

BEÁTA CSIMA<sup>1</sup>**Management in the organisation of the prison service****Gazdálkodás a büntetés-végrehajtás szervezetben****Abstract**

*Studying the management of the prison service is possible only if one considers both the circumstances of the system and the challenges of our changing environment. The expectations of the society concerning employment, the changes in legislation, international attention all affect its operation. The aim is to provide work opportunities for as many as possible detainees in the prison service, while maintaining its effective management.*

*Keywords: management, penitentiary, central supply, effectiveness*

**Absztrakt**

*Büntetés-végrehajtás gazdálkodásának vizsgálata a rendszer adottságai, valamint változó környezetük kihívásainak együttes figyelembevételével lehetséges. A foglalkoztatással kapcsolatos társadalmi elvárások, jogszabályváltozások, nemzetközi figyelem, mind-mind hatással vannak a működésre. Cél, hogy eredményes gazdálkodást folytatva a lehető legtöbb fogvatartott részére biztosítsanak munkalehetőséget a büntetés-végrehajtásban.*

*Kulcsszavak: gazdálkodás, büntetés-végrehajtás, állami partnerség, eredményesség*

The aim of my study is to analyse the management of the prison service from different points of view. Changes in legislation – which concern a career model for the staff of the prison service, duties regarding the expectations to increase detainee activity and the increasing of prison capacity due to overcrowdedness – all affected management. I pay special attention to the central supply system set up in 2011, as it has undoubtedly become a

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decisive factor in the functioning of the companies. In the course of my studying the management, I also analyse vertical indicators.

## PRISON SERVICE MANAGEMENT

Institutions and institutes of the prison service organisation do budgetary management, while the companies responsible for the mandatory employment of the detainees operate in a business environment characterised by market opportunities and challenges.

The 2016 Yearbook of the prison service characterises its management as follows: the central supply organisation was balanced and operated effectively and in accordance with governmental objectives. The employment requirements set out in the Law Enforcement Code of 2013 had been fulfilled by 2016, since *“our aim is to give a useful work to all detainees and to make them contribute to their own maintenance costs and maintain and improve their work skills.”*<sup>2</sup>

## KEY FACTORS OF THE MANAGEMENT

Revenue and expenditure appropriations for the annual management of the prison service are defined by the actual act on the budget. I have summed up the appropriations of the last three years in the following table.

Appropriations for the prison service in the central budget (million HUF)			
	2015	2016	2017
<b>Revenue</b>	2,715.6	2,715.6	2,715.6
<b>Aid</b>	54,200.0	56,622.7	n.a.
<b>Operating expenses</b>			
Staff costs	27,148.9	28,453.7	40,047.9
contributions payable by employers and social contribution tax	6,152.2	6,437.0	9,567.4
Material expenses	18,644.5	17,460.9	20,089.5
cash allowance to detainees	2.7	2.7	2.7
other operating expenses	2.0	2.0	2.0
<b>Accumulation expenditure</b>			
investments	4,694.6	6,711.3	22,746.5
renovations	157.7	157.7	157.7
other accumulation expenditure	113.0	113.0	113.0

<sup>1</sup> Table 1, source: made by the author on the basis of the actual act on the budget

<sup>2</sup> Zsolt Kristóf Várkonyi (editor in chief): Prison Service Yearbook 2016., NHHPS, Budapest, 2017, p 6

Revenue appropriations do not show any significant difference over the years, one can, however, detect two significant trends in the expenditure appropriations. On the one hand, the new Service Status Act—Act XLII of 2015 on the Service Status of Professional Members of Law Enforcement Agencies—was adopted in 2015, and it describes both the career model and the steps of wage development. By virtue of the legislative changes, persons holding a professional service status got an average wage increase of 30% in the first year, then they had an additional increase of 5% in each subsequent year. One can see this in the budget, in the expenditure appropriations, in the lines of staff expenditure and those of the contributions payable by the employer and the social contribution tax.

