

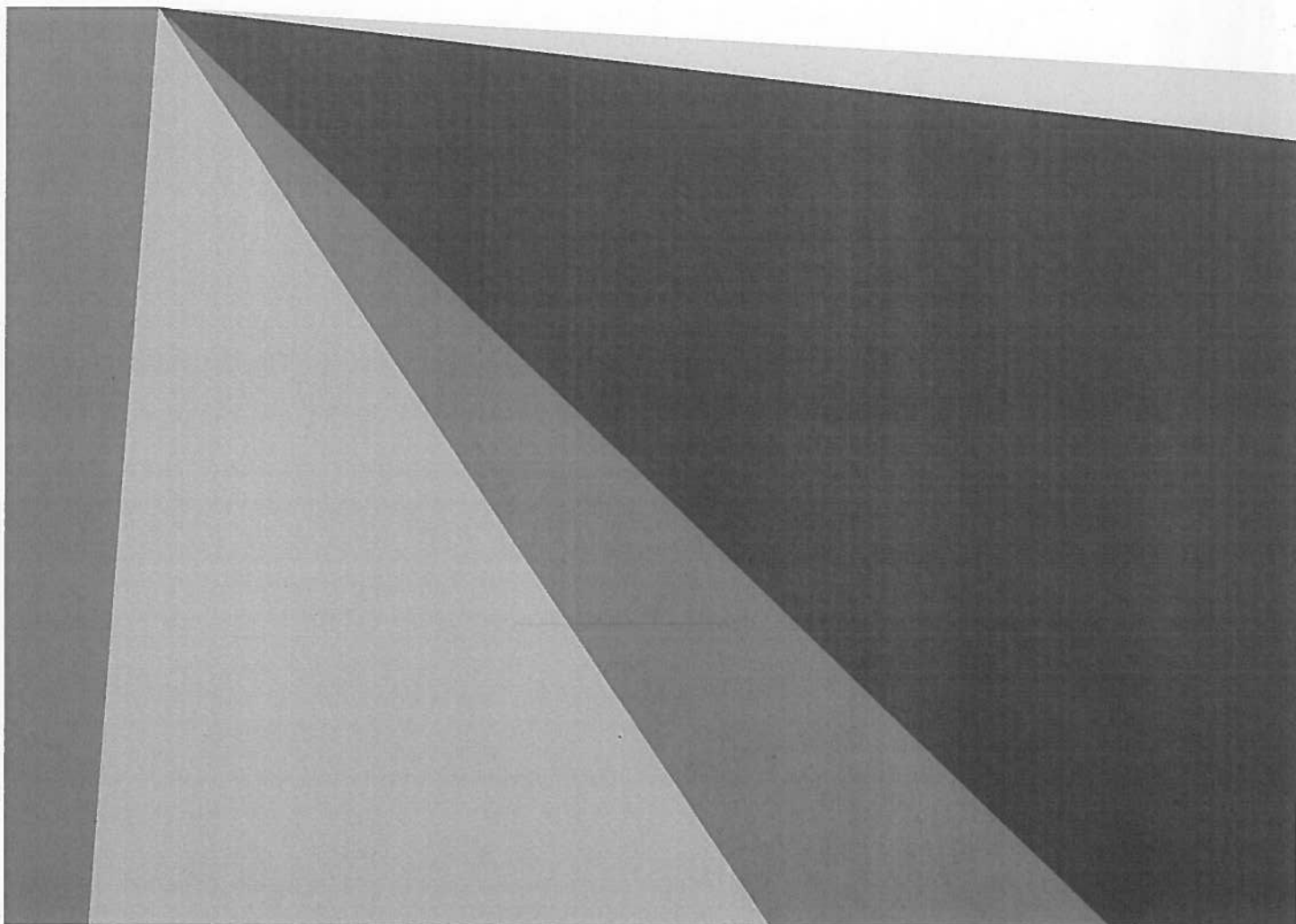


OBSERVATIONS ON STATE OF THE IA PROGRAM

V.1.0

DE BELASTINGDIENST

MARCH 31, 2016



CONFIDENTIALITY

Our clients' industries are extremely competitive, and the maintenance of confidentiality with respect to our clients' plans and data is critical. Oliver Wyman rigorously applies internal confidentiality practices to protect the confidentiality of all client information.

Similarly, our industry is very competitive. We view our approaches and insights as proprietary and therefore look to our clients to protect our interests in our proposals, presentations, methodologies and analytical techniques. Under no circumstances should this material be shared with any third party without the prior written consent of Oliver Wyman.

© Oliver Wyman

Contents

Executive Summary	i
Achievements of the Investment Agenda to date	i
Challenges and Risks	ii
Conclusion	iv
1. Purpose of this document.....	1
2. The state of the Investment Agenda	2
2.1. Structure and accountabilities.....	1
2.2. Implementation capabilities	2
2.3. Strategy and plan.....	6
2.4. Design of operating model.....	11
2.5. Business case update.....	15
2.6. Culture	17
3. The Oliver Wyman view on progress and next steps	19
3.1. Structure and accountabilities.....	20
3.2. Implementation capabilities	21
3.3. Strategy and plan.....	22
3.4. Design of operating model.....	23
3.5. Business case.....	25
3.6. Culture	26
4. Update on key risks	28
4.1. Update on risks identified in OW review of the IA.....	29
4.2. New key risks identified	31

Figures

Figure 1: Overview of key change dimensions	2
Figure 2: IA governance structure	1
Figure 3: Overview of data availability at central PMO level	3
Figure 4: Illustration of standardized project monitoring tool	4
Figure 5: Breakdown of IA project portfolio	7
Figure 6: Current project portfolio by project type	8
Figure 7: High-level Target Operating Model	12
Figure 8: Expected FTEs in D&A, IV accent and IO	14
Figure 9: Projections of quantitative benefits from active project portfolio	17
Figure 10: Illustration of concept of the Definition of Success document	17
Figure 11: Overview of progress against critical change dimensions	19
Figure 12: Assessment of key risks	28

Tables

Table 1: Quick overview of progress since the beginning of the Investment Agenda	1
Table 2: Estimated demand for implementation capabilities and capacities to deliver the IA	5

Executive Summary

This report contains Oliver Wyman's evaluation of progress by De Belastingdienst on its Investment Agenda (Investeringsagenda) since its inception in spring last year. The evaluation provides a short overview of the activity and progress so far, and considers how these compare to our expectation, whether the quantified benefits remain attainable, and how risks to the program have evolved.

Almost one year into the transformation program, we find that the Investment Agenda has had a good start, with progress generally ahead or in line with plan and expectations, based on our experience of similar transformations in other tax authorities. For instance, there has been debate over the operating model of the Belastingdienst for multiple years, yet with the focus of the IA the debate was quickly resolved and a consistent design formulated in the space of 6 months. In other areas, the concept of setting up the job transfer center, "Switch", was conceived and operationalized in the space of just 9 months with positive reception by worker's councils; employee interest in its initial mobility offers has been much higher than forecast, addressing the concerns about the timeliness of employee outflows. These achievements, combined with the positive bottom-up benefit forecasts now available from projects, confirms that the Investment Agenda business case remains attainable and conservative. Other areas, such as installing project control and a culture of central reporting have had slower progress, partly due to the culture of self-management and the siloed approaches to project management. This project control implementation is now significantly behind where we would have expected the organization to be in a program of this size and importance. In summary, the organization has delivered some major achievements, however some crucial building components are still required to secure the long term success of the IA.

Achievements of the Investment Agenda to date

Since our review last year, when the Investment Agenda was still in a conceptual phase, we have observed significant progress:

- The program structure has been firmly put in place, with a senior PMO team, dedicated executive governance forums, an investment committee to assess the release of funds, and external support by multiple parties in key areas, whilst at the same time implementing a new board structure and bringing a new DG on board.

- De Belastingdienst has agreed on a tax-payer centric operating model for the future, which is a paradigm shift in how its operation is set up, and will ultimately release significant benefits as siloes are broken down and leaders take end to end accountability for clearly defined segments of tax payers.
- The momentum built up is demonstrated by a growing Investment Agenda project portfolio, consisting of 60+ active projects across different areas of the business and a growing number of new initiatives proposed. This enthusiasm also illustrates a growing willingness to change across the organization. Increasingly, a shift is now visible from projects focused on design of the Belastingdienst of the future to concrete implementations aiming at realization of Investment Agenda benefits. Early benefits have already been realised by some of these projects, but it is recognised that at this stage these are relatively small.
- Switch has moved from a concept to an operational unit which has already generated higher than expected interest amongst employees.
- New organizational departments to drive innovation (Data and Analytics, Implementation Organization and IV Accent) have been put into place or have been extended to drive the innovation necessary in De Belastingdienst – the aim is to have approximately 400 people working in these departments by the end of the year.
- We have observed a clear shift from skepticism in the early stages of the transformation to increasingly strong buy-in at the management level. Cooperation and coordination across the current business- and functional siloes (a critical pre-condition for shaping the overall program and establishing one central direction for it) is improving.
- A comprehensive roadmap for the transformation has been compiled, comprising detailed project portfolio planning information. This document has been refreshed with the latest information every three months and helpful communication tools for broader sharing in the organization have been developed and are now being used.

