

**FINANCIAL MANAGEMENT IN  
HUNGARIAN CITIES:**

**THE CASE OF OROSHÁZA**

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# FINANCIAL MANAGEMENT IN HUNGARIAN CITIES:

## THE CASE OF OROSHÁZA

### INTRODUCTION

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The town is located in the southwest of Békés county, at the junction of the Szeged-Debrecen highway and the road connecting Kiskunfélegyháza with the border station at Battonya. It has a territory of 20,222 hectares and a population of 33,400, making it the second largest community of the county.

The history of the community began with the repopulating of the area in the eighteenth century. In the second half of the nineteenth century—especially after the construction of the Nagyvárad-Orosháza (Szeged)-Fiume railway line—it turned into a lively trading spot and eventually became a town in 1946.

The town is in a favorable geographical position, with good agricultural potential. Both the town and neighboring communities are characterized by excellent fertile land, a strong inclination to agricultural activities and very good farming skills. The area boasts gas and glass sand deposits, transport links in many directions, high-quality schools and qualified industrial labor. The well-developed machine, glass and metallurgy industries evolved partly on this basis.

By the end of the 1980's, as many as 10,000 people in Orosháza worked in industry, making it the second most industrialized town of the county after Békéscsaba, and first among towns of similar size nationwide. Oil, natural gas and thermal water explorations are also significant in the area. Natural gas explorations boosted glass manufacturing.

The transformations after 1989 went smoothly in Orosháza, and it became the most privatized town in the county with the highest industrial production and investment value, attracting the most foreign capital. As this happened, the agricultural-industrial duality evolved. Privatization in the town was concluded by 1996, with four major foreign investors established.

The ten largest employers, six of which are industrial, three agricultural and one a service provider company, are as follows:

2-glass industries

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- 1-food industry
- 2-agriculture
- 3-machine industries
- 1-public utility
- 1-textile industry

In comparison with towns of similar size, especially among the Great Plain (Alföld)-Orosháza's industrial structure is extremely varied. This is accompanied by the high level of education and a low unemployment rate in the county. Since 1996, the town has attracted no major new investors. The Local Government of the Town of Orosháza still has land suitable for accommodating investments that would bring about the creation of jobs both within the town and its perimeter (lots previously used for defense functions in the neighborhood of industrial zones established in accordance with the master plan, encompassing approximately 350 hectares) with connections to roads and public utilities, suitable for:

Green-field large investments which would provide work for existing small and medium enterprises.

Individual and cooperative agricultural enterprises: intensive plant cultivation, fruit and vegetable growing, bio-farming.

Creating industrial parks and logistic centers.

Developing tourism:

Based on local attractions (Kardoskút national park area, rural tourism in Fehértó).

Based on hydrotherapy (Orosháza-Gyopárosfürdő, Nagyszénás, Kakasszék).

The town's technical infrastructure has expanded considerably, especially due to the conscious town development efforts of the last few years. Its supply capacities have grown and the standard of supply services has elevated. The main innovations of the past years are: a healthy drinking water supply from the newly established water base at the sedimentary basin of the Maros river, the modernized sewage treatment plant to satisfy demand from the town, the full-scale natural gas supply network throughout town, a modernized public light network, the current development of the digital telephone service, a rapidly developing town road and sewage network, a cleaning and waste collection services covering the entire town, as well as the implementation of the precipitation and drainage water canalization network and solid waste deposit modernization programs. The following tables show, however, that the infrastructure of the town still has some deficiencies (road network, canalization), and

demographic trends are also adverse. The sewage system in the town is not well developed and still does not meet demand. Orosháza is an area subject to special treatment due to the sedimentary basin, thus it is able to spend a lot on canalization out of central funds. The Water Works have one establishment in the southern part of town, the operation of which was taken over by the town in 1996. Further difficulties are caused by the excess surface waters in the eastern part of town.

**Table 1**  
**Some characteristic statistical data, 1996**

Description	Measuring unit	Value
Size of settlement		
Area	km <sup>2</sup>	202
Demographic data		
Number of permanent residents	Persons	32,944
Number of live births	Persons/1,000 residents	8.6
Number of deaths	Persons/1,000 residents	15.9
Natural growth	Persons	-7.2
In-migration/out-migration	Persons/1,000 residents	-3
Activity of population		
Active income earners	Persons	15,335
Ratio of active earners in permanent population	Percent	45.7
Number of unemployed	Persons	1,761
Unemployment rate	Percent	11.5
Infrastructure		
Roads within the administrative borders	Km	197
Paved roads within the administrative borders	Km	119
Homes connected to main water supply	Percent	79.3
Homes connected to public sewage system	Percent	32.4
Residential consumers of main gas supply	For 1,000 residents	314

## THE OROSHÁZA MODEL

The image of the town's institutional system and operation was determined by the bankruptcy situation which developed by 1994. After the 1994 local government elections, the new leadership tried to restore the town's financial balance by introducing a radically restrictive financial strategy. Briefly, it can be said that the town is trying to prevent taking out loans and save more, paying a lot of attention to maintain the balance of the budget. Thus, the main motivation behind its investment policy is to explore all possible grants and in addition the operating budgets of local government institutions and the office have also been significantly restricted.



**Table 2**  
**The simplified version of the Orosháza budget, 1993-1998**

HUF million,	1993	1994	1995	1996	1997	1998
Own current income	544	601	770	1,145	1,290	927
Centrally regulated current income	3,526	3,602	3,262	2,669	2,600	2,461
Total current income	4,071	4,203	4,032	3,814	3,890	3,388
Total current expenditure	4,080	4,434	3,860	3,287	3,365	3,025
Operating profits	-10	-232	172	527	526	363
Debt service	382	930	1,560	852	78	17
Net operating profits	-392	-1,162	-1,388	-325	447	346
Own capital income	139	159	254	370	492	86
Capital income transferred from state budget	1,267	1,268	188	173	750	536
Total capital income	1,406	1,427	442	543	1,242	622
Accumulation and capital type expenditure	1,384	1,446	540	527	1,354	1,033
Investment deficit (+) / surplus (-)	-22	19	98	-16	113	411
Other liabilities	157	-445	95	130	331	5
Other assets	49	-466	101	36	536	164
FUNDS DEFICIT (+)/ SURPLUS (-)	261	1,159	1,493	215	-130	225
Loans	373	1,188	1,490	582	9	—
Balance of previous year	43	130	123	98	393	463
CLOSING BALANCE	155	159	121	465	532	238

These processes can be seen very well in the table above. The lack of funds in the town increased dramatically by 1994 and the deficit exceeded HUF 1 billion. The town had to cover the deficit from loans. Originally the loans were taken for specific capital investment projects; however the total of the loans and the net operating loss (deficit and the shortage of funding of the budget) are very similar amounts. In total, both the operating and capital budget chapters included a deficit in addition to an existing relatively high debt service liability (in real terms approximately 2.5 times as much as the 1993 figure). Consequently, in 1995 the deficit of the budget was relatively high. However, as a result of the measures introduced by the new management, the town then concluded the operating budget with HUF 172 million surplus (at 1998 prices). The 1995 deficit was almost exclusively the consequence of the HUF 1.6 billion debt service and was covered by a new loan. After 1995 the repayment liabilities of the town (principal and interest) dropped significantly: in 1996 it decreased approximately by half from the previous year and in 1997 it was less than 1/10 of the 1996 figure.

Table 2 also shows, as the first step in stabilizing the budget (from 1994 to 1995) the town reduced its operating expenditure by 20 percent and its capital investments to 1/3, yet also took a large amount of loans. In the following year the capital expenditure level did not change, yet the operating expenditure was reduced by further 20 percent. In 1997 there was no further reduction in the operating expenditure and the capital projects reached the 1994 level again. Regarding this, a few things need to be stressed:

The local government considered that the reduction in the operating expenditure was rather large, yet the restrictions in capital expenditure were even greater (in 1995 and 1996). Further reductions in the operating expenditure would have involved a risk to the completion of the tasks of the various institutions.

Orosháza stands out from the other towns in many ways: on the one hand, the average operating expenses related to individual citizens is lower than the average (calculated as a per capita figure for the period from 1993 to 1998) and its per capita capital expenditure index is outstandingly high (for the entire period).

There is also an important difference between Orosháza and the other towns in the composition of funds related to capital expenditure: the average equity involved in the capital projects in Orosháza is 10 percent.

The following chapters contain the main components of the economic strategy developed on this basis.

### ***Reserves, loans, grants***

In 1992, due to the lack of funds, only OTP was able to provide the local government's considerable need for loans (in excess of HUF 50 million). In 1993 the town took out several loans for development purposes (HUF 55 million for road construction, a gymnasium, rehabilitation of the Gyopáros lakes, engineering development of the hospital, and market hall construction) at high interest rates (32 percent). Their impact was felt from the 1994 budget year on and that these loans have already been repaid. After not being able to balance the budget due to these poorly thought out loans, the management of the local government introduced definite measures; they decided against further loans, approving only budgets which broke even. Special stress was given to the following the strict economic measures even at the end of the year in order to save during the year and make sure that the balanced budget did not go into excessive expenditure. The consequences of this were seen during the review of the budget performance data during the period from 1993 to 1997. Orosháza is trying to obtain the funds required for its development projects (and for the operation of its institutions) from applications. Relying on the management of the town and the system of interests, the institutions try to obtain funds available in Hungarian and foreign applications

(e.g., PHARE) so that the operation of the city administration and the development of the town should not hurt the balance of the budget. As a result of this policy, in the second half of 1996 the former indebtedness trend turned around and the town changed its former borrower position to a depositor position (Treasury bills, open-end investment bonds).

**Table 3**  
**Local government income earned from its assets**

HUF million, 1998 value	1993	1994	1995	1996	1997
Debt service	382	930	1,560	852	78
Loans taken	373	1,188	1,490	582	9
Income from interest	21	2	3	12	40
Income from sales of assets	102	119	215	283	377

At the same time as the budget crisis emerged in Orosháza, several other local governments found themselves in similar situations throughout the country during the period of the 1994 elections. One such example is Tatabánya, where the financial problems originated more from the reduction of budget transfers than from a wrong borrowing policy. In contrast to Tatabánya, there was no specific debt management in Orosháza (replacement of loans with worse conditions by loans with more favorable conditions) although the town applied measures to reduce its expenditure and took loans under more favorable conditions simultaneously as its debt service increased. A good example for this unconsidered borrowing policy is the story of the Swedish bill of exchange which was taken by the town for the modernization of public lighting, i.e., a capital expenditure budget with a good return. The exchange risk for the loan taken out through Általános Értékforgalmi Bank to be repaid in foreign currency was borne by the local government. At the time of taking the loan, the exchange rate of the HUF was favorable, but in the meantime it turned into an extremely expensive loan due to the crawling peg devaluation policy. The local government was able to manage the problem to the extent that it changed the original two installments per year into a payment of one installment for the whole year at the beginning of the year. However, all this is not the result of a thoroughly considered financial decision, supported by calculations, but is an automatic crisis management reaction.

### **Financing of tasks**

It seems, from Table 2 the increase in local income countervails the reduction of all central subsidies to some extent. According to the local finance manager, the biggest problem in normative subsidies is the annual changes in composition. The local government shifts the reduction of normative subsidies to the institutions, but the changes in the composition of the financed functions may not be shifted and they make planning for the budget more difficult.

