

ARCHITECTURAL ENGINEERS

A Peer Review of the Inland Revenue's Policy Making Function

October 2000

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We were appointed as part of the *Modernising Government* programme to undertake a peer review of the Inland Revenue, using our external perspectives to look at the Revenue's policy making function.

We carried out our review at the end of September, and presented our findings to the Inland Revenue Board early in October. This report details our full analysis and conclusions.

Wherever we went, we were impressed by the quality and commitment of the staff we saw. We hope that this peer review proves of value to their continuing work.

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Introduction

1. Our Terms of Reference were to:
 - consider the extent to which existing ways of working are making a positive contribution to the Department's aim of providing high quality policy advice to Ministers;
 - analyse the effectiveness of the Department's relationships with key stakeholders in the policy development process;
 - contribute toward policy skills development and learning within the Revenue, enabling the competencies set out in the Professional Policy Making Model to be developed across the policy making function;
 - identify good practice that can be shared more widely across Government.

Our evidence base

2. We carried out our review at the end of September. We conducted it mostly through interviews with senior management, with a broad cross - section of other staff working on policy, with key external stakeholders, with one of the special advisers and with the Paymaster General. In all we met over 100 people. We are very grateful to all of them for their input. To preserve confidentiality we have not attributed any evidence to the individuals or groups from whom we received it.
3. We also had the advantage of seeing two previous internal reports on policy making and analytical support.
4. The peer review process has considerable strengths. But it also has limitations. Our review took place over a period of only four days. Although we tried wherever possible to cross-check the perceptions of one interviewee against those of others, the process inevitably falls well short of really hard-edged gathering of evidence. A lot of what follows is inevitably subjective. Some may also reflect our own prejudices.

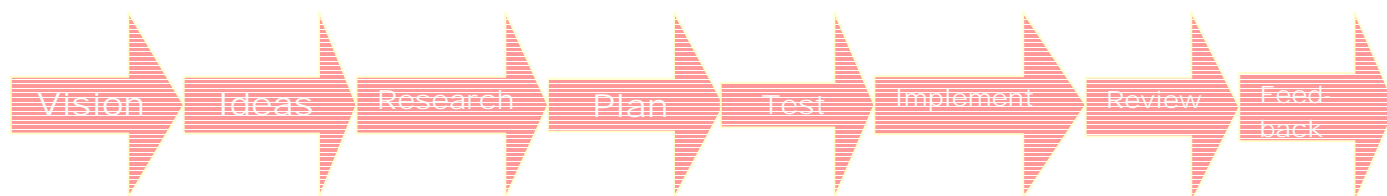
5. We were also conscious that we were looking at the Revenue at a time of change. There is a risk that some of the things we were told were about the Revenue as it may have been in the past, not as it is now.

Strengths

6. It is inevitable in reviews of this kind that the focus is primarily on things that could be done better. So it is worth recording that we regard the Inland Revenue as having some real strengths in the way it develops and implements policy. In particular:
 - i) we were impressed by the quality and dedication of many of the staff we met. We were also told by many of the external stakeholders that even if they had criticisms to impart, they still respected the Revenue's expertise, professionalism and integrity;
 - ii) we found a lot of recognition among staff of the need for change;
 - iii) we saw much evidence of the traditional Inland Revenue virtue of knowledge in depth on particular subjects; and
 - iv) we were impressed by the reputation the Revenue have for effective implementation once policy had been set.
7. At its best, the policy making function in the Inland Revenue works very well. But it does not always meet the high standards to which it aspires. The rest of this report concentrates on those areas which in our view require attention. We were encouraged that when we reported back to the Revenue Board we said little that seemed to come as a complete surprise.

Areas to be looked at

8. We found it useful in thinking about the Revenue's policy making function to reduce the Cabinet Office's vision of professional policy making to the model shown below.



We asked ourselves which of the steps in the model were of most importance to what the Revenue did, and which were the things they did best and worst. On this basis we identified six areas in particular to which we think the Inland Revenue Board could, with advantage, give further attention:

- i) The analytical base and the use made of it;
- ii) The approach to consultation;
- iii) the ways in which links are made between different parts of the tax system and in which cross cutting issues are approached;
- iv) the relationship with the Treasury;
- v) the Department's approach to growing and supporting the staff it needs to deliver its objectives;
- vi) consistency of best practice, and the processes used to support it.

