Financial mechanism of housing and utilities infrastructure of Russian Federation

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Abstract: Because of socio-economic significance of this industry (it is responsible for forming of appropriate life and culture level of population of Russian Federation, finding a key to financial mechanism of development of housing and utilities infrastructure is an up-to-date task and it demands scientific grounds. In this connection study of structure of financial mechanism of housing and utilities infrastructure, from its elements to the methods and tools of organization of financial relations seems to the authors rather up-to-date.
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1. Introduction

Financial mechanism is a system which can be viewed as interaction of its structural elements; when we have a look at the elements it consists of it should be mentioned that in economic literature its structure is viewed at different angles: methods of organization of financial relations, forms of use, tools.

The essence of financial mechanism is described in scientific literature from two points of view:
-as product of state's activity
-as objective category.

Financial mechanism is a system which can be described as interaction of its structural elements [2].

Formation of financial mechanism of housing and utilities infrastructure is influenced by specific particularities of this investigated sphere, in general the following can be set aside:

It must:
1) create conditions for improvement of environment of life-sustaining activity of people;
2) increase quality of housing facilities stock;
3) provide high-quality service of housing and utilities infrastructure.

While studying financial mechanism of housing and utilities infrastructure we shall limit ourselves by such criteria as aim and principles of activity of organizations. In current market conditions the aim of development of financial mechanism of housing and utilities infrastructure must be effective functioning of service provision process.

Common requirement is sticking to principles of organization of finances:
- economic independence;
-self-repayment;
-co-financing;
-motivation;
-forming of financial reserves;
-coordination

Generalizing all mentioned above we can conclude that by financial mechanism of housing and utilities infrastructure we should mean the system of methods and tools of accumulation and spending of financial resources intended for providing better quality of services and performance of functions of managing organizations, investors, producers and the state. In the structure of financial mechanism of housing and utilities infrastructure the following components can be distinguished: elements, methods, principles. Let us consider the structure of financial mechanism of housing and utilities infrastructure in more detail.

Elements of financial mechanism include:
-financial regulation;
-sources of financial support (mechanisms of financing);
-financial planning.

Financial methods are the way of influence of financial interactions of the state and providers of services on the process of providing consumers with housing and utilities services. Competition in this sphere is determined by the fact that inside the service provision system market relations begin to take place – it is connected with the necessity to correlate costs and effect with material form of

stimulation and responsibility for effective use of the means owned.

Financial tools are: tariffs for utilities services, prices for housing services, costs, incomes, money flows.

It should be mentioned that some economists divide financial tools on directs and indirect. Direct tools: they are target financing of specific programs, areas of focus, projects and events, economic contracts. Indirect tools are subsidies, privileges in payment of services, taxes, privileged loans, tariffs and a number of others.

Looking at Table 1 we can resume that in absolute values maximum of budget costs for housing and utilities infrastructure was in 2007. During 2008-2010 the costs were reduced.

Table 1 - Dynamics of budget costs for housing and utilities infrastructure in 2006-2011 [3]*

Indices (characteristics)	Year					
	2006	2007	2008	2009	2010	2011
Total costs, bln roubles	8375,2	11378,6	13991,8	16048,3	17616,7	19994,6
Cost for HUI, bln roubles.	631,7	1102,3	1153,2	1006,1	1071,4	1195,0
Inflation index to the previous year, %	100,0	111,9	113,3	108,8	108,8	106,1
Budget costs (in 2006 prices), bln roubles	8375,2	10168,5	11036,0	11634,3	11738,3	12556,8
HUI costs (in 2006 prices), bln roubles	631,7	985,1	909,6	729,4	713,9	750,5
Specific weight of HUI costs in total budget costs, %	7,5	9,7	8,2	6,3	6,1	6,0

*Rosstat data abridged by the author

It also should me mentioned that costs for housing and utilities infrastructure in the 2006 prices in consolidated budget of Russian Federation have grown in 2011 also. Annual reduction of values in comparison with a previous year's value for period 2008-2010 can be explained by changes in priorities in credit part of budget because of crisis 2008-2009 and elimination of crisis problems in 2010.

Since 2007 specific proportion of costs for housing and utilities infrastructure in consolidated budget of RF is constantly reduced.

Analysis of data in this Table 2 demonstrates that in prices of 2008 in the given period the amount of costs in budget of RF have increased (excluding 2011 when value was lower than in 2010) and the amounts of costs in the budgets of constituent entities of RF have reduced. This resulted in changes in the structure of housing and utilities infrastructure costs for the given period.

