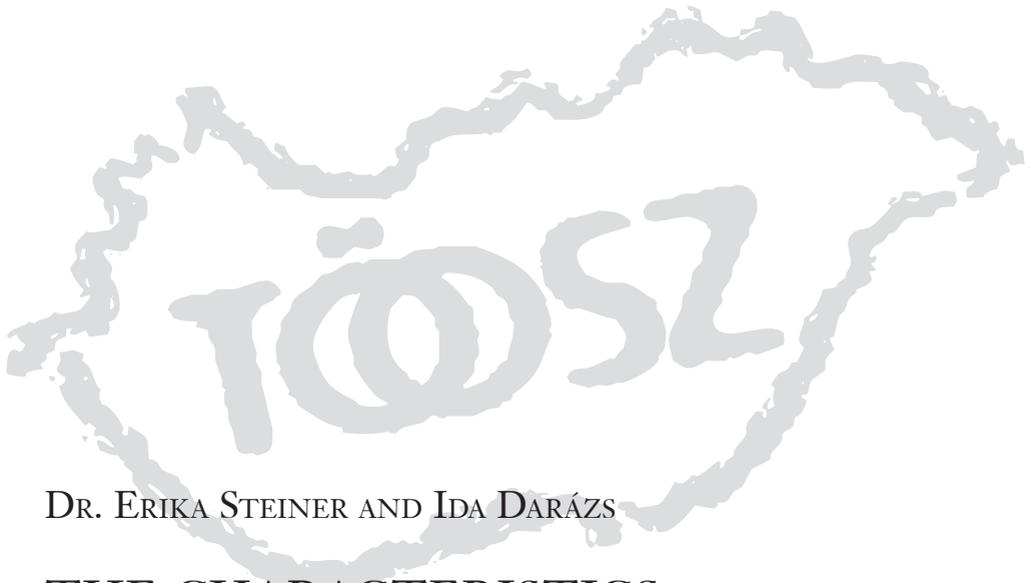


Jot Ár



DR. ERIKA STEINER AND IDA DARÁZS

THE CHARACTERISTICS
OF THE HUNGARIAN LOCAL
AUTHORITY SYSTEM
AND THE MUNICIPAL
ECONOMIC MANAGEMENT

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The Local Government Information Network



Local Government Information Network (LOGIN) is a clearinghouse for information and activities relevant to local government officials, in support of their professional development and the reform of local public administration. LOGIN's main objective is to provide information to decision-makers at the local level through the exchange of knowledge and experience between different countries and regions of the world.

LOGIN brings together the expertise of its founding international development agencies: Council of Europe, Open Society Institute, United Nations Development Program, United States Agency for International Development and the World Bank. The Sponsoring Partners provide leadership and guidance based on years of experience in building successful partnerships and disseminating development information.

In order to facilitate exchange of information and knowledge, LOGIN established a network of national organizations with solid local presence and connection to leaders in the local government area. In addition LOGIN cooperates with international service and resource organizations such as the Municipal Network for Energy Efficiency, the Canadian Urban Institute, the Open Society Institute and United Nations' Delnet program.

LOGIN selects the national partner in each country for its ability and proven record to provide useful information of interest to local authorities. The partner organizations demonstrated capability to network with local governments, with a special emphasis on information dissemination. Over the past four years, LOGIN has selected the following national partners:

- Bulgaria - Foundation for Local Government Reform (FLGR)
- Hungary - National Association of Local Authorities (TOOSZ)
- Latvia - Union of Local and Regional Governments of Latvia (ULRGL)
- Lithuania - Municipal Training Center (MTC)
- Macedonia – Association of Association of the units of local self-government of Republic of Macedonia (ZELS)
- Poland - EMCOM Ltd.
- Poland - Foundation in Support of Local Democracy (FSLD)
- Romania – Romanian Federation of Local Authorities (FALR)
- Russia - Institute for Urban Economics (IUE)
- Ukraine - Association of Ukrainian Cities (AUC)

For more information about LOGIN, please visit the www.logincee.org site or contact Kristof Varga at kzvarga@osi.hu.

On the Hungarian local authority system

by dr. Erika Steiner

1. Precedents: the council system

Based on the Act XX of 1949 on the Constitution of the Hungarian People's Republic, *the council system* in Hungary was created following the general election of councils on 22 October 1950. The principal tasks, powers, organizational structure of council bodies, the basic rules of their operation as well as their relation with further state and other bodies were regulated by *council laws*.

Local councils functioned in the villages, the towns and the districts of capital. The county councils comprised several settlement units, thus their operating level was named *territorial council*.

The sphere of activities and powers of the capital council generally coincided with that of the territorial councils, but it also contained specific local tasks.

The operation of joint commune (population below 5000 people) and large-commune (population over 5000 people) councils was extended to several communes. Those council members of the joint councils that were not elected in a member-commune found a seat, comprised together the so-called *borough council*. The borough council represented the interests of the citizens of the member-commune in the common council and before other bodies and organized the community life of the member-commune.

2. Local self-governance

The process of creation of the new local authority system replacing the existing council system began in autumn, 1990.

The Act LXV of 1990 (from thereafter: Act) on Local Authorities served as a basic regulation of the self-government system. The Act built on the basic principals of the European Charter, the traditions of Hungarian local governance and the national specificities resulting from the change in the political system. This Act was the starting point of a development process of several years.

The legal basis of the self-government system is the Constitution itself declaring that the right of self-governance belongs to the voters of the communes, towns, the capital and its districts and the counties. The direct forms of the exercise of power are the practice of the right of local voting, the local referendum and the people's initiative. The addressee of the basic self-government rights is the body of representatives, which is an elected body.

While taking into account the Hungarian legal regulations, the body of representatives creates its own organization and operating rules. In general, the body of representatives is entitled to the majority of the scope of tasks and powers, however, it is up to the body of representatives to decide which of its tasks it deals with on its own and which are the responsibilities that it undertakes with the involvement of its own bodies. Thus, the body of representatives decides on its own about the independent practice of its powers or their transfer to other bodies.

The local governance is a communitarian right.

As a whole the local authority is a legal entity.

The body of representatives makes its decisions independently and it takes responsibility for its decisions on its own.

3. The territorial division of the country

The Constitution and the Act on Local Authorities determine the territorial division of the Hungarian Republic.

According to the territorial division, in Hungary, the counties may be divided into communes (in other name: villages), towns, towns with county ranks and the capital may be divided into districts. In accordance with this, in 1990, 19 counties, the capital and within the capital 22 district local authorities of settlements elected almost 3100 bodies of representatives and mayors. Later, the General Assemblies and the Presidents of the General Assemblies (also a Lord Mayor) were elected to direct the counties and (the capital).

In the course of the creation of the self-government system, the legal status of settlements also changed:

- a.) the settlements received central role;
- b.) the differences in the legal status of the settlements disappeared (the basic self-government rights are shared equally by the communities);
- c.) the value of the co-operations increased;
- d.) citizen participation in the initiation and undertaking of the decisions affecting the settlements became legal rights.

The right of local authorities to the territories in their possession is *sacred and inviolable*. The transfer of a territorial part or its taking over may only be negotiated by the bodies of representatives concerned.

3.1 Communes (other name: village)

The commune is one of the formations of territorial division. The legal regulation of 1990 on local authorities aimed at the creation of the conditions for municipal autonomy, its objective was to create the basis for decentralization. For this reason, besides recognizing the communes with independent councils, the law recognized the right to autonomy of the member communes of the joint councils. These member councils had a secondary role in the council system. As a result of aspirations for autonomy, the number of municipalities with low population increased. Today, approximately 1700 settlements have a population of less than 1000 people and 1000 settlements have a population of less than 500 people.

New communes may be created from populated and separated settlement parts under the following circumstances:

- The separated settlement part has to have at least 300 inhabitants;

- The local authority of the new commune needs to have the capacity to practice municipal rights;
- The local authority of the new commune has to manage the obligatory tasks defined in the Act on Local Authorities without decrease in the quality level of the services;
- The local authority of the new commune has to possess the adequate financial resources for its independent financial operation.

According to the Act on Local Authorities, the settlements entitled to the name large communes are the ones that used to operate the councils of large communes and they currently have population of at least 5000 people. (The change in the number of communes is indicated in Appendix 1)

3.2 Towns

The large commune may be declared town at the initiative of the body of representatives, if due to its level of development and regional role, the use of the title *town* is justified.

In practice, because of the lack of predefined criteria, in reality it is up to the initiator to assess its own level of development and its own importance of regional role. The legislation provides the decision-maker, the President of the Republic, with unlimited powers in this field, as the conferment of the title *town* belongs to his / her scope of powers. The initiative may be proposed through the Minister of Interior. (The changes in the number of towns are indicated in Appendix 2).

3.3 Towns with county rank

Section 1, Paragraph 61 of the Act on Local Authorities stated that Parliament may, at the request of the body of representatives, declare the towns with a population of more than 50,000 people towns with county rank. At the beginning despite being county sites, Salgótarján and Szekszárd could not initiate their declaration to towns with county rank, because their population did not reach 50,000 people. Out of all the counties, Pest county did not have a county site. However, apart from the 16 settlements of the county sites, four further towns, Sopron, Dunaujváros, Nagykanizsa, Hódmezővásárhely with a population of more than 50,000 people, profited from this opportunity. The Parliament finally gave the title town with county rank to twenty settlements. Following the amendment of Section 1, Paragraph 61 of the Act on Local Governments with the text the county sites are towns with county rank, Szekszárd and Salgótarján also became towns with county rank. Thus, the number of towns with county rank increased to 22.