Challenges and Risks

Despite the notable achievements, the transformation remains fragile in this early stage. We see the following main risks to the transformation in its current stage:

- **Change management- and implementation capacity – Extend and strengthen change support.** The positive momentum generated at senior level has generated a requirement for greater change management capability and implementation capacity, a need which will be further reinforced when the transformation broadens in the next period. As the profiles and experience are not widely available at the Belastingdienst, it would gain from bringing in individuals with change program experience.
- **Project control – Gain more control by influencing the overarching culture.** The data collected and aggregated centrally for individual projects is still basic and does not yet allow a complete picture of the portfolio on all metrics we'd expect to be available for control and reporting. This is suboptimal for effective (re)prioritization of the projects, and strategic control of the program. The launch of the Project Bureau should bring the manpower to track necessary data, but it must be recognized that this is also a mindset issue resulting from a legacy culture within De Belastingdienst – many individuals are currently not accustomed to working in this way, and it will take strong leadership to shift behaviors to a culture where greater project control is 'business as usual'.
- **Engagement – Engage the broader organization with visible and aligned leadership.** Engagement of employees beyond the management levels has been fairly limited during the initial phase focused on planning and design. Typically we would see leaders at both a senior and mid-level, supporting their teams through the change by actively engaging their organization in co-creating and validating the future. Too little of this activity could lead to a lack of understanding and buy-in of the changes which lie ahead, inhibiting large scale ownership and effective implementation.
- **Transparency. Increase external transparency and engagement.** The level of transparency De Belastingdienst has provided to its external stakeholders has been comparatively limited. This has already led to questions and concerns about the status of the program from its many external stakeholders. More external transparency and systematic stakeholder engagement by De Belastingdienst on status, risks, successes and mistakes will help avoid unnecessary concerns and discussions distracting from the core execution of the program. This is true for external stakeholders both within the ministry and beyond.
- **HR Management – Build robust capabilities to support the transformation.** HR management is currently focused on potential outflow through Switch, but the proposition for employees remaining in De Belastingdienst is still in an early conceptual phase. We have serious concerns that the HR function itself is not yet geared up to support the

broader transformation and the Belastingdienst of the future from an organizational and capability perspective. In addition, efforts to achieve hiring targets to fill key skill gaps in Bedrijfsvoering and add personnel for supervision tasks remain in their infancy.

- **Data management – Accelerate current initiatives.** The framework for managing the security, privacy and proportionality of taxpayer data at De Belastingdienst remains a major challenge. As a pre-condition for using information based analytics, specifying responsibilities and governance for these tasks is crucial for de Belastingdienst, there is a risk that this is not comprehensively or adequately in place before full scale use of information-based supervision and steering is planned to be launched. Pushing ahead and fully resourcing and ring-fencing the initiatives so that they can shift from principles into practice is now an urgent priority.

Conclusion

The senior team should be pleased with the balance of achievements so far. More than half of transformation programs fail in their first year due to an inability to gain momentum. This is not the issue at de Belastingdienst; there is significant buy in, business benefits have been identified and targeted, and the program is progressing. The challenge is now focused on building on the momentum that has been created and keeping the program going without falling apart under increased expectations and complexity. On the other hand, the transformation is still fragile, with important watch points around proper project control and transparency, change- and implementation capacity, HR and deeper engagement of the organization beyond the management levels. The challenges detailed above are well understood and if addressed we believe the program will be well positioned for continued success.

1. Purpose of this document

This report follows the Oliver Wyman review of the Investment Agenda performed in spring 2015. At that point in time, the Investment Agenda was still in a conceptual phase, although the early thinking on approach, governance and targets was already available. Now that the program has picked up speed – and is in transition from a phase dominated by important design questions to a phase in which implementation will be the emphasis – it is the right moment to provide a further snapshot of the program.

The remainder of this document is structured as follows:

- Chapter 2 provides a summary of the state of the Invest Agenda program, giving overviews of activity and results so far, key design elements for the Belastingdienst of the future already agreed and how the transformation program itself has taken shape.
- Subsequently, chapter 3 contains the Oliver Wyman view on the current status of the transformation and progress so far versus experience from other large programs at tax authorities and other similar organizations.
- Chapter 4 gives an update on the risks identified in the first Oliver Wyman review and dives deeper into new risks which have emerged since.

Oliver Wyman has been supporting de Belastingdienst with the planning and design of the Investment Agenda since June 2015. This review gives our opinion on where the Investment Agenda stands by March 2016.

2. The state of the Investment Agenda

Since its inception in May 2015, De Belastingdienst has laid the foundation for the large transformation outlined in the Investment Agenda. From an initial focus of putting the pre-conditions in place for successful execution and an emphasis on the design of the different aspects of the De Belastingdienst of the future, the transformation has now gained momentum and is entering a phase in which the first major results are becoming visible.

Many employees across the organization are increasingly being affected by the active portfolio of projects or the emerging improvements to the operating model.

This chapter presents an overview of the current status of the Investment Agenda, with key activities grouped into six critical change dimensions (see Figure 1).

Figure 1: Overview of key change dimensions



During the first year of the Investment Agenda, significant progress has been made across all six dimensions. Table 1 presents a high-level comparison between the status at the start of the Investment Agenda and the situation in mid-February 2016.

Table 1: Quick overview of progress since the beginning of the Investment Agenda

Dimension	Start of the Investment Agenda	Q1 2016
Structure and accountabilities	<ul style="list-style-type: none"> De Belastingdienst formally governed by 12 person management team 	<ul style="list-style-type: none"> New, more compact Raad van Bestuur structure instated and operational New DG on board and involved in the investment agenda program
Implementation capabilities	<ul style="list-style-type: none"> Program led directly by the board with ad hoc support on topics at hand 	<ul style="list-style-type: none"> PMO team consisting of senior Belastingdienst personnel dedicated to IA program External parties to support change program and bring critical content and experience where needed Project Bureau being established for consistent monitoring and reporting in execution phase Investment Committee instated for approval for allocation of IA funds
Strategy and plan	<ul style="list-style-type: none"> High level timelines and plans for coming years outlined in the "Activiteitenkalender" Key strategic initiatives driven in the Brede Agenda Approximately 400 projects active or emerging across all parts of the organisation without clear prioritisation or overall strategy 	<ul style="list-style-type: none"> Roadmap document compiled quarterly, including 100-page planning document created centrally by PMO Investment Agenda goals – financial and non-financial – clearly outlined in Definition of Success document Brede Agenda initiatives completed or subsumed into the IA portfolio Clearly delimited investment agenda change portfolio, containing ~60 priority projects; Governance mechanisms for (re) prioritisation and management of scarce resources in place – preventing over-stretching span of control Project activity outside IA portfolio continuously decreased if not prioritised as key for the IA or for maintaining continuity

<p>Design of operating model</p> <ul style="list-style-type: none"> • Strategy and high level targets outlined in original Investment Agenda letter to the parliament and in the "Activiteitenkalender" document • Inconclusive legacy discussions on the optimal structure of the operating model • Broedkamer driving key innovation in data and analytics sphere at high pace, but quickly overloaded due to limited capacity • Limited capacity for innovation in IV with focus on continuity and longer term developments • Switch concept agreed and Kwartiermaker appointed 	<ul style="list-style-type: none"> • Tax-payer centricity target translated into Target Operating Model design, with shifting accountabilities for segments and significant changes to the operating model setup • Large organisations put in place to drive developments and innovation of data and analytics products, IV innovation and implementation • Combined more than 300 FTEs targeted in Q1 to support these functions • Switch organisation operational and live with offers to employees; So far significant interest into voluntary exit
<p>Business case</p> <ul style="list-style-type: none"> • Business case based on available information (analytics known to Belastingdienst) and estimations of investments needed (IT, personnel) • Deemed attainable and conservative in external review by Oliver Wyman 	<ul style="list-style-type: none"> • Business case tracking based on actual data and benefits forecasts from individual projects in IA portfolio • Forecasted results on quantitative targets positive and surpassing initial expectations for coming years
<p>Culture</p> <ul style="list-style-type: none"> • Broader organisation sceptical that de Belastingdienst will follow through on change, resulting from past experiences 	<ul style="list-style-type: none"> • Initial resistance had made room for majority buy-in and willingness to change at the management levels • Investment Agenda projects adopting new working and reporting modes, as well as portfolio governance structure

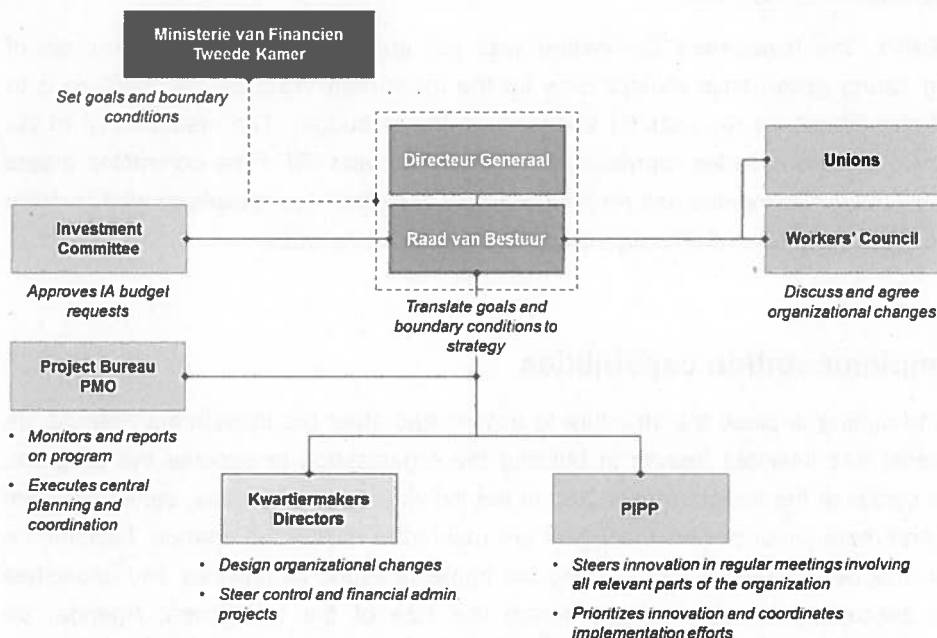
2.1. Structure and accountabilities

The setting up of the Investment Agenda program has coincided with significant changes being made to the governance structure of de Belastingdienst as a whole. Since the beginning of the Investment Agenda implementation, a new Directeur Generaal has been appointed and the former twelve person management team has been restructured to a more compact Raad van Bestuur (Board). The governance structure for de Belastingdienst as a whole is now beginning to settle into a more stable form and become operational.

Against this background, the broader governance structure for the Investment Agenda has been subject to an extended period of uncertainty. While a number of parameters for the governance of the program were agreed early in the program lifetime, such as the close involvement of Unions and Workers' Councils and the creation of an Investment Committee, the mechanisms for delegating from the Raad van Bestuur to the rest of the organization had to be established more gradually. With the new Directeur Generaal on board and involved in the Investment Agenda, the program structure and accountabilities have now been agreed.

