



BARCELONA'S  
Strategic and Integrated  
Financial Management System

Despite large budget deficits in 2009-2011, Barcelona's financial management is back on track. The city rebalanced its budget, achieving surpluses for fiscal 2012 and 2013, and reducing its already-moderate level of debt (less than 50 percent of revenues) by using revenue forecasts, prioritizing expenditures, better monitoring of the results achieved compared to the city's goals, and developing a strategic approach to budget decisions (see Exhibit 1).

## MANAGEMENT MODEL

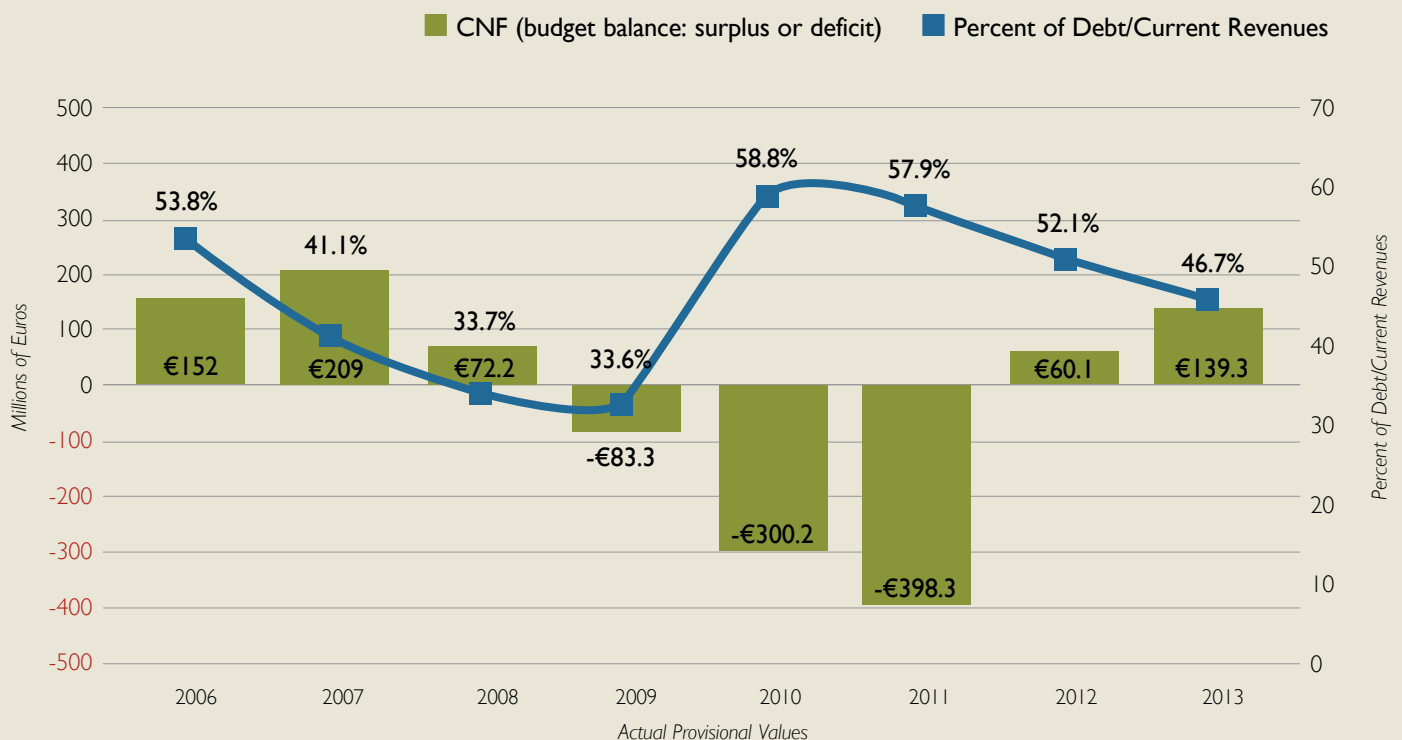
Barcelona's management model, called the Politics and Management Deal, has been in development since 2011. It stresses results and accountability, aiming to link the allocation and management of budgetary resources with the city council's strategic priorities and desired results. The strategic framework for 2012-2015 includes 40 goals, grouped into seven larger goal categories. These goals are developed by the city's departments, which defined the

146 action plans and the related projects and activities that will accomplish them.

