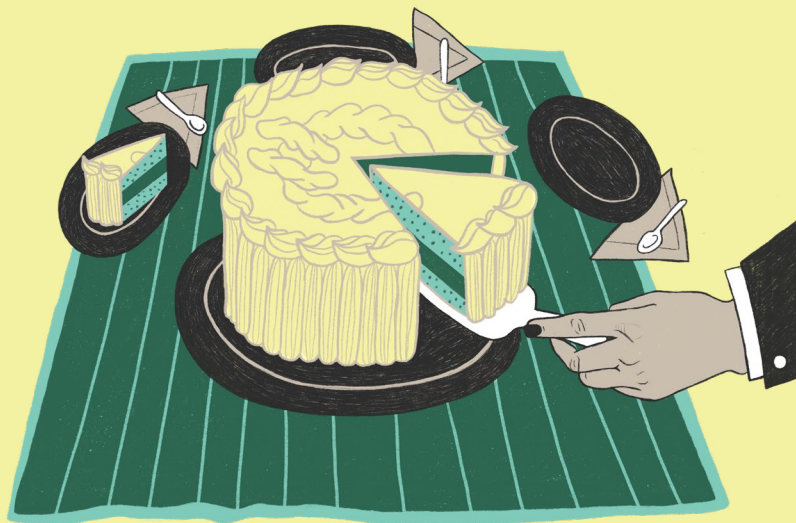




Policy Brief

MOVING TOWARDS CLIMATE BUDGETING IN CITIES



Executive Summary

Climate budgeting should be seen as a crucially important governance tool for local authorities in the pursuit of carbon neutrality. The careful incorporation of local emission targets into municipal budgets helps cities to ensure the availability of necessary funds for significant CO₂ reduction measures. Such a budgeting approach facilitates collaboration between the employees of different city departments, which is indispensable for achieving the carbon emissions reduction targets. Furthermore, making information on the city's strategic climate goals and measures an integral part of its annual budgets and reports allows city managers to continually monitor progress towards the established CO₂ targets. For city representatives, climate budgeting makes it possible to communicate the actual performance improvements and development needs more effectively to citizens and other partners. However, the successful implementation and use of comprehensive climate budgets cannot be narrowed down to a technical measurement or an accounting exercise by the cities. Even more importantly, it is about building a supportive culture throughout the different parts of various city organisations.

Recommendations

- 1 Place** the climate-related goals derived from municipal strategy documents at the centre of the city's budgeting process.
- 2 Make** the city's carbon emission reduction targets and measures visible in annual budgets and related reports.
- 3 Combine** the climate-related and financial information for more effective decision-making about budget allocations and capital investments.
- 4 Advance and encourage** cooperation between different departments for effective planning, budgeting, and acting towards the city's climate targets. Break down the 'silo' mentality, as the successful tackling of climate change requires coordinated efforts of people from the different fields and functions of the city.

1

Why Does a City Need a Climate Budget?

With its severe consequences, such as destructive storms and biodiversity loss, climate change affects every country. In order to limit global warming to the safe threshold of 1.5 degrees Celsius laid out in the Paris Agreement, strong and fast carbon emission reductions are required. In this context, under the European Green Deal, the EU aims to become the first climate-neutral continent, that is, to remove the same amount of CO₂ emissions as it produces by 2050. Several countries, such as Finland, Austria, and Sweden, have made it their objective to be carbon-neutral even earlier. The only way the EU could achieve its climate objective is through active and effective CO₂ reduction work in municipalities and regions. In this regard, big cities with relatively large populations and intensive economic activities can make the largest impact.

On the path to lower emissions influencing people's wellbeing and municipal vitality, climate budgeting serves as a valuable governance tool in the hands of local authorities. The underlying idea of climate budgeting is not essentially different from the one of performance-based budgeting practiced for years in the public sectors – that is, establishing clearer and stronger links between government policy objectives, activities, and budget allocations for enhanced performance. In the case of climate budgeting, the focus of the city government relies on setting the city's climate objectives, conducting activities, and using budget funds for reduced CO₂ emissions in the city.

Key Benefits for the City

Gives a high priority to climate objectives in the city and mobilises different functions to work in the name of CO₂ reduction.

Quantifies the amount of maximum allowable emissions per year.

Helps to decide and allocate costs between measures for CO₂ reduction.

Allows the tracking of progress and quick responses to emerging challenges.

Clarifies accountability for actions and results throughout the city organisation.

Adds transparency and improves communication with citizens on climate issues.

While climate budgeting does not guarantee that the city will reach its CO₂ reduction targets, it enhances the chances of it doing so.

