

# “Peculiarities of the Ukrainian housing and utility services enterprises activity in the context of defining their development potential”

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## ARTICLE INFO

Nataliia Pedchenko and Mariya Kimurzhiy (2018). Peculiarities of the Ukrainian housing and utility services enterprises activity in the context of defining their development potential. *Public and Municipal Finance*, 7(1), 32-40.  
doi:[10.21511/pmf.07\(1\).2018.04](https://doi.org/10.21511/pmf.07(1).2018.04)

## DOI

[http://dx.doi.org/10.21511/pmf.07\(1\).2018.04](http://dx.doi.org/10.21511/pmf.07(1).2018.04)

## RELEASED ON

Wednesday, 27 June 2018

## RECEIVED ON

Friday, 18 May 2018

## ACCEPTED ON

Wednesday, 13 June 2018

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## JOURNAL

"Public and Municipal Finance"

## ISSN PRINT

2222-1867

## ISSN ONLINE

2222-1875

## PUBLISHER

LLC "Consulting Publishing Company "Business Perspectives"

## FOUNDER

LLC "Consulting Publishing Company "Business Perspectives"



NUMBER OF REFERENCES

20



NUMBER OF FIGURES

3



NUMBER OF TABLES

4

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## Peculiarities of the Ukrainian housing and utility services enterprises activity in the context of defining their development potential

### Abstract

The aim of the article is to study the peculiarities of housing and utility services enterprises activity as factors of influence on their development potential.

Research methodology. When solving the tasks given in the article, method of hypotheses and statistical research, methods for analyzing socio-economic factors of influence on enterprises' development potential are used.

Results. The authors proved the fairness of the presented scientific hypotheses as for peculiarities of housing and utility services enterprises in Ukraine, specifically, existence of natural monopoly of housing and utility services enterprises; limitations of the enterprise management functions in the sphere of setting up prices and standards for services; necessity to ensure long-term activities and continuity of the production; non-compliance of quality, nomenclature of services, their reliability, economic feasibility of the tariffs, social and environmental labor security with the requirements of European standards for country's development; presence of the significant accounts receivable, which is caused by time lag between the consumers' use of services and resources provided and paying for them; dependence of results of enterprises financial activity on the current political and economic situation in the country.

Practical implications of the research results. Taking into account the proved hypotheses, vector directions of housing and utility services enterprises development potential were shaped in the article.

**Keywords:** development potential, housing and utility services enterprises potential, method of hypotheses, housing and utility services sector development.

**JEL Classification:** D22.

**Received on:** 18<sup>th</sup> of May, 2018.

**Accepted on:** 13<sup>th</sup> of June, 2018.

### Introduction

The development of the national housing and utility services enterprises is a source of ensuring the tasks of socio-economic nature, self-reliance and competitiveness of the national economy in general. The sphere of housing and utility services is important and at the same time very specific, which is explained, on the one hand, by large-scale use of the services and social focus of the activity and on the other hand, critically dangerous state of the majority of housing and utility services enterprises, worn-out state of main means, significant accounts receivable, limitations in regulating prices and tariffs.

### 1. Literature review

Housing and utility services are one of the most necessary benefits for people, which ensures their existence and quality of their life (Dymchenko, 2009). According to the Law of Ukraine "On housing and utility services", housing and utility services are the results of business activities aimed at ensuring the living conditions and/or the people living in residential

or non-residential premises, houses and buildings, complexes of houses and buildings according to norms, standards, procedures and rules, which is performed based on corresponding agreements for housing and utility services (Law of Ukraine, 2017). Ensuring the housing and utility services enterprises activities is important for health and welfare of people, and the enterprises in this sphere play a central role not only in ensuring people's health, but also in contributing to conglomeration of people, prosperity without harm to the state and the environment (Takala Annina, 2017). Housing and utility services enterprises perform the function of territory's sustenance, their activity to a large extent forms the area of human life – comfortable life in the city, township, village. They are the ones which are at the turning point of the problems of evolution of the crisis, on the one hand, and formation of the social protection systems, on the other hand (Brazhnikova, 2010). That's why Apostoliuk noted that the principle of increasing the profitability for housing and utility services enterprises should not be the main result of their activity, as operation of this sector realizes rather social function than economic one (Apostoliuk, 2014).

