

# Medium-term financial framework 2014-2017

(related to Budget 2015)

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The Medium-term financial framework of the City Council of Barcelona 2014-2017 is oriented towards getting results that allow the solvency and liquidity of the institution to be guaranteed. These results are the instrument that should allow the achievement of the goals established in the Strategic Framework of the municipal government.

The Budget 2014 has been elaborated following the guidelines set by the Organic Law 2/2012 of Budgetary Stability and Financial Sustainability, approved on 27th April 2012 (from here on referred as LOEPSF). Its approval responds to a constitutional mandate based around the reform of article 135 of the Spanish Constitution and that introduces the fiscal rule that limits the structural public deficit and limits the public debt to the value of reference of the Treaty of Functioning of the European Union. The preamble of the LOEPSF established three fundamental objectives: to guarantee the financial sustainability of the public administration; to strengthen the confidence in the stability of the economy; to strengthen the commitment with the European Union in questions of budgetary stability. With the achievement of these objectives, the aim is to consolidate an economic policy framework oriented towards economic growth and the creation of employment.

Its entering in force introduced substantial changes when presenting the budgets of local entities. Apart from the need to fulfill the objective of budgetary stability, the obligation has been introduced of the compliance with fiscal rules, of the objective of debt or for the presentation of a budgetary framework in the medium term.

## Objectives of Budgetary Stability

In accordance with article 15 of the LOEPSF, it corresponds to the Spanish Central Government, by means of agreement with the Council of Ministers, to set, during the first semester of each year, the objectives of budgetary stability and of public debt referring to the following three years for all the Public Administrations. The proposal for setting these objectives should be accompanied by an evaluation report of the economic situation foreseen, the rate of reference of the Spanish economy foreseen to be able to determine the rule for expenditure. Once these objectives have been approved the elaboration of the draft budgets of the Public Administrations should match the above-mentioned objectives.

In accordance with the Council of Ministers of the 27th June 2014, and approved in the subsequent parliamentary procedures, the following objectives were fixed, regarding Local Entities:

	2015	2016	2017
Objective of Budgetary Stability Capacity (+) Need (-) for Financing, ESA-95, in % GDP	0.0	0.0	0.0
Public Debt target, in % GDP (*)	3.9	3.8	3.6
Expenditure rule, in %	1.3	1.5	1.7

(\*) The debt limits applicable to each local entity, however, are those determined by the Regulatory Law of Local Public Finance, approved by RDL 2/2001, taking into account that which is established by the final disposition 30<sup>a</sup> of the Law 17/2012, of 27th December, of General Budget of Spain for 2013, with regard to long-term loan operations for financing investments, and which is set at 75% of the current revenues.

The “Objectives of Budgetary Stability and public debt 2015-2017” were favorably informed by the National Commission of Local Administration, in its session of 25th June 2014.

The objective of Budgetary Stability set by the Spanish Central Government is coherent with the mandate of the LOEPSF, which in its article 11.4 fixed the need, for the local corporations, to maintain a position of balance and budgetary surplus

## Medium-term financial framework 204-2017

This medium-term financial framework constitutes the reference for the budgets of the next three fiscal years and limits, considering the current best forecast of revenues and expenditures and the financial goals to be accomplished, the expected availability of resources.

### Consolidation perimeter

The consolidation perimeter includes the Barcelona City Council Public Administration Sector, composed by the Barcelona City Council and the dependent entities that comply with the conditions of: the City Council owns more of the 50% of the capital/shares, voting majority, designates the majority of the board members and/or the majority of the administrators; majority financed by non-market revenues; and have been classified as Public Administration Sector by the General State Comptroller (IGAE).

## Financial goals

The main goal of the City Government for the period 2013-2016 is make Barcelona a city that puts people first, acting in three main areas: reactivating the economy, caring for people and urban renewal.

The fulfillment of these goals must be fitted together with commitment of complying with the goals derived from the LOEPSF for the period 2015-2017 and the City Government's commitment to maintain City Council's financial sustainability and liquidity as a guarantee for the achievement of the goals defined in the Strategic Framework.

The Barcelona City Council's financial goals are the following:

- a) Comply with the goals derived from the LOEPSF
- b) Maintain a current savings level over current revenues as minimum of the 15% in terms of national accounts (using the European System of Accounts (ESA) criteria), to allow financing the planned capital projects.
- c) Stabilize the debt level (according to the Excessive Debt Protocol (PDE)) under the value of 60% of current revenues.

