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## CRITERIA FOR THE EXPEDIENCY OF MUNICIPAL-OWNED ENTERPRISES BUDGET SUPPORT

**Introduction.** Municipal-owned enterprises are important providers of vital services to the population, companies and institutions, including those that ensure the implementation of key social functions of the state inside communities.

**Problem.** There is a contradiction in the theoretical and the practical terms regarding the justification of the municipal-owned enterprises feasibility of financial support with budget funds.

**The aim** of the article is the budget financing process of municipal-owned enterprises that provide socially significant services, and justification of the effective forms of financing for socially significant municipal-owned enterprises.

**Methods.** Systematic approach (with the calculation and analytical method with tabular and graphical presentation of data), methods of comparative analysis and synthesis and generalization were applied in the paper.

**Results.** The role of municipal-owned enterprises in the system of providing services of a social direction was studied. The dynamics of budgetary financing of social expenditures in Ukraine as a whole and the dynamics of budgetary financing of Kyiv municipal-owned enterprises that provide social services were analyzed. Disproportions in the distribution of budget funding of municipal-owned enterprises performing a social function were established.

**Conclusions.** The author demonstrated the uneven distribution of financing forms on the example of the analysis of various forms of budget financing of Kyiv municipal-owned enterprises that provide socially significant services.

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## КРИТЕРІЇ ДОЦІЛЬНОСТІ БЮДЖЕТНОЇ ПІДТРИМКИ КОМУНАЛЬНИХ ПІДПРИЄМСТВ

**Вступ.** Комунальні підприємства (КП) є важливими постачальниками життєво необхідних послуг населенню, компаніям та установам, забезпечуючи виконання ключових соціальних функцій держави всередині громад.

**Проблема.** У теоретичному та практичному плані виникають протиріччя щодо обґрунтування доцільності фінансової підтримки підприємств комунальної власності за рахунок бюджетних коштів.

**Метою** статті є встановлення особливостей бюджетного фінансування комунальних підприємств, що надають соціально важливі послуги, та обґрунтування ефективних форм фінансування соціально значущих комунальних підприємств.

**Методи.** Використано системний підхід із застосуванням розрахунково-аналітичного методу з табличним та графічним представленням даних, методи порівняльного аналізу та синтезу, узагальнення.

**Результати дослідження.** Досліджено роль КП у системі надання послуг соціального спрямування. Проаналізовано динаміку бюджетного фінансування соціальних видатків в Україні загалом та динаміку бюджетного фінансування підприємств комунальної форми власності м. Києва, що надають соціально значущі послуги. Встановлено диспропорції у розподілі бюджетного фінансування КП, які виконують соціальну функцію.

**Висновки.** На прикладі аналізу різних форм бюджетного фінансування комунальних підприємств м. Києва, що надавали соціально значущі послуги, продемонстровано нерівномірність їх розподілу. Також встановлено,



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*She also found out that the financing of socially significant municipal-owned enterprises was not a priority in the capital compared to the sphere of construction, repair and maintenance of roads. Optimizing the number of municipal companies can be one of the ways to solve the problem. Another way to solve the problem is to develop scientifically based financial and non-financial criteria for decision-making on financing and means of control over the funds distribution.*

*Keywords:* municipal enterprise, municipal finance, social function, budget financing.

**JEL Classification:** G32; H72; L97.

*що фінансування соціально значущих КП не є пріоритетним у столиці порівняно зі сферою будівництва, ремонту та утримання доріг. Одним із шляхів вирішення проблеми може стати оптимізація кількості КП. Іншим шляхом може бути розроблення науково обґрунтованих фінансових і нефінансових критеріїв для прийняття рішень щодо фінансування та засобів контролю за розподілом коштів.*

*Ключові слова:* комунальне підприємство, місцеві фінанси, соціальна функція, бюджетне фінансування.

