

## **The key issues of housing and public utilities economy reform in terms of financial and economic crisis**

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The current condition of housing and public utilities economy (HPUE) of Ukraine burdened by the influence of the global financial and economic crisis is characterized by low quality services, substantial depreciation of fixed assets, obsolete technologies and low energy efficiency. According to the data of the National Institute for Strategic Studies, Ukraine, approximately 70% of residential properties were built before 1970s, depreciation of fixed assets exceeds 60%, and energy consumption of services is 2.5-3 times higher than in European countries. In the early 1990s approximately 30-40 accidents were accounted per 100 miles of communal networks, and in the recent years this figure has increased substantially up to 180 accidents per 100 kilometers of water supply network and 10-20 accidents per 100 kilometers of heat supply network. The analysts of the Institute note the discrepancy between the existing infrastructure capacity with the increasing demand, the high level of monopolization in the sector of housing and public utilities (HPU) services provision, insufficient competition development in this sector, lack of transparency in pricing and tariff formation of services provided by HPU enterprises.

Institute of Sociology of National Academy of Sciences of Ukraine conducted the experts' survey "Problems of reforming housing and public utilities services in terms of financial and economic crisis" that covered opinions of 196 experts in 24 regions and the Autonomous Republic of Crimea. The determining influence of the global financial crisis on HPUE was noted by 43% of experts that is demonstrated by increase of prices for services, reduction of capital expenditure, inability to reform the industry, as all efforts are directed to keep the industry in the functional condition, reduction of profitability, increase of accidents, misbalance of HPUE system, service quality decline.

The main adverse negative effects of the global financial and economic crisis on HPUE of Ukraine are:

1. Increasing state deficit along with the low level of decentralization of local budgets negatively influences the existing mechanism of HPUE financing. HPU enterprises need to balance their interests with consumers' interests taking into account the social aspect as the issues of bad-quality HPU services can provoke social tensions.

2. The level of payment for HPU services by budget institutions financed from the budgets of different levels decreases.

3. The typical phenomenon of the crisis period is the process of outgoing increase of inflation indices and prices compared to indices of wages. Thus, citizens are unable to pay for HPU services in full that affects financial condition of HPU enterprises and service quality. In the heating period the share of HPU service costs in average wages differs by region and ranges from 35 to 48%. The more so, in the cities of Ukraine tariff rates can differ in 2.25 times.

4. Due to the fact that tariffs depend not only on wages but also on rapidly increasing, especially in the crisis period, cost of fuel and energy resources, HPU enterprises receive less funds on modernization and reconstruction, capital repairs, introduction of energy efficiency procedures, etc. Thus one of the main issues that requires urgent solution is the absence of synchronization of tariff revision – it is necessary to adopt a scheme that would oblige local authorities to revise tariffs simultaneously with changes of gas and energy tariffs at the legislative level.

5. More than 30% of the Ukrainian population receives subsidies from budgets of different regulatory levels but the pay-off of subsidies adopts unsystematic character. Primarily it affects financial indicators of HPU enterprises, thus they are unable to provide quality services.

6. Probability of getting additional funds from capital market to invest into HPU enterprises decreases. The tariffs of HPU enterprises comprise only cost recovery but the level of profitability is not considered though it would allow the enterprises to improve both their equipment and service quality. In real practice, the mechanism of consumers' social protection and policy of tariff structure adjustment by inspections and local authorities are used for tariff formation that has resulted in the fact that in

most regions, the existing tariffs can ensure neither development nor cost recovery.

7. The main Ukrainian political promise of today is to raise standard of living. Its major component is HPU service quality. However it is surely confirmed that the level of payment for HPU services will not change, i.e. subsidization of the population is offered at the expense of increase of tariffs for other consumers' categories, thus it does not stimulate HPU enterprises to reduce the self-cost of service provision. This policy does not provide for positive changes in the economic mechanism and practically does not protect either consumers or the population because wages and inflation will "do their job" by economic laws, but not by political decisions. In European countries cost of heat and water supply for commercial consumers is much lower than for population. By contrast in Ukraine tariffs for commercial consumers are much higher than for the population and in some regions they differ by 6-10 times.

8. The state is not able to fund the necessary level of financial support of HPU enterprises. To support the required level of financial stability of HPU enterprises, the government proposes surrogate, ungrounded schemes of leasing and concession of heat-, water supply and sewerage objects, which are communal property. If not crisis, these schemes would have been refined.

At the conceptual level the distinguishing features of the general trends of the crisis manifestations in HPUE are:

1. Cyclical and oscillatory crisis phenomena in HPUE are less destructive – the services are provided continuously in sufficient quantities. The main life support system in crisis conditions must operate in a set mode and in accordance with the requirements.

2. Crisis in HPUE affects efficient functioning of urban and regional economy, and therefore the government, the producers and the consumers are involved in the process of reduction of its destructive forces. It protects HPUE objects from outreaching the permissible limits of stable operation.

3. Regulators of HPUE functioning (market, consumers, state) are interdependent and it predetermines the coherence of their actions in the most acute periods of ant-crisis campaigns.

4. For a long time, regardless of the current global crisis, HPUE in Ukraine has constantly operated in the condition of crisis mode. More than

three thousand ruptures of water pipelines during a year, no more than 20% of the need of repairs of residential properties, constant shortage of funds for development and modernization of the system, supply of services on credit (payment is made after the fact of consumption and, as a rule, not in full) – all this can be defined as a permanent condition of crisis.

It is also worthwhile mentioning the positive aspects of the correlation “crisis – HPUE”:

- substantial experience of sustainable living is gained in crisis conditions;

- HPUE system is characterized by two opposite principles: on the one hand, it is designated by regimented procedures and standard technologies and, on the other hand, by creative approach of solving emerging "unconventional" situations;

- technical, personnel and management systems exhibit features of readiness to deal with urgent tasks in the conditions of uncertainty and lack of resources, i.e. they are configured to operate in the mode of resolving problematic situations.

Thus, in comparison to other industries, the permanent character of crisis in HPUE of Ukraine requires formation of strategy of continuous development in conditions of uncertainty and limited resources.