

**A TAXONOMY FOR
BUDGETARY CONTROL OF STATE-OWNED ENTERPRISES**

Prepared by the Canadian Team for the
Russian Public Expenditure Project

February 2002

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Purpose

The establishment of controls and incentives for state enterprises requires a classification system. Several categories should be defined to reflect the range of the different nature and mandates of the many state enterprises. Each state enterprise should be assigned to one category in the classification. Each category has a specific set of controls, incentives, processes and systems. This paper provides a review of the various ways to classify state enterprises in terms of the degree of its commercial activities. The paper reviews the Canadian approach to classification, as well as those of other jurisdictions. It also provides examples of selecting controls and incentives for different categories in the classifications.

The Russian Context

In Russia there are more than 20,000 state enterprises that have not yet been privatized. There are more than 15,000 100% state-owned enterprises. There are some 5,000 joint stock enterprises that are majority owned by the State. By and large they do not receive government subsidies. These enterprises are former parts of large ministries, and are now run by their managers in a very autonomous way, without much transparency.

In most cases, there are “soft” (unclear, impractical, and unenforceable) or non-existent budget constraints, and “soft” or non-existent administrative controls. Weak financial positions of enterprises are supported by easy loans, State subsidies and non-payment of taxes. There is no system of impersonal legal tax obligations, which are verifiable and enforceable. There is a need for “hard” (clear, feasible, and enforceable) budget constraints and “hard” administrative controls. Hard budget constraints and controls can be devised in many ways – the most effective controls will be those that involve countervailing political and legal safeguards. The Parliament and the government must provide the basis for the authority and monitoring of the whole system and for holding enterprise management to account. Effective budgetary and administrative controls will lead to more efficient and economical operation and raise the expected revenue for the State.

In addition to the commercially oriented state enterprises, there are “budgetary enterprises” which receive funds from the central government but also generate their own income. In many cases they fill social rather than commercial purposes. They also lack adequate transparency and accountability. It is therefore difficult for the central government to know how much money to provide to them.

The issue is to determine means for the provision of the necessary but practical controls over these different types of entities. The controls, incentives, procedures, techniques, structures, and systems will be different for each type of enterprise found in that large population.

Introduction

Canada has a philosophy and logic underlining its budgetary control system. Budgetary controls and administrative constraints are set within an overall management framework. There is a give and take – more leeway, flexibility and independence is given, provided certain activities are undertaken and conditions met. The management framework has two sets of objectives. First government departments and Crown corporations (analogous to Russian budgetary enterprises and state-owned enterprises) must operate in a context where they can achieve their substantive objectives. Second are the financial objectives, where enterprises must minimize the financial burden on the government and avoid unpleasant surprises. A budgetary control system is about more than budgetary control – it must be designed to provide an incentive structure to realize objectives.

The budgetary controls and administrative constraints that are appropriate for any state-owned enterprise will vary depending on its commercial nature. The general rule is that the more commercial the enterprise, the fewer are the detailed administrative constraints and the greater the use of policy directives and reporting requirements. The reason for this is that the more commercial the enterprise, the more competitive is its environment, which in turn requires flexibility and the ability to act more quickly. A competitive environment entails a greater need to protect commercial information, leading to a more conservative approach to transparency and access to information. In addition, operating in a competitive environment can require easier access to different kinds of expertise, leading to a need for different hiring practices and conditions of employment and remuneration.

The first step in designing a management system of budgetary controls and incentives is to establish a classification or a schedule of categories for the state-owned enterprises. There could be anywhere from four to six categories of enterprises. The second step is to list the controls and constraints that may be applied in order to put in place a comprehensive regime for managing the portfolio of State-owned enterprises. Third, for each measure, the desired degree of control and constraint is decided for each of the different enterprise categories. Then each of the state enterprises is placed in one of the categories and is subject to the controls, constraints, rules, and incentives of that category. In that way, enterprises are matched with an appropriate set of controls and incentives. The final stage requires the determination of oversight and management structures and techniques. This involves the resolution of policy issues, the processes for approval of classification changes or exemptions, and the monitoring system for required audits, and the design of the legislative basis for the whole framework which itself must be monitored and fine tuned.

