



Better Government Series

Public finances in practice

Insights from senior European public finance professionals

Executive summary



How governments manage their public finances is an issue that concerns all of us. Public finances are under strain in many European countries. This has an impact on the ability of governments to deliver shared goals of stable and sustainable growth. To meet both present and future challenges, countries need to have best-in-class public finance functions. We believe this to be of vital public interest.

This paper seeks to encourage dialogue and more open conversation about the financial management capabilities of governments in Europe and beyond. It captures the insights of a select group of senior finance professionals in 10 different EU member states, large and small, older and newer, and describes their day-to-day concerns. The research highlights practical issues relating to public finance structures, processes and people. By and large these are shared across countries.

Building on our wider activities to encourage discussion on public finance issues, from the key attributes of finance ministries to specific recommendations on European public sector accounting reform, we also share our reflections on potential areas of improvement in public financial management. Ultimately, governments – not just in Europe – are going to have to think harder and more creatively about how they resource and run their finance ministries and finance functions across government and the public sector.

A handwritten signature in black ink that reads "Michael Izza". The signature is fluid and cursive.

Michael Izza
Chief Executive
ICAEW

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Introduction

Better public financial management is a key enabler of a sustainable economic future. It matters because of the size of the public purse and the importance of public spending in delivering public goods. Public finance professionals are at the heart of the system, ensuring governments can meet their current and future obligations while managing short-, medium- and long-term risks. This public finance ecosystem is a varied one, including the finance ministry – the guardian of public finances – as well as individual ministries, regional and local authorities with differing but often significant operational responsibilities. A wide range of bodies and actors also help to ensure transparency and accountability, including supreme audit institutions, elected representatives, media, taxpayers and investors.

In recent years, the debate on better public finances has tended to concentrate on fiscal sustainability, though with a primary focus still on deficit and debt figures. As part of this, there has been some progress in recognising that financial reporting has a key role to play, through the publication of governments' annual accounts. It is an issue which requires far greater attention and urgency, and which we look at in some detail in our recent discussion paper *The future of EU public sector accounting in a global context*. Meanwhile, there also needs to be focus on some of the practical challenges faced by finance functions across government and related changes taking place in different countries. The improvement of public financial management cannot be achieved through improved standards alone. Hence this research.

This paper seeks to address this gap by sharing insights from professionals holding senior financial positions in the governments of 10 EU member states (the Czech Republic, Estonia, France, Germany, Greece, Italy, the Netherlands, Poland, Romania and Sweden) as well as the European Commission and the European Court of Auditors. They reflect a range of different approaches to public sector management.

The independent research carried out by Brunswick Insight, an independent opinion research consultancy, was informed by some of the questions raised in our report *A Modern Finance Ministry* and our Brussels-based discussion series on *Sustainable Public Finances: EU Perspectives*. But the reflections captured here are wide-ranging. They don't seek to evaluate specific features of different finance functions across Europe but to gather views on practical issues related to how these functions currently operate, with a consequent focus on the management of what governments spend rather than what they own, owe and receive.

The report explores three broad, interlinked areas:

- **structure:** creating an environment conducive to accountability;
- **processes and systems:** improving the availability and use of high quality financial information; and
- **people:** ensuring the right mix of expertise.

It concludes with our reflections on some of the different aspects that are integral to a meaningful discussion about how to improve public financial management.

Understanding the issues affecting public finance professionals is not just of European relevance. We hope that the perspectives captured in this report will trigger a wider international conversation on the key challenges and opportunities faced by public finance functions, offering inspiration and raising issues for further exploration.

If you are interested in this debate, send us your views via email: europa@icaew.com

1. Structure

Creating an environment conducive to accountability

Political and constitutional systems vary markedly from country to country, and so too do the financial management structures in place across the EU. In carrying out this research we aimed to gain insights into the common features of public finance structures in different countries. In considering such structures, participants repeatedly focused on three issues: how to establish clear roles and responsibilities; how to ensure effective control and audit; and how to support public transparency and democratic accountability.

