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

7 October 1999 [shall come into force on 3 November 1999];

7 December 2000 [shall come into force on 3 January 2001];

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

4 December 2008 [shall come into force on 1 July 2008];

20 September 2012 [shall come into force on 18 October 2012].

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

the President has proclaimed the following law:

**On the Stabilisation of Local Government Finances and the Monitoring of the Financial Activities of Local Governments**

[*20 October 2005*]

**Chapter I**

**General Provisions**

**Section 1.** The purpose of this Law is to regulate the procedures by which the stabilisation of local government finances shall be performed in order to ensure the continuous fulfilment of the functions of local governments as prescribed by Law in cases when local governments have come into extreme financial difficulties.

[*20 October 2005*]

**Section 2.** The stabilisation of local government finances shall be performed if at least one of the following features are determined:

1) the debt obligations of a local government for which the time limit for reimbursement has set in during the current financial year, together with the debt obligations of the previous years for which the time limit for reimbursement has set in, exceed 20 per cent of the total amount of the local government budget for the current financial year;

2) the local government is unable or, due to circumstances as can be proved, will be unable to settle its debt obligations;

3) the debts of the local government exceed the asset values in its ownership according to the market value of these assets.

[*20 October 2005*]

**Section 3.** For the purposes of this Law, the following shall be construed as debt obligations of a local government:

1) expenses for the payment of credit and credit interest;

2) expenses in relation to the guarantee obligations provided by a local government;

3) missed payments, surcharges, and other expenses related to these payments.

**Section 4.** A local government shall be recognised as one that is unable or, due to circumstances as can be proved, will be unable to settle its debt obligations if the Minister for Finance has confirmed at least one of the features referred to in Section 2 of this Law that has arisen due to the following reasons:

1) a person who has debt obligations towards the relevant local government is declared insolvent;

2) the uninsured property of a local government has perished;

3) a local government has not performed or received payments for longer than three months regarding those debt obligations for which the time period for reimbursement has set in;

4) as a result of the unlawful activities of another person, losses have been caused to a local government.

[*20 October 2005*]

**Section 5.** (1) The stabilisation of local government finances shall be performed using the following:

1) the financial resources of a local government;

2) State budget funds;

3) donations, gifts, and other types of assistance, including foreign assistance.

(2) In the process of the stabilisation of local government finances, the local government shall consider the following options:

1) to improve the chargeability of taxes and other payments;

2) to become involved in measures promoting regional development;

3) to propose a matter regarding the merging of local governments;

4) to privatise the property objects of a local government.

(3) The measures referred to in Paragraph two of this Section shall be realised in accordance with special laws.

[*20 October 2005*]

**Chapter II**

**Procedure for Application for the Stabilisation of Local Government Finances**

[*20 October 2005*]

**Section 6.** (1) An application for the stabilisation of local government finances (hereinafter – the application for stabilisation) is a submission approved by the council in which at least one of the features referred to in Section 2 of this Law is indicated and to which calculations regarding the costs for financial stabilisation and a plan of measures to be performed are attached.

(2) The following may propose that a local government council submit the application for stabilisation:

1) the chairperson of a local government council;

2) a minister who has been authorised by the Cabinet for the supervision of local governments (hereinafter – the authorised minister);

3) the Minister for Finance;

4) the Auditor General.

(3) The persons referred to in Paragraph two of this Section shall inform respectively the Minister for Finance and the authorised minister of the proposal for a local government to submit the application for stabilisation.

[*20 October 2005; 4 December 2008*]

**Section 7.** (1) A local government council shall consider the proposal for the submission of the application for stabilisation (hereinafter – the proposal for stabilisation) and take the decision not later than within two weeks following receipt of such a proposal.

(2) The local government council shall approve or reject, by a substantiated refusal, the proposal for stabilisation submitted by the persons referred to in Section 6, Paragraph two of this Law. The decision of the local government council on the submission of the application for stabilisation or the rejection of the proposal for stabilisation shall be sent to the Minister for Finance and the authorised minister not later than within five days from the signing thereof.

