

## **SYNERGIC DISORDERS IN THE EARLY OPERATION OF THE SZEGED REGIONAL WASTE MANAGEMENT PROGRAM ISPA PROJECT**

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### **SUMMARY**

On the basis of a case study I present the experiences of the operation and the typical operational conflicts of the completed Hungarian EU environmental infrastructure development projects, first of all concerning the cooperation of the beneficiary local governments. In the analyzed case – “Szeged Regional Waste Management Program” ISPA project – the legal beneficiary is the municipality of Szeged, but the other 32 municipalities of the region are also interested in the successful implementation of the project and are responsible for the continuous long run operation.

### **1. INTRODUCTION**

The investment operations of the Cohesion Fund (former ISPA project), entitled „Szeged Regional Waste Management Program” have been completed. After the trial operations and pilot running, technological handing and taking over was done and operation started. I will overview the operational observations and the conflicts marking this operation – via the analysis of this project – in investments that have been realized as part of our country’s share of the European Union’s projects to develop the infrastructure of the protection of environment. My concern is focusing on the recipient local governments’ network. The legal beneficiary is the municipality of Szeged, but the other 32 municipalities of the region are also interested in the successful implementation of the project and are responsible for the continuous long run operation.

After project planning, the public procurement procedure and contracting effective implementation begins that involves concentrated outsourcing and utilization where planning (implementation plans and plans marking the stages so far realized), construction, assemblage and pilot running are performed according to professional criteria defined by technological-economic rules. This stage within the process of the realization of the facility immediately provides the manufacturing or supplying facility itself effectively completed, ready to operate or to be made use of (Görög, 2001). The discipline of project management emphasizes the importance of assessing and analyzing the observations collected which is an significant part of follow-up control. The synergic disorders and conflicts among governments properly characterize the idiosyncratic status of the protection of environment, and, within this issue, that of waste management.

### **2. ASSESSMENT**

Ideas, conditions and aspects of how to operate the project have undergone a significant change in comparison with the preparation phase. Especially conditions of operation have

been altered due to the modification of the rules of procurement and the passing of the Procurement Act.

### **2.1. Selection of the agency for commission to operate project facilities**

The Municipality of Szeged as managing contractor of the consortium for waste management formed by 33 localities of the region – the “beneficiary” of the project – is in sole possession of the municipal property that had come into existence via the realization of the project. According to the Procurement Act there ought to be a public call for tenders so as to select a public servant agency fit for the long-term operation of facilities. Development was originally aiming at the setting up of an integrated regional system of waste management and the project’s prompts of developing waste management constitute only some of this system’s targets. Incorporating a supplier that is sufficient in terms of the Law but “systematically incompatible” (primarily business-oriented agency) would cause serious misrule and, supposedly, significant extra expenses. Core services, local public services managing waste (the collection of local solid waste, its transport, disposal, salvage) are closely connected to the operation of the system realized within the ISPA project it is, actually, not part of the project. This causes problems during operation because public services and, at the same time, the regional system of waste management are financed from the receipts of local public.

If the ISPA implementations’ operation is running completely independent of the operation of basic public services, besides questions of perpetual financing on a sufficient level, there may, inevitably, arise problems of a professional nature, since there will arise conflicts and clashes of interests among agencies of public services and the agencies operating Union development implementations. This is the reason why the municipality of Szeged has decided that with reference to one of the exceptions secured by the Public Procurement Act, it appoints – without a procurement procedure – one of the non-profit Szeged-located waste management corporations with limited liability, owned in 100% by the local government, to operate ISPA development implementations. The non-profit ltd. (hence appointed operator) was acting throughout the period of preparation and realization as deputy project manager and was coordinating and directing on behalf of the municipality.

### **2.2. The Unilateral Financing of the Project (coded conflicts and tensions)**

In case of Szeged between 2000 and 2008 every year there has been a 10% raise in the waste disposal fee over the annual inflation which has resulted in the doubling of the real value index of the fee paid for the disposal of local waste disposal public services. This extra income provided for the availability of the municipal potential that was necessary during the investment period (and which Szeged had volunteered to provide for solely by itself), and, in time of operation it has been providing for the extra expenses needed for the provision of a higher level service. Other localities within the region have not raised service fee and, consequently, now there are significant differences among localities near to one another.

Since public service agency property has come, formally, into Szeged's possession, the provision of one's own resources was reasonable. But there are no reasons on account of which the situation in which inhabitants of localities situated in a distance of 10-15 km would have to pay 50-70% more or less for the same service (oddly enough, those who live farther pay less) should stay unchanged. To put it in a nutshell, the realization of the

project has resulted in a situation in which the inhabitants of Szeged pay the extra expenses of a higher level public service instead of the inhabitants of neighboring localities.

