

# Trends in Tax Administration Outsourcing



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Federation of Tax Administrators  
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## Agenda

- Outsourcing and Out-tasking
- Why tax administrations outsource?
- Trends in outsourcing
  - Making transformations, building efficiencies and managing business process outsourcing
- The global picture of outsource initiatives
- A step-by-step guide to outsourcing: BIR Philippines
- Leading practices and lessons learned

## Out-tasking and Outsourcing

- The importance and experience of out-tasking
- Outsourcing is a larger and more complex subject – a truly strategic issue
  - Organization change
  - Infrastructural change
  - Business processes change
  - Financial and legal change

## Outsourcing

- When a private sector firm does work that was once done by a government employee
  - Longer-term than out-tasking
  - Outsourcing processes not accountability
  - Examples:
    - Applications development                      Solution hosting
    - Delegated revenue collection      Call center service
    - Business process outsourcing
  - New work? Taxpayer self-service?
- Traditional view has been that there are certain tax administration functions that can never - under any circumstances - be outsourced!

## Why Tax Administrations Outsource

- A broad range of reasons
- A tighter business environment
  - Smaller state and federal budgets
  - Increased demand for new taxpayer services
  - Lack of available resources
  - Outsourcers' offer economies of scale and experience
- An alternative view of value creation

## Trends in Global Outsourcing

Accenture describes 2 patterns in outsourcing

- The transformational trajectory
  - Bold objectives with high potential value
  - Structural reform & institutional strengthening
  - Clustered outsourcing to share benefits
- The efficiency trajectory
  - Cost driven outsourcing

Source: "Outsourcing in Government: Pathways to Value", Accenture 2003

## Does Outsourcing Work?

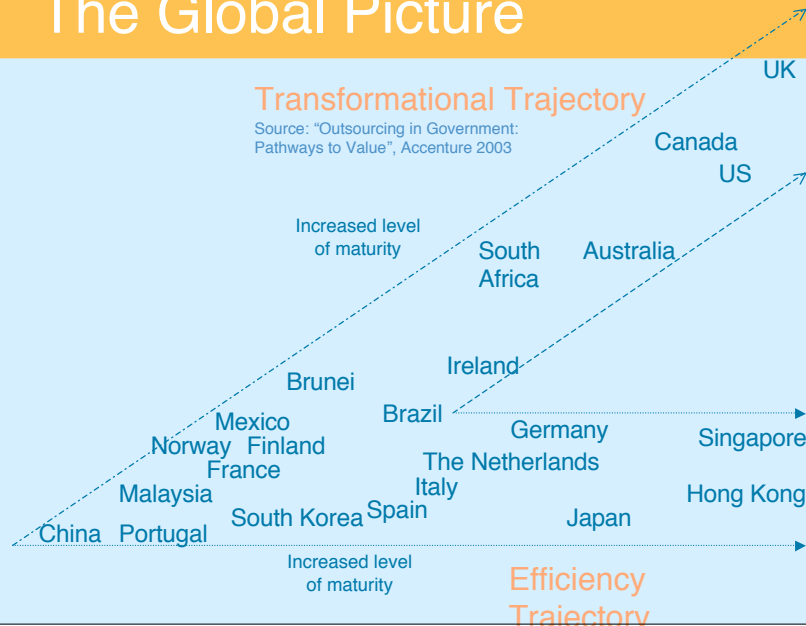
- Depends on the motive for outsourcing...
  - only 50% who listed cost reduction as driver were largely or fully meeting their objective
  - 71% who wanted to centralize and standardize processes or gain new technologies did so
- Transforming the agency more likely than cost reduction

Source: "Outsourcing in Government: Pathways to Value", Accenture 2003

## Outsourcing: Evolutionary Process?

- Out-tasking
- Non-core outsourcing:
  - Cost-reduction and simplification
  - Mass processing of operations
  - Keeping functions up to date
- Core outsourcing:
  - Improving services and quality, increasing revenues
  - Transforming the organization
  - Business process outsourcing
  - Single vendor then multiple vendor arrangements

## The Global Picture



## Examples of Transformation

- Australian Tax Office: learning from its mistakes
  - “Whole of government” vs. by 2G outsourcing
  - A decentralized approach
- Revenue Canada: focused on improving procurement
  - Centralized guidance on the Common Purpose Procurement Initiative
- Ireland Revenue Commissioners: leveraging the Web
  - Strong budgetary position allows more flexibility
  - Outsourcing designed to access technical expertise
  - A trend towards business process outsourcing

## Other Examples

- South Africa Revenue Service: applications focus
  - Outsourced financial applications and Internet portals
  - Centralized Public-Private Partnerships Unit
- UK Inland Revenue: the pre-eminent outsourcer
  - “Value for money” – a richer criteria for success
  - Strong demand for business process outsourcing
- US IRS: focused on technology outsourcing
  - Policy is decentralized under OMB A-76
  - State and local?

