

Equitable access to water Situation in Hungary

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Access to water and sewage services

- Water network
 - 99.9 % of the settlements has water utilities
 - 95% of the households are connected to the water network (lower rate in smaller settlements)
- Sewage system
 - Less than 50% of the settlements has sewerage network
 - 70% of the housing units are located in area with sewage network
 - 10% of the units does not connect to the existing network (only 60% is the connected)
- Sewage treatment
 - 68% the collected sewage is treated
 - 32% is not treated or only mechanically

Ownership and organisational structure

- Decentralisation of water and sanitation sector: from state to municipal ownership – network and other assets (only 5 regional companies remained in state ownership). Water resources remained in state ownership.
- Very fragmented structure: nearly 400 water and sewage companies replace the originally 33 state-owned companies – strong legal framework, Ministry and National Water Authority
- Municipalities became responsible for the service provision
- Regulation: municipalities had to establish business companies for service provision. Bigger companies (of larger cities and regional ones) operates as stockholder companies and smaller ones as limited liability companies
- The size of the companies differs: 90 companies cover more than 90% of the service

The number of settlements provided by water companies, in 1997

Number of settlements provided by one water works	Number of service providers
1	167
2-10	128
11-50	39
More than 50	16
Total	350

Legal background

- **General law on Water Management**, generally regulates all the issues concerning water and sanitation services. The detailed regulation is implemented by governmental and ministerial decrees.
- **National Environmental Plan**: improve the quality of drinking water (2010), expand sewage network and treatment (2015), the protection of vulnerable water resources - EU requirements WFD,
- **Contractual relationship**: the rights and responsibilities both of service providers and the consumers is regulated by government decree
- **Sanctions against non-payers**: regulated by several legal provisions – Law on Consumer Protection (preliminary warning), Law on Foreclosure (legal procedure of collecting debts), Gov Decree (38/1995) conditions of limitation and disconnection of supply

Privatisation

- Decision of the municipalities: only the management can be privatised, the utility network remains in municipal ownership
- Eight companies were privatised in 7 bigger cities to foreign investors with one exception
- Joint stock companies: investors possess the minority of the shares but they have control on the management board
- The investments remain in municipal competence
- Conflicts: high management fee (Budapest, Szeged), high prices (Pécs) – renegotiating the original contract

Price setting 1.

- Price setting is the competence of the municipalities,
- Price Law: defines that the price must cover the expenditures (operation, amortisation, new developments)
- Taxes: VAT (6%, 12%, 20%), water pollution fee
- „Cost plus formula” (operation cost + limited amortisation)
- One-part / two-part tariff system
- Municipalities: two-fold interest – economic, political

Price setting 2.

Service companies providing several municipalities:

- All municipalities have the same price
- Each (or some) municipalities have different prices