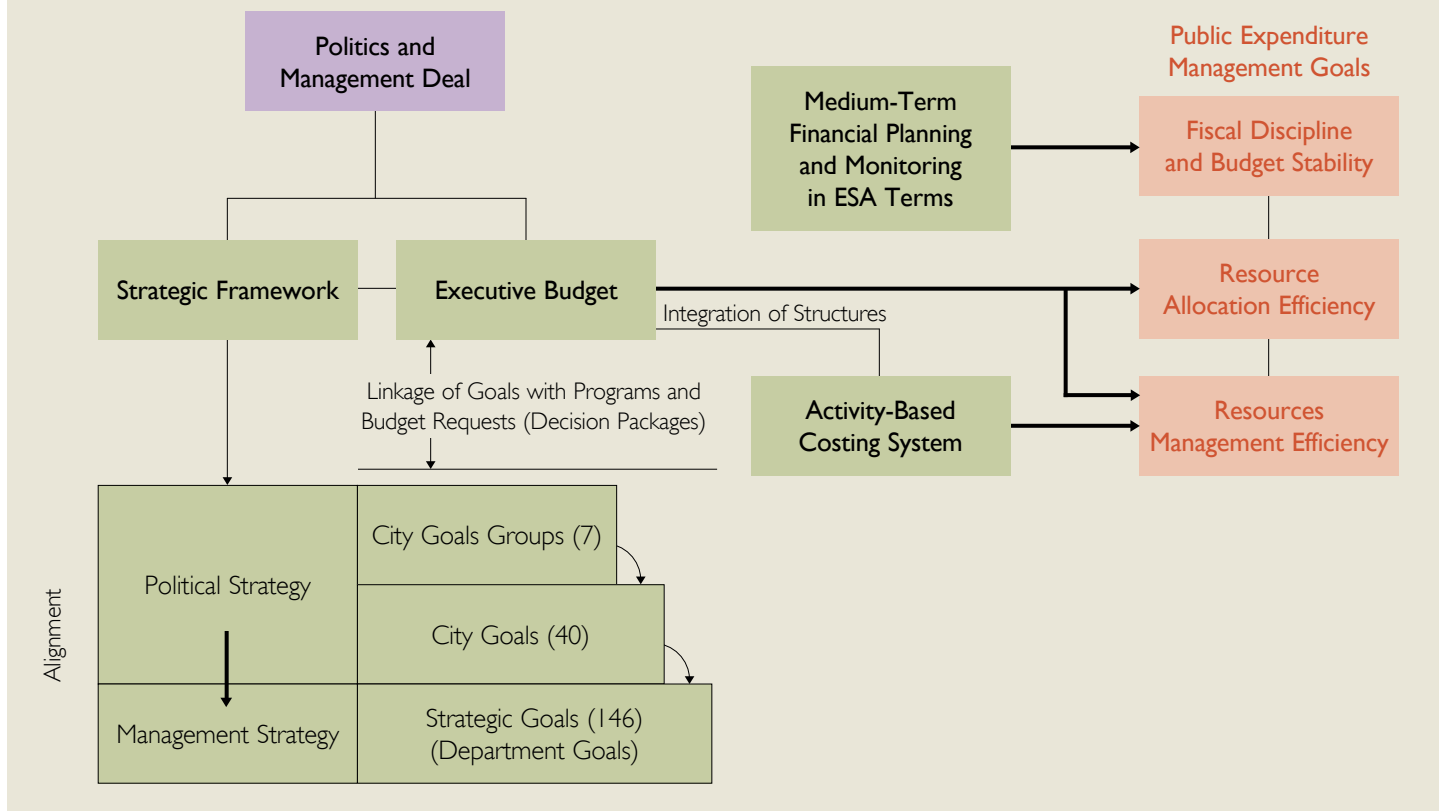
Since 2011, when a new administration took office, the Politics and Management Deal model has been used to help city management understand which results are critical and focus resources on achieving them. Barcelona's financial management system plays a critical role in the Politics and Management Deal. Key projects have been developed in the recent years to reinforce the strategic vision in the city's financial management and guarantee solvency and sustainability. (The International Monetary Fund, World Bank, and Organization for Economic Cooperation and Development all consider this to be the primary goal for public expenditures.) Most of these projects — medium-term financial planning and monitoring, per the European System of Accounts, the system used by all EU state members; the executive budget system; and an activity-based cost accounting system — are currently operational or will be fully operational by the end of 2014 (see Exhibit 2).

