space. There is an enormous level of experience and knowledge at the operational and tactical levels. The workforce is highly motivated, has a strong team culture, performs its routine functions well and is responsive to immediate and urgent challenges.

The agency is starting to position itself for the future. The Executive leadership understands the issues the agency faces. Work has already started to:

- establish the concept of a border continuum

- build a border management community and strategy

- adopt an intelligence-led risk-based approach

- further integrate the agency within the broader national security apparatus.

The underpinnings to enable this operational framework are less robust. Leadership is underdeveloped. The workforce has not been given the appropriate priority in terms of planning and development for the future. The business model is vulnerable in that organisational design, strategic planning, information and risk management, human resource policies and procedures, intelligence capability and enabling IT have not kept pace with the agency's changing and challenging environment. This is not sustainable. There is a clear need to modernise these capabilities so the agency can continue to effectively deliver against border management requirements into the future.

Realising the vision

The review team interprets the new CEO's vision for the agency as that of a unified, adaptive 21st Century law enforcement agency in the border space that is fit-for-purpose and achieves operational excellence through an organisational design that enables dexterity and agility. It will employ networked and integrated systems that support robust decision making through the provision of a holistic picture of intelligence, risk and effectiveness. Low-risk processes will be automated where possible and the workforce will be multi-disciplined in addressing emerging risks and business needs. The agency will lead a collaborative interagency approach in the border space to achieve a 'joined-up' effect, greater than the sum of individual stakeholder contributions. Where possible, it will exploit new technology advances in support of its business.

The law enforcement banner under which the agency has decided to move forward emphasises only one of the agency's responsibilities. It will be important during this change process that the correct balance be maintained across the agency's functions (inclusive of its trade facilitation and regulatory functions). There is an evident need for an underpinning narrative that is clear and relevant for the agency's workforce and its stakeholders. This narrative will help bind all business elements of the agency and provide a sense that it is operating as one team.

A robust change management strategy will be a critical aspect of the agency's journey. The success of transformation depends on the unity, commitment and capability of the workforce with all individuals understanding their roles. Laying the groundwork for change through a period of consultation and communication will be a beneficial first step.

Key focus areas

The agency's four key focus areas: leadership, workforce, business model and enabling IT, are discussed below.

Leadership

Any operational organisation, which has a large proportion of its workforce conducting daily tactical activities, depends on robust leadership at all levels. The agency's current organisational structure creates an environment where senior leadership can be seen as remote and where cultures clash, between the 'bureaucracy' in Canberra and 'operations' in the regions. Many sense that the agency operates with centralised decision making which does not empower subordinate leaders or connect strategic direction and tactical delivery. The strength of leadership across the agency is inconsistent, ranging from excellent to poor. While there is evidence of motivational leadership at various levels, some leaders seem to depend largely on a bureaucratic, impersonal and/or technical style and some seem to lack the leadership skills needed for an operational organisation. If deficiencies in leadership are not addressed early they will present as a key barrier to reform initiatives. Levels of authority, accountability and responsibility need to be defined and understood.

The successful transformation of the agency will rely greatly on the collective ability of all senior executives to engage with staff in: articulating the vision and defining the pathway for change; adopting a leadership style to meet the needs of the workforce; and leading staff cohesively through transformation. A participative leadership style is required that uses the language of 'we' rather than 'me', and 'you' rather than 'them'.

The complementarity of the Executive leadership is critical. The trinity of the CEO and two Deputies needs to incorporate the following skill sets—political and strategic acumen, strong operational judgment, administrative prowess and excellent communication and people skills. The team needs to ensure an appropriate balance between 'looking up' to ministers and external stakeholders and 'looking down' on the organisation (especially important in the next two years).

The Senior Executive Service (SES) cohort is also key to championing the transformation. The current strength of this cohort is variable and there is an opportunity for the agency to emphasise leadership development and performance metrics aligned to accountabilities, responsibilities and behaviours, as well as place value on taking a whole-of-agency approach. Enhanced training and development for all leaders would be beneficial in ensuring that the basic tenets of leadership and expectations of leaders are understood and applied.

Underlying any focus on leadership is internal communication. This is a key area in need of improvement. The agency depends a great deal on email which can result in important messages not being consistently received and understood. It would be beneficial for leaders to leverage multiple channels of communication (formal and informal) to convey key messages in short, sharp and easily digestible formats. Subordinate leaders should be empowered and be part of the process in communicating to staff.

The value of a highly visible Executive leadership, frequently visiting all areas of the agency over the next 12 months to communicate and reinforce messages in person cannot be underestimated.

Workforce

While the workforce is committed and loyal to the agency there is limited sense of 'one team' or a common culture or set of values that bind the geographically and functionally diverse workforce. In a few areas, ill-disciplined behaviours have developed where unprofessional conduct is accepted or overlooked and underperformance is not well managed. There is a case for the

agency to: establish a narrative that embraces the one-team concept; and develop from the bottom up a set of values embracing areas such as commitment, integrity, professionalism and teamwork, all of which should are aligned to the APS core values and bind the workforce together.

The workforce is conservative and, for an operational agency, it has a relatively mature age profile. While staff respect direct supervisors, they do not necessarily have respect for or trust in the higher levels of the agency. Retention is high and mobility low. More than 50% of the workforce work outside Canberra, in operational functions. Workloads appear high and there is a sense of a workforce under pressure, with resilience being put to the test. Knowledge of current operating procedures is sound; however, understanding or accepting the need for change to meet future needs is not universal. While the agency prides itself on its 'can-do' approach, it appears to be predominantly reactive in nature. Pockets of innovation exist, although much of the workforce environment is process driven and decision making is centralised, neither of which are conducive to fostering initiative or innovation.

The agency's people do not appear to be front and centre of its operational considerations. Workforce planning is underdeveloped, career management seems to be ad hoc, performance management is poor, and training and development seems to be inconsistent, generally not well managed and not given sufficient priority. The strategic leadership and the tactical workforce appear disconnected.

Key issues that need to be considered regarding the workforce are:

- inculcating an ethos, values and culture of 'one team'

- conducting more robust workforce planning and development of core competencies

- establishing a clear set of integrated human resources (HR) strategies

- establishing early engagement with stakeholders, including unions, in the change process

- reinforcing performance management, dealing with underperformance, and recognising excellence

- reviewing the current recruiting model

- providing consistent, whole-of-agency leadership development in which leadership expectations are made clear and to which leaders are held accountable

- establishing a career development and training model

- increasing geographical and functional mobility.

Business model

The term 'business model' can mean many things. The review team has focused on key issues such as organisational design, governance/decision-making processes, strategic planning, management of performance, information and risk, and the use of intelligence.