A central body or ministry should be designated to be the manager of the system. With respect to exemptions, to allow for occasional relaxation or temporary removal of controls, a process is required to limit exemptions to only occasional use, while allowing for necessary flexibility to deal with unusual situations. This will involve designing a workable process of government or parliamentary approval for the exemptions. However there is an influential school of thought that argues that if the system established is well crafted, there will be very limited instances where exemptions or reclassifications are demanded. To discourage such demands for exemptions, this school of thought advises against establishing a formal process for considering appeals. Instead

there should be an informal understanding that flexibility is available to change categories based on presentation of a comprehensive and persuasive business case. Obviously, it is also important to ensure that all State-owned enterprises are included in one category or another, no matter in what field of activity it is operating.

Spectrum of Enterprises, from Public to Commercial

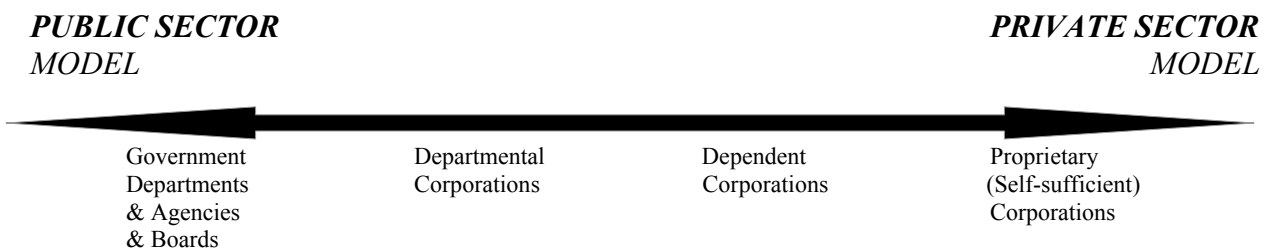
There is a wide variation in the nature of state-owned enterprises, including the degree of their commercial nature. Some enterprises will be indistinguishable from commercial, profit-oriented, private-sector enterprises. The apparently near-commercial enterprises may have some of the following characteristics:

- They operate in a competitive environment with private sector competitors;
- Their market revenues give them some independence from budgetary appropriations for operating purposes;
- They are expected to produce a return on equity;
- There is a reasonable expectation that they will pay dividends;
- They can expeditiously raise capital from private sources without a government guarantee.

At the other end of the continuous public – private spectrum, there are enterprises that are largely dependent on the State, are expected to remain so, and provide essential public goods and services. The more “public” State enterprises operate in a non-competitive environment, in a monopoly or quasi-monopoly environment. Their operations are heavily dependent on budgetary appropriations. They are not expected to generate profits or earn dividends for the State. They cannot raise capital from private sources without a government guarantee.

The art in designing the budgetary controls/administrative constraints/incentive system is to select a mix of measures that is suitable for the different nature of the State-owned enterprises, based on their location on a spectrum going from the classic public sector model to one that operates like a private sector organization.

The Canadian approach has defined four categories of state-enterprises and to provide more “direction” and less “control” for the enterprises at the private end of the spectrum.



The Government of Canada Spectrum

Canadian Government Departments and Ministries (Schedule I Corporations) are subject to the full array of rules, controls and constraints. They are subject to rules and procedures on staffing, classification, remuneration, benefits, promotions, procurement, leasing of premises ... the list is extensive. The emphasis is on control and standards – incentives are not a priority. Departmental Corporations (Schedule II Corporations) are defined as “any corporation established by Parliament that performs administrative, research, supervisory, advisory or regulatory functions

of a governmental nature.” Crown corporations represent the government’s use of the private sector or corporate form of organization to carry out a public policy objective. They are able to use private sector management tools and practices. Crown corporations are best used for activities more independent or distanced from the government, where decisions should be business, not political, decisions.

