The government finance renaissance

Conversations across Europe

EMEA Public Sector

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Thinking progress.

Contents

Foreword

In 2008, the global financial crisis hit Europe's economic, social and political landscape hard.

The recession that followed pushed unemployment in the worst-hit countries to record highs. As banks collapsed, five trillion euros were used for state-funded bailouts. Governments responded to their weakened fiscal circumstances with austerity measures that triggered social unrest in some states. And a series of prime ministerial resignations, early elections and public dissatisfaction led to a wave of political change across Europe.

These have been, and still remain, challenging times. For the people managing public finances, this post-crisis period may be the most challenging of their careers.

This report explores the current state of public financial management across Europe in the words of the people who know it best. We have spoken to more than 30 government finance leaders in 19 European countries to get a real flavour of the impact of the global crisis on their work, current trends and their vision for the future.

The conversations leave no doubt that public financial management has entered a new phase.

Fiscal consolidation measures, political imperatives and unprecedented public interest have put a new level of pressure on the people managing taxpayers' money. Our interviews not only show how they have coped with that pressure, but how it has driven improvement and fuelled aspirations for the future. So while the financial crisis may have caused a multitude of damaging effects, it also triggered a period of intense reflection, development and innovation in public financial management – in other words, a renaissance.

Our conversations show the similarities and the differences between finance functions across Europe, suggesting that the continent's governments are as diverse as their countries.
But the number of shared challenges are striking – the need for better information, more integrated technology and an aspiration to communicate authentically with the public came up in many of our discussions. Those common aims illustrate how the most ambitious governments and finance teams will develop in the years ahead.

This report aims to provide a Europe-wide snapshot of public financial management by exploring attitudes among its leaders. It testifies to the commitment, hard work and talent that can be found in the government finance professions across Europe. I hope that it also brings a new dimension to relevant discussions underway within governments, the European Union and the Organisation for Economic Co-operation and Development (OECD).

May I take this opportunity to thank each government finance professional that participated in our conversations. Thank you for giving your time so generously.

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About this report

Deloitte firms in 19 European countries* interviewed 33 senior government finance professionals between March and May 2014 to inform this analysis. The quotes used throughout this report have been translated in most cases but the meaning has been retained.

*Austria, Belgium, Croatia, Denmark, Estonia, Finland, France, Germany, Ireland, Italy, Lithuania, Luxembourg, the Netherlands, Poland, Portugal, Slovenia, Spain, Switzerland, UK

Executive summary

This report is based on conversations with more than 30 government finance leaders across 19 countries who told us about the impact of the global financial crisis on their team, their financial management reform programmes and their aspirations for the future. By sharing insight into their attitudes, the report aims to bring a new dimension to the reform discussions underway within their governments and supranational organisations.

Fiscal consolidation – without hampering growth – remains a major challenge for many states across Europe. The OECD recommends that achieving that balance is best undertaken by improving the efficiency of tax systems, increasing the efficiency of public spending and upgrading planning and spending controls.

Other trends that have emerged in Europe's governments since the crisis include the growing use of medium-term expenditure frameworks, greater budget transparency and the increased use of spending reviews.

Against that backdrop, our report identifies five shared themes that have arisen from our conversations with government finance leaders.

The first theme is that **the global financial crisis triggered a period of rapid development – a renaissance – in public financial management**. Most of the leaders we interviewed told us that the crisis had profoundly affected the finance function. Many confirmed that their teams were now doing more with less. But almost all told us about significant improvements since the advent of austerity measures.

While austerity has kick-started improvement, our conversations also suggest that the appetite for change has grown and some of the most ambitious finance leaders now aspire to take their functions to a new level. They told us that they want to make the move from 'bookkeepers to strategists', evolving the finance function into a central part of government policymaking and decision making.

The second theme is that **governments have not changed their revenue mix as a response to the crisis**. Government revenue has been surprisingly robust and bounced back to pre-crisis levels relatively quickly. Few interviewees told us that their government revenue mix had changed with the introduction of new taxes. Most told us that their governments had focused on improving administration and compliance – and that focus would continue.

The third theme is that **many governments are struggling to exploit their own information, and that their technology is either inadequate or underused**. Our conversations identified weaknesses in governments' abilities to prepare insightful, data-based analysis and management information with far-reaching consequences for the efficient management of taxpayers' money.