The other significant increase over the years can be seen in accumulation expenditure, which is a clear sign of the “prison building” concept. Overcrowdedness is still a real issue of the functioning and management of the prison service. The number of detainees is increasing, while the infrastructure is remaining the same. The March 2015 ruling of the European Court of Human Rights (hereinafter referred to as ECHR) declared overcrowdedness in Hungarian prison service institutes to be a systemic problem, and found that lodging in overcrowded cells violates the prohibition of inhumane and humiliating treatment.<sup>3</sup>

Against this background, the ECHR ruled several times in condemnation of the prison service, awarding significant damages. One of the responses Hungary has given to the emerging challenge is the prison capacity expansion programme, which made the investment expenditure appropriation to increase by more than three times from 2016 to 2017.

#### COMPANIES ESTABLISHED FOR THE MANDATORY EMPLOYMENT OF DETAINEES

Companies established for the employment of the detainees (hereinafter referred to as companies) received special attention in the last few years: firstly, due to the achievement of detainee reintegration goals, secondly, because of the expectations to increase the number of active detainees, thirdly, because of the central supply system.

The document about the reasoning for each chapter of the draft act on the 2017 budget reads:

*“As means to exercising the punitive power of the state and for the purposes of achieving full employment, the role played by the prison service in the continuous increasing of detainee activity, operating and extending the internal supply system is increasing, besides its functions in crime prevention and ensuring public order”<sup>4</sup>*

The system of central supply has created some kind of stability for the companies since they have achieved a predictable and plannable order book. The companies pursue their

<sup>3</sup> Overcrowdedness <http://helsinki.hu/tulzsufoaltsag-a-bv-intezetekben> downloaded: on 14.05.2015, 08:30 AM

<sup>4</sup> Draft Act No. T/10377. on the 2017 Central Budget of Hungary

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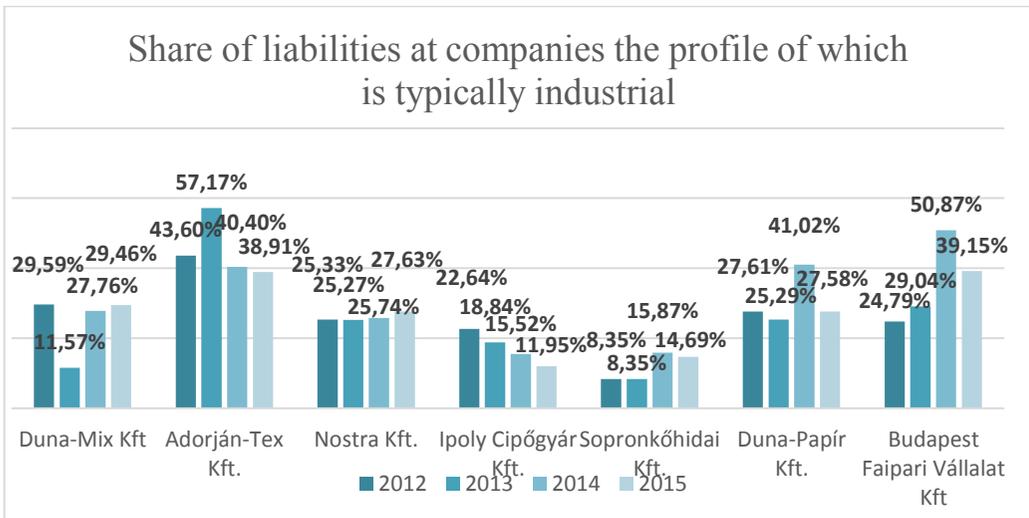
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activities on a market basis while the number of detainees they employ is increasing, their priority is however to ensure profitability all the time.

The companies are in 100 percent state ownership and have been operating as a company group since February 2015. The owner of the companies is Bv. Holding Kft, while the other eleven companies operate as affiliated companies.

I have applied the following capital structure indicator to assess the financial status of the companies: **share of liabilities (%)=liabilities/total liabilities**.