The current business model is based on functions rather than geography. The CEO has conveyed his intent for organisational redesign as part of the agency's transformation. Given the operational nature of the agency there is a case to consider an organisational design that enables:

- an integrated approach based on national coordination at the strategic level,

- centralisation of policy, governance and human capital strategies;

- a decentralised, more local approach to the delivery of services and conduct of operations.

The current business model—while providing good line of sight and consistency of delivery of business nationally—has inadvertently contributed to operations being conducted in functional silos. The decision-making process lacks agility and responsiveness. The agency, other than the CEO, appears unable to draw itself out of the issues of the day.

Current governance arrangements are not providing a suitable framework for good decision making. There is over reliance on multiple committees with duplication in functions and membership and overlapping mandates. The volume of papers for consideration is excessive with little distillation of complex issues thus consuming the senior leadership in the process. The agency needs an improved governance process that is structured for the core business of the agency and provides for clear direction, sound and timely decision making as well as functional and tiered representation. The review team notes that the CEO is addressing this issue with some urgency.

The agency's mantra of being 'intelligence-led risk-based' led the review team to explore its implication for the agency. The CEO has a clear picture of how he sees the intelligence capability supporting the agency and is already initiating changes in this area. Some aspects of the intelligence capability meet the agency's current needs, but looking to the future it needs to be up-skilled and professionalised, particularly with strategic and operational aspects. The review team was impressed with the quality and professionalism of some leaders in the intelligence area who see the need and pathway for future development. However, external stakeholders remained confused about the agency's role in the broader intelligence framework.

While those at operational and tactical business levels will argue they have a good sense of the risks involved in their areas of responsibility, the same cannot be said of the strategic risks faced by the agency. Enterprise risk management does not appear to have been well assessed and monitored. The level of risk tolerance is unclear; hence, it is difficult for the agency to have a sense of priority of various risks, resulting in every risk being treated equally and resources stretched. The process of assessing threats, identifying, prioritising, mitigating and monitoring risks, conducting strategic planning, allocating resources and measuring effectiveness are areas for improvement within the agency.

The agency's strategic planning, involving many documents, seems to lack the golden thread needed to link enterprise risks, whole-of-agency strategies and individual branch-level plans, through to projects and resourcing. This contributes to uncertainty on agency priorities, which in turn leads to 'patch protection' behaviour among senior management.

Enabling IT

As a modern operational organisation, the agency cannot be described as having networked or integrated systems. Additionally, it cannot be said that it fully exploits modern technology to support business needs. Business owners and supporting IT specialists have not aligned business needs and system capabilities. Much current supporting IT fails to adequately assist information flows, intelligence collection and analysis, business operational activities and business support functions. The agency's enterprise system architecture needs to be reconsidered in the context of the agency's future business model. Project management of IT initiatives is poor, and opportunities to modify business process to optimise system benefits are not taken.

Risks in this area lie in the agency's capacity to deal with the enormity of the change required to bring its systems up-to-date and aligned to an enterprise architecture that accurately integrates all aspects of the business. This will be particularly important as the agency becomes increasingly IT dependent under an intelligence-led approach and further automates its business processes. At the same time, sequencing of IT transformation needs to be closely aligned with the broader reform process.

Pathway to change

The agency is at the start of a significant change journey. Some change will need to be handled in quick time, while other change can be more methodical and evolutionary. Above all, changes should be balanced and measured. Ultimately change will be transformational and will require effective leadership characterised by high visibility, active communication, increased collaboration, trusted delegation and clear accountability. The two key pillars of this change, the review team believes, are the agency's leadership and workforce, with the vital link between the two being the agency's ethos, values and culture based on a 'one-team' approach. Quick wins can be achieved in these areas. If these changes are effective, the necessary reform of the business model and supporting systems will naturally follow. The risks in this venture should not be underestimated. A key risk to achieving much-needed transformation and capability enhancement will be realigning priorities and resourcing in a tight fiscal environment. In this respect the CEO will need to work closely within government, with partners and with stakeholders to deliver a modern border agency equipped to meet future challenges.

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 3.

Figure 3—Rating descriptions

	Strong	• Outstanding capability for future delivery in line with the model of capability. • Clear approach to monitoring and sustaining future capability with supporting evidence and metrics. • Evidence of learning and benchmarking against peers and other comparators.
	Well placed	• Capability gaps are identified and defined. • Is already making improvements in capability for current and future delivery, and is well placed to do so. • Is expected to improve further in the short term through practical actions that are planned or already underway.
	Development area	• Has weaknesses in capability for current and future delivery and/or has not identified all weaknesses and has no clear mechanism for doing so. • More action is required to close current capability gaps and deliver improvement over the medium term.
	Serious concerns	• Significant weaknesses in capability for current and future delivery that require urgent action. • Not well placed to address weaknesses in the short or medium term and needs additional action and support to secure effective delivery.

The review team's assessment of the Australian Customs and Border Protection Service capability is outlined in the tables below.

Leadership

Set direction	Development area
Motivate people	Development area
Develop people	Serious concern

Strategy

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

Delivery

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

4.1 Leadership summary

Set direction

- The CEO's vision for the agency involves significant transformation. Communicating this vision, supported by narrative that is inclusive and relevant to all staff will be essential in developing ownership of the transformation journey across the agency.

- SES focus on delivering individual outcomes and competing for resources, which takes priority over whole-of-agency collaboration and achievement of strategic outcomes.

- The agency would benefit from a 'one-team' approach to build collegiality, self-awareness and a culture of teamwork among the SES, focused on whole-of-agency outcomes.

- A transparent and inclusive change management approach is required with a focus on engagement and communication through multiple channels to ensure reasons for change are understood and embraced.

Motivate people

- The loyalty and commitment of the workforce in protecting Australia's borders is a significant strength.

- The Executive leadership recognises the need to engage more actively with staff to ensure intrinsic motivation is encouraged and sustained in an environment of fiscal restraint.

- Creating a unified culture with shared values, that crosses all divisions of the agency, is important in developing the 'one-team' mindset.

- The absence of suitable and consistent leadership behaviours by those in leadership positions requires immediate attention.

Develop people

- The workforce is technically skilled and experienced.

- Investment in technical training needs to be balanced with investment in other types of training, including leadership and management capabilities and development of key professional competencies.

- Workforce planning is underdeveloped, and a more sophisticated approach is required if the agency is to develop the flexible and adaptive workforce it needs.

- Performance management is inconsistent and underperformance generally not managed well.

- Roles, responsibilities and expectations of staff in leadership positions require early clarification and enforcement to help build accountability and professionalism.

