Review of Investeringsagenda

De Belastingdienst

20 May 2015

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Executive Summary

Introduction

This report contains Oliver Wyman's evaluation of the proposed Investeringsagenda. The evaluation considered whether the proposed goals are appropriate, whether the investments are reasonable, whether the quantified benefits are attainable, and whether the risks can be managed.

The review is based on dozens of in-depth management interviews and reviewed internal d*e Belastingdienst* documents covering current performance and capabilities, previous change efforts, and the proposed Investeringsagenda. It also draws upon publicly available benchmarks as well as Oliver Wyman's extensive experience from supporting tax administrations in other countries.

De Belastingdienst proposes a major transformation programme, the *Investeringsagenda*, to address structural issues in its operating model. Left unresolved, these issues would lead to a budget gap and projected erosion of tax revenues. The *Investeringsagenda* will also provide a necessary response to changes in taxpayer expectations and developments in the technology environment.

Investeringsagenda

The broad goals of the programme are:

- Make it easy for taxpayers to comply and interact
- Identify and react appropriately to non-compliance
- Implement efficient processes that make best use of information and technology
- Ensure transparency and integration of information
- Provide a single customer view via an on-line portal

To achieve this *de Belastingdienst* has developed a high level target operating model with five building blocks: (1) Improve customer interaction, (2) Establish information-driven oversight, (3) Develop systematic management information (4) Enhance use of data and analytic capabilities and (5) Revamp legacy IT-Systems.

Improving customer interaction means centring all processes and activities on the taxpayer. In particular all interventions will be based on an in depth understanding of how different customer segments behave and how *de Belastingdienst* can influence those behaviours

Information driven oversight is about leveraging the vast amount of data collected by *de Belastingdienst* to improve compliance and increase effectiveness. Using predictive analytics, *de Belastingdienst* will be able to target compliance activity far more effectively than at present. It will also enable increasing efficiency through automation and simplification. Experience from major foreign tax authorities has shown that this approach can deliver significant additional revenues and cost savings.

Systematic management information, based on information available in the new information layer, enables *de Belastingdienst* to focus supervision and management attention on relevant areas for revenue collection to increase compliance.

The basis for these efficiency measures in customer interaction, information-driven oversight as well as systematic management information is the development of an enhanced data-layer with extended analytical capabilities.

Also stable IT-systems are crucial for the overall programme to extract the data needed in the data layer as well as to provide new IT capabilities for the online portal.

These building blocks touch all functions within the organization with strong interdependencies. It will therefore be crucial that the change programme is not focused on particular functions or activities but is truly holistic. It needs to go beyond processes and IT systems to also cover organisation, skills and capabilities, culture and behaviours, as well as management controls. Adopting such a comprehensive approach has proved challenging in the past. Achieving success will require *de Belastingdienst* to articulate a compelling vision to align all stakeholders.

Business case

This programme is expected to deliver additional tax revenues of EUR ca. 750 MM per annum from 2020 at a cost of investment of EUR ca. 1.1 BN over five years. Also anticipated cost savings, ramping up to EUR 300 MM in final steady state, will be sufficient to close the structural budget gap. The net savings will amount to well over EUR 100 MM. As a comparison, HMRC (the tax authority in the UK) realized through a similar programme GBP 9 BN p.a. in additional revenues from 2014 against a one-off investment of GBP 900 MM in 2010 (in an economy approximately 3½ times the size).

The investments will be conducted in tranches, overseen and approved by an investment committee. This set-up will help mitigate the risks of non-delivery or the programme going off-course.

Oliver Wyman considers the investment sought reasonable and the revenue projections to be conservative.

A key part of the business case is a net reduction in staff of 3,500 over three years, or 16.7% of the current 21,000 workforce. The current headcount has remained static over more than a decade and represents one of the highest staffing levels per capita in a European tax authority. In contrast, the UK tax authority has reduced its staffing by some 45% over the past decade, and has 30% fewer FTE per capita. Nevertheless, delivering this 16.7% headcount reduction in *de Belastingdienst* will be a challenge. The workforce is aging but there has been little mobility in the workforce so far. Managing this net reduction will require close management attention.

Challenges and Risks

Delivering a transformation of this size and complexity bears a number of risks.

- **Taxpayer focus**
  - The programme requires a paradigm shift within the organisation to a taxpayer-centric view. Achieving this will require redesigning most taxpayer-facing processes and significant culture change.
  - Success will also require engaging taxpayers as they will need to act differently. In our experience this aspect is often underestimated, under-resourced and started too late.
  - Political support will be needed to adjust tax legislation to remove unnecessary taxpayer interactions – a critical component of the efficiency savings.
- **Implementation capabilities** – A programme of this nature requires implementation capabilities which may be in short supply. Those responsible need the skills to plan and manage a complex holistic transformation including the effective engagement of staff, taxpayers and other stakeholders.
- **Governance** – It will be crucial to establishing the correct balance between: central control of the programme to achieve drive, coherence and coordination; and embedding individual projects in businesses to ensure frontline buy-in. Governance requirements will change at different stages of the programme, but ensuring clear ownership and accountability at all stages will be critical.
- **Dependencies** – A programme of this nature has numerous, complex, and sometimes changing interdependencies which need to be addressed in a holistic manner. This calls for an agile project management organisation working for the overall programme director.
- **HR Management** – A transformation of this nature will require a major programme to retrain staff in new roles as priorities shift from administrative and customer contact tasks to compliance. The ability to acquire new skill sets should be important in motivating staff. As discussed earlier, managing the headcount reduction will also require careful management attention.
- **Flexibility of organisation** – The transformation needs to be seen as part of an ongoing journey, rather than a onetime adjustment. Creating an agile organisation that is comfortable with ongoing change will be a key challenge.
- **Phasing** – IT enabled transformation of this nature requires managing the programme in incremental steps. This will reduce risks both to the programme and to maintaining

revenue flows. It should be seen as a journey of many small steps in an agreed direction, but with the ability for ‘mid-course corrections’ and learning from what did not work well.

- **Political risks** – For a five year programme of this nature there will always be the risk of political changes. Managing this risk requires careful stakeholder management to ensure multiparty support. At the same time politicians will need to limit the quantum and complexity of change that new policies and legislation place on *de Belastingdienst* during the transformation.

A full risk management plan will be developed as part of the design/preparation phases of the programme.

Conclusion

It is Oliver Wyman’s assessment that the transformation programme for *De Belastingdienst* described in the *Investeringsagenda* is needed, appropriate, reasonable and implementable. Compared to international benchmarks from tax authorities that have adopted similar changes, the planned benefits are conservative. It will however require a complex transformation programme over several years to provide the tight management needed to reduce risks.

1. Assessment guidelines

This review of the *Investeringsagenda* is based on a joint understanding of the current situation at *de Belastingdienst*, an in-depth review of the plan to transform the organization, informed by extensive industry experience and the use of publicly available benchmarks.

The review is based on dozens of in-depth management interviews and a review of internal *de Belastingdienst* documents covering current performance and capabilities, previous change efforts, and the proposed *Investeringsagenda*. It also draws upon Oliver Wyman's extensive experience from supporting tax administrations in other countries.

The review summarizes the planned Investeringsagenda, evaluates critical aspects, and provides an assessment of whether the measures taken are needed, appropriate, reasonable and implementable. The report is structured around the following six questions:

- Status Quo – Is there a need for transformational change? (Section 2)
- Review of *Investeringsagenda* – Is the plan and the described measures appropriate given the status quo? (Section 3)
- Business Case – Are the planned investments reasonable and the gains and savings attainable? (Section 4)
- Challenges and Risks – Are the challenges identified appropriately addressed with mitigation actions? (Section 5)
- Case study – Have efforts in comparable institutions been of similar nature? (Section 6)
- Implementation Approach – Is the approach feasible and implementable? (Section 7)

2. Status Quo Investeringsagenda

The status quo of *de Belastingdienst* is marked by a combination of structural issues and a changing operational context brought into focus by a number of recent incidents. These have been given renewed impetus to the need for change, resulting in a new approach which aims to make *de Belastingdienst* more responsive to its changing context by investing in a comprehensive transformation programme (the "*Investeringsagenda*"). This document contains a review of this plan, which follows an assessment of the status quo in this section.

2.1. Recent incidents

A number of incidents, well publicised in the national press, have negatively impacted *de Belastingdienst*'s reputation. Widespread benefits fraud was uncovered in 2013. This was followed by delays in paying out benefits and significant revisions to income tax assessments that affected large numbers of people ("one bank account policy"). Finally, the late budgetary decision in October 2013 to reduce income tax discounts did not allow *de Belastingdienst* to make corrections on time, resulting in assessment corrections for 2014 to significant public discontent.

2.2. Structural issues

In a self-assessment to identify the causes of these failures, a number of structural issues concerning growing workload and complexity as well as processes/systems were identified.

The workload of *de Belastingdienst* has grown steadily over the years. On the one hand, the tax system has grown increasingly complicated as a result of incremental changes to both tax laws and allowances. On the other hand, the breadth of its remit has grown: in addition to taxes, customs and benefits, it has been given ownership of a number of 'non-primary' processes because of its expertise in managing data-intensive bulk processes. While some initiatives towards simplification have been taken – with broad political support – on balance this has resulted in an increase in the number of complex tasks *de Belastingdienst* has had to undertake.

The organization relies mainly on batch 'bulk processes' built to process the large volumes of cases. These processes are hard to adapt to tax policy changes and require regular manual intervention to sustain them. There is a high dependency on legacy systems, a large number of which are reaching end-of-life status and are reliant on specialist knowledge. System diversity has grown over the years, imposing further costs of interoperability and maintenance.

This affects operations in several ways, for instance:

- The present setup is costly to keep running, with ‘continuity costs’ accounting for 85% of the IT budget.
- The processes are prone to errors, affecting taxpayer outcomes and contributing significantly to reputational risks. The essential requirement to sustain day-to-day processes is crucial and this has given rise to a preponderance of quick fixes and a deficient learning cycle.
- The processes and operational structures have been designed around the legal requirements of individual taxes rather than around the taxpayer. This lack of customer-centricity inhibits rationalisation and simplification of the tax process and oversight.
- The increasing complexity of bulk processes limits productivity and requires high staffing levels for manual interventions.. Unlike most other “operational” government departments, *de Belastingdienst* is not financed on the basis of assigned workload and expected volumes. Its budget has therefore not been updated to reflect growing volumes in certain segments, such as the relatively labour-intensive SME (‘ZZP’) segment. This has led to budget challenges and an inability to find the headroom to finance required investment.

2.3. Changing operational context

Rapid changes in society and consumer technology have led to a shift in taxpayer expectations. With individuals exposed on a daily basis to e-commerce and online banking, they have come to expect a similar level of online interaction from *de Belastingdienst*. However, the latter is still very much an organisation with an analogue front-end: the main interaction channels are mail, telephone and face to face contact. This is exacerbated by constraints built into tax law, making simplification more difficult. Income tax filing whilst digital is still depending on a computer application that mimics the old paper forms. Communication with taxpayers is ‘aspect-centric’, separate for each different tax or stage of the process. There is no comprehensive single view based on subject-centric information.

Additionally, performance reporting is not aligned to customer expectations and behaviour. Fault tolerance by the public is very low, leading to a strong backlash when there are errors. Neither is public expectation managed by clearly defining and publishing a set of norms and KPIs. Finally, the tasking and focus of Audit and Supervision is not fully based on a data-driven assessment of risks, behaviours and available information, but on broad guidelines with no systematic application – the “tax inspector’s nose”.

2.4. Previous initiatives

The *Middellangetermijnplan* or MLTP (Mid to Long-term plan) was launched in November 2013 to plot a course for the next four years, focusing on career opportunities for employees, digitisation, maintaining control (appropriate customer treatment, consistent communication, among others) and greater internal / external cooperation.

