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3.5.1 Case studies on municipalities' service provision

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Reorganisation of geriatric care in a big town

In the past two years, the indebted town has transferred the provision of the majority of social services as well as three public educational institutions to churches. In both areas, outsourcing was justified by financial gains: churches being immediately entitled to higher per capita funding than local governments. The difference between per capita amounts is calculated every year on the basis of the financial resources provided by the municipalities to supplement state funds for service provision.

Prior to the transfer, the system of social service provision had been reorganized twice for cost reasons. In the 2007 reorganization, services were centralized and bringing back in-house the delivery of cleaning services previously outsourced. From 2009, in the second reorganization further streamlining occurred, with just three organizations retained in-house: day care services, care for people with disabilities and geriatric care. In the latter case, the number of residents decreased, with residential geriatric care being transferred to a church organization in 2011. Four workplaces and 343 employees were taken over by the Hungarian Baptist Aid. Two of the remaining three sites were closed, with the third taken over by the Jewish Community.

Having outsourced these activities, the town is no longer obliged to subsidize elderly care, and saved 0.5 billion HUF (EUR 1.8 million) per year (1.25% of the entire town budget); moreover, it proved to be advantageous despite the fact that the municipality undertook the responsibility of renovating some of the buildings after the transfer. The outsourcing contracts include a clause stipulating that the municipality is obliged to "re-municipalize" geriatric care homes should there be any changes in financing. This would be relatively easy to put into practice, as the outsourcing is restricted to the operation of the organization and does not cover its assets and property. At the same time, the contract contains no guarantees as to the quality and price of services beyond that laid down in the relevant law. In 2012 the new provider was thus allowed to increase fees significantly. Not only did the local administration not interfere with this action but it also appreciated the advantages of not having to take such an unpopular measure itself.

In the residential care home taken over by the Hungarian Baptist Aid, a church organization, the largest employee group is made up of nurses and mental health professionals. As services are not outsourced, cleaners, laundry and kitchen personnel and drivers are also employed. Given the nature of the work, the majority of the workforce are women. Prior to the takeover, employees experienced a great deal of uncertainty, not only because of the previous lay-offs, but also because – aware of the municipality's serious financial problems – they were very much concerned that their wages would not be paid. Such concerns were not unfounded, given that the local administration had previously revoked certain fringe benefits (the so-called cafeteria package and other benefits). On the other hand, they were afraid that the new provider would bring in its own people to replace existing personnel.

The local trade union has a 60–65 per cent unionization rate, although this has been in decline. Before the transfer, two trade unions had local or-

ganizations operating here as well, but they have since merged. In the spirit of union renewal, young people were taken on as shop stewards. Since the new provider was not going to take over more employees than the minimum prescribed in the Law on Social Services, the transfer was preceded by a collective redundancy of 49 people. Those who were laid off in this way included mainly two groups of employees: those who were eligible for retirement, since they did not have to be paid severance pay; and those whose work the new provider was planning to dispense with. Contrary to the general practice in Hungary, the consultations with the trade union and the works council also included the selection of the jobs to be eliminated and persons to be dismissed. Among those selected for transfer to the church employer, an estimated 20–30 people refused to accept the particular job they were offered. Some were planning to find employment abroad, others had hoped to get, in addition to the severance pay, a notice period together with the respective salary. The local government, however, refused to pay the latter, referring to the transfer of undertaking regulations according to which it was not due.

In the negotiations preceding the transfer, the church's representative promised to take over employees under the same terms and to retain the system of base salaries, defined according to the public sector employees' pay scale, and additionally bonuses as set out in the collective agreement. Following the takeover, the collective agreement was renegotiated but only minor changes were made, with the scale of bonuses and other benefits retained. The weakness of the new agreement, however, is that it is completely lacking a pay scale. This could also be explained by continuity, given that its predecessor also omitted it. However there is a crucial difference in the conditions: previously, under the scope of the public sector law, it was not necessary given the mandatory pay scale. In 2012 there were works council elections at the organisation, in compliance with the legislation for employees covered by the Labour Code.