Many people we spoke to told us that financial information was collected inconsistently across departments. They also told us that IT systems differ between departments as a result of years of departmental-level buying choices, and so they are unable to integrate. Those buying decisions, taken in isolation over many years, are now perpetuating isolated approaches to data. A number of participants also told us that their IT systems, even when effective, were not universally or adequately used.

As a result, governments' abilities to create consistent, pan-government management information are limited. Some interviewees added that as a consequence of this limitation, the financial implications of policy decisions – and certainly the long term impact - are not clearly understood by government decision makers.

The fourth theme is that **public sector employment restrictions are limiting the pool of talent available to the government finance profession across Europe**.

Many of the finance leaders we spoke to had seen reductions in staff numbers through redundancies – and some pointedly added that their function's workload had remained the same or increased.

They also told us of their frustration with public sector employment policies. Most notably, they spoke about the public sector's lower salaries, inflexible pay increments and inability to offer performance-related bonuses as a barrier to new talent.

The fifth theme is that the **passive publication of material in the interests of transparency is not enough to engage the public in really understanding their government's finances**.

Our conversations suggest that governments want to improve the way that the state engages the citizen with information about public spending, either to recast the relationship between the citizen and the state, improve tax compliance or create a firmer connection between tax and public spending priorities in citizens' minds.

Public finance teams have played a critical role in helping governments become more transparent, typically by making sense of spending data to be published online. Our conversations suggest that government finance leaders place significant emphasis on improving financial communications to citizens and many see it as a development area for their function. Some see it as an immediate priority and others as a long-term aspiration.

Based on these shared themes, our report proposes that Europe's governments need to continue the momentum of change so that public financial management is repositioned as a strategic function of the state, central to policy and decision making.

Many governments already recognise that they need to improve the quality of their information and the technology they use to manage it.

However, our conversations point to four additional actions that Europe's governments should explore in order to maintain momentum and continue this renaissance in public financial management.

The first is to broaden the way that experience is shared across borders. All interviewees had compared their finance function to those in other countries, often using OECD mechanisms which are valued by the public finance community and well established. But finance functions would have much to gain from richer, more qualitative insight into each other's experiences – as one interviewee said, to "see behind the numbers".

The second action is for governments to rethink their approach to public finance recruitment and retention. Many of our interviewees told us that public sector employment policies hamper their ability to attract talented professionals, and this problem may worsen as new skills are needed. More flexible and competitive salaries, as well as performance related mechanisms, could widen the pool of talent available.

The third action is for governments to develop new ways to inform and communicate about their finances. Passively publishing data in the interests of transparency will not engage the public. If governments want citizens to better appreciate the public finances – to encourage tax compliance or create a stronger connection between tax and spending – then they need to create focused communications programmes that explain as well as inform.

The fourth action is to invest in leadership within government finance communities. This renaissance in public finance has the potential to improve the way that government operates, by placing finance and data-driven decision making at the heart of government strategy. Making that happen will require real leadership in Europe's public financial management functions—and notably within the rising generation of future leaders–that will push their interests forward within the wider government machine.

Post-crisis: where are we now?

Seven years after the financial crisis, Europe's governments continue to deal with its aftermath. While each country copes with a unique set of circumstances, work by organisations including the OECD, European Commission and World Bank shows that a number of shared challenges have emerged.

Fiscal consolidation remains high on the agenda for many countries due to the amount of debt accumulated prior to the crisis, the impact of the crisis itself and the need to bolster public finances to cope with ageing populations. At European Union level, the Stability and Growth Pact has been reinforced so that Eurozone countries are expected to meet budget targets and keep public debt at sustainable levels.

To achieve consolidation without compromising long term growth potential, the OECD suggests that governments need to improve the efficiency of tax systems and tax administration, increase efficiency of public spending, and upgrade their processes for planning and controlling government expenditures[1].

Securing sufficient fiscal consolidation without hampering short and long term growth prospects is a significant challenge. According to the OECD, there is room for manoeuvre if spending programmes were targeted more effectively and distortions in taxation could be eliminated. Such measures, supported by structural reforms in areas such as unsustainable pension systems, would make room for more beneficial tradeoffs between fiscal consolidation and other policy objectives[2].

Growth is, of course, a key additional objective and a preoccupation for policymakers. The EU's growth strategy for 2020 has set targets for employment, innovation, education, social inclusion and climate change policy and new surveillance instruments aim to make sure Eurozone countries promote growth and competitiveness.