Clarity of roles and responsibilities

Effective public financial management is highly dependent on having clear roles and responsibilities within finance ministries – from the lowest to the highest levels, across both elected and unelected officials. A lack of clarity in this area makes it far more difficult to set financial management objectives and to assess whether they are being met. Clear functions are vital if a finance ministry (and indeed the government more widely) wishes to set out and execute a clear, joined-up strategy for financial management, and thus to better control the financial position of the government as a whole. Without clarity of roles and responsibilities, individuals, teams and even departments can overlap, creating inefficiencies, confusion and unnecessary bureaucracy, thereby reducing finance ministries' day-to-day capacity and capabilities.

'We can improve a lot [in terms of] our organisational structure. Responsibility is very well defined in a theoretical way but not in practice, so we could improve our efficiency with better organisation.'

The purpose of legislation in defining roles and responsibilities across government finance functions was frequently discussed. Many respondents pointed to the solid basis that legislation provides by clearly setting out remits and responsibilities. A few respondents remarked that their countries are currently refining existing legislation, or introducing new legislation, to clarify financial roles and responsibilities, in an effort to increase accountability and efficiency. However, it was also argued that legislation alone is not always enough to cultivate accountability. Several respondents noted the difference between well-defined responsibilities in theory and the application of those responsibilities in practice. This often comes down to the extent to which legislation is adhered to.

'There is a fiscal responsibility law, but it doesn't work properly because it is not taken seriously.'

The importance of well-defined, rigorously-applied roles and responsibilities is amplified by the inherent complexity of the public sector and the work it performs. Many respondents argued that, given the size of government and the vast range of complex tasks it must deliver, public financial management is inevitably challenging. This places a premium on clarity around roles and responsibilities, and our research found a general consensus on the need to remove as much ambiguity as possible across government.

Ensuring individuals can be clearly held to account in a timely manner helps to create a strong culture of responsibility and ownership, within both finance ministries and other government departments. This helps to foster a wider organisational culture of good financial management across the public sector as a whole. Our research shows that culture



The most significant step for us is to adjust the internal control system. Then we would like to clearly determine the responsibilities of expenditure decision-makers.

is widely perceived to be an essential, though intangible, factor which enables governments to manage public finances effectively. When asked to summarise the aspects of financial management which work well, many of those respondents who view their country's performance positively cited the strength of the financial management culture – often ahead of specific structural or systematic factors. In contrast, those who were more negative often cited poor attitudes across government and a weak financial management culture.

An effective framework for control and audit

Effective financial management requires effective scrutiny. This is as true in the public sector as it is in the private sector. First and foremost this requires robust internal control systems and independent external audit. Internal control mechanisms are generally seen as the first level of governance, allowing the central finance function to monitor spending against annual budgets, and – if necessary – to hold departments to account.

Good internal monitoring systems are considered particularly important when significant financial management responsibilities are devolved to individual line ministries. They are also highly dependent on the quality and timeliness of financial information which is made available by each department. In several countries, the drive towards greater simplicity has centred on the metrics used to monitor internal performance. Some respondents described a trend by which the number of measures used is being reduced, reflecting doubts about how useful these are in terms of financial management.

'We have too many rules. We have to ask ourselves how information is used. There have been discussions here about whether there are too many measurements because it's quite costly and we always come back to this discussion about what the information is needed for. That is one thing that could be improved.'

Supreme audit institutions (SAIs), as well as private audit firms, provide a further layer of scrutiny, in certifying the accounts of government departments as well as, increasingly, examining whether public funds are being used efficiently and effectively. It is interesting – and revealing – to note that the strength of the national SAI is often considered an important indicator of the extent to which financial management is taken seriously within a national political system.