Analysis

9. In any department good analysis is, or should be, central to:
 - i) the development of policy objectives;
 - ii) the development of policy proposals; and
 - iii) the evaluation of policy outcomes.

10. By good analysis we do not mean simply the availability of high quality statistics and distributional analyses, important though those are. To be truly effective the Revenue needs a good understanding of the way in which individuals and organisations in different parts of the economy behave in response to the incentives and disincentives provided by the tax system; and they need to have the ability to evaluate what happens on the ground and how that compares with the original policy intention. This is even more important now that with the extension of tax credits the Revenue has, in effect, become a social department as well as an economic one, and also wishes to be an enabling department (meaning, amongst other things, encouraging enterprise and work) as well as a regulatory one.

11. We were told of some good analytical work and of a number of moves to strengthen the Revenue's analytical capacity, which we welcomed. But we were left with the overall impression that even now high quality analysis is not as common, nor as highly valued, as we believe it should be. This is probably the most important conclusion of our review.

12. Particular points include the following:
 - i) we were not persuaded that sufficient attention is being paid to the training needs of people working on policy in terms of economics and numeracy;
 - ii) with some honourable exceptions, there is little evidence of a culture of post implementation review;

- iii) we were surprised by the lack of any equivalent in the business tax area of the personal tax and benefit model.
 - iv) we were told that the Department was getting much better at making use of the information which exists in the operational offices about what was happening on the ground. We were also told that worked best in the singleton offices dealing with oil taxation, stamp duty and so on. Elsewhere, the process still seems to have some way to go;
 - v) we were told that the analysts in the analytical services division were often insufficiently involved in developing tax policy, partly because of pressure of work.
13. In relation to the last point we encountered some concern about the recent move of the Analytical Services Division out of the Policy and Technical Directorate to the Directorate which deals with corporate services. We understand that this was done in order to emphasise that the analytical branch were working in support of the whole organisation, not just policy. Some Revenue staff, however, appear to have seen it as a downgrading of the function and a weakening of the links to policy.
14. We applaud the effort the Revenue Board are making to improve analytical capacity. But we were not convinced that they have yet gone far enough. We suggest they may want to consider the appointment of a champion of analysis at Board level, to whom the existing Director of Analytical Services would report. We do not think that either the existing arrangement, or a reversion to a reporting line to the Policy and Technical Director, gives effective analysis a high enough profile in policy development and implementation.
15. If appointed, such a champion would no doubt initiate plans for, among other things:
- (i) business modelling
 - (ii) the establishment of a wider range of analytical skills
 - (iii) the introduction of better knowledge management systems
 - (iv) improved and more systematic use of information from the operational offices
 - (v) much closer working between policy development teams and analytically trained staff.

Involving Stakeholders

16. Effective consultation is an important part of building good working relationships with external stakeholders. When done well it can:
- i) stimulate new ideas;
 - ii) improve the gathering of information and intelligence;
 - iii) be an important demonstration of the Revenue's customer focus;
 - iv) improve understanding and ownership by stakeholders;
 - v) support effective implementation; and
 - vi) play an important part in post implementation evaluation.
17. We were told both by external stakeholders and by staff of a number of instances of best practice in the Revenue's approach to consultation (the working families tax credit, for example). The general view seemed to be that the Revenue was getting better at it. There was recognition too of some of the constraints under which the Revenue sometimes have to operate which can mean it is not always appropriate to consult on every issue.
18. But we were also told of examples of consultation:
- i) happening too late in the process to offer external stakeholders a real opportunity to affect policy outcomes;
 - ii) involving what was seen as unnecessarily restrictive approaches to what was being consulted on;
 - iii) inadequately involving frontline staff in the network, and therefore missing an important source of information;
 - iv) over-relying on umbrella organisations rather than a fuller range of less vocal or less accessible groups or individuals;

- v) paying insufficient regard to the burden placed on key consultees, particularly on small charitable voluntary supported organisations when the Inland Revenue are conducting several consultations at the same time;
- vi) obtaining insufficient input from other Government Departments.

