

Report on aid granted for the provision of services  
of general economic interest in Latvia  
in 2016 and 2017

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To comply with the reporting obligation of the Member States of the European Union specified in Article 9 of the 2012 SGEI Decision<sup>1</sup> (hereinafter — SGEI Decision), Latvia has prepared this document — a report on aid granted for the provision of services of general economic interest in 2016 and 2017.

Considering that to date there have been no cases in Latvia of an average annual compensation for the provision of a service of general economic interest exceeding EUR 15 million in sectors to which the respective limit applies, the SGEI Framework<sup>2</sup>, including the reporting obligation set out in paragraph 62 thereof, is not applicable to Latvia.

After receipt of guidance from the European Commission in March 2018, the Ministry of Finance (Department for Control of Aid for Commercial Activity), acting as national authority for control of aid for commercial activity, sent an information request to the Latvian authorities that grant aid in line with the SGEI Decision, including particular sectoral ministries and all local governments.

The European Commission guidelines on the format of reports were taken into account when drafting this document. The information on the expenditure per aid sector is specified in the corresponding columns of rows A, C, and TOTAL of the report. In view of the territorial division of the state, columns for row B (paid by regional authorities) are not completed.

Taking into account that the information included in the report is in an aggregated form, as well as that none of the information providers has made any references to confidentiality, the present report contains no confidential information and may be published.

## 1. EXPENDITURES OVERVIEW

| Total SGEI government expenditures by legal basis (millions EUR)           |        |        |
|--|--------|--------|
|  | 2016   | 2017   |
| <b><i>Compensation for Services of General Economic Interest (1+2)</i></b> | 690.65 | 726.65 |
| (1) Compensation granted on the basis of the SGEI Decision                 | 690.65 | 726.65 |
| (2) Compensation granted on the basis of the SGEI Framework                | -      | -      |
|  |        |        |

<sup>1</sup> Commission Decision 2012/21/EU on the application of Article 106(2) of the Treaty on the Functioning of the European Union to State aid in the form of public service compensation granted to certain undertakings entrusted with the operation of services of general economic interest, OJ L 7, 11.1.2012, p. 3

<sup>2</sup> Communication from the Commission – European Union framework for State aid in the form of public service compensation (2011), OJ C 8, 11.1.2012, p. 15

## 2. DESCRIPTION OF THE APPLICATION OF THE 2012 SGEI DECISION

### Hospitals (Art. 2 (1)(b))

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| <p><b>Clear and comprehensive description of how the respective services are organized in your Member State</b></p>  |
| <p>Explanation of what kind of services in the respective sector have been defined as SGEI in your Member State. Please list the <b>contents of the services entrusted as SGEI</b> as clearly as possible.</p>   |
| <p>The types of state-covered healthcare services regarding the provision of which the National Health Service (hereinafter — the Service) concluded agreements with inpatient healthcare facilities, i.e. hospitals, in 2016 and 2017 in accordance with the Cabinet Regulation No 850 of 1 November 2011 <i>National Health Service Regulation</i> and the Cabinet Regulation No 1529 of 17 December 2013 <i>Procedures for the organization and financing of health care</i>, are as follows:</p> <ol style="list-style-type: none"> <li>1. accident and emergency medicine;</li> <li>2. inpatient health care;</li> <li>3. primary health care;</li> <li>4. secondary outpatient health care;</li> <li>5. dentistry;</li> <li>6. laboratory testing;</li> <li>7. medical rehabilitation;</li> <li>8. health care at home.</li> </ol>   |
| <p>Explanation of the (typical) <b>forms of entrustment</b>. If standardized templates for entrustments are used for a certain sector, please attach them.</p>   |
| <p>Pursuant to Part XI of the Cabinet Regulation No 1529 <i>Procedures for the organisation and financing of health care</i>, the Service concludes agreements with hospitals on the provision of and payment for the state-covered healthcare services. Every year, the Service, in cooperation with the Ministry of Health and the representatives delegated by the providers of services, drafts standardised agreement templates for each type of health care. The agreement templates are approved by an internal order of the Service and are available on its web page: <a href="http://www.vmnvd.gov.lv/lv/503-ligumpartneriem/ligumu-paraugi">http://www.vmnvd.gov.lv/lv/503-ligumpartneriem/ligumu-paraugi</a>. Within a month after the announcement of the state budget law for the ensuing year, the Service specifies in the agreements the amount of healthcare services to be provided by each hospital and the amount of financial resources (budget) to be paid to the hospital from the state budget in a calendar year.</p> <p>Local governments issue binding rules, entrusting particular (local government) limited companies with the provision of services of general economic interest to the population. The binding rules are complemented with the local government's decisions on establishing a limited company, decisions on delegating management tasks, and agreements on delegating management tasks.</p> |
| <p><b>Average duration of the entrustment (in years)</b> and the proportion of entrustments that are <b>longer than 10 years</b> (in %) per sector. Specify in which sectors SGEI were entrusted with a duration exceeding 10 years and explain how this duration is justified.</p>  |

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| <p>Pursuant to Paragraph 236 of the Cabinet of Ministers Regulation No 1529 of 17 December 2013 <i>Procedures for the organisation and financing of health care</i>, the Service concludes agreements with hospitals for periods not exceeding ten years. Agreements are typically concluded for three years, but the amount of financial resources to be paid to hospitals from the state budget and, accordingly, the amount of healthcare services paid for from the budget are specified for one calendar year.</p> <p>The duration of agreements concluded by local governments vary, but does not exceed 10 years.</p>  |
| <p>Explanation whether (typically) <b>exclusive or special rights</b> are assigned to the undertakings.</p>   |
| <p>Hospitals are assigned special rights.</p>   |
| <p>Which <b>aid instruments</b> have been used (direct subsidies, guarantees, etc.)?</p>  |
| <p>The Service pays hospitals for the provided healthcare services on the basis of invoices, which are created in the settlement system for healthcare services based on the medical record data entered by hospitals to keep account of the work they perform under the agreements, and the healthcare service tariffs specified in the Cabinet Regulation No 1529 of 17 December 2013 <i>Procedures for the organization and financing of health care</i>.</p> <p>Early in 2016, the final payments were made for the EU funds 2007–2013 program period projects completed in 2015. In 2017, the European Regional Development Fund (hereinafter – ERDF) resources were paid out for the EU funds projects launched within the 2014–2020 program period in accordance with the interim requests for payment of the actual project expenses, submitted by the project implementers. The funding for the implementation of activities within the ERDF projects was allocated to hospitals in the form of direct subsidies.</p> <p>The aid instrument in the case of hospitals is mainly a direct subsidy from the state budget. Other options used are co-financing of an ERDF project provided by a local government as a contribution to the share capital, as well as, in the case of local governments, dividend waivers (all profit of a limited company is redirected to its development).</p>  |
| <p>Typical <b>compensation mechanism</b> as regards the respective services and whether a methodology based on cost allocation or the net avoided cost methodology is used.</p>   |
| <p>The terms of payment for healthcare services, as well as the settlement procedure to be followed by service providers, are set out in the agreements on provision of and payment for state-covered healthcare services, concluded between the Service and the hospitals. The Service pays hospitals for the provided healthcare services on the basis of invoices, which are created in the settlement system for healthcare services based on the medical record data entered by hospitals to keep account of the work they perform under the agreements, and the healthcare service tariffs specified in the Cabinet Regulation No 1529 of 17 December 2013 <i>Procedures for the organization and financing of health care</i>. This procedure ensures that the payment for state-covered healthcare services is based on the work performed under the agreements concluded. The payment records must be maintained in compliance with the Law on Accounting and the Cabinet Regulation No 585 of 21 October 2003 <i>Regulation regarding the conduct and organisation of accounting</i>.</p> <p>The cost allocation methodology is used, as the net avoided cost methodology cannot be applied because the complex and, consequently, expensive healthcare services are only provided as state-covered services, which makes it impossible to compare the costs.</p> <p>In the field of the ERDF project implementation, investments in the development of</p> |

hospitals are planned with the aim to improve availability of healthcare services in four high-priority healthcare areas – cardiovascular, oncological, child (starting from the perinatal and neonatal periods), and mental health care, while implementing the principles laid down in the reform plan for cooperation between inpatient medical institutions and ensuring concentration of more complex services in high-level medical institutions and availability of basic services closer to home.

The ERDF projects in the inpatient health care sector in the 2007–2013 EU funds programming period were implemented in accordance with the Cabinet Regulation No 44 of 13 January 2009 *Regulation on subactivity No 3.1.5.3.1 "Development of residential healthcare" of the "Infrastructure and services" operational programme complement*. In the 2014–2020 EU funds program period, the ERDF projects are implemented in accordance with the Cabinet Regulation No 870 adopted on 20 December 2016: *Regulation on the first and second round of selecting project applications within the specific aid objective 9.3.2 – "To improve availability of quality healthcare services, especially to residents exposed to the risks of social and territorial exclusion and poverty, by developing health care infrastructure" – of the operational programme "Growth and Employment"*.

#### **Typical arrangements for avoiding and repaying any overcompensation.**

To ensure that the information on settled payments is true and accurate, settlement inventory is carried out in accordance with the Cabinet Regulation No 585 of 21 October 2003 *Regulation regarding the conduct and organisation of accounting*, balance reconciliation statements on the implementation of agreements concluded with each of the hospitals providing state-covered healthcare services are prepared after the end of the economic year; the mentioned statements include information, specified by the Service and the hospitals, on the amounts of work performed, amounts of agreements, settlements, claims and obligations. If, as a result of the balance reconciliation, it is found that the prepayment to hospitals made in December of the previous year for the healthcare services provided in December of the previous year is larger than the amount of services provided under the agreement, a letter to the hospital is prepared, requesting repayment of the overpaid amount. If the specified amount is not repaid into the state budget, the Service deducts this overpaid amount from the payments for the state-covered healthcare services provided in the current year. According to the Law on Budget and Financial Management, the Service as a budget executor can plan the use of funds for covering healthcare services only within the budget funds allocated.