When studying the housing and utility services sector as socio-economic system, Baldzhy notes its advantages and disadvantages (the former are systemic support of population, complexity in services provision, possibility of attracting the investments; the

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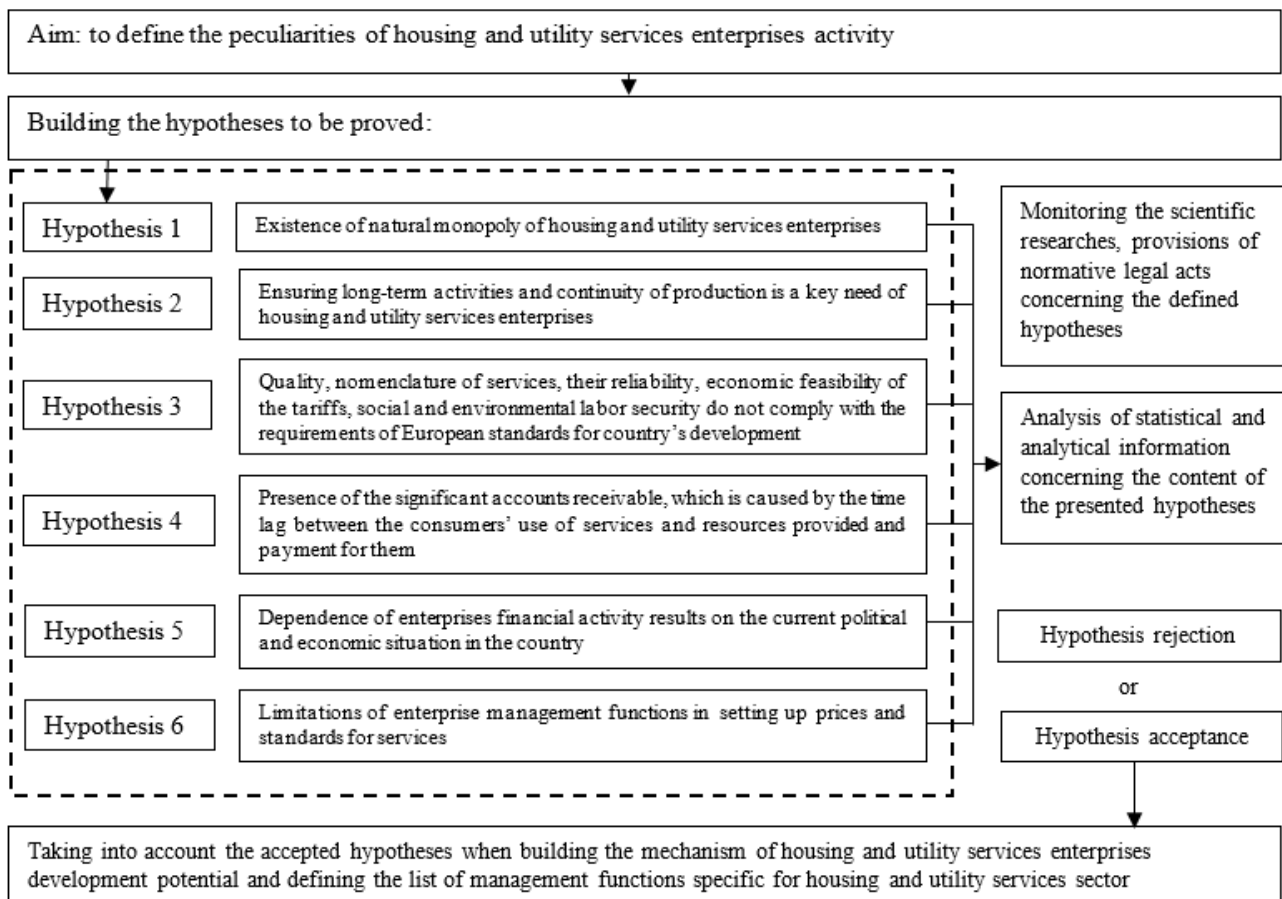
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latter are time dimension, significant capital-output ratio, insufficient legislative framework (Baldzhy, 2017). Poliakova states that the level of this sector development does not fully meet the needs of the population, material and technical base of the enterprises and organizations of the sector requires expansion and improvement (Poliakova, 2012). Lukianov fairly states that the absence of systemic, targeted, effective state and regional policy of this sector formation and chronic lack of financial resources caused deep crisis of housing and utility services enterprises and, as a result, critical state of housing utilities, inability to provide the population with housing and utility services to the necessary extent and of the adequate quality (Lukianov, 2014). Ukrainian (Dymchenko, 2009; Baldzhy, 2017; Lukianov, 2014; Peresada, 2014) and foreign scientists (Palme, 2010; Robinson & Cole, 2015; Takala, 2017) emphasize the problems of formation of the housing and utility services enterprises development strategy and increasing its potential. Herewith, Peresada highlights that ignoring the peculiarities of housing and utility services sector,