It depends on whether the municipalities can reach an agreement

Price setting: Board of Directors – representatives of the municipalities

This mechanism favors smaller settlements

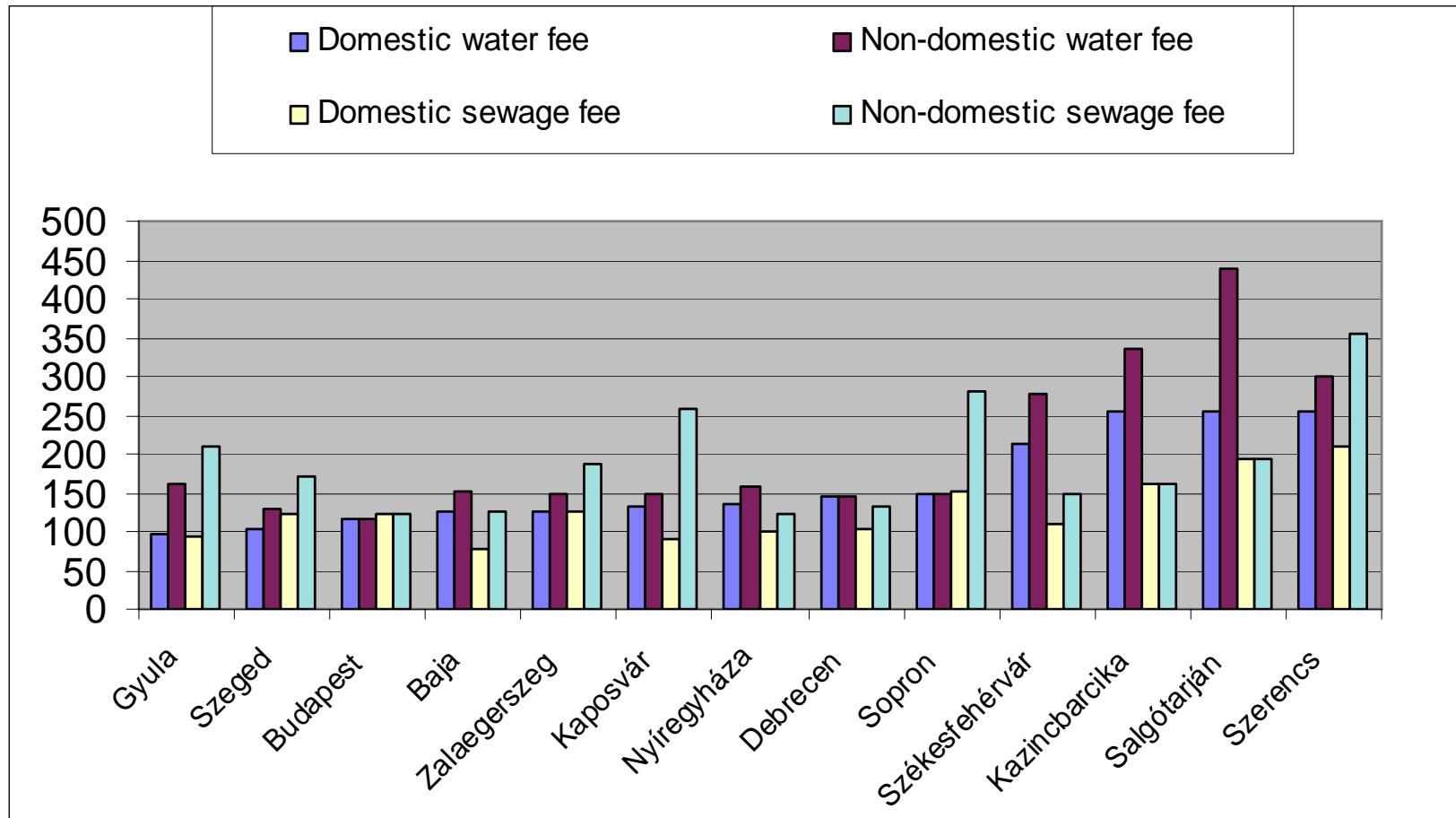
	Number of supplied settlements	Number of tariffs
Nyírségvíz RT.	32	1
Fejérvíz Rt.	65	34
Bakonykarszt Rt.	121	121
DRV Rt.	369	53

Price setting 3.

Cross-subsidisation used by municipalities:

- Different fees for the domestic sector and non-domestic sector
- Cross-subsidisation between water and sewerage fees, higher operation cost of the sewerage system
- Local practices in price setting differs a lot
- Prices differs reflecting different policies and different costs