Independence, expertise and influence are cited as key attributes of effective SAIs. Where shortcomings are mentioned, these tend to relate to a lack of financial or accounting experience to enable SAIs to carry out high quality audits or to a perceived institutional weakness when it comes to countering potential political pressure. In countries where SAIs play a limited or peripheral role, the overall level of democratic accountability is seen as being weaker. In countries where SAIs already play a central role, several participants cited ways in which the remit of SAIs could be extended to further enhance overall public financial management, including by greater involvement in budgeting (for example, assessing whether or not a particular projection is realistic) or by additional attention on performance-based auditing.

'I'm quite proud of our financial management system, I must confess. I think quite a lot works well. I think that the independent institutions we have are an important part of it.'



We are trying to make the whole system more transparent. We will create a special information system which actually describes all spending across the state budget. Then you can look at how money is spent, not only at the level of state organisations, but also at the level of the local parliament.

Public transparency and democratic accountability

Public transparency and democratic accountability are repeatedly cited as key pillars of a country's public finance structure. Put in very simple terms, those respondents who believe public financial management works well in their country also described an effective system of accountability. In contrast, those who see significant shortcomings in financial management referred to weak accountability.

The ability of elected representatives to ensure effective financial scrutiny can be affected by a number of issues. A number of respondents raised general concerns that parliamentarians often lack the time and specialised financial knowledge necessary to evaluate public sector spending in detail. Several respondents suggested that programmes to improve parliamentarians' financial understanding should be a future priority.

'In parliament, there is more of a tendency to fight for additional money rather than to scrutinise the effectiveness of the money spent.'

More specifically, issues were raised about the role of parliament in the annual budget process. This is widely seen as a critical moment each year, giving democratically-elected representatives the opportunity to publicly examine the annual budget before ratifying or rejecting it. Despite its importance, however, the level of scrutiny is often felt to have shortcomings. Some respondents believed that the process is more often used by parliamentarians as an exercise in short-term political point-scoring, rather than as an opportunity to properly question the government's spending plans and assess the effectiveness of policies. Here again, a lack of time and limited financial expertise hinders parliamentarians' ability to interpret the data and to use it to inform policymaking as well as investment and expenditure decisions. Respondents also observed that while parliamentary debate on the annual budget is important, from a financial management perspective, it is just as critical to measure performance against that budget over time – an aspect of the budgetary process which often receives less attention.

'Traditionally, voting on the annual budgets is an opportunity for the governing party and the opposition to show their face. So they start arguing in favour or against the budget, but once the budget is voted, nobody really cares about how the money is spent. There is no equivalent procedure for voting on a report explaining how the budget was executed.'

Transparency is essential to foster a culture of accountability – and has become a higher priority issue in recent years, not least due to increased external pressure from supranational organisations such as the IMF and World Bank, in addition to the EU institutions. There is a firm consensus that levels of transparency in public finances are increasing across the board. Greater openness is seen to be having a positive effect, enabling the public, media, NGOs and others to examine and evaluate government spending. This helps build trust in public finances. A number of respondents also mentioned recent efforts being made by finance ministries in their countries to disclose even more data to the wider public.

Increased transparency is expected to remain a key focus of governments in the future. But several respondents queried whether simply providing greater quantities of data necessarily translates into improved accountability and scrutiny. It should not be assumed that publishing more data automatically equates to greater transparency; providing the right sort of data is just as – if not more – important. For instance, providing clear, relevant, searchable datasets that relate to key areas of spending is far more likely to enable genuine scrutiny than simply creating torrents of public spending data. In the future, finance ministries will probably need to explore innovative ways to present this information in a more intelligible way.



2. Processes and systems

Improving the availability and use of high quality financial information

A modern finance ministry needs to have the right processes and systems in place to ensure sound financial management across government, thereby enabling the delivery of public services and facilitating longer-term planning. Reflecting the wide range of financial management structures in place across the EU, processes and systems in use in individual member states are equally varied – and there are different opinions on how these might be improved. Regardless of their specificities, effective financial processes and systems require high quality and timely financial information.

Access to high quality financial information

There is a clear consensus that gathering accurate financial information across government is of crucial importance. Across the board, respondents agree that weaknesses in accessing financial information are a major impediment to effective public financial management.

