

A Comparison of Ways to Increase Capacity in Local Public Administration – the Reform of the Hungarian Public Service Sector in an International Context

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In most of the new EU member states, the structural change of public administration is either taking place at the moment or was conducted in the previous 10 years. The explanation for this derives from the fact that public administrations in these traditional, centralised unitary states do not meet the challenges of modernising the state, the economy and society, and is incapable of creating an adequate level of competitiveness. Reforms have already begun in the CEE (Central and East European) Region, although the negative demographic trends evident since the 1990s are driving even the more economically advanced countries to review both their public service or-

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ganisation units and their methods – of which there are a number available for improving their performance of municipal responsibilities. The reform trends in the older EU member states (e.g. Germany, France and the United Kingdom) not only alter the distribution of public service tasks and the functional relationship between central and local government, but also restructure the relationships linking those active in public administration, business and the non-profit sector. In the light of this, the study shall examine the steps has taken Hungary to restructure its fragmented local administration and attempt to evaluate these in an international context.

Key words: administrative reform, inter-municipal co-operation, capacity of local government, decentralisation, public services

1. Responses to the functional weaknesses of local government

Following the end of World War II, the development of local public administration in European countries was influenced by – among other factors – the demand from within the modern industrialised countries for the introduction of a welfare state. However, the efforts required to create a welfare state for their populations have challenged the historically established order and structure of public administration in many cases. Although it is a fact that the individual constitutions of the democratic states founded on the rule of law do, in general, guarantee the principle of uniform living conditions, it is also evident that the state may influence the quasi-free competition of local authorities in the interest of the equitable and efficient distribution of public goods. What is in question is the means and the extent of intervention by the state. Different countries have tried – and are still trying – to treat the lack of functional ability by municipalities in a variety of ways, although their clear aim is to create the economy of scale needed for the efficient and professional execution of public services and to supply these to a satisfactory proportion of their population. In addition to providing answers, one group of countries has respected the autonomy and the character of the specific political community of local authorities and has preserved the fragmented structures.

Another group has simply recognised the principle and the right to local self-government and has integrated individual entities into large-scale municipalities – all within the framework of territorial reform.

In respect of attempts to combat functional weakness in municipalities, the responses include (although with no claim to be comprehensive):

1. The amalgamation of municipalities – as territorial reform
2. The formation of associations of local authorities – both voluntary and forced
3. From a territorial aspect, the treatment of a town and its attraction zone as a single unit based on the functional ranking order of central settlements.
4. Varying distribution of responsibilities based on municipality population categories.
5. Indirect administration, i.e. outsourcing public services.

In recent years, a number of EU member states have formulated a demand for performance optimisation in the public service sector and reviewed the long-established organisational structures in the sector. The reason for this can be found in the unfavourable demographic processes in these societies. However, it is clearly the case that local authorities themselves are subject to twofold pressure: specifically, the aspirations of the population are growing whilst an increasing number of local authorities have slipped into financial crisis.

Following territorial reforms implemented after World War II in several West European countries, legal opportunities arose to amalgamate local authorities, and today this remains a potential line of action supported and encouraged by state subsidies. In the new millennium, we can even find examples such as Denmark, which increased the average size of its basic local government units by the systematic amalgamation of municipalities carried out within the framework of public administrative reform; these enlarged units are now also able to perform meso-level tasks. In parallel, the minimum population required for a territory to form one local government unit was set at twenty thousand.

In very general terms, there is a tendency towards the amalgamation of municipalities in less decentralised and in the more federalised countries, whilst horizontal co-operation among municipalities is a feature of decentralised states. The internal logic of this is that a central or federal government exerts a stronger pressure on municipalities. It may be interesting that, in *Italy*, and *France* (both regionalised) horizontal cooperation

prevails, whilst in *Finland* and the *Netherlands* (decentralised) municipal amalgamation remains permanently on the agenda. The state prefers this way of restructuring public administration. Nevertheless, if we consider the geographical types of settlement (rural, urban and mixed) we will find that, in respect of Finland and the Netherlands, the amalgamation of towns – i.e., of larger-sized units – is commonplace, while cooperation among local authorities is a feature of the rural type units in Italy and France (Cepiku, 2006).

The most common method of handling efficiency problems in fragmented local government systems is to institutionalise co-operation. The so-called »inter-municipal associations« may be voluntary, but most countries have also introduced a form of compulsory association. One special related case is the single-tier public administration system of Finland, which distinguishes between two types of joint municipal authority – the compulsory and the voluntary. The compulsory form of association creates a semi-regional level, and it is an adequate substitute for meso-level government. Each local authority is obliged by law to be a member of a variety of regional councils established to carry out sectoral duties, such as regional health-care or care for the handicapped. A decentralisation process was recently implemented in Finland, in the course of which the competencies of the Finnish local authorities were expanded. In fact, these associations play an important role in Finnish public administration, counterbalancing the lack of a uniform regional-level structure and compensating for the weaknesses of smaller-sized municipalities (Sandberg, 2004).