### **2.3. The Root of Tensions**

The situation at the moment is complex, and tension has been originating in a number of factors the primary font of all of which is the fact that no standard waste managing region has been formed yet. Basic services are operated by a number of local public contractors who used to provide services varying both in aspect and in content, the consequence of which is the incoherent system of service fees at present.

#### *2.3.1. Public Service in Szeged*

The public service contractor in Szeged is the non-profit ltd. It has been collecting the higher fee set by the municipality of Szeged both in Szeged and in the localities annexed. The funding of the project has been reserved from this amount. This resource of its own has been transferred to the municipal budget formally as rental fee which has provided for immediate financing.

#### *2.3.2. Regional Activity Provided by the Szeged Public Service Contractor*

The non-profit ltd. has been operating public service of the same nature for other localities. It has won these contracts in public procurement procedures so, consequently, the fee applied in these cases is considerably lower than the fee applied in Szeged. (No public procurement procedures could be won with these higher fees.)

#### *2.3.3. Setting up a Consortium for Waste Management*

The majority ownership of a competing agency involved (partly owned by other counties' municipalities) was bought out in 2006 and the non-profit ltd. made a major step towards the realization of a standard regional waste management system since it had been able to match professional criteria and the actual technology of the services. This, however, has not in itself dissolved the tension arising from the difference of fees – on the contrary: it has increased it, now, within the consortium. The consortium have decided that within 5 years they try, in close collaboration with the municipalities involved to draw up a system of standard fees, a sort of fee consortium within which the level of fees differs at the maximum of 10% from one another. (In the last two years there has been significant leveling in this field in comparison with the former situation.)

#### *2.3.4. Other Public Service Contractors in the Region*

There is a third private party in the service in the region whose presence causes difficulties. Municipalities involved have been attached to their contractors most probably under the mistaken view that low fees have been due to this agencies. While, in fact, it is the low quality of their service and its poor content that has allowed the contractor to provide service at a lower rate. The completion of the ISPA project and the launching of operation have given rise to a new situation from every point of view. From now on no lower level

public service is going to be allowed to operate. This means that the local contractor for public service has to provide a standardized operation with an identical content, irrespective of the legal person who is in possession of the agency. They must make use of the regional waste depots with posterior technologic protection (The recultivation of former waste depots located in villages has not yet started – they, anyway, have been closed for years.), and they also must run collecting waste-heap embankments and waste depot courts for selective waste collection. This results in a significant rise of extra expenses because within the tariff construction of waste management collecting and transporting waste cost 30% of the overall expenses at the most. More than two thirds of the cost of waste management operation is spent on depositing waste in safe sealed depots that match EU standards and on selective waste collection and on other waste processing facilities (collection plant, composting, construction waste processor, etc.). In localities where they have solely had to pay for transporting waste, rates may become 2-3 times higher.

#### **2.4. Financing Extra Operational Expenses Related to the Development of Waste Management**

The best way to build in significant extra expenses arising from operation – mostly from the orderly disposal of waste at a sealed depot and from selective waste collection (waste collecting islands and waste depot courts) – a constituent of the local public service's rate construction since these forms of waste processing are the organic parts of the local waste management public service.

##### ***2.4.1. Invoicing Extra Expenses with Public Service Contractors Related to Municipalities***

The two contractors possessed in immediate and collateral majority by the municipality of Szeged – with the consent of local governments involved – are step by step building in extra expenses with the rate construction of public services as part of their mid-term strategy and tariff politics. So these fees are on their way to get leveled with the fees paid in Szeged which had been raised formerly.

##### ***2.4.2. Invoicing Extra Expenses with Public Service Private Contractors***

In case of private contractors a principle has been agreed upon, according to which municipalities and the specified contractor negotiate every year the rate of extra expenses to be expected which, accounted via posterior invoicing, is to be checked and is corrected in view of the effective expenses. The rate that has been agreed on will be built in the construction of the public fee by the local contractor operating the service locally and is reimbursing it to the specified public agency in the form of waste disposal rates specified for each agency respectively.

These have been, however, strong arguments concerning the extra expenses to be expected during the realization of the protocol. Calculations by the specified public agency have not been verified by the municipalities involved, and, consequently, the process partly has come to a halt.