3.4 *The Capital*

Due to its scope of role, a specific regulation is applied to the legal status and municipal organization of the capital. The two-level local government system of the capital consists of the capital local government and 23 district local governments. The capital and its districts are all local governments of settlements. The body of representatives of the capital and the bodies of representatives of the district local authorities are not in hierarchical relation.

The members of the General Assembly of the capital and the Lord Mayor are directly elected by the people. The representation of district interests in the General Assembly of the capital is undertaken by the district delegate. He or she is directly elected by the district body of representatives. The members of the bodies of representatives are directly elected by the voters through a mixed elective system.

3.5 *Counties*

In the field of the division of the country's territory, the Constitution makes note of only one territorial unit: the county. The county local government is a territorial local government created through direct election. The county local government and the local government of settlements are both local governments but their tasks are differentiated by the law. The county local authority and the local authority of settlements are of equal rights, there is no hierarchical subordination between them. In the council system of the past, the counties were responsible for dividing and distributing among the local authorities the financial resources coming from the state. In the new municipal system, this function of the counties was abolished. The public service function of county local authorities was strengthened. The county local governments have almost no administrative functions (there exist separate deconcentrated bodies to cater for administrative functions). However, on the basis of the idea of subsidiarity, counties cater for all the public service tasks that the local authorities of settlements are unable to provide for due to their economic situation and the uncertain nature of the co-operations of settlements. On the one hand, the county local authorities organize those regional tasks that affect the whole or a great part of the county (Record Office, operation of the Institute of Child and Youth protection). On the other hand, the county local authorities also have obligatory tasks. They have to organize the provision of public services (e.g. hospital services) for the micro-regions and districts. Furthermore, the county local authorities may take up certain types of the public service provision on a voluntary basis (e.g. operation of theatres). They are not allowed, however to handle the facultative tasks of the communes and towns within the administrative borders of the county that the local authority of the given settlement wishes to

resolve on its own, or the management of which at a county level is in opposition with the interests of the given local authorities.

The members of the County General Assembly are directly elected by the people through lists. The President of the General Assembly is elected by the members of the General Assembly.

4. Tasks and powers of the local authorities

The rights of local authorities are the same, but their responsibilities may be different. The law provided for the possibility of the creation of differentiated spheres of power, however, the actual determination of tasks and scope of powers is a long process.

4.1 Rules on creation of tasks and sphere of activities

Local authorities in Hungary have a wide range of responsibilities and powers, they provide for the basic public services and have overall, general responsibilities.

The determination of municipal tasks, powers and the transfer of tasks and powers takes place in several steps.

A specific legislative solution was the Act XX of 1991 on the Sphere of Powers that grouped all the tasks and powers of the local authorities in a unique piece legislation, taking certain measures out of their natural legal environment. This solution was principally justified by the specificities of the period of transition. Later, based on the measures of the Act on Local Authorities, the powers and tasks of local authorities were defined by sectorial laws. In the framework of the legislation of one larger legal area, these laws determined the tasks and spheres of local authorities (thus the Act XX of 1991 lost its effect).

4.2 Administrative tasks, powers of authorities

The tasks and powers undertaken by the local authorities may be divided into two groups: 1) municipal tasks and powers, 2) state administrative tasks and powers.

Municipal tasks and powers may only be prescribed by law, state administrative tasks and powers may be determined by laws and decrees. In the case of administrative tasks to be undertaken at local level, the legislation usually provides the notary with the tasks and the powers. Exceptionally the municipal official may directly receive administrative tasks and powers.

The basic rights of local authorities are the same; however their tasks and powers might be different.

The Act on Local Authorities determine the tasks of local authorities necessary for the operation of the settlement, for the building of its technical infrastructure, for the catering of the basic communal and human service provision of the citizens.

A specific group of municipal matters are the municipal administrative tasks. Municipal administrative tasks are provided by the body of representatives, or on

its authorization by the committees of the body of representatives, the mayor, or the municipal associations (these tasks are usually social in nature).

4.3 Obligatory and voluntary tasks

Local authorities have obligatory and voluntary tasks and powers. Obligatory tasks and powers are prescribed by law. Local authorities are obliged to manage the tasks on territorial, town- and commune development; they are to cater for the everyday needs of the citizens and for the creation of the conditions necessary for a healthy way of life.

Local authorities may take up voluntary tasks besides the obligatory ones, provided that the necessary financial, material and personal conditions are at their disposal. These tasks are partially those that are not delegated to the sphere of powers of other bodies or may be taken up from other local authorities.

4.4 Transferable powers and tasks

The exercise of municipal duties and powers can be regarded as a privilege of the body of representatives (non-transferable, exclusive powers of the body of representatives are depicted in the Act on Local Authorities). The authorities of the body of representatives, the mayor, the committees, the organ of the partial local authority and the mayor's office all participate in the management processes. The body of representatives may transfer some of its powers to the mayor, the committees, the board of the partial local authority, the board of the minority local authority and to co-operations laid down by law. It may pass a resolution on the exercise of its powers and may withdraw the transferred powers. A power once transferred may not be further transferred.

5. The organization of the local authority

5.1 *The local representative*

The authorization of the local representative is created through election. On the basis of a general and equal right of voting, the local representative is elected by the voters indirectly and in a secret ballot. The mandate of the local representative lasts for four years.

Representatives of the settlements with a population of 10,000 or less people elect their representatives through a so-called short list. In the case of the settlements with a population of more than 10,000 people (and in the capital districts), one part of the representatives are elected in individual voting districts, and the other part is elected through compensation lists. The law determines the number of the members of the body of the representatives based on the population of the settlement.

The legal status and the framework of the legal situation of the representatives of the settlement are determined in the Constitution, in the laws on the election of municipal representatives and mayor, and finally in the Law on Local Authorities.

The essence of the tasks of the representatives is put down in the rules on the rights and responsibilities of representatives. Part of these rights and responsibilities concerns the relation of the representative and the voters; the other part refers to the nature of membership in the body of representatives. The representative of the settlement promotes the rights of the voters by taking up a responsibility for the whole of the settlement.

5.2 *The body of representatives*

The body of representatives has a determining role within the municipal system. The eligible citizens are entitled to the right of self governance; the community practices this right through the elected members of the body of representatives and the participation in local referendums.

The sessions of the body of representatives are in general open to the public; the body may hold closed meetings in certain cases determined in the Act on Local Authorities. The decisions of the body of representatives are presented in the form of resolutions and decrees. The representative that is personally involved in a given matter may be excluded from the decision-making concerning this matter. In order to have a quorum, more than half of the elected representatives have to be present at the session of the body of representatives. Generally, half of the representatives present have to vote “yes” for the adoption of a pro-

posal. In the case of some proposals the Act on Local Authorities and the rules on operation and organization specify the necessity of their adoption by a qualified majority.

The body of representatives may call for the creation of local authorities for a given part of the settlement. The body of representatives institutionalizes the existence partial local authorities in its operational and organizational rules.

The creation of partial local authorities may be justified by certain (structural) specificities of the given settlement. In matters effecting only one part of the settlement, the body of representatives may transfer some of its powers and some material tools to the partial local authorities.

5.3 *Committees*

It is the exclusive power of the body of representatives to determine the operational framework of the committee activity. There is subordination between the committee and the body of representatives.

The body of representatives determines the organization of the committees, elects the members of the committees, defines the tasks of the committees and may provide the committees with decisional rights. The body of representatives organizes the principal operational rules of the committees and lays them down in an operational legislation. The settlements with a population of more than 2,000 people are obliged to create a financial committee.

The body of representatives may create a committee dealing with minority affairs at the initiative of the representatives of minorities (members of the body of representatives). More than half of the presidents and members of the committees have to be chosen from the representatives of the local authorities.

5.4 *The mayor, the deputy-mayor*

The eligible voters of the settlements select the mayor (in the capital the Lord Mayor) in a direct way. The mayor is the member of the body of representatives. The commission of the mayor lasts until the election of the new mayor. In the case of the settlements with a population of more than 3,000 people, a mayor of full-time employment is elected.

The mayor is subordinated to the body of representatives in all municipal matters. The mayor has municipal and administrative tasks and powers. The mayor possesses strong power in relation to the mayor's office.

At the proposal of the mayor, the body of representatives may elect a deputy-mayor, or deputy-mayors out of its members. The election takes place through a secret ballot. The mandate of the deputy-mayor lasts for the period of the mandate of the body of representatives. The task of the deputy-mayor is to help the work of the mayor.

5.5 *The notary, the vice-notary*

Based on an official call, the body of representatives appoints the notary based on the conditions of capacity laid down by the law. At the proposal of the notary, or the notary in chief, the body of representatives may appoint a vice-notary in order to cater for the duties determined by the notary. The nomination is valid for an undetermined period.

The sphere of activity of the notary is basically the preparation, the professional support of the work of the body of representatives and the mayor, and the execution of their decisions. Through the direction of the mayor, the notary leads the mayor's office and is also the addressee of the state administrative powers. The notary also has a leading role in the protection of legality.

5.6 *The office*

The body of representatives creates a unique office, named mayor's office. The mayor's office does not dispose of an independent sphere of powers. The office prepares the local government matters, executes local government decisions, and undertakes the administrative tasks in relation to the operation of the bodies. Furthermore, following the instructions of the notary (mayor), it deals with the state administrative tasks that were assigned to it by law.

