

# Annex II Institutional Structure and Reform of the Housing and Communal Services (HCS) Sector in Rostov Oblast

## 1 HCS sector reform: Federal Level

### 1.1 Guiding Documents

The following key documents set the basis for HCS reform in Russia:

- Law “On Federal housing policy” dated 24.12.1992 gave a start for the sector transition to full cost recovery, when the households will pay full amount for all housing and communal services. It anticipated achieve that over the five-year period on the basis of the projected economic growth and incomes of the households.
- Law “On Federal housing policy” dated 08.12.1995 prolonged the stage-by-stage transition to 100% housing and communal services cost recovery by user charges for households from 5 to 10-year period, i.e. to 2003.
- “Concept of Housing and Municipal Economy reform in the Russian Federation” approved by the Presidential decree #425 of April 28, 1997, confirmed the commitment to expressed reform targets to increase housing operational efficiency, improve living conditions for the population, strengthen citizens’ housing rights, as well as stabilise economic situation at the enterprises releasing them from expenditures on social sphere, and in the end increase the supply of funds to the budgets of all levels. To achieve these targets it was again proposed to increase HCS user charges for the population to full cost recovery level and stimulate efficiency of the service production.
- “Strategy for housing reform development over 2001-2005 and for the long-term” became a continuation of the state target programmes “Dwelling” and “One’s home” that ceased working in 2000.

Development of market relations in housing and municipal economy is connected among others with the radical update of the Housing Code, which was adopted in 1983 and is long outdated (the relevant bill was stuck in the State Duma for years and the new Housing Code was adopted only in the end of 2004).

### 1.2 Four federal standards

“Concept of housing and municipal economy reform in the Russian federation” of 1997 set specific stages of the HCS sector transition to full cost recovery and introduced four federal standards that are recommended for the regions to follow.

*First standard* – standard for social norm of living area: 18 m<sup>2</sup> of total living area per one family member that consists of 3 and more people, 42 m<sup>2</sup> for a family of two people and 33 m<sup>2</sup> for a single person.

*Second standard* – federal standard for maximum price of housing and municipal services per one square meter of total living area. Average indicator for Russia was at the level of RUR 8.2 per month in 1997. This indicator was differentiated by economic regions in Russia in the government decree #621 “On federal standards for transition to a new charge system for housing and for communal services” dated 26.05.1997. In 1998 this indicator amounted to RUR 9.2 per 1 square meter on average in Russia; RUR 6.9 – in Volgo-Vyatsky region, RUR 7.0 – in Caucasus region, RUR 7.1 – in Povolzhsky region, RUR 7.3 – in Central Chernozemy region, RUR 7.4 – in Central and Uralsky region, RUR 10.6 – in Northern region, RUR 10.8 – Western-Siberian and Eastern-Siberian region, RUR 18.7 – Far Eastern region.

The government decree “On federal standards for transition to a new charge system for housing and for municipal services over 2000-2001 in the Russian Federation” #965 dated 15.12.2000 sets a limit cost of housing and municipal services per 1 sq. m. Of the total living area at the level of RUR 12.8 for 2000 and RUR 14.2 for 2001 on average in Russia. Starting from 2002 Gosstroy independently calculates this standard for the subjects of the Russian Federation.

*Third standard* – federal standard for a ratio between the user charges level and level of actual cost of housing maintenance and repairs and municipal services. In 1997 the ratio amounted to 35%, in 1998 - to 50%, in 1999 - to 60%, in 2000 - to 70%, in 2001 - to 80%, in 2002 - to 90%, in 2003 – was expected to be 100%. However, in fact the 100% cost coverage by 2004 has not been achieved. In the government decree #965 it is specifically underlined that the standard is used only for calculation of the amount of federal transfers to the subjects of the Russian Federation. This standard is developed for each year on the basis of transfer methodology, data from the State Statistics Committee and consumer price index provided by the Ministry of Economic Development.

*Forth standard*- maximum allowed share of households' own expenditures on housing and on municipal services in the total household income within the “social norm” of living area and of municipal services: in 1997 -16%, in 1998 - 18%, in 1999 - 19%, in 2000 - 20%, in 2001 - 22%, in 2002 - 23%, in 2003 - 25%. In the government decree #965 the standards for 2000 and 2001 remained the same. The subject of the RF is empowered to set its own less strict standard, given the additional subsidies to low-income households are provided from the local budget.

Government decree #965 recommends using federal standards by the regional authorities of the Russian Federation while calculating the minimum public expenditure budget of the municipality allocated for expenditures on HCS enterprises and organisations. These standards should also be used to coordinate changes in the household system of payment for housing and municipal services with the income level and supporting measures for socially vulnerable population, stimulate more efficient production of these services and improve service quality.

