

Changes of Road Administration in Hungary

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Abstract

In Hungary significant changes have taken place in the field of Road Administration since 1990 when the transition of economy began. The county level of Road Administration was organised on a spatial administrative basis while the central organisation unit was the powerful Road Management and Co-ordination Directorate. Based on the development of the market economy in 1996 partly the central unit and all district units have been transferred to non-profit companies still owned by the Ministry of Transport.

Several other changes have occurred in accordance with governmental cycles, varying political emphasis, different goal setting and changes in financing and so on. The actual proportions between development and maintenance always were reflected in the organisation. The Hungarian Road Administration experienced such changes in 1999 and 2004. There was a well operating Road Fund unfortunately cancelled at one of the governmental changes. Presently an active seeking of possibilities is in progress for transferring road related cost out of State budget. This step will obviously involve another organisational change in the central Road Administration.

The development of the underdeveloped motorway network started in 1999 and intensified itself in 2003 by passing the Act on High-speed Road Network. This activity has lead to forming new organisational units besides the Road Administration dealing partly with development of high-speed roads and partly with maintenance and operation of existing motorways. A special fund has been allocated for financing this kind of development, its resources being supplemented by the toll introduced on Hungarian motorways. Public-private partnership is an important element nowadays in the development of the high-speed road network. However, fitting this way of financing into the existing organisation of Road Administration has not succeeded yet. Private or mixed companies have their own economic considerations and sometimes behave against any kind of co-ordination.

Lessons learned and relations recognised from the analysis of changes taking into account their causes and consequences in case of Road Administrations can be useful for other countries as well. Positive experience supports good governance and even negative experience may help to avoid mistakes.

1. Overview of the economic transition and its effect on the road sector

Hungary belongs to the group of Central and Eastern European countries with economy in transition. The transition started in 1990 and after some difficulties the

country became a developing market economy. The membership of the European Union reached in 2004 is the most important achievement.

Government changes took place in every 4th years generating significant overall changes in the whole economy. In the 1st (1990-1994) and 3rd (1998-2002) cycle more conservative Governments ruled while in the 2nd (1994-1998) cycle there was a socialist Government and in the present 4th (2002-2006) cycle a socialist - liberalist coalition forms the Government.

The economic growth has been recovered from its initial shock by the end of the century and since then it has been developed quite well. There is a rather strong correlation (Figure 1) between the development of GDP and road traffic, especially in case of main roads.

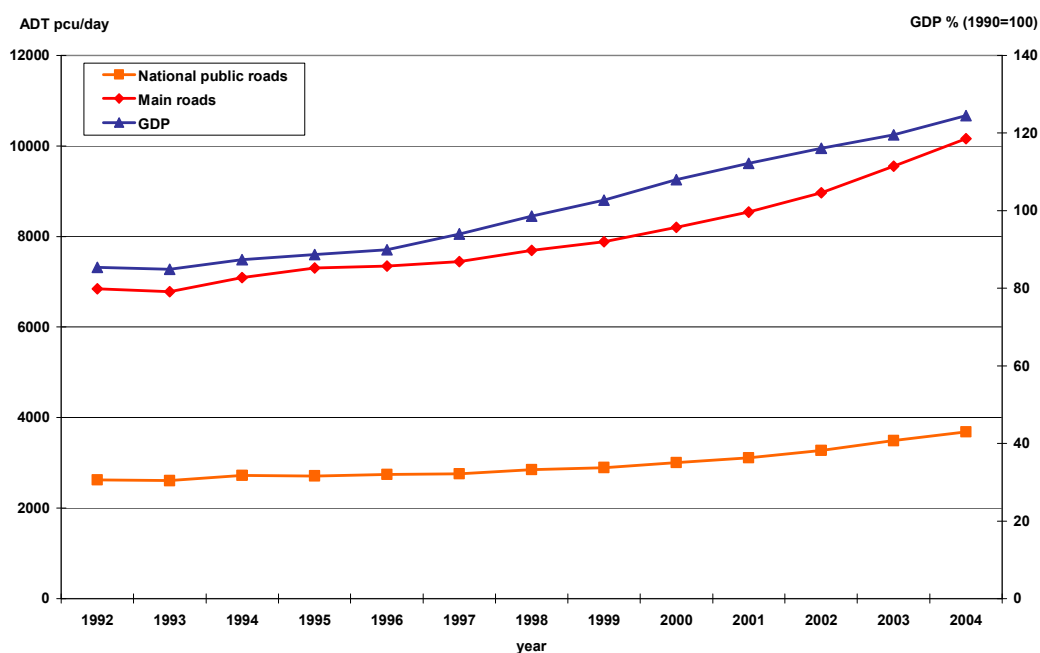


Figure 1 Development of GDP (volume index) and average daily traffic (ADT)

The Ministry of Economy and Transport is responsible in general for the professional management of road transport. The Road Transport Department within the Ministry carries out everyday management tasks like financing, development, maintenance and operation of the national public road network. The organisation of the Road Administration has often changed and the main goal of this paper is to present and evaluate these changes. Since 1990 there have been 3 previous Ministries combining Transport, Communications and Water management plus the actual one, directed by 8 different Ministers.