A variety of public accounting systems are currently in place across the EU, ranging from cash-based to accruals-based systems. Irrespective of the specific nature of the systems used in their country, respondents were generally content with the quantity, timeliness and accuracy of financial data. This sense of broad satisfaction may also reflect a perception of positive momentum, noted by several participants, that has been generated by recent reform efforts to control and manage data more effectively, including by upgrading IT systems, in a number of countries.

Delving deeper, however, respondents pointed out a number of shortcomings – and were keen to explore potential areas for improvement. While not necessarily advocating a move towards accruals accounting where not already in place, some pointed out that accruals-based systems provide better quality financial data. A handful of respondents observed difficulties in how public assets are currently dealt with in their reporting systems, with particular issues posed by publicly-owned companies. The complications in accounting for such public assets can limit transparency – a key concern requiring attention for several respondents.

Ensuring consistency in how data is reported across the public sector is an issue for some. The use of diverse accounting approaches in different parts of the public sector can cause confusion, limiting the ability of governments to make direct comparisons across sectors or across ministries.

‘Across the public sector we still see a high degree of accounting diversity. That means that, for example, the education sector account according to a system developed by the Ministry of Education while the social security organisations have a system developed by the Ministry of Social Affairs. Although there are some common elements in these financial statements, there is also diversity.’

A number of respondents identified specific shortcomings in the availability of consolidated data. Access to high quality, consistent information may still have only a limited impact on overall public financial management if there is no consolidation at central government level. It is difficult to take a holistic view of a government’s financial situation without



The financial information that needs to be in place is of very good quality.

consolidated data. Several respondents referred to the UK as a country that deals well with this issue, with the annual publication of Whole of Government Accounts, a consolidated set of financial statements for the UK public sector.

‘Our consistency and quality is quite good. Information issued from one source does not differ significantly from the other sources. However, not all of the information is published at the central government level – we do not issue whole government financial statements. That could be improved.’

A recurring theme across the interviews was also the importance of having an effective IT system to gather and use financial information. It is clear that the quality of IT systems currently in use across European countries varies quite considerably, with some countries leading the way with significant innovation and investment in this area, while others lag behind. Given the importance of these systems, it is no surprise that where IT systems are poor, or modernisation is slow, effective financial management can be severely constrained. There is a widespread desire to ensure technology is up to date. However, there is also an appreciation that the process of introducing new technology or systems is challenging, costly and time consuming, even where organisations like the World Bank can play a supporting role. The aim is not simply to have modern technology: to be effective, IT systems need to be well integrated and user friendly.

‘I feel we could be more efficient in IT – we have a very good IT system but some things are still not reported in the system. I think the quality of the information is good but we could work to make it more efficient.’

Using financial information effectively

It is, of course, one thing to have high quality financial information; it is another challenge entirely to ensure that this information is used to its full potential. In considering the availability of financial information – including recent improvements made by a number of countries – respondents repeatedly commented on the importance of enhancing how such data is currently used. We stress here that the call is not for more information. Rather there is a desire to ensure that the data gathered can be presented in a user-friendly way to help public finance professionals do their job more effectively.

Respondents in some countries feel that the financial information collected, while comprehensive, is too fragmented, confusing to interpret or presented in an inaccessible format. In some instances there is just too much information. For example, some respondents describe how excessively long reports are being produced, providing intended users with huge volumes of information that they don’t have the time or capacity to interrogate and analyse. Having to navigate through a dense, confusing report is inefficient, especially at a time many departments are facing staff shortages. This can ultimately result in less accessible and less useful financial information. It can make it harder to draw broad conclusions and to understand the bigger picture on public finances. This is a particular cause for concern when most of the policymakers relying on such data are not finance professionals.

‘Personally, I have some deep doubt about the usefulness of this system. I think that the actual decision makers don’t need so much financial information. I think that they would benefit more from clear, short and meaningful documents.’