Federal standards are not obligatory and are taken into account only while calculating transfers for the subjects of the Federation that can independently decide whether they want to raise HCS tariffs or not. A threat of 50% reduction of inter-budget transfers from 1998 is used as an incentive for the regions' transition to the federal standard on HCS tariffs. Regional authorities have to use their own regional financial sources to cover the difference between the regional and federal standards. This measure should make local governors more law-abiding. But this mainly concerns regions receiving federal transfers subsidies.

### ***1.3 Methodological recommendations on planning, accounting and calculation of production cost.***

Gosstroy decree #9 "On approval of Procedure for planning, assessing and calculating production cost of housing and municipal services" dated 23.02.1999 approved this procedure, cancelled the validity of previous procedures and recommended use of this procedure by HCS utilities in the subjects of the Federation and in municipalities.

This procedure is developed for different HCS enterprises: operating and maintaining the housing facilities, water supply and wastewater infrastructure (with wastewater treatment), providing heating, power supply, sanitary town cleaning, as well as for hotel, public bath and laundry facilities and other services taking into account production and service provision specifics for each of these services. Service cost is calculated on the basis of closed list of costs and expenditures, which can be referred to as service cost items, including:

- a) cost of materials;
- b) funds deducted for social needs;
- c) fixed assets depreciation;
- d) other cost items.

Service cost includes all cost that ensure the proper realisation of contractual obligations with respect to housing and municipal services (HCS) provision for the consumer. At the same time part of activities on production and service provision can be carried out by subcontractor organisations. Reporting calculations of service cost are done in accordance with forms 6-v and 6-k for water supply and wastewater and form 6-s for sanitary town cleaning.

Forms 6-v and 6-k contain two sections. The first section reflect indicators for the scope and quality of service. Second section shows the cost items. Service cost calculation for water and wastewater is done by stages: water lift, water treatment, water transport and distribution. One cubic meter is used as a calculating unit.

Form 6-s implies separate calculations for municipal waste (MW) removal in residential areas and street cleaning. One cubic meter of domestic waste and one square meter of cleaning area are the respective calculating units.

Service cost planning is one of the main stages for economically justified tariff formulation. Expenditure planning is necessary both for HCS enterprises - natural (technical) monopolists and for organisations that acquired rights to sign contracts after competition. In the second case planned service cost is incorporated into tariff which is used as a starting point during competitions.

#### ***1.4 Economically justified tariff (EJT)***

In decree #56 dated September 1993 on "Methods for economically justified tariff calculation and HCS rates" the Committee of HCS of the Russian Federation introduced a concept of economically justified tariffs (EJT) and a method for tariff rate calculation. The decree determines that EJT should be calculated in the following way:

$$EJT = \text{production service cost} * (1+T),$$

where T is profitability margin that cannot exceed 25%.

The decree confirmed what expenditures should be considered as production cost and which should be financed from the after tax profit. They are based on common accounting rules and legal framework, including the RF Government Resolution "On production cost ... ", #652 (with changes and amendments applied in pursuance to the RF Government Resolution # 661). Profitability margin for water supply and wastewater is approved by the local authorities and Duma.

Tariffs are established separately for the following consumer groups:

- => Population (domestic tariff);
- => Budgetary organisations;
- => Municipal enterprises.
- ⇒ Industrial and commercial enterprises.

Whereas the tariff rates may differ by a level of coverage of economically justified unit costs and a level of service costs reflected.

Starting from 1992 HCS tariff regulation was fully done for water supply and heating but not for solid waste management.

#### ***1.5 Expenditures and tariffs on HCS***

The existing tariffs for HCS in RO are inadequate mainly because their formulating methodology itself does not stimulate the enterprises to increase their performance efficiency. For them cost saving means a possibility of tariff decrease and thus lower profit while tariff increase can compensate for any inefficiency.

Expenditures on HCS on average in Russia in October 1999 amounted to RUR 12.7 per m<sup>2</sup> of the total living area (federal standard for 2000 - RUR 12.8, for 2001 - RUR 14.2). Russia spends 3-7 times more of energy resources per 1 m<sup>2</sup> of residential area than Western European countries. Energy consumption for production and sale of one cubic meter of water is 30% higher, water consumption per one Russian citizen is 1.5-2 times higher, personnel involved in HCS provision per one thousand citizens is also 1.5-2 times more than in EU, while the HCS quality remains at much lower level.

To improve the situation in February 1999 the government adopted the "Concept of price and tariff policy in HCS of the Russian Federation" developed by Gosstroy that established basis and uniformed principles for transition to HCS tariff formulation procedure open and adequate to modern economic conditions. Gosstroy approved a new edition of "Methodological recommendations on planning, assessing and calculating expenditures on housing and municipal services".

