



OECD Public Governance Reviews

HUNGARY

REFORMING THE STATE TERRITORIAL ADMINISTRATION



OECD Public Governance Reviews

Hungary: Reforming the State Territorial Administration

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Foreword

Governments need to respond to an ever-broader range of interconnected fiscal, economic, social and political challenges. Responding to these challenges requires a “Strategic State” approach that emphasises leadership and stewardship from the centre, integrity and transparency, the importance of networks and institutions (both inside and outside government), the need to draw inspiration from sub-national initiatives and citizens, and, crucially, effective implementation of strategies and policies in support of positive outcomes and impacts for a country’s economy and society. A “Strategic State” can support policies and programmes for growth and well-being and build trust in the capacity of governments to deliver for citizens and businesses.

The OECD-Hungary Strategic Partnership for Public Administration Reform, launched in March 2012, has supported the government of Hungary in putting in place some of the key building blocks of a strategic state, with a particular focus on:

- strategic vision, planning and implementation
- administrative simplification and one-stop shops
- fight against corruption.

This review of the territorial state administration of Hungary constitutes part of the OECD-Hungary Strategic Partnership. This review focuses on the objectives and direction of the State Territorial Administration Reform (STAR) launched by the government of Hungary in 2010. It provides an evidence-based evaluation of the current state of the reform along with an indication of the areas in which the reform has been successful and of those where it has fallen short of expectations or has yet to meet its objectives. The review summarises lessons learnt and good practices developed during its implementation, and advises on steps that could be taken to improve territorial administration governance and its impacts on service delivery. This review focuses on identifying practical recommendations on:

- ensuring that the allocation of responsibilities to the territorial state administration supports an efficient and effective public administration and enhances businesses' and citizens' trust in government
- strengthening the structures, processes and resources of the territorial state administration to ensure that the territorial administration is well-equipped to fulfil its policy development and service delivery responsibilities
- possible opportunities for co-ordination and collaboration between the central, territorial and local self-government administration.

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- Filippo Cavassini, Policy Analyst, Regulatory Policy Division, Public Governance and Territorial Development Directorate
- Andrea Grifoni, Policy Analyst, Governance Reviews and Partnerships Division, Public Governance and Territorial Development Directorate
- Lorenzo Allio, independent consultant on public governance and regulatory reform, attached to the OECD Secretariat for this review.

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Acronyms and abbreviations

ÁROP	State Reform Operational Programme
DO	Metropolitan district or district office
EKOP	Electronic Administration Operational Programme
EU	European Union
GO	Metropolitan or county government office
ICT	Information and communication technology
KKI	Institute for Public Policy Research
LGU	Local self-government unit
MPs	Magyary Zoltán Public Administration Development Programmes
MPAJ	Ministry of Public Administration and Justice
NUPS	National University of Public Service
NUTS	Nomenclature of Territorial Units for Statistics
OSS	One-stop shop
PMO	Prime Minister’s Office
SME	Small and medium-sized enterprise
STAR	State Territorial Administration Reform

Executive summary

This review assesses the State Territorial Administration Reform (STAR) launched by the government of Hungary in 2010. It provides an evidence-based evaluation of the current state of the reform along with an indication of the areas in which the reform has been successful and of those where it has fallen short of expectations or has yet to meet its objectives. This review identifies practical recommendations on ensuring that the allocation of responsibilities to the territorial state administration supports an efficient and effective public administration and enhances businesses' and citizens' trust in government, strengthening the structures, processes and resources of the territorial state administration to ensure that the territorial administration is well-equipped to fulfil its policy development and service delivery responsibilities, and possible opportunities for co-ordination and collaboration between the central, territorial and local self-government administration.

This review focuses on evaluating the objectives of the reform; whether the responsibilities of the territorial administration are aligned with the objective of enhancing the public administration's efficiency and effectiveness; whether the structures, processes and resources of the territorial state administration are well-equipped to carry out these responsibilities efficiently and effectively; and whether the mechanisms governing the central-territorial relationship ensure co-ordination and collaboration between the central administration, the territorial state administration and local self-governments. In so doing, the review assesses STAR for relevance, effectiveness, efficiency and sustainability.

The relevance of STAR

This review finds that the stated goals of STAR are broadly shared and supported among the political actors and public and private stakeholders interviewed by the OECD review team, notwithstanding the fact that no explicit assessment of the cost and benefits of the reform appears to have been carried out. However, implementing the reform effectively and efficiently faces significant challenges. The scope and pace of the reform are proving very ambitious, hindering a fully constructive dialogue with

stakeholders. In addition, while budgetary consolidation and the savings resulting from administrative restructuring and downsizing are important achievements, their impact may end up being weakened by incomplete co-ordination and lack of synergies with other government policies. Government initiatives outlined in the Public Administration and Public Service Development Strategy 2014-2020 and in the “State Reform Program II – Reducing Bureaucracy” seem to reflect this concern and are welcomed.

The effectiveness of STAR

The central reform co-ordination services within the Ministry of Justice and Public Administration have made impressive efforts in steering the reform harmoniously without service disruption. That said, no system for monitoring and evaluating the performance of each individual reform component and of the reform as a whole currently exists in the STAR design. As a result, it cannot feed into the national budget-setting exercise, nor can it inform the next waves of reforms or help the government enhance the impact of the reforms by adjusting course based on performance evidence.

The establishment of a nation-wide network of one-stop shops (OSS) only partially met its roll-out deadlines. In addition, full alignment was not achieved between STAR performance and other objectives enshrined in the Magyary Programmes (MPs), the government’s comprehensive strategy of public administration reforms. An example is the creation of the state task cadastre, which was finalised and validated only in late 2013 but is not regularly kept up to date. The interface between STAR and the revision of the design and functioning of the state budgetary cycle is another area that requires attention.

The efficiency of STAR

As part and parcel of the steps undertaken by the government to realise the “Good State” concept showcased in the Magyary Programmes, STAR is rooted in the principles of effectiveness and efficiency of public spending. Quantitative indicators were developed before the implementation of each reform measure. In addition, qualitative factors are reported, notably in relation to public service delivery. Findings from the government’s Institute for Public Policy Research’s (KKI) surveys show initial performance success, notably with regard to the establishment of the OSS. They also point to challenges, including the fact that their functions are generally not known to citizens, the integration of information technologies is slow and

expensive, and the professional know-how of OSS staff could be improved to match the increased workload and more complex tasks. Communication appears to be one of the areas where the potential for improvement is greatest. Having said this, performance monitoring has to date has relied heavily on users' perceptions and subjective value judgments, which may complement but cannot replace hard, fact-based quantitative performance assessment data measuring the impact of the reform on policy outputs and outcomes, which are still lacking.

From the local government units' (LGUs) perspective, relocation of labour has unfolded relatively smoothly. Some challenges have emerged in terms of adapting to the new bureaucratic culture that the front-office tasks at the OSS require. STAR is reported to have contributed to the process of healing the financial framework at the local level by eliminating the debt of the LGUs. At the same time, the redefinition of the local competences has significantly reduced the margin of action mandated to mayors and notaries. Some of the announced savings for the LGUs are, moreover, mainly shifts from the local government to the central government budget, rendering the actual impact on STAR difficult to assess at this stage.

The sustainability of STAR

While the range and depth of the changes brought about by STAR in its first years of implementation are impressive, concerns relate to its financial viability under its current structure. The vision of the public administration as promoted by the "Good State" concept appears to be particularly suited for carrying out rapid radical reforms, but it might be reconsidered when reform patterns become more routine. As the imperative progressively switches toward creating incentives to sustain STAR, too rigid and hierarchical reform approaches might jeopardise the reform in the long run. A further issue potentially affecting the long-term sustainability of the reform relates to the risk of weaker transparency and accountability because of relatively limited emphasis given to non-state actors.

From the perspective of the LGUs, two possible issues deserve closer attention by the government in relation to the long-term viability and sustainability of STAR. The first relates to incentives and capacities in local administrations. The second refers to the overall public accountability and legitimacy of public authority on the ground. Fostering mutual trust and dialogue among all levels of government is a precondition for stimulating initiative, innovation and responsibility also at the local level.

Policy recommendations

Against this assessment, the review formulates actions that the Hungarian government could consider to further consolidate the reform efforts and strengthen its impacts, focusing on:

Strategy and policy

- Continue to strengthen the organisational and operational correlation between STAR and the other structural reforms of the government and use STAR to trigger a performance-based logic in decision making.

Responsibilities

- Prioritise and streamline reform programming.
- Strengthen implementation monitoring and institutional learning, improve indicators and report in a timely fashion to the public.
- Use communication and information to stakeholders strategically and better link STAR with the government's Digital Agenda.

Structures, processes and resources

- Enhance the autonomy of the state territorial administration in allocating its budget and staff within more streamlined and uniform professional tasks.
- Continue the process of upgrading training programmes and link capacity building to a revamped staff performance evaluation system.

Central-territorial interface

- Achieve better alignment between task-allocation and co-ordination arrangements.
- Review the regulatory environment and fully exploit economic and policy synergies with local self-government.
- Build on the results of dialogue between local governments and the state that has been permitted through the recent creation of fora for this purpose and rationalise current institutional arrangements.

Assessment and recommendations

The State Territorial Administration Reform¹ (STAR) was primarily triggered by a largely shared diagnosis of the weaknesses, inefficiencies and bottlenecks in the organisation of the Hungarian public administration at all levels of government. In particular, the public administration lacked stability, predictability and certainty of uniform due process across the country and among all administrative actors involved in policy formulation, regulatory decision making and public service delivery. This situation was perceived to have been aggravated by a number of factors, including the absence of a single public administration reform strategy at the central level, a lack of transparency in the structure and functioning of the territorial state administration, and significant disparities in the standards and quality of public services between more advanced and less-developed regions.

STAR counted among the top programmatic priorities of the government elected in 2010. It constitutes an ambitious endeavour rooted in the “Good State” concept presented in the government’s Magyar Programmes. The rationale for STAR is found in several government programme documents and fits within the government’s policy of complying with European Union public administration requirements and standards. The Hungarian government embarked on STAR as a way to overcome a number of structural and short-term challenges that the country was facing toward the end of the 2000s. The entering into office of the new government in June 2014 has brought a number of changes in the organisation and conceptualisation of STAR which still require full implementation to produce effects (and thus are beyond the purview of this review’s assessment).

STAR consists of the integration of the former territorial branch offices of the central government’s sector agencies (the so-called deconcentrated organs) into newly established county government offices (GOs). STAR also re-established administrative districts, abolished during the Communist period, to serve as the seats of government district offices (DOs). At the same time, the new Act on Local Governments substantially changed the competences, responsibilities and tasks of local self-governments in both county cities and municipalities. STAR is thus fundamentally reshaping the

jurisdictional, organisational and human resource foundation of public service delivery at all levels of the public sector in Hungary.

The relevance of STAR

The rationale and impetus for the reform is reported to have been sustained throughout the government's term in office ending in mid-2014. Organisational reshuffling after the mid-2014 national elections reaffirmed this strong political commitment. The current government has also stressed that STAR has not been conceived and implemented independently of action taken in support of other strategic goals. Furthermore, the new territorial state administration structures introduced by STAR have themselves been actively involved in the unfolding of some other government reform initiatives. Indeed, the government demonstrated capacity to redefine and adjust the scope of the reform as the Magyar Programmes were being rolled out.

The stated goals of STAR are broadly shared and supported among the political actors and public and private stakeholders interviewed by the OECD review team, notwithstanding the fact that no explicit assessment of the cost and benefits of the reform appears to have been carried out. The government points out that stakeholders in the central and territorial public administration as well as in the local self-governments actively participated in the preparatory work leading to the design of each reform component.

However, there are significant challenges in implementing the reform effectively and efficiently. The scope and pace of the reform is proving very ambitious, which hinders a fully constructive dialogue with stakeholders. In addition, while budgetary consolidation and the savings resulting from administrative restructuring and downsizing are important achievements, their impact may end up being weakened by incomplete co-ordination and lack of synergies with other government policies. Government initiatives outlined in the Public Administration and Public Service Development Strategy 2014-2020 and in the “State Reform Program II – Reducing Bureaucracy” seem to reflect this concern and are to be welcomed.

One of the key objectives of STAR was to achieve a clearer and more transparent allocation of competences, responsibilities and powers between the territorial state administration on the one hand and local self-governments on the other. STAR transferred a substantial part of the state administrative tasks to the DOs, whereas it maintained for notaries (heads of local government authorities) those tasks that require specific knowledge of the local area and immediate local, on-site response. However, local government units (LGUs) have been assigned tasks in a differentiated manner based on the types of municipal governments they

represent. A differentiated mix of competences thus persists, which in the opinion of the government nonetheless does not jeopardise the increased transparency and efficiency resulting from the clear-cut separation of functions introduced by STAR.

The effectiveness of STAR

The central reform co-ordination services within the Ministry of Justice and Public Administration (MPAJ) have made impressive efforts in steering the reform harmoniously without service disruption. Against this clear achievement, a comprehensive reading of the Magyary Programmes conveys a sense of a wide, but not necessarily structured, range of reform fronts. The sense of relative inertia was not alleviated by the relatively long transitional phase ahead of the 2014 national elections.

Elaborate evidence has been collected but actual, detailed information on the status of progress of implementing STAR is difficult to gauge. A system for monitoring and evaluating the performance of each individual reform component and of the reform as a whole has not yet been built into the STAR design. As a result, it cannot feed into the national budget-setting exercise, nor can it inform the next waves of reforms or help the government enhance the impact of reforms by adjusting course based on performance evidence. The monitoring and reporting system still presents great margins for improvement at the level of the state territorial administration. The government has reduced the frequency of publishing updates and comments on the progress in implementing STAR.

With regard to the level of the territorial state administration, STAR has yielded results on many of its fundamental pillars. The establishment of a nation-wide network of one-stop shops (OSS), by contrast, only partially met the set deadlines. As well, full alignment has not achieved between STAR performance and other objectives enshrined in the MPs. An example is the creation of the state task cadastre, which was finalised and validated only in late 2013 but is not regularly kept up to date. The interface between STAR and the revision of the design and functioning of the state budgetary cycle is a further area that requires attention.

From an accounting perspective, STAR was a “zero-balanced” transformation, in the sense that territorial organs were integrated with their existing budget into the metropolitan and county GOs without requiring additional funds from the central budget. STAR has enhanced capacity to achieve a strategic budgetary overview at the territorial level, but its impact is limited by the absence of result-based or performance-based approaches to budgeting.

The centralised management of the functional budgetary lines for the state territorial administration supports the direct objectives of STAR but might have unintended side effects:

- Broadly speaking, the GOs and DOs appear to be fairly satisfied with the level of staff allocated to them. STAR has granted the DO heads the possibility to reallocate human resources as they see fit to meet internal needs. As a general rule, nonetheless, the government grants the GOs and DOs a fixed human resources allocation; competence for changing the allocation and management of that asset lies with the central administration.
- The management of professional portfolios is also relatively constrained at the GO level. These issues relating to the lack of co-ordination of functional and professional activities within the GOs and DOs appear to be mirrored at the interface between the deconcentrated state administration and the LGUs. Over time they may put the sustainability of STAR at risk – even if local government reform is not a direct integral part of STAR.
- If government commissioners do not enjoy strong formalised co-ordination arrangements, overall policy integration and strategic prioritisation may be put at risk.
- The allocation of EU funds managed by the government mostly occurs independently of the elaboration of the national budget.

Because of the siloed policy formulation and budgetary arrangements, the state territorial administration has been entrusted with little, and certainly not systematic, strategic planning, data collection, and monitoring and evaluation functions. By the same token, the OSS can contribute indirectly to administrative simplification and burden-reduction initiatives but they are not yet fully considered as privileged channels to systematically prompt administrative simplification initiatives and ideas for administrative burden-reduction measures.

The new regulatory framework governing the LGUs and their interface with the state territorial administration is geared towards addressing the main challenges posed by the previous regime. The budgetary regime was adjusted as well: as of January 2013 it shifted from the income-based to the task-based financing principle.

These measures have brought about the consolidation of public debt and better control over running deficits. That said, the situation may be further improved through more effective deployment of policies, people and money.

Examples from the public education, regional development and social and healthcare sectors suggest that while the reform has certainly marked a substantial improvement over past regimes, STAR does not yet appear to have provided for sufficient institutional and procedural arrangements to sustain systematic co-operation both between the state administration and the LGUs and among the LGUs themselves.

The County State Administration College, the forum regrouping government commissioners and the heads of DOs and other relevant organs, is in place but its mandate and procedural arrangements have yet to be fully upgraded to match the need for institutional co-ordination across levels of government.