specifics of sectoral production does not allow to develop clear strategy of housing and utility services enterprises development (Peresada, 2014). Therefore, the primary preparatory stage is defining the peculiarities of housing and utility services enterprises activity, which will become the basis for developing clear recommendations for increasing the housing and utility services enterprises development potential.

**2. Methods**

To study the peculiarities of housing and utility services enterprises activity, method of hypotheses was used, which lies in the development of scientific hypothesis based on studying different characteristics of the essence of the researched phenomenon via different means of understanding and provides for formulating the hypothesis, building the calculation scheme-algorithm (model), its study, analysis, development of theoretical provisions. The meta-analysis was performed and a series of hypotheses were defined, which need to be proved (Figure 1).



**Figure 1. Algorithm of defining the peculiarities of housing and utility services enterprises activity based on method of hypotheses**

**3. Research findings**

*Hypothesis 1: Existence of natural monopoly of housing and utility services enterprises (due to the state owning the natural resources of Ukraine).*

The peculiarities of housing and utility services market are connected with the nature of services as a commodity, which in their majority belong to the state based on ownership rights. According to the Law of Ukraine “On Natural Monopolies” (Law of Ukraine,

2017), the enterprises occupying a monopolistic position on the market include the energy production and distribution enterprises, central water supply and sewerage enterprises, central heat energy supply and transportation enterprises, natural gas transportation enterprises and, correspondingly, tariffs for their services are established by the state bodies of Ukraine. Besides, the monopolized services include: central water supply, water discharge, gas supply,

electricity supply, heating. At the same time, in the spheres of housing and utility services sector such as maintaining the common property of high-rise residential houses, current repair of multi-unit residential houses common property, waste management can be the object of purchase and sale at the competitive markets (the structure of the housing and utility services market is given in Table 1).

Table 1. Increase in the number of Ukrainian housing and utility services enterprises according to the types of services in the period 2014–2016

Name	2014	2015	2016	Change in number of enterprises	
	Number of enterprises, units	Number of enterprises, units	Number of enterprises, units	in 2015 compared to 2014	in 2016 compared to 2015
Ukraine					
Monopolized services					
Electricity distribution	156	153	135	-3	-18
Sale of electricity	78	92	85	14	-7
Gas production	5	7	7	2	0
Distribution of gaseous fuels through local pipelines	83	75	90	-8	15
Sale of gas through local pipelines	115	151	155	36	4
Supply of steam, hot water and conditioned air	605	711	748	106	37
Water sampling, cleaning and supply	1,561	1,577	1,583	16	6
Competitive services					
Non-hazardous waste collection	791	795	729	4	-66
Rewardred or contract-based property management	684	701	618	17	-83
Complex objects' maintenance	1,409	1,547	1,525	138	-22
Other types of cleaning activity	534	535	484	1	-51
Total in Ukraine	6,021	6,344	6,159	323	-185
Poltava region					
Monopolized services					
Electricity distribution	3	5	5	2	0
Gas production	X	1	2	X	1
Distribution of gaseous fuels through local pipelines	2	2	4	0	2
Sale of gas through local pipelines	7	7	5	0	-2
Supply of steam, hot water and conditioned air	14	18	17	4	-1
Water sampling, cleaning and supply	65	65	77	0	12
Competitive services					
Non-hazardous waste collection	28	29	23	1	-6
Rewardred or contract-based property management	10	11	11	1	0
Complex objects' maintenance	42	40	40	-2	0
Other types of cleaning activity	19	19	19	0	0

Source: Based on the State Statistics Service (2017) data.

