



---

STATE AUDIT  
OFFICE OF HUNGARY

## SUMMARY

of the Audit on the Utilization of Grants  
Provided from the Cohesion Fund and National Sources  
for Solid Waste Management

0920

July 2009



---

# **SUMMARY**

## **on the Utilization of Grants**

### **Provided from the Cohesion Fund and**

### **National Sources for Solid Waste Management**

#### **INTRODUCTION**

In order to protect the environment, the relevant EU objectives were based in the audited period on a hierarchy of three goals forming the basic principles of waste management. These goals range from the most to the least recommended one as follows: preventing waste from occurring; the biggest possible utilization of the created waste; disposal of non-usable waste, including its safe storage<sup>1</sup>.

The hierarchy of waste management is illustrated by Chart 1.

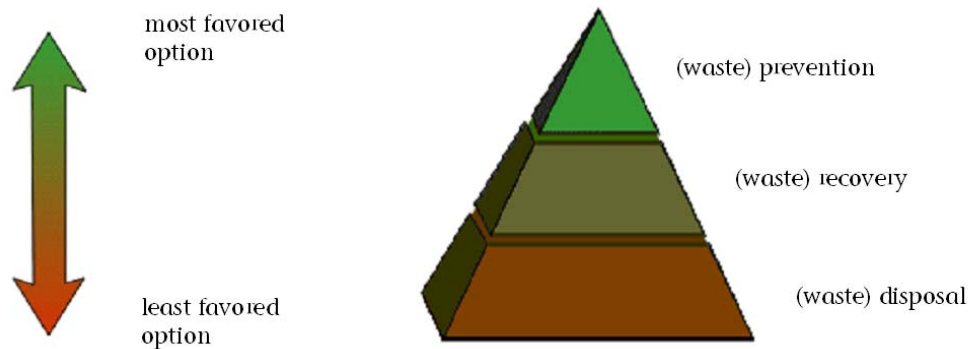


Chart 1

The EU regulation in force set out several unambiguous commitments for the member states. For example, in the field of the management of municipal solid waste the EU demands that in comparison to 1995 as basis year the share of biodegradable organic waste in the dumped waste should be reduced by 50% until 2009, and dumpsites not complying with EU requirement should be closed.

Waste management strategies (“regulations”) of different levels were developed in Hungary to allow for an implementation of these commitments. Objectives and tasks of the national environment policy were set out by the National Environment Protection Program II (NEPP II). This specified altogether 9 areas as being in need of special treatment (“thematic action programs”). One of them is the Waste Management Program.

Distribution of NEEP II resources by thematic action program is presented by Chart 2.

---

<sup>1</sup> A joint directive of the European Parliament and the EU Council (Nr 2008/98, adopted on 19 November 2008) fine-tuned the waste management hierarchy, creating altogether 5 phases: prevention; preparing for re-use; recycling; other recovery, e.g. energy recovery; and disposal.

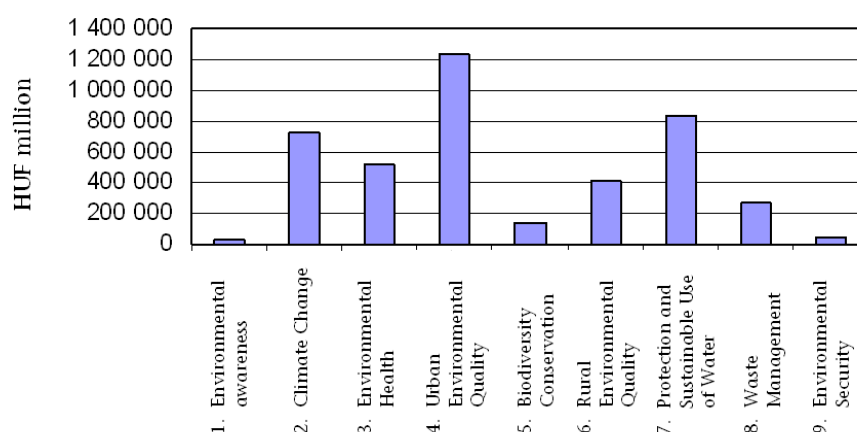


Chart 2

NEPP II included also the National Waste Management Plan (NWMP), which is effectively the nation's waste management strategy.

The following table from NWMP presents the values planned for and the actual development of waste emergence:

In million tons

Sort of waste	2000	2005		2008	
	Actual	Target	Actual	Target	Estimated <sup>2</sup>
Agricultural waste and waste from the food industry	5.0	5.0	5.0	3.0	4.0
Industrial waste, other waste created by businesses	21.	20.0	13.4	18.0	10.0
<b>Municipal solid waste</b>	<b>4.6</b>	<b>4.8</b>	<b>4.6</b>	<b>5.2</b>	<b>4.4</b>
Municipal liquid waste	5.5	5.2	4.9	4.6	4.0
Sewage sludge	0.7	1.1	0.5	1.5	1.0
Hazardous waste	3.4	4.0	1.2	4.1	1.1
Total	40.7	40.1	29.6	36.4	24.5

According to the above values, the total mass of the emerged waste decreased by 40% from 2000 to 2008. This is mostly accounted for by the gradual decrease in the mass of industrial waste, which is a consequence of the transformation of economic structures and of the gradual introduction of new technologies saving material and energy.