19. If best practice were consistently followed in future consultation would:

- i) be seen as part of a continuous two way communications process;
- ii) start at an early stage, when policy ideas are still being formulated;
- iii) encourage debate and discussion inside as well as outside the Department;
- iv) allow consultees to see the evidence on which subsequent decisions are based;
- v) ensure that the parameters of consultation are clear from the outset;
- vi) be well communicated in a form which is easily understandable;
- vii) feed into post implementation evaluation;
- viii) give feedback to consultees on how their views have been taken into account.

20. We are encouraged that almost all these points were described to us as desirable at different times by different people within the Revenue. The task would seem to be not to identify best practice, but to find ways of ensuring that all staff understand its importance, and how best to set about it.

Linkages

21. Good policy formulation requires the Revenue to make effective linkages in a number of directions, in particular in the way in which different parts of the tax system:

- i) relate to each other;
- ii) affect different communities, for example single parent families or the self employed;
- iii) bear on Government-wide policy objectives, for example the encouragement of enterprise.

22. The Revenue have traditionally been good at i. They are putting more effort into ii, and iii. The need to look increasingly across the piece is well recognised by the Revenue Board. We were told that taking a more strategic and corporate approach looking across the whole of the tax system is a key objective of the current senior team in the Policy and Technical Directorate. In pursuance of this, weekly strategy meetings have been taking place since July and a number of convenors have been appointed to take responsibility for different aspects of the cross cutting agenda. We also understand that the appointment of the new marketing director is partly intended to give a new emphasis to the Revenue's focus on their customers.
23. Nevertheless:
- i) we were told that the silo mentality still exists in some places, with conscientious people zealously guarding their bit of the tax system and reluctant to compromise it to accommodate other people's objectives;
 - ii) we were quoted a number of examples of things having gone wrong where one of the features was that they involved the inter relationship of different taxes;
 - iii) we were given limited evidence of convenor roles having influence. Many people did not know who they were or what their role was.
 - iv) we were quoted a number of examples of insufficient consultation of the Revenue by other government departments in the development of their policies where tax implications could, or should, have a significant effect on outcomes.
24. More generally, it remains difficult to identify anyone in the structure who has the background and the capacity to think about the tax system as a whole. It was clear that Ministers would value the existence of such a person. It is possible that in time the Policy and Technical Director could perform that role. So perhaps could the board level champion of analysis, if the Revenue were to make such an appointment.

Relationships with the Treasury

25. Effective relationships with Ministers and with relevant officials at the Treasury are clearly critical to the success of policy making.

26. It was clear to us that these relationships work better in some areas than in others. Unsurprisingly, those staff who have already had the opportunity to work at the Treasury, or who have actively invested in building good relations with Treasury colleagues and Ministerial Private Offices, tended to be those who have engendered the most trust from Treasury colleagues. The implications of this for posting and training are obvious.

27. We also found that:
 - (i) There was a lively interest in the question of location. Many of those we spoke to pointed to the disadvantage of working for Ministers who were in a different building and we understand that discussions are taking place about the possibility of moving some Revenue staff to the Treasury building when that is refurbished. Clearly proximity can be important in building relationships. In an ideal world the whole of Inland Revenue Headquarters would be closer to each other and nearer to their Ministers than they are now. Equally clearly, it is not a necessary condition. Some staff successfully work round these issues by investing time in developing productive working relationships. If only part of Revenue headquarters moved to the Treasury building that would run the risk of setting up a different set of barriers, with their own colleagues.

 - (ii) It goes without saying that policy is more likely to be successfully formulated and implemented if everyone is clear from the start what the objectives are and why. We were given the impression that this had not always been the case in the past.

- (iii) We were told that there were still some Revenue officials who interpret the Revenue's statutory responsibility for protecting the revenue as meaning that in some way they owned tax policy. It was not entirely clear to us, however, whether this was a comment which applied to the period immediately after May 1997, when some parts of the Revenue may have been a bit slow to respond to the different ideas and principles of the new Government, or whether it still applies today.