In 2014 newly appointed State Secretary Wiebes commissioned a report which identified three main issues: process gaps, growing complexity and lack of transparent expectations. This report was followed up by the *Brede Agenda* (May 2014), which set out a concrete four-track plan to remedy the main issues identified in the report. The process of fleshing out the plan into initiatives and objectives as well as implementation planning is ongoing through examples such as the ICT development agenda (*"Werkend naar robuust")* and the *Activiteitenkalendar* ("Activity Calendar")

2.5. Investeringsagenda

A further step was prompted by the budgeting process in the second half of 2014. *De Belastingdienst* was faced by severe structural budgetary challenges. Not only would this critically imperil continuity of operations, it would also remove any investment to launch the initiatives identified in the *MLTP* and *Brede Agenda*. In addition, it has become increasingly clear that deeper and more comprehensive reform is needed to achieve the goals set by the *Brede Agenda*.

This contributed to the current initiative of the *Investeringsagenda*. It entails a EUR 1 – 1.2 BN investment to launch a holistic transformation programme based on a paradigm shift towards a taxpayer-centric organisation through information driven supervision and steering, while aiming to close the structural business gap in the years ahead. The goal is to become a Better (*"Beter"*), Cheaper (*"Goedkoper"*) and More In Control (*"Beheersbaarder"*) tax administration. These objectives are being covered in section 3 of this document.

The *Activiteitenkalender*, as part of the *Investeringsagenda* package, details *Brede Agenda's* Track B (improvement of internal processes) providing specific goals for each change area. It further contains a detailed business case breaking out cost savings, additional tax revenues and HR implications.

2.6. Our Assessment

Significant technological changes in the last decade have led to changes in customer interaction and increasing data-driven operational effectiveness. At *de Belastingdienst* investments have been needed to stabilise the platform, rather than to keep up with these developments. Changes in customer behaviour, with a focus on direct low/no-touch interaction and the demand for on-the-spot problem solving, require not only a different customer interaction interface, but also a matching operating model for the organisation. Taxpayer-centricity and the comprehensive single information position are key.

These changes have triggered several transformation programmes in peer tax agencies, the financial service industry and other data-driven industries over the last few years. At *de Belastingdienst* there has been much discussion but due to competing initiatives and limited resource little action has been taken. Furthermore, the customer interaction with *de Belastingdienst*, which has significant social impact and importance across society, needs to be addressed: if nothing is done customer frustration will increase. This has been clearly recognised by the *Investeringsagenda* and the resulting focus is not only to improve customer service but also to adopt a more efficient, effective and dynamic operating model.

Given the status quo and the emerging structural budget gap, a modernisation and transformation to deliver an information-driven mode of operating is required: to overcome the current operational and technological backlog; to be able to respond to future changes in tax law; and to respond to the changing environment.

There is therefore a generally recognised urgent need to stabilize and increase robustness of systems to stop future systemic failures in the administration of tax. The organisation cannot continue with its focus on day to day patch-up repairs if it is to avoid further decline in its effectiveness, efficacy and ability to live within its budget.

3. Review of Investeringsagenda

This section provides a thorough review of the *Investeringsagenda* as presented by *de Belastingdienst*. The objective is to advise as to whether the proposed approach will effectively address the diagnosed shortcomings of the organisation.

3.1. Vision and targeted achievements

In response to the outcomes of the self-assessment and the need to modernize, the following goals have been defined in the *Investeringsagenda*:

1. **Better**: Shared information position through digital interaction, allowing information-driven oversight and collections. This reduces workload, error, the need for high-touch customer interaction and lays the basis for agile and flexible control with improved taxpayer service and greater compliance.

2. **Cheaper**: Automation of administrative tasks allows efforts and resources to be focused where most needed, leading to reduced volume and unit cost of client interaction. Information-driven and automated systems lead to lower IT running costs.

3. **More in Control**: Information-driven steering of the organisation will enable auditing/oversight to adopt appropriate measures to influence customer behaviours and thus give better control over revenue collection.

These goals are formulated to transform the organization in the following way:

1. **Customer Focus**: Paradigm shift from a tax by tax legally driven view of processes, to a customer/taxpayer view focusing on taxpayer behaviours, whilst at the same time of course remaining within tax law. Making it easier to comply will reduce costs and increase revenues.

2. **Information Driven**: Complete, correct and comprehensive data, used with enhanced analytical models will allow end to end processes to be optimised. This will allow efficient and accurate processing, effective control of the organization and will lead to increased revenue collection from those who are unable to follow the tax processes as well as those unwilling to comply.

These concepts are in line with transformation developments in comparable tax authorities in other countries as well as in parallel data driven customer-focused industries.

- Customer driven processes are applied in a wide range of industries. Banks (who have similar security needs and data challenges to tax authorities) are increasingly moving to new platforms and shifting focus to online interaction, improving the user experience of the customers and the focus of financial advice based on a comprehensive understanding of each customer. In Netherlands one of the most used digital apps are the ING banking apps. Also online portals are being introduced for tax agencies in other countries to improve the interaction between taxpayers and the tax authority, replacing traditional communication channels such as mail, call centres and face to face contact for all except those unable to use the internet.

- New interaction platforms and increasing amount of customer preference data also lead to better ways to predict customer behaviour and to steer processes accordingly. An example of where this is well developed is in the area of making decisions around customer credit in financial services. New electronic platforms assess risks by assessing innovative data such as how long applicants fiddle with requested credit data or resubmit applications. By providing a set of new behavioural information the credibility of the customer can be predicted with more accuracy than using traditional techniques, with higher accuracy than banks relying on a history of bank transactions. In some tax authorities, innovation centres foster the use of these new approaches, working on improving processes and the prediction of customer behaviour using both new and existing data. This has led to significant and tangible improvements (see case studies).

To align the organization and foster an environment of change, a vision statement is needed to align the whole business and its stakeholders around the new direction of travel. This vision can then be supported by themes which highlight key achievements expected in the end state, an example is shown in (Figure 1).

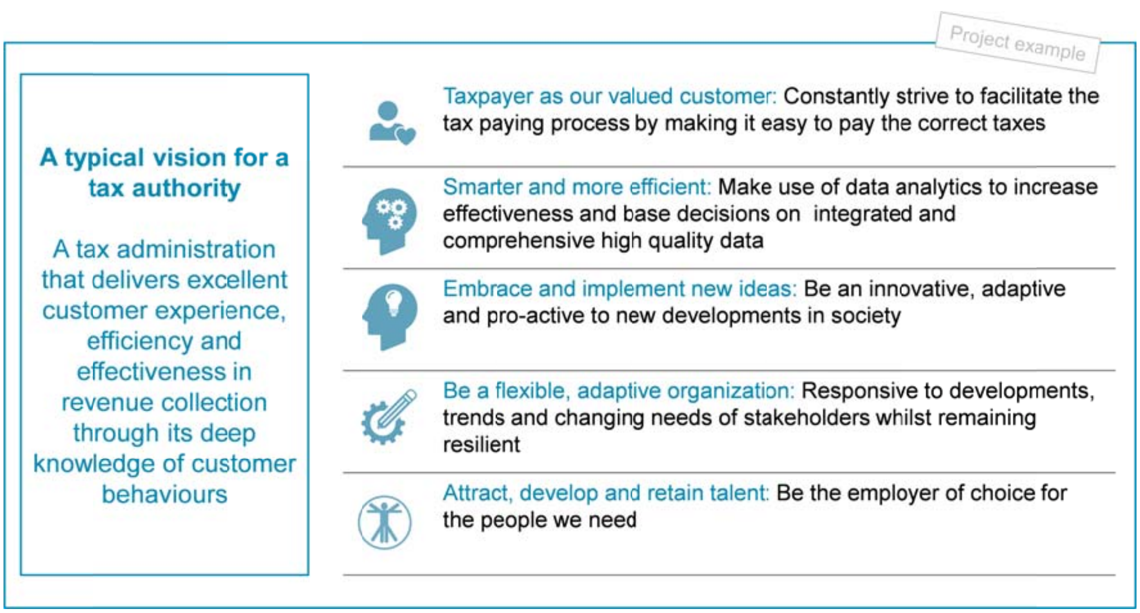

Figure 1: Vision of Belastingdienst with supporting themes
Source: Oliver Wyman analysis

This generic description describes how a tax authority might become more efficient and effective with improved customer experience, revenue collection and knowledge of customer behaviours. Furthermore, it sharpens the focus on the paradigm shift, from a legislative perspective into a taxpayer based view. It also increases the focus on an information-driven organization fostering a culture to be better, cheaper and more in control. This mechanism of aligning the organisation with a compelling vision has been used successfully in comparable projects to help the organisation to prioritise projects and keep the transformation focused and aligned.

To implement a vision, a number of achievements during the programme have to be defined. These achievements will be derived from the vision and can be measured and assessed at all stages of the transformation (see Figure 2).

1	Easy for taxpayer to comply and interact while doing taxes	• Better and more efficient customer service makes it easier to comply and drives up compliance • Customer processes and services aligned on customer needs rather than tax law
2	Identify and react to instances of non-compliance	• Identifying and tackling non-compliance through predictive information based risk-analysis and segmentation techniques • Relocate resources freed by more efficient processes to address non-compliant taxpayers
3	Efficient processes that use technology and information	• Embedding rules in automated workflow by effectively using the vast amount of existing and new information • Fully automated straight through processes with little to no customer or manual employee interaction • Redundant processes and dual processing eliminated
4	Integration and transparency of information	• Integrated information layer transparently shared between all parts of the organisation and customers • Complete (all fields filled), correct (fields filled correctly), comprehensive (all information in one place), end-to-end and historical view of all data related to one taxpayer for taxpayers and inspectors
5	Single customer view online portal	• Allows customer and authority to view and share the totality of interactions in one place • Reduces and consolidates customer contact requirements

Figure 2: Key achievements of the transformation
Source: Oliver Wyman, De Belastingdienst

These target achievements further specify the overall targets to be more customer oriented and information driven by providing specific details of how different functions in the organization are going to operate in the target end-state:

- There is a clear focus on facilitating the taxpaying process, making it easier to file taxes and increase the willingness and the ability to be compliant
- Improved data processing and analytics will increase efficiency, accuracy and improve control
- By integrating new information, making it available and visible internally in the organization as well as for taxpayers, both the administration as well as the tax filing process will become more transparent and easier for employees as well as tax payers

Achievements like the ones above describe the target state of the organization, and are underpinned by a set of building blocks. The building blocks need to address these resulting achievements with corresponding measures that detail the transformation process, and take into account supporting capabilities. This will be further discussed in the next section.

3.2. Building blocks

To reach the achievements outlined in the previous section, the *Investeringsagenda* outlines five building blocks and mentions supporting capabilities to define the architecture of the target operating model (see Figure 3).

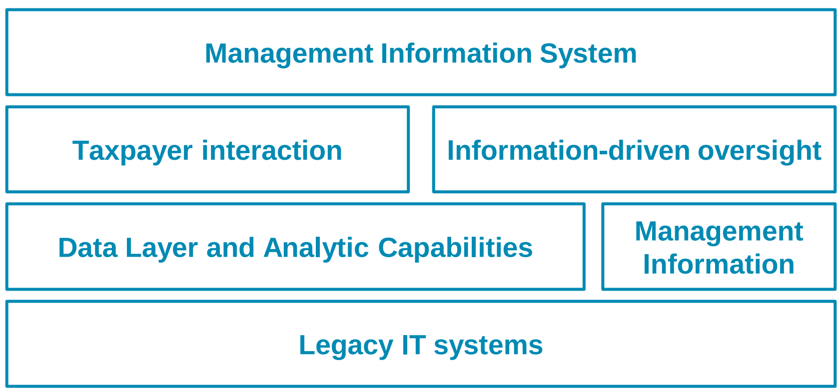

Figure 3: Building blocks driving the transformation
Source: De Belastingdienst

Typically, building blocks and capabilities are supported by appropriate cross-domain functions such as Governance, HR, IT, Communication and (external) Stakeholder Engagement. This is best assured by a “cross-silo” Change Organization, which will align core capabilities in the process. In similar transformation programmes, a Change Organization has typically been set up to analyse, monitor, develop and implement transformation needs, working as a central project management unit.