The quality of financial information is very good. We have a system for performance-based budgeting where we combine finances with output, and also try to combine it with outcome.

Our respondents all expressed a clear desire to see financial information used to improve government decision-making, for instance, through cost-benefit analyses, better forecasting, value-for-money assessments and by measuring outcomes more closely. This is not yet the case in a number of countries. A lack of incentives and time to undertake such exercises is raised as a primary issue. The approach can vary quite significantly by country, with some putting far greater emphasis on forecasting than others.

'There is a disappointing level of actual use of this information, which is a shame because high costs have been incurred in the move to accrual accounting, and for the production of all this information. The potential is there but it's important that this potential is materialised in practice.'

Some respondents also observed considerable variation in terms of the ability and inclination to use financial information within countries, across different government departments.

'I think that analysis varies from entity to entity. I think that there are some ministries and departments where an analytical approach is strong and there are some where it is very weak.'

In terms of getting the greatest value from the financial information that is collected, the general view is that performance-based budgeting, for instance, using measures of past performance to help inform how much should be allocated to specific budget items in the future, will be an important focus area during the next decade. Among public sector finance professionals, there is a clear appetite for this, but it remains very much a work in progress. Some countries are making concerted efforts to develop performance-based budgeting, but even those countries which are most advanced in this area still feel they have room for further improvement. There is widespread acknowledgement that the shift to performance-based budgeting is not a straightforward process; it requires a different set of skills and different information. There needs to be full government support. But the benefits can be significant, creating more direct ties between results and resources, encouraging greater accountability and facilitating taxpayers' understanding of the effectiveness of public spending.

'If I could wave a wand, so to speak, and have a better way of doing something it would be to have an even stronger focus not just on the bottom line of expenditure, but also the results reporting, on what was done with the money.'

3. People



Keeping good people in the government as a whole is difficult. Wages are not attractive and career paths are unclear.

Ensuring the right mix of expertise

Finance ministries need to employ well-trained, high quality people. This is fundamentally important to ensure the successful operation of the finance function – but can be difficult to achieve. It is not surprising, therefore, that issues relating to human resources in public sector financial management drew the most consistent feedback of any topic our research explored, with many countries sharing similar concerns and some already adopting measures to address these challenges.

Recruiting and retaining professionals

The recruitment and retention of high quality finance professionals is identified as a key challenge by respondents across the majority of European countries covered by our research. Finance ministries – and finance functions across the public sector – need to attract new staff and retain existing staff in the face of stiff competition from the private sector and, in some cases, the EU institutions. Perhaps unsurprisingly, many respondents cited the better salaries on offer in the private sector as a key factor here, both for younger employees and more senior hires from outside the civil service. A perceived shortage of specialist skills and experience further compounds the problem. Skill shortages are not limited to finance professionals: respondents frequently described difficulties in also hiring policy experts and IT specialists.

‘I think that salary is a challenge, because you are better paid in the private sector. It is not only an issue when recruiting young people; some people work in the public sector for some years and then they leave to go to work in the private sector.’

‘Right now we don’t have many good people on the policy side. A lot of good people have actually gone to the European Commission or to the private sector, so this area could be improved.’

A number of respondents also pointed out that the complex and rigid recruitment processes used by public sector finance bodies in their country act as a deterrent to applicants. These might include lengthy application processes and multiple exams – in contrast to perceptions of more streamlined and flexible processes in many private sector organisations. The belief that career progression in the public sector is slow and not always based on merit is seen by some respondents as another factor that can deter applicants or encourage current employees to move elsewhere. This lack of clarity for potential career paths can be a major issue for ambitious prospective employees.

‘The procedure to hire people according to the new public service act is quite difficult and I think that there will have to be some changes to the recruitment, training, remuneration and other aspects to make it easier and more efficient than it is now.’