Dependent and Proprietary Corporations (Schedule III Corporations) are defined in the negative sense of not having the functions listed for Departmental Corporations. In other words they are primarily commercial in function. A Proprietary Corporation (Part II of Schedule III) is deemed to be a corporation that:

- operates in a competitive environment,
- is not ordinarily dependent on appropriations for operating purposes, and
- ordinarily returns a return on equity and there is a reasonable expectation that the corporation will pay dividends.

A Dependent Corporation (Part I of Schedule III) therefore is a corporation that operates in a non-competitive environment, is at least partially dependent on government funding for operating purposes or is not expected to generate a profit. The cabinet is given the power to add to, and or remove corporations from the Schedules.

Canadian corporations listed in Schedule III (there are only three left) are subject to guidelines rather than rules, and function more like private sector firms in their business practices. Every such corporation receives direction on broad orientations from the government, which approves its corporate plan, but proprietary corporations have managerial autonomy and operate arm’s length on a day-to-day basis. These corporations must respect government policies like official languages, employment equity and wage restraint. They are subject to the same regulatory constraints as their private sector competitors.

Generally, the more “commercial” the mandate, the fewer “micro-management” controls, the less detailed the controls on “inputs,” the less financially dependant on government, the fewer the restraints on revenue generation – and hence the more autonomy. With the autonomy comes the obligation to produce revenue for the State.

It is an art, not a science, to determine the organizational form best suited for an enterprise or the delivery of a specific program. The Canadian government considers seven factors:

1. Definition of the current public interest in the enterprise or program.
2. Clarification of the government’s objectives vis-à-vis that public interest.
3. Determination of the degree of political/policy direction required.
4. Assessment of the political/managerial accountability needed.
5. Evaluation of the suitability of corporate business practices
6. Judgment of the appropriate balancing point between operational autonomy and risk.
7. Determination of the possibility for long-term commercial viability and the need for increased financial flexibility.

The Province of Ontario Spectrum

Ontario uses a classification with seven classes of “Agencies” – Advisory, Regulatory, Adjudicative, Operational Service, Operational Enterprise, Crown Foundation, and Trust.

Advisory Agency provides ongoing information and / or advice to assist in the development of policy and / or in the delivery of programs.

Regulatory Agency makes independent decisions (including inspections, investigations, prosecutions, certifications, licensing, rate-setting, etc.) which limit or promote the conduct, practice, obligations, rights, responsibilities, etc of an individual, business or corporate body.

Adjudicative Agency makes independent quasi-judicial decisions, resolves disputes, etc on the obligations, rights, responsibilities, etc. of an individual, business or corporate body against existing policies, regulations, and statutes, and / or hears appeals against previous decisions.

Operational Service delivers goods or services to the public usually with no, or only minimal, fees.

Operational Enterprise sells goods or services to the public in a commercial manner (including, but not necessarily, in competition with the private sector).

Crown Foundation solicits, manages, and distributes donations of money and / or other assets donated for a named organization in whose interests the Foundation has been established under the *Crown Foundations Act* or under the *University Foundations Act*.

Trust Agency administers funds and / or other assets for beneficiaries named under statute.

International Approaches

Chart V provides a brief picture of the US, German and UK approaches. The US has three categories. In terms of enterprise controls, aside from regulation, there is only one category – “Government corporations”. The German’s have four categories. The UK has five categories, exclusive of the National Health Service, which is a system on its own.

Controls and Constraints

There are many levers or means of control. The art (not science) of control is to select feasible and effective means from the menu of possible approaches. The controls should be embodied in a formal, open, transparent system, accessible by Parliament and the Public. The menu of controls, constraints, rules and practices cover several categories:

- Corporate Structure and Governance
- Corporate Plans
- Budgeting and Capital Management
- Human Resources
- Operational Control
- Reporting and Auditing

Chart I displays the different categories for which control and incentive policies, rules, guidelines, and systems can be devised. There are many options for the nature and degree of control in each of these categories.