Although in France municipal cooperation has a solid tradition and positive experience, the organisational form and territorial scale of the existing inter-municipal associations were re-examined at the turn of the millennium. Based on the results of this (and on the demographic and territorial features of the settlement network) units termed »collectives« were established from among coherent and geographically linked agglomerations of settlements. Three types of collectives were identified: the first concerned municipalities surrounding large towns or cities, the second agglomerated municipalities and the third the »urban collective« of small and medium-size municipalities. The institutional form of each of these organisational units is the so-called »Public Organisation for Inter-Municipal Co-operation« (in French: EPCI, Établissements Publics de Coopération Intercommunale) (Écrement, 2001). At the same time, the state initiated the modernisation of basic public services (such as elementary and primary schools, and the postal service), since this cannot be done in every municipality. These services can only be carried out in functional territorial

units with at least 3.800 inhabitants, while the territorial framework of high-school education, hospital care and courts are the 350 labour-market regions. The future task, therefore, is to achieve a measure of space based on the convergence of substantial spaces, to create conformity among living or functional spatial units, together with the legal, administrative, and political spaces, which also could affect the (some 35.000) municipalities enjoying some degree of autonomy (Guigou, Peyrony, 2004).

The principle of the differentiated allocation of tasks and competencies is applied most consistently in *Spain*. However, this practice required minimum services compulsorily allocated by the state to municipalities to be laid down and Spanish experts define this as the essence or core of local authority. The legislator has categorised municipalities by population size and empowered them with different levels of competence to offer public services. Those duties belonging to the first category have to be performed by every (even the smallest) local government unit, while the second category has been given further responsibilities (in addition to those of the previous category). The efficiency of the system is supplemented by a monitoring mechanism exercised at meso-level, by the Province Government. This monitoring process excludes the possibility of any part of the population remaining uncovered by public services. (Casals, 1995).

Another method for economical and efficient supply of services to the population is to treat the town and its attraction zone as one unit. Several older member states ensure the equal network of public services based on the advanced Central Place Theory. Guarantees of equality in living and working conditions, that is, in providing the population with public services and private institutions covering the whole territory and providing for the satisfactory proximity of workplaces, have been in place for decades by means of national and regional planning. However, the purpose of designating so-called »central places« and »communal centres of gravity« (higher, medium, and basic or small centres) is that a population can be supplied economically and efficiently with the specific concentration of institutions providing public services, obviously generating the optimal number of public service beneficiaries (ARL, 2000).

The planning and systematic development of a network of supplier and service-providing institutions covering the entire country was launched in the 1960s and 70s, and by this time has shown more or less success in Germany, France and Austria. The central town must provide a definite number of inhabitants living in its vicinity with a certain standard of services. Consequently, the conflict between the accessibility and sustainability of services can be resolved in practice by reconciling decentralisation and centralisation (Blotevogel, 2002).

Finally, due to limitations imposed on length, we would wish only to mention the fact that outsourcing services (in a broader sense) and the application of principles and mechanisms borrowed from the private sector may create opportunities in several fields of public administration to improve the efficiency of public services. This particular ambition launched a huge reform process both in the Anglo-Saxon countries (New Public Management) and within German jurisdiction (*Neues Steuerungsmodell*). We might also mention French public administration where the contracting out of public services is a traditional tool for counterbalancing the small-scale local government system (Horváth, 2002). In France, public services are delegated to the private sector through a recognised system. Local authorities with limited capacity take the decision themselves to outsource various responsibilities, with the result that private companies providing such community services assemble orders from small units. This method means that, while the responsibility for the services still rests with the local authority, the involvement of the private sector ensures that the service companies can establish rationally planned and efficiently sized operating units. The contracts signed by the public and private sectors are controlled by the state.

Moreover, the division of tasks between different levels of public administration system plays a clearly significant role in handling weak local government capacities. With a fragmented structure, the basic level generally receives a rather narrow range of competencies in local affairs, and the focal point of public service performance is mainly at one or more meso-levels. Territorial reform necessarily included a reinterpretation of the meso-level of public administration since the enlarged size of local government units directly influenced the number of tasks left to the meso-level. Consequently, with appropriate support mechanisms even in the operation of fragmented local government structures, it is possible to offer economies of scale, but it should be added that the size of a local authority does not in itself represent an absolute value. However, it is worth considering that »the European Charter of Local Self-Government« ratified by the Hungarian Parliament in 1997 does not protect the administrative borders of local authorities but, rather, assures the right to local self-government.¹

¹ The European Local Government Charter pronounced on the protection of local authority boundaries (Part I. Article 5) that »Changes in the local authority boundaries shall not be made without prior consultation with the local communities concerned, possibly by means of a referendum where this is permitted by statute.«

2. The main characteristics of the Hungarian local governmental system from the point of view of economies of scale

If we want to place Hungary among EU member states, we should do so among those which have small local authorities, since, on average, one local authority is responsible for some 3.390 people. However, the classification of settlements by population is unhelpful, since municipalities with fewer than 500 inhabitants represent 36% and those with fewer than 1.000 58% of the total number of local authorities (Koós, Lados, 2008). The number of towns (settlements with the legal status of a town) is, on the other hand, extremely high, in that, in 2006, these amounted to 306 of the total number of 3.152 local authorities. The Hungarian local government system is odd, since it is based on the principle of »one settlement, one local authority« and the relevant legislation set the population threshold for the establishment of an independent local authority no higher than 300. As a result, the number of local authorities in Hungary is still increasing due to the de-merger of local authorities, whilst there has been no example of an amalgamation of local authorities since the change of regime. Every local authority enjoys equal rights irrespective of its size and carries an especially wide range of competences (characteristic of large local authority systems) in local public affairs, although this does not fit with their low capacity to acquire resources (Koós, Lados, 2008). The dominance of the municipal level and its absolute autonomy derives from political roots.

