

A High Performance

In 2003, before the transformation project started, the group tax department (GTD) of Lloyds TSB Group was the smallest of its peers. Staff had demanding workloads; fire-fighting was not unknown. To add to the pressure the existing in-house tax team knew that 2004 would bring some additional and heavy work commitments. The resource implications of these tasks looked daunting. As a major financial group with over 300 active companies, major treasury, banking, insurance and leasing businesses, operating in 20 overseas tax jurisdictions, with a US listing, there were major new regulatory commitments on IFRS, Sarbanes-Oxley, and Basle II on the horizon. The GTD was also aware – from its staff's participation in the LBO 'Partnership Enhancement Programme' – that HMRC was looking to the major commercial groups to advance their compliance work timetables and to move to real-time working.

So in late 2003 GTD was facing a tough prospect: much higher workloads, a vast increase in compliance work driven by new regulation, accelerated compliance timetables and giving the business added attention and resource. Yet GTD staff were already working to stretching targets. If the team was to meet all these demanding new commitments, it needed to change. The project to re-engineer GTD was born. We set forth with a clear goal to build a high-performance tax department.

The need for external consultants

We recognised that previous attempts to change had been still-born because of a lack of internal resource, time and executive commitment. The previous model to change hadn't worked and it was time to try something new and bring in an external consulting firm. Having an external firm conveyed to everyone we were serious about change.

A major precondition of success was getting the structural aspects of the project right from the start and finding consultants that would harness the internal capabilities of the existing team. Affecton was identified as a discreet consulting firm with experience in group tax strategy that could work closely in

Last month Lloyds TSB won the LexisNexis Butterworths award for best in-house tax team. Steve Hoy, Tax Director of Lloyds TSB, and Roy Millman of Affecton LLP, explain how the team achieved this

collaboration with the existing staff. Affecton's key strengths were experience in change management, independence and strategic vision.

The report stage

Affecton's work started by carrying out a survey of the existing work commitments and resourcing of GTD. Affecton followed this up by holding individual confidential interviews with each member of staff, covering issues such as what improvements could be made in GTD with existing resources, procedures, etc. These sessions were vital: all issues were in scope; full confidentiality was provided; the staff felt their views were being listened to; and a mass of useful

was a major achievement. Finance directors are often faced with a queue of budget seekers, just like Oliver's 'Please Sir, can I have some more?'.
In summary, the report recommended that we needed to significantly increase headcount, especially at the senior level. The business model recommended the creation of five specialist teams (Compliance, Planning, Projects, Tax Reporting and VAT), with the head of each reporting to the director. GTD would need to undertake a transformational programme that looked at every key aspect of the department, its staff and their work roles, the workloads, the types of work covered, the processes used and the IT technology.

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information about the functioning of GTD was collected.

Affecton produced a formal report on the future structure of GTD with fully costed recommendations. It built on the findings of the staff interviews. The report included a range of recommendations and in particular it proposed that GTD would need to resource properly so as to deal with the increased and new challenges on the horizon. Affecton also recommended a new and more defined team structure to fulfil the aim of creating a high-performance tax function.

The Affecton report played a vital role in making the case for change. It proved irrefutably that GTD needed to resource up for the future. The report and the request for the project budget were persuasive and approval was granted. This

Staff challenges

Previous experience had shown that we (internally) hadn't been able to make the necessary change. However, we recognised that we had to play a significant part in delivering to the Affecton timetable. Head of Compliance, Andrew Constantine, played a pivotal role in driving, connecting, and ensuring everyone worked towards our goal.

From the start laying down ground rules proved invaluable in creating an atmosphere of trust and co-operation. GTD staff wanted transparency. Weekly conferences were held during the project life to review progress by the various workings teams. The minutes of these meetings went to each member of staff. In fact, almost all the proposals for improvement were identified by GTD staff. Affecton was then able to develop

these ideas and test them out in discussions and then work with the relevant staff to embed them in our processes and work.

There were, of course, worries along the way. For example, was the transformational project too ambitious, especially as there was the existing, business-as-usual workload to carry? We were only too aware that such a change programme requires remarkable commitment from all staff but whereas as individuals we may tend to dislike minor changes, the challenges presented to us by such a wide-ranging programme (where everything was up for review and improvement) was very motivating. Most of the staff felt that such an ambitious project was a once-in-a-lifetime professional opportunity both for themselves and for GTD.