Legislation helped the road sector only in a limited form. The main legal source is the Road Transport Act originated from 1988 and its frequent amendments. The Act on concession in 1991 promoted the involvement of the private sector. The financial background was provided by the Act on Road Fund in 1992 but it was repealed in 1998. An important step forward was the Act on High-speed road network development in 2003.

The Road Transport Authority is part of the Transport Authority and it was organized as a different entity in 1982, having branches in all 19 counties. Its main tasks are issuing permits for construction, licensing drivers and vehicles, regulation and control of road traffic.

Financial demands are always bigger than possibilities and this is the situation in case of roads as well. The expenditures on roads show no pattern in time, they often depend on momentary political issues and are unpredictable (Figure 2). There was a well operating Road Fund since the beginning of the transition, unfortunately cancelled later at one of the governmental changes. The Road Fund was relatively high while the overall economic performance was rather poor. Loans in the middle of 90's helped the road sector as well.

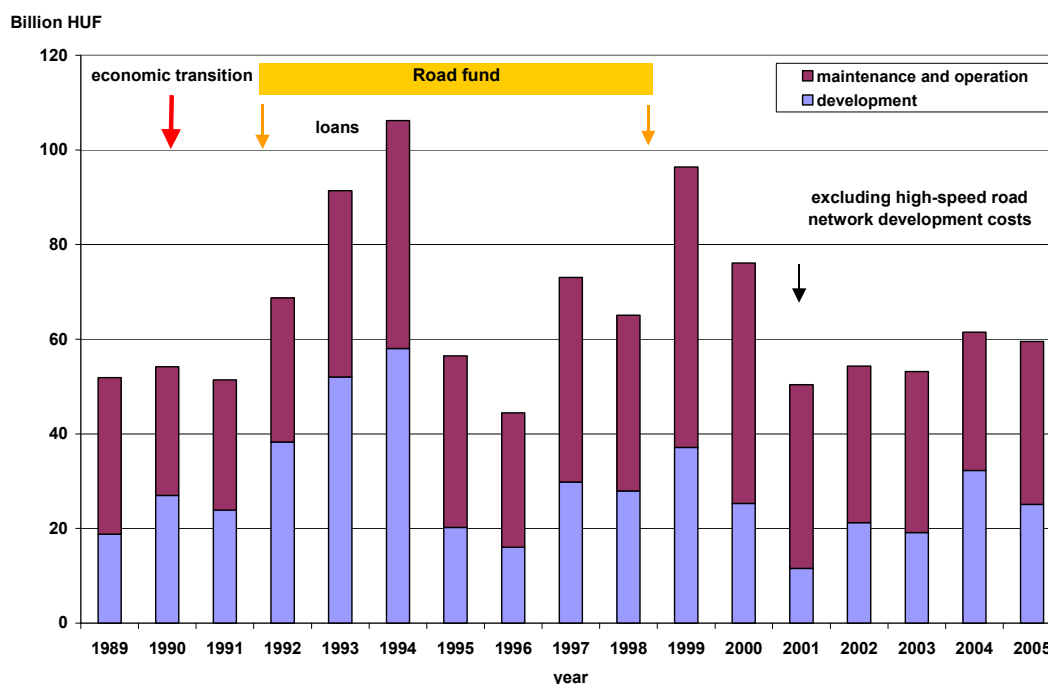


Figure 2 Road-related budget on 2001 based prices

2. General situation of the Hungarian road sector

The road network of Hungary consists of public roads and private roads. The public road network consists of national roads owned by the State and local roads owned by municipalities. Length of national roads including high-speed roads is 30 560 km in 2005. Length of local roads including rural ones according to the latest survey is about 139 800 km. The national road network bears about 70% of total road traffic. The level of motorisation in Hungary is 285 cars / thousand population in 2005.