Beyond their primary responsibilities, OSS can act as co-ordinating platforms to cope with competence allocation, but there still is considerable margin to tap into this potential more fully. Ongoing arrangements and initiatives such as the National Council for Co-operation of Local Governments (ÖNET), the Hungary-Norway MANORKA project aimed at identifying training opportunities for local officials to enhance co-ordination between the LGUs and the DOs, and the National Interest Reconciliation Forum for Regional Development (OTÉF), address these challenges and bear promising potential for capacity building and co-operation. A number of GOs and DOs make efforts to smooth potential governance gaps through enhanced communication and information campaigns to the public.

The efficiency of STAR

As part and parcel of the steps undertaken by the government to realise the “Good State” concept, STAR is rooted in the principles of effectiveness and efficiency of public spending. Quantitative indicators were developed before the implementation of each reform measure. In addition, more qualitative but equally important factors are reported, notably in relation to public service delivery. Findings from the Institute for Public Policy Research’s (KKI) surveys show initial reassuring success, notably with regard to the establishment of the OSS. They also point to issues for consideration:

- The functions of the OSS are generally not known to citizens.
- IT integration is slow and expensive.
- The professional know-how of OSS staff could be improved to match the increased workload and more complex tasks they perform.

- Communication appears to be one of the areas where the potential for improvement is greatest. A further area where communication to the public can play a major role in enhancing the impact of administrative simplification measures is the use of the Citizen Portal (*ügyfélkapu*) and other ICT-supported tools.

The KKI project on the “Perception of the Hungarian Public Administration Reform” constitutes good practice in monitoring the output of STAR and serves as a valuable precedent that deserves being mainstreamed and embedded in the reform design. However, the project is not a structural part of the reform. Like many other reform indicators, moreover, the ones covered by the KKI project heavily rely on users’ perceptions and subjective value judgments, which may complement but cannot replace hard, fact-based quantitative performance assessment data measuring the impact of the reform on policy outputs and outcomes, which are still lacking. Additional indicators on the functioning and performance of the state and the public administration are being developed, notably through projects by the National University of Public Service (NUPS). However, there is still room for moving toward outcome and result indicators.

When designing the structure of the state public administration on the national territory, the government took account of the existing regional and local realities. On the other hand, procedural aspects of STAR deserve attention. The deployment of information and communication technologies (ICT) and the diffusion of e-government solutions, for instance, remains a critical work in progress. While it better mirrors the pre-2010 institutional configuration and hence serves the simplification purpose, allowing for a different distribution of professional agencies within the structure and remit of a DO alters the way a national single-sector policy is managed across the country.

Professional re-qualification further to STAR has been a gigantic and broadly successful endeavour so far, which sets a good basis to meet long-term challenges. The capacity-building system is compulsory for all civil servants in the central, state territorial as well as local public administration. Challenges exist with regard to organising and deploying the training programme across the entire national territory and inserting it into the workload and weekly schedules of already very busy civil servants. General feedback from participants is positive although training could be reviewed so as to better target concrete daily needs of the desk officers. NUPS has reportedly taken on board some of the feedback received and modified the programme to also meet changes in the regulatory framework. As a result, measures are being taken to strengthen capacity building within the public sector, including a whole new career model in the public service

and in the law enforcement sector with more flexible rules of service, new remuneration and performance evaluation schemes.

From the perspective of the LGUs, relocation of labour has unfolded relatively smoothly. Some challenges have emerged in terms of adapting to the new bureaucratic culture that the front-office tasks at the OSS require.

STAR is reported to have contributed to the process of healing the financial framework at the local level by eliminating LGU debt. At the same time, the redefinition of the local competences has significantly reduced the margin of action mandated to mayors and notaries. Some of the announced savings for the LGUs are, moreover, mainly shifts from the local government to the central government budget, rendering the actual impact on STAR difficult to assess at this stage.

The sustainability of STAR

While the range and depth of the changes brought about by STAR in its first years of implementation is impressive, concern emerges as to its financial viability in its current structure. The vision of the public administration as promoted by the “Good State” concept appears to be particularly suited for carrying out rapid radical reforms, but it might be reconsidered when reform patterns become more routine. As the imperative progressively switches toward creating incentives to sustain STAR, too rigid and hierarchical reform approaches might jeopardise the reform in the long run. A further issue potentially affecting the long-term sustainability of the reform relates to the risk of weaker transparency and accountability because of relatively limited emphasis given to non-state actors.

From the perspective of the LGUs, two possible issues might deserve closer attention by the government in relation to the long-term viability and sustainability of STAR. The first relates to incentives and capacities in local administrations. The second refers to the overall public accountability and legitimacy of public authority on the ground. Fostering mutual trust and dialogue among all levels of government is a precondition for stimulating initiative, innovation and responsibility also at the local level.

Policy recommendations

Against this assessment overview, the review formulates the following actions that the Hungarian government could consider to further consolidate the reform efforts and strengthen its impacts:

Strategy and policy

- **Continue to strengthen the organisational and operational correlation between STAR and the other structural reforms of the government and use STAR to trigger a performance-based logic in decision making.** Because STAR is an in-depth, whole-of-government reform, the government could work further towards fully embedding it within its strategic reform efforts so as to maximise instrumental synergies and spillovers to support other macro-policy objectives. To that end, both organisational and procedural arrangements across reform strands might have to be revised. Consideration could be given to the idea of using STAR to establish systematic and more effective governance arrangements to monitor policy and service delivery. This would help instil the logic in the executive of progressively basing spending decisions on the performance of reforms and policies and on their impact on service quality.

Responsibilities

- **Prioritise and streamline reform programming.** After four years of implementation, the government could undertake a thorough stock-taking exercise of the reform streams it is pursuing so that it can prioritise where to concentrate reform efforts. To that end, each main component of STAR could be assessed with regard to both its budgetary implications and its expected outcomes – notably by comparing the initial budgetary evaluations with the actual implementation costs and the interim results. This exercise could help the government identify adequate and secure sources to fund further and complete the implementation of the reform components.
- **Strengthen implementation monitoring and institutional learning, improve indicators and report in a timely fashion to the public.** The government could put in place a dedicated organisational and procedural framework to support such a function. It would be important to differentiate between monitoring the performance of the reform as such (i.e. how implementation unfolds) and the performance of daily service delivery. This effort could be supported by indicators that focus not only on inputs and tasks but also, to the extent possible, on outcomes and results. Current initiatives related to improving the reform and policy monitoring systems envisaged in the Public Administration and Public Service Development Strategy 2014-2020 could constitute a

starting point. Findings from the monitoring activities could be published regularly.

- **Use communication and information to stakeholders strategically and better link STAR with the government’s Digital Agenda.** The government could pursue its commitment to better consolidate and disseminate information both on the objectives and achievements of the reform and on the opportunities the reform affords to citizens and business. Communication and information could be used strategically and as a tool to improve service delivery. In this respect, the government is correct in leveraging the potential of the Digital Agenda, for example by advancing in re-engineering and modernising public administration procedures as well as in diffusing ICT and Internet access and literacy across the country. This could secure higher quality service delivery and greater consistency of approach, including the more systematic provision of feedback from citizens and stakeholders.

Structures, processes and resources

- **Enhance the autonomy of the state territorial administration in allocating its budget and staff within more streamlined and uniform professional tasks.** To achieve greater efficiency without jeopardising efforts to ensure uniformity of policy and service delivery across the territory, the government could grant metropolitan and county government offices more autonomy in the allocation of functional resources and resources devoted to professional and policy-related interventions (including robust performance data-gathering capacity at the territorial level). Such allocation decisions could be informed by as much evidence as possible. At the same time, the government could review the distribution of professional tasks and the related allocated resources at district level with a view to avoid inconsistent or inefficient public policy interventions.
- **Continue the process of upgrading training programmes and link capacity building to a revamped staff performance evaluation system.** Given the significant reallocation of responsibilities between the central and the local self-government, the government’s efforts to deploy comprehensive and consistent training that facilitates the delivery of high-quality public services to customers could be consolidated. The capacity-building programme could be complemented by a reformed system for evaluating the performance of the public administration according to organisational

as well as individual objectives. The evaluation system could be grounded on the principles of impartiality, objectivity and meritocracy and used as a tool to efficiently allocate resources across the overall Hungarian civil service.

Central-territorial interface

- **Achieve ever closer alignment between task allocation and co-ordination arrangements.** Building on the implementation experiences in the field of public education, social services and healthcare provision and capitalising on structures such as the County State Administration College, the government could thoroughly review the lines of responsibilities, reporting and co-ordination of various public bodies and government levels. In some instances, such alignment appears to be complex, potentially overlapping and incomplete. The governmental review could consider in an integrated manner the interface between the central institutions (ministerial level) and the state territorial administration; as well as the interface between the state territorial administration and the local self-governments at county and local level. The government could also consider verifying that there is adequate matching between the delegated responsibilities and the resources granted to discharge them.
- **Review the regulatory environment and fully exploit economic and policy synergies with local self-government.** The government could further review primary laws and implementing regulations, the licenses and permits regime, as well as regulatory enforcement and inspections obligations to maximise collaboration opportunities with local self-government authorities as appropriate, so as to ensure synergies with local self-government (and generate further cost savings, if applicable). Particular consideration could be given to the feedback and control exercised by locally elected officials as a means to ensure that policy interventions remain effective and fully accountable to local constituencies while meeting the needs of local citizens and businesses.
- **Build on the results of dialogue between local governments and the state that has been permitted through the recent creation of fora for this purpose and rationalise current institutional arrangements.** The government could fully exploit the learning opportunities generated by ongoing arrangements and projects such as the National Council for Cooperation of Local Governments (ÖNET), the Hungary-Norway MANORKA project aimed at

identifying training opportunities for local officials to enhance co-ordination between the LGUs and DOs, and the National Interest Reconciliation Forum for Regional Development (OTÉF), with a view to consolidate and institutionalise dialogue between the central government and the national associations of local governments on a permanent basis. This could constitute a means to build trust between the various institutional players involved in designing and delivering services to citizens and businesses, and to resolve issues that may crop up from time to time in this process. Such a national forum could be supported by regional working parties reporting to it, in which representatives of individual LGUs could participate when appropriate.

Note

1. The drafting of this report was finalised to take into account the coming into office of a new government after the June 2014 elections. However, the bulk of the analysis and peer assessment was completed prior to the elections. Whatever incremental changes have occurred since then have not materially affected the overall assessment and conclusions of this report, finalised in January 2015.

Introduction

Methodology of the review

This review explicitly builds on the work carried out in 2012 and 2013 by the OECD, including the review of the role of the territorial state administration in supporting administrative simplification (OECD, 2015). For the current volume, the OECD review team sought more detailed and up-to-date data and information on the state and perspectives of STAR, notably through:

- a questionnaire addressed to the Hungarian authorities
- a five-day fact-finding mission to Hungary, which took place in May 2014 and enabled the team to meet with key stakeholders (see Annex A)
- the review of official documents, position papers and academic literature.

This review is framed by the following four analytical parameters:

- The objectives of the reform: What are the objectives of the STAR reform?
- The responsibilities of the territorial administration: Are the responsibilities of the territorial state administration aligned with the objective of enhancing the public administration's efficiency and effectiveness?
- Structures, processes and resources of the territorial state administration: Is the territorial state administration well-equipped to carry out these responsibilities efficiently and effectively?
- The central-territorial relationship: Are there mechanisms in place to ensure co-ordination and collaboration between the central administration, the territorial state administration and local self-governments?

This review is based on four evaluation criteria:

- **Relevance** – the appropriateness of the reform relative to the needs and expectations it is designed to address.
- **Effectiveness** (substantial review) – assesses the extent to which the reform has achieved its objectives as well as the quality of the changes (added value) it has brought about.
- **Efficiency** (procedural review) – analyses the relationship between the resources used by the reform and the outputs it has produced, as well as horizontal and vertical co-ordination among administrative services.
- **Sustainability** – considers the degree of institutionalisation (“anchoring”) of the reform within the territorial administration’s governance structures along with long-term perspectives for continued performance. This criterion evokes not only the availability of financial resources but the overall legitimacy and ownership of the reform.

In support of these criteria, this review’s assessment considers the mechanisms deployed by STAR to measure policy performance so that the Hungarian government is equipped with relevant and sufficient information on the progress in implementing the reform in order to modify the course of action over time as appropriate. The review team developed critical success factors directly related to each of these criteria against which STAR is benchmarked; these are presented in Annex B.

Structure of the review

This review assesses STAR by first taking into account the origins of the reform and the rationale for the government’s intervention (Chapter 1). It then considers the stated objectives of the reform and the strategic choices and policies designed by the government (Chapter 2). By so doing, attention is paid to the allocation of responsibility (Chapter 3) and to both the institutional and procedural arrangements developed in the framework of STAR (Chapter 4). The interface between the territorial state administration and the local self-governments is the subject of Chapter 5.

In each chapter, the main findings are presented according to the evaluation criteria outlined above. The review also presents policy recommendations for strengthening the implementation of STAR.

Reference

OECD (2015), *Hungary: Towards a Strategic State Approach*, OECD Public Governance Reviews, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264213555-en>.

Chapter 1

Origins of the State Territorial Administration Reform in Hungary and rationale for government intervention

This chapter summarises the origins of Hungary’s State Territorial Administrative Reform (STAR) agenda and assesses the rationale for its implementation. The STAR initiative appeared as one of the top programmatic priorities of the government elected in 2010. This chapter assesses this endeavour rooted within the so-called “Good State” concept outlined in Hungary’s “Magyary Programmes”, which establish the principles of cost-effectiveness, transparency, integrity and professionalism as well as expertise as the building blocks of the reform.

The State Territorial Administration Reform (STAR) was primarily triggered by a diagnosis of the weaknesses, inefficiencies and bottlenecks in the organisation of the Hungarian public administration at all levels of government. The diagnosis was largely shared among political parties and public and private stakeholders. Until 2010, the Hungarian territorial state administration was characterised by its high geographical and administrative fragmentation, overgrown organisational structures, and low levels of co-ordination and supervision of resource allocation and compliance with standardised procedures. Up to 33 different autonomous organs across the national territory operated under unequal and incompatible regimes in disparate policy areas and no structuring principle underpinned civil service action and performance.

As a result, the public administration lacked stability, predictability, certainty and uniformity of due process across the country and among the administrative actors involved in policy formulation, regulatory decision making and public service delivery. This reverberated negatively on both economic operators (and hence hampered recovery from the economic and financial crisis) and individual citizens and end users (affecting thereby societal welfare and quality of life).

The situation was aggravated by the absence of a single public administration reform strategy at the central level and the lack of transparency in the structure and functioning of the territorial state administration. The awareness among most public and private stakeholders of the severity of the challenges and the acknowledgement that a radical reform was needed date back several years, however, political leadership was not successful in tackling the problems systemically.

The STAR initiative appeared as one of the top programmatic priorities of the government elected in 2010. It is a very ambitious endeavour rooted within the so-called “Good State” concept. For the first time since the political and economic transition in 1989-90, the 2010 general elections delivered a democratic mandate with constituent power to a single political force in Hungary. In the spirit of the government, STAR’s main objective was to give back to the public sector the rank it was perceived as deserving in society and to create a single, more efficient and simpler state public administration system. The government has outlined the “Good State” concept in its Magyar Programmes. With particular reference to the organisation and performance of the public administration, the “Good State” concept (see Box 1.1) establishes the principle of cost-effectiveness, transparency, integrity and professionalism as well as expertise as the building blocks of the reform.

Box 1.1. The State Territorial Administration Reform in Hungary as a part of the “Good State” concept

The government of Hungary has committed to creating a “Good State”, one which “serves the needs of individuals, communities and businesses in the interest of the common good, in the best possible way.” As such, the state shall be the guarantor of societal well-being, taking on the responsibility for the lawful and just balance of interests in society; for the protection of the nation’s inherited natural and cultural values; and for the promotion of Hungary’s competitiveness and development. To achieve this, the “Good State” must create and maintain “an efficient rule of law, including the functioning of institutions, respect for and the accountability of individual and collective rights.” This is the rationale for embarking on wide-ranging institutional and administrative reforms. These guiding principles are expected to lead citizens to trust their state.¹

STAR is part of overall reform of public administration, as defined by the “Magyary Zoltán Public Administration Development Programmes” (MPs). In order to translate the “Good State” concept into practice, the government launched three reform pillars:

- The judicial reform, which is being implemented by revising the Fundamental Law and a number of cardinal laws.
- The Magyary Programmes, which seeks the development of the overall public administration, with special regard to central and territorial state administration.
- The local government reform, which is most closely related to the territorial state administration part of the MPs, since the carrying out of state administration tasks by local governments was redesigned and the system of local public affairs also fell under the scope of the reform. The local government reform aims at creating service-oriented task performance in local government and settles the questions concerning the maintenance of institutions along with the lines of the Széll Kálmán Plans.²

Notes: 1. A definition of the “Good State” concept is provided by the Magyary Zoltán Public Administration Development Programmes (Ministry of Public Administration and Justice, 2011). The main features of the concept are detailed in OECD (2015: 30). 2. In its efforts for public sector reform, the Hungarian government presented a first Széll Kálmán Plan in March 2011, embarking on a series of spending cuts on social benefits, eligibility for early retirement and disability pensions, subsidised pharmaceuticals, education and public administration. A Széll Kálmán Plan 2.0 followed one year later. It extended the reform agenda to measures aimed at strengthening growth and competitiveness as well as a modernisation of the public administration carried out in part through the MPs. See OECD (2015: 64).