**Introduction.** One of the crucial tasks of local public finance is to ensure living standards for community residents and to provide financial support for critical needs, primarily of a social nature. As is known, even in the time of the Ancient World, the local finance social component had its origins in the scientific concept of the welfare state, its theoretical justification was initiated and received its development in the works of representatives of the classics, neoclassicists, socialists and Keynesians. Therefore, it is developing nowadays. For many centuries scientists, philosophers, and economists justified the expediency of government institutions to take responsibility for financing the urgent needs of specific segments of the population and/or particular social groups. These views can be found in antiquity: Plato described the ideal society where the state took care of all the citizens' needs. Christian scientists also had slightly socialist considerations based on religious ethics. Similar views on the common good were expressed by modern utopian philosophers (Thomas More, Tommaso Campanella). Moreover, at the end of the Age of Enlightenment, after the Great French Revolution, the newest doctrine of socialism was systematically formed in the works of Fourier, Saint-Simon, and Owen.

In general, the development of the welfare state financial component concept was manifested in various models of the financial relations organization in society according to the level of GDP state's centralization [1]. Thus, the Continental and Scandinavian models provide for a relatively high share of the state presence both in the distribution of GDP and, accordingly, in the financing of social expenditures at the expense of budget funds (up to 70%). In comparison, the Anglo-American model is characterized by a minimal share of the state's presence in GDP. The results of the Ukrainian budgetary legislation evolution analysis regarding the local budgets' expenditures composition regulation indicate a tendency towards the Western European model of local expenditures without appropriate financial support from own and fixed revenues prior to the decentralization reform. The situation began to change only after the introduction of budget decentralization which caused an increase in the local budgets revenue base. At present, the total share of

tax revenues, together with the inflows of the Unified Social Tax in Ukraine, is about 39% of the GDP, which is slightly higher than the average European level of 34.3% [2; 3].

**Problem.** Municipal-owned enterprises (MOEs) are essential providers of vital services to the population and companies with institutions, including those that provide an on-site performance of vital social functions of the state. In addition, certain areas of commercial utilities independently implement a social function through the provision of such services as water and heat supply, garbage removal and disposal, school nutrition, extracurricular education services, medical and pharmacy services. The organizational and legal form of MOEs (which do not have signs of non-commercialism), provides for their operation on a market basis. At the same time, the social importance of such enterprises for the community make them applicants for funding from the local budget on a par with budgetary institutions and organizations. Therefore, there is a contradiction about justification of the feasibility of financial support for municipal-owned enterprises with budget funds in the theoretical and practical spheres.

**Analysis of recent research and publications.** The problematic issues of MOEs' financial support are covered in the scientific papers of Ukrainian scientists. They emphasized the significant underfunding of this economic sector for the period up to 2016. After the decentralization reform, the financing of MOEs was significantly improved, primarily in some communities. Scientists paid attention to the financial relations optimization between socially significant MOEs and local authorities. These questions have been studied by such scientists as V. Lukianov, O. Petruk, O. Kotsiurba, E. Balatskyi, V. Lavryk, D. Zahirniak, O. Zhulina, O. Andrenko [4–11] and others. However, the analytical and applied aspects of capital formation of the municipal-owned enterprises and performers of social functions are not properly described in the professional literature.

**The aim** of the article is to establish the peculiarities of the budget financing process of municipal-owned enterprises that provide socially essential services and to substantiate effective forms of socially significant municipal-owned enterprises funding.

**Methods.** Calculation and analytical method with a tabular and graphical presentation of data were used to systematize the social expenditures of the budget and assess Kyiv's MOEs financing; comparative analysis and synthesis were applied to examine the peculiarities of the municipal-owned enterprises financing. Generalization method was used to draw the conclusions based on the research results.

**Results.** The social orientation of local Ukrainian budgets remains high, which is legally enshrined in the Articles 89–91 of the Budget Code of Ukraine [12]. These articles provide for the social needs provision of the community through appropriate expenditures of local social budgets. They include expenditures according to the following functional classification:

social protection and social security; education; spiritual and physical development; health care; housing and communal services. *Social expenditures* (SE) are essential for ensuring the proper standard of community living and meeting social needs. They belong to current consumption expenditures. On the one hand, the growth of the share of SE in the community budget indicates the so-called "eating away" resources that could be directed to economic development; on the other hand, effectively distributed SE creates a comfortable and attractive environment for life in the community, which may encourage the relocation of new residents, the opening of new businesses, etc. and growth of local budget revenues. Therefore, the issue of optimizing SE in the system of local finances in general and expenditures on the communal sector in particular deserve special attention due to the high level of decentralization in Ukraine compared to European countries.