From our experience, several levers and capabilities need to be addressed to further define these building blocks:

1	CHANNELS	• Identification and definition of right channels for different interactions • Increase efficiency and turn-around time
2	SEGMENTATION	• Targeted customer segmentation increases focus on relevant segments which are unable, non-compliant or fraud • Segment specific targeted communication might improve compliance without much effort
3	AUTOMATION	• Increase efficiency and decrease human errors with automated processes • Streamlining and simplifying processes prerequisite for automation
4	COMMUNICATION	• Improve communication by channel, frequency and simplification • Requests and information needs to be customer targeted, simple and concise
5	SIMPLIFICATION	• Simplification in rules and processes leads to higher compliance despite complicated tax laws • Includes making tax form easier to fill out, reducing complexity, easier to find information
6	NEW INFORMATION	• Usage and linkage of new information leads to further possibilities to automate processes • Further insights into tax payer behaviour

Figure 4: Levers for an improved tax administration
Source: De Belastingdienst

The end-to-end view of the taxpayer and their behaviours should determine the structuring, sequencing and the focus of the optimisation of interfaces, models and processes. This supports the envisaged paradigm shift from legal to taxpayer view and avoids multiple changes to processes throughout the programme.

To support the levers, five capabilities need to be considered to support the definition of the building blocks and the implementation of the measures (Figure 5).

1	DATA	• IT data layer to store, share and manipulate taxpayer data
2	ANALYTICS	• Analytical capabilities to analyse the data to understand relationships, build the models, and develop the decision/automation tools to help front-line staff to be more effective – Human skills and capabilities – IT capable of advanced analytics is negligible
3	PROCESSES	• Analyse processes and identify how to make them cheaper, faster and better • Build the front-line tools to support these new processes and the new automation
4	TALENT	• Right front-line skills and performance management – Right skills, training and roles – Right rewards are also important, although tax jurisdiction may have severe limitations
5	ONLINE	• IT to support online capabilities – Main challenges: online authentication and data protection – This is more difficult for a tax authority than for a bank given the frequency of interaction and lack of physical indicia (such as debit card number) to rely on

Figure 5: Capabilities supporting levers for improved tax administration
Source: De Belastingdienst, Oliver Wyman

The most important capability in fostering the change is the availability of employees with the right skills to deliver the changes. Innovation and process redesign require a high flexibility and understanding of processes, tasks and interdependencies within the organisation. Also an extensive internal and external communication plan is needed to overcome transformation challenges.

The levers and capabilities above, identified in similar transformation programmes, are in line with the building blocks specified in *Investeringsagenda*. The target end states of the *Investeringsagenda* include the capabilities needed to achieve the goals that have been defined. Also, a special focus has been laid out on customer behaviour to assess existing structures and operations.

There is further potential for a clearly defined Change Organization function, and for a target model to attract the talent and skill needed. This is typically detailed during design and concept phases.

3.3. Building block interdependencies

The planned transformation programme includes a broad range of functions within the organization with strong interdependencies between the different building blocks. A holistic programme is required to coordinate and prioritise (Figure 6).

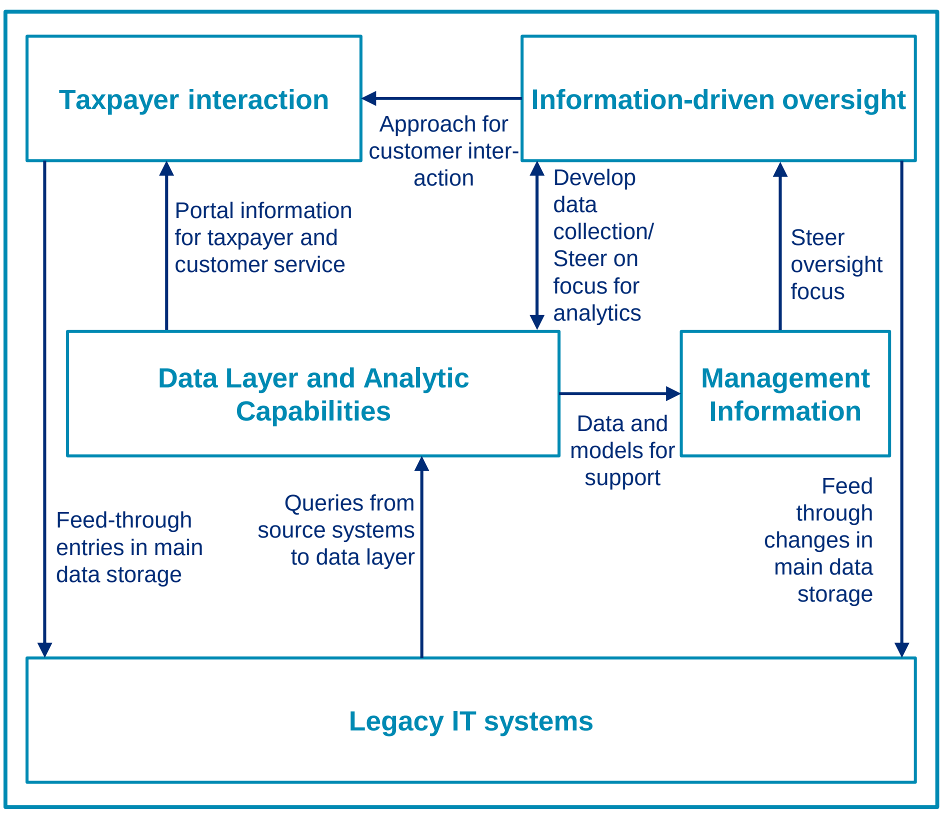

Figure 6: Interdependencies between building blocks
Source: De Belastingdienst, Oliver Wyman

This diagram demonstrates the strong interlinkages between the building blocks.

The data-centricity of the target state organisation relies on all five building blocks interacting, most of all with the Data Layer and Analytics Capabilities. Data from legacy systems flows via the layer to serve as a key input to the taxpayer interaction and oversight processes, with changes fed back to be stored. Management Information systems similarly rely on data from across the organisation to enable management control to proceed optimally.

The target state therefore requires all building blocks to be operated simultaneously and coordinated (i.e. be interoperable) with high accuracy and robust sustainability. This requires thorough planning and strong governance of all the steps in the implementation programme in a structured end-to-end approach.

It is important to manage the change in the correct dimension to ensure the synergies are found and the overall deliverable is coherent and un-siloed (Figure 7).

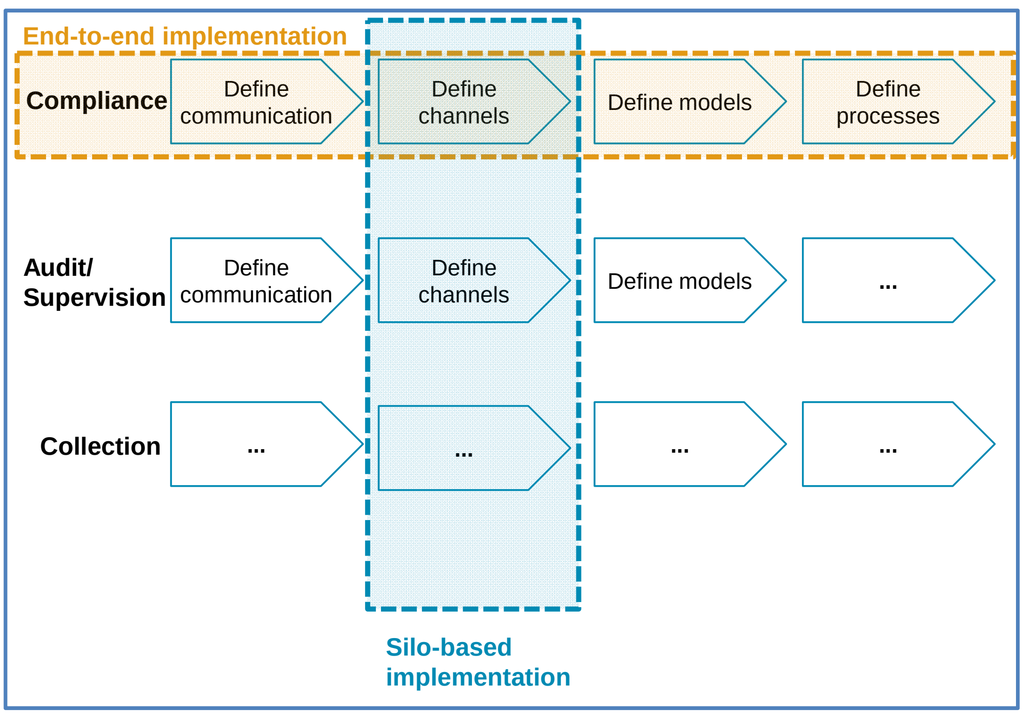

Figure 7: End-to-end vs. silo-based implementation
Source: Oliver Wyman expertise

Silo-based implementation concentrates on the implementation of specific tasks across different units, i.e. sending letters. This normally requires the tasks and dependencies being listed and prioritized, i.e. in the case of letters, reason for letter being sent – supervision or collection, models behind it, systems to draw data. However, if these touch upon different processes with different goals, the complexity increases rapidly and can cause instabilities which can lead to loss of control and premature termination of the programme.

End-to-end implementation follows the complete process chain for one unit or function, i.e. letters from collection, stepping through all the steps relevant to the process, before going through the next. This ensures a thorough planning and execution of changes with fewer interdependencies than a silo-based implementation. In turn, it must be carefully sequenced and orchestrated.

3.4. Our Assessment

The approach that *de Belastingdienst* has chosen in the *Investeringsagenda* is sound. The customer focused approach with more emphasis on 'no-touch' interaction for most customers has delivered significant benefits at the UK HMRC in terms of cost reduction, revenue collection and customer experience (see the case study for more detail). Given the inefficiencies of *de Belastingdienst's* current legalistically driven approach to customer interaction, similar ultimate benefits should be expected, although it will take time to deliver these in full.

Leveraging information better has also delivered significant benefits at a large OECD tax authority. Here they have developed their predictive analytics in the last half decade and as a result delivered several billions of dollars in additional revenues.

The vision of becoming *better, cheaper and more in control* is exactly in line with what is needed and is an approach others have already proven.

The building blocks and the targeted achievements are clearly defined to tackle the short-comings identified in the status quo (see Chapter 2). However, it is important to focus on the whole programme rather than single building blocks to successfully create the future organisation.

Considering the weaknesses of previous silo-based programmes at *de Belastingdienst*, there is a strong need to focus on (1) interdependencies and (2) end-to-end process implementation. The programme should be governed by an empowered central organisation with a single person at the senior executive team accountable for overall delivery.

To align all the stakeholders and consolidate the different building blocks into an overall programme we suggest further defining a compelling vision as the programme takes more solid shape. This is covered further in Chapter 5.

4. Business case

This section aims to assess the anticipated benefits and the investment required, proposed in the *Investeringsagenda*. It covers investment needed for both IT and HR and achievements in tax collection based on improved oversight as presented in figure 8 below.

The transformation programme is estimated to require an initial investment in the range of EUR ca 1.1 BN, including the costs of running the change programme. The investments are expected to lead to cost savings of EUR ca 300 MM gross and net well over EUR 100 MM, sufficient to close the upcoming structural budget gap, as well as improved tax collection by ca 750 MM annually by 2020.