Source: OECD (2015), *Hungary: Towards a Strategic State Approach*, OECD Public Governance Reviews, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264213555-en>.

The rationale for STAR can be found in several government programmatic documents. The Programme of National Co-operation (Government Programme) presented to the National Assembly in 2010 is the main source upon which STAR rests. One of its anchors is, for example, the goal of restoring “credible and genuine governance resting on voters’ confidence”.¹ The establishment of the so-called “government windows” (or one-stop shops, OSS) conforms to Point 1.2 of the Government Programme (“Simpler and more reasonable conditions for businesses”).²

STAR is also part of the EU Partnership Agreement 2014-2020. As such, its implementation is expected to receive support through European Structural and Investment Funds (Thematic Objective 11 “Enhancing institutional capacity and ensuring an efficient public administration”) over the period 2014-20.³

The entering into office of the new government in June 2014 has brought a number of changes in the organisation and conceptualisation of STAR, which still require full implementation to produce positive effects. Changes include the centralisation of the political responsibility for the reform (by transferring responsibility for the public administration reform portfolio to the Prime Minister’s Office [PMO] and the explicit inclusion of STAR in the broader strategy by the government on “State Reform Program II – Reducing Bureaucracy” (see Box 1.2).

Box 1.2. Reducing bureaucracy in Hungary

In late 2014, the government issued Decree no. 1602/2014 (IX.4) on bureaucracy reduction and cutting red tape. The decree not only establishes a State Reform Commission (ÁRB) but also specifies the areas covered by the “State Reform Program II – Reducing Bureaucracy” strategy. The latter include:

- Renewal of the human capital of the state, with a special emphasis on:
 - developing and implementing a career model for members of the armed forces
 - reviewing and revising the number of staff employed in the public sector at institutional level (depending on the number of performed state administration tasks)
 - creating professional interoperability within the personnel and upgrading administrative capacities
 - transforming the National University of Public Service (NUPS) into a higher education institute specialised in Sciences of State.

Box 1.2. Reducing bureaucracy in Hungary (*continued*)

- Reforming public services.
- Better administration of state administrative cases:
 - establishing the nationwide government window network – as a direct meeting point between the state and citizens
 - simplifying or eliminating radical payment obligations of the citizens and business sector and its administrative burden
 - developing the e-Public Procurement System in line with the new EU directives on public procurement
 - revisit the rules for using EU funds.
- Continuation of the State Territorial Administration Reform, with particular attention to:
 - improving the efficiency of operational and organisational frameworks for specialised territorial administrative bodies
 - integrating those territorial state administrative agencies which are currently outside the organisation of metropolitan and county government offices (with the exception of law enforcement and the tax administration).
- Reviewing legislation for deregulation purposes.

The ÁRB is led by the rector of the National University of Public Service. Members are high-level representatives of ministries and other public law organs (e.g. the Hungarian Central Statistical Office and the State Audit Office of Hungary). The commission's main task is to co-ordinate and discuss various proposals and reform ideas concerning the above-mentioned areas, prior to the ordinary public consultation process. The first important issue discussed by the commission was the further steps and possible directions with respect to the State Territorial Administrative Reform.

Source: Based on information provided by the Prime Minister's Office, December 2014.

Notes

1. The Government Programme explicitly states that “We must restore the demolished authority of the state, and to this end we must establish the operational conditions for the state to function in a lawful, transparent manner, and provide public services fully and reliably” (see www.parlament.hu/irom39/00047/00047_e.pdf, Point 5.2, p.78).
2. “For this reason one of the important targets of the politics of issues of national importance is for Hungary to become one of the most business-friendly countries in the Central Eastern European region, a country in which the state regulation of business operation is simple and predictable” (*ibid.*, Point 1.2, p.21).
3. www.nth.gov.hu/hu/media/download/30.

References

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Chapter 2

The strategic and policy objectives of the State Territorial Administration Reform in Hungary

This chapter presents the strategic and policy objectives of the State Territorial Administration Reform (STAR) in Hungary. It first examines some of the key contextual aspects of the STAR and presents the key strategies and policy initiatives aimed at reforming the state territorial administration. It assesses the rationale for the reform using the relevance and sustainability criteria.

The government embarked in the State Territorial Administration Reform (STAR) as a way to overcome a number of structural as well as short-term challenges faced by Hungary towards the end of the 2000s. Hungary's economy was hit relatively hard during the global economic crisis. Against a backdrop of high fiscal deficit and public debt, gross domestic product plunged in 2009 and unemployment increased. At the same time, public service delivery to citizens and economic operators was not uniform across the country. It was complex, opaque, of uneven quality and relatively discretionary in terms of certainty of times and accountability. The territorial state administration was highly fragmented and suffered from an overgrown organisational structure. The co-ordination and supervision of its operation were insufficient. Local self-government units (LGUs) were conferred the exercise of too many (state) competences compared to their financial capacity and were highly indebted. Trust and confidence in the state recorded low levels among the Hungarian population.

Broadly speaking, STAR consists of the integration of the former territorial branch offices of the central sector-based agencies (the so-called deconcentrated organs) into newly established metropolitan and county government offices (GOs). STAR also re-established administrative districts, governed by government district offices (DOs). At the same time, the new Act on Local Governments substantially changed the competences, responsibilities and tasks of self-government in both counties, cities and municipalities.¹

The redesign adjusted Hungary's administrative territory to the European Union's organisational paradigms for regional and local entities: Hungarian counties are NUTS 3, districts are NUTS 4 and municipalities are NUTS 5 equivalent entities.

To support such systemic changes, STAR features a number of components, which also reflect the main objectives pursued by the reform (Box 2.1).

STAR is thus fundamentally reshaping the jurisdictional, organisational and human resource basis of the civil service at all levels. Personnel had to be transferred to the new GOs from county self-governments and to the new DOs from municipality self-governments (or LGUs).

The relevance criterion

The rationale and impetus for the reform is reported to have been sustained throughout the past government term. Organisational reshuffling further to the 2014 government elections confirms this strong political commitment. After the reorganisation of the government structure in June 2014, the Ministry of Public Administration and Justice (MPAJ) ceased to

exist. A separate Ministry of Justice was established while the tasks and competences concerning the public administration currently belong to the portfolio of the Prime Minister’s Office (PMO). The PMO has continued these tasks and is further developing the STAR originally led and co-ordinated by the MPAJ. Such centralisation of the political responsibilities and the continued impetus throughout the past years are clearly a critical success factor that enabled radical changes to be implemented rapidly and vigorously on so many reform fronts.

Box 2.1. The components of the State Territorial Administration Reform in Hungary

The components of the State Territorial Administration Reform (STAR) include:

- institutional and administrative re-organisation (central level)
- redesign of the territorial state administration (deconcentrated level)
- reallocation of competencies between the territorial state administration and the local self-government
- new budgetary arrangements
- new human resources arrangements, including capacity building at the central and territorial level
- inventory and rationalisation of administrative procedures
- diffusion of information and communication technology (ICT) and e-government practices to improve service delivery and simplify administrative procedures
- introduction of points of single contacts.

The government stresses that STAR has not been conceived nor is it being implemented independently of action taken in support of other strategic goals. Furthermore, the new territorial state administration structures introduced by STAR have been actively involved in the unfolding of some other government (reform) initiatives. The GOs have participated, for instance, in the administrative and regulatory simplification programmes as well as in corruption prevention and public sector integrity reforms. Moreover, 100 Roma desk officers have been employed in the DOs and OSS, playing a mediatory role between the public administration and the citizens with Roma origin when they require administrative assistance. This

is expected to contribute to the integration of this minority. Launching the desk officer system, the state has taken a new step to overcome prejudice of the majority society towards Roma citizens. The transformation of the budgetary planning and the definition of regional development policies are two additional examples brought forward by the government.

The government has, moreover, demonstrated the capacity to redefine and adjust the scope of the reform as the Magyary Zoltán Public Administration Development Programmes unfolded. Under the scope of STAR, it also accommodated measures whose opportunity or necessity emerged in the course of the implementation. One of the most significant examples in this respect refers to the consolidation of the debt of county self-governments (including the assets of their maintained institutions) and reattribution to the state. While originally not contemplated, such a reform avenue was implemented in mid-2011.² Working groups were formed to define the exact amount of debt and the institutions that the state would have taken over by January 2012. The Prime Minister reached an overarching agreement with the county self-governments on the principle of the hand-over, which defines the transfer of mandates and responsibilities from the local authorities to the deconcentrated state authorities. This was implemented through detailed agreements between the GOs and the self-governments in the respective county.³

The stated goals of STAR are broadly shared and supported across the political forces and public and private stakeholders interviewed by the OECD review team, although no explicit assessment of the cost and benefits of the reform appears to have been carried out. The diagnosis made by the government (and summarised at the beginning of this chapter) of the pre-2010 status of the central and territorial administration is not substantially challenged. There appears to also be wide agreement on the main solutions enshrined in the “Good State” concept. Influential academic circles have underpinned the concept. Notwithstanding this, neither the Magyary Programmes nor other governmental studies provide evidence of the likely costs and benefits expected from implementing STAR. Such an assessment would have allowed the government to transparently indicate the envisaged outcomes of the reform, which would have helped justify possibly severe cuts in human resources and implementation costs.

The government pointed out that stakeholders of the central and territorial public administration as well as of the local self-governments actively participated in the preparatory works leading to the design of each reform component. They had the possibility to formulate their opinions and priority agendas in relation to all measures pertaining to the public administration reform. Prior to the integration of territorial state administration organs, in particular, rounds of consultation took place

mainly with the ministries, central offices and public administration offices concerned, in order to ensure the implementation of any changes seamlessly and with the broadest possible support by stakeholders. The establishment of the district system required the highest level of co-ordination and a series of targeted public consultations with the active involvement of self-government actors (mayors and local government associations) and the citizens. The trade unions, which represented the government officials and civil servants affected by the reform, are reported to also be continuously consulted during each phase of the transformation.

However, the reform still faces significant challenges. On the one hand, the scope and pace of the reform have proven to be too ambitious, which has hindered a fully constructive dialogue with stakeholders. Overall, most interlocutors met by the review team expressed broad satisfaction with the results achieved by the various STAR components, as they are reported by the government. On more than one occasion they nonetheless added the caveat remark, “considering the scope and pace of the reforms”. The large spectrum of planned interventions coupled with the very tight schedules are features of the reform that were taken by stakeholders as a given. It furthermore appears that stakeholders entered dialogue with the government on the design of the various STAR components with a sort of “damage management” attitude. In many cases they seem to have been invited to provide feedback on an already fully drafted reform canvas and detailed proposals. While this may have strengthened the basic conceptual foundations of STAR (for instance with regard to sharing the problem of diagnosis and supporting the reform’s overall objectives), it might have hampered an in-depth constructive discussion of the programmatic and operational details of the reform components – thereby limiting the possibility of fully exploiting the potential of a STAR that was co-owned.

While the consolidation of the budget and the savings obtained from administrative restructuring and downsizing are important achievements, their impact might be weakened by incomplete co-ordination and synergies with other government policies. Reform imperatives dictated by the economic and financial crisis appear to have been the primary driver of STAR, whereas relatively weaker attention has so far been placed on the role and impact that STAR can deliver on stimulating and supporting economic growth over time. The review team has not identified explicit institutional and organisational channels that link STAR with the other government reform fronts, besides official statements consolidated in the government programmatic documents. In practice, various forces within the executive work on relatively autonomous reform tracks and the government has so far failed to insert STAR in a whole-of-government, multi-level reform regime that would ensure achieving synergies, economies of scale

and mutually supported, integrated policy making in a more direct fashion. As also indicated in the 2015 OECD review, because of this incomplete design of STAR, the reform has yet to have any substantial impact on the fundamental reorganisation of the budgetary cycle or on the formulation of new policy and regulatory proposals at central and sub-national level. It appears thus opportune to progressively include policy performance-related information into the process of developing the national budget. This would significantly contribute to strengthening the strategic management system that the government is committed to unfold through its public sector reforms.

The latest initiatives by the government included in the Public Administration and Public Service Development Strategy 2014-2020 and in the “State Reform Program II – Reducing Bureaucracy” reflect this concern and are to be welcomed. The government is envisaging STAR as an important element of the reforms, notably in relation to the integration of certain territorial state administrative bodies into the GO structure. The improvement of efficiency within the existing organisation of GOs is also a high-priority objective.

Recommendation 1

Continue to strengthen the organisational and operational correlation between STAR and the other structural reforms of the government and use STAR to trigger a performance-based logic in decision making.

Because STAR is an in-depth, whole-of-government reform, the government could further work towards fully embedding it within its strategic reform efforts so as to maximise instrumental synergies and spillovers to support other macro-policy objectives. To that end, both organisational and procedural arrangements across reform strands might have to be revised. Consideration could be given to the idea of using STAR to establish systematic and more effective governance arrangements to monitor policy and service delivery. This would help instil the logic in the executive of progressively basing spending decisions on the performance of reforms and policies and on their impact on service quality.

The sustainability criterion

While the range and depth of the changes brought about by STAR in its first years of implementation is impressive, concern emerges as to its financial viability under its current structure. The fact that the reform is based on a wide set of relatively unprioritised action points is certified by the acknowledgment from the side of the government that part of the reform was hindered by procurement bottlenecks and missing funds. Access to the

national budget is difficult and reliance on EU funds is likely to require better co-ordination and a strategic sequencing of the reform projects. The financial and procedural challenges that have emerged in the course of the implementation were exacerbated by the fact that no detailed *ex ante* assessment was performed when designing the reform of the likely costs of the various components and actions.

Many innovative elements launched in the first reform phases now need fine-tuning and to be diffused and embedded into new administrative practice. This process may prove to be harder to achieve and it may trigger greater resistance than when the initiatives were first introduced. Above all, this process is likely to stretch over a longer period of time, for which the full buy-in and collaboration of all levels of the public administration and all members of the civil service become a key, indispensable asset.

As the imperative progressively switches toward creating incentives to sustain STAR, reform approaches that are too rigid and siloed might jeopardise the reform in the long run. Various actors within the public administration – and especially those charged with leading the implementation interaction with desk office staff – need to be equipped with clear reward and sanctions mechanisms that help them steer the next phases of the reform. Above all, they need strong incentives to pursue the reform efforts and meet implementation challenges. The government acknowledges that several STAR elements were implemented within a remarkably short timeframe in 2010 and 2011, which did not necessarily allow for specific organisational and personal incentives to be developed. The experience and expertise acquired by leading administrators during the first phase of the reform constitute valuable assets that should be capitalised upon as they allow the continuation of institutional memory and learning. The “Good State” concept appears in this respect to possibly limit the managerial autonomy of those in charge of further reform waves, potentially affecting their corporate spirit. It might also hamper the necessary “human entrepreneurial touch” in co-creating and implementing reform solutions that might lead to developments that are best suited for specific parts of the public administration. The government acknowledges this and indicates that two ÁROP projects work with the participating government officials in order to increase efficiency in preparation or implementation of certain reform measures.⁴

Experience acquired in other OECD countries may provide ideas on how to leverage on the civil service’s sense of ownership and commitment while carrying out public sector reforms (see Box 2.2).

Box 2.2. Implementing public administration reforms: International experiences

In **Ireland**, the government recognised the need to reorganise the Irish Public Service to continue its contribution to the return to economic growth and prosperity. The core concern for the Irish government was to restore public finances and to reduce the deficit to less than 3% of GDP by 2014, in part by achieving sustainability in the cost of delivering public services relative to state revenues. As part of this effort, the government and sector unions signed the “Public Service Agreement 2010-2014,” aimed at building an increasingly integrated public service that is leaner and more effective, and more focused on the needs of citizens.