Chart I: Categories of Control

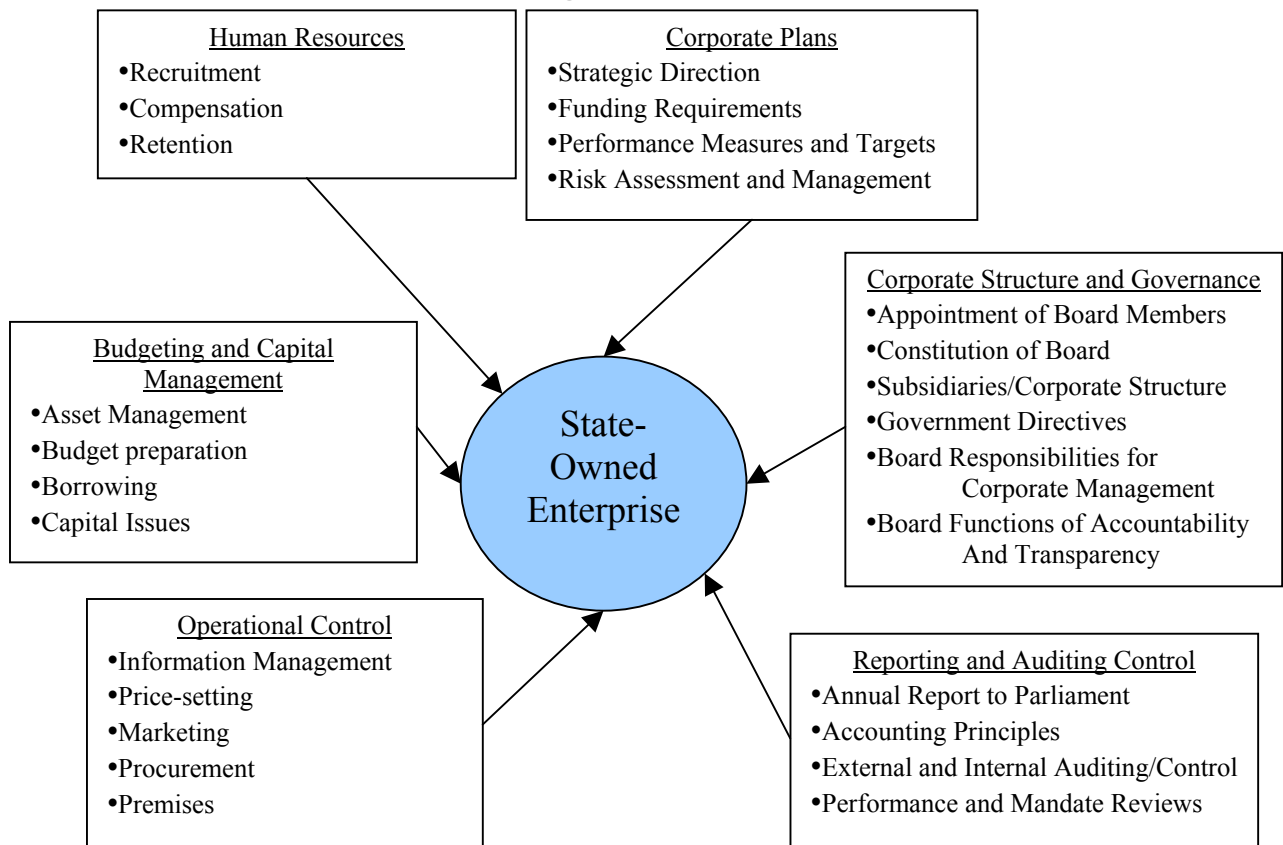


Chart I provides an indication of the extensive list of possible controls, constraints, incentives and rules. The critical question is to select the rules for each enterprise classification. Some of the rules or constraints should not be applied to state-owned enterprises at the commercial/private sector end of the spectrum. Other rules are not appropriate for enterprises close to the public/Ministry end of the spectrum. Each of the controls/constraints/rules has a variety of approaches and degrees of stringency. For example, job descriptions/classification levels and staff hiring practices are controlled for government departments and should not be for proprietary commercial corporations. Issues surrounding the Board of Directors – appointment, remuneration, and functions regarding corporate plans, risk management and audit are highest priority for control of proprietary commercial corporations.