Several control mechanisms have been established to avoid overcompensation of costs of infrastructural development of hospitals within the ERDF projects:

- aid for infrastructure must not exceed the costs of infrastructure development;
- all infrastructure development activities must be implemented based on public procurement agreements;
- it is additionally controlled that the aid for infrastructure development is granted in proportion to the use of the infrastructure in the provision of services of general economic interest;
- in the event of overcompensation, hospitals must repay a certain amount of allocated funds.
- As the co-funding from a local government is granted for the implementation of a project essential to the development of a particular limited company based on the documentation of the project supported and on the results of a public procurement procedure, overcompensation is prevented. Moreover, the profit of the company must be used for the implementation of (a part of) a particular investment project in accordance with the budget of the company approved in the meeting of its participants, and with the

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| results of public procurement procedure.   |                    |
| <p>A short explanation of how the <b>transparency requirements</b> (see Article 7 of the 2012 SGEI Decision) for the aid above 15 million euro to undertakings that also have activities outside the scope of the SGEI are being complied with. In your answer please also include some relevant examples of information published for this purpose (e.g. some links to websites or other references), indicate whether you have a central website on which you publish this information for all aid measures concerned in your Member State (and if so provide the link to this website), or alternatively explain if and how the publication takes place at the level granting the aid (e.g. central, regional or local level).</p>  |                    |
| <p>Information on performance of contractual obligations by hospitals is available on the Service's website: <a href="http://www.vmnvd.gov.lv/lv/503-ligumpartneriem/operativa-budzeta-informacija">http://www.vmnvd.gov.lv/lv/503-ligumpartneriem/operativa-budzeta-informacija</a>. Information on the investments in the infrastructural development of hospitals made as part of the ERDF projects is published on the website of the administrator of the financing instrument, i.e., on <a href="http://www.esfondi.lv/aktivitates">http://www.esfondi.lv/aktivitates</a> for the EU funds projects of the 2007–2013 programming period, and on <a href="http://www.esfondi.lv/es-fondu-projektu-mekletajs">http://www.esfondi.lv/es-fondu-projektu-mekletajs</a> - for the EU funds projects of the 2014–2020 programming period.</p> |                    |
| <b>Amount of aid granted</b>   |                    |
| <b>Total amount of aid granted (in millions EUR).</b> This includes all aid granted in your territory, including aid granted by regional and local authorities. (A+B+C)  |                    |
| <b>2016</b>  | <b>2017</b>        |
| EUR 401.95 million   | EUR 428.07 million |
| <b>A: Total amount of aid granted (in millions EUR) paid by national central authorities</b>   |                    |
| <b>2016</b>  | <b>2017</b>        |
| EUR 396.09 million   | EUR 422.96 million |
| <b>B: Total amount of aid granted (in millions EUR) paid by regional authorities</b>   |                    |
| <b>2016</b>  | <b>2017</b>        |
| -  | -                  |
| <b>C: Total amount of aid granted (in millions EUR) paid by local authorities</b>  |                    |
| <b>2016</b>  | <b>2017</b>        |
| EUR 5.86 million   | EUR 5.11 million   |
| <b>Share of expenditure per aid instrument</b> (direct subsidy, guarantees etc.) (if available)  |                    |
| <b>2016</b>  | <b>2017</b>        |

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| <p>All aid is granted in the form of subsidies, including:<br/> State budget financing for the provision of healthcare services (<u>subsidy</u>) – EUR 363.15 million;<br/> Financing for the implementation of the ERDF projects (<u>subsidy</u>) – EUR 9.79 million;<br/> 2015 profit dividends of limited companies in which the Ministry of Health is a public shareholder unpaid into the state budget – EUR 0.69 million;<br/> Financing for the repayment of state-guaranteed loans – EUR 6.40 million;<br/> Financing for the increase of share capital – EUR 16.06 million;<br/> Grants from local authorities – EUR 3.29 million.<br/> 2015 profit dividends of limited companies in which a local authority is a public shareholder unpaid into the state budget – EUR 0.09 million.<br/> Financing for the increase of share capital – EUR 2.48 million.</p> | <p>All aid is granted in the form of subsidies, including:<br/> State budget financing for the provision of healthcare services (<u>subsidy</u>) – EUR 385.58 million;<br/> Financing for the implementation of the ERDF projects (<u>subsidy</u>) – EUR 0.62 million;<br/> 2016 profit dividends of limited companies in which the Ministry of Health is a public shareholder unpaid into the state budget – EUR 0.11 million;<br/> Financing for the repayment of state-guaranteed loans – EUR 0.87 million;<br/> Financing for the increase of share capital – EUR 35.78 million;<br/> Grants from local authorities – EUR 3.51 million.<br/> 2016 profit dividends of limited companies in which a local authority is a public shareholder unpaid into the state budget – EUR 0.10 million.<br/> Financing for the increase of share capital – EUR 1.50 million.</p> |
| <b>Additional quantitative information</b> (e.g. number of beneficiaries per sector, average aid amount, size of the undertakings)   |  |
| <b>2016</b>  | <b>2017</b>  |
| Number of beneficiaries: 42  | Number of beneficiaries: 40  |
| Average aid amount: EUR 9.57 million   | Average aid amount: EUR 10.70 million  |

## Social services (Art. 2(1)(c))

### *a) Health and long-term care*

| Clear and comprehensive description of how the respective services are organized in your Member State   |
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| <p>Explanation of what kind of services in the respective sector have been defined as SGEI in your Member State. Please list the <b>contents of the services entrusted as SGEI</b> as clearly as possible.</p>  |
| <p>The types of state-covered healthcare services regarding the provision of which the National Health Service (hereinafter — the Service) concluded agreements with healthcare institutions in 2016 and 2017 in accordance with the Cabinet Regulation No 850 of 1 November 2011 <i>National Health Service Regulation</i> and the Cabinet Regulation No 1529 of 17 December 2013 <i>Procedures for the organization and financing of health care</i>, are as follows:</p> |



- 1) accident and emergency medicine;
- 2) primary health care;
- 3) secondary outpatient health care;
- 4) dentistry;
- 5) laboratory testing;
- 6) medical rehabilitation;
- 7) health care at home.

The subordinate institutions:

- provide physical health care of population (including athletes and children with increased physical strain) and coordinate the implementation of physical health care measures;
- prepare blood and blood components for medical institutions and perform immunohematological compatibility testing;
- organise and ensure provision of emergency medical aid to population;
- carry out forensic medical examinations and, whenever possible, provide medical institutions with tissue transplants.

A local government ensures availability of health care (provision of facilities, human resources, information and appropriate technologies – building an infrastructure allowing a healthcare institution to provide certain healthcare services) and promotion of healthy lifestyle in the population (ensuring availability of specialist advice, organising and supporting events to promote wellbeing, in accordance with the types of healthcare services provided by the medical institution).

Explanation of the (typical) **forms of entrustment**. If standardized templates for entrustments are used for a certain sector, please attach them.

Pursuant to Part XI of the Cabinet Regulation No 1529 of 17 December 2013 *Procedures for the organisation and financing of health care*, the Service concludes agreements with healthcare institutions on the provision of and payment for the state-covered healthcare services. Every year, the Service, in cooperation with the Ministry of Health and the representatives delegated by the providers of services, drafts standardised agreement templates for each type of health care. The agreement templates are approved by an internal order of the Service and are available on its web page: <http://www.vmnvd.gov.lv/lv/503-ligumpartneriem/ligumu-paraugi>. Within a month after the announcement of the state budget law for the ensuing year, the Service specifies in the agreements the amount of healthcare services to be provided by each healthcare institution and the amount of funds (budget) to be paid to the institution from the state budget in the calendar year.

The subordinate institutions must perform their functions in compliance with the following Cabinet regulations:

- Cabinet of Ministers Regulation No 821 of 4 December 2012 *Regulation on the State Sports Medicine Centre*;
- Cabinet of Ministers Regulation No 138 of 22 February 2005 *Regulation on the State Blood Donor Centre*;
- Cabinet Regulation No 1480 of 15 December 2009 *Regulation on the Emergency Medical Aid Service*;
- Cabinet Regulation No 776 of 7 September 2004 *Regulation on the State Centre for Forensic Medical Examination*.

Local governments issue binding rules, entrusting particular (local government) limited companies with the provision of services of general economic interest to the population. The

