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Local Government Financial Management Act

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Amended by the following acts

Passed	Published	Entry into force
13.01.2011	RT I, 03.02.2011, 1	13.02.2011
07.12.2011	RT I, 23.12.2011, 2	24.12.2011, partially 01.01.2012 and 01.02.2012
12.12.2013	RT I, 28.12.2012, 3	01.01.2013
19.02.2014	RT I, 13.03.2014, 2	23.03.2014
19.06.2014	RT I, 29.06.2014, 109	01.07.2014, the titles of ministers substituted on the basis of subsection 107 ³ (4) of the Government of the Republic Act in the wording in force as of 1 July 2014.
11.06.2015	RT I, 30.06.2015, 4	01.09.2015, partially 01.07.2015
07.06.2016	RT I, 21.06.2016, 1	01.07.2016
23.01.2018	RT I, 02.02.2018, 9	01.01.2019
20.04.2020	RT I, 06.05.2020, 1	07.05.2020
17.06.2020	RT I, 10.07.2020, 5	20.07.2020
09.12.2020	RT I, 17.12.2020, 5	27.12.2020

Chapter 1 GENERAL PROVISIONS

§ 1. Scope of application

Local Government Financial Management Act provides the principles of preparation, adoption, implementation and reporting of local government budgets, measures for ensuring financial discipline of local government financial management units, principles of the procedure for application of measures for ensuring financial discipline and principles of the procedure for eliminating the risk of a difficult financial situation.
[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

§ 2. Definitions

In this Act, the following definitions are used:

- 1) budget – a plan of operating revenue, operating expenditure, investment activities, financing activities and changes in liquid assets for a budgetary year together with additional requirements, authorities and information which are the basis for financing the activities of a local government during the corresponding year;
- 2) [repealed - RT I, 28.12.2012, 3 - entry into force 01.01.2013]
- 3) activities – functions of a local government for the fulfilment of which objectives and indicators showing their fulfilment may be established;
- 4) objective of activities – a particular measurable purpose expressing the expected impact or results established for a budgetary year on the basis of an analysis of the situation and the development plan;
- 5) income – operating revenue according to §§ 7 and 14 of this Act, revenue from sale of tangible and intangible fixed assets (hereinafter *fixed assets*) and holdings or other shares, targeted financing received for acquisition of fixed assets, financial income and received payments for loans;

- 6) expenses – operating expenditure according to §§ 8 and 15 of this Act, acquisition of fixed assets, holdings or other shares, targeted financing granted for acquisition of fixed assets, financial expenses and granting of loans, and performance of the obligations specified in clause 10 (1) 2) and clause 17 (1) 2);
- 7) investment – acquisition of fixed assets and value added tax expenses related thereto in connection with the construction or renovation of facilities or acquisition of assets;
- 8) local government financial management unit – a local government and a unit dependent thereon;
- 9) dependent unit – a unit which is under direct or indirect dominant influence of a local government within the meaning of the Accounting Act which has received more than half of its income from a local government, the state, another legal persons in public law or units under the dominant influence of the aforementioned persons or support and rental income from local governments and units under the dominant influence thereof more than 10 per cent of the operating revenue of a corresponding year.

§ 3. Application of Accounting Act

In this Act, definitions are used within the meaning of the Accounting Act, taking into account the specifications of this Act.

§ 4. Budgetary year

- (1) The budgetary year of a local government begins on 1 January and ends on 31 December.
- (2) The budget of a local government (hereinafter *budget*) shall be approved for one budgetary year. The budget may include information concerning a longer period than the budgetary year.

§ 5. Budget structure and classification

(1) The budget is composed of sections and is either cash based or accrual based. The specifications for preparation of a cash based budget are provided for in §§ 6–12 of this Act. The specifications for preparation of an accrual based budget are provided for in §§ 13–19 of this Act.

- (2) Budget sections are:
- 1) operating revenue;
 - 2) operating expenditure;
 - 3) investment activities;
 - 4) financing activities;
 - 5) changes in liquid assets.

(3) The detail of classification of the budget sections specified in subsection (2) of this section shall comply with at least the provisions of §§ 7–11 of this Act in case of a cash based budget and the provisions of §§ 14–18 in case of an accrual based budget.

(4) Sections, annexes and additional information not specified in subsection (2) of this section may be added to the budget including transactions between administrative agencies and agencies under the governance of administrative agencies and between activities and objectives necessary for specifying the financial situation and supplementing the budget of a local government but which are not taken into account in the budget sections specified in subsection (2).

(5) The budget may additionally be classified by activities and the activities additionally by objectives in the budget sections specified in subsection (2) of this section. Indicators shall be added to the objectives in order to measure their fulfilment. An indicator is a quantitative or qualitative measure expressing the fulfilment of the objective which allows to analyse movement towards the fulfilment of the objective.

(6) A council may authorise a rural municipality or city government to classify the budget in more detail.

(7) A reserve for incidental expenses may be separately planned in the budget as operating expenditure. A rural municipality or city government shall allocate funds from the reserve for specific purposes. A rural municipality or city government shall establish the conditions and procedure for using the funds of the reserve.
[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

Chapter 2 GENERAL PRINCIPLES OF PREPARATION OF CASH BASED BUDGET

§ 6. Cash based budget

(1) In the case of a cash based budget, business transactions are planned in the period when cash is planned to be received or paid for the transactions.

(2) In addition to transactions related to the receipt or payment of cash, the following shall be recorded in the budget:

- 1) transactions related to targeted financing in the budget sections of operating revenue, operating expenditure and investment activities in the case of which the transferor of targeted financing shall transfer the cash directly to the supplier from whom the local government receives goods or services in the period when transfer of cash is planned;
- 2) acquisition of fixed assets under financial lease conditions or on the basis of service concession agreements in the budget sections of investment activities and financing activities in the period when obtaining the right of use of fixed assets under financial lease conditions or on the basis of service concession agreements is planned.

§ 7. Budget section of operating revenue of cash based budget

(1) In the budget section of operating revenue, revenue shall be classified according to economic content at least as follows:

- 1) tax revenue;
- 2) revenue from sale of goods and services;
- 3) received support;
- 4) other operating revenue.

(2) The following are not planned in the budget section of operating revenue:

- 1) targeted financing received for acquisition of fixed assets;
- 2) revenue from sale of fixed assets;
- 3) revenue from sale of holdings and other shares;
- 4) financial income.

§ 8. Budget section of operating expenditure of cash based budget

(1) In the budget section of operating expenditure, expenditure shall be classified according to economic content at least as follows:

- 1) granted support;
- 2) other operating expenses.

(2) Value added tax expenses related to business transactions shall be recorded together with the cost of goods and services depending on the classification of cost of goods and services.

(3) The following are not planned in the budget section of operating expenditure:

- 1) targeted financing granted for acquisition of fixed assets;
- 2) acquisition of fixed assets;
- 3) acquisition of holdings and other shares;
- 4) financial expenses.

§ 9. Budget section of investment activities of cash based budget

(1) The budget section of investment activities shall be classified according to economic content at least as follows:

- 1) acquisition of fixed assets;
- 2) sale of fixed assets;
- 3) targeted financing received for acquisition of fixed assets;
- 4) targeted financing granted for acquisition of fixed assets;
- 5) acquisition of holdings;
- 6) sale of holdings;
- 7) acquisition of other shares;
- 8) sale of other shares;
- 9) granted loans;
- 10) received payments for loans;
- 11) financial income and financial expenses.

(2) In order to calculate the total sum of the budget section of investment activities, the sales revenue specified in clauses (1) 2), 6) and 8) of this section, received targeted financing specified in clause 3), received payments for loans specified in clause 10) and the difference between the financial income and financial expenses specified in clause 11) are added up from which the acquisition cost specified in clauses 1), 5) and 7), granted targeted financing specified and in clause 4) and granted loans specified in clause 9) are deducted.

§ 10. Budget section of financing activities of cash based budget

(1) The budget section of financing activities shall be classified at least as follows:

- 1) taking of loans, issuing of bonds, assumption of finance lease and factoring obligations and assumption of obligations on the basis of service concession agreements;
- 2) repayment of loans taken, performance of finance lease and factoring obligations, redemption of bonds issued and repayments on the basis of service concession agreements.

(2) In order to calculate the total sum of the budget section of financing activities, funds planned for the assumption of obligations specified in clause (1) 1) of this section are added up from which funds planned for the performance of the obligations specified in clause 2) are deducted.

§ 11. Budget section of changes in liquid assets of cash based budget

(1) The budget section of changes in liquid assets shall be classified as follows:

- 1) changes in the balance of cash and bank accounts;
- 2) changes in the balance of shares of money market and interest funds;
- 3) changes in the balance of acquired bonds.

(2) Assets which comply with subsection 36 (1) of this Act are deemed to be liquid assets.

(3) Items specified in subsection (1) of this section may be planned as changes in liquid assets under one item.

(4) Increase and decrease in the balance of liquid assets shall be recorded in the budget section of changes in liquid assets correspondingly with a plus or minus.

§ 12. Balance, surplus and deficit of cash based budget

(1) For the purposes of this Act, budget outcome shall mean the difference between the total amount of the budget section of operating revenue and the total amount of the budget section of operating expenditure to which the total amount of the budget section of investment activities has been added. Budget outcome shall equal to the difference between the total amount of the budget section of changes in liquid assets and the total amount of the budget section of financing activities.

(2) Budget is balanced if budget outcome is equal to zero.

(3) Budget is in surplus if budget outcome is positive.

(4) Budget is in deficit if budget outcome is negative.

Chapter 3 GENERAL PRINCIPLES OF PREPARATION OF ACCRUAL BASED BUDGET

§ 13. Accrual based budget

In the case of an accrual based budget, transactions are recorded when they occur regardless of when cash is received or paid for the transactions.

§ 14. Budget section of operating revenue of accrual based budget

(1) In the budget section of operating revenue, revenue shall be classified according to economic content at least as follows:

- 1) tax revenue;
- 2) revenue from sale of goods and services;
- 3) received support;
- 4) other operating revenue.

(2) The following are not planned in the budget section of operating revenue:

- 1) profit and loss from sale of fixed assets;
- 2) targeted financing received for acquisition of fixed assets;
- 3) financial income.

(3) Changes in the claims and obligations related to revenue may be planned in the budget section of operating revenue and taken into account in the total amount thereof if such changes are forecasted to have a significant impact on the changes in the balance of cash and bank accounts recorded in the budget section of changes in liquid assets.