The dynamics of the SE structure in the total expenditures of the Ukrainian local budgets until 2017 were studied in the paper [13]. The dynamics of the SE structure in the following years is shown in the *Table 1*.

*Table 1*

**Social expenditures in total inflows of local budgets of Ukraine, %**

Indicator	2018	2019	2020	2021	January- November 2022
Share of SE in the total expenditures of local budgets	79.46	77.0	68.66	69.25	74.75
Including expenditures on housing and communal services	5.27	6.07	6.72	9.96	8.01
The share of expenditures on housing and communal services in the SE	6.63	7.88	9.79	14.38	10.72

*Source:* compiled by the author according to the data [14].

Thus, from 2012 to 2018, the average share of SE in local budgets was 88.2% [13, p. 222–223], which indicated the priority of social direction of local budget expenditures. From 2018 to 2022, the share of the SE in the budget significantly decreased; instead the share of expenditures on housing and social housing and economic activity increased (the increase in the social component in 2022 was due to martial law). As part of expenditures on economic activity, there is a gradual increase in expenditures on municipal services other than housing and communal services, particularly local transport. That is, an increase in the share of communal services financing in local budgets' expenditures characterizes the analyzed period.

At the same time, the multi-year underfunding of MOEs, along with their irrational use of the equity and borrowed capital, prompted local authorities to increase the amount of budget financing. The unsatisfied need for MOE capital was emphasized by practically all Ukrainian scientists researching the issue of MOEs financing.

In addition, Ukrainian scientists mostly adhered to the position of the need to preserve the budget financing of municipal companies at the same time as developing other forms of financing, taking into account the social

importance of municipal companies for the community and the social functions inherent in specific categories of municipal-owned enterprises. These studies proved the ineffectiveness of budget funding and raised the question of its feasibility, appeared after the decentralization reform when the number of funds to cover the MOEs equity needs increased. And the state subsidies mechanism for utility services payment for underprivileged sections of the population was implemented, which made it possible to partially solve the problem of receivables for tariff MOEs.

The question of the MOEs' budgetary financing expediency arose in connection with the publication of empirical evidence of their activities ineffectiveness, as well as numerous reports about the facts of financial abuse and corruption. Thus, according to the State Audit Service of Ukraine, from January to October, 2019, non-targeted expenses and shortages of communal resources amounted to more than UAH 414.2 million, which was 36.8% of the total amount of resources that were used in violation of legal acts. In addition, the loss of revenues from local budgets amounted to more than UAH 210.7 million, almost UAH 60 million of which were funds for municipal-owned enterprises, institutions, and organizations. The most significant violations in the use of municipal resources at enterprises, institutions, and organizations were recorded in Kyiv and the region (UAH 46.8 million), Mykolayiv region (over UAH 43 million), Zaporizhia region (over UAH 33 million), Dnipropetrovsk region (over UAH 28.8 million), Chernihiv (almost UAH 28.6 million) and Cherkasy (almost UAH 25.4 million) regions, where the number of local budget funds and municipal property losses from January to October, 2019 totaled about UAH 177 million [15].

European analytical documents also emphasize the need for the justification of MOE financing, in particular, OECD reports on state-owned and municipal-owned enterprises [16], as well as foreign scientists [17; 18]. At the same time, researchers see the expediency of MOE functioning in the social significance (importance and necessity of MOE for society) and/or social functions performed by such enterprises. Those functions are mostly of no interest to private business.

Thus, the general opinion of scientists and government officials regarding the need for budgetary financing of MOEs, along with the urgency of developing alternative forms and methods of their financing, draw attention to the issue of substantiating the decision-making criteria regarding the formation and replenishment of MOE capital. *The key criteria* for decision-making regarding the policy of MOEs' capital formation and replenishment from the local budget should be the social importance of such enterprises at the local level and the social function they perform for the community.