Table 2 Dynamics of budget costs (RF budget and the consolidated budget of a RF constituent entity) on housing and utilities infrastructure in 2008-2011

Characteristic	Year							
	2008		2009		2010		2011	
	RF	Constituent entity of RF	RF	Constituent entity of RF	RF	Constituent entity of RF	RF	Constituent entity of RF
Costs, bln roubles	7570,9	6253,1	9660,1	6255,7	10117,5	6636,9	10925,6	7679,1
Cost in 2008 prices, bln. Roubles	7570,9	6253,1	8878,8	5749,7	8547,0	5606,7	8699,1	6114,2
HUI costs, bln. Roubles	129,5	1023,7	151,6	854,5	234,9	836,5	279,8	968,6
HUI costs in 2008 prices, bln. Roubles	129,5	1023,7	139,3	785,4	198,4	706,7	222,8	771,2
Proportion of costs, %	11,2	88,8	15,1	84,9	21,9	78,1	22,4	77,6

*Data of Minregionrazvitiya processed by the author.

However in spite of this reduction the main proportion of costs for housing and utilities infrastructure is laid upon regional and local budgets (ratio from 73,2% to 88,8% of total costs for the given period).

We also have to keep in mind that there are organizational-commanding levers to fulfill obligatory requirements and conditions which are necessary for organization of planning of financial activity, providing with information for analysis and performing tax and financial-credit policy in the sphere of housing and utilities infrastructure.

Now we shall have a look at elements of financial mechanism of housing and utilities

infrastructure in its interconnection with some methods and tools.

Firstly, financial regulation is of priority among other components of state regulation which can be observed in the balance of financial resources, in budget indices, budget plan, and in financial plan-forecast.

State regulation has the following forms:

- direct regulation - direct influence on constituent entity.
- indirect regulation - indirect influence on constituent entity through other objects and subjects (for example, compensation to the banks of interest rate for the loans given to the companies of housing and utilities infrastructure).

Methods of regulation, in author's point of view, in the system of financial mechanism of housing and utilities infrastructure are tariff policy and pricing for housing services.

Tariff policy in the sphere of housing and utilities infrastructure is fulfilled in the following forms:

a) tariff regulation:

-not exceeding limiting index established by Federal Tariff Service depending on approved by the self-government bodies investment programs of housing and utilities infrastructure organizations;

-establishing tariffs for goods and services of housing and utilities infrastructure organizations;

-establishing tariffs for connection to utilities infrastructure and tariffs levied by housing and utilities infrastructure organizations for connection;

-establishing increment to tariffs for goods and services of housing and utilities infrastructure organizations, increments to penalty charges (tariffs) for consumers;

b) approval of limiting amounts of payment for housing and utilities services by citizens:

- establishing of limiting level of payment for the housing and utilities services in constituent entities of RF;

-establishing threshold for subsidies provided to citizens.

Pricing policy in the sphere of housing services must be as follows: the amount of payment for holding and repair depends on a number of factors: the list and regularity of works and services on holding and repair; the amount of payment for services and products will be established by owners of flats at general meeting taking into consideration the recommendations of management company or by the authorities of a housing association on the base of approved budget of costs and incomes per year. However when the way of management is determined by the owners, decision on the amount of payment has not been made or decision made by the owners is not implemented, the amount of payment for holding and repair should be established by local bodies of self-government. They are also has the right to establish amount of payment under the contracts of social rent and rent of state or municipal housing facilities stock.

In RF Government Resolution dated 13.08.2006 #491, in the Appendixes 1-3 to the Rules of holding of common property in block of flats there is approved General list of works connected with holding, current or capital repair of common property in a block of flats. Recommended list of obligatory and additional services for tenders for choose a management company is defined also in RF Government Resolution dated 06.02.2006 #75 "Regarding the procedure of holding by body of self-government a tender to choose a management company for management in a block of flats".

Secondly, sources of financial support. In regard to the costs incurred in housing and utilities infrastructure, having made some systematization work on the various methods of performance of cost policy of the state and organizations, we shall point out to 3 main elements: financing, crediting and investments. Characteristic of financing tools is given in Table 3.