6. The associations of settlement local authorities

In the course of task provision, it is the right of local bodies to co-operate and unite with other local bodies in relation to their tasks of common interest. The Act on Local Authorities allows, and is based on a new law, that the authority supports the idea that the bodies of representatives of local authorities can freely engage in associations in order to undertake their tasks in a more efficient and oriented way. The local authorities of small settlements are the most concerned in the development of associations.

Associations may be created with the purpose to provide for the municipal and state administrative tasks and powers. Based on the relevant legislation, four types of agreements of association exist:

- a form created for the management of the tasks, the powers, and the services;
- a joint maintenance of an institution or other organization;
- creation of a joint decision-making body;
- an association with a legal personality.

The association is founded by the joint resolution of the bodies of representatives of the participating local authorities.

The most important forms of associations named by the Act on Local Authorities are as follows:

- a.) official, administrative associations,

It may be created in order to cater for the state administrative official matters in a professional way;

- b.) associations for the direction of institutions,

It is founded by the local authorities concerned in order to direct (maintain) an institution or institutions providing its / their services for two or more settlements;

- c.) joint body of representatives,

In order to create a joint body of representatives, referendums must be held at the settlements concerned, then the bodies of representatives of the settlements concerned

- partially or completely unite their budgets,
- maintain a joint office,
- operate their institutions together;

- d.) district-notary,

The creation of a district-notary is decided by the bodies of representatives of the local governments concerned for the purpose of the joint provision of administrative tasks. (The principal rule is that the neighbouring communes

within a county, possessing a population of less than thousand people create and maintain district notaries. The communes with a population of more than thousand people but less than two-thousand people may also participate in the district-notaries and serve as district-notary sites. In the case of a town or large-commune site, the notary of the town or the large-commune undertakes the tasks of the district-notary. Currently, 605 district notaries function in the country with the purpose to provide for the acceptable level of administrative tasks of the communes with low population. 57 % of the communes - 1555 commune - chose to associate in district-notaries.)

7. Indirect local-governance

7.1 Local referendum and people's initiative

The local referendum and the people's initiative are rarely applied forms of the exercise of local government rights. They should be used in the case of significant questions concerning the local community as a whole.

The object of the institution of local referendum is to allow the voters to decide themselves about the most significant questions of the settlement, and then the municipal bodies and the elected body of representatives promote and represent this majority decision.

Through the local initiative, all matters may be put before the body of representatives that belong to its scope of powers. The object of the local initiative is that the body of representatives makes a decision in the initiated matter. The body of representatives may only begin the discussion of the initiated matter if it really belongs to its sphere of power.

7.2 Forums of public will

Local authorities have to hold a public hearing every year. In the course of the public hearing, the representatives of the social and other organizations and the citizens turn directly to the body of representatives with their questions and proposals of common interest.

The leading representatives of the local authority of settlements, especially of the settlements with larger population, hold town-district meetings to listen to the opinion of the citizens.

In the communes, the body of representatives may present the key questions affecting the life of the communes before the village-meeting in order to get to know the view point of the citizens. The village meeting is not a decisive forum. However, based on the Act on Local Authorities, village meetings may exceptionally become decisive forums in the communes with a population of less than 500 people.

8. The economic bases of local governments

8.1 The property of local authorities

Local authorities became proprietors based on the Act on Local Authorities and the Act on Property. Local authorities became the owners of part of the real estate and the public utility enterprises that had been operated by the councils. This property was further extended through the negotiations of the committees of the transfer of assets. Local authorities and their interest-promoting associations (especially the Hungarian National Association of Local Authorities) also increased the volume of this property through court decisions, and the amendment of law provided by the Constitutional Court.

Within the framework of the Laws, local authorities may dispose of their property, may alienate it, or may pursue entrepreneurial activity with it. The body of representatives disposes of the property. The property of the local authority may be divided into two parts: the primary assets and the saleable assets. The primary assets are non-saleable (or are only saleable only in a limited way).

8.2 The economic management of local authority

Local authority manages its budget revenues and expenditure independently.

The sources of local authorities are as follows,

- own revenues;
- part of the central taxes remaining at the local level;
- state subsidies.

Own revenues:

Local taxes:

- local taxes concerning property (tax on buildings and land tax);
- communal taxes (communal tax of entrepreneurs, communal tax of citizens, tax on tourism);
- taxes concerning activities of resource generation (tax on practice of trade)

Revenues of entrepreneurial activities

Returns of local authority property

Determined proportion of revenues of levied dues

Determined part of fines

Revenues from the sale of hunting rights

Part of the central taxes remaining at a local level:

A determined part of the income tax of private persons (Its proportion is decided in the course of one political period or annually through political negotiations. For this reason the economic management of local authorities is always uncertain, and the gap between the wealthier and the poorer settlements is getting wider and wider.) The whole of the tax levied on vehicles

State subsidiaries:

NORMATIVE / TRENDSETTING BUDGETARY CONTRIBUTION

Local authorities receive this contribution proportionate to the population of settlements, certain age groups, to those provided by the institutions or on the basis of further proportionate indices.

TARGET SUBSIDIES

Local authorities are granted target subsidies if based on a call they meet the conditions of the realization of prioritized social local objectives as defined by law.

EARMARKED SUBSIDIES

Local authorities may request and receive earmarked subsidies for the realization of investments of high significance in the field of service provision of water-management, health care, social, education and culture.

SUPPLEMENTARY STATE SUBSIDIES

Local authorities in disadvantaged situation through no fault of their own are entitled to supplementary state subsidies if their economic difficulties were caused by Vis Mayor or they qualify as settlements in lack of adequate sources.

CENTRAL GRANTS

Central grants serve as reserves in order to undertake those municipal tasks that are unprepared at the time of the passing of the budgetary law. Local authority handles its management based on an annual budget. The mayor is responsible for the legality of the economic management and the body of representatives is responsible for the security of the economic management. The notary has a professional and disciplinary responsibility for the respect of legality; she or he is responsible for the reporting of legal infringement to the adequate organ. The National Audit Office is the only outside organ that has the right to control the economic management of local authorities.

9. The relation of the state and the local governments

9.1 Parliament

The relation of local authorities with Parliament is founded by the Constitution. Parliament makes decisions concerning the bodies of representatives that function in opposition to the Constitution and the Act on Local Authorities. Parliament also has territorial-organizational powers.

Finally, Parliament defines the system of legal and economic conditions necessary for the operation of local authorities.

9.2 The President of the Republic

- sets the date for Parliamentary and municipal elections;
- approves the Parliamentary decisions made in certain significant matters of territorial organization;
- in case Parliament dismisses a local body of representatives functioning illegally, until the election of the new body of representatives the President of the Republic appoints a Commissioner of the Republic for directing the implementation of specific municipal and state administration duties.

9.3 The government

- participates in the legal supervision of local authorities;
- directs the carrying out of state administration responsibilities.

The Minister of Interior has a role to participate in the supervision of legality. The preparation of unique decisions on territorial organization is also the task of the Minister of Interior.

He / she co-operates in the preparation of drafts of statutes, other legal instruments of state administration and of specific state rulings concerning the responsibilities and powers of local authorities and co-ordinate certain task provisions of the county local government.

It is the responsibility of the ministers to enforce the professional aims connected to the municipal management of state tasks, the provision for central tasks related to the institutions maintained by the local authorities, mutual provision of information, and the provision of financial support as laid down in the budgetary law.

9.4 Capital and county administration office

It is a budgetary organ which performs state administrative duties. In the capital and in the county, the head of the Public Administration Office

- a.) performs supervision of legality vis á vis the local governments and minority local governments and regional minority local governments, and may investigate municipal decisions taken with deliberation, as to lawfulness only;
- b.) performs the state administration, jurisdiction and tasks delegated to its sphere of powers by the Government and defined by law;
- c.) may initiate the examination process of the economic management of the local authority at the National Audit Office, based on the experiences gained in the course of the supervision of legality;
- d.) provides expert assistance in matters falling within its scope of duties and powers at the request of a local authority.

10. Minority local authorities

The Act LXXVII of 1993 on the Rights of National and Ethnic Minorities is in Europe an unmatched example of minority representation integrated into the State organization. This Act declares the individual and collective rights of the minorities and the individuals belonging to the minority groups. Its objective is to found the cultural autonomy of minorities based on the principle of personality.

The law provides for the possibility to create minority local governments at settlement, national and capital level. Minority local authorities may be created at local level in three ways. The majority of minority authorities are created in a direct way (through the direct election of the nominees). If in the course of the municipal elections, more than half of the representatives acquiring mandates get into the body of representatives as minority nominees, the body may be transformed into a minority local authority. If 30 % of the local government representatives get into the body of representatives as minority nominees they may form a minority local authority in an indirect way.

11. The process of the administrative reform

The Hungarian Administrative reform is part of the program of the Government elected in 2002.

The reasons of the reform are as follows:

The consequences of the accession to the European Union, suitability to the principles of the European Administrative Area.

The promotion of the human and citizens' rights defined in the Constitution, the decreasing of the gaps in territorial development, the provision for the equality of access of citizens to the services of general interest.

The making up for the political, legal and administrative deficiencies of the administrative system created following the political change in 1989 and the need to create a representative and administrative middle level.

