BRINGING COLLABORATION AND INNOVATION TO PUBLIC/PRIVATE PARTNERSHIPS

The transformation of Revenue Management Through a Partnership Between British Columbia Ministry of Finance and Hewlett Packard Enterprise

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Executive Summary

The Government of British Columbia (BC) was faced with reducing levels of revenue collection and declining customer service levels across various ministries responsible for non-tax payments. In 2002 the Ministry of Provincial Revenue, later to become part of the Ministry of Finance (the Ministry) developed the Revenue Management Project (RMP) to create an integrated and streamlined business and systems environment that consolidated non-tax revenue management functions. The Ministry envisioned the project as a center of excellence for revenue management, continuously raising the bar for customer service and serving as a hub for monies flowing into government to support public services. Hewlett Packard Enterprise (HPE) has helped the Ministry transform their operations and achieve its vision for a citizen-centric revenue management center of excellence.

The Ministry has realized multi-fold business benefits by working with HPE, including the following:

» Improved revenue generation and a reduced number of accounts in collections

» Restructured processes and working relationships that allowed the Ministry to accelerate the level of innovation brought to their operations

» Increased efficiency, effectiveness, and ROI, including expanded capabilities, scalability, and cost savings

Seeking an Improved Citizen Experience

The British Columbia Ministry of Finance (the Ministry) plays a critical role in the financial and economic infrastructure within the Canadian province by establishing, implementing and reviewing the government's economic, fiscal, financial management and taxation policies. The Ministry is responsible for delivering fair, efficient and effective tax administration, and revenue and treasury management that fund government programs, services and infrastructure essential to citizens of British Columbia. The Ministry is also responsible for the management of a fair and efficient system for revenue and debt collection.

Core Challenge: Legacy Operations and Technology Framework Leading to Low Collection Performance

In 2003, the Ministry recognized the need to improve how they were collecting non-tax receivables. In particular, the largest program, Medical Service Premiums, faced two critical issues: 1) declining customer service and 2) a rapidly growing accounts receivables balance.

The Revenue Management Project (RMP) was conceived to address the root causes of these issues – antiquated technologies and inefficient processes. The Ministry's vision was an integrated revenue management platform to enable citizen-centric interaction with the government leading to improved customer service and increased voluntary compliance. Systemic challenges driving the need for change included:

» Accounts Receivables over-90-days past due exceeded CDN$880 million

» Provision for doubtful accounts were increasing

» Customers had to deal with multiple contacts in different ministries, resulting in confusion and inconsistencies in enforcement and compliance

» Extended collection cycles

» Inconsistent or improperly applied policies

» A lack of attention to revenue management improvements

Over a 10-year period, HPE helped collect an additional CDN $800 million, decreased overall provincial government account receivable balances, and increased annual revenue realization

Overarching IT challenges such as antiquated technologies, inefficient processes, overloaded technology systems and the lack of data integrity compounded the operational challenges.

Key Solution Framework: A Partnership to Enable Change and Innovation Within the Public Sector

The Ministry considered various ways to make the RMP a reality. Implementing an in-house solution would require a substantial public-sector financial investment and carried implementation risk. As a result, Alternative Service Delivery (ASD) was explored as a possible method for transforming the way services were delivered. With ASD, the Ministry could work with the private sector and transfer the investment and project implementation risks to a private-sector partner with the skills and experience needed to ensure success.

During our interview with David Sherwood (Executive director of the Revenue Solutions Branch within the Ministry), he shared the key solution the Ministry sought, "One of the primary goals for the new solution was to keep accounts out of collections and drive voluntary compliance. It's far more cost effective to invest in the early stages of revenue management than wait until accounts become delinquent when they then become much harder to collect."

The checklist that the Ministry developed for its private-sector partner focused on the following requirements:

» **Be responsive to citizen needs**. Continuously improve customer service

» **Streamline the way government collects revenue**. Provide cost effective and efficient delivery of service to British Columbians

» **Maximize revenue recovery**. Support important public services, such as health care and education, for British Columbians

In November 2004 through an ASD procurement approach, the Ministry signed a 10-year contract with HPE to provide business process outsourcing, applications management and IT outsourcing to help the province achieve its goals as a first of its kind, anywhere across the globe, government revenue-sharing model. HPE formed a stand-alone unionized environment, Hewlett Packard Advanced Solutions (HPAS), to enable a smooth transition of the impacted Ministry employees. The new public sector group was branded as the Revenue Services of British Columbia (RSBC).

