FINANCIAL RISKS OF LOCAL GOVERNMENTS CONCERNING IMPLEMENTATION OF THEIR SOCIAL POLITICAL AIMS

Summary

The local governments of settlements fulfill not only their basic duties but also a great deal of other tasks as well that influence the communities’ living conditions and quality of life, and through the way inhabitants feel also have an impact on the retention capacity of the settlements. The social policy of local governments is fulfilled by the governments. Financing the tasks and their risks have a great effect on the realization of sustainable local governing. The aim of this study is to review the Hungarian local governmental system assessing some anomalies of the financing of local governments and to draw attention to the risk of local governments, to the possibilities of how to reduce their operational risks highly considering the social political goals of the local governments, the role it has in developing and improving the people’s quality of life.

Keywords: quality of life, sustainable development, indebtedness, risk mitigation

Introduction

Administratively speaking, according to the constitution Hungary is divided into capital, counties, cities with county rights, towns and villages while the capital itself is divided into districts. The villages, the towns and the capital are settlement-level units that necessarily cover the whole area of the country. The counties are those regional units that consist of settlement units. The 19 counties were born as part of the 1949–1950 administration reform. The number of settlements is 3152 (July 1st, 2009), which means a pretty low number of inhabitants per settlement considering that the number of inhabitants was 10 020 000 at that time. The number of inhabitants of the country has been decreasing constantly in the last decade, the number of deaths exceeds the number of births, and although the migration balance was positive, the number of inhabitants decreased to 9 999 000
on July 31st, 2010. 32% of the inhabitants live in one of the 2824 settlements, however in fulfilling governmental tasks and their financing it is a serious problem that the number of those settlements where less than 1000 inhabitants live is pretty high: 1713 (54.3%) (Table 1). However, in the last decade the urbanization processes seems to have been stabilized; rural inhabitants seem to have stopped migrating to towns (Table 2) [KSH, 2010].

All of these factors generate that on the one hand the local governmental structure is characterized by fragmented administrative and institutional structure, on the other hand they have to fulfill a wide range of tasks, the financial environment cannot be foreseen and their operation is rather risky because of the constantly changing economic and legal changes.

From financial aspects, the lack of funds, the lack of liquidity and the lack of solvency mean the risk of local governmental operations. Lack of funds in financial management means that there is no funds available from central sources to fulfill the tasks required and put down in the law. Lack of liquidity means that there is no temporal accordance between the incomes and expenses planned by the local government who is the economic actor. Lack of solvency means, that the local government is not capable of meeting the contracted debt obligations. It does not mean bankruptcy, considering that the concept of bankruptcy as such is not definable as the local government cannot be liquidated without lack of legal successor [Vígvári, 2008].

However, their operations, infrastructural and tax policies influence the economy, the businesses in the settlements and the employees as well. At the same time the above mentioned factors also determine the economic power, the development possibilities, the retention capacity and the quality of life itself of the settlements.

Table 1

Number of local governments by administrative standings

<table>
<thead>
<tr>
<th>Capital/county rank cities</th>
<th>Districts of capital</th>
<th>Towns</th>
<th>Other settlements</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>23</td>
<td>274</td>
<td>2824*</td>
<td>3152</td>
</tr>
</tbody>
</table>

* From this:
  – 500–999: 697; 200–499: 705;
  – under 199: 311.

Source: Atlas of regions [KSH, 2010].

Table 2

Share of habitants by category type of administrating standings

<table>
<thead>
<tr>
<th>Nomination</th>
<th>2000</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital / Budapest</td>
<td>17,2</td>
<td>16,9</td>
<td>17,1</td>
<td>17,2</td>
</tr>
<tr>
<td>Towns (other)</td>
<td>52,0</td>
<td>52,1</td>
<td>52,2</td>
<td>52,2</td>
</tr>
<tr>
<td>Settlements</td>
<td>30,8</td>
<td>31,1</td>
<td>30,7</td>
<td>30,6</td>
</tr>
</tbody>
</table>

The first four elements of the Hungarian local governmental system – village, town, capital, capital district – is the settlement government that is accompanied by the fifth element, the county government as regional government. From the most important rights of the governments – as far as the topic is concerned – we have to highlight the right to autonomy that is the right to exercise the democratic, local, power.