Notwithstanding that the equilibrium price of the services at the housing and utility services market is being established, as at other markets, by the proportion of demand and supply for the services, but, as Apostoliuk aptly notes, implementation of market mechanisms is possible not in all the segments of this market, as this market includes the sectors, which belong to natural monopoly (Apostoliuk, 2014).

According to the existing natural monopoly, there are specific rules for housing and utility services enterprises operation, tariffs formation, cross-subsidization and enterprises subsidization. But the

long-term absence of the economic stimuli connected with the natural monopolization of this sphere had negative consequences for the state of Ukrainian housing and utility services sector. As known, competition is the main engine of innovative processes, it forces the enterprises to constantly update and improve in order to have demand at the market. Accordingly, inadequate system of tariffs formation, which lies in covering the part of expenses on services production at the expense of the money of executive power and local self-government bodies, and large amount of privileged categories of consumers and big debt for payment of

the cost of received housing and utility services limits stimulation of competition in the sphere.

*Hypothesis 2: Ensuring long-term activities and continuity of production is a key need of housing and utility services enterprises.*

As services provided by housing and utility enterprises

are vitally important for humans, this creates the need to provide its continuous operation. Taking into account comprehensive nature of providing the services and trends toward increase in the number of consumers (Table 2), the aim of housing and utility services enterprises management is to ensure the conditions for maintaining their life activity.

Table 2. Increase in the number of consumers of housing and utility services in the period 2014–2016

Number of consumers according to the types of services*	2014	2015	2016	Change (+; -)	
				In 2015 compared to 2014	In 2016 compared to 2015
Ukraine					
Gas supply	13,454,416	12,398,953	12,447,074	-1,055,463	48,121
Central heating and hot water supply	7,163,481	6,039,895	5,973,904	-1,123,586	-65,991
Water supply and water discharge	12,258,304	11,103,636	10,971,198	-1,154,668	-132,438
Maintenance of houses and buildings and adjacent territories	8,606,342	7,649,178	8,465,973	-957,164	816,795
Waste disposal	6,314,280	5,249,947	5,445,332	-1,064,333	195,385
Total in Ukraine	47,796,823	42,441,609	43,303,481	-5,355,214	861,872
Poltava region					
Gas supply	604,241	604,241	604,241	0	0
Central heating and hot water supply	214,874	214,874	214,874	0	0
Water supply and water discharge	406,933	406,933	406,933	0	0
Maintenance of houses and buildings and adjacent territories	287,664	287,664	287,664	0	0
Waste disposal	186,187	186,187	186,187	0	0
Total in Poltava region	1,699,899	1,699,899	1,699,899	0	0

Note: \*According to the number of personal accounts.

Source: Based on the State Statistics Service (2017) data.

But the technical conditions of the main means, degree of wear and tear at the majority of enterprises achieved the maximum allowable level and endangered not only long-term perspective of the activity, but also ensuring the continuous production in the short term. So the percent of old and damaged water supply networks in 2016 was extremely high: in Lviv region – 50.1% (of total length of networks), Dnipropetrovsk region – 47.5%, Kirovohrad region – 45.6%, Kharkiv

region – 44.2%, Kherson region – 40.8% and in Kyiv – 42.5%; in other regions, this indicator was less than 40%; in Donetsk and Luhansk regions, it was 72.3% and 53.7%, respectively (Національна доповідь [Natsionalna dopovid], 2016).

Residential fund also has the significant amount of “old” and damaged residential premises (Table 3), which creates additional maintenance burden for housing and utility services enterprises.

Table 3. Indicators of the state of old and damaged residential premises in Ukraine and its regions in 2016

Region	Old residential fund of Ukraine			Damaged residential fund of Ukraine		
	Number of residential houses, units	Total area of residential premises, square meters	Number of persons having the registration of place of residence in residential houses, persons	Number of residential houses, units	Total area of residential premises, square meters	Number of persons having the registration of place of residence in residential houses, persons
Ukraine	45 207	3 303 439	68 689	16 473	1 029 579	18 301
Vinnytsia	4 288	220 894	2 040	1 453	79 044	163
Volyn	981	62 652	938	175	8 498	20
Dnipropetrovsk	1 977	331 581	11 149	861	73 655	1 260
Donestk	3 198	235 514	5 239	1 555	96 634	1 503
Zhytomyr	3 174	226 455	4 317	800	52 700	648
Zakarpattia	391	30 098	872	97	5 510	151
Zaporizhzhia	577	88 085	4 293	370	26 659	467
Ivano-Frankivsk	1 031	50 296	1 054	415	23 899	711
Kyiv	2 774	124 249	2 003	799	42 691	1 188
Kirovohrad	95	15 619	793	4	5 178	61
Luhansk	411	48 964	1 830	136	13 597	218