§ 15. Budget section of operating expenditure of accrual based budget

(1) In the budget section of operating expenditure, expenditure shall be classified according to economic content at least as follows:

- 1) granted support;
- 2) other operating expenses.

(2) The following are not planned in the budget section of operating expenditure:

- 1) depreciation and revaluation of fixed assets;
- 2) targeted financing granted for acquisition of fixed assets;

- 3) financial expenses;
- 4) value added tax expenses related to acquisition of fixed assets.

(3) Changes in the claims and obligations related to expenditure may be planned in the budget section of operating expenditure and taken into account in the total amount thereof if such changes are forecasted to have a significant impact on the changes in the balance of cash and bank accounts recorded in the budget section of changes in liquid assets.

§ 16. Budget section of investment activities of accrual based budget

(1) The budget section of investment activities shall be classified according to economic content at least as follows:

- 1) acquisition of fixed assets;
- 2) sale of fixed assets;
- 3) targeted financing received for acquisition of fixed assets;
- 4) targeted financing granted for acquisition of fixed assets;
- 5) acquisition of holdings;
- 6) sale of holdings;
- 7) acquisition of other shares;
- 8) sale of other shares;
- 9) granted loans;
- 10) received payments for loans;
- 11) financial income and financial expenses.

(2) The following shall not be planned in the budget section of investment activities:

- 1) non-monetary targeted financing received for acquisition of fixed assets and fixed assets received in connection with such financing, provided that it does not involve sale of goods and services by the supplier;
 - 2) non-monetary targeted financing granted for acquisition of fixed assets and non-monetary transfer of fixed assets in connection with such financing;
 - 3) non-monetary contributions to equities of companies, foundations and non-profit associations and non-monetary payments from equities of companies, foundations and non-profit associations;
 - 4) profit and loss arising from revaluation of financial investments and holdings, and a local government's share of the outcome of a financial year of a company with the participation of the local government.
- [RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(3) The sales specified in clauses (1) 2), 6) and 8) of this section are planned as sales revenue, not as profit or loss from sale.

(4) Investments shall be planned in the budget section of investment activities as acquisition of fixed assets together with value added tax expenses related to the acquisition.

(5) In order to calculate the total sum of the budget section of investment activities, the sales revenue specified in clauses (1) 2), 6) and 8) of this section, received targeted financing specified in clause 3), received payments for loans specified in clause 10) and the difference between the financial income and financial expenses specified in clause 11) are added up from which the acquisition cost specified in clauses 1), 5) and 7), granted targeted financing specified and in clause 4) and granted loans specified in clause 9) are deducted.

(6) Changes in the claims and obligations related to investment activities may be planned in the budget section of investment activities and taken into account in the total amount thereof if such changes are forecasted to have a significant impact on the changes in the balance of cash and bank accounts recorded in the budget section of changes in liquid assets.

§ 17. Budget section of financing activities of accrual based budget

(1) The budget section of financing activities shall be classified at least as follows:

- 1) taking of loans, issuing of bonds, assumption of finance lease and factoring obligations and assumption of obligations on the basis of service concession agreements;
- 2) repayment of loans taken, performance of finance lease and factoring obligations, redemption of bonds issued and repayments on the basis of service concession agreements.

(2) In order to calculate the total sum of the budget section of financing activities, funds planned for the assumption of obligations specified in clause (1) 1) of this section are added up from which funds planned for the performance of the obligations specified in clause 2) are deducted.

§ 18. Budget section of changes in liquid assets of accrual based budget

(1) The budget section of changes in liquid assets shall be classified as follows:

- 1) changes in the balance of cash and bank accounts;

- 2) changes in the balance of shares of money market and interest funds;
- 3) changes in the balance of acquired bonds.

(2) Assets which comply with subsection 36 (1) of this Act are deemed to be liquid assets.

(3) Items specified in subsection (1) of this section may be planned as changes in liquid assets under one item.

(4) Increase and decrease in the balance of liquid assets shall be recorded in the budget section of changes in liquid assets correspondingly with a plus or minus.

§ 19. Balance, surplus and deficit of accrual based budget

(1) For the purposes of this Act, budget outcome shall mean the difference between the total amount of the budget section of operating revenue and the total amount of the budget section of operating expenditure to which the total amount of the budget section of investment activities has been added. Budget outcome shall equal to the difference between the total amount of the budget section of changes in liquid assets and the total amount of the budget section of financing activities.

(2) Budget is balanced if budget outcome is equal to zero.

(3) Budget is in surplus if budget outcome is positive.

(4) Budget is in deficit if budget outcome is negative.

Chapter 4 PREPARATION OF BUDGET STRATEGY AND PREPARATION, ADOPTION, PUBLICATION AND IMPLEMENTATION OF BUDGET

§ 20. Preparation of budget strategy

(1) Budget strategy shall be prepared for the achievement of the objectives provided for in the development plan in order to plan the financing of intended activities. Budget strategy shall be prepared, processed, adopted and published in accordance with the provisions of § 37² of the Local Government Organisation Act.
[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(2) [Repealed - RT I 28.12, 2012, 3 - entry into force 01.01.2013]

(3) The following shall be presented in the budget strategy:

1) an analysis of the economic situation of a local government and forecast for the period of the budget strategy;

2) actual operating revenue classified at least as specified in subsection 7 (1) or 14 (1) of this Act, estimated operating expenditure classified at least as specified in subsection 8 (1) or 15 (1), the most significant activities and investments of the budget section of investment activities together with the forecasted total value and potential sources of financing, estimated volume of financing activities and changes in liquid assets regarding the year preceding the adoption of the budget strategy, and the above estimated for the current year and forecasted for the period of the budget strategy;

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

2¹) information concerning the planned amendments to local taxes and land tax for the budget strategy period;

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

3) an overview of the economic situation of a local government and the units dependent thereon, including figures necessary for calculating the operating result and net debt rate;

4) the operating result of a local government and local government financial management unit during the previous year, operating result forecasted for the current year and for every year of the budget strategy period as at the end of every year pursuant to § 33 of this Act;

5) actual net debt of a local government and local government financial management unit during the previous year, net debt forecasted for the current year and for the budget strategy period as at the end of every year pursuant to § 34 of this Act;

6) other information which is important in terms of organising the financial management of a local government.

(3¹) A unit dependent on a local government shall submit the information necessary for the preparation of the budget strategy to the rural municipality or city government within the terms and pursuant to the procedure prescribed in the regulation established on the basis of subsection 37²(1) of the Local Government Organisation Act.

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(4) Operating revenue, operating expenditure and investments may additionally be planned by activities in the budget strategy.

(5) A list of additional activities may be set out in the budget strategy which shall be financed if the planned revenue is exceeded.

(6) A lower value of the operating result of a local government and local government financial management unit than the permitted value may be planned in the budget strategy:

- 1) for two non-consecutive years;
- 2) for the following budgetary year if the planned operating result of the budget of the current year is not lower than zero.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(7) In the case specified in subsection (6) of this section, the total amount of operating results of the years planned by the budget strategy shall not be lower than zero.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

§ 21. Bases for preparation, adoption and implementation of budget

(1) A rural municipality or city council shall establish by a regulation the conditions of and procedure for:

- 1) classification of budgets;
- 2) preparation of draft budgets or draft supplementary budgets, processing and adoption thereof by the council;
- 3) processing and approval of annual reports by the council;
- 4) incurring of expenses if a budget has not been adopted;
- 5) implementation of budgets.

(2) The council may authorise a rural municipality or city government to establish by a regulation the procedure for the preparation of draft budgets or draft supplementary budgets and implementation of budgets.

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

§ 22. Preparation of draft budget

(1) A rural municipality or city government shall prepare a draft budget pursuant to the provisions of §§ 5 and 21 of this Act. An explanatory note shall be appended to the draft budget.

(2) At least the following information shall be presented in the explanatory note:

1) explanations and justification regarding the previous, current and coming budgetary year according to the classification specified in subsection 5 (3) of this Act.

1¹) explanations regarding the significant differences between the information in the draft budget and budget strategy;

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

2) an overview of the plan to fulfil the objectives indicated in the development plan and other development documents for the coming budgetary year and the activities planned for their fulfilment;

3) an overview of the investments planned for the coming budgetary year together with the cost and sources of financing;

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

3¹) the expected value of operating result and net debt of the local government and local government financial management unit by the end of the coming budgetary year;

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

4) an overview of activities or measures planned for the coming budgetary year in the budget strategy during the procedure for application of measures for ensuring financial discipline or in the recovery plan during the procedure for eliminating the risk of a difficult financial situation;

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

5) other relevant information concerning the coming budgetary year.

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(2¹) If a rural municipality or city district has been formed in a rural municipality or city, the draft budget shall be submitted together with the explanatory note to the rural municipality or city district assembly for obtaining its opinion. The opinion of the rural municipality or city district assembly shall be appended to the explanatory note of the draft budget submitted to the council.

[RT I, 21.06.2016, 1 - entry into force 01.07.2016]

(3) A rural municipality or city government shall submit the draft budget and explanatory note to the council not later than one month before the beginning of the coming budgetary year.

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(4) The draft budget and explanatory note shall be published on the website of the local government within seven working days after their submission to the council. The explanatory note shall be available on the website until the end of the budgetary year.

§ 23. Adoption of budget

(1) The initiator of a proposal for amending the draft budget shall append justification and calculations to the proposal which demonstrate the expenses arising from the planned amendments and the sources for covering such expenses. Upon assessment of a proposal made by the council, the opinion of the rural municipality or city government shall be heard.

(2) The council shall adopt the budget by a regulation.

(3) The budget shall be published on the website of the local government within seven working days after adoption of the budget. The minutes of council sessions and meetings of council committees concerning the budgetary procedure shall also be published on the website.

(4) The budget shall enter into force as of the beginning of the budgetary year.

§ 24. Budget not adopted by beginning of budgetary year

(1) If a rural municipality or city council has not adopted a budget by the beginning of the budgetary year, the rural municipality or city government may incur expenses planned in the draft budget until the budget is adopted if the term for incurring such expenses arrives before the budget is adopted and if such expenses arise from:

- 1) legislation;
- 2) a contract entered into for the performance of the obligations specified in clauses 34 (2) 1)–3), 5)–5²) and 7) and subsection 34 (7) of this Act;
- 3) subsection 27 (2) of this Act;
- 4) a court judgment.