The agreement directs public bodies and individual public servants to increase their flexibility and mobility to work together across sectoral, organisational and professional boundaries. In order to sustain the delivery of excellent public services alongside the targeted reduction in public service numbers, the agreement recognises that efficiencies will need to be maximised and productivity in the use of resources greatly increased through revised work practices and other initiatives. The agreement commits the government to delivering an ongoing reduction in the cost of delivery of public services along with excellent services to the public through staff redeployment in integrated public service and the reconfiguration of the design and delivery of public services.

In **Spain**, the Commission for the Reform of the Public Administration (CORA) embodied a process of data collection, dialogue among practitioners and diagnosis about the weaknesses of Spain’s public administrations. This was a part of a broad public administration reform plan aimed at improving the efficiency of the public administrations, enhancing the quality of services provided to citizens and business, and making the public administrations more accountable and transparent.

The CORA report was presented in June 2013 and included 217 proposals, 139 of which addressed both the central administration and regions (autonomous communities) while 78 concerned only the central administration.

Sources: Irish Government (2010), “Public Service Agreement 2010-2014”, Department of Public Expenditure and Reform, Dublin, www.per.gov.ie/wp-content/uploads/Public-Service-Agreement-2010-2014-Final-for-print-June-2010.pdf; OECD (2014), *Spain: From Administrative Reform to Continuous Improvement*, OECD Public Governance Reviews, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264210592-en>.

A further issue potentially affecting the long-term sustainability of the reform relates to the risk of weaker transparency and accountability because of relatively limited emphasis given to non-state actors. The assumption of the “Good State” concept that the state is the only actor responsible for the public administration and for the tasks pertaining to it makes the

government believe that public sector reorganisation and streamlining are to be defined within the remit of the state only, precluding thereby options to outsource functions or assets. The government’s understanding of the interface between the public and the private sectors tends to differ from the OECD “Principles for Public Governance of Public-Private Partnerships” (OECD, 2012). Civil society’s role is also not fully acknowledged by the government. In the long run, this may jeopardise the government’s efforts to strengthen accountability in the public sector, fight corruptive practices and mismanagement, and avoid regulatory capture.

Notes

1. See Act CLXXXIX of 2011 on Local Governments of Hungary.
2. Including the debt consolidated from local municipalities, the overall debt taken over by the state amounts to HUF 680 billion.
3. The county self-government debt was taken over by the Government Debt Management Agency Ltd. (ÁKK Zrt.), their healthcare institutions were transferred to the Pharmaceutical and Healthcare Quality and Organisation Development Institute (GYEMSZI), and all other institutions are maintained by the institution maintenance centres of the counties. County self-governments obtained new types of territorial development tasks.
4. Projects financed from the State Reform Operational Programme (ÁROP) 1.2.7 “Organisational Development of Metropolitan and County Government Offices” and ÁROP 1.2.8 “Establishment of the District State Administration System”.

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Chapter 3

The allocation of responsibilities in the territorial state administration in Hungary

This chapter assesses Hungary's distribution of responsibilities in the State Territorial Administration Reform (STAR). In so doing, the chapter recommends that the government undertake a thorough stock-taking of the reform so that it can prioritise where to concentrate reform efforts.

At the central level, ministries and government offices operate as central state administration organs.¹ Their tasks and organisational and operational responsibilities are defined by law:

- Ministries primarily address strategy formulation and legislation falling under the purview of their policy portfolio(s). In 2010, the government streamlined the structure of the executive by grouping portfolios into five main policy clusters. Ministries also perform tasks of secondary importance to their mandates; these activities have been diminishing over the preceding term.
- Central offices are mainly responsible for co-ordination and for the professional management of their specialised territorial state administration authorities (including specialised state administration authorities within the metropolitan and county government offices [GOs]). These offices constitute second-instance responsibility centres in respect of decisions taken by the specialised territorial state administration authorities. The State Territorial Administration Reform (STAR) did not bring any substantive change to this part of the allocation of competencies between central ministries and GOs.

The law specifies that management of a state administration authority shall include the following competences:

- the establishment, transformation and abolition of the state administration authority
- the appointment and dismissal of the head of the state administration authority (unless a law or government decree regulates otherwise)
- the conduct of the legal and financial supervision of the state administration authority
- the approval of the operational and organisational rules of the state administration authority
- the annulment of a decision of the state administration authority, and if necessary giving instruction to conduct a new procedure
- in cases specified by law, *a priori* or *a posteriori* approval of a decision of the state administration authority
- giving a specific order of command for performing specific tasks or for replacement of an omission
- the obligation for the state administration authority to report.

The effectiveness criterion

The central reform co-ordination services within the Ministry of Public Administration and Justice (MPAJ) have made impressive efforts in steering the reform harmoniously and with no service disruption. To meet its set objectives, the STAR has strived over the years to cover a wide range of reform actions that touch upon as diverse a set of public administration realms as competence reshuffling, organisational downsizing, process re-engineering and modernisation (through information and communications technology, ICT), and capacity building and human resources management. Despite the short timeframe and scarcity of financial resources, most of the planned measures have been fully and smoothly implemented. Neither the establishment of metropolitan and county GOs nor the creation of district offices (DOs) caused interruptions in public service delivery or a reduction in their quality. On that basis, the government claims that only positive aspects of the reform were tangible from the citizens' point of view.

Against this clear achievement, a comprehensive reading of the Magyar Programmes conveys a sense of a wide but not necessarily structured range of reform fronts. After four years of reform, the review team found that officials at all levels were in a sort of “blindness” with regard to the way forward. The MPs provided little sense of prioritisation and most reform components appeared dispersive and were progressively losing coherence.

This sense of relative drift was not alleviated by the lengthy transitional phase ahead of the 2014 national elections. For several months before the new government entered into office in June 2014, senior officials both within the central administration and in the territorial offices were not certain of continuing their tasks. For them it was moreover also difficult to understand the direction STAR would follow after the elections, and how to manage the ongoing reform activities accordingly. To illustrate, the MP 2014-2020, which was elaborated in late 2013 and articulated so as to reflect the EU Structural Funds and Cohesion Policy term, was not formally adopted by the outgoing government. As a consequence, many new projects and initiatives requiring approval remained on hold. Also the corrective measures that the MP 2014-2020 identified to accommodate more clearly the targets set in the previous years were not launched in a coherent or linear fashion.

Recommendation 2

Prioritise and streamline reform programming.

After four years of implementation, the government could undertake a thorough stock-taking exercise of the reform streams it is pursuing so that it can prioritise where to concentrate reform efforts. To that end, each main component of STAR could be assessed with regard to both its budgetary implications and its expected outcomes – notably by comparing the initial budgetary evaluations with the actual implementation costs and the interim results. This exercise could help the government identify adequate and secure sources to fund further and complete the implementation of the reform components.

Rich evidence has been collected but actual, detailed information on the status of progress in implementing STAR is difficult to gauge.

- The electoral cycle and its implications on the political-bureaucratic interface are one possible cause of the disconnected and, to a great extent partial, understanding that observers can obtain of the implementation of the various reform components.
- The Hungarian public administration suffers from a very high staff turnover with frequent changes at the level of middle managers within an electoral cycle.
- Another cause lies in the insufficient governance structures established to monitor compliance with the targets set out in the MP. Many actors intervening in the STAR implementation are required to collect and report data on how resources are used and activities unfold. However, there still seems to be margin to improve the way in which the information collected is consolidated strategically and critically reviewed – both within each line ministry and centrally. In particular, there are little systematic efforts at critical junctures of the reform process to identify the causes for delay or failure of a specific reform strand, or to assess whether and to which extent partial implementation of one strand hinders the achievement of the overall reform.

A system for monitoring and evaluating the performance of each individual reform component and the reform as a whole has not yet been built into the STAR design. As a result, it cannot feed into the national budget-setting exercise, nor can it inform the next waves of reforms or help the government enhance the impact of the reform by adjusting course based on performance evidence. There are only partial channels that allow for sharing and learning from information on common problems, successful solutions and good practices. Full co-ordination between these actors remains underexploited. At an initial stage, these challenges might be

alleviated if information on “who does what” and on the related tasks in each reform component were better disseminated across all parts of the administration and among the actors involved in the design, management, implementation and reporting phases.

The monitoring and reporting system still presents significant opportunities for improvement at the level of the territorial state administration. The GOs and DOs are, in this respect, also relatively disconnected from such a comprehensive appraisal of progress made. While they do report regularly on a number of indicators, they fail to investigate systematically the reasons and causes of the success or failure of a reform measure. Similarly, no suggestions for improvement appear to be systematically collected and passed on to the central level (see Box 3.1).

Box 3.1. Identifying and correcting strategic and operational reform targets in the light of implementation experiences

In the course of discussions that the review team had with various stakeholders, it has been noted that many of the interlocutors – notably those charged with implementing the MPs – were aware of discrepancies between some of the targets and the pace established for STAR on the one hand, and the financial allocation necessary to achieve them, on the other hand. So, for instance, have many actions included in the MPs relied on EU funds granted to the government for two years, whereas the foreseen time horizon set longer implementation targets. In these cases, the government is thus supposed to step in with own resources which do not, however, always seem to be readily and speedily available.

The suboptimal monitoring and reporting mechanism has not allowed for these identified discrepancies to be reported in a timely manner to the steering and co-ordination function of the reform – or to efficiently act upon them if appropriately communicated.

In general terms, a weak monitoring and reporting system puts at risk the accountability of the whole reform as well as the pace and quality of its implementation, for it makes it difficult to intervene with incremental corrections on the direction and the pace of the reform.

A possible example of reporting on reform implementation progress is provided by Spain, where the Office for Execution of the Administrative Reform (OPERA) was created – a dedicated structure that monitors the implementation of CORA’s recommendations (see Box 2.2 in Chapter 2). OPERA also engages with the regional level (autonomous communities) in the follow-up process. An *ad hoc* group was also established within the Council on Fiscal and Financial Policy, which is the main sectoral conference where central government and the autonomous communities co-ordinate their fiscal and financial policies. OPERA publishes quarterly and annual monitoring reports on updated implementation progress and the co-ordination mechanisms newly initiated.¹

Note: 1. Quarterly and annual reports are available on the website of the Spanish Ministry of Finance and Public Administration, see: www.seap.minhap.gob.es/web/areas/reforma_aapp.html.

The government has reduced the frequency of publishing updates and comments on the progress of implementing STAR. The missed swift official endorsement of the MP 2014-2020, which includes relevant information on the implementation of the various reform actions, has *de facto* interrupted the regular information that the government had committed to provide to the public and interested stakeholders. There is therefore margin for increasing the public accountability of the reform process.

The efficiency criterion

As a part and parcel of the steps undertaken by the government to realise the “Good State” concept, STAR is firmly rooted in the principles of the effectiveness and efficiency of public spending. Over the years, the various MPs have defined the milestones for the transformation of the public administration and have set explicit performance indicators. The government indeed relies heavily on these indicators to justify its STAR reforms. Indicators presented in the various MPs include:

- the number of territorial state administration organs integrated into the GOs
- the number of DOs established in the counties and metropolitan districts
- the number of staff transferred from local self-governments
- the number of staff enrolled in OSS training, those participating in determined modules and awards issued.

Quantitative indicators were developed before the implementation of each reform measure and they are considered by government as forming an adequate basis to measure achievement of the set objectives and hence the effectiveness and efficiency of the reform. Further, more qualitative but equally important factors are reported, notably in relation to public service delivery. Indicators include, for instance, appraisals on the extent to which the new system is user-friendly and transparent; it sets out clear deadlines and grants more certain process times; it ensures higher uniformity and professionalism; it can hence lead to higher customer satisfaction (see Box 3.2).

The Institute for Public Policy Research’s (KKI) project on the “Perception of the Hungarian Public Administration Reform” constituted good practice in monitoring the output of STAR and serves as a valuable precedent that deserves being mainstreamed and embedded in the reform design. However, the project was not a structural part of the reform. Like many other reform indicators, moreover, the ones covered by the KKI

project heavily rely on users' perceptions and subjective value judgments, which may complement but not replace hard, fact-based quantitative performance assessment data measuring the impact of the reform on policy outputs and outcomes. The KKI project was limited in time and subject to funds that are not fully controlled by the government. As a matter of fact, the KKI itself ceased to exist further to the reorganisation of the government structure after the June 2014 elections. On the other hand, because of the EU project management requirements and standards it has to abide with, the project can be used as a learning platform to apply international good practices in monitoring and evaluation.

Box 3.2. The KKI perception survey project

The Institute for Public Policy Research (KKI) was founded in February 2011 as a think tank studying executive public administration practices at large, also from an international comparative perspective. The KKI operated as a supportive agency of the Ministry of Public Administration and Justice (MPAJ) until June 2014, under the supervision and direction of the Deputy Prime Minister responsible for governmental co-ordination. As such, it assisted the operation of the central public administration and contributed to improving the public policy performance of the government.

The KKI was entrusted by the MPAJ to conduct periodically repeated research series on the public's perception of the changes in the public administration since the launch of STAR, with a special emphasis on the introduction of the GOs, DOs and OSS. The project seeks to assess the performance of the reform and track changes in the public's awareness of it as well as in the overall trust in the institutions. The project is funded by EU funds, which were planned to come to an end in March 2015.¹ To date, eight surveys have been carried out and results of the first five enquiries have been automatically published, to comply with the requirements set out by EU-funded projects. A summary is actively submitted to top managers and senior civil servants of the MPAJ for internal circulation. The link to the survey results is communicated to all those participating in the survey. No further specific communication policy is performed. The press coverage has allegedly remained relatively modest, considering the scope and depth of the changes brought about by STAR.

The KKI carried out the survey and processed the data. The analysis does not investigate the underlying drivers and causes of any given perception result. Such in-depth analysis is performed only upon an explicit mandate by the MPAJ, which the KKI never received. In general, the interpretation of the survey's findings is left to each ministry responsible for any given reform component or project. The KKI was entitled to formulate conclusions and recommendations to the MPAJ and other line ministries on an information and confidential basis.

Box 3.2. The KKI perception survey project (*continued*)

Besides this specific STAR-related project, the KKI was entitled to respond to requests by the government or individual ministries for research and analyses. The KKI reports are usually confidential.

The function performed by the KKI found equivalent arrangements in other countries. In Spain, for instance, the Spanish Agency for the Evaluation of Public Policies (AEVAL) was established in 2007 in order to promote the rational use of public resources, co-ordinate the different levels of government, improve the quality of public services and encourage accountability to citizens. The agency's mandate is guided by its independence of judgment, transparency, autonomy of responsibility, participation in inter-institutional arrangements through active co-operation, focus on quality and continuous improvement, professional ethics and public accountability. It systematically engages in advertising, dissemination and transparency of reporting through the AEVAL's website.²

Notes: 1. The project encompasses two research levels – one within the public administration (with the involvement of 1 000 government officials and civil servants through a multi-stage sampling approach, coupled with 12 in-depth interviews with top managers and public administration experts) and one among the public. The latter consists of a nationally representative survey of 2 000 respondents sampled through computer assisted phone interviews; and of 10 focus groups averaging some 10 participants. 2. See: www.aeval.es. AEVAL published, for instance, a report on *Efficiency of Public Action in the Autonomic State: Diagnosis and Improvement Proposals* (October 2011). More information on the agency can be found in OECD (2014).

Additional indicators on the functioning and performance of the state and the public administration are being developed. Research carried out by the National University of Public Service, in particular, is worth mentioning in this respect (see Box 3.3). Further initiatives, also by independent think tanks and research institutes, designed to develop indicators on the reform could constitute a valuable source of information in the future.

There is still margin for moving towards outcome and result indicators. The NUPS research on public administration indicators constitutes a valuable contribution toward strengthening and broadening the notion of monitoring and evaluation of reform initiatives. The type of indicators developed enriches the set of metrics used so far as the basis for reporting on STAR's performance. The latter appear primarily focused on input and output (direct impact) considerations. As an example, the list of indicators provided by the MP 2014-2020 tends to neglect the overall socio-economic impacts that STAR is expected to contribute to creating over the next years.²

Box 3.3. The National University for Public Service's set of public administration indicators

Upon initiative of the Ministry of Justice and Public Administration (MPAJ) and further to the action line enshrined in the 2012 MP, the National University of Public Service (NUPS) has worked on elaborating a so-called “Good Governance Index” (GGI) under the leadership of its Good Governance Research Centre, financed from the State Reform Operational Programme (ÁROP) 2.2.21-001 “Knowledge Based Public Service Advancement”.

The purpose of the GGI project was to deliver a status report to the government providing feedback on ongoing reform measures; indicate areas where further public policy measures are required; and assess the quality of the public administration's performance against a range of indicators.

