

# 1<sup>st</sup> International Forum of Tax Agency CIOs

Les Fontaines, Paris



# Introduction

Capgemini has a close relationship with a number of Tax Agencies. In our work with those Tax Agencies we began to see that despite being of various sizes, scales and levels of maturity they have many similar challenges. But what we also found was that these challenges are being tackled in isolation with little opportunity for CIOs and Tax Agency leaders to meet, share ideas and work collectively through potential solutions.



This International Forum, which was held on 8 and 9 June, 2006 at les Fontaines, Paris, was devised to provide an opportunity for CIOs to meet and have informal, open peer to peer discussions as well as for this critical community of Government professionals to meet, make links and create a network for ongoing discussions.

The remainder of this note covers the conversations that took place, conversations driven by the Tax Leaders who attended the Forum.



# The Public Sector Challenge

Tax Agencies are not unique. They are part of a wider community of Public Sector organizations and as such are exposed to the similar challenges. Geoff Filkin, a former Minister in the UK Government, provided his perspective on those challenges.

## The 'Big Squeeze'

Governments face a common problem, what Geoff Filkin described as 'the big squeeze'. They are facing:

- Demands for better Public Services,
- Aging populations,
- Shifts in the economy and in society that bring new pressures,
- Increasing and rising expectations from the public.

Meeting these challenges costs money but there are now big constraints on the income that Governments can bring in—people do not want to pay higher taxes and Governments cannot readily increase borrowing.

There is also pressure on all parts of the public sector to deliver better value. The public wants to see that they are getting demonstrable value in an environment where the productivity of the public sector is not improving as fast as it might. This is a massive issue both politically and fiscally—demand for public services has to be met and funded.

## The Tax Agency Challenge

Within this context Geoff Filkin highlighted five traditional challenges for most tax agencies:

- Raising yield from existing taxes and tackling avoidance.
- Cutting the costs of the Tax Agency by improving productivity and value.
- Responding to the increasing use of the tax system as a vehicle to change behaviors and as an instrument of wider Government policy in areas such as environmental protection.
- Raising the quality of service to the citizen and to businesses.
- Looking at how to manage the interface between the tax and welfare systems to make it work better in both policy terms and technology terms.

This is not a new agenda. What is new is the scale of the improvement and change agendas as well as the expectations on CIOs and Tax Agencies to deliver radical change.

In the past we could have assumed the service would be administered to remain static. Now we have to assume constant and significant change and have to identify an agenda for significant step change.

## Transformational Leadership

Putting these goals into practice requires a transformation strategy. Why? Because the delivery model for many Tax Agencies is a historical one based on paper with production units made up of individual offices that still struggle to harness the power of technology. The business process needs reworking and this needs a transformation strategy.



To fulfill these transformation goals requires leadership and CIOs are central to that leadership. But it also requires Tax Agencies to fully consider the internal capability of the organization itself—when should it deliver everything itself and when does it need help from others? So this transformation agenda needs to force a dialogue about what services should be kept in-house and what might be done externally? There might be scope to create shared services in areas such as Human Resources and Finance or to look to an increasing use of the private sector to deliver IT services.

## Conclusion

Geoff Filkin concluded by saying, “making transformation change is lonely work, particularly at the top; it is much better to change in an informal, trusting way. Some of the challenges are common across Governments, some are not. But even if they are only partially common, it is still good to have the conversations and to learn from each other. So developing a learning network allows CIOs and Tax leaders to share some of their common worries, anxieties and successes.”

# The CIO Challenge

The challenges facing CIOs in what is a rapidly changing environment can be summarized under three headings—compliance, cost effectiveness and citizen focused government.

**Essentially the challenge for the Tax Agency CIO is how to:**

Provide the technological support to the Tax Agency's compliance activities that enables all taxes to be collected