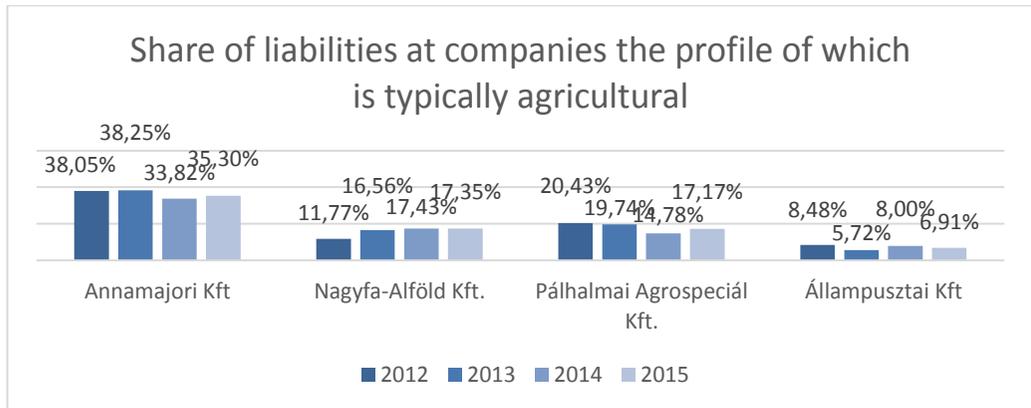
I study the share of liabilities within the total liabilities, where an optimal or critical value cannot be clearly set, but assessing the increase of this indicator should not ignore the fact that it might be due to some sort of a dependency on external funding, if this increase in the share goes on for long. You can see the data of 11 companies in the following (the Bv. Holding Kft., which was established in 2015, is not within the scope of the study).



1. Diagram 1, source: made by the author on the balance sheet report

As determining factors, the inherited profiles affect the present operation as well, therefore I have split my figures into two parts. The diagram above shows the companies with an industrial profile, while the figures below represent data of companies with a rather agricultural profile.

The amplitude shown in the diagram above is very typical of the companies, the share of liability is almost 50% in many of the cases, which indicates significant external funding. In order to combat difficulties related to liquidity, many of the companies have taken a mortgage-backed overdraft facility which they renew each year. Sopronkőhida Kft., which had the lowest indicator value of 8.35% in 2013, had, for instance, an overdraft facility limit of 45 million HUF.



2. Diagram 2, source: made by the author on the balance sheet report

As for the companies with an agricultural profile, it can be said that the value of this indicator was typically lower over the four years the study covered, and this can be explained with the fact that their activities receive considerable amounts of state aid. Development aids do not appear either the indicators or in the earnings of the companies as they are accrued. For this reason, it is only the operating grants — such as area payments, animal subsidies or milk production subsidies — that induce any improvement in the earnings.

#### OTHER FACTORS AFFECTING THE MANAGEMENT

The management is clearly affected by the migration crisis, in the handling of which almost the entire organisation of the prison service, but especially the companies, played a role. According to the expectations of the government and the owners, this uses a lot of capacities and resources. The companies played an active role in setting up, repairing and the further development of the temporary border closure, and this affected profitability as well: net sales were 3,589 million HUF higher than planned, direct sales costs were 2,486 million HUF higher than planned, thus the gross earnings increased by 7,44 million HUF.<sup>5</sup>

#### SUMMARY, VISION

It may be concluded that the inherited profiles determine the management but the central supply system offers new opportunities to every company. The decades-long changes in the operations of the companies established for the mandatory employment of detainees— or rather the changes driven by the executive branch of power—created an efficient and effective system. Effectiveness of the system is determined by the number of orders gen-

<sup>5</sup> Zsolt Kristóf Várkonyi (editor in chief): Prison Service Yearbook 2016., NHHPS, Budapest, 2017, p 43

erated by the central supply, the disclosed needs result in a plannable, predictable operation with state guarantee.

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