Text consolidated by Valsts valodas centrs (State Language Centre) with amending laws of:

5 September 1996 [shall come into force from 22 November 1996];

23 November 2000 [shall come into force from 1 January 2001];

17 October 2002 [shall come into force from 14 November 2002];

20 October 2005 [shall come into force from 1 January 2006];

11 March 2010 [shall come into force from 7 April 2010];

3 April 2019 [shall come into force from 13 April 2019].

If a whole or part of a section has been amended, the date of the amending law appears in square brackets at the end of the section. If a whole section, paragraph or clause has been deleted, the date of the deletion appears in square brackets beside the deleted section, paragraph or clause.

The *Saeima* 1 has adopted

and the President has proclaimed the following Law:

**On Local Government Budgets**

**Chapter I**

**General Provisions**

**Section 1.** This Law prescribes the procedures for drawing up and implementing the local government budgets in the Republic of Latvia. It provides for the conditions for preparing the independent local government budgets of the republic cities and municipalities.

[*23 November 2000; 11 March 2010*]

**Section 2.** The purpose of the local government budgets is to determine and substantiate the amount of funding necessary to perform the statutory functions, tasks and voluntary initiatives in the period for which these funds are intended.

**Section 3.**

[23 November 2000]

**Section 4.**

[23 November 2000]

**Section 5.**

[23 November 2000]

**Section 6.** The formulation of the local government budgets and the process of use thereof shall be open. Pursuant to Sections 16 and 17 of this Law the draft budget and budget of the local government and also the report thereof on the financial year concerning the implementation of the local government budget must be accessible to the public in each relevant local government.

[*23 November 2000; 20 October 2005*]

**Chapter II**

**Local Government Budget Rights**

**Section 7.** The local governments shall formulate, approve and implement their budgets independently by complying with the Law on Budget and Financial Management and the law On Local Governments, and also other laws and Cabinet regulations. State administrative bodies may not interfere with the formulation and implementation of the local government budgets, unless it is provided for in the Law.

[*23 November 2000; 20 October 2005*]

**Section 8.** Tax and duty payments into the local government budgets shall be ensured and controlled by the State Revenue Service and the local governments in accordance with the law On Taxes and Duties.

**Section 9.** Local governments have the right to apply tax relief to payments which are made into the local government budgets in accordance with the procedures provided for in the relevant tax law, and also to impose local government duties and determine their rates in accordance with the procedures laid down in the law On Taxes and Duties.

**Chapter III**

**Local Government Budget Breakdown**

**Section 10.** (1) For information purposes, the local government budgets together with the State budget shall form the consolidated general budget.

(2) For information purposes, also the local government budget summary – the local government general budget and other statistical summaries shall be formed.

[*17 October 2002; 11 March 2010*]

**Section 11.** Local government budgets shall have a revenue part, an expenditure part and a financing part. Local governments shall formulate their budgets in conformity with the classification of budget revenues, expenditures and financing, which is determined by the Cabinet.

[*17 October 2002; 20 October 2005*]

**Section 12.** The local government budgets shall consist of a basic budget, donations, and gifts.

[*3 April 2019 /* *See Paragraph 4 of Transitional Provisions*]

**Chapter IV**

**Procedures for Drawing up and Approval of Local Government Budgets**

**Section 13.** At the initial stage of drawing up the local government budgets, the Cabinet shall, on the basis of calculations characterising the local government part in the consolidated general budget and the need for State budget grants within the possibilities of the State budget funds and the overall assessment of the functions to be performed by the local governments, coordinate with the local governments the total amount of State budget grants for equalisation of the local government finances to be planned within the financial year and the total amount of the State budget and its breakdown among the local governments to be planned within the financial year. In formulating and conciliation process of the State budget, the Cabinet shall be represented by the Minister for Finance or a person authorised by him/her while the local governments shall be represented by a Local Government Association which has been established in accordance with the requirements of Section 96 of the law On Local Governments. The negotiation results shall be presented in the form of minutes. The negotiation minutes on agreement or disagreement shall be attached to the relevant draft laws which the Cabinet shall send to the *Saeima*.

[*23 November 2000; 17 October 2002; 20 October 2005; 11 March 2010*]

**Section 14.**

[23 November 2000]

**Section 15.** The chairperson of the local government council shall be responsible:

1) for formulating the annual local government budget and submitting it to the council for approval not later than two months after the Annual State Budget Law has been announced;

2) for organising and managing the local government budget implementation process in conformity with the Law on Budget and Financial Management.

[*17 October 2002; 20 October 2005; 11 March 2010*]

**Section 16.** (1) The annual local government budget is a document which shall be drawn up and approved by the local government as binding regulations and it shall include information on the following:

1) budget revenue according to the sources of revenue determined in Chapter V of this Law and conditions of classification of budget revenue for planning the budget;

2) budget expenditure according to the conditions of classification of budget expenditure for planning the budget;

3) financing of the budget (including the data on the balance of budget resources of the previous financial year) according to the conditions of classification for planning the budget;

4) the amount of loans, guarantees, and long-term liabilities of the local government in the current financial year and at least in subsequent three years;

5) other information which the council deems necessary.