### Exhibit I: Barcelona City Council Budget Balance

Capacity/need for financing and level of debt in terms of the European System of Accounts



## Exhibit 2: Barcelona's Management Model and Strategic Integrated Financial Management System



### RESULTS-ORIENTED FINANCIAL MANAGEMENT

The Barcelona City Council approved a measure in 2011 to make sure its criteria and the accounting basis of its financial management system is in harmony with the European System of Accounts. To integrate Barcelona's financial management with the ESA criteria, the city has made the following changes:

- Revenues are now forecasted on a cash basis instead of a modified-cash basis, per traditional budgeting criteria.
- The budget integrates all the necessary accounting adjustments for moving from the budget basis of accounting to the ESA basis.
- Budget aggregates and balance are reported and presented only in ESA terms.
- Medium-term financial planning — that is, for a period of one to five years (see Exhibit 3).

All annual budgets now comply with European and Spanish fiscal responsibility targets, as well as the Barcelona City Council's own financial goals:

- **Sustainability.** Debt cannot exceed 60 percent of current revenues.
- **Stability.** The city will not run fiscal deficits.
- **Investment capacity.** The budget must set aside at least 15 percent of current revenues to finance the capital expenditures.
- **Liquidity.** Barcelona must pay its suppliers and providers within 30 days of receiving an invoice.

In 2011, Barcelona committed to paying its suppliers within 30 days of receiving an invoice. In 2014, the city has extended this commitment to subcontractors, as well. The aim of this measure was to boost business liquidity, help economic recovery, and improve business competitiveness. The Barcelona City Council has achieved this commitment for fiscal 2012 and 2013 (see Exhibit 4).

Number of days until payment, measured from when the invoice is received.

### Exhibit 3: Medium-Term Financial Framework for 2014 Budget

(Amounts in € Millions)	FY2014 Budget	FY2015 Forecast	FY2016 Forecast
(+) Current Revenues	2,426.9	2,422.1	2,469.9
(-) Current Expenditures (includes contingency fund)	1,999.4	2,051.7	2,092.3
<b>(=) Current Savings</b>	<b>427.5</b>	<b>370.4</b>	<b>377.6</b>
<i>Percent Current Savings/Current Revenues</i>	<i>17.6 Percent</i>	<i>15.3 Percent</i>	<i>15.3 Percent</i>
(+) Capital Revenues	27.1	20.0	20.0
(-) Capital Expenditures	441.2	376.9	388.9
<b>(=) Capital Surplus/Deficit</b>	<b>-414.1</b>	<b>-356.9</b>	<b>-368.9</b>
(+) Total Non-Financial Revenues (current + capital)	2,454.0	2,442.1	2,489.9
(-) Total Non-Financial Expenditures (current + capital)	2,440.6	2,428.5	2,481.2
<b>(=) Capacity/Need For Financing (CNF)</b>	<b>13.4</b>	<b>13.5</b>	<b>8.7</b>
<i>Percent CNF/Current Revenues</i>	<i>0.5 Percent</i>	<i>0.6 Percent</i>	<i>0.3 Percent</i>
(+) Financial Revenues	238.5	156.9	170.9
(-) Financial Expenditures	238.8	157.4	171.2
<b>(+) Net Financial Operations</b>	<b>-0.4</b>	<b>-0.6</b>	<b>-0.3</b>
<b>(=) CNF Annual Financing Excess/Deficit</b>	<b>13.0</b>	<b>13.0</b>	<b>8.3</b>
<b>Debt Forecast for December 31</b>	<b>1,164.4</b>	<b>1,163.8</b>	<b>1,163.4</b>
<i>Percent Debt/Current Revenues</i>	<i>48.0 Percent</i>	<i>48.0 Percent</i>	<i>47.1 Percent</i>