Table 3 Financing tools and their characteristics

Elements of financial support	Form	Objects of financing	Source	Tools
Financing	Estimated financing	Physical persons and legal entities	Public funds	Subsidies Subventions Long term economically reasonable tariffs Grants Appropriations Prices for housing services
	Shared financing	Physical persons and legal entities	Private and public funds	Subsidies Subventions Long term economically reasonable tariffs Grants Appropriations Private investments
	Project financing	Legal entities	Public funds	Targeted programs
Crediting	Long term, middle term, short term	Physical persons and legal entities	Public and private funds	Guarantee funds of HUI
		Physical persons and legal entities	Public funds	Subsidies for payment interests on loans from federal and regional budgets
		Physical persons and legal entities	Public funds	Sub-guarantees from federal budget
		Physical persons and legal entities	Banks of State corporation Vnesheconombank, private funds	Bank loans
		Physical persons and legal entities	Banks, private funds Банки,	Bank loans with collateral in the form of rights on concession contract
		Physical persons	Private funds	Closed open mortgage lending
		Physical persons	Private funds	Building societies funds
		Physical persons	Private funds	Building and loan associations
		Legal entities	Public funds	Public crediting of HUI
Investments		Physical persons	Private funds	Investments from home- owners
		Physical persons and legal entities	Private funds	Reserve funds of building societies
		Physical persons and legal entities	Public and private funds (public-private partnership)	Concession agreements
		Physical persons	Private funds	Building and loan association
		Physical persons and legal entities	Private funds	Special long-term infrastructural bonds of constituent entities of RF
		Physical persons and legal entities		Investment increment in tariff
		Physical persons and legal entities		Two-rate tariffs and tariffs established by the method of profitability of invested capital (method RAB)

Thirdly, financial planning of organizations of housing and utilities infrastructure is the process of formation of combination of financing plans and statutory indicators which demonstrate the extent of provision of economic entity with needed financial resources and show expected growth of effectiveness of its activity in future period. Among all diversity of methods of financial planning the most often used methods in housing and utilities infrastructure are forecasting, feasibility study and budgeting.

Our study leads us to conclusion that financial mechanism of housing and utilities infrastructure should be considered as single whole phenomenon including not only narrow sphere of over-distribution of financial resources but all group of money relations emerging in the process of production and provision of housing and utilities services.

Nowadays our economy demonstrates the results of transition from Soviet economy to new market model of economic relation; transformation process has penetrated into all spheres of economy including housing and utilities infrastructure, but in this sector transformation has been taking place for too long, to a great extent it is determined by belonging of this sphere to the life-supporting system of our country, by social significance and by organizational and technological complexness of housing and utilities infrastructure.

Reforms are directed first of all to changes of financial mechanism of housing and utilities infrastructure - and this mechanism is of utter importance among other tools of development of this sector. Renewal of financial mechanism of housing and utilities infrastructure must be fulfilled on the base of best foreign practices of reformation of financial relations of housing and utilities infrastructure, forming communication between participants of these relations, creating incentives for attracting investments in order to develop this sector effectively [4].

Market reformation is based on hypothesis that utilities do not differ from ordinary goods - that is why all laws of market can be applied here. For example when one of the first experiments in households economy of England and Wales in 1989 was held they expected the reforms will enable to reach the following results:[5]

- attract additional investments;
- private investments will be more effective than state credits and subsidies;
- private owners will manage companies more effectively than municipal councils.

Liberalization of markets of infrastructural industries in the middle of 1990s in EU countries was on larger scale - it meant not only reduction of state participation in this sector but creation of open market all over Europe [6].

Reasons for such reforms were as follows:

- liberalization leads to increase in competitiveness;
- competitiveness leads to rational use of recourses and growth of investments;
- rational use of recourses leads to reduction of prices;
- low prices will result in increase of demand;
- increase in demand results in increase of supply, investments and employment [7].

Addressing foreign practice it should be mentioned that housing and utilities infrastructure is a “problematic” industry almost all over the world. The consumers are not satisfied with prices and quality of services, government - with high costs for this industry and low effectiveness of production. Over the last 20 years reforms of housing and utilities infrastructure are taking place in many countries of the world. For example, branches which are included into water-supply and wastewater disposal were re-organized in the countries on different continents, with different levels of economic development [8].

The reforms were lobbied by international financial institutions: World Bank, International financial corporation, International and European Bank of reconstruction and development etc., which stipulated that provision of aid to poor countries would be in exchange for their obligation to reform infrastructural industries. The base of these reforms is attracting of private capital to production activity connected with provision of consumers with water and sewage services which is accompanied with reduction of state participation in utilities sector of economy [9]. Recently privatization has become prevailing trend both in developed and less developed countries [10]. Privatization means not only change of owner but that state must refuse from direct function of organization of production which can be achieved by means of such forms as rent, contract etc. [11].

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