Total mass of municipal solid waste has hardly changed in the recent years, but its volume ("cubic content") increased by 30%, due to the increase in the share of light waste (e.g. plastic bottles). Currently, 3,750 million drink products are sold annually, of which more than three fourths are disposable (plastic bottles, canned drinks).

The establishment of systems for complex waste treatment started in Hungary in 1999 and 2000 with the use of ISPA<sup>3</sup> as a pre-accession financial instrument. 12

<sup>2</sup> The actual value on 2008 will be probably available in September 2009.

<sup>3</sup> To be eligible for financial assistance under ISPA, development projects had to fulfill several requirements: a project amount higher than HUF 5 million; compliance with

---

regional waste treatment projects were approved under ISPA, and an additional one under the Cohesion Fund. From 2007 onward, the approval process of two additional projects was ongoing under the New Hungary Development Plan (NHDP).

The local governments of settlements (“communities”) are obliged to set up and keep providing the “waste treatment service”, which is a public service designed to treat the municipal (“communal”) waste emerging at real estate proprietors.

**The goal of the present audit** was to assess, whether the implementation of regional development projects for the complex treatment of municipal solid waste, funded from ISPA/Cohesion Fund and national sources, has effectively and efficiently promoted the achievement of the goals of Hungarian environment protection and waste management and an adequate utilization of the grants. In particular, it was assessed whether

- The system of the existing conditions, requirements (legal, financial ones and those on the institutions, agencies) allowed for an achievement of the goals system;
- The preparatory measures for the regional systems (of complex waste treatment) contributed to the effective and efficient achievement of the goals system, and requirements, issues of economy were asserted during the implementation processes;
- The systems of auditing, monitoring and reporting have effectively promoted the achievement of the initial goals;
- The local governments involved in the cooperation provided their respective tasks under the public service “municipal solid waste management” effectively and efficiently, and whether the quality of this public service has improved.

This audit of regional waste treatment systems was conducted with the performance audit method, i.e. regularity was not in the focus. Assessment on the implementation of the set goals was done on the basis of assessment criteria and data sources defined together with the auditees.

The site audit covered 3 regional development projects for waste treatment (located in Miskolc, Szolnok and Zalabér), 39 communities and 7 organizations performing waste treatment public service. Information was required (in accordance with auditees’ duty to deliver data) on the 10 other development projects. In addition, the population’s satisfaction was also surveyed by means of a questionnaire, which was available on the internet and as a hard-copy, too.

The audited period lasted from 2004 to the end of 2008; the audit also examined the starting of some concerned projects.

---

strategic objectives; addressing the needs of at least 15,000 residents; ability to solve environmental problems in the long run.

---

## EXECUTIVE SUMMARY

In Hungary, the solid waste management strategies and their actual implementation saw different focus areas. While the national strategies, belonging to different levels of regulation included a hierarchy of the goals of “waste prevention, waste recovery and waste disposal”, as required under the EU Directives, the implementation saw the focus moving to disposal, and as part of that, to the dumping of waste.

Regarding the practical implementation of the highlights “prevention, recovery, disposal”, Hungary’s international position is indicated below by Chart 3, based Eurostat data.

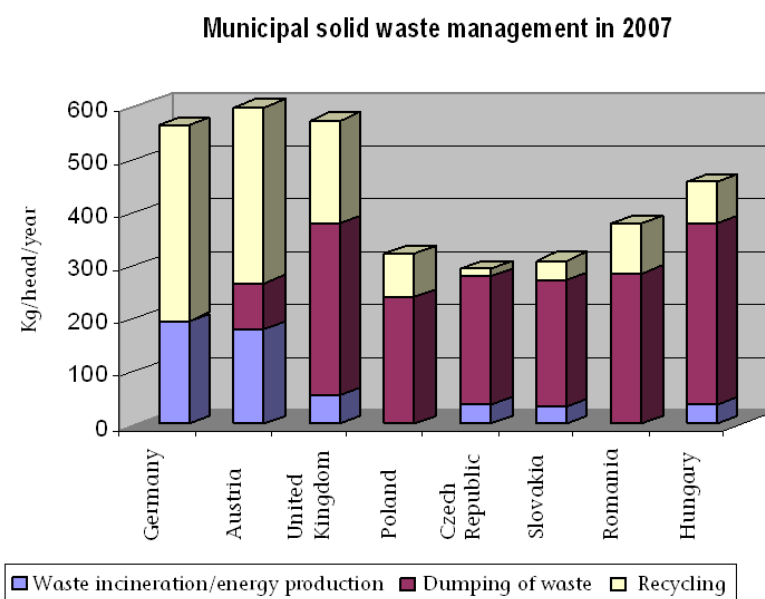


Chart 3

Germany and Austria are featured by a large-scale recycling and incineration of waste, while Hungary and the other new EU-member states by a large-scale dumping of waste. The UK’s recovery and dumping of waste corresponded to the average value of the 27 member states, and its waste incineration was slightly above the average.