Chart II is an illustrative example of the decisions to be made. **For illustration only**, it assumes enterprises can be assigned to five categories, from Government Ministries to “Commercial and Self-Sufficient.” It then displays the different degree or stringency of control for each of 20 functions. The purpose of this **arbitrary, sample** display is to demonstrate the nature of the choices to be made.

Chart III depicts the Ontario approach for its Agencies with respect to financial, staffing administrative, and miscellaneous powers. Chart IV displays the American approach, which is deliberately decentralized. Each US “Government Corporation” is established by its own Bill in Congress, which specifies which other acts it is subject to with respect to financial, staffing, administrative and other controls.

Chart II: Indicative Schematic for Functional Controls

FUNCTION	Level of Autonomy: Public/Commercial Character				
	Government Ministries	“Government Corporations”	“Special Agencies”	“Semi-Commercial” or Dependent	“Commercial and Self-Sufficient”
Role of Government Directives	Not applicable	Not applicable	Mandates and detailed orders	Mandates and guidelines	Guidelines and advisories
Corporate Planning	Government planning	Government planning	Enterprise undertakes planning, government approves	Enterprise undertakes planning, government approves	Enterprise undertakes planning, government approves
Auditing: Risk Management and Organizational Effectiveness	State auditor; focus on organizational effectiveness	State auditor; focus on organizational effectiveness	State auditor; focus on organizational effectiveness	State auditor; focus on financial risk management	Enterprise auditor; focus on financial risk management
Auditing: Financial Reporting	Government auditor reports to public	Government auditor reports to public	Government auditor reports to public	Enterprise auditor reports to government and public	Enterprise auditor reports to government and public
Reporting Structure	Report to legislative body for approval	Report to legislative body for approval	Report to responsible government body for approval	Report to responsible government body for approval	Report to responsible government body for information
Corporate Governance: Board Constitution	Not applicable	Not applicable	Majority government representation	Equal representation	Majority private sector
Corporate Governance: Appointment of Board Members	Not applicable	Not applicable	Government	Government	Government and enterprise
Corporate Structure: Subsidiaries	Government control	Government control	Government approval	Government approval	Enterprise control
Budgeting: Borrowing	Not able to incur debt	Not able to incur debt	Some borrowing allowed, government approval process	Borrowing allowed, government approval process	Borrowing allowed, few government hurdles
Budgeting: Capital Investment	Government control	Government control	Enterprise proposal, government approval	Enterprise proposal, government approval	Enterprise control, government informed

Chart II: Indicative Schematic for Functional Controls

FUNCTION	Level of Autonomy: Public/Commercial Character				
	Government Ministries	“Government Corporations”	“Special Agencies”	“Semi-Commercial or Dependent”	“Commercial and Self-sufficient”
Premises: Property/Leasing Control	Government Agency controls	Government Agency controls	Government Agency approves	Corporate control – Government Agency is informed	Corporate control – Government Agency is informed
Procurement	Central purchasing agency	Central purchasing agency	Central purchasing agency	Enterprise control	Enterprise control
Price-Setting for Services	Not Applicable	Government set	Government approved range of prices	Enterprise sets	Enterprise sets
Personnel: Full-Time Equivalents	Central government agency sets FTEs	Central government agency sets FTEs	Central government agency sets FTEs	Enterprise sets	Enterprise sets
Personnel: Classification Matrix	Central HR department	Central HR department	Central HR department	Corporate	Corporate
Personnel: Recruitment	Hiring through central HR department	Hiring through central HR department	Hiring through central HR department	Enterprise does direct hiring	Enterprise does direct hiring
Personnel: Compensation	Set through central HR department	Set through central HR department	Set through central HR department	Follows central guidelines	Follows central guidelines
Personnel: Benefits	Set through central HR department	Set through central HR department	Set through central HR department	Follows central guidelines	Follows central guidelines
Information Management	Central agency sets policy and approves purchases	Central agency sets policy and approves purchases	Central agency sets policy	Corporate	Corporate
Marketing	Government PR system	Government PR system	Enterprise does PR, government approves	Enterprise controls PR	Enterprise controls PR

Chart III: Ontario Classification

The following chart illustrates the maximum range of powers that are available to each Ontario agency class. This means that an agency will not be granted every power for its corresponding class when such power is not warranted to fulfill the agency's mandate and is not justified in the business case.