To effectively steer the program and ensure organization-wide cooperation, an Investment Committee, an executive decision committee (PIPP) and a program coordination center have been created specifically for the Investment Agenda (see boxes in light blue in Figure 2).

Figure 2: IA governance structure



The Investment Agenda is being steered by the Raad van Bestuur which sets the strategy, steers the change and ensures that day to day operations are not negatively affected by the

change efforts. To ensure the members of the Raad van Bestuur are appropriately supported, an executive decision committee, the role of the 'Kwartiermakers' and two central support vehicles have been established.

The executive decision committee (PIPP) has been set up as forum for critical internal stakeholders to regularly steer and prioritize projects. Concerns and questions are being escalated to the PIPP, suggestions for new projects are brought forward and discussions are documented clearly.

Projects which do not fall within the remit of the PIPP must have a member of the Raad van Bestuur attending their decision committees and are mainly related to improving controls and the financial administration.

The implementation of the changes and especially the design of the necessary organizational changes are being coordinated by 'Kwartiermakers' and Directeurs of de Belastingdienst. The central planning and monitoring of the program is being supported by a PMO team and the newly set-up Program Bureau (see section 2.2).

The Raad van Bestuur also leads the interactions with Unions, Workers Council, the Investment Committee and senior external stakeholders. The negotiations with the Unions and the Workers' Council relate specifically to changes which affect the organization and hence might have an implication on employees of de Belastingdienst. Both parties have been closely involved in the design of the mobility vehicle Switch, created to manage the targeted reduction of 5,000 FTEs.

Like the PIPPs, the Investment Committee was set up specifically for the purpose of establishing strong governance mechanisms for the Investment Agenda. Its mandate is to review and give advice on requests for budget from the IA budget. The membership of the Investment Committee includes representatives from FEZ and IRF. The committee meets approximately every two months and reviews concrete investment proposals as well as more general information on the overall progress of the Investment Agenda.

2.2. Implementation capabilities

In addition to putting in place the structure to govern and steer the Investment Agenda, de Belastingdienst has invested heavily in building the organization to execute the program. Both at the center of the transformation and in the individual change areas, senior program managers and more junior project managers are needed to deliver the change. Despite the effort which has been invested into building the implementation capabilities and capacities needed to execute a transformation program the size of the Investment Agenda, de Belastingdienst is still facing a shortage of experienced change and project managers.

The central team supporting the Raad van Bestuur in the execution of the Investment Agenda consists of a Program Management Office (PMO) and a Project Bureau. The PMO

team comprises a handful of senior staff from de Belastingdienst who are managing key stakeholders, preparing documentation for the Raad van Bestuur and monitoring potential risks. In the first nine months of the Investment Agenda, the PMO team has been supported by Oliver Wyman in its planning and monitoring tasks.

In line with the strategy to increasingly build change capabilities internally, a Project Bureau staffed with Belastingdienst employees, has been formally established in the first quarter of this year. Once the Project Bureau is operating at full speed (estimated at 10 – 15 people) it will be responsible for consistent monitoring and reporting in the execution phase of the Investment Agenda. The Project Bureau builds on the existing data base of project information to standardize and deepen the level of project information available at the central planning office. Figure 3 illustrates the project information currently available for the 68 Investment Agenda roadmap projects and Figure 4 gives an illustration of the standardized program monitoring tools which de Belastingdienst is developing.

Figure 3: Overview of data availability at central PMO level

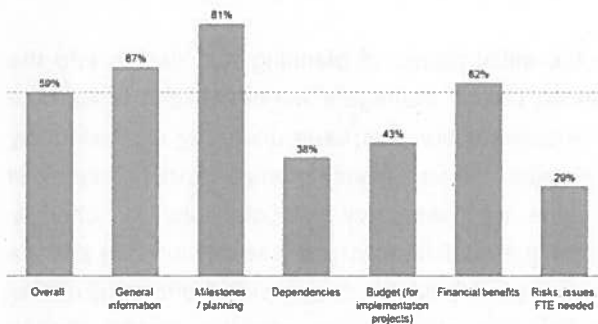
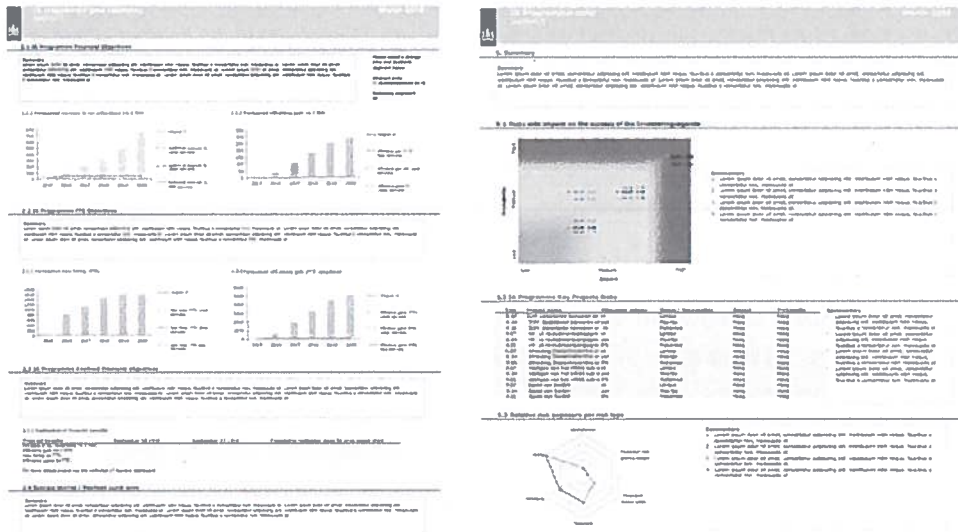


Figure 4: Illustration of standardized project monitoring tool



As the Investment Agenda moves from the initial phase of planning and design into the implementation stage, additional experienced project managers will be needed to execute projects. So far, the Investment Agenda implementation has been driven by approximately 15 senior managers (often Directeurs or 'Kwartiermakers') whose primary focus has been on planning IA initiatives and putting in place the necessary pre-conditions for change. Substantial progress has been made on both the portfolio planning (see section 2.3) and the creation of the conditions for change, for example the design and approval of organizational changes (see section 2.4). Already during this phase, with relatively limited change implementation activity, the skills shortages have become apparent: Senior managers have been struggling to find suitably qualified project managers from within the organization and only in rare cases and for certain areas of the organization have been able to hire project managers externally.

Based on the expected project activity outlined in the Investment Agenda portfolio, the skills shortage looks likely to exacerbate as implementation activity increases – see also Table 2 for estimates of the (full time) change capacity needed beyond existing line manager involvement.

Table 2: Estimated demand for implementation capabilities and capacities to deliver the IA

Role	Key competencies	Positions
Strategic change managers	<ul style="list-style-type: none"> • Senior management • Drive change • Develop strategic vision 	~15
Program managers	<ul style="list-style-type: none"> • Oversee multiple projects • Coordinate across silos • Plan over multiple years 	~15
Project managers	<ul style="list-style-type: none"> • Deliver projects • Coordinate within departments and administrate projects 	70 - 80
Project Bureau and PMO	<ul style="list-style-type: none"> • Central program planning • Monitoring of project progress • Reporting and documentation 	15 - 20
Total senior staff		115 - 130
Project staff	<ul style="list-style-type: none"> • Support project managers in project delivery • Average of 1-2 FTE per project 	70 - 140
Total staff		185 - 270

2.3. Strategy and plan

The overall strategic objectives of the Investment Agenda and the high-level timelines of the steps to achieve these objectives were first outlined in the "Activiteitenkalender" sent to the Tweede Kamer in May 2015. Since then, considerable effort has been invested into detailing, prioritizing and operationalizing the "Activiteitenkalender" activities and ensuring balanced progress across the five change areas of the Investment Agenda.

The financial and non-financial objectives of the Investment Agenda have been outlined clearly in the 'Definition of Success' for the program.

The core of the Investment Agenda program is formed by a portfolio of projects which touch all areas of the organization. Since the start of the program, this portfolio has been slowly filled with projects which require funding from the investment agenda budget. The challenge at any point in time is to make sure that this portfolio consists of the most important projects, measured in terms of their contribution to Investment Agenda targets. To achieve this, two program activities are key:

- Strong governance on the entry of projects into the portfolio, to ensure its composition is agreed by all relevant parties and to control the total number of projects in execution.
- Regular reprioritization to account for new project ideas, (e.g. newly developed applications by Data and Analytics), which could help achieve IA goals even faster or better. This requires constant tracking of project business cases and progress.

Both of these elements have been assured by the governance arrangements described in section 2.1.

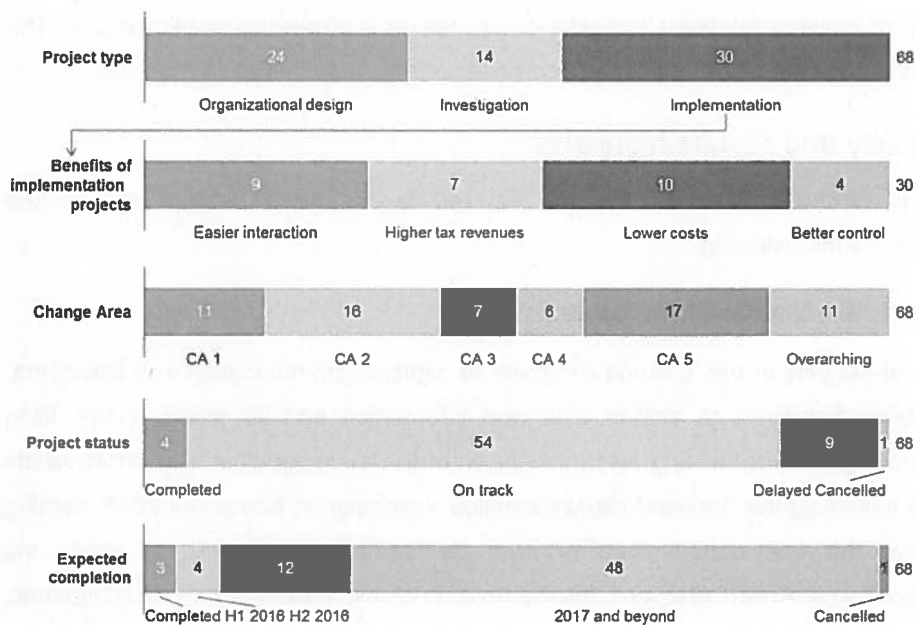
Prior to the Investment Agenda, de Belastingdienst was driving its key strategic initiatives in the Brede Agenda. In addition, a project portfolio of approximately 400 active or emerging projects existed across the organization without clear prioritization or overall strategy.

