

5 Brittany case study

The French region of Brittany began working on developing its own green budgeting practice at the end of 2020. These efforts led to the development of a climate budget tagging methodology that was piloted on the region's 2020 closed accounts and is now being consolidated in order to be applied to the 2023 draft budget. The exercise has highlighted the operational, methodological, political, and organisational challenges for implementing green budgeting at the regional level as well as key elements necessary to achieve success.

Introduction

Through their budget and investment decisions, subnational governments have a large impact on the environment, especially in terms of greenhouse gas emissions. This is due to their investments in local assets (roads, buildings, public lighting, vehicle fleets) as well as to their role in regulating sectors like urban planning and housing, land development, and transportation. The necessity to commit to preserving the environment and to reducing greenhouse gas emissions is widely recognised, and strategic documents produced by these governments provide additional evidence for it. In this context, green budgeting enables local authorities to commit to sustainability, providing at the same time an interesting tool to quantify their contribution to environmental issues.

This requires identifying the expenditure as well as the sources of revenue that have a favourable or harmful impact on the environment and climate. In doing so, subnational governments can ensure that their budgetary decisions are aligned with their environmental and climate objectives.

This new approach to subnational budgeting can also be an opportunity for rethinking regional value chains. By gaining a better understanding of different local actors' business models - with all the externalities they produce, either positive or negative – subnational governments can achieve the ultimate goal of creating new business ecosystems aligned with national and local green objectives.

Green budgeting on its own does not solve environmental and climate problems but it can provide an opportunity to innovate, to involve regional and local stakeholders from the different economic and social sectors, and to mobilise them around clearly defined and commonly agreed upon green objectives. Regional governments, in countries where this tier of government exists, can play a particularly critical role in bringing together stakeholders as part of green budgeting as they often have a key responsibility in developing regional strategic plans and are positioned as leaders in many sectors.

For the green budgeting approach to be successful, it must be well positioned within the framework of an overall regional sustainable development strategy, and both its contribution to achieving climate and environment objectives and its effects in the short, medium and long term must be quantified. Otherwise, green budgeting could become a mere object of financial communication – “green washing” – or a senseless regulatory constraint.

Inspired by the success of a few experiments conducted in France and other European countries, in 2020 the region of Brittany decided to incorporate green budgeting into its environment and sustainable development policies.

¹ Because of the magnitude of the political stakes entailed by such an exercise, this project required strong political support and a capacity for mobilising personnel from various levels of the regional administration. The region was successful in taking this first step.

At this point, it was necessary to define certain deployment conditions: if and when additional developments would be considered, what connections between regional actions and tools would be put in place to support sustainable development and, above all, what strategy for involving partners in this endeavour would ensure meaningful action. The region would also have to transition the green budgeting project team from “project mode” to a more long-term organisational structure, both in terms of human resources and in terms of tools. All these endeavours must be carried out with consistent, but gradually improving methodologies so as to accommodate increased stakeholder involvement and advances in green technologies as well as in climate and environmental science. Brittany's early work on green budgeting revealed that implementation of a green budget could not be achieved quickly throughout the administration; it requires appropriate technical, financial and human resources, which can only be defined once methodological work progresses.

Extensive communication and thorough training of all participants (both internal and external) are key requirements for such a complex project, because, after a gradual roll-out, it requires the total mobilisation of the region and its partners and an in-depth understanding of the local environmental and climate issues and objectives.

Large French subnational governments display growing interest in green budgeting

The fragmentation of the French subnational governments

France has three levels of subnational government. The subnational government sector is made up of 13 regions and 92 departments in metropolitan France, plus the European Community of Alsace (which has grouped together the two Alsatian departments), three communities with special status in metropolitan France (Paris, Lyon and Corsica), and three communities with special status in the overseas departments (Martinique, Guyana and Mayotte). At the regional level, there are 18 regions, of which 13 are in metropolitan France and five are overseas. The intermediate level consists of 101 departments (*départements*), five of which are overseas. The lowest level of government is municipalities² (*communes*), of which there are 34 965 (including 129 overseas). Additionally, there are 1,253 inter-municipal public co-operation bodies with taxation power.

The subnational government sector's annual spending (excluding debt reimbursement) amounted to nearly EUR 230 billion in 2020; however, it's worth noting that the expenses of 97% of municipalities with less than 10 000 inhabitants represented only EUR 25 billion, with average annual expenditure of about EUR 1 million for these local authorities (Direction Générale des Collectivités Territoriales, 2021^[1]). The average annual expenditure of municipalities with less than 2 000 inhabitants, (85% of all municipalities) was around EUR 500 000.

In addition to local governments, various establishments (such as municipal centres for social action, school districts, local fire and rescue services, municipal associations without taxation powers) also provide public services, financed largely, and in some cases even completely, by contributions from subnational governments.

Subnational governments also maintain close relations with other actors that vary in their dependence on public funding. This includes fully or partially public companies, private companies (to which governments outsource certain services), or even non-profit organisations, which depend financially on public subsidies. Subnational government financial statements directly or indirectly show the links with these actors.

Subnational green budgets are rapidly increasing in France

In France, the first green budgeting experiments were conducted mainly in cities and large municipal associations. Several departments and regions have also started. These governments have been supported by the Institute for Climate Economics (I4CE) think tank to develop their green budgeting methodologies (Box 5.1).

Green budgeting clearly piqued the interest of large subnational governments in France, particularly regions which play a major role in terms of sustainable development. While the national government was a green budgeting pioneer in France, several municipalities and municipal associations quickly followed. Since 2020, the regions of Occitanie, Grand-Est and Brittany have all launched a green budgeting practice. They have all adopted a pragmatic approach to overcoming the methodological and technical challenges the exercise entails, aiming to get results quickly, even if they remain imperfect and will need refining over time.

Box 5.1. Climate budget methodology guides developed by the I4CE for municipalities and municipal associations

The Institute for Climate Economics (I4CE) is a think tank founded by the *Caisse des dépôts et consignations* (CDC) and the French Development Agency (*Agence Française de développement – AFD*). Specialising in economics and finance, I4CE seeks to promote action against climate change among national and local authorities, financial institutions, and companies.

In 2020, I4CE co-constructed a methodology to evaluate the climate impact of municipal budgets. This methodology was built with assistance from five “pilot” municipalities, (the cities of Paris and Lille, the Métropoles of Lille and Lyon and the Eurométropole of Strasbourg), associations of elected officials (Covenant of Mayors in France and France Urbaine), ADEME (a French public agency that provides financial assistance and advice for municipalities, companies and private individuals in the field of climate change and the environment) and EIT Climate KIC (a European a Knowledge and Innovation Community (KIC), working to accelerate the transition to a zero-carbon economy).

I4CE has published a series of methodological guides about green budgeting and also organises information sessions and workshops to provide interested municipalities with methodological and implementation support to integrate green budgeting into their budgetary processes.

I4CE’s methodology is one of the criteria to obtain the Cit’ergie label, which rewards local authorities who implement an ambitious climate-air-energy policy. Registration with Cit’ergie, which leads to the labelling, enables committed local authorities to receive financial aid from ADEME in the form of personnel and methodological tools (see also Box 4.8 in Chapter 4).

Source: I4CE (2020^[2]), *Évaluation climat des budgets des collectivités territoriales: guide méthodologique*, <https://www.i4ce.org/download/evaluation-climat-des-budgets-des-collectivites-territoriales-guide-methodologique>; EIT (2022^[3]), *EIT Climate-KIC: Innovation for Climate Action*, <https://eit.europa.eu/our-communities/eit-climate-kic>.

Brittany’s green budgeting project is managed at the highest political and administrative levels and is integrated into the regional sustainable development strategy

The green budget is embedded in Breizh COP, the regional project for the climate and the environment

Launched in 2017 and modelled on the United Nations (UN) Conference of Parties, Brittany’s Breizh COP initiative is a project designed to build a “balanced, savings-oriented, and inclusive Brittany by 2040” and to bring together the main socio-economic stakeholders in the region (Région Bretagne, 2018^[4]). Breizh COP defined a Regional Scheme for Spatial Planning, Sustainable Development and Territorial Equality (*Schéma Régional d’Aménagement, de Développement Durable et d’Égalité des Territoires – SRADDET*) consisting of 38 objectives and six transversal commitments: healthy eating standards for everyone, a strategy for energy and climate efficiency, carbon-free sustainable mobility, a responsible digital agenda, the conservation and valorisation of biodiversity and resources, and cohesion between territories (Région Bretagne, 2019^[5]; Région Bretagne, 2018^[6]). A “Transition Action Plan” is being developed by the region to implement the 38 objectives. The plan details the financial and human resource requirements needed to achieve the objectives and includes separate action plans for each of the six strategic orientations. In terms of the energy transition, Brittany also aims to halve its greenhouse gas emissions by 2040 (compared

to 2012), to reduce energy consumption by 35%, and to produce 6 times more renewable energy, an objective which is also outlined in its SRADDET.

Green budgeting will help the region to identify expenditure items that are favourable or harmful to the climate and the environment as well as those which contribute to the region's climate adaptation needs, thus contributing to an increase in the number of green projects funded via the regional budget and facilitating the reduction of regional greenhouse gas emissions. In this way, green budgeting contributes to achieving the Breizh COP objectives for sustainable development, as well as the objectives set out in France's National Low-Carbon Strategy (SNBC) and the Paris Agreement.

Brittany began its green budgeting exercise at the beginning of 2021, using data from its 2020 closed administrative accounts, aiming to define and validate a framework to make green budgeting a lasting practice. This framework will specify the objectives and clarify the conditions necessary to incorporate green budgeting into regular budgetary procedures, into the reporting system, and into the decision and validation processes for regional projects.

The region is not looking to have a "100% green" budget, as they recognise that some expenses are by nature neutral, harmful or have no realistic short-term green alternative, but remain nevertheless indispensable for various reasons (e.g. ferry services for islands). By measuring the share of the regional budget that contributes to energy and environmental transitions, the region intends instead to improve the assessment of the environmental and climate impact of regional policies and to facilitate the achievement of the SRADDET objectives by creating a direct link between these policies and the regional budget and by providing an additional decision-making tool. Moreover, green budgeting is an effective tool to communicate with citizens and local partners, or with public or private financial institutions providing sustainable development funds, such as the European Investment Bank (EIB), the French "*Banque des Territoires*" (*Caisse des dépôts et consignations*), and green bonds issuers, among others.

In the interest of getting the project started, it was decided that the initial phase would only focus on analysing the climate adaptation and mitigation impact of the region's 2020 closed accounts. In future iterations of the project, additional environmental impacts (e.g. biodiversity, air pollution, etc.) will be analysed.

The project's initial objective was to rapidly define a robust and stable methodology (in about six months) and then continue to improve it and expand its scope during the following years. In other words, the objective of this pilot green budget was to be "pertinent but not necessarily perfect" (Région Bretagne, 2021^[7]). But the work carried out in 2021 highlighted several challenges and underscored the importance of working closely with other French regions, something which Brittany did as part of a working group co-ordinated by Régions de France and I4CE and consisting of the regions of Brittany, Grand-Est and Occitanie. Prior to the working group, Grand-Est and Occitanie had also started work on their own green budgeting practices (Box 5.2). This entailed a delay of approximately three to six months. Brittany's green budgeting methodology is still expected to undergo some changes, although the administration recognises the need to keep some stability in the methodology to allow for the comparison of results over time and to facilitate clear communication on the project. Despite high aspirations (i.e. to complete deployment on all environmental and climate axes before the end of the mandate), the approach needs to remain realistic and to involve the whole regional administration without overburdening departments.

Regional elected officials insisted from the beginning that it was necessary to involve both the political and the administrative sides in developing the green budgeting exercise and overcoming the challenges it posed. The regional executive did not want the exercise to become greenwashing. As such, they insisted on integrating the approach into regional decision-making processes and using it as a "transformative process" (Région Bretagne, 2021^[7]) and a monitoring tool for the transition plan, connecting all concerned elected officials, especially those in charge of the environment.

Box 5.2. Two French regional green budgeting experiences: Occitanie and Grand Est

The Occitanie Region

The project was launched in 2020, following the conclusions of a “mission to get information and evaluate climate change in the Occitanie/Pyrenees-Mediterranean Region”, which was conducted by the regional vice-president responsible for the ecological and energy transition and the delegate regional counsellor for higher education and research. Occitanie aims to produce a green budget, align its budget with its transformation and development plan, the “Green New Deal” and its strategy to be an “Energy Positive Region” (*Région à Energie Positive* or REPOS).

The Grand Est Region

Towards the end of 2020, the Grand-Est Region indicated their willingness to build a green provisional budget, based on their SRADDET and involving elected officials and regional administrative personnel. The climate impact of the 2022 provisional budget was evaluated using the I4CE methodology and the results were published in January 2022.

Source: La Région Occitanie (2020^[8]), *Rapport de présentation du Budget Primitif 2021*, La Région Occitanie; Nature 2050 (2021^[9]), “La Région Grand Est choisit CDC Biodiversité et la Banque Des Territoires pour l’accompagner dans ses démarches en faveur de la biodiversité”, <https://www.nature2050.com/evenements/la-region-grand-est-choisit-cdc-biodiversite-et-la-banque-des-territoires-pour-laccompagner-dans-ses-demarches-en-faveur-de-la-biodiversite/> (accessed on 23 April 2021).

The approach is promoted at very high political and administrative levels

The green budget was launched by the regional president at the end of 2020

In December 2020, the green budget was launched at the request of the regional president, with additional political backing by the region’s vice-president in charge of finances, human resources, general resources and European and International affairs.

Even though French regional elections were set to take place in 2021, the project was initiated at the end of 2020. To formalise it, a “regional university” was organised in March 2021, with assistance from the Banque des Territoires and the French Institute of Advanced Studies for Science and Technology (*Institut des Hautes Etudes pour la Science et la Technologie* - IHEST), the participation of local authorities and Brittany’s partners, and with the participation of the OECD (IHEST, 2021^[10]). This conference led to an inventory of green budgeting practices and helped define the conditions for Brittany to appropriate similar experiments carried out previously, both abroad and in France (particularly by the metropole of Lille, the city of Paris or the region of Occitanie). It also made it possible to start envisaging the methodology and planning for the project to be launched as quickly as possible.

After the conference, the different project-monitoring bodies were established by defining a project-based organisation that was to last approximately nine months. The first phase of the project took place from April to July 2021, and developed the reference framework for the green budget (scope, general methodology) and to carry out an initial analysis of the region’s 2020 closed accounts.

