

## 2 PUBLIC WORK PROGRAMMES IN HUNGARY

### 2.1 THE INSTITUTIONAL AND LEGISLATIVE CONTEXT OF PUBLIC WORKS SCHEMES: A HISTORICAL OVERVIEW

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This subchapter describes the regulation details regarding the various types of public works programmes in Hungary, discussing the system before 2011 (in which basically three types of public works programmes existed) and the one after 2011 (the ‘unified’ system) separately. The subchapter also discusses institutional and legislation changes (including those concerning the funding mechanisms of public works programmes) as well as implementation issues.<sup>1</sup>

#### Types of public works programmes before 2011

Before 2011, public works programmes could take three distinct forms in Hungary (namely, organised by the PES, national authority, or by municipalities). These three types did not differ substantially in terms of content or types of activities they covered, but they did vary by the funding mechanisms and by who the responsible body was.

Although schemes under the name of ‘közhasznú munka’ (hereafter referred to as ‘PES-managed public works’) had been launched since as early as 1987 (Csoba, 2010), it was only first regulated by Act IV of 1991 Regarding this type, any decision about subsidising participation was made by the public employment services (PES): local offices were responsible for the placement of registered jobseekers who carried out public tasks (usually belonging to the responsibilities of municipalities) for a maximum of one year. A jobseeker could only be re-employed as a public worker within a two year period if they were not eligible for social insurance-based benefits, although this could be easily manipulated by employing someone on consecutive short periods with interruptions, enabling local PES offices to employ them for more than one year (Szabó, 2013). A maximum of 70 per cent<sup>2</sup> (after 1992, 90 per cent in the case of Roma participants or workers no younger than 45) of total wage costs and some direct costs (for example, transportation costs or protective equipment) could be financed by the decentralised part of the Employment Fund allocated by counties (Firle–Szabó, 2008, Frey, 2008). Funds for PES-managed programmes dramatically decreased after 2009; with the global economic crisis deepening, its role was taken over by municipal public works schemes.

The second type of public works programmes, those operated by national authorities [közmunkaprogramok] was first launched in 1996: these schemes were usually organised for seasonal jobs requiring heavy manual labour, such

<sup>1</sup> I would like to thank Márton Kulinyi, Ágota Scharle and Irén Busch for the clarification on some details and their useful comments.

<sup>2</sup> The level of intensity varied by county.

as flood control, maintenance works in transport infrastructure and public buildings, or environmental tasks (*Firle–Szabó, 2008*). One of the most significant of the national public works programmes was delivered under the framework of the ‘100 steps’ government programme from November 2005 to the end of June 2006, involving 1024 (about every third) settlements nationwide and providing work for a total of 24,550 participants (Audit Report, *ÁSZ, 2007*).

Funding of national programmes was provided via tenders: before 2003, the responsible ministry, and from 2003 on, the Public Works Committee called for applications annually. The range of possible applicants covered local governments and other public bodies, such as public utilities, forest management plans, or national parks. Applicants who proposed employing disadvantaged groups or who operated in disadvantaged regions received preferential treatment during the tenders. Up to 60 per cent of all costs were covered by the central budget, a further 7–10 per cent had to be contributed by the applicant, and the rest was financed from other sources, most often by European Union funds (*Firle–Szabó, 2008*). The funding mechanism was regulated by the 49/1999 (III. 26.) government decree, which was modified several times over the years. These modifications included, for example, broadening the range of possible applicants; loosening the requirement of employing a minimum of 100 workers; providing more possibilities for training under the frameworks of the programme; and enabling a somewhat more flexible accounting for costs (Audit Report, *ÁSZ, 2007*). From August 2008 on, the applicants were required to ensure that at least 40 per cent of workers were persons eligible for regular social assistance (*Frey, 2008*).

