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submitted to the Public Accounts Committee

The Danish Ministry of Taxation's management of delivery of a new public property assessment system

1. Introduction and conclusion

1.1. Purpose and conclusion

1. This report concerns the Danish Ministry of Taxation's management of delivery of a new public property assessment system. The study was initiated in October 2020 at the request of the Danish Public Accounts Committee.

The background for the Public Accounts Committee's request was a memorandum submitted to the committee by Rigsrevisionen in September 2020, from which it appeared that the Ministry of Taxation still had not provided a sufficient basis for the economy of the new public property assessment system. The memorandum followed up Rigsrevisionen's report on the Ministry of Taxation's financial management of the delivery of a new public property assessment system from 2017 (no. 18/2016). In the Public Accounts Committee's request, Rigsrevisionen is asked to provide an assessment of the total expenditure of the project.

2. In 2013, the minister for taxation suspended public property assessment in Denmark. The suspension followed a report by Rigsrevisionen about the public property assessment (no. 13/2012), in which Rigsrevisionen, among other things, criticized that the assessments in several cases had not been made in compliance with the regulations then in force. Since then, public property assessments have been maintained at their 2011 and 2012 levels. The development in the housing market has therefore for a number of years not been reflected in the government's revenue from property tax and property value tax.

3. The development of the new public property assessment system was started by the Ministry of Taxation with the approval of Document no. 161 of 17 September 2015 (in the following referred to as Document 161). Originally, the ministry expected the system to be completed in 2017 within a financial framework of DKK 96 million (2015 prices). Subsequently, the system was delayed several times, and the budget was increased through the submission of more documents to the Finance Committee. In April 2019, the financial framework of the project was increased to DKK 963 million (2019 prices) in Document U of 11 April 2019 (in the following referred to as Document U). Shortly before the submission of Document U, the ministry presented a new time-scale for the project. Since then, the financial framework has been further adjusted to DKK 1,336 million (2021 prices) in connection with the submission of Document V of 17 June 2021 (in the following referred to as Document V).

Tilsynet med told- og skatteforvaltningens it-område

This supervisory body was established by law no. 2187 of 29 December 2020. The supervision is, among other things, intended to strengthen the Ministry of Taxation's management of its IT portfolio and complement recommendations given to the ministry by the National ITC Council.

The Ministry of Taxation is currently consolidating the budget, timescale and deliveries of the project prior to the elaboration of another document that the ministry expects to submit to the Finance Committee in the fourth quarter of 2021. According to the ministry, this document will be elaborated based on the outcome of an examination of the project carried out by the *Tilsynet med told- og skatteforvaltningens it-område* (an independent agency responsible for the supervision of IT in the area of customs and tax administration).

4. The purpose of the study is to assess whether the Ministry of Taxation's management of delivery of the new public property assessment system is satisfactory. The report answers the following questions:

- Has the Ministry of Taxation's financial management of the project been satisfactory?
- Has the Ministry of Taxation managed risk in a satisfactory manner?
- Has the Ministry of Taxation included essential information about the economy of the project in the documents submitted to the Finance Committee concerning the new public property assessment system?



Main conclusion

The Ministry of Taxation's management of the delivery of the new public property assessment system is worthy of criticism. The ministry has no overview of the economy, progress, timescale and risks to the project. The consequence is great uncertainty about the future economy as well as the timeframe of the project.

The Ministry of Taxation's financial management of the project has not been satisfactory

The Ministry of Taxation has failed to provide a full budget for the development of the property assessment system, and the budget has not been based on the deliveries of the project. Moreover, the ministry has not followed up on the budget. It should be noted, though, that the ministry has followed up on parts of the economy in connection with its general monitoring of expenditure. Last, the ministry has not monitored the progress of the project against budget and consumption. Besides, the ministry is still in the process of identifying development tasks and therefore has no final overview of the design of the system.

The budget prepared by the Ministry of Taxation does not include all relevant activities. Therefore, the assessment of the total expenditure of the project prepared by Rigsrevisionen includes more activities than the ministry's budget. Against this background, the total *budgeted* expenditure of the project can be estimated at approx. DKK 3.6 billion. Additionally, Rigsrevisionen's assessment of total expenditure *incurred* up to and including 2020 shows that the ministry has spent a minimum of DKK 2 billion and probably more. It should be noted that these two estimated figures are subject to great uncertainty and are not directly comparable.

The Ministry of Taxation has not managed risk in a satisfactory manner

The Ministry of Taxation's risk index does not include basic data. This means that the ministry was not well positioned to handle risk that might affect the timescale and economy of the project.

The Ministry of Taxation has not included essential information about the economy of the project in the documents submitted to the Finance Committee concerning the new public property assessment system

The Ministry of Taxation has not ensured transparency of the documents on the economy of the project. It appears from Document U that it addresses only part of the economy of the project, as do the former documents. However, this fact does not appear from the former documents. It is therefore not possible to follow developments in the financial framework across the documents.

A lack of traceability between the ministry's overview of the economy of the project and Document U makes it impossible to determine whether Document U represents the ministry's overview of the economy of the project within the framework addressed in Document U. The ministry has informed Rigsrevisionen that, in the ministry's assessment, Document U provides information about the economy of the project within the framework addressed in the document. However, Rigsrevisionen cannot determine whether the ministry has informed the Finance Committee correctly about the economy of the project due to the lack of traceability.

In the documents preceding Document U, the Ministry of Taxation stated that the ministry would inform the Finance Committee, when the ministry had secured an overview of the total expenditure. With reference to the requirements of the Budget Guideline Handbook developed by the Ministry of Finance, the ministry furthermore informed the Finance Committee that Document U would include information about total development costs. The ministry should therefore, when submitting Document U to the Finance Committee, have informed the committee that its overview of the economy of the project was DKK 700 million higher than the financial framework referred to in the document.

Last, the Ministry of Taxation is unable to provide any documentation of having followed up on the financial framework presented in the documents. Therefore, the ministry is unable to document that it had a sound basis for informing the Finance Committee about significant changes to the project. Rigsrevisionen is therefore not in a position to assess whether the Ministry of Taxation has informed the Finance Committee in due time.

Overall, Rigsrevisionen notes that the Ministry of Taxation has not addressed the issues that were criticized in Rigsrevisionen's report from 2017 on the Ministry of Taxation's financial management of the development of a new public property assessment system.

The Ministry of Taxation has informed Rigsrevisionen that the ministry has launched a number of initiatives to improve its financial management and management of risks. The initiatives have not yet been fully implemented.