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| binding rules are complemented with the local government's decisions on establishing a limited company, decisions on delegating management tasks, and agreements on delegating management tasks.  |
| <b>Average duration of the entrustment (in years)</b> and the proportion of entrustments that are <b>longer than 10 years</b> (in %) per sector. Specify in which sectors SGEI were entrusted with a duration exceeding 10 years and explain how this duration is justified.  |
| <p>Pursuant to paragraph 236 of the Cabinet Regulation No 1529 of 17 December 2013 <i>Procedures for the organisation and financing of health care</i>, the Service concludes agreements with healthcare institutions for periods not exceeding ten years. Agreements are typically concluded for three years, but the amount of financial resources to be paid to healthcare institutions from the state budget and, accordingly, the amount of healthcare services to be paid for from the budget are specified for one calendar year.</p> <p>The duration of entrustment of subordinate institutions is indefinite.</p> <p>The durations of agreements concluded by local governments vary, but do not exceed 10 years.</p>  |
| Explanation whether (typically) <b>exclusive or special rights</b> are assigned to the undertakings.  |
| Healthcare institutions are assigned special rights. Subordinate institutions are assigned exclusive rights.  |
| Which <b>aid instruments</b> have been used (direct subsidies, guarantees, etc.)?   |
| <p>The Service pays healthcare institutions for the provided healthcare services on the basis of invoices, which are created in the settlement system for healthcare services based on the medical record data entered by healthcare institutions to keep account of the work they perform under the agreements, and the healthcare service tariffs specified in the Cabinet Regulation No 1529 of 17 December 2013 <i>Procedures for the organization and financing of health care</i>. The subordinate institutions receive grants from general revenues, as well as revenues from paid services. Financing for the implementation of the ERDF projects is allocated to the subordinate institutions in the form of grants.</p> <p>The aid instrument used is mainly a direct subsidy from the state or local government budget. Another instrument used is co-financing from a local government in the form of a contribution to the share capital.</p>  |
| Typical <b>compensation mechanism</b> as regards the respective services, and whether a methodology based on cost allocation or the net avoided cost methodology is used.   |
| <p>The terms of payment for healthcare services, as well as the settlement procedure to be followed by service providers, are set out in the agreements on provision of and payment for state-covered healthcare services, concluded between the Service and the healthcare institutions. The Service pays healthcare institutions for the provided healthcare services on the basis of invoices, which are created in the settlement system for healthcare services based on the medical record data entered by healthcare institutions to keep account of the work they perform under the agreements, and the healthcare service tariffs specified in the Cabinet Regulation No 1529 of 17 December 2013 <i>Procedures for the organization and financing of health care</i>. This procedure ensures that the payment for state-covered healthcare services is based on the work performed under the agreements concluded. The payment records must be maintained in compliance with the Law on Accounting and the Cabinet Regulation No 585 of 21 October 2003 <i>Regulation regarding</i></p> |

*the conduct and organisation of accounting.*

The cost allocation methodology is used, as the net avoided cost methodology cannot be applied because the complex and, consequently, expensive healthcare services are only provided as state-covered services, which makes it impossible to compare the costs.

Investments in the development of general practitioners' network in the context of the ERDF projects are based on the following criteria:

- basic aid for general practitioner's practice;
- additional aid for concentrating general practitioners' practices at a single healthcare services provision address.

ERDF projects for the development of general practitioners' network are implemented in accordance with the Cabinet Regulation No 726 of 3 August 2010 *Provisions regarding subactivity 3.1.5.1.1 – "Development of general practitioners' network" – of the complement to the operational programme "Infrastructure and Services"*.

The subordinate institutions must ensure execution of the functions entrusted to them within the allocated financing, which is established in the state budget law for the ensuing year. The amount of financing is intended to cover the operational costs of the subordinate institutions and is in the form of a grant from general revenues; revenues from paid services and other own revenues are also taken into account when determining the compensation.

#### **Typical arrangements for avoiding and repaying any overcompensation.**

To ensure that the information on settled payments is true and accurate, settlement inventory is carried out in accordance with the Cabinet Regulation No 585 of 21 October 2003 *Regulation regarding the conduct and organisation of accounting*, and balance reconciliation statements on the implementation of agreements concluded with each of the healthcare institutions providing state-covered healthcare services are prepared after the end of the economic year; the mentioned statements include information, specified by the Service and the healthcare institutions, on the amounts of work performed, amounts of agreements, settlements, claims and obligations. If, as a result of the balance reconciliation, it is found that the prepayment to healthcare institutions made in December of the previous year for the healthcare services provided in December of the previous year is larger than the amount of services provided under the agreement, a letter to the healthcare institution is prepared, requesting repayment of the overpaid amount. If the specified amount is not repaid into the state budget, the Service deducts this overpaid amount from the payments for the state-covered healthcare services provided in the current year. According to the Law on Budget and Financial Management, the Service as a budget executor can plan the use of funds for covering healthcare services only within the budget funds allocated.

Several control mechanisms have been established to avoid overcompensation of costs of infrastructural development of healthcare institutions within the ERDF projects:

- aid for infrastructure must not exceed the costs of infrastructure development;
- all infrastructure development activities must be implemented based on public procurement agreements;
- it is additionally controlled that the aid for infrastructure development is granted in proportion to the use of the infrastructure in the provision of services of general economic interest;
- in the event of overcompensation, healthcare institutions must repay a certain amount of allocated funds.

Subordinate institutions must submit quarterly reports on the use of the financing in accordance with the Cabinet guidance No 8 of 23 August 2011 *Guidance regarding the analysis of implementation of the state budget*.

Overcompensation is prevented, as the co-funding from a local government is granted for the implementation of a project essential to the development of a particular limited company based on the documentation of the project supported and on the results of a public procurement procedure. Moreover, the profit of the company must be used for the implementation of (a part of) a particular investment project in accordance with the budget of the company approved in the meeting of its participants, and with the results of public procurement procedure.

A short explanation of how the **transparency requirements** (see Article 7 of the 2012 SGEI Decision) for the aid above 15 million euro to undertakings that also have activities outside the scope of the SGEI are being complied with. In your answer please also include some relevant examples of information published for this purpose (e.g. some links to websites or other references), indicate whether you have a central website on which you publish this information for all aid measures concerned in your Member State (and if so provide the link to this website), or alternatively explain if and how the publication takes place at the level granting the aid (e.g. central, regional or local level).

Information on performance of contractual obligations by healthcare institutions is available on the Service's website: <http://www.vmnvd.gov.lv/lv/503-ligumpartneriem/operativa-budzeta-informacija>.

Information regarding the investments made in the infrastructural development of healthcare institutions within the ERDF projects is published on the website of the administrator of the financing instrument: <http://www.esfondi.lv/aktivitates>.

Information on the state budget financing granted to ensure the core functions of the Ministry of Health's subordinate institutions in the healthcare sector is published on the website of the Treasury: <https://www.kase.gov.lv/parskati/kopbudzeta-izpildes-parskati/ceturksna-parskati>.

### Amount of aid granted

**Total amount of aid granted (in millions EUR).** This includes all aid granted in your territory, including aid granted by regional and local authorities. (A+B+C)

| 2016   | 2017               |
|--|--------------------|
| EUR 247.28 million   | EUR 268.58 million |
| <b>A: Total amount of aid granted (in millions EUR) paid by national central authorities</b> |                    |
| 2016   | 2017               |
| EUR 221.12 million   | EUR 238.30 million |
| <b>B: Total amount of aid granted (in millions EUR) paid by regional authorities</b>         |                    |
| 2016   | 2017               |
| -  | -                  |
| <b>C: Total amount of aid granted (in millions EUR) paid by local authorities</b>            |                    |
| 2016   | 2017               |
| EUR 26.15 million  | EUR 30.28 million  |

| <b>Share of expenditure per aid instrument</b> (direct subsidy, guarantees etc.) (if available)  |   |
|--|---|
| <b>2016</b>  | <b>2017</b>   |
| <p>All aid is granted in the form of subsidies, including:<br/>Grant – EUR 237.37 million</p> <p>Financing for the increase of share capital – EUR 9.16 million.</p> <p>2015 profit dividends of limited companies in which a local authority is a public shareholder unpaid into the state budget – EUR 0.75 million.</p> | <p>All aid is granted in the form of subsidies, including:<br/>Grant – EUR 257,13 million</p> <p>Financing for the increase of share capital – EUR 10.81 million.</p> <p>2016 profit dividends of limited companies in which a local authority is a public shareholder unpaid into the state budget – EUR 0.09 million.</p> |
| <b>Additional quantitative information</b> (e.g. number of beneficiaries per sector, average aid amount, size of the undertakings)   |   |
| <b>2016</b>  | <b>2017</b>   |
| <p>Number of beneficiaries: 1956, including 4 subordinate institutions</p> <p>Average aid amount: EUR 0.13 million (according to the information provided by the Ministry of Health regarding healthcare institutions)</p>   | <p>Number of beneficiaries: 1924, including 4 subordinate institutions</p> <p>Average aid amount: EUR 0.14 million (according to the information provided by the Ministry of Health regarding healthcare institutions)</p>  |

***b) child care***

***c) access to and reintegration in the labour market***

***d) social housing***

***e) care and social inclusion of vulnerable groups***

In Latvia's opinion, social services such as child care, access to and reintegration in the labour market, social housing, care and social inclusion of vulnerable groups are not of an economic nature and are the State's responsibility.

According to the Law on Social Services and Social Assistance<sup>3</sup> (Section 3), the right to social services and social assistance is enjoyed by individuals residing in the Republic of Latvia; at the same time, the right to receive the social services specified in this law is also granted to individuals not mentioned in Paragraph 1 of Section 3 who have the right to enter and remain in the Republic of Latvia if these individuals request the specified services directly to the respective service provider and pay for them in full.

The individuals residing in the Republic of Latvia are: Latvian citizens and non-citizens, foreigners who have received a permanent residence permit or have been granted an EU permanent resident status in the Republic of Latvia, citizens of EU Member States, countries of the European Economic Area and the Swiss Confederation who have obtained the right of

<sup>3</sup> <http://likumi.lv/doc.php?id=68488>

permanent residence or are entitled to remain in the Republic of Latvia and have been residing in the Republic of Latvia for at least three months, or at least six months if the purpose of residence was to establish an employment relationship in the Republic of Latvia and there is evidence that they continue searching for a job, which is confirmed by their registration with the State Employment Agency. The family members of the aforementioned individuals are also considered individuals residing in the Republic of Latvia. Children who have obtained an alternative status are entitled to receive social care services and the social rehabilitation services specified in Paragraph 1 of Section 13 of this law. A victim of human trafficking is entitled to receive social rehabilitation. If necessary, a minor accompanied by a victim of human trafficking has the right to reside in a social rehabilitation institution together with the victim. If shelter or night shelter services are not applicable to a person with an alternative status due to the person's functional limitations or lack of social skills, the social service of the local government are entitled to use other types of social services suitable to the problem identified. Children who have been acknowledged asylum seekers with special reception needs by the institutions involved in the shelter procedure have the right to receive social rehabilitation as children who have suffered from violence. The right to receive the aforementioned service is also granted to children not belonging to the groups listed in this Section if the responsible authorities have acknowledged the necessity for social rehabilitation service.