***The result of the implemented policy is gradual increase in coverage of actual cost of HCS by domestic tariffs. Situation that existed in October of 1999 is presented in the table below.***

*Table 1. Cost of HCS and their coverage by domestic tariffs, October 1999*

Regions	Expenditures on HCS, RUR per one square meter of living area	Charges for HCS for Households, % of actual cost	Share of families receiving subsidies, %	Budget funds, RUR per one square meter
Russia on average	12,7	62,0*	6,9	4,05
St Peterburg	9,7	61,1	24,2	5,88**
Leningrad Oblast	13,5	60,0	4,8	4,02
Yaroslavl Oblast	9,2	70,0	4,6	3,66**
Moscow	9,1	52,3	11,2	10,73**
Moscow Oblast	16,7	51,8	8,2	3,65
Krasnodar Region	13,0	58,3	1,8	1,43
Stavropol region	9,0	70,0	3,4	1,31
Rostov oblast	12,0	70,0	10,8	1,70

**Note:** \*\* Indicators contain targeted allocations that are not included in HCS cost.

## **2 Organisation and Reform of the Housing and Communal Services Sector in Rostov Oblast**

### **2.1 Background**

In Rostov Oblast (RO) HCS is an important branche of infrastructure. In total there are 757 enterprises and organisations in HCS sector registered in 16 cities and 39 districts of Rostov oblast, with some 52,800 people employees.

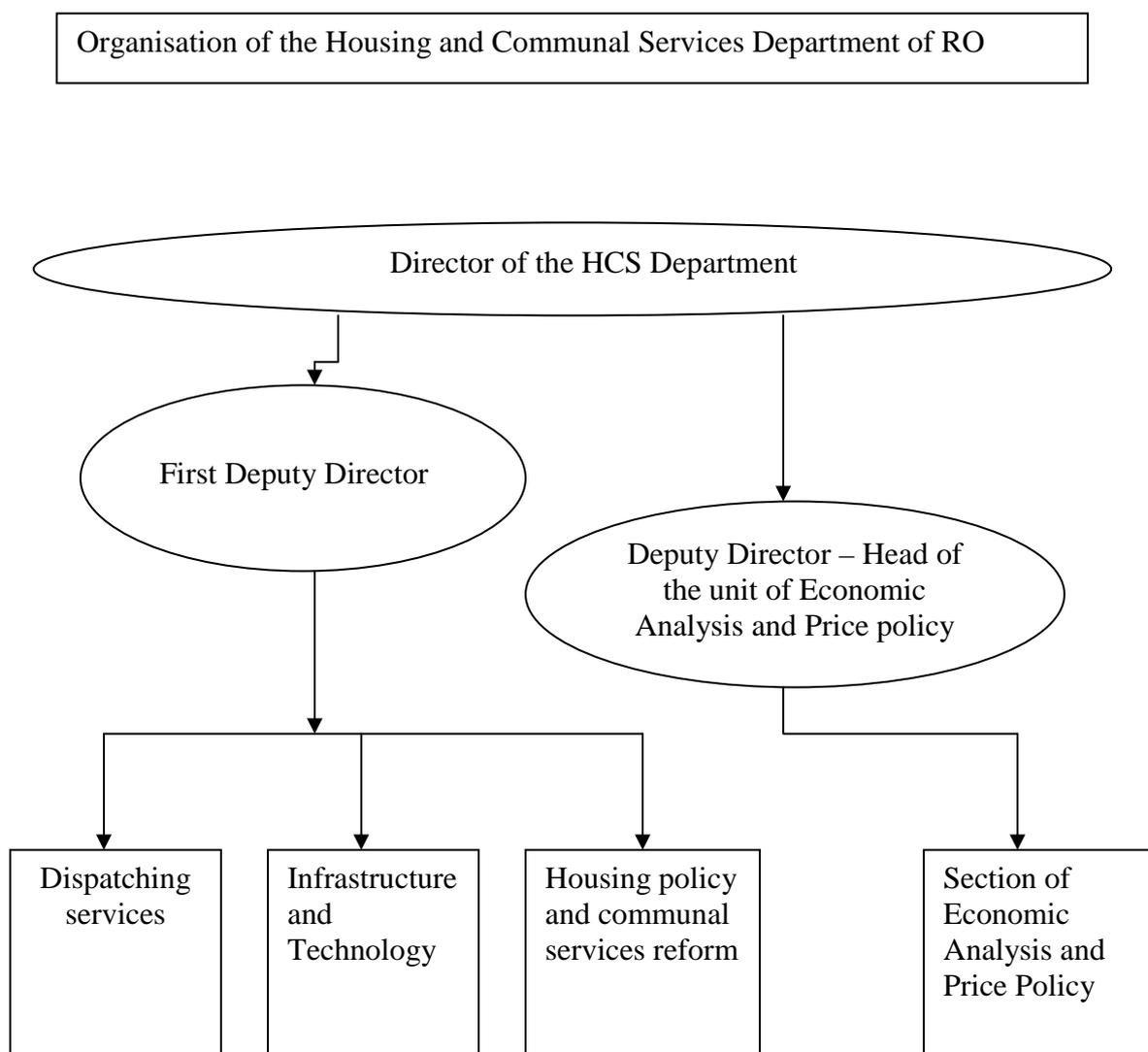
Quality of living is largely determined by reliable performance of the engineering infrastructure. The Oblast is notable for a high deterioration degree of water supply, sanitation and heating infrastructure resulting in inadequate service quality and low production efficiency (among others due to significant water losses during transportation). On average about 50% of the engineering infrastructure requires replacement or rehabilitation. It is to this very sector that Oblast Administration pays especial attention.