**Table 4**  
**The Most Important Central Budget Resources between 1993 and 1997**

HUF million, 1998 prices	1993	1994	1995	1996	1997
Total generated PIT	1,340.0	1,351.8	1,149.5	1,177.3	1,463.1
Re-allocated PIT	402.0	405.5	402.3	306.1	292.6
Supplement	16.7	3.0	63.0	82.9	122.1
Normative transfers	1,623.0	1,346.0	1,113.2	843.8	786.7
Total budget resources	2,041.7	1,754.5	1,578.5	1,232.8	1,201.4

From 1993 to 1998, the received normative transfers decreased by 55 percent (in real terms) while in the other towns study they dropped by a maximum of 40 percent. At the same time the PIT generated by the town has increased much more since 1996 than in the other towns, reaching 118 percent of the 1993 figure in 1998. Together with the equalization subsidies, the reallocated PIT remained at the same level between 1993 and 1998. Therefore the reduction of normative transfers explains the decline in central budget resources. It means that in Orosháza the operation of institutions would require more and more funds from the local government and therefore it intends to encourage the institutions of the town to generate their own funds as much as possible.

The normative subsidies in the education sector cover on average 60 percent of the institutional costs<sup>2</sup>. As a result of the increased normative subsidies, the state subsidy covers 47 percent of expenditures for schools with a different curriculum, even though it provides specific lessons which are not covered by state subsidies. According to the views of the local government employees, problems in financing occur more because of the shift of balance between material expenses and wages and labor burdens. If the average age of teachers and the number of students are higher than average, the normative subsidies do not cover costs and the operator has to provide more support. Therefore, in order to be able to finance institutions, one goal of the Orosháza budget is the radical suppression of operating costs, in addition to the exploitation of the institution.

<sup>2</sup> Source: Orosháza budget report 1997.

The situation may be further aggravated by the imminent introduction of the Basic National Curriculum (Nemzeti Alaptanterv-NAT). The increasing, prescribed number of students by class causes problems. The underlying logic is presumably that students coming out from institutions providing elementary education in 4, 6 or 8 years must be accommodated in secondary schools of 8, 6 or 4 grades. The inverted pyramid-type filling of classes raises the most serious problems for schools operating in smaller towns whose opportunities are extremely limited. The weight of the difficulties stems from the fact that normative financing is adjusted to the headcount thus evolved, as this provides the basis of lessons and teacher requirements. Normative financing is based on the assumption of a teaching staff of average age and qualification and an average real estate background. Where conditions are substantially different (more expensive), serious support or intervention is required from the local government. This problem can only be eliminated via institutional rationalization in a micro-regional framework, which would promote 4- or 6-year as opposed to 8-year elementary education. In Orosháza's case, there are no signs of this development since the concept for the county itself also favors traditional eight-year elementary schooling.

The following tables compares per capita education and social costs of the local governments of the six towns analyzed.

Table 5  
Per capita education expenses, HUF thousand (1998 prices)

Education per capita	Orosháza	Püspök-ladány	Szolnok	Szentes	Tatabánya	Nagyka-nizsa
1993	25,4	33,8	38,7	29,8	24,5	33,2
1994	20,0	28,7	30,4	21,3	21,0	31,8
1995	17,2	28,3	30,3	21,0	20,8	27,3
1996	15,7	25,1	25,8	17,4	18,5	22,0
1997	14,4	25,1	26,5	16,9	18,8	21,5

Table 6  
Per capita social expenses, HUF thousand (1998 prices)

Education per capita	Orosháza	Püspök-ladány	Szolnok	Szentes	Tatabánya	Nagyka-nizsa
1993	3,4	7,7	8,0	8,9	9,5	10,0
1994	2,9	8,0	7,8	7,0	9,5	9,3
1995	2,5	4,5	5,2	5,5	6,3	6,9
1996	2,2	6,8	6,8	6,2	7,9	6,5
1997	2,6	8,3	8,1	8,6	8,3	7,3

The above table indicates that Orosháza is trying to operate its institutions at the second lowest local government expenditure, especially in the social sector (the per capita

expenses in Orosháza represent approximately 30-35 percent of the expenses of the other studied towns). In all six towns there is a tendency to reduce institutional expenses, but in both sectors the restrictions are the greatest in Orosháza. In the case of the other five towns the per capita expenses have shown a slow increase in both sectors since 1995 (in Nagykanizsa only after 1996) and, with the exception of Nagykanizsa, Tatabánya and Szentés, they exceeded the 1993 figures by 1997. In the meantime the per capita social expenses fell to 75 percent in Orosháza (1993-1997).

The institution financing policy of Orosháza is characterized by the fact that institutions in need of budgetary subsidies do not necessarily receive the funds required. Nursery schools, for example, receive subsidies, whereas the fire department has only state resources and its own revenues. Consequently, the fire department's funds are sufficient only for operation, and there is no money for renovation or investment although its assets need modernization. As a result of the local government's financing policy, all institutions are forced to increase their own revenue. The following table investigates the revenues, sources of revenues and the extent of normative subsidies of the three key sectors based on 1997 figures.

**Table 7**  
**Financing of the health, education and social sectors, 1997 (HUF million)**

Source of revenue	Health care		Social sector		Education sector	
	Institutions	Office	Institutions	Office	Institutions	Office
Central subsidies (normative/social security)	1,098	528	75	64	346	3
Local government support	20	7	40	73	313	20
Own revenue	342		65		235	

Health care received basically no support from the local government other than the HUF 20 million investment contribution and the HUF 7 million contribution required for applications. The HUF 528 million shown in the cell "central subsidy/office" means grant monies awarded through application. Own revenue is composed of direct applications, money from leasing space, operation of pharmacies, external meals provision, laundry, leasing nurses' dormitory rooms, and interest credited on savings. The Orosháza hospital has become an institution of outstanding quality at a national level, due to developments completed this year. According to the finance manager's statements, this is due not only to maintenance of very low wages, but also to very strict, rational economies.

On the other hand, there is much less opportunity to increase own revenues in the social sector. Local government support comprises 1 percent of the budget for the health care, in contrast to 36 percent for the social sector, and almost 35 percent for education. The table

also demonstrates that the proportion of own revenues are high in all three sectors. This was partly coerced by the restrictive measures taken by the office. As a result of the 1995 economic review, one nursery school was closed down and redundancies were made at certain institutions. This does not affect the education institutions. In those institutions badly utilized classrooms will be closed down within the framework of the restructuring of the institution network. The local government office has managed successfully to urge the institutions to seek out and make use of application opportunities as well as to increase their revenues from other sources (lease of rooms, external meals).

Comparing Tatabánya and Orosháza, it is found that while financial bankruptcy turned Tatabánya towards an innovative, initiative approach, Orosháza tried to overcome the crisis by imposing financial restrictions on the operation of existing institutions.

In view of the above, on the basis of data currently available to us it seems that the town has surmounted crisis, but further steps require a program based on a new pro-active approach.

### ***Human resource policy***

One of the most important negative features of the previous restrictive approach was its impact on human resource policy. In the case of the local government office, the lack of professionals is a serious problem. At the time of introducing the small treasury it was an express requirement that it should be implemented without the need for employing additional staff. On the other hand, a treasury with more efficient operation could bring about much greater savings for the local government than the salary of an employee. The existence of the computer terminal which is already operational in the local government building does not mean that benefits of the treasury are really reaped. Another obvious deficiency is found in the supervision of roads. The local government is responsible for the condition of public roads and public road signs on these roads. In practice, this control can be provided via the office's own staff or outsourcing. In the case of Orosháza, road management and road control tasks are performed by the same single person in the office who is responsible for investments, renovation and control. This may have economic and legal consequences as well.

Migration of skilled labor force is a serious disadvantage for the town. Children often start even secondary school in other towns, mostly at Szeged. Since there is no higher education institution in Orosháza, those wishing to obtain degrees are forced to move and only a small percentage of them return after completing their studies. The town has made several attempts at establishing its own college. The building of the former military secondary school and dormitory would be suitable for this purpose. The town would like to take over the building free of charge in order to use it according to the demands of the local citizens. The negotiations, which have led to no success to date, are aimed at this. There were plans to

move the German language faculty of Juhász Gyula College here, but this also failed to take place until now. The low ratio of population with higher education means a great disadvantage for the town with regard to foreign investments.

Though privatization was concluded early in the area, no additional major investors have appeared. As a consequence of the town's human resource policy, the idea of setting up an organization specifically for this purpose has not emerged, though in order for continuing successful operation it would be indispensable to promote further investment.

### **Capital projects**

An essential element of the town's policy is to avoid taking out loans. Therefore, the local government tries to secure resources for the necessary investments via applications, providing no more than the required minimum contribution from its own funds. They try to harmonize local needs with central priorities, and select and implement the given construction accordingly. State priorities included the building of a gym hall, for which central subsidies could be applied for. As it was necessary to add a classroom to one of the elementary schools in Orosháza, one of the original classrooms was converted into a gymnasium, for the purpose of the application for funds, the gymnasium was turned into the classroom and the new gymnasium was built out of subsidies received. In the case of the homeless shelter, it was possible to obtain funds by declaring the building a deathtrap. The local government does not compile economic or feasibility studies prior to construction, but always requests opinions from external specialists on implementation. It is extremely difficult to implement construction in areas which are not included among state priorities. Although they would be necessary, the local government and the assembly find it hard to make a positive decision. Examples for this are the preservation and renovation of deteriorating building facades or the reconstruction of streets or town squares. Should the synagogue at Orosháza be declared a historic monument, this would only increase the local government's expenditure and obligations, without bringing in any central subsidies for meeting these liabilities.

One of the greatest problems of the town is the difficult access to the city. In order to improve this, highway 47 between Békéscsaba and Szeged is being constructed which will go around the north of the town, ensuring safe traffic via three flyovers. The construction was planned to take place in four stages, two of which have been completed. The completion of this investment, so far costing half a billion HUF, is to be completed by 2000. The capital project is financed only from funds awarded to applications and the town contributes HUF 60 million out of its own resources for each stage. Connecting roads will be built by neighboring companies with their own funds.

The Industrial Park construction is still in the planning stage. The committee (local industrial entrepreneurs) initially vetoed the plan. For the preparation of the documentation and

to cover costs of the planning study, an application was submitted to TEFA. A 16-hectare area, suitable for establishing at least 10 enterprises, and equipped with utilities and roads in the southern part of the town was designated for the purpose. As a consequence of interference by the local industrial lobby, the deadline for filing the application (15 March) was missed, so they can only start next year. The problem in the town is that very little working capital is invested in the area. The geographical position of and access to the city is not the most favorable. The highway is 70 km away from town (according to statistics, a highway affects business life in a 50-km radius) and the status of connecting roads is not appropriate. Though there has been a study in the region for investment development which found that it would be worthwhile to invest in the processing industries of the region, no progress has been made to date.

A priority goal of the city is to develop tourism and within that, to complete investments at Gyopárosfürdő as soon as possible. This recreation area of 131 hectares with hydrotherapy and a 6-hectare open-air pool attached to the town has the potential to become a significant center for tourism in the region. Thanks to the spa waters, the area boasts significant recreation benefits. As a result of the development in recent years, there is sufficient good-quality drinking water available in the area, sewage main lines have been constructed to which all "large consumers" have connected without exception, and 37 thousand cubic meters of sludge was removed from the lakes. All this took place in the framework of a reconstruction plan supported by master plans applicable at all times. The main goal set was to create a natural and built environment and a balanced situation which is suitable for receiving a high-standard hydrotherapy project or investment.

Currently, over 2,000 foreigners occupy accommodation, the total number of guest nights exceeds 20,000. The number of spa guests is 110,000 persons/year, the number of users of hydrotherapy treatments is 11,000 persons/year.