- Shading means that assigning the power would be consistent with the agency's function
- ✓ Check mark means that the additional power is consistent for a Regulatory Agency only when a governing board exists

	Advisory Agency	Regulatory Agency	Adjudicative Agency	Operational Service	Operational Enterprise	Crown Foundation	Trust Agency
FINANCIAL POWERS							
Generate revenue (other than fees, rates, premiums) directly related to agency function							
Set fees, rates, premiums subject to LGIC							
Independently set fees, rates, premiums							
Retain all revenue year-to-year							
Retain year-to-year (i) any revenue that is not provincial funding and (ii) any provincial funding that the Minister of Finance does not require to be returned to Consolidated Revenue Fund		✓					
Acquire and dispose of real estate for accommodation of staff		✓					
Acquire and dispose of real estate consistent with agency's mandate							
Acquire and dispose of assets (other than real estate) directly related to agency mandate		✓					
Invest funds -- short-term, consistent with agency's mandate		✓					
Invest funds -- long-term, consistent with agency's mandate							
Borrow funds for short-term operational needs		✓					
Borrow funds for long-term purposes, consistent with agency's mandate							
Make loans consistent with agency's mandate							

	Advisory Agency	Regulatory Agency	Adjudicative Agency	Operational Service	Operational Enterprise	Crown Foundation	Trust Agency
Issue shares subject to the Minister of Finance's recommendation and LGIC approval							
STAFFING POWERS:							
Staff appointed under the <i>Public Service Act</i>							
Hire own staff outside of the <i>Public Service Act</i>		✓					
Establish human resource practices (i.e., make decisions not subject to MBC's HR directives)		✓					
Determine terms and conditions (including classifications and pay scales)		✓					
Negotiate with bargaining agents		✓					
ADMINISTRATIVE POWERS:							
Make decisions subject to all MBC directives							
Make decisions subject to certain MBC directives as specified by MBC		✓					
Make decisions consistent with principles of those Directives not specified by MBC above.		✓					
Make decisions consistent with principles of MBC directives.							
OTHER POWERS:							
Exercise authority to enforce decisions							
Establish subsidiaries subject to approval by LGIC							
Enter into partnerships according to approved business plan							
Exercise authority under the <i>Statutory Powers and Procedures Act</i>							

CHART IV US Government Corporations

		Background						
		Year created	Business	Primary business means	Corporation type	Privacy Act	Freedom of Information Act	Government in the Sunshine Act
Government corporations ^a								
1	African Development Foundation	1960	African development	G	W	S	S	S
2	Commodity Credit Corporation	1948	Financial agent	L	W	S	S	S
3	Community Development Financial Institutions Fund	1994	Financial agent	G, L	W	S	S	N
4	Corporation for National and Community Service	1993	Community development	G, O	W	S	S	S
5	Export-Import Bank of the United States	1934	Financial agent	I, L, O	W	S	S	S
6	Federal Crop Insurance Corporation	1936	Financial agent	I	W	S	S	N
7	Federal Deposit Insurance Corporation	1933	Financial agent	I	MO	PSA	PSA	S
8	Federal Housing Administration	1934	Financial agent	I	W	S	S	S
9	Federal Prison Industries, Inc.	1934	Correctional program	O	W	S	S	N
10	Government National Mortgage Association	1968	Financial agent	O	W	S	S	S
11	National Credit Union Administration Central Liquidity Facility	1978	Financial agent	L	MO	S	S	S
12	National Railroad Passenger Corporation (Amtrak)	1971	Transportation	O	MO	N	S	NM
13	Overseas Private Investment Corporation	1969	Financial agent	I, L, O	W	S	S	S
14	Pennsylvania Avenue Development Corporation	1972	Financial agent	O	W	S	S	NA
15	Pension Benefit Guaranty Corporation	1974	Financial agent	I	W	S	S	N
16	Resolution Funding Corporation	1989	Financial agent	O	MO	N	N	N
17	Resolution Trust Corporation	1989	Financial agent	O	MO	PS	PS	N
18	Rural Telephone Bank	1971	Financial agent	L	W	S	S	S
19	St. Lawrence Seaway (SLS) Development Corporation	1954	SLS operations	O	W	S	S	N
20	Tennessee Valley Authority	1933	Energy	O	W	S	S	S
21	The Financing Corporation	1987	Financial agent	O	MO	N	N	N
22	United States Enrichment Corporation	1992	Energy	O	W	S	PS	PS