Details of the HPE Solution: Scope and Processes Outsourced

HPE invested approximately CDN$75 million to transform the business and technology operations and implement a new SAP-based revenue management system. The transition included the initial transfer of people, processes, services and third party contracts from the Province to HPAS. Tim Collins (Account Executive at HPE) points out a key component of the solution, "All our services are performed out of British Columbia. We took on government unionized employees and kept jobs in the area in a first-of-its-kind deal in the world. It wasn't the perfect model for the private sector, but it *was* the perfect hybrid between a public and private entity through a joint partnership effort."

A new Revenue Management System was designed to replace the legacy systems and applications that were being used by the government to perform revenue management services. The transformation consolidated and integrated 10-15 applications into the new RMS, leaving around 80 legacy applications. The process took approximately 18 months and enabled the centralization of revenue management for the major non-tax government revenue streams.

The scope of the engagement spans the following:

» **Finance and Administration - Order-to-Cash Services**. The revenue management services provided under the contract include customer experience, account management, billing, payment processing and collections. IT related services include systems architecture and engineering, business applications and infrastructure.

» **Finance and Administration - Record-to-Report**. The account management services involve processing of accounting adjustments to citizen accounts with financial obligations owed to government programs. Components include account adjustments, sub ledger maintenance, and accounts receivable and revenue reporting and reconciliation.

The HPE – Ministry partnership created a first-of-its-kind private/public partnership involving government unionized employees.

» **Apps Services & Program Excellence/Apps Development and Management.** To support the service delivery in accordance with leading practice government revenue management framework, an integrated technology solution was put in place. It is comprised of many components of complimentary leading vendor technologies to enable enhanced performance in revenue management business services.

The original contract with the Ministry had 3 towers, or focal points:

» **Business Process Services,** including the management of non-tax receivables, which included the full billing to collections lifecycle of the Ministry's medical services plan .

» **Application Management Services,** including the management of 80 applications, from development to maintenance.

» **IT Services**, including management of IT infrastructure and hosting operations.

The HPE call center and payment processing area currently has 180 dedicated FTEs, while an additional 70 FTEs manage IT infrastructure, hosting and management. HPE also has a business transformation team comprising of 30 FTEs for the Ministry engagement.

In 2007, the deal was restructured to create additional flexibility and address some smaller collections programs that required additional focus and effort, such as student loans. The original 10-year agreement was switched to a 12+3 year contract. Subsequently, the two entities worked through a significant contract update in 2011 to address evolving requirements, provide clarity to the partnership, and focus both organizations on the long-term outcomes the Ministry was seeking.

Working Through Public-Private Challenges To Foster A True Partnership Culture

Looking back, the HPE team described 2011 as a time of being 'in the hot seat'. The service provider had gone through a significant transformation exercise and consistently improved performance for the Ministry's revenue collection operations. However, the contract had certain cost-caps that were barriers for HPE to add incremental investments to achieve further outcomes. HPE and the Ministry worked through several options to arrive at an acceptable option to restructure their contract. In the client's words, it took some ingenuity on HP's part to get there, as the two entities had challenges in establishing trust and transparency initially.

Tim Collins elaborates, "They [the Ministry] didn't think they were getting enough value, and so we brought metrics to the table to develop more transparency. The problem was that we were treating it as a normal outsourced contract with standard objectives. But government entities like more transparency than your typical enterprise. We opened up our doors and brought them into our fold to show them that we provide value, reporting at the level and frequency that they are comfortable with. Now we have strategic input to their larger operations strategy and are the Ministry's transformation partner of choice."

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>
> – Tim Collins, HPE

In order to objectively reach a resolution on the deal restructuring, the Ministry conducted an independent deal review. Its recommendations were around streamlining governance structure and ensuring focused stakeholder participation. It allowed decision making to be made outside of the governance team, by pushing day-to-day issues to the operations team.