The second phase of the project lasted from July to December 2021. In this phase, the region finalised the exercise and gathered feedback on the methodology in order to apply it to the 2022 provisional budget and to define an operational process which would include integrating the results in the budgetary decision-making process, involving external partners (for example, by setting obligations to provide additional information to subsidised entities or to include green conditionalities in third-party contracts), and communicating on the project.

In this second phase, the region is contemplating the deployment of the methodology to its investment programme in order to define a “green” multiannual investment plan (*Plan Pluriannuel d’Investissement* or PPI), and develop for each regional department its own impact indicators. The administration could thus combine the green budget with the Transition Action Plan for Brittany. This phase should also lead to the definition of decision-making tools.

Managed by a Steering Committee, the green budgeting project is carried out by the regional Department of Finance and Evaluation, the regional Department for Climate, Environment, Water and Biodiversity, four other pilot regional government departments, a Technical Committee and a team of twelve people, six of whom are fully assigned to the project for an initial three-month period.

The Steering Committee consisted of elected officials, including the regional councillor who is the general rapporteur for the budget and several councillors and vice-presidents of key sectors as well as of administrative staff, including managing directors. The project and its progress are periodically presented to and validated by the Executive Committee (Figure 5.1 and Figure 5.2).

The top regional administration is involved at a high level in the green budget conception

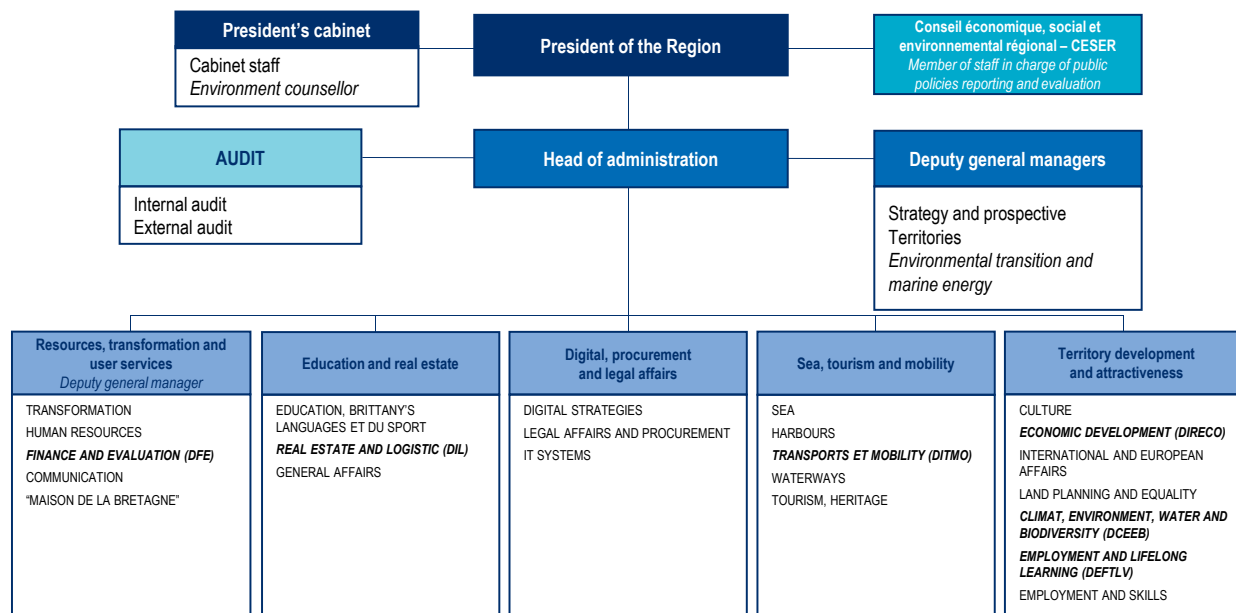
The project is driven administratively by the region’s executive management, especially by the Deputy Director General in charge of resources, transformation and user services and the Delegated General Manager in charge of environmental transitions and marine energy. The administration defined the framework for the project and gave it impetus by promoting and prioritising the initiatives with the participating departments.

The Department of Finance and Evaluation (DFE) is responsible for the project’s operational management, playing a major role in resource allocation and data consolidation. The Department for Climate, Environment, Water and Biodiversity (DCEEB) provides support and expertise, especially for defining benchmarks. In addition, four pilot regional government departments were also involved in this first green budgeting exercise: the Department for Employment and Lifelong Learning (DEFTLV), the Department of Economic Development (DIRECO), the Department of Transport and Mobility (DITMO) and the Department of Real Estate and Logistics (DIL). These departments were selected according to their share in the regional annual expenditure and the strategic nature of their activities when it comes to green budgeting (especially for DITMO and DIRECO).

To support this approach, each department (DFE, DCEEB and the four pilot departments) has appointed one permanent regional staff referent (two project leaders from DFE and DCEEB and four project managers from the pilot departments) and one trainee referent to carry out the green budget analysis in their area. The referents and trainees can contact the programme managers within the regional government (who have been made aware of the green budgeting exercise) for assistance and particularly to help with collecting extra-accounting information they need to complete their work. For the first stage of the project, the joint team from the finance and environment departments is responsible for analysing the budget lines of the regional departments that do not take part in the experiment.

The Steering Committee leads the project, validates the main methodological guidelines and the implementation methods, defines the implementation and deployment timelines and provides feedback to the executive committee for validation. The Steering Committee meets every three to six months (May, July, and December 2021, and March 2022). The green budgeting project was officially launched during the first meeting in May 2021. During the July meeting, feedback on the analysis of the region’s closed accounts was discussed and a proposal was made for applying the green budgeting methodology to the 2022 provisional budget. The December meeting was an opportunity to discuss the adopted methodological assumptions and the next stages of the project, its expansion both from a political and an organisational point of view, and the communication objectives.

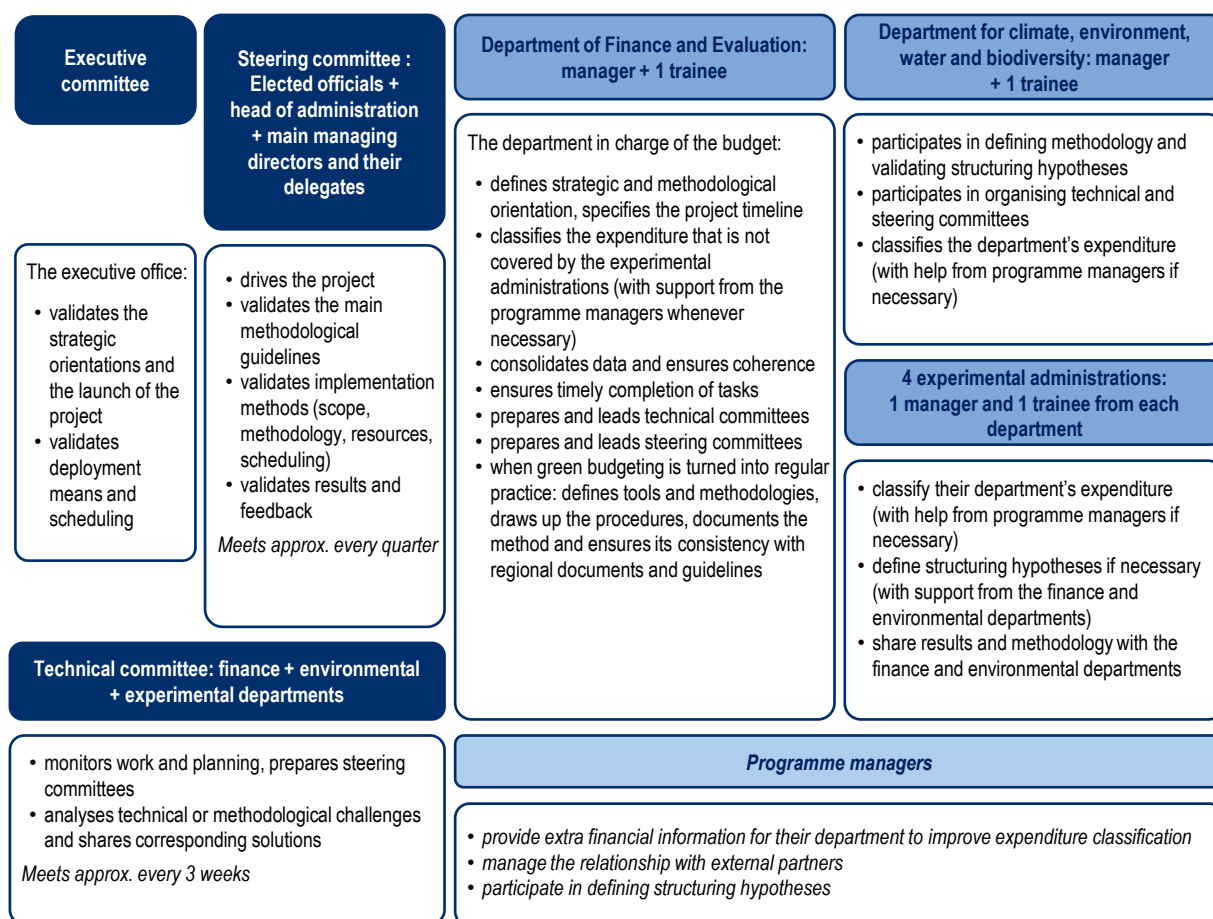
Figure 5.1. The Brittany Region organisation chart



Note: Text in italics = Green budget referents.

Source: Authors' elaboration based on Région Bretagne (2019^[11]), *L'organigramme des services de la Région Bretagne*, https://www.bretagne.bzh/app/uploads/organigramme_region_avec_services_decembre_2019.pdf.

Figure 5.2. The main participants in the Brittany's project



The Technical Committee meets approximately every three weeks. Project leaders from the Finance Department lead this committee, deciding on its timetable and agenda. The committee participants – projects leaders and managers from the Finance and Environment Departments and the pilot departments – present their progress and the problems they faced, so that solutions can be found and shared. The Technical Committee met twice, in May and June. The participants presented each department's interim results, exchanged information about methodological questions referring to the expenditure classification and to the regional "structuring assumptions" (*hypothèses structurantes*) and discussed ways to provide feedback for the Steering Committee.

Bilateral meetings are also scheduled between the project team (from the Departments of Finance and the Environment) and the pilot departments to validate the classification of budget lines by the pilot departments, help to analyse the difficulties they face and share extra accounting information and additional methodological information. The Department of Economic Development and the Department for Employment and Lifelong Learning in particular need extra support, since their activities are only partially covered by I4CE's methodology, which was originally created for municipalities and inter-municipal co-operation bodies, whose responsibilities and expenditure differ from those of regions. Wherever necessary, the programme managers may be requested to provide additional information about expenditure.

The region aims to gradually integrate its various stakeholders into the project

The Regional Council intends to include the green budget within its broader sustainable development approach and to involve their various partners in creating and implementing the methodology. The Regional Economic, Social and Environmental Council (*Conseil économique, social et environnemental régional* – CESER), a regional body where companies, unions, associations and regional personalities are represented, is involved in this endeavour and will participate in the gradual mobilisation of other external regional stakeholders. The region organised information sessions to inform the CESER about green budgeting and assess the most effective ways of involving them in the process.

Brittany also relies on the regional green budgeting methodology being produced by the joint *Régions de France* (the Association of French Regions) and I4CE working group of which the region is a member (Box 5.3). However, the working group provided few answers to Brittany's initial methodological issues since the region and the group started working on green budgeting at approximately the same time. However, the working group's ongoing efforts should help to refine and confirm the scientific hypotheses needed to classify certain expenditure items that fall under regional competences and are thus not covered in I4CE's original methodology developed for municipalities, thereby ultimately reducing the number of expenditure items classified as “undefined” in Brittany's first green budget.

Box 5.3. The Régions de France – I4CE – Regions working group

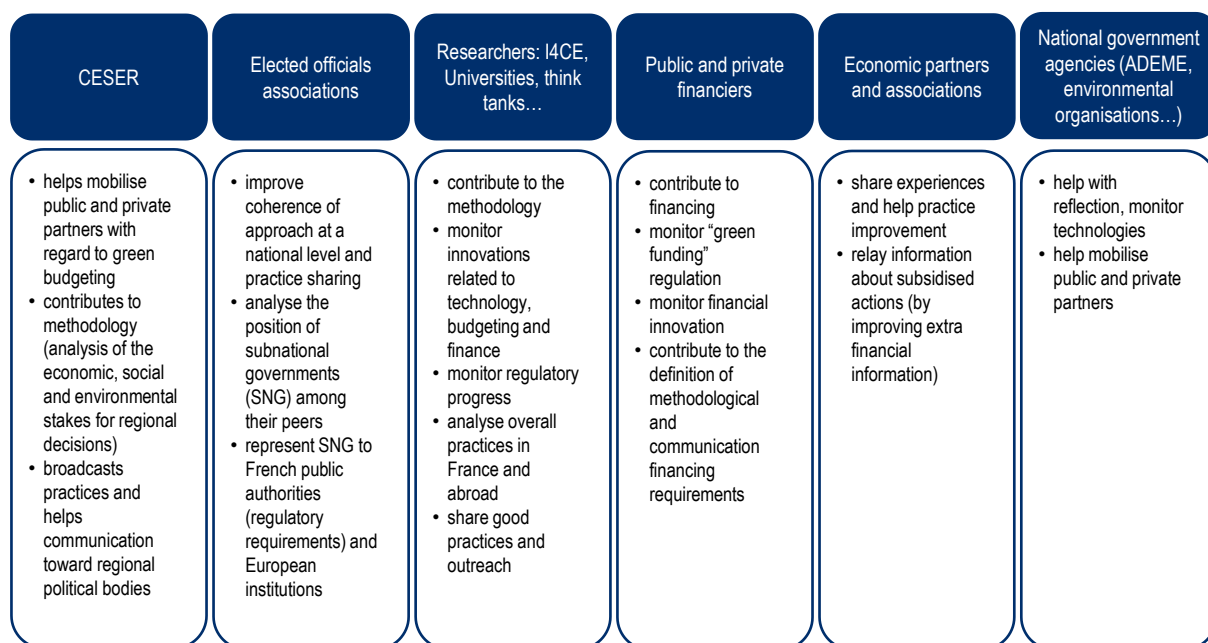
Régions de France has created a national partnership with Banque des Territoires, ADEME, CDC Biodiversity and the regions interested in the green budgeting approach (Occitanie, Grand-Est, Île-de-France and Brittany) to develop and test a green budgeting methodology; thematic workshops were organised in 2021 and 2022 for the pilot regions, with support from I4CE, to work on climate change mitigation and adaptation. A “biodiversity” methodology is also being developed in early 2022 by CDC Biodiversity and the pilot regions.