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

Set direction

Guidance Questions		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?
		2 Does the leadership work effectively in a culture of teamwork, including working across internal boundaries, seeking out internal expertise, skills and experience?
		3 Does the leadership take tough decisions, see these through and show commitment to continuous improvement of delivery outcomes?
		4 Does the leadership lead and manage change effectively, addressing and overcoming resistance when it occurs?
Rating	⬤	Development area

The CEO is respected for his strategic perspective and drive. He has been with the agency since 2009, and understands where the agency needs to be to meet future border challenges. The CEO has a vision and established a Reform Taskforce to consult and develop a program to modernise the agency. A clear vision has not yet been fully communicated to the entire workforce, with the CEO awaiting the finalisation of inputs from this capability review and the Customs Reform Board. This has created a hiatus. Gaining buy-in across the entire workforce and external stakeholders for the Reform Program will be a challenge. Communicating a clear vision and narrative for the future, that is inclusive and relevant to all staff, is essential in developing ownership of the transformation journey across the agency.

There are mixed views on the collegiality, self-awareness and culture of teamwork among the SES. Without an enterprise approach, the focus on delivering individual outcomes and competing for resources is taking priority over whole-of-agency collaboration and achievement of strategic outcomes. This approach is not conducive to building staff morale and is suppressing opportunities for whole-of-agency change and innovation.

The agency has recognised that the organisational structure has contributed to a lack of internal collaboration. Changes to the structure introduced in April 2013 are designed to start addressing this issue. In addition, the CEO has a focus on instilling appropriate leadership behaviours and whole-of-agency thinking.

Important to the success of any change process is that the vision, narrative and journey to transformation need to be developed and owned by all those in leadership positions, particularly within the SES. But support across the SES for future change is variable. The review team found that while SES appear to understand the need for transformation, some are unsure of what it will actually involve and result in. Effort needs to be directed towards developing collegiality and improving dialogue among the SES and between the SES and the Executive leadership.

Internal communication as a whole is widely seen as an area requiring significant and immediate attention. The dependence on the use of email and the intranet (which on occasion includes lengthy and overly detailed messages) is not suitable for many staff who are not desk-based and who do not access computers during their shift work. A broader suite of communication

channels (formal and informal) should be considered, including more face-to-face briefings by leaders at all levels. This will also facilitate feedback opportunities.

Geographic location, shift work and rostering arrangements further complicate the flow of communications. Managers and supervisors often have few opportunities to provide regular corporate briefings and ensure agency-wide messages are delivered to all team members. That said, some areas have succeeded in regularly engaging frontline staff through regular team briefings (with talking points provided to team leaders in advance). It is important that communication difficulties with frontline staff be uniformly addressed as part of any revised communication strategy developed during the reform process.

The reform process will involve significant change over a prolonged period. Historically, change has not been implemented well within the agency (in the 2012 State of the Service employee census only 15% of respondents indicated change is managed well within the agency), and this presents as a significant risk to the reform process. The agency will benefit from an embedded change management approach that involves a comprehensive, transparent and inclusive approach to managing the transformation. In March 2013, the agency announced the engagement of a strategic partner for the reform program who should assist in bolstering the agency's change management capability.

Motivate people

Guidance Questions		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?
		2 Are the leadership visible, outward-looking role models communicating effectively and inspiring the respect, trust, loyalty and confidence of staff and stakeholders?
		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?
		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?
Rating	🟧	Development area

Staff dedication and commitment to their role in protecting Australia's border is widely regarded as a significant agency strength. This dedication is supported by strong loyalty of the workforce, which is directed at the agency and its purpose, rather than the senior leadership team. The leadership team tends to rely on the intrinsic motivation of individuals to continue the agency's momentum rather than promoting and encouraging the enthusiasm and professionalism of the workforce as a single team. As the tight fiscal environment continues and staff do more with less, reliance on intrinsic motivation presents a growing risk to the agency in maintaining a motivated workforce.

The agency does not have a single unifying culture, but rather a set of cultures aligned to the diverse business roles across trade facilitation, compliance and enforcement, and the compartmentalised way in which it has been operating. Within this environment, long average tenures, limited mobility, transactional and process-based roles, and a dispersed workforce have contributed to an 'entitlement culture' in some areas.

Close-knit sub-cultures, combined with poor leadership within some regions, have also led to inadequate understanding of the role and expectations of leaders (including supervisors and team leaders), resulting in poor discipline and lack of reinforcement of expected behaviours. This type of culture can present significant risks in terms of potential opportunities for fraud, misconduct and corruption. The agency acknowledges that culture and values are a fundamental development area as part of the reform process. The review team understands that the Customs Reform Board is specifically focusing on this area and its findings will assist the agency in addressing cultural and integrity related risks.

Currently, the agency has the APS Values as the exclusive agency-wide set of values. While a valuable framework, these values may not in themselves be sufficient to fulfil the needs of the agency given its operational characteristics and functions. There is a strong case for the agency to have a subordinate but aligned set of values to those of the broader APS. As an early step towards reform, a set of agency values needs to be developed, agreed to and owned by everyone in the agency.

The review team found the absence of suitable leadership behaviours modelled by those in leadership positions (for example, lack of whole-of-agency thinking) to be a common theme among internal and external stakeholders. Of particular note was that some staff who joined the agency laterally from external agencies or organisations have found it difficult to assimilate. Feedback indicates that external skills and abilities are not always highly valued or respected, with Customs technical expertise being respected above ability and other capability factors.

While there is evidence of motivational leadership at various levels, more than half of leaders seem to depend largely on bureaucratic, impersonal and/or technical style, with some demonstrating inadequate leadership skills for an operational organisation. Successful transformation of the agency will rely heavily on leadership style that meets the needs of the workforce. As such, a requirement during the transformation will be of a participative leadership style that uses the language of 'we' rather than 'me', and 'you' rather than 'them'.

The agency has recognised the need to ensure that appropriate professional leadership behaviours are displayed and modelled by leaders at all levels. In 2012, the agency rolled out the *Listen, Respect, Lead* program which involved workshops focusing on expected leadership behaviours of staff with supervisory responsibilities. While the program has been well received, there has been no evaluation yet of its lasting influence.

Self-awareness of SES appears to vary. The agency acknowledges that more focus needs to be given to the development of its leadership cohort to build the required leadership behaviours and provide outward-looking role models who communicate effectively and inspire the respect, trust, loyalty and confidence of staff and stakeholders. A balance will be required between 'looking up' to ministers and stakeholders and 'looking down' on the organisation (especially important during the first two years of the transformation).

