

THE LEVEL OF OPERATING EXPENSES IN PUBLIC ENTERPRISES IN KOSOVO

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ABSTRACT

One of the main goals for the existence of public enterprises in Kosovo is to provide public services to citizens. Although a progress has been made in providing the public services compared to previous years, the level of public services is still at a low level. How long these services will be provided and what kind of quality it will be provided it depends on many financial and non-financial factors. The most difficult challenge managements are facing nowadays is to find the optimal level of expenditure in order to provide qualitative services to the costumers, as long as it does not create financial difficulties to the enterprise's budget. Many authors agree that the level of operating expenses determines the level of quality of services provided by public enterprises. Therefore, the purpose of this paper is to analyze the structure of operating costs, the share in the total costs and the influence on public enterprises financial flows, all of them based on the data from the financial statements and management reports. Also political governance at central and local level is interested to improve the level of public services through especially the political support because they want the citizens to be satisfied with the public services provided. Furthermore, they are interested in reducing expenses and making public enterprises independent so they won't require other sources in form of subsidies or in any other form. Whether there will be provided qualitative public services by public enterprises for its consummatoms remain the main goal and a challenge first of all for stakeholders.

Key words: public enterprises, operating expenses, financial statements, Board of Directors, manageme

INTRODUCTION

For every revenues system it is important and necessary to have some costs. To what extent the revenues generated justifies costs is a matter of debate for economists and representatives of business and it depends on many factors. So an acceptable level of expenses indirectly determines gross profit, rate of return or whether it has more revenues than expenses. Reducing the level of operating expenses nowadays is considered a challenge for each management. In some cases it may be considered as a goal which ensures optimum functioning in regular exercise activity. The business plans public enterprises prepare for the next year, they compile the planning based on the level of spending or type of expenditure, expenditure items and places, depending for which managerial level expenditure information are needed. With this plan, public enterprises and Board of Directors as decision making body, expresses the objectives which public enterprise should achieve for a period of one year, which inevitably also require a certain level of expenses. Therefore, the importance lies in operating expenses in determining the impact of the indicators dependent on level of expenses. Each management tries to find ways to reduce their expenses level. But looking at how much it is reached practically shows that we have almost no reduction. Depending on the activity performed production or services treatments are different. In business they are treated as expenses that occur during daily sales, administration, research and development, where are in production activities they are treated such as production costs, price costs. They may include:

- Wage costs,
- Expenses for licenses, fees for the regulator,
- Accounting expenses,
- Maintenance and Repair,
- Publication costs,
- Office expenses,
- Expenses for supplies,
- Tax-expenditure,
- Expenses for services like telephone, heating, water, internet, garbage removal, parking
- Taxes on property taxes,

-Vehicle expenses and travel, etc.

In cases when they are presented in the financial statements they usually are grouped in the production costs, selling expenses, administrative expenses or general expenses.

THE LEVEL OF OPERATING EXPENSES

It is known that the purpose of the organization of public enterprises is to provide public services to the citizen. However, they have no intention for profit as economic categories presented as the difference between revenues and expenditures by level of operating expenses, mainly depended also on meeting the needs of the public. Therefore it is not our intention to seek business results in terms of realizing it in positive or negative way. The purpose of our paper is to examine the level of operating expenses of public enterprises respectively are enterprises able to cover operating costs from revenues generated. How much is it enough to perform their activity or in some cases there is a need for additional resources? In this case we take operating costs by excluding depreciation asset expense, which due to the high value of the assets are quite high. Although there is no monetary impact, high depreciation on some public enterprises it turns operating profit before depreciation in operating loss after depreciation. So we researched separately the situations when there are presented only operating costs which are generated during the activity of enterprises. We also analyzed other operating expenses which in some public enterprises participate with a fairly high percentage.

CHARACTERISTICS

In order to ensure that the information presented is accurate we have relied mainly on reports of financial statements audited by an independent external auditor. Thus, these data were obtained from official reports that after received by public enterprise, Policy and Monitoring Unit of Public Enterprises has published them on the website of the Ministry for Economic Development of the Republic of Kosovo. In our case we have included some public enterprises from central and regional level but we have not including local enterprises because we believe that the level of representation is better displayed by the big enterprises. We have also researched and analyzed public enterprises based on activities - mail-telecom, supply and distribution of energy, hydro (power generation, water supply and irrigation on raw agricultural areas), regional water