The third type of public works programme, the municipal public works scheme [közcéltű foglalkoztatás], was introduced from May 2000 by the modification of the Social Code in 1999. The main goal of the introduction was to provide temporary work opportunities for regular social assistance [rendszeres szociális segély] claimants: participation in municipal public works for at least 30 days was prescribed as an eligibility condition for social assistance. Beneficiaries were only exempt from this condition in the event that neither the municipality nor the local PES office could offer any public works. The requirement regarding the 30-day participation has remained in force during the whole period and was not affected by consecutive changes in the minimum income scheme, such as tightening the behavioural requirements in 2005, changing the formula for the amount in 2006, and introducing the unemployment assistance in 2009 (first under the name of ‘rendelkezésre állási támogatás’ [RÁT], later renamed as ‘bérpótló juttatás’ [BPJ], and later as ‘foglalkoztatást helyettesítő támogatás’ [FHT]). Municipal-type programmes were organised and operated by local governments or their partnerships.

Among the three types of public works programmes, the municipal one had the most generous subsidies for the municipalities from the central budget. Before 2009 (pre-‘Road to Work’-period), the annual Public Budget Act determined an ear-marked budget for municipal public works. **The central subsidy** could be spent on the wage costs of the participants, material expenses or administration costs. The amount of the subsidy the municipality received depended on the number of participants and the number of days they were employed (for example in 2008, it was set as 3,900 HUF per participant per day). The annual overall amount by settlement was constituted by a fixed amount (in 2008, it was 50,000 HUF) and an additional amount that depended on the number of regular social assistance recipients and municipal public works participants in the previous year. This allocation mechanism proved to be inefficient and inflexible in the period between 2000 and 2002, as it did not allow for redeployment of resources between settlements: while in some cases settlements did not absorb all available funds, in other cases some settlements had a deficit (Audit Report, *ÁSZ*, 2007). From 2003 on, redeployment among settlements was enabled: settlements which absorbed more central funds during the first half of the year were allocated more resources for the second half of the year, whereas available funds for settlements which relied less on public works were cut. It was the Hungarian State Treasury which was responsible for administering and paying the subsidies.

### **Road to Work programme, 2009–2010**

The main objective of the Road to Work programme (which was announced in 2008 and launched in 2009) was to provide additional funding resources for local governments, enabling them to provide work opportunities in municipal-type programmes to a substantially higher number of welfare recipients. Besides increasing the budget for local governments, some other changes regarding public works were introduced. First, those who were no older than 35 and had not finished elementary school were obliged to take part in formal education instead of participating in public works. Second, each municipality had to work out a so-called ‘public works plan’ which included calculations for the number and distribution of prospective public works participants, along with details on the nature of planned tasks, timing, and funding needs (*Scharle et al*, 2011). These annual plans had to be developed in cooperation with the local PES office in charge, and had to be finished prior to the 31st of January in each year.

At the same time the programme was launched, the social welfare system underwent a substantial change. The group of regular social assistance claimants were divided into two groups: those who were assessed as able to work and those who were not. The formal group of claimants became eligible for a new benefit, the unemployment assistance [*rendelkezésre állási támogatás*],

and became the main target group of public works schemes. The latter group (those who were assessed as incapable for work, due to ailing health status or other reasons) continued to receive social assistance. While unemployment assistance claimants had to register as jobseekers and were obliged to cooperate with the staff of the local PES office, social assistance claimants were subject to behavioural requirements set by the body appointed by the municipality, which was usually the family assistance centre.

The Road to Work programme provided a budget for municipal public works that was considerably larger than ever before. Furthermore, the government also tried to incentivise municipalities to expand public works through a change in the funding mechanism: in the case of municipal public works, the intensity of central funding increased to 95–100 per cent from the previous level of 90 per cent, whereas in the case of unemployment assistance, central funding was only 80 per cent (*Scharle et al*, 2011). Act CLXIX of 2007 (which set the public budget for the year 2008) defined a budget for municipal-type public works which was much larger than in the previous years. From this budget, the Treasury automatically reimbursed 95 per cent of wage costs for every public worker the settlements requested funding for in every month. Subsidies were also available for the rest of the wage costs (5 per cent): the annual public budget acts defined a formula for a grant that was differentiated by the social characteristics of the settlements, and the total amount of subsidies paid to municipalities depended on the total population of the settlement (in 2010, for example, it was 4,100–20,300 HUF per person). The formula for the unit cost depended on the number of regular social assistance claimants and on the number of public works participants in the previous year, among other factors.