Finance ministries are not isolated from the wider economic environment. A number of respondents highlighted the impact that hiring freezes and reductions in public sector headcount is having on their ability to attract, retain and develop people with the required skill sets. This can lead to departments being staffed by a smaller and often older workforce with a negative impact on morale and motivation. Older employees may also lack up-to-date financial and digital skills. All this puts departments under greater strain as they try to deliver the same volume of work with fewer employees.

‘Our human resources are decreasing year by year which has resulted in very few people faced with many more tasks, so the work is very demanding.’

This inevitably leads to broader concerns that current difficulties in recruiting and retaining qualified people may lead to even more pressing problems in public financial management in the future. Consequently, a number of countries are taking steps to address these recruitment and retention difficulties, with those taking a more pragmatic and flexible approach appearing to struggle least in this area. Some finance functions are investing more in training and remuneration. Salaries have been increased to bring them more in line with those on offer in the private sector. Others are focusing on better training – although some respondents note that this can make public sector staff even more attractive to the private sector.

Where additional funds are not available, other creative solutions are being found. More flexible working conditions are being offered to attract certain types of employee, such as working mothers. Others are changing the type of work they offer new hires, seeking to propose projects that are particularly interesting or challenging. Technology is also being used in different ways to help make up for shortfalls in headcount.

The right skills and qualifications

Good public financial management depends on having people with professional skills in finance ministries and finance functions across the public sector. In general, there is a sense that senior individuals have the necessary skills and have gained considerable and valuable experience. But below this level, skills and qualifications can vary quite considerably. It is also clear that qualified finance professionals tend to be restricted to the finance functions: beyond these departments, detailed financial knowledge is limited. This has significant implications for the management of public finances across the public sector.

A more general observation made by a number of respondents concerns a desire to encourage finance professionals to think more broadly. Many feel that while public sector finance professionals are very strong within their own areas of expertise, they can be very narrowly focused on financial matters, with limited appreciation of how finance fits within the wider business of delivering public services and safeguarding the country’s overall financial position. Departments can sometimes lack individuals who are capable of broader thinking and who have the ability to relate to, and connect with, public sector issues more generally.

‘Financial knowledge, experience and skills across government is satisfactory, but the specialisation in many areas is very narrow (eg, in accounting and in budgeting), so the broader insight is missing.’

Steps are being taken to address these challenges. Some countries have introduced training schemes for trainees and junior staff to improve skills and retention. Others have introduced rotation schemes within departments to broaden expertise and keep employees interested. These are the types of measures that all finance functions will need to consider to ensure they build and retain a workforce with the required skills for the future.



MINISTERSTÄTTE FINANZ

Taking the discussion forward

With public finances in Europe likely to remain under pressure for many years to come, ensuring professional management of the public purse continues to be of great importance. From an international perspective, public financial management across Europe is generally perceived as being well developed, albeit with important differences between the structures in place in individual countries. Yet, as is clear from the shared insights of the senior professionals we interviewed, there is always room for improvement. This requires governments to think harder and more creatively on how to deal with issues affecting the day-to-day work of their finance ministries and broader finance functions within other ministries and public authorities.

If European countries are to successfully meet the varied economic and political challenges of today and tomorrow, they will need to have best-in-class public financial management structures, processes and people. We set out here some initial thoughts, building on the collective insights of our respondents and our wider engagement on public finance issues, on how to start doing this, with a view to encouraging an open dialogue among the broad community of public finance professionals and all interested stakeholders in Europe and beyond.

Responsibility, accountability, transparency

Creating a culture of strong financial management and democratic accountability

Our respondents readily acknowledged that there needs to be clarity in the roles and responsibilities of finance functions across government. Where clarity is lacking, it can lead to major shortcomings. This is as common a problem for government as it is for business. Ambiguity can lead to overlap between different parts of government, limit proper accountability and undermine the effective financial management and the delivery of public services. This is not just an issue of legal or legislative requirement but one of broader culture. It is no surprise, therefore, that many senior public finance professionals are grappling with how to build a strong financial management culture, not just in dedicated finance functions but more widely across government, parliament and society. Clearer identification of roles and the assumption of appropriate responsibilities is a critical step in strengthening the collective endeavour required to effectively and sustainably manage the public purse.