Table 3. (cont.) Indicators of the state of old and damaged residential premises in Ukraine and its regions in 2016

Region	Old residential fund of Ukraine			Damaged residential fund of Ukraine		
	Number of residential houses, units	Total area of residential premises, square meters	Number of persons having the registration of place of residence in residential houses, persons	Number of residential houses, units	Total area of residential premises, square meters	Number of persons having the registration of place of residence in residential houses, persons
Lviv	1 101	89 090	4 284	494	41 374	1 249
Mykolaiv	473	43 324	1 098	189	17 165	208
Odesa	4 633	355 363	12 198	2 266	174 136	5 282
Poltava	2 756	175 459	3 739	1 180	52 433	119
Rivne	1 703	88 331	1 331	459	19 815	186
Sumy	3 264	148 322	783	775	31 889	134
Temopil	927	42 234	517	748	34 669	209
Kharkiv	3 913	513 711	4 703	762	48 557	1 510
Kherson	888	43 533	775	457	26 148	254
Khmelnyskyi	1 838	92 321	695	475	22 973	102
Cherkasy	3 218	159 716	1 219	1 171	65 797	626
Chernivtsi	194	15 017	827	437	32 338	1 384
Chernihiv	1 208	61 434	870	372	19 954	154
Kyiv (city)	194	41 177	1 122	23	14 266	494

Source: Based on the State Statistics Service (2017) data.

High degree of wear and tear of the main means carries a risk for ensuring entrepreneurial activity and creates a need for renewing the main resources as a necessary condition for continuing the activity.

*Hypothesis 3: Quality, nomenclature of services, their reliability, economic feasibility of the tariffs, social and environmental labor security do not comply with the requirements of European standards for country's development.*

European Charter of Local Self-Government states that the executive bodies and local self-government bodies can establish the tariffs at the level lower than the economically sound provided the recovery of the difference from the budgets of the corresponding levels (Charter, 1985). It is done to ensure the massive use of housing and utility services and ensure the social security of the separate population strata. As Rovenchak notes, economically sound tariffs are the objective level of equilibrium price of demand and supply (Rovenchak, 2013). Kotsiurba defines as minimum possible payment, which is a financial basis for current production of housing and utility services, which comply with the approved quality standards taking into account the necessary expenses for extended reproduction of the main funds (Kotsiurba, 2012). But today the technical conditions of housing and utility services enterprises are poor and cause the need for infusion of money. As Brazhnikova fairly notes, now there are observed decreased reliability, sustainability and safety of engineering pathways operation, the majority of housing and utility services enterprises are in emergency mode (Brazhnikova, 2010). That's why the trend towards increase in tariff

rate is necessary, but runaway growth rates require the facts of validity proof.

The mentioned hypothesis is confirmed by the thoughts of scientists concerning invalidity of tariffs and service quality, non-compliance of "the tariffs with actual cost of housing and utility services, which gives rise to cross-subsidization" (Kotsiurba, 2012); "staffing with the needs of housing and utility services complex when passing to new management conditions"; "quality of services with their cost, not fully provided housing and utility services" (Poliakova, 2012); "imperfect tariff policy (the tariffs do not fully reimburse the expenses for services production)" (Lukianov, 2014).

Apart from problems with production capabilities, the absence of human resources is one more issue to be solved. The problem can be defined in that people of working age do not want to work in the housing and utility services sector because of low wages, absence of motivation and lack of prestige for this work. That's why the number of workers in this area constantly decreases, this leads to incapability of the housing and utility services enterprises to fully serve the needs of consumers.

*Hypothesis 4: Presence of the significant accounts receivable, which is caused by the time lag between the consumers' use of services and resources provided and payment for them.*

As the main specific feature of housing and utility services enterprises is the time lag between providing the service and paying for it, this caused the range of problems, which are reflected in the

financial state of the enterprises. So Haidenko studied the influence of the indicators on the level of population's payment for housing and utility services, as a result of which it was defined that the indicator of the population's debt for housing and utility services has the greatest influence on level of

population's payment for housing and utility services (Haidenko, 2017).

