

CEPA strategy guidance note on  
**Strengthening municipal and local finance systems**

**Astrid R.N. Haas**  
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Social Contract

Capital Investment Plan

Budget

Revenues

Own Source Revenue

Transfers

Assets

Expenditures

Recurrent

Capital



Creditworthiness

Borrowing

# Capital Investment Plan

**A list of prioritised projects for investment.** It expresses credible commitment to delivery of infrastructure and therefore also a city's financial management.

## Component 1

Annual prioritised list of projects with identified funding / financial sources

## Component 2

Long term (+5 years) cost projections (e.g., technical studies, construction, operation and maintenance costs)

## Component 3

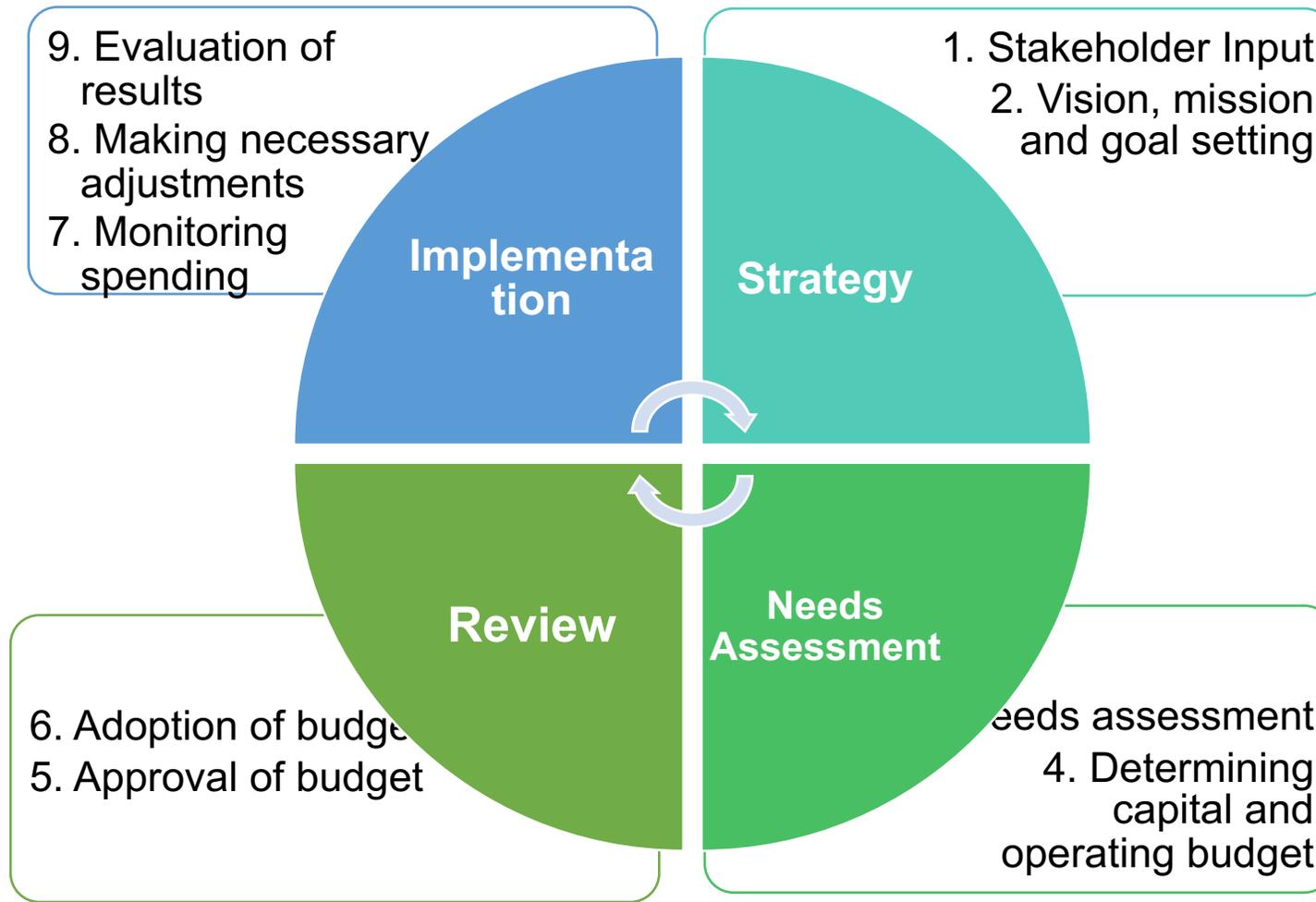
Fiscal space determination (itemisation of past revenues and expenditure, estimated surplus for capital investments)

## Component 4

Climate smart alternatives for project's design, technology specifications and site sections

# Budget

Outlines the **operational and financial means to achieve their local priorities** as outlined in the plans.



