

# » CLIMATE- MAINSTREAMING MUNICIPAL BUDGETS «

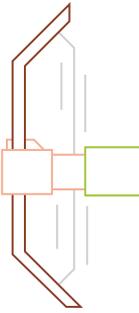
Taking from a fossil fuel economy  
to reinvest in local sustainable  
communities »

# INTRODUCTION



Similarly, apart from the expenditure directly attributed to climate and energy projects, most cities do not monitor the climate impacts of their expenditure and investments.

The potential impacts – both negative and positive – that cities' finances have on the success of the energy transition are not well understood but extremely significant. Spending by local and regional authorities represents an important part of the European economy; sub-national government expenditure represented 15.9% of EU GDP in 2016<sup>2</sup> and “55% of the total public direct investment was carried out by sub-national governments” in 2014<sup>3</sup>. And it makes a crucial difference to the whole region whether these resources are being channelled into climate-destructive or climate-protecting projects and investments.



» The importance of sub-national governments in achieving international and European climate goals in line with the 2015 Paris Agreement has been highlighted countless times, showing that “over a third of the EU’s 2020 emission reduction target will be delivered by cities”<sup>1</sup>, to give just one example. But despite the high degree of awareness regarding their role in meeting the environmental challenges among local authorities themselves, the responsibility for achieving their energy and climate targets still lies overwhelmingly on the shoulders of the Energy and Climate Departments of the cities’ administrations. Other departments and agencies, including the Financial Departments and City Treasuries, often do not feel concerned or do not see how they can contribute to attaining climate goals.

## How can local authorities align their finances with a 2°C scenario?

This guidebook contains a collection of case studies, best practices and tools that can help local authorities align their spending and investments with the Paris Agreement objective of limiting global warming well below 2°C, by fully integrating energy and climate issues into their budgetary and financial planning.

There is a multitude of strategies and tools, which cities of various sizes are pioneering, touching upon all of the city’s financial assets and allowing local administrations to account for climate impacts at every step of their financial and budgetary planning. These strategies are developed around five main axes:

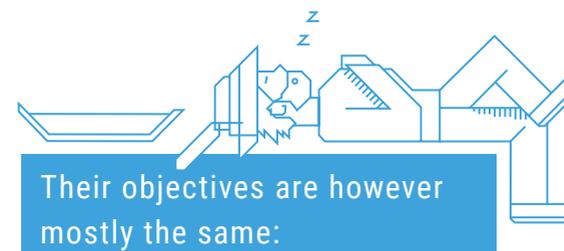
<sup>2</sup> [https://read.oecd-ilibrary.org/governance/oecd-regions-at-a-glance-2016/subnational-government-expenditure-as-a-percent-age-of-gdp-and-total-public-expenditure-2014\\_reg\\_glance-2016-graph89-en#page1](https://read.oecd-ilibrary.org/governance/oecd-regions-at-a-glance-2016/subnational-government-expenditure-as-a-percent-age-of-gdp-and-total-public-expenditure-2014_reg_glance-2016-graph89-en#page1)

<sup>3</sup> OECD. (2014). ‘Effective Public Investment Across Levels of Government: European Union’. Available at: <http://www.oecd.org/effective-public-investment-toolkit/european-union.pdf>

<sup>1</sup> JRC. (2016). ‘Covenant of Mayors: Greenhouse Gas Emissions Achievements and Projections’ in ‘JRC Science for Policy Report’.

# ENVIRONMENTAL REPORTING AND BUDGETING

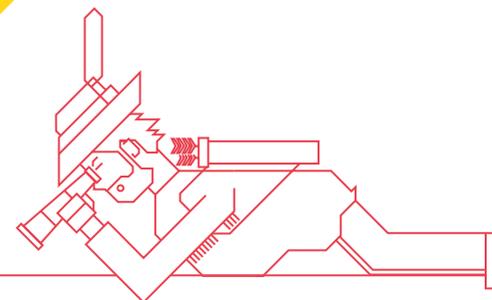
- » There is a necessity to change the way municipal budgets are presented in order to account for climate impacts and the costs necessary to attain cities' climate goals. Combining environmental and financial reporting leads to better informed decision-making about investments and fund allocation, and engages financial staff when climate and energy data is presented in a form they are familiar with.



- » Their objectives are however mostly the same: to connect data collected in different departments of the city administration, determine indicators for the performance of the city in terms of a specific variable and monitor its evolution.

Combining environmental with financial reporting ensures that intelligent investment decisions are made, which are aligned with the city's climate objectives. Feedback from the cities studied such as **Oslo**, **Paris** or **Växjö** shows similar patterns, notably in terms of how such reporting systems are used to extract large amounts of data from the different departments and fields of activity the city engages in, in order to be able to plan appropriate measures, calculate the resources necessary to achieve the objectives and follow up on how efficiently these resources are being spent and possibly on the budgetary savings achieved through energy efficiency or other climate and energy actions.