supply, waste collection and disposal and irrigation. So we're relying on the method of analysis by pooling data from financial statements for the year 2011 as the reporting year, whereas year 2010 as comparative year, and then comparing the data with the previous year but also comparing them with other data from other public enterprises. Because the data for 2012 are not yet published officially, we have decided to use the data mentioned above because with these data we believe we can analyze some of the most important categories for our paper. By collecting and comparing data we have analyzed the structure of the operating expenses of public enterprises, in this way identifying the operating costs which have greater participation in total costs. In this way we have found that the category that has in higher participation in operating costs is wages costs or staff salaries. In comparison that we did with last year we have found that expecting one public enterprise (KRUjitjes " Radoniq - Dukadjini "), all other public enterprises have increased salaries compared to last year . If we compare the incomes of 2011 with 2010 there can be seen that the total amount of revenues in thirteen public enterprises have increased by 6.02 %. In addition including here the comparison in wage salaries we can see that they have increased compared to the previous year by 6.89 % which shows that wages increased 0.87 % more than revenues. It is important to stress out that for this particular comparison no data were obtained for the two companies that have transformed their property organization: Pristina International Airport (PIA), which is partly given concession, and Trainkos a public enterprise divided in two enterprises the Railway - Railways Infrastructure Kosovo (Infrakos) and Trains Operation in Kosovo Railways (Trainkos).

EXPENSES FOR SALARIES

The share of wages in certain operating expenses of public enterprises is at high level. This happening because some public enterprises do not have other expenses where as they have the most spending on wages as they have large capacities and assets where it is required the maintenance of the system. Therefore, the participation of other operating expenses except salaries is low, whereas in some other public enterprises (PTK, KEK, KOSST) even other operating expenses have higher turnout than wages. (Fig.nr.1 and Fig.nr .2)

PARTICIPATION OF OTHER OPERATING EXPENSES

Some public enterprises have an emphasized participation of other expenses. Such as the Energy Corporation, KEK, in the operating costs we have power spending which is supplied bought due to the lack of domestic energy. From the value of 44,782,000 € in 2010 to 58,326,000 € in 2011 which is estimated to be as same as the spending for wages. At this public enterprise they also have a very high expenses on other operating expenses and accounts receivable as a result of non-collection (22,085,000 in 2010 and 18,358,000 in 2011), and other necessary materials supply costs (17,336,000 in 2010 and 14,322,000 in 2011). The public enterprise has a high level of grants received for importing electricity in the absence of local energy, in 2010 € they received 39,021,000 whereas in 2011 they received €27,350,000.

PTK also have operating expenses as their activity have not changed much from the previous year (year 2010 were 26,047,000 and 26,767,000 in 2011). Along with wages, other operating expenses make up general operating expenses charge but wage costs are highest.

In the case KOSTT, which performs transmission power, total operating expenses include costs other than staff and depreciation, like costs of energy loss in transmission which makes up 32.42%, of operational costs, followed by fairly high level of provision for accounts receivable 21.65%.

DEPRECIATION

It is a characteristic of public enterprises to have high amount of depreciation which in some cases exceed 50% of the revenue generated. These public enterprises have valuable assets which in their preparations for incorporation are reviewed by external evaluators hired by former NEA. Also the depreciation rates used by these appraisers are lower than current rates set by the tax laws. However, this level of depreciation is lower than it would be if the depreciation rates applied. For example public enterprise Iber Lepenci depreciation has exceeded incomes of the year. In public enterprises the KLMC is in very high levels 90.50% of revenues in 2010 and 86.06% of revenues in 2011 or in the case of the KRU Mitrovica depreciation was 54.83% of revenues in 2010 and 48.72% of revenues in 2011. (Fig. 3)

CONCLUSIONS

Based on the analysis of operating expenses in public enterprises in Kosovo we can conclude that the level of operating expenses in the water sector, water supply, irrigation and waste is high compared to the revenues. Boards of directors and management of public enterprises should increase revenues or to take measures to reduce costs. They must choose which of the options is easier for public enterprises or perhaps should consider both options together. Also we can conclude that staff salary costs have increased more than the income instead that should have been the opposite. Associated with high depreciation we can conclude that the former managers selected saving the value of assets before accelerating the depreciation. This accelerated depreciation should be a priority for shareholder's policies valuation of the assets. Some public enterprises should increase revenue collection requirements in order not to be charged for the costs of operating expenses for provisions of these requirements.