Fiscal consolidation is a long term policy that will require long term measures – not just ad-hoc packages. To this end, fiscal consolidation can be built into annual budgeting procedures by extending the planning horizon beyond the annual process, both in timeframe and scope. This is not only a challenge facing budget offices and ministries of finance, but a challenge that extends across all government institutions regardless of size and level[3].

In many countries, these considerations are already reflected in budgeting practices, with increasing emphasis on long-term fiscal projections, macroeconomic estimates, sensitivity and fiscal risk analysis, and fiscal rules that constrain the budget. Fiscal rules are now in place in nearly all OECD member states, and more and more countries have enshrined the rules in national law.

There is also a growing use of medium-term expenditure frameworks that create transparency about future consolidation challenges and force stakeholders to deal with the medium term perspective of budgeting rather than adopt an exclusively year-by-year approach. There is evidence that adoption of top-down budgeting techniques is helpful in controlling government spending. In many countries, this type of framework has become standard practice.

[1] See OECD (2013): Choosing fiscal consolidation instruments compatible with growth and equity; OECD ECONOMIC POLICY PAPERS, NO. 7
[2] See OECD (2012): Fiscal consolidation: How much, how fast and by what means?; OECD ECONOMIC POLICY PAPERS, NO.1
[3] See OECD (2013): Budgeting for fiscal space and government performance beyond the great recession, Working Party of OECD Senior Budget Officials

Budget transparency is increasingly seen as central to good governance, and the World Bank cites its importance in improving citizen participation and government accountability[4]. A key aspect of transparency is the extent to which the government discloses the underlying assumptions for spending plans[5].

Recently, spending reviews have become a significant part of the government's toolbox and the OECD recommends that they should be seen in a wider perspective than their immediate fiscal consolidation context. While they may have been created as a consolidation measure, spending review processes may become a permanent fixture to make them continually relevant and cost effective[6].

Tax changes remain an ongoing tool available for governments. The European tax landscape of today looks broadly similar to that pre-crisis–governments appear to be focusing on getting better at managing and collecting what is already due rather than attempting to implement radical change. Since 2008, the European Commission has counted 224 changes to taxes across Europe. However, most are minor changes rather than significant reforms.

More than €5 trillion were collected in the European Union through taxation in 2012, representing a return to pre-crisis levels and a small advance over the receipts of 2008. In 2009, tax revenues had fallen to a period low of €4.6 trillion, marking a loss of approximately 11 per cent when measured against 2012.

The robustness of revenues throughout the crisis period, and the speed at which they returned to the pre-crisis highs, is noteworthy.

But perhaps one of the most interesting aspects of the crisis has been the level of engagement between governments and electorates with respect to the need to protect tax revenues, even in the face of a deep and continued economic downturn. In turn, this new dialogue is being championed as a vital aspect of voluntary compliance and is itself a focus of governments seeking to introduce even greater levels of transparency in relation to the sources and uses of tax revenue.

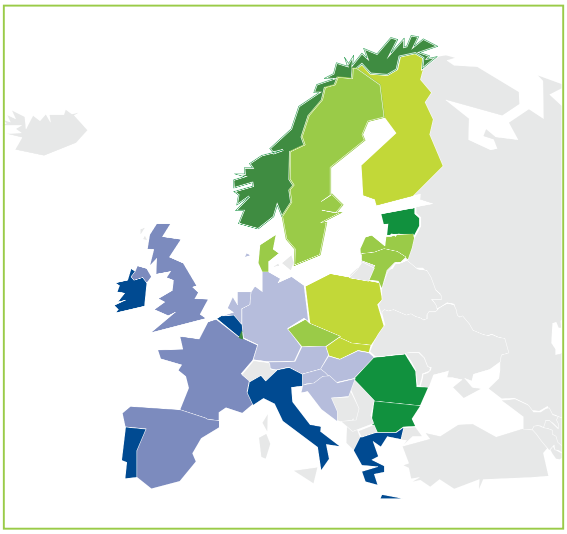
[4] See World Bank (2013): Opening budgets can improve citizen participation and government accountability
[5] See OECD (2013): Strengthening budget institutions in OECD countries. Results of the 2012 OECD budget practices and procedures survey; Working Party of OECD Senior Budget Officials
[6] See OECD (2013): Spending reviews; Working Party of OECD Senior Budget Officials