# GREEN PUBLIC PROCUREMENT



» Municipal procurement budgets represent a significant leverage for a development towards sustainable and innovative market practices. City staff has to engage with the local economic actors in order to assure that its ecological standards are being met, but also to better understand what is already possible on the market today. Setting high standards triggers innovation.

Integrating green criteria in public procurement documents does not only have environmental advantages – like reducing local authorities' GHG emissions and energy use – it also achieves cost savings throughout the product life-cycle and incentivises the development of innovation and sustainable market practices in the local economy.



## The City of Barcelona

is the Spanish forerunner in green public procurement and a perfect example of how green public procurement can be gradually implemented, while focusing on capacity building and a high degree of cooperation between city staff.



## The City of Copenhagen

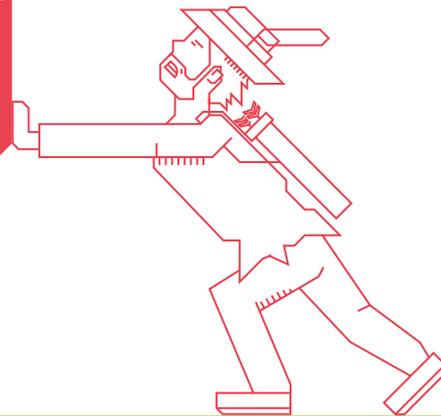
has an ambitious green public procurement strategy, with detailed goals across sectors. To achieve these objectives, it has created a 'Team GPP' consisting of environmental staff which supports and advises the administration's procurement staff.



## Rome Capital

has been successful in transitioning towards e-procurement and combining this with a digital monitoring system which allows the administration to follow up on its achievements in terms of energy savings and GHG emission reductions.

# FOSSIL FUEL DIVESTMENT OF MUNICIPAL FUNDS



» Cities may not even know what companies and projects the money they store in funds and saving accounts is being invested in. Local authorities need to be demanding towards their banks and fund managers, asking for transparency about how these financial service providers manage the city's money in terms of environmental investment criteria and climate risk.

This is all the more necessary as assets in fossil fuels are currently overvalued, creating a financial bubble which will entail significant financial losses for investors when it bursts. Public administrations should therefore worry about the exposure of their finances to climate risks. Local authorities must be morally consistent in their climate commitments vis-à-vis their citizens: "if it is wrong to wreck the climate, it is wrong to invest in its destruction".



## The cities of Oslo and Copenhagen

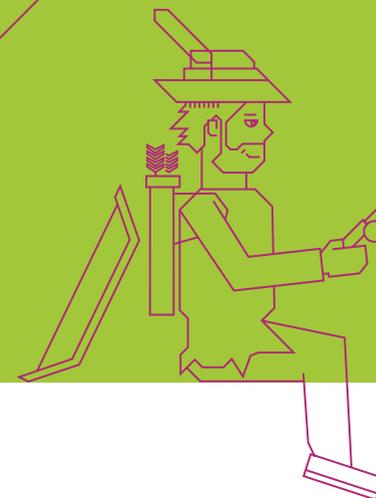
were the first capital cities to divest from fossil fuels in 2015. For the city of Oslo the decision was especially surprising, as the original plan was to divest only from coal given Norway's own important oil and gas industry. It is the Green Party which pushed for a more ambitious strategy. Both cities worked closely with Norwegian and Danish banks on their divestment strategy, and in the case of Copenhagen this cooperation even resulted in the banks offering new fossil free products for all their customers.



## The City of Munster

has been the forerunner of the municipal divestment movement in Germany since its decision to divest in 2015. The city has been very transparent about its divestment strategy and process and this decision has also been a factor earning Munster the distinction as 'Germany's most sustainable major city 2019' from the German Sustainability Award under the patronage of the Federal President.

# GREEN MUNICIPAL BONDS



» Not simply a source of financing for energy and climate projects, green bonds also present an opportunity for the city's administration to develop capacity building of environmental staff, cooperation between silos, as well as detailed monitoring and reporting mechanisms, which force the city to stay on top of the climate impacts of their investment projects. The opposite is also true, meaning that cities with a sophisticated environmental reporting system, as well as high degrees of cooperation between financial and environmental departments, can easier access finance for energy and climate projects.

Green bonds offer the issuing city a number of "soft" benefits: they are a powerful marketing tool for the city, and offer a way to get citizens involved in the city's green projects and bring the local administration around the environmental agenda.



The City of Gothenburg

is the ultimate forerunner in terms of green city bonds, as it was the first city in the world to issue a green bond in 2013. Since then, Gothenburg has issued a new green bond every year and has rich experience in terms of reporting and communication with investors. Generally, the Scandinavian green bond market is highly developed and very active, characterised by good cooperation between municipal and financial institutions.