At the same time, we understand the critical importance and need for a specific MOE for all the community residents, as well as for enterprises, institutions, and organizations located in this community (the *social significance* of MOE), and the activity aimed at solving social problems of the community to ensure acceptable social standards of living the *social function*).

## FINANCE

The expediency and necessity of MOE financing in both forms, such as capital replenishment and income, but excluding the form of covering losses, is determined by one or both criteria. According to the specified criteria, we recommended classifying MOEs according to the primary type of activity. We developed a MOE financing matrix that can be applied by local authorities when determining priority candidates for budget funding among MOEs [19]. Firstly, allocation of budget funds to those municipal-owned enterprises that do not perform social functions distorts competition; secondly, it can potentially deprive more important funding recipients of budgetary support.

We will demonstrate visually the level of MOEs funding that perform social functions, on the example of Kyiv, where 128 MOEs operate. These MOEs do not have non-commercial status; therefore, they work to make a profit. *Table 2* shows data on the MOEs' invested capital (statutory and additional) growth from 2017 to 2020, which is usually replenished by the expense of budget allocations. Also, *Table 2* demonstrates data on budget participation in financing MOE's capital investments.

*Table 2*

### Financing of Kyiv municipal-owned enterprises, which perform a social function, UAH million

MOE group	Increase/decrease in invested capital in 2017–2020	Budget funding of capital investments			Budget participation in revenues		
		2018	2019	2020	2018	2019	2020
Kyivteploenergo	0.543	28.90	354.63	472.18	0	0	0
Kyivcomunservice	3.07	45.01	23.71	1.64	0	0	0
Kyivpastrans	5.64	1174.93	842.76	1162.83	572.09	925.42	1079.13
Kyiv Metropolitan	1612.05	351.87	225.15	247.16	0	780.76	364.61
Sportcomplex "Start"	90.30	0	0	0	0	1.07	0
"SportComlex"	-40.85	12.40	10.72	34.37	0	10.09	9.26
Kyivvodfond	322.20	25.55	41.62	32.41	0	33.48	42.56
MOEs in the field of school meals (data aggregated for 9 MOEs)*	3.054	0	0	0	0	0	0
Darnytskyi Medical Center	0.09	0	0	0	0	0	0
Pharmacia **	61.05	0	0	0	0	0	0
Kyiv City Hospital of Veterinary Medicine	-5.774	1.85	26.38	1.91	0	23.26	25.20
Crematorium	-0.076	31	1.70	10.90	0	0	5.42
Spetscombinat	0.213	10.10	17.05	29.78	0	42.40	68.14
<i>Total</i>	2051.50	1650.64	1543.73	1993.18	572.09	1816.48	1594.31

\*MOEs that provide services in the field of school nutrition have a budgetary share in the structure of revenues, since the city finances school lunches for junior classes pupils, but do not reflect these revenues separately in the report on the financial plan implementation.

\*\* MOE "Pharmacy" sells part of the goods to healthcare institutions financed from the budget, therefore indirectly it also has a budget share in revenues.

Source: compiled by the author according to the data [20].

