



LATVIJAS REPUBLIKAS FISKĀLĀS DISCIPLĪNAS PADOME

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RĪGĀ

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Uz _____ Nr. _____

Prime Minister
Republic of Latvia
Māris Kučinskis
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Chairman of the Budget and Finance (Tax) Committee
Saeima of the Republic of Latvia
Jānis Vucāns
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Minister of Finance
Republic of Latvia
Dana Reizniece-Ozola
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Dear Messrs Kučinskis and Vucāns,
Dear Madam Reizniece-Ozola,

Non-conformity report regarding the reallocation of appropriations from the Ministry of Finance's budget sub-programme "Payments to the budget of the European Community"

According to Part 1, Section 28 of the Fiscal discipline law, the Fiscal discipline council (hereafter – Council) shall monitor whether the medium term budget framework law and the annual state budget law are prepared and implemented in compliance with the fiscal rules stipulated in the Fiscal discipline law.

According to Article 29 Part 2 the Council shall prepare a non-conformity report including recommendations for the rectification of non-conformities if the Council detects infringements of the Fiscal discipline law. The non-conformity report shall be prepared as soon as the non-conformity has been detected, submitted to the Cabinet and Saeima and published on the website of the Council and of the Ministry of Finance.

During the Cabinet meeting that took place on 8 November 2016 the Cabinet discussed several agenda items that foresee the reallocation of 13.4 million from the budget sub-programme “Payments to the budget of the European Community”:

- Draft order “On the reallocation of appropriations”;
- Informative report “On granting additional funding for compensating the use of public railroad infrastructure for ensuring public transportations services in 2016” and draft order “On the reallocation of appropriations”;
- Informative report “On granting additional funding to the health care sector”.

In accordance with Point 1 of the draft order “On the reallocation of appropriations”, 8.2 million euro will be reallocated to “Funds for Unforeseen Events”. Point 1.3.3 foresees reducing the funding for “Payments to the budget of the European Community” by 1.4 million euro.

In accordance with Point 1 of the draft order “On the reallocation of appropriations”, attached to the informative report “On granting additional funding for compensating the use of public railroad infrastructure for ensuring public transportations services in 2016”, 6 million euro will be reallocated from “Payments to the budget of the European Community” to the Ministry of Transportation’s sub-programme “Payments for using railroad infrastructure” to ensure the legally mandated compensation of JSC “Pasažieru Vilciens” for the use of railroad infrastructure in 2016.

In accordance with Points 3 and 4 of the protocol decision attached to the informative report “On granting additional funding to the health care sector”, funds will be reallocated from “Payments to the budget of the European Community” to the Ministry of Health’s budget sub-programmes “Health care” (3 million euro) and “Compensation for medication and materials” (3 million euro).

The funds for regular payments to the budget of the European Union belong to a special category of budget funds, which can be appropriated by a decision of the Minister of Finance, if funds in addition to the approved allocation in the annual State Budget, in accordance with Parts 14 and 16 of Section 9 of the Law on Budget and Financial Management, are necessary.

In the Statements of fiscal risks prepared by the Ministry of Finance payments to the budget of the European Union are classified as symmetrical fiscal risks. Additional expenditures lead to a worse general government budget balance, but if the expenditures are lower than planned, the balance is improved.

Furthermore, Section 8 of the Fiscal discipline law stipulates that modifications to the budget should be accompanied by a re-assessment of the corrected maximum permissible State budget expenditure ceilings in the cases stipulated by Section 5 of the Fiscal Discipline Law. Point 8 of Part 1, Section 5 stipulates that this applies to cases when there are changes to the current payments to the budget of the European Union.

The requirements outlined above apply when modifications to the budget are made. The Council believes that, for the purposes of consistency, the requirements should also apply to the reallocation of appropriations, as the need to apply the requirements currently varies depending on the form of the procedure.

In view of the above, the Council objects to the decisions made during the Cabinet meeting on 8 November, which entail the reallocation of funds from the Ministry of Finance's budget sub-programme "Payments to the budget of the European Community". Such decisions disrupt the consistent application of the symmetry principle and the restrictions stipulated in the Fiscal discipline law regarding the maximum permissible State budget expenditure ceilings.

In order to rectify this non-conformity the Council recommends the following:

1. Clarify the legal framework regulating modifications to the appropriation of the Ministry of Finance's budget sub-programme "Payments to the budget of the European Community", specifying the requirements for the sources funding for appropriation increases and the authorisation for the use of funds when the appropriation is reduced.

Vice-Chairman of the Council

Ingars Eriņš

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