### THE EXECUTIVE BUDGET SYSTEM

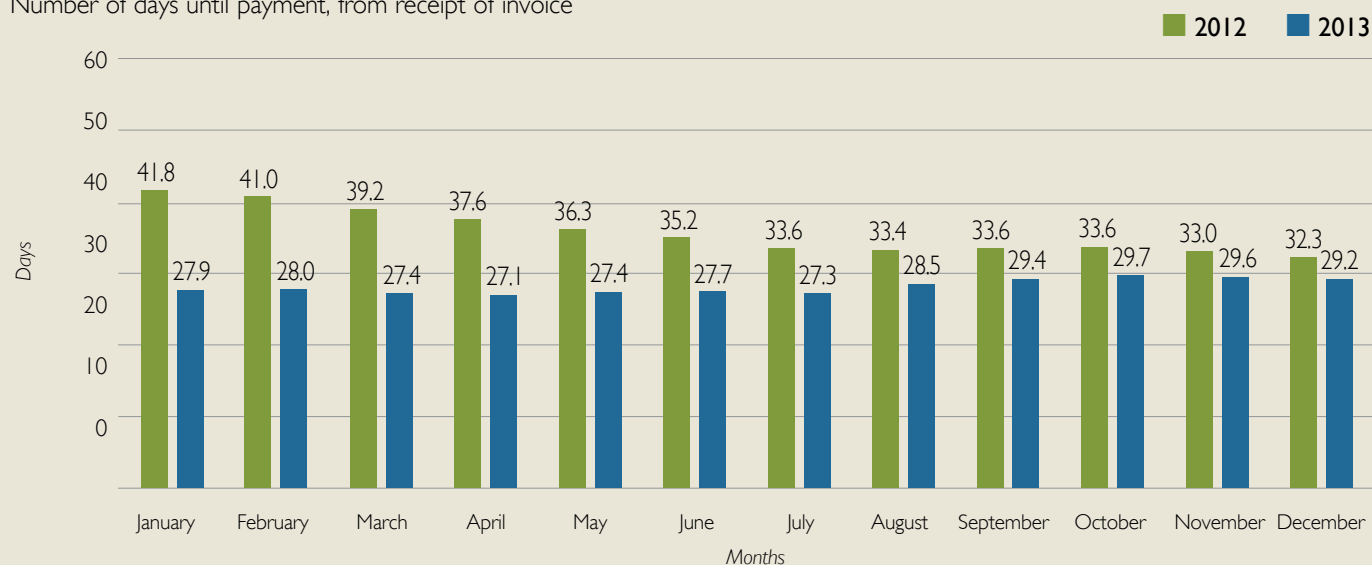
The executive budget reinforces the linkage between budget allocation decisions and management, and the municipal strategy (the priorities and goals described previously). This

budgeting system uses some of the key elements of performance budgeting and priority-based budgeting techniques.