I4CE aims to update its methodological guides in the course of 2022 (for both the axes of mitigation and adaptation to climate change) to include regional specificities. Initial work facilitates the exchanges between the regions that have started green budgeting exercises or wish to do so. They also enable them to highlight methodological issues in regional priority sectors such as economic development, agriculture, or training, and to define possible common solutions to be widely shared and explained by I4CE.

The reference framework led by I4CE will remain flexible to offer regions a common framework while allowing each of them to adapt the proposed methodology to their specificities.

Eventually, the region intends to involve all of its economic and social partners, some of whom are recipients of regional funds or are public contractors, and as such play a role in the implementation of regional policies and the achievement of regional sustainable development goals (Figure 5.3). Involving these partners in the green budgeting practice will help Brittany to disseminate green budgeting further within its territory and to expand the scope of its exercise to capture more expenditure directed towards these partners. This phase can only happen gradually, to take the regional stakeholders' constraints into account, instead of imposing a “top-down” approach. The region is considering initially putting in place a pilot group to reflect on practices and take action that is realistic and in line with the objectives.

Figure 5.3. Stakeholders to be gradually involved



Box 5.4 presents a summary of the key elements of administrative and political support and resources that Brittany had in place to launch its green budgeting exercise.

Box 5.4. Summary: High-level support and significant human resources

A green budget designed as:

- An element of the region's strategy for environment and sustainable development
- A tool for assessing the environmental impact for policy and provides decision support
- A regional transformation tool, to be shared internally and externally

A high-level approach and an organisation in project mode:

- High-level political and administrative support;
- A steering committee made up of elected officials and administrative staff, a technical committee, the lead project departments (Finance and Environment) and four pilot departments;
- Twelve people assigned to the project as well as three within the budget department (including two people almost full-time for two months);
- A progressive mobilisation of external stakeholders over time.

The initial scope and objectives of the green budgeting practice were pragmatically designed

A first climate assessment was carried out on the region's 2020 closed accounts

Brittany's green budgeting initiative was launched at the end of 2020. The region chose to develop its methodology using its 2020 closed accounts in order to start work quickly and then apply the method to

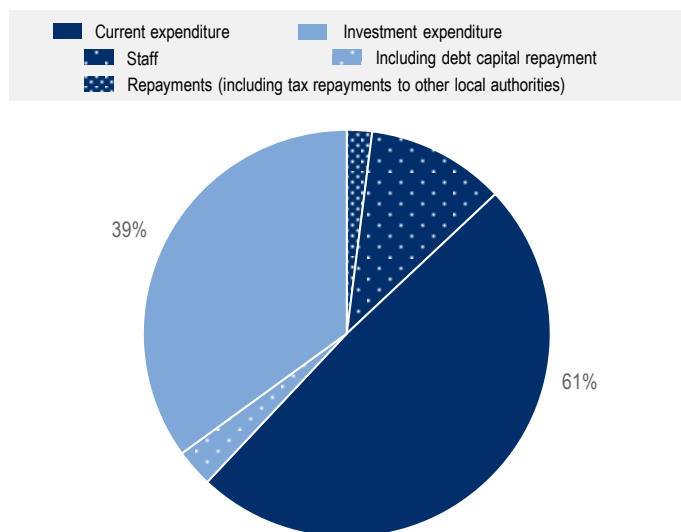
the region's draft annual budget. Work on the annual budget begins in July of the year before with a vote scheduled for the following February.

The region's 2020 closed accounts were adopted in April 2021. According to the regions' budgetary and accounting instruction (called M71), the accounts are presented and voted by function. Therefore, budgetary spending authorisation depends on the accounting function: professional training, education, culture, sports and leisure, etc. According to the regulations, the budget also includes a cross-presentation detailing the nature of the expenditure and revenues: staff, financial expenses, general expenses, taxes, endowments, etc.

Since the region aimed to carry out its first exercise before the start of the preparation of the 2022 draft budget, it had about one trimester (starting from the vote on its closed accounts) to analyse the data and provide initial feedback on the results.

In 2020, the total regional expenditure amounted to EUR 1.588 million,³ including EUR 971 million in operating expenses (61% of total spending), and EUR 617 million in investment (39% of total spending), out of which EUR 54 million represented capital debt repayment (Figure 5.4).

Figure 5.4. Distribution of the 2020 closed accounts expenditure



Source: Région Bretagne (2021_[12]), *Rapport Financier 2020*, <https://www.bretagne.bzh/ressources/budget-finances/rapports-financiers-dactivites/> (accessed on 4 May 2022).

Personnel costs amounted to EUR 168 million or 11% of total regional expenditure and more than 17% of operating expenses. The largest share corresponds to non-teaching staff in high schools (53% of the total) followed by the administrative staff of the region (38% of the total) (Région Bretagne, 2021_[12]).

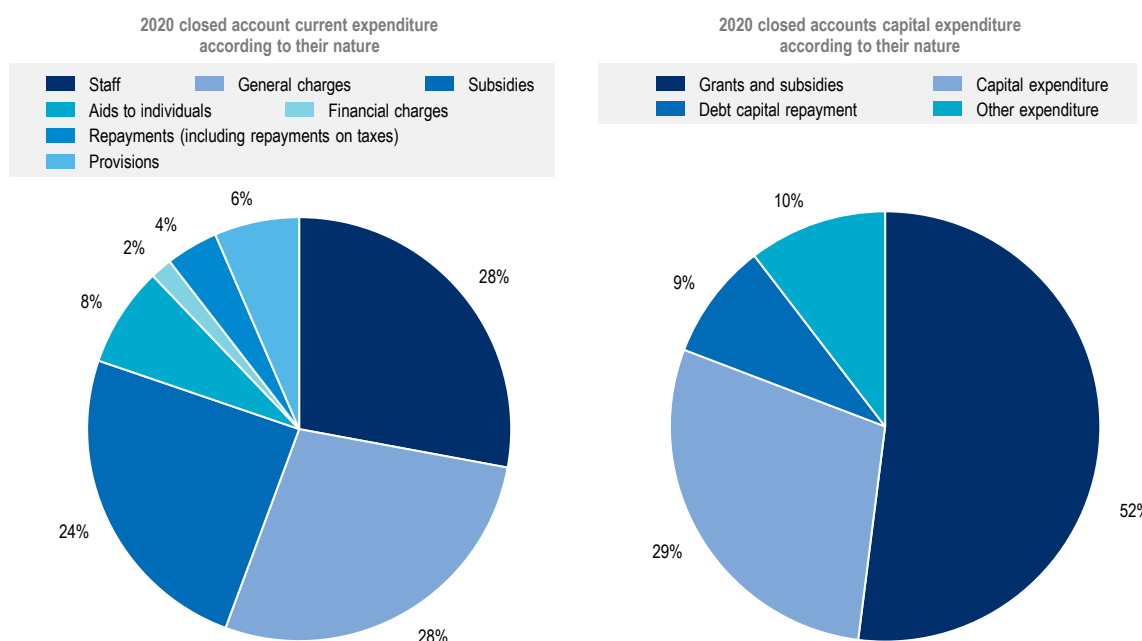
The region estimated the amount of exceptional pandemic-related expenditure in 2020 at EUR 167 million (with EUR 47 million in operating expenses and EUR 120 million in investment); EUR 137 million of this expenditure was committed and EUR 107 million was spent in 2020. This expenditure was to support local economic actors and local associations (through the National Solidarity Fund, the COVID Resistance Fund, support to regional public operators, in particular for transportation) but also to cover costs related to the region's remote-working arrangements for its staff (organisation, employee personal protective equipment, computer equipment) (Région Bretagne, 2021_[12]).

For several years, French regions have been responsible for managing European Union funds (ERDF, ESF, EAFRD and EMFF). This kind of expenditure must be perfectly balanced by income, but there is a

delay between the expenditure commitment and the collection of the corresponding revenue, which disrupts the reading of accounts, especially savings accounts. Expenditure related to EU funds amounted to EUR 92 million in 2020 (with EUR 35 million in operating costs and EUR 57 million in investment). Analysing this kind of expenditure is naturally easier in the closed accounts (the operations being complete) than in the provisional budget when the exact details are not yet known.

Subsidies also make up a significant portion of Brittany's budget, both in terms of operational expenditure (just over 15% of total expenditure in 2020) and especially in terms of investment, where they represented 22% of total expenditure excluding capital debt repayment (Figure 5.5). This characteristic (which applies to all French regions) increases the complexity of green budgeting because the classification of expenditure requires a detailed analysis of each expenditure item, which requires both in-depth knowledge of the mechanisms and the nature of the expenses (requiring extra-accounting information about the beneficiaries), and awareness of potential eco-conditionality clauses in subsidies. The existing green budgeting methodology to date (mainly that developed by I4CE) has limited coverage of subsidies because it was developed for municipalities and inter-municipal co-operation bodies, whose have limited control over subsidies compared to regions.

Figure 5.5. Distribution of the 2020 closed accounts expenses by nature: Operating and investment expenditure



Source: Région Bretagne (2020^[13]), *Brittany's 2020 Financial Report*.

The region manages its spending through long-term programme authorisations for investment, and through commitments authorisations for operating expenditure. These are mechanisms designed to monitor the execution of operations and limit the number of deferred operations from one budget to the next. On 31 December 2020, the stock of programme authorisations to be executed amounted to EUR 1.3 billion and that of commitments to EUR 390 million.

The budget execution rate stands at 84.8% for investment expenditure (excluding debt capital repayment) and 89.5% for operating expenses, including a provision for the prospect of loss on a large business value-added regional tax, whose proceeds were expected to decline in 2020. This proposal was ultimately dropped, due to a tax reform that led to the disappearance of this regional resource in 2021. Excluding this

provision, the budget execution rate is 96%. The level of budget execution in 2020 decreased compared to 2019, because the mandatory lockdown disrupted a part of the region's interventions (in high schools, ports, etc.) and limited certain actions (in terms of training, for example).

The region's budget nomenclature facilitated the green budgeting procedure

In accordance with French regulation, Brittany has adopted budgetary and financial guidelines. They stipulate that, besides its statutory presentation by nature and by function, the regional budget is presented according to a strategic nomenclature by programme (*Nomenclature Stratégique par Programme* or NSP) which is specific to the region and allows regional interventions to be broken down by “missions, strategic orientations and programmes”.

This classification is adopted annually by the Regional Council, simultaneously with the budget vote. In general, the classification does not change from year to year in order to guarantee the readability of the report over time, particularly for the duration of an electoral mandate, and its update is therefore given priority immediately after the renewal of the Regional Council. The next update is scheduled for 2022 (and applicable to the 2023 budget), as the last French regional elections took place in June 2021.

A “programme” is made up of units for implementing actions (or all actions with the same purpose), which are linked to their objectives and expected results, and are subject to an assessment. These programmes form the operational management framework of regional public policies, and the entire operating and investment budget of the region is included in this framework with:

- Intervention programmes that allow the implementation of resources related to regional interventions; these programmes constitute a level of the vote on the budget for programme and commitment authorisations.
- Resource programmes that allow the implementation of general resources of the regional institution.

In the region's budget, there are six missions in total, plus the management of EU funds and other expenditures that are not formal missions. These six missions (land planning, economy, professional training, mobility, ecology and attractiveness) cover 58 programmes. Each programme includes lists of actions with open current or investment budgetary commitments.

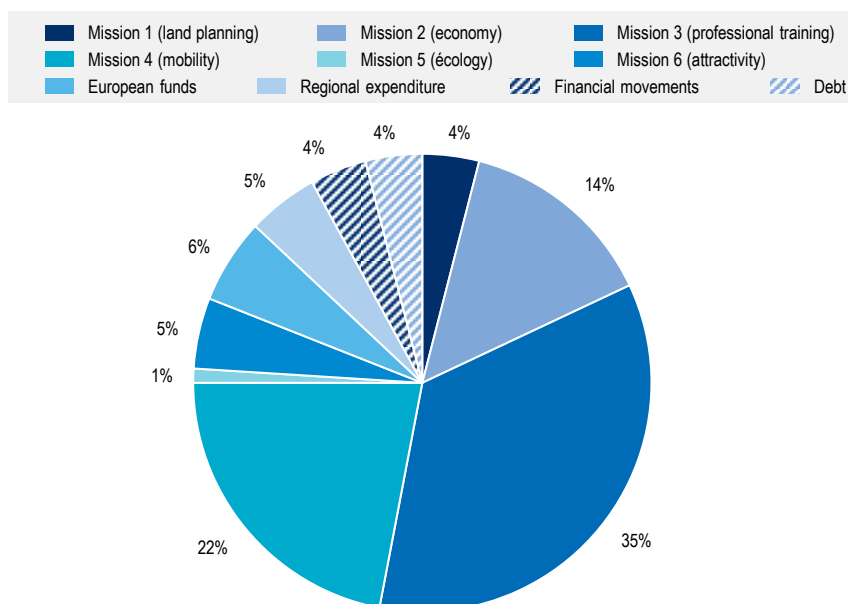
The regional financial management software specifies for each line the concerned programme, envelope, and nature of the account. The breakdown of Brittany's expenditures by mission is presented in Figure 5.6.

Expenses were categorised on the basis of mitigation and adaptation to climate change

To start the analysis quickly, the region decided to limit the scope of its green budget to focus on expenditure from two green domains: climate change adaptation and climate change mitigation. This excludes the other domains included in the European Taxonomy on Sustainable Activities, in particular water resources, circular economy, pollution, and biodiversity (EC, 2021^[14]). However, few of the other existing French subnational green budgeting practices also went beyond climate change adaptation and mitigation in their analyses (Box 5.5). The advantage to Brittany of limiting the initial scope to adaptation and mitigation is that it allowed the region to move forward quickly by capitalising on I4CE's previous work, which focused on these two domains.

Climate change mitigation aims to reduce and prevent climatic changes, either by cutting emissions (reduced consumption and fossil fuel use) or by carbon sequestration (recovery of excess carbon dioxide, which is then stored in the biosphere, for example through reforestation).

Figure 5.6. The distribution of 2020 closed accounts expenditure by mission



Source: Région Bretagne (2020^[13]), *Brittany's 2020 Financial Report*.

Climate change adaptation addresses the consequences of climate change and attempts to prevent or reduce their impact on people and the environment. The objective is to reduce social and ecological vulnerabilities and limit the damage resulting from climate change both in nature and socio-economic activities.