According to Section 21 of the above-mentioned law, *“(1) The following persons referred to in Section 3 of this Law, whose integration into society is impeded, have the right to social rehabilitation:*

*1) disabled persons and persons with functional disorders; 2) persons after the serving of a sentence of deprivation of liberty; 3) persons who have become addicted to alcohol, narcotic or psychotropic substances; 4) persons who have suffered from violence; 5) children who have for a long time (more than one year) been under extra-familial care.*

*(2) Where necessary, local governments develop rehabilitation programmes also for groups of persons whose integration into social life is impeded for other reasons.”*

According to Section 4 of the mentioned law, *“social services are provided only on the basis of an evaluation of the individual needs and resources of the person carried out by a social work specialist”, and “social services are provided at the place of residence of a client or as close thereto as possible, unless the scope of such services is not sufficient, in which case social care and social rehabilitation are provided at a long-term care and social rehabilitation institution.”* Latvia concludes that here the fourth State aid criterion is not fulfilled, i.e. there is no impact on competition and trade between EU Member States.

In Latvia, the following social care and social rehabilitation services do not qualify as economic activity: 1) those provided at the place of residence of a person, ensuring home care, rehabilitation at the place of residence, day care and social rehabilitation institutions, group apartments (group houses), service apartments, night shelters or shelters or elsewhere; 2) those provided at long-term social care and social rehabilitation institutions. (Section 22 of the Law on Social Services and Social Assistance).

Section 8 of the aforementioned law also states that *“a client or his or her provider has an obligation to pay for the received social care and social rehabilitation services, unless otherwise specified in this Law” and “if a client or his or her provider is unable to pay for a social care or social rehabilitation service, the costs of the service are covered from the local government budget in accordance with the procedures specified by the Cabinet.”* At the same time, it should be noted that the measure has no impact on competition and trade between EU Member States because of the nature of social services and their target audience – Latvian residents. The impact on the EU market is, rather, hypothetical, as the service providers must ensure compliance with certain state legislative enactments in the area of social services, and the national regulatory

framework, as well as the specific character of social services and target groups, excludes the possibility of social services “tourism” being organised between the Member States; another important aspect is the language of communication with the service provider. Considering the limited buying capacity of the target group, activities in the area of social services are characterised by a low profitability level and a long recovery time of the invested capital (the actual costs of a service may be higher than the market’s paying capacity), which lowers the possibility of attracting foreign investment (little chance of turning capital into income).

As regards social housing, it should be noted that the situation in local governments is different, mainly because of the sizes of their population, therefore, from the point of view of control of aid for commercial activity, each case should be evaluated separately; however, taking into account that the market is not able to provide housing for groups of socially disadvantaged persons, Latvia does not consider social housing services provided individually by local governments to be of economic nature, but rather as having a social function in a particular territory of Latvia. One of the autonomous functions of local governments, as prescribed by the Law on Local Governments<sup>4</sup>, is to provide assistance to residents in resolving housing issues (Section 15(9)). Certain local governments develop and restore the housing fund (including the construction, reconstruction and management of social residential houses and rental residential houses (housing for disadvantaged persons) needed by the local government). Social housing, e.g., in Riga, is assistance provided by the local government to persons such as disadvantaged pensioners who live separately and persons with Group I or Group II disability, families with disabled children if the child is not provided with a separate room, and people who need serviced apartments because they are forced to move in a wheelchair, as well as tenants of apartments in denationalised houses who have reached the retirement age, and persons with Group I or Group II disability who have been living in the respective house since before it was denationalised. A social apartment is only intended for the performance of this function of the local government and cannot be acquired by a resident.

Latvia concludes that not always can a social service be considered a service of general economic interest; therefore, this kind of information is not included in the report.

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<sup>4</sup> <http://likumi.lv/doc.php?id=57255>

## **Air or maritime links to islands with average annual traffic not exceeding the limit set in Art 2(1)(d)**

In Latvia, aid from public resources is not granted for either air or maritime links to islands with average annual traffic not exceeding the limit specified in Article 2(1)(d) of the SGEI Decision or to ports with average annual traffic not exceeding the limit specified in Article 2(1)(e) of the SGEI Decision. No services have been defined as SGEI in these sectors in Latvia.

### ***Airports and ports with average annual traffic not exceeding the limit set in Art. 2(1)(e)***

| <b>Clear and comprehensive description of how the respective services are organized in your Member State</b>  |
|---|
| Explanation of what kind of services in the respective sector have been defined as SGEI in your Member State. Please list the <b>contents of the services entrusted as SGEI</b> as clearly as possible.   |
| <p>SGEI are defined in Article 27<sup>2</sup> of the Law on Aviation: "Obligations of providing services of public significance are directly related to the main activity of an aerodrome and include:</p> <ol style="list-style-type: none"><li>1) construction of the infrastructure structures (runway, terminal, access road to runway, platform, traffic management tower, etc.), including purchase of the necessary land plot and provision of aerodrome equipment, which also includes equipment necessary for the provision of direct assistance;</li><li>2) operation of the infrastructure, which includes management and maintenance of the aerodrome;</li><li>3) provision of additional services of the aerodrome (use of the infrastructure of the aerodrome, fire-fighting, first aid, security and other additional services of the aerodrome).</li></ol> <p>To ensure certain amount of regular air transport, as well as the regularity of the respective flights, or to ensure performance of functions of public significance, such as search and rescue, civil-military cooperation support, etc., the State or a local government may impose on the national civil aviation aerodromes the obligations of providing services of public significance referred to in paragraph one of the mentioned section and are entitled to compensate the aerodrome's expenses that occur when fulfilling the mentioned obligations. In determining the amount of the compensation, the income received by the provider for the implementation of the service is taken into account.</p> <p>The procedures by which the obligations of providing services of public significance are imposed on an airport, as well as the procedures for determining and providing compensation for the airport's expenses that occur when fulfilling the mentioned obligations, are established by the Cabinet of Ministers. According to the Cabinet Regulation No 429 of 28 July 2015 <i>Procedure for imposing obligations of providing services of public significance on a national civil aviation aerodrome</i>, the public service obligations are support to functions of public interest, such as search and rescue, civil-military cooperation, and others, including sea monitoring, air transport for medical purposes, aviation assistance to population, elimination of consequences of natural</p> |



disasters (catastrophes) (monitoring of regions affected by disasters, surveillance, evacuation of residents, delivery of food products, clothes, medications, equipment, construction materials and other materials), joint training of state administration institutions (which also involves aircrafts at their disposal), and vaccination of wild animals.

Explanation of the (typical) **forms of entrustment**. If standardized templates for entrustments are used for a certain sector, please attach them.

To ensure a certain amount of regular air transport and flight regularity, the following procedure for imposing SGEI obligations, as well as the conditions to be included in an SGEI agreement, are specified in Paragraphs 5 and 6 of the Cabinet Regulation No 661 of 23 August 2011 *Regulation on public service obligations imposed on an airport*:

*"5. Obligations of service provision are imposed on a national civil aviation aerodrome by the Ministry of Transport (on the part of the State) together with the council of the respective local government (on the part of the local government) by concluding a service obligation agreement. The agreement period does not exceed 10 years. Where the period of entrustment exceeds 10 years, this condition only applies to the extent that a significant investment is required from the service provider that needs to be amortised over a longer period in accordance with generally accepted accounting principles.*

*6. Public service obligation agreement includes the following essential components:*

*6.1. description of public service obligations and requirements for their fulfilment;*

*6.2. the parameters and procedure for calculating, controlling and reviewing the compensation. The parameters for calculating the compensation are reviewed at least every three years during the service obligation agreement period and updated if necessary;*

*6.3. procedure for mutual payment settlement and conditions for allocation of financial resources;*

*6.4. overcompensation repayment procedure;*

*6.5. reference to the SGEI Decision.*

No standardised templates for entrustment have been adopted.

To ensure performance of functions of public interest, such as search and rescue, provision of support to civil-military cooperation and performance of other functions, the following procedure for imposing the SGEI obligations and the conditions to be included in an SGEI agreement are specified in Paragraphs 5 and 6 of the Cabinet Regulation No 429 of 28 July 2015 *Procedure for imposing public service obligations on a national civil aviation aerodrome*:

*"5. Obligations of supporting the functions of public interest are imposed on an aerodrome owned by a limited company where the local government has a crucial role by ministries responsible for the performance of the respective functions, and by the local government, by concluding an obligation agreement on performance of functions of public interest (hereinafter — "agreement"). If a service not required for performance of other functions specified in Paragraph 2 of this regulation is required for provision of any function specified in Paragraph 2 of this regulation, such service is specified in the joint agreement, or a separate agreement is concluded regarding the provision of the particular service.*

*6. The agreement includes the following essential components:*

*6.1. description of public service obligations and requirements for their fulfilment;*

*6.2. aerodrome on which service obligations are imposed and the applicable territory if necessary;*

*6.3. information on the nature of exclusive or special rights granted to the*

aerodrome;

6.4. *the procedure and parameters for calculating, controlling and reviewing the maximum and actual compensation amount, which are reviewed at least once in three years during the agreement periods and updated and adjusted if necessary;*

6.5. *procedure for mutual settlements and conditions for allocation of financial resources;*

6.6. *procedure and periods for repayment of overcompensation amounts;*

6.7. *agreement period not exceeding 10 years. If the agreement specifies an investment on the part of the aerodrome which needs to be amortised over a longer period in accordance with the generally accepted accounting principles, the agreement period may exceed 10 years;*

6.8. *reference to the SGEI Decision.*

No standardised templates for entrustment have been adopted.

**Average duration of the entrustment (in years)** and the proportion of entrustments that are **longer than 10 years** (in %) per sector. Specify in which sectors SGEI were entrusted with a duration exceeding 10 years and explain how this duration is justified.

