



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-programmes "Payments to the budget of the European Community" and "State debt management"

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 19 September 2017 the Cabinet discussed agenda items that foresee the reallocation of funds from budget sub-programmes "Payments to the budget of the European Community" and "State debt management" in the amount of 4 010 609 euro and 96 216 euro respectively.

Funds from "Payments to the budget of the European Community" will be allocated to:

1. the Cabinet of Ministers' budget programme 01.00.00 "Ensuring the work of the Cabinet of Ministers, public administration policy" (272 688 euro) to ensure the implementation of emergency measures;
2. the Corruption prevention and combating bureau's budget programme 01.00.00 "Corruption prevention and combating bureau" (787 941 euro) for the implementation of security measures and the improvement of professional capacity;
3. the Ministry of Agriculture's budget sub-programme 22.05.00 "Grant for analytical and data exchange information system of SIA ""Latvijas Lauku konsultāciju un izglītības centrs" (140 000 euro) to perform surveys for obtaining data characterising the activities of agricultural holdings;
4. the Ministry of Agriculture's budget sub-programme 22.02.00 "Higher education" (605 000 euro);
5. the Ministry of Agriculture's budget sub-programme 22.01.00 "Vocational education" (1 400 000 euro) in order to repair the damage caused by natural disasters and to ensure a study process that is in accordance with the requirements of occupational safety;
6. the Ministry of Agriculture's budget sub-programme 20.02.00 "National food chain and veterinary surveillance laboratory" 463 000 euro to prevent significant delays in the monitoring process due to damaged analytical equipment, thus ensuring the long-term safety of food products and the operations of exporting food companies;
7. the Ministry of Agriculture's budget sub-programme 26.02.00 "Maintenance of the land drainage cadastre, and maintenance of drainage systems and drainage systems of national significance" (182 000 euro) in order to prevent the risk of flooding of agricultural land and land for buildings by ensuring the maintenance of existing state-owned watercourses and protective dams;
8. the Prosecution office's budget programme 01.00.00 "Prosecution office maintenance" (159 980 euro).

Funds from "State debt management" will be allocated to the Ministry of Finance's budget programmes 33.00.00 "Ensuring the work of state revenue and customs policies" (29 185 euro) and 97.00.00 "Sector management and policy planning" (17 123 euro), and the Ministry of Economics' budget sub-programme 26.01.00 "Internal market and consumer rights protection" (49 908 euro) with the aim of strengthening the capacity of the State revenue service, the Ministry of Finance and the Consumer rights protection centre.

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. Point 7 of Part 1, Section 5 stipulates that this applies to cases when there are changes to the expenditure for service of that part of the State debt, which is within the competence of the Treasury.

In view of the above, the Cabinet decision of 19 September 2017 to reallocate savings reduces maximum permissible government expenditures for 2017 by 4 106 825 euro.

According to Section 9, Part 2 of the Fiscal discipline law, if the Cabinet adopts a regulatory enactment which causes an exceedance of maximum permissible State budget expenditures laid down in the framework law that is not related to the cases referred to in Section 5, Part 2 of the Fiscal discipline law, or causes a decrease of planned State budget revenues, the Cabinet shall ensure that a regulatory enactment or regulatory enactments come into force concurrently, which compensate the increase in expenditure or decrease in revenues.

In view of the above, the Council objects to the decision made during the Cabinet meeting on 19 September to reallocate funds from the Ministry of Finance's budget sub-programmes "Payments to the budget of the European Community" and "State debt management". This decision reduces maximum permissible government expenditures. The decision to allocate additional funds for the abovementioned purposes when there is no fiscal space is not consistent with the restrictions stipulated in the Fiscal discipline law regarding maximum permissible government expenditure.

The Council underlines that previous non-conformities that arose as a result of (i) decoupling the submission of the draft legislation of the tax reform from the medium-term budget framework, thus exceeding the maximum permissible State budget expenditures for 2018 and 2019 stipulated in the current medium-term framework, (ii) the decision to reallocate funding from "Payments to the budget of the European Community" to the sub-programmes of the Ministry of Transport (Cabinet meeting, 5 September), and (iii) the decision to reallocate funding from "Payments to the budget of the European Community" to the sub-programmes of the Ministry of Health (Cabinet meeting, 14 September), have yet to be resolved.

In order to rectify the non-conformity created on 19 September 2017 the Council recommends the following:

1. The Cabinet should prepare normative acts that fully compensate the decision to allocate an additional 4 106 825 euro and thus exceed maximum permissible state budget expenditures for 2017 stipulated in the medium-term budget framework.

Chairman of the Council

Jānis Platais

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