[*20 October 2005; 4 December 2008*]

**Section 8.** (1) Having received the decision of a local government council on the application for stabilisation, the Minister for Finance shall take one of the following decisions:

1) to initiate a process for the stabilisation of finances if a local government has submitted the application for stabilisation;

2) to not initiate a process for the stabilisation of finances if a local government council has rejected the proposal for stabilisation submitted by the persons referred to in Section 6, Paragraph two of this Law by a substantiated refusal, and the submitter agrees with this;

3) to examine the necessity for the financial stabilisation of a local government at a Cabinet meeting if an agreement is not reached between the person referred to in Section 6, Paragraph two of this Law and the local government regarding the necessity for financial stabilisation.

(2) The Minister for Finance shall establish a permanent committee in which representatives of the Ministry of Finance, institutions specified by the Cabinet which shall supervise the work of local governments, and representatives of the Latvian Association of Local and Regional Governments shall be included, and such committee shall be established for the examination of the application for stabilisation and the harmonisation of the project for the stabilisation of finances approved by a local government council.

(3) In the process of work, the committee established by the Minister for Finance shall invite the chairperson of the relevant local government council or an authorised representative thereof and the representatives of those ministries and other State authorities who are associated with the matters to be examined.

[*7 October 1999; 20 October 2005; 4 December 2008*]

**Section 9.** If a decision is taken regarding the initiation of a process for the stabilisation of local government finances, the Minister for Finance shall appoint a supervisor of the process for the stabilisation of local government finances (hereinafter – the stabilisation supervisor) by entering into an employment contract with him or her.

[*20 October 2005*]

**Chapter III**

**Project for Stabilisation of Finances and the Harmonisation Thereof**

[*20 October 2005*]

**Section 10.** (1) A local government council shall, not later than within one month following the appointment of the stabilisation supervisor, prepare, with the participation of the stabilisation supervisor, approve and send to the Minister for Finance a project for the stabilisation of local government finances (hereinafter – the stabilisation project).

(2) The chairperson of the local government council shall be responsible for the preparation and approval of the stabilisation project.

(3) The Minister for Finance has the right to reject the stabilisation project adopted by a local government by a substantiated refusal and return it to the respective local government for redrafting.

(4) Implementation of the stabilisation project shall be initiated following the receipt of acceptance of the Minister for Finance in written form for the stabilisation project.

(5) If the Minister for Finance rejects the stabilisation project prepared by a local government by a substantiated refusal for three times, the matter regarding the acceptance, rejection or redrafting of the stabilisation project shall be examined by the Cabinet.

[*7 December 2000; 20 October 2005; 4 December 2008*]

**Section 11.** The stabilisation project shall include the following:

1) a decision of the local government council on the approval of the stabilisation project;

2) the application prepared in accordance with the decision of the local government council;

3) detailed information with economic justification for measures to be performed in accordance with the stabilisation project;

4) a calculation of the joint financial resources necessary for the stabilisation of finances, and also the financing necessary for the specific measure of stabilisation in the respective year;

5) a statement from the State Revenue Service regarding the debt obligations of a local government and social insurance payments on the first day of the month when the stabilisation project is submitted;

6) a statement from the local government on the creditor and debtor debts of the local government on the first day of the month in which the stabilisation project is submitted;

7) a local government report on the budget implementation in the period of time up to the first day of the month in which the stabilisation project is submitted;

8) a project for planned amendments to the local government budget that is developed in order to promote the stabilisation of local government finances;

9) a schedule for the receipt and reimbursement of a stabilisation loan;

10) a schedule of the loans, guarantee obligations, and long-term liabilities of the local government.

[*20 October 2005; 4 December 2008*]

**Section 11.1** If a local government is planning to implement a new investment project within the framework of the stabilisation project, then, in addition to the documents referred to in Section 11 of this Law, it shall submit the relevant investment project. The opinion of an independent licensed expert shall be appended to the investment project.