NUPS presented the results at a high-level conference under the title “A Good Measure of the State” held in May 2014. Research mobilised 40 academic experts with the involvement of an observer from the MPAJ (now the Prime Minister's Office), and is ongoing.

The index consists of a set of 150 indicators that are meant to capture the effectiveness and efficiency of the public administration, as reformed further to the “Good State” concept. Experience and research carried out in the field by international organisations and institutes was taken into account.¹ The indicators are regrouped into five categories, covering:

- legal certainty and trust in government
- societal well-being (quality of life)
- fiscal stability, business viability and economic competitiveness
- environment and social sustainability
- democracy.

A further horizontal category of indicators covers intermediate outputs on the efficiency of the public administration. The concept of administrative efficiency is based on the elaboration of paradigms related to the effective, economical, efficient, safe, verifiable and adaptive nature of the tasks performed and the use of resources.

Note: 1. Within the frameworks of the study, the following international indexes were analysed: the IMD Competitiveness Ranking; the World Economic Forum's Global Competitiveness Index (GCI); the World Bank Doing Business, Sustainable Governance Indicators of the Bertelsmann Stiftung; the Economist Intelligence Unit's Institutional Profiles Database (IPD); and the OECD's *Government at a Glance* (GaaG) series www.oecd.org/gov/govataglance.htm.

The Public Administration and Public Service Development Strategy 2014-2020 establishes a special monitoring system for following up with the strategy's implementation. Detailed indicators are currently under elaboration with a view to facilitate comparison between the set targets and the actual state of implementation. A communication policy is also being considered.

Recommendation 3

Strengthen implementation monitoring and institutional learning, improve indicators and report in a timely fashion to the public.

The government could put in place a dedicated organisational and procedural framework to support such a function. It would be important to differentiate between monitoring the performance of the reform as such (i.e. how implementation unfolds) and performance of daily service delivery. This effort could be supported by indicators that focus not only on inputs and tasks but also, to the extent possible, on outcomes and results. Current initiatives related to improving the reform and policy monitoring systems envisaged in the Public Administration and Public Service Development Strategy 2014-2020 could constitute a starting point. Findings from the monitoring activities could be published regularly.

Findings from the KKI surveys show initial reassuring success, notably with regard the introduction of the OSS.

- Surveys carried out between spring 2012 and autumn 2013 report a slight increase in the attractiveness of the public administration among young graduates (from 59% to 65%), despite the fact that the low wages paid in the public sector and, to a lesser extent, a lack of professional prospects, constitute a serious obstacle for recruitment.
- The latest KKI survey indicates that almost two out of three respondents agree or strongly agree with the public administration reform (however it is defined), putting emphasis especially on the expected benefits from implementing the OSS and a client-friendly service as well as on the expected more transparent and rationalised structure. There is a clear connection between attitudes toward the public administration and knowledge of the reform or personal experiences with the new service delivery.
- Complementary research conducted in January 2014 by means of exit polls outside the OSS concluded that citizens who had applied for documents in the past 12 months found the procedure significantly faster, easier and more client-friendly compared to

previous experiences. No comment was given by respondents on whether the new regime had reduced the costs incurred by the applicant of the service demanded. In the examined period, citizens' trust in the GOs increased from 5.2 to 6.2 on a scale of 1 to 10. In the case of the DOs, the score amounts to 6.4.

The KKI findings also point to issues for consideration:

- challenges for the OSS include the issue that citizens appear unaware of their functions
- IT integration is slow and expensive
- the professional know-how of OSS staff should be improved to match the greater workload and more complex tasks they must perform
- communication appears to be one of the areas where the potential for improvement is greatest:
 - Only one-third of the surveyed employees considered that most OSS clients were aware of the options available to them when accessing the government windows.
 - While almost 70% of the interviewed public reported to have heard of the existence of the OSS, no more than 8-10% had knowledge of the extended opening hours (from 8am to 8pm). This proportion has not increased steadily over the months.
 - Attendance records in the OSS confirm that visit patterns have not changed significantly across the day. Only a minor proportion of customers attends the office late in the evening.
 - The KKI statistics nonetheless also show that over the 20-month period between March 2012 and November 2013, the rate of adults that personally made use of an OSS increased only from 2% to 4%.
 - Urban residents with a higher education represent the majority of the OSS clientele and are better informed about the type of services available.³

A further area where communication to the public can play a major role in enhancing the impact of administrative simplification measures is the use of the Citizen Portal (*ügyfélkapu*) and other ICT-supported tools. The KKI reports that the Citizen Portal is still under-exploited, primarily because the public ignores its existence (30%) or because it declares still preferring personal contact with front-desk officers instead of performing

administrative tasks online (21%). Almost another third of the survey participants stated that the lack of a computer or of Internet access was the reason they did not use the portal. The government has taken account of these findings and is reported to be strengthening its efforts for more diffused and better performing e-government.

Recommendation 4

Use communication and information to stakeholders strategically and better link STAR with the government’s Digital Agenda.

The government could pursue its commitment to better consolidate and disseminate information both on the objectives and achievements of the reform and on the opportunities afforded to citizens and business. Communication and information could be used strategically and as a tool to improve service delivery. In this respect, the government is correct in leveraging the potential of the Digital Agenda, for example by advancing in re-engineering and modernising public administration procedures as well as in diffusing ICT and Internet access and literacy across the country. This could secure higher quality service delivery and greater consistency of approach, including the more systematic provision of feedback from citizens and stakeholders.

Notes

2. See MP 2014-2020.
3. It shall be noted that the opening of the “second generation” OSS (i.e. those equipped to process the latest set of tasks) has only been launched since February 2014.

References

- AEVAL (2011), *Efficiency of Public Action in the Autonomic State: Diagnosis and Improvement Proposals*, Agency for the Evaluation of Public Policies, Madrid, October.
- OECD (2014), *Spain: From Administrative Reform to Continuous Improvement*, OECD Public Governance Reviews, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264210592-en>.

Chapter 4

Structures, processes and resources of the territorial state administration in Hungary

This chapter assesses the structures, processes and resources allocated by the Hungarian government for implementing the State Territorial Administration Reform (STAR).

Immediately upon assuming office in 2010, the government redesigned the 13 existing ministries into 8 new ministries, establishing at the same time the Prime Minister's Office. The government proceeded to such clustering on the basis of the affinities and synergies that various ministerial portfolios had to each other. As a result of various reorganisations, the number of central public administration institutions was halved, passing from 649 to 318.

Besides the reorganisation of the central administration, the government streamlined the territorial state administration through a structure of government offices (GOs) and district offices (DOs). In September 2010, the government introduced county public administration offices which were replaced by the current GOs on 1 January 2011. The DOs were created in January 2013.

In connection with the organisational reshuffling, the new government that entered into office in June 2014 moved the steering function of the State Territorial Administration Reform (STAR) into the Prime Minister Office, thereby granting it greater political and operational traction.

The effectiveness criterion

With regard to the level of the territorial state administration, STAR has yielded results on many of its fundamental pillars. The GOs were established through the structural and functional integration of 14 different specialised administrative agencies as of 1 January 2011. Since then, the GOs operate steadily and consistently, discharging their main tasks of implementing governmental decisions at territorial level. On the other hand, 198 DOs were formed in the counties and metropolitan districts, as branch offices of the respective GOs. The most comprehensive preparatory and organisational work had been carried out before the implementation of this reform component through the adoption of two laws, eight government decrees and six ministerial decrees. A total of 2 760 hand-over agreements were concluded between the DOs and local self-governments. A further milestone of STAR, the consolidation of county self-government, was carried out from January 2012.

The establishment of a nation-wide network of OSS, by contrast, only partially met the set deadlines. According to the original plans, more than 300 OSS should have been opened by 1 October 2013. This target was not achieved and among the causes for the delay were financial, IT and public procurement difficulties. As a result, only the first generation of government windows has been operational since 2011. In April 2014, a new type of OSS was inaugurated that can perform extended tasks, including document office duties. Currently, 254 case types can be administered by the OSS and their

number is planned to grow. The full deployment of the government windows programme is thus extended into the next implementation period.

Full alignment has yet to be achieved between STAR performance and other objectives enshrined in the MPs. An example is the creation of the state task cadastre, which was finalised and validated in only late 2013 but is not regularly kept up to date. The task cadastre as described in the MPs is a powerful tool to leverage the government’s efforts to map and streamline the structure and performance of the public administration across all levels of government. The cadastre is, in fact, intended to serve the following goals:

- identify tasks that currently arise in multiple locations
- identify tasks currently being handled by organisations, organisational units or institutions that, as far as the organisation of tasks is concerned, are not considered ideal or the most effective
- identify structural differences between the functioning of individual policy areas and their sub-areas
- identify the mandatory minimum level of state engagement for each policy and sub-policy area, and highlight tasks that are essentially performed “on a voluntary basis”
- allow, by having the necessary resources assigned to tasks, for an itemised overview of resource utilisation in each policy and sub-policy area at the level of activities, organisations, organisational units and institutions as well.¹

Online database software was developed to manage the cadastre, but it is not updated or validated on an on-going basis.

The interface between STAR and the revision of the design and functioning of the state budgetary cycle is a further area that requires attention. STAR has not modified the process of compiling the state budget. At present, budget allocations, including for the implementation of policies by the territorial state administration (“professional tasks”), are formulated by individual line ministries on the basis of records from the previous fiscal years. The MPAJ (as of autumn 2014, the public administration units are now in the Prime Minister’s Office) is responsible for determining the budget to be allocated to each GO as far as their “functional tasks” are concerned. Also further to STAR, the state budget results in a list of all expenditure items provided by all spending bodies, as consolidated by the Ministry of National Economy on the basis also of macroeconomic indicators.

From an accounting perspective, STAR was a “zero-balanced” transformation, in the sense that territorial organs were integrated with their existing budget into the metropolitan and county GOs without requiring additional funds from the central budget. During the formation of the DOs, personnel and material capacities were taken over primarily from municipalities. The government acknowledges that 2013 offered therefore just enough time to reduce the most extreme differences in budget allocations across the national territory. The government is also aware that uniformed districts (or so-called “ideal districts”) are necessarily going to be developed over a longer transformation process, unfolding across several governmental terms.

STAR has enhanced the strategic overview at the territorial level, but this is limited by the absence of result-based or performance-based approaches to budgeting. Previous to STAR, when the LGUs were in charge of implementing several state tasks, there were significant differences in the capacities to develop a strategic vision of public spending across the territory. The LGUs did not have the required expertise. Under the new regime, the GOs ensure a higher degree of uniformity and greater know-how in this respect. Nonetheless, none of the stages in the preparation of the state budget have elements considering policy performance and outcomes, nor are targets clearly identified. Line ministries do not formulate performance indicators. Nor are they sufficiently equipped to collect data to support the National Statistical Office. As a result, the government is not in a position to report on the effectiveness and the efficiency of its policy to the parliament and the public at large.

Over the past two decades, a number of OECD countries have introduced forms of result- or performance-based budgeting (see Box 4.1).

The centralised management of the functional budgetary lines including for the state territorial administration supports the direct objectives of STAR but might have unintended side effects. In the initial phase of the reform, the GOs were asked to establish how many staff ought to be moved from the existing LGUs to the GO and each individual DO. The main criterion informing such decision was the numbers of users (economic units, households and citizens) that were to be covered in the administrative territory of the GO and its DOs. A further criterion referred to the type of tasks and services delivered. The GO also mastered the related selection process in terms of suitability of each individual administrator that could have been possibly relocated. The final allocation of human resources required the approval of the MPAJ.

The GOs and DOs appear to be fairly satisfied with the level of staff allocated to them. Experience with the first implementation phase suggests that the initial calculations tend to reflect the actual responsibilities, tasks, needs and workload of the territorial administrations. The OSS nonetheless appear to be facing a shortage of resources, where existing staff has been required to cope with a heavier workload (because of the increased number of cases handled in each OSS). Several measures were implemented by the government to alleviate staff redeployment, including through staged integration of staff from the LGU offices into the DOs.

Box 4.1. Moving to result-based budgeting: Example of Austria

The Austrian budget reform combines horizontal policy making with financial and political planning and steering processes and the systematic use of evidence. The success factors of this comprehensive reform include the long-term engagement of relevant stakeholders.

To bring all relevant stakeholders on board, a broad political consensus was sought from the design phase of the reform. In the fall of 2004, an informal parliamentary budget reform committee was established to integrate all political parties represented in parliament. This platform enabled a broad discussion, during which all different stakeholders could voice their concerns and visions. Beside parliament, the Federal Court of Audit was an important stakeholder and supporter of the budget reform process. The public also received information on the reform and had an opportunity to provide feedback. Civil servants were consulted and involved in the design of the reform.

A clear co-ordination mechanism between the Federal Chancellery and the Ministry of Finance supported the implementation of the reform across the public administration. A new unit within the Federal Chancellery – the Performance Management Office – was created immediately after the approval of the reform. This unit was in direct communication with all ministries regarding the necessary steps for performance management. In the Ministry of Finance, a task force was established to develop the concepts and the legal framework, to support co-operation and co-ordination with other administrative units, and finally to implement the reform.

Source: Ministry of Finance (2013), *Governments for the Future Main Report 2013*, Ministry of Finance, Helsinki, Finland, http://ministryoffinance.fi/vm/fi/04_julkaisut_ja_asiakirjat/01_julkaisut/08_muut_julkaisut/20131119Govern/Government_for_the_Future.pdf.

STAR has granted the DO heads the possibility to reallocate human resources as they see best fit to internal needs. The law allows for temporary secondment or permanent shift of staff from one service to the other, and decisions are taken upon discussions with the heads of the professional sections. Reasons for this type of staff rotation might be the entering into

force of new regulations or emergency situations that generate changes in the workload of the DO. This flexibility was made possible thanks to the incorporation into the DO structure of the previously autonomous administrative agencies.

As a general rule, nonetheless, the government grants the GOs and DOs a fixed human resource allocation; competence for reallocation and management of that allocation lies centrally. This may sometimes generate discrepancies between the actual needs on the territory and the responsiveness to reallocate resources. The Institute for Public Policy Research's (KKI) surveys confirm that one of the disadvantages brought about by STAR has been a slower process caused by the centralisation of decision making. Moreover, there does not appear to be any clear deadlines or certainty of time enshrined in formal rules of procedures that govern the administrative and decisional interactions when climbing up the hierarchical ladder to get funds, policy input or revision (see Box 4.2).

Box 4.2. Centrally managing territorial administration functional resources

The Hungarian public administration refers to the “functional activity” of an administrative unit as the administrative tasks supporting the work of that unit. Among these are human resources management, accounting and logistics. Functional activities are managed by the so-called core office of the administrative unit. Each core office was originally under the direct supervision of the Office of Public Administration and Justice in the MPAJ – and now the PMO – with regard to those functional activities. Functional activities are opposed to “professional” activities, which relate to policy sector-specific issues.

The GOs are allocated a fixed amount for running the core office. The overall wage bill and the number of totally employable staff are pre-determined. Decisions on the related budget are made annually on the basis of records from the past budgetary cycle and are taken centrally.

While this solution may reduce the risk of mis-management and strengthens the control over public procurement and resource allocation, an excessive centralisation may trigger unintended consequences.

So have, for instance, a number of the DOs and OSS faced important delays in accomplishing restructuring and modernisation work in their (new) premises because of inefficient allocation of resources. In a case brought to the attention of the review team, a DO that was arranging spaces and logistics to open a new OSS counted among its normally enrolled staff three internal designers but no electrician or IT technician. Hiring these workers from the private sector proved to be impossible because they were too expensive and the fact that the DO could not rely on an explicitly dedicated budget line. The DO sent a request through the GO to the MPAJ to be sent the needed professionals to terminate the work, without, however, knowing whether the request would be accepted or the time that it would take. The whole procedure caused considerable delays.

The management of professional portfolios is also relatively constrained at the GO level. The GOs have to regularly report to the central government on approximately 40 types of organisational and professional issues. They also usually inform the government about policy issues occurring at the territorial level. Moreover, the law defines GOs as entities functioning with budgetary independence and government commissioners have hence the right to reallocate resources.²

- However, government commissioners in practice have limited possibilities to operate beyond the remit of functional activities and move budgetary envelopes from one policy portfolio (for instance, healthcare) to another (education), further to specific needs assessments.
- Similarly, the regulatory powers conferred on the GOs by the line ministries are not necessarily supported by adequate competences to direct financial resources. The example of public education provided in the next chapter illustrates this potential mismatch.
- Policy integration and prioritisation hence occur primarily at the central level also with respect to the territorial differentiation of each policy area. According to the government, co-ordination of the functional and professional questions can only operate effectively if the functional controller (previously the MPAJ, now the PMO) reaches agreement with the line ministries and the central offices. This is expected to guarantee adequate and uniform solutions at the central level of budgetary bottlenecks occurring in the territorial administrations.
- The PMO serves as co-ordinator and gatekeeper for budgetary disbursements also of a professional type. Once approved by the government, both policy and budgetary lines remain compartmentalised and independent within the GO and the government commissioner does not enjoy discretion in modifying them.