Re-organisation of the HCS sector at present stage is carried out in the framework of HCS Reform Concept of the Russian Federation approved by the Presidential Decree #425 dated 28.04.1997. Head of Rostov Oblast Administration approved the regional Reform programme for HCS of Rostov Oblast (Decree #423 dated 26.11.1997).

## 2.2. Organisation of HCS sector in RO

According to the decree # 435, dated 23.10.1998, signed by the Head of the Administration of Rostov Oblast, the overall management of the housing and municipal services sector is carried out by the Department of the Public Utilities and Housing of the Oblast Administration. The organisational structure of the department is presented in the diagram below.

Diagram 1.



## 2.3 Targets and objectives for re-organisations in the HCS sector

Transition of HCS sector to market and socially oriented principles is the main target of HCS sector reform in Rostov Oblast that will ensure proper quality and scope of housing and municipal services.

To achieve the expressed target the following objectives should be implemented:

- Ensure sector's transition to cost recovery working regime;
- Ensure social protection of low-income households when paying for housing and for communal services;
- Form a real residential property owner and transfer major part of the housing stock to condominiums;

- Implement activities on modernisation and technical re-equipment of HCS enterprises;
- Ensure systematic implementation of activities on capital repairs of the housing stock and rehabilitation of engineering infrastructure;
- Create incentives for rational energy resource consumption and actively introduce energy-saving technologies.

#### ***2.4 Reform programme for HCS of Rostov Oblast***

The programme envisages three stages of reform implementation. Description of these stages with respect to water and wastewater sector and solid waste management sector is presented below.

##### ***First stage. (2001 - 2003)***

- At the first stage it is necessary to complete transition of HCS to full cost recovery regime. Housing stock maintenance should be 100% implemented on competitive basis. It is necessary to make an inventory of the housing stock in order to receive objective data on its condition. A system for planned capital repairs of the housing stock and rehabilitation of the social infrastructure facilities should be created over this period.
- Works for implementation of energy-saving activities and introducing new technologies in HCS sector should be continued.

##### ***Second stage (2003 - 2004)***

- Continue works for capital repairs of the housing stock and engineering infrastructure facilities.
- Phase-out cross-subsidising practice while formulating HCS tariffs.
- Form a system of incentives for tariff optimisation and reduction of excessive use of material and technical resources. Create financial and economic conditions for increase in annual public expenditure on HCS facilities modernisation.

##### ***Third stage (2005)***

- Create a wide market of services for housing stock management.
- Wide choice of a management company on the competitive basis.
- Active and effective work of the housing inspection to ensure good service quality.
- Implementation of a mechanism of attracting loans for the sector development.
- Increase modernisation and repairs scale of HCS facilities.
- Achievement of sustainable sector performance.

#### ***2.5. Implementation of HCS Reforming Program in Rostov Oblast***

Following decree # 423 of the Head of the Oblast Administration, dated 26.11.97 on the Programme for Reforming the Housing and Municipal Services sector" (1997 - 2003), the administration is implementing a package of reorganisation measures.

The functions of the ownership, management and providing HCS services are now separated in the sector. There are currently 54 Customer Services in 47 municipalities of Rostov oblast. In some thinly populated districts of the oblast it is not always feasible to create such management entities. In such cases small entities with a limited number of personnel are created within the district's administration. The process of changing Customer Services to a regime of self-financing continues. In 11 towns of the oblast the Customer Services are already working in this regime. This is about 69% of the total. The contractual relations system to cover all stages of HCS provision is being developed.

The process of establishing contractual relations between the Customer Services and HCS enterprises is at its final stage. The improved standard contracts for providing the main types of communal services are developed and submitted for approval. However, the process of signing

contracts for service provision is quite slow. The positive changes in this respect are most apparent in towns Gukovo, Donetsk, Zverevo and Taganrog. In general, this process is only completed for about 56 %.

It is also envisaged to regulate the relations between Customer Services and consumers with the help of introducing the contractual arrangements (indicators for the service quality, the responsibilities of the parties, disconnection agreements, etc).

According to the decree # 231 "On Improvement of the system of collecting and processing payments of the consumers for municipal services on the basis of ERKC in Rostov oblast", dated 05.07.2000, signed by the Head of the Oblast Administration; Unified Payment Centres (ERKC) were established in 9 towns of the Oblast.