Develop people

Guidance Questions		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?
		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?
		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?
		4 How do you plan to fill key capability gaps in the organisation and in the delivery system?
Rating	⬤	Serious concern

Developing the agency's people is an area of significant weakness in capability.

The review team recognises that the workforce is highly technically skilled and experienced, but this will not be sufficient to meet the challenges facing the agency. Technical training programs for staff in different work environments (for example, marine, cargo and passengers) assist in developing specific professional skills. However, the investment in technical training has not been balanced with investment in other types of training, including leadership and management capabilities. To develop the adaptive and flexible workforce it needs, the agency recognises the importance of improving workforce planning and career development that considers a balanced approach to training and cross-skilling. Identifying and standardising core competencies for each staff level and each business line, as well as reaching agreement at management level on sharing and re-allocating resources to meet workload peaks in each business line would also be desirable.

While the agency is delivering daily operational responsibilities with its current workforce, it would benefit from developing a medium-term workforce plan. While technically skilled, a number of gaps surround non-technical competencies and workforce management, including recruitment, career paths, training, individual competency development, mobility and succession planning. The CEO has flagged a need for clearer career paths for staff and structured training so officers can build competencies and rise through the ranks. This will require the agency to focus on a more sophisticated level of workforce planning. In terms of competencies, internal and external stakeholders have flagged leadership, intelligence and data analysis, project management, and policy development skills as areas for priority development.

A key leadership responsibility is training and developing leaders throughout the agency. Enhanced training and development for these leaders should be a high priority for the Executive leadership. A number of staff responsible for managing the behaviours of teams are not respected and do not self-identify as leaders. This cohort would benefit from greater emphasis on leadership and management responsibilities and clarification of the expectations of roles. This

needs to be supported by appropriate and timely competency based training from the agency and responsibility and accountability reinforced through sound performance management.

Performance management is inconsistent within the agency. Poor performance is not managed well. Some supervisors and managers are reluctant to have difficult conversations. They feel unsupported by the agency when they address underperformance and may be deterred from beginning the process for fear it may be perceived as bullying and/or harassment. This is due in part from a lack of understanding of the supporting administrative system and failure to apply it appropriately. The agency acknowledges the current issues and the need to enhance staff understanding of the importance and appropriateness of the performance management process. The agency recently reviewed its model and is piloting a new Performance Feedback and Recognition process, focusing on training, to develop managers' skills in providing ongoing feedback and leading different types of performance and development discussions.

The agency's Rewards and Recognition framework is seen to operate inconsistently across areas and relies on individual supervisors. Recognition for successful outcomes such as drug detections has become a recent focus of the CEO through Customs News and All Staff Messages. A strong motivator for the workforce would be increased focus on recognition and reward for excellence in individual and team performance in contributing to whole-of-agency outcomes.

Leadership behaviour is the focus of the *Listen, Respect, Lead* program the agency developed in 2012. A second wave of sessions will be delivered mid-2013 to ensure all staff in management and leadership levels attend. Ongoing refinement of the program and increased participation will continue to help develop expected leadership behaviours at all levels. To reinforce responsibilities and accountabilities of particular positions, the agency will also benefit from prioritising the roll-out of dedicated leadership and supervisory and management courses for the Customs level 2/3 (APS5/6) levels, such as the redeveloped *Leading People at the Frontline* course.

4.2 Strategy summary

Outcome-focused strategy

- The agency has produced a range of key planning documents under its Multi-Year Budget and Planning Framework, but lacks the golden thread needed to link strategy, plans and resources, which would make these documents more relevant and actionable for business areas.

- A strategic plan could assist stakeholders understand the agency's role and direction and address concerns about the impact for trade from a perceived shift in focus toward enforcement over trade facilitation.

- Developing an agency-wide view of risk will assist in prioritising resource decisions and understanding trade-offs.

- Skills and capability to drive strategy and policy are currently not sufficiently developed.

Evidence-based choices

- The agency has produced strategic outlook documents designed to inform discussion on future trends, however strategic policy options to address identified challenges are yet to be developed.

- A lack of structured business information and the disparate state of IT systems limits the ability to build a holistic agency-wide picture of emerging trends and current and future risks.

- Reviewing and learning from past experiences is not an embedded practice in most of the agency.

Collaborate and build common purpose

- With its extensive range of stakeholders, the agency is well positioned to lead collaboration and build common purpose with its partners to facilitate the movement of people and trade at the border.

- The agency's strong international collaborative practices are recognised and have been valuable in identifying and treating risk ahead of the border.

- Stakeholders across industry and government are seeking earlier consultation, especially on changes to established operational practices and agency priorities.

- There is no enterprise wide approach to relationship management across the agency, which has resulted in key-person dependent rather than agency-owned relationships with industry.

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

Outcome-focused strategy

Guidance Questions		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?
		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?
		3 Is the strategy kept up to date, seizing opportunities when circumstances change?
		4 Does the organisation work with political leadership to develop strategy and ensure appropriate trade-offs between priority outcomes?
Rating	🟧	Development area

In 2010, the agency developed a Multi-Year Budget and Planning Framework to transition planning and governance arrangements from an annual to multi-year cycle, and to focus on embedding an 'intelligence-led risk-based' approach. The framework received an honourable mention in the Comcover Awards for Excellence 2012. It provides the agency with a solid conceptual basis for planning, although there is recognition in the agency of the need to further develop the framework through the design of a strategic plan with a five-year outlook. This plan would assist the agency's planning processes by providing a clear overarching document that outlines the role and direction of the agency, and provides an anchor for subordinate planning activities.

To date, the agency has produced a range of key planning documents in the framework, including an annual threat assessment, risk plan, strategic planning guidance and annual plan. These documents are intended to 'cascade' and lead to the development of divisional and branch plans. Internally, there is a widely held view that these documents are overly complex, lack cohesion and the agency is not 'living the plans'. This view aligns with the agency's self-identified need to make the documents simpler, relevant and actionable for business lines. The review team also noted a need for greater alignment in current planning documents, including developing the missing links to other corporate strategies such as the information technology strategy and a workforce strategy. In further developing its planning approach the agency should seek to weave a golden thread through its planning documents, providing a clear line of sight for officers between their day-to-day business activities and the agency's strategic outcomes.

Work is underway in the agency to develop a risk plan for 2013–14, which will incorporate agency-wide risks, agree on the risk appetite, tolerance and monitoring plan, i.e. a shift from classification and reporting to management. This enhanced view of risk is fundamental if resources are to be prioritised and aligned to areas of highest risk (that is, an 'intelligence-led risk-based' approach).