(2) If a rural municipality or city council has not adopted a budget by the beginning of the budgetary year, the rural municipality or city government may, until a budget is adopted, incur the expenses not specified in subsection (1) of this section according to the classification determined by the rural municipality or city council in an amount of up to one twelfth of:

- 1) the expenses prescribed by the final budget of the previous year if the expenses are planned in the draft budget of the new budgetary year at least in the same amount, or
- 2) the expenses planned in the draft budget of the new budgetary year if the amount of expenses is smaller than the amount of expenses prescribed by the final budget of the previous year.

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

§ 25. Compensation for decrease in budget income or increase in budget expenses

If decrease in budget income and increase in budget expenses of a local government occur during the current budgetary year on the basis of legislation enacted by the Riigikogu or the Government of the Republic after the beginning of the budgetary year of the local government, the state shall compensate for such impacts of legislation to the same extent or proportionally decrease the obligations imposed on the local government.

§ 26. Supplementary budget

(1) A budget may be amended by a supplementary budget during the budgetary year. A rural municipality or city government shall prepare a draft supplementary budget and submit it to the council. An explanatory note with justification regarding the need for the supplementary budget shall be appended to the draft supplementary budget.

(2) The draft supplementary budget and the explanatory note shall be published in the manner and at the time provided by subsection 22 (4) of this Act.

(3) The council shall adopt the supplementary budget by a regulation. The supplementary budget shall be processed by the council and the adopted supplementary budget shall be published pursuant to subsections 23 (1) and (3) of this Act.

(4) A supplementary budget need not be prepared if:

- 1) revenue increases and expenditure is not increased;
- 2) expenditure decreases;

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

3) [repealed - RT I, 28.12.2012, 3 - entry into force 01.01.2013]

4) revenue increases by funds allocated for specific purposes or by donations and expenditure increases by expenses incurred from such funds or donations.

(5) If a supplementary budget is prepared during a budgetary year, the funds for specific purposes or donations and expenses incurred from such funds or donations specified in clause (4) 4) of this section shall be planned in the supplementary budget.

(6) A rural municipality or city government may incur expenses planned in the draft supplementary budget from the submission of the draft supplementary budget to the council until adoption of the supplementary budget if the term for incurring such expenses arrives before the supplementary budget is adopted and if such expenses arise from:

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

1) legislation;

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

2) a contract entered into for the performance of the obligations specified in clauses 34 (2) 1)–3), 5)–5²) and 7) and subsection 34 (7) of this Act;

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

3) [repealed - RT I, 28.12.2012, 3 - entry into force 01.01.2013]

4) a court judgment.

(6¹) A rural municipality or city government may incur the expenses specified in subsection 27 (2) of this Act before the supplementary budget is adopted.

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(7) The council shall adopt the amendments arising from a recovery plan by the supplementary budget within one month from the approval of the plan. If the budget of a local government has not yet been adopted, the amendments shall be recorded in the draft budget of the local government.

§ 27. Planning of unincurred expenses in following budgetary year

(1) Expenses prescribed in the budget of the previous year which remained unincurred shall be planned in the current budgetary year either by the budget, if the budget has not been adopted by the beginning of the year, or by the supplementary budget.

(2) Unincurred expenses of the previous budgetary year may be planned in the budget or supplementary budget in budget sections as the total amount if such expenses arise from:

1) a contract entered into for the implementation of investments or announced public procurement;

2) targeted financing granted for acquisition of fixed assets on the basis of a contract entered into;

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

3) targeted financing received on the basis of the contract entered into.

(3) In the case of planning the expenses specified in subsection (2) of this section as total amounts, a rural municipality or city government shall establish a more detailed division of the expenses. Expenses carried forward may be used for the purpose prescribed in the budget of the previous year.

§ 28. Implementation of budget

(1) A rural municipality or city government shall organise the implementation of budget and accounting. Implementation of the budget is the collection of revenue, incurring of expenses and transactions with assets and obligations, as well as keeping an account thereof pursuant to the accounting principles used in the preparation of the budget.

(2) Rural municipality and city governments, local government agencies or agencies under the governance of administrative agencies may conclude transactions only within the limits of the amount of expenses prescribed in the budget, except in the cases specified in § 24, clause 26 (4) 4) and subsections 26 (6) and (6¹) of this Act.
[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(3) Rural municipality and city governments, local government agencies or agencies under the governance of administrative agencies may enter into contracts which involve expenses during the coming budgetary years if such expenses have been taken into account in the budgetary strategy. If the expenses have not been taken into account in the budget strategy, a contract may be entered into only with the permission of the council.
[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(3¹) A rural municipality or city council may permit the rural municipality or city government to place a temporary restriction on the incurring of expenses prescribed in the budget by a regulation specified in subsection 21 (1) of this Act in the event of lower receipts of revenue than planned in the course of implementing the budget. The regulation shall provide the conditions, extent and duration of the restriction. The rural municipality or city government shall inform the rural municipality or city council of the restriction on expenses.

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(4) In the case of an accrual based budget, depreciations, write-downs, write-offs, value adjustments arising from accounting principles, receivables regarded as doubtful, exchange gains and losses, forming and

adjustment of appropriations and other revaluations and adjustments arising from the accounting principles may be recorded upon implementation of the budget regardless of whether they were prescribed in the budget or not.

(5) Upon implementation of the budget sections of operating expenditure and investment activities, one of these sections may be implemented more by the same extent if the other section is not implemented and if it is caused by the conditions appeared after the organisation of procurements due to which upon implementation of the budget the planned transaction is classified according to the rules for registering fixed assets differently than prescribed in the budget.

Chapter 5 REPORTING

§ 29. Preparation and approval of annual report

(1) Annual reports shall be prepared in accordance with the principles provided for in the Accounting Act, taking into account the specifications provided for in this Act.

(2) A rural municipality or city government shall prepare and approve an annual report. The annual report shall be signed and dated by the rural municipality or city mayor immediately after the rural municipality or city government has approved the report.

(3) In addition to the provisions of §§ 24 or 31 of the Accounting Act, the management report shall contain:

- 1) an overview of the fulfilment of the objectives prescribed in the development plan or other development documents of a local government during the accounting year. If indicators are applied, intended and actual information of the indicators shall be presented in the overview;
- 2) the value of operating result of the preceding five accounting years pursuant to subsection 33 (1) of this Act;
- 3) net debt of the preceding five accounting years pursuant to subsection 34 (1) of this Act;
- 4) reasons for failure to comply with the permitted value of the operating result specified in subsection 33 (2) of this Act or the upper limit on net debt specified in subsections 34 (3)–(5) of this Act if such failure has occurred;
- 5) an overview of activities planned for the application of measures for ensuring financial discipline planned in the budget strategy or the implementation of the recovery plan during the procedure specified in §§ 40 and 44 of this Act.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(4) The report on the implementation of the budget which is a part of the annual accounts shall contain according to the classification specified in subsection 5 (3) of this Act at least the following:

- 1) initial budget of the accounting year;
- 2) final budget of the accounting year;
- 3) information on the implementation of the budget of the accounting year.

(5) An initial budget is the budget of an accounting year adopted pursuant to subsection 23 (2) of this Act.

(6) A final budget is the initial budget together with the amendments arising from supplementary budgets, clause 26 (4) 4) of this Act and the decision to use the reserve.

(7) It is not compulsory to present comparable figures concerning the financial year preceding the accounting year in the report on the implementation of the budget.

(8) An annex to the annual accounts shall be prepared concerning the report on the implementation of the budget which shall contain:

- 1) explanations and justification regarding the significant differences between the initial budget and the final budget;
- 2) explanations and justification regarding the significant differences between the final budget and the implementation of the budget;
- 3) in the case of an accrual based budget, comparison between the figures with corresponding titles presented in the report on the implementation of the budget and other main statements of and annexes to the annual accounts at least according to the classification specified in subsection 5 (3) of this Act which shall also include the actual figures which were not planned on the basis of this Act or which were planned in other budget sections and explanations and justification regarding significant differences.

(9) Within the meaning of the Accounting Act and legislation established on the basis thereof, companies, foundations and non-profit organisations under dominant or significant influence of a local government shall submit to the rural municipality or city government within four months after the end of the financial year the approved annual report and the sworn auditor's report if auditing of the annual accounts is compulsory on the basis of the Auditors Activities Act.

(10) Before the approval of the annual report by the council, the revision committee shall review the annual report submitted to the council and hear the auditor who audited the report and who shall explain the contents of the most significant audit findings and irregularities detected in the course of the audit. Thereafter the revision

committee shall prepare a written report which shall be presented to the council. The revision committee shall state in the report whether it supports the approval of the annual report prepared by the rural municipality or city government, and shall submit a proposal to the council for improving the internal audit system considering the audit findings and irregularities detected in the annual report, as needed. In addition, the revision committee shall give an overview of its activities in the report.

[RT I, 02.02.2018, 9 - entry into force 01.01.2019, applicable to accounting periods starting on 1 January 2018 or later.]

(11) A rural municipality or city government shall submit the approved and signed annual report to the council for approval not later than by 31 May. The sworn auditor's report and decision of the rural municipality or city government on the approval of the report shall be appended to the annual report. The council shall approve the annual report by a resolution not later than by 30 June.

(12) The annual report, the sworn auditor's report, the officially recorded decision of the rural municipality or city government on the approval of the report and the resolution of the council on the approval of the report shall be published within seven working days after their approval on the website of the local government.

(13) An audit of the annual accounts of a local government shall be conducted in accordance with the Auditors Activities Act and the sworn auditor's report shall be prepared in the format established for the reports of public-interest entities.

[RT I, 02.02.2018, 9 - entry into force 01.01.2019, applicable to accounting periods starting on 1 January 2018 or later.]

§ 30. Budget and budget strategy submitted to state

(1) A local government shall submit to the Ministry of Finance the budget strategy by functional groups and the budget, supplementary budget and information on the implementation of the budget by functions.

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(2) The conditions of, procedure and format for submitting the documents specified in subsection (1) of this section shall be established by a regulation of the minister responsible for the area.

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(3) A local government shall submit information on the budget strategy by 30 October of the year preceding the budgetary year.

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(4) A local government shall submit information on the budget, supplementary budget and implementation of the budget by the last date of the month following each quarter.