Limiting the scope to these two domains is temporary; eventually, the region aims to analyse the impact of expenditure across all of the green domains included in the EU Taxonomy. At the second meeting of the project Steering Committee, various directions for the future of the green budgeting project were considered, and in the end it was decided that:

- It seems essential to take into consideration all of the green domains over the duration of the regional mandate.
- The exercise is part of a broader reflection on the introduction of eco-socio conditionality criteria in regional intervention processes.
- The Steering Committee will oversee a deployment proposal to be validated by the Executive Committee.
- Resources and workload should be assigned with care to make sure departments are not overwhelmed. Once the exercise is completed on the 2022 provisional budget, it will be easier to assess the long-term workload and to finalise the timeline for expanding the scope of the practice.

Thus, the region analysed budget expenditures in two stages:

- With regards to climate mitigation, the region analysed each expenditure item to determine if it was favourable or unfavourable to reducing regional GHG emissions.
- Regarding climate change adaptation, the region analysed expenditure to determine whether an expenditure item might include actions with outcomes that entail climate change adaptation.

Box 5.5. The choice of green domains to be analysed

- **Occitanie Region:** The region has favoured the “climate” domains, particularly the impact on fossil fuel consumption; the regional budget is therefore mostly classified as neutral due to the prevalence of expenditure related to culture, solidarity or professional training, which is considered to have a low climate impact. The other environmental criteria (such as natural hazard prevention, water and waste management, the fight against pollution and damage to biodiversity, protection of natural areas) will be considered later. However, the region has partially integrated these criteria in its first green budget. For example, land acquisition expenses related to new high-speed lines are classified as “neutral” due to their impact on land development and on biodiversity, whereas for their climate impact alone they would receive a “very favourable” classification.
- **Grand-Est Region:** The region used the I4CE methodology and its first green budget (released in the beginning of 2022) focused exclusively on climate adaptation and mitigation.
- **Régions de France working group:** Work is being carried out on the “climate” domains with I4CE and “biodiversity” domain will be addressed by the second half of 2022.
- **French National Government:** The French government has selected six green objectives (climate change and adaptation, water resource management, circular economy, the fight against pollution, biodiversity and protection of natural, agricultural and forestry areas) for the implementation of its green budget. These are the same six domains outlined in the EU Taxonomy on Sustainable Activities.

Source: Région Grand Est (2021^[15]), *Grand Est Budget 2022*, <https://www.grandest.fr/wp-content/uploads/2022/01/grand-est22-budget-2022-papok.pdf> (accessed on 8 April 2022); La Région Occitanie (2021^[16]), *Budget Primitif 2022*; Ministère des finances (2020^[17]), *Direction du Budget- Annexe 2 - Budgétisation verte*.

The budget was fully analysed considering the mitigation axis

Brittany’s first green budget was carried out on operating and investment expenditure of the main budget (the region does not have subsidiary budgets) of the 2020 closed accounts. The region excluded accounting movements and repayments (mainly depreciations, provisions and repayments from the region to departments) as “out of perimeter”, following I4CE’s recommendations as well as the example of other French subnational government practices. In total, 8% of regional expenditure for 2020 was declared be out of perimeter.

Commitment and programme authorisations (which correspond to multi-year operating and investment commitments) have only been analysed up to the amount of the annual payments, unlike in Occitanie, for example, where the exercise was carried out both on long-term authorisations and on payment appropriations, thus providing a forecast analysis.

Brittany aims to set up a “green” multi-year investment plan (PPI) and define monitoring indicators to enable regional government departments and the general management to make the connection between the region’s Transition Action Plan (see above) and the provisional budgets. This green investment planning is especially important since it will make it possible to identify the investments that could benefit from green resources offered by EIB (European Investment Bank), the *Caisse des dépôts et consignations* or commercial banks, and from green financing available on financial markets.

The region classified the exceptional expenditure linked to the pandemic as “neutral”, considering that its exceptional nature would complicate the green budget’s comparative analysis over time; I4CE recommends classifying these expenses as “out of perimeter”.

Brittany had initially considered excluding expenditure related to EU funds management but in the end it was included in the analysis. This expenditure amounted to EUR 92 million in 2020. The Occitanie Region excluded these funds due to their limited room for manoeuvre in allocating them.

The region decided to include personnel costs in the overall result by prorating them according to the results of each mission, a choice which will have to be subjected to internal approval (possibly by consensus within *Régions de France* working group) before extending the practice to the provisional budget; this is a sensitive issue, given that personnel costs make up a larger share of total operating expenses (more than 17%) and even total expenses (Box 5.4).

Box 5.6. National and regional governments’ methods to analyse personnel spending

Since they represent an important share of total expenditure, personnel costs are particularly difficult to handle in green budgeting exercises.

Table 5.1. Personnel expenditure as a share of operational and total expenditure: breakdown by type of French subnational government

	Average share of personnel expenses in operating expenses (%)	Average share of personnel expenses in total expenses (%)
Municipalities	55	42
Inter-municipal co-operation bodies	38	28
Departments	21	18
Regions	19	12

Source: OFGL (2021^[18]) (2021), *Rapport d’activité 2021*, https://www.collectivites-locales.gouv.fr/files/Institution/1.%20organisation%20administrative/Organismes-consultatifs/OFGL/Rapport_activite_OFGL_2021.pdf.

In the green budgeting approach, a good budget coverage requires in-depth reflection on this expenditure, with assistance from the Human Resource Department, to ensure that the agents’ activities are indeed compatible with the environmental and climate objectives included in the scope of the practice. In existing green budgeting methodologies, various options have been adopted to address personnel expenditure:

- The French government has chosen to mark staff costs as neutral for its green budgeting exercise, except for the payroll for services and departments with an explicit environmental and climate objective, which is listed as “favourable” on the objective concerned (examples: personnel assigned to manage ecological, development, and sustainable mobility policies).
- I4CE proposes to categorise personnel expenses as “non-accounting indefinite expenses”, unless there is a methodology within the municipality to allow structuring assumptions and distribution keys to be applied to them. As a result, most personnel expenditure remains in this category in the I4CE methodology, except for the spending specifically labelled as “climate”. This position could change because it results in a differentiated treatment of an activity depending on whether it is internalised or outsourced.

- The Occitanie Region has classified as “neutral” almost all personnel expenditure (in particular the non-teaching regional agents of high schools that are regional staff in France).

Source: Ministère des finances (2020^[17]), *Direction du Budget- Annexe 2 - Budgétisation verte*; I4CE (2020^[2]), *Évaluation climat des budgets des collectivités territoriales: guide méthodologique*, <https://www.i4ce.org/download/evaluation-climat-des-budgets-des-collectivites-territoriales-guide-methodologique>; La Région Occitanie (2021^[16]), *Budget Primitif 2022*.

Brittany has not adopted a minimum expenditure threshold, choosing to analyse expenditure from the first euro to ensure a comprehensive approach. This approach could be changed, depending on the evolution of information systems and on how sustainable the workload of the exercise is for the project teams.

To simplify the process, for competences that are delegated by the regional government to external providers (public service delegation or concession), only financial links between the region and its delegates were analysed. Similarly, the activities of local public enterprises were only viewed through the lens of regional equity investments.

The region has not extended the analysis to stocks or revenues and is not considering doing so in the near future, as it is waiting to see the results of other experiments being carried out by other French regions on the subject.

In total, more than 27 000 budget lines amounting to almost EUR 1.6 billion of actual operating and investment expenditure have been analysed according to their climate mitigation impact for the first green budgeting exercise.

The Department of the Environment and the four pilot departments proceeded directly to an in-depth analysis of their programmes. They analysed 36% of the budget lines, i.e. 53% of the budgetary volumes. The rest was analysed by the Department of Finance with support from the Department of Environment and the programme managers.

Table 5.2 shows the breakdown of the analysis among the Department of the Environment and four pilot departments.

Table 5.2. Participation in the evaluation on the mitigation axis of the Department of Environment and the four pilot departments

Department	Mission	Number of lines analysed	Investment expenditure amount (EUR)	Current expenditure amount (EUR)
DCCEB (environment)	Ecological transition	787	5 309 737	10 001 106
DIRECO (economy)	Economics	2 796	125 143 604	58 392 102
DITMO (transportation)	Mobilities	1 010	71 998 045	262 070 915
DEFTLV (Learning)	Training and high schools	1 369	6 722 810	192 771 066
DIL (housing)	Training (school construction)	3 938	103 449 482	3 792 701
Total		9 900	312 623 678	527 027 890

Source: (Région Bretagne, 2021^[7])

Work on the “adaptation” axis is still in progress

For this first green budget, only the Department of Environment and the pilot departments’ expenditures were analysed, representing a total of EUR 840 million out of the EUR 1.59 billion included within the scope of the analysis, i.e. 53% of the covered expenses. The region must continue this task in the months to come so as to cover the entire budget and make progress in analyses the climate adaptation impact of expenditure.

Box 5.7 presents a summary of the scope of the first climate assessment on the mitigation and adaptation axis.

Box 5.7. Summary: A first climate assessment on the mitigation and adaptation

The exercise was carried out on the operating and investment expenditure of the 2020 closed accounts.

The task was achieved starting from the regional accounting by nature and by function, supplemented by the strategic nomenclature by programme (NSP) and non-accounting information provided by the participating regional government departments.

The scope was restricted to climate adaptation and mitigation for the first regional green budget.

- 8% of regional expenses were declared out of perimeter.
 - EUR 1.588 billion and 27 000 budget lines were analysed according to their climate mitigation impact. The Department of Environment and the four other pilot departments analysed 36% of the budget lines and 53% of the amount of expenditure included in the scope.
 - EUR 840 million was analysed under the adaptation axis but work is still in progress to achieve full budget coverage.

The methodology is adapted to each axis of analysis

Expenses are classified into one of four categories under the mitigation component

Brittany relied on I4CE’s methodology to classify its expenditure under the mitigation component. A given expenditure item can be classified into one of four categories: “highly favourable”, “rather favourable”, “neutral” or “harmful”. I4CE also listed two additional categories for expenditures which are not analysed: “out of perimeter” and “undefined”. Expenses can be undefined when there is no methodology available to classify them (“undefined by methodology”) or when the information necessary for their classification is unavailable (“extra-accounting undefined”).

This classification system considers the actual impact of an expenditure item rather than the intention or the stated objective. Thus, expenditure whose objective is favourable to mitigation may have a negative effect on the climate, so it will be classified as “harmful”; conversely, a measure can have a positive effect on the climate even though that was not the original goal, in which case it will be classified as “rather favourable” or “highly favourable”, according to its impact (e.g. public health measures that affect the climate).

It should be noted that other methodologies, such as the OECD’s Rio Markers or the one used by the French government for its green budget, have adopted different positions (Box 5.8).

Box 5.8. The different methods of classifying budgetary expenditure

- **Occitanie:** The Occitanie Region has retained the same number of categories as Brittany. Therefore, the following categories are used: expenses out of perimeter, expenses to be defined (corresponding to the “undefined” category in Brittany Region), harmful, neutral, rather favourable or highly favourable.
- **Grand-Est:** The region has adopted the same methodology for the creation of its green budget and kept the I4CE’s methodology, based on the same granularity (highly favourable, favourable, neutral, harmful, to be defined and out of perimeter).
- **French government:** The French government classifies favourable expenditures into three categories: expenses with a main environmental objective or directly participating in the production of an environmental good or service, those without an environmental objective but having a proven indirect impact, and those that are favourable but may present a long-term risk of carbon lock-in. Neutral expenses are those without a significant effect or whose information is unavailable or insufficiently documented. Harmful expenses cause direct harm to the environment or encourage harmful behaviour. Considering all the environmental axes, a category of “mixed” expenditure has also been defined, favourable to the environment on at least one axis but having negative effects on one or even several other axes (mainly transport infrastructure, especially railways).
- **The European Union:** The EU budget is monitored for environmental impact but focuses mainly on the climate. The evaluation is based on the OECD’s coefficients known as the DAC “Rio markers”, which attribute a coefficient of 100% to expenditure which makes a significant contribution to climate objectives, 40% when the contribution is moderate and 0% when it is insignificant or zero. The same type of methodology is being developed for expenditure in favour of biodiversity. From 2022, it should be possible to measure air quality expenditure as well. The methodology as a whole does not look at harmful expenditure.

Source: La Région Occitanie (2021_[16]), *Budget Primitif 2022*; Région Grand Est (2021_[15]), *Grand Est Budget 2022*, <https://www.grandest.fr/wp-content/uploads/2022/01/grand-est22-budget-2022-papok.pdf> (accessed on 8 April 2022); Ministère des finances (2020_[17]), *Direction du Budget- Annexe 2 - Budgétisation verte*; EC (2014_[19]), *Short Guide to the Use of Rio Markers*, European Commission, <https://europa.eu/capacity4dev/public-environment-climate/wiki/short-guide-use-rio-markers>.

“Favourable” expenditure must therefore reduce emissions, either directly or by substituting for more carbon-intensive alternatives: if it is carbon-neutral it will be categorised as “highly favourable”, and in other cases, “rather favourable”. Expenditure is “neutral” if it has no significant impact, and “harmful” if it leads to an increase in emissions.

When expenditure is known to affect the climate, it must be analysed and classified into one of the aforementioned four categories using a set of “structuring hypotheses” or assumptions. Brittany initially used the structuring hypotheses developed by I4CE for municipalities and inter-municipal co-operation bodies, which are based on an objective of net-zero emissions by 2050 which corresponds to the French National Low-carbon Strategy (SNBC). I4CE defined nine sectoral structuring hypotheses (for construction, transport infrastructure, vehicle purchase and maintenance, highways, food, waste, energy purchases, energy network and infrastructure, software and new technologies, and green spaces – see Box 5.9) and six transversal hypotheses (for personnel expenditure, business travel expenses, climate taxes, subsidies, public procurement and sustainable purchasing, carbon compensation). Regional expenditure is therefore analysed based on its contribution to achieving the net-zero emissions by 2050 objective, relying on I4CE’s

sectoral or transversal hypotheses to determine whether an expense contributes to reducing or increasing emissions, or has no impact (provided that the sector is covered by the methodology).

Given the jurisdictional differences between municipalities and regions, the I4CE methodology does not cover all regional competences; therefore, if I4CE hypotheses either do not exist or are not completely compatible, the region must design them internally. Regardless of the institution that designs them, these hypotheses must have a solid scientific basis. Brittany worked with *Régions de France* and I4CE on these additional hypotheses, specifically in the areas of economic assistance, training, and agriculture. I4CE plans to include regional specificities in its methodological guides in 2022.

The accounting nature and function of the expenses allow the region to quickly identify the lines that need to be analysed. For example, expenses recorded under the accounting classification for “fuel” in the nomenclature by nature or expenses recorded under the “Transport” function of the nomenclature by function are immediately identifiable as in need of analysis. They may be supplemented with extra-financial information provided by programme managers.