The areas of the administrative reform are:

1. There is a need to create micro-regions so that the quality of public services provided to citizens becomes better. The principle characteristic of the Hungarian local government system is the existence of local authorities with low population and poor level of economy. These settlements have relatively great level of responsibilities; however, due to the non-differentiated nature of municipal powers they are unable to perform the majority of their tasks at an acceptable professional and efficiency level. The strengthening of local authority co-operation is needed for the improvement of the living standards of citizens and the prevention of unreasonable social and territorial inequalities. The possible solution for this problem is the promotion of regional relations and the creation of micro-regions.
2. In order to increase the role of regions, the middle level of administrative and local government system needs to become more efficient. The territorial reform is part of the administrative reform. The seven statistical regions at the moment are mainly responsible for territorial-development. The aim is that apart from territorial development, regions become the most important actors of economy-development, planning and co-ordination as well as of the reception of Structural Funds. The creation of local authority regions is part of the administrative reform. The creation of regional local authorities presupposes extensive decentralization measures such as the transfer of tasks and powers of ministries and other central administrative bodies to the regions.
3. Finally, the administrative reform is also a financial question, a reform affecting the central and the municipal budgets in order for the tasks and costs to be in balance.

A results and tasks of the reform process

Based on the Resolution 35/1998.(III.20.) of the Parliament, the Government announced the regions of territorial development in Brussels in its report finalized in June, 2003.

On 14 May, 2004, the Parliament adopted the Law on Multi-Purpose Micro-Regional Associations of Local Authorities that laid down detailed rules concerning the creation, the structure and the operation of the voluntary multi-purpose, micro-regional associations of local authorities. Apart from this legal regulation, a decree of government containing the conditions of the receipt of Government funding available for micro-regional associations of local authorities for 2004 came out. A separate decree of Government was passed concerning the borders of micro-regions. The law calls for the creation of 168 territorial development statistical micro-regions instead of the previous 150 statistical regions. The multi-purpose micro-regional associations have to be formed within the borders of these pre-determined micro-regions. The bodies of representatives of the settlements of a given micro-region decide about the creation of the association in a written agreement. In one micro-region only one association may be created. Micro-regions comprise a group of neighbouring settlements having one or more centres and strong functional relations that make it possible for them to cater for micro-regional tasks. The creation of the micro-region system may be imagined around three functions: municipal public services, territorial development function, and state administrative function. The association may participate in the harmonized development and territorial development of the micro-regions, may take up the provision, the development and the organization of public services, as well as the joint maintenance of institutions. The association undertakes the tasks and powers that were assigned to it by its members. The decision making organ of the multi-purpose association is the association council that is made up of the mayors of the association members.

Parliament plans to discuss the draft of law on the general rules of the administrative official process and services in the Autumn session of 2004.

The harmonization of the powers of the state organs (Court, Audit Office, Police, Attorney's Office, Organs for Protection against Natural Catastrophes), the reform of the regulating system, the institutionalizing of the acquired results in the Budget of 2005 are all in process. A government decision is expected on the organizational structure of affairs of the European Union and a reform of the territorial administration.

The works concerning the preparation of the draft of law on the creation of regional governments have been started.

12. The interest representing associations of local authorities

In accordance with the European Charter of Local Authorities, the important prescriptions concerning the protection of municipal rights and the creation of interest representing associations of local authorities in Hungary are laid down in the Constitution and also in the Act on Local Authorities. By spring, 1991, the structure of the present interest protecting associations of local authorities had already been established, seven interest representing "Associations" were created in Hungary.

The Hungarian National Association of Local Authorities (TÖOSZ) was founded among the first Associations (its previous name was the Hungarian National Association of Council Local Authorities) with the aim to create a solid basis for the interest-asserting capacity of the new local government sphere. Since its creation, TÖOSZ has set as its main objective the representation of general local government interests and the harmonization of the diverging local government interest types. More than half of the Hungarian local governments, among them the Capital, several districts, counties, towns with county rank, large communes and communes all together more than 1,700 local governments are members of TÖOSZ. In March, 2002 departments were created in every county, thus the county level of the Association was also formed.

The other Associations are as follows: in the order of their creation: the Association of Hungarian Villages (MF), the Association of Hungarian Local Authorities (MÖSZ), the National Association of Hungarian Local Authorities of Small Towns (KÖOSZ), Association of Local Authorities of Small Settlements (KÖSZ), The Association of Towns with County Rank (MJVSZ), National Association of County Local Authorities (MÖOSZ).

Out of the seven Associations, five have been organized based on the idea of local government type. Out of them the membership of the MJVSZ and the MÖOSZ is complete. The KÖOSZ comprises approximately 40 % of the local authorities of small towns. The membership of the MF does not reach 10 % of the Hungarian villages, at the same time the membership of the KÖSZ also focusing on small settlements does not reach 20 % of the settlements. The MÖSZ that also protects general municipal interests, similarly to the TÖOSZ has more than 100 members. One-fourth of the local authorities are not a member in any of the seven associations.

13. The Hungarian National Association of Local Authorities (TÖOSZ)

TÖOSZ was established on 10 March 1989, with the aim to give assistance to the development of settlement autonomy and to participate in the creation of a social, economic and legal environment friendly to local governments. The number of settlements was 152 at the time of the establishment of the Association.

TÖOSZ differs from other interest representing associations of local authorities not only because it is the oldest with the largest number of members, but also because it comprises all types of local authorities (the capital, the capital districts, village- communes, large village - large communes, town, town with county rank and the county). TÖOSZ aims at holding dialogues with political parties, but performs professional activity also independently of them. The local governments being members of TÖOSZ are represented generally by their mayors in the organizations of the Association (less frequently by local assembly members or notaries). Through them almost all the political parties and other social organizations, which took part in local elections, are represented. As a consequence of the character and the results of the elections, the majority of representatives are, however, independent.

The primary tasks of TÖOSZ are in particular:

- revealing, conciliating, mediating, protecting and representing interests(
- promotion of local self-government operation(
- encouraging the enlargement and successful operation of local government assets(
- professional and organizational support to the cooperation of local authorities(
- conciliations concerning the budgetary decisions of the Parliament(
- giving an opinion of draft acts and other state decision drafts(
- exercising the right of presentation(
- goodwill missions concerning debates between members(
- participating in the international cooperation of local authorities, promoting international relations of the members(
- organizing different services(
- operating consultative, interest revealing and coordinating forums for the members(
- promoting information flow and relations between members(
- assisting members in case of grievances and in legal affairs(
- promoting the social control of power exertion.

TÖOSZ has given opinion, ever since its establishment, on several hundred legal regulations, it has initiated in several cases the preparation or modification of acts concerning the interests of local authorities. In the case of otherwise not avertable

violations of local government interests the Association applied to the courts, it required even the intervention of the Constitutional Court. Among these some issues can be mentioned, already known by the public and resulting in granting additional assets to local authorities, for instance: proceedings of the Constitutional Court in connection with the transfer of real estates(precedence-lawsuits in the Supreme Court concerning the ownership of pharmacy centres (proceedings in connection with the ownership of centrally located plots (the decision of the Constitutional Court No.36/1998 (IX. 16) in the issue of the assets of public energy utilities, further the legal decision of the Supreme Court No. 3/1998 on public administration.

Since its creation TÖOSZ is an active partner in multilateral and bilateral European international local authority co-operation.

TÖOSZ obtained an observer status in the Standing Conference of the European Local and Regional Authorities of the Council of Europe (CLRAE) in December 1989, and then its representatives began to work as members of the congressional delegation of the Hungarian local authorities.

The Association is in contact with the International Union of Local Authorities (IULA) since March 1990. In 1999, it became a full member of the CEMR and the IULA and is also part of the newly created World Organization, the United Local Authorities and Cities.

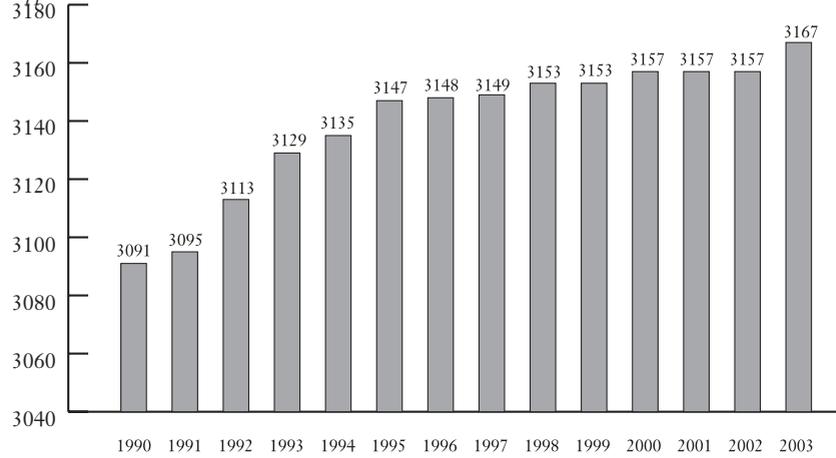
The TÖOSZ plays an active part in the realization of the program of the CEEC-LOGON international network led by the Association of Austrian cities and towns.

The Association has reached important results with the Committee of the Regions, out of 12 representatives of the Hungarian delegation to the CoR, 2 persons were delegated by TÖOSZ.

As part of the already mentioned multilateral international local authority co-operations and bilateral relations with the Austrian, German, French, Finnish, Slovak, Swiss, Polish, Greek and Italiana national local government associations, TÖOSZ also contributed to the preparation of its local government members to the accession to the European Union. In the course of its international activities, the Association works together with the Integration Office of the Ministry of Interior and makes use of the information force of the TÖOSZ Newsletter, Journal, Website and its Series of Publications titled Best Practices, in Hungarian „Jótár”.