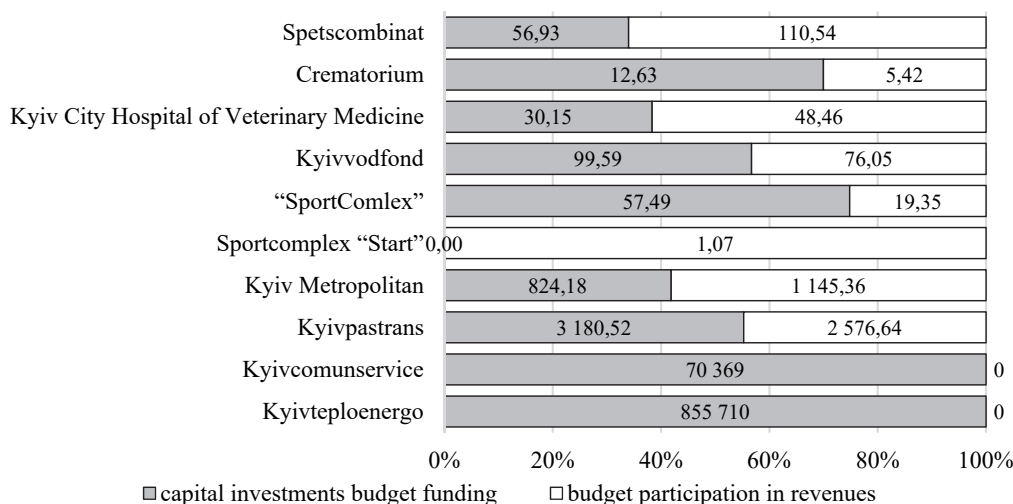
Since the city budget, can indirectly capitalize MOEs through direct participation in revenues, ordering services from them, in addition to capital funding, or indirectly through creating conditions for the provision of MOE services to budget institutions, it is advisable to present data on Kyiv's budget funds participation in MOEs revenues.

Table 2 shows that budgetary participation in ensuring the activities of socially significant MOEs in Kyiv is present but distributed unevenly. The largest recipients are public transport MOEs. The healthcare sphere is financed from the budget only for non-commercial enterprises and budgetary institutions. MOEs that provide pharmacy and school food services indirectly receive budget funds and do not report on them. A significant increase in budget participation of socially substantial MOEs revenues has been observed since 2019, which may be caused by changes in the financing policy after the change of authority.

Thus, tariff enterprises providing heat supply and waste removal and disposal services receive budget funding for capital investments. Considering the fact that the revenues of these MOEs are formed under the influence of the local authorities through the establishment of tariffs, the tariff policy for both enterprises can be called successful: MOE "Kyivcomunservice" is the most profitable Kyiv's MOE, and MOE "Kyivteploenergo," which has been returned to the municipal property in 2016, after four years from a state of the absolute crisis reached solvency.

The largest recipients of funds from Kyiv's budget were passenger transport enterprises. Despite the presence of budget funding both in income (about 50%) and in the capital replenishment, it is insufficient, due to which enterprises receive losses. The quarantine period and the subsequent introduction of martial law led to a significant deterioration in the financial condition of these largest MOEs in Kyiv.

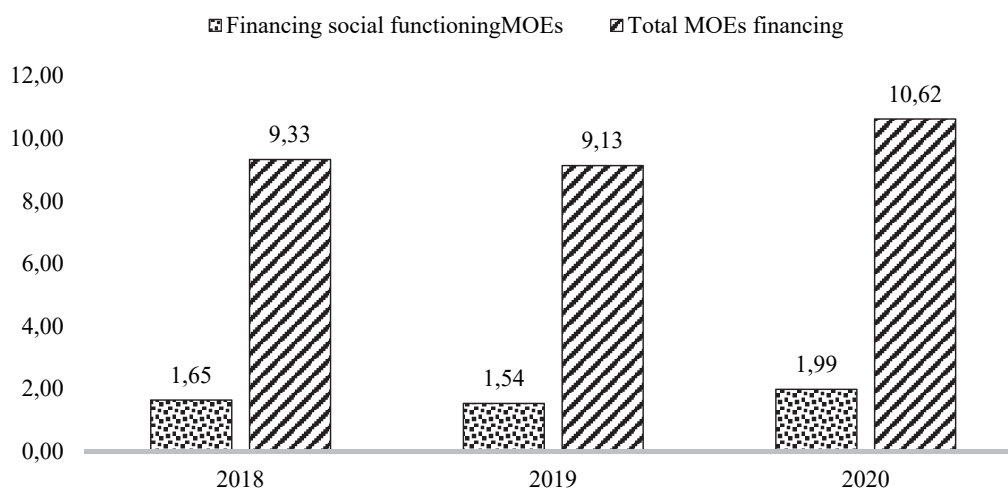
Enterprises in the maintenance of recreation areas and the funeral services sector have relatively equal financing and participation in revenues. In sports, the priority in financing is given to MOE "SportComplex," while MOE "Sportcomplex "Start," having budget funding in the plans, did not receive it in fact (Figure 1).