Funding of the road sector is mainly based on State budget, where 2 earmarked allocations are present, one for the national public roads and another for the high-speed roads, both at Ministry of Economy and Transport. Financing of road management tasks (operation, maintenance and development of national public roads, grant for municipal roads etc.) is provided by the Special Budget Allocation for

Road Maintenance and Development. Tasks related to high-speed roads, mainly their development, are financed by the Special Budget Fund for Gap-closing Infrastructure Development.

An important and hopefully increasing financing possibility is provided by the different EU funds (PHARE, ISPA, Cohesion Fund and Structural Funds). Public private partnership (PPP) and bank loans, the latter usually being Government guaranteed, complete the picture. Loans have been provided by the World Bank, European Investment Bank (EIB), European Bank for Restructuring and Development (EBRD) and consortia of national and international banks.

Motorway tolls provide financing for maintenance and operation of the high-speed network. Different companies applied different and rather high direct tolling that proved to be not acceptable for road users. Presently a widely accepted time-based vignette system is in use. A more equitable performance-based electronic tolling is planned in the near future.

The effect of economic transition on society shows itself at unusual ways, for example in road traffic safety. Accidents reached their peak in the first year of the transition. Governmental changes are indicated with slight increase of accidents. In the recent years certain doubtfulness characterises the society and that is reflected in the again growing number of accidents (Figure 3).

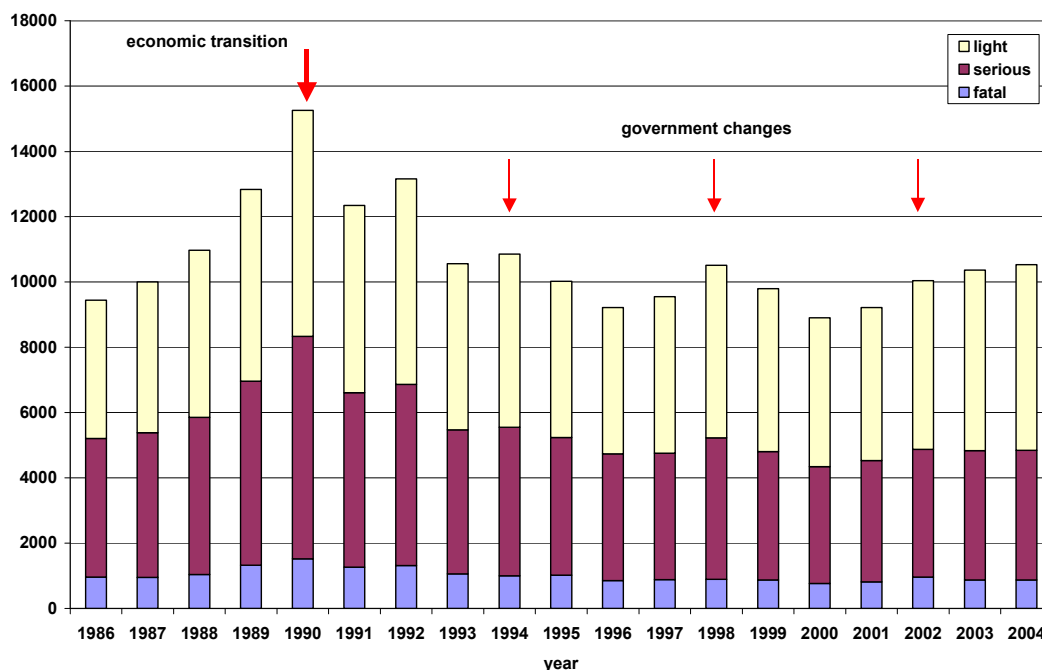


Figure 3 Accidents on national public roads

3. Organisational changes of the Hungarian Road Administration

3.1. Changes at the beginning of the economic transition

In Hungary significant changes have taken place in the field of Road Administration since 1990 when the transition of economy began. The county level of Road Administration was organised on a spatial administrative basis while the central organisation unit was the powerful Road Management and Co-ordination Directorate.

Before 1990 the General Directorate for Public Roads managed the tasks of the central Road Administration, mainly financing and development issues. 10 regional units were established to perform local duties for road operation and maintenance. This spatial structure was different from the overall district level administration consisting of 19 counties therefore it could not be really efficient.

19 independent county level road administration units were organised in 1991 called County Public Road Directorates. The spatial structure fitted well in the national administrative system. The central Road Administration, namely the Road Management and Co-ordination Directorate was directed by the Ministry of Transport. Main functions within the Road Administration were financing and controlling, planning and development, maintenance and operation, technical and information background activities.