On 30 January 2012, the Ministry of Transport, Liepāja City Council and SIA Aviasabiedrība Liepāja [*Liepāja Air Company*, private limited company] concluded an agreement imposing the public services obligation on SIA Aviasabiedrība Liepāja. On 30 January 2017, the agreement was extended until 30 January 2021 (Agreement of 30 January 2012).

On 24 November 2015, the Ministry of Defence, the Ministry of the Interior, the Ministry of Transport, Ventspils City Council and SIA Ventspils lidosta [*Ventspils Airport*, private limited company] concluded an agreement imposing the obligation of supporting performance of public functions on SIA Ventspils lidosta (Agreement of 24 November 2015).

Explanation whether (typically) **exclusive or special rights** are assigned to the undertakings.

Special rights.

Which **aid instruments** have been used (direct subsidies, guarantees, etc.)?

The SGEI aid instrument used to ensure a certain amount of regular air transport and flight regularity (construction of the infrastructure) is subsidy (project co-financed from an EU fund).

The SGEI aid instrument used to ensure performance of functions of public importance, such as search and rescue, support to civil-military cooperation, etc., is subsidy.

Typical **compensation mechanism** as regards the respective services and whether a methodology based on cost allocation or the net avoided cost methodology is used.

Under the Agreement of 30 January 2012, a state compensation is EU funds resources

for the construction of infrastructural buildings related to the key activity of the aerodrome and purchase of equipment essential to the operation of the aerodrome pursuant to the public service obligations specified in Annex 3 to the Agreement, to be paid to the Airport in accordance with the procedure and amount specified in the project implementation agreement concluded between the Ministry of Transport as the responsible authority and the Airport as the beneficiary of EU fund financing, and with the legislation regulating EU funds management in Latvia.

Under the Agreement of 24 November 2015, the state compensation monitored by the Ministry of Transport is, based on the delegation to the Cabinet stipulated in Section 27(5) of the Law on Aviation, the share of the state budget resources intended for provision of aviation safety measures, which is allocated to the Airport for particular aviation safety measures and the use of which, as well as the compliance of the corresponding settlements, is managed and monitored under the Agreement by the Ministry of Transport.

**Typical arrangements for avoiding and repaying any overcompensation.**

The SGEI Agreement of 30 January 2012 stipulates that the Airport must cover the costs that arise from fulfilling the obligations but are not considered eligible for compensation. The Agreement specifies the following procedure for paying the state compensation: the state compensation is paid in accordance with the project implementation agreement. The procedure for mutual settlements between the State and the Airport to repay the state compensation in the event of an early termination of the Agreement is specified in the project implementation agreement. The Agreement specifies the following procedure for monitoring the compensation parameters: the State and the local government, to comply with Subparagraph 6.2 of the Cabinet Regulation No 661 *Regulation on public service obligations imposed on an airport*, must perform parameter compliance control at least twice during the Agreement period, more specifically, no later than by 30 January 2015 and 30 January 2017. Repeated parameter compliance control was performed in 2016, no derogations were found.

The SGEI Agreement of 24 November 2015 specifies that:

- at the end of the period (calendar year) and at the end of the Agreement period the State and the Airport must make the final settlement. Within one month after ascertaining the actual amount of state compensation, the State must pay the Airport the difference between the actual required amount of state compensation and the state compensation amount paid as a prepayment, taking into account the amount of funding allocated by the Cabinet for the respective year. If the compensation granted has not been used, the Airport must repay the unused part of the compensation within 5 (five) working days after the actual compensation amount has become clear, unless the contractors have agreed to transfer the unused part of the compensation to the next period.
- When terminating the Agreement before its term, the State and the Airport carry out mutual settlements within 15 (fifteen) working days starting from the day of signing the termination agreement or the day of submitting the agreement termination notice. If the Airport has received the state compensation or its part as a prepayment, the Airport must transfer the respective amount within 5 (five) working days after receipt of the request to the State's settlement account specified in the Agreement.
- The Airport itself is responsible for its outstanding financial indebtedness if such exists or is incurred during the Agreement implementation period, and is not entitled to cover the respective expenses from the compensation received from the State;
- The Airport transfers the excess of the aforementioned amount to the account specified by the State.

|   |                  |
|---|------------------|
| <ul style="list-style-type: none"> <li>– The Airport submits quarterly reports on the fulfilment of obligations.</li> <li>– When completing the reports, the Airport must include in revenue items only the revenues related to fulfilment of the obligations, and in the expenditure items – only the direct and indirect expenses that are essential to the fulfilment of the obligations and are incurred in implementing the Agreement.</li> <li>– If apart from the obligation fulfilment the Airport carries out other economic activity, it must provide separate accounting of revenues and expenses of the activity related to the obligation fulfilment, as well as indicate the cost distribution methodology in the accounting organisation documents as defined in the accounting regulations in place in the Republic of Latvia.</li> </ul> |                  |
| <p>A short explanation of how the <b>transparency requirements</b> (see Article 7 of the 2012 SGEI Decision) for the aid above 15 million euro to undertakings that also have activities outside the scope of the SGEI are being complied with. In your answer please also include some relevant examples of information published for this purpose (e.g. some links to websites or other references), indicate whether you have a central website on which you publish this information for all aid measures concerned in your Member State (and if so provide the link to this website), or alternatively explain if and how the publication takes place at the level granting the aid (e.g. central, regional or local level).</p>   |                  |
| <p>The aid granted in 2016 and 2017 did not exceed the amount of EUR 15 million per beneficiary.</p>  |                  |
| <p><b>Amount of aid granted</b></p>   |                  |
| <p><b>Total amount of aid granted (in millions EUR).</b> This includes all aid granted in your territory, including aid granted by regional and local authorities. (A+B+C)</p>  |                  |
| <b>2016</b>   | <b>2017</b>      |
| EUR 0.98 million  | EUR 1.10 million |
| <p><b>A: Total amount of aid granted (in millions EUR) paid by national central authorities</b></p>   |                  |
| <b>2016</b>   | <b>2017</b>      |
| EUR 0.51 million  | EUR 0.04 million |
| <p><b>B: Total amount of aid granted (in millions EUR) paid by regional authorities</b></p>   |                  |
| <b>2016</b>   | <b>2017</b>      |
| -   | -                |
| <p><b>C: Total amount of aid granted (in millions EUR) paid by local authorities</b></p>  |                  |
| <b>2016</b>   | <b>2017</b>      |
| EUR 0.47 million  | EUR 1.06 million |

| <b>Share of expenditure per aid instrument</b> (direct subsidy, guarantees etc.) (if available)                                    |                                      |
|--|--------------------------------------|
| <b>2016</b>  | <b>2017</b>                          |
| Grant – 100%   | Grant – 100%                         |
| <b>Additional quantitative information</b> (e.g. number of beneficiaries per sector, average aid amount, size of the undertakings) |                                      |
| <b>2016</b>  | <b>2017</b>                          |
| Number of beneficiaries: 2   | Number of beneficiaries: 2           |
| Average aid amount: EUR 0.49 million   | Average aid amount: EUR 0.55 million |

## **SGEI compensation not exceeding an annual amount of EUR 15 million (Art. 2(1)(a))**

### ***i. Postal services***

In the mail sector, the Public Utilities Commission (hereinafter – the Regulator) regulates the traditional mail services, courier mail services, express mail services and the delivery of subscription press. The task of the Regulator is to supervise the provision of mail services, especially universal mail service, to promote competition in the sector and to protect the customers' interests. The mission of the mail sector is to provide high-quality and effective postal services throughout the territory of Latvia, while simultaneously ensuring that those services are economically accessible. The service tariffs in the mail sector are determined by postal undertakings, while the tariffs of the universal mail services must be approved by the Regulator. An undertaking has a right to start providing postal services if it has submitted a notification of registration to the Regulator in accordance with the procedure specified in the Postal Law. A postal undertaking must submit to the Regulator a notice of termination of a postal undertaking's activity if the respective undertaking completely terminates the provision of postal services to all users.

In Latvia, the universal mail (UM) service (consignments of correspondence and postal parcels) is provided by the State public liability company Latvijas Pasts. To ensure continuity of UM, the Postal Law<sup>5</sup> provides for a UM financing mechanism. A fund for compensation of the net costs of fulfilling the UM obligations (hereinafter — the fund) was established, where contributions are made by postal undertakings that provide services comparable to UM. If necessary, the losses will be compensated from the fund resources, and the state budget resources will be raised in case of insufficiency. The UM provider has not been paid compensation since the establishment of the fund (2013), as, according to the Regulator's decisions in the period from 2013 to 2016, the fulfilment of UM obligations did not result in losses. The Regulator provides information on the possible losses arising from UM obligations in the second half of the year following the reporting year.

The service of delivering subscription press is a part of the UM, but no quality obligations have been established in this sector. Considering the social importance of the service, a transitional provision of the Postal Law is in force until 31 December 2019, specifying that a part of delivery losses must be compensated from the state budget. The UM provider is obliged to provide the service of delivering subscription press throughout the state territory for a fixed price.

Compensation for the subscription press delivery services is not considered state aid within the meaning of SGEI because, according to Paragraphs 4 and 5 of the Decision Preamble, the criteria specified in the judgement of the Court of Justice of the European Union in the Altmark case (Case No C-280/00, Altmark Trans and Regierungspräsidium Magdeburg v Nahverkehrsgesellschaft Altmark) have been fulfilled:

1. The obligation to provide public services is expressly specified — the delivery services of subscription press is a part of the universal mail service (hereinafter — UM) and the Postal Law specifies the obligation to provide them in the entire territory of Latvia;
2. Parameters for calculating the compensation were established in advance: the Postal Law specifies the requirement to use the methodology approved by the Regulator — UM tariff calculation methodology (approved by Decision No 1/28 of 11.11.2013 of the

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<sup>5</sup> <http://likumi.lv/doc.php?id=193574>

Council of the Public Utilities Commission) and the specification and calculation methodology for the net costs of fulfilling the UM obligations (approved by Decision No 1/29 of 11.11.2013 of the Council of the Public Utilities Commission);

3. The compensation must not exceed the amount needed to cover all or part of the costs of fulfilling the public service obligations: the Postal Law specifies that the losses due to the provision of the subscription press delivery services are the difference between the actual costs of those delivery services and the Postal Law requirement that the tariffs of the subscription press delivery services must be determined by the Cabinet. The losses are compensated in full, on the condition that the income forgone because of the tariff discounts is not compensated. The calculation of the amount of losses must be submitted to the Ministry of Transport together with the audited report.