As a result of the partnership culture fostered since 2011, HPE and the client executed a rapid renewal process in 2014. While it was completed in record time, the effort was considerable, a new streamlined 5 year contract was created that replaced the last 2 years of the initial term and the 3 year renewal term. The new contract focuses on outcome success, rather than the input performance metrics that the Ministry was used to tracking in the past. David Sherwood from the Ministry explains, "We used to run it [collections] ourselves, so we often thought we knew how to run it best ourselves. Now we just look at the outcomes and let HPE figure out how to achieve them. We've also had to rethink our governance, because we work in partnership we need to make joint decisions not unilateral ones. Both parties went into the negotiation with the right mindset and recognition that this was a joint undertaking, and that we shared joint outcomes. Policies, legislative matters and organizational challenges are our focus, and HPE brings their expertise in revenue management. We have our unique roles and we work together."

Now Leveraging HPE As An Innovation Engine

Recognizing HPE as a domain expert in revenue management and contractually giving the service provider free rein to bring in its cross-client awareness and experience into Ministry's operations accelerated the engagement's success. The Ministry accesses technology advancements and innovative work practices with HPE's help through an As-a-Service model. The contract enables HPE to continually bring systems up to par, deploy new strategy, methodologies, and its global knowledge of receivables management to the Ministry.

HPE and the Ministry have developed a unique way to work around the challenge of different speeds-of-business between public-private entities. Together, the parties have built an innovation fund to spend jointly on technology pilots and programs, seasonal staff fluctuations and other general operating budget requirements that are timely. This way, RSBC doesn't need to go through budget requests with the BC treasury. Ross Davidson, HPE's General Manager for British Columbia Public Sector, explains, "Now we are self-funded and can dive into our pool, go test and write business cases, and then ask for more funding for province or program-wide deployments of successful projects. It allows us to keep up with the fast pace of technology advancements, while retaining the buy-in of and collaboration with our government client."

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– Ross Davidson, HPE

Three great examples of how the Ministry has used HPE as an innovation engine include:

- » **Enabling on-demand, multi-channel communication and self-serve**. Through its innovation fund, HPE has implemented several technology enablers to improve collections operations and enhance the citizens' experience in interacting with the Ministry. HPE has implemented SMS alerts, e-billing, portal access, along with mobility-enabled round-the-clock webchat for citizens to manage their non-tax payments to the government.

» **Bringing thought leadership on the 'human' aspect of accounts receivables**. In several instances, HPE has used its cross-client experience to make the citizen experience more personalized, simplified and empathetic. As an example, HPE realized that the student loan demographic (millennials) preferred to chat instead of email since they moved frequently and expected 24 hour service for paying bills. With its deep experience in the private sector, HPE was able to identify the need and implement 24 hour chat functionality to RSBC. In another example, HPE realized that late payments and fines were considered embarrassing for citizens, so it implemented IVR technology and self-serve functionalities to let citizens make transactions privately.

» **Improving collections accuracy through analytics**. Leveraging its background in data analytics and customer experience, HPE used predictive dialing, fraud detection analytics and campaign monitoring services to bring value in the form of improved collections accuracy and lowered bad debt expenses. This system continues to drive new insights and refinements to the overall partnership.

David Sherwood from the Ministry explains, "the innovation fund allows us to continually invest in the revenue management business processes and supporting systems, not just at the beginning of the renewal but all the way up to the last year. This means that we don't need to slow down because of where we are in the contract lifecycle. The investments that we are already making in, for example, electronic billing will provide a significant cost saving for the Ministry and one of the advantages is that the deployment of those investments can occur much more quickly with the innovation fund."

Key Benefits Realized: "Driving The Ministry To Excellence"

The project provided a win-win for both the Ministry and HPE. The Revenue Management Project improved customer service through the consolidation of debt portfolios, multiple channels for interacting with government, leading edge technologies, industry best practices, and streamlined billing, payments and collections processes. Significant financial benefits were generated from reduced bad debt expenses and lower borrowing costs to government.

» **Collections performance exceeding what was possible in the past**. Efficient collections is often about taking a proactive approach to enabling and rewarding voluntary compliance. HPE brought a new focus and perspective to the Ministry, initiating efforts that focused on ongoing engagement over collections. Aspects of this plan included informational campaigns and outbound messaging that emphasized engagement over aggressive collections methods. The

"We know we can be a bit of a laggard (as a government agency). We want to get there, we recognize the value but we're often a bit behind. HPAS are leading us forward. Their vision of how effective the business can be, and how they can drive us to excellence, they are a driving force."

