



State of Israel
State Comptroller and Ombudsman
Annual Report 70A | 2020

Gihon Corporation

Aspects of the Gihon Corporation's Activities

Abstract

Gihon Corporation

Aspects of the Gihon Corporation's Activities

Background

The Gihon Corporation Ltd. (the corporation) is responsible for providing water and sewage services to the residents of Jerusalem, Mevasseret Tzion and Abu Gosh. The Gihon Corporation was established by the Jerusalem Municipality in 1996. In 2003, the Director of Corporations granted the corporation a license to operate a corporation under the Water and Sewage Corporations Law. The corporation is owned by the Jerusalem Municipality (which holds 94.95% of the ownership), the Mevasseret Tzion Local Council (3.5% of the ownership) and the Abu Gosh Local Council (1.55% of the ownership).

Key figures

71.4
million cubic meters

the amount of water supplied by the corporation in 2018 to approximately 900,000 residents of Jerusalem and the surrounding area

125,000
cubic meters

recycled wastewater purchased by the Jerusalem Municipality from the corporation in 2018, used for watering public parks in the city

2.1
million cubic meters

fresh water used to water public parks in Jerusalem in 2018

Only 6%

of the water used to water public parks in 2018 was recycled wastewater

NIS 36 million

the corporation's profits in 2018 (compared to NIS 44 million in 2017)

NIS 27.8 million

the corporation's financial losses in 2017 as a result of water depreciation^[1] in Arab neighborhoods in East Jerusalem

34.1%

the rate of water depreciation in the Arab neighborhoods of East Jerusalem in 2017

8.5%


the overall rate of depreciation of the water corporation in that year

NIS 140.5 million




gap between the state's estimate of the net cost of the assets settlement and the IEC's estimate

[1] Water depreciation is the difference between the amount of water the corporation purchases or produces and the amount of water it supplies to all its customers.

Scope

 From August 2018 to February 2019, the State Comptroller's Office examined aspects of the operations of the Gihon Corporation. The State Comptroller's Office examined the corporation's operating expenses, water depreciation, collection depreciation^[2], connecting neighborhoods in East Jerusalem to water, expenditure on wages and on-call expenses, tenders and agreements, and the supply of recycled wastewater to public parks in Jerusalem. The audit was carried out at the corporation and supplemental examinations were conducted at the Water Authority.




Key Findings

-  **Higher collection depreciation and water depreciation in neighborhoods over the separation fence in East Jerusalem:** Water depreciation and collection depreciation are significantly higher in these neighborhoods than the norms set for the corporation. This causes a waste of water, which is a scarce resource, and increases water fees. According to calculations made by the corporation, the financial damages caused to it as a result were NIS 12 million in 2017.
-  **Failure to comply with water depreciation and collection depreciation norms:** Due to the difficulty in collection in East Jerusalem, there is an irregularity in collection depreciation that impacts the overall collection depreciation of the corporation. In 2014 to 2018, the rate of collection depreciation at the corporation was 2.34% to 3.3%, as opposed its set norm of 1.5%. In 2018, the rate of water depreciation of the corporation was 7.3% as opposed to 7%, the norm set by the Director of Corporations^[3].
-  **Failure to comply with operating norms^[4]:** The corporation did not meet the operating norms set, and in 2017 the gap between norms and actual expenses was NIS 48 million.

[2] Collection depreciation is the difference between total charges for the company's expenditure on providing water services to its customers, and the total actually collected from those charges.

[3] This norm was updated to 8% as part of the decision to update fees in January 2020.

[4] Operating norms concern the following components of water tariffs: the water network component, the sewage network component, the collection component and administrative expenses.

-  **The Gihon's engagements:** The Gihon tenders committee authorized an increase in contractual agreements in a way that does not comply with contracting procedures: several agreements were increased several times and the accumulated increase exceeded the limitations set in procedures. We found agreements where the increase in the financial scope was brought before the tenders committee only retroactively.
-  **Allocation of on-call hours:** Even though some of corporation employees were called to return to work on only 10% of the on-call hours allocated to them in 2017, the corporation did not learn its lessons and in 2018 continued to pay its employees for a similar number of on-call hours. The minimal utilization of on-call hours allocated in 2017 raises doubts about the necessity of the number of on-call hours paid to employees.
-  **Use of reclaimed wastewater for public parks:** From 2015, with the laying of infrastructure to pipe reclaimed wastewater from the effluent purification plant at Har Homa to large parks in Jerusalem, the use of reclaimed wastewater for watering public parks in the city increased. However, the amount of reclaimed wastewater transferred from the corporation to the Jerusalem Municipality is lower than expected (in 2018 around 125,000 cubic meters out of around 500,000 cubic meters expected, around 25%) and from the purification capacity (around only 12.5%). At the same time, excellent quality reclaimed wastewater is returned for re-purification in the central sewage system.