From the characteristic features of the Hungarian local government model Lóránt [2009] highlights the followings:
- the high number of actors (mayor’s offices, institutions);
- great constitutional autonomy, de jure co-ordination of the actors;
- wide range of task fulfillment competency with considerably different economies of scale;
- exercises ownership on considerable properties;
- in fulfilling local governmental tasks the ‘alternative’ task fulfillment methods, that is social responsibility has an outstanding role.

At the same time the local government provides the basic public services with general responsibility. Normally those local governments that have more inhabitants and bigger capacities have to fulfill more compulsory tasks with larger competences. In the last few decades it has been proved that settlements with few inhabitants are not able to meet the public services requirements at the required level and effectively. If we observe the number of inhabitants belonged to one local government in certain member states of the European Union, we can state that the Hungarian situation can on the one hand be characterized by the high number of settlement local governments, on the other hand by the low number of inhabitants beside average inhabitant density (Table 3). In Hungary 3100 inhabitants belong to one settlement local government, while this number is 15 000 in Poland in contrast with the United Kingdom where this number is 118 500, which obviously predetermines that the obligatory tasks to fulfill are different and that they face different kinds of settlement management tasks and they can be characterized by funding differences as well.

After the reformation of the local government system in the 1990’s the above outlined situation was resulted in the establishment of the sector-centered and the micro-regional task fulfillment base. The tasks and competences of the local governments can be divided into two main groups. On the one hand it can be divided into local governmental, on the other hand into administrative tasks and competences with which we do not deal in this article [Balázs et al., 2008].

The constitutional basis of economic autonomy of local governments was laid down by the Constitution of the Republic of Hungary [1949/XX Act]. The Constitution consists of five remarkable items in connection with the local governments (can be found in the 1998 supplement):
- acknowledgement of local property (12 § (2))
- management autonomy (44/A§ (1/b))
- entitled to own income and state subsidy (44/A§ (1/c))
- local right to levy taxes (44/A§ (1/d))
- acknowledgement of business autonomy (9§ (2)).
The local governments are those actors of economy who operate on their own risk, on their own responsibility, fulfill tasks prescribed by law obligatorily, however, due to their own incomes they have to manage their assets in accordance with the average economic requirements as well. Thus during their funding, basically they use the sources provided by the central budget to maintain the basic services, however they also complete it with their own incomes (business activities, duties, rentals, local taxes). For further developments they can use foreign sources as well (subsidy, bond issue, borrowing or commission and capital-like incomes). As far as the topic is concerned, the latter group is more significant as it influences the risks of the local governments in both the short and long run as well, shows what funding strategy to follow and also shows the degree of indebtedness.

Table 3

Density in local governments in some European countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Population (million inhabitants)</th>
<th>Number of local governments</th>
<th>Average number of inhabitants per local governments (1000 capita)</th>
<th>Urban population (% of total population) (2008)</th>
<th>Rate of urbanization: (% annual rate of change) (2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic</td>
<td>10,3</td>
<td>6 237</td>
<td>1 500</td>
<td>73</td>
<td>0,0</td>
</tr>
<tr>
<td>France</td>
<td>58,9</td>
<td>36 559</td>
<td>1 600</td>
<td>77</td>
<td>0,8</td>
</tr>
<tr>
<td>Slovakia</td>
<td>5,4</td>
<td>2 871</td>
<td>1 700</td>
<td>56</td>
<td>0,2</td>
</tr>
<tr>
<td>Greece</td>
<td>10,5</td>
<td>5 922</td>
<td>1 800</td>
<td>61</td>
<td>0,6</td>
</tr>
<tr>
<td><strong>Hungary</strong></td>
<td>10,2</td>
<td>3 175</td>
<td>3 100</td>
<td>68</td>
<td><strong>0,3</strong></td>
</tr>
<tr>
<td>Austria</td>
<td>8,1</td>
<td>2 353</td>
<td>3 400</td>
<td>67</td>
<td>0,7</td>
</tr>
<tr>
<td>Latvia</td>
<td>2,5</td>
<td>554</td>
<td>4 000</td>
<td>68</td>
<td>– 0,5</td>
</tr>
<tr>
<td>Germany</td>
<td>82,0</td>
<td>16 121</td>
<td>5 000</td>
<td>74</td>
<td>0,1</td>
</tr>
<tr>
<td>Italy</td>
<td>57,4</td>
<td>8 104</td>
<td>7 000</td>
<td>68</td>
<td>0,4</td>
</tr>
<tr>
<td>Slovenia</td>
<td>2</td>
<td>192</td>
<td>8 800</td>
<td>48</td>
<td>– 0,6</td>
</tr>
<tr>
<td>Finland</td>
<td>5,2</td>
<td>455</td>
<td>11 200</td>
<td>63</td>
<td>0,8</td>
</tr>
<tr>
<td><strong>Poland</strong></td>
<td>38,7</td>
<td>2 489</td>
<td>15 000</td>
<td>61</td>
<td>– 0,3</td>
</tr>
<tr>
<td>Netherlands</td>
<td>15,7</td>
<td>572</td>
<td>27 000</td>
<td>82</td>
<td>0,9</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>8,3</td>
<td>262</td>
<td>28 000</td>
<td>71</td>
<td>– 0,3</td>
</tr>
<tr>
<td>Sweden</td>
<td>8,9</td>
<td>286</td>
<td>30 900</td>
<td>85</td>
<td>0,5</td>
</tr>
<tr>
<td>Portugal</td>
<td>9,9</td>
<td>275</td>
<td>34 200</td>
<td>59</td>
<td>1,4</td>
</tr>
<tr>
<td>Lithuania</td>
<td>3,7</td>
<td>56</td>
<td>58 800</td>
<td>67</td>
<td>– 0,4</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>58,7</td>
<td>491</td>
<td>118 503</td>
<td>90</td>
<td>0,5</td>
</tr>
</tbody>
</table>