In some cases, the available information does not allow for a precise enough description of expenditure to reliably classify it (e.g. “extra accounting indefinite” for training expenses), or the region does not have a methodology to classify certain sectors (lack of structuring hypotheses lead to an “undefined by methodology” classification). For expenditure related to agriculture, for example, no classification methodology had been defined in Brittany at the beginning of the green budgeting exercise.

This share of expenses classified as “undefined” should decrease over time due to the involvement of the administration and its partners (delegates, service providers), the improvement of information systems and methodological advances.

It should be noted that this approach does not include a counterfactual scenario to measure the negative effects that were avoided thanks to regional policies, especially the “sobriety measures” taken by the region (e.g. savings, consuming less or better). Similarly, the progress of ongoing environmental and climate projects is not assessed either.

Box 5.9. Example of I4CE “structuring hypotheses” for energy purchases

- Electricity: electricity expenses are classified as “neutral”, except for contracts subject to a guarantee of renewable origin, classified as “highly favourable”.
- Gas: the consumption of fossil natural gas is classified as “harmful”.
- Renewable gas: classified as “highly favourable”.
- Fossil fuels, except natural gas: gasoline, diesel, LPG, crude oil and coal are generally counted as harmful. The share of agrofuels incorporated into any fossil fuel (E5, E10, diesel, etc.) is classified as “undefined”.
- Agrofuels: classified as undefined. (NB: the European Commission has introduced a 7% cap on first-generation biofuels in transportation).
- Hydrogen: classified as “rather favourable”.

Source: I4CE (2020^[2]), *Évaluation climat des budgets des collectivités territoriales : guide méthodologique*, <https://www.i4ce.org/download/evaluation-climat-des-budgets-des-collectivites-territoriales-guide-methodologique>.

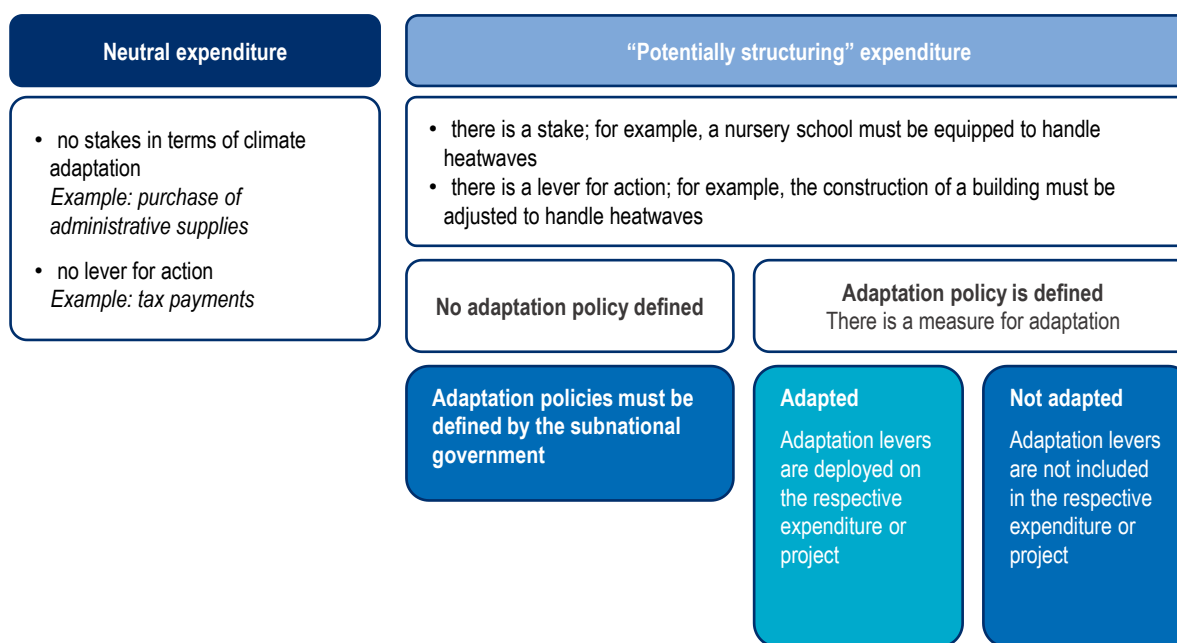
I4CE's methodology related to adaptation will be gradually integrated

The methodology for defining and incorporating the risks and policies implemented in terms of climate change adaptation is widely documented in the scientific literature, in particular in the Intergovernmental Panel on Climate Change (IPCC) work.⁴ There is considerable existing academic work and scientific literature (including from the IPCC) on: i) how to define and measure the risks associated with climate change; ii) how to define a policy for adapting to change; and iii) how to measure the existence or not of climate change adaptation policies.

A prior analysis of regional issues and levers for action is necessary

Brittany relied on I4CE's methodology to measure the budget's impact on climate change adaptation (Figure 5.7). In contrast to the methodology for analysing the climate mitigation impact of the budget, the methodology used to measure the adaptation impact is not universal because it depends on regional characteristics. Therefore, the region must determine its own climate issues and the resulting adaptation trajectory.

Figure 5.7. Classification of expenditure under the “adaptation” component, I4CE methodology



Source: Translated from I4CE (2020_[2]), *Évaluation climat des budgets des collectivités territoriales : guide méthodologique*, <https://www.i4ce.org/download/evaluation-climat-des-budgets-des-collectivites-territoriales-guide-methodologique>.

The region must analyse:

- The issues: What are the locations, activities or services and populations for which there are adaptation issues? This analysis determines the government's levels of exposure and vulnerability. There is an issue when there is an exposure (probability and intensity of climate hazards) and a vulnerability.
- Management: What responses have been put in place to improve the government's adaptation capacity?
- Evaluation: How relevant are these responses?

This process is essential because it provides an overview of public policies.

Expenditures may be classified as:

- “Neutral” if they do not have any impact on the region’s climate adaptation potential or if there is no leverage on them.
- “Potentially structuring” if they refer to a regional action with an action lever and relate to a population, a territory, an activity or a service that could be significantly affected by climate change. For example, the construction of a building may incorporate bioclimatic criteria that enable natural cooling in summer.

When they are potentially structuring, expenditures may be:

- Covered by an adaptation policy:
 - Which can itself be “suitable”: the region’s adaptation measure for this type of expenditure has been put in place.
 - Or be “unsuitable”: for example, there is an accommodation policy in the region, but it has not been adhered to.
- Or not covered; for example, if new housing construction projects do not include adaptation criteria.

These classification efforts should enable the region to measure the existence and implementation of climate adaptation policies within the budget and ultimately lead to taking climate risks and the necessary adaptation policies into account from the time of the projects’ definition and vote.

The diagnosis carried out is not frozen in time and the answers provided are even less so. Both the adaptation and the mitigation methodologies need to consistently incorporate the latest scientific findings.

Accounting by nature and by function helps to identify “potentially structuring” expenses

The accounting documents of the French regions are presented both by type (personnel costs, current and financial expenses, etc.) and by function (education, transport, economic action, etc.). This double entry makes it possible to obtain important information for the classification of expenditure according to the adaptation axis. In particular, accounting by nature and by function helps to identify “potentially structuring” expenditure within the budget. Accounting by function provides information on adaptation issues, for example on expenditure related to the “public high schools” function. The regional strategic nomenclature by programme (NSP) can also provide additional information.

Accounting by nature mainly sheds light on expenditure where climate adaptation criteria could be incorporated. For example, expenditure reported for “school building construction” would have an adaptation lever. The main adaptation levers generally relate to capital expenditure.

Regarding the “adaptation” component, I4CE recommends proceeding in stages. Step 1 of their methodology stipulates that “neutral” and “potentially structuring” expenses must be defined. During step 2, the subnational government can make a first selection within the potentially structuring expenses to determine the ones covered by an adaptation policy, and step 3 aims to ensure that the adaptation policies put in place are “suitable”.

The region is not considering a consolidation of the analysis axes

Brittany is not considering combining their analyses of the climate mitigation and adaptation impact in order to keep an accurate vision of each axis analysed. Their green budgeting work is therefore carried out and presented individually for each green domain, in this case just climate change adaptation and mitigation.

Various ways of summarising the results of the analysis are nevertheless available and could be added in the process, for example based on the method developed by the French government for its own budget.

Box 5.10 summarises the regional methodology applied for both mitigation and adaptation components.

Box 5.10. Summary: A methodology specific to each green domain

The regional methodology is based on the work carried out by I4CE.

There was an initial sorting of expenses “out of scope” and expenses to be analysed for the climate change mitigation component:

- “Structuring hypotheses” defined by I4CE or by Brittany are applied to the expenses to be analysed.
- Expenditure items to be analysed are classified into one of four categories: “neutral”, “rather favourable”, “very favourable” and “harmful”, or into either extra-accounting or methodological “undefined” when information or a methodology is not available to classify the expenditure item.

For the climate change adaptation component:

- The region defines the issues specific to its territory.
- Expenses can be “neutral” or “potentially structuring” if there is an issue and a means of action in terms of adaptation to climate change.
- The next step consists in measuring the “potentially structuring” expenses for which appropriate measures have been taken.

The different axes of analysis (adaptation, mitigation) are not consolidated.

The project team supervised the expenditure classification

The finance department has prepared an analytical framework for green budgeting

The Department of Finance and Evaluation has built internal databases, in Excel format and compatible with the regional accounts, in order to list all the budget commitments and to provide a preliminary screening of the regional budget.

For each programme or set of programmes in each department, a file details all operating and investment expenditure. For each commitment, information is given about the programme, the operation, the action, the commitment label, the corresponding third parties, the detailed functional and accounting classifications and the amount of the expenditure. This information is then used to determine whether to classify the expenditure as out of perimeter, neutral, undefined or requiring analysis, according to its accounting nature or function.

When the expense requires analysis, the corresponding I4CE structuring hypothesis is indicated. A column for “Structuring Hypotheses Region” was added to record hypotheses defined internally by the region, whenever I4CE’s hypotheses either do not cover the field under consideration or are not compatible with regional characteristics.

Expenditure was classified by the project team departments (finance and environment) and the four pilot departments

The aforementioned Excel files were distributed to the four pilot departments and the Department of Environment when the data included within them was relevant to each department’s policy domain, otherwise the files were passed along to the Department of Finance, which was responsible for analysing

all other budgetary expenditure not attributed to the Department of Environment and the other pilot departments.

This preparatory work helped to analyse expenditure at the highest level of the internal budget classification by mission and based on accounting data by nature and by function.

Whenever necessary and possible, programme managers were consulted to supplement the available accounting information with extra-financial elements in order to classify the expenditures⁵ more precisely. Since the exercise is both resource and labour intensive, the Department of Finance was unable to carry out this kind of analysis for the other budgetary lines.

I4CE's structuring hypotheses were used to classify expenditure whenever they were available and relevant. If this was not the case, the participating departments developed their own structuring hypotheses based on well documented scientific data, be it internal or external to the region.

The Department of Environment, with support from the energy and climate teams, played an advisory role for the four pilot departments. They arranged customised green budgeting training for them, to explain the I4CE methodology and to help define the missing structuring hypotheses based on *ADEME* studies, French government research (particularly in the context of the low-carbon strategy), the European Union Taxonomy, and other scientific documentation and reports.

The challenges and questions encountered during the regional exercise have also been shared within the *Régions de France*/I4CE working group. However, the region benefited only slightly from the support of this group in the first part of their exercise, due to the late start of the working group activities compared to Brittany's progress.

For Brittany's first regional green budget, the lack of I4CE structuring hypotheses mainly impacted classification of expenditure in the economic development, agriculture and training sectors, which were not covered by I4CE in its work for the municipal sector (they are municipal competences) and for which the available information was not detailed enough. The working group set up with *Régions de France* is striving to cover these fields, in an effort to improve regional structuring hypotheses.

In terms of economic development, the classification of subsidies could be determined depending on the existence (or absence) of climate conditionalities, paired with exclusion lists. It should be noted, however, that conditions often extend over a broad field, which also includes social or even economic criteria, in addition to climate or environmental concerns. As a result, detailed project analysis, in particular detailed end-use, is still necessary to classify subsidies. Such analysis requires input on the climate strategy of the subsidised organisation or the project's effect on reducing greenhouse gases.

Another option for economic development classification may be to rely on the EU Taxonomy when the subsidy to be classified relates to a company instead of a project (since, for the latter, the local authorities can use their own specific structuring hypotheses). However, this option is not without challenges, because the EU Taxonomy sets out performance criteria for six green objectives rather than only on climate-related issues. In any case, only thorough knowledge of the financed organisation could enable the distribution of the company's turnover among its activities.

In both classification methods, it is essential to collect and store extra-financial information in order to build proxies that allow for an easy classification of expenditure based on its climate mitigation impact. At this stage in the project, Brittany is leaning towards using the EU Taxonomy. Nevertheless, additional analysis and a determination of the cost of working time and information systems upgrades are still required to determine the most appropriate methodology.

Classification of expenditure within the higher education and vocational training sectors also poses a methodological challenge and offers different classification options, depending for instance on the skills acquired at the end of the training (jobs contributing to the green transition), or on the activities and content of the training. These options require further consideration of both form and substance, specifically related to whether the information necessary for the classification would realistically be accessible and sufficiently detailed at the time of the budget vote.

As part of the *Régions de France/I4CE* working group, Brittany has positioned itself as a leader regarding the methodological work on agriculture-related expenditure. There is a need for significant methodological developments in this field, in which Brittany has particularly high stakes considering the importance of the agricultural sector in the region.

The finance department consolidated the results to obtain an overview of the regional budget

Once the pilot departments completed the classification process (including, wherever applicable, the process of defining structuring hypotheses), the results were consolidated by the finance department and presented to the Steering Committee.

Box 5.11 proposes a summary of the methodology used for the green budget analysis on the 2020 closed accounts carried out by the region of Brittany.

Box 5.11. Summary: Analysis of the 2020 closed accounts

The finance and environment departments provided methodological support (training in green budgeting or climate assessment, support for the definition of structuring hypotheses) and practical help (providing data in Excel format) to the four pilot departments that participated in the project.

The classification work and the definition of structuring hypotheses for fields that were not covered by I4CE methodology were shared between the finance, environment and pilot departments.

The analysis of expenditure of the regional departments other than the pilot directions was carried out in-house by the project team.

The finance department ensured the consistency of data consolidation and presented the results to the Steering Committee in July 2021.

The initial results were released on time, highlighting improvement opportunities

The results of the first climate assessment, carried out on the mitigation and adaptation axes, were presented to the project's Steering Committee in July 2021. These results demonstrated that the endeavour had been successful on the mitigation axis, while the budget was still only partially covered on the adaptation axis.