There are two constructions in this area. One is the expansion of institutions within the Strandfürdő (open-air pool), the other is the improvement of the status of the lake shore and water, funded from the KK Fund and own resources. The town submitted an application for the specified subsidy titled creation of thermal water and physical therapy centers, concurrently with a request to qualify the facilities as a spa. It tries to obtain additional funding for the investment in PHARE applications.

All in all, it can be said that the city uses a minimum of its own resources for its constructions, but it tries to utilize application opportunities and central subsidies in the most efficient way. Own resources are provided most often from the sale of real estate or municipality land. Its local tax revenue is relatively high; in 1997 it comprised over 10 percent of the total revenue in the budget. This is explained by the fact that this is one of the most

industrialized cities in the county and that the entrepreneurial spirit is high.

Of the local taxes that can be levied under legislation, Orosháza introduced the building tax, the community tax for entrepreneurs and the local business tax. Instead of imposing residential community taxes, like many other local governments, it collects public utility development contributions. It increased the statutory minimum of HUF 400/100 kg vehicle weight tax to HUF 600/100 kg. For the community tax for entrepreneurs, it levies the maximum of HUF 2,000/employee. As the previous assembly did not vote to adopt it, the town introduced local business tax only in 1995. In 1996 this was increased by 0.1 percent, and no raise has been necessary since then. Currently the rate of this tax is 1 percent for industrial activities, and 1.2 percent of the tax base for revenues from commercial and banking services as well as sale of beverages. Revenue from this source grows year after year. At the same time, although the local business tax revenue increased upon the privatization of the glass factory, unemployment also grew on account of redundancies. Building tax must be paid for dwellings and not for real estates for dwelling purposes. For weekend houses (second homes) the tax is HUF 100/m<sup>2</sup>, for real estate of any other purpose, it is HUF 70/m<sup>2</sup>.

### **Regional policy**

Local regional policy is closely linked to the construction policy of the city. It is no secret that the aim of the micro-regional cooperation established in 1996 is to pool interested parties for applications. According to local experience, the centrally directed decentralization gave a boost to the development of the county and its towns. The importance of regional policy is predominant in the areas of tourism, infrastructure and training. At the same time, due to the location of Orosháza, it would be worthwhile to step out from the micro-region and promote cooperation with other cities. As the town lies on the border of the county, it would be reasonable to coordinate goals to be attained with Szentes, for example. Such efforts could relate to the joint search for investors or the coordination of tourism programs.

One of the objectives of the Regional Development Association (Területfejlesztési Társulás) founded in 1996 by Orosháza and nine neighboring small communities is admittedly to obtain funds, in particular, by submitting applications on tourism projects, from the County Regional Development Council (Megyei Területfejlesztési Tanács). The other major goal of the Association is to cooperate in performing micro-regional pedagogical and special pedagogical tasks (education, counseling, curative physical education and speech therapy). The Association should be transformed into a legal person soon as it has income from the membership fees. The president of the Association—with its headquarters at Orosháza—is the Mayor, its goal is to utilize the direction of central policies in support of micro-regional interests in the most efficient manner. The Association has no finance manager at the moment. Again, the city's policy of "saving own resources" surfaces. No money was awarded to the Association in the micro-regional manager tender issued by the Ministry of Labor, so,

by pushing efficiency into the background, restrictive human resource policy considerations prevailed.

All communities of the county participate in the Regional Development Council of Békés County. The Ministry of Environmental Protection and Regional Development (KTM) transfers funds and delegates the right of distribution (awarding applications) to this level. Its labor organization consists of the committee of the county's local government, the chambers, the County Labor Council, micro-regional associations, the Foundation for Enterprise Promotion, DRF Rt., as well as decentralized organizations and the Ministries.

The Federation of Regional Development Associations of the Southern Great Plain Dél-Alföldi Területfejlesztési Társulások Egyesülete (DRAFT) comprises representatives of micro-regions. Its center is Makó, the Mayor of Orosháza is the vice president of the organization. This is clearly a pool of interests, it is summoned always before sessions of the Regional Development Council. It serves the lobbying purposes of the town and its environs. Only representatives of micro-regions are included, communities are not represented. In this organization, county borders are not important; the regional association of micro-regions attempts to exert influence at regional level. The management is elected, membership is voluntary and membership fees are collected. Not all micro-regions of the region are members. It is an extremely strong lobbying organization where interests are conciliated prior to sessions of the Regional Development Council of the Southern Great Plain DARFT and members present a uniform position in regional meetings.

The Regional Development Council of the Southern Great Plain DARFT comprises Csongrád, Bács-Kiskun and Békés counties. Actual participants of this council are representatives of the county councils. The headquarters change on a rotation basis. In order to eliminate the problems in operation stemming from this rotation, a company for public use (Kft.) was established with its headquarters in Szeged. This takes care of administrative and organization tasks (3 persons), but it is strictly an administration body, it does not even play the role of issuing calls for applications for PHARE funds. Each of the three counties delegates five persons to the council (the Mayor of Orosháza is also a member) delegated by the County Development Council. The organization has just started operation, thus its actual role is not outlined yet and, to date, it has not managed to resolve the problems stemming from the rotation system. There are regions where the micro-region concept has not yet been adopted. Apart from the fact that its operation is highly county-dependent, its role may reach beyond that. According to opinion in Orosháza, the distribution of funds at county level is more efficient as the actual problems, environment and entrepreneurs are known at that level. The aim of central decrees is to build up intermediate levels of government, rather than diminish the role of counties.

As a member of the Southern Great Plain experimental region, Békés County obtains

significant funds through applications to the PHARE-CBC program. These applications promote cooperation across borders, in this specific case, Rumanian-Hungarian. In the past years, out of the three counties of the region, Békés County submitted the most successful applications. These projects aimed primarily at the development of tourism (valleys of the Kőrös rivers) and infrastructural improvement. As the existence of cross-border development is a requirement of the application, relations between the county and neighboring counties and towns in Rumania has undergone significant development.

## **ORGANIZATIONAL STRUCTURE OF LOCAL GOVERNMENT TASK PERFORMANCE**

As it was described in the previous chapter, the economic operation of the institutions of the town was determined by the bankruptcy position which developed by 1994. On the other hand, the inherited features had a major impact on the development of the organizational structure of the institutions.

### ***Heritage and innovation***

As well as its institution system the town has inherited the competitive situation which had evolved within the county. This has also contributed to the fact that the town did not give any of its functions to the county. The municipality has been operating the inherited institution system with a minimum degree of reorganization. The hospital is now operating profitably as a result of the efficient economic management within the institution, and contributes to the prestige of the town so the assignment of the institution never even came up as an option. The traditionally renowned secondary schools will be maintained by the local government even at financial sacrifices, since the release of skilled labor and the high rate of participants in higher education is one of the strengths of the municipality. A further goal is that students should be retained within the municipality by the improvement of the quality standards and by the expansion of the tasks performed by the secondary education institutions. The elaboration of an education concept, harmonized with the central basic curriculum, is an important element of the strategy of the municipality. Only the church was returned whatever it was entitled to, in the course of the bargaining process. That is how the town cemeteries, one kindergarten, one school and part of the main square of the town were handed back to into church ownership. In the case of the church owned kindergarten and school the local government has a contract with the church only with respect to providing services to the non-religious students remaining in the institution and limited operating transfers are provided (meal contribution, swimming lessons and teaching aids for technical education).

As Table 14 also indicated, in Orosháza the majority of the tasks are performed by the local government's institutions, and the municipality has no long term contractual relationship with any business entity for the performance of local governmental duties.

The most frequent service with which the town intended to save operating expenses was the organization of caretaker type organizations. In most cases these are organizations with a clear profile, but there are also caretaker organizations which combine very different tasks.

The other frequently used instrument to reduce expenses is cross-financing between institutions. For example, the Unified Social Institution is a mammoth organization with very diverse tasks. The performed tasks cannot be separated because of the financing issues. In that case the social home would not give up the normative subsidy and cross financing would not reduce the financial burdens of the local government and it would have to run all the other institutions completely. The separation of the tasks of the institution would also increase the demand for staff and assets.

Orosháza local government has only one business organization, Városgazdálkodási Kft. Similar to the Unified Social Institution and the caretaker organization performing miscellaneous tasks, this company also performs several activities, in which the option of cross financing reduces the expenditure covered by the local government.

No other institutions have been reorganized and no tasks have been out-sourced to ensure more economical or more efficient operation. The operating budget of the municipality, reduced to the smallest possible volume, however, demands institutions to introduce internal innovations. The institutions are autonomous as regards their financial management, their revenues are not collected by the local government but they receive only a minimal contribution. Institutions need innovative internal administration if they are to be operating efficiently in this form. For instance, the economic management of the hospital has elaborated useful indicators and a hospital foundation has also been established. The schools have established the Micro-Regional Schools Association as a result of which the local secondary grammar school receives additional revenue as organizer.

**Table 8**  
**Tasks Performed by Local Government Institutions in Orosháza**

	<b>Service Providing Institution</b>	<b>Method of task performance</b>	<b>Funding by local government</b>	<b>Own funding</b>
Health service	Hospital Also provides family doctor service	Budgetary institution of local government, but the majority of family doctors are contracted	Minimum development subsidy (1percent of budget)	Social Security funding, Foundations' support Tenders
Nursery schools	Unified Nursery Schools' Institution (2)	Budgetary institution of local government	Large per capita local governmental subsidy: 71 percent of total expenditure the annual subsidy was 29,052,000 in 1997 HUF	Refund contribution, involving only the materials for cooking, normative transfer (before its introduction) HUF 100

	<b>Service Providing Institution</b>	<b>Method of task performance</b>	<b>Funding by local government</b>	<b>Own funding</b>
Old people's home	Unified Social-Welfare Institution	Budgetary institution of local government	In addition to the normative transfer, the local government covers 10 percent of the operating expenses. The local government does not give a transfer for the social home, but it does for integrated institutions for which there are no normative transfers	Social normative for certain tasks is high as that complements performance of under-financed tasks. The social home supplements its income with funds awarded at different applications and the ratio of received moneys is high: inheritance, donations. The larger ratio of the own income of the social home involves refund contributions.
Old people's Care Center				
Old People's Club				
Home care				
Social Meals				
Children's welfare service.				
Night and day shelter and Temporary accommodation and crisis room for homeless people				
Kindergartens (11 member infant schools, 3 groups)	Kindergarten Trusteeship	Budgetary institution of local government 1 church 1 private	Local government transfers cover 38 percent of the expenditure of the institution and 2 percent of the expenses are covered with own revenues. The state subsidy is sufficient for the personal benefits.	Meals, special services covered with charges (swimming, Physical education, language courses)
Music education	Education and Culture	Budgetary institution of local government	The local government transfers cover 50 percent of the expenditure (this is one of the most expensive institutions of the local government)	Minimum, covering 14 percent of its expenses
Library	Trusteeship 3			
Secondary education	primary schools, 1 elementary music school, library, typist and shorthand school, education center, education counseling			
Elementary education	Elementary schools (4)	Budgetary institution of local government (4) Church school (1)	The local government provides limited subsidy to the church institution. In its own schools it covers 21 percent of the expenses by subsidy.	Significant, but differs according to institution (9.5-1.8 percent subject to the ratio of expenses)
	Children and Students Catering Institution	Budgetary institution of local government	21 percent of institution's income is local governmental subsidy	19 percent of revenues from catering for guests, 13 percent normative

	Service Providing Institution	Method of task performance	Funding by local government	Own funding
Secondary education	1 grammar school, 1 secondary vocational school. 1 vocational school	Budgetary institution of local government	In total 15 percent of the local government subsidy is allocated to this sector	The ratio of own revenues is the highest in this sector (more than 30 percent of the expenses), but the expenses are also the highest.
Road maintenance	Local government office		Total budget provided by local government	
Housing, real estate management	Városgazdálkodási Kft/Town Management Ltd.	Limited liability company fully owned by local government		The smooth performance of the tasks is enabled by revenues of the Kft
Garbage disposal				From other business activities
Park maintenance			Office provides annual defined  Limit amount	

## Education

From the interview with the official of the Orosháza local government in charge of education it seems that the introduction of the National Basic Curriculum may result in substantial changes in the municipality's education policy. The regulations will probably result in a territorial and institutional concentration of education: on the one hand, the number of the so called "mixed profile" institutions (training participants of elementary education from the 7th or 9th grade, secondary school students and vocational trainees all at the same time) which will promote the institutions' survival. On the other hand in the larger municipalities, capable of providing ampler funding support to their institutions, the schools will be operating under more favorable conditions, which will provide their students with a better chance of achieving superior results in the national examinations. Accordingly, parents to prefer to enroll their children in the schools offering a more secure future, and so enrollment in the smaller schools will continue to decline until they will eventually be forced to enter into education contracts, at least in part, with towns where the students would be transported by school buses.

