

**Reply to questions related to
the Statement by Dr. Miklós DUKAI, Deputy State Secretary for Local Government,
Hungary**

Budapest, 9th February 2021

1. Question from Vladimir PREBILIC, L, Slovenia, SOC

We read in the report about the centralisation trend in Hungary which has manifested itself in re-allocation of local tasks to central government and reduced financial autonomy of local authorities.

Does the government plan to adopt any measures to reverse this trend, decentralise the tasks to the sub-national level and increase local financial autonomy?

Let me begin my answer by briefly referring to the antecedents, namely, the formation of the Hungarian local government system in 1990, and the period immediately following it. It was democratic operations, autonomy, as well as installing checks and balances preventing overpower that the first *Act on Local Governments (Act LXV of 1990)* put the heaviest emphasis on, whereas requirements of efficiency and professionalism were gratuitously pushed into the background. The established local government scheme, with an operating local government in each settlement, regardless of its population size, has already resulted in some contradictions, such as the tension between the fragmented settlement structure and the wide range of tasks, which, not unreasonably, have later resulted in operational disruptions. This was exacerbated as, up to 2010, the range of local government tasks had been continuously broadened, without the necessary funds being allocated. Imposing the burden of surfacing social problems on local governments was closely related to the fact that according to the perception of the state at that time, the state was supposed to play a minimal role in the performance of public tasks. By 2010, the internal contradictions of the local government system, the wide range of tasks without sufficient funding, as well as the economic crisis had serious repercussions on local governments, which accumulated significant amount of debt, making the need of transformation evident.

In addition to preserving the basic values of local government, the main goal of the transformation was to build a modern, cost-effective, task-oriented local government system, in which the division of labour between the state and local governments and the provision of certain public services could be redefined. The local government reform launched in 2010 differed in several respects from the modernization efforts of previous periods. Firstly, it wished to transform the system of local governments as part of and in line with the transformation of the state structure, specifically with a rethink of the involvement of the state. Secondly, the reform took into consideration that much of the malfunctioning of the local government system stemmed from anomalies accompanying the sectoral tasks performed by local governments, thus making renewal unthinkable without successful sectoral reforms and gradual transformation of the large supply and care systems. After 2010, the Government developed an active, acting and efficient state, which also played a

considerably larger role in the operation of large supply and care systems than it used to. This has, of course, led to a healthier division of labour between the state and local governments, thus reducing indeed the role of local governments in the delivery of public services, essentially in order to reduce disparities in the quality of service. However, it is our firm view that the division of labour between the state and local governments, which exists in the field of public tasks, is not carved in stone. This applies not only to the practice of individual countries, but also to individual historical periods. It cannot even be concluded that the general trend may be identified as either decentralization or centralization. The role of the state is ever changing, primarily in response to economic and social challenges. In this context, it is incomprehensible that the measure of the impairment of local government should be the fact that the performance of certain local government tasks are later provided by state bodies. Of course, this also has the potential that the role of local authorities will strengthen in some areas. Several of our programmes serve the purpose of empowering our villages, towns, and the local governments operating there. We are allocating substantial resources within the framework of the Hungarian Village and Modern Cities Programmes, to name but a few examples.

The previously described transformation of the provision of public services was accompanied by a transformation of the funding scheme of local governments. In Hungary, complying to the current legislation, above all the *Act on Local Governments*, the revenues of local governments can be basically divided into three groups:

- own revenues;
- central revenues assigned;
- state contributions and subsidies.

As regards own revenues, the amount of revenue basically depends on the various decisions of the local government. The state only influences the own revenues of local governments by designating the legal framework. Thus, for example, a designated law regulates what type of local tax a municipality may introduce and what the maximum rate of the introduced local tax may be. However, only the body of representatives of the local government is entitled to actually introduce any of the local tax types enumerated in the law, or to determine the local tax rate complying with the legally imposed tax cap, by way of issuing a municipal decree.

Local taxes represent the largest portion of the local government's own revenues, the system, design and collection of which are regulated by a separate law (Act C of 1990). Among local taxes, the main source of revenue is the local business tax. Government measures taken to mitigate the repercussions of the Covid-19 pandemic also affect the local business tax. The Government is committed to alleviating the economic impact of the pandemic. The aim of the measures is to increase economic activity as well as putting businesses, especially SMEs, in a better income position with the aid of the means at our disposal. To this end, in 2021, the business tax rate is being temporarily reduced by 50%.

Of course, what may be advantageous for businesses can result in a significant loss of revenue for local governments, business tax being the most important source of own revenue for local

governments. A decision has been already made to compensate for this loss of revenue. *Government Decree 1987/ 2020 (22 Dec) on the Measures Necessary to Mitigate the Impact of the Coronavirus Pandemic on the National Economy* has already stated in principle that the Government will launch a support programme for local governments with a population of no more than twenty-five thousand, details of which are specified in *Government Decree 4/2021 (14 January) on the Support Programme for Local Governments with a Population of No More than Twenty-five Thousand During the State of Danger*. The affected set of settlements will receive full support in two instalment after the actual quantification of the lost revenue. For settlements with a population of more than twenty-five thousand people, individual consultations will take place.

2. Question from David ERAY, R, Switzerland, EPP

The present report raises the issue of the absence of the authentic regional self-government in Hungary. In fact, we read that Hungarian counties are not allowed to levy taxes and have very limited competencies.

I would like to ask you whether the question of empowering the counties is on the government's agenda? Do you plan to allocate more competencies to the counties and give them fiscal powers?

Act LXV of 1990 on Local Governments had established a dual-level system of local governments in Hungary, consisting of municipalities and territorial governments. Initially, county councils as territorial authorities played a smaller role than necessary, which implies, primarily, mid-level responsibilities related to institutions maintenance. It has to be noted that several parallels could be drawn between the county councils and county towns in the respect of duties and institution maintenance. The same anomalies affecting the entire system of local governments could be detected in the case of territorial governments as well, namely, the depletion of available resources with the concurrent establishment of proper conditions to undertake the broadening task systems lead the county councils to a spiral of debt.

The urge to modernize the system of local governance also affected the county councils. In 2010, while re-regulating their tasks and responsibilities, the Government decided to “relieve” the county councils from the burden of institution maintenance, thus eliminating their parallel duties with the county towns and preventing the re-generation of debt traps.

Act CLXXXIX of 2011 on Local Governments of Hungary has significantly changed the role of the county councils, making them responsible for territorial development, rural development, spatial planning and coordination tasks. These duties have been described thoroughly in the framework of sectoral legislature. For instance, *Act XXI of 1996 on Territorial Development and Spatial Planning* assigned mid-level territorial development and organization tasks to the county councils whose scope of power has widened gradually, particularly, in terms of territorial development.

During the refinement of the local authorities' duties, the Government took into consideration the counties' functions that go beyond regions and towns, thus, they have been entrusted with more responsibilities. In compliance with *Act LIX of 2020 on Special Economic Zones and the Modification of Related Laws*, sites and immediate surroundings of investments that have major significance for the national economy, economically affect the majority of a county, have at least 5 billion HUF total cost requirement, as well as create and maintain jobs, can be declared special economic zones. In these designated areas, particular tasks and responsibilities of the municipalities will be taken over by county councils, for example, the county councils in charge are entitled to levy local taxes. Furthermore, the 2020 modification of *Act III of 1993 on Social Governance and Social Benefits* declares that from 2021, the county authorities are responsible for organizing training for village and farm administrators. All these steps demonstrate that the Government seeks to thoughtfully strengthen the role of county councils acting as territorial governments.