(2) Local government budgets may include funds for unforeseen budget expenditure the amount of which shall not exceed two per cent of the local government expenditure planned for the relevant financial year. The decision on the use of funds for unforeseen budget expenditure shall be adopted in accordance with the procedures laid down by the local government council.

[*3 April 2019 /* *See Paragraph 4 of Transitional Provisions*]

**Section 17.** (1) Concurrently with the draft budget of the local government the explanations shall be prepared, and they shall include:

1) an introductory report of the chairperson of the council;

2) general information concerning the economic situation in the local government;

3) information on the total amount of budget revenue and the main sources of revenue;

4) information on the total amount of budget expenditure and the main categories of expenditure;

5) information on the planned amount of liabilities of a local government and the guarantees provided by it in the current financial year;

6) other information which the council deems necessary.

(2) Concurrently with the draft amendments to the local government budget the explanations shall be prepared wherein the information on the nature of amendments, quantitative information on the most significant changes to the sections on revenue, expenditure, and financing, and also other information which the council deems necessary shall be included.

(3) Following the approval of the annual local government budget or amendments to the budget, the local government shall publish the explanations on its website.

[*3 April 2019 /* *See Paragraph 4 of Transitional Provisions*]

**Section 18.** If by the beginning of the financial year the Annual State Budget Law has not come into force, the Minister for Finance shall approve expenditure from the funds – grants and earmarked grants for local governments – provided that:

1) the monthly expenditure does not exceed one twelfth of the relevant funding for the previous year;

2) the authorisation granted under this condition terminates as soon as the Annual State Budget Law comes into force.

[*20 October 2005*]

**Section 19.** If by the beginning of the financial year the local government budget has not been approved, the local government expenditure may not exceed the twelfth of the previous year’s expenditure per month provided that in comparison with the previous year the amount of the functions to be performed is not reduced for the local government.

**Chapter V**

**Local Government Budget Revenue**

**Section 20.** The budget revenues of the republic cities and municipalities shall consist of deductions from State taxes and duties, local government duties, State budget grants and earmarked grants, grants from the local government financial equalisation fund, settlements with the local government budgets, payments for services, deductions from the profit of capital companies, revenue from leasing (letting out for hire) the local government property, from property sales and other statutory revenues.

[*17 October 2002; 20 October 2005; 11 March 2010*]

**Section 21.** (1) In order to ensure similar conditions for all local governments in performing their functions, a local government financial equalisation fund shall be established. The funds from the local government or State revenue shall be transferred into the local government financial equalisation fund, and also the amount of grants to be paid from the local government financial equalisation fund shall be determined in accordance with the procedures provided for in the laws and regulations.

(2) In order to strengthen the regional economic base and ensure the performance of State functions, grants and earmarked grants for the performance of definite tasks may be appropriated from the State budget. The grants and earmarked grants appropriated from the State budget for the performance of definite tasks shall not constitute a part of the local government financial equalisation fund.

[*17 October 2002; 20 October 2005*]

**Chapter VI**

**Local Government Loans and Guarantees**

[*23 November 2000*]

**Section 22.** (1) The local governments, based on a council decision, may take short-term and long-term loans and undertake long-term liabilities. The decision of the local government council by which the local government undertakes long-term liabilities shall include also the funding sources for performance of these liabilities. Within the meaning of this Law, the long-term loans are loans whose repayment period exceeds the framework of one financial year.

(2) Within the meaning of this Law, long-term liabilities are liabilities which the local government undertakes when concluding contracts on the purchase of goods or lease or the receipt of services, or the performance of construction works to satisfy the needs of the customer, and contracts providing for the use of the local government budget for the implementation of definite projects for which the local government does not provide the total payment within twelve months from the moment of concluding the contract.

(3) The total allowable increase in the local government loans in the financial year shall be determined by the Annual State Budget Law. The local governments may take loans in Latvia or foreign countries by issuing securities or concluding loan agreements.

(4) The loan funds are the local government funds which the local government shall use only by appropriation on the basis of the council decision.

(5) Local governments may not secure loans with properties necessary for the performance of autonomous functions of local governments.

[*17 October 2002; 11 March 2010; 7; 3 April 2019*]

**Section 22.1** (1) Local governments shall take loans entering into a loan agreement with the Treasury.

(2) The Minister for Finance may, by taking into account local government applications for the implementation of definite projects, confirm another lender if his/her loan conditions are more favourable than the State budget lending conditions.

[*17 October 2002; 20 October 2005*]

**Section 23.** For the purposes of the budget and the financial management, the local governments may take short-term loans from the State budget to cover the short-term financial deficit of the local government which must be repaid until the end of the financial year in which they have been taken.

[*23 November 2000; 20 October 2005*]

**Section 24.** In order to implement economic and social programs which need investments, local governments may take long-term loans. Such loans may not be used for financing the fixed (current) expenses of the local governments.

**Section 25.** (1) Local governments may not take long-term loans or issue guarantees, if they have not:

1) submitted the reports laid down by the Treasury;

2) paid the taxes in accordance with the procedures provided for in the law.