Statistics snapshot

Impact of global financial crisis on European public finance

Europe divided East-West in terms of public debt

Public debt in Europe, 2013



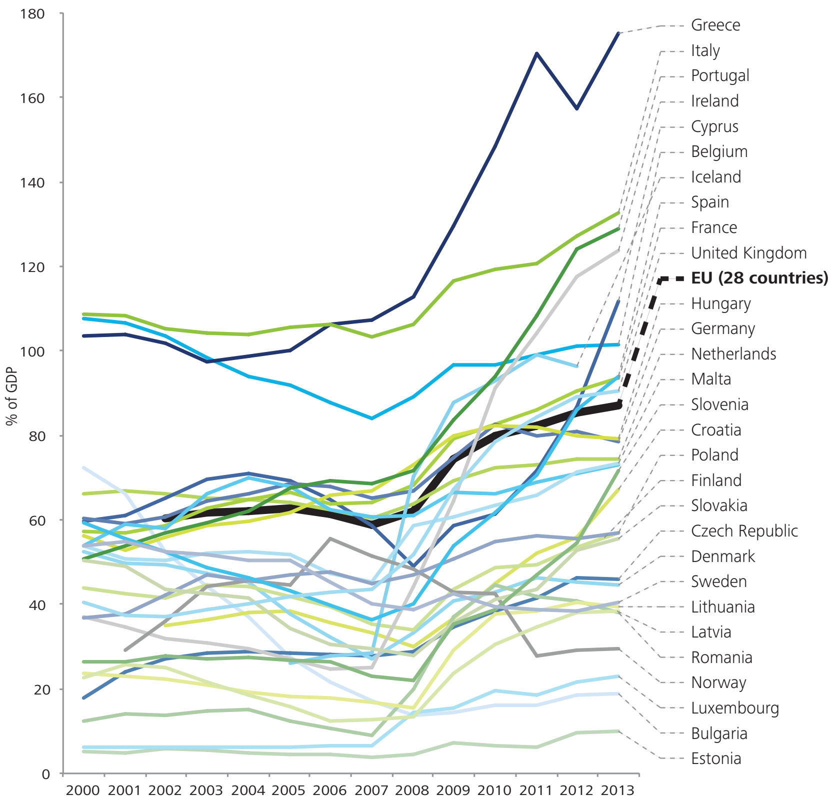
General government gross debt % of GDP

Source: Eurostat

0–29	60–79
30–49	80–100
50–59	>100

Public debt increased significantly

Public debt change in Europe, 2000–2013

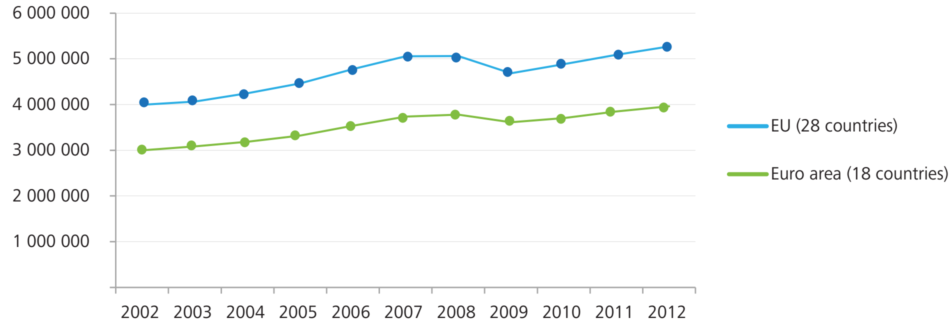


General government gross debt % of GDP

Source: Eurostat

Government revenue amounts and mix were relatively robust

Tax revenue in Europe, 2002–2012



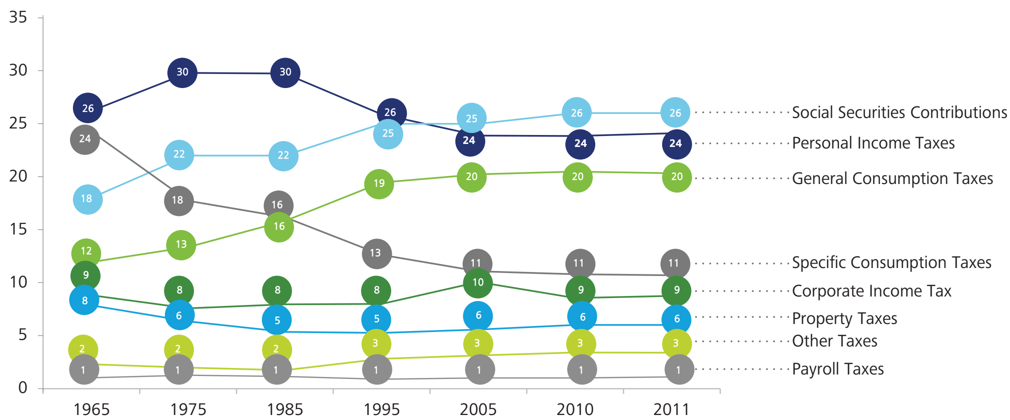
Total tax revenue in milions of Euro

Source: Eurostat

Average revenue per taxpayer

EUR 13,805

Tax mix across the OECD, 1965–2011



OECD tax mix, % of major tax categories in total tax revenue

Source: OECD

Average revenue per tax administration employee

EUR 7,654,230

Data for 2012, Europe (22 countries)

Source: IOTA

Pressure on public spending

Government expenditure, 2002–2013

Total general government expenditure

Source: Eurostat

Key theme: the global financial crisis triggered a renaissance in public financial management

In 2008, the global financial crisis set in motion a series of events with distressing consequences for businesses, institutions and people around the world. Across Europe, governments initiated austerity measures to reduce public spending as part of wider fiscal consolidation programmes. Government finance functions not only came under greater pressure to help reduce spending – they were subject to administrative cuts themselves. As a result, many began intense periods of rethinking, improvement and development that continue today. Essentially, the global financial crisis triggered a renaissance in public financial management.

> "Financial administrations have been extremely affected by the crisis, both positively and negatively."

Most of the leaders we interviewed told us that the crisis had profoundly affected the finance function. Many confirmed that their teams were now doing more with less. But almost all told us about significant improvements since the advent of austerity measures.

> "The crisis has improved our effectiveness — the same functions are carried out with smaller resources."

Most interviewees consider their own finance function to be relatively effective. In all cases, they were able to describe ongoing change, suggesting the improvement work that began with the age of austerity is continuing apace.

The leaders that we interviewed told us about their continuing challenges and priorities. Many said that their function's top priority was to help government achieve wider goals, such as balancing the state budget or managing Euro adoption.

> "Tolerance of stress has become a more valuable asset than ever before."