Further current projects in the Association are as follows: the TÖOSZ is the Hungarian anchor of the Local Government Information Network, participates in the programs of Canadian Urban Institute, it has a representative in the Elected Women Section of the CEMR and thus actively participates in the programs of this section. The Association also acts as partner in the International Communal Network led by the Association of Austrian Municipalities and function within the Interreg III/C project. TÖOSZ has also signed a Co-operative Agreement with ANCI, the Association of Italian Local Governments and the Visegrad Countries.

Appendix 1

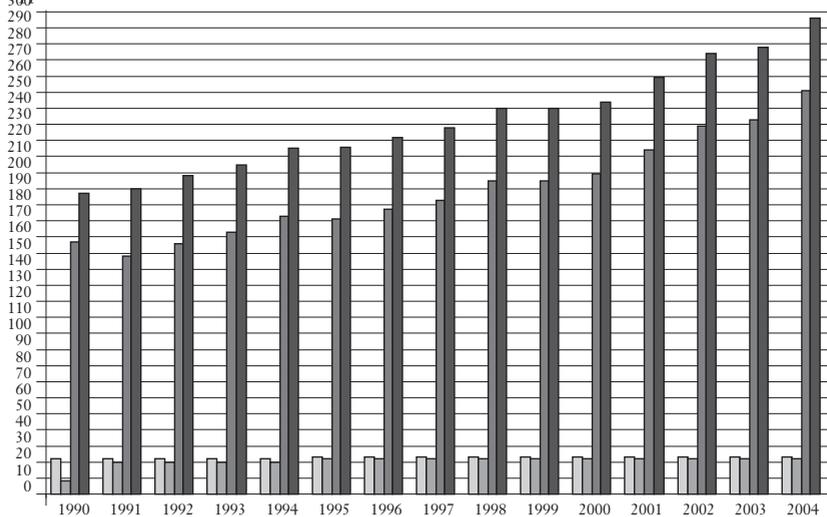


The number of towns and villages, 1990-2003, all district of capitals count as separate towns
(Note: in 2004 there was not any communes created)

The economic management and financial structure of local authorities

by Ida Darázs

Appendix 2



The number of towns, 1990-2004 Budapest districts ■, District of towns with county rank ■, Towns ■, Total ■

1. The conditions and general characteristics of economic management

1.1 The number of local authorities

The increase in the number and the strong aspirations to autonomy were characteristic of the first decade following the creation of the local government system. From a municipal perspective, the urge to separate one from another was understandable on the part of the centrally joined councils of the local authorities of settlements. However, from the point of view of economic management not all decisions aiming at autonomy may be considered rational.

1.2 The number of municipal institutions

Local authorities manage the majority of their public services and use their public powers through the operation of their own institutions. The number of municipal institutions decreased between 1991 and 2002.

This process was the result of the decrease of the needs toward certain services (e.g. the decline of the number of students within the public education system), the rationalization of the economic management as well as an economic pressure. This process indicates that the majority of the local authorities choose more rational, more efficient and more economic solutions for the management of the increasing number of duties determined through a more and more severe normative budgetary contribution system. Local authorities in towns and counties - that are in possession of a larger network of institutions - have a general tendency to review the forms and structural frames of their task-management and to apply measures of a more rational economic management.

The more efficient use of the existing institutions and the handling of tasks in forms other than through the proper institutions of the given local government (e.g. through foundations, the church, private enterprises) are increasing. However, there are several examples of closing down or joining of institutions.

The central government has urged local authorities to form associations and manage their duties together. This effort, however, has not had the desired effect so far, municipalities are not eager to associate with one another. Despite the weakness of their economic power, smaller local authorities, in particular, tend to insist on

the maintenance of their proper institutions as they regard them as the emblems of autonomy and future development.

1.3 Local authorities, as employers

In 2002, half a million employees worked in mayor's offices and municipal institutions. In harmony with the reorganization of task-management and the creation of more efficient forms of duty-management, the number of employees decreased 10 % since 1991.

In 2002, 8 % of all employees were civil servants, 84 % civil employees, 2 % worked in the field of law and order maintenance, and 6 % worked as officers with elected mandates or were other types of employees.

1.4 Assets of local authorities

Compared to year 1991, by 2002 this property became 17 times larger and it reached 6,400 billion HUF.

Apart from the activities (investments) aiming at the actual increasing of assets, this growth of municipal property was the result of the property transfer of the beginning of the 90s, and the determination of the values of the real estates that had not been recorded before.

1.5 Stocks of municipal deposits and loans

The economic management of local authorities is characterized by the stocks of deposits and loans: the evolution of their own stocks of deposits and loans, and those of their institutions. By the mid-nineties, several local governments were threatened by the danger of running into serious debts. This phenomenon was mainly the result of large borrowings for developments that were beyond their capacities. Banks were willing to lend money to local authorities, they were confident that local authorities could not go bankrupt as the state would in any case accept responsibility for their debts.

This was not, however, the case. Legislators reacted to this phenomenon. Since 1995, the possibility of local governments to borrow money and the annual upper limit of the indebtedness capacity of local governments, have been severely regulated. As a result, between 1996-2003 municipal debt management measures and bankruptcy interventions were only applied in the case of 17 municipalities (out of which 12 local authorities had a population of less than 1500 people).

Nowadays, it is once again fashionable to worry about the large stock of loans and economic collapse of local authorities; however, they are no longer in an impossible

situation. If one compares the stock of deposits and the stock of loans of local authorities, it is visible that the whole of the municipal sphere is in net creditor position.

Despite the unmanageable limits of the engagements in debts, in order to survive certain local authorities, - those with low budgets in particular - were forced to borrow considerable (especially in comparison with their budget) amounts of money for their operation. In certain cases, this loan is reimbursed through engagements in further loans.

2. The structure of duties

2.1 *Obligatory duties*

The majority of local task provisions are among the exclusive powers of the local governments of settlements. The county local governments only cater for the public services of larger volume and of regional character.

The obligatory duties of local authorities are for example,
cultural and educational tasks;
health and social welfare tasks;
communal provision tasks;
water-management tasks;
traffic management;
territorial development tasks;
protection of environment and nature,
housing management tasks;
local fire-protection tasks;
local duties of public security.

Legal regulations have so far delegated approximately 3700 duties and powers to local authorities and municipal organizations. The quantity of obligatory duties increases. The professional conditions determining the quality of task-management become more and more severe. In consequence, the economic role and significance of local authorities are constantly increasing.

According to the Act on Local Authorities, Parliament has to secure the financial resources necessary for the local government task provision and it decides about the mode and proportion of the budgetary contribution. Thus, the Act guarantees the operational capacity of local authorities.

2.2 *Voluntary tasks*

As stated above, apart from the obligatory tasks, depending on local needs and the municipal economic capacities, local authorities may take up voluntary tasks. The handling of voluntary tasks may not, however, endanger the obligatory task management of local governments. The differentiated nature of the financial opportunities and the property situation of local authorities and the general aggravation of the conditions of economic management, influence the number and the sphere of voluntary duties taken up by the municipalities as well as their quality of management. The decrease in the scope of voluntary tasks is a general tendency. In the field of voluntary task management, due to the lack of adequate resources,

municipalities often transfer the regional tasks and institutions to county authorities (e.g. institutions of secondary education, hospitals). These transfers result partly from the lack of operational resources of the local authorities of smaller settlements to the budget of the counties. Thus, the lack of resources of county authorities increases. The shortcomings of the financial regulating system restrain the efficient provision of regional duties.

3. The place and role of local authorities in the national economy

The economic role and influence of local authorities in the management of public services is best characterized by the proportion of municipal expenditure within the GDP. This allotment is best depicted in Diagram 1.

Yet another characteristic indicator is the proportion of municipal expenditure to the gross expenditure of the national budget.

The proportion of the municipal expenditure in the gross expenditure of the national budget was 23% in 1991, this portion decreased to 20.5% by 2002.

The two types of comparisons show the same tendency. In the beginning of the nineties, the local authorities represented a relatively larger part in the gross domestic product of the national economy and in the whole of the state budget than in the years after 2000. Despite the fact that the role of local governments in the national economy is constantly increasing, their tasks are extended and the effects of their economic management determines the living standards of citizens, the decreasing share of local authorities is characteristic of the current trends.

4. The financial regulation of municipal management

4.1 *The basis of financial regulation*

The basis of the economic management of local authorities is that the scope of the municipal revenues determines the frames of the expenditures of the local authorities. The financial conditions for the management of duties are secured by central sources, beyond proper and other resources. Thus, the municipal financial system has several pillars. The extensive independence of local authorities in the use of their proper revenues is a significant principle of the regulation.

The distribution of the central sources is normative in nature. This regulating system needs the application of complementary elements in the financing of municipal operation and development. The reason for this is that the diverging revenues of local governments and the differences between the qualities of their service provision can only be considered partially in the case of normative distribution.

In protection of the independence and the operational capacities, part of the local authorities - the disadvantaged ones without fault of their own - is entitled to a complementary state support. This is the basic principal of one of the financial support systems (named Önhiki in Hungarian) aiming at helping the local authorities that lack the adequate resources without the fault of their own.