The developments in the organisational and legal relations in the HCS sector is shown in the following.

*Table 2. The developments in the organisational and legal relations in the HCS sector*

	Jan-Dec 2000	Jan-Dec 2001
Number of Customer Services, units.	54	57
Percentage of the municipalities where Customer Service departments were created, % of the total number of municipalities	85.5	90.9
Number of special Departments dealing with subsidies for payment of municipal services, units.	67	77
Percentage of the municipalities where Housing Subsidy Services exist, % of the total number of municipalities	96.4	100

*Source: Statistical Bulletin. Main parameters, characterising the progress of reforms of the Housing and municipal services sector in Rostov oblast, 2001. Rostov Oblast Committee of the State Statistics, Rostov-on-the-Don, 2002, page 15.*

Within the framework of the Programme on de-monopolisation of the Housing and Communal Services sector of Rostov oblast the objective is to develop competitive relations in the HCS sector. There are also 295 operating private HCS utilities in the oblast. They are mostly engaged in MSW removal and housing stock maintenance. In 2000, 70 auctions were organised for signing contracts for the provision of municipal services. The main idea behind such auctions is to find the best possible service provider at the lowest costs. Most successful in this respect were Rostov-on-Don, Kamensk-Shakhtinsky, Novocherkassky and Konstantinovskiy rayons. However, in some cases these auctions were only a formality that in reality lead to a lower service quality.

Area of municipal housing stock served on the contractual basis reached 95 %. In 1996 there were almost no tender selection of contractors for the housing stock maintenance. By 1.06.01 about 60 % of municipal housing stock was operated on a contractual basis. 295 operating private companies are worthy competitors for the municipal utilities in the HCS sector. The table below shows data on the distribution of the enterprises of the HCS sector in Rostov Oblast by ownership form; by the municipalities:

*Table 3. The distribution of the enterprises of the HCS sector in Rostov Oblast by ownership form within municipalities*

	Total Number of enterprises	<i>In that:</i>			
		State enterprises	Municipal enterprises	Combined ownership	Private Enterprises
<b>Total for 39 districts:</b>	<b>199</b>	<b>37</b>	<b>88</b>	<b>45</b>	<b>29</b>

Cities:					
1. Azov	15	1	6	8	
2. Vataysk	30	9	6	11	4
3. Belaya Kalitva	21	2	8	5	6
4. Volgodonsk	31	0	10		19
5. Gukovo	23	1	7	1	14
6. Donetsk	12		9		3
7. Zverevo	4	1	3		
8. Kamensk	30	1	12	14	3
9. Krasny Sulin	11	2	7	1	1
10. Millerovo	7		5	2	
11. Novochoerkassk	32	2	12	16	2
12. Novoshakhtinsk	25		19		6
13. Rostov-on-Don	385	16	49	157	163
14. Salsk	19	3	7	9	
15. Taganrog	54	11	14	13	16
16. Shakhty	27		12	3	12
<b>Total by cities:</b>	<b>726</b>	<b>51</b>	<b>786</b>	<b>240</b>	<b>249</b>
<b>Total for the Oblast</b>	<b>925</b>	<b>80</b>	<b>274</b>	<b>285</b>	<b>278</b>

Source: Department of Housing and municipal services of Rostov Oblast Administration

The next table shows data on the number of enterprises in the HCS sector of Rostov oblast within the municipalities.

Table 4. Enterprises in the HCS sector of Rostov oblast

	Total number of HCS enterprises	<i>In that:</i>		
		Water utilities	MW management	Multi-purpose HCS enterprises
<b>Total for 39 districts:</b>	799	40	2	62
<b>Cities:</b>				
1. Azov	15	1	1	1
2. Vataysk	30	1		3
3. Belaya Kalitva	21	1		6
4. Volgodonsk	31	1	1	
5. Gukovo	23	1	1	1
6. Donetsk	12	1	1	2
7. Zverevo	4	1		1
8. Kamensk	30	2	1	5
9. Krasny Sulin	11	3		3
10. Millerovo	7			2
11. Novochoerkassk	32	1	1	3
12. Novoshakhtinsk	25	1	1	
13. Rostov-on-Don	385	1	18	37
14. Salsk	19	2		4
15. Taganrog	54	1	1	14
16. Shakhty	27	1	1	
<b>Total by cities:</b>	<b>726</b>	<b>19</b>	<b>27</b>	<b>82</b>
<b>Total for the Oblast</b>	<b>925</b>	<b>59</b>	<b>29</b>	<b>144</b>

Source: Department of Housing and municipal services of the Rostov Oblast Administration

Maintenance of the operating condition of the networks and main engineering facilities of oblast cities and districts is a high priority task. The relevant investment program is under implementation now.