The analysis of the statistical data only confirms the significant amounts of accounts receivable for all types of monopolistic housing and utility services (Table 5).

Table 4. Growth of population's debt for housing and utility services in the period 2014–2016

Regions	Total sum of debt, million UAH			Level of the population's payment from the beginning of the year, %		Group according to the level of payment		
	as of January 1, 2015	as of January 1, 2016	as of January 1, 2017	January 1, 2016	January 1, 2017	Low	Middle	High
Vinnitsia	96.3	84.5	110	118.8	98.1		1	
Volyn	75.1	76.3	43.2	92.1	104			1
Dnipropetrovsk	1 948.4	2 186.5	2 644.6	94.3	85.5	1		
Donetsk	904.8	1 133.4	1 286.8	85.9	85.1	1		
Zhytomyr	137.5	145.9	178.7	114.3	95.1		1	
Zakarpattia	121.2	128.3	123.2	87.1	95.2		1	
Zaporizhzhia	642.9	725.2	868.1	89.5	91.4	1		
Ivano-Frankivsk	108.4	115.4	119.3	81.1	98.6		1	
Kyiv	345.5	369.6	451.2	98.7	94.3		1	
Kirovohrad	122.5	119.9	110.4	113	102.2		1	
Luhansk	268.7	345	403.6	85.2	84.4	1		
Lviv	366.3	269	261.1	95.6	99.7		1	
Mykolaiv	197.6	202	260.9	106.4	92.9	1		
Odesa	563.6	603	831.7	92.5	90.8	1		
Poltava	275.1	283.1	385.8	93.3	91.9	1		
Rivne	144.1	152.1	74.8	111.6	113.6			1
Sumy	207.4	169.3	154.2	85.7	106.3			1
Temopil	61.7	62.7	76.7	68.8	94.7		1	
Kharkiv	1 368.7	1 427.7	1 737.8	92	95.6		1	
Kherson	186.1	218.5	250.4	97.5	94.4		1	
Khmelnyskyi	94.9	81.5	73.4	104.5	99.8		1	
Cherkasy	199.7	212.3	234.5	119	97.6		1	
Chernivtsi	45.4	45.6	77.5	88.4	87.5	1		
Chernihiv	113	88.8	70.1	112.2	104.1			1
Total	10 137.8	10 977.6	13 735.4	X	X	8	12	4

Source: Based on the State Statistics Service (2017) data.

Herewith, grouping the regions of Ukraine according to the level of population's payment for the services showed that the majority of the regions have the middle level (12 regions), but there is a sufficient number of regions with low level of payment (8 regions).

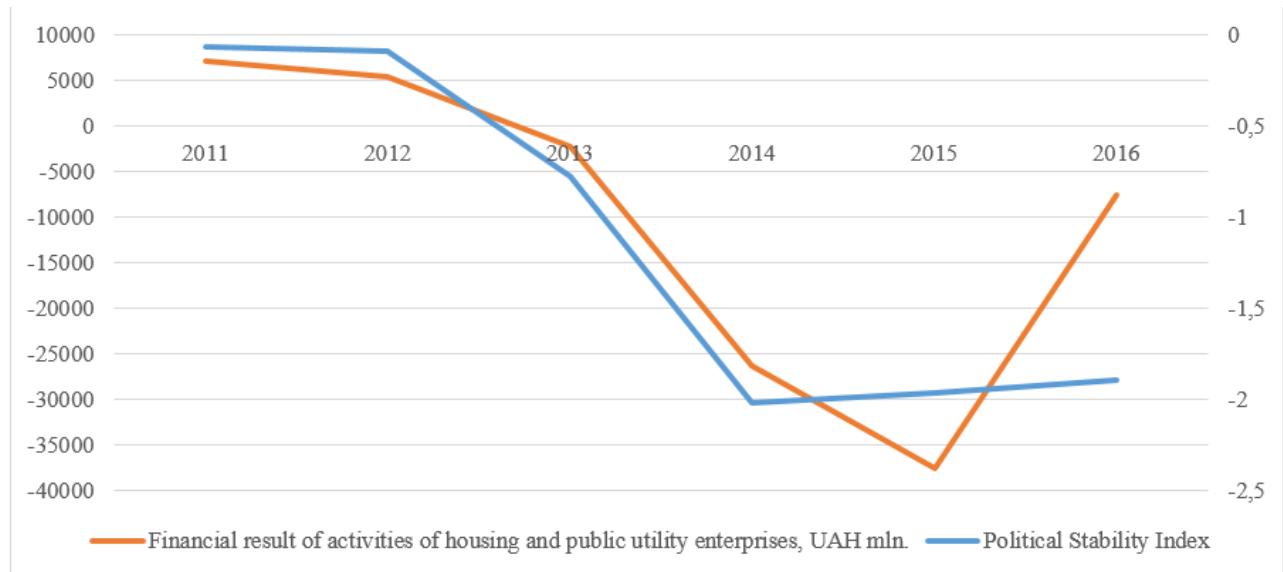
*Hypothesis 5: Dependence of results of enterprises financial activity on the current political and economic situation in the country.*