In an ongoing tight fiscal environment, trade-offs will be required and a clear mechanism needs to be established to move resources in the event of changed risk levels. Applying a view of risk in resource decisions may assist in addressing stakeholders' reported desire for more transparent understanding of how the agency prioritises activities as a service provider. As the risk plan currently stands, the governance process for prioritisation of risks is unclear, although the appointment of an agency Chief Risk Officer in April 2013 will assist in this area.

Although reflected in a number of key plans, there is a lack of consistency and clarity around the use of the term 'intelligence-led risk-based'. The term variously describes the agency's operating model, its approach and is also used as a directive. A similar inconsistency is seen with the use of key planning terms across the agency, with several operational plans described as strategies. With the proposed development of a strategic plan, an enhanced approach to the use of planning terms may help clarify the role and priority of planning documents within the agency's corporate framework. It may also lead to a rationalisation of some strategies across areas, which currently focus on individual business lines rather than organisational functions and desired agency outcomes.

While there is a shared sense within the agency of its role to 'protect the border', the focus on activity measures does not provide a strong sense of effectiveness (that is, how protection is achieved). This may reflect the complexity of the agency's role, which is evident from the expectations of stakeholders. These expectations vary from the need to provide law enforcement, to collect revenue and to conduct trade facilitation. There is confusion among some internal and external stakeholders on where the emphasis will lie and on the implications for some traditional customs roles (for example, trade revenue collection). This is an area where a strategic plan could assist stakeholders understand the agency's role and direction into the future.

Reflecting the complexity of the agency's role, it is clear that the agency operates in a strategically challenging and demanding policy environment. The relationship between the CEO and the Minister is good, with the CEO having a clear view about the Minister's expectations of the agency. However, other government agencies have indicated they would appreciate a greater level of strategic interaction, before political engagement.

Although there is a view from stakeholders that the agency has stepped up in the area of strategic policy since taking on a broader border protection role in 2008, the skills and capability to drive strategy or policy remain low. Among government stakeholders, the agency is seen as lacking a sufficiently broad understanding of government priorities. Functional changes taking place within the agency in March and April 2013 are intended to effect greater focus on strategic policy engagement.

Evidence-based choices

Guidance Questions		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?
		2 Does the organisation ensure that vision and strategy are informed by sound use of timely evidence and analysis?
		3 Does the organisation identify future trends, plan for them and choose among the range of options available?
		4 Does the organisation evaluate and measure outcomes and ensure that lessons learned are fed back through the strategy process?
Rating	⬓	Development area

The agency has carried out work to understand its future environment, producing the *Strategic Outlook 2015* in 2008 and an update to this in 2009, along with coordinating the *Border Management Outlook 2020* across Government in 2010. In addition, the *Annual Plan 2012–13* identifies four areas of interest for future investment under a Strategic Change Initiative.

To date, strategic policy options to address identified future challenges have yet to be developed. However, the review team understands the agency is prioritising work to address this gap through the Reform Program which is exploring options to modernise business systems and processes. This work may also address the desire reported by industry stakeholders and government agencies to be engaged in more strategic discussions about the long-term and opportunities in the border space.

While the agency performs a range of roles for partner agencies, internally and externally, it is seen as needing to develop better systems to support evidence-based policy decisions. A current inhibitor to providing timely and consistent advice is a lack of structured business information and disparate IT systems. Inconsistent data standards have led to new systems being developed in separate business lines that collect and store the same information differently. This limits the ability to pool information to build a holistic picture across the agency for risk identification and intelligence purposes.

Similarly, the agency is seen by stakeholders as well placed to capture information for use by other government agencies, although stakeholders have limited visibility of what is available. Opportunities to support external stakeholders could be better harnessed through integrating business systems and skilled data analysts, thereby providing business intelligence on the effectiveness of actions and identifying emerging trends. One area where the agency has a model for successfully collating and interrogating data to identify improvements is through its Time Release Series. This annually published snapshot of cargo facilitation performance allows the agency to identify areas for joint examination and improvement with industry, and has been extended to include a study with New Zealand.

Industry stakeholders have indicated interest in helping the agency mitigate risks ahead of the border through analysis of its information holdings. However, stakeholders feel there is hesitancy or risk aversion for this idea, which is linked to constrained thinking outside the existing systems and processes (for example, risk profiling delivered by the Integrated Cargo System). Other agencies have explored, or are exploring, similar issues and a collaborative approach would assist the agency learn from the experiences of others and avoid pitfalls.

Reviewing and learning from past experience is not an embedded practice, with the agency often marshalling responses to address external evaluations as opposed to adopting proactive self-evaluation. This reactive approach aligns with the agency's strength of responding quickly; however, it points to a lack of planning and development to prevent foreseeable incidents from occurring.

Collaborate and build common purpose

Guidance Questions		1	Does the organisation work with others in government and beyond to develop strategy and policy collectively to address cross-cutting issues?
		2	Does the organisation involve partners and stakeholders from the earliest stages of policy development and learn from their experience?
		3	Does the organisation ensure the agency's strategies and policies are consistent with those of other agencies?
		4	Does the organisation develop and generate common ownership of the strategy with political leadership, delivery partners and citizens?
Rating			Well placed

The agency has an extensive range of stakeholders, including government, industry, the public and international partners and organisations, and has identified more than 300 regular stakeholders. It is well positioned to lead collaboration and build common purpose with its partners in the border space and with industry in the facilitation and movement of people and trade.

The agency is seen as having long and well-established relationships across industry and government. This extends internationally, where the agency is seen as a strong contributor on behalf of Australia to the World Customs Organisation and the Border 5 Countries. It has made a significant contribution to aligning international policies and standards and takes a lead role in the Asia Pacific through the Oceania Customs Organisation. The agency also runs a Customs International Executive Management Program for senior Customs personnel in the Asia Pacific region. International engagement is a valuable aspect of the agency's work ahead of the border to identify and treat risk.

Domestically, the agency has strong collaboration practices with partner agencies and stakeholders. It chairs the Border Management Group, focusing on collaboration with other border agencies and alignment of strategy in the border space. The agency is also a member of the Secretaries Committee on National Security and the Heads of Commonwealth Operational Law Enforcement Agencies group.

The majority of stakeholders report that engagement by the agency has improved over recent years, with the coordination of the response to people smuggling across government raised as an example. Industry has also reported a discernible shift in the agency becoming 'less bureaucratic' over recent years. However, some stakeholders have expressed frustration at a lack of early consultation on policy development.

