European Committee of the Regions

ENVE-VII-028

150th plenary session, 29-30 June 2022

OPINION

The implementation of green budgets at local and regional levels

THE EUROPEAN COMMITTEE OF THE REGIONS

- highlights the importance of green budgeting for achieving climate neutrality by 2050 and of the international climate commitments to assess the green impact of funding, which are aimed at transforming our way of living (in particular the energy, housing, transport and food systems), and to respect just and inclusive aspects of the transitions;
- calls on the European Commission and the Member States to support the strong involvement of regions and cities in assessing whether budget items align with climate and environmental objectives, and in providing harmonised definitions, classifications and guidelines on how to apply them to specific actions;
- calls on the European Commission and the Member States to exempt "green" investment from the regional public deficit calculation and from the debt limit "golden rules", thus increasing green investment in order to achieve the EU's ambitious targets and to cut CO_2 emissions;
- believes that green budgeting developed at local and regional level should focus on expenditure and revenue measures, and in particular on monitoring budgetary documents with expenditure allocations;
- invites the European Commission at the same time to reconsider going beyond a methodology framework on green budgeting, including a proposal for a legal framework;

  calls on the European Commission and the Member States to enlarge access to technical support initiatives for green budgeting, which are currently mostly available at national level; stands in that regard ready to introduce, in cooperation with the European Commission, the OECD, the I4CE and other relevant actors, obligatory training on green budgeting for CoR members, as a first step towards raising awareness and transmitting relevant know how on the application of this budgeting approach.

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Rapporteur

Vincent CHAUVET (FR/RE), Mayor of Autun

Reference document

Presidency referral, Rule 41(a)

Opinion of the European Committee of the regions –
The implementation of green budgets at local and regional levels

I. POLICY RECOMMENDATIONS

THE EUROPEAN COMMITTEE OF THE REGIONS

1. points out that the 2019 EU Green Deal creates a roadmap towards a climate-neutral, resource-efficient, circular and competitive Europe by 2050, and underlines the national budgets' key role in redirecting public investment, consumption and taxation towards green priorities, explicitly committing to fostering green budgeting practices in the EU;

2. highlights the importance of green budgeting for achieving climate neutrality by 2050 and of the international climate commitments to assess the green impact of funding, which are aimed at transforming our way of living (in particular the energy, housing, transport and food systems), and to respect just and inclusive aspects of the transitions;

3. calls on the European Commission and the Member States to support the strong involvement of regions and cities in assessing whether budget items align with climate and environmental objectives, and in providing harmonised definitions, classifications and guidelines on how to apply them to specific actions;

4. reiterates that the recovery and resilience funds are not yet reaching the regional or local levels of governance, where the implementation takes place. This is a real challenge, considering that according to the OECD, subnational governments account for 55% of public spending and 64% of public investment related to climate and the environment;

Framework definition

5. notes that in May 2021 the European Commission roughly defined a "green budget" as a "budgetary process whereby the environmental contributions of budgetary items are identified and assessed with respect to specific performance indicators, with the objective of better aligning budgetary policies with environmental goals";

6. warns, however, that a single, clear definition of green budgeting and the underlying process should be provided, in order to be able to evaluate the environmental/climate impact of public budgets as a whole, or of specific parts of them, reflecting that green budgeting is also an approach to decision-making;

7. points out that the OECD has developed a green budgeting strategic framework which provides governments with an enabling environment for green budgeting, defining its form, purpose and method. In addition, or as a means to complement it, in January 2022 the European Commission developed a European green budgeting reference framework as a guide for introducing green budgeting or upgrading existing practices in EU Member States;

8. calls on the European Commission and the Member States to assist local and regional authorities in applying the green budgetary process guidelines and a methodology framework, including the existing proposals for subnational governments[1], whereby the environmental contributions of budgetary items are identified and assessed against specific environmental performance indicators, with the objective of better aligning local and national budgetary policies with environmental goals;

9. reminds, however, that the methodologies provided need to be flexible enough to be adapted to the country-specific context (subnational responsibilities, budget nomenclature, etc.), as well to the subnational government level;

10. invites the European Commission at the same time to reconsider going beyond a methodology framework on green budgeting, including a proposal for a legal framework;