2

Good Practices from the Nordics

OSLO:

The capital of Norway adopted its first climate budget in 2016, the very first city climate budget in the world. Oslo's climate budget is not just another bureaucratic document – it is fully integrated into the annual financial budget of the city. The climate budget sets a ceiling on the volume of annual CO₂ emissions and includes a wide range of measures the city plans to conduct in order to reach its climate objectives. Oslo has achieved significant emission reductions on its path to becoming a nearly zero-emissions city by 2030.

[Take a look at Oslo's climate budget on the city's webpages.](#)

VÄXJÖ:

The City of Växjö in Sweden was the first municipality in the world that back in 1996 set a goal of becoming fossil fuel-free. In 2003, Växjö began working towards the implementation of its first ecoBudget aiming to set clear environmental targets and track progress towards them. This is integrated with the city's financial budgeting and reporting system. The ecoBudget laid the ground for collaboration between various city departments to reach the CO₂ reduction targets. Växjö represents a city that has successfully decoupled its economic growth from CO₂ emissions.

[Take a look at Växjö's ecoBudget on the city's webpages](#)

2

Good Practices from the Nordics

TAMPERE:

Tampere is the first Finnish city that adopted a climate budget (in 2019). It imposes ceilings on sectorial CO₂ emissions between 2020 and 2030. Following in the footsteps of Oslo's climate budget, the City of Tampere has formed 37 sets of measures along with various performance indicators, timeframes, and budget impacts in its roadmap to climate-neutrality by 2030. Some of the CO₂ reduction measures are also expected to result in cost savings for the city.

EXTRACT FROM THE CITY OF TAMPERE CLIMATE BUDGET COSTS 2021-2024*

Measure	2021	2022	2023	2024
Citybike system	-1 125*	-713	-713	-713
Maintenance of pedestrian and biking routes	-2 000	-2 000	-2 000	-2 000
Carbon footprint, energy consumption and spatial efficiency of premises	-735	-535	-550	-100
Promotion of wood construction	-40	-40	-40	-40
Development and piloting of sharing and circular economy	-85	-60	-60	-60
Personnel's electric bikes and bike parking	-27	-10		
Commuting support for personnel	-200	-200	-200	-200
Leasing costs of electric buses	-338			
Monitoring the energy consumption of wastewater treatment and the amount of storm water	-46	-36	-36	-36
Use of renewable material in wastewater treatment	-290	-290	-290	-290
TOTAL	- 4 886	- 3 884	- 3 889	- 3 439

* thousand euros

3

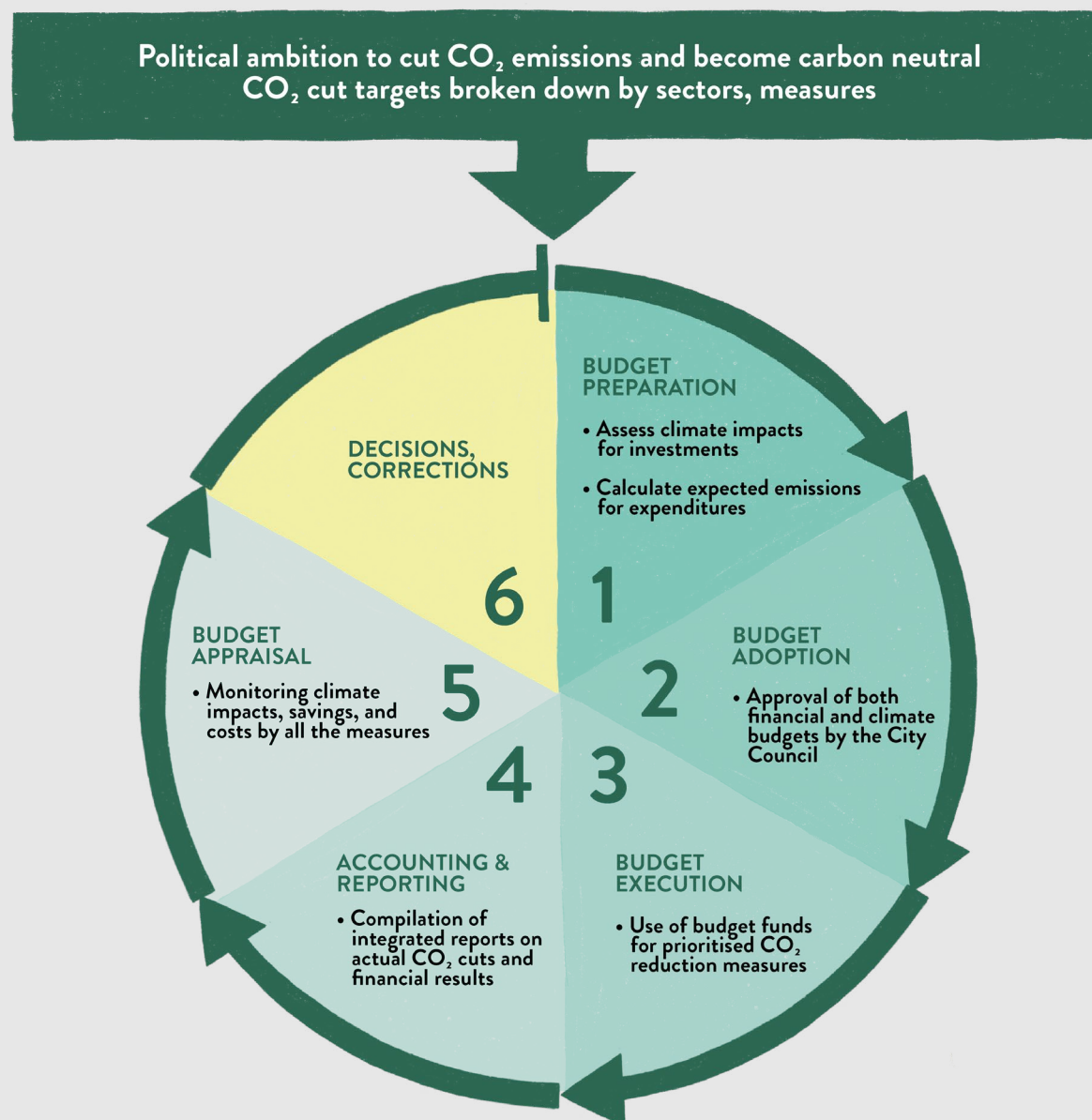
Linking the City's Climate Objectives to its Annual Budget Cycle