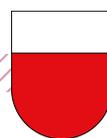
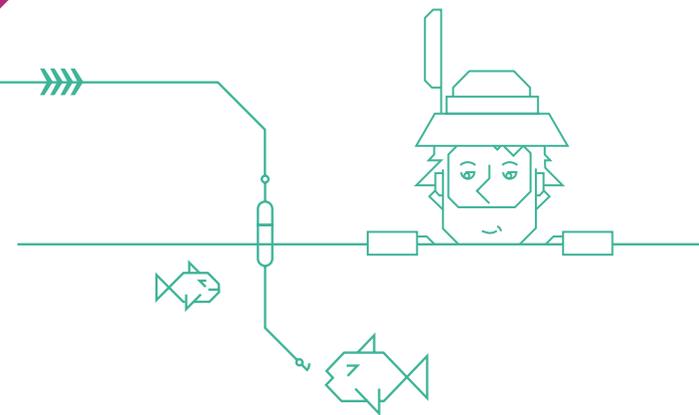
The City of Paris

which issued its first green bond in 2015, has the ambition of becoming a world leader in terms of green finance and has also shown an interest in mentoring other cities about its green bond experiences through peer mentoring in the context of the PROSPECT project.

# EARMARKING LOCAL REVENUES AND OTHER FINANCIAL INSTRUMENTS

» Several cities have established funds for energy efficiency or sustainable transport projects financed by environmental taxes. Through such taxes or even more innovative financial tools such as carbon-offsetting, local authorities seek to raise awareness among citizens and companies to change their behaviour, but also to mobilise their resources to invest in energy and climate projects.

Through these innovative financial instruments and stakeholder engagement, your city can: raise awareness among local stakeholders motivating them to invest in the energy transition at their own level; reduce costs for the local authority by mobilising the private resources present in the territory for local energy and climate projects; shift priorities in the local economy towards more environmentally-friendly practices by improving conditions for sustainable businesses.



The city of Lausanne

through its municipal utility company, has been able to set up two funds financing energy and climate-related campaigns on the basis of a small tax on citizens' energy consumption. The fund for energy efficiency has allowed a holistic programme of advice and incentives for households and businesses to be set up, reducing energy use in the territory.



Brussels Capital Region

with its Brussels Green Loan, has gained experience in the development of financial instruments through cooperation with alternative financial service providers (Crédal cooperative credit institution) to assist its citizens in implementing sustainable energy measures in their private homes. Citizens benefit from finance at improved terms in the form of soft loans and a guarantee fund backed by the local authority.



The Autonomous Community of Valencia

shows how local authorities can take measures to promote a sustainable economy in their territories. By allocating grants to businesses and organisations that practice and foster sustainability, the regional authority tries to offset the disadvantages sustainable businesses face in the economy, like higher non-competitive production costs, and instead reward them.

# MAIN CONCLUSIONS



1.

## **Cooperation and knowledge exchange between environmental and financial staff is key:**

Financial departments and Treasuries have their part to play in the local energy transition by supporting environmental staff in accessing innovative financing frameworks and aligning the allocation of funds with the local climate targets.

2.

## **Following the data-flow across departments is just as important as following the flow of money:**

Digital tools can be used to extract, connect and visualise information collected at department level, ensuring that gaps and weaknesses are identified and effectively addressed.

3.

## **Combining environmental and financial reporting visualises the relationships between the city's finances and its climate action:**

Reporting on the climate impact of the city's investments and activities, as well as on the additional environmental revenues and expenditure, allows for well-informed decision making from the top to the bottom.

4.

## **Transparency is essential to get the citizens involved:**

Cities need to be aware of how and where their money is being spent so as to be able to justify their activities to their citizens and this transparency can motivate citizens themselves to become involved in financing the cities' climate projects.

5.

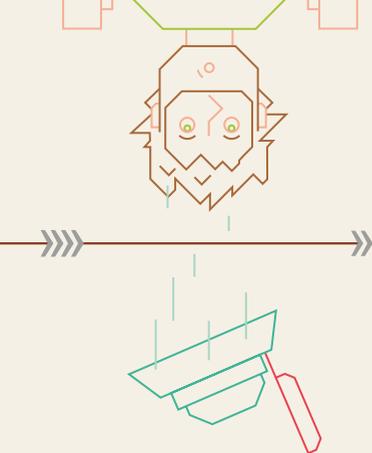
## **Financial institutions are valuable partners but they must align themselves with the city's environmental standards:**

Cooperation with financial institutions (municipal, national or commercial) can make up for a lack of expertise inside the city administration, but cities with strong ambitions and demands are also able to encourage these institutions to develop more sustainable financial products.

6.

## **Regular engagement with the local economy allows cities to push for more sustainable market practices:**

Local procurement budgets represent significant leverage which cities should use consciously and purposefully to surpass existing environmental standards. Cities can reward sustainable market practices both financially and symbolically.



**Franziska Barnhusen**

**Energy Cities**

   @energycities

[www.energy-cities.eu](http://www.energy-cities.eu)

Energy Cities is the European association of local authorities in energy transition. For over 30 years – and with now over 1,000 member cities and networks from 30 countries – it has been advocating for a democratic, decentralised energy transition led by the local and regional level.

Licence Creative Commons Attribution – NonCommercial – ShareAlike 4.0 International