11. stresses the importance of defining "green budget objectives" at local and regional level, in accordance with the climate and sustainable targets defined in sectoral plans (e.g.: regional energy plans, SECAPs, sustainable mobility plans, etc.);

12. calls on the 100 European Cities selected by the European Commission to become climate-neutral and smart city by 2030 to adopt the green budgeting to monitor the climate contract investment plan implementation, realized by the cities and their local stakeholders;

13. highlights the fact that climate change has an economic impact. These environmental costs (a negative externality) are higher than previously believed, however companies and organisations can improve their economic situation by reducing this negative externality, and consequently the fiscal impact. Companies and organisations can reduce or eliminate environmental taxes by complying with climate legislation, and thus the latter should also be considered an economic opportunity;

Monitoring

14. believes that green budgeting developed at local and regional level should focus on expenditure and revenue measures, and in particular on monitoring budgetary documents with expenditure allocations. However, to make the assessment more accessible, it should only be possible to assess the expenditures (as a first step). Revenues and tax expenditures could be assessed in a second step, as recommend by the EU green budgeting reference framework (GBRF);

15. notes, however, that creating an enabling framework that goes beyond the mere green budgeting tools is the only way forward if green budgeting is to succeed and bring benefits on a local and regional level; but the burden of developing this framework should not fall solely on local and regional authorities, but should be carried out at a higher level of government;

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[1] The Institute for Climate Economics and the OECD Centre for Regions and Cities have already or are in the process of developing climate assessment procedures for budgets or specific guidelines targeted at LRAs.

16. believes in the need to produce a list of budgetary items for local and regional green budgeting that have specific net environmental impacts that could be broadly considered "green", as well as a list of items with net impacts that could be broadly considered "brown" or "neutral". The list should be integrated into the guidelines and tools on green budgeting for local and regional authorities who are willing either to implement green budgeting or upgrade their current practices. In this light, welcomes the European Commission and the OECD's efforts in making this a reality;

17. underlines the importance for local and regional authorities to measure the impact of the green and brown items in terms of climate change, while simultaneously addressing CO_2 emissions, adaptation and mitigation, biodiversity, clean air, and other environmental pollution;

18. considers the "do not significantly harm" principle to be a driver for encouraging local and regional authorities to adopt green budgeting methodology;

19. believes that a green budget can be an effective decision-making tool for monitoring and assessing sustainable and climate policies with a mid- and long-term accounting strategy, integrating it with a multiannual plan of public works and budget prevision; considers effective follow-up to be one of the key aspects of a successful implementation;

20. asks for the creation of a cross-authority cooperation platform, across national but also municipal borders, aimed at the exchange of best practices and capacity-building initiatives to aid local and regional authorities in greening their budget. The training should guide the LRAs through practical applications, assess existing practices, and tackle specific challenges in greening public finances;

21. calls on the European Commission and the Member States to enlarge access to technical support initiatives for green budgeting, which are currently mostly available at national level; stands in that regard ready to introduce, in cooperation with the European Commission, the OECD, the I4CE and other relevant actors, obligatory training on green budgeting for CoR members, as a first step towards raising awareness and transmitting relevant know how on the application of this budgeting approach;

Enabling investments

22. reminds that green budgeting is understood as assessing the greenness of the budget. However, its ultimate aim should also be to increase the share of "green" parts of the budgets, as green budgeting is one of the tools for implementing the Green Deal, of which LRAs are in charge. In particular, this should enable the EU to directly fund LRAs for the green transition. The EU budget and the various EU funds should be sensitive to the differing exposure of countries and regions to the effects of climate change, and therefore EU contributions and financing should take into account the diversity of territories, the socioeconomic situation of each one, and their capacity to respond to climate impacts;

23. underlines that in addition to the budgetary assessment, LRAs need sufficient funding through a strengthened access to programmes and support for the development of bankable projects

(including smaller-scale projects), aggregating small-scale projects with a view to creating the needed economies of scale;

24. reiterates that mobilising private sources of financing will be crucial; LRAs will need an enhanced administrative capacity in order to overcome a weak engineering capacity due to their size and available resources;