## Macroeconomic framework

El "Spain's Stability Program 2014-2017" includes the last macroeconomic framework published by the Ministry of Economy and Competitiveness (30th April of 2014). The forecasts considered in this macroeconomic framework are the following:

<b>% variation</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Real GDP	1.8%	2.3%	3.0%
Nominal GDP	2.6%	3.4%	4.5%
GDP deflator	0.8%	1.2%	1.5%

Taking into account the structure of the revenues and expenditure of the City Council of Barcelona, tightly linked to the revenue share of the Spanish Central Government, and so to the macroeconomic forecasts used for the Budget of the Spanish Central Government, this scenario has been adopted for the forecast of the revenues for the next few years, and using the GD deflator as a reference for prices update for the 2016-2017 period. The amounts shown for the fiscal year 2015 are those related to the Budget 2015.

## Medium-term financial framework 2014-2017

### Barcelona City Council Public Administration Sector (ESA terms)

(According to LOEPSF) (€ thousands)

	2014	2015	2016	2017
	Estimation	Budget	Forecast	Forecast
<b>CURRENT RESULTS</b>				
(+) Current revenues	2,634,873	2,456,620	2,562,444	2,601,364
(-) Current expenditures (*)	2,000,179	2,088,885	2,156,001	2,197,892
<b>(=) Current savings</b>	<b>634,694</b>	<b>367,736</b>	<b>406,443</b>	<b>403,472</b>
<i>% Current savings/ Current revenues</i>	<i>24.1%</i>	<i>15.0%</i>	<i>15.9%</i>	<i>15.5%</i>
<b>CAPITAL RESULTS</b>				
(+) Capital revenues	47,228	34,069	24,462	24,462
(-) Capital expenditures	662,984	387,567	391,949	397,425
<b>(=) Capital surplus/deficit</b>	<b>(615,756)</b>	<b>(353,498)</b>	<b>(367,487)</b>	<b>(372,963)</b>
<b>Total non-financial revenues</b>	<b>2,682,101</b>	<b>2,490,689</b>	<b>2,586,906</b>	<b>2,625,826</b>
<b>Total non-financial expenditures</b>	<b>2,663,163</b>	<b>2,476,452</b>	<b>2,547,950</b>	<b>2,595,317</b>
<b>(=) CAPACITY/NEED FOR FINANCING (CNF)</b>	<b>18,938</b>	<b>14,237</b>	<b>38,957</b>	<b>30,509</b>
<i>% CNF /Total non-financial revenues</i>	<i>0.7%</i>	<i>0.6%</i>	<i>1.5%</i>	<i>1.2%</i>
<b>CNF FINANCING SOURCES</b>				
(-) Financial revenues (1)	7,610	171,421	171,550	167,900
(+) Financial expenditures (1)	137,376	175,805	184,534	182,800
<b>(+) Net financial operations</b>	<b>(129,766)</b>	<b>(4,384)</b>	<b>(12,984)</b>	<b>(14,900)</b>
<b>(=) Annual financing surplus/deficit</b>	<b>(110,828)</b>	<b>9,853</b>	<b>25,973</b>	<b>15,609</b>
<b>DEBT</b>				
<b>Debt forecast for 31<sup>st</sup> December (PDE)(2)</b>	<b>971,680</b>	<b>974,046</b>	<b>972,662</b>	<b>972,662</b>
<i>% Debt/ Current revenues</i>	<i>36.9%</i>	<i>39.6%</i>	<i>38.0%</i>	<i>37.4%</i>

(\*) Includes Contingency Fund

1) Includes the revenues and expenditure respectively for urban planning bonds and no-parking areas.

(2) PDE. Debt according to Excessive Deficit Protocol. Includes the debt of the Barcelona City Council debt and from its depending entities (according to LOEPSF).

## Revenue and expenditure forecast 2014-2017

Fiscal year 2014 data corresponds to the outturn estimation performed with the data available at June 30. Fiscal year 2015 data correspond to the Budget 2015, performing the needed adjustments to pass from a budgetary accounting basis (modified-cash basis (or obligation basis)) to a national accounting basis (ESA). Taking the Budget 2015 as main reference, revenues and expenditures for forward years 2016 and 2017 have been forecasted according the following hypothesis:

## Revenue

### a) Local taxes:

For the property tax (main local tax) it has been forecasted an annual increase of 2% for 2016 and 2017. This increase is related to the ceilings set to smooth the impact to taxpayers of the 2001 cadastral (tax value of properties) values review (which are still in use according to the current local tax ordinances/law, and about the automatic review of coefficients related to the modification of the Law 16/2012. No tax rate or updating coefficient for cadastral values has been considered relating the budgeted values for 2015.

Concerning the rest of local taxes, it has been considered that will remain stable during the period.

### b) Revenue share of the Spanish Central Government (PIE):

For the period 2016-2017 it has been forecasted that advancements of the share of Spanish Central Government taxes and the Complementary Financing Fund (FCF) will grow as nominal GDP. Forecasted revenues take into account the effect for each fiscal year of returning annually the pending amounts of negative outturns of 2008 and 2009 at 1/1/2015 in 204 months (according to the additional order of RDL 12/2014 (15.6 € million annually)).