While some initiatives from the Brede Agenda have been subsumed into the Investment Agenda, the project portfolio is clearly delimited and currently contains around 60 priority projects. Project activity outside the Investment Agenda portfolio is being reduced unless the projects are required to maintain continuity or deliver pre-requisites for Investment Agenda projects.

2.3.1. Overview of current project portfolio

The project portfolio of the Investment Agenda as of March 2016 includes 68 projects covering all five change areas. Figure 5 presents selected breakdowns of the IA project portfolio. The portfolio breakdown re-emphasizes that during the first year of the Investment Agenda, a heavy investment was made by de Belastingdienst to create the preconditions for change, such as resolving questions around the future organizational design and investing in its IT landscape. This is an important driver of the long duration of many projects included in the portfolio (see chart on expected completion of project).

Figure 5: Breakdown of IA project portfolio



While projects to design the future organization of de Belastingdienst have been started across all change areas, the biggest organizational questions have been concentrated on Change Areas 1 and 2 covering the primary processes of de Belastingdienst and around 20,000 employees. On a smaller scale, there was a step change in the expansion of the Data and Analytics function (Change Area 3), which was the first part of the organization to begin hiring new employees to fill skill gaps. Figure 6 maps the project portfolio onto the five change areas, with organizational design projects being shown in blue.

Figure 6: Current project portfolio by project type

1: INTERACTION	2: INFORMATION-DRIVEN OVERSIGHT	3: DATA AND ANALYTICS	4: MANAGEMENT INFORMATION	5: IV
Target Operating Model (5 projects)		Data management (2 projects)	Finance function (2 projects)	Information Managers
Doelenhierarchie				IV processes (6 projects)
Implementation Organization		Data & Analytics (2 projects)		IV Accent
Switch (2 projects)		EH&I	HR function	
2 investigations	8 investigations		3 investigations	1 investigations
9 implementations	7 implementations	2 implementations	3 implementations	8 implementations

The progress of projects relating to organizational design is explained in section 2.4. The main activities across the rest of the project portfolio are described in the next section.

2.3.2. Activity and results highlights

The highlights of the project activity and first results for each Change Area of the transformation are the following:

Change Area 1: Interaction with taxpayers

The majority of projects in this Change Area aim to digitize communication with taxpayers, such as allowing taxpayers to access their own information and tax forms online, filing appeals online and communicating electronically with de Belastingdienst. The most visible example was launching the “Vaarwel blauwe envelop” campaign in November 2015, alerting taxpayers that the first communications from de Belastingdienst will be made via Berichtenbox. Change Area 1 also includes the revision of the website of de Belastingdienst, which went live in early 2016.

The projects which are in an earlier (investigation) stage explore possibilities for more tailored interaction strategies depending on taxpayer behavior. These projects are still in a relatively early stage because an agreed Target Operating Model and customer segments is a necessary pre-requisite.

Change Area 2: Information-driven oversight

Project activity in this Change Area has been roughly balanced between rolling out analytical tools which were already in a relatively advanced stage at the beginning of the Investment Agenda and piloting and developing new ideas for intelligent use of data.

The roll-out of three analytical tools for the Collections department, the bailiffs and the Individual taxpayer department has dominated implementation activity in this Change Area. The process of rolling the analytical tool from the Broedkamer out into the organization for the first time has faced some practical challenges as the new Innovation Triangle (see section 2.4.2) has not yet reached full strength. De Belastingdienst has also developed a new vision for how it wants to do Handhaving (the set of activities ranging from service provision to investigation which de Belastingdienst has at its disposal).

In addition to rolling out analytical solutions which had been in a relatively advanced stage already at the beginning of the Investment Agenda, new analytical solutions have been added to the Broedkamer pipeline. Most of the investigations in Change Area 2 are pilots for analytical tools for supporting MKB supervision staff, e.g. to detect VAT Carrousel fraud or predict financial distress of companies. Before the full roll-out, these tools are being tested in different places across the organization.

Change Area 3: Data and Analytics

Project activity in this Change Area is closely intertwined with Change Area 2 as the tools developed by the Data and Analytics function form the basis for information-driven oversight. Change Area 3 includes mainly the build-out of the Data and Analytics function (see section 2.4.2 for a progress update) and the management of the earliest stage product pipeline.

Change Area 4: Steering and Management Information

Projects relating to the Finance and HR support functions are included in this Change Area.

In the Finance area, the implementation projects aim to improve cost and FTE data available (with the first data layer of the 'DeJong Cube' being completed at the end of 2015) and restructure the financial administration landscape. De Belastingdienst has also started two investigations into ways for improving its Management Control framework (the first step being the selection of more meaningful KPIs in the year plans of the business units) and has formed an external expert group evaluating the existing controls around the processing of tax revenues.

The beginning of the IA recruitment campaign has been a priority for the HR function in this first year of the Investment Agenda. The first vacancies (for data experts joining the Data and Analytics function) were published in late 2015 with positive response from the labor market. In March 2016, the first vacancies for tax supervision staff were published.

Change Area 5: Support through IV

This Change Area contains some of the Brede Agenda projects subsumed into the Investment Agenda project portfolio. The projects aim to develop new IT capacity supporting the Investment Agenda priorities driven forward in the other Change Areas and to rationalize the legacy systems for mass processes to simplify the system landscape.

The new capabilities needed for the Investment Agenda include projects which will allow de Belastingdienst to e.g. withhold payments when no valid address of the taxpayer is on file, simplify the payment arrangements and reduce the need for manual filing of VAT claims. In context of supporting the implementation of analytical tools, de Belastingdienst has also investigated how to improve the IT procurement process.

The rationalization of the IV landscape is a program which has been subsumed into the Investment Agenda. It aims to simplify and modernize de Belastingdienst's legacy systems to create capacity for innovation. Over the coming years, this program also needs to support the process changes created by the Investment Agenda, such as the introduction of end-to-end processes oriented towards taxpayers segments with the Target Operating Model.

2.3.3. Projects which have been delayed or cancelled

As in any large transformation, it is unlikely that all projects and initiatives in the Investment Agenda achieve their full intended impact. New information, setbacks, unexpected leaps forward can all lead to a reprioritization of the portfolio of efforts, delays and cancellations. In a project portfolio approach these events are not in themselves a reason for concern or a sign of failure – in fact it would be in the line with expectation that a number of projects fail for a variety of reasons. As long as the portfolio as a whole can achieve the goals of the Investment Agenda, the program is on track for success (e.g. by prioritizing other projects or adding new projects to the portfolio).

So far, the investment agenda has only seen a modest number of cancelled or de-prioritized (postponed) projects, for example:

- The plan to make risk indicators available to B/CA staff to better assess amendments by tax payers was – after further evaluation – considered difficult to attain technically in a short period of time and upcoming organizational changes in the context of the TOM might interfere with the project or might make it obsolete. As a result, the project was cancelled.

- Three more projects, all related to better use of tax payer data for improvement of interaction and supervision, were postponed to relieve the pressure on critical resources in the Data and Analytics department. This department has other priorities which are of even greater value for the Investment Agenda and should not be put at risk by overstretching resources. As a result, three projects were postponed (though not cancelled):
 - Delivering risk information on tax payer to BelTel employees to enable quicker decisions on the phone, e.g. on payment plans
 - Delivering tax payer information for insight by tax payers themselves via Mijn Belastingdienst
 - Bringing the debtor insight dashboard to supervision staff

2.4. Design of operating model

De Belastingdienst has invested heavily into the design of the future operating model in this first year of the Investment Agenda. It is expected that all Business Units and most employees will be affected by the reorganization of processes and centralization of tasks, although to varying extent.

This chapter gives an overview of the most significant organizational questions investigated and the progress made.

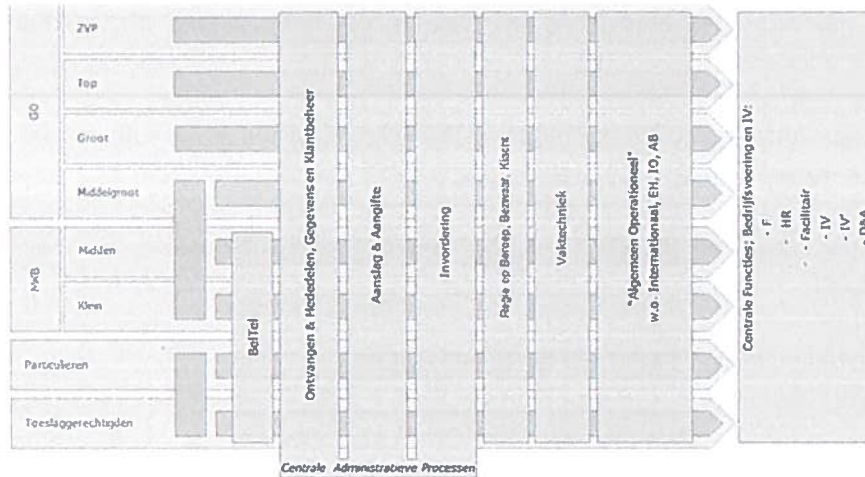
2.4.1. Target Operating Model

Senior leaders recognized in 2015 that the goals set in the investment agenda, required a paradigm shift in terms of how de Belastingdienst is structured and how it operates. The Target Operating Model was developed to establish a customer-focused organization, which entails a significant shift in how accountability for business results is assigned.