Although the Hungarian local governmental system has two levels, the county (County Council) regarded as the territorial unit, has been given only a very limited status – specifically; it has been authorised only to maintain certain institutions at meso-level. The legislator has withdrawn even the regional development function from the meso-level and has taken great care that counties should not become a counter-pole to central government. The 19 counties, with their continuously weakening position, are unable to solve the efficiency problems of public administration, despite the fact that the responsibilities and duties are freely transferable between local and county authorities. In practice, this means that should any local authority (town or rural municipality) believe that it is not capable of maintaining any of its services; it is empowered to transfer this unit to the county – on its own, unilateral decision. The county is obliged to accept the new responsibility and to carry it out. Due to a further legal

requirement relating to a subsidiarity-related concept, local authorities, or an association that institutionalises their cooperation, can freely withdraw compulsory county authority tasks. County authorities, therefore, cannot influence the system of public service provision at meso-level. This, in fact, also means that these processes are individual and ad hoc – and they are neither regulated nor monitored by the state. This phenomenon reflects a false conception or interpretation of local autonomy, since the state must take responsibility for its citizens and the organisation of public services, while, at the same time, local authorities are also a part of the state organisation.

To return to the issue of dealing with municipal weakness, the Hungarian public administration system offers few (and, even then, inadequate) tools for this purpose. In terms of international comparison, several statements can be made:

– The concept of establishment of large-scale local authorities through amalgamation at the moment does not correspond to the public opinion. This has political roots.

– The principle of co-operation and partnership of municipalities is laid down in the Constitution, according to which one of the basic rights of local authorities is that of free and voluntary association - which also means that a constitutional obstacle hinders the state in prescribing the compulsory or forced association of municipalities. Therefore, the government – not as in most West European states – can only motivate the local authorities to cooperate by financial incentives, although this has proved successful over the last 4 years. In Hungary, however, local authority associations are formed from among the municipalities and are mostly limited to carrying out local administrative and public service tasks. Participation by county authorities in associations is very rare. Members can join or leave an association freely with no repercussions; they can simply take their own decision to cease cooperation with no need for agreement by the state. These liberal elements of regulation make it difficult to establish a system for delegating tasks in Hungary similar to that enjoyed by Finnish regional associations.

– The enforcement of the territorial approach in the organisation of public services is connected with micro-regional public administration (described below) but the system almost completely neglects the spatial or regional organising power of the towns. Ever since the change of regime,

the Act on Local Government has not institutionalised even one form of cooperation (especially) between a town and its attraction zone. Furthermore, the supply function of the town for the benefit of its surroundings is totally unknown to the system.

– It is extremely important that the principle of differentiated competence should appear in the Act on Local Government, although it is less helpful that, in the course of allocating public service responsibilities, the legislator rarely applies this principle, and only a few of these responsibilities related to the social sector are linked to a population threshold. Apart from this regulation, several sector-related Acts list the public services to be carried out by local authorities, with the proviso that they themselves can decide which tasks to carry out – and to what extent. The weak point of the system is that, if municipalities fail to fulfil individual obligatory tasks, there are no legal consequences, since the body responsible for the legal supervision of local authorities, the Office for Public Administration, does not have the authority to take over a local authority's activity. Therefore, in Hungary, the judicial supervisory authority cannot intervene in the organisation of public services, as it is possible in Spain. We should also mention that the local government system in Hungary differs from the international pattern in which smaller basic-level units would fit comfortably into a strong meso-level local government system. However, in our country, the functions of the county authorities either disappeared or were abandoned. It is evident that Hungary as a unitary state cannot start on the road to regional decentralisation.

– The outsourcing of public services, however, is a common occurrence among Hungarian municipalities, and it is quite normal for services to be contracted out to both non-profit organisations and to normal, profit-oriented private sector businesses. However, this method, due to current capacities and the presence in close proximity of such organisations, is more characteristic of towns and is mostly evident in the field of maintenance and technical operations such as water supply, wastewater treatment, waste management, the maintenance of public baths etc. To date, in the privatisation of public services, savings from economies of scale have not appeared, although it is a strong characteristic of the French system of public contracts.

The analysis of the definitive legal environment of public service provision shows that, from the point of view of efficiency and the economies of scale, the Hungarian local authority system is ripe for reform. The cre-

ation of micro-regional public administration provides a tool for the modernisation of a system maintained at huge cost – even though it fails to provide services in many areas.

