

Perspectives of application of public-private partnership in the housing and municipal sphere

Перспективи застосування державно-приватного партнерства в житлово-комунальній сфері

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Key words:

public-private partnership, housing and communal services, social needs, reform, communal enterprises.

Ключові слова:

державно-приватне партнерство, житлово-комунальне господарство, соціальні потреби, реформування, комунальні підприємства.

Problem statement. The study of housing and municipal services is a particularly socially important area, oriented to meet the needs of people in the place of residence. It covers the provision of the needs of the population, such as: housing, water, heat and energy, the organization of waste disposal, the provision of transport services at the local level, etc. The development of housing and municipal services is an important indicator of the quality of life and social security of citizens.

The analysis of recent researches and publications. During the research of the topic, the scientists are primarily focused on understanding of general theoretical issues of public-private partnership, characterizing various forms of public-private partnership, clarifying the effectiveness of its implementation, etc. The works of O.I. Karyi, K.V. Protsak, A.O. Mavryna, Ye.L. Cherevykov, O.S. Vavrychuk, K.V. Pavliuk, O.V. Stepanov, O.S. Pronevych, I.A. Ostrovskiy, Yu.V. Fedotov and others have made a significant contribution to the study of these problems.

Formulating the aims of the article. The main purpose of writing this article is to analyze the current state of the housing and municipal sphere for determining the prospects for the use of public-private partnership.

Statement of basic research materials. Housing and municipal services in Ukraine were formed in the days of the Soviet Union, which at first meant satisfying state interests. Despite attempts to reform the sector in recent times, it has still not been possible to ensure its sustained development on a human-centric basis. The overwhelming majority of enterprises in this sector face with unprofitable activity, objectively due to moral and material wear and tear of production assets, imperfection of the system of primary resources use, high energy consumption and low level of management activity. All the above-mentioned causes a significant loss of water, heat and other resources, as well as a decrease in the quality of services provided by housing and municipal enterprises.

It should be noted that limited budgetary support of housing and municipal services causes the need to find alternative financing for modernization and technical improvement programs for enterprises, responsible for the efficient management of housing and municipal services, maximizing the level of efficiency in the use of housing funds. In view of this, the solution of these problems is relevant at the present stage.

According to the data of the Office for Financial and Economic Analysis in the Verkhovna Rada of Ukraine, on the execution of state and local budgets in the first half of 2017, the costs of paying for utilities and energy carriers of public health facilities are transferred to local budgets. During the period specified, there was an increase in the subvention from the state budget to local budgets for provision of benefits and housing subsidies to the population for payment of housing and municipal services in the amount of UAH 14.1 billion¹.

The Table 1 reflects the growth / decrease in state and local budgets in the first half of 2017 compared to the first half of 2016.

¹ Analysis of the expenditures of state and local budgets in the first half of 2014-2017. Office of Financial and Economic Analysis in the Verkhovna Rada of Ukraine, 2017. 20 p. URL: https://feao.org.ua/wp-content/uploads/2017/09/vud_gos_budg_II_kv_2014_2017.pdf.

Growth / decrease in expenditures of state and local budgets in the first half of 2017 compared to the first half of 2016

Types of expenditures	State budget			Local budgets		
	I half of 2016, billion UAH	I half of 2017, billion UAH	Growth rate up to the first half of 2016, %	I half of 2016, billion UAH	I half of 2017, billion UAH	Growth rate up to the first half of 2016, %
Government-wide functions	53,5	64,7	17,3	5,1	9,5	46,2
Defense	26,0	27,6	5,8	0,0	0,0	13,0
Public order, security and judiciary	33,1	34,7	4,7	0,0	0,2	78,4
Economic activity	1,5	14,3	89,2	3,0	13,4	77,3
Protection of the environment	1,2	2,1	45,2	0,4	0,6	38,3
Housing and municipal services	0,03	0,04	37,30	2,9	7,6	62,0
Health care	3,4	4,0	15,2	21,3	35,9	40,8
Spiritual and physical development	0,6	3,1	81,0	4,0	6,8	41,1
Education	14,5	19,8	26,7	32,9	67,6	51,3
Social protection and social security	65,4	59,0	-10,8	37,7	73,0	48,3
Total expenditure	204,4	229,2	10,8	108,4	214,6	49,5
Total income	202,6	394,9	48,7	138,8	241,0	42,4

Source: calculated by the author on the basis of the data of the State Treasury Service of Ukraine²

According to the table, we can conclude that the expenditures of the state budget for housing and municipal services increased slightly over the period 2016-2017, but remained at the minimum level. As for expenditures from the local budget, in 2017 they grew by 62%, compared with 2016, and actually amounted to UAH 7.6 billion. The attraction of private capital to the housing and municipal services of Ukraine is impeded by a number of problems. As P.T. Bubenko, I.V. Pokutsa, V.A. Vashchenko note, that the main obstacles here include³:

- lack of sufficient regulatory and legal support;
- lack of developed practical experience and developed techniques;
- on the part of the state and local authorities, the reluctance to involve the private sector in the housing and municipal sector is justified by doubts about the effective use of communal property, fears of “shadow privatization”;
- on the part of private investors, reluctance to invest in low-profitable enterprises with many problems, uncertainty and constant changes in the legal regulation of investor activities, imperfect tax policy, etc.
- Inturn, O.V. Tverd pays attention to other causes of deterioration in the financial condition of public utility services⁴:

² State Treasury Service of Ukraine. URL: <http://www.treasury.gov.ua/main/uk/index>.