A New Target Operating Model (TOM) has been defined, focused around customer segments with end-to-end accountability for overarching results (driving structural tax revenues, decreasing operational costs, improving the customer experience). These are integrated with operational functions with responsibility for process efficiency and effectiveness. The TOM concept has been developed collaboratively with close involvement

of business leaders to enhance buy-in and commitment. Agreement from Workers' Councils on the proposed structure was achieved in March 2016.

Figure 7: High-level Target Operating Model



The overall concept can be summarized with reference to a number of overarching decisions:

- The primary organizing axis of de Belastingdienst will be customer facing segments with clear end to end accountability.
- The strategic direction is to focus headcount towards higher fiscal value groups, and those demonstrating lower compliance behaviors through increasing automation of processes of volume and compliant taxpayers. Clear end-to-end accountability is placed in the hands of segment leaders. This includes accountability for customer interaction, oversight and enforcement and, ultimately, for delivering results e.g., securing the structural tax revenues, reducing operating costs and improving the experience of the taxpayer
- There is a high level segmentation based on four segments: GO (including a new sub-segment for high net worth individuals), MKB, Individuals, and Toeslaggerechtigden.
- Cross-segment centralized functions will be established to achieve benefits of scale, provide flexibility and avoid duplication. However, cross customer segment units will not dilute the accountability for results held by customer segment leaders.
- Specials will be treated in the customer segments, with specialist knowledge delivered by the competency center.

- Worker's Council agreement to the key decisions was achieved in March 2016

During Q1 2016, notable progress has been achieved in developing the Doelenhierarchie which provides one of the mechanisms for managing the intersections between the customer segments and the operational functions. The Doelenhierarchie concept aims to cascade the strategic objectives of de Belastingdienst through the organization to improve the ability to steer the organization in a coordinated way towards overarching results (drive structural tax revenues, reduce costs, and improve the customer experience). A framework has been developed to ensure the alignment between these overarching results, for which the customer segments are accountable, and the goals of each (vertical) operational function. To support the management of organizational intersections, goals will be shared – where appropriate – between customer segments and operational functions. Furthermore, a consistent process efficiency and effectiveness framework ensures alignment for goals established across each operational function.

The Doelenhierarchie concept has been finalized during Q1 and the content is under development with the full involvement of the COO column business leaders through a program of dedicated working sessions.

2.4.2. Innovation Triangle

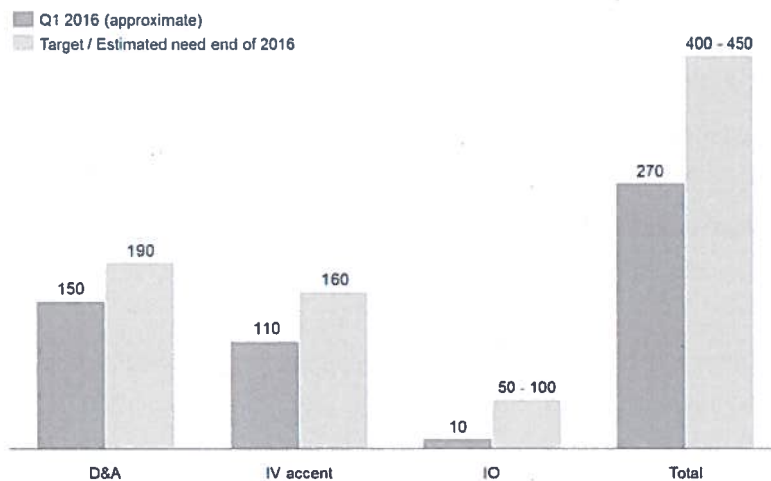
To drive the innovation and implementation needed for the Investment Agenda, significant resource is needed to drive the analytics, build the necessary IT and support large implementations. In an organization which is highly focused on the continuity of the operation (and cannot allow itself to shift that focus), three dedicated units with specific capabilities have been established for this purpose in the CIO, CFO and COO columns. Large organizations have been put in place to drive developments and innovation of data and analytics products, IV innovation and implementation, with more than 300 FTEs expected to support these functions (see Figure 8). Two of these departments (Data and Analytics and IV accent) have been established while the third one (Implementation Operations) is about to be established formally once the last questions about its size, scope and place in the organization have been resolved. While all departments are still strengthening their capacity, they are operational and working closely together on running IA activities:

- Data and Analytics (D&A): The aim of the organization is to structure, analyze and present data to create value for the whole organization. The innovations by D&A will be one of the key levers for achieving the goals in the Investment Agenda. Broedkamer has

been driving key innovation in the data and analytics sphere at high pace for two years but has quickly become overloaded due to limited capacity.

- **IV accent:** Previously, there was limited capacity for innovation in IV with focus on continuity and working methods mainly aimed at longer term developments. To ensure sufficient IV support is available to drive innovation, a new IV team is being set up. This team is ring-fenced from maintaining the existing landscape and instead focuses on bringing e.g. analytical tools and new interaction channels into production.
- **Implementation Operations:** This completely new department will be responsible for supporting the implementation of innovation from end-to-end, including the planning and preparation, the roll-out and the maintenance of the products. It hence provides a link between the business and the parts of the organization driving innovation and alleviates some of the implementation capability constraints faced by de Belastingdienst.

Figure 8: Expected FTEs in D&A, IV accent and IO



2.4.3. Switch

Another critical pre-condition for the success of the investment agenda was the establishment of a mechanism to manage a reduction in headcount. This was achieved through the design and set-up of Switch in the second half of 2015. Considering the gross outflow of 5000 FTEs targeted by the investment agenda, a strong organization was required to guide thousands of employees through Switch to new positions.

Switch has now been successfully established and the function has gone live with a number of options for employees to voluntarily move to Switch or to leave de Belastingdienst with a severance package. Initial feedback from across the organization is that significant interest is expressed in these options, surpassing the expected number of employees wanting to leave the organization voluntarily. The end result of the negotiations between employee representatives and de Belastingdienst has resulted in a severance package which is attractive for people approaching retirement age and the strong labor market conditions are likely to create opportunities for Belastingdienst employees looking to change careers.

2.4.4. Other organizational design initiatives

The remaining organizational design initiatives have largely been focused on planning for the centralization of de Belastingdienst's support functions. At the beginning of the Investment Agenda, most Business Units of de Belastingdienst had their own Bedrijfsvoering team. The aim of the centralization is primarily to standardize task execution and increase the ability to steer and improve the quality of the service for the organization. The design foresees the set-up of a central HR function, with a Shared Service Center, a central policy department and Business Partners as links into the organization. A similar structure is envisaged for the Finance function. Furthermore, the Information Managers spread across the organization will be brought together in one place.

Since the beginning of the Investment Agenda, de Belastingdienst has also identified a better data management framework as a priority. The data management framework has the objectives to improve control and security around data, enhance service to customers using data and increase agility and efficiency.

2.5. Business case update

At the start of the Investment Agenda, De Belastingdienst presented a business case which focused on making it "better, cheaper and more in control" for a combined initial investment of €1.1bn over 5 years. The structural financial benefits aimed for as part of this business case surpass the annual investment needed already in the course of the program and consist of:

- An improvement of €750m annually in terms of structural tax collected
- A gross reduction of cost by almost €300m annually (net well over €100m)

At the time, this business case was based on available information (e.g. the analytics products already under investigation or in development) and substantiated top-down estimations of investment needed (e.g. for IT and personnel) and was deemed attainable and in line with benchmarks from similar programs at other tax authorities in an external review by Oliver Wyman.

Now that actual forecasts and estimations of targeted benefits are available on a project level, the bottom-up picture confirms the attainability of the Investment Agenda business case. Figure 9 shows the aggregate forecasted benefits from the portfolio of currently active Investment Agenda projects for each of the main, quantitative targets, with forecasted results surpassing top-down expectations for the coming years for additional tax revenues. Although these numbers are currently still forecasts and are naturally still faced with some uncertainty, they will continue to improve over time with progress in the underlying projects.

Although the financial side needs to be in order, not all benefits targeted in the investment agenda can be translated directly into a financial impact. Goals like “more effective and suitable interaction for each tax payer” (a key part of becoming “better” in the Investment Agenda) and “more in control” cannot be easily converted in this sense. To still enable consistent tracking and communication of these goals, they are described and detailed in the “Definition of Success” document, which is discussed and set at the board level (see also Figure 9), and which will serve as the basis for reporting on all Investment Agenda goals.