Others described specific reform priorities for the finance function itself. In Poland, the development and integration of IT systems are a priority. In the UK, an ambitious plan for the years ahead includes new leadership arrangements with a chief financial officer for government to make a critical contribution to the central government finance community. In Estonia, Finland and Portugal, efficiency gains are among their immediate aims.

> "We need to make the move from bookkeepers to strategists."

While austerity has kick-started improvement, our conversations suggest that the appetite for change has grown and some of the most ambitious finance leaders now aspire to take their functions to a new level. They told us that they want to make the move from 'bookkeepers to strategists', evolving the finance function into a central part of government policymaking and decision making.

> "The main vision is the creation of a centralised finance and reporting function and a greater role for finance in strategic and policy options."

These ambitious leaders – including those that we spoke to in France, Ireland and the UK – told us that they see the ability to generate analytics-driven insight from information as central to taking the finance function forward. The importance of leadership to create a cross-government finance community was also acknowledged.

All interviewees had compared their finance function to those in other countries. High-quality benchmarking data and networks from the OECD were mentioned by many as a powerful way for governments to compare certain functions with others as well as with OECD averages.

> "No one country is perfect."

To maximise the potential of cross-border learning, government finance functions could have much to gain from richer, more qualitative insight into each other's experiences – as one interviewee said, to "see behind the numbers". Finance functions across Europe operate within a range of different political, governance and economic environments.
But their shared challenges and pressures suggest that they could all benefit from secondments or learning programmes instigated themselves or through frameworks established at the supranational level.

> "The goal for everyone in public finance is to first achieve the EU average and once that is achieved, move closer to the best ones."

The government finance profession across Europe has made bold strides since the global financial crisis, to reflect, develop and innovate. That work continues, supported by supranational organisations that include the OECD, accountancy bodies and European institutions.

> "We need to significantly improve the finance function to produce credible and useful information for decision-making."

> "All of our basics are right. But we want to play a more strategic role."