§ 31. Other information on financial activities

(1) In justified cases, the Ministry of Finance has the right to receive information on one occasion from local governments which is not included in the annual report, budget or budget strategy, or reports established on the basis of subsection 35 (2) of the Accounting Act, and other information, including copies of the contracts entered into for the assumption of debt obligations specified in subsections 34 (2) and (7) of this Act. If such information concerns all local governments, the Ministry of Finance shall inform national local government associations (hereinafter *national association*) before requesting the information.

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(2) A local government shall notify the Ministry of Finance of entry into service concession agreements by submitting information on the content, duration, financial terms and conditions, and financial volume of the project. The information shall be submitted within 30 working days from entry into the agreement. The Ministry of Finance has the right to demand the submission of the agreements concerning the above projects and other documents related thereto.

(3) State agencies, except the National Audit Office, shall ask for an approval from the Ministry of Finance before requesting additional financial information from local governments, unless the reporting is conducted on the basis of legislation or arises from a contract.

(4) In the application submitted for the receipt of financial information specified in subsection (3) of this section, a state agency shall indicate the purpose for requesting financial information and the content and volume of the requested information. The Ministry of Finance shall present its opinion to the state agency within ten working days after the date of receipt of the application. The Ministry of Finance has the right to disapprove the application if such information can be obtained from the existing reports.

Chapter 6

ENSURING FINANCIAL DISCIPLINE

§ 32. Measures for ensuring financial discipline

- (1) Measures for ensuring financial discipline of a local government include compliance with:
- 1) the permitted value of the operating result of a local government and local government financial management unit for the purposes of § 33 of this Act;
 - 2) the upper limit on net debt of a local government and local government financial management unit for the purposes of § 34 of this Act.
- (2) The value of the operating result and net debt shall be calculated on the basis of the information of accrual based accounting:
- 1) regarding a local government as at the end of the accounting year;
 - 2) regarding a local government financial management unit in consolidated form as at the end of the accounting year;
- (3) Consolidation shall be carried out in accordance with subsection 27 (4) of the Accounting Act.
- (4) Specific calculation methods for the figures specified in subsection 33 (1) and subsection 34 (1) of this Act shall be established by a regulation of the minister responsible for the area.

§ 33. Permitted value of operating result

- (1) Operating result is the difference between operating revenue and operating expenditure.
- (2) The value of operating result as at the end of an accounting year shall not be lower than zero.
[RT I, 13.03.2014, 2 - entry into force 23.03.2014]
- (3) The operating result as at the end of an accounting year may be lower than the permitted value determined in subsection (2) of this section if the operating result of the preceding year corresponded to the permitted value determined in subsection (2) of this section.
[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

§ 34. Upper limit on net debt

- (1) Net debt is the difference between the amount of the debt obligations specified in subsection (2) of this section and the total amount of the liquid assets specified in § 36 of this Act.
- (2) The following obligations recorded in the balance sheet are taken into account upon calculating net debt:
- 1) loans taken;
 - 2) finance lease and factoring obligations;
 - 3) bonds issued;
 - 4) obligations not performed within the term;
 - 5) obligations to repay received support;
[RT I, 28.12.2012, 3 - entry into force 01.01.2013]
 - 5¹) advance payments received for support;
[RT I, 28.12.2012, 3 - entry into force 01.01.2013]
 - 5²) obligations to grant support;
[RT I, 28.12.2012, 3 - entry into force 01.01.2013]
 - 6) long-term debts to suppliers;
 - 7) obligations arising from service concession agreements;
 - 8) other long-term obligations requiring future payments.
- (3) At the end of an accounting year, the net debt may amount to a sixfold difference between the operating revenue and operating expenditure of the accounting year ended but shall not exceed the total amount of the operating revenue of the same accounting year.
- (4) If the sixfold difference between the operating revenue and operating expenditure calculated on the basis of subsection (3) of this section is less than 60 per cent of the operating revenue of the corresponding accounting year, the net debt may amount to up to 60 per cent of the operating revenue of the corresponding accounting year.
- (5) Net debt may exceed the upper limit on net debt established by subsections (3) and (4) of this section by the total amount of debt obligations assumed to provide bridge financing for support.
- (5¹) [Repealed - RT I, 28.12.2012, 3 - entry into force 01.01.2013]
- (6) For the purposes of this Act, bridge financing shall mean the assumption of debt obligations to the extent of targeted foreign financing and received co-financing related thereto in order to make payments within the framework of the respective project until the receipt of targeted financing and co-financing.

(7) In addition to the on-balance sheet debt obligations specified in subsection (2) of this section, lease obligations of the following periods arising from non-cancellable operational leasing contracts with a non-cancellable period of more than one year recorded in off-balance sheet items shall be taken into account in the net debt.

(8) Upon calculation of the difference between the operating revenue and operating expenditure specified in subsections (3) and (4) of this section, leasing costs arising from contracts specified in subsection (7) of this section shall be deducted from the operating expenditure of the accounting year.

§ 34¹. Taking account of application of measures for ensuring financial discipline upon granting investment support

(1) In order to receive investment support from the state budget on the conditions provided for in subsection 50 (5) of the State Budget Act, a local government and local government financial management unit shall comply with the following requirements:

1) the operating result of the year preceding the year of submission of the application shall correspond to the permitted value specified in subsection 33 (2) of this Act, except in the case specified in clause (2) of this subsection;

2) the operating result prescribed in the budget of the year of submission of the application shall correspond to the permitted value specified in subsection 33 (2) of this Act if the operating result of the year preceding the year of submission of the application complied with the provisions of subsection 33 (3) of this Act;

3) net debt shall not, according to the latest known data and the approved budget of the year of submission of the application, exceed as at the end of the year the upper limit provided for in subsections 34 (3)–(5) of this Act;

4) the upper limit on net debt provided for in subsections 34 (3)–(5) of this Act shall not be exceeded by a debt obligation assumed to cover self-financing of a project.

(2) If a local government is required to cover self-financing of an investment but it is not planned in the budget and the local government does not assume a debt obligation to cover it, the planned amount of the balance of liquid assets at the end of the year of submission of the application according to the latest known data or the increased income or reduced expenses planned for covering self-financing shall cover the amount of self-financing. In the case of a multi-annual project, the above data shall be taken into account for each year of the period of the project.

(3) If a local government plans to cover self-financing by assuming a debt obligation but the assumption of the debt obligation is not planned in the budget or budget strategy, the amount of the operating result based on the latest known data in the year of submission of the application and three coming years shall cover each year the planned financial expenses and repayment expenses of the existing debt obligations and the debt obligation to be assumed.

(4) If the applicant for support is a local government or a unit dependent thereon or they contribute to self-financing of the project of another applicant and the requirements specified in subsections (1)–(3) of this section are not complied with, the provider of support shall exclude the project from the investment plan or refuse to satisfy the application, except in the case specified in subsection (5) of this section.

(5) If during the processing of the application the requirements specified in subsections (1)–(3) of this Act are not complied with but it is possible to implement the project in the current year or coming years, the provider of support may decide to satisfy the application by a secondary condition. The decision shall specify a date by which the requirements provided for in subsections (1)–(3) of this section shall be complied with.

(6) Upon setting a secondary condition for compliance with the requirements provided for in subsections (1)–(3) of this section, the provider of support is required to ask the opinion of the Ministry of Finance before making the decision on the application.

(7) The requirements provided for in subsection (1) of this section shall not apply to health care providers for the purposes of the Health Care Services Organisation Act.
[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

§ 35. Strengthening consolidated budget position and increasing financial capability of local governments

(1) If the agreement specified in subsection (2) of this section is reached, support shall be prescribed by the state budget for local governments for increasing financial capability and strengthening the consolidated budget position (hereinafter *support for increasing financial capability*).

(2) The agreed amount of the consolidated annual deficit of local government financial management units which constitutes the basis for the payment of the support for increasing financial capability and the corresponding amount of the support shall be determined by an agreement between the authorised representatives of local governments and local government associations and the representatives of the

Government of the Republic. The amount of the support for increasing financial capability and the agreed amount of the consolidated annual deficit of local government financial management units which constitutes the basis for the payment of support shall be prescribed in the state budget.

(3) If the agreement specified in subsection (2) of this section is not reached, the maximum permitted amount of the consolidated annual deficit of local government financial management units may be prescribed in the state budget. Annual limits on deficit for local governments shall be determined in accordance with subsection (8) of this section.

(4) Principles for calculating the consolidated deficit of local government financial management units shall be determined by a regulation of the minister responsible for the area established on the basis of subsection 32 (4) of this Act.

(5) The national association shall organise the allocation of limits on deficit to local governments within the agreed annual deficit specified in subsection (2) of this section. Upon allocation of the limits, the national association shall consult with local governments which are not members of the association in a timely and appropriate manner. The limit on deficit for a local government financial management unit shall be presented regarding the local government.

(6) If an agreement on the allocation of limits on deficit exists, the national association shall submit a proposal to the Ministry of Finance concerning the allocations of the limits on annual deficit to local governments by 1 December of the year preceding the budgetary year.

(7) If the national association fails to submit the information on the limits on annual deficit for all local governments by the date specified in subsection (6) of this section, the limit on annual deficit for every local government shall be calculated in proportion to the allocation of income tax to local governments on the basis of the information of the accounting year ended.

(8) The minister responsible for the area shall approve the limits on annual deficit of local government financial management units by local governments.

(9) The actual consolidated surplus or deficit of local government financial management units of the year preceding the year when support is allocated shall constitute the basis for the payment of the support for increasing financial capability. The support for increasing financial capability paid to local governments shall be reduced by the amount by which the actual consolidated deficit of local government financial management units exceeded the consolidated annual deficit of local government financial management units specified in subsection (2) of this section.

(10) If at the end of a budgetary year the actual annual deficit of a local government financial management unit exceeds the limit approved on the basis of subsection (8) of this section, the support for increasing financial capability granted to the local government on the basis of subsection (12) of this section shall be reduced in the following years by the amount which exceeded the limit on deficit.

(11) The support for increasing financial capability shall be allocated to local governments as support prescribed in subsection 46 (1) of the State Budget Act to the extent determined in the state budget, taking into account the conditions specified in subsections (9) and (10) of this section.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(12) The extent, conditions and procedure for the payment of the support for increasing financial capability shall be established by a regulation of the Government of the Republic.

(13) The support for increasing financial capability may be used to finance investments, acquire holdings and shares, and perform obligations specified in clauses 34 (2) 1)–3) and 7).