Orosháza operates one secondary grammar school and one secondary vocational school, an agricultural secondary vocational school and an industrial vocational training institution. Furthermore, the Education and Culture Trusteeship (Oktatási és Közművelődési Gondnokság) operates a Shorthand-Typist School (Gyors és Gépíró Szakiskola) as a partly autonomous institution. To increase the utilization of the institution and to boost own revenues

there is an eight year training system, a traditional four year training system and besides the day school, there is also a night school within the secondary grammar school. Furthermore, the student hostel was also transferred under the direction of the secondary grammar school in September 1995. The level of capacity use in the secondary grammar school is 90 percent, but within this, the level of capacity use in vocational secondary school classes is only 60 percent and with the extension of vocational training it will probably decline even lower. The operation of the Industrial Vocational Training School (Orosházi Ipari Szakmunkásképző Iskola) is complicated by the lack of its own training shop. The agreements concluded so far between the local government and local businesses have been terminated by the enterprises. The local government cannot conclude comprehensive contracts with the entrepreneurs operating in Orosháza and in the vicinity of the town for the placement of the trainees of the school. It is a problem at the county level there is no need for young skilled workers. There is no appropriate information flow either to enable assessment of the local requirements. Since the training department cannot harmonize the profile of the vocational training institution with the demands of the region, the degree of exploitation of the school is inevitably declining while the rate of emigration and that of unemployment is on the increase within the municipality. The Shorthand-Typist School in Orosháza is in a slightly better position because it originally offered several training programs (for students over the age of 14 and 16).

### **Out-sourced tasks**

There are no examples for out-sourcing services in the municipality. The only local government owned limited liability company was transformed from the former Real Estate Management Company (IKV). Since then, the operations of the company have been substantially changed for reasons of profitability.

The company has palmed off the performance of certain loss-making activities while expanding the range of its activities to include ones expected to be profitable. Currently, it is not only performing local governmental duties, but is also operating as profit oriented enterprise. The company that was originally established as the successor of the IKV is now performing housing management, garbage collection, and public place maintenance activities. The Kft. operates a municipally-owned covered market as well as a municipally-owned hotel in Gyopárosfürdő. It finances the developments and the loss making elements of the local governmental activities with the income generated by such own activities. The Kft. used to operate at a loss. When the current executive took over, she took the following actions to terminate the generation of losses: she reduced the headcount; in hiring, she made efforts to employ from the unemployment pool (to receive attached subsidies); she has been expanding the range of business activities each year; and she has been making efforts to pass on loss making activities. This has led to a 5.5 percent profit margin on sales so far, along with a sales revenue of HUF 350 million.

The local government does not provide funding for investment or the operating costs. According to the head of the company the revenues and the expenditures can be precisely monitored by sector, although the Kft. is managing all of its activities on one account.

As a result of its wide range of operations the Kft. has different types of contracts for each activity with the local government. These contracts have been concluded for an indefinite period of time, they define the task, the standards of performance and the settlement of the revenues of the activities between the Kft. and the local government. The Kft. presents its accounts to the local government, but apart from that the Kft. carries on its own financial management. In effect, from that point on the Kft. operates as a profit oriented business entity. In this way the local government can keep the subsidy level of the duties it is funding at a minimum, saying that the Kft. can guarantee the funding of any potentially loss making activities from its profitable activities.

The local government establishes an annual limit for park maintenance, for which it enters into a general contract with the Kft. The contract specifies the tasks both technically and in terms of volume, but it may be unilaterally modified by the local government. The additional costs are to be covered by the Kft. from other sources. Therefore, if it intends to operate profitably, it must be involved in other activities independently of the local government; for instance the services provided by the vehicle repair and the joiner shops for external customers, the leasing of the unused rooms within the Kft.'s building, and the operation of the aforementioned hotel in Gyopáros. By covering costs in this way, the Kft. is able to offer its services at a price that other businesses cannot beat, even though the local government announces tender invitations for the tasks, as required by law.

The Kft. accounts for the rental fees of the local government owned residential real estate and other premises; these revenues are managed by the office. The Kft. receives an administration fee for this activity. On the other hand, the maintenance tasks of the former IKV are performed by the Kft. in the form of a business operation. Since most of the professionals of the organization are former IKV employees, they have the necessary expertise to carry out high standard work for appropriate prices. The manager of the Kft. mentioned that the majority of the condominiums also turn to them for assistance. The question emerges as to how the "appropriate price" is related to the market price, i.e., whether it is not the case that the Kft. undertakes jobs even if they make a loss on it just in order to keep any potential private entrepreneur out of the market. Similarly, they may finance these losses through profits on other tasks where there is no competition.

In 1997 the Kft. concluded a contract with the local government for the operation of the covered market (Vásárcsarnok) which is owned by the local government. Accordingly, the Kft. pays a rental fee of HUF 7 million a year to the local government but the operating profit is retained by the Kft. The market, which used to be a loss making operation for Piac Kft. now seems to be profitably run from the perspective of both the local government and the town

management Kft. The prices of the premises of the market offered for lease are established by the Kft. and the Kft. makes the decisions on the annual increases as well.

In 1995 the Kft. won the garbage disposal function in a tender organized by the local government. The exclusive contract for garbage collection was concluded for an indefinite period of time. The contract also covers the management of the landfill, also owned by the local government, as well as the municipal pound. The garbage collection tariff is set by the local government, the local council making the decisions on the proposals on raises put forth by the Kft. The tariff is the Kft.'s revenue, but the level of the tariff may be set by the local government even below the cost level for social considerations with the local government picking up the difference. The Kft. also carries out the garbage collection function for the other communities in the micro-region but that is performed strictly under commercial terms. The task is won by the Kft. through tenders, usually for five year periods and at commercial prices. It may be that Orosháza should consider hiring the Kft. under the same conditions.

### **Trusteeships**

As a result of an economic audit, in 1994, the Economic and Technical Supply Organization (GAMESZ) was reorganized both from professional and economic perspectives. Consequently, the two kindergartens were merged under the name of Unified Nursery Schools' Institution (Egyesített Bölcsődék Intézménye) and the Infant School and the Education and Culture Trusteeships were also set up.

In 1995 the municipality merged the 11 kindergartens under one trusteeship to improve the economic performance of the institutions. The institutions are not autonomous—they belong to three partially autonomous institutions (in groups of 4, 4 and 3), each with its own director (there are no directors of the individual kindergartens). Thus the municipality can save the actual managerial supplement remuneration. The economic management is performed through the trusteeship in a uniform system, they perform the financial management of the three institutions (management of accounts, invoices, planning of cash flows, breakdown of costs by institution). The staffing level is reduced to a minimum, the trusteeship is comprised of three economic staff, the heads of the three aggregate institutions and there is no need for either professional or economic managers or maintenance staff in the member institutions.

The audit revealed that the operation of some other institutions as separate organizations is also uneconomical. These have been combined in the Education and Culture Trusteeship. Since these institutions represent highly different profiles, the role of the trusteeship is limited to the settlements, the records and the preparation of the reports. In fact the trusteeship has a rather limited scope of competency, it has an adjunct role. Although it is not an enterprise, financially it operates similarly to Városkgazdálkodási Kft. The individual institutions do not have a separate account number and their own revenues are only separated

in the GL accounting. The institutions have their own professional management but they are not separate financially. The trusteeship coordinates two elementary schools in the outskirts, an auxiliary elementary school, the municipality library, the Shorthand-Typist Secondary Vocational School, the school of musical arts, an office block in the ownership of the local government and the Education Advisory service.

Since there are no actual business activities to make up for the deficiencies, the local government has to provide operating subsidies to this organization. On the other hand, the former MSZMP (Hungarian Socialist Workers' Party) headquarters, now operating as an office block and entitled "education center" could also be run as a profitable business. The office block is now unexploited, partly for the lack of proper infrastructure capacities (lift, hot water) and partly as a result of the high rental rates in comparison with the conveniences. A number of its rooms, however, are let free of charge. In addition to the trusteeship, the member school of School number 3 also occupies the building, paying no rent, only the electricity charge; the MSZP (Hungarian Socialist Party) uses three rooms; the Labor Center occupies space rent-free up to 25 square meters. The rental minimum is defined by the local government but the decision concerning the actually collected rent is made by the head of the trusteeship. According to the manager, even the lease of all of the rooms of the building might not necessarily ensure the profitability of the operation of the building. Thus the maintenance of the building could end up at zero balance, at best. The overhead falling on the empty offices must be covered by the trusteeship from their budget.

### **Water Supply and Sewage**

The separation of the municipality from the regional water works company operated by the Békés county government is in progress. A preliminary survey has revealed that Orosháza could provide the water and sewerage services more economically if they were carried out separate from the county organization within the framework of a regional cooperation. The separation would result in a smaller territorial cooperation with four neighboring smaller municipalities which receive their water supplies from the same channel branch. So a small regional association would be formed for the operation of wells and the main line, since the capacity of the local sewage treatment system is planned only for Orosháza. The implementation depends on Nagyszénás. The main line extends between Csanádapáca and Szarvas, and it will be operated by Városgazdálkodási Kft. The ownership shall be shared between the local governments of Orosháza and Szarvas. The local government will take over the assets and staff but the financial and property issues will be decided at further negotiations. The separation will not be accompanied by a cut of the tariffs paid by the population but it is expected to enable a reduction of the rate of the increase of prices (according to preliminary calculations the rate of the increase of the tariffs would be lower than the inflation rate). The improved economy of operation to be provided by the new organization structure would enable increased emphasis to be laid on the improvements.

Another important driving force of the separation is the expected effect on investments. The only question would arise only in the case of the new organization unit; the conceptual decision has been made concerning the separation.

### ***Performance measurement***

Performance measurement seems to be one of the most 'personality-dependent' activities of local governments. Since no general practice has evolved in this area—indeed, even the various forms of task performance are still in the process of evolution—this largely depends on the head of the department managing the given sector, within the local government.

In Orosháza the description of the education sector also shows that the head of the sector is making efforts to adhere to the basic principles laid down in the new central regulations, as soon as possible. This influence performance measurement as well. Although no elaborated and incorporated indicators have appeared so far, yet some initiatives have been launched in this direction. The NAT specifies groups of subjects as a proposal. The allocation of the pedagogical programs developed on that basis into the number of teaching hours, a subject plan or schedule, is attached to the Foundation Memorandum of the Elementary Schools in Orosháza, as an appendix. This provides for an 80 percent similarity, providing for compatibility between the various institutions and this enables also to have the level of knowledge of the pupils to the syllabuses. In Orosháza a local expert network has started working from October 1998, to provide for the efficiency of the program right from the moment it is launched. Through the network the institution managers will also be given feedback on how the programs of their respective schools relate to those of the other schools and the whole of the NAT. It is also an important aspect that the curriculum structure and the set of requirements should be adjusted to the 10-year public education program in each grade.