In any case, this is merely a pilot evaluation, therefore developments are expected, which explained why the region did not publically communicate these initial results. Refinements may relate to finishing work on the adaptation axis or to strengthening the methodology on the region's specific competences (economic development, training, agriculture) for a deployment in forthcoming provisional budgets.

“Undefined” expenditure has been limited thanks to the development of internal structuring hypotheses

The finance department consolidated the data provided by the regional departments, thus offering both an overview and a classification by mission of the climate mitigation budget.

The classification was made based on accounting information, completed by the region’s strategic nomenclature by programme and, for the pilot and environment departments, with extra-financial data to qualify expenditure better. In the area covered by the finance department, only data from accounting and the NSP has been used.

The region produced two versions of the climate mitigation budget: in one of them only the I4CE structuring hypotheses were used, while in the second, these were supplemented with hypotheses developed internally by the region. Indeed, if the I4CE methodology made it possible to adequately cover public transportation or building expenses, for fields like economy, agriculture or training the region had to define a significant number of structuring hypotheses (or classify the corresponding expenditure as “undefined”).

The addition of structuring hypotheses specific to the region made it possible to lower the share of “undefined” expenditure from 37% to 23% compared to the outcome derived from a strict application of I4CE hypotheses. It also helped refine expenditure distribution among the various categories (undefined, harmful, neutral, favourable, very favourable).

The processes of gaining more in-depth knowledge of expenditure items and defining additional structuring hypotheses are ongoing. Thus, while the share of “undefined” expenditure is quite low for the mission “Territorial Attractiveness”, it continues to be high for the missions “Economy” and “European Funds” following this first evaluation.

The classification of expenditure as “favourable” or “harmful” is also expected to be refined as a result of the collaboration with *Régions de France*, particularly for the fields that were little or poorly covered by I4CE methodology (i.e. Economy, Professional Training, Ecological Transition).

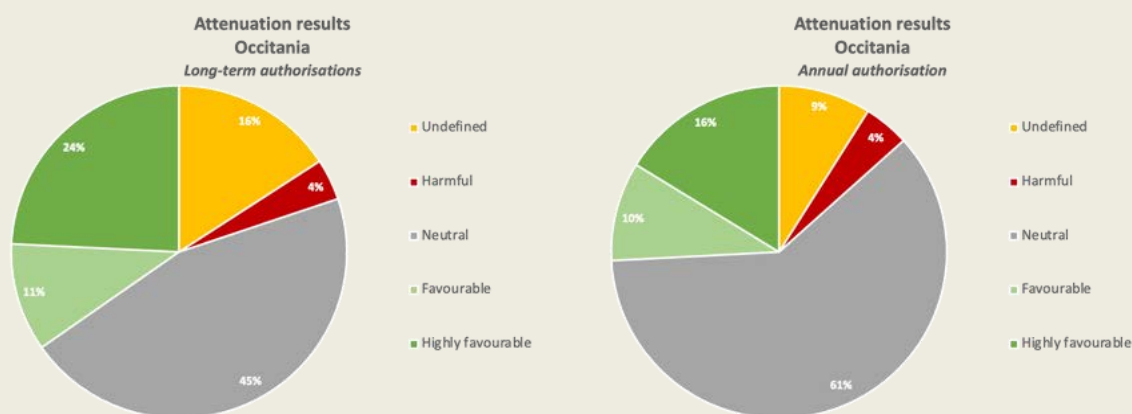
The results are provisional and require further internal validation on certain classification decisions. Comparing Brittany’s methodology with those of other regions within the *Régions de France*/I4CE working group should also help refine the methodology and the structuring hypotheses. An example is provided with the Occitanie Region (Box 5.12). For this reason, the Brittany Region has not planned on publishing the results of this first exercise, which will be refined and customised to the budgetary planning in the course of 2022.

Box 5.12. Results from the Occitanie Region

The Occitanie Region produced its first green budget using 2021 preliminary budget and mainly focusing on climate mitigation. The region adopted and customised I4CE's method. Some 80% of regional expenditure was analysed, setting aside EU funds as well as expenditure related to the health and economic crises.

The green budget was carried out on the annual expenditure of the provisional budget and on the long-term capital expenditure authorisations. Figure 5.8 presents the results of the region's first climate budgetary assessment.

Figure 5.8. Mitigation axis results: The Occitanie Region



Source: La Région Occitanie (2021^[16]), *Budget Primitif 2022*.

“Potentially structuring” expenses in terms of adaptation to climate change have been identified

I4CE's methodology enables a gradual assessment of the climate adaptation impact of the budget. Brittany has implemented the first stage of this method, which consists, on the one hand, of identifying the climate adaptation needs characteristic to its territory and on the other hand, of an initial expenditure classification into two categories: neutral or “potentially structuring”.

The region relied on its own climate adaptation needs

The region analysed its climate vulnerabilities using a “vulnerability tree” (Figure 5.9). Based on the work carried out by the Brittany Observatory of the Environment, this analysis represented the region's key challenges, which vary depending on geography: urban, coastal or inland.

The following six-step roadmap has been defined to ensure Brittany's resilience to climate change (Région Bretagne, 2021^[17]):

- Organise and monitor knowledge, support research and innovation.
- Strengthen governance, territorial cohesion and local stakeholder capacities.
- Support adaptation education and awareness.
- Adapt land development policies and prevent or manage risks for a resilient territory.

- Manage natural resources from a climate change perspective.
- Support economic sectors in terms of transformation and adaptation.

Parts of the regional budget still remain to be analysed under the adaptation axis

Based on the vulnerability tree findings, the Department of Environment and the other pilot departments established an initial classification of expenditure as “neutral” and “potentially structuring”. The scope of the analysis for the adaptation axis was restricted to Department of Environment and the 4 pilot departments and EUR 840 million in expenses were analysed, representing 53% of the total operating and investment expenditure in the region’s 2020 closed accounts.

Figure 5.9. Brittany’s adaptation vulnerability tree



Source: Région Bretagne (2021^[7]), July 2021 Steering Committee Meeting.

After this first stage, the region intends to cover all expenditure and then expand the analysis to stages two (assessment of expenditure covered by an adaptation approach) and three (assessment of expenditure that was adapted to take climate change into account) of the method.

Green budgeting work on the "adaptation" axis should ultimately include climate adaptation considerations within decision-making processes and help to develop a regional climate change adaptation action plan.

The green budget must become an additional management tool for the region’s environment and climate strategy

The region has an early estimate of the climate adaptation and mitigation impact of its budget. The “mitigation” component makes it possible to identify both favourable and harmful expenditure. Harmful expenditure does not necessarily represent budget lines to be eliminated in the short or medium term, especially since in some cases green alternatives do not exist, and these expenses may be essential from an economic or social point of view. Similarly, some neutral expenditure is bound to remain so; there is no “optimal” share of green expenditure within the budget. The “adaptation” section also ensures that regional policies take the need for adaptation to climate change into account and that the projects for which action levers do exist actually include the necessary measures. (Box 5.13) summarises the results obtained by Brittany for its first climate budgetary assessment.

Box 5.13. Summary: Encouraging results for the first climate tagging exercise in Brittany

Current and capital expenditure were totally classified under the mitigation axis with a large internal enrichment of the I4CE methodology in order to adapt to regional specificities.

About a third of the analysed expenditure was classified as “potentially structuring” under the “adaptation” axis.

Further work is required, aiming to cover the entire regional budget on the “adaptation” axis on the one hand, and to reduce the share of undefined expenditure and fine-tune the structuring hypotheses for the “mitigation” axis on the other hand.

The willingness to use the green budget as a decision-support tool for budget arbitration and as a monitoring tool to improve the region’s environmental trajectory has been reaffirmed.

A first green budget is therefore a reference that helps trace and monitor an improvement trajectory for the region; a more in-depth understanding of expenditure remains necessary to achieve it, as well as further reflection on the structuring hypotheses, so as to reduce the share of undefined expenses and to ensure that the region’s overall budget contributes to the green objectives defined in its programming documents. Thus, the green budgeting practice is not intended to replace the other monitoring tools set up by the region for its green policy, but to complement them in order to provide additional insight and a new decision-making tool for budget arbitrations.

Applying the green budgeting methodology to revenues is not considered at this stage

Brittany did not include regional revenues in its first green budgeting exercise

Brittany is not currently considering including revenues within the scope of its green budgeting practice.⁶ This methodological choice is justified both out of pragmatism – a willingness to proceed one step at a time to get results quickly – and out of lower interest for this approach, given the limited room for manoeuvre afforded to French subnational governments in terms of revenues, especially tax revenues. This lack of room for manoeuvre is accentuated by the need for local and regional governments to keep their budgets balanced while at the same time dealing with expenditure corresponding to competences that are compulsory and for which there is little leeway.

Green revenues are currently defined in a piecemeal and non-consensus way:

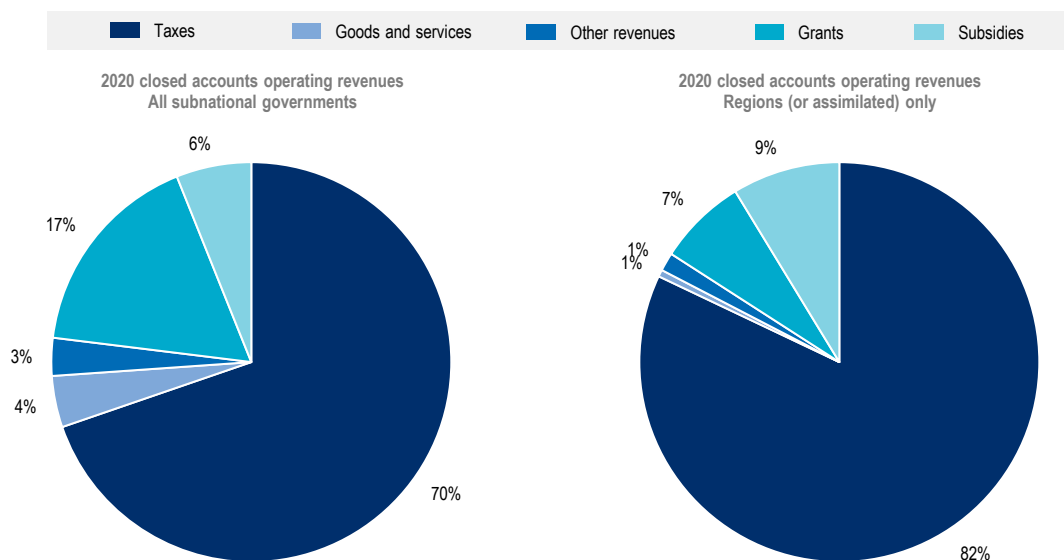
- The scope is most often limited to the environmental taxes defined as taxation (or similar products) sending price signals to taxpayers, or whose proceeds finance environmental expenditure. The actual effect of taxation on behaviour is, however, not always possible to quantify.
- There are also several types of funding called “green” financing because they are directed towards green projects; these could be loans, bonds, grants, or subsidies.
- Lastly, some grants or subsidies are subject to eco-conditionality clauses and may fall into the category of “green” revenue, whereas they are not necessarily intended to finance environmental expenditure.

Careful reflection on the link between these different financing options and their share in the regional budgets is an issue raised by the region. In particular, the link between long-term green financing and green budgeting of expenditure deserves special attention.

Tax revenues account for more than 80% of regional operating revenue

In 2020, the operating revenue of subnational governments and that of regions in France were distributed as shown on the graph (Figure 5.10). Taxes account for approximately 70% of total subnational government operating revenue, with this share rising to 82% for French regions. For regions, this proportion has increased in recent years, especially after a part of the national government's operating grants to regions were replaced with VAT revenues. Other regional operating revenue includes the general decentralisation grant and compensation linked to tax reforms and tax exemptions, equalisation funds, and EU funds.

Figure 5.10. Subnational operating revenue distribution in France in 2020 (all subnational governments and all regions only)

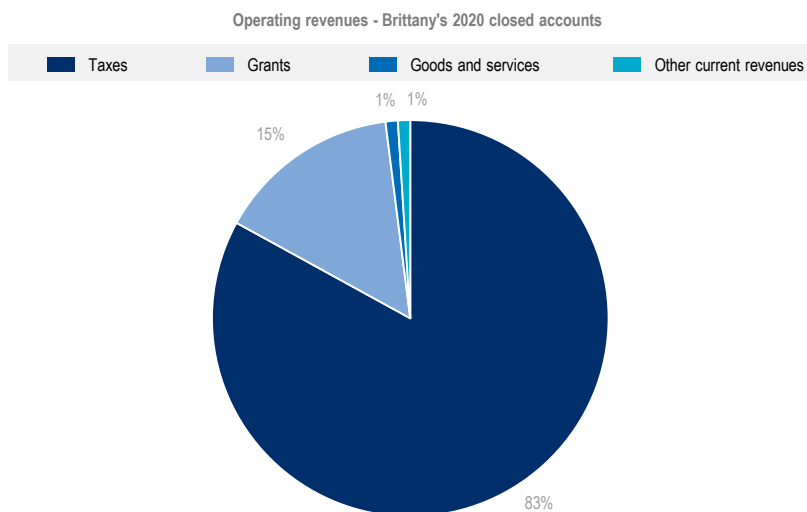


Note: In France, operating revenue comes from direct and indirect taxation, central government current grants and subsidies, user charges and fees and property income.

Source: Direction Générale des Collectivités Territoriales (2021^[1]), *Rapport de l'Observatoire des finances et de la gestion publique locales - Les finances de collectivités locales en 2021*.

In Brittany (as well as in the other French regions), taxes constitute the bulk of operating revenue (83%) (Figure 5.11). Grants amount to 15% of the operating revenue and consist mainly of national government allocations and EU funds. Revenues from public services and property income are minimal (1%).

Figure 5.11. Brittany's distribution of operating revenue



Source: DGFIP-DGCL (2022^[20]), *Finances locales - régions et CTU - comptes individuels des régions*, <https://www.collectivites-locales.gouv.fr/finances-locales-regions-et-ctu>.

Regional room for manoeuvre on taxation is limited

According to the definition used by the French government in the context of its green budgeting exercise, regions have three types of environmental tax revenue (defined as revenue meant to have an impact on consumer behaviour): taxes on energy consumption products, taxes on car registration certificates, and specific taxes on companies using public infrastructure networks (Box 5.14).

Box 5.14. French government green revenue budgeting

The French government has defined public environmental resources as “deductions prescribed by the public authority, whose parameters (calculation methods, taxpayer coverage, products or services concerned) are linked to: energy, transportation, natural resources (including the soil), products discharged into the environment or the impact of human constructions on the soil. These fields were selected based on the environmental challenge they pose”. The measurement of environmental revenue includes taxes allocated to the financing of the State budget but also those intended for other public actors, such as subnational governments.