Political and economic vectors of development, established by government, have direct influence on the financial state of housing and utility services enterprises, in particular, on the important elements such as business activity, investment climate, profitability and competitiveness of the activity. State financial policy for a corresponding year establishes the priorities for support in the areas of

economic activity and defines the measures for stimulating or inhibiting the development of the corresponding areas of economic activity. Besides, the political and economic situational conditions which have evolved in the corresponding period in the state also have the significant influence on the financial state of housing and utility services enterprises. Besides, as Poliakova aptly notes, the financial state of housing and utility services enterprises is affected by a range of factors divided into four groups: political, economic, socio-cultural and technological. Accordingly, the author defined that the political factors having an influence on housing and utility services sector include: imperfect modern legislation, which regulates the activity of this sector of economy; lack of due implementation of the developed industry reforms program; lack of the sole continuous authority able to

implement the directions of industry reforms; lack of financing from the state; repeated changes in the legislative basis as a result of elections at all the levels of government; absence of municipal support of enterprises development (Poliakova, 2012).

The study of the correlation between the index of political stability of Ukraine and final financial result of housing and utility enterprises activity (Figure 1) shows the close interdependence (correlation coefficient is 0.857) and common trends towards changes.

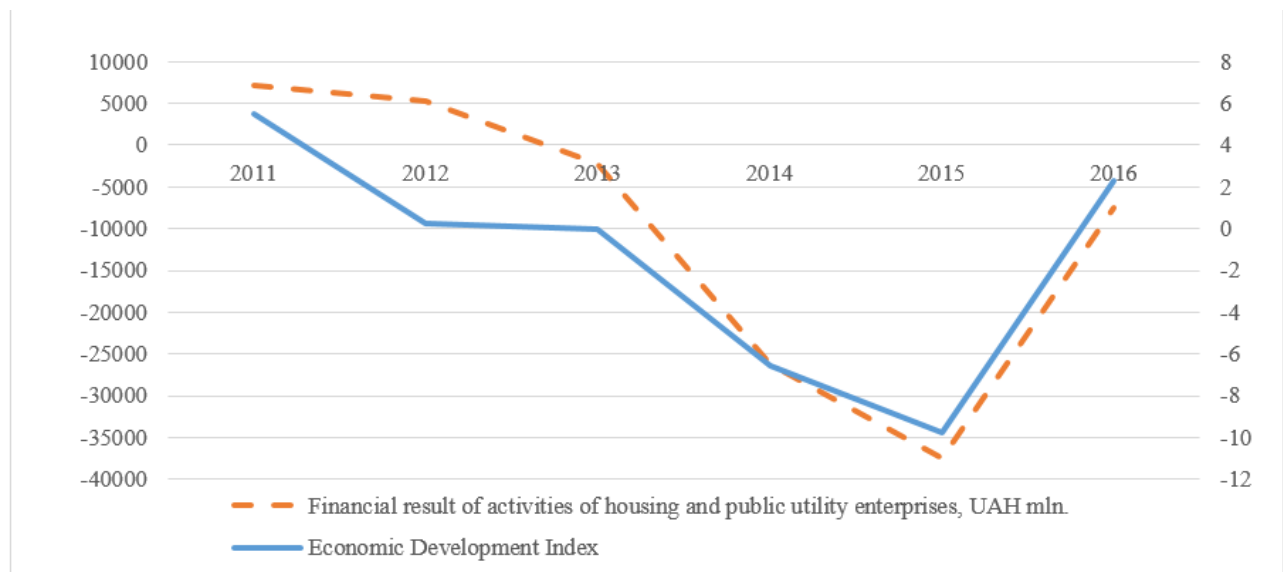


Source: Based on the State Statistics Service (2017) data and The Global Economy (2017).