³ Bubenko P.T., Pokutsa I.V., Vashchenko V.A. Transformation of the management process of utilities through the development of public-private partnership. Scientific Bulletin of Kherson State University. 2013. Amend 3. P. 20–23.

⁴ Tverd O.V. Problems of attraction of investments in housing and municipal services and ways of their overcoming. Young Scientist, 2017. No. 3 (43). P. 855–859.

- imperfect legislation, that is not adequate to market conditions; the relations between public utility companies and consumers have not fundamentally changed, the legislation is one-sided;
- the responsibility of the consumer-user and the irresponsibility of the service provider and energy supplier;
- further, the expense method of tariff formation is taken into account, when all gross expenditures of the enterprise are set in it. Tariffs are calculated by the method “average costs plus profitability” (manufacturers add the marginal level of profitability to their cost). According to this approach, the more outdated equipment, the older technologies, and the higher costs of the networks are, that is, the higher cost, then the higher tariffs and incomes of the enterprise are;
- the inflow of investment in housing and municipal services is hindered by low investment attractiveness of the industry's enterprises, which are unprofitable. According to official statistics, in 2014–2015 the losses of housing and utility companies reached 3 billion UAH, in 2015 – 4.2 billion, and in 2016 – exceeded 5.5 billion UAH. Debts of budgets of all levels to organizations providing housing and municipal services, by the end of 2016 amounted to 22.6 billion UAH⁵.

That is, despite the government's proposed policy of reform in the housing and municipal services sector, through the introduction of market relations, there is a low activity of interaction between the private sector and the state one.

A special place and role in the mechanism of resolving the conflict of interests between the participants in the internal and external relations of the housing and municipal services system is given to the public-private partnership. One of the main integration elements of this mechanism is the desire of all parties to reduce the cost of housing and municipal services.

Together with the adoption of the Concept of Public-Private Partnership Development in Ukraine for 2013–2018 dated August 14, 2013 № 739-p.⁶, in order to develop market relations, it became necessary to analyze all forms of attracting of private capital into the housing and municipal sector in order to find the most optimal form of cooperation between the state and the private sector. The main forms of cooperation between the state and the private sector are shown in Figure 1.

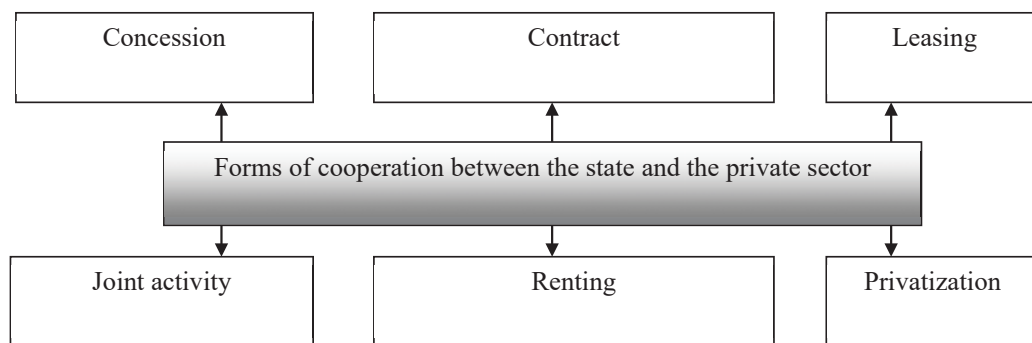


Figure 1. The main forms of cooperation between the state and the private sector*

*- grouped by the author.

Thus, several forms of cooperation between the state and the private sector can be singled out, among which contract, leasing, renting, concession, privatization, joint activity should be noted. Their difference lies mainly in the domination of ownership, such as: state or private.

The characteristic features that distinguish public-private partnerships from other types of relations include the following⁷:

⁵ State Statistics Service of Ukraine. URL: <http://www.ukrstat.gov.ua/>; Ministry of Regional Development, Construction and Housing and Communal Services of Ukraine. URL: <http://www.minregion.gov.ua/press/news>.

⁶ On Approval of the Concept of Public-Private Partnership Development in the Housing and Municipal Services: Order of the Cabinet of Ministers of Ukraine (dated August 14, 2013). URL: <http://zakon2.rada.gov.ua/laws/show/739-2013-p>.

⁷ Melnykova O.S. Approaches to solving the problems of proper financing of enterprises of housing and municipal services. *Economy of Construction and Urban Economy*. 2011. № 4. T. 7. P. 261–267.