§ 35¹. Extraordinary restriction on assumption of debt obligations

(1) The extraordinary restriction on assumption of debt obligations shall apply if the state financial forecast which provides the basis for the state budget strategy indicates during a budgetary year the increase of the budget position deficit of the general government sector in excess of two and a half per cent of the gross domestic product (hereinafter *GDP*) or the increase of the debt of the general government sector in excess of 55 per cent of the GDP.

(2) The extraordinary restriction on assumption of debt obligations shall apply two weeks after the state financial forecast indicating the circumstances specified in subsection (1) of this section is published on the website of the Ministry of Finance. The duration of the restriction shall be 90 days.

(3) The Ministry of Finance shall immediately inform local governments of the entry into force and termination of the restriction.

(4) During the period of the extraordinary restriction on assumption of debt obligations, a local government and a unit dependent thereon may assume only the debt obligations specified in clauses 34 (2) 1)–3) and 7) of this

Act in order to ensure bridge financing for the following support or self-financing necessary for receiving the following support:

- 1) support received on the basis of the Structural Assistance Act;
- 2) support received from the European Union on the basis of other legislation;
- 3) support allocated to the Republic of Estonia on the basis of international agreements;
- 4) investment support granted from the state budget.

(5) A local government and a unit dependent thereon may refinance the debt obligations specified in clauses 34 (2) 1)–3) and 7) of this Act on the condition that the total amount of debt obligations compared to that as at the beginning of the budgetary year shall not increase.

(6) The extraordinary restriction on assumption of debt obligations shall not apply to debt obligations for the assumption of which a public procurement or, in the case of bonds, a public offer has been announced before the state financial forecast indicating the circumstances specified in subsection (1) of this section are published on the website of the Ministry of Finance.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

§ 35². Assumption of debt obligations during extraordinary restriction on assumption of debt obligations

(1) A local government and a unit dependent thereon shall submit an application for approval for assumption of an obligation specified in subsections 35¹(4) and (5) of this Act to the Ministry of Finance before assumption of the respective obligation.

(2) The Ministry of Finance shall review the application within 20 working days as of receipt of the application. In the course of processing the application, the Ministry of Finance has the right to request additional information and documents from the applicant to make the analysis specified in subsection (3) of this section. The Ministry of Finance shall set a term for the elimination of the deficiencies contained in the application or the submission of additional information and documents by which the term for processing the application shall be extended.

(3) The Ministry of Finance shall analyse, based on the information submitted by a local government and a unit dependent thereon, whether it is possible to ensure self-financing of the support specified in subsection 35¹(4) of this Act without assumption of obligations:

- 1) by reducing the volume of the remaining investments, except for investments related to the support specified in subsection 35¹(4) of this Act or supported from the budget of legal persons in public law or certified unavoidable investments;
- 2) on account of positive operating result, taking into account the need to ensure the sustainable ability of the local government and the unit dependent thereon to pay financial expenses and assumed obligations;
- 3) on account of the reserve planned in the budget or liquid assets, taking into account the need to retain liquid reserve necessary for covering operating expenditure.

(4) The Ministry of Finance shall analyse the application on the basis of the budget and budget strategy of the local government and the information presented in the reports prepared pursuant to subsection 35 (2) of the Accounting Act.

(5) If the results of the analysis specified in subsection (3) of this section reveal that the local government or the unit dependent thereon is capable of ensuring self-financing of the support specified in subsection 35¹(4) of this Act without assumption of debt obligations, the Ministry of Finance may disapprove the application for assumption of an obligation or grant an approval for a smaller amount. Upon partial approval for the assumption of an obligation, the Ministry of Finance shall submit a reasoned proposal for reducing the amount of the obligation to be assumed.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

Chapter 7

REQUIREMENTS FOR ASSETS AND ASSUMPTION OF OBLIGATIONS

§ 36. Liquid assets

(1) For the purposes of this Act, liquid assets shall mean cash and funds on bank accounts, shares and units of money market and interest funds, and acquired bonds.

(1¹) A local government may own cash but not exceeding the upper limit on the amount kept in cash established by the rural municipality or city government.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(1²) A local government and a unit dependent thereon may own a deposit for everyday settlements:

1) in a credit institution which has no credit rating or the credit rating of which is lower than the investment grade credit rating according to the evaluation of internationally recognised rating agencies on the conditions determined in subsection (1³) of this section;

2) in a credit institution or a foreign credit institution acting as a parent undertaking or a branch thereof which has an investment grade credit rating.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(1³) The balance of the deposits placed in a credit institution specified in clause (1²) 1) of this section shall not as at the end of the month be more than 0.5 per cent of the total amount of the operating revenue of the budget of the local government or the previous accounting year of the unit dependent thereon.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(2) A local government and a unit dependent thereon may invest funds determined as liquid assets in subsection (1) of this section in:

1) deposits in credit institutions maturing in one year if the credit rating of the credit institution or a foreign credit institution acting as a parent undertaking or a branch thereof according to the evaluation of internationally recognised rating agencies (hereinafter *credit rating*) is not lower than P-1 (*Moody's*) or its equivalent;

2) bonds the credit rating of the issuer of which is not lower than A2 (*Moody's*) or P-1 (*Moody's*) or their equivalent;

3) shares and units of money market and interest funds which comply with the requirements provided for in the Investment Funds Act concerning UCITS-s.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(2¹) If the highest credit rating of the issuer of the bond has become lower than the credit rating specified in clause (2) 2) of this section after the acquisition of the bond or the money market and interest fund does not comply with the requirements specified in clause (2) 3) of this section after the acquisition of the units, the local government and the unit dependent thereon shall realise the bond or transfer the unit within three months.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(3) A credit institution or a foreign credit institution acting as a parent undertaking or a branch thereof who is the issuer of the securities or depository of the deposits specified in clauses (2) 1) and 2) of this section must be established in the contract state of the European Economic Area or the prudential ratios applicable to such institution must comply with the requirements which are at least as strict as those established by the legislation of the European Union.

(4) The conditions and procedure for the investment and use of liquid assets of a local government shall be established by the rural municipality or city government, taking into account the requirements of this Act.

§ 37. Requirements for other assets

(1) A local government shall not acquire shares and other equity instruments and securities which are not considered liquid assets according to § 36 of this Act unless such acquisition is necessary for the performance of functions arising from subsections 6 (1) and (2) of the Local Government Organisation Act or other acts.

(2) A local government may, in accordance with the budget strategy, grant a loan for investments only to a unit which has been dependent thereon in the last three years and which is dependant thereon in the budgetary year and secure the obligations assumed by the dependent unit for the same purpose.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(2¹) A local government may grant a loan for the purpose of managing cash flows to a unit which has been dependent thereon in the last three years and which is dependant thereon in the budgetary year provided that the loan shall be repaid by the end of the budgetary year. The council may decide on the grant of a loan separately for each individual case or establish a limit for the total amount of granted loans for the rural municipality or city government for the budgetary year.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(2²) A local government may secure the obligations of a person who is engaged in relending to local governments assumed for the same purpose on the following conditions:

1) relending is the principal activity of the person;

2) the person is founded jointly by at least three local governments and all the shares of the person operating as a company are held by at least three local governments.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(3) A local government may, in order to secure its debt obligation or a debt obligation of a unit dependent thereon and in accordance with the budget strategy, encumber an important immovable for the performance of functions arising from subsections 6 (1) and (2) of the Local Government Organisation Act or permit the right of superficies encumbering the immovable to be transferred or the immovable to be encumbered with limited

real rights in such a manner that upon the transfer or encumbrance of the immovable or right of superficies, the immovable shall be used for the same purpose.

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

§ 38. Requirements for assumption of obligations

(1) A local government may take loans, issue bonds, assume finance lease and factoring obligations and obligations on the basis of service concession agreements for:

- 1) investments;
- 2) targeted financing granted for acquisition of fixed assets;
- 3) acquisition of holdings, shares and other equity instruments;
- 4) performance of the debt obligations specified in clauses 34 (2) 1)–3) and 7) of this Act;
- 5) granting the loans specified in subsection 37 (2) of this Act.

(2) During the procedure for eliminating the risk of a difficult financial situation, a local government may, in accordance with the recovery plan and financial plan, take a loan for the performance of the obligations specified in clause 34 (2) 4) of this Act.

(3) If a local government does not have sufficient funds for the performance of obligations arising from a court judgment, the local government may take a loan with the approval of the Ministry of Finance. In order to obtain approval, the local government shall submit to the Ministry of Finance a written application for approval for taking a loan explaining the reasons for taking a loan. The Ministry of Finance shall make a decision to grant or refuse to grant an approval for taking a loan on the basis of the right of discretion, taking into account the possibility to use the funds of the local government for the performance of obligations arising from a court judgment and other possibilities for the performance of the obligations.

(4) A local government may take a loan for the purpose of managing cash flows provided that the loan shall be repaid by the end of the budgetary year. The council may decide on the taking of a loan separately for each individual case or establish a limit for the total amount of loans to be taken for the rural municipality or city government for the budgetary year.

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

Chapter 8 PROCEDURE FOR APPLICATION OF MEASURES FOR ENSURING FINANCIAL DISCIPLINE

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

§ 39. Failure to apply measures for ensuring financial discipline

(1) A local government or local government financial management unit shall not implement the measures for ensuring financial discipline if

- 1) the operating result as at the end of two consecutive accounting years was lower than the permitted value specified in subsection 33 (2) of this Act or
- 2) the net debt as at the end of the accounting year exceeded the upper limit on net debt provided for in subsections 34 (3)–(5) of this Act.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(2) If the non-implementation of the measures for ensuring financial discipline specified in subsection (1) of this section occurred for the first time as at the end of the accounting year and the local government plans to continue the non-implementation by the adopted budget, the Ministry of Finance shall inform the local government of the consequences of non-implementation of the measures.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(3) The application of measures for ensuring financial discipline shall be verified on the basis of the figures presented in the annual report as at the date of approval of the corresponding annual report by the council.

§ 40. Procedure for application of measures for ensuring financial discipline

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(1) The procedure for application of measures for ensuring financial discipline (hereinafter *adjustment procedure*) shall be initiated if it is established on the basis of subsection 39 (3) of this Act that:

- 1) the operating result of a local government or local government financial management unit as at the end of two consecutive accounting years was lower than the permitted value specified in subsection 33 (2) of this Act or

2) the net debt of a local government or local government financial management unit as at the end of two consecutive accounting years exceeded the upper limit on net debt provided for in subsections 34 (3)–(5) of this Act.

(2) The period of the adjustment procedure shall be the year in which any of the circumstances specified in subsection (1) of this section occur and the four subsequent years.