In fact there is no performance measurement in the rest of the sectors. A number of institutions cannot even always meet the statutory operating requirements. One of the reasons for this is the rapidly expanding range of duties, another is that the statutory regulations are aimed to specify the maximum level and the tightness of the regulations is often eased by the issue of temporary operating permits. This is how some of the departments of the hospital or some of the member institutions of the Social Institutions group can operate only with this provision. In the area of the health care services there is a centrally established efficiency indicator on the basis of which the institutions can be evaluated and compared to one another conceptually.

There are no indicators for the controlling of the performance of outsourced services either. In this area the term of the contracts is one of the controlling mechanisms but this is not

identical with actual performance measurement. The local government specifies the required quality of performance in the service performance contract but there are no built-in mechanisms for monitoring the quality of performance. The contract concluded for the garbage disposal function, for example, grants an exclusive right to Városgazdálkodás Kft, for an indefinite period of time. The manager of the Kft. answered our question that the company may lose this position on the basis of complaints filed by the population. However, there are no officially established channels for this in Orosháza. In certain towns, for instance in Tatabánya, there is a toll free "green line" available for the population to make their remarks concerning the running of the municipality, to which people receive responses, addressed to them personally from the competent officials.

In Orosháza no service has been assigned to enterprises independent of the municipality so far. One of the reasons for this is probably that there are no volunteers, but, for the local government the lack of an appropriate controlling system is also a negative incentive, along with the fear of the reduction of the scope of influencing such businesses, or the decline of the influence of the local government on the pricing of tariffs and rates. Performance measuring and monitoring and the incorporation of such in contracts as appropriate, may promote the performance of tasks as efficiently as possible, and it may provide the local government with appropriate means for controlling, in the future as well.

## **CONCLUSION**

The management of Orosháza has consolidated the financial management of the municipality since 1994. It has established budgetary equilibrium which, in turn, has led to balanced institutional operation. Today the municipal budget has substantial reserves. However, the price for all this, was rather substantial, since they had to restrict staff management extremely and had to cut the expenses of its institutions significantly too. Finally, the institutions also had to participate in the consolidation of the local government budget by seeking new operating and development funds.

In our view a new phase should now follow in the local policy strategy of Orosháza. Following the successful consolidation of the budget of the town, emphasis must be shifted from the budget restrictions to an expansive economic policy and program based reorganization of the tasks. In addition to the achievement of the last four years it would represent a major political turn, and it is also indispensable for Orosháza to become what its leaders wish it to become: one of the major towns of the county and the region.

It would also be necessary to change its relationship with the surrounding villages and towns, as well as contractors and entrepreneurs in those settlements and its population into a dialogue which could lead to mutual advantages and results for all those parties who are

concerned in it. Despite the fact there exist some forums for communication in the above areas, either no results are achieved or the products involve benefits only for one or the other party.

After the achievement of a financial balance the town must develop its medium and long-term strategy and in that work it cannot ignore that emphasis is being shifted to the micro-regional and regional levels in public administration. In order to be more efficient in performing its tasks, the town must cooperate with the surrounding settlements not only for the purpose of obtaining funds but also through joint operation of institutions.

Notwithstanding the fact that Orosháza is the most industrialized town of the county, no substantial investment has been made since 1996. An active economic policy should be targeted at increasing investments, with the involvement of other actors as well, in many areas of local government operation (e.g., in its tax policy, the organization of the public services). The economic and political features exceeding the borders of the town, the wider region, or even the county, should define together the breakthrough points and create an economic promotion concept which would mean progress. In our experience such programs could be best implemented within the framework of a non-profit organization owned by the local government. The exclusive task of this organization would be to seek investors and the income of the employees would be subject to their success.

The local private sector could be strengthened if certain public services were performed not directly through local government institutions but in the form of business ventures, and the local government could limit its own role to monitoring and protecting consumer interests. At the moment several institutions help the performance of the tasks of the town in which the funds of under-financed tasks are supplemented from the income of adequately financed—even profitable—business lines. This makes it easier to keep the budget of the town in balance but it also makes it difficult to have transparent institutional budgets. The establishment of an incubator house in the town seems necessary for newly launched businesses and the implementation of the industrial park could also promote the economic progress of the town.

## APPENDIX

### ANALYSIS OF TASK PERFORMANCE BY SECTOR

#### ***Basic health services***

Description of the organization: In Orosháza the performance of the basic health services is a task performed by the hospital, a local governmental institution, as defined in its Deed of Foundation. The local government determines the organization of the hospital and issues the operating license; the council appoints the director head physician. The family doctor service also operates under the aegis of the hospital, although by today only some 3-4 practices have remained within a public servant legal relationship, the rest of the family doctors carry out their duties as entrepreneurs. A growing percentage of dentists are also carrying out this task as entrepreneurs. In this case some have remained within the building, the hospital has assigned the machinery as the manager of the local governmental assets, but the dentists provide all of the materials required for the service provision. The doctors pay the overheads for the hospital as a flat rate fee, but they do not pay a rent for the local government is obliged to provide the service. The hospital employs half of the local governmental staff. The tasks to be performed by the hospital are defined in the Deed of Foundation. Basic service is defined to include: family doctor services, family pediatrician, dental service, nurse service, school doctor service, along with out-patient care and the in-patient wards (occupational health services have been detached from the hospital and have become self-financing, as a result of the relevant legal regulations). If the tasks of the hospital are expanded, in this case by appointing it a training hospital, the description of the additional duties is attached to the Deed of Foundation. The local government did not transfer this function to the county, even though it had the opportunity to do so. The building of the hospital is in local governmental ownership but the local government provides only supplementary subsidy to the investments effected in the building.

There is a contractual relationship between the hospital and the county health insurance organization. This defines the district to be supplied as well as the controlling of the financing and the operation of the hospital.

**Performance measurement and professional monitoring:** In general, it holds true for the health and social sector that the financing has not yet been found to satisfy the extremely strict requirements laid down by law; institutions cannot meet the requirements either in terms of the staffing levels, or in the other statutory factors (size, equipment), requirements which are extremely rigorous and sometimes unnecessary (e.g., 8 square meters per hospital bed). To enable smooth operation of the system the government has been continuously "softening" the regulations by issuing one year temporary operating licenses. Some of the departments of the hospital in Orosháza are operating under licenses issued for an indefinite period of time while others work under temporary licenses.

In the case of private practices the operating licenses of family doctors are issued by the local government - for public servants it is issued by the hospital. Accordingly, the out-contracted family doctors have executed their contracts with the local government but the real estate remained in the records of the hospital. The professional supervision of the hospital is performed by the National Health and Medical Officers' Service (ANTSZ) and the insurance institution. There is an efficiency indicator on the basis of which it is possible to evaluate performance.

**Financing:** The current funding scheme of the social security system is comprised of two elements; there is one fixed amount providing for wage security and duty service security which is paid to the hospital for district nurses, school doctors and the dentist clinic. The other component of financing is performance based, this is the "point money" or "card money" in the case of the family doctors. The performance based system of settlement has made the hospital work out a number of useful indicators. Since the introduction of the point money the Social Security funding has been covering the operating costs of the hospital (in 1997 it accounted for 80.67 percent of the revenues of the hospital). The problem with the performance based financing system - according to the economic director of the hospital - is associated with its unpredictability since the Social Security fund is operating as a system with a ceiling. This means that each month, on the basis of the reported patient turnover of each hospital and on the basis of the available amount, a weighting system is established and the various institutions are provided the funding in proportion with the number and type of the treatments they have performed, after the application of a multiplying factor. This is favorable for the moderately sized hospitals and makes it difficult for the "giant" hospitals - those with more than 1,200 beds. The hospital in Orosháza is comprised of ten wards, its size is in proportion its district (population 132,000), as defined in its contract.

The funding does not flow through the local government. The hospital manages money received from the Social Security on a separate account.

As for the operating costs covered by the insurer, the local government as owner should be covering the investment type expenditures. Yet in Orosháza the local government provides only a minimum development subsidy, amounting to about a mere 1 percent of the budget of the hospital. Besides this, the institution has own revenues from the Hospital Foundation and the amounts won through tenders. The Foundation's equity is currently HUF 23 million. The amounts received from the foundation are used primarily for the improvement of the equipment (HUF 10 million capital, distribution of HUF 3.6-6 million interests per annum).

In the case of the tenders the local government should provide co-financing but this own equity contribution is usually covered by the hospital itself, from its savings. The local government only initiates and submits the tenders for targeted subsidies to the Ministry of the Interior. In the case of the tenders organized by the Ministry of Welfare the hospital files its bids directly.

The Institution disposes freely of its own resources but reports on its achievements to the meetings of the council. The hospital's own monthly revenue amounts to about HUF 10 million, about 10 percent of its budget. This is generated by letting rooms, operating the pharmacy, catering for outside customers, laundry service, letting rooms in the nurses' hostel, and interests earned on savings. They are also planning to establish a line of shops, involving venture capital, from which the hospital could earn additional revenues.

The family doctors receive only the card-money; the local government provides an equipped clinic, as required for their activities.

The hospital of Orosháza, which used to be accustomed to rather scarce funding sources, is now operating relatively efficiently under a new financing regime and taking advantage of the opportunities provided by law. However, a number of tough measures have had to be implemented. As a result of the restrictions introduced in wage and staff management the overtime pay has been severely cut; the economic management encourages the use of compensation time instead. The construction of an additional story, just completed, was also intended to bring about cost rationalization; this has enabled the urology department, previously operating in a separate building, to be moved into the hospital itself, reducing transportation and other costs and freeing up the building from which the department has moved. The financial department of the hospital prepares comprehensive quarterly reports. Also, there is an internal cost cutting and revenue increasing economic program. At the financial department within the hospital, there is a person charged with monitoring the various tender invitations in order to take advantage of any opportunity to enhance the hospital's revenues. The long term goals include the increase of the role of the one day treatment of patients. For this they have already bid successfully, and they continue to search for additional opportunities. The saving achieved in the rationalization of the energy consumption is used for the air conditioning of the operating theaters.

**Investments, capital budget:** Over recent years they have completed very substantial investments. The necessary funding has been found from state subsidies and from the hospital foundation. The HUF 2.5 billion reconstruction (the improvement of 2 to 3 wards and the establishment of the new general practitioner section) has been implemented from the targeted subsidy and the amount received from the relevant line ministry. The new section was delivered in May, this year. The local government provided HUF 20 million for the modernization of the heating system. A helicopter landing place is also planned for the top of the hospital building. It would perform regional duties, since there is no other such facility in the region. The Aerocaritas organization would be involved in the development and the local government would also contribute to the project.

**Alternative service provider:** There is a private medical center in the town. It has no contractual relation with the local government or the hospital. The institution is supervised exclusively by the ANTSZ, which issues the operating licenses and oversees their insurance.

**Competition between the institutions:** Since there are three hospitals in the county, the local doctors refer their patients to whichever institution he/she prefers. This is where competition takes place between the institutions, since a high rate of exploitation of the capacities is one of the pre-requisites for economical operation. To this end, the Hospital Office (Kórház Szék) has been established in Orosháza.