(2) Local governments which have not complied with the loan agreement conditions concluded earlier shall be allowed to take long-term loans and issue guarantees only with the permission of the Minister for Finance.

(3) Local governments may not issue guarantees to such capital companies which have not paid the taxes in accordance with the procedures provided for in the law and which experience actual insolvency and against which insolvency proceedings have been initiated or which are declared insolvent.

[*23 November 2000; 17 October 2002; 20 October 2005*]

**Section 26.** (1) Local governments may issue guarantees in accordance with the procedures provided for in this Law and the Cabinet regulations. The total amount of the guarantees issued by the local governments in the financial year shall not exceed the maximum amount of increase in the guarantees issued for in the Annual State Budget Law.

(2) Local governments may issue guarantees only to such capital companies, in which the capital share of the local government exceeds 50 per cent or to a capital company which has been established by several local governments, in which the capital share of the local governments exceeds 65 per cent.

(3) Only the local government council may, when taking a decision, issue guarantees which are binding on the financial resources of the local government if:

1) the council has received and reviewed the required substantiation and liabilities in connection with the guarantees proposed or already issued;

2) the local government budget expenditure for meeting the guarantee liabilities are to be attributed to the local government debt;

3) guarantees are not secured by a local government property necessary for the performance of autonomous functions of the local government;

4) the amount of the guarantee issued to a capital company which has been established by several local governments shall correspond to the percentage of the number of local government capital shares in the relevant fixed capital.

(4) The local government may issue a guarantee for the debt liabilities which a student undertakes in order to receive a study loan and a student loan from a credit institution in accordance with the Law on Institutions of Higher Education.

[*23 November 2000; 17 October 2002; 20 October 2005; 11 March 2010; 3 April 2019*]

**Section 27.** (1) The chairperson of the relevant council who represents the local government in concluding all loan and guarantee agreements shall be responsible for the implementation of the provisions laid down in Chapter VI of this Law.

(2) All loan and guarantee agreements concluded by the local government shall be available to the public in each relevant local government.

[*23 November 2000; 11 March 2010*]

**Chapter VII**

**Implementation of Local Government Budgets**

**Section 28.** The local government council shall, based on the laws and regulations in force, organise the implementation of the local government budget, ensure the collection of taxes and rational use of resources.

[*20 October 2005; 11 March 2010*]

**Section 29.** Local government budget allocations can be made only for the objectives provided for in the budget approved by the council. The allocations should not exceed the amounts provided for in the budget.

[*11 March 2010*]

**Section 30.** In the course of implementation of the local government budget in accordance with the procedures laid down in the law On Local Governments and this Law, the council is entitled to amend the local government budget, also to suspend the allocations, increase or reduce the amounts for financing the tasks and intend the funding of new tasks.

[*11 March 2010*]

**Section 31.** A relevant local government shall deal with the free asset balances of the local government budget at the beginning of the financial year, and also with the sum of any excess revenue over expenditure, providing for the use of resources in accordance with the appropriation procedures. If after covering the expenses provided for in the budget a balance of resources is formed, it shall constitute the current assets of the cash office which may be used within a year by the local government for covering the temporary cash gap which must be renewed until the end of the year in the amount set by the local government when it approves the budget.

**Chapter VIII**

**Accounting and Report on the Financial Year Regarding Implementation of the Local Government Budget**

[*20 October 2005*]

**Chapter IX**

**Responsibility and Sanctions**

**Section 35.** Responsibility for failing to comply with the procedures for drawing up and use of the local government budgets laid down in the laws and Cabinet regulations and sanctions for breaching these procedures shall be prescribed by laws.

**Section 36.** (1) At least once a year the compliance of the drawing up and use of the local government budget with the laws, Cabinet regulations and council decisions shall be controlled by a sworn auditor or commercial company of sworn auditors invited by the council. The local government Audit Committee, if the council has established it, shall carry out such control in conformity with the by-laws approved by the council.

(2) The State Audit Office shall carry out the control referred to in Paragraph one of this Section in accordance with the State Audit Office Law.

[*11 March 2010*]

**Chapter X**

**Local Government Budgets After the Merger of Local Governments Within the Framework of the Administrative-Territorial Reform**

[*11 March 2010*]

**Transitional Provision**

1. With the coming into force of this Law, the law On The Budget Rights of the Republic of Latvia (*Latvijas Republikas Augstākās Padomes un Valdības Ziņotājs*, 1990, No. 29; 1992, No. 29/31) is repealed.

2. [20 October 2005]

3. Until the day of coming into force of a new Cabinet Regulation, but not later than until 1 January 2003, Cabinet Regulation No. 366 of 7 August 2001, Regulations Regarding Local Government Borrowings and Guarantees, shall be applied in so far as it is not in contradiction with this Law.

[*17 October 2002*]

4. Amendments to Sections 12, 16, and 17 of this Law shall be applicable when drawing up the budget for 2020 and for subsequent years.

[*3 April 2019*]

This Law has been adopted by the *Saeima* on 29 March 1995.

President G. Ulmanis

Riga, 18 April 1995