A special 20th road administration unit, the Motorway Directorate dealt with development, maintenance and operation of the high-speed road network. The legal status of the Motorway Directorate was the same as of the County Public Road Directorates. Fieldwork has been done by the so-called maintenance sites belonging to the Directorates.

3.2. Changes at the consolidation of the market economy

Based on the development of the market economy in 1996 partly the central unit and all district units have been transferred to non-profit companies owned by the Ministry of Transport. 21 non-profit companies have been established: 19 for county level road administration tasks, one for motorway administration tasks and another for central technical and information background activities. County Public Road Directorates became County State Road Management Companies.

One of the goals of that change was to decrease number of State employees (public servants) significantly. Another goal was to gradually bring these non-profit companies in the market economy permitting to get a given part of their revenues from marketed activities. This given part varied from 10 to 30 % according to economical and political considerations. Contracts signed with the central road administration for maintenance and operation tasks as well as for managing construction works provided the main revenue of county road administration units.

Since 1996 the Road Management and Co-ordination Directorate has been a State budget institution for financing development, maintenance and operation. A newly founded entity, Technical and Information Services on National Roads has been a State owned non-profit company for background activities. We have been working together since than as colleagues.

The Road Management and Co-ordination Directorate managed the Road Fund and later the Special Budget Allocation for Road Maintenance and Development. It

represented the State as contracting procurer in case of development works. It also prepared Founder’s decisions concerning the non-profit companies within Road Administration. It provided co-ordination of maintenance and operation tasks on the national public road network as well.

The main responsibility of the Technical and Information Services on National Roads consisted of delivering continuous information on news influencing the traffic safety and undisturbed transport for the road users and other participants in the traffic. State quality control of new constructions and major maintenance works was performed within this organisation as well.

3.3. Amendments of tasks within the central Road Administration

Several other changes have occurred in accordance with governmental cycles, varying political emphasis, different goal setting and changes in financing and so on. The actual proportions between development and maintenance always were reflected in the organisation. The Hungarian Road Administration experienced such changes in 1999 and 2004.

In 1999 the general organisation and co-ordination tasks related to the operation and maintenance of the national public road network was relocated from Road Management and Co-ordination Directorate to Technical and Information Services on National Roads. The motive behind this change was mainly political at that time. After the next governmental change the situation altered and finally in the beginning of 2004 the division of labour was realigned into its original form.

Figure 4 shows how the main activities like financing, development, maintenance, operation, and technical background has changed since the beginning of the economic transition.