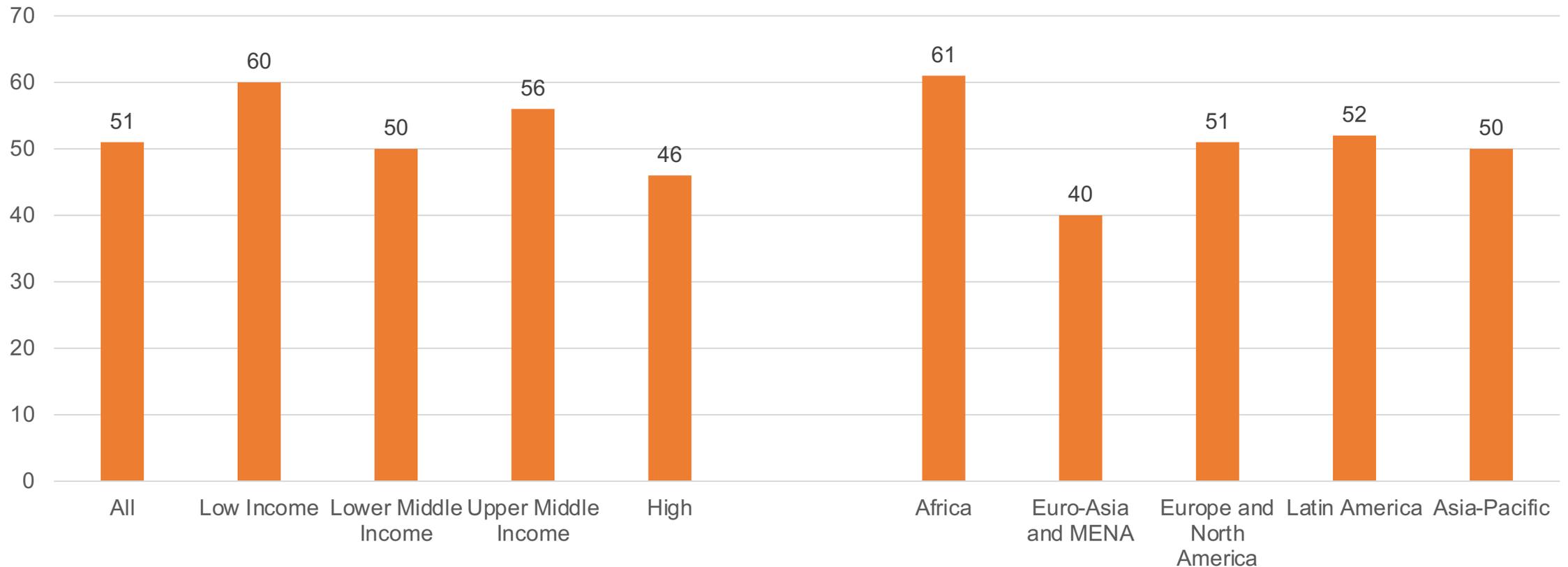
# Revenue

How cities **raise the money** required to fund their expenditures.