25. stresses the great potential of the methodology used in green budget exercises to assess the projects and the possibility for projects to be funded by issuing green bonds to accelerate low-carbon investment and enhance investor support, and act as a key tool in tackling climate change and implementing the Paris agreement. Initiatives like the Global Green Bond Partnership (GGBP) support the efforts of sub-national entities such as cities, states and regions, corporations and private companies, and financial institutions to accelerate the issuance of green bonds;

26. calls on the European Commission and the Member States to exempt "green" investment from the regional public deficit calculation and from the debt limit "golden rules", thus increasing green investment in order to achieve the EU's ambitious targets and to cut CO_2 emissions;

27. highlights the fact that the European Commission has improved the financing of sustainable economic activities through the renewed sustainable finance strategy (RSFS) and the sustainable finance framework, adopting the Sustainable Finance Taxonomy Regulation and the Sustainable Finance Disclosure Regulation; recognises the importance of integrating green budgets with low-carbon and positive-carbon impact benchmarks to mobilise private capital in public investment, and provide to investors a clearer understanding of the carbon consequences of their investments;

28. calls on the European Commission and the Member States to define a certificate for green budgeting in compliance with the requirements of taxonomy, to the degree applicable, for refinanced projects;

29. calls for significant improvements to the taxonomy by considerably lowering the number of workers in companies subject to it, and welcomes the inclusion of nuclear energy in the taxonomy as a green investment;

Participation and transparency

30. recommends that local and regional authorities disseminate green budget monitoring reports among citizens to promote efficiency, accountability, and transparency of policies regarding climate and environmental action;

31. calls for regular external audits of the green budgeting methodologies, and in particular of the underlying hypothesis used to classify expenditure and revenue in order to ensure accountability and to ultimately enhance public trust in the process;

32. calls for strengthening ownership of the green agenda among citizens. Besides the information provided through the green budgeting exercise, the CoR encourages cities and regions to increase green participatory budgeting as a way of empowering citizens – in particular local youth councils – to take ownership of part of the annual budget for green projects that benefit their community;

Social budgeting

33. recognises that green budgets are powerful economic tools for transforming societies and economies and improving equality. On the other hand, warns that green budgeting needs to be reconciled with social objectives in order to ensure that no one is left behind;

34. affirms that cities and regions have a key role to play in achieving a low-emission, inclusive transition and stresses that climate action must become a prioritised municipal task. Some of the cities' common concerns relate to how climate change may affect spatial planning, segregation and urban development, human health, and economic stratification. Investments in low-emission urban infrastructure can have positive impacts on low-income and vulnerable populations; this is why local and regional authorities cannot be left alone in their efforts to make the green transition. Both Member States and the EU have a responsibility to support these efforts;

35. considers that redistribution is key to leaving no one behind, since the cost of GHG-intensive goods and services (heating and air-conditioning, house rent, transport) will sharply increase due to mitigation policies. In countries where those goods and services are disproportionately consumed by low-income households, mitigation policies will increase inequalities through the expenditure side. To avoid social inequality, the "polluter pays" principle must be more strictly applied. Redistribution must therefore be designed in such a way as to reward those who behave in a climate-friendly manner. Climate action is the responsibility of the whole of society. The EU budget and the various EU funds should take into account the socioeconomic differences of countries and regions, and the effects that climate change and the policies to combat it have on territorial and social inequality, so that the green transition is as just and inclusive as possible.

Brussels, 30 June 2022

The President
of the European Committee of the Regions

Vasco Alves Cordeiro

The Secretary-General
of the European Committee of the Regions

Petr Blížkovský

II. PROCEDURE

Title	The implementation of green budgets at local and regional levels
Reference(s)	
Legal basis	Presidency referral, Rule 41(b)i
Procedural basis	
Date of Council / EP referral / Date of Commission letter	By written procedure
Date of Bureau/President's decision	
Commission responsible	Commission for the Environment, Climate change and Energy (ENVE)
Rapporteur	Vincent CHAUVET (FR/RE), Mayor of Autun
Analysis	
Discussed in commission	11 March 2022
Date adopted by commission	31 May 2022
Result of the vote in commission (majority, unanimity)	unanimity
Date adopted in plenary	30 June 2022
Previous Committee opinions	
Date of subsidiarity monitoring consultation	

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