For 2016 forecasted revenues consider the effect of the pending amount to be returned at 1/1/2016 corresponding to the FCF negative outturn of 2013 (10.4 €million).

It has been considered that the final outturn of the Revenue share of the Spanish Central Government for 2014 will have a neutral impact in 2016 and the final outturn of 2015 will be negative, fully impacting with 30 €million in 2017.

### c) Fees, sales and other revenues:

It has been forecasted that fees, sales and other revenues will grow at the same rate of the price update index considered for the period 2016-2017.

### d) Property revenues:

It has been forecasted that property revenues will grow at the same rate of the price update index considered for the period 2016-2017.

### e) Other current transfers:

For the period 2016-2017 (excluding transfers from the local financing system) current transfers are assumed to keep stable. The forecast has taken as a reference the amounts budgeted for 2015.

### f) Capital revenues:

A constant annual amount of 24 €million have been considered, which will be related to the management of assets (disposal of land, buildings, parking...) and capital transfers to finance capital expenditures.

## **Expenditure**

Current expenditures forecasts for 2016-2017 have been done taking as a reference the Budget 2015 and applying the restriction regarding obtaining current savings at least of a 15% of current revenues (in order to comply with Barcelona's own financial goals).

With this framework and considering the current expenditures structure of Budget 2015, the current expenditures forecast have been performed under the following hypothesis: a) Personnel expenditures will remain stable during 2016-2017, because of the non-replacement of retired and loss job positions, neutralizing potential increases related to promotions or wage updating; b) debt burden expenditures (mainly interests) forecasts are based on the amount and structure of the forecasted debt and considering an average cost of debt of 4% for 2016 and al 2017. By performing a sensitivity analysis and depending on the forecasted debt for 2016 and 2017, the variation of one percentage point in the average of the debt cost would represent an impact of 9.7 €million; c) regarding current expenditures on goods and services, current transfers and the Contingency Fund it has been forecasted an increase of around 2.1% in 2016 and 2017, showing an evolution like current revenues.

Capital expenditures forecast for 2016-2017 is the result of the expected current savings plus the forecasted capital revenues and the forecasted net debt variation. Values show the minimum available considering the restriction of having at least a current saving of 15% of current revenues. An increase of 1% of the current saving target would imply a bigger availability for capital expenditures of 25 €million.

Regarding financial expenditures, a part of the expected new debt operations to face contract expiration dates, forecasts to comply with commitments related purchasing financial assets (approved by the Municipal Council plenary) have been included. This forecast includes 19.4 €million for 2016 and 14.9 €million for 2017.

## **Debt forecast 2014-2017**

In the following table the consolidated debt from the Public Administration sector of the Barcelona City Council is broken down into two groups: (i) the debt of the Barcelona City Council; and (ii) the debt of the dependent entities in the Municipal Budget, that is to say, the entities that provide services which are mostly financed with current transfers from the City Council.

## Consolidated financial debt (at December 31)

(€ thousands)	2014 Estimation	2015 Budget	2016 Forecast	2017 Forecast
Barcelona City Council	971,680	974,046	972,662	972,662
Depending entities	0	0	0	0
<b>Financial debt (PDE)</b>	<b>971,680</b>	<b>974,046</b>	<b>972,662</b>	<b>972,662</b>

## Fulfillment of debt objectives

The objective of public debt for the overall local corporations has been set at 3.9% of GDP for 2015, 3.8% for 2016 and 3.6% for 2017. However, the limits of debt applicable to each local entity are those determined by the Regulatory Law of Local Public Finance (LRHL), approved by Royal decree law 2/2001, taking into account that which is established by the 30th final order of the Law 17/2012, of 27th December, of General Budget of Spain for 2013, regarding the long term loan operations to finance investments, and which is set at 75% of actual current revenues.

(€ thousands)	2014 Estimation	2015 Budget	2016 Forecast	2017 Forecast
<b>Financial debt (PDE)</b>	971,680	974,046	972,662	972,662
Amounts pending to be returned regarding PIE negative outturns of 2008 and 2009	265,352	249,743	234,134	218,525
Amounts pending to be returned regarding the PIE negative outturn of 2013	0	10,364	0	0
<b>Debt (in terms of the Local Public Finance Act)</b>	<b>1,237,032</b>	<b>1,223,789</b>	<b>1,206,796</b>	<b>1,190,837</b>
<b>% Debt / current revenues (in terms of the Local Public Finance Act)</b>	<b>46.2%</b>	<b>49.9%</b>	<b>47.6%</b>	<b>46.1%</b>
<b>Financial endorsements</b>	218	164	109	55
<b>% Debt (including endorsements) / current revenues (in terms of the Local Public Finance Act)</b>	<b>46.2%</b>	<b>49.9%</b>	<b>47.6%</b>	<b>46.1%</b>