The EU-favoured principle of subsidiarity dominates the structure of Hungarian public administration, although the only success during a period of some 15 years following the change of regime has been the allocation of responsibilities to the local level. The state has paid no attention to the fact that the basic principle of subsidiarity only supports implementation at local level as long as the requirements of efficiency and economy are met. However, it appears that the fragmented organisation of local governmental public services is too expensive for the country and thus unsustainable. Furthermore, it does not harmonise with the EU principles concerning the »European public administrative space«, since it is not transparent and cannot meet the requirements for the efficient utilisation of public resources (see Peretó, Freibert, 2007).

According to the official position of the Central Statistical Office, the so-called statistical micro-region is, hypothetically, an urban area reflecting the relations of the primary and meso-level supply of population. It is the regional unit of settlements co-existing and depending on one another (Kovács, 2003). However, in 1994, the system of districts originally formed for statistical purposes was re-evaluated, and, firstly, it became the basis of the classification of regions for preference in terms of regional development, and, later (in 2004) it was given administrative substance. The micro-region corresponds to NUTS-4, respectively with the modified term LAU-1 level, within the EU nomenclature of statistical territorial units, which denotes the territorial level within the notion of a local public administration unit.²

A review of this system of micro-regional government was last undertaken in 2007.³ However, the »district system« of statistical micro-regions has been adjusted on several occasions since it was introduced in 1994. As a result, the number of districts is gradually increasing – from the original

² The legal basis of the Nuts system is EC No 1059/2003 of the European Parliament and of the Council of 26 May 2003 on the establishment of a common classification of territorial units for statistical purposes. Meanwhile, levels 4 and 5 in the NUTS system were replaced by the Local Administrative Unit (LAU), the notion of the so-called local administrative unit. According to this LAU1 includes the territorial and LUA2 the community level.

³ Government Decree 244/2003 (December 18) on the order of creation, definition and amendment of micro-regions modified by Government Decree 326/2007 (December 11).

138 to 174. In consequence, their size has begun to decrease. A micro-region can embrace from 2 to 65 municipalities as designated by government decree. The centre of a micro-region is, in most cases, a town, but, since there are approximately 100 settlements with town status than there are NUTS-4 regions, every second micro-region contains at least two towns.

After the regime change, and during twelve years with insufficient state incentives, co-operation among local authorities did not improve as desired, although a great need for associations as support mechanisms for improving widely dispersed local administration was evident. The situation changed radically in 2004 when the government introduced the institution of the *multi-purpose micro-regional association*, as the first step in the published process of administrative reform. Through these organisations, often termed »complex associations«, central government made known (for the first time since the change of regime) the aims of the local government system: effective administration and a nation-wide high and integrated level of public services. The basis principle of the new structure is to establish equal opportunities for access to public services. Unfortunately, the principle only exists as a political declaration of intent, and the first legal document referring to the concept is the National Development Policy Concept – accepted by Parliament in 2005, although its practical implementation is not linked to the methodology of local territorial planning.⁴

The Constitution is based on the principle of a local authority's freedom to associate, which means that compulsory or obligatory association is unknown in law. This fact, together with a lack of support from parliamentary opposition parties, has clearly limited the legislative scope for action and for the means to introduce micro-regional reforms.⁵ As a result, the multi-purpose association is based on the voluntary co-operation of local authorities. Nevertheless, the related financial incentives soon produced a great effect: in the South-Transdanubian region in 2004, for example, where 24 associations were established – with all local authorities participating, thus covering the entire region. Nationally, by the end of 2006, the rate of institutionalisation was 97,5%, since 162 statistical micro-re-

⁴ Parliamentary Decision 96/2005 (December 25) on the Concept of National Development Policy.

⁵ Act CVII 2004 on the Multi-purpose Micro-regional Associations of the Settlements' Local Authorities.

gions associations were established out of a possible 164 (Torba, 2008).⁶ However, those public services organised in a reasonably integrated way can expect state subsidies, while those embracing all the municipalities of a micro-region receive greater levels of state subsidy than those whose coverage is only partial. To obtain this, they should cover at least 60% of the population of the micro-region or should cover 50% while also encompassing 60% of the settlements allocated to the micro-region.

Albeit within a voluntary framework, the law has made binding the regional borders of municipal associations, since it has determined that those must adjust to the micro-regional statistical districts formed in 2003. In addition, a restriction has been introduced, under which a local authority can be a member of only one multi-purpose association. The legal objective of the new type of association is to make possible the concerted development of micro-regions through the preparation and implementation of collective plans and programmes and, further, the organisation and improvement of public services and maintenance of the required institutions. The institution does not diminish municipal autonomy nor does it necessarily mean that tasks should be carried out centrally. However, it has to provide for the more effective operation of municipal institutions. Under the auspices of the association, duties can be carried out in several ways: they can be undertaken entirely by the multi-purpose association itself, through the existing so-called single-purpose inter-municipal associations of several local authorities in micro-districts, or by one of the established operations of any local authority. Finally, the non-profit organisations with which a micro-regional organisation signs contracts are to be involved in carrying out the tasks. The association can contribute to the undertaking a task at micro-regional level through its organisational work and expertise. A precondition for gaining access to additional state subsidy is to achieve – each budgetary year – uniformly higher rates of utilisation with regard to the operation of institutions (schools, kindergartens, social- and child-welfare institutions). Moreover, the service can only be provided for the minimum number of persons or inhabitants stipulated by the government. This latter criterion aims at a more effective organisation of public services, whilst it also shows that it is focusing on the situation of rural micro-regions with deteriorating demographic figures.