Figure 9: Projections of quantitative benefits from active project portfolio¹

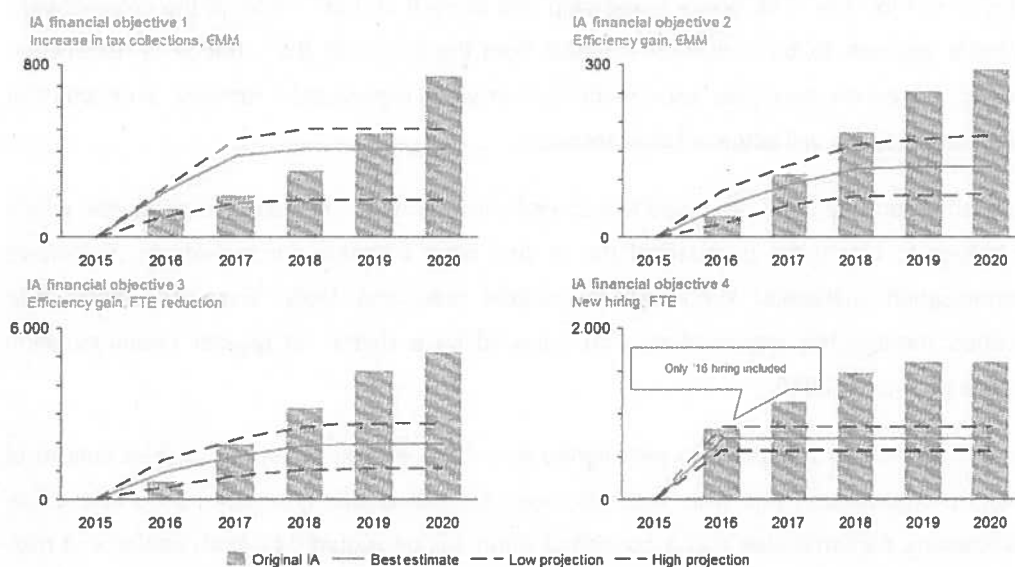
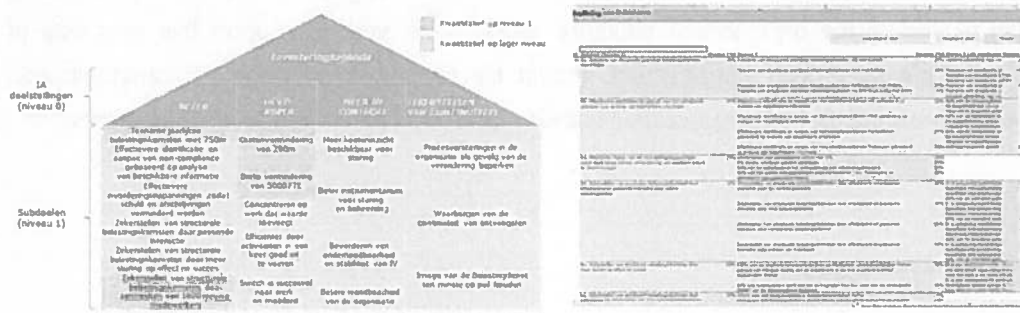


Figure 10: Illustration of concept of the Definition of Success document²



2.6. Culture

For the transformation of de Belastingdienst to be successful and sustained, an organization-wide cultural change is necessary, shifting employees at large to prioritize 'customer' service, to operate with greater accountability and to be accustomed to more agile ways of working focused on continuous improvement. Establishing these behaviors as 'business as usual' will set up de Belastingdienst with the confidence and capability to continually adapt to the changing needs of tax payers.

¹ Data as per 7 March 2016

² Version 0.8, latest status available for iteration between board, SG and State Secretary at time of writing

Cultural change is not achieved without intervention, and de Belastingdienst is in the early stages of this journey. The senior leadership has aligned on their vision of the organization, and there appears to be consistent support from the business that change is necessary. However, based on their past experience, the broader organization remains skeptical that the implementations will actually follow through.

Significant effort has been attributed to successfully sharing the Roadmap documents, which has helped to clarify the purpose of the IA and what it means for individuals. Extensive communication materials, supported by helpful aids and tools, were developed and cascaded through the organization, and followed by a rhythm of regular communication activities in autumn 2015.

A need now exists for leaders to get aligned and more explicit about the desired culture of the future organization and what that will mean for individuals. Our experience from other organizations demonstrates that a concerted effort will be required by both senior and mid-level leaders, to map out desired behaviors, and to help employees understand what they need to do differently on a day to day basis. Leaders will need to engage their teams in this discussion, actively role model what they aim to achieve, and use the revised operating model to ensure the organization structure, skills, KPIs work to support this new way of working. This leadership engagement should be supported by ongoing communication activities, ensuring that the organization is aware and feels part of key IA developments.

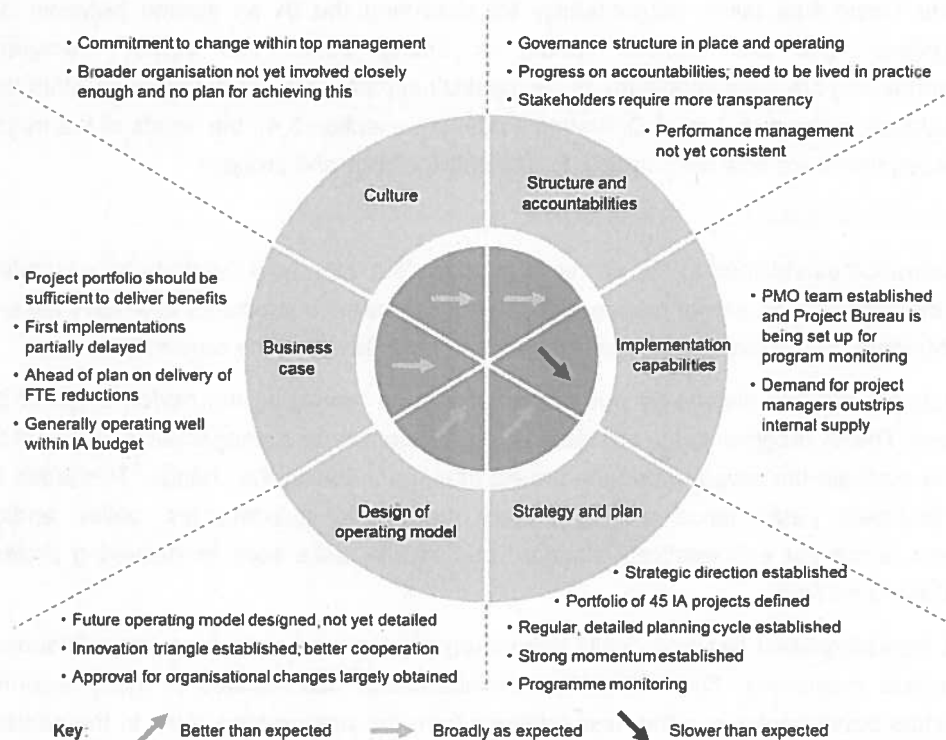
3. The Oliver Wyman view on progress and next steps

This chapter presents Oliver Wyman's opinion on the state of the IA one year after the inception of the program.³

This review of the progress achieved to date is structured along six dimensions which in our experience are critical for successfully delivering large transformations. For each dimension we have benchmarked, at a high level, the IA progress against the progress we would have expected in March 2015. This evaluation takes into account the effort and time required for getting a large transformation up and running initially. The majority of our benchmarks are drawn from organizations which are generally more accustomed to large-scale change than de Belastingdienst. Our progress assessment thus establishes a high threshold for a good performance.

One year into the transformation, the program is broadly where we expected it to be and in some areas has exceeded our expectations (see Figure 1). That said, the pace of change has varied across the organization and the program is still fragile.

Figure 11: Overview of progress against critical change dimensions



³ Oliver Wyman has been advising and supporting de Belastingdienst on the implementation of the IA for most of this time.

3.1. Structure and accountabilities

Expectation

One year into a major transformation, the governance structure of the program is firmly established and operates smoothly: decision committees are in place to steer and prioritize projects, escalation mechanisms exist and all projects have a viable governance structure. At this stage of the transformation, the accountabilities of all parties involved are clear and performance from different parties is managed based on a transparent framework.

Progress as expected

The governance structure of the IA had to be set up from scratch in 2015 in the context of a newly composed Board of de Belastingdienst as well as the appointment of a new Director General. While the process for setting up the right program governance took a relatively long time, the governance structure for the IA is now well established.

At the outset of the program, the concept of establishing clear accountabilities was often met with resistance from within the organization. Whilst there remains room for improvement on managing individual performance, de Belastingdienst has come a long way towards putting in place clear accountabilities for the IA program.

The entire Board has taken accountability for delivering the IA as agreed between de Belastingdienst and the Tweede Kamer in spring 2015. Ten senior managers ('Kwartiermakers') are accountable for delivering distinct parts of the transformation. With the implementation of the new Target Operating Model (see section 3.4), the heads of the major taxpayer segments are now accountable for the entire end-to-end process.

What needs to happen now

The governance established at the center of the transformation now needs to be cascaded through the organization: senior management need to create the structures in which they are able to delegate part of their change assignments to lower levels of the organization.

De Belastingdienst has historically put little emphasis on managing the performance of its employees. The IA program today still lacks a clear performance management framework to guide and evaluate the program and the project managers driving the change. This leads to widely divergent performance among project managers, including the ability and/or willingness to comply with relatively standard and simple tasks such as delivering project data and plans on time.

Also, de Belastingdienst has historically been internally focused when it comes to planning and progress monitoring. The limited flow of information has resulted in many external stakeholders being cautious in their expectations from the organization. Also in the context of the IA, we observe that more transparency and a freer flow of information to and from external stakeholders (such as e.g. the IA Investment Committee) would improve trust and make the program run more smoothly.

3.2. Implementation capabilities

Expectation

The transformation is now in a stage where the focus shifts from planning and design of the transformation in a smaller circle to full-on implementation across the organisation. Consequently the demand for project managers to execute the change peaks quickly and becomes a constraint. To manage this, a clear understanding of the resources and capabilities required for the program and their availability is maintained. This is complemented by a remediation plan for any skills gap to execute the transformation and for any medium-term capacity gaps created by the peak in demand or by managers leaving the organization.

The central program management office should be operating smoothly by now and have sufficient capacity and the tools needed to monitor the expanding program.

Slower progress than expected

In this dimension, de Belastingdienst's mixed record of driving major change has been a major obstacle in the past year. At the outset of the transformation, very few of the standard processes or tools which can typically be leveraged in a big transformation were in place or even known in the organization. With the exception of IV projects, there was little coordination and monitoring for the sizeable existing project portfolio and no central database for project or project manager information. As a culture of detailed progress reporting and data provision for projects did not exist in large parts of the organization, considerable effort was required to create an effective platform for central monitoring and reporting of the project portfolio.

For this reason, the process of putting in place the tools and processes required for the execution phase has been slower than in typical transformations. It is ongoing. Therefore, the quantity and quality of project data collected centrally is lower than we would normally expect in transformations at this stage. This presents an ongoing risk to program control.

The central program management office will shortly be strengthened by an internal Project Bureau to ensure high quality and consistent project monitoring and reporting. The manual approach to monitoring milestones, progress, benefits and costs in the first year will be replaced by a more formal and automated process using an online PMO tool. This introduction of a formal central project monitoring tool requires a shift in mindset for de Belastingdienst which should be extended organization-wide.