The agency has committees and structures in place for consultation, with industry members often citing the effectiveness of the Industry Engagement Section. In addition, the agency has recently updated a number of memorandums of understanding, which have reportedly strengthened relationships and clarified accountabilities. The agency has also developed the Regulated Trade Risk Strategies, which aim to provide a consistent and transparent process

across permit issuing and policy agencies for prioritising and managing controls at the border. While this work was recognised as a solid framework by the Australian National Audit Office in a 2011 audit, to date very few Shared Responsibility Agreements have been developed with agencies.

While consultation is taking place, stakeholders across industry and government are seeking earlier engagement on changes to established operational practices and more transparent communication of how the agency prioritises activities as a service provider. Clear, early and structured communication may address this need, for example, early engagement with stakeholders to address concerns around the carriage of firearms by officers at new or different locations. These concerns may also reflect that engagement across the agency tends to be business-line specific, with little enterprise-wide management of stakeholders (such as through a business coordination unit and a formal stakeholder engagement and communication strategy).

In addition to earlier engagement, stakeholders also report a desire for deeper engagement and sharing of information. In particular, some agencies are seeking more effective and meaningful collaboration. This may reflect that the agency's strategic and policy role across government is unclear, and as such, expectations vary. In some instances, the agency is seen as an operational agency and service provider for policy agencies. In other instances, the agency is seen to have a lead or policy role, for example, with the control of laser pointers at the border where there is no other policy owner. In addition, it is the only government agency to develop and prepare its own legislation. Given the small size of its strategic and policy areas, enhanced engagement with the Attorney-General's Department as portfolio lead may increase the agency's capability to contribute in a deeper and more engaged manner across government.

Relationships with stakeholders are reported as the strongest at an operational level, with officers seen as having strong interpersonal skills and experience. However, relationships are seen as predominantly key-person dependent, rather than agency-owned. The agency would benefit from a more formal and structured approach to external relationship management.

4.3 Delivery summary

Innovative delivery

- The agency has implemented a number of innovative technology improvements, including the introduction of SmartGate for processing international arrivals.

- Broader consideration of innovation that includes adapting and improving processes, systems and structures may lead to increased efficiencies.

- Encouraging and celebrating innovating thinking could be aided through a formal innovation framework.

Plan, resource and prioritise

- Divisional and branch planning has improved during the 2012–13 business planning cycle, however, these plans are not used consistently across the agency as a performance monitoring tool.

- Financial management of Portfolio, Program and Project Management was assessed as sound under P3M3 in 2012. However, there is no clear strategic alignment against which to rank priorities.

- The agency's project management framework is viewed as overly complex and process driven and project management skills vary significantly across the agency.

- The lack of progress in developing and finalising a business-enterprise architecture inhibits the ability to align IT investment to business needs and capabilities.

Shared commitment and sound delivery models

- Current governance arrangements and related committee structures are overly complex and lack effectiveness.

- The current business model, while providing an improved line of sight nationally, has contributed to functional silos.

- The agency systems appear systemically robust with no severe outages; however given their age the current state of play is not sustainable without early renewal.

- Proactive communication of the agency's intelligence role to partner agencies and how it may evolve over time will be beneficial in addressing concerns over potential duplication of effort.

Manage performance

- The agency's performance targets focus on quantitative data rather than outcomes, inhibiting the ability to measure effectiveness and evaluate program success.

- Enterprise risk management is underdeveloped, limiting the agency's ability to prioritise and manage key strategic risks.

- The inability of current IT systems to provide performance-related data hinders the availability of timely information and analysis in support of organisational performance management.

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

Innovative delivery

Guidance Questions		1 Does the organisation have the structures, people capacity and enabling systems required to support appropriate innovation and manage it effectively?
		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?
		3 Is innovation explicitly linked to core business, underpinned by a coherent innovation strategy and an effective approach towards risk management?
		4 Does the organisation evaluate the success and added value of innovation, using the results to make resource prioritisation decisions and inform future innovation?
Rating	🟧	Development area

The agency has been recognised for introducing a number of innovative initiatives to facilitate improved work practices. Examples include the SmartGate system deployed for arriving air passengers, the Enhanced Passenger Assessment and Clearance System, which strengthens the agency's traveller risk assessment and intervention capabilities, and the Integrated Cargo System, which features sophisticated risk management technology to help the agency target high-risk cargo and ensure the swift movement of low-risk freight. The agency has also been recognised for its work on the Australian Maritime Identification System, designed to improve Australia's ability to fuse dispersed data in order to identify threats and maximise the time frame for response. This project received a commendation in the 2008 Prime Minister's Program Management Awards and was recognised as the National IT Project of the Year in the Australian Institute of Project Managers 2009 awards. The agency's detector dog initiative was also recognised by the Australian National Audit Office in its *Innovation in the Public Sector: Enabling Better Performance, Driving New Directions, Better Practice Guide 2009*.

Past examples of innovation cited by the agency to the review team have largely focused on technology improvements. Innovation encompasses more than automating existing processes. The recent State of the Service employee census results indicate that only one-third of agency staff consider the agency encourages innovation and development of new ideas. The current operating environment and fiscal constraints have drawn the agency into a reactive cycle, which affects the opportunity to encourage and nurture innovation.

The agency would benefit from a broader, more systemic framework for innovation that includes engaging peers (inside and outside of government) to adapt and improve policies, systems and structures. Innovations of this nature, which can help improve efficiencies and mitigate risk, are not generally constrained by a need for large financial investments. The agency's development of a Cargo Intervention Strategy and a risk based first port boarding strategy are examples of this type of policy-related innovation. The review team noted that the agency is working on the Traveller Processing of the Future project, and has identified an end state that would only require intervention when the passenger is of interest. The agency's Executive leadership acknowledges that this innovative thinking needs to be encouraged and recognised where it occurs.

The review team also notes that a clearly understood and expressed risk framework would provide staff with an enhanced understanding of where innovation may be most needed to address the more significant risks impacting the agency's business.

Plan, resource and prioritise

Guidance Questions		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?
		2 Are delivery plans robust, consistent and aligned with the strategy? Taken together will they effectively deliver all of the strategic outcomes?
		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?
		4 Are delivery plans and programs effectively managed and regularly reviewed?
Rating	🟧	Development area

As part of the agency's Multi-Year Planning and Budgetary Framework, the agency develops divisional and branch plans. The content of these plans is improving with the new 2012–13 template. It links to the agency priorities outlined in the annual plan and key performance indicators included in the Portfolio Budget Statement. This improvement is not, however, balanced with a widespread use of these documents to link delivery with strategy and provide a full organisational picture of where they fit. Some plans are completed more as a compliance exercise, as opposed to a regular performance monitoring tool and guide to strategic outcome delivery.