The regional waste treatment systems, which are being materialized by means of ISPA (Instrument for Structural Policies for Pre-Accession) and/or Cohesion Funds (hereinafter ISPA/CF) and from national resources, contribute to the development<sup>4</sup> of the management of municipal solid waste and promote compliance with EU requirements. However, the use of resources was characterized by an achievement of the individual strategic goals lagging behind

---

<sup>4</sup> From among the 13 ISPA/CF projects, the finances of only one were settled completely, the other projects were going on during the site audit. Therefore, the State Audit Office (SAO) as auditor could only provide a preliminary assessment on the implementation and performance of the ongoing projects.

---

the schedule, additional expenditures burdening the budget, and delays of several years<sup>5</sup>.

Though in proportion to the time lapsed until 2008, Hungary met the member state obligations arising from EU directives and also the national goals, there is a possibility in 2009 due to the low efficiency in the use of resources that, as a whole, the mentioned obligations and goals will be only partly achieved.

The goal of making the tools, equipments of separate waste collection accessible for at least 60% of the population by 2009, is expected to be met. The other goal of not increasing the mass of the emerged municipal solid waste can be achieved. Furthermore, it is possible to close, by 16 July, 2009, those solid waste dump sites not meeting the dumping requirements.

In consequence of the present practice and the economic crisis, the year 2009 will not see an achievement of the objectives to increase the share of recovered solid waste (in the total solid waste) and decrease the share of dumped waste. The goal to decrease the biodegradable organic material within the dumped waste is likely to not be achieved, either, this is due to the delays in implementing ISPA/CF waste treatment projects and the present inability to re-use the waste compost in the agriculture.

HUF 106.5 billion was appropriated in the Hungarian central budget for the concerned ministries to spend it under the Waste Management Program (i.e. a thematic action program) of NEPP II covering the period 2003-2008. Of this budgeted expenditure, HUF 95 billion was actually affected. Further considerable, infrastructural development projects can be expected in the waste management area in the period 2007-2013. Another allocation of HUF 194 billion is available under NHDP's Environment and Energy Operational Program for developing solid waste management systems and performing rehabilitation measures on inherited waste.

Regarding the expenditures made from the central budget in the period 2003-2008, at 74% of the total the source was EU grants and the related national co-funding, both for ISPA/CF projects. At the remaining 26%, the expenditure was only from some national source (not supplemented with any EU resource). The goals, for which the grants of exclusively Hungarian source (without any added EU resource) were provided, were complementary to the stated goals of the EU-assisted development projects. The compulsory national co-funding for ISPA/CF projects was funded by the central budget mostly through loans granted by the European Investment Bank.

The needed **framework of waste management was set up** (developing strategy, adopting legal regulations, establishing necessary institutions, agencies) by the time Hungary joined the EU, or (in some cases) shortly afterwards.

---

<sup>5</sup> The special report 12/2008 of the European Court of Auditors on the audit of ISPA projects also established that "the projects were not always adequately prepared", "they were implemented differently from the plans" and "considerable changes were made also to the funding plans in consequence of significant delays".

---

However, when the large infrastructural development projects were being prepared in 1999 and 2000, this vital framework was still in the making. Furthermore, in the period of projects implementation after EU-accession, a shift must be made, in respect of the regulation on the use of funds, from the rules applicable to the pre-accession funds to those applicable the Cohesion Funds. Those involved in the delivery of projects had to adapt to the continuously arising new elements of waste management framework in a subsequent manner.

When the 13 projects (subject to the present audit) were being prepared and the competitive applications for funds were submitted to the European Commission, the Act on Waste Management (i.e. the nation's actual waste management strategy) was not yet in force and there weren't any engineering regulations on the intended waste facilities. Furthermore, in this crucial period, it was not regulated either, in what form and organizational frame the participating local governments should cooperate and how to arrange for a reconciliation of the differing interests in the society before the decisions being adopted. The European Commission was late<sup>6</sup> in providing the earliest applicants, among them Hungary, with the necessary methodological guides. These factors led to shortcomings in the preparation of the projects, causing adverse consequences for the implementation phase.

On the basis of national and EU expectations, the central and local government organizations have developed the documents of strategic importance and set up the overall planning system. After the development of NWMP and in alignment with its objectives, they also developed the regional and local waste management plans.