**Cooperation with the neighborhood:** The Mayor of Orosháza and the director of the hospital have established the Hospital Office where a working conference is held each year to report to the mayors of the neighboring municipalities, on the year's operations of the hospital. In the case of the regional tenders this provides for joint action and regional cooperation. Although the insurer directly finances the local doctors, in the case of referring patients to specialists it is an important aspect as to where the given doctor refers the given patient.

### ***Nursery school services***

Description of the organization: The Unified Kindergartens' Institution (Egyesített Bölcsődék Intézménye) is operated as a local governmental institution. There are two kindergartens in the town.

**Funding:** Since the introduction of the normative subsidy the institution maintenance contribution paid by parents have been abolished. The state normative covers 17.2 percent of the costs. The local government provides a very high rate subsidy, equaling 74 percent of the expenditures. The institution earns own revenue only from the meal charges.

**Other issues:** The kindergartens are not fully utilized, one of them was expected to be closed down or to be merged with the other one but now, according to the level of utilization, the two nursery schools are too many, but one would be too few. The latest review indicated that a school will not be closed down because the level of utilization has improved. The reason for that it two years ago 60 places were eliminated and 120 remained. In the meantime the refund based contributions were replaced by normative subsidy within the framework of financing the institution.

### ***Social-welfare services***

Description of the organization: Personal care tasks specified by the social-welfare law are performed by the Unified Social Institutions (Egyesített Szociális Intézmények) as a local governmental institution. The core activities include the running of two Old People's Homes, one Old People's Care Center, five Old People's Clubs, home care, catering, the Family Assistance service, the Children's Welfare service, the night shelter for the homeless, day shelter, temporary homeless hostel and crisis room. The duties to be performed are specified by the Deed of Foundation. When the range of duties is

expanded, the Deed of Foundation is modified. The institutions are managed by the head of the institutions, appointed by the local government's council. The social law prescribes the services to be performed by a municipality, according to its size. Accordingly, the basic service, which must be provided by each municipality, is comprised of the old people's club, the catering, the home care and the family assistance. Furthermore, the social law prescribes that for the period up to December 31, 1999, the old people's home, the institution system for the homeless, day care for the handicapped and provision for the temporary placement of children are to be established as institutions. The last two are not yet operating in Orosháza. For the daytime service for the handicapped the social department intends to use a municipally-owned building not currently being used, while for the housing of the children could be provided for by detaching part of one of the kindergartens. The Ministry of Welfare is expected to issue a tender invitation for the institutions to be established. This may cover the total reconstruction costs of the designated. There has been an institution specializing on providing services to the handicapped, but only in the county. However, no matter what the law prescribes, if funding is not available and the municipality lacks the money, nothing can be done. This may lead to the softening of the law either by extending the deadline or modifying the required institutional standards. The old people's homes operating in the town, one designed for 60 and the other for 150 persons, are filled to capacity and there are many people waiting for a transfer. The utilization of the home for 60 is declining for people there are under much worse conditions. The building is too old and the equipment a lot poorer than that of the new home, but the maintenance costs of the old one are not any lower. During the next term of the local government some change is expected to take place with respect to the two homes. It seems to be the rational solution to have the old home for sixty, demolished and the other home expanded.

**Performance measuring and professional control:** The operating licenses were only introduced in 1997. In the case of the institutions providing day service the operating license is issued by the notary of the local government while in the case of the institutions providing complete accommodation the license is issued by the Public Administration Office. In Orosháza the staffing level specified by the law cannot be provided in the old people's home so the institution only has been granted a temporary operating license. The social department of the local government attaches the professional supervision to the biannually performed financial audit. The council of the Orosháza local government does not provide for independent internal financial control (unlike the education sector, in which there are independent internal controllers monitoring the institutional finances on a permanent basis). The internal audit in the Unified Social Institutions was not organized or provided properly. By now the institution has recruited one employee who, based upon the local government's proposal, spends only half of his working time on this function. In the nursery schools this issue has not been solved yet.

**Funding:** The expenditures of the subsidized institutions are covered from the relatively high social normative (HUF 292,000 per person per annum in the old people's home and in the old people's care center) (there is a surplus in two or three institutions, but

this is also a result of the savings on the missing staff) this is from which the performance of the under-financed duties or those not funded by state sources, is covered. The old people's club and the normative of the services provided to the homeless are insufficient. The range of state normatives is permanently expanded. There is a normative for family assistance since 1998 which is granted to the municipality on the basis of the population; this was not granted to the institution, but was instead integrated into the expenses of personal care. There is no normative subsidy for catering or for home care. The normative of the service to be provided to the handicapped, which is to be newly created, is equal to the normative for the old people's home, which is certainly not going to be enough to cover the operating costs of the institution. Parents will probably have to pay a minimum contribution. The normative covers 47.2 percent of the expenses. The majority of its own revenues come from catering and amounts won in tenders. The local government specifies the charges each year on the basis of a complex calculation. The basis of the calculation is the institution's costs and the fee that may be charged which is limited by law. The law separates the institution's charge and the amount paid per capita. The institution's fee is a maximum of HUF 18,000 in Orosháza, but the actually paid personal fee is to be established for the inmates individually. According to the law in the case of pensioners a maximum of 80 percent of the pension may be taken into account for the establishment of the charge. The wages of the employees providing the services cannot be taken into account in the calculation of the charges, the basis of the establishment of the charges is the reduced prime cost. Furthermore, as a support of the employment of the public workers the Labor Center provides money. It covers 41.4 percent of its costs from own revenues. The institution is making efforts to provide meals to the largest number of people to increase its own revenues but it is unable to do so due to lack of capacity. On the whole the local government provides only a minimum operating subsidy to the social services as per the budget.

Another major group of social subsidy is financial subsidy. In addition to the social act this area is also regulated by local government ordinance. Orosháza employs every type of subsidy specialized by law. By way of decree it also introduced benefits, which had not been mandatory to provide. These included: grants for children attending school, medicine vouchers, day care for children, vouchers for heating fuel. They stopped issuing that last form of subsidy as it was not used primarily by the intended recipients (those who received the voucher due to need sold the coupon on the market below nominal value). The social policy of the local government gives preference to in kind benefits, because this way benefits go to the persons truly in need. The biggest financial expenditure in this category is the unemployment benefit. The people doing work under community job schemes finish after half a year and re-enter into the local government's welfare system. Fürdő és Városgazdálkodási Kft. employs the biggest number of workers doing public utility work.

**Investment, capital budget:** Out of money received on application the institution has established a physico - therapy ward in the more modern home at a cost of HUF 1.5 million, while the other home had to spend HUF 2.5 million for the rehabilitation of the water-block.

**Alternative service institutions:** A home for the elderly is operated in the town by Nazarene church. Officially the institution is not declared as a home and has not asked for an operating permit. For this reason it is not entitled to receive a norm based state subsidy, nor does it receive any subsidy from the local government. Not all the inmates pay a fee. The facility lives mainly on grants, receiving subsidies from well-to-do Nazarene believers in Hungary and abroad. It operates on a very high standard although it does not really permit any inspection.

**Competition among institutions:** No such problem.

**Cooperation with the surrounding areas:** Cooperation within small regions applies only to applications. Although there is demand in jointly operated institutions, Orosháza does in fact not want to cooperate. According to the provisions of the social act the homes of the elderly are obliged to accept inmates from any part of the country, yet that does not create practical problems as elderly citizens generally apply for a place in the institution closest to their place of residence. An exception to this rule is the methodology home operated by the county in Szénási. It has inmates from the region also, but that does not make any financial difference for reasons specified above. The only issue which could be co-financed by the local governments of the region is caring for homeless people, as the local government of a settlement below of a given size is not compelled to maintain a facility for homeless persons. At the same time, the number of homeless persons increases proportionately with the increase of the size of the settlement, although this is difficult to measure. In a program for small regions Orosháza received HUF 1,100,000 in 1997 to complete the ventilation of the kitchen.

### ***Kindergarten education***

**Structure:** Local government institutions run kindergartens. The town has 11 member-kindergartens. The member institutions are supervised by the Kindergarten Caretaker Institution. The institutions are not independent, and are divided into 3 partially independent, consolidated institutions (divided into 4-4-3 groups). The member kindergartens only have the member-kindergarten manager (which saves the actual manager bonus) and only the three partly independent institutions have an actual manager. Economic management is arranged through the caretaker institution, in uniform way; that institution is responsible for the financial management of the institution (the management of invoices, planning cash-flow, the distribution of costs among the institutions). The size of staff is minimal (the caretaker institution has 3 economic staff and 3 managers of the consolidated institutions, the member institutions have no managers, only the deputy manager).

**Performance measurement and professional control:** The caretaker institution is linked to the finance department of the local government and the financial reports and the budget are prepared by the caretaker institution. The professional managers (3 institutional leaders) report to the cultural department. The managers are selected through

application by the assembly of the local government, once every five years. The technical programs, presentations and training within the kindergartens are organized by two professional working communities. The local government also prepares quality indicators for the performance of the specific kindergarten tasks: number of children with health problems, number of children participating in speech corrections and education counseling and the results of treatment.

**Financing:** The norm received (58 percent of the expenditures) finances only staff costs out of the per capital costs, which is not even sufficient to cover payroll taxes. The residue within the organization must be used to pay overhead costs. The subsidy coming from the local government is used to pay operation costs. The local government does not transfer the appropriation for rehabilitation to the institution and is included only in the local government budget. Their own revenue is composed of catering fees and moneys obtained through applications (minimum sum amounting to HUF 244,000 in 1997). The managers of the institutions also promote their own revenues by establishing foundations (5 percent of the local business tax, maximum HUF 50,000 can be paid into any public foundation). Enterprises contributed altogether HUF 103,812 thousand in 1997 which was used by the kindergartens for the purchase of assets and toys. The member kindergartens are urged to obtain own resources. Their own income is supplemented by subsidy of public utility obtained from the Labor Center (HUF 1,157,479 in 1997.)

**Alternative services provided by institution:** At the parents' request it is possible to provide special training in the kindergartens for a fee (language, sports, dance).

**Alternative service institution:** There is a church-run kindergarten in the town that used to belong to the local government and one kindergarten operated by a company, in a company-owned building. The local government does not pay a subsidy to the company kindergarten and does not have a contract with it. However, it subsidizes catering in the church-run kindergarten.

**Other issues:** The kindergartens are utilized to capacity: there are 1033 children for the 1019 places. The establishment of the caretaker institution had been preceded by a due diligence exercise. It was the consequence of that exercise that the institutions were consolidated for economic and professional reasons in 1995.

### ***Basic education***

Organization: 4 primary schools operate independently, 3 schools operate partly independently (1 school with an auxiliary curriculum, 2 schools in the outskirts) and there is one music school engaged in basic music training partly independently. The semi-autonomous institutions are supervised by the Education and Public Education Caretaker Institute. The following institutions are also controlled by the Caretaker Institute: the *Urban Library, the School of Typists and Stenographers, Education Consulting*. Even institution

has a separate manager; they are financially autonomous, the annual reports are submitted to the Caretaker Institute, while the heads of the institutions are responsible for professional evaluation. These institutions have no separate account numbers, and their own moneys (received on application) are separated only in the ledger of the Caretaker Institute. The Caretaker Institute has no authority over the institutions, and its tasks only include the settlement of accounts, administration and the preparation of reports. The tasks of the institutions are specified in the deed of foundation. The Educational Consulting institution handles children between the ages of 3 and 18, suffering from problems with learning, fitting into their own community, having behavior difficulties. Its main tasks include screening and therapy treatment.

**Performance measurement and professional control:** Teaching is evaluated through semi-annual and annual reports to the local government, KSH and health institutions. Educational standards are also monitored through results from tests administered municipal, regional, county, and national levels in various subjects and other areas.