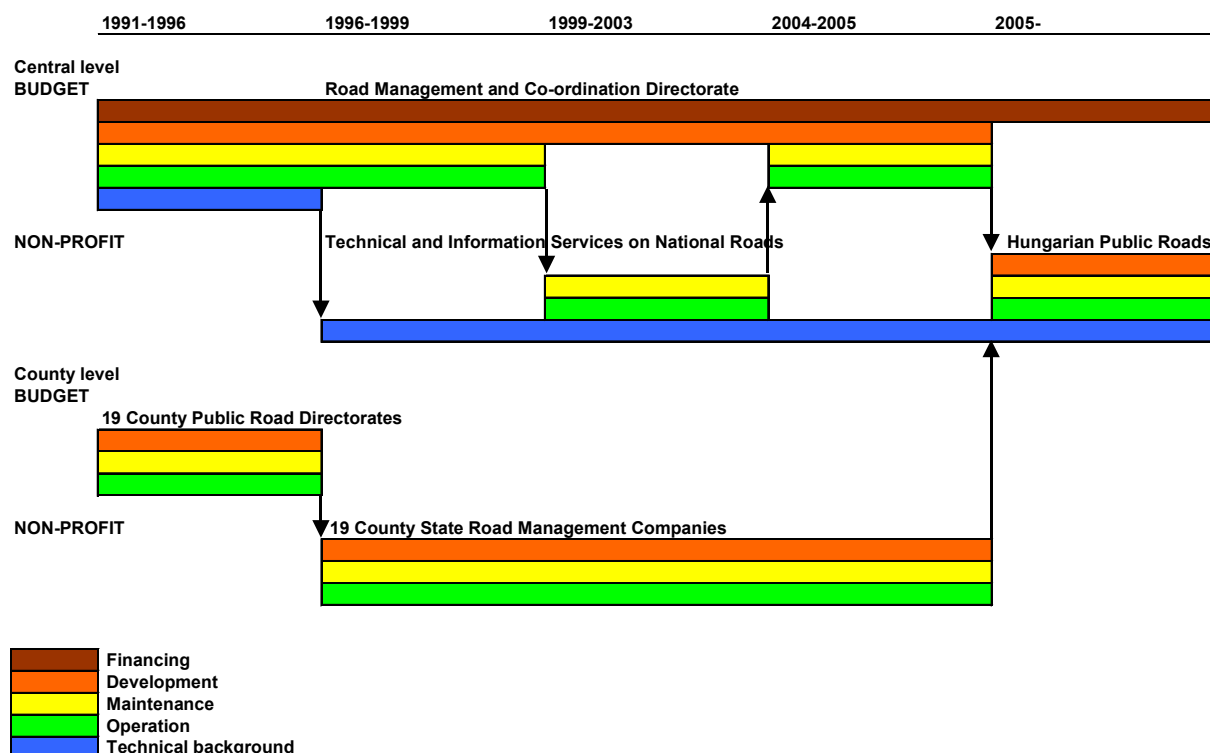


Figure 4 Changes of main functional tasks within the Road Administration

3.4. Various forms of motorway management

The development of the underdeveloped motorway network started in 1999 and intensified itself in 2003 by passing the Act on High-speed Road Network (Figure 5). This activity has led to forming new organisational units besides the Road Administration dealing partly with development of high-speed roads and partly with maintenance and operation of existing motorways.

A special fund has been allocated for financing this kind of development, its resources being supplemented by the toll introduced on Hungarian motorways. Public-private partnership is an important element nowadays in the development of the high-speed road network. However, fitting this way of financing into the existing organisation of Road Administration has not succeeded yet. Private or mixed companies have their own economic considerations and sometimes behave against any kind of co-ordination.

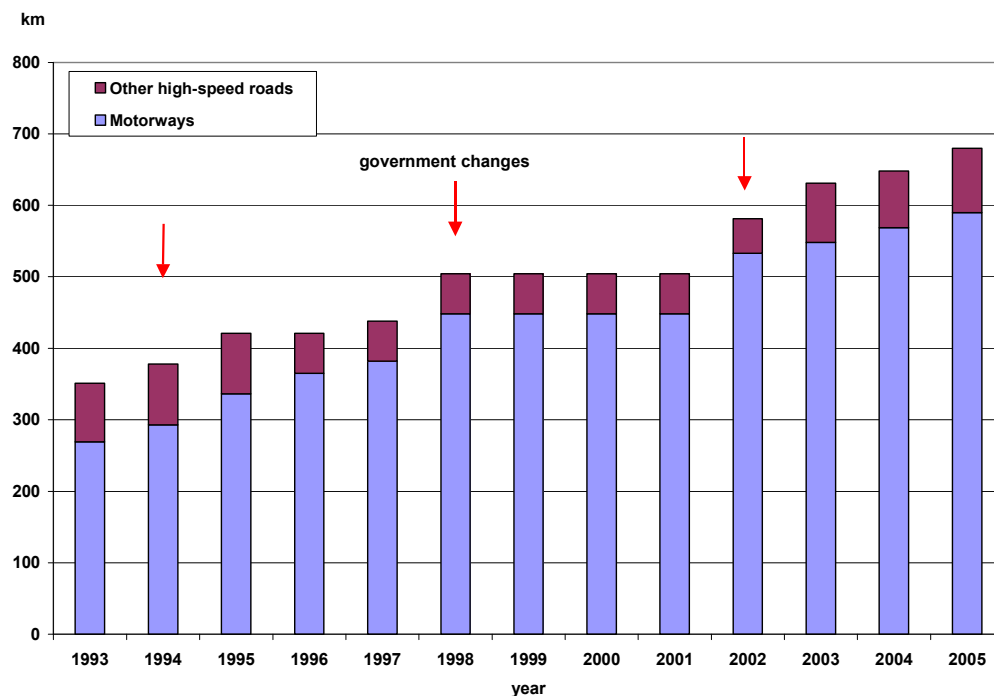


Figure 5 Development of the high-speed road network

In the mid 90's concession companies started to build and operate new toll motorway sections on M1 and M5 motorways (First Hungarian Concession Motorway Co. Ltd. and Alföld Concession Motorway Co. Ltd.). The first concession company went into bankruptcy because of overestimated traffic and the non-willingness of road users to pay high tolls. A State owned company took over that section of M1 (Western Hungarian Motorway Operating Co. Ltd.). Another State owned company; North-eastern Hungarian Motorway Developing and Operating Co. Ltd. built and operated M3 as a toll motorway. In 1999 the non-profit State Motorway Management Co. (the former Motorway Directorate) and State owned companies for M1 and M3 merged into State Motorway Developing and Managing Co. Ltd.