In real life situations, public budget or financial cycles consist of various interrelated processes that feed into each other. In cities, at least five general stages of an annual budget cycle – from budget preparation to budget appraisal – can be distinguished, as shown in Figure 1. Driven by the city's strategic CO₂ emission goals, each of the stages comprises specific climate-focused budgeting tasks.

A climate budget should be an integral part of the overall city budget. In other words, the information on the city's annual climate objectives, measures, and results is combined and presented together with the respective finance figures throughout the budget cycle. Combining climate and financial data for budgeting and reporting purposes becomes important for better informed decision-making on cost allocations and investments. Climate budgeting is an evolving practice that needs to be assessed and adjusted for its effective functioning with little bureaucratic efforts for staff.

CLIMATE OBJECTIVES WITHIN THE MUNICIPAL BUDGET CYCLE

Strategic Planning in the City



4

Key Steps for Setting Up a Climate Budget

The introduction of a climate budget consists of the following four major stages.

1

Set strategic city goals for CO₂ reduction

2

Identify activities with big impacts on CO₂ emissions

3

Set concrete reduction targets for sectors, measures

Specify necessary resources for reduction measures

- Estimated costs and source of financing
- Responsibility for implementation and reporting on performance results

4

5

What Is Needed for Successful Implementation?

For climate budgeting developments in cities, several lessons can be drawn – Dos and Don'ts – from different public budgeting reform experiences around the globe.

DOS

Gain and sustain political support over time

Build cooperation and networks between different city departments

Regularly track the progress by departments and make the results fully transparent

Ensure IT systems assembling and measuring quality performance provide information on time

Test and learn through pilot projects at a smaller scale first

Make it a technical budgeting and accounting exercise only

Work in departmental silos towards the CO₂ reduction goals

Leave responsibilities for CO₂ reduction measures and performance undetermined

Underestimate the amount of time and resources needed for budget developments

Make it too complicated with vast indicators and other instruments that are difficult to manage

DON'TS



Contacts

Professor Eija Vinnari / Tampere University, Finland
firstname.lastname@tuni.fi
www.ecowelfare.fi/en/

Climate change challenges welfare states, such as Finland, to change their practices. How do we steer that transition? The ORSI project investigates fair and robust methods to make welfare states environmentally sustainable. We invite key decision makers, citizens and businesses around the same table to develop solutions together with us. We examine governance and budgeting, everyday participation, responsible innovations and the guiding of consumption choices. Towards Eco-Welfare State: Orchestrating for Systemic Impact (ORSI) project is a joint undertaking of Tampere University, the Finnish Environment Institute SYKE, Aalto University and VTT Technical Research Centre of Finland. The project is funded by the Strategic Research Council at the Academy of Finland.

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