Key theme: governments are focused on tax compliance rather than innovation

As the global financial crisis hit the public finances, governments across Europe balanced the need to maintain sufficient levels of tax receipts to meet rising social welfare costs with the need to provide resources for remedial action and the need to support economic recovery.

"We need a tax policy that encourages growth."

Government revenues were relatively robust throughout the crisis period and have bounced back. By 2009, revenues for governments across the European Union had fallen to a low of €4.6 trillion. By 2012 they had returned to pre-crisis levels of more than €5 trillion, having recovered from a loss of 11 per cent.

"The economic crisis mostly affected revenues from corporate tax. I am actually surprised about the small decrease in other areas."

Different taxes typically react differently to downturns. Consumption taxes react relatively swiftly while direct taxes tend to react later. Governments have generally grown the share of consumption in their revenue mix, which have remained stable over the past decade.

But consumption taxes are not necessarily capable of delivering revenue needs alone. As one interviewee from Lithuania noted, a cautious population shifts towards saving very rapidly when faced with economic uncertainty. As taxes based on consumption leave savings broadly untouched, reinforcement from other tax types remains necessary. The extent to which this 'flight to savings' is felt differs from country to country, and serves as a useful reminder that a fiscal equation that works well in one state may well fail in another.

"There's a goal to improve the overall revenue and tax collection and efficiency of the system."

The general position with tax types and rates appears to be that the pre-crisis status quo was not radically altered over the course of the crisis. The relatively small contraction in total tax revenues suggests that measures implemented prior to the downturn prevented any excessive losses. Looking forward, the picture looks equally stable, with a number of respondents in our interviews indicating that adjustments to tax rates and bases, rather than new or altered tax types, are under consideration. In other words, governments have focused on improving the collection of existing taxes rather than innovating and introducing new ones – and that pattern looks set to continue. Governments want to improve management and collection of revenue that is already due under existing tax legislation.

"The tax mix has not changed for years."

An interviewee in Portugal described their approach to simplify tax measures in order to improve overall collections and to provide greater certainty to potential investors. A finance leader from the Netherlands also confirmed the government's commitment to simplicity. Company bankruptcies and non-payment of taxes were cited by an interviewee from Croatia as being issues of concern, prompting a more joined-up approach to fiscal governance and the introduction of programmes designed to address these behavioural issues. In Denmark, an interviewee suggested that compliance by small and medium businesses would be an important focus in the future.

"Keeping the tax system as simple as possible is important."

Our conversations also suggest that many European governments have tried to engage citizens to boost voluntary compliance as well as introduce greater levels of transparency. An interviewee in Slovenia suggested that tax citizenship should be taught in school so that future generations better appreciate the link between public spending and tax.

> "The grey economy is the greatest threat to revenues, revenue realisation, and debt collection."

The role of tax in driving economy was also raised by many of our interviewees. Finance leaders in Finland and Portugal in particular stressed the importance of tax policy that encourages growth and attracts investment.

> "The biggest challenge is to attract investment and steer tax collection effectively."

Key theme: governments are struggling to exploit their own information

Technology and systems of management information are two key facets of finance operating models. The ability to monitor, analyse and interpret data has always been at the heart of the public finance profession. In recent years, advancements in data storage and software have enabled organisations to draw insight through data analytics. But our conversations suggest that governments are far from realising the potential that lies within their own information - with far-reaching consequences for the efficient use of taxpayers' money.

> "Information is one of the biggest problems of financial management in the state."

The way that their government collects, manages and uses information was seen by our interviewees as a significant barrier to improving public financial management. But it is also seen as key to the function's future. Unfortunately, a range of barriers are hampering efforts to make full use of data in government. Many people we spoke to told us that financial information was collected inconsistently across departments. Different departments within a government record the same costs, for example, in different ways. As a result, governments' ability to analyse spending and other financial data across all departments is limited – and so is their ability to create management information that is consistent and comparable across government.

> "We need to get shared and coherent data sorted."

Technology is another major factor. The rate of change in technology – specifically the ability to collect, store and utilise vast amounts of data – has outpaced the ability of governments to exploit it.

> "You don't find analytics in government like you find in business that gets behind the numbers, understands trends and synthesises them for management insight."

Government finance leaders recognise the potential for better technology that could integrate across government departments. In particular, they know that more integrated systems, combined with data analysis, could help them provide real insight to policy and spending decisions.
Of course, decision makers ultimately decide whether to heed such information – one sanguine interviewee told us that their financial forecasts are high quality but the extent to which they are taken into account is "a political decision".