The established national regulation system described above could not effectively promote the achievement of the strategic goals. Policies introduced from 2005, with the goal to prevent the emergence of waste (i.e. policies on bottle deposit and environmental fee, which is chargeable on certain products adversely impacting the environment) were not effective enough. When weighing up the separate waste collection, decision-makers failed to consider the bottle deposit system. In addition, as regards commercial package, the policies on environmental fee could not attain its initial goals, because they could not impact a reduction in the quantity of one-time-use commercial package.

Concerning the organizational form and arrangements of the cooperation of local governments at regional level, regulations were put into place only from August 2004 under the Cohesion Fund. NB a given regional cooperation involves varying number of local governments (from 24 to 282).

As regards **preventing waste emergence**, actions were taken by the central government to popularize the creation of compost by households, influence the way of people's thinking, teach people (by means of social events involving NGOs and addressing the locals, or with the help of auxiliary education materials) how to practice environmental awareness. But it takes a longer time

---

<sup>6</sup> The guides were provided by the Commission after it had received the submitted project requests.

---

for these actions to have an effect. The high priority of waste prevention was set down even in Hungary's EU-related Operational Programs only from 2007.

As regards **waste recovery**, the shortcomings of the developed strategic documents are featured by the lack of any strategic document covering the issue of processing the secondary raw materials produced as a result of separate waste collection winning ground in the whole country. The promotion of waste recovery was included as a national goal in the NWMP, which merely referred to the EU-related Operational Programs as possible "sources of funds".

Waste recovery was influenced mostly by the market demand, and a system supporting waste recovery was not elaborated. (That is, a system with incentives, catalysers for the industries connected with waste recovery and for the market absorption of the waste recovery outputs.) In lack of such a system, the adverse impacts from the drastic shrinking of demand and prices, as caused by the worldwide economic crisis, can assert themselves in an unmitigated manner on the domestic market of secondary raw materials.

Though the use of waste for an energetic purpose was not restricted in Hungary by industrial capacity limits, but the necessary preconditions were not and are not in place, because in lack of adequate industrial facilities for the mechanic and biologic pre-treatment of waste, the country doesn't have the necessary pre-treatment technologies.

Waste incineration without pre-treatment by incineration plants was restricted by capacity limits, because the plants provided for under NWMP as "possible future development projects" have never been set up. Such a plant should have required the creation of an industrial incineration capacity going beyond the size of a waste treatment project. All the efforts till now to set up such incineration plants have failed, due to protests from the concerned communities and lacking organization.

The responsible ministries assigned under NEPP II for the implementation of the Waste Management Program (as a thematic action program) could not put into practice the goals, intentions set for the country as a whole.

In addition to the enforcement of the waste management goals hierarchy getting less attainable, another problem emerged through the lacking reconciliation on the capacity and location of incineration plants and of the individual newly created dumping sites. Consequently, in some parts of the country there are excessive capacities (Northern Lowlands, Southern Lowlands, Northern Hungary), while other parts (Western and Southern Transdanubia) lack capacity. The reason lies in the lack of a single national plan, broken down by regions, which, with consideration of the existing systems, could have decided, how to set up complex waste treatment systems economically and optimally. The complex systems came into being at places, where local governments were willing to do the application.

The shortcomings during the preparation of the **projects being delivered under ISPA/CF** were a setback for the effective and efficient implementation of the Waste Management Program, because the objectives set (i.e. the schedules,

---

budgets, engineering requirements) had to be continuously amended during project delivery. Despite the lack of a single methodological guide and cost-benefit analyses, the European Commission accepted the project documentations<sup>7</sup> that complied with ISPA's competitive requirements.

The project feasibility studies did not include alternative solutions, and the majority of them defined the quantity of emerging waste on the basis of estimates and calculations. The time demand for the individual working processes to be carried out was not realistically surveyed, either. All this appeared as risk factor at the calculation of the historical cost, at the cost-benefit analyses and financial analyses.

Among the priorities, the focus was put mainly on the placement of waste. The projects included traditional dumping sites that were nevertheless equipped with a protection system conforming EU engineering requirements and also with another system able to catch the methane gas releasing from the waste. The projects nearly completely lacked the facilities for mechanic and biologic waste pre-treatment that could promote the use of waste for energetic purpose. Only separate waste collection and pre-treatment for reprocessing were the tools intended to be used to achieve reduction in waste quantity. Apart from dumping sites, the complex waste treatment systems characteristically included waste sorting facilities, "waste-yards" and "waste collection islands" (with the latter two being statutorily defined forms of public waste collection sites) and also assets acquisition.