⁶ This phenomenon is well illustrated by the fact that, according to the situation in December 2006, 136 micro-regional associations were established to fulfil basic social functions and 133 organisations to fulfil health care, 154 associations operate the elementary level of primary education; 152 micro-regional associations are involved in regional development.

It is worth mentioning that during the drafting of the framework for micro-regional public services, it was not clear whether the micro-regional »quasi-level« would become a suitable framework for providing meso-level public services, or whether it would aim to provide integrated, high-quality primary services. However, the model introduced has made it clear that the administrative micro-region focuses predominantly on primary supply within public education, social and health provision, family, child, and youth protection, general education, library work, local transportation, the maintenance of public roads and municipal internal controlling. The practical functioning and task-organisation of multi-purpose associations reveal, however, that the micro-regional scale, as provided by the new institution, is much too large for some tasks to be performed; in most instances, it cannot manage its activity adequately over the whole micro-region. Instead, the micro-region is divided – mainly in a centrally supported way – into sub-districts covering from 2–5 municipalities, which inevitably reflects the lack of a large municipal dimension of primary supply. The organisation of public services within the borders of the statistical micro-region is achieved by establishing several other municipal associations – the so-called micro-districts.

The multi-purpose micro-regional associations have been organised superficially on a voluntary basis. In fact, there are hidden financial pressures in that, because with the decrease of basic funds related to public services, the resources withdrawn go to support the micro-regional association system.⁷ If the local authorities wish to maintain their institutions, they can have access to the necessary resources only within the framework of the micro-regional associations. The supplementary support together with the conditions laid out in the sectoral Acts, have motivated the associations to rationalise the institutional network. This has first led to a reorganisation of state schools – and several schools have been closed across the country. It is worth mentioning that established associations have assumed total responsibility for basic state education (in elementary and primary schools), which is a heavy burden on local authorities. The results of the last 4 years should be evaluated in the light of the fact that the Micro-Regional Act, apart from its remit in respect of spatial development, gives the motivation for cooperation in three strategic areas – in public education, child-welfare, and healthcare. Each area, however, includes a number of com-

⁷ The multi-purpose micro-regional associations can apply for a total amount of 28.095 million ft in the 2008 state budget of the Hungarian Republic as a normative labeled total amount for specific application (2007, CLXIX Act Appendix 8)

pulsory local government tasks. In each, there has been progress in terms of decreasing the gaps in completing tasks, but in the provision of several public services, the coverage is still far from complete. An improvement in the efficiency of the system can be detected in, for example, the statistics for providing special pedagogical services (involving eight different responsibilities). The figures for access available to those eligible varied between 20 and 55 per cent in 2004, while nowadays the figure is 32 per cent in worst organised area and almost 100 per cent in best organised. This can be explained by the fact that, within the association system, local authorities can freely choose their responsibilities. It is not necessary to organise all compulsory basic-level tasks at micro-regional level; it is enough for a minimum of four of the total to be completed. One thing is certain, however, and that is that, in integrating the organisation of activities, transport expenses and administration costs increased, although support for this is also available. As a result, there has been a move from the earlier public service system towards the economical operation of institutions and costs: economies of scale have been prioritised. However, even though multi-purpose associations have operated for approximately four years, there is no national-level cost calculation in connection with the results obtained in respect to these economies of scale.

In this process, however, it is interesting to see that the government puts all the responsibility for organising and carrying out the (centrally ordained) reforms upon local actors. It is logically a subject for future discussion as to whether or not the optimisation of public service organisation negotiated by local politicians is satisfactory. It is undeniable, however, that without the differentiated management of micro-regions, the reforms have clearly been directed towards realising integrated primary-level supply. The reason for this is that structures that fully meet the requirements of rural micro-regions are not necessarily suitable for the institutionalisation of more developed, urban micro-regions, neither will they meet their development demands. However, we may attribute this to a system-error, which, although thinking in sub-divisions, does not take into account the division of functions among several towns within a given micro-region.

Legislators have created the administrative system of micro-regions with no differentiation and covering all micro-regions of the country. Only the capital – Budapest – is not covered by the regulation, since a micro-region founded by a single local authority cannot form an association. This means that, for the time being, the agglomeration around the capital, and, additionally, the local authorities situated in the surroundings of the other three agglomerations and groups of settlements, must likewise mod-

el their future and development plans within the administrative boundaries of the delineated statistical micro-regions. The organisational solution introduced in this way excluded the possibility of a differentiated institutionalisation of the urban areas (Somlyódyné Pfeil, 2006). Apart from this, there is an absence of an administrative model appropriate for the size and function of the network of towns and their catchment areas. Thus, since the change of regime, there has been no announcement of a structured urban policy in Hungary. Currently, the professional preparation of the concept of settlement network development is underway, and this, we hope, will emphasise the development of an urban network and of urban areas. So far, the spatial policy has not differentiated between rural and urban areas, even at terminology level.

3. The broader interconnections of public services reform

Linked to the implementation of the Hungarian public administrative reform programme – which, over time, was narrowed down to a public service reform programme – in 2002, the government launched investigations into a number of fields.