In the Programme on Priority Measures for reforms in the HCS sector of Rostov oblast, it is envisaged for some of the municipal services to achieve full cost recovery tariffs. The administrations of the Cities of Rostov-on-Don and Novochoerkassk pay more attention to this issue than other administrations. **In 31 municipalities of the Oblast solid domestic waste management companies are working on the self-financing principle.**

#### ***2.6. Price and tariff policy of Rostov Oblast. General information***

The following documents provide basis for tariff policy formation: "Economic policy concept of Rostov Oblast" approved by the Legislative Assembly on 16.09.1999, "Concept of HCS reform in the Russian Federation", approved by the presidential decree #425 dated 28.04.1995, federal laws, government decrees of the Russian Federation and Rostov Oblast Administration decrees on state price (tariff) regulation and main policy directions for 2002. Tariff Policy is regulated by the decree of the Head of Administration #555 dated 30.12.1998 "On establishing unified procedure for calculation and approval of tariffs for HCS in Rostov Oblast". The decree approves the "Procedure" and cancels previous regulation documents on this matter.

Tariff or regulated price is established by the state, including setting its maximum or fixed value.

According to the decree, HCS tariffs are subject to state regulation. State regulation is extended to all enterprises regardless of their legal status and property form in the communal services sector. In water and wastewater and solid waste management sectors state regulation is implemented at the Oblast Administration level for:

- => Average (economically justified) water and waste water tariffs for the services provided in towns and rayon centers;
- => Average economically justified tariffs for grouped inter-rayon water pipelines. At the local authority level:
- => Tariffs for water supply and wastewater (except for those approved by the Oblast Administration);
- => Tariffs for transport and disposal of solid and liquid domestic waste;
- => Norms of HCS use by the population, including for transport of liquid domestic waste for the population regardless of property form.

Heads of the municipalities in the oblast approve by issuing the relevant resolutions two different tariffs over the reform period:

- => Economically justified tariffs reflecting full service cost;
- => Household tariffs for certain services are set within the regional standards (see 1.2).

Tariff regulation for HCS is carried out on the basis of proposals or at the initiative of the regulating authorities in the following cases:

- => Changes in expenditures on HCS by more than 5%, caused by prices increase for fuel, equipment, etc.;
- => Change of the Central banks's re-financing rate and commercial banks interest rates for long-term loans at the internal market by more than 5 percentage points;
- => Force-majeur circumstances.

State regulation of HCS tariffs is performed through setting fixed tariffs, profitability level limit, maximum adjustment (indexation) coefficients for tariffs.

When approving (revising) tariffs for HCS the utilities should provide a rationale for this and background documents. For instance approval of water and sanitation services tariffs requires the utilities to submit the following documents:

- Application from the Head of municipality to the Head of Oblast Administration on revision of average tariffs;
- Explanatory note with justification of reasons for tariff changes;
- Order on accounting policy;
- Main indicators of economic activity for the enterprise in general and for specific services in accordance with the attached form #1;
- Development of net supply and tariffs per consumer groups and also installed capacity and its actual use;
- Minutes of the Tariff Commission meeting or a relevant authority executing this function on tariff revision;
- Information on regional standards implementation;
- Calculation of average (economically justified) tariff in line with the attached forms NN 2-19 and form of quality and production efficiency indicators according to the annexes 1 and 2 to the decree # 555;
- Plan of capital works over base and regulated period (with description);
- Obligatory sectoral accounting, statistical and financial reports;
- Schematic diagram of water and wastewater for this particular settlement and description of service technological cycle;
- General data on the enterprise according to form N 20;
- Form of a typical service contract.

New tariffs are introduced not oftener than **once a quarter**. Tariffs and amounts of payment for HCS for households should be unified in one settlement for all types of housing stock, irrespective the ownership.

Enterprises and organizations which do not keep to the prices established by the state shall be applied sanctions in compliance with the effective procedures.

### ***2.7. Tariff setting for sanitation***

Price setting for solid and liquid domestic waste removal (transport) and disposal in Rostov Oblast is regulated by Annex 3 to the Decree #555 of the Head of Oblast Administration "Procedure on formulation and application of tariffs for housing services, solid and liquid waste transport in Rostov Oblast".

Components included in economically justified household tariff are production cost of 1 m<sup>3</sup> of transported solid or liquid wastes and profitability margin up to 10%.

Production cost contains expenditures mentioned in the Decree on Expenditure composition for production and sale of goods and services, approved by the government decree #552 dated 05.08.92 № 552, taking into account revisions and amendments introduced to this decree by the decree #661 dated 01.07.95 and Procedure for calculating economically justified rates and tariffs... approved by the Order #56 of the Municipal Economy Committee of RF dated 09.11.93 №56.

Tariff calculations are done separately for different services:

- Solid waste removal and disposal;
- Liquid waste removal and disposal.