**Whilst**

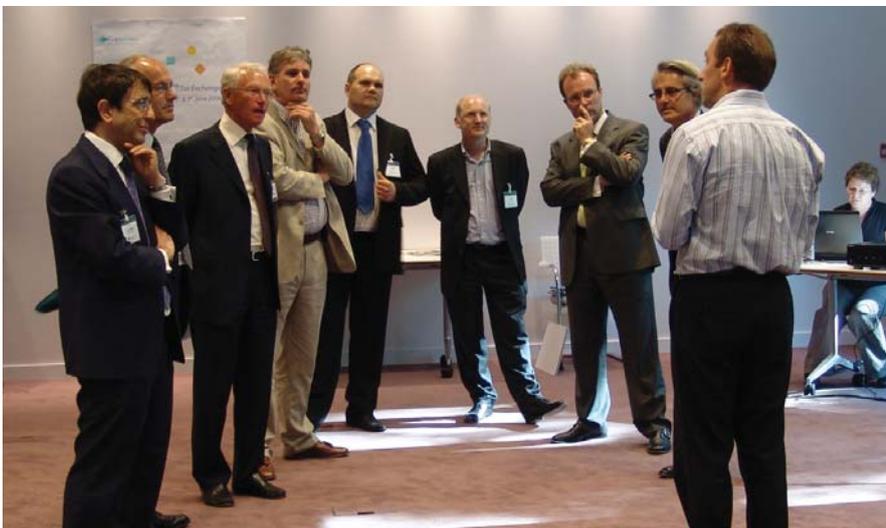
Ensuring a more citizen and business focus which:

- makes it easier for citizens and business to meet their obligations;
- opens up new ways to deliver services; and
- simplifies the tax system and finds opportunities to reduce red tape.

**In a way which**

Also helps to drive in cost effectiveness through:

- delivery of new IT systems that can enable increased productivity;
- new ways to transact services (such as Shared Services); and
- reengineering and reducing the cost of the Tax Agency's business processes.



# A Foundation for Change

How do Tax Agencies become more citizen focused and how do they manage their client base? How do you structure a tax account? What is the infrastructure that pulls this all together? How is workflow managed so that legacy applications can be opened up? These and other questions were the focus of the next debate at the CIO Forum.

## “Business not Technology Focused”

Starting from a business not technology perspective they discussed the position in their own countries so that they could identify the core common components to creating a citizen and business tax account. Although each CIO was starting with a different historical inheritance they quickly developed a high level architecture for a common tax account.

What this showed was that amongst the countries present, France and Estonia were clearly in a place where the other CIOs wanted to get to a single taxpayer account. Both of these countries had invested time in understanding the problem and there was clearly much learning from these two countries that could be leveraged by other CIOs to get the transformational step change they are seeking.

## Conclusion

The conclusions from the debate were:

- The creation of a single tax account for personal and business taxation was a key foundation stone to achieving transformation of the Tax Agency.
- A broadly similar conceptual model and architectural road map was identified.

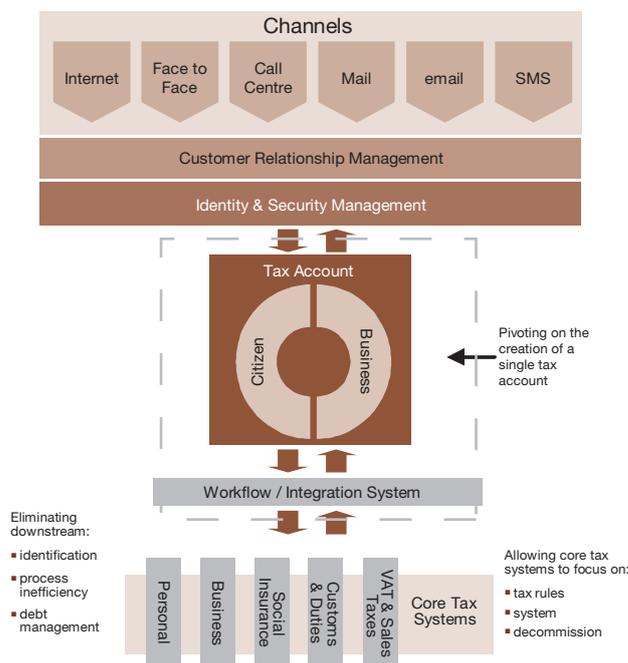
- Identify management is the core of this debate. There are examples of where this had been resolved and examples from other countries where this was much more difficult to resolve because of political, legislative and culture obstacles.
- There remains a challenge around the capacity of legacy systems to support change although countries such as Estonia have had the advantage of jumping technologies and so has little legacy.
- The creation of a front end built around good identity, tax account and workflow integration allowed the impact of legacy systems to be reduced and managed over time.