Water and Sewage fees, 2003

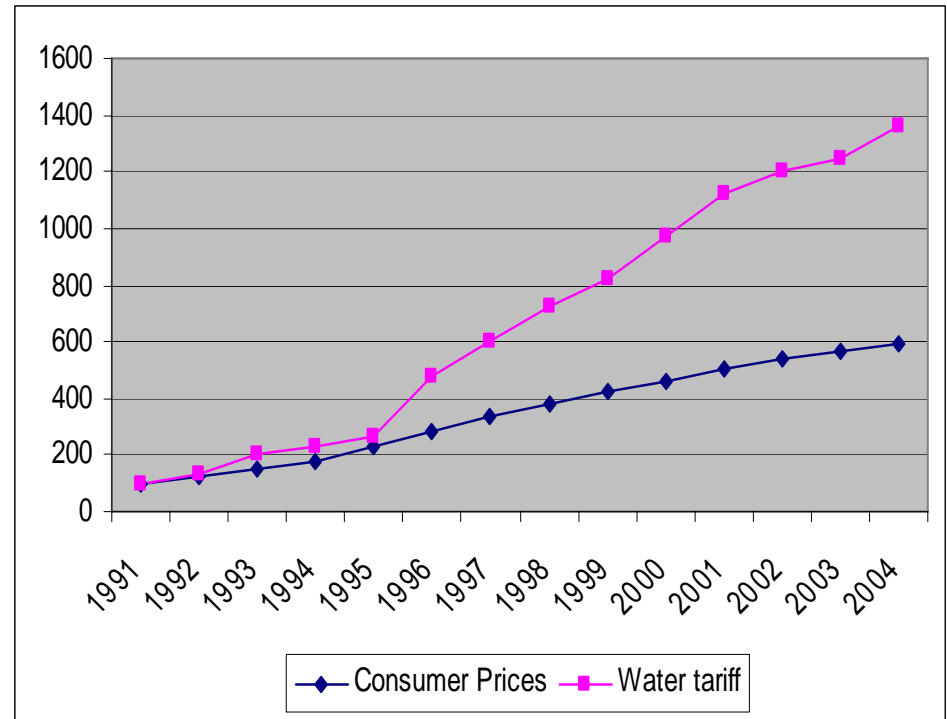


Price increase

Sharp price increase
after 1990

Demolition of the
central subsidy
system, high inflation

Affordability problems



Central subsidy system

- **Central Fund** for those water companies whose production cost is very high
- The level is defined yearly, which also means the highest domestic water price
- The municipalities have to apply to the Fund
- The amount of the Fund is decreasing (2005: 5.5 billion HUF, 2006: 4.8 billion HUF)

Central normative housing allowance

- Social Law specifies housing allowance as a social subsidy provided by the municipalities
- Smaller municipalities (villages) could not provide it, poorer municipalities could provide smaller amount of allowances
- Since 2004 central normative allowance in order that the most needy households could have access to it
- Financed 90% by the central budget, 10% municipality

Central arrear management program

- Large accumulated arrears in the domestic sector since the early 90's
- Several one-year program that had no real effect
- Since 2003 a permanent subsidy program was developed, it is compulsory in cities with more than 30 thousand inhabitants
- The municipality has to set up a separate division that gives direct social help to the households in arrears
- The condition of the subsidy is the „cooperation” of the households with the social workers.

Subsidies on local level

- Local housing allowance and local arrear management programs – wider eligibility criteria than the central ones
- Participation of the service companies in financing local housing allowances programs
- Municipal subsidies to help the introduction of submetering in multi-unit buildings

Importance of submetering

	Number of households	Total number of persons in the households	The amount of consumption water in two month
Households with submeters	115	202	1322 m3
Households without submeters	85	204	3549 m3

Budapest – Utility Fee Compensation Fund

- It was set up in 1995, with the help of the City Municipality
- Reason: two-tier municipal system (districts and the city), city has no right to intervene the social provision system of the districts
- UFCF is financed by the public utility companies and the municipality: „voluntary contribution” (around 1-2% of their turnover),
- Companies contributions: tax advantages and in they „get back” the same amount through the subsidies paid to the households
- The UFCF is managed by a foundation where both the municipality and the service companies are represented

UFCF

- Two programs: contributions to utility fees, and arrear management program (plus help for those tenants who are going to be evicted)
- The size of the allowance is about 15-20% of the monthly fee
- It is transferred directly to the company if the household paid the actual bill
- The administration of the program is partly managed in cooperation with the districts
- At the end of the nineties the UFCF allocated more housing allowances than the 23 districts (4.67 m Euro vs. 3.54 m Euro) helping more than twice as much households than the districts

Companies contribution to UFCF

(in million HUF)

<i>Companies</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>
District Heating Company	250	300	400	450	450	490	490	490	490
Budapest Water Work	125	150	200	230	260	287,3	287,3	295,7	295,7
Budapest Sewage Work	125	150	200	230	260	260	260	283	283
Budapest Public Space Maintenance Company	0	100	125	145	145	170	170	185	185
City of Budapest				525	150	150	150	150	150
Total	500	700	925	1580	1265	1357,3	1357,3	1403,7	1403,7

Consequences of non-payment

- Limitation of consumption
- disconnection
- but minimum supply has to be ensured :
50 litres per day or public tap has to be
installed in less than 150 m
- The cost of the water used from the public
tap is divided between those who use it,
or it is paid by the municipality

Disadvantaged groups

- Their situation improved with the central housing allowance program
- Still many large arrears and many disconnections
- The physical state of the equipments (pipes, taps, toilet) is important because of leakages
- Municipality pays the bill after the public taps

Diverse practice of municipalities

- Municipalities have wide range of possibilities, they can also put pressure on publicly owned companies
- but their financial opportunities heavily varies, smaller more disadvantaged ones with poorer inhabitants have less financial resources to handle problem
- households living in different settlements have no equal access to subsidies
- there is a need to harmonise more the subsidy system: increase normativity, social supporting system should be establish on micro-level system (relation to migration of the poor)

Financing investments

- EU Cohesion Funds and central government subsidies 50-90% of the costs, smaller more disadvantaged settlements get higher subsidisation rate
- Local Municipalities: from „usage fee”, development fee, centrally subsidised loans (subsidy 70% then 30% of the interest payment)
- Households: centrally subsidised loans, housing saving banks