In addition to taxes and duties, environmental revenue includes some of the public property user fees. Conversely, fees related to the use of public infrastructure or other similar services (non-concession motorway tollgates, for example) are not taken into account, being regarded as a “price” rather than a levy.

The use of environmental resources is not restricted to financing environmental policies, therefore the resulting revenue is not compared to “favourable” expenses.

The French government estimates that public environmental resources amount to EUR 64.8 billion.

Source: French Government (2021^[21]), *Rapport sur l'impact environnemental du budget de l'État, PLF 2022*, <https://www.vie-publique.fr/sites/default/files/rapport/pdf/281883.pdf>.

A detailed analysis of regional taxation shows that the region has little room for manoeuvre on taxes, both in terms of the tax bases and rates. This is amplified by the fact that an increasing share of this revenue is collected out of their jurisdiction (Table 5.3).

Table 5.3. Breakdown of Brittany's tax revenues

	Amount (EUR thousands)	In %	Description	Environmental tax
CVAE (contribution on the added value of companies)	378 942	37	Regional share removed in 2021 and replaced by a fraction of VAT.	No
CA CVAE (compensation attributions of the value-added contribution of companies)	1 785	0	Tax paid by the departments to the region in compensation for transfers of their competence towards the regions in terms of transport operations in 2016.	No
IFER (flat rate taxes on companies using public infrastructure networks) Regional IFERs are applied on the railway rolling stock used on the national rail network for passenger transport	29 013	3	Amount calculated by applying a tariff to the number of pieces of equipment available to the company. Amounts and prices recalculated annually according to the Finance law. Rates vary by material category : thermal, electrical, or towed gear.	Yes Transport Domain Tax not designed for environmental purposes <u>But</u> the additional tax on diesel equipment meets the objectives of the environment policy within the <i>Grenelle</i> framework (promote the use of less polluting means of transport)
FNGIR (National Fund for Individual resource guarantee)	27 609	3	Compensation fund implemented in 2011 to ensure the financial neutrality of the professional tax removal. The amount is flat. No leeway.	No
Regional resource equalisation funds	736	0	This fund is intended to evolve to take into account the removal of the regional share of CVAE.	No
TICPE (domestic tax on energy consumption products): <ul style="list-style-type: none"> • LRL Modulation • Grenelle increase • Professional training and learning share 	201 457	20	<u>LRL modulation</u> Amount transferred by the National Government for charge compensation; the amount depends on the assessment of transferred charges.	Yes Energy Domain Carbon component (energy climate contribution) integrated into the tax to encourage less polluting means of transport. Contribution amount frozen until 2022 by the 2019 Finance bill
	31 536		<u>Grenelle markup</u> Share of the TICPE on which the regions can raise tariffs for the financing of the sustainable transport infrastructure. All regions have reached maximum rates (except for Corsica and Auvergne-Rhône-Alpes).	
	10 953		<u>Share for vocational training and apprenticeship</u> A share of the TICPE benefits to professional training.	
Regional share of VAT	184 618	18	Share of VAT transferred to compensate for the removal of an overall state allocation and for successive tax reforms. No rate taxation power.	No

	Amount (EUR thousands)	In %	Description	Environmental tax
Tax on car registration certificates	120 522	12	Rate set by each region and tax amount depending on the vehicle's fiscal power. "Clean" vehicles may be exempted either fully or by 50%, at the region's discretion. The Brittany Region chose a 50% exemption.	Yes Transportation Domain The regions can freely set the rates for this tax; possibility of "clean" vehicle exemptions
Others	34 399	3	Management fees and other taxes.	No
Total taxes	1 021 570	100		

Source: Authors' elaboration based on DGFIP-DGCL (2022^[20]), *Finances locales - régions et CTU - comptes individuels des régions*, <https://www.collectivites-locales.gouv.fr/finances-locales-regions-et-ctu>.

The share of VAT repaid to Brittany in total tax revenue is 18% in 2020; it should dramatically increase in 2021 due to the elimination of the regional share of the CVAE compensated by a new share of VAT.

An in-depth analysis of regional revenues allows for the measurement of tax loopholes harmful to the environment and climate. Including revenues within the scope of green budgeting can also take into consideration these elements, but this is not necessarily the case among existing practices.

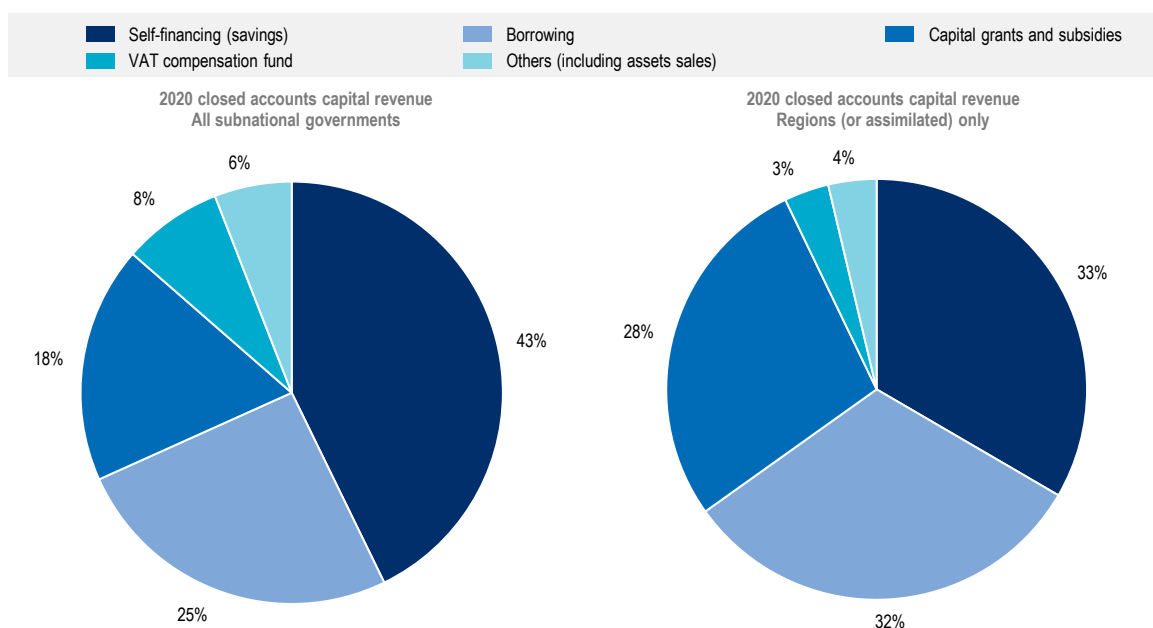
It should also be noted that the definition of "environmental tax" does not presume a real effect of this tax on consumer behaviour and on the environment. Thus, the car registration tax is an environmental tax but it has not been proven that it has a significant impact on purchasing behaviour.

Increasing external resources will be needed to finance the green transition

While the investment expenditure (excluding borrowing repayment) of French regions rose in 2020, their gross savings fell. This increase in investments can largely be attributed to regional economic support measures undertaken as part of the broader French stimulus response taken in the context of the COVID-19 crisis. At the same time, municipal investment decreased, due to both the crisis and the renewal of the deliberative assemblies following the 2020 municipal elections.

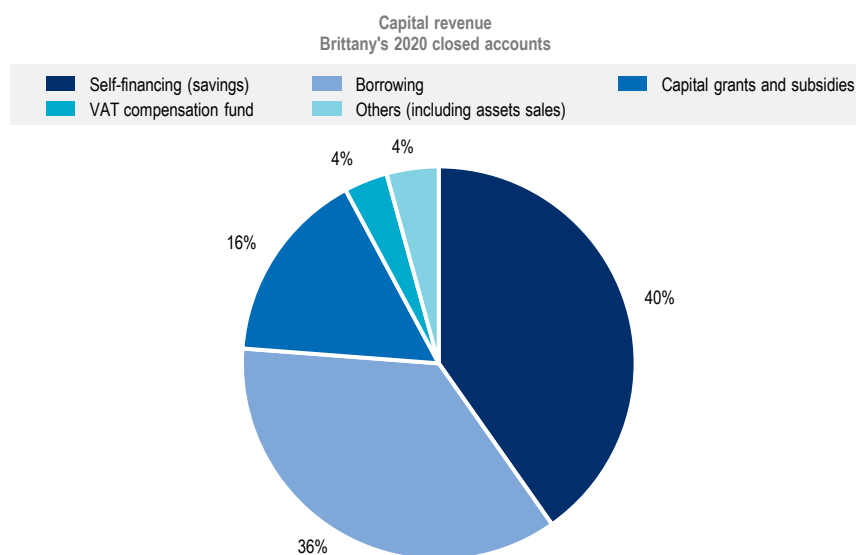
In 2020, 43% of subnational capital revenue was covered by self-financing (savings), 25% by borrowing, and 18% by capital grants and subsidies. The share of borrowing and capital grants is higher for regional governments than for all French subnational governments, amounting to 32% and 28% respectively (Figure 5.12 and Figure 5.13). Self-financing accounts for 40% of Brittany's capital revenues. Over the next few years, the pressure on self-financing is likely to persist, while regional investment needs are significant, particularly green investment needs. In its report "*Recovery: How to finance climate action*", I4CE argues that it is necessary for French local authorities to increase their investments in order to meet environmental and climate needs. The think tank estimates that there is an additional need of EUR 1.6 billion a year between 2020 and 2023 and EUR 3.9 billion a year between 2024 and 2028 (I4CE, 2020^[22]).

Figure 5.12. Breakdown of capital revenue 2020



Source: OFGL (2021^[18]), *Rapport d'activité 2021*, https://www.collectivites-locales.gouv.fr/files/Institution/1.%20organisation%20administrative/Organismes-consultatifs/OFGL/Rapport_activite_OFGL_2021.pdf.

Figure 5.13. Breakdown of investment income 2020, Brittany Region



Source: DGFIP-DGCL (2022^[20]), *Finances locales - régions et CTU - comptes individuels des régions*, <https://www.collectivites-locales.gouv.fr/finances-locales-regions-et-ctu>.

Grants and subsidies contributing to the green transition represent a growing portion of subnational budgets in France

The French government's grants and subsidies contributing to the green transition are thought to have been growing over years,⁷ yet there is no means of quantifying their precise share in subnational budgets.

Analysing the climate and environmental impact of the revenues of French subnational governments could shed some light in this regard.

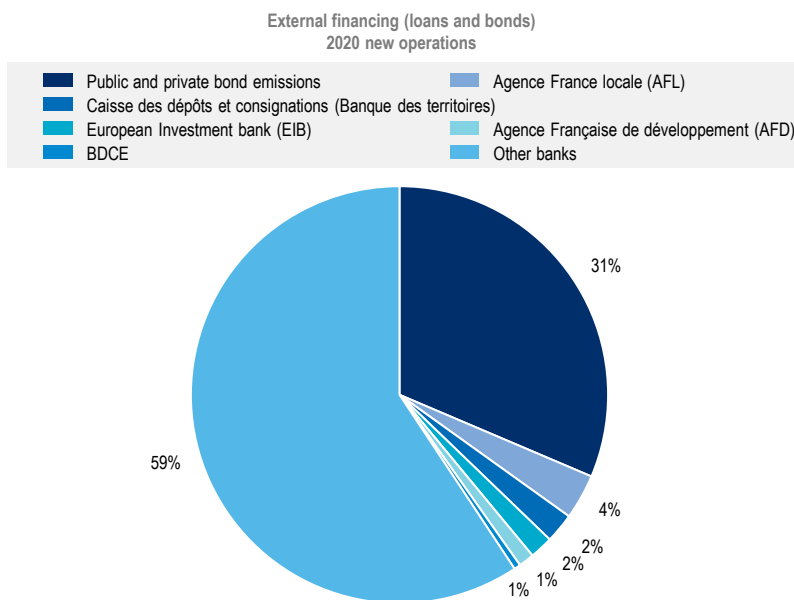
However, these revenues are fraught with challenges:

- The allocation criteria are sometimes complex and may significantly vary among the different types of funding; since grant and subsidy allocation requires monitoring, there is a need for more reporting, which leads to higher costs.
- Various subsidies and environmental allocations cannot always be added up.
- Fund allocation may bring about competition between subnational governments, while the rigid awarding criteria may adversely impact territorial innovation.
- Payment transfers often take a long time, thus forcing subnational governments to pre-finance projects.

Green loans and green bonds are more frequent

Even though there has been a significant increase in subnational bond issuances in France over the past two years, either directly (31% of new financing in 2020) or through L'Agence France Locale⁸ (3.5%).

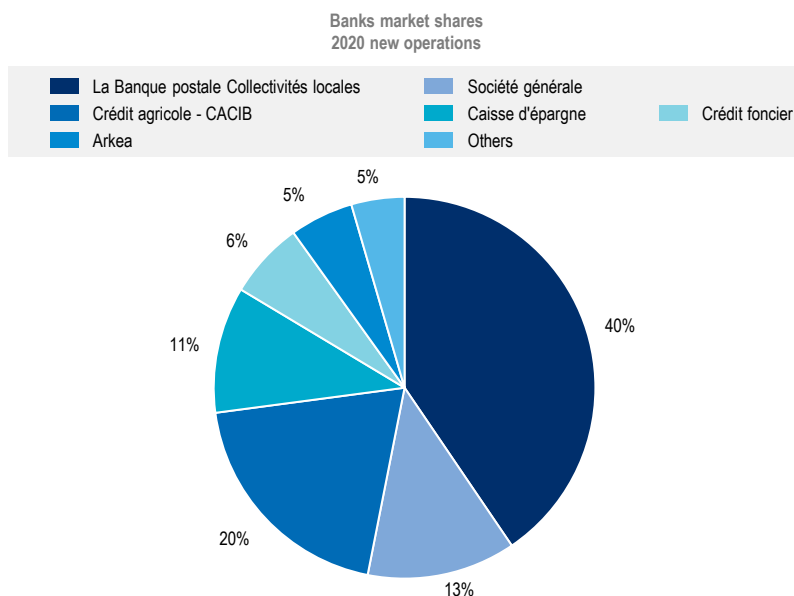
Figure 5.14. French subnational government external financing (loans and bonds) distribution in 2020



Note: BDCD= Council of Europe Development Bank.

Source: Finance Active (2021^[23]) (2021), "Communiqué de presse Observatoire Finance Active 2021 de la dette des Collectivités Locales", <https://financeactive.com/fr/presse/11-03-2021-communique-de-presse-observatoire-finance-active-2021-de-la-dette-des-collectivites-locales/>.