– David Sherwood, British Columbia Ministry of Finance

results, coupled with internal operational programs, have resulted in significant improvements in overall collections and compliance, generating additional revenue that is being utilized for services to all British Columbians. Over a 10 year period, HPE helped collect an additional CDN $800 million, decreased overall provincial government account receivable balances, and increased annual revenue reconciliation. Additionally, HPE was able to improve mailroom productivity, exceed same-day check deposits (99.8% vs 90%) targets, and decrease check processing from 12 days to same day.

» **Innovation engine in line with technology advancements**. Governments often lag the private sector in terms of technology innovation and implementation. By working in a true partnership, and emphasizing outcomes, many of the technological risks have been shifted to HPE and resulted in a more aggressive application of technology and processes that are leading edge, by both government and private sector standards. This has allowed the Ministry to focus on achieving their core goals and focus on its long-term vision and improve the level of citizen engagement.

» **Moving to As-a-Service construct**. The Ministry and HPE were, through their partnership, able to move beyond legacy technologies and business processes to focus on a business model that embraced the Ideals of the As-a-Service Economy. The previous FTE outsourcing model has been replaced by an outcome-driven model that stresses shared risk and the ability to grow and adapt Ministry offerings to keep pace with changing policy and citizen requirements, through:

- Delivering improved services for the same cost and incentivized through stepped bonus payouts for hitting ever-higher targets across the programs.

- De-emphasizing legacy FTE business models, which can self-limit opportunities, in favor of a strong focus on Ministry-driven outcomes, including ongoing technology and process innovation to improve the overall partnership and contractual performance

» **Improving Customer Experience**. HPE management of the revenue collection process has resulted in a noticeable decrease in overall collections issues – now consistently low, with a reduction in complaints – through a proactive approach to improving the overall customer experience. Complaints have been reduced to less than a 0.04% ratio and when an issue does arise, first call resolutions rates track at 95% (above the 75% target). By implementing a streamlined business process, a consistent application of revenue management policies, and a strong focus on customer experience, the Ministry has been able to:

- Extend hours through self-service and alternative access (evenings & weekends)

- Provide faster phone response (including the elimination of call deflection from 60% to 0% and a reduction in average hold time from 15 minutes to under 3 minutes)

- Provide an increased opportunity for telephone customer contact

- Implement an outbound customer calling to proactively address potential escalation of accounts receivable balances and increased write off amounts

» **Improved operational processes**. As part of the current partnership, both the Ministry and HPE provide evaluations and scorecards for each other, improving both the dynamics of the relationship as well as individual operational processes.

A significant overall improvement is how the Ministry compares itself to other government and corporate entities. By establishing a true partnership with HPE, the Ministry has been able to act at a pace not commonly seen in government. Rather than being viewed as a laggard, their technology, processes, and results are now considered on par with state-of-the-art commercial enterprises. By offering a wide variety of community engagement options, such as mobile web chat and omni-channel engagement, they have been able to address the unique needs of different citizen groups, and lead through improved privacy, security, and self-service initiatives.

Broad Takeaways for Government Clients Seeking Similar Outcomes

Throughout the process of negotiating and managing the contract and partnership, the Ministry has learned several key lessons that can be applied to other government organizations seeking to improve their sourcing operations and regain control of their larger goals and outcomes. Key takeaways include:

» **Never underestimate the challenge**. It's easy to underestimate the individual challenges of the sourcing process, including the RFI, the contract negotiation, the ongoing operations, and the ongoing compliance/monitoring. Each of these areas can benefit from a unique set of benchmarks to ensure that individual efforts are effective and in line with the overall goals.

» **Identify the right skills for the individual tasks**. The range of skills needed to pull together a sourcing partnership of this scope necessitates a group effort. The skills needed for areas such as governance and compliance are very different from those needed to engage operationally or negotiate amendments.

» **Separate "management" from "operations"**. Managing a service provider is its own unique skill set that often benefits from separation from the day-to-day operational issues. While coordination is critical, keeping these apart can ensure that ongoing operational issues don't distract from the larger objectives of the partnership – in the end, both of these efforts will take a majority of a team's effort to manage properly

» **Recognize metrics are not outcomes**. Relying only on metrics to measure success can lead to overlooking a larger outcome. Relationships are key to dealing with metrics issue, as sometimes metrics are met but the desired overall result is not achieved (or vice versa). Relying solely on metrics can easily result in a situation where the service provider is performing well, but the client is actually not pleased. Being able to keep focus on the outcomes, and adjust the metrics to fit operational changes, is critical to the survival of a sourcing

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partnership. It's important as well for both parties to be evaluated against both KPI's and long-term outcomes.