To promote the realization of social objectives affecting the whole community, in the case of municipal investments it is necessary to operate development supporting financial systems. Examples of such systems are as follows: target subsidy- and earmarked subsidy systems, financial system supporting and complementing applications to EU development funding.

The basis of the financial regulation of economic management has not changed since its introduction in 1991. The concrete details of the order of regulation, however, change year by year. In this way, financing becomes less and less predictable, its planning, transparency and control get harder and harder.

4.2 *The evolution of the revenue structure*

All running revenues of local governments increased from 396,5 billion HUF in 1991 to 2316,1 billion HUF in 2002, thus they became 5.8 higher. If one takes annual inflation rates into consideration, the difference calculated at a price of 1991 is only 435 billion HUF. As consumer prices grew by 430 % altogether since 1991, the increase from 1991 to 2002 was only 10 %. Despite the increasing role

of local authorities in the national economy, they were devaluated compared to the revenues of the State budget. The running revenues of the State budget became 6 times more from 1991 to 2002, considering the annual inflation rates, is equivalent to approximately an increase of 13 %.

The changes in the running and unchanged revenues of the State budget and those of the local authorities between 1991 and 2002 are depicted in Diagrams 2 and 3.

The evolution of all the proper resources expresses the dynamics of the property, the income situation and development of the local society as well as those of the resources available for communal objectives.

Depending on the property, the economic force, the opportunities and the development of the given settlement, the evolution of the local revenues results in significant differences among the local authorities in income. It is necessary to moderate the extremity of the property differences of local authorities; however its practical realization and efficiency may be questioned. According to the financial regulations, apart from operating the financial support system of “disadvantaged local governments without fault of their own” (Önhiki), the State transfers part of the revenues of local authorities with revenues higher than the average to the local authorities with less advantageous financial conditions. This regulation is basically motivated by a central intention aiming at sparing the central resources. However, it disregards the disadvantageous effects on local authorities. The regulation curbs the exploration opportunities of local authorities capable of development, causes opposition within the local community and among the local authorities.

The proportion of the proper resources and all revenues of local authorities between 1991 and 2002 were between 21 % -40 %, in 1991 it was 21 % and in 2002 it was 36 %.

Out of all proper revenues, it is the local tax-revenue that develops in the most dynamic way. The Act on Local Taxes came into effect in 1991. Local authorities possess the right to levy local taxes. The revenue from local taxes was 10 billion HUF in 1991 (only 304 local authorities used the right to levy taxes during this period). One year later, in 1992, which was the first complete year from the perspective of the introduction of the tax-system, 1,461 local authorities levied local taxes and the local tax revenue was 17,2 billion HUF, out of which 74% (12.7 billion) was the tax on entrepreneurial activities.

In 2002, all 3052 local authorities used at least one type of local taxes in the territory of their settlement. This year, the revenue from the local taxes was 296,8 billion HUF, 85 % (252,6 billion HUF) of which came from the tax on entrepreneurial activities. The general tendency is that local authorities primarily tax the entrepreneurial sphere.

From 1992 to 2002, the revenues from local taxes grew by 17 times, the growth of the tax on entrepreneurial activities was 20 times more.

An increase in local taxes would be a correct aspiration, if the additional revenues served the increase of the quality of task-provision, the undertaking of new voluntary tasks in harmony of the local needs, the developments improving the living circumstances of citizens and the financing of investments helping the development of the settlements.

Due to the growing number of obligatory tasks and the revenue decreasing measures, the increase of the proper revenues is more of a constraint, not a tool of autonomy. Central budget takes local revenues into account when calculating the financing of municipal operation, thus these sources cannot fulfill their original functions.

The independence of the economic management would be strengthened if - through the reform of the fiscal system - (that has been delayed for a long time) local authorities, could rely on their local resources in a more extensive way for their own sake.

The revenues of accumulation and capital depend generally on the revenues of privatization. From 1995-2000, local authorities received a large amount of revenues from the sale of shares, stocks and enterprises besides privatization. The amount of this revenue was outstanding in 1991 (91 billion HUF).

The privatization process was concluded after 2000, and these revenues constantly decreased, which moderates the chances of local authorities to receive domestic and European investment supports.

More and more severe central financial conditions of economic management forced local authorities to transfer their revenues of accumulation in order to resolve their operational problems. This forced path serves the survival of local governments in the short run, but endangers the preservation of operational capacities in the long one.

The revenue of the income tax of private persons is a yielded source in the financial regulating system.

In 1990, 100 % of the declared income tax of private persons, paid by the taxpayers according to their permanent inhabitation, was given to the local governments, in 1991 only 50 %. The evident justification for this decrease was basically the necessity of the formation of reserves for the operation of the local government system, the revenue of the income tax of private persons was centralized and 50 % of it was centrally redistributed.

Since 1998, 40 % of the income tax of private persons remains at the local level.

Until 1995, the income tax of private persons was one of the guarantees of the independent economic management of local authorities. Its use depended on local

decisions. The change in its function may be observed from 1995. This means that the income tax of private persons,

- became the source of the moderation of the differences among the revenues of local authorities;
- is a sum, a determined part of which staying at the local level, is distributed by the budgetary laws among local authorities to serve the costs of their diverging task-management.

Due to the two redistribution methods described above, the part of the income tax of private persons - that is the guarantee of the independence of local economic management, stays at a local level and may be used freely based on local decisions, - has decreased drastically.

In 1995, 30 % of the income tax of private persons stayed at a local level for free use; this proportion was 5 % between 2000 and 2002 and 10 % from 2003 on.

In all the revenues of local authorities the most significant ones are the state contributions and subsidies. As a result of central aspirations to decrease the sources, the proportion of central sources continuously decreases compared to all revenues (in 1991, the proportion of state contributions and subsidies as opposed to all revenues was 48%, in 2002 it was only 27 %).

The securing of subsidies and contributions in equal proportion with the tasks is not realized. As a guarantee for the financing of obligatory tasks, the central budget takes into consideration and calculates not only the income tax of private persons but also the growth of the local revenues.

The greatest part of the total sum of state contributions and subsidies is taken up by the normative state contributions.

Normative state contributions only secure 50-70 % of the general expenditures of task-management. The missing resource is secured from the proper revenues, up to the individual expenditure level of the given local government.

Concerning its function, the normative state contribution is one of the tools of the central resource distribution. According to the principle of the regulating system, local authorities have an access to the normative contribution without limitations as to their use. In practice, however, the normative state contribution with limited use appeared in 1997. This legislative practice harms the economic and decisional independence of local authorities, strengthens their dependence of the central power.

The state subsidies serve to finance the realization of operational and development objectives and may be used for the objectives defined in the budgetary law. The state subsidies oriented on specific targets are various in nature. The past fourteen years were both characterized by the decrease and the increase of the number of objectives supported. These changes clearly show the preferential aspirations of the state,

which in order to attain a goal strengthens the centralization or the decentralization depending on its needs of the time.

Local authorities obtain the subsidies in the framework of funding systems. In order to attain some goals, local authorities have the right to subsidies on personal basis. The most characteristic example for this is the target-subsidy system, which the local governments receive provided that they live up to the pre-defined legal conditions.

The support system of disadvantaged local authorities without fault of their own (Önhiki)

The financial regulating system of municipal economic management contains both differentiating elements (local taxes, part of the income tax of private persons available for free use) and elements that aim at moderating the large differences in income. Examples of this element are the centralization of part of the income tax of private persons, its redistribution among local governments, and as a separate system, the “Önhiki” financing support system.

The objective of the Önhiki support, for the disadvantaged local governments without fault of their own is to finance the obligatory tasks of these local governments up to the reasonably expected expenditure level.

This support system has functioned since 1991, the conditions of access to it has got continuously more severe (e.g. local governments with a population of less than 500 people and not belonging to district notaries, cannot make a demand for an Önhiki support, nor can local governments that did not issue a decree on local taxation.)

The control of the needs for support, and the accountability of the required supports, as well as the sanctions for illegitimate use became more severe than before. Despite all this, for the last years, one-third of the local authorities legitimately received the Önhiki support. A large proportion of the supported local authorities are settlements with low budgets. Central state contribution is almost the exclusive source of these settlements.

The institutional capacities of these settlements do not reach the optimal efficiency level. Due to their economic difficulties, these settlements are forced to take up operational loans, and their capital and interest debts further increase their lack of sources.

The number of accepted requests and the amount of the support of the Önhiki system had been different in each year, however, since 1999, the number of legitimate local government requests was between 1,300- 1,400 (in 2002 the number of accepted requests was 1,453).

In 2000 the amount of the support reached 12 billion HUF, in 2002 it was 16,7 billion HUF

The durably high number of the supported local governments indicated, that it is more and more difficult for the financial regulating system to maintain the operability of the municipal system and secure the basic public services of the citizens.

The evolution of the number of requests accepted and the amount of the support are presented in Diagram 4.

It is a strange element in the financing system of municipal economic management that the financial conditions of the medical and preventive care (an obligatory task) are provided by the National Health Insurance Fund (OEP).

The medical care is basically financed in the framework of the social insurance system. In all the revenues of local authorities the proportion of the resources transferred from the National Health Insurance Fund represent 13-17% (in 1991 this proportion was 17%, then it decreased to 13 % in 2002-ben).

Due to the task management of local authorities, their responsibility to live up to the professional rules, the financing order of the National Health Insurance Fund, and the possibilities of resources, the majority of the local authorities is forced to contribute to the management of the tasks from its own sources.

