

Optional Sectoral Module MUNICIPAL FINANCE



In a resilient city, the municipal finance system is able to withstand large-scale shocks to revenues or unforeseen needed expenditures through reserving and flexible budget reallocation mechanisms (*robust and redundant*). Budget planning, management, and policymaking are based on actual performance data, including information on damage and loss from previous shocks or stresses (*reflective*). A resilient city has a municipal finance system that has sufficient autonomy to manage its resources and coordinates across departments to ensure spending leads to results towards the city's priorities (*coordinated*). It creates a stable and informed investment environment that allows for the involvement of diverse actors and supports an inclusive approach to budgeting, ensuring that the allocation of city resources reflects community priorities (*inclusive*).

TOPIC	GUIDING QUESTION	APPLICABLE RESILIENCE QUALITY	RELATIONSHIP TO RESILIENCE QUALITY
Revenues	What percentage of total city revenues are own-source revenues? What are the principal sources and relative proportions of this income (e.g., property taxes, fees, etc.)?	Redundant	Share of own-source revenues indicate the extent to which a local government is able to sustain its own operational and capitals costs. Diversification of own-source revenues can help mitigate exposure to single-revenue fluctuations.
Revenues	What percentage of total city revenues and taxes come from transfers from other levels of government? Are they linked to performance? Which sources have mandated uses? Which are more discretionary in nature?	Redundant	Share of own own-source revenues suggests level of local government autonomy in public budgeting and financial management. Transfers from other levels of government are often given with conditions, which may not reflect the highest spending priorities of the local government.

Revenues	Does the city have the authority to set user charges or impose extraordinary fees and tariffs	Robust	Ability to impose extraordinary fees and tariffs and vary user charges indicates ability of city to influence behavior in times of stress through fiscal policy (e.g. to reduce water consumption by imposing high tariffs in times of scarcity) and/or to fund needs arising from stresses (e.g. importing water from new sources in times of scarcity).
Revenues	Does the city have access to emergency grants and/or external reserve funds in the case of shocks and stresses	Robust	Access to emergency transfers and reserve funds can provide fiscal relief in the case of shocks to normal revenue sources resulting from unpredictable events.
Revenues	What percentage of total city revenues comes from other sources, including external donors?	Redundant	Heavy reliance on external sources for city revenues exposes the city's finances to revenue unpredictability. Therefore, external sources should not fund large parts of municipal budgets for extended periods of time.
Expenditures	Is the municipal budget clearly separated into operating and capital budgets? If so, what are the amounts spent on each? If not, how is the budget structured?	Robust	Because capital expenditures often extend beyond a single accounting year they should be managed separately from the annual operating budget. This separation ensures that capital expenditures are not subject to the volatility of operating budgets.
Expenditures	How aligned is the city's budget with municipal development plans or articulated priorities?	Coordinated	A budget which reflects the city's development plans and priorities helps meet the identified needs.
Expenditures	To what extent does the city engage in a transparent and participatory capital investment planning (CIP) process? If the city does have a CIP process, does capital investment spending consider the existence of shocks and stresses or require review of disaster, climate, or other risks?	Inclusive; Robust	Cities that have a transparent and participatory CIP process determine the merits of a capital investment based on collective community needs/priorities and the resources available. By mainstreaming risk management considerations into CIP, cities can make informed infrastructure investments to enhance the city's resilience to future shocks.