Source: own calculation based on OECD, CIA The World Factbook data.

The Hungarian local governmental system was built on the principle of one settlement, one local government. The Constitution provides each and every settlement the right to self-governing, if they accept to fulfill those compulsory
tasks that are required by legal regulation. Most of the compulsory tasks belong to public education. Every settlement local government is obliged to provide kindergarten provision and elementary school education is also obligatory. According to operative legislations currently it means the provision of those conditions that are necessary for an 8-class elementary school education to which supplementary tasks are added. There are other tasks of high importance such as: provision of medical assistance, provision of drinking water, social services (social net), maintenance of public roads and public cemetery, waste and sewage treatment, provision of enforcement of national and ethnical minority rights, and some other optional tasks (local public transport, public cleanliness or the securing of public area just to mention the most important ones). There is digression in obligations between the different levels but due to coverage limits we do not deal with it either.

We put emphasis only on one element of the above mentioned – which means its future risk factor as well – that is, the unfavorable age compound which is similar to the European tendency and can be characterized as aging. We also emphasize its high dependency rate. The active employment rate among 15–64 years old was 55,4% at the beginning of 2010 (males: 61,1%, females: 49,9%), while the number of registered unemployed exceeded 420 000 (10,1%): the second quarter unemployment rate in 2010 was 11,2%.

Table 4
Dependency rate in correlation with 15-64 years old

<table>
<thead>
<tr>
<th>Nomination</th>
<th>2000</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children</td>
<td>24,3</td>
<td>21,8</td>
<td>21,6</td>
<td>21,5</td>
</tr>
<tr>
<td>The Aged</td>
<td>22,2</td>
<td>23,5</td>
<td>23,8</td>
<td>24,2</td>
</tr>
</tbody>
</table>

Source: own calculation by Atlas of regions [KSH, 2010].

Strategy of intelligent, sustainable and inclusive development

The earlier emphasized have also certified that not only economic development but the settlement structure of a country also determine the population’s living conditions and the livability of the settlements reacts on the quality of life of those who live there. Báger and his colleagues [2010] emphasize that the development of a society basically depends on local levels determined by the population’s quality of life. To interpret the financial risks of the local government operations in this connection system it is necessary to define future tasks. Of course we are not talking about the redefinition of the basic and optional tasks but rather about tasks that have to be defined economically. The European Committee drafted
the principle of ‘intelligent development’ in June 2010, which at the same time means the knowledge-based, sustainable inclusive development based on local economic and social cooperation creating an environmentally-friendly and competitive economy building the development based on knowledge and innovation [Barroso, 2010; European Committee, 17th June, 2010].