- the development of a regional local government model,
- the rationalisation of local public administration together with improvements to its effectiveness, and
- the implementation of the municipal finance reform programme.

Of these, the reform has been successful in one only – in the establishment of quasi micro-regional public administration. On the one hand, in fact, we can speak of the optimal limits of organising basic public services, and, on the other hand – in connection with the establishment of multi-purpose micro-regional associations – of creating equal opportunities for citizens' access to public services.

In each transition country and in each new EU member state, a structural change of public administration is either currently taking place or was conducted during the previous 10 years. The explanation for this derives from the fact that the public administration of the traditional, centralised unitary state does not meet the challenges of modernisation of the state, economy and society, and is not suitable for creating adequate conditions

of competitiveness – which is one of the most important EU objectives. Reforms have already been started in the CEEC region, but these are either hampered, or, in some places, too slow, due mainly to a lack of political background.

However, an apparent similarity is to be found between the territorial and administrative reforms achieved in West European countries following World War II and the Hungarian reforms. Although accomplished by other means, their objective was the same: that is, to organise rational and effective local government and, in time, to improve administrative efficiency. The difference is that, in Hungary, the amalgamation of local authorities did not result in the appearance of organisations providing improved public services – which in some cases might have led to the amalgamation of institutions as well as to organising public works at micro-regional level. We cannot speak of a real functional reform, since this – from its very essence – would have to determine the relationships of local, regional and central levels. In other words, from a functional point of view – within the framework of total government operations – it ought to have resulted in the redistribution of public duties, and, consequently, in shifting and regional decentralisation of certain spheres of authority.

As was highlighted by the analysis of the Hungarian local governmental system, the settlement level is overburdened with public service tasks, and, although the integrated task organisation has already started, the situation of the meso-level authority has remained locally unresolved. The weak, limited role of the county authority would meet any requirement to delegate responsibility in a country where the local government structure embraced large local units. As county functions during recent years have been narrowed continuously, a solution should be found for a strong, meso-level local governmental system to be established.

Moreover, from an historical perspective, in each country introducing functional reform, handling of the issue is regarded not merely as a problem of public administration science, but as the issue of constitutional law (cp. Zehetner, 1982). Functional reform is a permanent process, which is by no means equivalent to irrevocable decentralisation. Not being prone to divert the reform programme from the main direction, a partial development characterised by centralism may reasonably appear within its borders (Zehetner, 1982). For the time being, the public services reform programme now taking place in Hungary also gives an impression of decentralisation rather than of centralisation. *The establishment of multi-purpose micro-regional associations can be regarded only as a partial functional reform, which has left the numbers of administrative levels unchanged.*

Regarding this, we should point out that, even though the so-called micro-regional administration has achieved positive results in relation to the accessibility of public services, the existing system is quite fragile and the pre-conditions for its embedding are still absent. Several factors explain the instability of the system, such as (Somlyódyné Pfeil, Kovács, 2008):

- The integrated organisation of public services is maintained specifically through complementary state subsidies. The weakness of this is that the relevant finance is a part of the national budget. Therefore, there are no comprehensive and general guarantees and legal rights, together with the amount of subsidy, vary each year. Such variations make rational organisation of the basic public services impossible. An additional problem arises, because the Hungarian public administration system does not acknowledge the right of a county as a meso-level local authority to distribute resources to towns, communities or local authorities; subsidies encouraging micro-regional reform are granted only to the multi-purpose associations, based on a normative-system. When an association is founded, subsidies support its investments and purchases, but later they can be claimed only as operational expenditure. Moreover, due to the competence for decision-making having been placed in the hands of the Minister of Finance and the Minister for Home Affairs, and to the way in which subsidies are granted, the town or local authority depend on the state even more than before.
- A further feature of the state incentive system is that the surplus subsidy for multi-purpose micro-regional associations generates a reduction in general norms, which actually means that local authorities receive an unchanged amount – ultimately following what is no more than a reorganisation of resources. Conversely, this form of complementary finance automatically covers the integrated organisation of services and is actually independent of the quality of supply to the population. For instance, if, in the field of public services, local authorities agree on the common maintenance of schools and are able to reach the legal threshold concerning the minimum number of pupils per class, they are automatically given the state subsidy. The reorganisation of educational institutions, or, in some cases, their closure, is carried out by a quantitative approach, and the quality of educational and pedagogical work, the quality of the means of the school in question or the structure of the settlement are all ignored.