Water quality: We did not find deficiencies in the quality of water provided by the Gihon Corporation.

Reduction of collection depreciation: In 2013 to 2017, the corporation reduced the rate of collection depreciation in East Jerusalem from 20.59% to 11.26%. However, this rate is higher than the rate set by the Director of Corporations - 1.5%.

Reduction of water depreciation: In 2014 to 2018, the corporation reduced water depreciation from 10.8% to 7.3% but failed to meet the norms set for it.

Key recommendations

-  **The corporation must strive to meet the norms of collection depreciation, water depreciation, and operations** set by the Director of Corporations in order to narrow the financial burden on water consumers receiving services from the corporation.

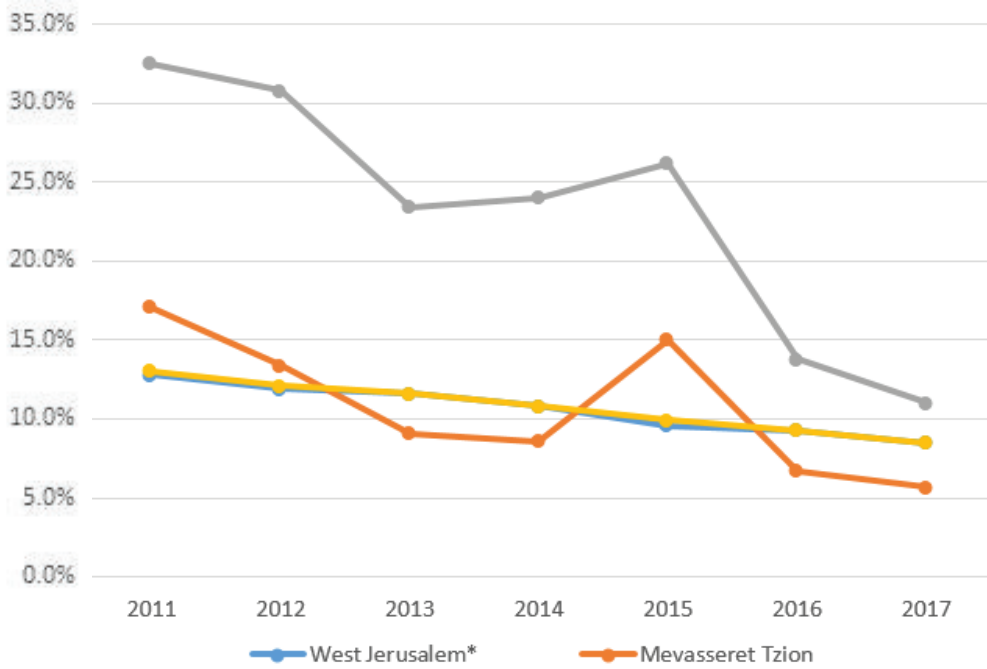


- 💡 Action must be taken to find **a solution to the issue of East Jerusalem** by holding an ongoing discourse between the relevant entities (the Ministry of Finance, the Water Authority, the corporation, the Jerusalem Municipality, and security services insofar as required) to improve water supply, collection depreciation, and water depreciation.
- 💡 The corporation **must make sure to conduct its engagements and agreements** in compliance with the Mandatory Tenders Law, its ordinances, and its own internal procurement procedures.
- 💡 The corporation must examine the way it allocates on-call hours to employees, supervises their utilization, and formalize the matter with the Wage Commissioner.
- 💡 In view of the importance **of utilizing reclaimed wastewater**, the Water Authority, as the regulating entity, must provide guidance on instances where there is financial feasibility for watering public parks of municipalities and public institutions with reclaimed wastewater as an alternative to watering with fresh water. It should examine the need to set designated fees for these uses for all suppliers of reclaimed wastewater. The corporation must work to efficiently utilize surplus reclaimed wastewater from the effluent purification plant at Har Homa to benefit the public.

Summary

The corporation supplies water and sewage services to a diverse population, including the residents of East Jerusalem, a factor that poses some challenges. There are gaps between the norms set by the Water Authority and the corporation's actual costs. In view of the fact that the water market is a closed financial market, costs higher than the norms may come at the expense of the capital component designated to finance water and sewage infrastructure development in Jerusalem. The Water Authority and the corporation must find a solution to the issue of excess costs so that they not be a burden on water consumers.

Water depreciation at the corporation by districts 2011-2017



According to data from the corporation processed by the State Comptroller in January 2019

Laying infrastructure at the Gihon Corporation



Description of image:

The image shows heavy mechanical equipment laying a water pipeline in a desert vista.

Source: Gihon Corporation