(in MM)	2015	2016	2017	2018	2019	2020	Structural from 2024 onwards
	76	232	236	148	59	-16	-136
1. Interaction with citizens and businesses	20	60	83	58	43	43	43
2. Information-driven monitoring and collection	5	50	73	78	83	83	83
3. Operational control information	-	17	22	19	4	4	4
4. Data and analytics (incl. business case DM)	41	30	27	26	26	26	26
5. IT-landscape	-	20	20	20	20	-	-
6. Project management office	10	15	15	10	-	-	-
7. Contingencies	-	15	15	-	-	-	-
8. Total	76	207	255	211	176	156	156
9. SWITCH	-	63	91	120	138	120	-
10. Savings	-	-38	-110	-183	-255	-292	-292

Source: de Belastingdienst

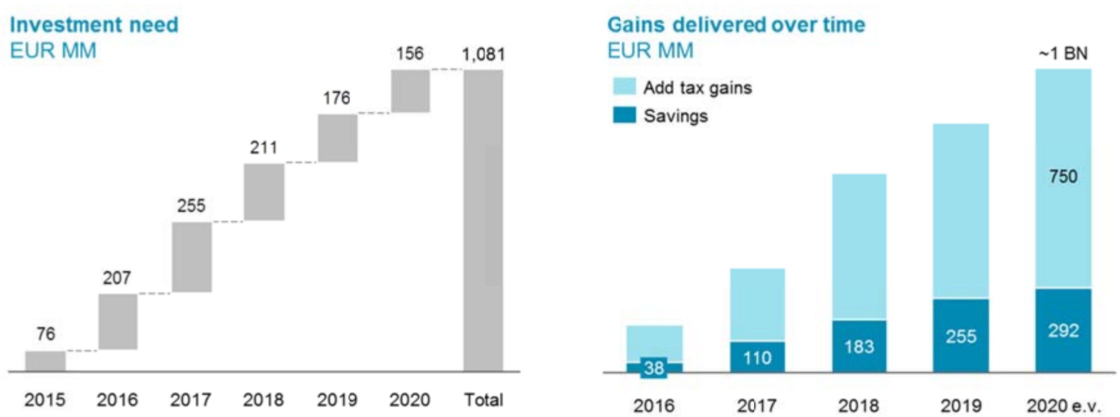

Figure 8: Expected investments and expected gains over time

Source: de Belastingdienst item 1-7 for Investment need and Item 10 for savings see above

These investments can be in tranches: for each step of the implementation process, a total budget is allocated and managed by an Investment Committee supervising the different stages of the implementation while supporting the overall programme. As part of the rolling implementation, the transformation function then applies to the Committee for funding when a tranche of investment above a certain threshold is needed. This governance model is designed to reduce risk of rising costs and delays, resulting in an effective transformation and needs to be defined within the set-up of the transformation programme (as discussed in Sections 5.2 and 7.1.).

4.1. Human Resources

To achieve the defined goals of enhanced customer focus and information-driven oversight, investments in HR are needed to implement and pursue pro-active customer support as well as an information-driven approach in oversight and reporting. This is expected to result in a more flexible and adaptable organisation. There will also be major changes to the skill-sets needed within the whole organisation as low-skill tasks are removed through simplification and automation, in favour of high-skilled competencies that are needed for improved customer service and the information-driven operating model, especially in compliance functions.

The organisation's current age breakdown (shown below in Figure 9; Source: OECD Tax Administration Database), shows staff are heavily skewed towards higher age brackets. This is expected to result in relatively high outflow numbers in the years ahead. Going forward, nearly 60% of the organisation is likely to retire in 10-15 years' time, leading to the risks of a talent gap and consequent training challenges as experienced staff leave.

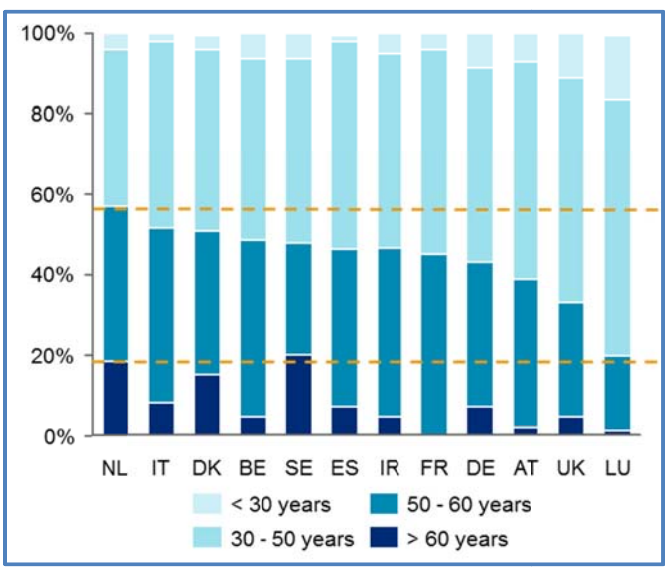

Figure 9: Age distribution at national tax administrations for selected countries
Source: OECD Tax Administration Database

However, this outflow will not necessarily match the programme's short and mid-term needs, both in capacity as well as necessary skill-set to drive this transformation. Therefore, targeted hiring and knowledge transfer decisions need to be made.

Development of a comprehensive HR agenda, covering skill set needs, expected outflows, and attracting and retaining new talent (including training needs) should be a key focus to address the organisation's expected HR needs.

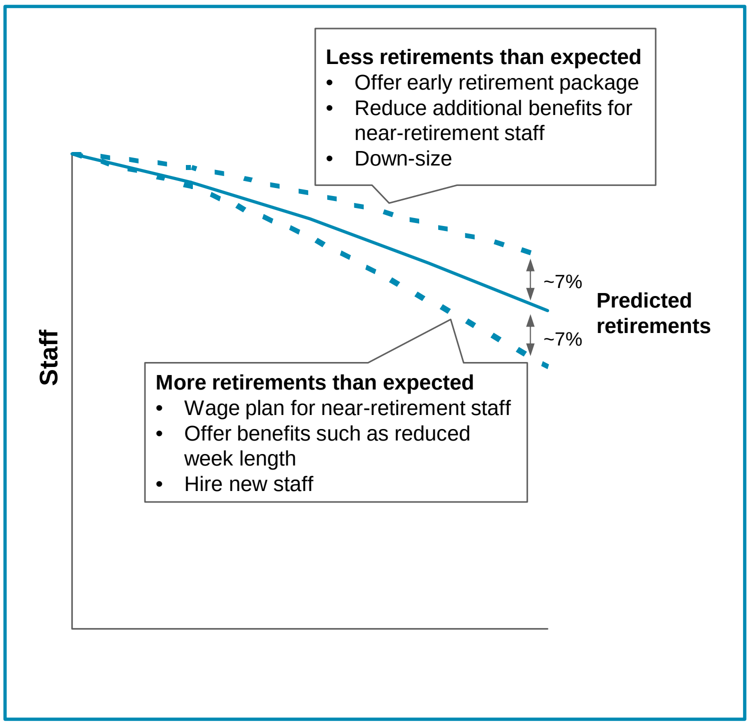

Figure 10: Planned and actual staff reduction, illustrative organisational strategies
Source: Oliver Wyman expertise

De Belastingdienst anticipates that the reduced capacity from employees moving into retirement naturally will not be synchronized with the capacity needs during the transformation programme. This mismatch will need to be carefully managed, bearing in mind legal and political constraints.

De Belastingdienst is expecting to lose some 5,000 FTEs, of which 1,500 will be replaced with employees with new skills, resulting in a net reduction of around 3,500 FTEs. Benchmarking shows that *de Belastingdienst* is high in staff numbers compared to tax administrations in other European countries, even after the reduction of 3,500 in headcount. Also other tax administrations which have gone through a transformation of this nature have made greater headcount savings. In our opinion, therefore, *from a business perspective* there could be scope for further reductions (Figure 11).

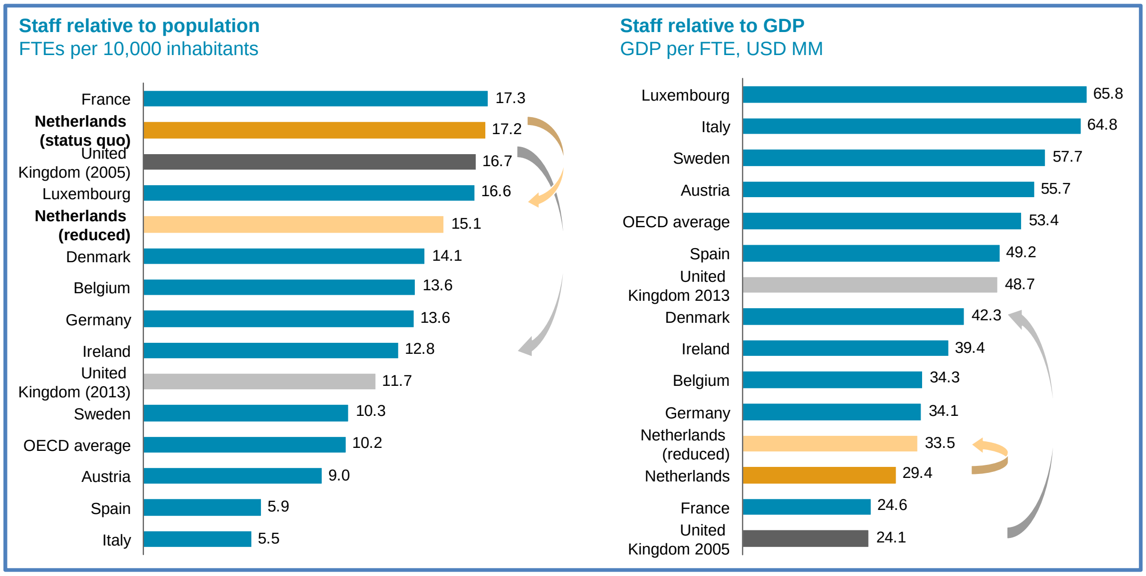

Figure 11: Benchmark employee levels across selected European countries
Source: OECD, Oliver Wyman Analysis

De Belastingdienst has elected to effect this capacity reduction through a temporary facility, thus avoiding direct redundancies. Resources in functional areas expected to shrink or disappear will be moved into the "Switch" staffing vehicle. Switch will provide services to support the transformation or its aftermath. This method allows for a flexible, short-term 'buffering' of possible outflow disparities as shown in Figure 10. In the long run Switch will support the (out)placement of its resources into roles appropriate for their level. The exact structure and procedures are still to be detailed following discussions with the appropriate stakeholders..

4.2. Processes and workflows

Investment in processes and workflow is instrumental to creating an adaptable and flexible organisation. One initiative that has already been started successfully is the centralization of processes, where 38 tax offices and a variety of functions have been condensed into a few main hubs. The initiative is expected to be fully rolled out in 2015. Following this, a number of investments are expected as shown in Figure 12.

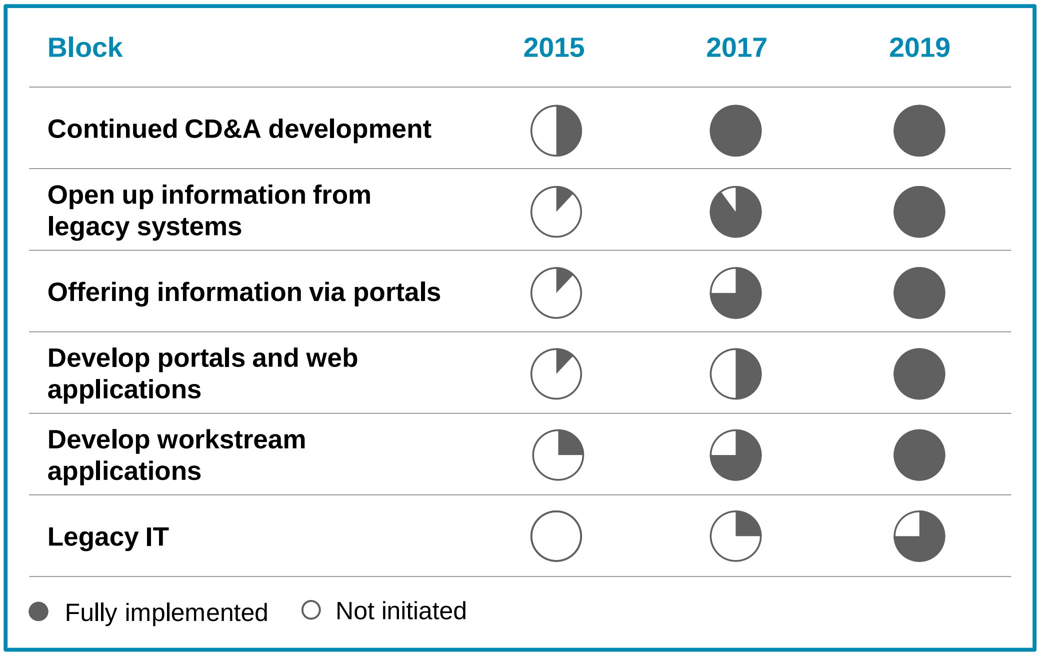

Figure 12: Preliminary investment planning
Source: de Belastingdienst, Oliver Wyman analysis

These investments have been detailed over the years 2017 and 2019 as follows:

- **Centralisation of processes:** 38 tax offices and multiple functions condensed into a few main hubs. Expected completion by 2015.
- **Data and analytics:** Completing information layer and extension of incubator pilots, including infrastructure licenses and hardware. The programme is currently under development and expected completion by 2017.
- **Building blocks:** Applications to foster automation & simplification in business units are next to being developed – Expected roll-out by end-2015 and completion by 2017.
- **E-capabilities:** Online tool and middle ware interfaces will follow once data and analytics are complete – Roll-out in 2016 and completion by 2019.
- **Workflow and process IT:** Gradual upgrade and stabilizing of process chains and systems - continuous programme starting in end-2016 and rolling.
- **Legacy migration:** Rationalisation, approach will be tailored to results of broad research over the next 5-10 years

One important aspect of the transformation is how initiatives in workflow, systems and analytics are implemented. An approach based on small incremental projects measuring the effect and success rate is recommended for workflow and IT systems, rather than singular large, comprehensive multi- year programmes. A key aspects is to allow the incremental projects to fail (and gather the important learnings from these) before they become too costly. Best practice is to avoid “big bang” implementations and go for such incremental steps.