- The system is based on the voluntary co-operation of municipalities, and so, within a given micro-region, any of the individual local authorities may resign from or join an association. The existence of the public services web within a micro-region is actually dependent on local actors' willingness to co-operate, and the state has, apart from financial means, no opportunity to exert influence. Nevertheless, local authorities establish functional integrations almost exclusively in those fields of public interest that attract state subsidy, thus making the willingness to associate directed »top-down«.
- The government, therefore, has passed on the implementation of reforms to local authorities, but a major problem is that the integration of local services has not been accompanied by any concept of transportation development. However, we must admit that it is quite hard to adapt a transportation infrastructure to a highly mobile institutional system.
- The current legislative frameworks cannot guarantee the evolution of an equitable network of basic public services in every micro-region, since it is sufficient if an association undertakes three (education, social services and health-care) of the tasks laid down by law, in addition to regional development, in order to gain maximum subsidies. Beyond this, it is a matter of the ambitions of the association as to the extent of the basic services it organizes, since the system does not require tasks to be carried out fully. For this reason, what is undertaken varies from micro-region to micro-region, and, what is still worse, a system for monitoring the functioning of public administration has not yet been established – with the exception of Accounting Control.
- Possibly the greatest problem the reform is facing is that the legislators have introduced the same system over the entire country. They do not differentiate between rural and urban territories, and the (newly introduced) micro-regional model is better able to handle the problems of the latter. In micro-regions including two or more towns, inter-municipal co-operation generates a great deal of conflict. The explanation for this is that the model does not take into consideration the agglomerating role of towns, but rather ignores it and replaces it with an artificial unit – the so-called multi-purpose association. The multi-purpose association must, therefore, defer to the towns, and, as a result, the towns

may lose some of their functions, or a parallel public administrative structure may evolve.

- Finally, we should mention that, in Hungary, spatial and sectoral planning at micro-level is proceeding positively, but regional coordination and professional control are absent. This originates partly from the fact that the operation of micro-regions has become important primarily for the operation of public administration, while the seven NUTS2 regions operate as regional development and statistical units. These have been formed in order to be able to access and receive EU subsidies. However, they have no local government status, and so the relationship of the two regional development levels is structurally unresolved.

4. Conclusion

Some new member states (e.g. Hungary, Slovakia and the Czech Republic) are struggling against their fragmented and expensive local government system. The requirements of the EU such as the principle of homogeneous living standards and that of citizens' equal access to public services have also generated new reforms in Hungary. The micro-regional public administration reform discussed in this study has described the larger-scale municipalities by defining multi-purpose and micro-district associations, but the new structure is still incomplete, since, parallel to the increased capacity of local government, the territorial scale of the sub-national level should also have grown. To achieve administrative reform would require regional government to be set up – or, at the very least, the meso-level (County Councils) to be strengthened. As a first step in the reform process, a significant proportion of municipal duties have been allocated to the territorial level, although there was no decentralisation of competencies in favour of the multi-functional micro-regional associations.

In comparison with other countries, Hungary is a strongly centralised state (*Table 1*), and to break down the centralised structure requires the implementation of structural reform which would effectively counter the excessive weight of the centre. Unfortunately, there is little chance of such reform being implemented.

Table 1: Examples of diversity and dynamics in regionalisation in Europe

Status quo	Ireland, Portugal, Slovenia
De-concentration	Hungary, Romania, (Poland)
Decentralisation	France, (Hungary), Poland, Czech Republic, Italy
Devolution	UK
Federalisation	Belgium, (Spain, Italy)
Greater autonomy under federalism	Belgium, Germany

Source: Sturm, Dieringer, 2005: 283.

In making this assertion, we have arrived at a complex and comprehensive problem, namely: that of the role which »Europeanization« should play in the development of Hungarian public administration. The government made a variety of attempts at regionalisation, the last in 2006, when the governing coalition submitted to Parliament amendments to the law and to the Constitution, aimed at establishing regional authorities in the public administration system. These amendments, lacking a political and social consensus, did not succeed – in other words, due to poor preparation, the amendments failed to achieve a Parliamentary majority (see in detail Pálné Kovács, 2007). Following this, the government regionalised territorial organisation within the hierarchical state structure in a number of measures for which they did not need parliamentary authorisation, since the Constitution permits wide powers in this regard. The reorganisation of the state administrative system was, however, undertaken using de-concentration as the principle.

In contrast to Hungary, Croatia has made efforts to decentralise its administrative system. In 2001, the state established the county as the main unit of local government by broadening and increasing their competencies and responsibilities at sub-national level. Although the process of decentralisation might be considered as too hesitant, there has been a marked reduction in the degree of centralisation (Koprić, 2007). The impact of the EU has been significant in that that it brought about not only the formulation of a new regional development policy but also the structural reform of Croatian public administration – all of which needed strong political will and the power to accomplish it.

The spread of regionalisation in public administration has been encouraged by the EU's Cohesion and Regional Policies and by processes implemented within the framework of the institutional system of regional development based on the effect of these policies. However, the planned decentralisation lost its momentum after laying to rest the mistaken belief that the EU requires NUTS 2 regions to become levels of public administration and play a political role in the member states through elected bodies. Consequently, regionalisation – besides the state administrative sector – is explicitly limited to the institutional system of regional development in Hungary, facilitated parallel to, but segregated from the public administrative sector. This phenomenon is not a »Hungaricum« (a »Hungarianism«); it concerns a significant number of CEE countries. As Sturm and Dieringer note, in *Hungary*, but also in the *Czech Republic* and *Slovakia*, there is a resistance to the role of the regions in Europeanization. EU coercive pressures have led to the establishment of regional institutions, but they remain a rather sterile example of isomorphism. Institutional adaptation has remained formal, dysfunctional and mostly symbolic (Sturm, Dieringer, 2005: 290). The structural accommodation to EU policy demands even more than the reconciliation of regionalization and interest. It should be considered as an element of general decentralization and a step towards the creation of an overall system of multi-level governance in order to cope with the problem of institutional deficit (Ágh, 2005: 106). In Hungary, it should be understood sooner or later that the demand for modernisation of public administration requires the completion of integrated basic-level reform at each public administration level and the establishment of meso-level local government. The latter must be able to accept the decentralised responsibilities directed from the centre and it should be able to counterbalance the weakness in completing the tasks shown by the basic local authorities.