The agency has identified that while its planning processes have improved, they are not mature. The agency has nine business lines. It would benefit from an integrated approach to its planning to ensure effective delivery across divisions against clear strategic outcomes, as well as greater understanding and flexibility of horizontal resource management across business lines for the benefit of the agency as a whole.

Financial management of Portfolio, Program and Project Management was assessed as sound in the 2012 P3M3 assessment (with a score of 4). Additionally, an activity-based model is used to assist in understanding how the budget process links with business activities. However, there is no structural link between the finance managers in divisions and the Finance Branch. Budgets are allocated and the divisions manage finances autonomously within the constraints of their allocation. Greater transparency of divisional spending may present opportunities for agency efficiencies.

The Investment Review Committee has been established to recommend capital investment priorities to the Executive team. However, there are mixed views on its effectiveness. Prioritisation is difficult due to differing needs of the various business lines, with the more visible operational areas tending to take precedence for capital expenditure. The lack of a strategic plan contributes to this as there is no strategic alignment against which to rank priorities. Prioritisation could be less complex once a strategic plan is developed based on an agency-wide risk assessment and consideration of workforce capabilities.

While the agency is recognised as being operationally agile, sustainability is an increasing concern and there is general recognition that the agency cannot continue to operate in its current form given present resource constraints. The agency is not in a unique position in this respect.

The agency's project management framework is aligned to its standard project management practice (for example, Prince2), but adherence to the framework is mixed. It is seen by many as overly complex and process driven rather than as a discipline that can help the agency be more efficient and effective in project delivery. Varying project management skills also hinder the ability of the agency to deliver projects on time and within budget. Past outsourcing of system development and related project management has also contributed to inhibiting the accumulation of organisational knowledge and project management experience, and missed opportunities to optimise systems across the agency.

Within the agency 70% of projects have overruns in time and money, demonstrating that project management is not effective. This is particularly so with IT projects. In recognition of this, following internal and external audit findings, the agency is taking steps to improve its project management and project assurance and is encouraged to continue to do so. Additionally, the agency's management of contracts is seen as more of an administrative management requirement, as opposed to a quality management requirement. Given the value of contracts, particularly large IT-related contracts, the agency would benefit from reviewing and enhancing its approach in this area.

The agency's IT capability has moved through different models, from complete outsourcing in 2003 to rebuilding internal capability in 2007–08. Many IT staff are therefore new to the agency's IT area. Also, funding has been tight, which limits permanent recruitment. Improvements to IT governance have recently occurred following several reviews, with an IT Steering Committee recently being established. However, a capability gap remains in the agency's ability to determine priorities given the lack of progress in developing and finalising a business enterprise architecture that is owned and driven by the Executive.

There is evidence to suggest that a lack of holistic understanding of business needs with IT capabilities has led to unsatisfactory delivery of IT projects and systems. Integrated Cargo System and the Customs Managing People and Self Service (COMPASS) were cited as two significant examples of poor management of large projects where delivery was problematic and business expectations were not fully met. The agency would benefit from enhanced working relationships between business owners and ICT staff to first develop an enterprise-wide IT architecture that reflects the overall agency business strategy before IT projects can be prioritised and aligned to business needs and capabilities. The recently announced structural changes creating a new Chief Technology Officer (SES 2) and placing information management under the new National Director Intelligence (SES 2) will help address this need.

Shared commitment and sound delivery models

Guidance Questions		
		1 Does the organisation have clear and well understood delivery models which will deliver the agency's strategic outcomes across boundaries?
		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?
		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?
		4 Does the organisation ensure the effectiveness of delivery agents?
Rating		Development area

The agency's governance arrangements and related committee structure do not form a suitable framework for good decision making. While the agency has the appropriate governance frameworks in place—Audit Committee, annual plans, a Financial Risk Management Framework and a Fraud Prevention Framework—these are not necessarily effective. Processes are seen as overly complex and too administratively time consuming. A complex committee structure further adds to inefficiency. The volume of papers for consideration is excessive with little distillation of complex issues. This consumes senior leaders in process. Several committees also have similar memberships and report to each other, with the same people considering the same issues. Many committees are described as 'information sharing forums' as opposed to entities helping to prioritise and enable decision making. Improved governance will be vital for the agency going forward and the agency would benefit from giving this area greater prominence in its organisational design and operations.

The business delivery model provides the agency with an improved national picture of its business lines than was available under its previous regional operating model. This has also addressed the previous 'fiefdoms' that developed under the former regional model and provides greater consistency across the regions. The national model has, however, resulted in functional silos, making it difficult to form an agency-wide view of activity in individual regions. Also, this approach does not support the networked inter-agency approach that is vital to conducting operations in the border space. A greater requirement for flexibility in resource deployment and communication across operational areas will require enhanced local command with a view to operating regions as an integrated resource base. An integrated model, incorporating centralised policy making and decentralised operational decision making, which clearly empowers leadership and defines where accountability and responsibility rest in the organisation, should be considered. Liaison with other government departments with national operating models may be of assistance in learning from similar experiences.

As mentioned in the planning, resourcing and prioritisation section of this report, poor IT system alignment to delivery is a significant issue across the agency. Both internal staff and external stakeholders express concerns that the agency's systems have suffered from funding cuts and a focus on maintaining enforcement activities. While the agency's systems appear systemically robust with no severe outages, the current state of play is unlikely to be sustainable without renewal of key systems in the near to mid-term.

The agency's IT expenditure is lean when compared to similar operational organisations, particularly given its operational reliance on IT. The agency devotes approximately 15% of its budget to IT, compared to similar agencies that devote up to 22%. This relatively low level of IT expenditure correlates with IT reportedly being understaffed for what is needed to support the agency's IT business-as-usual systems. Approximately 35 developers maintain 40 applications, with significant effort directed at supporting the larger key systems.

The disparate nature of current IT systems also means that information is stored and analysed differently in different areas and under different systems, with 'no single point of truth'. The consensus is that the agency does not have the information management structure or systems needed to enable it to be truly intelligence-led. Effective data management will be integral to the agency's success with both policy development and business delivery. In this respect a key priority should be the development of an enterprise-wide planning approach to enhancing data management and knowledge sharing, to provide the agency with modern systems that support day-to-day business processes and decision making.

Enhanced information management would assist the agency given that it requires actionable intelligence to inform decision making from the tactical, operational and strategic perspectives in respect of border protection and in support of trade and compliance. The agency has effectively led a whole-of-government approach to tactical and operational intelligence on people smuggling. By working with other national security agencies and better aligning intelligence data systems, it should also be possible for the agency to contribute to a better strategic picture of border issues and help shape the border environment. Some stakeholders questioned the intelligence capability of the agency and see the need for it to focus on higher-level strategic intelligence as opposed to potentially duplicating what other agencies do. The agency would therefore benefit from proactively communicating its current intelligence role and how it may evolve over time.