In 2012, Barcelona started implementing the executive budget system by defining the new, medium-term budgeting cycle

### Exhibit 4: Barcelona City Council's Supplier Payment Period

Number of days until payment, from receipt of invoice



model and reviewing the budget structure. The latter was done to better link budget structures with the goals structure defined in the strategic framework and to increase departments' feeling of ownership of the program structure; this was done via joint reviews with all departments. The program budget structure has 109 programs and 245 subprograms, and each subprogram and capital project is linked to a strategic framework goal.

During the 2012-13 budgeting cycle, the city designed a new budgeting system and created new budgeting requirements aimed at reporting the expected performance of budget programs. In 2013, the city introduced a program performance plan that required all departments to submit systematic information about their goals (linked to strategic framework goals), activities, and performance measures. In 2014, the city plans to make the program performance reports available for reporting and comparing of program results with expected performance. This will be the beginning of the city's performance analysis processes.

A key element of the executive budget implementation is assuring that the budget process strengthens the linkage between the priorities and key results to be accomplished through budget allocation decisions. After designing its main elements and procedures between 2012 and 2013, the city performed pilot tests and also started developing the software for the new process. In 2014, the new budget model will be fully operational for the 2015 budget.

The pillars of the new budget process are the budget baseline projections (explained below). These will provide a reference for making budget decisions and defining policies for priority-driven expenditure limits and performance-based budget requests, which are organized in decision packages.

## BUDGET STAGES

The new budget process is organized in the stages detailed below (see Exhibit 5).

The first stage involves calculating the revenue and expenditure baseline projections. The revenue baseline is a projection for the next fiscal year, assuming the current revenue

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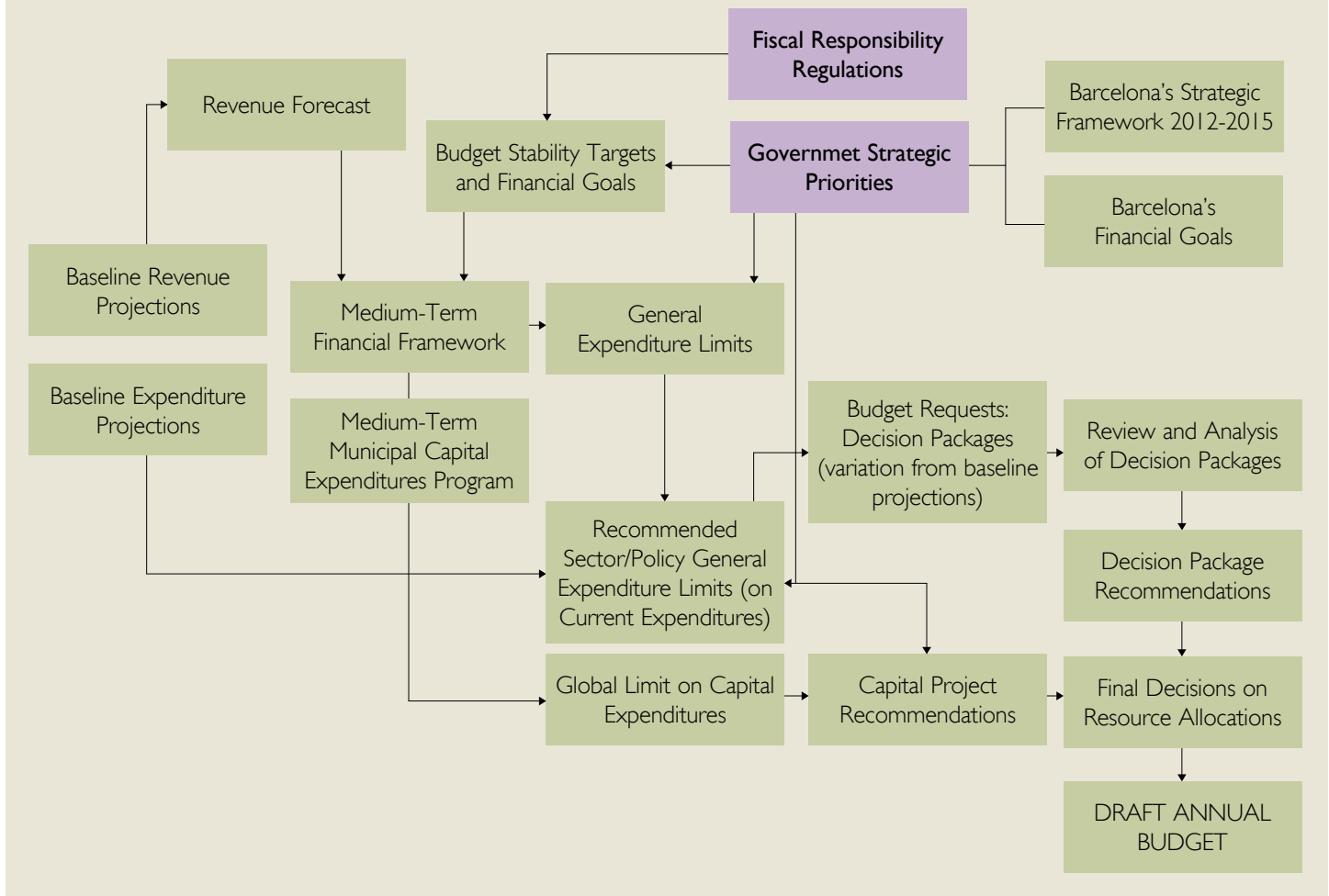
regulations and fiscal ordinances as a constant. The expenditure baseline is the amount the city expects to need to maintain the current level of public services and to integrate multi-year expenditure commitments that have already been approved. The expenditure baseline projection is partially automated, but the departments have to do some specific manual calculations/adjustments (e.g., eliminating one-time expenditures, reclassifying accounts, and accounting for the impact of ended capital projects).