> "The main challenge is assessing the consequences of policy."

Interviewees also told us that IT systems differ between departments as a result of years of departmental-level buying choices, and so they are unable to integrate. Those buying decisions, taken in isolation over many years, are now perpetuating isolated approaches to data.

The successful use of technology rests on people's willingness and ability to use it, and our conversations cast doubt on both of those factors as well. A number of participants told us that their IT systems were not universally or adequately used. This was even true in a government with a well-regarded, cross-department information system. They also pointed to capability gaps that will need to be addressed for data analytics to develop in European governments.

> "Cost versus benefit is not always accurately thought through."

Several interviewees told us that a key consequence of weak information was that the financial impact of policy decisions – and certainly the long term impact – was not clearly understood by government decision makers.

"IT systems should become more integrated."

Just as government finance leaders see the weaknesses in their IT systems and data capabilities, they also see their potential. Asked to outline their vision for the decade ahead, many interviewees made reference to better technology that was fully integrated across government as an enabler for better financial management.

"The main skills gap is in data analytics."

"Government does not grow all the skills they need in-house. It's a make or buy decision."

In the short and medium term, many finance leaders are pragmatic about change, citing their priorities as better use of existing IT systems and making sure that departments collect and record data in the same way.

"My vision is to deliver better insights, faster. So when we take decisions, we take them with our best understanding of the likely consequences."

Key theme: public sector employment restrictions are limiting the talent pool

Sound public financial management requires good management, processes and systems. But the defining factor is the talent and professionalism of the people who make it happen. Most of the finance leaders we interviewed agreed that austerity had several negative effects on their teams. Many had seen reductions in staff numbers through redundancies – and some pointedly added that their function's workload had remained the same or increased. A number of interviewees told us that their team faced greater pressure than before the crisis. They also told us that the pace and complexity of their work had increased. Some interviewees added that training budgets have been cut.

> "The work is now more complex and the environment is fast-paced."

As well as these common themes, interviewees shared a range of development priorities. Those in France and in Lithuania told us that their teams are acclimatising to new, results-oriented cultures. In the UK, the focus has shifted away from transactional skills that have been consolidated and perform well, and onto cross-government leadership. In Luxembourg, one interviewee suggested that their team members should develop levels of pragmatism that will match their high levels of education. In Belgium, finance leaders aim to improve skills in communication that will help the government better engage citizens. In other countries, interviewees told us that the ability to provide analysis and commentary would be increasingly important in the future.

> "In finance, it's vital to have senior people who know what good looks like."

Finance leaders interviewed in a number of diverse governments said that the quality of different finance teams and the professionals within them can vary significantly. Some are addressing this through initiatives that include rotating high-performers between departments.

> "In the future, reacting quickly to change will be a huge part of the role."

Nurturing talent from within may become increasingly important for government finance teams in the years ahead – not least because recruitment appears to be such a contentious issue. Leaders across Europe told us of their frustration about public sector employment policies that reduce the pool of talent that could join the government finance profession. Most notably, they spoke about the public sector's lower salaries, inflexible pay increments and inability to offer performance-related bonuses as a barrier to attracting and developing talent. One interviewee told us that a particular problem emerges with staff who meet colleagues in the private sector through the course of their work - as they are often poached with pay rises that the public sector cannot match.

> "There are two limiting factors in the public sector: employment policy and the salary system."

The importance of leadership emerges as an underlying theme in our conversations. Most of the finance professionals interviewed had led their teams and wider finance functions through the post-crisis period of intense improvement, and had gained valuable experience in difficult times. Many had aspirations to continue improving their finance function, building on the momentum created in the past five years. That will require vision and tenacity– particularly as the sense of post-crisis urgency abates. Importantly, leadership will need to come from the rising generation within public finance in order for governments to continue improving.

> "Government does not grow all the skills they need in-house. It's a make or buy decision."

Key theme: transparency is not enough to engage the public

Since the global financial crisis, many European governments have followed a trend towards transparency and begun publishing large amounts of data for public scrutiny. The growing use of social media and other digital technologies have also added to a culture of accessibility and openness which many governments have embraced. Public finance teams have played a critical role in helping governments become more transparent, for example by making sense of spending data to be published online. But our conversations suggest that communications is a major development area for government finance and there is much that finance teams can do to improve the way that the state engages the citizen with information about public spending.