Figure 5.15. Market share of bank lenders in 2020



Source: Finance Active (2021_[23]) (2021), "Communiqué de presse Observatoire Finance Active 2021 de la dette des Collectivités Locales", <https://financeactive.com/fr/presse/11-03-2021-communique-de-presse-observatoire-finance-active-2021-de-la-dette-des-collectivites-locales/>.

French subnational government debt still relies to a large extent on bank intermediation (Figure 5.14). Public lenders (including *Banque des Territoires*) were responsible for a mere 5% of new operations (loans and bonds) in 2020. In the same year, *Banque Postale Collectivités Locales* held a market share slightly above 40% among banks, while foreign lenders were rarely found on the market (Figure 5.15).

To address the need to green their own balance sheets,⁹ lenders are developing increasing numbers of green loans such as the *Banque des Territoires's* Green Recovery Loan, or the impact loans from the *Banque Postale Collectivités Locales* or from *Arkea*.

These loans are subject to conditionalities mainly regarding their purpose, which is generally large and therefore easily accessible to subnational governments, considering their competencies. For access to impact loans, on the other hand, subnational governments are required to prove the project's environment and climate impact which must be certified by an external auditor paid for by the bank.

Considering the extremely low interest rates, green loans do not have a lower cost than traditional financing, for French subnational governments.

The green bond market, in general, is developing at a modest pace. However, it faces several challenges:

- Although standards¹⁰ are gradually being put in place, at the moment there is no international definition of green bonds, resulting in rather uneven requirements for such products.
- The existence of multiple types of environment and climate-related bonds¹¹ also impacts the volumes of each market segment and their liquidity.
- The implementation is complex and generates significant reporting needs, which involve additional costs. This limits the interest of subnational governments in this type of financing, especially since no green bonus—"greenium"—is apparently available for these issuances.

Most French subnational governments do not have enough financing needs to justify recourse to the bond market, yet the largest among them are either occasional or regular issuers.

These green finance products are not more attractive financially than traditional financing for the time being. In fact, they are somewhat less attractive, due to the additional requirements they are subject to. Nevertheless, they present a potential source of diversification for investors who are increasingly being subject to environmental reporting regulatory obligations¹² and therefore find green finance products appealing.

The global green bond market has grown dramatically in 2021. Annual green bond issuances reached USD 522.7 billion, a 75% increase on prior year volumes. This lifted the cumulative total to USD 1.6 trillion since the first green bond was issued. Globally subnational governments contributed 5% of total volumes in 2021 and were the only issuer type that experienced a decline in total issuances between 2020 and 2021. The sustainability-linked bonds market is another fast-growing segment. France is the leading green and sustainable bonds issuer globally, with significant contributions both from the national and subnational governments.

Subnational governments display growing interest in incorporating revenues into green budgeting practices

For the abovementioned reasons, it is uncommon for subnational governments to include revenues within the scope of their green budgeting practices. They are, however, interested in certain aspects of this approach, such as the environmental and climate impact analysis of revenue sources (environmental taxation, user charges and fees) and the mobilisation of green financing, either permanent (grants, subsidies) or temporary (debt).

This approach is interesting both for subnational governments (looking for additional resources) and for lenders and investors who have to prove that they are involved in the climate and environmental transition.

However, the need for subnational governments to expand their base of lenders and investors should take into account concerns about the “freedom” of the administration, whereby systematic earmarking of funds may render subnational governments more accountable to financiers than to electors, and financial concerns, whereby having accessing green finance generates excessive additional management costs (an important concern for subnational governments with limited capacity). Box 5.15 summarises the issues related to including revenues within the scope of a green budgeting practice.

Box 5.15. Summary: Growing interest in the environmental analysis of revenue

Brittany's first green budget does not include revenues within the project scope.

The region's operating revenues are mainly constituted by taxes, including "environmental" taxes but with little room for manoeuvre on the rates or tax base.

There is a growing need for external financing to finance future subnational climate and environmental investment projects.

There is an increase in funding directed towards green projects, either as allocations and subsidies or as long-term green financing (loans or bond emissions).

There is a necessity for lenders and investors to prove they are investing in green projects.

Challenges and constraints for green budgeting sustainability

Brittany's first climate budgetary assessment was successful with the scope and objectives of the project aligning with initial expectations and the work completed on schedule. The project teams highlighted several challenges, be they operational (tight deadlines, teams involved in this exercise in addition to their regular work) or methodological. The ultimate goal is for Brittany to now make green budgeting a long-term practice and to integrate it into its management tools. To achieve this, resources need to be allocated specifically to this project and a series of questions (outlined below) need to be thought through.

The main expectations of green budgeting have been analysed by the region

Brittany's green budgeting objectives are to:

- Improve the measurement of the impact of regional action on the climate and environment.
- Integrate environmental and climate concerns into budget decision-making procedures (e.g. when deciding on projects to subsidise) in a more systematic and targeted manner.
- Improve regional climate and environmental policies and practices and thus participate in achieving the regional and national objectives.
- Promote environment and climate action among all local stakeholders.

As a result, the region seeks to:

- Carry out an annual climate assessment of its provisional budgets, multi-year investment plans and closed accounts; this ensures result monitoring over time and consistency between forecasts and achievements.
- Integrate all the green axes (and not only the climate component) in the exercise.
- Integrate the necessary data for green budgeting into regional management and steering tools.
- Put in place procedures to ensure consistency between the budget and various regional environmental planning documents (SRADDET, Regional transition plan, etc.).
- Integrate revenues into the green budgeting approach to ensure that the region's revenues are consistent with its climate and environmental strategy, both in terms of quantity and quality.

The transition from pilot mode to a more long-term project mode requires a realistic and commonly agreed upon timeline

In Brittany, the pilot climate budgetary assessment took place in the first half of 2021, including project presentation and validation, definition of the methodology and necessary means, completion of an initial exercise on the 2020 administrative account.

Currently, Brittany is working to apply the methodology to the 2023 draft budget and to expand it to include teams from all regional government departments.

As part of this work, several different projects have been identified:

- Improve the expenditure description necessary for green budgeting.
- Complete the production of structuring hypotheses adapted to regional issues.
- Train all other regional government departments in environmental and climate issues and green budgeting benefits.
- Adapt internal IT tools to the process; while end-user computing tools served their purpose during the initial exercise, a solid computer system that allows for traceability of operations in real time is necessary for this exercise to be turned into a long-term practice.
- Deepen the alignment of green budgeting with the region's other environmental tools and projects.
- Gradually involve external regional stakeholders in the process.

The transition from closed accounts to provisional budgets also entails methodological challenges that justify continuing the experiment into 2022: despite the fact that the nature of an action does not change between planning and implementation, its accounting granularity in the closed accounts is different from the one in the provisional budget. Hence, it is critically important to transpose the methodology into the provisional budget management tools. Future changes to budgetary and accounting regulations¹³ are another key issue that must be accounted for to avoid costly repeated changes in management.

In the long term, expanding the scope of the green budgeting project to include all green domains, the alignment of green budgeting with the region's other environmental tools and procedures, and the process of ensuring consistency with the regional environmental planning documents (particularly the SRADDET and the Transition Action Plan), require updating over time. It seems to be a realistic expectation that a full electoral term is necessary to complete this work.

The costs associated with the integration of green budgeting into regional budgetary tools and processes should be proportional to the expected outcomes and the procedures should not be overly complex. Resource allocation for the project (human, technical and financial) must be reasonable, according to one of the principles in I4CE's methodology that insists on the "parsimony" of the process. Therefore, planning must be based on existing processes, procedures and tools, making sure that big changes are kept to a minimum.

The green budgeting methodology should be stable, yet scalable

One exercise is insufficient to resolve all methodological challenges associated with green budgeting. There are several methodological changes that will be needed to be integrated over time:

- The region's green budgeting exercise is in fact a climate tagging of the budget. The transition from this climate budgeting to a green budgeting approach brings about new methodological challenges, hence the necessity for a gradual rollout.
- The competences of subnational governments evolve with time, which may require methodological adjustments to cover new competences.

- The structuring hypotheses are not static. The methodology must stay up to date with change environmental and climate science as well as technological progress, to ensure that the share of “undefined” expenditure decreases over time. Creating green budgets involves a follow-up system for subnational governments and their external partners (universities, think tanks, government bodies, etc.) to monitor scientific developments.
- Since green budgeting is also a tool for mobilising green finance, it is important that, where possible, green budgeting practices align with the reporting requirements of lenders and investors, particularly for products such as sustainability-linked-bonds, green bonds or green loans.
- Brittany’s project team suggested that it would be useful to set up a group of climate assessment experts within the local authority, who would be present to support the implementation of the methodological changes, update the scientific references and ensure that the method is properly understood within the authority. Such a force would be an asset for the sustainability of the approach.

Internal and external validation of the entire process would guarantee its reliability

Within the Brittany Region, the Steering Committee was responsible for validating the project work.

Operating under the authority of the Head of Administration, the Audit Department seems to have the appropriate competences¹⁴ to perform an internal evaluation. Thus, green budgeting could be integrated into the Audit Department’s risk mapping and be subjected to occasional evaluation to make sure the system remains updated over time.

Since the stakes are high and the exercise needs to be made sustainable in the long term, it is crucial to formalise the internal validation methods and to set up a permanent arbitration body.

To support this approach, a formal documentation of the green budgeting practices and tools is essential; it will ensure the validity of retained hypotheses, help evaluate development needs when appropriate, and also secure the methodology’s resilience over time and its correct implementation by the departments.

The region’s project team has formalised the structuring hypotheses retained for its first exercise on the 2020 closed accounts, with the aim to meet the following imperatives:

- To trace the reasoning followed and justify the earmarking in order to be able to reproduce or modify them in the event of subsequent methodological changes;
- Preserve the assessment audit trail to implement it as part of long-term green budgeting practice.

Despite the fact that there are no plans for external validation at this stage, it remains a possibility for the future. Particularly considering the conditions that may be attached to future funding such as the EU funding or access to green bonds or loans.

All stakeholders must gradually be “embedded” in the exercise

The green budget is an element of Brittany’s overall sustainable development strategy. Its efficiency relies on the involvement and support of local stakeholders.

To meet this goal, the region can rely on networks of experts, which can be internal or external, such as university researchers, think tanks (e.g. I4CE), or any institutions that fund research programmes. These experts can provide vital information about green budgeting practices, the evolution of environmental issues and the technological advances necessary to improve the regional practices.

Subnational governments must also involve their partners (i.e. local businesses, NGOs, the financial sector and citizens) in this exercise without arousing distrust by burdening them with excessively heavy requirements.

As a result, it was identified that there is a need for the region to pursue internal and external training and to communicate about its green budgeting work.

Communication to be implemented on the methodology and the results of the “green budget” must be established

Due to an absence of regulation in this regard, subnational governments are responsible for deciding on how and when they will communicate about their green budgeting exercises. They may choose to provide free access to information via open data platforms or to convey it in their financial report annexes or in their budget documents.

Since this exercise aims to improve internal practices and create an inclusive climate and environmental movement within a territory, green budgeting practices need to be transparent, especially the aspects related to the structuring hypotheses and how the environmental and climate impacts of expenditure and revenue are determined.

Since green budgeting does not only highlight achievements, but also negatives which local authorities may neither be responsible for or unable to change, it presents a serious political challenge for Brittany, even though political staff seems to be ready to take on this challenge.

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Notes

¹ The following case study was finalised in early 2022 and mainly analyses the steps already taken by the regional government prior to January 2022. However, the green budgeting project is still ongoing, including work on how to extend the practice to draft documents (provisional budget) and how to link it to the regional climate strategy.

² In France, approx. 18 377 municipalities have less than 500 inhabitants and 29 976 municipalities have fewer than 2 000 inhabitants.

³ These are actual transactions of the Region; accounting movements without receipts or disbursements (such as amortisations), or duplicates (such as internal re-invoicing) are not taken into consideration.

⁴ The IPCC defines adaptation as "the process of adjustment to actual or expected climate and its effects. In human systems, adaptation seeks to moderate or avoid harm or exploit beneficial opportunities. In some natural systems, human intervention may facilitate adjustment to expected climate and its effects"

⁵ Example: additional information on the terms of use for a grant paid to a high school.

⁶ This is also the position advocated by I4CE and by most local authorities practicing green budgeting in France.

⁷ The national government has set a target that 35% of projects financed by its two main investment support allocations must contribute to the green transition (in 2019 the share was finally limited to 25%).

⁸ L'Agence France Locale (AFL) is a public development bank created in 2013, fully owned by French local authorities and issuing debt securities for them. The proceeds of the issues are redistributed to its member in the form of traditional bank loans.

⁹ Banks are increasingly attentive to the financial risks associated with environmental issues (such as loss of value of assets subject to climate hazards, or deterioration in the solvency of borrowers due to their polluting activities) and the image risks linked to the financing of polluting companies and activities. The regulations imposed on the banking sector are still limited but are progressing, and the development of taxonomies should contribute to a growing demand for transparency from financial players.

¹⁰ The EU developed a standardised classification that enables the sustainability assessment of 70 economic activities, which represent more than 90% of greenhouse gas emissions in their jurisdiction. This taxonomy is intended to direct funding towards carbon-reducing activities, allowing investors to determine the "green" share of their portfolios and businesses to demonstrate the extent to which they support climate transition.

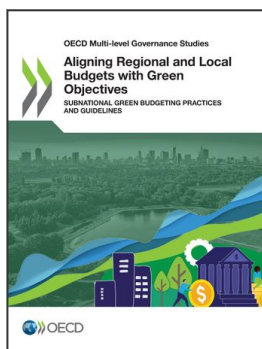
¹¹ ESG (environmental, social, and governance), green bonds, climate bonds and transition bonds, to which sustainability bonds have recently been added. While they do not finance specific projects, the latter are used to verify the link between financial conditions and environmental objectives.

¹² The French law on energy transition for green growth of 2015 increased transparency obligations for investors (including institutional), based on criteria reinforcing compliance with environmental, social, and quality objectives of governance (ESG) in their investment strategies. This law entails more information on climate risks and the means implemented to contribute to the energy and ecological transition. These reporting requirements have been reinforced by the energy-climate law of November 2019, whose text inspired the European Union Commission's "disclosure" regulation (2019). This regulation imposes new

reporting conditions on investors, particularly on the possible negative impacts and the characteristics of the financial products that they present as sustainable.

¹³ Updated budgeting and accounting instructions for French subnational governments are expected to be released in 2024.

¹⁴ The Audit Department's mission is to provide the Region with assurance regarding the degree of control of its operations and the functioning of its management and control systems on regional and European funds.



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