The delivery of development projects was lagging behind the scheduled dates. This was caused by shortcomings in project preparation, failures in planning, amendments to engineering requirements and the actual time demands of certain activities, processes (setting up the organizational framework and raising the own resources for the respective projects, concluding the respective contracts on funding and financial assistance, obtaining different permits from the authorities, and the public procurement actions). Further delays were caused by the amendments in legal regulations<sup>8</sup> and sometimes the protest actions by local residents, the non-planned archaeological excavations and the additional time, which was required to deal with problems arising during project implementation.

In consequence of the changes in deadlines, the average time period scheduled for the delivery of a project increased (in the reality) to the twofold, i.e. to nearly 8 years. On average, projects start 1.5 year later than scheduled and expectably finish 2.5 years later than they should. The practice of putting the "project" into

---

<sup>7</sup> In response to the European Court of Auditors' audit findings (in its Special Report 12/2008) on shortcomings in cost-benefit analyses, the Commission argued that "since most of the projects were required to fulfill basic needs, it was not appropriate to hold them up because of shortcomings in cost-benefit analyses".

<sup>8</sup> Amendments were made to the Public Procurement Act, VAT Act, and the respective regulations on engineering requirements and environmental remediation of dumping sites, with the provisions frequently getting more stringent.

operation later than scheduled means a delay for the achievement of the national waste management objectives and contributes to the cost increase.

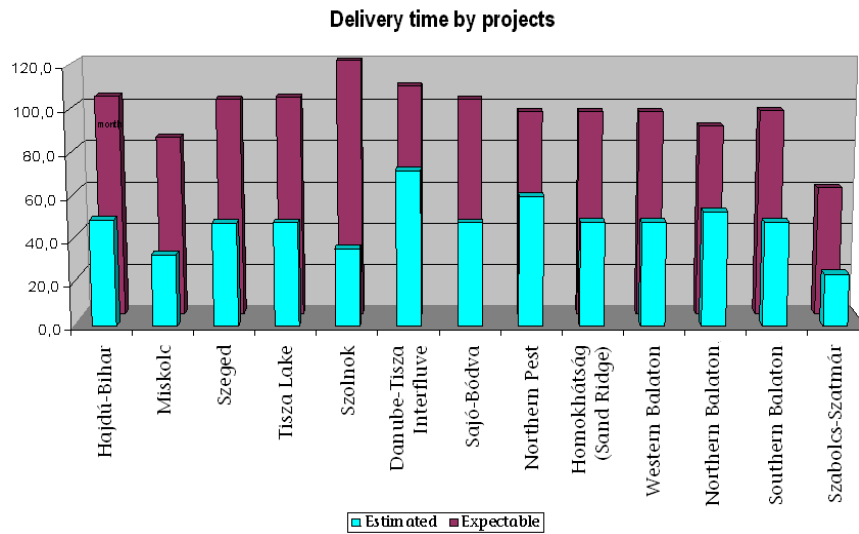
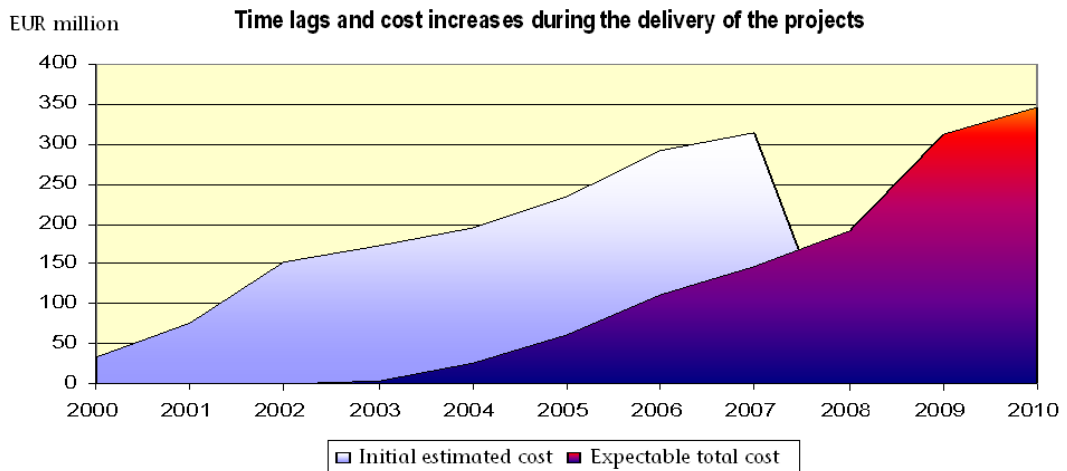


Chart 4

Chart 5 shows the time lags in the delivery of ISPA/CA solid waste treatment projects and the increase in their costs.



Based on documents of the responsible line ministry and the Monitoring Committee, at the end of the 1<sup>st</sup> quarter.