## Efficiency Outsourcing

- Argentina Tax Administration: evolutionary approach
  - Outsourced IT, then tax collection by financial entities
  - New service offerings: Internet user authentication
- France Tax Office: focused on infrastructure
  - Hindered by government regulations
- Germany Tax Office: cost-led outsourcing
  - Considerable state and local, little at Federal level
- Hong Kong IRD: well-planned IT outsourcing
  - Driven by a lack of internal resources
  - Managed by Information Technology Services Department

## Other Examples

- **Japan: traditionally kept IT in house**
  - A recent move towards outsourcing
  - Plans on allowing more foreign firm competition
- **Mexico: decentralized outsourcing**
  - Mostly IT outsourcing but still emerging
- **Singapore Tax Office: mostly IT**
  - To improve officials' focus on core functions
  - Well developed systems outsourcing
  - Very little outsourcing of business processes

## Philippines BIR

### World Bank modernization program

- Over 1000 IT staff and substantial assets
- Core ITS infrastructure built in late 1990s
  - 40% of authorized IT positions remain open
  - ITS not rolled-out to all geographies

USTDA grant to M Group to recommend appropriate outsource strategy for BIR

## Outsourcing Requirements

- An effective IT operation
  - Technical architecture and requisite skills
- Supportive legal and regulatory framework
  - The right contractual structure
- A sound financial business case
- Transforming the organization
  - Organizational impact
  - Program and project management

## Technical Scope

- Applications development and maintenance
- Hardware provisioning and operation
- Communications provisioning and operation
- End-user support, and call center
  - Minimal in-house function
- Data entry hardware provisioning
- Roll-out of ITS to all geographies
- BIR would prefer to contract with one Philippines-based vendor

## Technical Issues

- **Shared service level objectives and agreements**
  - Importance of good, clear documentation
  - Importance of bilateral training
- **Capacity to adapt to changing user demands**
- **Centrality of business process re-engineering**
  - A precursor to technological upgrading
- **Core IT groups remain but build in flexibility**
- **Planning leads to a non-disruptive transition**
  - Development of a Technology Master Plan

## Organizational Issues

- **Paradigm shift requires project planning**
  - Planning, transmission, consolidation, evaluation, experimentation, dissemination
- **Program management orientation**
  - Establish oversight, change management, training
- **A new organizational structure**
  - To ensure end-user satisfaction
  - To effectively integrate with the outsourcing organization
  - To capture information and metrics to confirm performance
- **Project and risk management**
  - Gap analysis
  - Independent validation and verification

## Legal and Regulatory Issues

- Philippines law allows financing either
  - Using own budgets
  - Using BOT law to benefits fund
- A continually changing legal environment
- A politicized decision and process
  - BIR require business case acceptable to Legislature
- Privacy issues require careful monitoring
- Staff transfers create a potential for conflict

## Financial Issues

- BIR expect revenue gains through outsourcing
  - 2002 tax collections at 9.9% GDP, target 14%
- Baseline and outsource cost models
  - Comparison of one-time and ongoing costs
  - Outsourcing staff costs higher than BIR
  - Outsourcer's IT asset costs lower than BIR
- Development of an agreed business case

## Perceived Strengths

- Enhancement/improvement of IT
  - Allows for technological upgrades
  - Reap economies of scale and experience
  - Protection of earlier IT investments
- Required business process re-engineering
- Program management orientation
- Organizational impact, allows new structures
- Gain sufficient manpower and other resources

## Perceived Weaknesses

- Risk management
  - Management risk - requires large number of SLO/SLAs
  - Security concerns
  - Concentration risk
  - Contract and legal risk
- Increased costs?
  - Legal costs, planning, staff redundancies etc.
- Staff anxiety, disruption
  - Mitigated by transition planning (BIR to outsourcer)

## Step-By-Step Guide

- Decide to take action
- Start to scope
  - Out tasking or outsourcing
  - Transformation or efficiency led
- Develop feasibility study and business case
  - Important to agree anticipated goals and objectives
  - Match metrics to anticipated goals
- Communicate internally
- Establish oversight
  - Develop a program management orientation
  - Communication and consultation with stakeholders

## Step-By-Step Guide

- Refine feasibility study and business case
  - Outsourcing, transition and change management plans
- Reorganization and change management
  - Restructuring and training, staff transition planning
  - Confirm SLO/SLA
- Issuance of proposal and procurement process
- Negotiation and confirmation

## Step-By-Step Guide

- **Implementation**
  - Ideal transition period is 1 year
- **Program management**
  - Utilize risk and program management tools
  - Metrics, metrics, metrics with gap analysis
  - Independent validation and verification
- **Reassessment based on evolving plan and objectives**
  - Innovation
  - Flexibility

## Leading Practices & Lessons Learned

- **Establish clear objectives and strategies**
  - Be informed - involve more skills and stakeholders
  - Be participative - top-down mandates don't work
  - Communicate - leverage the business case
  - Share the value - ensure that both sides benefit
- **Negotiate and contract effectively**
  - Be flexible - strict contracts don't work
  - Craft a business model not a deal
  - Think about tomorrow - include long-range and contingency plans
  - Listen - to specialists but own it - its still your enterprise

## Leading Practices & Lessons Learned

- Beware of outsourcing too many key people
  - Personnel and organizational decisions are very hard
  - Fit with your norms – each organization is unique
  - Aim for a year – the optimal length for transition
- Manage and improve your relationship
  - Be open – the only way to achieve success
  - Measure the program – and adjust accordingly
  - Establish a governance structure
  - Don't just focus on price – refer to the program objectives

## Leading Practices & Lessons Learned

- Finding and building on success
  - Keep planning - build plans with outcomes
  - Maintain management oversight and metrics
  - Be consistent –PRINCE or other methodologies
  - Keep an eye on the balance of control
- Institutionalize flexibility and innovation
  - “You need a method not a promise”
  - Keep sharing – insights, practices, solutions