Expenditures	Do city government agencies have access to funding within the city's budget or from other sub-national, national, or other sources to invest in reducing the vulnerability of their assets and operations to shocks and stresses?	Robust	Enhancing resilience requires strategic capital investments and predictable funding for operations and maintenance of critical infrastructure.
Expenditures	Are there specific budget allocations for the maintenance of critical infrastructure (i.e., primary transport linkages, water mains and pumping stations, power generation, etc)?	Robust	Predictable funding for preventive maintenance improves the duration and reliability of critical infrastructure. Maintenance helps cities achieve safety and cost-effectiveness for their infrastructure investments by avoiding preventable failures.
Expenditures	Are internal resources available for contingency planning and emergency preparedness?	Robust	Local governments that reserve funding for contingency planning and emergency preparedness in annual budgets are better able to design policies, plans and procedural guidelines to mitigate the impacts of shocks.
Expenditures	Are internal resources available for emergency response?	Robust	Local governments that reserve funding for emergency response are able to direct resources where needed during an event. Resources reserved for emergency response can also be used to improve coordination and organization between responding units (e.g., police, fire department, etc.)
Expenditures	Does the city have a way to procure goods and services legally, effectively, and efficiently in the event of an emergency? How did the city obtain goods and services in previous hazard events?	Robust	Effective and efficient emergency response depends on availability of critical goods and services. Partnership agreements and simple procurement mechanisms can facilitate the city to quickly obtain emergency response essentials.

Expenditures	Has the city government established a reserve fund for responding to shocks and stresses? Does the city government have access to other sub-national or national level reserve funds in the case of shocks and stresses?	Redundant	Cities that have a contingency fund have a financial back-up system that enables them to continue providing critical functions and services during emergency events. Access to other sub-national or national level reserve funds can provide alternative emergency back-up.
Balance Sheet	Does the city use credit or debt financing? If so, what kinds of investments does the city finance through credit and debt?	Redundant	Debt and credit financing is used by cities to finance large infrastructure projects that the city cannot cover through annual revenues. Using the right balance of credit and debt financing can help enhance the city's fiscal sustainability.
Balance Sheet	If the city has debt, what is the current level and composition of debt? How has the debt level changed over the last few years? Is there a debt ceiling? What kinds of shocks would make debt payments unaffordable? What would happen if the city were unable to make its debt payments?	Robust	The city's ability to manage debt historically demonstrates the extent to which the city is able to absorb shocks while continuing to cover its liabilities.
Balance Sheet	Does the city government identify and manage a list/database of its publically owned assets, such as land, buildings, and roads?	Reflective	Public asset management is important for identifying public assets, determining asset value, budgeting operating costs and maintenance, and evaluating asset performance on a regular basis. Effective asset management can inform CIP processes by integrating the total cost of assets for local governments, including maintenance over the useful life of the assets, and not just the initial capital cost needed for construction.

Balance Sheet	Balance Sheet: Are public assets covered by insurance?	Robust	Insuring public assets is one way cities can share risks of value loss in the event of disasters.
Balance Sheet	In the event of a severe stress or shock, what contingent liabilities does the city face (e.g. cash transfers to affected residents, provision of food and shelter, etc.).	Robust	Cities with many contingent liabilities can experience fiscal instability during disaster events if the contingencies are unbudgeted or unaccounted for.
Cash Management	What is the city's liquidity management strategy? How does the city manage gaps in revenue and expenditure during the year? Has the city faced stresses on its liquidity in the past? What were they caused by? How did the city deal with them?	Robust	A robust liquidity management strategy ensures that the city reserves sufficient amount of its annual revenues to meet requirements for expenditures.

Documents and Tools Informing the Guiding Questions:

- Inter-American Development Bank, Emerging and Sustainable Cities Methodology (2014)
- International Monetary Fund, Contingent Government Liabilities: A Hidden Fiscal Risk (1999)
- Kaganova, Olga. Guidebook on Capital Investment Planning for Local Governments (2011)
- UN-Habitat, City Resilience Profiling Tool
- World Bank, Municipal Finances: A Handbook for Local Governments (2014)
- World Bank, A Workbook on Planning for Urban Resilience in the Face of Disasters (2012)
- World Bank. Urban Risk Assessments (2012)
- World Bank, Public Management Rapid Assessments and Action Plans (2009)
- World Bank, Municipal Finance Self-Assessment
- World Bank, Disaster Risk Financing and Insurance (DRFI) Program