(3) Upon initiating the adjustment procedure, the local government shall ensure the application of measures for ensuring financial discipline prescribed by the budget strategy at the latest by the end of the procedure period. If the application thereof requires increasing of income or reducing of expenses, the local government shall present in the budget strategy corresponding adjustment activities together with the financial impact during the years of the adjustment procedure. During the procedure period, the budget strategy shall not prescribe activities which hinder the application of measures for ensuring financial discipline.

(4) During the adjustment procedure, the local government may not plan the budget in such a manner that as at the end of the year the operating result is lower than or the net debt exceeds the amount planned in the budget strategy for the corresponding year of the adjustment procedure.

(5) During the procedure period, a health care provider may increase its net debt up to 60 per cent of the amount of operating revenue, if necessary, if the compliance with the conditions provided for in subsection (3) of this section is ensured.

(6) If the budget strategy or budget does not comply with the conditions specified in subsections (3) and (4) of this section, the Ministry of Finance shall submit to the local government a reasoned proposal to bring the budget strategy and budget into conformity with the requirements of the Act within 60 days from the receipt of the proposal.

(7) Subsection (1) of this section shall not apply during the adjustment procedure and the procedure for eliminating the risk of a difficult financial situation.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

§ 41. Termination of adjustment procedure

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

The adjustment procedure shall be deemed to be terminated:

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

1) as at the date of approval of the annual report, if the local government and local government financial management unit apply measures for ensuring financial discipline as at the end of the accounting year;

2) as at the date of the decision to initiate of the procedure for eliminating the risk of a difficult financial situation specified in subsection 44 (3) of this Act or

3) as at the end of the year of entry into force of the alteration of administrative-territorial organisation.

Chapter 9 RISK OF DIFFICULT FINANCIAL SITUATION

§ 42. Risk of difficult financial situation

(1) A local government is in risk of a difficult financial situation if:

1) the council of the local government has not approved a budget strategy which complies with subsection 40 (3) of this Act by the term provided for in subsection 40 (6) of this Act;

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

2) the local government or local government financial management unit does not apply measures for ensuring financial discipline according to the annual report approved as at the end of the last accounting year of the period of the adjustment procedure specified in subsection 40 (2) of this Act;

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

3) the local government is permanently incapable of performing assumed obligations and satisfying the claims of creditors within the term.

(2) If a local government or local government financial management unit fails to apply measures for ensuring financial discipline, the local government may submit an application to the Ministry of Finance to initiate the procedure for eliminating the risk of a difficult financial situation.

(3) If a local government and local government financial management unit apply measures for ensuring financial discipline but the local government is permanently incapable of performing the assumed obligations, the local government may submit an application to the Ministry of Finance to initiate the process for eliminating the risk of a difficult financial situation.

(4) Reasons for the emergence of the risk of a difficult financial situation shall be given in the application specified in subsections (2) and (3) of this section. A local government shall submit together with the application a draft recovery plan and draft financial plan prepared pursuant to subsections 47 (4) and (6) of this Act.

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

§ 43. Committee on risk of difficult financial situation

(1) A committee on risk of difficult financial situation (hereinafter *committee*) shall advise the Ministry of Finance upon conducting the procedure for eliminating the risk of a difficult financial situation of a local government with the aim to eliminate the risk of a difficult financial situation and treat the creditors equally.
[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(2) The minister responsible for the area shall form the committee and approve the rules of procedure thereof.
[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(3) The committee shall be permanent and the members of the committee shall be three officials of the Ministry of Finance and two persons appointed by national associations. The chairman of the committee shall be an official of the Ministry of Finance. The committee may engage experts in its work.
[RT I, 30.06.2015, 4 - entry into force 01.09.2015]

(4) Members of the committee shall be independent of the local government in risk of a difficult financial situation and the unit dependent thereon.

(5) The Ministry of Finance shall ensure support to the work of the committee.

(6) The committee shall make decisions at a meeting of the committee by voting in writing or electronically. All members of the committee participating in a meeting shall be obliged to vote and shall not remain undecided. Decisions of the committee shall be published on the website of the Ministry of Finance.

(7) A member of the committee shall not participate in the making of decisions and shall remove himself or herself if any circumstances exist which give reason to doubt his or her impartiality.

(8) [Repealed - RT I 13.03, 2014, 2 - entry into force 23.03.2014]

§ 44. Initiation of procedure for eliminating risk of difficult financial situation

(1) If circumstances specified in clauses 42 (1) 1) and 2) of this Act become evident, the Ministry of Finance shall decide on the initiation of the procedure for eliminating the risk of a difficult financial situation with regard to the local government concerned and inform the committee thereof.
[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(2) If a local government has submitted the application specified in subsections 42 (2) or (3) of this Act, the Ministry of Finance shall analyse the submitted draft recovery plan and draft financial plan. If the initiation of the procedure for eliminating the risk of a difficult financial situation is reasoned, the Ministry of Finance shall forward the application and the draft recovery plan and draft financial plan to the committee together with its position within 20 working days from the receipt thereof.
[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(2¹) If, as a result of an analysis, the Ministry of Finance finds that the local government is able to independently satisfy the claims of the creditors and apply the measures for ensuring financial discipline, the Ministry of Finance shall inform the local government within 20 working days from the receipt of the application that it shall not support the initiation of the procedure for eliminating the risk of a difficult financial situation, and shall add explanations.
[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(2²) If a local government disagrees with the position which does not support the initiation of the procedure, the local government may submit a new application and draft recovery plan and draft financial plan to the Ministry of Finance. The Ministry of Finance shall submit these to the committee together with its position within 20 working days from the receipt thereof.
[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(3) The procedure for eliminating the risk of a difficult financial situation shall commence after making of the corresponding decision by the Ministry of Finance and is terminated after making of the decision specified in subsections 52 (2) and (3) of this Act.
[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(4) [Repealed - RT I 13.03, 2014, 2 - entry into force 23.03.2014]

(5) In connection with the initiation of the procedure for eliminating the risk of a difficult financial situation, the council shall submit draft legislation related to the activities specified in clauses 22 (1) 1)–8), 19), 21), 22),

24), 25) and 34)–36) of the Local Government Organisation Act for approval to the Ministry of Finance until the approval of a recovery plan.

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(6) For the approval of draft legislation specified in subsection (5) of this section, the council of a local government shall submit draft legislation together with an explanatory note to the Ministry of Finance.

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(7) The Ministry of Finance shall refuse to approve draft legislation if the approval thereof would decrease the income of the local government and the unit dependent thereon, increase their expenses, decrease the amount of assets or increase the amount of obligations in comparison to the adopted budget. In the event of refusal to approve draft legislation, the Ministry of Finance shall present justification therefor.

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(8) A local government shall appoint an authorised person who shall participate in the work of the committee without the right to vote within ten working days from the declaration of the risk of a difficult financial situation.

(9) The Ministry of Finance has the right to request additional information for specifying the information presented in the application and draft recovery plan and draft financial plan, and for analysing the financial situation of the local government.

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

§ 45. Terms prescribed for Ministry of Finance concerning procedure for eliminating risk of difficult financial situation

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(1) The Ministry of Finance shall decide within ten working days from the receipt of a draft or proposal the approval or refusal to grant the approval specified in subsection 44 (5) and subsection 49 (2) of this Act.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(2) [Repealed - RT I 13.03, 2014, 2 - entry into force 23.03.2014]

(3) The Ministry of Finance shall decide within 30 working days from the receipt of an application or draft plan:

- 1) the initiation of the procedure for eliminating the risk of a difficult financial situation or refusal to satisfy the corresponding application;
- 2) the provision of an opinion on the draft recovery plan and draft financial plan;
- 3) the termination of the procedure for eliminating the risk of a difficult financial situation or refusal to satisfy the application for termination.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(4) If the Ministry of Finance has requested additional information from a local government on the basis of subsection 44 (9) of this Act, calculation of the terms specified in subsections (1) and (3) of this section shall be suspended until submission of the information requested from the local government.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

§ 46. Terms prescribed for local government concerning procedure for eliminating risk of difficult financial situation

(1) A local government shall present a draft recovery plan and draft financial plan to the Ministry of Finance for approval within 60 days from:

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

- 1) the receipt of the decision to initiate the procedure for eliminating the risk of a difficult financial situation if the procedure has been initiated on the basis of subsection 44 (1) of this Act;

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

- 2) the receipt of the decision to refuse to satisfy the application for termination of the procedure for eliminating the risk of a difficult financial situation.

(1¹) A local government is required to eliminate the deficiencies in the application and the draft recovery plan and draft financial plan within 20 working days from the receipt of a respective demand from the Ministry of Finance.

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(2) A local government council shall approve the recovery plan and financial plan and the amendments thereto within 30 days from the receipt of the opinion on and proposed amendments to the draft plans or the approval of proposed amendments from the Ministry of Finance.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(3) A local government shall bring all legislation related to the fulfilment of the objectives indicated in the recovery plan into conformity with the recovery plan within 60 days from the acceptance of the recovery plan.

(4) A local government shall submit the approved recovery plan and financial plan and the amendments thereto to the Ministry of Finance within ten working days from the approval thereof.
[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(5) A local government shall publish the approved recovery plan and financial plan and the amendments thereto on the website of the local government within seven working days from the approval thereof.

§ 47. Recovery plan

(1) As a result of the implementation of the recovery plan, a local government shall be able to satisfy the claims of the creditors pursuant to the conditions of the recovery plan and the local government and local government financial management unit shall apply measures for ensuring financial discipline.

(2) The period of validity of the recovery plan and financial plan shall be the year of the preparation thereof and the four subsequent budgetary years.
[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(3) If the Ministry of Finance finds that the measures for ensuring financial discipline can be applied and the claims of the creditors can be satisfied earlier than after four coming budgetary years, the Ministry of Finance may determine in the draft recovery plan and draft financial plan a shorter period for the implementation thereof.
[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(4) A recovery plan shall be prepared regarding a local government and shall include:

- 1) an opinion on the reasons for the emergence of the risk of a difficult financial situation;
[repealed - RT I, 28.12.2012, 3 - entry into force 01.01.2013]
- 2) [repealed - RT I, 28.12.2012, 3 - entry into force 01.01.2013]
- 3) measures for increasing income and decreasing expenses;
- 4) restrictions on and conditions for investment activities and assumption of obligations;
- 5) conditions for performance of obligations and satisfaction of claims by an agreement with the creditors;
- 6) conditions for the situation when income exceeds the amount forecasted in the financial plan;
- 7) proposals for the organisation of management and reorganisation of administrative agencies and agencies under the governance of administrative agencies and reduction of the composition of their staff of public servants, if necessary;
- 8) proposals for amending the legislation of the local government, if necessary;
- 9) the obligation to obtain an approval of the Ministry of Finance regarding draft budgets or draft supplementary budgets submitted to the council during the period of validity of the recovery plan, if necessary;
[RT I, 13.03.2014, 2 - entry into force 23.03.2014]
- 10) other information and proposals necessary for recovery.