Calculation of the production cost for solid and liquid waste removal and disposal is done taking into account the scope of service and truck run. Expenditures include:

- => expenditures on materials;
- => fuel expenditures;
- => fixed assets depreciation expenditures;

- => repair and technical maintenance ;
- => power expenditures;
- => labour costs;
- => payroll taxes;
- => waste neutralisation;
- => other direct costs, including charges for property insurance and all other expenditures not listed in the named expenditure items but that have to be included into service production cost in line with the existing legislation.

Calculation of economically justified tariff for SW and LW transport is done by the following formula:

$$T = \frac{S + P}{Q}, \quad \text{where}$$

- T - tariff per 1 m<sup>3</sup> of transported waste, RUR;
- S - total production cost for SW and LW transport, thousand RUR;
- P - Profit, thousand RUR (taking profitability margin level of up to 10%);
- Q - Volume of transported SW or LW, thousand cubic meters

Tariff approval is preliminary agreed with the Customer service and then presented for revision by the service enterprises to local tariff commissions or relevant authorities on availability of justifying materials.

To justify tariffs the enterprises have to submit the following materials:

- Application to the Head of municipality;
- Explanatory note with justification of reasons for tariff changes;
- Order on accounting policy;
- Main indicators of economic activity for the enterprise in general and for specific services, planned and reported;
- Dynamics of provided services and tariffs;
- Calculation of economically justified tariff with detailed expenditure description;
- Actual calculation by expenditure items;
- Obligatory sectoral accounting, statistical and financial reports;
- Indicators of production efficiency and service quality by forms in line with annexes 1 and 2 to section 4 of Annex 1 of the present decree;
- Form of a typical service contract.

In case some statistical indicators are required, the regulating authority sends an inquiry to state statistics authorities.

If expenditure items change compared to the period prior to regulated one, then justification of expenditure increase (decrease) is provided for each item on the basis of basic accounting reports.

## ***2.8. Expenditures and HCS tariffs in Rostov Oblast***

Without underestimating the importance of all reform directions in the sector, one should admit that improvement of payment system for housing and for communal services is a key issue. Oblast administration pursues a consistent policy in the sphere oriented to transition to a cost recovery working regime of the sector. As of 1.06.2001 average level of household payment for HCS reached 74.5% of actual cost with 80% being the federal standard. Since 1997 this indicator was doubled. In the situation of insufficient growth of real household incomes, social protection of citizens paying for housing and municipal services becomes a priority task.

A reliable HCS tariff regulation system was developed in the oblast over the last few years. A thorough tariff examination is carried out, an autonomous professional regional energy commission is working. Tariff policy concept was developed and is now implemented in Rostov Oblast. As of 01.06.2001 economically justified expenditures on HCS amounted to RUR 13.5 per one square meter. Main reason for tariff growth are inflation and increase of energy resource prices.

Expenditures on housing and municipal services as of 1.01.2001 reached RUR 12.89 per m<sup>2</sup> per month while the approved standard (Russian federation government decree #965 dated 15.12.2000) for Northern Caucasus region amounted to RUR 10.8 per m<sup>2</sup> while in 1996 expenditures on HCS amounted to 9.19 RUR/m<sup>2</sup>.

In 38 municipalities the established cost of housing and municipal services provision per 1 square meter of total living area is within the federal standard limit, in others it exceeds the standard. The highest expenditure level is observed in Tarasovsky, Morozovsky, Remontnensky rayons and in towns of Donetsk and Novoshakhtinsk.

In general over the period 1996 - 2000 economically justified tariffs increased for all municipal services in the oblast.

Over 2000 economically justified tariffs increased:

- For housing maintenance per 1 m<sup>2</sup> of total living area by 45% per month and amounted to RUR 1.43 (without capital repair), growth over 1996 - 2000 by 135.1%;
- For heating - by 18.2 %, growth over 1996 - 2000 by 19.2%
- For solid waste transport - by 24.9% and amounted to RUR 34.11 per m<sup>3</sup>, growth over 1996 – 2000 by 9.8%.
- Elevator maintenance by 30.1% and reached RUR 16.80.

For water and wastewater services economically justified tariffs in the oblast increased by 33.9%, including for water supply - by 37.5% (4.03 RUR./m<sup>3</sup>), and for wastewater - by 27.0% (2.02 RUR/m<sup>3</sup>).

In general over 1996-2000 in Rostov Oblast tariff for the population grew considerably, far ahead of the economically justified tariff growth. Collected household payments for housing and communal services in the oblast reached the level of 83.6 % of the billing. But still there is considerable debt in Shakhty, Gukovo and Morozovsky rayon. While in some municipalities household tariffs (approved by local authorities) remained at the level of 1997-1998 (Volgodonskoy rayon, Oktyabrsky rayon, Veselovsky rayon, Kamensky rayon, Zavetinsky rayon, Gukovo, Donetsk, Zverevo). Such position of local authorities leads HCS enterprises to a complete financial crisis.