One consequence of this is that there will be no fixed cost associated with the investment beforehand, as the number of pilots before a successful launch may vary. Instead, investments in IT could be specified with a range given by a conservative maximum bound and an expected minimum. As the iterative process of testing moves along, the function responsible for the transformation will continuously request budget for each part of the transformation until results are delivered. This way, unsuccessful investments can be detected early in the process, reducing the risk of a costly or delayed implementation programme and increasing transparency of the implementation.

With the same annual spend, investments managed in this way are expected to lead to significant improvements in system performance (Figure 13).

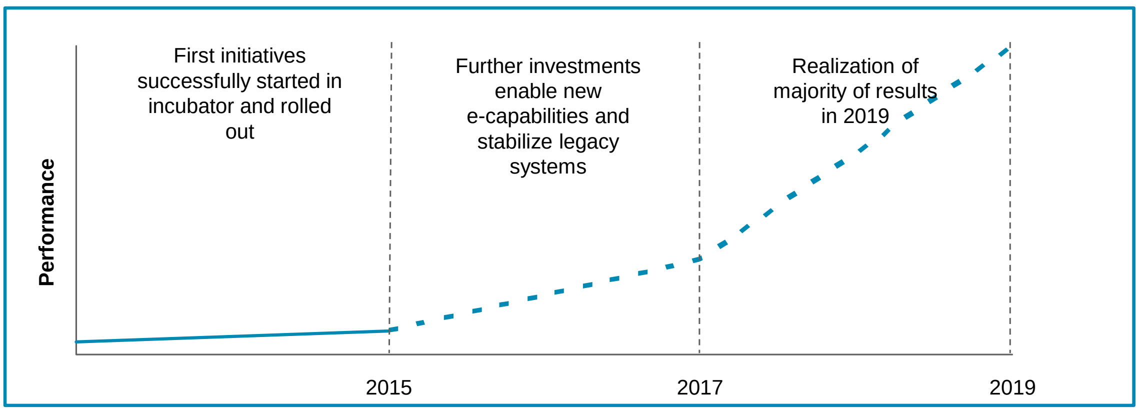

Figure 13: Investments in next 4 years essential to transform the organisation
Source: de Belastingdienst

4.3. Tax collection revenues

Improved systems and analytical capabilities will not only lead to a cost reduction, but also to gains stemming from an improved audit, collection and fraud detection processes. The overall aim is to: increase the hit rate of the inspections that are carried out; increase the amounts collected; dynamically monitor for improved collection; and improved fraud detection. The gains associated with these areas are estimated at EUR ca 750 MM per annum in the end state.

The gains listed correspond to less than 0.5% of collected revenue in 2013 (EUR 165 bn). Transformation programmes in other tax authorities led to gains of 2-3% for similar areas. In addition, improved platforms for taxpayer interaction should further reduce non-compliance and increase revenues. In our judgement, the benefits planned from this proposed transformation are conservative.

4.4. Our Assessment

The estimate of the investment required is reasonable given the ambitious programme. The planned benefits are conservative and thus in time there may well be an additional upside realised following a successful implementation of the transformation.

Focusing on implications in HR, d*e Belastingdienst* has a clear view of possible reductions in terms of total FTEs. Capacity reduction may not be achieved solely by employees moving into normal retirement, and the scope of the challenge in managing these reductions is clearly recognised. The “Switch” structure introduced to address this is yet to be reviewed following further elaboration informed by the necessary stakeholder engagement.

Furthermore *de Belastingdienst* rightly recognises the emergent ‘talent gap’ as a major challenge, arising from the current organisational structure and the transition ahead. The need is identified to recruit and retain sufficient new resources through an attractive value proposition, which will have to be detailed and discussed further.

Compared to other OECD tax administrations, we assess the reductions in headcount anticipated by *de Belastingdienst* to be conservative, but we recognise that national constraints will influence appetite in this area. The investments in IT follow a logical step process and reasonable timelines. The investment amount is considered to be reasonable and in line with what is expected for major transformations. In addition, more attention could be given to a trial and error approach with a given investment range.

The expected benefits are in areas where other tax authorities have already proved what is possible. We consider that *de Belastingdienst’s* estimate is conservative and opportunities for realising greater benefits after successful implementation may exist.

5. Challenges and risks

This section covers the main challenges and risks faced during transition to and operation in the target state. These need to be clearly identified and addressed with mitigation and remediation actions in a comprehensive risk assessment at the beginning of the programme and monitored throughout the programme.

A transformation programme of this scale in any organisation is faced with challenges and risks which require thorough planning and mitigation actions. Several challenges and risks have been identified around the *Investeringsagenda* which are described below:

- **Taxpayer focus**
  - The programme requires a paradigm shift within the organisation to a taxpayer-centric view. Achieving this will require redesigning most taxpayer-facing processes and significant culture change.
  - Success will also require engaging taxpayers as they will need to act differently. In our experience this aspect is often underestimated, under-resourced and started too late.
  - Political support will be needed to adjust tax legislation to remove unnecessary taxpayer interactions – a critical component of the efficiency savings.
- **Implementation capabilities** – A programme of this nature requires implementation capabilities which may be in short supply. Those responsible need the skills to plan and manage a complex holistic transformation including the effective engagement of staff, taxpayers and other stakeholders.
- **Governance** – It will be crucial to establishing the correct balance between: central control of the programme to achieve drive, coherence and coordination; and embedding individual projects in businesses to ensure frontline buy-in. Governance requirements will change at different stages of the programme, but ensuring clear ownership and accountability at all stages will be critical.
- **Dependencies** – A programme of this nature has numerous, complex, and sometimes changing interdependencies which need to be addressed in a holistic manner. This calls for an agile project management organisation working for the executive responsible.
- **HR Management** – A transformation of this nature will require a major programme to retrain staff in new roles as priorities shift from administrative and customer contact tasks to compliance. The ability to acquire new skill sets should be important in motivating staff. As discussed earlier, managing the headcount reduction will also require careful management attention.

- **Flexibility of organisation** – The transformation needs to be seen as part of an ongoing journey, rather than a onetime adjustment. Creating an agile organisation that is comfortable with ongoing change will be a key challenge.
- **Phasing** – IT-enabled transformation of this nature requires managing the programme in incremental steps. This will reduce risks both to the programme and to maintaining revenue flows. It should be seen as a journey of many small steps in an agreed direction, but with the ability for 'mid-course corrections' and learning from what did not work well.
- **Political risks** – For a five year programme of this nature there will always be the risk of political changes. Managing this risk requires careful stakeholder management to ensure multiparty support. At the same time politicians will need to limit the quantum and complexity of change that new policies and legislation place on *de Belastingdienst* during the transformation.

5.1. Taxpayer focus

The programme requires a paradigm shift within the organisation to a taxpayer-centric view. This results in a different approach to customer interaction based on a detailed knowledge of customer behaviours and how to influence them, which will impact all customer facing processes.

De Belastingdienst intends to introduce individual customer accounts which can be accessed through a portal. This will be reliant on a single, subject-centric, "shared information" view and effective information-driven oversight with information being longitudinal (across time) and comprehensive (across tax types). This requires a thorough re-engineering of models and processes, but it will also involve new skills. Building the data and analytics layer around this perspective will be key in managing this transition.

Success will also require effective taxpayer engagement: taxpayers will need to act differently. Moving to individual accounts accessed through a portal will be a big shift from the current letter and phone centred contact. And a key objective will be to improve customer experience through reducing customer contact with processes where customer interactions 'don't touch the sides'. The approach to date has been very different: increasing customer contact to improve experience.

In our experience, tax authorities often underestimate the challenge of engaging their customers to deliver this change. Customer engagement in the transformation needs to be planned in from the outset and properly resourced and managed.

As part of the changes to customer contact, political support will be needed to adjust tax legislation to remove unnecessary taxpayer interactions. This will be crucial to drive the efficiency savings.

5.2. Implementation capabilities

Proper end-to-end implementation with thorough planning and an orchestrated holistic transformation programme is paramount to achieving the target state. Previous transformation projects within *de Belastingdienst* did not meet internal and external expectations in managing these aspects, and in some cases even precipitated political intervention. Therefore more thorough planning and regular progress reviews with an investment committee, combined with rolling implementation targets is required. This will assist in identifying risks in early stages and rebuilding confidence in implementation capabilities in a secure environment. Thus, an able and dedicated programme management team needs to be assigned and empowered to make decisions on behalf of the management team in the interest to successfully deliver this transition.

Appropriately resourced programme management will be the key to addressing this and the challenge of finding the required number of staff with the necessary capabilities is recognised by management.

5.3. Governance

Fragmented change efforts present a risk to effecting a transformation throughout the whole organisation. Projects and initiatives at *de Belastingdienst* have often been managed in “silos”, involving a large but disparate number of internal stakeholders focusing on the needs of their units rather than the overall success for the organisation as a whole. This bears the risk of not coordinating dependencies and having several loose ends rather than a comprehensive outcome.

A clear governance structure at all levels is necessary to drive a complete and coherent transformation. Typically, this entails a three-layered model distinguishing project governance, programme management and top-level management.

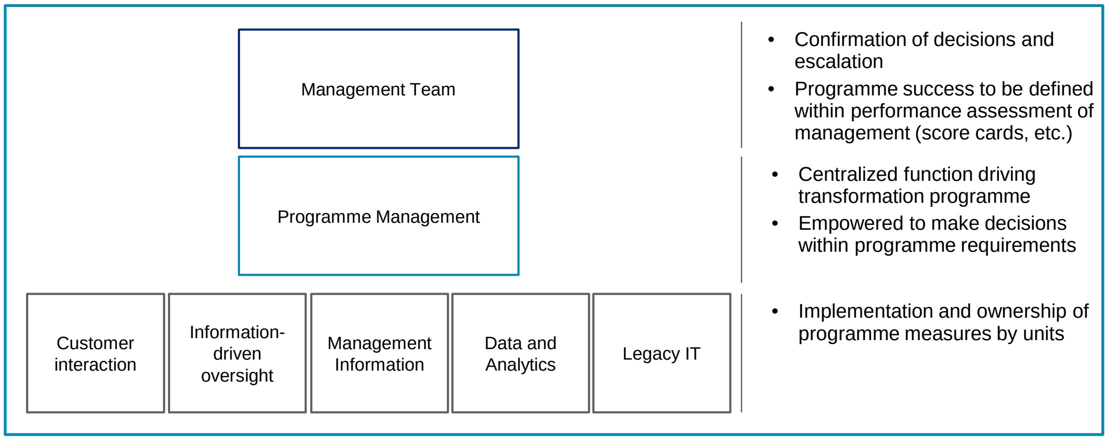

Figure 14: Three-Layer Programme structure
Source: Oliver Wyman

At each level, project governance owns the implementation of initiatives within each unit. These governance units report and escalate issues to the overall programme management which prepares the ground for informed decision making, monitors unit-level progress and manages the various interdependencies. The programme management should ideally report to a single visible person at the executive level mandated to make day-to-day decisions for the programme. These are then ratified by the management team where required. At the highest level the Management Team confirms decisions on overall direction, removes obstacles and bears final accountability. The Management Team needs to have the appropriate membership and be able to cooperate for the benefit of the whole organisation to allow this to happen effectively.