With regard to pay, the new employer maintained salaries in line with the public sector pay scale, although the national minimum wage for skilled workers applied to the majority of employees. In addition, the employer re-launched the cafeteria package and resumed paying premiums that had been abolished by the local government. In essence, HR management practices remained the same. The only novel element concerns employees with a higher education degree, being given the possibility to attend a theology college free of charge.

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Since the case study was completed a dispute has unfolded between the management and the trade union because the employer intended to terminate the collective agreement without providing the trade union with any justification. In the meantime many employees have quit voluntarily, partly because of an announced collective dismissal, partly due to the weakening protection of employees. It is likely that the 2012-3 measures to increase wages in the health care sector (see sub-chapter 4.3) also motivated quitting and moving to the public health care, as it did not apply to nurses in the social care sector. Given these worsening working conditions, the local trade union asked the local government to consider the possibilities of "re-municipalisation".

Outsourcing and in-sourcing of a big town's public transport

The local administration has been the sole owner of the former state-owned public transport company since 2002. In the hope of replacing old vehicles with modern ones, partial privatization took place in 2008. A private investor acquired a minority shareholding (32 per cent) and received exclusive management rights. According to the original stratagem the new investor, together with the town's transport company, started off by establishing a new company with only minimum initial capital. This was followed by a business transaction, in the course of which the municipal transport company sold the old buses to the newly established entity

for HUF 2bn (EUR 7.2m), only for the former to lease back the vehicles at a high fee for the following 10 years. In exchange for this the new company agreed to upgrade vehicles.

A couple of months later the opposition party, FIDESZ, came to power in the municipal elections, and decided that the contract concluded by the previous town administration was disadvantageous for the community. At this point the story becomes extremely complicated, tainted by contract abrogation, pressing charges, tax authority investigations and court cases. A bitter dispute ensued, at the end of which the municipality decided to take public transportation into its own hands. The local administration set up a new 100 per cent-owned company and signed a contract with it for providing public transportation. Buses were returned to the original transportation company and now the latest company is leasing buses from the old one.

There seem to be two fundamental reasons behind "re-municipalisation". On the one hand, the local administration was unable to fulfil the long-term leasing contract for purchasing new vehicles due to its financial difficulties. On the other hand, it may well be that the politicians leading the new city administration had no intention to do so, given the perception that the private investor's profit was too high.

Although change in the ownership implied changes in the company management, it did not affect employment relations, as it still remained subject to the Labour Code. Similarly, there was no change with respect to payment conditions or other acquired rights of employees neither as a result of the company's partial privatisation, nor their return to the new company fully-owned by the municipality. Trade unions had no role whatsoever in the transformations, although information provision always took place as required by law.

As a result of the unsuccessful privatization, the number of buses suitable for transportation has decreased since 2008, having a major impact on the number of employees. In addition, the municipality's budgetary problems prompted a 7 per cent cut in the number of services. The new municipal enterprise employs 460 people, while four years ago the number was over 500.

A trade union with considerable bargaining power exists at the company. It has a 100 per cent organization rate among drivers, and 87 per cent overall. Although there has not been a strike there since a two-hour warning strike in 1995, the trade union is adept at using other forms of pressure (which they are forced to do, given the tightening of strike laws). Their most common action is a work-to-rule. For instance, when the municipality attempted to cancel fringe benefits (i.e. the so-called cafeteria package), as it was able to do in the case of public service employees, the bus drivers' trade union organized action ostensibly related to road safety. Bus drivers refused to drive buses other than those in perfect working order.

There is a collective agreement at the company which is renewed every year. The agreement includes a seniority-based pay system for drivers (which the trade union considers its greatest achievement), proportional (per cent) benefit rates, the extent of overtime and details of working time arrangements. As a rule, annual wage increases rarely exceed the forecast inflation rate but the trade union is sometimes able to achieve higher wage increases for certain groups. More recently, the company started introducing performance-based pay. In addition to their base wage, drivers receive shift bonuses, commission dependent on the number of tickets sold, an annual bonus and a cafeteria package (amounting to HUF 200,000 per year (EUR 722). An important source of income is the overtime bonus, especially as the company makes full use of the 300-hour quota allotted to each employee. Nevertheless, salaries are high only by local standards. At present the average monthly income of blue-collar workers is HUF 211,000 (EUR 762).