The link between financial management and accountability is strong. Where financial management cultures are perceived as being healthy, so too are the various layers of scrutiny and accountability – ranging from internal control and external audit to parliamentary overview and taxpayer engagement. Embedding accountability in practice as well as theory is not easy. Elected officials, NGOs, media and taxpayers may have limited interest, knowledge and time to build up a more detailed understanding of a country's financial position. But a culture of democratic accountability needs to be underpinned by proper scrutiny of public sector finances, not limited to public spending.

The trend towards enhanced transparency of public financial information may help address some of these constraints. But the process of financial management does not stop with the publication of financial information. Of equal, if not greater, importance is how such data is used – whether to help governments take decisions on public spending and

future planning or to facilitate a better understanding of the potential financial impact of broader policy choices. This appears to be work in progress in most countries. As a first step, many of our respondents would like to see more use of performance-based budgeting. This will help to shift focus from spending control measures to considering the effectiveness of expenditure and the achievement of outcomes, thereby building up more trust in how governments deliver public services and manage the country's resources.

Appointing a group chief financial officer for government, as we recommended in an earlier publication, *A CFO at the Cabinet Table?*, would also help. A CFO (or similarly empowered public finance professional) should have a clear idea of what financial information is needed on a daily basis as well as how best to obtain and use such information in an efficient and joined-up way across government.

Financial information: a cornerstone of the system

Ensuring key financial information is accessible, understandable and useful

The provision of high quality financial information is a key building block of public financial management. It underpins the ability of governments to fulfil their role as stewards of the economy while ensuring the delivery of public services. While recognising the progress already made (or underway) on the availability of good financial information, a number of concerns remain. These range from issues relating to ensuring the quality of data, for instance where countries are not at the moment reporting on an accruals basis, to challenges with the consistency of information across the public sector.

Consolidation of financial information at central government level, as the UK does with the annual publication of Whole of Government Accounts, may be on the wish list of senior finance professionals in a number of countries but it is currently viewed as being some way off in the future. There is the potential for a step change in the effectiveness of public financial management to be achieved through improved financial reporting, more interoperable IT systems, the application of modern financial management techniques and the availability of skilled professionals.

Looking even further ahead, the challenge will be to move towards a more real-time picture of a government's overall financial position. All this requires investment. But the returns are significant. Better awareness of the overall financial position of a government ensures finance professionals can see the bigger picture, enabling them to take into account all the government's income and expenditure, assets and liabilities. It encourages greater focus on areas that need active financial management such as government's future obligations. Putting in place appropriate financial systems to collect and make available the financial information necessary to develop and implement current policy objectives can also help to enhance productivity and performance.

Access to, and understanding of, financial information also empowers parliamentarians, NGOs, media and citizens to hold governments to account, based on a greater appreciation of a country's assets and liabilities as well as the short-, medium- and long-term risks and responsibilities faced by government. More involvement by financial market actors on this issue would also be helpful to better align the interests of investors and government bond holders in accurate and comparable financial information with that of taxpayers in ensuring more efficient scrutiny, accountability and management

of public finances. To facilitate this, financial information needs to be understandable for both financial and non-financial experts. How to present financial information in a more innovative and user-friendly way is something finance professionals across different governments will have to grapple with.

Recruiting, training and retaining finance professionals

Rethinking how public finance professionals work in government

How to recruit, train and retain qualified finance professionals, particularly in the face of global competition for talent from the private sector, is a common problem reported by our respondents, irrespective of country. Failure to tackle this issue today could create even more serious problems tomorrow. Managing a country's public finances will only become harder if appropriately qualified people are not in place.