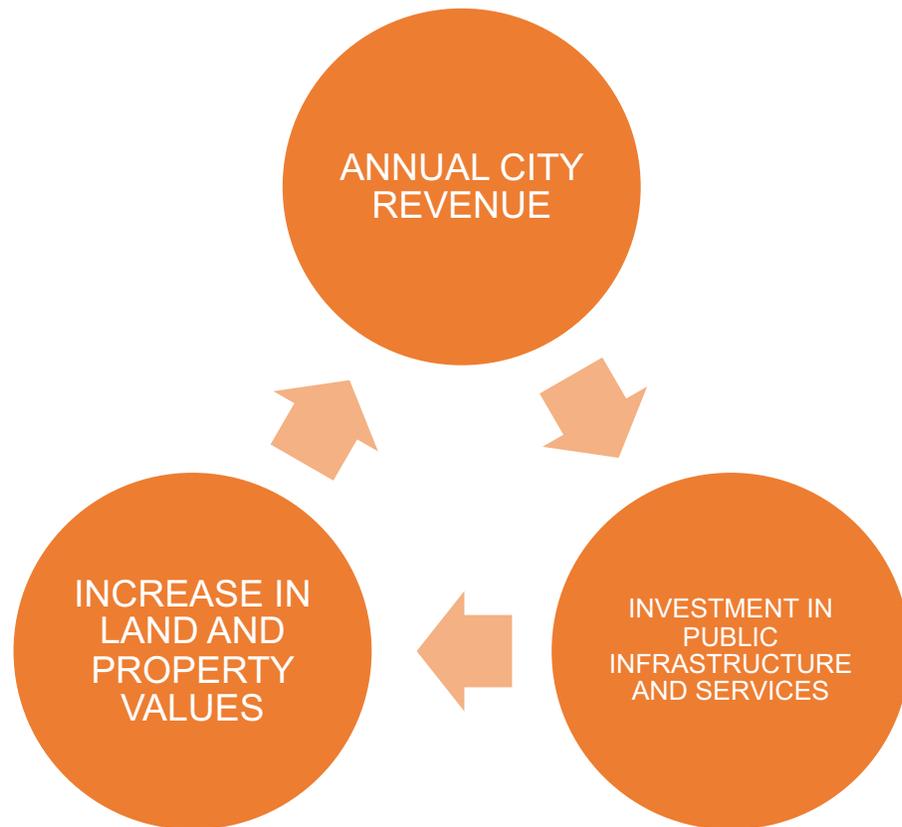


# Revenue – Transfers

Intergovernmental Fiscal Transfers as a Percentage of Local or Municipal Revenue (%)



# Revenue – Property and Land Tax



**Fair:** Tax that treats individuals in a similar circumstance in a similar manner and related to an individual's ability to pay → Property owners are usually richer

**Efficient:** Land on which property is built is in fixed supply and therefore, taxing will not have as large an impact in investment (which is driven by other factors).

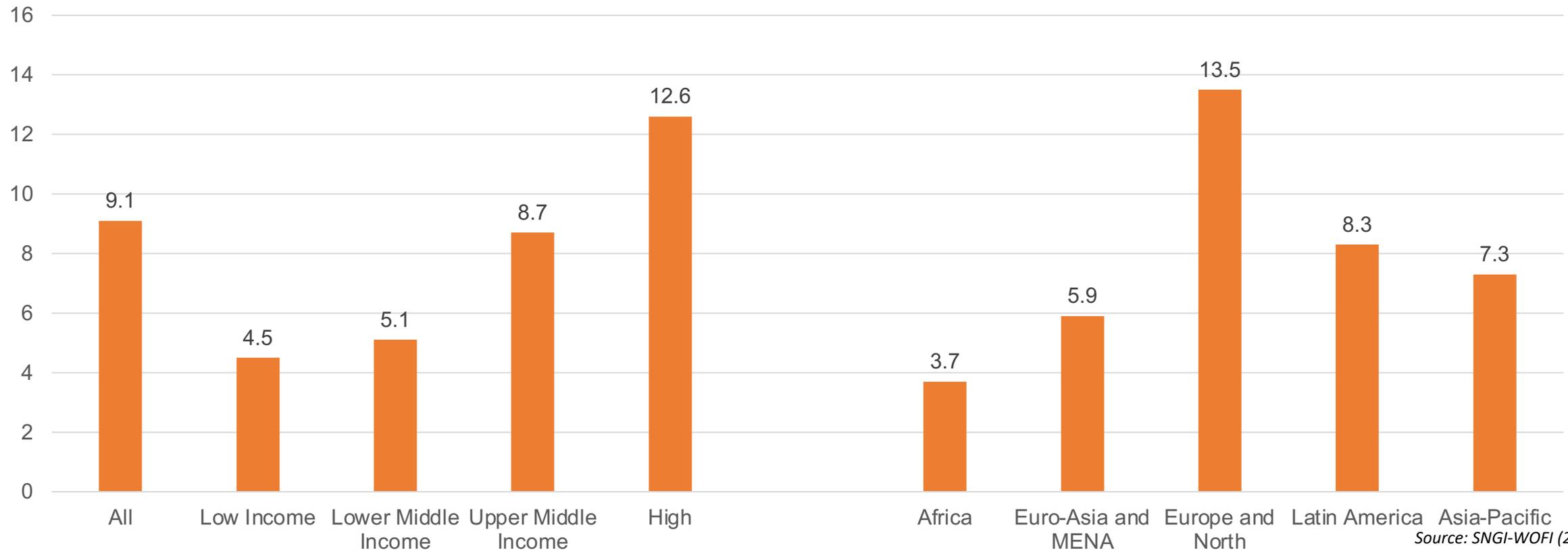
**Easy:** Property does not move and its characteristics that underpin valuation are generally observable.