Between 1999 and 2002 the Hungarian Development Bank was responsible for the financial management of the development of the high-speed network. During this period the Hungarian Development Bank owned and controlled the Motorway Administration companies: the National Motorway Co. Ltd. dealing with development and contracting of constructions and the State Motorway Managing Co. Ltd. dealing with maintenance and operation of the existing high-speed network. The Ministry of Economy and Transport got back the ownership and control of Motorway Administration in 2003 as a result of the governmental change.

Public-private partnership (PPP) is taking part in the development of the motorway network, this activity is realised in a DBFO (design-build-finance-operate) project on M6 motorway (Duna Concession Motorway Co. Ltd.). In 2004 the State has purchased a share in the Alföld Concession Motorway Co. Ltd. adopting M5 motorway to the vignette system.

State Motorway Managing Co. Ltd. has got the task of financing in 2005 in order to decrease State budget deficit according to EU rules, there are plans for a bond issue in the near future.

Public purchase is the only way of contracting construction and large maintenance works. The biggest public purchaser in Hungary by total budget is the National Motorway Co. Ltd.

Figure 6 gives an overview of changes in Motorway Administration.

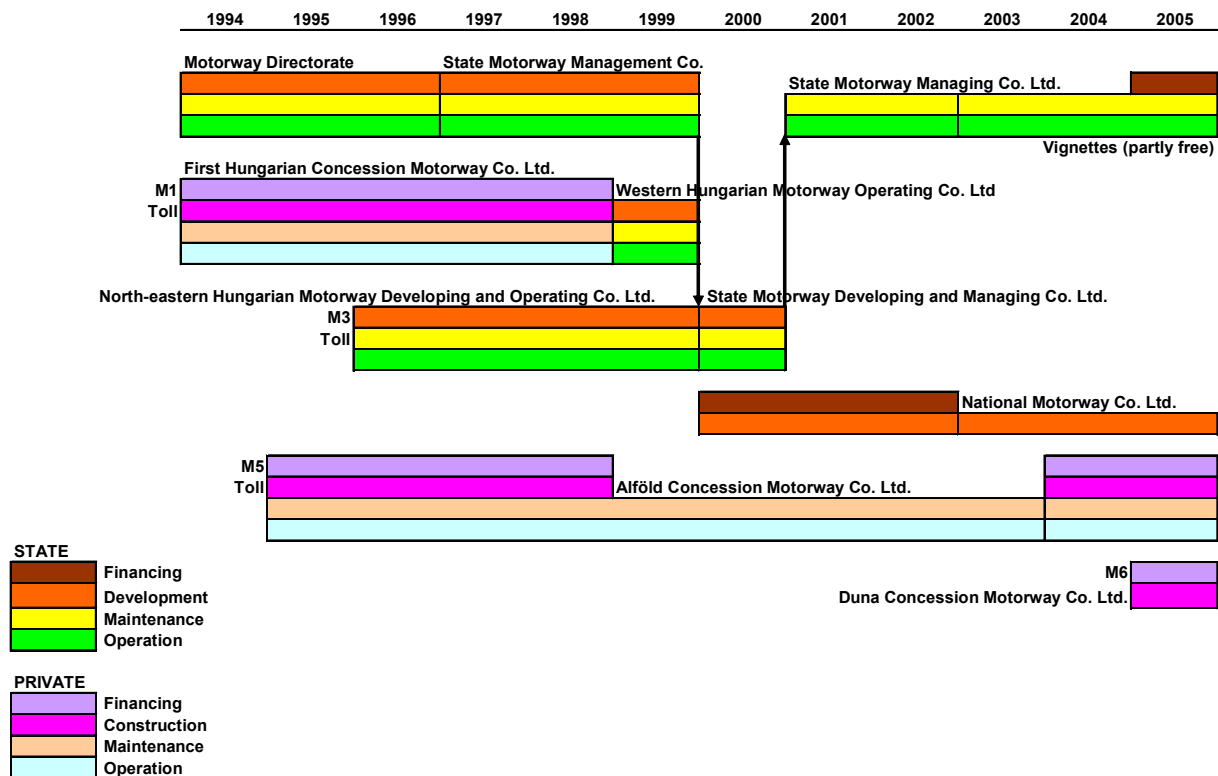


Figure 6 Changes of main functional tasks within the Motorway Administration

3.5. The upcoming organisational change

Presently an active seeking of possibilities is in progress for transferring road related cost out of State budget. This step obviously involves another organisational change in the central Road Administration. In 2005 a new merger will result one big central road administration unit including all county level entities. The new Hungarian Public Roads will be a State owned non-profit company unifying Technical and Information Services on National Roads and 19 County State Road Management Companies.