» **Simplify and clarify where possible.** Roles, responsibilities, and expectations that are overly complex can lead to confusion, management overhead, and an inability to implement innovation. Due to this simplifying of roles and expectations, HPE and the Ministry gradually moved from what we at HfS call a "Directive" to a "Collaborative" engagement.

» **Let innovation happen**. Rigid contracts that include too many details can restrict the ability to bring new ideas to the table. Allowing the service provider to choose the right/best approaches to achieving outcomes – and having them benefit from improved results – can be an incentive to the service provider to bring (and bear the risk of) improved efficiencies, reworked processes, and new technology.

About the Author

Fred McClimans

As Research Vice President, Fred McClimans leads coverage in the area of digital trust, including cybersecurity, privacy, secure cloud, customer experience, and trust-enabling technologies (such as personalization, automation, analytics, and blockchain) that influence holistic security and digital trust.

Fred is a seasoned technology and analyst veteran, having founded two analyst firms, including Current Analysis, a global competitive intelligence and market advisory firm that pioneered the use of real-time market analysis to help business and brands monetize changes in global markets. Current Analysis, which grew to over 100 global employees, was acquired by Progressive Digital Media in 2014.

Previously, Fred co-founded Decisys, an analytical consultancy, focused on matching provider technology and services with enterprise requirements, which was acquired by the Burton Group, and later by Gartner (in 2009). In addition to his years as an analyst at Gartner, Fred's experience includes helping Newbridge Networks (now Alcatel) stand up their Advanced Technology Group, serving as the Chief Information Officer at DTECH LABS (a secure mobile communications provider, now part of Cubic Corporation), and Ernst & Young, were he was a Manager in the Technology Consulting Practice.

Fred is a frequent speaker, including sessions at the ANDI Sourcing Summit in Cartagena, Colombia (keynote), #SXSW, the Intellifest AI/Reasoning Conference, and the Defense Mobility Summit (Conference Chair). His analysis and commentary has appeared through publications such as Adotas, CNN online, Social Media Today, and Network World (IDG). In addition to his technology/culture podcast, the Coil (2013), Fred currently hosts the video podcasts #CXforum and #Cyberchat.

Fred lives outside of Washington, DC with his wife and family. An avid competitor, Fred has logged his time as an amateur hockey player/coach and martial arts instructor.

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Reetika Joshi is a Research Director, Consumer-Centric Operations & Analytics Strategies at HfS Research. She currently tracks verticalized technology-enabled BPO opportunities in insurance and retail. Her research coverage also includes enterprise analytics services and the scope for core marketing operations (including digital, social and analytics opportunities) to tie into the end-customer experience for client organizations. She regularly contributes to HfS' research content in the form of HfS Blueprint reports, PoVs and blog posts. She also supports custom research and strategy projects; analyzing data, supporting client inquiry, conducting regular discussions and briefings with both buyers and service providers, providing consultative, analytical and expert support to HfS clients.

Prior to HfS, Reetika spent three years working with the sourcing research wing of business research and consulting firm ValueNotes. Her last profile as Project Manager encompassed a range of responsibilities including research product design and development, managing custom research engagements, developing thought leadership through targeted content and community interaction, and supporting the business development team. She was also responsible for driving the unit's web and social media strategy and presence.

Based in Cambridge, MA, Reetika has undertaken several research assignments across the outsourcing spectrum, including market studies in niche areas such as analytics, medical transcription, market research and e-learning. She has served clients through multiple bespoke research engagements, including in-depth competitive intelligence studies, market and investment opportunity assessments, demand-side surveys and marketing communication optimization for outsourcing buyers, providers, consultants and investors. Her work has appeared in many industry-relevant publications and websites, including Outsourcing magazine, Global Services Media and the Horses for Sources blog. She has presented her views on the state of the outsourcing at various conferences.

Reetika has completed her Masters in Marketing Management with distinction from Aston University, UK, receiving Beta Gamma Sigma honors. Prior to this, she received her Bachelor's in Business Administration with distinction from Symbiosis International University, India.

On a more personal note, she enjoys reading fantasy series, travelling to world heritage sites and kicking back with strategy/simulation gaming.

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