These issues with the co-ordination of functional and professional activities within the GOs and DOs, which are serious, appear to be mirrored at the interface between the deconcentrated state administration and the LGUs. Over time, they may put the sustainability of STAR at risk – even if the local government reform is not directly an integral part of STAR. If government commissioners do not enjoy strong formalised co-ordination arrangements, overall policy integration and strategic prioritisation may be put at risk. The Council of Government Commissioners is an organ designed to enhance the vertical and horizontal co-ordination between the GO and the central level. The purpose of the council is to inform government

commissioners on the recent strategic issues occurring at the central level. During the meetings, the commissioners have the possibility to express opinions and input suggestions concerning those matters. It was reported to the review team nonetheless that the council does not meet sufficiently often and the deliberations resulting from it may not be followed up by the government. Budgetary reconsiderations generally occur further to personal, informal and mainly fiduciary interventions by the Commissioner to the relevant Secretary of State. This practice may in the long run clash with the efforts by the government to cluster ministerial portfolios and rationalise policy formulation and budgetary planning with the intention to minimise turf battles and horse-trading.

The allocation of EU funds managed by the government mostly occurs independently of the elaboration of the national budget (although EU funds are part of the national budget).³ For EU funds, ministries and managing authorities are required to carry out more sophisticated forms of budgetary practices, which include features of a more comprehensive performance-based budgeting as well as standards for quantitative data collection and reporting. The LGUs are normally not directly involved in the diagnosis, prioritisation, analysis and synergetic integration of programmes and projects funded through the support of the European Union.

Because of the aforementioned siloed policy formulation and budgetary arrangements, the state territorial administration has been entrusted with little and certainly not systematic strategic planning, data collection, and monitoring and evaluation functions. Mechanisms for systemic evidence gathering remain to be developed in the GOs and DOs – for instance in relation to collecting data in support of problem definition, scenario setting or *ex ante* and *ex post* assessment of government interventions. The GOs do not automatically intervene as a depository and managers of the evidentiary information needed to close the policy cycle. The GOs apply the inspection and other enforcement guidelines for procedural and quality standards, which are developed by the line ministries centrally. Mainly because of the lack of resources, however, they rarely organise or perform their own supplementary monitoring and evaluation. Signals to possible policy failures are expected to come also from individual initiatives by citizens and economic operators.

By the same token, the OSS can contribute indirectly to administrative simplification and burden reduction initiatives but they are not yet fully considered as privileged channels to systematically prompt administrative simplification initiatives and ideas for administrative burden reduction measures. Considering their strategic position at the interface between the public administration and the end user and their role as gate-keepers of public service delivery, the OSS can potentially serve as a valuable

barometer of the reform implementation and as detectors of persisting bottlenecks and possible solutions. Direct feedback from OSS customers constitutes a further precious source of information in this respect. Such a potential is, however, still under-exploited and information gathering is at present left to voluntary inputs and comments that customers may wish to provide on the client satisfaction questionnaire.

The efficiency criterion

When designing the structure of the state public administration on the national territory, the government took account of the existing regional and local realities. So does the presence of professional tasks in a given DO depend as a rule on the existence on the territory of the district of administrative agencies before the reform was implemented in 2010. As mentioned above, a series of dedicated consultation rounds was organised prior to the final decision on how to redesign the territorial state administration. In so doing, the government notes that care was taken to account for the different local specific institutional and bureaucratic contexts with the view of assuring the broadest social consensus possible on the implemented reforms.

The establishment of metropolitan and county GOs also reflects such an approach. To illustrate, according to the original plans, branch offices of the Agriculture and Rural Development Agency would have been integrated into the GOs. The identification of possible financial and accreditation difficulties nonetheless resulted in differing opinions within the MPAJ and as a result the agency has eventually remained independent of the GOs. The same logic – relying on consultation with territorial actors – was applied to metrological and technical security authorities. Because of the spatial differences of the public services they provide and the geographical location of their clients, these authorities were no longer reorganised at county level but were integrated with their already existing organisation into the GOs.

Procedural aspects of STAR also deserve attention. While it may better mirror the pre-2010 institutional configuration and hence serve the simplification purpose, allowing for a different distribution of professional agencies within the structure and remit of a DO alters the way a specific single-sector policy is managed across the country. For the time being, STAR has not allocated any new professional tasks to the DOs (or the GO altogether), keeping their policy-making capacity to operate on the territory unvaried. The number and type of administrative agencies forming an integral part of a given DO can as a consequence vary from one district to the other.⁴ The Government Commissioner may, for high-priority development projects either at the level of the whole county or in each individual district, prompt close collaboration with other state bodies not

integrated in the GO if this is deemed instrumental for achieving policy integration and greater economies of scale.

Recommendation 5

Enhance the autonomy of the state territorial administration in allocating its budget and staff within more streamlined and uniform professional tasks.

To achieve greater efficiency without jeopardising efforts to ensure uniformity of policy and service delivery across the territory, the government could grant metropolitan and county government offices more autonomy in the allocation of functional resources and resources devoted to professional and policy-related interventions (including robust performance data-gathering capacity at the territorial level). Such allocation decisions could be informed by as much evidence as possible. At the same time, the government could review the distribution of professional tasks and the related allocated resources at district level with a view to avoid inconsistent or inefficient public policy interventions.

Nota bene: In December 2014, the PMO informed the review team that in line with this recommendation, the internal organisation and operation of the GOs was going to be renewed as of 1 March 2015. A single and uniform GO structure will be established and more significant competences will be transferred to the administrative government commissioners with respect to both the functional and professional tasks of the GOs. This is aimed at ensuring effective and responsible use of resources and eliminating the duplication of tasks and competences.

The deployment of ICT and e-government solutions, for instance, remains a critical work-in-progress. Within the central public administration, this relates to the still-open fronts of enhancing the co-ordinated management of central databases; achieving data harmonisation; and ensuring tighter inter-operability of various software. At the state territorial level, the OSS still largely intervene as front-office service providers whereas the pace for using them to leverage streamlined and upgraded back-office structures and procedures remains insufficient. More generally, STAR does not appear to benefit yet from an adequate diffusion and penetration of IT and Internet and from a minimised digital divide across the country.

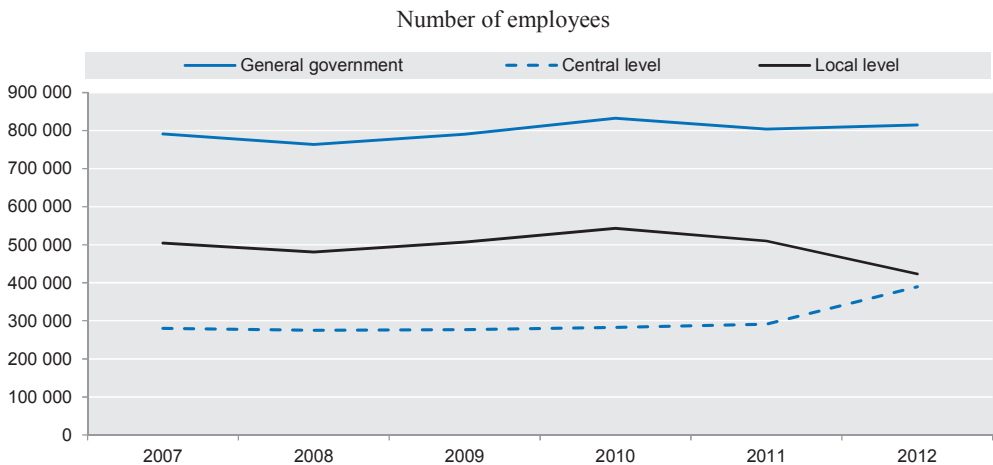
The government has launched the National Info-communication Strategy 2014-2020 that seeks to:

- build up a digital infrastructure in every element of the infrastructural network to provide access for the citizens, enterprises and public institutions

- ensure general basic learning of the necessary digital competencies and promote e-inclusion
- develop the digital economy in accordance with the EU agenda and international trends, notably in support of small and medium-sized enterprise growth.

STAR is reported to have achieved an important reorganisation of public employment. Overall employment in general government (i.e. central and local self-government) in absolute terms did not change significantly between 2007 and 2012 (Figure 4.1).

Figure 4.1. Evolution of general government employment in Hungary (2007-12)



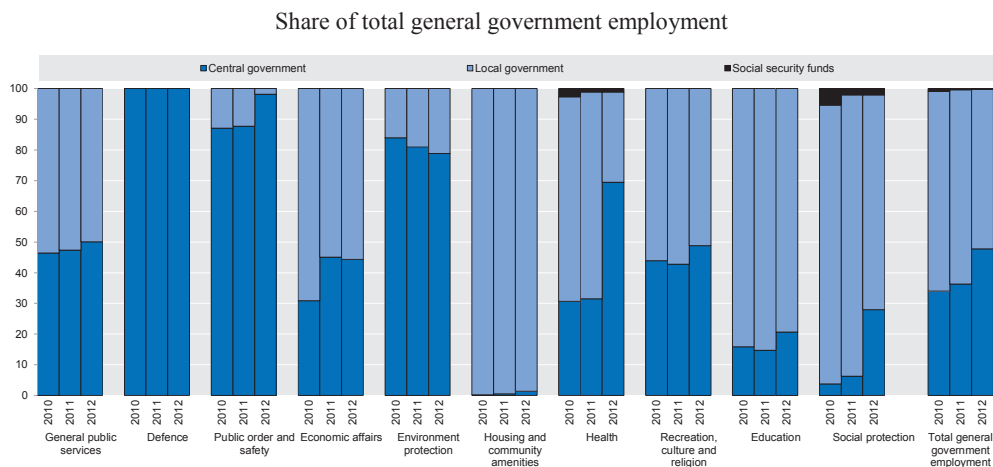
Source: Based on information provided by the National Statistical Office, Hungary.

Yet, STAR triggered a significant transfer of personnel from the local self-government to the central government, especially for health and social affairs (Figure 4.2).

However, no elaborated functional and strategic review was carried out to ascertain where the allocation of resources was commensurate to the assigned tasks (whether in surplus or because of under-allocation), nor to determine the reasons for any misallocation. The rationale for resource allocation, moreover, does not appear to have been linked to achieving strategic policy outcomes. Similarly, the review team was not informed of any strategic consideration by the designers of STAR for the role that various parts of the public administration might have in the future as a result of the government's macro-political objectives and choices. International

experience suggests that the freeze in public service salaries (for six years in the case of Hungary) and the block of turnover and hiring only accelerate the tendency for the public administration to grow older and be less skillful.

Figure 4.2. **Distribution of general government employment by sector (2010-12)**



Source: Based on information provided by the National Statistical Office, Hungary.

OECD governments have reorganised administrative structures and re-engineered processes with a view to find the “right size” of public sector. “Right-sizing” the state public administration is defined here as the systemic improvement of the public sector’s operational performance. It may imply – but does not necessarily lead to – “downsizing”, i.e. the permanent reduction in civil service. Box 4.3 provides an overview of recent international experiences.

Professional requalification further to STAR has been a gigantic and broadly successful endeavour so far, which sets a good basis to meet long-term challenges. The new institutional and organisational setting brought about by STAR required considerable transformation and also a consistent requalification of the civil service. To meet the new needs and modernise Hungary’s public sector, the National University of Public Service (NUPS)⁹ launched in 2013 a refurbished quality control system for continued education and vocational training. The latter is a requirement identified in the Law on Civil Service and the related Government Decree 273/2012.

The capacity-building system is compulsory for all civil servants in the central, state territorial and local-level public administration. It consists of a series of training programmes funded through an EU AROP project that last

four years and cover the regulatory process and the recent developments and new regulations as well as the professional and ethical standards of the public administration, including codes of conduct (see Box 4.4). The curriculum of the training programme is decided by the human resources manager in each department or administrative unit and is tailor-made for each individual civil servant. A dedicated leadership development programme is designed for top managers and senior civil servants.

Box 4.3. Downsizing government: Example of Canada

Canada has set a goal of balancing its budget by 2015-16. Efforts to cut spending have focused on finding savings in operations and enhancing productivity, as well as better aligning spending with the priorities of Canadians. These cuts in operational expenditures, including the modernisation and reduction of back-office operations, will result in the loss of 19 000 positions out of 260 000 employees, a cut of about 7.5% that highlights the need for effective strategic workforce planning.

Canada's current planning effort builds on its experiences with workforce reductions in the 1990s. Then, the government lacked the tools to identify the skills it was losing as a result of across-the-board cuts. The current approach is more nuanced, aimed at achieving a leaner and more agile public workforce. While recruitment has slowed, it has not been frozen, allowing the civil service to continue to acquire specific skills for which it has identified a need.

In 2006, the government of Canada launched a "Public Service Renewal" initiative to improve and modernise the core functions of the public service. The government has recognised the need to continue implementing Public Service Renewal despite fiscal restraint, as it considers this initiative essential to ensuring service excellence. Budget cuts have presented the civil service with an opportunity to achieve Public Service Renewal through re-purposing employees and focusing recruitment on new talent to fill gaps and ensure demographic balance. The four pillars identified in 2006 remain the foundation of Public Service Renewal in the context of fiscal restraint.

- Integrated planning – to align goals, resources and results – is more important than ever. Organisations need access to comprehensive data to align limited resources accordingly.
- Recruitment – targeted hiring based on integrated plans and areas of need, including at senior levels and at entry level – may slow down but cannot stop, as targeted recruitment to acquire key skills will be necessary.
- Employee development – to continue the pursuit of excellence – remains a priority despite fiscal restraint, albeit in an innovative, renewed way.
- Workplace renewal – to address how civil servants work – has highlighted the need to be more efficient on the back end to respond to Canadians.

Source: OECD (2012), "The government workforce of the future: Innovation in strategic workforce planning in OECD countries", GOV/PGC/PEM(2012)1/FINAL, OECD, Paris.

Box 4.4. The National University for Public Service and the training of one-stop shop employees

The National University of Public Service (NUPS) is the key educational institute and think tank of the Hungarian civil service. It opened at the beginning of 2012 under the direct leadership and oversight of the Minister of Public Administration and Justice, the Minister of Defence and the Minister of Interior.

NUPS integrates the Zrínyi Miklós National Defence University, the Police College and the Faculty of Public Administration of Corvinus University of Budapest to reflect the intention to better respond both to the international challenges and to the local needs of the Hungarian public service. Accordingly, NUPS claims remarkable achievements in public service training. NUPS has developed a “comprehensive approach” in the field of public service education, enabling the later mobility and cross-career paths between civil, military and law enforcement services.

Training is provided mostly through e-learning facilities with no direct personal interaction with the tutors. This is dictated primarily by the impossibility for teachers and coaches to reach out to the whole public administration in the short run. However, HR managers can ask to organise personal classes or opt for so-called “blended learning” (consisting of a mix of e-learning and four to eight participations in face-to-face tutorials). These requests are accommodated as much as possible. Some 75 000 civil servants are targeted to attend the programme, stemming equally from central administrations, the GOs and DOs and local governments.

Training provided to future OSS employees was organised by NUPS under Programme SROP 2.2.20. The overarching goal has been to ensure that OSS administrators become familiar with the technical and IT systems supporting the functioning of the OSS; get acquainted with the underlying processes; and receive the theoretical and practical knowledge necessary to handle daily cases in an efficient and user-friendly manner.

Training modules included methodological aspects, basic knowledge of the public administration, administrative procedures and the use of ICT in customer service. Another module sought the development of customer service skills; whereas situations and procedures were also presented through case studies. Some 7 000 officials enrolled in the training programme in 2013.

Objective challenges exist with regard to organising and deploying the training programme across the entire national territory and integrating it into the workload and weekly schedules of already very busy civil servants. Decentralising training has been thoroughly considered but that approach was only partially implemented because of financial constraints and the limited availability of formed coaches and tutors. NUPS counts nonetheless on 500 trainers involved in the 2013 programme. One of the incentives for

administrators to participate in the training exercises was that those who wanted to work in a newly opened GO had to mandatorily attend and receive the diploma. A 20% bonus in salary provided an additional incentive.