The new organisation provides almost all functions of central Road Administration and preserves the regional operating system. This centralisation will result considerable savings in State budget. Moreover the new organisation will be capable of receiving loans according to its size. A considerable maintenance backlog occurred on the Hungarian public road network recently. While the Government has put emphasis on the development of the high-speed network, the problems of existing roads must not be forgotten. Hungarian Public Roads intends to organise a loan provided by the Hungarian Development Bank for diminishing maintenance backlog based on a National Road Maintenance Program.

Goals of the current re-organisation of Road Administration are as follows:

- More efficient use of EU funds and better accessibility for tender possibilities
- Conscious consideration of network-related approach
- Improvement of conditions for economical operation, maintenance and development
- Rationalisation of administrative activities divided spatially at present
- Increased effectiveness of asset and resource management
- Improvement of transparent and controllable resource allocation and utilisation
- Better supervision of the performance of road administration

Plans for the near future show the outlines of establishing a new Road Fund still debated by the Ministry of Finance. Public-private partnership is a promising way of involving resources into road construction. An expected further change in the organisation can be the creation of a State owned market-oriented Agency for Roads and Motorways. Privatisation of routine maintenance and certain operation activities together with their existing human and material resources is on the agenda as well.

Figure 7 provides a summary of all changes of the Hungarian Road Administration including Motorway Administration since the beginning of the economic transition as well as some related global financing and governmental changes explained in the previous chapters. The ownership (State or private) of different organisations is also indicated in the figure. A foresight describing the most probable result of the ongoing change completes the picture.