Summary of GC responses

S	17	17	11
PS	1	2	1
PSA	1	1	0
PSM	0	0	0
Subtotal	19	20	12
N	3	2	8
NA	0	0	1
NM	0	0	1
Subtotal	3	2	10
Total	22	22	22

Legend

Primary business means

- G = Grants
- I = Insurance
- L = Loans
- O = Other (includes guarantees, public/private investment)

Corporation type

- MO = Mixed ownership government corporation
- W = Wholly owned government corporation

^aWith the exception of the African Development Foundation, all of the GCs in appendix III are listed in GCCA.

Statute responses

- N = Not subject to and does not administratively adopt the statute's requirements
- NA = Not subject to but administratively adopts the statute's requirements
- NM = Not subject to but implements an alternative mechanism(s) to attain the objective(s) of the statute
- PS = Partially subject to the statute's requirements
- PSA = Partially subject to the statute's requirements and also administratively adopts the statute's requirements
- PSM = Partially subject to the statute's requirements and also implements an alternative mechanism to attain the objective(s) of the statute
- S = Subject to the statute's requirements

Note: Chart continued on following page.

CHART IV US Government Corporations

Self-reported adherence to 15 federal statutes												
Title 5: employee classification	Title 5: pay rates and rate systems	Federal Property and Administrative Services Act	Federal Tort Claims Act	Federal Managers Financial Integrity Act	Anti-Deficiency Act	Government Corporation Control Act	Government Performance and Results Act	Chief Financial Officers Act	Inspector General Act	Federal Credit Reform Act	Ethics in Government Act	
NA	NA	S	S	S	S	S	S	S	S	N	S	
S	S	N	S	PS	PS	S	S	PS	S	PS	S	
PS	PS	S	S	S	S	PS	S	S	S	S	S	
PSM	PSM	S	S	S	S	S	S	N	S	N	S	
PS	PS	S	S	NM	S	S	S	S	N	S	S	
PS	S	PS	S	NA	S	S	S	PS	S	N	S	
NA	N	N	PS	N	PS	S	PS	NA	S	N	S	
S	S	NA	S	S	S	S	S	S	S	S	S	
S	S	S	S	PS	S	S	S	S	S	S	S	
S	S	NA	NA	S	N	S	S	S	S	S	S	
N	N	NM	S	NM	NM	S	S	S	S	N	S	
N	N	N	N	N	N	S	N	PS	PS	N	N	
S	S	NM	S	N	S	S	S	N	S	S	S	
PS	S	PS	S	N	S	S	S	PS	S	N	S	
S	S	PS	S	NA	PS	S	S	PS	S	N	S	
N	N	N	N	N	N	S	N	S	N	N	N	
NA	N	N	PS	NM	PS	S	N	PS	S	N	S	
N	N	S	S	S	S	S	S	S	S	S	S	
S	PS	S	S	PS	S	S	S	PS	S	N	S	
NM	NM	PSM	NM	NM	PS	PS	S	NM	S	N	S	
N	N	N	N	N	N	S	N	S	N	N	N	
NM	N	NM	N	NM	S	PS	S	PS	PSM	S	S	