### The ‘unified system’ after 2011

#### *Main changes*

From September 2011 onwards, the three types of public works programmes described above were abolished and replaced by the ‘unified system for public works schemes’. The new system is regulated by Act CVI of 2011, while the funding mechanism is described by the 375/2010 (XII. 31) government decree. Legal oversight was taken over from the Ministry for National Economy by the Ministry of the Interior from 1 July 2011.<sup>3</sup>

The new act has established a previously non-existent form of legal relationship, the so-called public works engagement, which has replaced the former legal relationship (employment) of public workers. This meant that since 1 September 2011, public workers can be hired at a wage lower than the statutory minimum wage set for those in a legal relationship of employment. The minimum wage set for public workers is declared via government decrees, and amounts to about

<sup>3</sup> During the preceding government’s rule between 2006 and 2010, the responsible governmental department was the Ministry of Social Affairs and Labour (SZMM).

76–88 per cent of the net minimum wage (depending on the year); for public workers employed in higher skilled jobs (requiring a certificate), it is about 84–86 per cent of the net minimum wage<sup>4</sup> (*Busch–Cseres-Gergely, 2011, Molnár et al, 2014*). In addition, public workers are now entitled to fewer days off (20 days per calendar year, irrespective of age) compared with those employed on the open labour market. Concerning other rights and responsibilities of public workers, the Labour Code (Act I of 2012) has remained in force.

In the new system, behavioural conditions applied to public workers also became stricter: unemployment assistance claimants are now obliged to accept any jobs offered, irrespective of their education level; before 2011, they were allowed to reject jobs for which they were overeducated (by more than one level) without any sanctions. Furthermore, finishing elementary school is no longer compulsory for uneducated jobseekers under 35 (a rule which was introduced at the launch of the Road to Work programme) (*Molnár et al, 2014*).

Behavioural conditions were tightened once again from January 2013: those who decline to participate in the public works programme that was offered not only face a reduction in benefit level but can also be erased from the unemployment register and excluded from all future public works opportunities. From September onwards, jobseekers who do not comply with local decrees that prescribe keeping their garden and surroundings clean, or whose child under the compulsory school-leaving age is frequently absent from school without a justified reason, can also be disqualified from participation (*Cseres-Gergely–Varadovics, 2013*).

### *Subtypes of public works schemes in the new system*

Since 2011, potential subtypes of public works schemes are the following (based on *Molnár, et al, 2014, Kulinyi, 2014, and Tajti, 2011*):

- Short-term public works: these programmes last for 1–4 months and involve part-time work for a maximum of 4 hours per day. Participation is possible only for unemployment assistance recipients. This type of programme became extremely rare in 2012 and had become non-existent by 2013 (*Mód, 2013*).

- Long-term public works programmes: these programmes originally lasted for 2–11 months; from 2015 onwards, the maximum duration is 12 months. They involve full-time work for 6–8 hours per day. Since the beginning of 2015, rehabilitation benefit claimants (those with health impairments but assessed as able to work) have the opportunity to work for only 4 hours per day. The main target group of these programmes is the group of unemployment assistance claimants, although any jobseekers can participate.

- New national public works programmes: these programmes are organised by state-owned corporations (such as public utilities or forest management plans), for tasks including flood control or maintenance works in public transport infrastructure. The maximum duration is 12 months, and work

<sup>4</sup> Since 1 January 2015, the full-time wage for public workers in unskilled occupations (that require no certificate) is HUF 79,155 per month, and HUF 101,480 per month for public workers in occupations requiring a certificate, as defined by the 376/2014 (XII. 31.) government decree. Since 2013, a public worker hired as the head of a working group is entitled to a somewhat higher wage: as of 2015, it is HUF 87,090 in unskilled occupations and HUF 111,660 in occupations requiring a certificate. Similarly to wages in the open labour market, wages of public workers are subject to personal income tax (16 per cent), social security contributions paid for pension (10 per cent), health insurance (7 per cent) and unemployment insurance (1.5 per cent); employer-side contributions are the social contribution (13.5 per cent) and the contribution for vocational education (1.5 per cent).

can be done for 6–8 hours per day (for rehabilitation benefit claimants, 4–8 hours per day).