After considering the baseline revenue projection, the city makes its decisions about the municipal revenue regulations (fiscal ordinances that set tax rates, tax benefits, and other important revenue elements) and creates the initial revenue forecast for the next year's budget. With the information provided by the revenue forecast, the current budget document, the fiscal responsibility targets, and the city's financial targets, a preliminary medium-term financial framework and a global expenditure limit for the next budget are set. This global expenditure limit is broken down into limits on current expenditures and capital expenditures.

The city takes the council's input on key priorities and results to be accomplished for the next budget into account, along with the current expenditure limit for goods and services, and transfers, and breaks this information down into recommended departmental (sector departments and district departments) limits. For capital expenditures, after a limit is set, the city considers including new projects from the medium-term municipal capital expenditures program and then recommends resource allocations.

Next comes the bottom-up phase of the budgeting process, with departments submitting their budget requests and program performance plans. The budget requests are structured into decision packages that have an incremental or decremental effect on the baseline budget amounts. Each decision package thus implies policy changes. There are two main types of decision packages: new initiatives, comprising new or increased levels of services, and the budget baseline reduction type, which recommend reductions or efficiency savings. Each decision package must include a short report that describes the

## Exhibit 5: New Annual Budget Formulation Process (Executive Budget)



recommendation; provides an assessment of its urgency, contribution to the city's goals, and its performance impact; and a financing proposal. The number of decision packages submitted is limited, and each department and program is allowed to submit just two decision packages, one of each type.

The decision packages and recommendations on capital projects are analyzed and reviewed, and counter-proposals can be made (e.g., package modifications, refusals) to better align the expenditure allocations with governmental priorities. Final adjustments in the revenue forecasts and the medium-term financial plan can also be made at this time, as well as adjustments to expenditures.