While the financial tools of the OEP are built in the budgets of local authorities, apart from the securing of the necessary source-complementation, local authorities have no influence on the mode of use and efficiency of these sources.

From the very first moment, this financial regulation created an irreconcilable tension between the obliged party and financing party of the task.

The possibility of actions of local authorities is limited; in most cases it is posterior to the events (e.g. the appointment of the local government commissar, the enforcement of the rights of the employees in opposition to the leader of the institution). This regulative order creates unnecessary conflicts between the local authorities and their institutions, contributes to the delay of the health reform, and the deterioration of the quality level of the health care and situation of the citizens.

The renovation and reconstruction of health care institutions in local government possession, the financing of the investments all impose on local governments. For the maintenance of the health care system, the investments needed for the improvement of the comfort level of health care (procurement of the machines and technical tools of existing hospitals and consultation rooms, and the reconstruction of hospitals), the state provides considerable money in the framework of the target- and earmarked subsidies.

In conclusion the information on the revenue structure are presented in Diagrams 5 and 6.

5. The evolution of the expenditure structure

The financial regulation of the municipal economic management relies on the principle of source formation. The economic management, property situation and financial possibilities of local authorities limit the level of expenditure. When analyzing the evolution of expenditure, one has to pay attention to the fact that the norms of the quality of task undertaking are defined in the professional laws on obligatory duties of local authorities. Local authorities have to live up to both quality and quantity parameters.

The performable nature of professional norms is an indispensable condition of the creation and amendment of professional laws. It is advisable to harmonize the possibilities with the needs. The prescription of the gradual introduction or withdrawal of a given professional norm is a justifiable professional expectation. The intention of the legislator that wishes to assert realistic changes may be justifiable. However the frequent modifications contribute to the decrease in the calculability and the predictability of the economic management, which in turn endangers the stability of the economic management of local authorities.

The total expenditure of local authorities increased from 378,6 billion HUF in 1991 to 2312,4 billion HUF in 2002. This means 6.1 times larger expenditure, but it is only 15 % at the price of year 1991.

5.1. The formation of the principal expenditure groups

Within all expenditures the largest pieces of expenditure are the operational expenditures; however their proportion shows a decreasing tendency.

Local authorities spent 77% of all their expenses on operational activities. This proportion decreased to 69% in 2002. The consequence of this difference in proportion was the increase in the expenditures of accumulation and capital. The proportion of this expenditure increased from 16% to 21 % from 1991 to 2002. The direction of the tendency is necessary and correct. The management of renovations and investments in the present is indispensable for the securing of the operability in the long run.

As the municipal sphere has approximately 500000 employees, the amount spent on personal allotment and contribution within the operation expenditures is determining. This fact also explains why the evolution of salaries is the largest local conflict in local authorities. In order to avoid or moderate these conflicts, the body of representatives and the elected officials are forced to handle salary questions at all costs.

5.2. *The division of the municipal expenditures based on functions*

When determining the central sources allocated to local authorities, the central intention is that the increase of salaries should go together with the decrease in the number of employees. Furthermore, it is also customizable that the state contributions to the salary development proposed centrally only partially provide for the additional resources needed. Since salary questions are of primary importance in the course of the budgetary debates of local authorities, local authorities are continuously forced to complement from their own revenues the central resources destined for the salaries. They do so, even in cases when the increase of personal allocations is a central decision; the local authority cannot influence the execution with its own decision.

The proportion of personal allocations and contributions grew within the operational expenditure (In 1991 it was 58 % in 2002 it 63 %). Local authorities spent 167 billion HUF for salaries in 1991 and in 2002 more than 1,000 billion HUF.

Due to a central decision, from 1 September, 2002 the salaries of civil employees grew by 50 % on average, and the expenditure responsibility for approximately 450,000 employees was financed by the State for three months.

The other part of the operational expenditures is made up of material expenditures.

Material expenditures make up a decreasing proportionate part within the operational expenditures (In 1991 they made up 42 %, in 2002 37 %). In 1991 the amount spent on material expenditures was 125 billion HUF, in 2002 this amount increased to 598 billion HUF, to 4.8 times more. If we take annual inflation rates into consideration from 1991 to 2002, the real value of material expenditure decreased to 90 %, thus its calculated value was 112 billion HUF in 2002. This number well represents that in none of the years, did the central budget finance the increase of material expenditure up to the level of inflation. In fact, since 2000 the central budget declared not to provide any resources for the increase of material expenditure.

It is in the case of material expenditure, that the effect of the measures of continuous decrease of resources may be felt the most for local governments. In this field, local authorities issue their severe measures based on the least opposition.

The possibilities of local authorities to put the responsibility of price increases over the inflation level to others are very limited.

The increase of expenditures is usually answered by the increase of proper (primarily institutional) revenues, the increase of the tax-burdens of the citizens, the decrease of tasks or the quality of their management, the spending of the property, the taking of operational loans. All tools lead to the intensifying of local conflicts, the deterioration of living circumstances, the increase of operational problems in the long and also in the short run.

The proportionate evolution of the expenditures in 1991 and 2002 and according to the groups of expenditure is shown in Diagrams 7-8.

Out of the few thousand obligatory tasks of local governments the educational tasks represent the most significant piece of expenditure. Local authorities spent 38% (138 billion HUF) of all their expenditure on the financing of the public education in 1991; in 2002 this proportion decreased to 28%, but the domination of the sector remained unchanged (the amount spent was 643 billion HUF).

The normative contributions and subsidies of public education provide a guarantee for a decreasing part of the operational expenditures. For example while in 2000 66 % of the operational costs were secured by the above sources, this proportion decreased to 63.7 % in 2001, and in 2002 58,6 %. (If one is to take into account the central contribution to the 50 % increase of salaries of the civil employees, this proportion in 2002 was 65,6 %.) This decrease was due to the lowering of the number of students. Thus, the group-organizational features were less than the optimal and this resulted in the increase of the per-unit costs

Based on their dominant role of educational task management the economic management of local authorities is effected in its bases by all central measures in the field of education (task determination, changes in the organizational structure, determination of the number of employees, classification of teachers, measures concerning the salary). Neglecting this effect, the Law on Public Education is amended and extended almost every year. This fact also retards the long-term economic management of local authorities.

The other most significant field of welfare function in the expenditure is that of the health care activities. In 1991, 24 %-a of all expenditures (87 billion HUF) was spent on health care provision mainly for the National Health Insurance Fund; in 2002, the National Health Insurance Fund and the local governments spent 353 HUF on health care tasks.

Due to the financing order of health care, the liquidity problems of the institutions have become constant. It would be important to re-examine the powers and duties of local authorities in this field as well as the financing system.

In order to consolidate the health care provision to citizens and improve its level in the long run, in harmony of the health care reform, the contradictions among the property, the duties and the financing should be resolved.

The living standards of citizens are sensitively influenced by the nature of the obligatory social tasks of local authorities and by the quality and efficiency at which these tasks are handled at a local level.

The scope of municipal tasks of social nature is varied and is continuously expanded. Due to the changes of rules effecting certain provisions, some tasks are dismissed, or get in a moderated position and in the place of the old tasks, new tasks are defined. One of the most characteristic examples of this phenomenon is the legal institution of unemployment revenue complementing provision. This legal institution was sup-

pressed from May, 2001 and the supporting tasks are continuously decreasing. In parallel to its suppression, the persons excluded from this circle are entitled to social aid, and the local authorities are obliged to create a basis for community work.

The principal tasks in the sphere of social provision are the payment of social aids, the activities concerning the unemployed people, services of the village guardian, the maintenance and operation of the social institution system.

In 1991, 23 billion HUF was spent on social duties. In 2002, this amount became twelve times more and was 275 billion HUF. The significance of the task is shown by the fact that if one takes annual inflation figures into consideration, 2.2 times more was spent on these activities in 2002 than in 1991.

The proportionate evolution of the expenditure according to functions between 1991 and 2002 is shown in diagram 9-10.

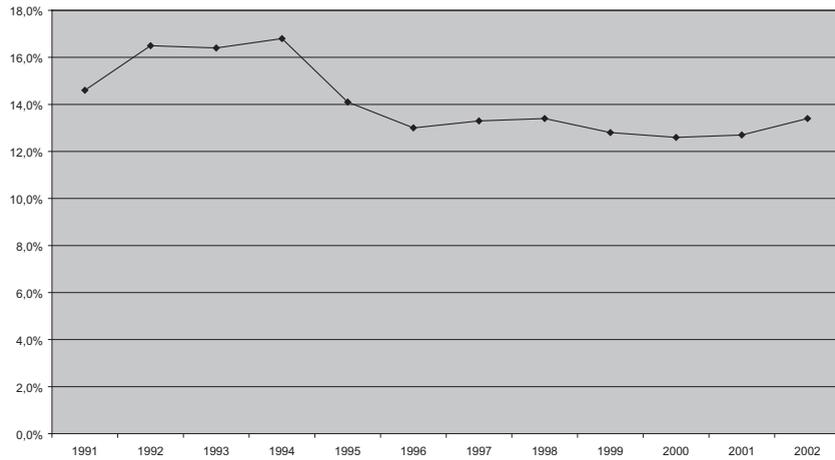
Conclusion

Parliament secures the financial conditions necessary for the undertaking of the few thousand local government tasks in a way that due to the frequently changing regulating elements the principle of the financial regulating system is often harmed, the independent economic management of local authorities is limited, the financial conditions get continuously more and more severe, the financial possibilities are decreased. As a result of the repeated change of the regulation, the financial conditions are incalculable and unpredictable in the long run. The security, the transparency, the possibility of control of the economic management deteriorates.