- **‘Value-generating public works’ programmes: the objective of these programmes** was to ‘support activities that enable local governments to save costs or to accumulate revenues’ (*Molnár et al*, 2014). They operated until 2012.

- Model programmes ‘Start’: these programmes operated under the long-term public works category until 2013, when they became a distinct subtype (*Mód*, 2013). Managers of these programmes receive additional professional assistance and consulting during the planning and implementation phases. Sub-categories include the ‘micro-regional model programmes’ (that are implemented in disadvantaged regions; *Kulinyi*, 2014) and the ‘agricultural model programmes’. The long-term objective of agricultural model programmes is to encourage and establish self-sufficient economies by supporting social cooperatives and subsistence farming. From November 2013 on, the condition for receiving subsidies from the central budget is that revenues from these programmes must be spent on wage costs of public workers or on the management of the social cooperatives (*Cseres-Gergely–Varadovics*, 2013). The programmes are usually complemented by training for the participants: this training can only be offered by the state-owned Türr István Training and Research Institute, a background institution of The Ministry of Human Capacities (*Mód*, 2013). Besides the micro-regional and the agricultural model programmes, other subtypes of the Start programmes exist that can cover a wide range of activities: for example, ‘special Start model programmes’ can subsidise jobs for homeless jobseekers, or can finance cultural community development etc.

- Transitory programmes during winter: due to the strong seasonality of employment, these programmes try to counterbalance the usually lower employment rate during winter time. The first programme was launched in November 2013, and covered activities such as processing horticultural products, indoor maintenance works, or working in public administration, social services or public education institutions (*Kulinyi*, 2014). These programmes were most often linked with training for the participants.

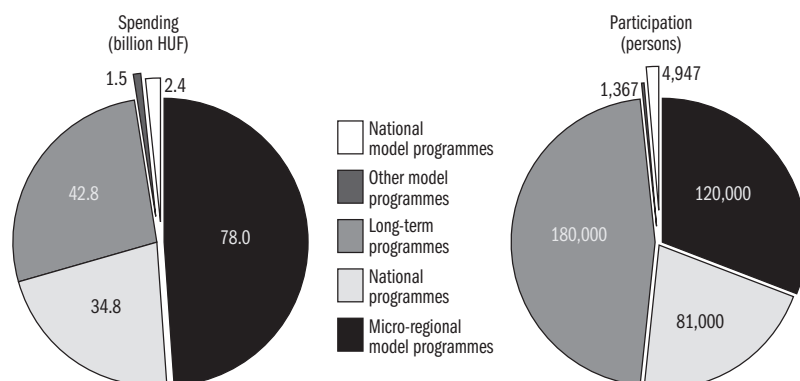
- **Mobility support for public workers: job exchange.** Participation is possible exclusively for unemployment assistance recipients.

- Subsidies for small- and middle-sized enterprises to hire unemployment assistance or rehabilitation benefit claimants: these programmes are very similar to wage subsidy measures that subsidise hiring workers who increase the total workforce at the firm. The subsidy covers 70 per cent of wage costs and can be given for a maximum of 8 months. After the subsidy is used up, the employer receiving the subsidy is obliged to extend the contract of the subsidised worker for an unsubsidised period that is at least half as long as the subsidy lasted.

Figure 2.1.1 presents the distribution of programme types (implemented in 2014) by the amount of final costs and the number of participants.



Figure 2.1.1: Spending and participation in public works programmes by type, 2014



Source: Belügyminisztérium.