**Financing:** The own revenue of the schools is composed of a catering fees and sums obtained by application. The school with an auxiliary curriculum has used the money obtained through application for various types of professional tools or for the extension of professional work (overtime pay for specialized teachers) Here the per capita subsidy is comparatively high, but this institution is responsible for teaching speech therapy, corrective PE and early care for which per capita subsidy is available only for early care, while subsidy may be claimed for the other two tasks from the central appropriations. The per capita subsidy covers 47 percent of the total costs. With the autonomous schools the per capita subsidy covers on the average 60 percent of total costs. The major part of own revenue comes from rental fees (the sports stadium of the Eötvös József General School earns significant income for the school, but operation is also costly, and the possibility to increase rental fee is also limited.) The greater part of budgetary expenses is composed of staff costs and payroll taxes. They are trying to reduce it mostly by employing young people at the beginning of their professional career and unemployed persons. The savings thus made are used to cover the deficit in overhead costs. Financial assets transferred to the school include sums received on application and various types of payments made by the parents for a higher standard of education (e.g., in languages). There are significant differences among the schools both in costs and in the volume of own revenue earned. The reasons are as follows:

The average age of teachers

The state of the school building ( old, obsolete)

Utilization of the institution

Supplementary service offered ( extra-curricular activities, higher standard

education)

**Investment, capital budget:** The local government has been trying to obtain sources for investments through application, thus avoiding taking loans. They have been trying to coordinate own resources and central priorities (the availability of subsidies) and thus select the given investment project. As state priorities include the construction of gymnasiums, central fund can be applied for such a purpose, a new gym was constructed in Orosháza. In another case the classification of a building to perilous helped to obtain the necessary subsidy.

**Alternative services supplied by the institution:** The school with an auxiliary curriculum and the music school have pupils coming from neighboring settlements, but subsidies are only given by the local government of Orosháza. There are primary schools where 10 percent of the pupils (in each form) commute. Since 1997 the Education Consulting Institute has been receiving children from the small region on the basis of cooperation agreement signed with the mayors of the relevant settlements. The scope of the agreement covers the control exercises to be requested and the fee to be paid for them. Payment is made once a year, in December on the basis of invoice issued by the Caretaker Office of Educational Institutions to the institution which applied for the test.

**Alternative service institution:** There is one school run by a church in town, housed in a building owned by the church. The local government provides limited subsidy only and has a contractual relationship with the school only with respect to the non-religious pupils.

**Competition among the institutions:** The schools compete seriously for enrollment. The education program introduced on September 1, 1998 will facilitate choice by increasing transparency; within the framework of the program, each primary school will be able to set up a system of goals and adjust their tasks and goals to their educational conditions. That does not mean any additional cost for the local government, as the schools have to develop their program so that the number of teaching hours does not increase by more than 15 percent compared to the number of basic lessons specified by law. However the schools decide to specialize, they must still comply with the local public education concepts and remain compatible with the special education in the secondary school.

**Other issues:** The institutional system is generally in conformity with the demands of the town, but there are also extreme cases.

### ***Secondary education***

Structure: Orosháza did not transfer its existing secondary schools to under county management; the schools are institutions of the local government. They include: one secondary grammar school + vocational training school (8 grades; 4 grades, daytime and

evening training courses), an agricultural secondary training school and one industrial apprentice school. In addition the Education and Public Education Caretaker Institute operates a school for typing and stenography as a partly autonomous course. The tasks are specified in the deed of foundation. The deed of foundation today only defines groups of trades to promote flexible training. Since September 1995 the task of running a student hostel has been the task of the secondary grammar school although earlier the student hostel was run as a separate institution. According to the provisions of the act on vocational training, a vocational training group should have a minimum of 10 students; according to the bill on public education, a standard class should have a minimum of 30 students. The capacity of the secondary grammar school has been utilized on average to 90 percent. On average the least utilized capacity was that of the 8-grade education course. The ordinary secondary grammar school was utilized to 105 percent of its capacity, the classes of vocational secondary training school at 50-60 percent capacity. According to the provision of the act the number of students between grades five and twelve should increase, yet the system does not offer any solution to this. The only way to meet that requirement would be if the general school had 4 and 6 grades only and then the children would automatically continue their studies in the secondary school of 8 or 6 grades. The act specifying the tasks of local governments describes that the local government must provide education for students during the period of compulsory education. The local directive specifies basic education from the 1<sup>st</sup> to 8<sup>th</sup> grade and the 9<sup>th</sup> and 10<sup>th</sup> grades are attached to the secondary technical school. According to the provisions of the act on vocational training no vocational training can start in the 9<sup>th</sup> or 10<sup>th</sup> grades; only general knowledge can be taught. This creates a very difficult situation for the specialized secondary schools and vocational training schools. The operation of the Industrial Vocational Training School of Orosháza is difficult due to the absence of its own teaching workshop. The entrepreneurs have terminated the contracts that used to be in force between the school and the companies in and around Orosháza. The basic regulations on vocational training do not permit the local government to conclude comprehensive agreements with the local companies to employ the students of the school. It is a problem in the entire county that there is no demand in beginner skilled workers. There is no proper flow of information to identify local demands.

**Performance measurement and professional control:** Under district administration, there used to be institutional professional control. The Institute of Pedagogy used to have specialized supervisors who monitored the work of teachers. Since the end of 1980s districts have no longer existed and comprehensive control has not been delegated anywhere. The tasks of the Institute of Pedagogy were reduced, and the specialized control system changed. Before the 1990s there was no professional control based on nation-wide criteria but during the subsequent period even the conditions disappeared. After 1994 the scope of activity of the Institute of Pedagogy was extended again. The act indicated output regulations: NAT specifies the knowledge requirements students have to meet by the end of the 4<sup>th</sup>, 6<sup>th</sup>, 8<sup>th</sup> and 10<sup>th</sup> grades. The local government can exercise only indirect control over the professional work of the school through independent experts, If the manager of the school-the local government-is dissatisfied with the pedagogy program or its results, it can ask for a survey by specialized consultants. The

actual standard of education of the secondary school is assessed at the end of grade 10 when the students pass a central examination on basic cultural standards and at the end of grade 12 when the students pass the two-level baccalaureate examination. The results achieved at those examinations are expected to affect the schools and their utilization. Today it is very difficult to define the average level of knowledge of the students as the value of the marks depends on the school the child attends. Measuring the performance of the schools is possible and so the institutions will be compelled to compete. An indicator of the standard of the school's operation is the rate by which the capacity is utilized. The drop in the number of students may require a change in training profile or improvement of existing teaching standards (i.e., training in information technology, and foreign languages). The standard of teaching is reflected by the results achieved by the students participating in students' competitions, applications and when passing examinations to join university. From the 1<sup>st</sup> of October 1998 a local expert network is operating in Orosháza making it possible to assist and control the efficiency of the National Basic Curriculum from the very start. From the network the heads of institutions will also receive feed-back on how well the program of their school fits to the other schools and to National Basic Curriculum as a whole. It is an important consideration that the curriculum should fit the new arrangement of grades.

**Financing:** The per capita subsidy provides a basis for the first grade, but from grade 7 on and in the secondary grammar schools, grades would need to be filled to capacity to arrange for efficient financing. From these grades onwards the number of the necessary teachers also increases. Since September 1998 legislation the per capita subsidy depends not only on the number of students but also on the number of teaching hours. If we take an average number of teachers in a building of average standard the per capita subsidy is in conformity with the costs. However by now the balance between overhead costs and payroll costs + taxes has shifted. Generally 80 percent of the costs are payroll costs and payroll taxes. If the average age of the teaching staff and the number of students differ from the average, the per capita subsidy does not cover the costs and the local government has to add minimum another 20 percent. As the law does not require regulations on education in a local directive, the budget of the school is established by specific negotiations, and the final form is to be approved by the local assembly. Local budget ordinance specifies annually the sum allocated on education. In Orosháza the required expenses submitted by the schools were reduced by 2 percent by the local government and it had the consequence of a 2 percent reduction in teaching hours (from the number of teaching hours above the minimum specified by law). Teaching aids can be developed and purchased by the schools only from external grants and from the contribution to vocational training. Own revenues also include rental fees paid for school halls, the fee paid for catering service as well as the tuition fee paid by the correspondence students to the secondary grammar school. The *Táncsics Mihály Secondary Grammar School and Specialized Secondary School* earns extra income as the organizer of the school association of the small region. For the *Kossuth Lajos Secondary Agricultural School* financing difficulty arose in the course of the year through inflation as well as the fact that they had their tasks increased (livestock farm). The utilization of the capacity of the

hostel operated by the school eased the financial problem somewhat. The sales revenue of the kitchen and the hostel surpassed HUF 14 million. Additional operation income came from various agricultural services supplied and training courses organized. The school also applied for participation in various projects, and received a share of the contribution to vocational training and sponsorship money. According to the Deed of Foundation the school as an institution would supply a large number of services (leasing halls, organizing training courses, running a welfare kitchen, professional consulting, training course for driving). The relevant fees are determined by the school but the local government takes it into consideration as own income for the school's budget. The per capita operation cost of the school is relatively high, 160 percent of the standard (depending also from the number of students per form and of the cost of training in the given vocation ) The 60 percent plus over the standard subsidy is to be earned as the school's own revenue and local government subsidy. In the case of the *Industrial Apprentice School*, due to the drop in the number of students, the standard based subsidy is likely to drop so the institutions will be compelled to reduce expenditure. This is where the new National Basic Curriculum and Act on vocational training regulations will create the biggest problem. As a consequence, the number of lessons in vocational training will be reduced, thus the capacity of teachers will become uncertain. The *School of Typing and Shorthand* has an excellent stock of machines paid from the revenue earned through the contribution to vocational training. This year the range of subjects will increase to include also business subjects. The major part of own revenue comes from the tuition fees paid for the half-a-year adult courses. The school receives standard central subsidy only on children participating in daytime one and two-year courses. The local government pays a minimum subsidy only on students learning typing. The school is well equipped, is properly utilized and a viable concern.

In Orosháza a local ordinance requires that the schools submit an annual report.

**Investment, capital budget:** In the case of the secondary grammar school the gymnasium and the drainage system were rehabilitated (HUF 1,171,000) from supplementary appropriation. Contribution to vocational training covered the rehabilitation of professional machines (HUF 170,000).

**Alternative service institution:** A church run primary and secondary school of 6+6 grades operates in Orosháza as well. Formerly it used to be a general school of the local government until the building was transferred into church ownership. Originally the church only operated a general school there and only recently extended the facility to include a secondary grammar school. The agreement between the local government and the school only covers those non-religious students who used to be students of the school when it was taken over by the church. The local government does not control the school professionally or economically. The quality control of the school is performed by the notary in chief of the county. To introduce secondary education they built a second floor on the existing building. They obtained the necessary resources by application for targeted fund, but this was independent of the local government.

**Competition among the institutions:** As the financing possibility of the institutions depends on the number of students they have, the schools try to attract as many students as possible. For this purpose they organize vocational programs, and set up classes of higher standard to make the school more attractive.

**Cooperation with the region around the town:** The expert network performs coordinating work that covers the vicinity of Orosháza also. The neighboring small regions will also cooperate to establish pedagogy programs. One and a half years ago they established the school association of the small region (now in the process of becoming a legal entity). The association was organized for ad hoc purposes, and it has as yet no continuous role. Its objective is to perform joint tasks more efficiently (applications, assistance to the start of school term, excursions). The local schools and those of near-by settlements contribute to its expenditures.