Chart 5

The total cost recognizable for the 13 audited projects (and therefore eligible for financial assistance) will expectably increase from the estimated HUF 78.7 billion to HUF 85.3 billion, based on the data delivered by the line ministry's ("Ministry for Environment Protection and Water Management") Development Directorate General as contributing organization (hereinafter referred to as "Contributing Organization"). The total historical cost of the projects will expectably amount to HUF 90.6 billion, based on the data delivered by the beneficiaries.

---

The increase in cost was triggered by planning shortcomings, the practice of re-planning, deficiencies in preparation, delays, the impacts of inflation and the low efficiency of public procurement actions.

In consequence of the costs being increased, the shares of involved parties in the funding have changed. With the amount initially approved by the EU not being changed, the increase in cost has to be funded from national sources. Thus, the share of EU-funding reduced from 65 to 56.6%, and that of the Hungarian central government increased from 25 to 28.1% (by HUF 5.8 billion). The relative share of the “own resource<sup>9</sup>” contributed by the local governments themselves will expectably increase from 10 to 15.3% (by HUF 6.1 billion).

About half of the own resource was provided by local governments from their own revenues. The other half was provided by them in forms of “resources from external investors”, “other grants” and raised loans. The external investors, that is, the future operators of the deliverable facilities, contributed to the projects the facility operation fees, rental fees, the fees for the use, and also the value of the right of operation bought by them, altogether providing the local governments nearly a quarter of the own resources. The Hungarian “Own Resource Fund”, (designed to help local governments raise the “own resource” for EU-assisted projects) provided a total of 2 billion for 5 projects in question. With doing so, this fund contributed 7.3 to 45.1% of the total delivery cost, dependent on the individual project.

In the delivery process of the projects, economy issues and highlights were not enforced. The contracts concluded on the basis of the public procurement actions regularly exceeded the appropriations budgeted and set out in the financial agreements between the European Commission and Hungary. The exceeding of the appropriations was caused for not only by the ill-found cost estimates, but also by the time lags’ impact towards the increase in prices, and the strict requirements imposed for the involvement. During the delivery process the concluded contracts were regularly amended. Amendments in the financial agreements affected the deadlines (the compliance with the deadlines) at each project, and beyond this, 38.5% of the projects saw changes in the financial arrangements, requirements, 92.3% of them had changes in the engineering requirements, and the other requirements, stipulations were changed at 15.4% of the projects. Regarding the three projects subjected to site audit, performance deadlines changed at 56.5% of the amendments, the contract price at 34.8% of them, the other requirements and stipulations at 43.5%. The amendments were not disclosed by the local governments or only lately, thus they failed to comply with provisions of the Public Procurement Act.

The beneficiaries intended to achieve a sound cost management and thus the keeping of costs within the limits of available financial allocations through changes in the engineering requirements, arrangements. To this end, the most

---

<sup>9</sup> The expectable amount of the local governments’ own resources already contain the project preparation costs (HUF 1.1 billion), and also the costs not recognizable for the projects under EU requirements. The latter made up 4.9 per cent of total delivery costs.

---

important quantitative change was the reduction by 40% of the number of initially planned dumping site (landfill) rehabilitations.

Initially, it was planned to rehabilitate 583 dumping sites, equaling nearly 52% of all dumping sites located in the regions covered by the projects. In consequence of amendments in engineering requirements, stipulations, the number of dumping sites to be rehabilitated was reduced to 353. Despite this reduction, HUF 18 billion, i.e. 20% of the projects' expectable total cost is devoted to this activity.

Under the 13 projects, a new intake capacity of 18,793 Thousand m<sup>3</sup> is going to be created, which is 93.7% of the initially planned. This development takes form with the establishment of 17 dumping sites and the capacity extension of 3 already existing ones. A part of them is already operating, the other part is going to be phased in and start providing service for the public in the coming 2 years.

Changes in policies on and the actual practice of the choice of public service providers led to a controversial situation, because the term of validity of public service provision contracts (lasting at least till end of 2012) was not in line with the delivery date and the expectable date of the putting into use (service) of the regional waste management systems.

In context of the deadline extension of public service provision contracts, neither the legislators nor the local governments took into account the very fact that with the introduction of the new systems the conditions of the public service would change, i.e. the operators of the newly established facilities are to be selected under public procurement action, with the old public service provision contracts still remaining in force. This contradictory situation also contributed to the "irregularity procedures", which were launched at 3 projects<sup>10</sup> because of the failure to perform public procurement actions on the choice of operators.

Despite the cost overruns and the shortcomings (calculation errors, use of different methods and parameters for the individual projects) in the cost-benefit analyses done during the preparation phase of the projects, no review was made - in alignment to the changed conditions during the project delivery process - on the viability and sustainability of the projects. This failed practice is posing a risk. Though no legal rule required the performance of such a review, but this review provides help for the timely interventions necessary for meeting the facility operation requirements in accordance with the European Commission's expectations and the goals stated in the financial agreements.