General feedback from participants has been positive although the focus of training could be reviewed so as to better target the concrete daily needs of the desk officers. NUPS collects feedback from participants in the training programme by means of questionnaires distributed during the courses and informal discussions held immediately after the classes. One year into the training exercises, participants were surveyed to gather their impressions on their pertinence and added value for their daily work. However, while free to express opinions and contributing through the GOs' dedicated procedures, the DOs have not been systematically asked about the content and the quality of the training offered to future OSS staff. There is still room for improvement in the design and delivery of the training to prepare OSS staff. Preliminary experiences suggest that the training has been rather theoretical and would have benefited from more practice-oriented case studies. Some challenges refer to attitudinal behaviour by the desk officers, who will likely require more time to adapt to the new professional value system.

NUPS has reportedly taken on board some of the feedback received and modified the programme to also meet changes in the regulatory framework. Ethics in public service and integrity management are two additional areas added to the 2014 training programme. The module on e-administration and ICT skills was also redesigned. Efforts to make the programme more practical and oriented to address the needs of OSS administrators have also been produced.

As a result, measures are being taken to strengthen capacity building within the public sector. Further to the experience acquired so far, the continued training programmes are going to be revisited within a four-year interval. In addition, the government is seeking to establish a whole new career model in public service and in the law enforcement sector. The new models are expected to introduce more flexible rules of service, new remuneration and performance evaluation schemes.

Recommendation 6

Continue the process of upgrading training programmes and link capacity building to a revamped staff performance evaluation system.

Given the significant reallocation of responsibilities between the central and local self-government, the government's efforts to deploy comprehensive and consistent training that facilitates the delivery of high-quality public services to customers could be consolidated. The capacity-building programme could be complemented by a reformed system for evaluating the performance of the public administration according to organisational as well as individual objectives. The evaluation system could be grounded on the principles of impartiality, objectivity and meritocracy and used as a tool to allocate resources efficiently across the overall Hungarian civil service.

Notes

1. See MP 2014-2020.
2. Government Decree 288/2010 (XII.21) on Metropolitan and County Government Offices.
3. Only direct EU agricultural subsidies are not included in the national budget. Since 2014, managing authorities are integrated in the line ministries as “national development agencies”.
4. For example, it was explained to the review team that besides their core offices, the DO of Tiszakécske in the Bacs-Kiskun County includes the District Guardianship and Child Protection Office and the District Labour Authority; whereas the DO of Kecskemét also includes the District Building and Heritage Protection Authority, the District Animal Health and Food Control Agency, the District Land Office and the District Public Health Agency.
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Chapter 5

The central-territorial interface on the ground in Hungary

This final chapter assesses the impact of the State Territorial Administration Reform (STAR) on the interface between the state territorial administration and local government units on the ground in Hungary.

Chapter 4 focused on the central administration, looking at the internal allocation of responsibilities, the organisational structure, and the vertical and horizontal co-ordination mechanisms characterising the ministerial and the territorial state administration level. This chapter complements the review by specifically addressing the type and scope of the relationships brought about by STAR between the deconcentrated state administration and the local self-governments.

The relevance criterion

One of the key objectives of STAR was to achieve a clearer and more transparent allocation of competences, responsibilities and powers between the territorial state administration on the one hand and local self-governments on the other. Prior to the reform, state administration duties were performed by state administration organs as well as by the notary (the head of the professional services in each municipality).

STAR transferred a substantial part of the state administrative tasks to the metropolitan district or district offices (DOs), whereas it kept within the competence of the notaries those tasks that require local-area specific knowledge and immediate local, on-site responses.¹ The Act on Local Governments specifies the tasks to be carried out by the local self-government units (LGUs), although other duties may also be prescribed by the law. The rationale for determining the scope of the LGUs' duties and powers was that mandatory tasks can only be prescribed by the law (including sector-specific laws), while optional tasks can be undertaken only if financed by own revenues or from funds provided specifically for the purpose concerned.

The LGUs are moreover assigned tasks in a differentiated manner, according to the types of municipal governments they represent. In particular:

- A village government must perform all of the duties prescribed by law to provide the basic requisites for the daily lives of residents, along with direct access to the required services.
- A district seat or a town government performs public services prescribed by law that it is able to operate within its boundaries and in its catchment area, or in the whole of the district economically, efficiently and in accordance with the technical rules applying to the given service.

- A county-rank city also performs, in accordance with the applicable statutory regulations, public services covering, in addition to the area of the town itself, the whole or a large part of its county.
- The capital city and its districts make up Budapest’s two-tier local governmental system. The municipal government of Budapest can perform duties and exercise the powers of a municipal government as well as those of a regional local government.

Nonetheless, mixed competences persist, which in the opinion of the government does not jeopardise the increased transparency and efficiency resulting from the clear-cut segregation of functions introduced by STAR. Consultations with local government associations and other relevant stakeholders prompted the government to maintain a number of shared competences between the state administration and local self-governments.² The government justified this choice on the grounds of professional and technical reasons put forward during the consultation discussions. Mixed competences are to be found in the education, healthcare and social care provision, and public employment domains.

The effectiveness criterion

The new regulatory framework governing the LGUs and their interface with the state territorial administration is geared toward addressing the main challenges posed by the previous regime. In particular:

- Conflicts stemming from the transfer of too many functions have been addressed by introducing new rules to govern state and local governmental duties, increasing state participation and differentiating transfer of tasks (through the new Act on Local Governments and sector-specific regulation).
- The insufficient level of resources available to the LGUs and their low efficiency in performing administrative (“functional”) tasks have been tackled by sharing local government premises and reformulating the principle of municipal association.
- Poor oversight over legal compliance and administrative functioning was addressed by creating formal legal supervision of the LGUs (through amendments to the Basic Law and the new Act on Local Governments).
- Cuts in central funds assigned to mandatory tasks at the local level have been compensated through the introduction of a clear task financing system.

- The risk of the LGUs borrowing and issuing bonds without controls (causing indebtedness) has been regulated through the assumption of commitments subject to authorisation (through the revised Stability Act) and the debt consolidation (through the Budget Acts of 2012, 2013 and 2014).

The budgetary regime was adjusted as a function of the new setting and as of January 2013 it shifted from the income-based to the task-based financing principle.

- While the LGUs used to get a defined part of the personal income tax collected from residents in their municipalities, the new regime limits their actions to those tasks for which they have the financing. State transfers are now earmarked for explicitly identified tasks and have sensibly decreased (in 2013, they were less than half of the pre-STAR quantum). For instance, local roads are managed by the LGUs, although funding for their management stems from the state budget through direct transfers under the supervision of the Ministry of National Development (responsible *inter alia* for transport policy).
- At the same time, the conditions for receiving transfers from the state budget have been tightened. The law allows for independent LGUs to continue to exist in communities with 2 000 or more residents. Municipalities with less than 2 000 inhabitants can maintain their directly elected mayor and body of representatives, but their executive personnel is rationalised and must be shared with the administrative (mayor's) offices in neighbouring communities. Related agreements are signed between the partnering small municipalities, which agree on the number of staff employed, the rate of contribution to the operation of the common office, the number of branches as well as, among others, on client services and opening hours.

The review team did not receive explicit remarks during its fact-finding mission about the need to further institutionalise and regulate the interface between the state territorial administration and the LGUs. Compliance with the general principle of collaboration between the two levels of administration as it is currently stated in the law appears to be sufficient to ensure smooth and effective governance. The introduction of a formal legal supervision of the LGUs corroborates this belief (see Box 5.1).

While these measures have allowed the consolidation of the public debt and a better control over running deficits, possible reservations may persist as to whether the clarification potential has been fully exploited to guarantee

the most effective deployment of policies, actors and resources. The governance of the education sector, for instance, highlights the potentially disjoint channels that relate various competent bodies and authorities. With effect from 1 January 2013, the duties of the LGUs in relation to public education were taken over by the state with the exception of pre-school provision and the running of elementary schools, as prescribed in Act CXC/2011 on National Public Education. The system introduced in 2013 is considered to constitute a substantial improvement compared to the past, particularly in relation to the effectiveness in which investments are determined and money can be allocated. Further reforms are ongoing, with a view to notably introduce school inspectorates in the course of 2014 – a novelty in Hungary. The system will be reviewed in a few years.

Box 5.1. Government's supervision of local self-governments

The Government Commissioner and the head of a DO have the right to attend meetings of the local government assemblies whenever items that they think pertain to the broader scale than the one of the municipality are discussed. No central state authority has the right to exercise control over the administrative tasks performed by local self-governments. Unlawful decisions or activities may be challenged by the court.

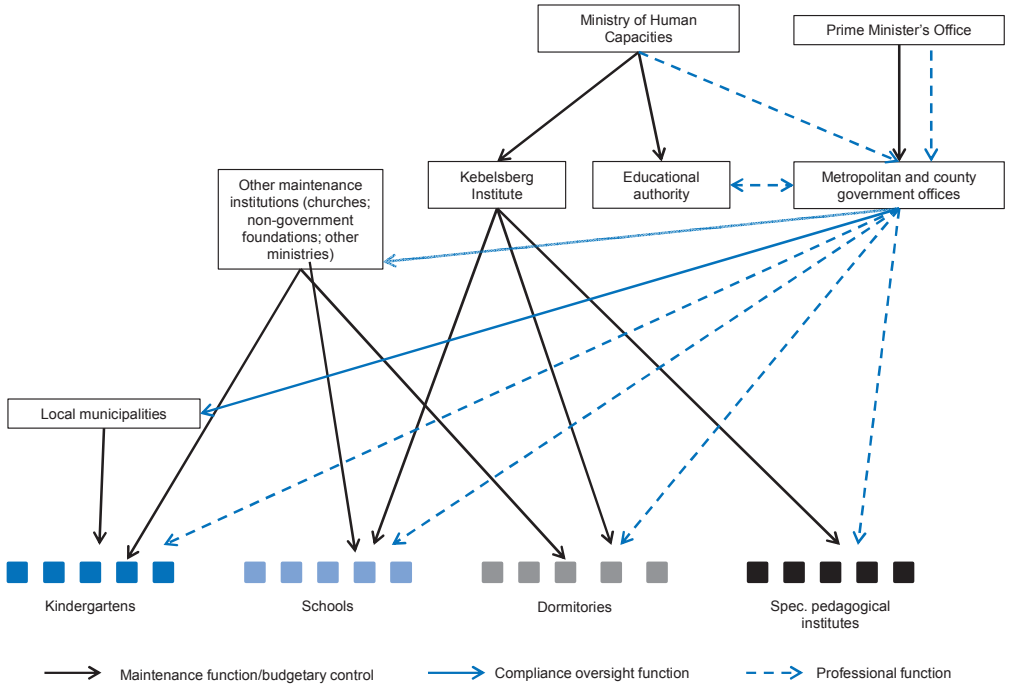
Since January 2012, metropolitan and county government offices (GOs) may conduct legal supervision proceedings to examine the legality of organisation, operation and decision making of local governments. The law requires the LGUs to electronically submit all deliberation to the GO for legal check. The scrutiny is procedural and includes a legal conformity assessment. The GO does not appraise how the LGUs invest their budget, nor the quality of the content of the deliberations. The opinion of the Government Commissioner is mandatory, but it is not binding on the local government authority issuing the deliberation. The Commissioner may exert a veto only in limited selected cases explicitly stated in the law, notably on fiscal decisions and on granting new loans. The LGUs are no longer allowed to operate deficits.

Figure 5.1 illustrates that the GOs have regulatory powers (reporting to the PMO) but do not have control over financial means, while the bodies charged with the maintenance of premises and logistics (such as the Klebelsberg Institution Maintenance Centre)³ do not form part of the GO structure. The Klebelsberg Institute consists of 198 territorial units located in the districts. Owning also school buildings, the institute is competent for the maintenance and operating costs of the state educational institutions and for providing professional instructions. It also manages the number and wage bills of the teachers and other staff. The Educational Authority is a central authority under the supervision of the Ministry of Human Capacities.

In 2011, the authority was split in two parts further to the reform of the public administration – one part reports to its original ministry while seven regional branch offices were merged into the structure of the GOs. The Divisions of Education within the GOs are generally responsible for exercising authority in determined cases and participate in professional inspections organised by the Education Authority. The management of their supervision is shared between the Prime Minister’s Office (to which pertains the functional management of the divisions) and the Ministry of Human Capacities (which exercises the professional management).

According to the type of educational institutions (kindergartens, schools, dormitories and specialised pedagogical institutes), therefore, different supervisors and maintenance authorities intervene in equivalent functional areas, from the central and the local public administration to private actors.

Figure 5.1. The governance of public education in Hungary since January 2013



Source: Based on information provided during the fact-finding mission.

Regional development at the county level is another case in point. Despite the legal provisions differentiating the type of LGU, there is little substantive difference in the competences attributed to county (capital) cities

and other smaller self-governments. The status of a city with county rank is determined by criteria such as the number of inhabitants (there must be more than 50 000) and the size of the infrastructure hosted by the city (for instance, the number of schools and hospitals). In light of their role in the regional socio-economic environment and of their needs, county cities nonetheless benefit from greater funding from the state budget. The government decides upon the allocation of those funds, in consultation with each city authority. In rearranging competencies, STAR has not provided for institutionalised organisational and procedural arrangements to ensure systematic co-ordination and hence synergies in policy making between the government (through the individual GOs) and its counterparts in the county cities. Dialogue has taken place, but it is driven by fiduciary relationships and very often personal meetings between mayors and government commissioners. Moreover, resource allocation for regional development appears to be insufficient (see Box 5.2).

Box 5.2. Regional development at county level

Act XXI of 1996 on Regional Development and Land-use Planning stipulates that regional development tasks shall be fundamentally performed by the county self-governments and the municipality of Budapest Capital City. In this context, counties are responsible for the adoption of the county development programmes, giving opinions on the regional development concepts and deciding on the use of development resources transferred to their competence. County self-governments may create regional development councils in order to promote the development of specific regions crossing over county borders. The Balaton Regional Development Council can be cited as an example in that regard.

This notwithstanding, county cities appeared to struggle to be recognised as one of the primary engines for Hungary's socio-economic development. Act CLXXXIX of 2011 on Local Governments of Hungary stipulates that regional development and land-use planning are the responsibilities of county self-governments and the municipality of Budapest. County self-governments are furthermore responsible for rural development and co-ordination as well. In 2013, the bill was amended in parliament to formally involve county cities in regional development in line with the provisions of the 1996 act. At that time, the government planned some HUF 220 billion indicative allocation to the county cities as a part of its regional development programme. After public consultation of the programme, HUF 387 billion in funds for county cities and HUF 798 billion for counties were granted over the following seven years to be spent through their regional development programmes. This sum was welcomed but it is considered as hardly meeting the estimated overall financial need for regional development in Hungary. On the other hand, development needs of county cities and counties may be also granted through sectorial development programmes at national level in the period of 2014-20.¹

Box 5.2. Regional development at county level (*continued*)

The incompatibility provisions adopted in 2011 further limit the possibility for mayors to represent and voice county interests at the national level. The impossibility for them to sit in parliament reduced not only the political leverage of the national association (MJVSZ)² but also critically constrained their ability to speak with one voice. The abolition of the parliamentary Committee on Self-Governments and Territorial Development further contributed to the pointillism and isolation of the county, city and municipal reality in both Hungary's overall macro-strategic and the detailed operational policy making.³ On the other hand, the 2013 amendment of the 1996 act establishes the National Consultation Forum for Regional Development to provide mutual exchange of information among the central government, the counties and county cities on regional development strategies and national and regional development interests (see Box 5.3).

International experiences highlight the importance that countries give to regional and county development. In Finland, for instance, the 2011 territorial administrative reform has sought to foster synergies between streamlining public governance and administrative procedures on the one hand, and private sector development at the regional and local level on the other. The Finnish provinces and their governments were abolished and replaced by districts. Regional state administrative agencies (AVI)⁴ and so-called centres for economic development, transport and the environment (ELY)⁵ were created.

ELY centres are tasked with promoting regional competitiveness, well-being and sustainable development and curbing climate change. They have three areas of responsibility: business and industry, labour force, competence and cultural activities;⁶ transport and infrastructure; and environment and natural resources. Not all of the 15 ELY centres directly deal with all 3 areas of responsibility as they can also manage duties on each other's behalf.

In place for a couple of years now, this structure is considered to be an effective way of supporting and boosting regional development both in terms of administrative tasks and dynamic effects in the regions. It has also given a lot of possibility and room for creativity and innovation on regional and local level.