4. Pursuant to Section 27<sup>2</sup> of the Postal Law, the provider of the universal mail service is selected through a tender procedure.

The Postal Law also provides for a transitional period until 31 December 2019, during which UM obligations must be specified for an UM provider based on the previously issued individual licence. According to the Regulator's methodology, the formulas for calculating the net costs include calculation of losses by comparing revenues and expenses arising from the provision of a particular service if the UM obligations have been specified, as well as revenues and expenses arising from the provision of a particular service if no UM obligations have been specified. In practice, as mentioned above, no payments have been made from the fund for the provision of UM.

## ***ii. Energy, including heat supply***

According to Section 5 of the Energy Law, “(1) Energy supply undertakings are regulated undertakings that ensure safe, continuous and stable supply of electricity, heat energy and natural gas – of requested quality and in requested volumes that are economically justified – to energy users. The operation of energy supply undertakings is regulated by this law, the Law on Regulators of Public Utilities, and the Electricity Market Law”.

Within the territory of the Republic of Latvia, electricity trading may be carried out by registered companies (Electricity Trader Register), but most users currently buy electricity from the public limited company *Latvenergo*. Electricity transmission within the territory of Latvia is carried out by a single transmission system operator — the public limited company *Augstsprieguma tīkls* — and distribution of electricity by 11 distribution system operators (list of licences of distribution system operators), one of which, the public limited company *Sadales tīkls*, supplies electricity to 99 % of the power users.<sup>6</sup>

Natural gas supply sector comprises storage, transmission, distribution and trading of natural gas (except for selling natural gas in compressed gas fuelling stations for cars); the supervision of the sector undertakings is carried out by the regulator. Historically, the only undertaking operating in the territory of Latvia was the public liability company *Latvijas Gāze*<sup>7</sup>. From 3 April 2017, Latvia has an open natural gas market where any undertaking can operate in compliance with the liberalised natural gas market regulations.

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<sup>6</sup> <https://www.sprk.gov.lv/lapas/elektroenerģija-komersantiem>

<sup>7</sup> <https://www.sprk.gov.lv/lapas/elektroenerģija-komersantiem>



The service tariffs are determined by the Public Utilities Commission. The costs are not compensated to the electricity and natural gas service providers from public resources, as the customers pay for the provided services in full. Where payments of certain groups of socially vulnerable persons are partly covered, the receiver of the aid is a natural person, and conditions of the aid for commercial activity do not apply. If it is planned to grant aid in the sectors of electricity or natural gas services, the relevant European Commission documents for this sector are taken into account<sup>8</sup>.

**Aid for commercial activity is granted for heat supply services, and the respective information is provided below.** In some Latvian municipalities the service of heat supply is not provided, as, for historical reasons, each household provides itself with heating independently.

| <b>Clear and comprehensive description of how the respective services are organized in your Member State</b>   |
|--|
| <p>Explanation of what kind of services in the respective sector have been defined as SGEI in your Member State. Please list the <b>contents of the services entrusted as SGEI</b> as clearly as possible.</p>   |
| <p>In Latvia, the general requirement to organise utilities for residents (water supply and sewerage; heating; household waste management; collection, drainage and treatment of waste water) is stipulated in the Law on Local Governments. The Law on Local Governments does not specify what must be the legal status of the provider of the services whose organisation is the obligation of the local government. In local governments with a small number of residents, public services are, by way of exception, provided by the local government itself. This is largely related to the fact that construction in the administrative territories of small local governments is mostly individual (including country estates), and water supply and heating issues on such sites are solved individually, while the need for centralised public services is only present in some villages. Therefore, to save the financial resources of local governments, structural units of local governments are established, namely, public utilities services that work under statutes, do not have the rights of a legal entity and have no continuous budget of their own. The local government structural units ensure provision of utilities to residents and charge service fees in an amount corresponding to the economically justifiable costs. Considering that, within this model, public services are provided by a particular local government, not a limited company, no prerequisites exist for the materialisation of compensation payment. In the rest of the local governments, utilities are provided by limited companies on the basis of mutual agreements. The agreement on provision of utilities concluded between a local government and a provider of public services — an undertaking (limited company) – contains all the elements defined in the SGEI Decision. Services entrusted: heat energy production; supply of heat energy, ensuring continuous services for heating of buildings and structures; provision of heat energy in accordance with pre-established tariffs; maintenance, servicing, renovation and reconstruction of heat supply networks, technical equipment and infrastructure to be used for provision of public services.</p> |

<sup>8</sup> Guidelines on State aid for environmental protection and energy 2014-2020 (2014/C 200/01)

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|---|
| Explanation of the (typical) <b>forms of entrustment</b> . If standardized templates for entrustments are used for a certain sector, please attach them.  |
| An agreement or a local government's decision on delegating the public services function.   |
| <b>Average duration of the entrustment (in years)</b> and the proportion of entrustments that are <b>longer than 10 years</b> (in %) per sector. Specify in which sectors SGEI were entrusted with a duration exceeding 10 years and explain how this duration is justified.  |
| The typical durations of entrustments are 3, 6, 7 and 10 years. The duration of entrustment does not exceed 10 years.   |
| Explanation whether (typically) <b>exclusive or special rights</b> are assigned to the undertakings.  |
| The undertakings are typically assigned either exclusive or special rights to supply heat within a certain territory (depending on the size of the territory, on the historical situation and other aspects).   |
| Which <b>aid instruments</b> have been used (direct subsidies, guarantees, etc.)?   |
| The most frequent instruments are a local government's contribution to the share capital of a limited company and a guarantee on a loan from a commercial bank. Other instruments used are local government subsidies/grants, including those for the implementation of the Cohesion fund projects.   |
| Typical <b>compensation mechanism</b> as regards the respective services and whether a methodology based on cost allocation or the net avoided cost methodology is used.  |
| <p>Within subactivity 3.5.2.1.1 – <i>Measures to raise efficiency of centralised heat supply systems</i> – of the complement to the operational programme <i>Infrastructure and Services</i> (hereinafter – subactivity 3.5.2.1.1), grants are allocated from the Cohesion fund. According to the SGEI Decision, the amount of compensation must not exceed what is necessary to cover the net costs incurred in fulfilling the public service obligations, including a reasonable profit. Within subactivity 3.5.2.1.1, the reasonable profit of a financing beneficiary which provides services of general economic interest is the return on capital not exceeding 10%. The return on capital indicator is the ratio of the company's net profit from the previous reference year to its share capital. The beneficiary of financing has an obligation to ensure that the limit value does not exceed the average weighted indicator for a period of two years.</p> <p>In local governments, different approaches to the choice of compensation methodology are possible; however, the most frequent one is the cost allocation methodology mentioned above.</p> |
| Typical <b>arrangements for avoiding and repaying any overcompensation</b> .  |
| Each institution has the right to choose the control mechanisms to be used. Agreements on the provision of particular public services within a particular territory, concluded between a local government and a provider of public services, provide for the possibility to receive only certain compensation payments. Some agreements contain a condition that the company has no right to conclude agreements with other institutions  |

regarding the receipt of other public funds without a permission from the meeting of participants. Furthermore, most of the concluded agreements oblige the commercial companies to keep separate account of the actual costs and income related to the provision of water supply and sewerage public services, per service type and per territory. The mentioned accounting must be separated from the general accounts of commercial activity. Also, some local governments, to ensure regulation of public services, have concluded agreements with other commercial companies, which control the accuracy of expenditure and revenue included in the costs. Each institution has a right to decide whether it requires an audit report. Within CF projects, (1) the Investment and Development Agency of Latvia (hereinafter – IDAL) monitors the indicator value of the financing beneficiary's return on capital during five years after project implementation; (2) it is an obligation of the beneficiary of financing to retain the documents proving that the state aid granted complies with the requirements specified in relevant regulations during project implementation and for 10 years after it; (3) finally, the average annual compensation for a public service must not exceed EUR 15 million during the entrustment period. In local governments, to ensure that aid is not granted by several different institutions for the same costs related to the provision of public services, the activity of limited companies is monitored by a shareholder's representative who has been approved by the local government and submits annual reports to the local government. Annual reports of companies must provide a clear idea of the sources and the use of revenues.

A short explanation of how the **transparency requirements** (see Article 7 of the 2012 SGEI Decision) for the aid above 15 million euro to undertakings that also have activities outside the scope of the SGEI are being complied with. In your answer please also include some relevant examples of information published for this purpose (e.g. some links to websites or other references), indicate whether you have a central website on which you publish this information for all aid measures concerned in your Member State (and if so provide the link to this website), or alternatively explain if and how the publication takes place at the level granting the aid (e.g. central, regional or local level).

The aid granted for heat supply sector projects implemented in 2015 and 2016 did not exceed the amount of 15 million EUR per beneficiary.