Regarding the **operation of control, audit and monitoring systems**, it was found that the organizations participating in project implementation basically focused on regularity in project implementation. They failed to examine the efficient use of the resources, and failed to track the impacts on goals achievement from cost overruns and time lags appearing during project delivery.

---

<sup>10</sup> The irregularity procedures were launched on the projects covering the regions Miskolc, Szolnok, Sajó-Bódva, in connection with the conclusion and amendment of the facility operation contracts. For the latter two of the mentioned regions the respective procedures were still ongoing at the end of the site audit.

---

A system of independent technical reviews on the performances (performed works) was not in place. In lack of relevant legal requirements, the site audits conducted by the Contributing Organization and forming part of the respective working processes (“built-in checks”) did not intend to check again - by means of measurement - the technical and financial performances already testified by the Project Engineer. Though such checking would have been reasonable in order to detect and fix technical problems during the delivery process. The Contributing Organization is still working on the establishment of an audit and monitoring system applicable in the operation phase of the project facilities.

As a result of the grants promoting municipal solid waste treatment, the **municipal tasks falling under the public service of “waste treatment”** have undergone an improvement in terms of organization, the toolkit of the environmentally aware system of separate waste collection has expanded, and the support by residents for separate collection increased. Despite the fact that 80% of the audited local governments, contrary to legal rules, did not devote attention to an assessment on the achievement of goals stipulated in the local plans or to the prevention<sup>11</sup> of waste emergence, the implemented waste programs still contributed - through their improvement of the waste treatment conditions - to the creation of a more livable environment and of the foundations for environmentally sustainable development.

The local governments of settlements (“the communities”) satisfied in different ways the statutory obligation to survey the waste management tasks performed by them. The local governments are obliged to specify the tasks connected with the provision of the compulsory public service of municipal waste treatment, the content of these tasks, and declare which of the above tasks they deem compulsory and which they deem voluntary for themselves. More than half of the local governments failed to specify and declare the above. Separate waste collection was deemed by the local governments a voluntary (voluntarily assumed) task, because paragraph 5 under Section 21 of the Waste Management Act provides the local governments discretionary authority to decide if they want to collect some components of the municipal solid waste separately or not. This legal provision is still valid despite the huge amount of central government resources granted for separate collection, and the development measures recognized as parts of the implemented and ongoing regional waste projects.

Contrary to legal requirements, 61.5% of the audited local governments did not, and 12.8% of them only partly specified towards the public service (municipal waste treatment) providers in their issued decrees what to include into the service charge and how to develop the “charge calculation”, which is to establish the charge for the public service. Consequently, in respect of the establishment of the service charge, the communities gave room for decision-making circumstances allowing special and individual consideration, and hindered the enforcement of some transparent and consistent principles that could provide the possibility to

---

<sup>11</sup>According to the data the local governments delivered for the audit, 99.2 per cent of the emerged municipal solid waste is still disposed by means of dumping. (This share is much higher than the national average.) The combined share of waste recoveries is still marginal, despite the considerable expansion of separate collection.

---

compare different years. Effectiveness of the public service (municipal waste treatment) was largely influenced by the respective municipal regulation on service charge establishment and by the stipulated contractual conditions.

With the exception of a few cases, the public service provision contracts stipulated the continuous and complete performance of the tasks to be performed as the provider's duty, and addressed also the way and frequency of the performance. Nearly 90% of the contracts specified the very facilities, which are able to satisfy the waste treatment demands. Four out of each five contracts contained the respective local government's demand that the HR- and equipment-related conditions required for this public service were met and the several waste treatment activities be harmonized with one another.

At the establishment of the service charge, the audited local government failed to convey the expectation that, with passing the costs to the residents, the latter should be made interested to reduce the quantity of emerging waste and collect the waste separately. A third of the audited local governments defined within the service field some differentiation, e.g. different service modalities for households and businesses, bodies, or different regulations for different sorts of real estates (residential area versus resort area), or stipulations for the voluntarily assumed tasks (e.g. separate collection) of the public service. 59% of them gave the residents some discount for or exemption from the service charge. Beyond this, some other financial advantages received by the residents on the public service, were embedded into the system of welfare benefits, and aligned with the ability of the individual residents to bear financial burdens.

Despite the allowances made by local governments, the service charges payable by residents, increased considerably from 2004 to 2008 (by 38 to 160%). The audited local governments increased almost to the twofold (from HUF 139 to HUF 269) the charge payable for one emptying of the 120-litre "waste collection vessel" most frequently used by households. From among the many components of the service charge, the transport costs have increased the most, triggered by the increase in the average distance to be covered by the waste on its way to the regional dumping site, despite the fact that the new regional waste systems were still only partly operating in the geographical areas, where the audited local governments are.

However, the service charges increased even in the communities, where the developments of the waste facilities were done purely with national resources. Among these communities, the basic charge payable for one emptying of the 120-litre "waste collection vessel", increased from 236 to HUF 374, i.e. by 58.5% in the period 2004-2008. In the communities belonging to waste systems implemented purely with national resources, the average service charge was higher by 72% than in the other communities belonging to those regional waste systems financially assisted by the EU.