Livability index – quality of life

Livability of a particular settlement is determined by the standard of living that means the society members’ welfare level and shows to what extent their needs are met. However, besides personal income, it also contains elements that are not easy to measure, such as natural and other services provided by the public. Quality of life is a wider concept category. Besides the components of standard of living it also involves those environmental factors as well of which judgment is subjective influenced not only by income situation but also age, education, cultural and other attitudes. The following factors have also been considered: culture of the environment, leisure activities, opportunities to create the wanted lifestyle and quality of public services. More authors deal with the question of how to express quality of life. Veenhoven [2000] in his double interpretation differentiates the livability of the environment and the viability of the individual as an external and internal duality. He also makes difference between the ‘external usefulness’ of life and the ‘inner value’ of life, which also reflect the duality of the approach. Considering that individually subjectivity appears it is difficult to create exact measuring methods. Allardt’s [1993] quality of life approach is based on a necessity hierarchy. It consists of three levels each of which contains both subjective and objective elements as well. He puts the material-environmental and the living standard and environmental factors opposite to the individual’s satisfaction with life conditions. Within social needs (loving) he differentiates relationships with individuals (external environment) and the individual satisfaction with them. Within personal development needs (being) the relationship to the society and the environment stands opposite to the subjective feeling of individual perfection. Király [2009] had worked out and tested a complex quality of life index in the North-Hungarian region and proved that as far as livability and retention capacity are concerned the shire-town micro regions, which characterize the Hungarian local government structure, emerge from the other regional units. It has also been proved that the retention capacity of the inner areas of the north-eastern part of the country is better than that of the outer areas.

The methods and indexes used to measure the quality of life normally involves the individual income features, the influential role of public services (education, health care, transportation), of infrastructure and of the natural and man-made environment in the judgment of individual quality of life. It is important to emphasize here that the role of the state and the local governments in creating the requirements of these elements is significant. Moreover, there are numerous
references that say that the local and regional economic performance (growth, development) of a given residence (settlement, region) has a significant influence on both the objective and the subjective quality of life, living standard.

Fekete examined the micro-regional absorptive capacity in Hungary [2004]. Five index groups were examined (immobile, human and economic resources, living conditions and availability). Altogether they considered 32 indexes gathered by the HCSO and published in the database of TSTAR2001 and the census in 2001. Based on this Király [2009] presented the discrepancies in the form of cartogram. It is well observable that Budapest is in the center and the outer peripheries, that is, the northern, eastern and southern border-land have problems (Figure 1).

![Figure 1. By complex developmental indicator of local regions](image)

Source: Király, 2009, 37.

**Influential factors on competitiveness of local governments. How to decrease the differences between the developed and underdeveloped regions?**

The operation and competitiveness of local governments are basically influenced by the situation of state budget (its possibilities), the infrastructural conditions, the qualification of the labor force, the age content, the labor market situation, the education, the institutional background and the social and organizational culture. We highlight these factors because the above drafted characteristic discrepancies among the micro regions show that the possibilities of the settlement local governments also differ just like their tasks as well.
The following things are necessary to improve quality of life:

– economic investments that can be carried out only by strengthening the local business sector and of economy,
– regional developments and investments enhance the retention capacity of the regions that do not reverse the former urban processes but can stop the inhabitants of rural peripheral regions to migrate further
– infrastructural investments,
– social improvements.

Therefore the tasks of the local governments is to invest in the above mentioned fields and create such an economic environment where the conditions to set up business sectors are provided. Considering that most of the local governments are characterized by lack of sources gaining foreign sources – except for the non-refundable subsidy – enhances the risks – and not only in a financial sense – that question the improvement of viability and quality of life.

Material and methods

During our research we have collected secondary data using the regional statistics database of the Hungarian CSO, the database of the CIA The World Factbook, the data of the budget acts of the Republic of Hungary and the executive data of the budget and the Hungarian State Treasury data concerning the debt stock of the local governments. By analyzing the documents we have assessed the experience about the management of the Hungarian local governments based on the investigations carried out by the Hungarian State Audit Office.