- 1) the social significance of public-private partnership objects;
- 2) provision of higher technical and economic indicators of the effectiveness of activities than when implementing such activities by a daring partner without attracting a private partner;
- 3) the long-term relationship (from 5 to 50 years);
- 4) transfer of a part of risks to a private partner in the process of implementation of public-private partnership;
- 5) the private partner's invests in partnership facilities from sources, which are not protected by law.

The links that make up the structure of cooperation between the sectors of the national economy are multifaceted. The most important aspect of this partnership is the redistribution of property rights between the state and private capital entities. The state has some powers, and private sector entities have the other ones. Under the conditions of preservation of state-owned important national objects, the state allows only partial transfer of its powers to the owner of the private sector, and it carries out this action not according to traditional administrative methods.

Undoubtedly, public-private partnership is not a panacea for all problems in the sector, and the transfer of certain objects of housing and municipal services to private management should be treated fairly well. The application of public-private partnerships has also a number of disadvantages.

The application of the model of public-private partnership is conditioned by the objective need to expand the boundaries of the state's economic activity regarding provision of public goods to the population in the context of reducing the volume of budget financing of social projects.

The main reason for such state-oriented actions is the increasing complexity and number of fiscal problems, which prevents the authorities from providing a traditional instrumental way to meet the demand of the population for social services. An increase in the revenue side of the budget due to the growth of taxes or the expansion of the tax base has objective limits. Recently, such a limitation has been irreversible, the budget deficit has stabilized as a norm of public finances, depriving national governments of financial resources to fulfill their socio-economic obligations.

To determine the priority objects in this regard, the entire set of housing and municipal enterprises in the region should be grouped into two main groups: donor ones (which already make a profit) and recipients (unprofitable enterprises). The cumulative positive financial flow of the recipient enterprise is less than its negative counterpart, that is, such an enterprise absorbs a part of the financial resources of the region in the form of subventions, subsidies and other transfers.

Permanent and temporary components can be identified in the recipient group. The first one should include enterprises that, by the nature of their activities, can not be profitable, and it justifies the permanent character of their recipient status. The second one should include enterprises, which are considered to be unprofitable at present, but under certain conditions, in the long term, they may change their status to a donor. These are the following enterprises, that are of greatest interest in using of PPP.

It should be noted, that within any region there are housing and municipal enterprises that operate at a loss, but with the investment of funds in their modernization and reconstruction, it is possible to increase the level of efficiency of their activities and solve the problem of low profitability. Public-private partnership provides such a potential opportunity, but involves the obligatory proper legal and institutional behavior of all its participants.

Conclusions from the study. On the basis of the foregoing, it can be concluded, that the problem of the output of housing and municipal services from a crisis situation for its solution requires the use of a mechanism of public-private partnership. The critical condition of housing and communal enterprises is mainly the result of their increased expenditures due to the depreciation of fixed assets and the use of resource-intensive technologies with low efficiency. Reducing the total expenditures of such enterprises requires significant funding, which, due to insignificant opportunities for public funding, justifies the need to attract private sector resources on the basis of mutually beneficial cooperation with the state. Realization of potential opportunities of public-private partnership will promote harmonization of interests of subjects of housing and municipal relations through achievement of the general goal – reduction of expenditures for provision of housing and municipal services. From the state's point of view, the enterprises with recipients of temporary status are the priority objects for the transfer to private management. The gradual change of the temporary status of the recipient to a donor status by the enterprise will help reduce the number of unprofitable enterprises and increase the overall financial result of their activities in the housing and municipal services of the region.

Summary

The article analyzes the current state of housing and communal services and it was found that till now it has not been possible to ensure its steady development on a human centered basis. In the overwhelming majority of enterprises in this branch there is a loss-making activity, which is objectively caused by moral and material depreciation of production assets, imperfect system of use of primary resources, high energy intensity and low level of management activity. The rates of growth/decrease of expenditures of state and local budgets are determined, and the main problems hindering the attraction of private capital to housing and communal services are determined. The main forms of cooperation between the state and the private sector are defined and the characteristic features that distinguish public-private partnership from other types of relations are determined. The main aspects of the possibility of using public-private partnership in the housing and communal sector are outlined.

Анотація

У статті проаналізовано поточний стан житлово-комунального господарства та виявлено, що донині так і не вдалося забезпечити її поступальний розвиток на людиноцентристських засадах. У більшості підприємств цієї галузі спостерігається збиткова діяльність, що об'єктивно зумовлено моральним і матеріальним зношенням виробничих фондів, недосконалістю системи використання первинних ресурсів, високою енергоємністю й низьким рівнем управлінської діяльності. З'ясовано темпи зростання/зниження видатків державного та місцевих бюджетів і визначено головні проблеми, що перешкоджають залученню приватного капіталу в житлово-комунальне господарство. Визначено основні форми співпраці між державою та приватним сектором і характерні ознаки, які виокремлюють державно-приватне партнерство від інших видів відносин. Окреслено основні аспекти можливості застосування державно-приватного партнерства в житлово-комунальній сфері.

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