During the optimisation of East-Central-European local government systems, it is clear that these states must respond to those same challenges that have already been solved by the West European states' territorial reforms, and to those that they now, as new EU members, are facing in order to meet the requirements of territorial cohesion and the paradigm of competitiveness. In this way, the institutional reform of the administrative system comprises both the elements of lateness and of modernity. This is a long learning process and Hungary is only at the beginning.

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A COMPARISON OF WAYS TO INCREASE CAPACITY
IN LOCAL PUBLIC ADMINISTRATION –
THE REFORM OF THE HUNGARIAN PUBLIC
SERVICE SECTOR IN AN INTERNATIONAL CONTEXT

Summary

The paper deals with public service reform in Hungary in a European context. Similarly to Hungary, in most new EU member states a structural change of public administration is either currently underway or has been carried out only within the last 10 years. The explanation for this derives from the fact that public administration in the traditional, centralised unitary states does not meet the challenges of modernisation of the state, economy and society and is not suitable for creating adequate conditions of competitiveness. However, the ongoing negative demographic trends evident since the 1990s are urging even economically advanced countries to review their public service organisation units and methods. Hungary is struggling to cope with a fragmented and expensive local government system and new EU requirements such as the principle of citizens' equal access to public services. The calculated public subsidy policy has created a micro-re-

gion-level integration of the local government system set in accordance with the borders of NUTS 4-level areas. Nevertheless, this solution has not created a new level of public administration, nor has it affected the (politically significant) autonomy of the units. On the one hand, we can speak of the optimal limits of organising basic public services, and on the other hand (in connection with the establishment of multi-purpose micro-regional associations) of creating equal opportunities for citizens' access to public services. Hungary is a strongly centralised unitary state; consequently, in the course of a serious functional reform the interrelationships of local, regional and central levels should have been determined. In other words, the reform ought to have resulted in a redistribution of public duties, and, consequently, in the relocation and regional decentralisation of certain spheres of authority. However, this solution was rejected. The explanation is that in Hungary we can expect resistance to regionalisation, since adaptation by administrative institutions to EU requirements is mainly formal in character.

Key words: *administrative reform, inter-municipal co-operation, capacity of local government, decentralisation, public services*

USPOREDBA NAČINA POVEĆANJA KAPACITETA LOKALNE SAMOUPRAVE – REFORMA MAĐARSKOG JAVNOG SEKTORA U MEĐUNARODNOM KONTEKSTU

Sažetak

Rad se bavi reformom javne uprave u Mađarskoj u europskom kontekstu. U većini novih članica EU, baš kao i u Mađarskoj, ili je u tijeku strukturalna promjena javne uprave ili je provedena tijekom prošlih deset godina. Objašnjenje za takva kretanja je u činjenici da javne uprave u tradicionalnim, centraliziranim, unitarnim državama nisu u stanju suočiti se s izazovima modernizacije države, gospodarstva i društva te nisu u mogućnosti stvoriti odgovarajuće kompetitivne uvjete. Međutim, trenutačni negativni demografski trendovi primjetni od 1990-ih prisiljavaju čak i gospodarski razvijene zemlje na pregled organizacije i djelovanja svoje javne uprave. Mađarska se bori s usitnjenim i skupim sustavom lokalne samouprave, dok novi zahtjevi Europske unije, poput načela jednake dostupnosti javnih službi za sve građane, od nje također traže nove reforme. Javna politika u pogledu državnih subvencija dovela je do integracije mikroregionalne razine sustava lokalne samouprave uspostavljene u skladu sa standardima za NUTS 4 teritorijalnu razinu. Međutim, to rješenje nije stvorilo novu razinu javne uprave niti je utjecalo na (politički značajnu) autonomiju lokalnih jedinica. S jedne strane možemo govoriti o optimalnim granicama pri organiziranju temeljnih javnih službi, a s druge o stvaranju jednakih mogućnosti pristupa javnim službama za građane (u vezi s osnivanjem višenamjenskih mikroregionalnih asocijacija). Budući da je Mađarska snažno centralizirana unitarna država, ozbiljna funkcionalna reforma trebala je odrediti međuodnose lokalne, regionalne i središnje razine vlasti. Drugim riječima, reforma je trebala rezultirati preraspodjelom javnih poslova te, u skladu s tim, premještanjem i regionalnom decentralizacijom određenih vidova vlasti. No, takvo je rješenje odbijeno uz objašnjenje da se u Mađarskoj može očekivati otpor regionalizmu, budući da je prilagodba institucija zahtjevima EU uglavnom formalne naravi.

Ključne riječi: upravna reforma, međuopćinska suradnja, metode povećanja lokalnog kapaciteta, decentralizacija, javne službe