## A French View

France has a complex environment and the move toward creating a single tax account was driven by organizational change and merger. So France needed to create one information system with one taxpayer account for citizens and businesses. This was brought together in the “Copernic Programme” which has the objective of opening up the Tax Agency systems based around a single tax account for each individual and each business.

This approach is based on an architecture that includes CRM and workflow management supported by the integration of legacy systems behind a tax account index. This has allowed online transactions and access to the tax account regardless of the channel used—internet, telephone, e-mail, classic mail, or face to face. The emphasis has been on reuse of components to start to drive in standardization although for some business processes there have been completely re-engineered.

## A Tax Account Architecture?



But the real challenge right now is identity management which is seen as key to the final successful implementation of Copernic. There is a problem of multiple identities for citizens and businesses with no single identifier for transactions with Government.

For example, two people with the same work name and same address creates difficulties in ensuring that data with the Tax Agency is clean.

### A Spanish View

Spain has adopted a similar approach but critically does not have the problem of multiple identities. The IT systems have been built around business and data processes in which there are three layers. First structured information, second non-structured information and finally multi-structured information.

But all of this is based on a system of one tax identification number which is also a general identification number for nearly all transactions with Government—a system of identification which was introduced 30 years ago. This has allowed Spain to more actively manage data and move toward pre-population of tax returns.

So financial institutions are able to provide core data on a citizen to the Tax Agency—such as tax code, date of payment and the amount. This has allowed the Tax Agency to build a profile on a citizen with files for payments, files with the assessments made for that citizen, a file for making payments and another for identifying debts. The use of a general identification number allows this data to be pulled together to create a tax account.

### An Estonian View

Estonia had to approach the issue of a single tax account in an environment where there were significant financial constraints on investment decisions. But their advantage was to be able to jump technologies. The Tax Agency was not faced with large legacy systems that need to be opened up. Estonia has successfully created the single index for each citizen and each business to support all transactions with the Tax Agency.

### A Swedish View

Sweden, like Spain has resolved the single identity issue. In Sweden a citizen cannot start work without an identifier and it has to be used for all transactions with Government. This has enabled Sweden to develop cross-government updating of core information on citizens and businesses. All information is updated through the unique identifier and if for example a citizen wants to change their address, they need to use the unique identifier allowing the update to be made across all Government Departments.

### A British View

The United Kingdom has been struggling with similar problems as France in developing a single index to manage transactions with the Tax Agency. It has now developed a conceptual framework based around four key layers.

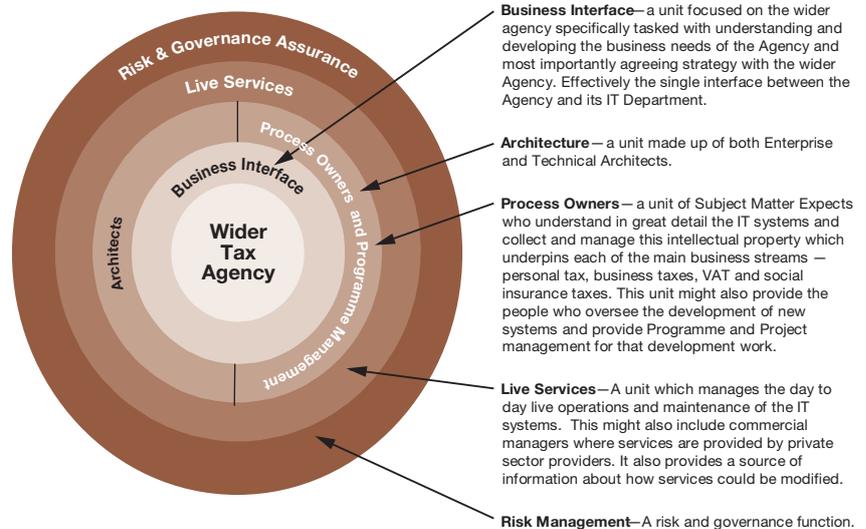
First, a layer to enable the citizen and businesses to transact with the Tax Agency, second an index layer connecting the pieces of data that enable identification of an individual. This then allows access to the third layer where there will be three tax accounts—a citizen tax account, a business tax account and a benefits account. This will allow for better compliance as for example in the case of a business, where all corporate and VAT liabilities are held in a common place from where risk assessments can be undertaken. Beneath this layer a workflow management system would link up the legacy systems which underpin the overall conceptual design.