(5) A financial plan is a part of the recovery plan. Budget sections of a local government shall be planned in the financial plan for the period of implementation of the recovery plan.

(6) A financial plan shall be prepared by budget sections which are classified, in addition to the classification prescribed by subsection 5 (3) of this Act, at least to the detail of the class of account prescribed by the general rules for state accounting established on the basis of subsection 35 (2) of the Accounting Act or, in the absence thereof, to the smallest detail preceding the precision of the class of account at least by areas of activity.

(7) The following regarding a local government and local government financial management unit shall be presented in the financial plan as at the end of each year for the period of validity of the recovery plan:

- 1) forecasted operating result according to subsection 33 (1) of this Act;
- 2) forecasted value of operating result according to subsection 33 (2) of this Act;
- 3) forecasted net debt according to subsection 34 (1) of this Act;
- 4) forecasted compliance of net debt with the upper limit according to subsections 34 (3)–(5) of this Act.

(7¹) If the Government of the Republic has decided to grant support or a loan from the state budget pursuant to clause 50 (1) 1) of this Act, the corresponding amount shall be prescribed by the financial plan and the conditions for using the amount by the recovery plan.
[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(8) If a procedure for eliminating the risk of a difficult financial situation has been initiated because the local government financial management unit does not apply measures for ensuring financial discipline due to the activities of a dependent unit, then:

- 1) the recovery plan may prescribe instructions for directing the financial activities of the dependent units, if necessary;
- 2) the forecasted operating revenue, operating expenditure, investment activities, financing activities and changes in liquid assets, forecasted surplus or deficit and net debt for the year of preparation of the recovery plan and every coming four budgetary years concerning the dependent units shall be presented in the financial plan.

(9) A recovery plan and financial plan may be prepared in such a manner that a health care provider, within the meaning of the Health Services Organisation Act, may with the approval of the Ministry of Finance increase its net debt up to 60 per cent of the amount of operating revenue, if necessary, if the compliance with the conditions specified in subsection (1) of this section is ensured.

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

§ 48. Preparation and approval of recovery plan

(1) A local government in risk of a difficult financial situation shall prepare a draft recovery plan and a draft financial plan in accordance with § 47 of this Act and submit them to the Ministry of Finance.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(2) If in the opinion of the Ministry of Finance the local government is unable to escape from the risk of a difficult financial situation upon the implementation of the draft recovery plan or the draft financial plan, the Ministry of Finance may submit proposals for amending the draft recovery plan and the draft financial plan. The Ministry of Finance may decide on the addition of information specified in clauses 47 (4) 8)–11) and subsection 47 (8) of this Act to the draft recovery plan. The Ministry of Finance shall provide an opinion on the draft recovery plan and the draft financial plan and, if necessary, propose amendments together with justification to the council for approval.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(3) The recovery plan and financial plan approved by the council shall constitute the basis for the preparation and amendment of the development plan and budget strategy, preparation of the supplementary budget, if the preparation of a supplementary budget is necessary for the implementation of the recovery plan and the financial plan, and the preparation of draft budgets for the coming years. Upon preparation of the draft budget, the classification of the financial plan shall be observed.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(4) The budget strategy and the draft budget shall provide all differences compared to the recovery plan and financial plan, and justification thereof.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

§ 49. Amendment of recovery plan and budget

(1) If the Ministry of Finance is aware of circumstances which may hinder the implementation of the recovery plan and the financial plan, the Ministry of Finance shall inform the local government.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(2) The council has the right to initiate the amendment of the recovery plan or financial plan and, as a result of amending the financial plan, adopt the budget or supplementary budget. The local government shall submit the proposal for amending the recovery plan and financial plan to the Ministry of Finance for approval. In order to plan expenses on the condition specified in subsection (3) of this section it is not necessary to apply for the approval of the Ministry of Finance.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(3) In every budgetary year during the period of implementation of the recovery plan, the local government may plan amendments in the budget or supplementary budget compared to the financial plan if it does not result in decrease in surplus or increase in deficit. Upon increase in income, the provisions of clause 47 (4) 7) of this Act shall be applied. In other cases, amendments may be planned in every budget section during the budgetary year to the extent of up to 10 per cent of the total annual amount of the corresponding budget section presented in the financial plan.

(4) The Ministry of Finance shall submit relevant justification upon refusal to approve the proposal specified in subsection (2) of this section. The Ministry of Finance may refuse to approve the proposal if the amendment of the recovery plan or financial plan or the adoption of the supplementary budget would aggravate the financial situation of the local government or local government financial management unit and hinder the fulfilment of objectives and activities prescribed by the recovery plan.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

§ 50. Failure to implement recovery plan

(1) If in the opinion of the Ministry of Finance a local government is unable to comply with the recovery plan, the Government of the Republic shall have the right to apply one or both of the following measures at the request of the Ministry of Finance and on the proposal of the minister responsible for the area:

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

- 1) to decide on the grant of support or loan from the state budget according to the State Budget Act;
- 2) to initiate the alteration of administrative-territorial organisation according to the Territory of Estonia Administrative Division Act.

(2) Upon the grant of support from the state budget in the case specified clause (1) 1) of this section, the minister responsible for the area shall enter into a contract with the local government. The minister responsible

for the area has the right to prescribe in the contract the requirement to pay contractual penalty or return the support upon breach of contract.

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

§ 51. Supervision of procedure for eliminating risk of difficult financial situation

(1) The Ministry of Finance shall exercise supervision over the activities of a local government in the risk of a difficult financial situation as of the declaration of the procedure for eliminating the risk of a difficult financial situation, involving other agencies and persons in performing the supervisory operations, if necessary.

[RT I, 30.06.2015, 4 - entry into force 01.09.2015]

(2) A local government in risk of a difficult financial situation is required to submit information and documents regarding the local government or the dependant unit, including accounting records and copies of the contracts entered into, to the Ministry of Finance at the request thereof.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(3) The Ministry of Finance has the right to receive information and documents from state agencies, local government agencies, credit and financial institutions, and other persons necessary for determining the financial status of a local government and dependent unit and monitoring the implementation of the recovery plan.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(4) If it becomes evident in the course of supervision proceedings that a local government has committed the violation specified in § 57 of this Act, the Ministry of Finance has the right to issue a precept for bringing the activities of the local government into conformity with this Act, the recovery plan and financial plan and to set a term for the elimination of the violation.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

§ 52. Termination of procedure for eliminating risk of difficult financial situation

(1) A local government may apply to the Ministry of Finance for the termination of the period of implementation of the recovery plan and the procedure for eliminating the risk of a difficult financial situation after the approval of the annual report if as at the end of an accounting year:

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

1) the local government is able to satisfy the claims of the creditors under the conditions prescribed by the recovery plan;

2) the local government and local government financial management unit implement the measures for ensuring financial discipline.

(2) Upon compliance with the conditions and fulfilment of the objectives prescribed by the recovery plan specified in subsection (1) of this section, the Ministry of Finance shall decide on the termination of the procedure for eliminating the risk of a difficult financial situation.

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(3) The Ministry of Finance shall decide on the termination of the procedure for eliminating the risk of a difficult financial situation if:

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

1) circumstances specified in subsection 14¹(10) of the Territory of Estonia Administrative Division Act become evident;

2) bankruptcy proceedings have been initiated with regard to the dependent unit on the basis of the Bankruptcy Act and the local government financial management unit shall apply financial discipline measures as a result of the removal of the dependent unit from the consolidation group.

(4) The Ministry of Finance shall refuse to satisfy the application specified in subsection (1) of this section if the local government fails to comply with at least one of the following conditions:

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

1) the local government has not been able to satisfy all the claims of the creditors under the conditions prescribed by the recovery plan;

2) the local government or local government financial management unit does not apply measures for ensuring financial discipline as at the end of the accounting year;

3) the local government has failed to perform the activities prescribed by the recovery plan and such failure may cause the risk of a difficult financial situation to re-emerge in the coming years.

(5) The Ministry of Finance shall decide together with the decision to refuse to satisfy the application whether:

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

1) to impose an obligation on the local government to continue the implementation of the approved recovery plan;

- 2) to impose an obligation on the local government to submit a draft recovery plan and draft financial plan for up to four following budgetary years prepared pursuant to § 47 of this Act by the term specified in subsection 46 (1) of this Act or
[RT I, 28.12.2012, 3 - entry into force 01.01.2013]
- 3) to submit a proposal for initiating the alteration of administrative-territorial organisation.

Chapter 10

ENSURING IMPLEMENTATION OF ACT

§ 53. Suspension of transfer of equalisation fund and income tax appropriations

(1) Upon the violations specified in § 54–56 of this Act, the Ministry of Finance shall issue a precept to the local government for the termination of the violation and set a term for the elimination of the violation.

(2) If the violation has not been terminated within the term prescribed by the precept specified in subsection (1) of this section or subsection 51 (4) of this Act, the minister responsible for the area shall issue a directive suspending:

1) the transfer of appropriations from the equalisation fund provided for in clause 46 (1) 1) of the State Budget Act;

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

2) the transfer of amounts of income tax subject to transfer pursuant to the procedure for transferring income tax to local governments established on the basis of subsection 5 (2) of the Income Tax Act.

(3) The Ministry of Finance shall submit a draft directive to the local government and set a term for the provision of an opinion.

(4) The Ministry of Finance shall immediately inform the local government of suspending the transfer of the amounts of equalisation fund and income tax.

(5) Upon the violations specified in §§ 54, 56 and 57 of this Act, 10 per cent of the funds allocated from the budget equalisation fund to the local government on the basis of the annual State Budget Act and the amount of income tax calculated for the local government pursuant to the procedure for the transfer of income tax to local governments established on the basis of subsection 5 (2) of the Income Tax Act shall be withheld from the amounts subject to transfer from the equalisation fund and income tax during the budgetary year.