A key aspect of the project was bringing clarity to the various work responsibilities of GTD and the structure and staffing required to deal with these efficiently. The complexity of the work in a large commercial tax function requires specialisation by the staff, yet staff wanted to gain good and wide experience. In addition to the specialist teams, we introduced an element of matrix working to give staff the opportunity to broaden their experience. The new structure and bigger department helped existing staff naturally fit into a particular role. With a larger staff and more senior posts, staff felt that career progression within GTD became more available.

Recruitment programme

The recruitment programme was successful. Part of this was putting together a compelling case for potential recruits, highlighting the positive aspects of joining a high-performance tax team. The process was structured in an organised and professional manner. One recruitment firm was appointed, thus avoiding the feeding frenzy in the market that would have inevitably occurred.

In a nine-month period more than 15 experienced professional staff were recruited. Existing staff were encouraged to apply for posts involving promotion. Interviews covered both competencies and technical areas drawn from the candidates' previous work experience. The senior staff were subject to profiling and other tests so that they understood both their work and communication preferences and those of their colleagues. New joiners have worked collectively with existing staff in helping the team to 'raise the bar'.

Tax has not always been an area associated with excellent line management and the softer skills. So a key question was to bring about change and carry existing workloads without a directional management culture. This was achieved as all the existing staff and new joiners knew they were part of an unusual transformation project. This had very beneficial effects on motivation. While a new procedures and controls manual helped to control and minimise risks, staff were empowered to run with their new work responsibilities. GTD worked to embed coaching as the usual way of dealing with issues. We looked at every aspect of the department and asked ourselves 'How do we improve this?'

Performance

To ensure that the journey that we were on was directed to our goal we took soundings from various stakeholders. The feedback was good. This is now enshrined in feedback forms, customer surveys, and 360-degree reviews. Reports consistently reflect significant improvement in all areas of GTD performance. This has been achieved through a concerted campaign to communicate and engage more fully with the business. We involved key managers from around the group in a structured series of meetings, brainstorming sessions and creativity workshops. As a result, tax is now more firmly embedded in the Group, and the various business units are receiving much closer and more expert support in product development and other commercial projects.

We have also seen major improvements in meeting HMRC compliance targets. In the last 18 months we have reduced the number of unresolved issues from nearly 300, dating back up to ten years, to just 54 spanning less than three years. The main bank computation for 2004 was lodged in draft six months ahead of the deadline. These changes have enabled us to deal with queries on a real time basis and have improved our working relationship with HMRC. It has reduced the burden on the business in dealing with issues dating back years. The move to real time working has also provided greater certainty, because with fewer outstanding issues there is correspondingly less exposure to tax risk.

Some lessons learned

In the project we had identified some key trends in tax. These included the increasing specialisation of different roles in tax, the

central importance of IT to almost all tax work, the increased concerns about corporate social responsibility, the ability to identify and analyse policy outcomes, the importance of personal skills, whether in coaching, negotiating or in communication. Professional recruitment gave us staff with skills sets that meet these demands now.

In setting out on its transformation project, Lloyds TSB did not set out to be best in-house GTD, nor did we think about entering the LexisNexis competition. With hindsight we can see that with Affecton's guidance, we made the correct structural decisions at the start of the project, made the correct decisions on resources, roles, structures, the right objectives and made the correct calls on a mass of detail during the transformation journey.

And lastly, one of the key lessons learned is the importance of communication: communicate, communicate, communicate! This applies particularly to the quality of communication, where we have seen how more open communication has led to improvements in working, both within tax and the wider business. This has been achieved through initiatives such as coaching, leadership development and structured meetings, as well as adopting new ways of working in the course of the programme.

Challenges ahead

One aspect that sums up our achievement is that the department can now seamlessly accept new challenges in its stride. Even so, commercial tax departments still face huge challenges: the UK's complex tax system, a competitive job market, cost pressures, higher staff expectations, faster tax reporting timetables, increased business demand for advice, tougher HMRC scrutiny, demands made by the CSR agenda. All these demands require a tax department to make regular scrutiny of the structure, the roles, the workloads, the skills sets of staff, the resourcing.

Transformation is a journey and once you start, it never ends. To put it in the words of golfing legend Tiger Woods when he won his fourth US Masters in 2005: 'I don't think you're ever there. You never arrive and, if you did, you might quit because you had.'

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