Information regarding the implementation of EU funds projects is published on <http://www.esfondi.lv/aktivitates>.

| <b>Amount of aid granted</b>  |                  |
|---|------------------|
| <b>Total amount of aid granted (in millions EUR).</b> This includes all aid granted in your territory, including aid granted by regional and local authorities. (A+B+C) |                  |
| <b>2016</b>   | <b>2017</b>      |
| EUR 17.81 million   | EUR 3.49 million |
| <b>A: Total amount of aid granted (in millions EUR) paid by national central authorities</b>  |                  |
| <b>2016</b>   | <b>2017</b>      |
|   |                  |

|   |   |
|---|---|
| EUR 13.66 million   | EUR 0.45 million  |
| <b>B: Total amount of aid granted (in millions EUR) paid by regional authorities</b>  |   |
| <b>2016</b>   | <b>2017</b>   |
| -   | -   |
| <b>C: Total amount of aid granted (in millions EUR) paid by local authorities</b>   |   |
| <b>2016</b>   | <b>2017</b>   |
| EUR 4.15 million  | EUR 3.04 million  |
| <b>Share of expenditure per aid instrument</b> (direct subsidy, guarantees etc.) (if available)   |   |
| <b>2016</b>   | <b>2017</b>   |
| Aid is granted in the form of subsidies, including:<br>Financing for the increase of share capital – EUR 14.23 million.<br>Grant – EUR 1.01 million.<br>2015 profit dividends of limited companies in which a local authority is a public shareholder unpaid into the state budget – EUR 2.79 million.<br>Loan guarantees – EUR 0.23 million. | Aid is granted in the form of subsidies, including:<br>Financing for the increase of share capital – EUR 1.62 million.<br>Grant – EUR 0.85 million.<br>2016 profit dividends of limited companies in which a local authority is a public shareholder unpaid into the state budget – EUR 0.48 million.<br>Loan guarantee – EUR 0.09 million. |
| <b>Additional quantitative information</b> (e.g. number of beneficiaries per sector, average aid amount, size of the undertakings)  |   |
| <b>2016</b>   | <b>2017</b>   |
| Number of beneficiaries: 29   | Number of beneficiaries: 23   |
| Average aid amount: EUR 0.61 million  | Average aid amount: EUR 0.13 million  |

### *iii. Waste collection*

|   |
|---|
| <b>Clear and comprehensive description of how the respective services are organized in your Member State</b>  |
| Explanation of what kind of services in the respective sector have been defined as SGEI in your Member State. Please list the <b>contents of the services entrusted as SGEI</b> as clearly as possible. |

|   |
|---|
| <p>The Law on Regulators of Public Utilities defines the sector of household waste management as that of public services, and, based on the delegation contained in the mentioned law, the Cabinet of Ministers has defined the types of public utilities whose provision needs to be regulated. In the household waste management sector, household waste landfilling has been defined as such.</p>  |
| <p>Explanation of the (typical) <b>forms of entrustment</b>. If standardized templates for entrustments are used for a certain sector, please attach them.</p>  |
| <p>Particular types of public services that need to be regulated in the household waste management sector were defined by the Cabinet of Ministers based on the delegation contained in the law. Regarding provision of a particular public utility, the local government and the service provider conclude a service agreement, which includes all the conditions specified in the SGEI Decision. No standardised templates of service agreements have been adopted.</p>   |
| <p><b>Average duration of the entrustment (in years)</b> and the proportion of entrustments that are <b>longer than 10 years</b> (in %) per sector. Specify in which sectors SGEI were entrusted with a duration exceeding 10 years and explain how this duration is justified.</p>   |
| <p>The term of a public services agreement is 5 to 10 years.</p> <p>To qualify for compensation payments, a public services agreement must have a term of at least 5 years and not exceeding 10 years. This requirement is inter alia related to the conditions for receipt of EU funds resources.</p> <p>More than 95 % of the concluded agreements have a period of up to 10 years. The rest are concluded for a period of 5 to 8 years. As mentioned by the ministry in charge of the sector (Ministry of Environment Protection and Regional Development), in practice, there are no agreements with a period exceeding 10 years.</p> |
| <p>Explanation whether (typically) <b>exclusive or special rights</b> are assigned to the undertakings.</p>   |
| <p>Only exclusive rights are assigned under agreements on household waste landfilling.</p>  |
| <p>Which <b>aid instruments</b> have been used (direct subsidies, guarantees, etc.)?</p>  |
| <p>The aid instrument used is direct subsidies.</p>   |
| <p>Typical <b>compensation mechanism</b> as regards the respective services and whether a methodology based on cost allocation or the net avoided cost methodology is used.</p>   |

|   |  |
|---|--|
| <p>The amount of compensation payments that can be granted is determined in accordance with:</p> <ul style="list-style-type: none"> <li>- EU and Latvian legislation specifying requirements for the household waste landfilling services to be provided;</li> <li>- EU and Latvian legislation specifying requirements for attracting EU funds for investment in the infrastructure of household waste landfilling services, requirements for the implementation procedure of such projects, as well as for the recovery and repayment of ineligible expenses.</li> </ul> <p>The agreement on provision of public services includes a paragraph specifying that a provider of public services may receive compensation payments which are investments in the infrastructure of public services only in the amount ensuring provision of public services at the quality level specified by regulations.</p> <p>The ministry responsible for the sector indicates that the compensation payments received from the central authorities are intended for investment in infrastructure only.</p> |  |
| <p><b>Typical arrangements for avoiding and repaying any overcompensation.</b></p>  |  |
| <p>A public services agreement contains a paragraph stipulating that it is the service provider's obligation to repay the compensation parts which are the excess of the costs of providing the public service.</p> <p>Overcompensation is avoided by observing, already at the initial stage of determining the necessary amount of investment in the service provider's infrastructure, the EU and Latvian regulations regarding the qualitative and quantitative indicators of the services to be provided, as well as the financial and economic indicators specified for the attraction of EU and public funding for investment in the infrastructure of water supply and household waste landfilling services.</p>  |  |
| <p>A short explanation of how the <b>transparency requirements</b> (see Article 7 of the 2012 SGEI Decision) for the aid above 15 million euro to undertakings that also have activities outside the scope of the SGEI are being complied with. In your answer please also include some relevant examples of information published for this purpose (e.g. some links to websites or other references), indicate whether you have a central website on which you publish this information for all aid measures concerned in your Member State (and if so provide the link to this website), or alternatively explain if and how the publication takes place at the level granting the aid (e.g. central, regional or local level).</p>   |  |
| <p>The aid granted for household waste landfilling sector projects implemented in 2016 and 2017 did not exceed the amount of 15 million EUR per beneficiary.</p>  |  |
| <p><b>Amount of aid granted</b></p>   |  |
| <p><b>Total amount of aid granted (in millions EUR) <sup>6</sup>.</b> This includes all aid granted in your territory, including aid granted by regional and local authorities. (A+B+C)</p>   |  |
| <p><b>2016</b></p> <p>EUR 0.66 million</p>  | <p><b>2017</b></p> <p>EUR 1.25 million</p> |
| <p><b>A: Total amount of aid granted (in millions EUR) paid by national central authorities</b></p>   |  |

| 2016   | 2017                             |
|--|----------------------------------|
| 0  | 0                                |
| <b>B: Total amount of aid granted (in millions EUR) paid by regional authorities</b>   |                                  |
| 2016   | 2017                             |
| -  | -                                |
| <b>C: Total amount of aid granted (in millions EUR) paid by local authorities</b>  |                                  |
| 2016   | 2017                             |
| EUR 0.66 million   | EUR 1.25 million                 |
| <b>Share of expenditure per aid instrument</b> (direct subsidy, guarantees etc.) (if available)                                    |                                  |
| 2016   | 2017                             |
| Grant – 100%   | Grant – 100%                     |
| <b>Additional quantitative information</b> (e.g. number of beneficiaries per sector, average aid amount, size of the undertakings) |                                  |
| 2016   | 2017                             |
| Number of beneficiaries: 3   | Number of beneficiaries: 3       |
| Average aid amount: EUR 0.22 million   | Average aid amount: 0.42 million |

#### *iv. Water supply*

| <b>Clear and comprehensive description of how the respective services are organized in your Member State</b>   |
|--|
| Explanation of what kind of services in the respective sector have been defined as SGEI in your Member State. Please list the <b>contents of the services entrusted as SGEI</b> as clearly as possible.  |
| <p>The Law on Public Utilities Regulators defines water supply as a public service, and, based on the delegation contained in the mentioned law, the Cabinet of Ministers has defined the types of public services whose provision needs to be regulated. The following services are regulated in the water supply sector:</p> <ul style="list-style-type: none"> <li>– water extraction, collection, and preparation for feeding into the centralised water supply network;</li> <li>– water supply from the feed location in the water supply network to the boundary of the property;</li> <li>– collection of waste water from the boundary of the property into centralized sewerage systems and drainage to waste water treatment facilities;</li> <li>– waste water treatment and drainage to the environment, including surface water bodies.</li> </ul> |

|  |
|--|
| Explanation of the (typical) <b>forms of entrustment</b> . If standardized templates for entrustments are used for a certain sector, please attach them.   |
| Particular types of public services that need to be regulated in the water management and household waste management sectors have been defined by the Cabinet of Ministers based on the delegation contained in the law. As regards the provision of a particular public utility, the local government and the service provider conclude a service agreement, which includes all the conditions specified in the SGEI Decision. No standardised templates of service agreements have been adopted.   |
| <b>Average duration of the entrustment (in years)</b> and the proportion of entrustments that are <b>longer than 10 years</b> (in %) per sector. Specify in which sectors SGEI were entrusted with a duration exceeding 10 years and explain how this duration is justified.   |
| The term of a public services agreement is 5 to 10 years. To qualify for compensation payments, a public services agreement must have a term of at least 5 years and not exceeding 10 years. This requirement is inter alia related to the conditions for receipt of EU funds resources. More than 95 % of the concluded agreements have a period of up to 10 years. The rest are concluded for a period of 5 to 8 years. As mentioned by the ministry in charge of the sector (Ministry of Environment Protection and Regional Development), in practice, there are no agreements with a period exceeding 10 years. |
| Explanation whether (typically) <b>exclusive or special rights</b> are assigned to the undertakings.   |
| Exclusive rights are assigned to the providers of public services in cases when there is only one such provider in the administrative territory of the local government. If there are two or more such providers in the administrative territory, special rights are assigned. According to the agreements concluded in the water management sector, mostly special rights are assigned.   |
| Which <b>aid instruments</b> have been used (direct subsidies, guarantees, etc.)?  |
| The aid instrument used is direct subsidies.   |
| Typical <b>compensation mechanism</b> as regards the respective services and whether a methodology based on cost allocation or the net avoided cost methodology is used.   |



The amount of compensation payments that can be granted is determined in accordance with:

- EU and Latvian legislation specifying requirements for water management and household waste landfilling services to be provided;
- EU and Latvian legislation specifying requirements for attracting EU funds for investment in the infrastructure of water management and household waste landfilling services, requirements for the implementation procedure of such projects, as well as for the recovery and repayment of ineligible expenses. The agreement on provision of public services includes a paragraph specifying that a provider of public services may receive compensation payments which are investments in the infrastructure of public services only in the amount ensuring provision of public services at the quality level specified by regulations.