Notes: 1. The financial allocation of the 2014-20 national and regional development programmes amount to some HUF 7 500 billion. 2. To illustrate, in the past term, 17 of the 23 mayors whose cities are members of the MJVSZ sat also in parliament. Further to the 2014 elections, only 7 county city mayors were elected members of parliament and these will have to opt for either office further to the local elections of autumn 2014. 3. The Association of Hungarian Cities with County Rights (www.mjvsz.hu) for example estimated the amount of investment needed in some HUF 6 000 billion. 4. See: www.avi.fi. These agencies cover basic public services, legal rights and permits; occupational safety and health; environmental permits; and fire and rescue services and preparedness. 5. See: www.ely-keskus.fi. 6. For instance, ELY centres support private companies in recruiting labour forces and they organise vocational training.

The provision of healthcare and social care services is a third sector which highlights the potential for governance tensions. The management of (free) medical care to which a person would be entitled when hospitalised (so-called inpatient care competence) was brought under the competence of the state beginning in 2012 (the National Institute for Quality and Organisational Development in Healthcare, GYEMSZI). By contrast, basic healthcare services and subsequent nursing (outpatient) services that might be required throughout the recovery and convalescence period are organised and delivered by local authorities. While this *per se* does not necessarily constitute a diseconomy of scale, STAR has apparently not yet developed dedicated co-ordination arrangements to ensure the systematic, automatic and smooth handling of the various phases of this life event.

A further domain where possible operational discrepancies might emerge because of a partial and still incomplete implementation of STAR refers to measures aimed at promoting entrepreneurship and developing the private sector and whose impacts are typically captured by “Doing Business” performance indicators. Such measures benefit significantly from strong synergies between administrative simplification initiatives such as process re-engineering, administrative burden reduction, the introduction of ICTs, risk-based enforcement approaches, etc. While the central administration has embarked on a number of such reform initiatives, the review team could not identify any spill-over effects or cross-fertilisation attempts between those and the implementation of STAR. Additionally, local self-governments have competence over delivering many permits and licenses for economic activities and for overseeing their legal compliance. These authorities do not participate systematically in the pro-business reforms launched centrally.

The County State Administration College, the forum regrouping government commissioners and the heads of the DOs and other relevant organs, is in place but its mandate and procedural arrangements have yet to be fully upgraded to match the need for institutional co-ordination across levels of government. The college provides a platform for sharing knowledge and enhances co-operation during the implementation of government policies at the territorial level.

One-stop shops can act as co-ordinating platforms to cope with competency allocation but there still is considerable margin to tap into this potential fully. The function performed by the OSS can partly compensate on a case-by-case basis for this lack of co-ordination dialogue between levels of government. In the healthcare sector, for instance, thanks to the platform and gate-keeping support provided by the OSS, a hospitalised

person may in fact request administrative assistance in identifying the relevant interlocutors and service providers in the public administrations responsible for her/his case. With regard to private sector development issues, the OSS can contribute by bundling some of the administration's tasks (for instance, eventually issuing the final permits to the economic actor) but they are not yet in a position to steer efficient cross-institutional workflow. Indeed, there does not seem to be a generalised mechanism for integrating various interdependent policies and services, especially in cases where the allocation of competencies crosses jurisdictional boundaries.

On the basis of these examples, while it has certainly marked a substantial improvement from past regimes, STAR does not appear to have spurred sufficient institutional and procedural arrangements allowing for systematic co-operation both between the state administration and the LGUs and among the LGUs themselves. Sharing experiences, benchmarking and seeking good practices does not unfold regularly among districts and counties. Horizontal co-operation is left to the personal voluntary initiative by individual government commissioners or DO heads. Vertical co-ordination between the GOs and county governments and between the DOs and the LGUs is not formally institutionalised either, but does appear to occur regularly. It largely benefits from close personal linkages between relevant political figures in the territory or among senior managers. The DO heads are usually in very close contact with the mayors.

Ongoing arrangements and initiatives address these challenges and bear promising potential for capacity building and co-operation. The National Council for Cooperation of Local Governments (ÖNET), the Hungary-Norway MANORKA project aimed at identifying training opportunities for local officials to enhance co-ordination between the LGUs and the DOs, and the National Interest Reconciliation Forum for Regional Development (OTÉF) are illustrative examples in this respect (see Box 5.3).

A number of GOs and DOs make efforts to smooth potential governance gaps through enhanced communication and information campaigns to the public. They publish their own Official Gazette. On a voluntary basis, the GOs and DOs organise information campaigns and events with the aim of increasing the awareness among the citizenship and economic operators of the nature and scope of activities performed by the state territorial administration. This can be considered good practice and similar, equivalent initiatives could be promoted.

Box 5.3. Strengthening co-operation and dialogue in Hungary

The National Council for Cooperation of Local Governments (ÖNET) was established in 2010 as a national forum for discussing all important issues affecting local governments (including the preparation of the annual budget act as well). The ÖNET is led by the State Secretary for Local Governments in the Ministry of Interior.

The MANORKA project aimed at identifying training opportunities for local officials to enhance co-ordination between the LGUs and the DOs fosters capacity building in municipalities through Norwegian-Hungarian co-operation. It covers the period 2013 to 2016. The project involves the Hungarian and Norwegian ministries affecting local governmental operations which, on the Hungarian side are the Ministry of Interior, the Prime Minister's Office and the Ministry of Human Resources. It seeks to identify areas of possible co-operation between the LGUs and the DOs. For that purpose, trainings will be held from February to June 2015 in 100 districts for the heads and employees of the district and municipal offices.¹

The National Interest Reconciliation Forum for Regional Development (OTÉF) was created in 2013 through the amendment of Act XXI of 1996 on Regional Development and Land-use Planning. Its members are the government, county self-governments and the municipality of Capital City Budapest. The OTEF's main role is to harmonise local self-government and government intentions, objectives in order to enhance the effectiveness and efficiency of territorial development policy. The first meeting of the OTÉF has not taken place yet, it is currently under convocation. The consultative forums at county/regional level provide an opportunity for consultation among regional stakeholders.

Note: 1. See: www.manorka.net/en/a-projekt-bemutatas-a-en/short-description.

Recommendation 7

Achieve ever closer alignment between task allocation and co-ordination arrangements.

Building on the implementation experiences in the field of public education, social services and healthcare provision and capitalising on structures such as the County State Administration College, the government could thoroughly review the lines of responsibilities, reporting and co-ordination of various public bodies and government levels. In some instances, such alignment appears to be complex, potentially overlapping and incomplete. The governmental review could consider in an integrated manner the interface between the central institutions (ministerial level) and the state territorial administration; as well as the interface between the state territorial administration and the local self-governments at county and local level. The government could also consider verifying that there is adequate matching between the delegated responsibilities and the resources granted to discharge them.

The efficiency criterion

From the perspective of the LGUs, relocation of labour has unfolded relatively smoothly. Staff working in professional services seems to have adjusted rather smoothly to their relocation to GO or DO tasks. Those civil servants constituted a minimal part of the relocated staff. Some 80% of the LGU personnel that was relocated continued to perform very similar or equivalent tasks and most of them are now active in the OSS. The Institute for Public Policy Research's (KKI) surveys report that according to the representatives of the LGUs interviewed, too many of their employees were moved to a DO compared to the actual allocation of tasks. The number of relocated civil servants is less than the ratio of the transferred state administrative tasks.

Some challenges have emerged in terms of adapting to the new bureaucratic culture that the front-office tasks at the OSS require. Many previously LGU-engaged civil servants stem in fact from the police corps, which traditionally has a more authoritarian attitude towards the users of public services than what there is supposed to be under an administrative logic which seeks to become more client-oriented. As signalled above, ongoing and future training programmes will have to specifically address this issue.

STAR is reported to have contributed to the process of healing the financial framework at the local level by eliminating the LGU debt. At the same time, the redefinition of the local competences has significantly reduced the margin of action entrusted to mayors and notaries. *De facto*, this has limited their competences to strictly local (and administrative) issues and hindered an explicit benchmarking or competitive approach to local development between the LGUs. No “race to the top” dynamic is fostered. Mayors tend to thus have few incentives to look strategically beyond the boundaries of the territory they administer, and avenues for multi-level policy considerations are to a great extent left to informal, personal fiduciary relationships.

Some of the announced savings for the LGUs are moreover mainly shifts from the local government to the central government budget, rendering the actual impact on STAR difficult to appraise at this stage. Furthermore, in several instances, the DOs and the OSS occupy premises owned by the LGUs, without paying rent. For these reasons, a number of interlocutors interviewed by the review team have expressed caution in appraising the actual impact of STAR on the overall public debt, claiming that it is too early at this stage to confidently provide definitive evidence. More substantial savings are expected to emerge in the mid-term (three to five years), if the reform continues at present pace, notably thanks to a

substantial reduction in administrative burdens and red tape for both end users and the public administration, a sustained diffusion of ICT solutions and a rationalisation of the allocation of staff across the public administration as a whole.

This diagnosis confirms the findings of the 2013 OECD review as well as the 2014 *OECD Economic Outlook*, which highlighted that “despite recent simplification efforts, as part of an overall strategy to improve the business environment, high administrative burdens persist and regulatory instability has worsened, partly due to poor consultation and weak impact assessment mechanisms” (OECD, 2014)

Recommendation 8

Review the regulatory environment and fully exploit the economic and policy synergies with local self-government.

The government could further review primary laws and implementing regulations, the licenses and permits regime, as well as regulatory enforcement and inspections obligations to maximise collaboration opportunities with local self-government authorities as appropriate, so as to ensure synergies with local self-government (and generate further cost savings, if applicable). Particular consideration could be given to the feedback and control exercised by locally elected officials as a means to ensure that policy interventions remain effective and fully accountable to local constituencies while meeting the needs of local citizens and businesses.

The sustainability criterion

From the perspective of the LGUs, two possible issues might deserve closer attention by the government in relation to the long-term viability and sustainability of STAR. The first relates to incentives and capacities in local administrations. As so far implemented, STAR might have generated a possible unintended “risk-risk” consequence.⁵ As a norm, the relocation of staff from the LGUs to the DOs affected only those civil servants who fulfilled the state administrative tasks that were transferred to the deconcentrated state administration. Those civil servants that worked on state administrative tasks which kept being performed by the LGUs were by contrast not relocated. Nonetheless, if only the most motivated and skilled LGU staff is selected and moved to serve in the state territorial administration, there is a risk of leaving the LGUs with relatively weaker capacities. Over time, this is likely to require even greater efforts to improve local effectiveness, especially in small and remote localities where the

attractiveness of a job in public administration is comparatively lower than in bigger centres and the “brain drain” phenomenon is already structural. On the other hand, the question also arises about the incentives of those skilled administrators in the LGUs who were not selected and had to remain. Acknowledging this scenario calls for a careful plan of capacity-building measures and structural investments specifically targeting the LGUs. Considering the size of local civil service and the important role played by the LGUs in the everyday life of the citizens and economic operators, this needs to be tackled as an urgent ancillary line of action of the government to complement STAR.

A second sustainability issue refers to the overall public accountability and legitimacy of public authority on the ground. Fostering mutual trust and dialogue among all levels of government is a precondition for stimulating initiative, innovation and responsibility also at the local level. The GOs and their heads, the government commissioners, are at the heart of the territorial reform. This new role with high competencies and direct relations with the MPAJ/PMO and line ministries as well as their tasks of co-ordinating the DOs makes the commissioner a pivotal person within the territory. STAR may have set the basis for a stronger and more uniform presence of the state on the territory but, as the reform is currently designed, public accountability by the citizens remains indirect (as commissioners are appointed by the government) and it appears to have been weakened also in relation to the reduced scope and mandate of the elected local self-government. Over time, this might remove the opportunity to build legitimacy of the central state representatives on the territory and hence of the whole STAR system and its achievements.

The role of the LGUs is paramount for the daily life of the citizens and many aspects of the economic activity. Seeking economies of scale through reallocation of competences and administrative and organisational consolidation prompts efficiency gains and potentially enhances effectiveness and performance. In this respect, the buy-in of the local authorities in the overarching reform design and implementation is crucial. Stronger LGUs help “rethink” the service delivery system and support local initiative, innovation and responsibility. It is important that a constructive dialogue fostering mutual trust occur at all levels of government and with all actors involved (see Boxes 5.4 and 5.5).

Box 5.4. Ensuring multi-level dialogue: Spain

In Spain, the National Committee for Local Administration (CNAL) is the standing body for collaboration between central and local governments. It is composed of an equal number of representatives from central and local governments and chaired by the Ministry of Finances and Public Administration. In the case of local governments, these representatives are designated by the “National Association of Local Governments” most present throughout the national territory, and in any case they are locally elected.

The CNAL is empowered to issue a report on draft bills of administrative laws and regulations about matters connected to local entities within Spain’s central government’s powers; and on criteria for debt transactions authorisations to local entities.

The other body of co-operation between central, regional and local governments is the Sector Conference for Local Affairs.

Note: 1. See: www.seap.minhap.gob.es/en/ministerio/organos/cnal.html.

Recommendation 9

Build on results of dialogue between local governments and the state that has been permitted through the recent creation of fora and rationalise the current institutional arrangements.

The government could fully exploit the learning opportunities generated by ongoing arrangements and projects such as the National Council for Cooperation of Local Governments (ÖNET), the Hungary-Norway MANORKA project aimed at identifying training opportunities for local officials to enhance co-ordination between the LGUs and the DOs, and the National Interest Reconciliation Forum for Regional Development (OTÉF), with a view to consolidate and institutionalise dialogue between the central government and the national associations of local governments on a permanent basis. This could be a means to build trust between the various institutional players involved in designing and delivering services to citizens and businesses, and to resolve issues that may crop up from time to time in this process. Such a national forum could be supported by regional working parties reporting to it, in which representatives of individual LGUs could participate when appropriate.

Notes

1. Overall, 45% of the state administrative tasks were transferred to the DOs. The 2013 OECD review discusses the reallocation of competences (see OECD, forthcoming: 65 ff.) and Table 2.3 there lists the competences in detail.
2. The Ministry of Interior undertook a review of the allocation of tasks between local self-governments and the state administration in the second part of 2014. The government is moreover seeking to rationalise task performance by the LGUs. For example, the LGUs are entitled to impose local taxes on own discretion (with the exception of the taxes subject to central regulations) since 1 January 2015.
3. See: <http://klik.gov.hu>.
5. Typically, a “risk-risk” situation occurs when government actions taken to address one problem (in this case: appropriately equipping the DOs and the OSS) create additional or new substantive risks elsewhere (lower expertise and weaker capacity in the LGUs’ administrations). “Risk-risk” is a term introduced with regard to risk regulation to describe some of the unintended consequences of government action, especially decisions about the best way to manage real or perceived risks to human health, public safety and the environment. See Graham and Weiner (1995).

References

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Annex A

Interview programme

The OECD review team met with the following stakeholders during the fact-finding mission to Budapest (12-16 May 2014):

- Ministry of Public Administration and Justice (of which, in particular, the Department for Territorial Public Administration Development and the Unit for Regulatory Procedure)
- Ministry of National Economy
- Institute for Public Policy Research (KKI)
- Bács-Kiskun County Government Office and District Office
- District Office of the Metropolitan Government Office of Budapest
- District Office One-Stop Shop
- Trade Union of Hungarian Civil Servants and Public Employees
- Hungarian National Association of Local Authorities
- Association of Hungarian Cities with County Rank
- National University of Public Service

Annex B

The evaluation's critical success criteria

Evaluation criteria	Critical success factors
Relevance	<ol style="list-style-type: none"> 1. The reform's objectives and the scope of the activities linked to the reform respond to the needs/expectations of the administrative services involved as well as those of the end users (citizens and stakeholders). 2. The components of the reform are appropriate to meet the reform objectives. 3. The reform ensures buy-in, commitment and ownership by all actors involved.
Effectiveness	<ol style="list-style-type: none"> 1. The reform is grounded on performance indicators. For each component of the reform, mechanisms and tools for analysing and rating the quality of the output/outcomes achieved are in place. 2. The reform delivers its objectives fully. 3. The outputs and outcomes of the reform adequately respond to the needs/expectations of the administrative services involved and of the end users.
Efficiency	<ol style="list-style-type: none"> 1. The resources made available for the reform are used and outputs are delivered in the manner envisaged and according to the set timetable. 2. The organisational and procedural governance designed for the reform is well-suited to deliver the reform's objectives. 3. The various actors of the reform collaborate effectively.
Sustainability	<ol style="list-style-type: none"> 1. The reform lies on a shared sense of ownership among all actors involved (policy makers, civil servants and end users) and there is a strong active interplay among these actors. 2. There are sufficient financial resources to implement the reform until all of its objectives have been adequately achieved. 3. A capacity-building programme ensures that the changes brought about by the reform are progressively mainstreamed. 4. Mechanisms are in place to trigger knowledge sharing and lessons learnt geared at steady improvement and ownership.

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HUNGARY

REFORMING THE STATE TERRITORIAL ADMINISTRATION

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