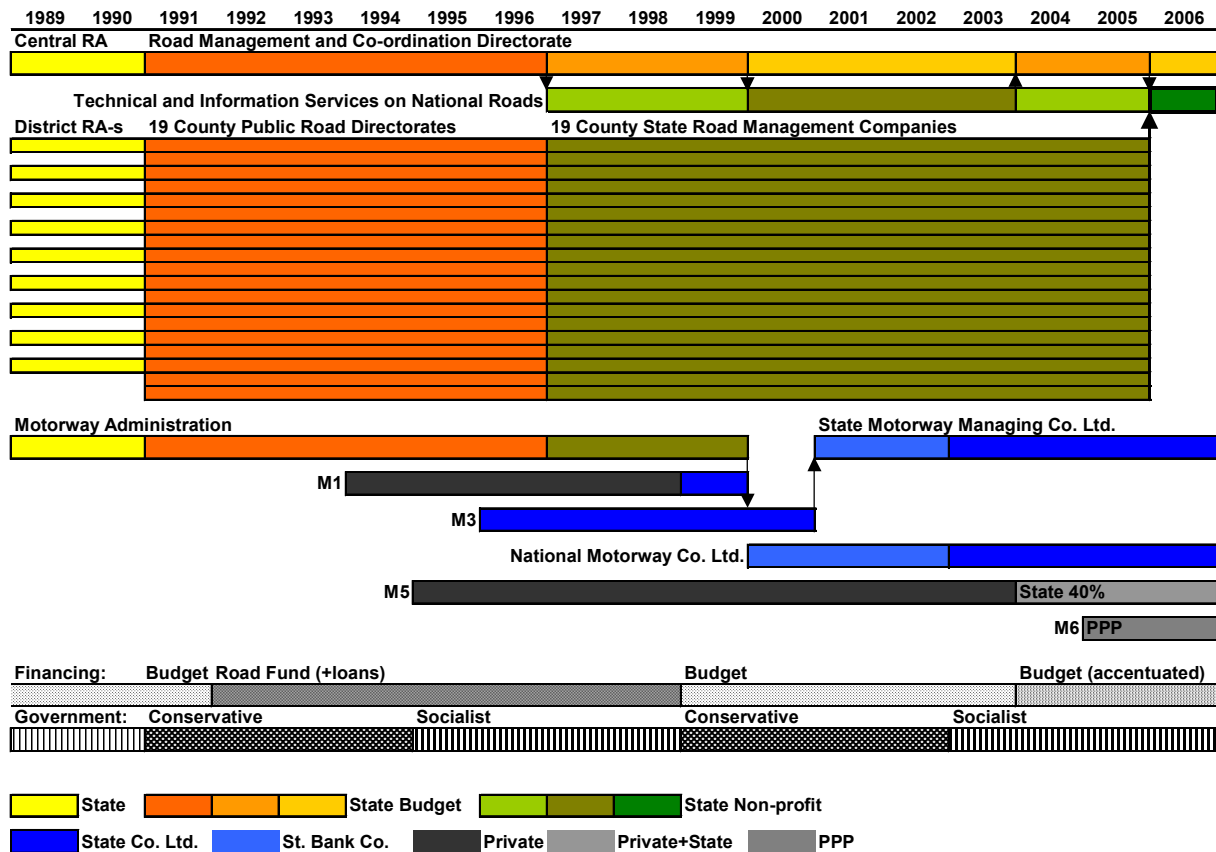


Figure 7 Changes of the Hungarian Road Administration in time

4. Role and position of the Hungarian Road Administration

The results of the earlier work of the PIARC Technical Committee on Performance of Road Administrations give possibility for determining the role and position of a given Road Administration in different relations.

The Hungarian road network is in the Upgrading stage with respect to relationship between economic development and road network. This means stage 3 within the 4 stages Cox model. However the high-speed network is still in the Growth stage (stage 2) as there is ongoing a large program for its development.

Among the main characteristics of the Upgrading stage the following can be mentioned

- light commercial and articulated trucks,
- high motor use,
- intercity emphasis,
- focus on upgrading existing roads.

However, some features of other stages are also relevant, for example

- new high-speed road (motorway) construction,
- medium funding (unfortunately).

In a sense the construction of a new motorway parallel to an existing main road can be regarded as upgrading and capacity expansion.

With respect to relationship between Government and organisation the Hungarian Road Administration can be characterised as an output based management organisation with a few elements of business model. Strategic planning, more transparency, outsourcing and public tendering are common within everyday activities.

Traditional tasks like construction, major maintenance and consulting have been outsourced since the beginning of the economic transition. However minor and routine maintenance as well as operation are still in-house activities. Within the central organisation take place administration, management and planning, contracting, information collection and dissemination together with other related technical and information background tasks.

According to the Talvitie model the Hungarian Road Administration is situated somewhere between the separation and corporatisation phases (these are phases 3 and 4 within the 5 phase model). This classification is not unique because it depends on activities performed by the Road Administration.

Communication with road users and general public is still at its beginning. Some connection with local municipalities and regional development agencies exist. However, the society is not really concerned about road-related issues.

Quality management is an important issue within the Road Administration. Technical and Information Services on National Roads has established a certified and regularly audited integrated quality management system consisting of elements based on international standards. These elements are: the general quality assurance (ISO 9000:2001), the environmental quality (ISO 14000:1997) and the information security (BS 7799-2:2002).

5. Experience of changes and lessons learned

Lessons learned and relations recognised from the analysis of changes taking into account their causes and consequences in case of Road Administrations can be useful for other countries as well. Positive experience supports good governance and even negative experience may help to avoid mistakes.

The order of external drivers affecting the Road Administration in an economy in transition is: economic, social, safety, environmental. New technology (IT and ITS) is not yet prevalent and has less significance at the moment. The main drivers are political objectives, among those bearing importance:

- promoting national economic growth,
- increasing competitiveness,
- attracting foreign capital,
- decreasing regional differences.

The relation between organisational changes and governmental or financial changes is not clear. A various amount of time is required before a new Government initiates any new ideas. Although reforms and organisational changes try to follow economic development and demands for the road sector sometimes they seem to be rather meaningless.

Too many changes have an effect against efficient production and make the actions of Road Administration unclear and not calculable for the private sector. Frequent changes in the Ministerial structure and leaders work against any kind of stability.

Relations between organisation and financial background, development, maintenance and operation tasks are sometimes not adequate. There are certain conditional tasks, for example the Final Beneficiary of an EU co-funded project must be a budget institution and cannot be a non-profit company even that one is State owned.

Legislation background of organisational changes and task assignment is often weak and is usually supported by Ministerial Decrees only. Decision-making is alternating between centralised and decentralised solutions. Decentralisation strengthens local interests against statewide goals hence after a while the pendulum swings back and re-centralisation occurs.

Commercial principles in the leadership of the Road Administration mean that the general manager is an economic expert and not an engineer any more. Proportion and importance of engineers within Road Administration is gradually decreasing.

Private sector participation is limited but increasing. Local Road Administration units still perform routine and minor maintenance while major maintenance items and construction works are practically entirely outsourced on open tenders.

The non-profit public utility model proved to be applicable for a Road Administration. However, decentralised decision making proved to be unsuccessful and this fact has led to diminish the number of independent organisations. The Hungarian Road Administration originally consisted of 11 units, later in the past decade it varied between 21-25 units and finally only 6 units will remain.

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