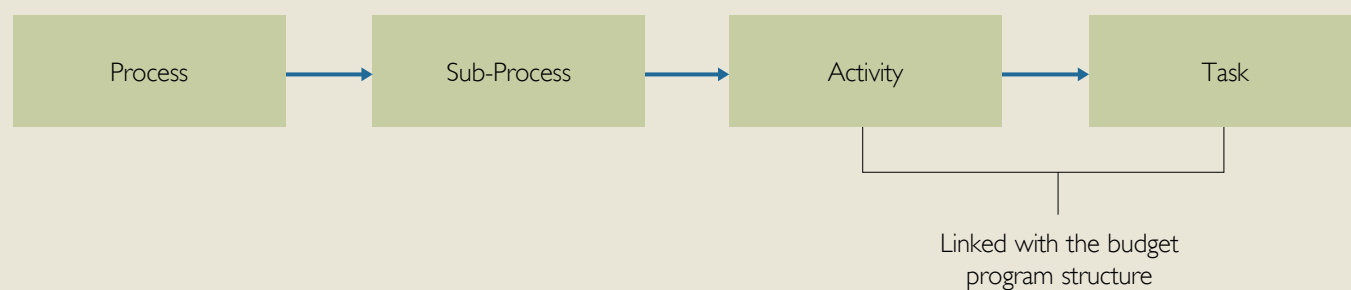
In the final stage, the last budget decisions are made, taking all available information into account. Then, the draft budget

documentation and presentations are prepared. (See Exhibit 5 for a chart outlining the entire process.)

The new budgeting process improves the integration of dependent public entities (a budget consolidation process) and the capital expenditures structure (projects structure), qualitative information (related goal, type, outcome, planning and execution roles, and location), and approval procedures.

Another goal of the executive budget program is to increase budget transparency and make this information more accessible to citizens. To accomplish this objective, new budget documentation and websites have been created: the new annual budget specific websites (<http://w28.bcn.cat/pressupostos2014/en/>) and Strategy and Finance the web portal (<http://governobert.bcn.cat/estrategiaifinances/en/>),

## Exhibit 6: Barcelona's Activity-Based Costing Structure



both part of the Barcelona City Council's Open Government project (<http://governobert.bcn.cat/en>), which provides full access to all budget information (e.g., aggregate projections, annual budgets, budgeting concepts, and annual reports) and the municipal strategy (e.g. vision and goals) in an easily understood format.

### ACTIVITY-BASED COST ACCOUNTING

In 2012, the city council began implementing a new activity-based cost accounting system to achieve the following goals:

- Increase the efficiency of municipal services.
- Improve the information available for decision making.
- Support the budgeting process by providing accurate information about the costs of public services.
- Improve financial and managerial transparency by making information about the cost of public services available on the city's website.

The cost accounting system also reinforces the importance of achieving the maximum value for the taxpayers' money.

In the early stages of the project, the major cost structures were identified by department. Barcelona's ABC approach breaks down each process into tasks, and the activities required to accomplish each task are defined as sub-processes (see Exhibit 6).

Interviewing each department and governmental entity allowed the city to identify all cost centers, processes, sub-processes, activities, and tasks; to define the cost allocation criteria for both direct and indirect costs; and to determine the output/workload measures for obtaining the unit costs of services. The process identified 216 activities and 508 tasks, all linked to the program budget structure (at the level of programs and subprograms).

In 2013, the city started developing the cost accounting system software and processing the cost information and structure for 2012. This was a test run to make sure the model would be fully operational in 2014.

In summer 2014, Barcelona plans to use the cost-accounting model to create a cost of services report using fiscal 2013 data, providing citizens with easily accessible information about the full cost of the city council's activities and tasks, the cost per unit of outputs, and the balance between revenues and the costs of each activity. The cost information will be used in expenditure-cost reviews, analysis of budget requests, and pricing of services.

### CONCLUSIONS

The Barcelona City Council is committed to improving its financial management and, thus, the accuracy of fiscal planning, strategic allocation of budgetary resources, operational efficiency of public funds management, and public transparency. To accomplish these objectives, the city council is developing and carrying out some ambitious projects that will change the managerial culture of the entire organization. Well-managed and transparent finances make it possible for the city to put all of its available budget resources into the policies and programs that are of most use to citizens needs and will contribute to create an optimal economic environment. ■

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