The public service of municipal waste treatment concerned more than 231 Thousand households in the audited communities. The survey performed by the State Audit Office of Hungary on "residential satisfaction" allowed for learning the views of the residents living in the audited communities. 63.1% of the respondents had information about the considerable development projects

already implemented or being implemented in their respective counties or wider environment, with the aim to promote solid waste management. However, 60% of them believed that there was a failure in providing adequate and in-depth information to the residents on the cost demand of individual waste treatment technologies, with special respect to that of separate collection, and on their direct and indirect impacts on the service charge. 66% of those surveyed has witnessed in his/her environment illegal (unpermitted) dumping of waste. More than 70% of them thought there was no adequate deterrent to this practice.

Residential satisfaction with the locally established practice of separate waste collection is illustrated by Chart 6.

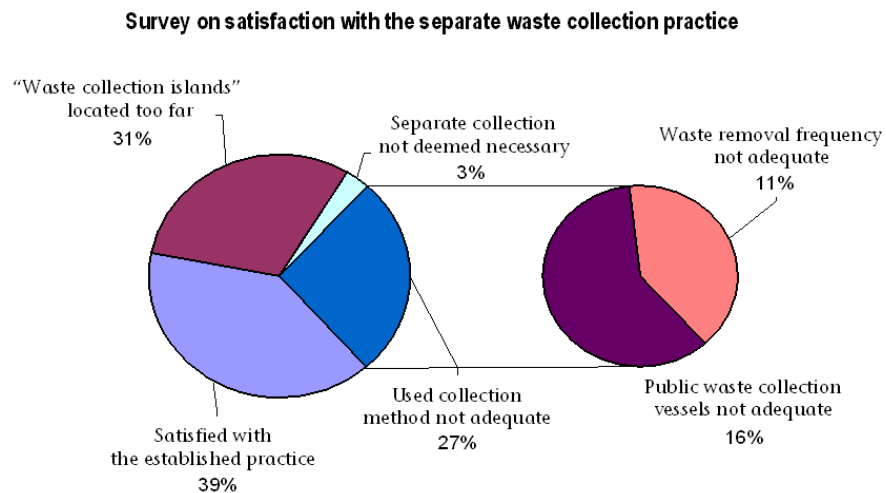


Chart 6

Based on the site audits, the **local governments were recommended** to rectify the contracts concluded with the public service providers and define the way how to calculate the service charge. In addition, regarding the audited projects, it was recommended to comply with the rules of public procurement, and the SAO as auditor drew the attention to the need to rectify the records in the property registers and real estate registers. In case of the project affecting the Szolnok region, a local government received from the contractor a compensation (for defective performance), for which the SAO, in accordance with the applicable rules, recommended an adequate recognition and that the proportionate part of it should be paid by the local government to the nation’s central budget.

---

Beyond the utilization of the site audit findings **the SAO recommended**

**the Government to**

1. examine the attainability of the growing amount of EU-related commitments with the Waste Management Act's valid provisions serving as background, with taking into account that separate waste collection is merely a possibility, but not a requirement for residents and the local governments of settlements at the present;
2. prepare a regulation on the quality classes and possible areas of use of the waste composts, and also a quality management system, which ensures the quality of the waste composts.

**the Minister of Environment Protection and Water Management to**

1. develop, for the purpose of preventing waste emergence and with alignment to the best international practice, a regulation system and technical programs, which are more efficient and of wider scope than the present ones;
2. develop a strategy for the utilization of secondary raw materials gained as result of separate waste collection, and develop, in cooperation with the Ministry of National Development and Economy and the Ministry of Finance, a system of incentives for the implementation of this strategy;
3. take action to ensure that the Contributing Organization introduces an adequate system to review and continuously track the delivered project facilities in their maintenance and operation phases;
4. take action to ensure that, during the delivery of waste treatment projects, independent technical reviews are done on the performances (performed works), and a minimum of two reviewing persons are deployed for an inspection of any physically performed work. Furthermore, the Minister should review, also during the projects' delivery period, the project viability calculations and the environmental sustainability of the waste treatment systems, so that necessary interventions be made as soon as possible.

**the Minister for Municipal Affairs to**

promote, in consultation with the Minister of Finance, a practice of standard treatment as regards the ownership arrangements of waste treatment facilities being delivered with EU financial assistance, and arrange for the facilities' accounting records being in harmony with this standard treatment.

**the Minister for National Development and Economy to**

take action to ensure that the individual competitive schemes launched during the implementation (i.e. as parts of) the operational programs of the New Hungary Development Plan, be formulated and drafted in a way that the objectives stated in them are able to support the achievement of Hungary's EU-commitments.