Manage performance

Guidance Questions		1 Is the organisation delivering against performance targets to ensure achievement of outcomes set out in the strategy and business plans?
		2 Does the organisation drive performance and strive for excellence across the organisation and delivery system in pursuit of strategic outcomes?
		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?
		4 Does the organisation take action when not meeting (or not on target to meet) all of its key delivery objectives?
Rating	🟠	Development area

The agency has performance targets in its Portfolio Budget Statement, however most of these are quantitative measures of effort not measures of effectiveness and quality. This drives a culture of meeting statistical targets of work completed (for example, number of people processed and containers inspected). It does not drive a culture of measuring effectiveness of outcomes. While the agency can say it meets its targets, it cannot evaluate the success of its programs or consider where improvements may be necessary. The agency would benefit from exploring (together with government) revised key performance indicators to focus them on measuring effectiveness rather than focusing on outputs.

The agency's P3M3 rating in 2012 was 2/2/2, and it has developed a five-year capability plan to raise the rating to at least 3/3/3 which aligns to the average expectation for government departments. The capability plan involves improving program management, the agency's realisation of benefits, and resource allocation to programs and projects. The agency is encouraged to review the plan taking into account this review's observations.

Self-evaluation across the agency has decreased in past years as fiscal constraints have seen the agency focus more on doing and less on verifying the quality of what is done. There appears to be a reliance on others, through audit and external reviews, to identify issues rather than through self-review.

The agency's approach to risk management is seen as a work in progress. It is reasonably embedded in a tactical sense but requires a whole-of-agency perspective to identify top strategic risks. There is general agreement that the agency has a way to go in developing its enterprise risk approach, prioritising its risks and establishing an effective process to monitor and escalate issues as required. Risk also appears to be heavily biased towards the criminality side of the agency's work, not the regulatory and facilitation side. While some areas see the use of intelligence and risk-based assessments as benefiting their operational roles (Border Protection Command and Sea Cargo Operations), others on the trade and passenger side are worried the shift of focus to irregular maritime arrivals and drugs has opened increased risk in the regulatory and compliance areas.

While financial management is sound, many interviewees commented that more consideration needs to be given to the increasing delivery risks facing business lines and the need to plan, resource and prioritise accordingly. Additionally, some agency assets have no longevity in their contracts. For example, the ACV *Triton* and ACV *Ocean Protector* boats are only funded for short-term periods, with no ongoing operational funding. While the agency has a sound approach to its maritime strategic planning, the need to address initial capital and ongoing operational requirement to ensure sustainability of some functions will remain an increasing challenge for the agency and partner agencies to maintain the expected level of border protection.

Consistent with the theme of poor IT systems, almost everyone interviewed commented on the inability of the agency's IT systems to contribute to organisational performance management. Many systems are more than 10 years old and do not support work and performance management requirements. External partners indicated similar concerns over the agency systems' inability to provide the data they require for their own policy development and business planning. Future planning and development of systems must include broader agency considerations and interdependencies, and not simply focus on a specific business need in isolation.

The key risks for the agency in maintaining its performance are seen by many staff and stakeholders as the resourcing constraints, and the robustness of current business capability (particularly resourcing and IT systems) which are not up to mitigating the risks arising from reduced resources against increasing workloads.

5. The agency's response

The Australian Customs and Border Protection Service (the Service) welcomes the report of the Capability Review (the Review) and the opportunity it presents to contribute to our reform programme.

The Service faces a very challenging future border environment, with significant increases in international trade and travel volumes, greater complexity in cargo supply chains and passenger travel routes, and growing sophistication of serious and organised crime. The Service has also recently faced events that make it clear organised crime syndicates are attempting to infiltrate and corrupt public organisations and officials as part of their business models.

These challenges highlight the need for the Service to reform. Many aspects of our current operating model (including legislation, structures, systems, workforce capability and culture) are not suited or able to be adapted to meet the expectations and requirements of a 21st Century customs and border protection service. New capabilities are needed so that the Service can continue to deliver effective community and border protection outcomes into the future. Findings from the Review will assist us identify these capabilities, along with advice from the Customs Reform Board which has been established to provide external review of the reform programme.

The Review has identified a number of areas where we are doing well, in addition to areas where improvement is required. I particularly welcome acknowledgment in the Review that our officers are a key strength of the Service, and their commitment and motivation is important to achieving our role protecting the Australian community. I recognise that to support this, the Service requires a stronger people framework, including structures, policies and procedures to support our people to develop and excel. This will be a key focus area for our reform programme going forward.

Leadership is another key area we will continue to focus on. Critical to improving our leadership is a vision for the Service's future that is clearly understood by our officers and supported by a strong communication framework. The Service will also continue to roll out the *Listen Respect Lead* program, which is an important step in building a better workplace through positive staff engagement and generating a shared understanding and commitment to the Service's goals.

We have already taken several steps towards reforming the Service. A Reform Taskforce was established in early 2013 to ensure a comprehensive and coordinated approach is applied to all reform initiatives. In the last year we have focused on implementing additional robust integrity and professional standards measures including integrity testing of officers suspected of corrupt conduct, mandatory reporting of misconduct or corrupt activity, and drug and alcohol testing. A number of initiatives to modernise our systems and define our operating model are also being progressed under our reform programme. Many of these initiatives are aligned with findings from the Review, including introducing more agility into our operating model and improving systems and information technology to support our people and the services we deliver.

I wish to thank the Australian Public Service Commission and the senior review team, Lieutenant General Mark Evans AO DSC (Ret'd), Ms Akiko Jackson, Ms Elizabeth Kelly and Dr Heather Smith, for bringing their expertise and experience to the Review.

The work we have commenced to build our capability, and which will continue under the reform programme, will ensure that our people are better supported to meet future challenges and we are better able to serve the Australian public.

Michael Pezzullo
Chief Executive Officer, Australian Customs and Border Protection Service

6. Abbreviations and acronyms

Abbreviation or acronym	Description
AMIS	Australian Maritime Identification System
APS	Australian Public Service
CEO	Chief Executive Officer
EPAC	Enhanced Passenger Assessment and Clearance System
Executive	CEO and Deputy CEOs
ICS	Integrated Cargo System
IRC	Investment Review Committee
IT	Information Technology
KPI	Key Performance Indicator
PBS	Portfolio Budget Statement
SES	Senior Executive Service