**Figure 2. Growth of the index of political stability of Ukraine and financial result of housing and utility enterprises activity in the period 2011–2016**

As for the economic situation, the authors define the following factors: constantly increasing level of inflation; unfavorable investment climate in the industry (Poliakova, 2012); low solvency of the population; poor competition (Kotsiurba, 2012); level of population’s income and level of differentiation of the population according to income (Apostoliuk, 2014). The study of the interrelationship between the

results of the activity and economic situation in the country performed based on the analysis of the correlation between the index of economic development of Ukraine and financial results of housing and utility services enterprises activity (Figure 2) showed the close interrelationship (correlation coefficient is 0.9313) and identical vectors of changes.



Source: Based on the State Statistics Service (2017) data and The Global Economy (2017).

**Figure 3. Growth of the index of economic development of Ukraine and financial result of housing and utility enterprises activity in the period 2011–2016**



Flexibility of economic and political environment and its significant influence on housing and utility services enterprises activity, which is confirmed by calculations, leads to the conclusion about the need for increasing the level of situational management of the activity.

*Hypothesis 6: Limitations of enterprise management functions in the sphere of setting up prices and standards for services.*

A defining feature of housing and utility services enterprises activity is state regulation of pricing for separate types of housing and utility services. As Kotsiurba aptly notes, state intervention, along with other factors (sum of expenses (cost of services); competition; solvency of the population) is key in the formation of tariffs of housing and utility services enterprises (Kotsiurba, 2012). Herewith state intervention is based on establishing the norms and tariffs, taxation and targeted financing. According to the Law of Ukraine “On Prices and Pricing”, state regulated prices are established for goods, which have a significant influence on general level and growth of prices, have substantial social significance, and for goods, which are produced by the entities occupying the monopolistic (dominating) position at the market (Law of Ukraine, 2012). Herewith the state tariff policy in establishing prices for housing and utility services is aimed at improving the social conditions of the population at the expense of economic and social feasibility and differentiation according to the quality of life in the different regions.

Taxation as another factor of state regulation of housing and utility services enterprises activity, on the one hand, can be the instrument for stimulating the enterprises by decreasing the expenses when producing the services, and on the other hand, worsens the final financial result of the activity.

Along with this, support from the government and the responsible organization that must manage the housing and utility services sector does not work properly. One should agree that, on the one hand, state as a main regulator of the process of competitive environment formation at the housing and utility services market and subject of anti-monopoly policy covers to the

largest extent the housing and utility services sector with its regulatory activity, herewith actually doing nothing for real reforms of this economy (Kotsiurba, 2012).

Proving the described hypotheses is the basis for defining, along with general functions of enterprises management, a range of functions specific for housing and utility services enterprises, in particular: balancing the conditions for housing and utility services monopolistic markets activity; creating the conditions for continuous activity of housing and utility services enterprises; improving the quality and nomenclature of services, their reliability, economic feasibility of the tariffs, social and environmental labor security; minimizing the accounts receivable; increasing the control of the influence of the factors of economic and political environment on housing and utility services enterprises activity; regulating the prices and norms for housing and utility services.

## Conclusion

Given significant problems in housing and utility services enterprises activity, confirmed by the hypotheses proved above, vector indicators of the development of housing and utility services enterprises potential were defined, which are based on solving these problems. In particular, increasing the level of provision of the population with housing and utility services in the necessary amount, of high quality and for reasonable prices, ensuring the effective tariff policy; creating the conditions for development, renewal and effective operation of all housing and utility services enterprises, enterprises and organizations of different forms of ownership; deepening the demonopolization of housing and utility services sector; ensuring the decent competition and possibility for home owners to choose the service provider on residential houses maintenance and affect the quality of its maintenance; minimizing the use of resources, development of programs of heat, water and energy conservation. Future directions of the study are aimed at using the foreign experience of managing the housing and utility services enterprises potential in the domestic practice.

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