**a) Contesting Amortization**

Municipalities first questioned the amortization of waste plants located in the localities and the level of amortization marked. They have found the expenses of realization and the invoiced rates disproportionately high. Implementation was realized within the frame of a regular public procurement procedure, and, consequently, invoiced rates cannot be contested retrospectively. Invoiced rates are, generally, set by the currently valid financial and accountancy rules. (In second checking the use of supports, the EU monitors especially amortization politics applied by beneficiaries in case of facilities realized as part of the developments. They consider it, for obvious reasons, the outstanding condition of long-term operation.) With the help of KvVM Development Headquarters municipalities have been persuaded to accept that the invoicing of expenses of amortization is inevitable.

**b) Contesting Operational Expenses to be Expected and Choices of Expense Reduction**

After this the arguments were focusing on operation expenses to be expected. Municipalities have not accepted the prospective calculations of transport expenses, reasonable opening hours and the expenses of maintenance needed. They have offered to do the maintenance on their own free of charge. Staff of the waste plant would be provided for in the form of social service and the transportation of waste disposed on the premises of the waste plant will also be organized by them free of charge with the help of local contractors. The appointed contractor has noted that primarily on account of regulations concerning public procurement, the suggestion concerning how to operate waste plants can only be realized partially – their legal conditions have to be checked before. In principle they are not against any form of reducing expenses but in each case contracts must settle what the parties may do and what they must. Furthermore, they insist that the expenses of the waste court which has been made use of solely by the inhabitants of the locality concerned should be paid for via charging the exact effective expenses at least afterwards.

**2.4.3. *Compromises to Let Operation Begin as Soon as Possible***

In the end, again via the mediation by the KvVM Development Headquarters an agreement was made according to which expenses for 2009 will be constructed at a rate which is considerably lower than the real price, the posterior correction of which may become viable only in 2010. This means that the majority of effective extra expenses will still be paid in advance instead of some neighboring localities in 2009 by the inhabitants of Szeged.

The municipality of Szeged and the appointed agency for public services have had to make do with these disadvantageous compromises because they have to settle every question of disagreement not yet solved by the time of completing the project – by the 30th of June, 2009 – and facility, staff and finance will have to have been secured at a level sufficient enough for permanent operation, the legal status and ownership of the property will have to have been clarified and all the contracts needed will have had to be made: they will all in all secure that the project will have been fully realized and will be working permanently. Waste courts were technologically put into operation in the first half of 2008 and in the contested cases – in lack of agreement – permanent operation has not yet started. This fact in case of a possible control by the union will have serious consequences.

### 3. SUMMARY, CONCLUSION

I have examined the operational observances from the perspective of the beneficiary municipalities' cooperation of facilities realized, accessories purchased within the frame of the ISPA/Cohesion Fund program, entitled "Szeged Regional Waste Management Program" after the analysis of the observances of planning, preparation, public procurement procedure and the realization of the particular tenders. Conflicts between the appointed service contractor and the municipalities have been arising primarily when securing the operative conditions of facilities, realized on the premises of the particular municipalities that had joined the project, used by the inhabitants of localities involved immediately. Higher level public service, including the selective collection of waste (running waste courts and waste collecting island heap embankments) costs considerable extra money which is to be paid, by all means, by the inhabitants who make use of the compulsory waste disposal public service. The majority of municipalities are facing the fact that has been obvious for years and could have been expected to come to the surface: fees paid by the inhabitants must be raised significantly. Szeged municipality has raised the fee of this public service in real value to the double of its original during the last 7-8 years – since Szeged has had to finance its own resources for the development in advance – while, at the same time, the rest of the municipalities have raised rates at the maximum level of inflation. (The public property hence gained, *quid pro quo*, has come into the possession of Szeged.)

But it is not tenable any more that inhabitants in localities situated in one another's vicinity pay for a service of considerably identical quality and content disproportionately different fees. The inhabitants of Szeged have had to volunteer the overall burden of preparation and implementation. The project is running and there are no reasons on account of which the inhabitants of Szeged should pay any expenses invoiced for waste management done in other localities. The different fees are causing significant discontents among the particular municipalities and among the inhabitants of the particular localities. Leveling rates is inevitable, which will be giving rise to further novel discontents and conflicts. Szeged is a good example of how considerate well-timed, calculable mid-term rate politics – sensitive to the inhabitants' potential of endurance – may reduce tension and conflicts; and even the conditions for a nationwide megaproject may be provided for.

The analysis and assessment of the operational observations of environment protection infrastructure development projects sponsored by the support given to our country by the European Union may significantly promote the realization of projects financed by structural funds.

### BIBLIOGRAPHY

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