### Funding

Managers of public works programmes can apply for funding from the central budget at the regional PES agency in charge. The source of funding is the Employment Insurance Fund (later renamed as the National Employment Foundation); complementary training is financed by ESF grants, such as SROP 1.1.2/1.1.4 (*Busch, Cseres-Gergely and Neumann 2012*) or SROP 2.1.6 (*Mód, 2013*). The intensity of central funding depends on the subtype of the programme: it can be up to 100 per cent of total wage costs (including social security contributions) in the case of long-term public works programmes. In certain cases, central funding can also be spent on direct costs other than wage costs or on administration costs: the level of intensity varies between 5–20 per cent of the total subsidy on wage costs (depending on subtype; see *Table 2.1.1*).

Table 2.1.1: Intensity of central funding since 2011 (per cent)

	Short-term	Long-term	National	Model programmes 'Start' (except for the 'special' variation)	'Special' model programmes 'Start'
Gross wage costs	95	70–100*	100	100	100
Direct costs	5	20	20	Depends on the no. of participants, piecewise linear***	A maximum of 30
Administration costs		1,5**	3		

\* Depending on disadvantaged/non-disadvantaged status of the settlement.

\*\* Since 2015 and only for municipalities with no independent town hall.

\*\*\* Programmes with 1–15 participants: up to 100 per cent; programmes with 16–45 participants: 100 per cent for the first 15 participants, 90 per cent for the rest (above 16); programmes with 46–135 participants: 100 per cent for the first 15 participants, 90 per cent for the second 15 participants (16–45), 80 per cent for the rest (above 45); programmes with more than 135 participants: 100 per cent for the first 15 participants, 90 per cent for the second 15 participants (16–45), 80 per cent for the third 15 participants (46–135), 70 per cent for the rest (above 135).

### Summary: main changes in the institutional and legislative context concerning public works in the past 20 years

Since the transition in 1989/1990, the institutional and legal context of public works schemes in Hungary has undergone several transformations. Arguably, the Road to Work programme (launched in 2009) and the ‘unification’ of the system (introduced in 2011) brought about the most substantial changes. For an overview on the different types of programmes during the period of 1991–2015, see *Table 2.1.2*.

**Table 2.1.2: Overview of public works types**

	PES-type public works	National-type public works	Municipal-type public works	‘Unified’ system
Period	1991-2010	1996-2010	2000-2010	2011-
Type of activities	all kinds of municipal tasks	municipal communal, environmental tasks, or other public functions	all kinds of municipal tasks	all kinds of municipal tasks and tasks defined in Act CVI of 2011
Target group	any registered job-seeker	mainly long-term unemployed	2000-2009: RSA-claimants; 2009-2010: UA-claimants	registered jobseekers (UA-claimants), rehabilitation benefit-claimants
Potential employers	municipality, municipal company, public body, NGO	municipality, public authority, public company	municipality, municipal company, public body, NGO	municipality, public body, church, NGO, municipal or public company, etc.
Funding agency	PES (from the Unemployment Insurance Fund)	Public Works Committee (from the Unemployment Insurance Fund)	Hungarian State Treasury (from the Unemployment Insurance Fund & national budget)	PES (merged into the general government offices in 2015)
Way of application for central funding	reimbursement through the PES	through tenders	by normative funding	reimbursement through the PES / general government office
Intensity of central funding	up to 70 per cent	60 per cent	90-95 per cent	70-100 per cent
(Subsidised) wage paid for participants	statutory minimum wage	statutory minimum wage	statutory minimum wage	wage for those engaged in public works (set by gov. decree)
Duration of programme	max. 12 months	depends on programme (about 3-12 months)	min. 30 days - max. 12 months (in each year)	max 12 months, in 2014: max. 11 months (can be extended); since 1 January 2015: max. 12 months + can be extended by 6 months
Related legislation	Act IV of 1991 (Ftv.)	6/1996 (VII. 6.) MüM ministry decree; 49/1999 (III. 26.) gov. decree; Funding: 49/1999 (III. 26.) gov. decree; 199/2008 (VIII. 4.) gov. decree	Act III of 1993 (‘Social Code’); Funding set in the annual public budget acts	Act CVI of 2011 (Kftv.); Funding: 375/2010 (XII. 31.) gov. decree; Wages declared by: 170/2011 (VIII. 24.) gov. decree