[*20 October 2005*]

**Section 12.** Upon implementing the approved stabilisation project, a local government council may propose to the Minister for Finance that amendments be made to the abovementioned project. In such a case amendments to the approved stabilisation project shall be harmonised and approved by such procedures provided for in this Law for the harmonisation and approval of the stabilisation project.

[*20 October 2005; 4 December 2008*]

**Chapter IV**

**Stabilisation Loan**

**Section 13.** Stabilisation loans shall be granted to local governments within the framework of the stabilisation loans specified in the annual State budget law.

**Section 14.** (1) A stabilisation loan agreement shall be entered into following the approval of the stabilisation project between the chairperson of the local government council or his or her authorised person and the Minister for Finance or his or her authorised official.

(2) The following shall be specified in the stabilisation loan agreement in conformity with the provisions of this Law:

1) the size of the loan;

2) the measures for the implementation of which the resources will be used;

3) the interest on the loan;

4) the procedures and time limits for the reimbursement of the loan;

5) the procedures and time limits by which a loan will be paid into the local government account;

6) the liability of the contracting parties for the fulfilment of obligations;

7) a guarantee (security) for the reimbursement of the loan;

8) the procedure by which disputes of the contracting parties shall be examined.

[*20 October 2005; 4 December 2008*]

**Section 15.** (1) The time limit for the reimbursement of a stabilisation loan shall be determined by the Minister for Finance within the framework of each specific stabilisation project. The period in which reimbursement of the principal amount of the loan does not take place shall not exceed three years.

(2) The interest rates of the stabilisation loan shall be determined according to the procedures prescribed by laws and regulations.

[*7 December 2000; 20 October 2005*]

**Section 16.** (1) The fulfilment of the approved stabilisation project as well as the stabilisation loan agreement shall be monitored by the stabilisation supervisor.

(2) Each quarter a local government shall, by the fifteenth day of the first month of the subsequent quarter, inform the Minister for Finance in writing of the process of the implementation of measures for the stabilisation of finances as well as the financial situation of the local government. A statement from the State Revenue Service on the debt obligations of a local government and social insurance payments on the first of the month in which the report is submitted shall be appended to the information. The Ministry of Finance has the right to request any information associated with the stabilisation of finances.

[*20 October 2005*]

**Section 17.** (1) If a local government which, according to the stabilisation project, has received a stabilisation loan provides false information or hides conditions that may significantly influence the implementation of the approved stabilisation project, the Minister for Finance may, by a substantiated decision, suspend the payment of the unpaid part of the stabilisation loan. In such case the approved stabilisation project shall be considered as non-harmonised and the implementation thereof shall be suspended until repeated harmonisation of the project with the Minister for Finance.

(2) The decision referred to in Paragraph one of this Section shall be sent to the relevant local government and examined according to the provisions of Section 10 of this Law.

(3) The substantiated decision of the Minister for Finance on the suspension of payment of the unpaid part of the stabilisation loan may be appealed by a local government to court.

(4) If a local government which has received a stabilisation loan or the chairperson thereof repeatedly violates the requirements of this Law in relation to the implementation of the stabilisation project, the local government council or the chairperson thereof may be dismissed in accordance with the procedures determined in Chapter XII of the law On Local Governments.

[*20 October 2005; 4 December 2008*]

**Section 18.** If necessary, not later than within a month following the announcement of the annual State budget law, the Minister for Finance shall propose to the local government councils to make amendments to the approved stabilisation projects in order to harmonise these with the approved State budget law. In such case the proposals of the Minister for Finance regarding amendments to stabilisation projects shall be examined and approved in accordance with the procedures provided for in Section 10 of this Law.