Monitoring of tariffs and norms for housing and communal services is performed on the regular basis. Analysis of these materials allows detecting deviations and disproportion and applying optimisation measures for these indicators. To implement tariff optimisation measures for HCS the ministry arranges control trips that identify problems related to lack of mechanisms for efficient tariff regulation due to inflation process.

According to audit results tariffs were reduced:

- In 1998 - for 7 enterprises (Municipal Enterprise (MP) HCS Novoshakhtinsk, JSC "Donetsky excavator plant", JSC Don-25, MP "Vodokanal" of Rostov-on-Don and others);
- In 1999 - for 6 enterprises (Vodokanals of Gukovo, Donetsk, Belaya Kalitva, JSC "DVS", JSC "Nesvetayvodostroy")
- In 2000 - reports on audit checks of 9 enterprises were sent to Price policy Department at the Oblast Administration for further work and actions.

Experience on technical expertise of HCS tariffs not only allowed quantitative confirmation of extreme moral and physical deterioration of fixed assets but also defined reliability and availability for rehabilitation.

## ***2.9. Financial status of HCS enterprises***

The financial position of HCS sector enterprises in Rostov oblast can in general be characterised as unsustainable. At some enterprises of the HCS (Gukovo, Zverevo, Salsk, Bokovsky rayon, Aksaysky rayon, Ust-Donetsky rayon, Kamensky rayon, Tarasovsky rayon) the financial results have become worse and their financial situation is very difficult. Many enterprises lack working capital.

The main reasons for the deterioration of the financial situation of the HCS enterprises are:

- Low level of tariffs for communal services;
- Low level of user charges collection, lack of an efficient system of collecting overdue payments;
- Low quality of financial management at the enterprises
- Non-targeted use of funds;

The enterprises also incur financial losses due to the lack of good organisation of production and management, violation technological discipline, absence of meters, inclusion of non-production costs into the production cost of municipal services.

In general HCS utilities operate with no profits (loss amount by 01.01.2002 – 237.1 mil. RUR). The financial results of the HCS enterprises in the oblast in 2001 are presented in the table below (amounts in million RUR).

*Table 5. The financial results of the HCS enterprises in Rostov oblast in 2001, in million RUR*

	Number of enterprises of HCS.	Financial result	<i>Including :</i>			
			Number of unprofitable enterprises	Total Losses	Number of profitable enterprises	Total Profits
HCS sector, total	299	-175.6	166	294.6	133	119.0
Communal services	202	-96.3	100	207.7	102	111.4

*Source: Statistical Bulletin. Main parameters, characterising the progress of reforms of the Housing and municipal services sector in Rostov oblast, 2001. Rostov Oblast Committee of the State Statistics, Rostov-on-Don, 2002, page.12.*

The table shows that about half of the enterprises of the HCS sector in 2001 were loss making.

The following two tables reflect the current situation with overdue accounts receivable (AR) in the HCS enterprises.

*Table 6. Overdue accounts receivable (AR) in the HCS enterprises in Rostov Oblast*

	Number of HCS enterprises with AR(% of total)	Overdue AR, mln RUR.		Total overdue AR (> 3 months), million RUR
		total	Including debt of customers	
HCS sector, total	198(66%)	1635.3	1460.9	1457.6
Communal services	136(67%)	1388.0	1259.2	1235.6

*Source: Statistical Bulletin. Main parameters, characterising the progress of reforms of the Housing and municipal services sector in Rostov oblast, 2001. Rostov Oblast Committee of the State Statistics, Rostov-on-Don, 2002, page.14.*

This table shows the situation of HCS enterprises with respect to overdue payments listed in the accounts payable (AP).

*Table 7. Overdue payments listed in the accounts payable (AP) in the HCS enterprises in Rostov Oblast*

	Number of HCS enterprises with AP	Overdue AP, mln RUR	Including			Overdue AP (>3 months)
			Payments to budget	To Suppliers	Payments to non-budgetary funds	
HCS sector, total	201	2418.1	595.1	1385.4	337.0	2203.6
Communal services	131	1996.2	539.4	1120.1	268.8	1844.0

*Source: Statistical Bulletin. Main parameters, characterising the progress of reforms of the Housing and municipal services sector in Rostov oblast, 2001. Rostov Oblast Committee of the State Statistics, Rostov-on-Don, 2002, page 13.*

Two tables presented above clearly illustrate the instability of the financial situation of HCS enterprises of Rostov oblast. In particular, the fact that the overdue accounts payable exceed the accounts receivable by 44% demonstrates that the enterprises compensate the absence of sufficient working capital by postponing payments to their creditors. Another important point is that almost 100% of the overdue accounts payable and receivable are more than 3 month old.