### ***Road maintenance***

**Organization:** This task is coordinated by the local government. On the basis of the law the local government should provide road controlling services but this function is missing in Orosháza. There is no road manager or road controller, and the entire task is completed by one person (reconstruction, capital expenditure, control). For larger jobs the local government always issues tenders (public or private) to select the contractor. There is no permanent company to perform these functions except for the painting of the roads, which is always done by the same company.

**Performance measurement and professional control:** Since there is no separate organization for control and supervision activities, the same person is responsible for everything. Consequently, we cannot talk about daily control of the status of works and streets (traffic signs and traffic lights). The repair activities take place partly on the basis of reports from the community. Before the Act on Public Procurement was adopted the technical controlling tasks were also performed by the same person. The local governments must control the road surface themselves.

**Financing:** This function is financed only from the local government budget and the amounts received from applications. In 1998 altogether HUF 18 million was set aside for operation and reconstruction purpose. Of this, a total of HUF 6 million should be spent on mending the holes in the road, and the remaining HUF 12 million may be used for repairing traffic lights and painting signs on the road. On the basis of a local ordinance, if 2/3 of the properties concerned establish a construction community and pay their equity to the local government, the local government must accept it and finance the remaining amount for the capital project. In the case of major capital expenditure projects the local government only provides the land for the project (for example for the town by-pass on No. 47 road) and only a minimum contribution for the capital project. The town tries to take part in all potential tenders. This year they have submitted 16 applications. All the cycle paths were constructed using funds gained from applications, and successful applications were made also for pavement construction. The road construction work is tendered each year to select

the contractors. Each year contracts are concluded up to the budget funds and the roads are surfaced in accordance with internal priorities. Now approximately 60 percent of the roads in Orosháza are surfaced. The town managed to conclude a contract for bus shelters with Intermedia Kft. of Szeged (they will place them free of charge and supervise and repair them for 10 years, except for replacing broken glass. In exchange for this service the company will sell the advertisement surface on the shelter) This year the town wished to build more shelters but unfortunately Intermedia Kft. finds that it can sell the advertisement surfaces in Orosháza only with difficulty, and therefore no further shelters were raised in 1998 free of charges.

**Cooperation with the surrounding area:** Micro-regional cooperation can only be mentioned to the extent that it is required for applications.

### ***Water and Sewage***

**Organization:** Tasks are performed by the regional water company of Békéscsaba. The water utility company is operated by Békés County local governments. After Békéscsaba, Orosháza has 11 percent in the company and is the second largest owner. The possibility of leaving the company is being examined. It seems that Orosháza could operate more effectively this way. A study is being prepared to justify that assumption. Orosháza can split efficiently if four other villages, which are also supplied water from the same branch, also leave the present company. The backbone pipes stretch from Csanádapáca to Szarvas. In the case of the split, this branch would be operated by a company owned only by local governments, as a micro-regional company (natural micro-region formed as a result of physical constraint). Szarvas would be one of the owners in the company and regular discussions take place with the surrounding villages, while Nagyszénás has signed a contract with the regional water company for 25 years. In each village separate companies would be created for the water utility and sewage functions in which the local government would only be one partner, assuring that the economic issues are given priority against the social aspects. This would not involve a reduction of charges for the community, but would definitely slow down the rate of increase of the charges (the rate of growth could be lower than the rate inflation). Because of the more economic activities resulting from the new organizational structure a larger amount could be made available for development. The only remaining issue is not the actual split, but rather the structure of the new organization.

**Sewage:** The construction of a sewage network is in progress. The level of supply was low but it still below the requirements. Because of the protection of alluvial cones, Orosháza is a territory with special treatment. Using budget funds it can spend a relatively large amount on sewage. One of the driving forces for splitting from the regional water utility company is the impact on the capital expenditure projects. The Water utility company has one site in the south. A tender was issued for its operation: the winner was a Szeged firm. Innovation (plan). establishment of a computer based control system. The eastern part of the town has internal water.

**Contract:** The local government and the regional company entered into an operating and asset management contract for the operation of the water treatment plant. The contract was concluded for an indefinite period with a termination period of 90 days and termination may be stated only in September every year (4 months before the end of the year). Regarding development and capital expenditure the company must discuss the plans with the local government over a certain limit. The local government receives a rent from the operating company, as specified in the contract, but the company asks for a fee from the local government. It would be in the interest of the company to have two identical amounts, although the local government would like to gain money from this source as well.

**Performance measurement and professional control:** Professional control over the operations is exercised by the company. The local government can intervene in the management of the company through its member of the Board of Directors.

**Fees and charges:** On the basis of the law the water charges are established by the local government. In this case the local government participating in the Board of Directors of the water utility company decide on the charges through internal regulations. In principle Orosháza local government can intervene through the Board, but in reality it cannot enforce its interests. There are three categories of fees: residential, business fees and charges for local government institutions. It is a problem that the operating costs of the company are too high but the specific costs of water are also high. This latter figure is not very low in Orosháza, either, but it is still more favorable than in the northern towns. There are different charges for different villages and settlements within the region. These are subject to capital expenditure and depreciation.

**Capital expenditure, capital budget:** The sewage treatment plant was opened in 1994. The capital project was implemented by Orosháza local government but the treatment plant is the property of the regional company. This raises a new problem, namely that the assets of the town may not be depreciated.

**Cooperation with the surrounding areas:** After the split close cooperation must develop between the villages and settlements of the micro-region. Orosháza will be able to operate the water utility more effectively if more and more entities connect to it. It is also in the interest of small villages that the water should be supplied by a company that operates more efficiently than the current company.

### ***Waste Collection***

**Organization:** In 1995, the winner of the waste collection tender was Városgazdálkodási Kft., a municipally-owned company. The Kft. performs operating tasks in the town (park maintenance, operation of a market hall, care for monuments, maintenance of public areas) and housing functions. The main activity of the business is to keep the public areas clean. The Kft. consists of one director and team leaders

coordinating the various functions. The company performs all the activities using their own resources. The building in which it operates is the property of the company, which the local government contributed at the time of the company's foundation.

**Contract:** The exclusive contract for the waste collection task is concluded for an indefinite period. The contract extends to the management of the landfill owned by the local government and also the management of the town's lawn. It may lose this position as a result of complaints made by the community.

**Performance measurement and professional control:** The director must report to the committee on the actual performance every month; whether they perform the services in time, whether residential services are provided through scheduled routes and if the Kft. provides the bins for purchase or for hire, as requested by the individuals.

**Financing:** The Kft. lives from its various business activities and also spends money on development. The revenues and expenses can be tracked accurately according to business lines. The local government does not support the activities of the company, and the Kft. disposes over the income. The company finances its loss making local government functions from income generated from its own business activities. A contract has been signed with the local government for park maintenance involving an annual budget. This contract specifies the tasks technically and also defines the volume of the activities but the local government has the right to unilaterally change them. Therefore the Kft. must cover the extra expenses. If it intends to operate with a profit, it also needs to have other activities, independently from the local government. These include, for example, the motor vehicle repair facility, contracted work performed by the joiners' workshop, renting out premises in the building of the Kft., or the operation of a hotel in Gyopáros. It uses the income generated by its own activities to finance development and the loss making segment of the local government functions. Earlier the Kft. was operating at a loss. When the current manager took over the businesses, he introduced the following measure to eliminate the losses: staff reduction, employment of as many social workers as possible, extension of the business activities year by year and efforts to get rid of the loss making business lines. By now all these efforts have resulted in 5.5 percent profits with HUF 350 million revenues.

**Fees and charges:** The waste collection fees are established by the local government and the council decides on the increase of the fees based on a proposal from the Kft. The fees represent revenues for the Kft., and it must cover its development expenses from them. The fees and charges may even be set below the prime cost level by the council, based on social considerations. The company manages its finances independently and reports to the council twice a year. The allocation of the profits (reinvestment) is decided together with the committee. The residential fees in Orosháza do not cover the expenses and therefore the Kft. is trying to gain income from external work. The landfill for the residential waste in Orosháza is free of charges.

**Capital expenditure, capital budget, micro-regional landfill:** The landfill to be established in the administration territory of Orosháza serves 10 villages and settlements. An impact study has already been completed on the territory, the majority of which is owned by the local government. This structure would solve the problems of waste disposal for approximately 25-30 years. The County Regional Development Fund has already provided funding sufficient for 70 percent of the planning expenses. An application has been submitted to KKA for the construction costs. A tender will be issued for the outstanding amount of financing under the condition that the local government intends to retain the majority position.

**Cooperation with the surrounding areas:** Waste collection is also performed in microregions and waste is transported to the Orosháza landfill, but this assignment is won through tenders at each village. These tenders result in five-year contracts with the local governments concluded at market prices. The micro-regional villages must pay for depositing waste in the Orosháza landfill.

### ***Housing***

**Organization:** This task is performed by Városgazdálkodási Kft., which has already been indicated above. The activities can be broken into two parts: on the one hand, it acts as an authority tasks in relation to homes owned by the local government and also manages the housing stock. The fees and charges are established by the limited liability company and the local government decides only on allocations and sales. On the basis of the local government regulations it coordinated the privatization of the homes made available for the community, collects the rent from homes owned by the local government and represents the local government in condominiums. Of the 1,800 local government-owned homes only 380 have remained. The tenants include some people who have rent arrears but cannot be put out into the street. When the planned municipal rental housing is completed, the Kft. will run that as well. On a long-term basis the local government would like to withdraw from the housing market and be in minority in condominiums. The few hundreds of the social local government-owned flats are located sporadically and there are relatively many bad debtors among the tenants. This is why the local government is planning to establish a low-cost rental housing unit on the outskirts of the town. The properties not used for housing purposes are: on the basis of a local government decision, it has remained an owner in three building blocks: the Market Hall (before operated by Piac Kft., now incorporated into Városgazdálkodási Kft.), Bille House, a historical part of the town (half of it is owned by the Lutheran Church). Earlier, the business premises of the Market Hall could not be rented out. As a result of the bad business activities of Piac Kft., many premises were sold to be converted into pubs. The local government has managed to re-purchase a few of them. By now, as a result of the activities of Városgazdálkodási Kft., most of the retail premises have been rented out. The Kft. still performs the maintenance functions of the old IKV on a business and market basis. Owing to its staff and experiences (the core staff have known the conditions of the houses for 10-15 years) they can guarantee quality work at the right price.

**Contract:** As a result of the wide range of the activities of the Kft., it has a different type contract with the local government for each activity. These contracts have been concluded for an indefinite period and define the tasks, the standard of performance as well as the settlement of the income from the activity between the company and the local government. Consequently there is a separate agreement for the management of local government-owned flats and for renting business premises. In the case of local government-owned flats the Kft. concludes the contract with the tenant and provides legal representation. The utility fees are paid by the Kft. and then they are collected from the tenant. Regarding the collection of the arrears the Kft. can go as far as foreclosure. The company allocates properties for purposes other than housing as a result of applications. These lease agreements are for an indefinite period unless the local government has a different intention with the specific premises within a specific time (e.g., alienation). An annual operation contract was signed with the local government to operate the market hall. Pursuant to that contract the Kft. pays HUF 7 million rent to the local government but half of the operating profits stays with the Kft.

**Financing:** The Kft. accounts for the rent of the local government-owned flats, less the expenses, to the local government. The local government manages the revenues and pays an agent fee to the Kft. for its activities. The same applies to revenues from the rent of premises used for purposes other than housing.

**Fees and charges:** In the case of properties used for purposes other than housing the base fee is set by the council of local government but the Kft. decides on the annual increases.

**Alternative services provided by the institution:** Maintenance of homes, condominiums, other business activities: operation of the Market Hall, operation of the Panorama Hotel in Gyopáros, etc.