DIRECTIONS FOR IMPROVING THE REGULATION
OF TARIFFS FOR HOUSING AND COMMUNAL SERVICES

Problem setting The specifics of housing and communal services is that natural monopolies operate there. It is impossible to examine the process of adjusting their activities only from the economic point of view, as their activities predetermine the change of level of social tension in Ukrainian society.

Recent research and publications analysis Researchers V. Poluianov, A. Savenko, V. Lahutin and Yu. Borovyk claim that the methods for encouraging rate-setting for housing and communal services have not found a proper practical embodiment in Ukraine due to insufficient methodical preparation. The problem with regulation is that if the upper price limit is fixed, then the increase in income can be attained through the decline in quality of services. It requires the input of corresponding quality standards of housing and communal services.

Paper objective The task of the research is to define directions for the improvement of rate-setting for housing and communal services on the basis of price adjustment analysis.

Paper main body Nowadays the practice of rate-setting for housing and communal services is based on the use of actual data over past periods. Such an approach procedure has a number of substantial defects:

- the norm of profitability used in calculations is established by a corresponding regulator, and usually it has no economic justification. Therefore, the methodology for the use of the planned income has a restrictive character, and does not stimulate realization of cost-cutting measures;

- operating methodologies do not give an opportunity to take into account the increase in volume of works related to replacement of threadbare equipment, and it does not support the realization of investment projects;

- the forecasted changes in the volume of services due to the changes in the number of consumers is not foreseen in calculations;
- since the increase in charges automatically results in the tariff increase for a specific service, there is no stimulus to carry out measures for rationalization of economic activity.

Therefore, the actual direction for the improvement of tariffs for housing and communal services is their economic justification through the input of the principle of incentive ratemaking. If today the price for services is set to cover the prime price of services and the target income of the enterprise, the incentive ratemaking will fix a price, and the enterprise will get such an income that it will «deserve» due to the decline in the prime price of services.

To establish objective prices it is necessary to conduct an independent preliminary examination for the evaluation of capital assets of enterprises. Besides, it is necessary to determine the profitability norm, which will be included in the calculation. The rational approach is based on the calculation of weighted average cost of capital (WACC) widespread in Western economies.

**Conclusions of the research** The main advantages for the introduction of incentive ratemaking for housing and communal services are:

- diminishing the regulator’s intervention in operating activities of enterprises;
- the possibility of use of the economy attained by enterprises due to the increase in activity efficiency;
- the expansion of possibilities for attracting investments in modernization of equipment and organizational changes.

Inflationary processes and the complication of getting long-term credits, without which it is difficult to realize investment projects for modernisation of housing and communal enterprises, are threats to application of this approach.

An important condition for the introduction of incentive ratemaking for housing and communal services is to ensure the quality of service provision. The input of quality standards is possible under condition of certification of quality control systems at housing and communal enterprises.