(6) Upon the violations specified in § 55 of this Act, the amount by which the violation was committed, but not more than 20 per cent of the funds allocated from the budget equalisation fund to the local government on the basis of the annual State Budget Act and the amount of income tax calculated for the local government pursuant to the procedure for the transfer of income tax to local governments established on the basis of subsection 5 (2) of the Income Tax Act, shall be withheld every budgetary year.

(7) The transfer of amounts subject to transfer from the budget equalisation fund and income tax may be suspended until the circumstances which caused the suspension cease to exist. The minister responsible for the area shall approve the termination of withholding the amounts by a directive within five working days from establishing that the circumstances have ceased to exist. The Ministry of Finance shall inform the local government of terminating the suspension of transfer of the amounts immediately after making the decision and transfer the withheld amounts to the local government on the following regular date on which transfers are made.

§ 54. Violation of requirements for reports, terms for approval of reports and submission of information

The following circumstances are deemed to be violations of the requirements for reports, terms for approval of reports and submission of information:

- 1) a local government has failed to approve the annual report for the term specified in subsection 29 (11) of this Act;
- 2) a local government has failed to submit information specified in subsection 30 (1) of this Act within the term specified in subsections 30 (3) and (4) of this Act;
- 3) a local government has failed to submit the balance records for the term for submission of reports established on the basis of subsection 35 (2) of the Accounting Act;
- 4) the annual accounts of a local government do not comply with the Accounting Act.

§ 55. Violation of requirements for assets and obligations

The following circumstances are deemed to be violations of the requirements for assets and obligations:

- 1) a local government has failed to comply with the requirements established in subsection 37 (1) of this Act upon investment of assets;
- 2) a local government has failed to comply with the conditions established in subsections 36 (1³), (2) and (2¹) of this Act upon possession of liquid assets;

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

3) a local government has failed to comply with the conditions established in subsections 37 (2) and (2¹) of this Act upon grant of loans or securing obligations;

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

4) a local government has failed to comply with the conditions established in subsections 38 (1)–(4) of this Act upon assumption of obligations;

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

5) [repealed - RT I, 28.12.2012, 3 - entry into force 01.01.2013]

6) a local government has failed to comply with the restrictions provided for in subsections 35¹(4)–(5) of this Act upon assumption of obligations;

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

§ 56. Violation of plan for application of measures for ensuring financial discipline

[Repealed - RT I, 13.03.2014, 2 - entry into force 23.03.2014]

§ 57. Violation of procedure for eliminating risk of difficult financial situation

The following circumstances are deemed to be violations of the procedure for eliminating the risk of a difficult financial situation:

1) a local government fails to submit a draft recovery plan and draft financial plan to the Ministry of Finance within the term;

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

2) a local government approves legislation specified in subsection 44 (5) of this Act without the approval of the Ministry of Finance or disregards the refusal of the Ministry of Finance to approve the legislation upon passage of the legislation;

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

3) a local government shall approve a recovery plan and financial plan or amendments thereto without the approval of the Ministry of Finance or not corresponding to the amendments made or proposals submitted by the Ministry of Finance;

[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

4) a local government disregards the recovery plan and financial plan upon adoption of the budget, supplementary budget or making of other decisions, except in the case specified in subsection 49 (3) of this Act;

5) a local government fails to submit an overview of the implementation of the recovery plan in the management report pursuant to clause 29 (3) 5) of this Act.

§ 58. Premature termination of authorities of council members upon violation of procedure for eliminating risk of difficult financial situation

Upon violation of subsection 46 (2) of this Act, the council shall be unable to act and the authority of every council member shall terminate prematurely. A new council shall be formed pursuant to the procedure provided by § 52 of the Local Government Organisation Act.

Chapter 11 IMPLEMENTING PROVISIONS

§ 59. Implementation of Act

(1) This Act shall be implemented with regard to the year 2012 and the following years, taking into account the specifications provided in this section.

(2) Budgets for the year 2011 shall be prepared, processed, adopted and published, and implemented and amended, expenses shall be carried forward to the following budgetary year, implementation of budgets shall be reported on and annual reports shall be prepared on the basis of the Rural Municipality and City Budgets Act and legislation established on the basis thereof.

(3) Section 20 of this Act shall be implemented as of 1 January 2012.

(4) Section 29 of this Act shall be implemented with regard to annual reports prepared for the year 2012 and the following years.

(4¹) The information specified in clauses 29 (3) 2) and 3) of this Act shall be submitted for the first time concerning the year 2012. Information of the last accounting year shall be added to the management report each year until five accounting years are covered.

[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(5) As of 1 January 2011, a local government may grant study loans only on the basis of study loan agreements entered into before the year 2011.

(6) The obligation to publish the minutes of council sessions and meetings of council committees specified in subsection 23 (3) of this Act shall be implemented with regard to budgets and supplementary budgets of the year 2012 and the following years.

(7) Sections 32–37 of this Act shall be implemented with regard to the year 2012 and the following years.

(7¹) A local government or local government financial management unit the net debt of which is 60 per cent of the operating revenue or more as at the beginning of an accounting year shall not increase the total amount of debt obligations by taking debt obligations specified in subsection 34 (2) of this Act or lease obligations specified in subsection 34 (7) from 1 January 2012 until 31 December 2016.
[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(7²) A local government or local government financial management unit the net debt of which is less than 60 per cent of the operating revenue as at the beginning of an accounting year shall not increase the net debt to the extent exceeding 60 per cent of the operating revenue of the same accounting year by taking debt obligations specified in subsection 34 (2) of this Act or lease obligations specified in subsection 34 (7) from 1 January 2012 until 31 December 2016.
[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(7³) During the period from 1 January 2011 until 31 December 2015, net debt may exceed the upper limit on net debt of that period established by subsections 34 (3) and (4) of this Act in order to comply with the requirements of the Council Directive concerning urban waste water treatment 91/271/EEC (OJ L 135, 30.5.1991, p. 40–52) and the Council Directive 98/83/EC on the quality of water intended for human consumption (OJ L 330, 5.12.1998, p. 32–54) by the total amount of debt obligations assumed to cover self-financing of the projects which are being implemented if the loan for such projects is granted by the person specified in subsection 56 (1) of the Environmental Charges Act from loan funds allocated to the person to the extent of up to ten million euros in total per year for local governments, and the remaining part from own funds without increasing the debt of the public sector.
[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(7⁴) The restrictions established in subsections (7¹) and (7²) of this section shall not apply if a local government or local government financial management unit assumes debt obligations on the condition provided for in subsection 34 (5) of this Act or subsection (7³) of this section.
[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(7⁵) Violation by a local government or local government financial management unit of the conditions specified in subsections (7¹) and (7²) of this section is deemed to be violation of the requirements for assets and obligations within the meaning of § 55 of this Act.
[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(8) Subsections 34 (7) and (8) of this Act shall be implemented with regard to transactions concluded after 1 January 2012.

(8¹) Section 55 of this Act shall be implemented with regard to obligations assumed and transactions concluded with assets after 1 January 2012.
[RT I, 28.12.2012, 3 - entry into force 01.01.2013]

(8²) Section 34¹ of this Act shall not apply to support granted on the basis of the 2007–2013 Structural Assistance Act.
[RT I, 13.03.2014, 2 - entry into force 23.03.2014]

(9) Clauses 63 4) and 10)–19) of this Act shall be implemented as of 1 January 2013.

(10) A local government shall prepare a budget on an accrual basis not later than for the second following budgetary year after the state budget has been prepared on an accrual basis.
[RT I, 21.06.2016, 1 - entry into force 01.07.2016]

(11) The wording of subsections 29 (10) and (13) of this Act which enter into force on 1 January 2019 shall apply to accounting periods starting on 1 January 2018 or later.
[RT I, 02.02.2018, 9 - entry into force 01.01.2019]

(12) The net debt of a local government and its financial management unit as at the end of an accounting year may amount to:

1) a tenfold difference between the operating revenue and operating expenditure of an accounting year ended in the years 2020–2024, but shall not exceed the total amount of the operating revenue of the same accounting year;

- 2) a ninefold difference between the operating revenue and operating expenditure of the accounting year ended in the year 2025, but shall not exceed the total amount of the operating revenue of the same accounting year;
- 3) an eightfold difference between the operating revenue and operating expenditure of the accounting year ended in the year 2026, but shall not exceed the total amount of the operating revenue of the same accounting year;
- 4) a sevenfold difference between the operating revenue and operating expenditure of the accounting year ended in the year 2027, but shall not exceed the total amount of the operating revenue of the same accounting year.

[RT I, 17.12.2020, 5 – entry into force 27.12.2020]

(13) The net debt of a local government and its financial management unit may amount to:

- 1) in the years 2020–2024, 80 per cent of the operating revenue of the respective year if the tenfold difference between the operating revenue and operating expenditure is less than 80 per cent of the operating revenue of the respective accounting year;
- 2) in the year 2025, 75 per cent of the operating revenue of the same year if the ninefold difference between the operating revenue and operating expenditure is less than 75 per cent of the operating revenue of the respective accounting year;
- 3) in the year 2026, 70 per cent of the operating revenue of the same year if the eightfold difference between the operating revenue and operating expenditure is less than 70 per cent of the operating revenue of the respective accounting year;
- 4) in the year 2027, 65 per cent of the operating revenue of the same year if the sevenfold difference between the operating revenue and operating expenditure is less than 65 per cent of the operating revenue of the respective accounting year;

[RT I, 17.12.2020, 5 – entry into force 27.12.2020]

(14) The restrictions specified in §§ 35¹ and 35² of this Act shall not be applied in the years 2020–2027.

[RT I, 17.12.2020, 5 – entry into force 27.12.2020]

(15) In 2020, the city government or rural municipality government shall submit the draft budget and explanatory note to the council not later than by 15 December.

[RT I, 10.07.2020, 5 – entry into force 20.07.2020]

(16) In 2020, the local governments shall submit the data on the budget strategy to the Ministry of Finance not later than by 15 December.

[RT I, 10.07.2020, 5 – entry into force 20.07.2020]

(17) In 2020, the city government or rural municipality government may comply with the provisions of clause 22 (2) 2) of this Act only partially, providing their reasons in the explanatory note to the budget draft.

[RT I, 10.07.2020, 5 – entry into force 20.07.2020]

§ 60.–§ 66.[Omitted from this text.]

§ 67. Entry into force of Act

(1) This Act enters into force on 1 January 2011.

(2) [Omitted from this text.]