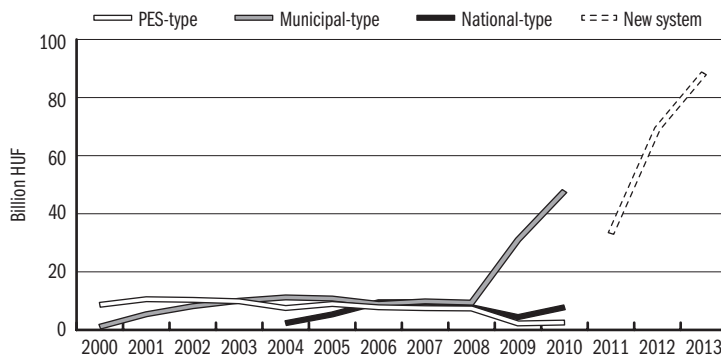
Notes: RSA – regular social assistance (‘RSZS’), UA – unemployment assistance (‘RÁT’, ‘BPJ’ or ‘FHT’). MüM – Ministry for Employment Policy.

Source: *Kulinyi* (2014), author.



Activities covered by the three types of programmes before 2011 did not differ significantly, although national-type programmes had a higher propensity to involve tasks that required heavy manual labour, whereas municipal-type and PES-type programmes covered all kinds of activities that usually belong to municipal responsibilities, including administration tasks. Concerning the characteristics of the target group, all three schemes targeted those not employed on the open labour market, specifically the long-term non-employed. The main objectives of all three types, as communicated by the governments (work test, providing income support for long-term unemployed and welfare recipients, supporting the least developed regions) were also similar. However, the intensity of funding from the central budget, as well as the reimbursement mechanisms differed among the three types. As municipal-type programmes provided the most generous incentives for local municipalities, after the introduction of this programme type in 2000, it became more and more prevalent, and total costs spent on this type gradually increased during the period (although total expenditures on national-type programmes exceeded the amount spent on municipal-type programmes in 2006, most likely due to the ‘100 steps’ government programme in that year) (see *Figure 2.1.2*). The introduction of the Road to Work programme in 2009 brought about a drastic expansion of municipal-type programmes: the intensity of subsidies from the central budget as well as the allocation mechanism of subsidies became even more favourable for the municipalities, and the total budget appropriated for public works was also enlarged.

**Figure 2.1.2: Cost of public works programmes by type (billion HUF at 2000 prices)**



Note: No data are available on National-type public works for the years 2000, 2001 and 2003.

Sources: 2000–2003: *Scharle et al* (2011), 2004–2010: *Frey* (2010), 2011–2012: Employment and Public Works Database [Foglalkoztatási és Közfoglalkoztatási Adatbázis], 2013: Law on the state budget of Hungary.

By launching the Road to Work programme, the government intended to further strengthen the principle of ‘work instead of benefits’, a principle which

had become more and more dominant in governmental communication since the year 2000. This doctrine prevailed and also became more emphasised after 2011: besides the expansions of public works in volume and costs, the obligations of the long-term unemployed concerning job search behaviour and cooperation with the PES have become stricter. Former programme types (the municipal-, the national- and the PES-type schemes) were abolished and replaced by a 'unified' scheme; this reform aimed at reducing the fragmentation of the institutional system and the different funding mechanisms by programme type (however, the intensity of central government funding still differs by programme subtype). In the new system, the PES rather than the municipality alone allocates participants to programmes, somewhat reducing corruption risks. One of the most significant changes from 2011 was the introduction of a new legal relationship, applied to those engaged in public works: this provided legal bases for hiring public workers at a wage lower than the statutory minimum wage. Despite the name 'unified public works schemes', various subtypes exist that differ by length and other characteristics; the prevalence of these subtypes has varied over the last four years, with some of them fading into non-existence. To summarise, the budget appropriated for public works programmes has been expanding over the years, and this increase is likely to continue in the future, due to the fact that Hungarian employment policy is becoming more and more dependent on public works programmes as the main instrument among active labour market measures.