De Belastingdienst does not currently have a sufficient, high level view of the resources available to execute the transformation. We estimate that about 30 senior program managers and 70 – 80 project managers are required for the IA implementation phase. The lack of senior program managers to provide direction, oversight and coordination is a particular risk for the IA: Growth in internal supply does not match program demand for the implementation phase.

What needs to happen now

The transformation is dependent on a small circle of senior and top management with too many demands on their time. The IA is now at a stage where the burden for executing the change needs to be shifted towards capable managers at lower levels of the organization. The efforts to build an Implementation Organization (see section 2.4.2 for an explanation) are a step in the right direction but are still in early stages.

It is to be expected that some management leave an organization going through a significant change program, but a recent acceleration of departures is a concern. The IA program is already struggling to meet demand for project managers and these departures exacerbate this problem.

There needs to be a thorough diagnosis of the skill gaps needed for implementation and a strategy developed for overcoming the emerging skills and capacity shortages. So far, neither exists. Bringing in an outside perspective with broader and deeper transformation experience could be highly beneficial in some areas of the program where a fresh start or a paradigm shift is needed to affect and shape change. Ideally, this will be done via permanent hiring of external project managers to ensure that the capabilities stay with de Belastingdienst in the medium/long term.

In the meantime, de Belastingdienst must continue to extend the program organization to ensure full collection of data, exercising control over projects and financials and ensuring sufficient internal and external reporting

3.3. Strategy and plan

Expectation

As a change program enters its second year, its strategic priorities are fairly stable. A sizeable project portfolio has been identified in line with the strategic priorities and detailed implementation plans have been drawn up for these projects. To avoid the common pitfall of either too little structure or too rigid planning during the early stages of a complex transformation, a dynamic planning approach (regular planning cycles) is often used to ensure flexibility to respond to new information and developments.

Better progress than expected

The IA strategic priorities had been clearly communicated already at the outset of the program a year ago. A re-evaluation of the strategic priorities has not been necessary although a number of initiatives, especially in the area of interaction, have been pushed back in time to accommodate the design of a taxpayer-centric operating model.

The objectives of the IA have been further clarified in a formal Definition of Success for the program to facilitate internal and external communication.

De Belastingdienst has historically had little positive experience with planning and executing on their plans. A project plan was understood to be an extensive document which took months to write and agree on while containing little quantitative ('business case') information. Over the last year, the perception of the planning process has begun to shift towards a lighter and more agile planning approach based on hard data.

The dynamic planning approach centralizes the overall planning of the program and has been helpful in accommodating new information such as e.g. the high interest of employees in a voluntary transfer to Switch or the development of the VAT carousel fraud model. Of course, this comes at the price of continued uncertainty about the exact path of the transformation.

The strategic priorities have been translated into a set of more than 60IA roadmap projects. The project plan, budget requirements and benefit estimates are mandated from all project managers for the three monthly IA planning cycles. While compliance with these planning requests still varies, cooperation within the organization has increased. Project-specific information is used to compile the IA roadmap regularly, including a detailed planning document for use of the Board and PMO and a shorter, narrative document shared widely.

What needs to happen now

The program has gained momentum in that senior management champions the IA implementation and there is a general sense that the program is moving into the right direction, but this momentum remains fragile. Moreover, the volume of design material to be reviewed and quality assured, as well as the number of decisions which senior management has to facilitate, will increase as the detailed design phase starts. Maintaining discipline in keeping to original planning and communication cycles even as "the hard part starts" will be critical to maintaining momentum.

3.4. Design of operating model

Expectation

As the planning and design phase of the transformation is coming to an end, the future operating model is relatively stable and agreed upon by all key stakeholders. There also is a firm view on how delivery on the strategic priorities is enshrined within the organizational set-up. The focus of decision makers has moved to the detail of how the new operating model will work in practice and how different parts of the organization will cooperate.

Better progress than expected

Some of the most encouraging progress in the first year of the IA program has been achieved in this area, with strong alignment across senior management around the very different future operating model focused on tax payer centricity and end-to-end processes with clear accountabilities.

After five years of discussion about the right operating model for de Belastingdienst, this decision represents a paradigm shift for the organization and an important step in the right direction. The widespread skepticism about the feasibility of agreeing an operating model designed from the top down has been replaced by enthusiasm about the progress achieved. Senior leaders across the organization demonstrate a high level of alignment with and commitment to the model, having been fully engaged in its development.

Partly as a result of organizational changes, collaboration across the organization has been increasing over the past year. This holds particularly true for the relatively new building blocks for the successful execution of the IA: the 'Innovation Triangle'.

The mandate of the 'Innovation Triangle' is the development and roll-out of a significant number of new analytical tools for the business which drive the expected increase in structural tax revenues. The new structure, combining three dedicated departments (Data and Analytics, IV accent and Implementation Organization) is an important step forward.

The set-up of these new departments is by no means complete yet and the internal capabilities will need to be strengthened further. Again, delivering effective cooperation between different parts of the organization within the new TOM framework will be decisive to the realization of the IA benefits.

The design of the operating model, including the negotiations with Unions and Worker's Council, has required a significant investment in time and effort for the Board and senior management. While the process was not as quick as we might have expected, the buy-in and agreement secured in a highly consensual organization will be critical in the long-term.

What needs to happen now

The Target Operating Model needs a push to complete the detailed design and a prompt move to implementation. Fundamentally there is a need to develop, agree and document the missions, roles and responsibilities of each organizational unit under the new arrangements. It is critical that these are explicitly stated and documented to avoid ambiguity which may undermine operational efficiency.

Additionally, there is the need for considerable organizational detailing:

- Precisely define the criteria for assigning taxpayers to sub-segments
- Articulate and operationalize the interaction strategies for each sub-segment
- Identify and realize opportunities for integration between the tax and benefit organizations
- Develop the key customer processes
- Finalize and apply the goal hierarchy, building on the developmental work conducted in Q12016

- Define and implement the necessary governance at all levels.
- Once this is done prioritized implementation plans over the next 3-4 years will be required for each segment and function

The current positive feeling towards the new set-up could prove fragile if progress slows and further results are not visible. Delivering some early wins (e.g. establishing portals for all communications with the largest companies and setting up an effective high net worth individuals sub-segment) will be important. There is a danger that a crunch in the supply of project managers and loss of expertise will delay the detailed operating design; re-starting it later will only come at considerable cost in terms of time and energy. Also critical to building momentum will be progress on re-designing the support functions to meet the requirements of the new TOM. Progress in this area has been slower and will require acceleration.

3.5. Business case

Expectation

There should by now be a granular understanding of the projects needed to deliver the overall financial benefits promised. The task of achieving financial benefits such as the targeted reductions in operating costs has been clearly distributed among owners in the business. As the business case is becoming increasingly concrete, the original assumptions may need to be revised to consider new information. The first smaller projects, which are easier to implement, are starting to deliver benefits.

Given the focus on planning and design in the initial stage, budget spend so far has been limited. There is a clear understanding of resources needed for different implementations.

Progress as expected

Progress against the financial benefits targets of the IA has differed by target. While there has been good progress against the anticipated cost and FTE savings, we have not seen the same progress against the targets to increase structural tax revenues: these have proved difficult to quantify with any level of certainty.

The operationalization of Switch has created the means for achieving the FTE reductions driving the planned cost savings. A year ago, there was widespread uncertainty as to how and whether the FTE reductions could be achieved. The negotiations with the Unions have resulted in an agreement for a voluntary leave option which has received interest exceeding the initial expectations. We believe it is likely that the cost reduction targets will be reached.

We remain convinced that that the targets for increasing structural tax revenues are conservative and feasible. The current IA project portfolio of m live initiatives and the project pipeline is expected to be sufficient to deliver the increase in structural tax revenues targeted by the IA. In aggregate, the implementation of the initial portfolio of projects is projected to

deliver the targets set for 2016 and 2017. The future project pipeline and the implementation of the TOM should comfortably deliver the targets for the later stages of the program provided these are actively pursued.

During the first year of the IA, focus has been on creating the preconditions for the future implementation of the analytical tools driving revenues. This step is vital but does not in itself generate additional tax revenues. A number of first implementations have been subject to delays or had to be postponed.

Budget spend thus far has been well within the approved IA budget although the demand on budget is expected to increase as the program goes into implementation mode. The highest impact initiatives with respect to the IA budget, i.e. the mobility program and the recruitment campaign will require careful monitoring.

What needs to happen now

We believe de Belastingdienst is set up to realize the IA benefits through successful implementation of the current project portfolio and pipeline. Given the scarcity of skilled project managers the focus should now be on delivering the current projects and reaping the benefits. This also holds true for the planned FTE reductions. The emphasis should now be on cutting low value added tasks so that employees willing to leave can be let go as quickly as possible without a risk to the continuity of the organization.

3.6. Culture

Expectation

Culture change is difficult even for much more agile organizations than de Belastingdienst and hence expectations of what can be achieved in one year need to be realistic. While critical to the overall success of the program, shifting the mind set and DNA of an organization requires careful consideration and in our experience should not be rushed. One year into a transformation, the senior management needs to be committed to making the culture change happen. The broader organization probably is not yet as far along in the change process but there is a plan for affecting the culture change desired across the entire organization.

Tax authorities are notoriously slow to change in three aspects:

- They tend to be cradle to grave organizations with little opportunity to recruit some skills (for e.g. tax inspectors) from outside at senior level. This removes one mechanism for accelerating culture change
- Getting civil servants, as especially tax inspectors, to view taxpayers as customers is hard. Yet for many in de Belastingdienst, the reality is that they are there (in part) to provide a service to citizens

- Tax inspectors are taught to deconstruct what they are told. They tend to do this for management messages as much as for taxpayer returns

Progress as expected

The strategic direction for the IA and the case for change are set and there is broad commitment to change within the top layers of management. During the first year of the IA, initial resistance at more senior levels has been changed into readiness and willingness to contribute to the successful implementation of the IA. Discussions among senior management have moved from the why to how to make it happen.

As might be expected, the culture change has not yet reached the broader organization. Employees have been informed about the purpose and shape of the planned changes through regular conferences and an initial roadmap publication. While a concept second roadmap was prepared by the PMO at the end of 2015, it was not finalized and subsequently not communicated to the wider organization.