The 'standing' governance of the organisation will in addition be made more robust through a change of model: from its current representative makeup it will change to a more coherent governance model aimed at effective top-level oversight. This will consist of a Director-General carrying ultimate responsibility for all fiscal, customs and *FIOD* matters; the 'fiscal column' governance mimics the corporate 'C-suite' model, with clearly separated responsibilities. It will be important that as much of this new governance structure as possible is put in place from the initiation of the transition programme.

Establishing the correct balance between central control of the programme to achieve drive, coherence and coordination, and embedding individual projects in businesses to ensure frontline buy-in will be crucial. Governance requirements will change at different stages of the programme, but ensuring clear ownership and accountability at all stages will be critical. The existence of clear reporting lines, regular monitoring and a short escalation path across the levels ensure effective implementation without losing sight of the high-level view.

5.4. Interdependencies

A programme of this nature has numerous, complex, and sometimes changing interdependencies which need to be addressed in a holistic manner. As described in Section 3.2, delivery of the target state organisation relies on all building blocks being implemented in an overall project rather than partial implementation.. The building blocks in the *Investeringsagenda* are all interlinked and therefore need to be planned, prioritised and sequenced properly to avoid dis-functionalities in processes and to reduce rework at a later stage.. This calls for the type of agile project management organisation described above to be put in place working for overall single accountable person at the executive level.

5.5. HR Management

Managing the transformation's human resources dimension presents a number of specific challenges.

A transformation of this nature will require a major programme to retrain staff in new roles as priorities shift from administrative and customer contact tasks to compliance. The ability to acquire new skill sets should be important in motivating staff. As discussed earlier, managing the headcount reduction will also require careful management attention

As stated in chapter 4.1 the staff requirements change in terms of number and skill-set with a different pace than planned attrition. Therefore additional measures need to be taken into account to fit the organisation to the programme structure. These need to be backed by political support and negotiated with the unions and other stakeholders. Also, an attractive employment proposition is required to hire skilled new staff. This may be complicated by a range of "hard" (e.g. salary) and "soft" (reputational) factors. Additionally, existing staff will have to adjust to the new organisational makeup and especially culture and the changes this will have on their working lives. The Switch structure described above will be an important component, but will need detailed development and review.

A history of recent and ongoing concentration, retraining and relocation efforts at *de Belastingdienst* have already exposed a large number of staff to change. On the one hand it means that people are used to change, but on the other it can lead to 'change fatigue'. Labour laws, outplacement regulations, *CAO*s (collective bargaining agreements) and employee unions all provide challenges which have to be met. To ensure that the transition is managed properly and all risks identified, a detailed HR plan needs to be drawn up identifying a transparent comprehensive view of HR implications of the transformation, including planned changes to staffing levels, training programmes, a value proposition for new employees and the proposed Switch structure. This plan needs to be sold to with employees and their representatives to achieve the alignment needed to minimise the risk of disruptive action and resistance to change. Management at all levels must be engaged in communicating and driving this agenda with employees.

The senior management of de Belastingdienst recognise this to be one of their bigger challenges and the need to manage this process tightly.

5.6. Flexibility of organisation

The transformation needs to be seen as part of an ongoing journey, rather than a onetime adjustment. Creating an agile organisation that is comfortable with ongoing change will be a key challenge. The fundamentally and radically transformed organization will face new challenges and an unfamiliar context, where a quick and agile response is necessary to maintain continuity of operations and the momentum for constant change.

The transformation therefore requires stepped-up organisational learning and a quick, agile decision making, rapidly focusing the right resources where they are required. For instance, central staffing pools may need to be reallocated on relatively short notice, supported by an ad-hoc training schedule that can be delivered as needed. Analytic capabilities will need to be adaptable to support business steering and changing norms. Processes will need to be lean and closely steered so as to be more agile. Flexibility must be embraced as “the new normal”, with a heightened receptiveness to change.

5.7. Political risks

Retaining political support is crucial to see the transformation effort through to successful completion. For a five or so year programme of this nature, there will always be the risk of political changes. Mitigating this risk requires careful stakeholder management to ensure support from all the key groups. By its very nature, the tax system attracts significant attention from politicians, the public, business, media and other national as well as international stakeholders. Aside from leading to reputational risks, negative stakeholder perceptions of change can have a profound effect on *de Belastingdienst*’s operations as seen last year by termination of the collections programme. The need for adequate stakeholder management is made even more pressing by the *Investeringsagenda*’s need for a specific, distinct investment budget.

Stakeholder is only achieved through maximum involvement from the outset. This starts with securing broad agreement with the *Investeringsagenda*’s goals and vision.. Regular updates with politicians, clear external communication with the public (highlighting the benefits to taxpayers) and an unfaltering commitment to transparency are usually key ingredients of success.

Any spare capacity in the organisation has historically been consumed by the need to introduce changes from new policies and legislation and managing associated increases in complexity in the tax system. It will be important during this transformation to protect the organisation as far as possible from additional burdens from such policy changes. Comprehensive impact assessments on such changes should emphasise the capacity required from *de Belastingdienst* implement new policy changes and their impact on the overall transformation programme.

As part of the changes to customer contact, political support will be needed to adjust tax legislation to remove unnecessary taxpayer interactions. This will be crucial to delivery of the efficiency savings.

5.8. Our Assessment

The *Investeringsagenda* recognises the challenges and risks inherent in such a wide-ranging transformation such as is proposed. A number of the challenges and risks outlined above, together with their impact are described in the *Investeringsagenda*. Mitigating strategies have been defined and addressed. Overall, top management demonstrates a high degree of realism in acknowledging these issues informed by learning from past experience.

Nevertheless, the goals set in the *Investeringsagenda* are ambitious compared to the complexity and size of programmes carried out in the past by *de Belastingdienst*. This too is recognised by the focus being placed on managing the transformation and putting in place the necessary governance, skills and structures to reduce risk. We consider that the estimate of the benefits that will be delivered by the changes are conservative and will not lead to any dangerous overstretch of de Belastingdienst in delivering them.

6. Case analysis

This section provides a case analysis (taken from publicly available data) for a similar programme undertaken by HMRC (the UK tax authority) and a case example for the use of predictive analysis. This shows that other agencies were faced with comparable problems, resulting in similar measures to be prepared for the future.

6.1. HMRC Case Study

HM Revenue and Customs, the UK tax authority, has been on a journey of change and transformation for the past 10 years. Many elements of this programme are similar to those proposed in the *Investeringsagenda*. In some places HMRC is a few years ahead of *de Belastingdienst* and so there is an opportunity to compare and learn potential lessons.

Introduction

Since its creation in 2005 following the merger of the Inland Revenue with HM Customs and Excise, HMRC has undergone a number of programmes of change which together have enabled a reduction in headcount from 100,000 to some 55,000 whilst at the same increasing compliance yield to close the 'tax gap' by some GBP 9bn per annum. The organisation is similar to *de Belastingdienst*, in that in addition to being responsible for the administration of taxes, it has responsibility for customs functions (except at the border itself) and also for major benefits programmes. The change was focused on a new strategy to focus on understanding customer behaviours and how the tax authority could influence these. It was enabled by large scale digitisation and the use of predictive analytics effectively to target non-compliance.

Objectives of change

Initially the objectives of the transformation were focused on reducing cost and increasing customer satisfaction whilst maintaining revenues. Since 2010 increasing yield and closing the tax gap has been given a high priority.

Key elements:

- **Customer focus**
  - o **Organise around customer not tax heads:** The department had been organised around different taxes and functions. A key change was to reorganise it into customer facing units, each of which had end to end responsibility for the entirety of that customer segment's interaction with the authority
  - o **Understand behaviours and how to influence them:** Building the detailed knowledge of how different customers behave and developing a real

understanding of what the authority could do to influence their behaviours was at the heart of the transformation

  - **Reducing customer contact:** The objective was to reduce customer contact wherever possible and appropriate. For ‘willing and able’ taxpayers the objective is to reduce customer contact (phone, letter, filing etc.) to zero. Customer contact was then focused on supporting ‘willing but unable’ taxpayers

- **On-line filing and processing:** At the heart of delivering headcount savings was the automation of all major processes. This enabled some 30K of headcount reduction
- **Development of risk driven compliance including use of predictive analytics:** UK tax inspectors had in the past very much relied on their own instincts to select taxpayers for investigation. This was a costly process delivering very limited revenue yield. The introduction of centralised Intelligence and risk assessment to target compliance activity drove an improvement of over 100% productivity in terms of yield. This improvement is now being enhanced by the increasing use of sophisticated data analytics to predict and identify non-compliant taxpayer behaviours.

Key Enablers of the Transformation

- **Customer behaviours:** HMRC had limited understanding of customer behaviours at the start of this change. It required a number of senior hires with appropriate experience to kick-start a major 3-4 year programme to build the depth of knowledge required across the organisation.
- **Capability:** Significant capability shortfalls were met by hiring in experts (digital transformation, data analysts and customer behaviour experts.) In addition there was a major retraining programme for existing staff (especially those moving from processing roles to compliance) which took some 3-4 years to complete
- **IT:**
  - HMRC holds more personal data than any other organisation in the UK. But with the legacy IT systems it was not possible to access or integrate the data, nor were their funds available to replace these old systems. A data layer was introduced to facilitate this requirement
  - Major IT programmes were required to automate customer interactions. These include a total change in payroll reporting which impacted 5MM employers.
  - Currently the organisation is rolling out individual on-line accounts accessed through a portal for all customers. 2MM small businesses now interact using this system. As it is rolled out to the 11MM individual taxpayers who currently file annually from now until 2020, the requirement for annual filing will cease.

Managing the transformation

- **Governance:** Establishing the correct governance for a transformation programme of this size was crucial:
  - Establishing the correct balance between central control of the programme to achieve drive, coherence and coordination, whilst embedding individual projects in businesses to ensure frontline buy-in was crucial. Governance requirements changed at different stages of the programme.
  - HMRC tried several models before recognising the crucial importance of having a single empowered board member with accountability for delivering the whole programme. A COO role was created to meet this requirement
- **Incremental change:** HMRC learned from previous experience of introducing IT enabled transformation the importance of managing the programme incrementally. Rather than blue-printing a detailed future vision, the organisation managed the programme as a journey of many small steps in an agreed direction, but with the ability for ‘mid-course corrections’ and learning from things that did not work well.
- **Customer engagement:** Whilst the need to engage staff in transformation of this nature is widely recognised, the challenge of effectively engaging far larger numbers of taxpayers should not be underestimated.
  - Digitisation changes the way taxpayers have to interact with the tax authority and HMRC learned early in its programme that failure to engage with taxpayers in the change early and often jeopardises implementation.
  - Change also drives up the need for customer contact in the short term and HMRC learned to delay planned reductions in call centre operations until after the change was embedded with taxpayers.
- **HR:** The reduction in workforce by almost 50% over 10 years was not without pain. Nevertheless, it was achieved without compulsory redundancy through natural attrition (aided by a relatively old aged workforce), early retirement packages and a reluctance by some members of the workforce to work in the new ways.