7	8	7	14	6	12	19	17	10	17	8	19
4	3	3	2	3	5	3	1	8	1	1	0
0	0	0	0	0	0	0	0	0	0	0	0
1	1	1	0	0	0	0	0	0	1	0	0
12	12	11	16	9	17	22	18	18	19	9	19
5	8	6	4	6	4	0	4	2	3	13	3
3	1	2	1	2	0	0	0	1	0	0	0
2	1	3	1	5	1	0	0	1	0	0	0
10	10	11	6	13	5	0	4	4	3	13	3
22	22	22	22	22	22	22	22	22	22	22	22

Statute responses

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- PS = Partially subject to the statute's requirements
- PSA = Partially subject to the statute's requirements and also administratively adopts the statute's requirements
- PSM = Partially subject to the statute's requirements and also implements an alternative mechanism to attain the objective(s) of the statute
- S = Subject to the statute's requirements

Chart V: Inter-Jurisdictional Comparison

United States			
	Government Department/Agencies	Government Corporations	Government-Sponsored
Funding	Funded by US Government	Fully or partially funded by US government	Implied financial backing by US government
Adherence to Federal Statutes	Strict adherence	Some flexibility	Little adherence, but some regulation to protect government's interest
Independence from Government	N/A	Varying levels of independence in decision-making bodies	Private ownership and control

Germany				
	Direct Federal Administration	Indirect Federal Administration	Private Law Administration	Charged Administration
Type of Law Governing	Public Law	Public Law	Private Law	Private Law
Governance	Legal and functional oversight by government	Legal oversight by government Boards/Self-Administration	Owner or Shareholder Consultation	Agreement/Contract

United Kingdom						
	Departments	Executive Agencies	Non-Departmental Public Bodies	Public Corporations	Local Services	National Health Service
Staffing	Civil service	Civil Service	Non-Civil Service	Non-Civil Service	Local Staffing	Mixture – civil servants centrally
Governance	Ministerial	Ministerial	Board	Board	Local Organizations	Hospitals controlled by self-governing NHS Trusts with own Boards
Funding	Government	Government	Grant-in-Aid, and commercial activity	Levies, Grant-in-Aid and Fees	Central and Local government	Trusts can borrow, earn income, retain surpluses

Conclusion

The first step in establishing the system of budgetary control is the decision of how many classes of enterprises should be in the taxonomy. Canada has four. The more classes or categories, the greater is the possibility of sensitive and appropriate controls and incentives. The fewer the number of classes, the greater will be the demand for exceptions. However the greater the number of classes or categories, the more complex is the process of management and accountability. The second step is the decision of which aspects of management to control – Chart II listed 20 illustrative areas, topics or variables. Third is the laborious task of detailing the rules and processes for each cell in the chart, and the supporting structure and system to make them work.

The Canadian approach provides sufficient flexibility. There are three classes or “Schedules” in the legislation. However the third class has two parts, one for profitable, self - sufficient corporations and one part for corporations that are dependent on budgetary appropriations. The Cabinet is delegated the power to move corporations from one schedule to another should circumstances change.

Denis Desautel, the former Canadian Auditor General, if starting from scratch, would advocate a taxonomy including approximately six (6) categories. Given the number of State- owned enterprises in Russia and the range of activities in which they are engaged, enough categories are needed to accommodate this range (which is probably broader than the range in Canada). For instance, there are probably organizations handling insurance or trust accounts like the Workers compensation board or other insurance programs like crop insurance. He believes if too many categories are created, the system would become unwieldy, the differences between categories would become too small, and there would be endless arguments over classification. Crafting a system with six categories is possible and it would make the administration of the framework clearer and easier.

With respect to controls, practically speaking, it would be most effective to concentrate initially on a minimum number of controls for each Category. Initially it is wise to focus on committing each enterprise to a relevant business plan or statement of measurable objectives to pursue, and to a public report annually on outcomes and accomplishments with respect to those plans or statements. The Government should select and apply the most appropriate means to publicize these plans and report, in addition to making them available to parliamentarians.