The cost allocation methodologies used by aid granters differ; some answers refer to the net avoided cost methodology as the one difficult to apply.

#### **Typical arrangements for avoiding and repaying any overcompensation.**

A public services agreement contains a paragraph stipulating that it is the service provider's obligation to repay the compensation parts which are the excess of the costs of providing the public service. Overcompensation is avoided by observing, already at the initial stage of determining the necessary amount of investment in the service provider's infrastructure, the EU and Latvian regulations regarding the qualitative and quantitative indicators of the services to be provided, as well as the financial and economic indicators specified for the attraction of EU and public funding for investment in the infrastructure of water management and household waste landfilling services.

|   |   |
|---|---|
| <p>A short explanation of how the <b>transparency requirements</b> (see Article 7 of the 2012 SGEI Decision) for the aid above 15 million euro to undertakings that also have activities outside the scope of the SGEI are being complied with. In your answer please also include some relevant examples of information published for this purpose (e.g. some links to websites or other references), indicate whether you have a central website on which you publish this information for all aid measures concerned in your Member State (and if so provide the link to this website), or alternatively explain if and how the publication takes place at the level granting the aid (e.g. central, regional or local level).</p> |   |
| <p>The aid granted for water supply sector projects implemented in 2016 and 2017 did not exceed the amount of 15 million EUR per beneficiary.</p>   |   |
| <p><b>Amount of aid granted</b></p>   |   |
| <p><b>Total amount of aid granted (in million EUR).</b> This includes all aid granted in your territory, including aid granted by regional and local authorities. (A+B+C)</p>   |   |
| <p><b>2016</b></p> <p>EUR 21.97 million</p>   | <p><b>2017</b></p> <p>EUR 24.16 million</p>   |
| <p><b>A: Total amount of aid granted (in millions EUR) paid by national central authorities</b></p>   |   |
| <p><b>2016</b></p> <p>EUR 7.9 million</p>   | <p><b>2017</b></p> <p>EUR 6.0 million</p>   |
| <p><b>B: Total amount of aid granted (in millions EUR) paid by regional authorities</b></p>   |   |
| <p><b>2016</b></p> <p>-</p>   | <p><b>2017</b></p> <p>-</p>   |
| <p><b>C: Total amount of aid granted (in millions EUR) paid by local authorities</b></p>  |   |
| <p><b>2016</b></p> <p>EUR 14.07 million</p>   | <p><b>2017</b></p> <p>EUR 18.16 million</p>   |
| <p><b>Share of expenditure per aid instrument</b> (direct subsidy, guarantees etc.) (if available)</p>  |   |
| <p><b>2016</b></p> <p>Aid is granted in the form of subsidies, including:<br/>Financing for the increase of share capital – EUR 6.94 million.<br/>Grant – EUR 10.42 million.<br/>Unpaid dividends of limited companies in which a local authority is a public shareholder – EUR 2.97 million.</p>   | <p><b>2017</b></p> <p>Aid is granted in the form of subsidies, including:<br/>Financing for the increase of share capital – EUR 10.17 million.<br/>Grant – 9.35 million.<br/>Unpaid dividends of limited companies in which a local authority is a public shareholder – EUR 2.79 million.</p> |

|  |   |
|--|---|
| Loan guarantees – EUR 1.64 million.  | Loan guarantees – EUR 1.85 million.                                     |
| <b>Additional quantitative information</b> (e.g. number of beneficiaries per sector, average aid amount, size of the undertakings) |   |
| <b>2016</b>  | <b>2017</b>   |
| Number of beneficiaries: 63<br><br>Average aid amount: EUR 0.35 million  | Number of beneficiaries: 56<br><br>Average aid amount: EUR 0.43 million |

#### ***v. Culture***

There are no services defined as SGEI in the culture sector in Latvia.

#### ***vi. Financial services***

There are no services defined as SGEI in the financial services sector in Latvia.

#### ***vii. Other sectors (please specify)***

In Latvia, there are presently no services defined as SGEI in sectors that are not mentioned in the list proposed by EC.

### **3. COMPLAINTS BY THIRD PARTIES**

*Please provide an overview of complaints by third parties, in particular litigation before national courts, regarding measures in scope of the 2012 SGEI Decision or 2012 SGEI Framework. Please be as specific as possible in your reply and include the sector for which you have received the complaints, the contents of the complaints and the possible follow-up by your authorities or the likely outcome of the court proceedings.*

Latvia informs that it has not received any complaints by third parties regarding measures in scope of the 2012 SGEI Decision or 2012 SGEI Framework.

### **4. MISCELLANEOUS QUESTIONS**

*We kindly invite you to indicate whether your authorities have experienced difficulties in applying the 2012 SGEI Decision and ask you to in particular consider the following issues:*

- *drawing up an entrustment act that complies with Article 4 of the SGEI Decision;*  
No comments on this item.
- *specifying the amount of compensation in line with Article 5 of the SGEI Decision;*

The Ministry of Health, which represents the healthcare sector, has indicated that, the state budget financing for healthcare sector being limited, the tariffs specified in the Cabinet Regulation No 1529 of 17 December 2013 *Procedures for the organisation and financing of*

*health care* do not cover the production costs of certain service items, and the amount of compensation granted is therefore lower than actually required.

- *determining the reasonable profit level in line with Article 5(5)-(8) of the SGEI Decision;*

In the information it has provided, the Ministry of Health, which represents the healthcare sector, indicated that, the state budget financing of the healthcare sector being limited, the inclusion of reasonable profit in the amounts of compensation to healthcare institutions is not possible.

- *regularly checking overcompensation as required by Article 6 of the SGEI Decision.*

In the information it has provided, the Ministry of Health, which represents the healthcare sector, indicated that, the state budget financing of the healthcare sector being limited, overcompensation is impossible. To ensure that the information on settled payments is true and accurate, balance reconciliation statements on the implementation of agreements concluded with each of the healthcare institutions providing state-covered healthcare services are prepared after the end of the economic year; the mentioned statements include information, on the part of the Service and the healthcare institution, on the amounts of work performed, amounts of agreements, settlements, claims and obligations. If, as a result of the balance reconciliation, it is found that the prepayment to healthcare institutions made in December of the previous year for the healthcare services provided in December of the previous year is larger than the amount of services provided under the agreement, a letter to the hospital is prepared, requesting repayment of the overpaid amount. If the specified amount is not repaid into the state budget, the Service deducts this overpaid amount from the payments for the state-covered healthcare services provided in the current year. Also, several control mechanisms have been established to avoid overcompensation of costs of infrastructural development of hospitals within the ERDF projects:

- aid for infrastructure must not exceed the costs of infrastructure development;
- all infrastructure development activities must be implemented based on public procurement agreements;
- it is additionally controlled that the aid for infrastructure development is granted in proportion to the use of the infrastructure in the provision of services of general economic interest;
- in the event of overcompensation, healthcare institutions must repay a specified amount of allocated funds.

*Please be as specific as possible in your reply, include relevant examples and, if applicable, the sector for which the difficulties are (most) relevant.*

In the information it has provided, the Ministry of Health, which represents the healthcare sector, especially stresses that the necessity to separate aid for SGEI when the aid beneficiary also provides other services apart from the SGEI demands substantial investment of administrative resources on the part of both the granter and the beneficiary of aid, even though in many cases the proportion of non-SGEI activity is insubstantial – five per cent or less. To simplify aid management, it is necessary to evaluate and establish the allowable proportion of non-SGEI activity, as well as to specify the conditions as to when it can be applied without affecting competition.

- b. *We kindly invite you to indicate whether your authorities have experienced*

*difficulties in applying the 2012 SGEI Framework and ask you to in particular consider the following issues:*

- *carrying out a public consultation in line with paragraph 14 of the SGEI Framework;*
- *complying with public procurement rules in line with para 19 of the SGEI Framework;*
- *determining the net avoided cost as required by paras 25-27 of the SGEI Framework;*
- *determining the reasonable profit level in line with paras 33-38 of the SGEI Framework.*

*Please be as specific as possible in your reply, include relevant examples and, if applicable, the sector for which the difficulties are (most) relevant.*

Considering that to date there have been no cases in Latvia of an average annual compensation for the provision of a service of general economic interest exceeding EUR 15 million in sectors to which the respective limit applies, the SGEI framework is not applicable to Latvia. No comments on this item.

*c. If you have any other comments on the application of the SGEI Decision and the SGEI Framework on issues other than the ones covered in the previous questions, please feel free to provide them within your report.*

Considering the market development trends in some of the social services sectors, in future it may be necessary to define one of the respective services as SGEI. In this case, the responsible authorities may potentially encounter difficulties with defining the service of general economic interest. The Latvian authorities would appreciate it if a collection of best practices/examples of defining social services as SGEI were prepared by EC, which would allow avoiding, as far as possible, obvious mistakes in definition.