**Buoyant:** Investment in local infrastructure and services will increase local property values.

# Revenue – User Fees

Usually implemented to **pay for goods and services with private good characteristics** and can also include local fines linked to non-compliance.

User fees and charges as a percent of local and municipal revenue



# Expenditures

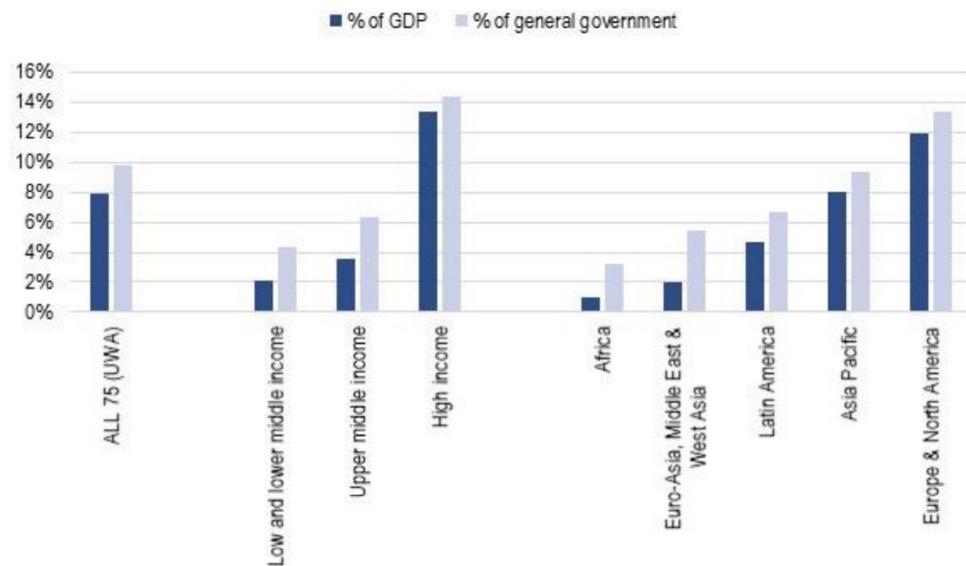
Details a city's spending based on the priority areas for spending on local infrastructure and service delivery

- **Capital expenditures:** The money that cities spend on acquiring fixed assets. This includes, for example civil works on infrastructure projects or the purchase of property and land.
- **Recurrent expenditures:** Regular payments that a local government must make for its overall operations. This includes aspects such as wages for its staff and operation and maintenance expenses for infrastructure.

- Capital vs operational expenditure
- Execution of planned capital expenditure

# Borrowing

The ability for the city to **leverage its balance sheet to raise further finance** for (capital) expenditure.



- **Supply Side: Financial markets**
  - What is the depth of domestic financial markets?
  - Are there a mix of long and short term lenders?
  - What currency can they lend in?
  - What financial instruments are available?
- **Demand side: Subnational governments**
  - Creditworthiness
  - Legal and institutional factors
  - Bankability of projects

# Assets

A city's portfolio of assets **reflect its overall public wealth** which can also be leveraged for financing.



# Conclusion - Social Contract