**Figure 1. Budgetary participation structure of Kyiv's socially important MOEs from 2018 to 2020, UAH million**

Source: developed by the author according to the data [20].

The assessment of the priority level of social functions financing in the general budgetary funding of Kyiv’s commercial MOEs in the part of capital investments is presented in *Figure 2*.



**Figure 2. Dynamics of Kyiv’s MOEs capital investments budget funding, UAH billion**

*Source:* developed by the author according to the data [20].

The share of capital investments budget funding in socially significant MOEs of Kyiv is 17–18%. In total, 65–69 commercial MOEs are financed annually (about a half of them). At the same time, construction enterprises and structural divisions of the municipal corporation "Kyivavtodor" were the priority recipients of Kyiv’s budget funding from 2018 to 2020. These recipients received annually about 60–62% of the total amount of budget funding for Kyiv’s capital investments.

The total amount of budget funding of capital investments in MOE is 16–18% of Kyiv city budget expenditures. Annually, about 75 MOEs received full or partial income at the expense of the city budget; in general, about 20% of the city budget is directly or indirectly distributed through commercial MOEs of the city [21]. We consider this structure of the city budget distribution as inefficient since the reason for the stay of a commercial enterprise in municipal ownership in countries with a market economy should be precisely the provision of those important services that have a social component and are mostly not of interest to the private sector.

Performance of the donor functions for the budget can be a good reason for the MOE municipal ownership. That is a strategic goal for two MOE "Kyiv-reklama" and "Transparkservice" in Kyiv, which were created to supplement the revenues to the city budget. The remaining MOEs were exempted from paying dividends to the city budget from 2017 to 2020. Accordingly, they performed the function of a budget donor only partially.

The issue of optimizing the number of MOEs under the financing of the primary social component has been solved in some Ukrainian regional centers, in particular, there are 15 MOEs in Sumy and Lutsk and 14 MOEs



in Zhytomyr, which provide services only for socially important spheres of community life. The rest of the regional centers, cities, and other communities are in the process of optimizing the number of communal enterprises.

**Conclusions.** The need for state budget funding of social services and enterprises and organizations performing social functions was formed evolutionarily based on the socialist orientation theories evolution. The problem of providing budget support to business entities in a market economy remains relevant throughout the entire period of Ukraine's independence, both at the state and local levels. This problem becomes especially urgent during the period of martial law when funding priorities change, and there is an objective lack of budgetary resources.

Financing the primary social needs of Ukrainian communities traditionally relies on budgets, as evidenced by the structure of their expenditures at the local level. The expediency of life support functions and additional social needs financing remains debatable. On the example of the various forms of Kyiv MOEs budget financing analysis, which provided socially significant services, the unevenness of the financing forms distribution was proven. We found out that financing socially significant MOEs is not a priority in Kyiv compared to construction, repair, and road maintenance. Even though about 18% of city budget expenditures go through the municipal-owned enterprises of the capital, the total financing of socially significant MOE is about 17% of all MOEs capital investments financing.

Since losses were observed during the analyzed period in the largest MEs of critical infrastructure, despite the availability of budget funding, it is possible to ascertain the inefficiency of priorities in the distribution of budget funding of MOEs in Kyiv. One of the ways to solve this problem can be optimization the number of municipal-owned enterprises, as it has been done in some regional centers. Our further research will be aimed at developing scienti-fically based financial and non-financial criteria for decision-making on financing and means of control over the funds' distribution.

**Conflict of interest.** The author certifies that she has no financial or non-financial interest in the subject matter or materials discussed in this manuscript; the author has no association with state bodies, any organizations or commercial entities having a financial interest in or financial conflict with the subject matter or research presented in the manuscript. The author is working for the institution that publishes this journal, which may cause potential conflict or suspicion of bias and therefore the final decision to publish this article (including the reviewers and editors) is made by the members of the Editorial Board who are not the employees of this institution.

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