Results

Carrying out the secondary data collection we have stated that the Hungarian settlement local government structure has significantly been frittered, the number of towns is high and the population rate in towns is also high as we have already indicated in the introduction. Some of the towns – particularly those settlements that have gained town rights in the past 25–30 years – are not able to fulfill the increased tasks properly. Lack of sources has become typical; indebtedness has increased (Figure 2). One of the declared aims of declaration a settlement as a city is to gain the right to higher normative subsidy. However, the normative financing of the tasks determined by law from the central budget has been constantly decreasing from 2004. The normative state subsidy at country level was HUF 519 billion, which decreased to HUF 338 billion by the year of 2008. The local governments was unable to compensate such a high degree of lack of funds from their own income, therefore they realized other financial activities – incomes from issuing bonds and selling securities and other long-term papers.
The income of local governments from financial activities was HUF 13 billion, while in 2008 it was HUF 211 billion [Dózsa, 2010]. It is/was a risk element for most of the county and the small settlement local governments that they did not have their own incomes. Even if they had, they would spend it on financing their on-going operations or at a rough guess 20–25% was spent on buying off their short-term credits. Characteristically, they did not behave in accordance with the prudent management rules; they realized an aggressive financing strategy increasing their risks and the risks of the future generation as well. In this sense the Hungarian local governmental management has not been in accordance with the requirements of sustainability recently. The selling and running through the local government estate had been going on but this way was not negotiable for those small settlement local governments that did not have significant own estate.

The increase of local governmental indebtedness began right after the 2001 crisis, but it became very serious after the 2008 financial and economic Great Recession. The increase was mainly observable in towns (Figure 2). Within the accounts receivable all the bonds issued belong to nearly 300 settlements, narrowly to 10% of the Hungarian settlements (Figure 3). According to experts the two-thirds of sources gained this way was spent on investments, 15% on operational expenses and 22% on outstanding loan recovery by the local governments. Considering that the local governments did not comply with the financial principles, besides increasing risks, there was another critical point, that is, some of the loans required by the local governments were short-term ones. All the above mentioned things are resulted in serious problems not only in the current economic situation but in the future as well and at settlement level they basically risk the results achieved already in the maintenance of services that influence quality of life.

Figure 2. Indebtedness of governmental types
Source: The Hungarian State Treasury.
Figure 3. Debts of local governments
Source: The Hungarian State Treasury.

The structural transformation of duties of the Hungarian local governments began before the financial-economic crisis of 2008. The rate of issuing bond issues increased significantly in the years of 2007–2008 while in the meantime the credits were decreasing. By that time it was common that the small settlement local government had become incredible as far as the banking sector is concerned. The received permanent funds were often spent not only on local government developments but also on operational financing as well. The financing was characteristically realized by an aggressive strategy further increasing the risks of the basically highly indebted local governments.

There are no aggregated data available about the indebtedness of the local governments; according to estimations it could be HUF 1100–1200 billion at the end of the year of 2009, of which almost half are charged by price risk. Further risk element in local government management is the circle of investments carried out in PPP construction, which influence the quality of live of the settlements in two ways. Nationally there are roughly 100 – with the cooperation of private capital – accomplished investments in the fields of education, culture and sports and in more cases the operation itself mean risk to the given local governments. Further crucial element is the circle of EU tenders carried out by the help of own capital since 2004.

Considering the financial risks of the local governmental system the villages and bigger settlements are characterized mainly by liquidity problems, while those settlements’ that are fewer in number (counties, cities with county rights, towns) microeconomic risk is that they are indebted. The stabilizing measurements might increase lack of funds at the local level of public finance (due to the
The absorption of EU supports might be resulted in liquidity problems while the half-baked, financially unsustainable projects might cause further insolvency problems. The following problems increase the sustainability risks of local governments further: the increase of the number of those local governments that lack of funds and are in a difficult situation incidentally, the latent insolvency generated by the PPP, the indebtedness of institution-supporting counties, the increase of the deficit between the tasks to be fulfilled by law and the annual budget estimates and the limits of increasing own local funds (mainly local taxes).

The long-run fulfillment of the compulsory and optional local governmental tasks is influenced by the high unemployment rate (mainly in peripheral regions of Hungary) and the low employment rate, the aging, the low rate of skilled workers and education, within basic services the lack of kindergartens, the maintenance of elementary schools or the transportation of children, the lack of economy or even the ethical situation. All the above mentioned together determine quality of life.

Is there relationship between the indebtedness and absorptive capability of local regions?