What needs to happen now

The infrequent and high-level information campaign that was appropriate to date is not sufficient to achieve culture change. There needs to be a plan for creating genuine buy-in at different levels of the organization. Full culture change will only come with implementation and as people change the way they work.

Furthermore, a set of new values and model behaviors needs to be defined. It will be crucial that senior managers act as role models for the new culture and truly 'walk the talk'.

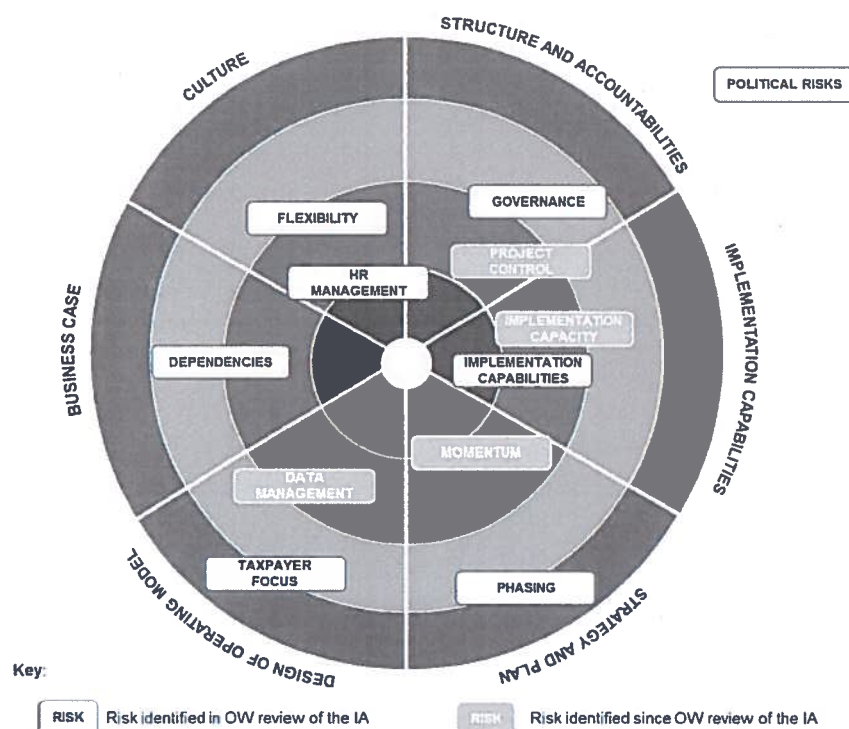
4. Update on key risks

This chapter contains an updated assessment of the risks to the IA program identified a year ago in the Oliver Wyman review of the Investment Agenda (see section 4.1). In addition, section 4.2 outlines additional risks which have surfaced since the inception of the program.

An overview of the acuteness of the expected and new risks identified is given in Figure 12. The risks of greatest concern are positioned towards the middle of the wheel and the risks requiring less urgent attention are pictured towards the edge of the wheel.

The concentration of acute risks shown in Figure 12 is in line with the assessment in section 3.2 and constitutes the biggest risk to the success of the Investment Agenda. De Belastingdienst faces a shortage both of change capabilities and capacity to implement the IA initiatives and, to our knowledge, there is currently no remediation plan. The red flag on the momentum of the transformation follows from this, as we believe a slowdown of the IA is inevitable if no near-term solution for this shortage is found.

Figure 12: Assessment of key risks



The IA continues to be subject to political risks as a major transformation program with a general election approaching. Oliver Wyman is not able to offer an opinion on these risks.

The remainder of this chapter gives a short explanation of the individual risks.

4.1. Update on risks identified in OW review of the IA

Almost one year into the IA, our original view of the risks for the successful execution of the program has resulted in a change of the relative weights of the risks.

- **Taxpayer focus (internal paradigm shift)** - The Target Operating Model re-orientes the organization with customer segments having end-to-end accountability for overarching results. While the TOM concept is robust and has a high degree of alignment from the business leader we see three major risks going forward:
 - Firstly, the organizational changes required to implement end-to-end accountability for results are significant and reliant on new ways of working together across the organization.
 - Secondly, unless there is follow through without delay into implementation, there is a risk that momentum will be lost and the full benefits of the TOM may not be delivered.
 - Thirdly, the further development of the TOM will require active involvement of Board-level leaders to provide an organization-wide vision which extends beyond the interests of individual units. To ensure that all detailed plans are aligned with the overall vision, the Board also needs to take a hands-on role in the development of the organizational and operational arrangements.
- **Taxpayer focus (taxpayer interaction)** – The engagement of taxpayers to support the planned changes in interaction started with a highly visible media campaign (“Vaarwel blauwe envelop”). Despite initial concerns about the switch to digital communication the change was relatively well managed and we believe de Belastingdienst can use this experience going forward as taxpayer interaction shifts more and more towards digital channels.
- **Implementation capabilities** – A transformation of this size requires a sizeable team of experienced change managers in addition to specialist skills for individual projects. A shortage of especially the former forces de Belastingdienst to rely excessively on a few key individuals to design and orchestrate the change program. To successfully deliver the IA, the hiring of (semi-) permanent, experienced change managers needs to be significantly accelerated to reduce key person risk and drive implementation forward. This risk also links to the increasing scarcity of implementation capacities mentioned in the next section.
- **Governance** – The basic governance structures necessary for the program have been established and are now functioning. While initial role confusions among key decision makers have been clarified and cooperation has improved, the agreements reached are not always followed strictly. The communication and cooperation with

external stakeholders especially needs to be strengthened so that information is exchanged transparently underpinning mutual trust.

- **Dependencies** – Managing dependencies up until now has not been a significant problem for de Belastingdienst although there have been some delays in rolling out analytical supervision tools which requires cooperation among several departments which are relatively recent and still being set up. As the IA moves from the planning and design to the implementation phase, the management of dependencies will become more critical and concrete.
- **HR Management** - Up to this point, the efforts regarding Belastingdienst employees have focused on putting in place the mechanism to allow for an FTE reduction through Switch. By contrast, the proposition for employees wanting to remain with de Belastingdienst is still in an early conceptual phase: there is not yet a plan for the retraining of groups of employees or an idea of how to bring the necessary culture change to the broader organization. An important part of this culture change, the IA recruitment campaign to fill specific skill gaps and bring in outside expertise has started but has not yet gathered sufficient pace.
- **Flexibility of organization** – The journey of de Belastingdienst to become a more agile organization has barely started and will require a significant investment of time and effort for the remainder of the program. Generally, too few people with an external perspective are involved in the transformation which would help the desired culture change and increase willingness to work differently in future.
- **Phasing** – We are confident that the strategy and plan for the program follows the policy of small incremental steps to enable mid-term corrections.
- **Political risks** – The IA continues to be subject to political risks as a major transformation program with a general election approaching. Oliver Wyman is not able to offer an opinion on these risks. A program of this nature is only able to succeed if there is no doubt about the political will to deliver the change and there is always a risk that a change in direction from senior external stakeholders creates uncertainty for the program.

4.2. New key risks identified

Based on our support of de Belastingdienst during the first nine months of the IA, we have identified three key additional risks. Some of these risks we would see as being more acutely relevant than a number of the risks we were cognizant of a year ago.

- **Change capacity** – As the IA program has gathered pace, the constraints in change implementation capacity (i.e. the number of sufficiently skilled project managers) have become more and more apparent. At present, the internal supply of change managers is insufficient to meet demand. The shortage is apparent across all levels of experience although the problem is most acute for senior program managers to coordinate and provide oversight of the change. In our view, a delay in the program is almost inevitable unless the shortage in change capacity and capability is addressed soon.
- **Momentum** – There is currently broad buy-in to the program but the belief that change can be achieved is fragile, partly due to previous experience with change programs at de Belastingdienst. The potential loss of momentum through an operational failure (e.g. continuity affected by change efforts), visible delays on key decisions (e.g. legal action resulting from worker's council discussion) or the loss of key individuals driving the change, remain important risks.
- **Project control** - The data collected and aggregated centrally for individual projects is still basic and does not yet allow a complete picture of the portfolio. It is therefore still suboptimal for fully effective (re)prioritisation of the projects. The Project Bureau being established should bring the manpower to track necessary data, but it must be recognized that this is also a mindset issue resulting from a legacy culture of stubborn independence within *De Belastingdienst*. This mindset is slowly shifting, but active and careful management is still needed.
- **Data management** - The framework for managing the security, privacy and proportionality of taxpayer data requires a clear data management framework which is being formulated, but its existing status is immature compared to other tax authorities. As a pre-condition for using information based analytics, specifying responsibilities and governance for these tasks is crucial. There is a risk that this is not comprehensively or adequately in place before full scale use of information-based supervision and steering. And data security risks are likely to become increasingly important in light of current political debate and risks of external attack and internal breaches.

Qualifications, assumptions and limiting conditions

This report is for the exclusive use of the Oliver Wyman client named herein. This report is not intended for general circulation or publication, nor is it to be reproduced, quoted or distributed for any purpose without the prior written permission of Oliver Wyman. There are no third party beneficiaries with respect to this report, and Oliver Wyman does not accept any liability to any third party.

Information furnished by others, upon which all or portions of this report are based, is believed to be reliable but has not been independently verified, unless otherwise expressly indicated. Public information and industry and statistical data are from sources we deem to be reliable; however, we make no representation as to the accuracy or completeness of such information. The findings contained in this report may contain predictions based on current data and historical trends. Any such predictions are subject to inherent risks and uncertainties. Oliver Wyman accepts no responsibility for actual results or future events.

The opinions expressed in this report are valid only for the purpose stated herein and as of the date of this report. No obligation is assumed to revise this report to reflect changes, events or conditions, which occur subsequent to the date hereof.

All decisions in connection with the implementation or use of advice or recommendations contained in this report are the sole responsibility of the client. This report does not represent investment advice nor does it provide an opinion regarding the fairness of any transaction to any and all parties.



Oliver Wyman



@oliverwyman.com