As we note in our *A Modern Finance Ministry* report, it is time for many governments to undertake a full appraisal of the professional skills needed and to re-think the attractiveness of a career in government finance for skilled professionals. This means tackling issues to do with training, reward and career structure. It will require more investment, even if not at the same level of private sector pay. But it also means exploring more creative approaches to creating a work environment that is of interest to finance professionals, ensuring they receive training, career development opportunities and sufficient incentives to want to stay within government. Failing this, there is the risk of not having the skills needed to run the public finances effectively, which would result in a far higher cost to the country than the cost of reasonable rewards for skilled professionals.

This is not just an issue of recruitment and retention. Professionals working in public finance must also be able to think broadly about the impact of financial management, for instance, on policymaking choices in different areas. Greater engagement of public finance professionals in non-finance functions, including in the inception, design and implementation of public policies, needs to be encouraged. More generally, this may also mean a default presumption that individuals involved with the management of public money have some sort of financial training and, in senior roles, recognised qualifications. Employment policies need to encourage more movement into and out of the civil service: it should be more accepted for finance professionals to spend at least a part of their career in public service. A greater level of interchange would help spread experience, promote wider adoption of best practice and strengthen skills to the advantage of both government and business.



Characteristics of a modern finance ministry

An effective and accountable modern finance ministry should have a clear mandate setting out roles, responsibilities and capabilities to ensure government financial plans are well founded and sustainable. This mandate should include the following.

- A clear distinction between setting macroeconomic policy and the management of government tax-raising and spending (fiscal) plans.
- A strong focus on managing the public finances and the associated risks to the delivery of fiscal plans as set out in government policy.
- A greater emphasis on managing the medium- to long-term sustainability of the public finances, rather than on short-term and in-year management of expenditure.

Structure

- Clear lines of accountability with appropriate governance and oversight including independent review and forecasting.
- Transparent to the legislature and taxpayer with clear, understandable and regular reporting of key decisions and outcomes.
- Delegates appropriate responsibility for local decision making and management of tax raising and expenditure to devolved and subsidiary bodies within a clear policy and governance framework.

Processes and systems

- Systems to show the financial position of government in a comprehensive way on at least a monthly basis, including income, expenditure, assets, liabilities and risk.
- Skills to commission the development of, and to maintain, pan-government frameworks and systems and to drive improvements to the completeness, consistency and quality of information across government.
- Skills and processes to conduct comprehensive interpretative analysis on revenue, spending and financial position in order to investigate variances, identify cost drivers, establish trends and analyse cause-and-effect relationships.
- Processes and systems to support accurate modelling, forecasting and understanding of a realistic range of financial outcomes likely to arise from policy proposals and fiscal plans.

People

- A high proportion of professionally-trained staff, including economists, statisticians and chartered accountants to ensure that a finance ministry has the analytical and reporting capability to discharge its role.
- Appropriate remuneration and career development structures to attract, motivate and retain experienced senior professionals from the required disciplines.
- A skilled, experienced and stable wider workforce with a well-developed understanding of key accounting and budgeting policies and frameworks.

About the research

A total of 23 respondents participated in the research, drawn from 10 EU member states (Czech Republic, Estonia, France, Germany, Greece, Italy, Netherlands, Poland, Romania, and Sweden) as well as the EU institutions. As such, this report is not designed to provide an overview of how finance ministries generally work across the EU or to give a detailed analysis of their role in a select number of member states. Rather, our research seeks to draw out insights from professionals in these countries to reflect a range of different systems and approaches to public sector financial management.

Most participants hold senior financial positions within the civil service in their respective countries. Supreme audit institutions (SAIs) are represented, along with national and regional government departments. Several participants from international financial institutions (IFIs) and academia were also included to help ensure a diverse range of views.

Telephone interviews were conducted with 20 respondents, and 3 respondents provided input via email, responding to a set of questions based on the interview discussion guide. Fieldwork was conducted between 16 March and 21 May 2016. Interviews were conducted on a confidential basis by Brunswick Insight, an independent opinion research consultancy. Each interview lasted between 30 and 45 minutes. To protect respondents' anonymity, we have deliberately not identified any respondents throughout the report.

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