6.2. Case Study on predictive analytics

Predictive analytics, i.e. using quantitative data to predict behavior, has been part of the public and private sector tool-kit for over 30 years. As the ability to capture, store, and analyze data has increased exponentially, so has the uses of these models and their accuracy. Predictive analytics is today table stakes in many industries: banks use it to determine who to lend to, insurance companies to determine who to underwrite, and large online retailers to predict what customers will buy and therefore what products to ship to which distribution centers (before the items have been ordered).

Tax authorities have access to a wealth of data far beyond that available to any of the industries mentioned above. Tax authorities that have implemented predictive analytics have seen significant improvements across:

- **Efficiency** – by allowing simplification of traditionally complex interactions (e.g. notice instead of in-person audit), by segmenting taxpayers to assign the most effective treatment, and by automating previously manual decisions
- **Compliance** – by identifying more non-compliance with a higher degree of accuracy, and by maximizing future compliance impact rather than simple metrics such as EUR's collected
- **Taxpayer service** – by making interactions with the tax authority quicker and easier and by reducing unnecessary communications or audits

An example is a large OECD tax authority that has embraced predictive analytics. It set up a new office reporting directly into leadership focused on using predictive analytics to improve outcomes, and on building a culture of data driven decision-making across the organisation.

The impact of the predictive analytics and programs implemented by this new office has resulted in billions of euros in additional tax revenue. As an example, it has developed new approaches to identify and stop fraudulent returns submitted by identity thieves. In just one year, these new approaches helped the organisation increase the number of fraudulent refund returns stopped by 50%, saving ca.EUR 5 BN.

7. Guidelines on implementation

7.1. Approach

The *Investeringsagenda* describes a set of building blocks and sets assorted targets. Based on these, a holistic programme approach is required looking at both the timescale and distinguishing between measures needed to stabilise the existing platform and those that will deliver the long term changes

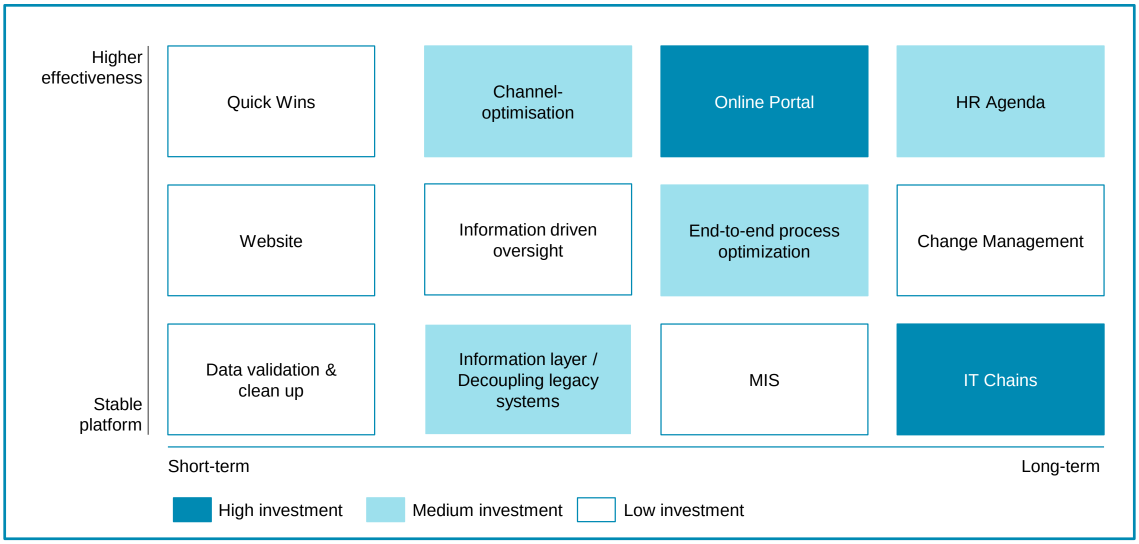

Figure 15: Main initiatives by impact, urgency and cost of implementation
Source: Oliver Wyman expertise

This structure is the basis of the transformation roadmap which will need to be developed and refined during the Design Phase (see section 7.2.2 of this report). At this stage the stability and efficiency related measures need to be sequenced in order to lead to a successful transition.

The *Investeringsagenda* describes key initiatives for all five building blocks over time.. These initiatives are described in Figure 16.

	2015	2016	2017	2018
Interaction with taxpayers	• Modernise external website and create 'safety net' • Sanitise mail flow and improve content	• Fully operational portal: gradually adding in data • Pilots for "willing and able", e.g. payments • Legislative enabling	• Expand options (current account) • Outbound calls: pilot in two processes, consider rollout	• 'Current account' bill for all individuals including line item view • Similar opt-in for SME customers
Information-driven oversight	• Rollout dynamic monitoring for individuals, complete pilot for SME • VAT fraud pilot and rollout • Single customer view • Risk model for income tax • Expand automatic debit	• Implementation complete and process fully operational • Adequate support for process employees (logistics, file compilation)	• SMEs: "Accounting in the cloud" and prepop-ulation implemented • Support for SME supervisors • Collection SME fully brought under LIC	
Management information	• Implement steering for selected chains • Steering contract for 2016 drafted based on new insights on processes and finance			
Data and analytics	• Set up Center for Data and Analytics • Majority of data foundation complete • Appeals process cleaned			
Legacy IT	• Rationalization and phasing out of LOAs • Prepare legacy to chains move • Start online interaction design • Ready analytics building blocks for information use	• Prepare 24x7 availability of online interaction; map requirements for implementation	• Selection module ABS turned off • First step in stepwise transition from legacy to machine-machine chains	• First step in chain transition complete; map next steps • Full 24x7 portal availability

Figure 16: Structure from the Investeringsagenda

Source: de Belastingdienst

These initiatives reflect single measures in different units and functions in several levels of detail. The comprehensive overview of the measures to be analysed during the set-up of the holistic implementation programme is not yet complete. Rather than focusing on single developments in single units an end-to-end view needs to be adopted to structure all the necessary changes and dependencies in the different units and to avoid a 'cookie-cutter' approach.

The single, detailed implementation plans then result from a systematic, end-to-end analysis of the themes to be addressed and feed into an overall roadmap. This end-to-end planning is then reviewed and monitored by a central programme management to ensure a coordinated end-to-end transition.

A programme of this magnitude will invariably face substantial challenges which if not properly managed will jeopardise the delivery of the benefits, as experienced previously at *de Belastingdienst* (see Figure 17):

Pitfalls	Description and consequences
Lack of tangible output	• Overall project mandate and objectives never defined nor communicated, taskforce deliverables not set out nor tracked • Groups meet for months without producing focused, useful, and actionable outputs
Duplication of effort	• Work is carried out by independent taskforces / working groups with no central working groups to prioritise work and findings • End output does not fit into a cohesive whole, and substantial effort in reconciling at the end • Taskforces produced similar outputs, leading to significant loss of motivation • Project loses credibility
Silo-ed thinking	• Taskforces operating independently with no structured cross-taskforce / broader picture communication • Outputs not informed by broader regulatory picture nor discussion • End result impractical
Political taboos	• Analysis formed by internal analysis, influenced by firm politics • No willingness to point out that 'emperor has no clothes on' • Controversial but potentially appropriate solutions not explored
Myopic solutions	• Inward looking only • Does not take into account broader context (e.g. competitive reactions) • Does not suggest controversial outcomes /
Loss of momentum	• Project has an enthusiastic start, followed by loss of momentum as hard work phase sets in • Motivation may pick up again once first successful decisions made and results become visible • Proper project management can accelerate project through loss of momentum stage, pushing to early results and natural competition between groups that maintains focus and momentum

Figure 17: Typical large project pitfalls
Source: Oliver Wyman expertise

In order to avoid these pitfalls a programme management structure with the following objectives will be required:

- Provide senior management with support and information for decision making with regular updates on progress and key issues impacting projects by project leaders
- Implement programme-wide processes to provide a sound framework and controls,; this is done by a formal and regular reporting on the status and the progress of the different work streams and projects
- Monitor and manage the progress of the projects according to deadlines and milestones, raising and mitigating issues as necessary with a framework and process to support project completion and promote coordination between projects
- Ensure coordination across projects so that interdependencies are understood and addressed and all projects are properly integrated into overall roadmap. This must include a framework for escalation/communication of key issues to different stakeholders and developing specific tools to facilitate communication across projects

These objectives will be tackled with the following typical components, tools and key tasks:

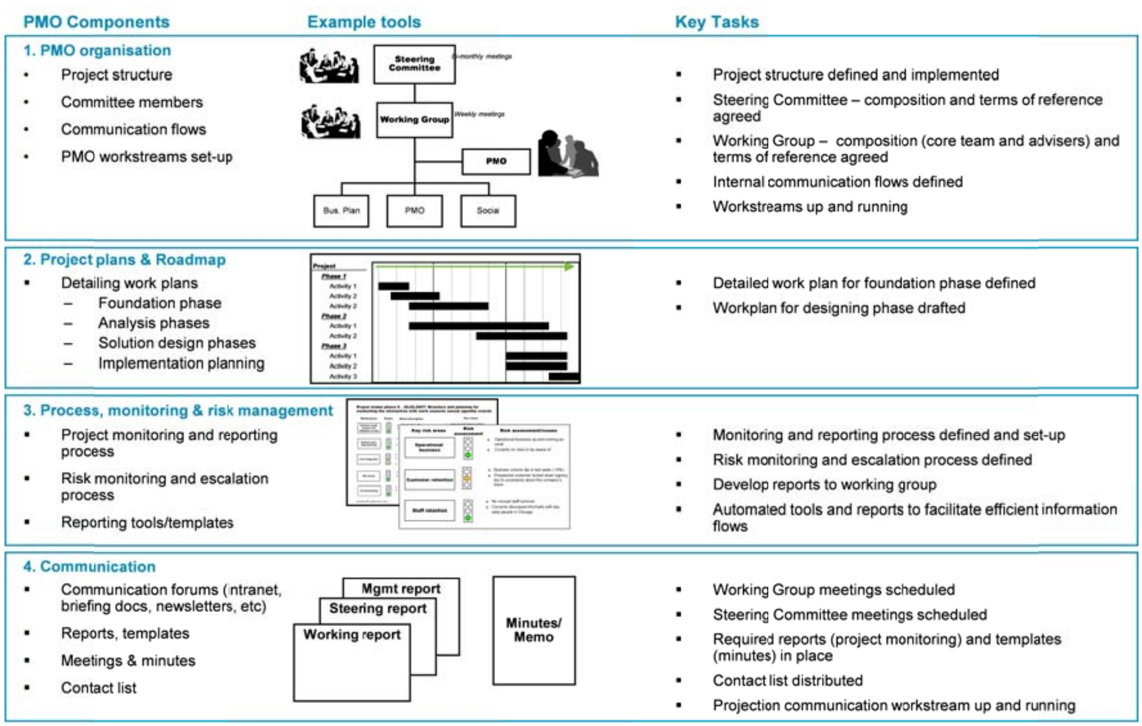

Figure 18: Overview programme management structure
Source: Oliver Wyman expertise

The effective monitoring not only covers time plans and interdependencies, but also budget restrictions, investments and revenue gains, as well as required resources throughout the transformation. Therefore, information on individual projects has to be gathered to create a central fact base which is constantly updated and then used in multiple ways to track programme progress (see Figure 19):

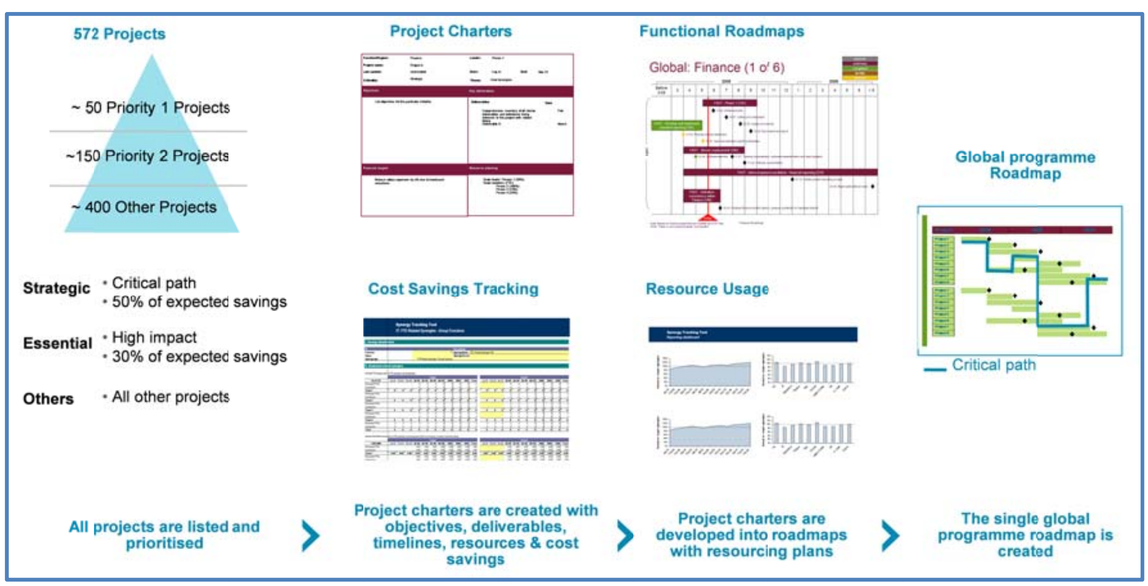

Figure 19: Monitoring and tracking tools
Source: Oliver Wyman expertise

To create the paradigm shift to a more customer-centric view and to engage the whole organisation in the HR changes, a comprehensive change and communication/engagement programme needs to be established within the overall programme.