Fig.1

Description	2011	2010	Public Enterprises
Staf Cost	48,580,000	47,271,000	PTK
Staf Cost	56,612,000	51,434,000	KEK
Staf Cost	2,945,000	2,736,000	KOSTT
Staf Cost	2,512,590	2,462,113	"Ibër Lepenci"
Staf Cost	316,324	267,335	KMDK
Staf Cost	3,636,091	3,085,368	KRU "Prishtina"
Staf Cost	1,291,000	1,096,000	KRU "Hidroregjioni"
Staf Cost	715,000	612,000	KRU "Hidromorava"
Staf Cost	926,008	908,575	KRU "Hidrodrini"
Staf Cost	1,030,000	987,000	KRU "Mitrovica"
Staf Cost	1,366,263	1,316,568	KRU "Radoniqi"
Staf Cost	281,000	286,000	KRUjitjes "Radoniqi-Dukagjini"
Staf Cost	148,000	139,000	KRUjitjes "Drini i Bardhë)
	120,359,276	112,600,959	106.89

Fig.nr.2

	2011	2010	%	
Operative Expenses	88,738,000	91,700,000	96.77	PTK
Salaries	48,580,000	47,271,000	102.77	PTK
	54.75	51.55		
Operative Expenses	203,268,000	195,702,000	103.87	KEK
Salaries	56,612,000	51,434,000	110.07	KEK
	27.85	26.28		
Operative Expenses	11,040,000	13,718,000	80.48	KOSTT
Salaries	2,945,000	2,736,000	107.64	KOSTT
	26.68	19.94		
Operative Expenses	3,233,636	3,182,228	101.62	"Ibër Lepenci"
Salaries	2,512,590	2,462,113	102.05	"Ibër Lepenci"
	77.70	77.37		
Operative Expenses	9,304,512	9,704,389	95.88	KRU "Prishtina"
Salaries	3,636,091	3,085,368	117.85	KRU "Prishtina"
	39.08	31.79		
Operative Expenses	3,054,000	2,506,000	121.87	KRU "Hidroregjioni"
Salaries	1,291,000	1,096,000	117.79	KRU "Hidroregjioni"
	42.27	43.74		
Operative Expenses	1,394,000	1,421,000	98.10	KRU "Hidromorava"
Salaries	715,000	612,000	116.83	KRU "Hidromorava"
	51.29	43.07		
Operative Expenses	2,078,011	2,138,016	97.19	KRU "Hidrodrini"
Salaries	926,008	908,575	101.92	KRU "Hidrodrini"
	44.56	42.50		
Operative Expenses	1,874,000	1,849,000	101.35	KRU "Mitrovica"
Salaries	1,030,000	987,000	104.36	KRU "Mitrovica"
	54.96	53.38		
Operative Expenses	1,883,802	1,828,708	103.01	KRU "Radoniqi"
Salaries	1,366,263	1,316,568	103.77	KRU "Radoniqi"
	72.53	71.99		
Operative Expenses	624,000	582,000	107.22	KRUjitjes "Radoniqi-Dukagjini"
Salaries	281,000	286,000	98.25	KRUjitjes "Radoniqi-Dukagjini"
	45.03	49.14		
Operative Expenses	180,000	158,000	113.92	KRUjitjes "Drini i Bardhë)
Salaries	148,000	139,000	106.47	KRUjitjes "Drini i Bardhë)
	82.22	87.97		
Operative Expenses	1,076,795	1,066,596	100.96	KMDK
Salaries	316,324	267,335	118.32	KMDK

29.38 25.06

Fig.nr.3

Depreciation	2011	2010		Without amortization
17,290,000	17,547,000	PTK		
37,711,000	29,163,000	KEK		
6,349,000	4,866,000	KOSTT		
-	-	ANP "Adem Jashari"		
4,548,798	4,515,121	"Ibër Lepenci"		
1,021,336	1,010,303	KMDK		
3,960,226	3,846,054	KRU "Prishtina"		
1,021,000	935,000	KRU "Hidroregjioni"		
674,000	684,000	KRU "Hidromorava"		
1,142,293	1,100,822	KRU "Hidrodrini"		
1,839,000	1,781,000	KRU "Mitrovica"		
1,716,708	1,606,060	KRU "Radoniqi"		
261,000	257,000	KRUjitjes "Radoniqi-Dukagjini"		
64,000	79,000	KRUjitjes "Drini i Bardhë)		
-	-	Trainkos		
Total:	77,598,361	67,390,360	115.15	

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