[*20 October 2005; 4 December 2008*]

**Chapter V**

**Monitoring of Local Governments During the Period of the Stabilisation of Finances**

[*20 October 2005*]

**Section 19.** (1) The stabilisation supervisor shall have the following duties:

1) to participate in the development of a local government stabilisation project;

2) to prepare and submit, together with the stabilisation project, an opinion to the Minister for Finance in written form regarding the stabilisation project, expressing support or specific objections in the opinion and the substantiation thereof regarding the project overall or regarding separate points thereof;

3) in cooperation with a local government council, to supervise the implementation of the approved stabilisation project;

4) to make proposals to the local government council regarding budget amendments that are necessary for the implementation of the stabilisation project;

5) to propose that the local government council make amendments to the approved stabilisation project;

6) each quarter by the fifteenth day of the first month of the subsequent quarter, to inform the Minister for Finance, the committee referred to in Section 8, Paragraph two of this Law, and the local government council in writing of the process of the stabilisation of local government finances and the implementation of the stabilisation project.

(2) The stabilisation supervisor shall prepare in written form and submit to the local government council the proposals referred to in Paragraph one, Clauses 4 and 5 of this Section. The local government council shall examine the proposals submitted by the stabilisation supervisor in the meeting of the local government council within 15 days by convening a special meeting if necessary.

[*7 December 2000; 20 October 2005; 4 December 2008*]

**Section 20.** (1) The stabilisation supervisor has the following rights:

1) to request from the chairperson of a local government council, his or her deputy (deputies), and the executive director such information on the activities and finances of the local government which is necessary for him or her in the performance of his or her tasks;

2) to request information associated with the stabilisation of local government finances from the heads of local government institutions and capital companies and the heads of the capital companies the equity capital of which contains shares owned by the respective local government;

3) to propose that the audit commission of a local government and the Auditor General perform a special audit in relation to the administration and finances of local government institutions and capital companies;

4) pursuant to the procedures by which it is done by the chairperson of a local government council in accordance with the law On Local Governments, to submit draft decisions to the relevant finance committee of a local government and to the council for examination, and also to propose amendments to the previously adopted decisions;

5) to propose that the Minister for Finance suspend such a decision of a local government council which is in contravention of the implementation of the approved stabilisation project, concurrently submitting proposals regarding amendments to the abovementioned decision;

6) to monitor the expenses of a local government, including signing the local government payment orders if required by the Minister for Finance. The Minister for Finance shall determine those types of payments which may be performed during the period of the stabilisation of local government finances with a written permit of the stabilisation supervisor;

7) to propose a matter to the Minister for Finance regarding the suspension of payments of stabilisation loan resources to a local government.

(2) [20 October 2005]

[*20 October 2005; 4 December 2008*]

**Section 20.1** The activities of the stabilisation supervisor shall be monitored by the Minister for Finance. The duration of the activities of the stabilisation supervisor shall be determined by the Minister for Finance within the framework of each specific process of the stabilisation of local government finances, evaluating the financial situation of the relevant local government.

[*7 December 2000; 20 October 2005*]

**Section 21.** The wage, the expenses of official trips and work trips, the costs envisaged for the payment of telecommunication services, operating expenditures, and also other expenses incurred by the stabilisation supervisor and associated with the ensuring of the stabilisation process shall be paid from State budget funds, providing resources in the budget of the Ministry of Finance as a grant from the general revenue.

[*7 December 2000; 20 October 2005*]

**Section 22.** If the elected stabilisation supervisor does not fulfil or is unable to fulfil his or her duties, the Minister for Finance may dismiss him or her from the fulfilment of duties before the termination of the term of office and, if necessary, appoint another stabilisation supervisor for the remaining period of time.

[*7 December 2000; 20 October 2005*]

**Section 23.** All documentation compiled during the period of activities of the stabilisation supervisor regarding the process of the stabilisation of local government finances shall be stored in the Ministry of Finance until it is transferred to the National Archives of Latvia in accordance with the Archives Law.

[*7 December 2000; 20 October 2005; 20 September 2012*]

**Transitional Provision**

[*7 December 2000*]

Amendments to Section 21 of the Law in relation to the covering of expenses for the ensuring of a stabilisation process from the State budget funds that are provided for in the budget resources of the Ministry of Finance as a grant from the general revenue shall come into force on 1 January 2001.

[*20 October 2005*]

The Law has been adopted by the *Saeima* on 21 May 1998.

President G. Ulmanis

Rīga, 3 June 1998