This can be achieved by a step-by-step approach to build engagement with objectives and challenges at each step (see Figure 20):

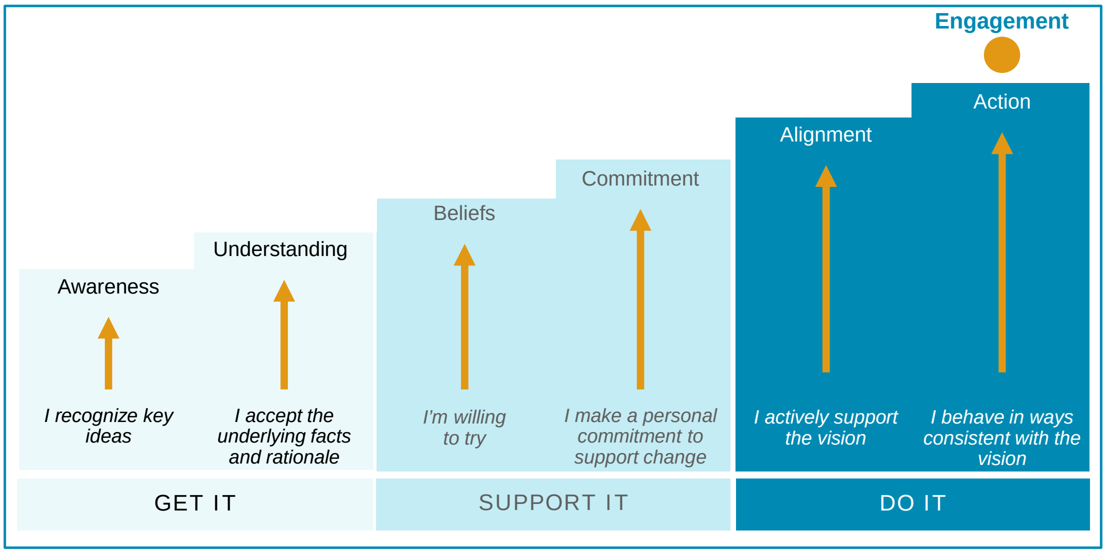

Figure 20: Step-by-step approach to build engagement
Source: Oliver Wyman expertise

The three main phases in every transformation can be defined and tackled as follows:

- **Get it** – Employees must “let go of the old” and ”embrace the new”, They need to understand what is proposed and why. Even though this education may be accompanied by resistance and not all answers will be known, leaders must be upfront and visible about the changes and the likely outcomes.
- **Support it** – Employees will look to their managers for direction as the most credible information source. Managers at all levels will themselves need help and direction as they will be challenged to create hope when they themselves feel fear. Even so, not all will be up to the task).
- **Do it** – Everyone will watch for signals of success or failure. Mistakes will be made and the course will change. Expectation management about change will be ongoing and iterative. Employees will need help with knowledge and skills training to achieve the “performance lift” required.

During all these change phases uncertainty and anxiety need to be addressed by creating forums to listen to employees and connect with their concerns and doubts. Multi-media and multi-channel engagement techniques will be needed.

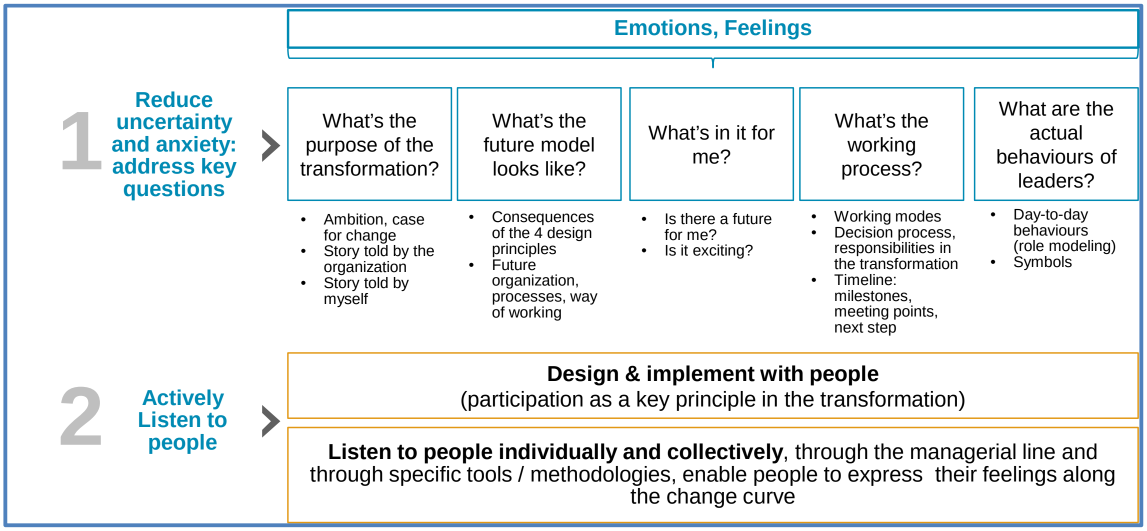

Figure 21: Managing emotions during the transformation

Source: Oliver Wyman expertise

7.2. Next steps

A comprehensive plan for the *Investeringsagenda* transformation broadly comprises three phases: Status Quo Analysis, Design Phase and Implementation. Each is marked by a distinct, specific focus and outcomes. Actual timing and planning may transcend the rigid boundaries of this framework in elements, and the distinct phases may show elements of overlap and iteration, but the structure depicted below is a firm guideline. It is however important that a conceptual structure such as the below is adhered to.

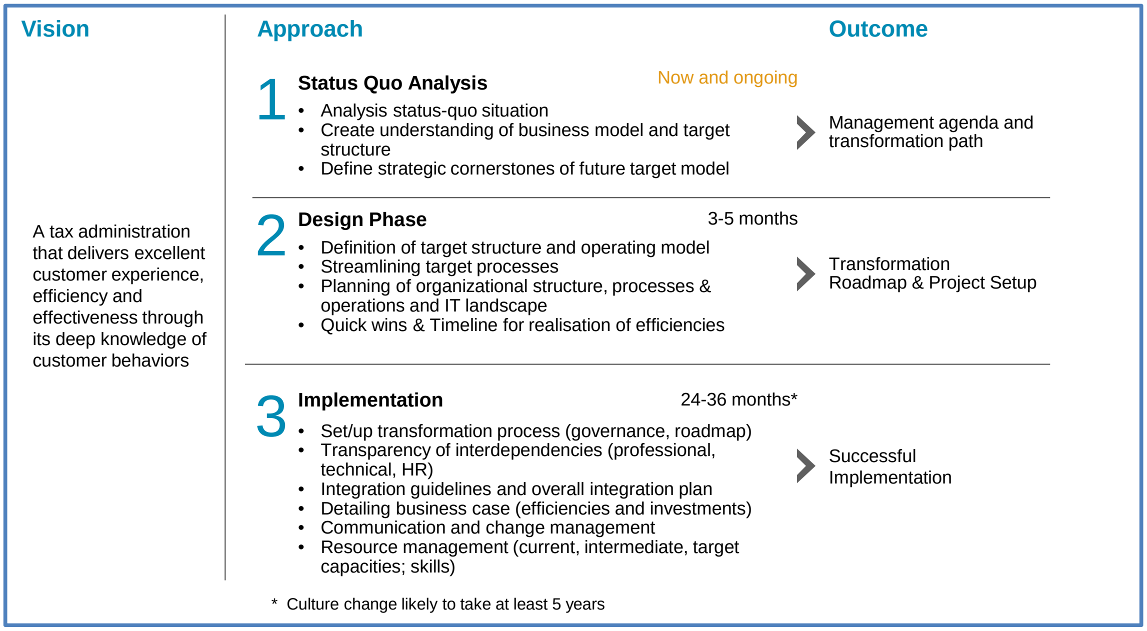

Figure 22: Comprehensive Plan in three phases
Source: Oliver Wyman expertise

7.2.1. Status Quo Analysis

The initial phase is concerned with developing a comprehensive understanding of the current de Belastingdienst situation. A vision will need to be clearly articulated together with an outline future target state. A business case is needed to quantify the case for change. The results are then shared with key stakeholders resulting in a Management Agenda and a broad outline of the transformation path to demonstrate the priority and sequencing of the actions planned.

This Status Quo Analysis has been conducted and finalised with the final version of the *Investeringsagenda* and provides the basis for the next phases.

7.2.2. Design Phase

The second phase builds on the *Investeringsagenda* and transformation path outline and focuses on detailing the agreed outcomes in the Status Quo Analysis. The result after about three months is a detailed transformation roadmap and project structure which provides the basis for the implementation phase. The target state is defined including target operating model, structure, processes, operations and system landscape. Preparing for the implementation phase includes setting up the transformation process governance, a full detailing of the business case and a view on resource management. These are then detailed into single measures for implementation. Due to the fundamental unknowns inherent in any radical, broad transformation it is important not to overly 'nail down' planning elements –

flexibility needs to be built in to work with the ‘rolling implementation’ approach. A meaningful ‘test and learn’ cycle is essential to maintaining this flexibility.

Finally, any ‘quick wins’ identified at this point are carried out as the transformation moves into the implementation.

This phase also details the governance structure, including the role of the investment committee and the mechanisms for releasing investment tranches and the rolling implementation approach. Thorough planning involving milestones and clear rules for releasing funds will be drawn up, striking a balance between giving the committee decision-making influence on the one hand and allowing for flexibility as the transformation progresses on the other. The conditions necessary for releasing funds should be transparent and aligned with all parties involved.

7.2.3. Implementation

This is about making the transformation happen. Clear communication around the change process is essential to maintain momentum. In this phase, the Investment Committee draws on available funds to make the required investments, contingent on the specified milestones. A key focus of this phase is a “rolling implementation”, where pilots are run to test changes before a full rollout is attempted. This period typically lasts two to four years to deliver most of the benefits, but full culture change in an organisation this size will take longer.

REPORT QUALIFICATIONS/ASSUMPTIONS & LIMITING CONDITIONS

Oliver Wyman was commissioned by De Belastingdienst to evaluate the Investeringsagenda in terms of whether the proposed goals are appropriate, whether the investments are reasonable, whether the quantified benefits are attainable, and whether the risks can be mitigated.

The primary audience for this report include the management team of de Belastingdienst, the state secretary responsible and the finance minister.

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