Growing and supporting staff

- 28. The environment in which Inland Revenue policy staff are expected to operate has changed substantially. They have taken on new responsibilities for Tax Credits and National Insurance Contributions. There is much wider recognition of their role in supporting the Government's economic and social policy objectives rather than simply acting as tax collectors; and their public has heightened expectations about swift access to information and services. Responding to all this requires a testing culture change for the Department, which has in the past been proud to rely on strength in depth sometimes at the expense of breadth and have taken secrecy as given.
- 29. As we have also already stated, we have found fairly widespread acceptance, amongst staff about the need for change and recognition of what the Board is trying to do.
- 30. But we also found:
 - (i) Frustration about the gap between the senior level commitment and some of the reality of everyday experience. We heard of what appeared to us to be some rather narrow notions of training ("manuals and courses") and evidence that training and development are often squeezed out. We heard little from managers about support and coaching.

- (ii) Staff and clients thought there were too many “engineers”, good at the detail of the tax system, and not enough “architects” able to take a broader view. This was often put to us in terms of the revenue having too many “I-shaped” people (strong in depth) and too few who are “T-shaped” (able to apply deep knowledge strategically). But we also encountered some concern that the attempt to develop more architects or “T” shaped people might risk losing some of the detailed expertise which they needed.
- (iii) We were told that tyranny of the Finance Bill could, if unchecked, reinforce some of the worst aspects of the Revenue - encouraging the belief that what mattered was to have a Budget starter, and that success was to take that through to legislation, rather than to deliver the outcome it was intended to achieve.
- (iv) We were told by many of the junior staff we saw that they believe their skills to be under used because of inadequate delegation, while overworked senior staff yearned for more space for strategic thinking and networking. The implications of this are obvious.

31. Staff at Grade 7 and stakeholders are consistent in identifying those areas where enhanced skills are required:

- (i) Knowledge management, by which was usually meant better networking and sharing of information and ideas.
- (ii) Customer focus.
- (iii) Outcome focus.
- (iv) Knowledge of economics, markets and individual behaviour.
- (v) Evaluation
- (vi) Presentation.

32. The current work with Customs and Excise to deliver joint training in policy skills seemed to us to be very promising. Self-evidently, however, the surrounding culture must support it. In particular:
- (i) Spreading skills through example and mentoring is often more powerful than formal training. The Revenue already have a number of staff who know as well as anybody how to work through multi-disciplinary teams, how to present effectively to Ministers, how best to involve stakeholders in policy development and so on. Their value as mentors needs to be recognised in their personal objectives.
 - (ii) The Revenue have been putting much more effort of late into encouraging interchange of staff with the private sector and elsewhere. There may be scope for doing more. There can be difficulties in long secondments, but there are opportunities for other forms of short attachments, visiting, shadowing, etc.
 - (iii) Induction may be an area worth of a fresh look. We found some evidence of “hand to mouth borrowing” of skills and knowledge.
 - (iv) Many managers still need to be coached to give priority and time to building and developing the staff in their teams, and the importance of this needs to be fully reflected in the appraisal process.

Consistency

33. It has been a consistent theme of this Review that there are people in the Revenue who could be used as role models by anyone wishing to identify elements of best practice in professional policy making. Most people we spoke to seemed to know who these people were.
34. But not surprisingly, as in most organisations, best practice is far from universal. One of the adjectives frequently used to us in describing the Revenue’s performance, including by its own staff, was “variable”.

35. This characteristic almost certainly does not distinguish the Revenue from most other Government Departments. But the strength with which it was expressed suggests that it is something of which the Revenue Board should nevertheless take note. In our view they could with advantage give further thought to the processes they have in place to identify best practice to celebrate it, and to drive it through the organisation. It struck us as slightly odd, for example, that no-one had been appointed as overall project manager for the recommendations of the report on policy making referred to earlier (though many of the recommendations have nevertheless been implemented) and no-one we spoke to really thought the business planning system yet really worked in an effective way to support and reinforce priorities.

Conclusion

36. The Revenue's unique strength in the formulation of policy is its ability to bring together operational, technical and analytical expertise. To be successful it must celebrate this core function and strive to do it better, whilst guarding against changes that would damage it. We have tried in this peer review to channel back a variety of perceptions about things which would help the Department to do this. Our two key messages are:

- (i) There is a pressing need to give further attention to the analytical base; and
- (ii) Most of the elements of best policy practice are happening somewhere in the Revenue already. The key task is to identify them and make them universal.

37. Our impression is that both these principles are already well understood.