Assuming that there is relationship between the retention capacity of the settlements and the indebtedness of local governments it can be stated that retention capacity and quality of life can on the one hand be improved by social activities of local governments and proper management of local governmental tasks, on the other hand they need investments in every level of economy and life. Of course, some of these investments are social and cultural investments, but at local level the local governments also have a significant role by their investments. The financing situation of the local governmental management can be described as highly risky, not only in a financial sense but socially speaking it also increase the risks of improvement possibilities of quality of life. Kovács [2010] also emphasizes the importance of prevention in his studies. He was looking the answer to the question with what kind of tools of risk management can be applied to avoid the indebtedness of local governments. He mentioned an example from Poland as a given limit: if the insufficiency of the balance of payments reached 60% than it is forbidden to borrow additional credit for the governments [Kovács, 2009].

In connection with the above mentioned during the local governmental management we have to draw attention to the anomalies of financial and operational planning. While fulfilling public tasks the maintenance of redundant or economically not profitable investments and capacities are often accompanied by scarcity and wastage at the same time. The solutions could be the followings:
- implementing budgetary liability methods,
- making middle term budgetary framework plans using recent planning methods,
improving indicator systems (based on impact and achievement approaches),
increasing the role of civil sphere’s control.

Based on the above mentioned we have to create transparency, availability and the obligation of public institutional response.

Gál [2010] has worked out a risk map to promote the planning of local governmental management (Risk Map of Local Governments) and an interdisciplinary method based on this map that could contribute to the improvement of the transparency of the local governmental sector as well. The spreading of the complex proceedings of the local governmental management promotes the development of independent financial monitoring to provide transparency [Gál, 2010].

Factors enlarging not only financial risks of local governments

- stabilization arrangements of government – will increase the lack of finance on local level of public budget,
- changes in demographic conditions – financial quotas and social costs,
- absorb of European subsidies causes liquidity problems, whiled the not well-considered, financially not maintainable projects cause bankruptcy problems,
- latent bankruptcy in the case of investments carried out as PPP project,
- counties, local governments maintaining public institutions, services running into debts,
- increase of differences between compulsory tasks prescribed in sectoral laws,
- barriers of expanding own governmental sources (e.g. local taxes) [Vigvári, 2008].

Besides the above mentioned we have to stress the risks derived from the increase of debts of local governments. In the current Hungarian practice it brings on partly the aggravation necessity of regulating the local governmental borrowing, partly the necessity of developing the local governmental guarantee credit, and as we have stated before the reinforcement of financial monitoring at the same time. Halmosi [2010] emphasizes further factors, such as the modernization of information management system, implementing up-to-date planning methods, etc. However, we think that the fulfillment of social targets and tasks of local governments, and the long-term risks of maintaining those functions that influence the inhabitants’ quality of life can be reduced by the reinforcement of the legal and guaranteed background emphasized by us.

Conclusions

The local governments have a significant role in creating the requirement system of quality of life, its maintenance in every economy, just like in Hungary as well. As we have presented, the Hungarian local governmental structure is characterized by frittering, the number of those settlements where fewer than
1000 inhabitants live is high, but the local governments are supposed to provide basic services in these areas as well. The relationship between the quality of life, the viability, the area retention capacity and the increase in the risks of the local governmental management also predict that as the quality of life is worsening, people will leave the regions, the tasks will remain and aging will be typical, the ethnical tension will increase and the migration will cause problems in other territories. In the meantime, in particular cases positive relationships can be set, for example, with new settlings the number of children might raise and make the maintenance of educational institutions profitable.

The income from standard financing is not enough to fulfill neither the compulsory nor the optional tasks; the acquisition of own income (business, capital consumption, taxing) are not real sources for all the settlements. In the east few decades a significant part of the local governments have become indebted and its rate has become so high that sustainability is questionable in the long run; surviving strategy is common and the resources are being eaten up.

The local governmental reform has become more and more urgent concerning not only the settlement structure but the financing system of the local governments as well, in harmonization with the EU practice and regulations increasing the anatomy of the local governments in this field as well:

- the maintenance of the local governmental system has to obtain outstanding importance when we are talking about the improvement of quality of life. We have to remark that the Hungarian budget is suffering from budget deficit from year to year, which is resulted in lack of resources at local governmental level as well, which are tend to be compensated by own local governmental incomes,
- as social needs are increasing, local governments must fit to EU requirements: intelligent, sustainable and inclusive development, but it needs more money,
- regional policy must focus on closing outlying districts to those regions whose absorptive capability is higher, where quality of life is better by investments,
- to be really sustainable from economic and social aspects, local governments must find the possibilities to reduce their risk concerning absorptive capability and finance at the same time.

References