# The Organization and Capability Challenge

Moving on from Business Models, the CIO Forum turned to discuss what shape, form and capabilities a Tax Agency expects from its IT Department. Given that technology is now placed at the heart of virtually every solution to the business challenges facing a Tax Agency, the CIOs concluded early on that the IT Department had to be focused on its customer—that is the wider Agency. A broad organizational model—shown opposite—was developed and debated.

Organizing around the Tax Agency



## Assessing Skills and Capabilities

The main focus of the debate was, however, on how to obtain and retain the right skills and capabilities. The CIOs all agreed that a shared challenge was to get the right people with the right skills and that these people were generally in short supply.

The main area of capability shortage was in professionals who could manage the interface with the wider Agency and also those who could manage large scale programs. These were not traditional civil service skills and therefore the pool of individuals sitting within the Agency capable of doing this work was limited. For example, the French Tax Agency has some good people but it was difficult to find people to make the links between IT and business processes.

In addition, people in the wider Tax Agency do not typically have experience of working within an IT operational environment.

Opinions differed on the limitations in skills sets in other parts of the outline organizational model. For example, in Spain live operations remain a critical in-house service with good quality staff although the private sector manages the network structures.

The United Kingdom in contrast has outsourced all of its IT operations and maintenance functions because it had concluded these services were non-core and better left to an IT service provider; they do not see this as a civil service function. In addition, this outsourcing is now extending to the role of Programme Management.

But all CIOs were to a greater or lesser extent having to use private sector providers to fill skills gaps ranging from the use of consultants through to obtaining technical people to write code. For example, in Spain capacity is purchased when needed to write code. In France the Copernic programme has an in-house team with control of knowledge of applications and the business but makes a great deal of use of consultants to develop the architecture and to undertake applications development. The private sector is also increasingly used to provide operational services.

In one of the countries 60% of resources go on developing new applications and 40% on maintaining existing systems and making annual adjustments for legal changes and errors. But there was a concern that increasing demand for IT, with pressures not to increase resources would lead to annual maintenance taking up more resources with as consequential loss of capacity for new developments.



### Conclusion

So the real challenge for any Tax Agency embarking on significant change is to have the right skills and capabilities to bring about transformation. These challenges require skills and understanding in organizational and business design and change, project and programme management and most critically in developing and delivering key architecture and IT systems which will enable successful business change.

Tax Agency CIOs need to critically consider whether they have the right skills and capabilities within their own organization, or whether they need to look to others to collaborate with them in the delivery of their desired goals. And if they do conclude they need to collaborate they then need to develop a sourcing strategy to ensure that they fully understand: what they need to source; and how they are going to do achieve this.

# The Role of the CIO

## John Birt says...

**“CIOs must be at the top table driving the transformation agenda”**

**“Involve your technology people in the formulation of Business Strategy”**

**“There must be a dialogue between the deliverers, who truly know what is going on, and the policy makers”**

**“You must have people with the right skills so you professionalize technology departments”**

Technology increasingly drives the business of a Tax Agency and is at the heart of business transformation. And the CIO is one of the most important change agents in the Tax Agency.

Many people have different visions of technology but in the public sector the links between policy needs and what technology can deliver are weak. So politicians have a very broad sense of how technology can support change. But they face policy advisors whose job it is to turn these broad notions into policies. However, it is these policymakers that tend to lack experience of technology.



So the loop between, Ministers, policy makers and deliverers has to be closed. The CIOs agreed that success would be where all of these people talk to each other and are informed by common experience. Politicians listen to policy makers and policy makers are bold enough to tell politicians what is and is not possible based on their links to the technology providers.

To achieve this requires the CIO to operate at Board level acting as a change agent with four key areas of focus:

### **Strategic Direction**

Engaging in the formulation of strategy bringing acute insights to the table which enable better strategic formulation right from the start.

### **Business Development**

Accountability for the Tax Agency's technology means the CIO impacts on and therefore must influence business decisions.

### **Transformational Change**

Challenging the status quo and acting as a critical driver of change.

### **Policy Delivery**

Influencing policy development and thinking at both the Ministerial and the policy making levels. Without this policy and IT are developed in vacuums leading to policy and IT systems that fail to deliver the aspirations of Ministers.

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