> "Open communication with the public and transparency are the fundamentals of trust."

In Ireland, one participant told us that public debate is needed to address the gap between what citizens want from their public services and what they are willing to pay. In Slovenia, a finance leader said that the government is striving to raise awareness about the need for tax compliance as a way of combating the grey economy. In Estonia, a finance leader told us that their focus is on building trust with open communications.

> "There needs to be a public debate about the gap between what citizens want and what they are prepared to pay for."

Since the financial crisis, finance teams have gained considerable experience in communications. In France, their experience suggested that communications should be made as accessible and understandable as possible.

> "It is hard...unless people understand how their taxes are spent."

In Luxembourg, an interviewee pointed to the importance of a narrative in government communications, rather than a patchwork of information. In Portugal, finance leaders told us how they are improving their communications with a new 'Citizen's Budget' that provided finance information in straightforward language. The UK government has produced infographics to make tax and spending data accessible and taken steps to simplify and streamline financial reporting. Importantly, an interviewee in Belgium pointed out that a new focus on communications will require new skills in finance teams.

> "It's essential to simplify the budget to make it understandable."

Government finance leaders place significant emphasis on improving financial communication to citizens. Some see it as an immediate priority and others as a long-term aspiration. But our conversations suggest that most see it as a major focus area for their functions in the years ahead and the key change must be the move from passive publication to more pro-active, engaging communications.

> "Citizen behaviour can be influenced by building their trust in the state."

Continuing the renaissance

The global financial crisis caused economic and social misery for many. But our conversations suggest that government responses to it have led to major improvements in public financial management. They also suggest that there is much yet to achieve, with clear potential for government finance functions to bring a new level of insight into government policy and decision making. That could, in turn, help make governments better able to make the most of taxpayers' money.

In May 2014, more than six years after the crisis began, OECD Deputy Secretary-General Rintro Tamaki made clear that "the legacy of this crisis still needs to be addressed". So how can government finance functions continue this renaissance and create that legacy?

Our conversations suggest that to realise their ambitions, finance functions need to fundamentally improve the information they can access. They also need to improve the technology they use to manage it. Achieving both of those aims will empower finance teams to provide evidence-based insight that could inform policy thinking and spending decisions. Ultimately, that would fundamentally improve the quality of governments and their ability to deploy resources on behalf of their citizens.

The interviews suggest that governments typically recognise these barriers and many are taking steps to address them.

But the conclusions drawn from our conversations point to four less evident ideas that Europe's governments should explore in order to maintain momentum and continue this renaissance in public financial management.

The first is to learn from others – not just through data comparisons but through richer dialogue about their strengths, weaknesses and their improvement programmes. All interviewees had compared their finance function to those in other countries, often using OECD benchmarks which are valued by the public finance community and well established. But several interviewees noted that such comparisons focus on figures and statistics. Our research suggests that government finance functions across Europe are at different levels of maturity, and that each has strengths that could be shared within the European public finance community. Finance functions could have much to gain from richer, more qualitative insight into each other's experiences.

The second idea is for governments to rethink their approach to public finance recruitment and retention. Many of our interviewees told us that public sector employment policies hamper their ability to attract talented professionals. They told us that public sector salaries, slow incremental pay progression and the lack of bonuses make working in the public sector less attractive than other sectors.

More flexible and competitive salaries, as well as performance related mechanisms, could widen the pool of talent available for government finance roles.

The third idea is for governments to invest in pro-active communication about their finances. A number of our interviewees shared their experiences of publishing financial data. Those experiences suggest that much more can be done to really engage the public with information about how their taxes are spent.

Our conversations suggest that merely publishing data in the interests of transparency will not engage the public. If governments want citizens to better appreciate the public finances–to encourage tax compliance or create a stronger connection between tax and spending–then they need to create focused communications programmes that explain as well as inform.

The fourth idea is to invest in leadership within government finance communities. This renaissance in public finance has the potential to improve the way that government operates, by placing finance and data-driven decision making at the heart of government strategy. The implications for continuing to improve public financial management go far beyond the finance function alone and could fundamentally make government more effective for those it serves.

Making that happen will require real leadership in Europe's public financial management functions. Many of the government finance leaders interviewed for this report have led their functions through some incredibly challenging years and should be empowered to continue on their improvement journeys. But the next generation of leaders need to be nurtured as well so that the interests of the finance function can continue to be pushed forward within the wider government machine for years to come.

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