In spite of these conditions, the operability of the self- government system is maintained, however, the guarantee and the improvement of the living standards of citizens and the realization of the European expectations get more and more difficult.

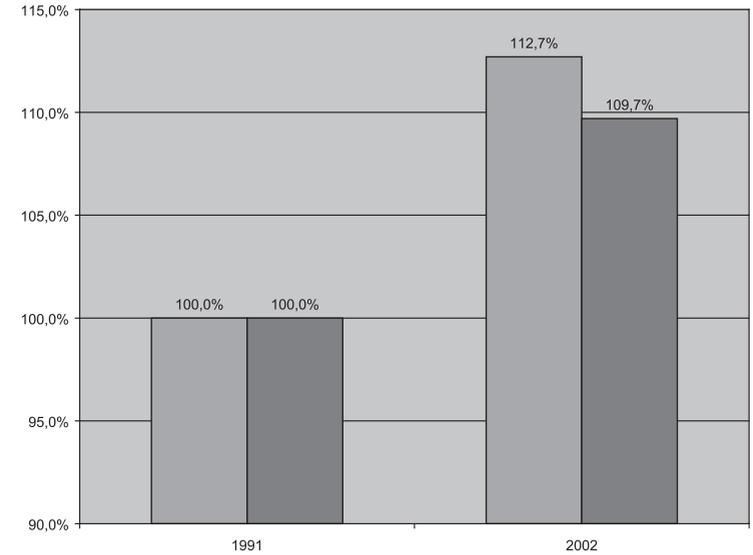
The self-government system should be handled in correspondence with its real significance, the adequate financial conditions of municipal task management should be established. To attain this goal the local government sphere, its task and power system should be completely re-examined, and then based on and in harmony with this analysis, the financing system should be modernized, and the devaluation of local authorities within the GDP and the state budget should be stopped.

Diagram 1



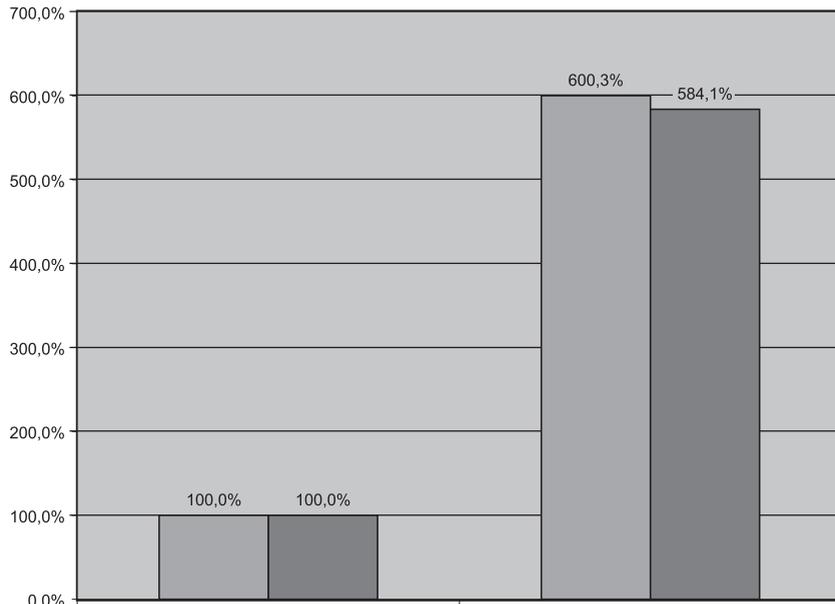
The evolution of the revenues of local authorities, in proportion to the GDP
Source: Drafts of Law on the Annual Budget and the Appropriation Accounts

Diagram 3



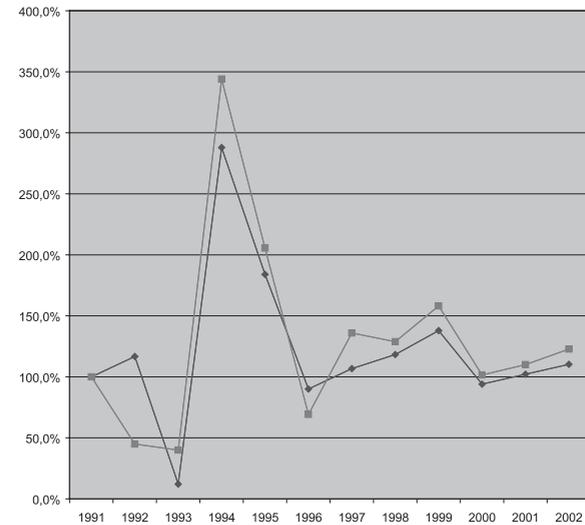
The changes of the unchanged revenues of state budget (■) and of the local authorities (■) between 1991 and 2002.

Diagram 2



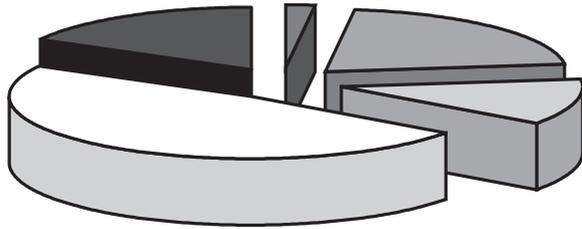
The changes of the running revenues of state budget (■) and of the local authorities (■) between 1991 and 2002.

Diagram 4



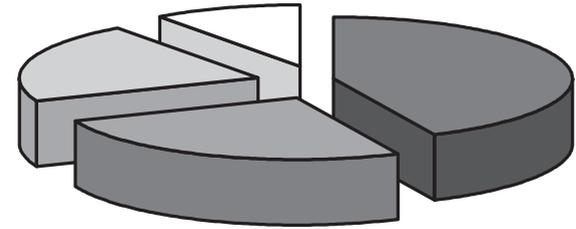
The number (■) of Önbiki support and its amount (■)

Diagram 5



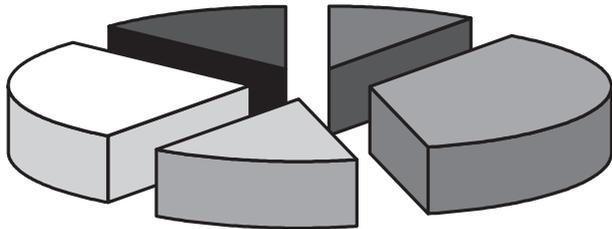
The proportionate division of the revenue sources of local authorities in 1991
(Other Sources 2% ■, Income tax of private persons 12% ■, the Health Insurance Fund 17% ■, Proper Source 21 % ■, State Contribution and Subsidies 48%□)

Diagram 8



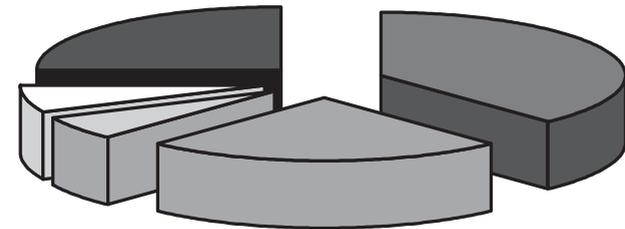
The evolution of expenditures in proportionate to the division of expenditures
(Subsidies and Other Expenditure 10 % □, Expenditure of Accumulation and Capital 21% ■, Personal Allocations and Contributions 43 % ■, Material Expenditure 26 % ■)

Diagram 6



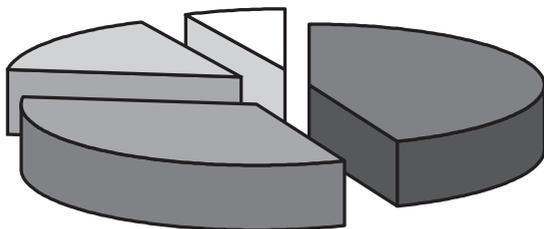
The proportionate division of municipal revenue sources, 1991
(Other Sources 10% ■, Income tax of private persons 14% ■, the Health Insurance Fund 13% ■, Proper Source 36% ■, State Contribution and Subsidies 27% □)

Diagram 9



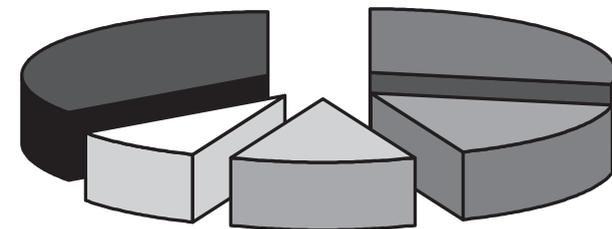
The proportionate evolution of expenditures based on functions in 1991
(Social Insurance, Social Services 6% □, Housing and Communal activity 7 % ■, Health Care 24 % ■, Other Activities 25 % ■, Education 38 % ■)

Diagram 7



The evolution of expenditures in proportionate to the division of expenditures
(Subsidies and Other Expenditure 7 % □, Expenditure of Accumulation and Capital 16 % ■, Personal Allocations and Contributions 44 % ■, Material Expenditure 33% ■)

Diagram 10



The proportionate evolution of expenditures based on functions in 2002
(Social Insurance, Social Services 12% ■, Housing and Communal activity 9 %□, Health Care 16% ■, Other Activities 35 % ■, Education 28 % ■)

