



State Comptroller of Israel | Special Audit Report | 2021

Special Audit Report

Aspects of Umbrella Agreements Signed with Local Authorities



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Background

The significant increase (by 103% in real terms) that occurred in housing prices in Israel from the beginning of 2008 until the end of 2020 increased the weight of the burden on households, particularly for the lower and medium socio-economic levels, and generated a housing crisis. One of the causes for the increase in housing prices is the shortage of housing units. With the intention of encouraging local authorities to promote the development of new residential areas in their jurisdiction and to rapidly market a large number of housing units, the government made a decision in 2013 on the matter of "umbrella agreements with local authorities to remove marketing and development obstructions" (Government decision regarding umbrella agreements). This decision determined that the Ministry of Finance, the Ministry of Construction and Housing (Ministry of Construction) and the Israel Lands Authority (ILA) should contract with local authorities by agreements to develop and market lands within their jurisdiction (umbrella agreements). Since the government decision on the umbrella agreements was made and until end of 2020, 32 umbrella agreement were signed with local authorities – 20 of which signed agreements with ILA and the other 12 with the Ministry of Construction.



Key figures

**103%,
34%**

The rate of increase in the housing prices index in real terms from January 2008 until December 2020 and from October 2013, the date the government decision on the umbrella agreement was made and until December 2020 accordingly.

**475,000
housing
units**

The number of housing units determined by the government to be included in the umbrella agreements plans to be signed by end of 2020.

**441,000
housing units**

The number of housing units possible to build on the lands included in the umbrella agreements plans signed with the 32 local authorities, as of December 2020.

**NIS 67
billion**

Total development costs for the upper and adjacent infrastructures expected in the umbrella agreements signed by January 2020, as of June 2020.

**NIS
116,000
per housing
unit**

The expected average development cost for the upper and adjacent infrastructures for each housing unit in the umbrella agreements, as of June 2020.

**Only
33%**

The rate of successful marketing of residential lands (in housing units) relative to the marketing rate in the government decision on umbrella agreements, according to the plans apply to the lands.

Only 7%

By June 2020 7% of the lands for commercial and employment included in the umbrella agreement plans were successfully marketed (in terms of built sqm).

**98,000
housing
units**

The number of estimated housing units in the plans included in the umbrella agreement, that their approval was delayed.



Audit actions



From March 2020 to January 2021 the State Comptroller examined some of the aspects in the umbrella agreements signed with local authorities in the years 2013–2020. The audit included the rate of adhering to the land for housing marketing capacity, the effects of the umbrella agreements on the financial situation of local authorities, the degree of compatibility between the umbrella agreements and the principles of the strategic housing plans, building permits issued as part of the umbrella agreements and the mechanism to reduce development costs. The audit was conducted at the ILA and Ministry of Construction. Complementary audits were carried out at the Ministry of Finance, the Ministry of Interior, the Government Authority for Urban Renewal (Urban Renewal Authority) and at several local authorities.

Key findings




The marketing capacity of lands for housing – the government decision on umbrella agreements determined that the local authority will undertake in the umbrella agreement to enable the marketing of lands in its jurisdiction at a marketing capacity that will be no less than 2,000 housing units annually (marketing capacity). Hence, as of the second half of 2020, lands that according to the relevant plans can contain 241,000 housing units should have been marketed, had marketing been done according to the determined capacity. The audit found that lands for the construction of only 80,000 housing units had been successfully marketed, which constitute 33% of the lands that should have been marketed had the marketing be done according to the determined capacity, in terms of housing units.




Integrating urban renewal in the umbrella agreements – in the government planning goals for 2017–2020 it was determined that planning in the field of urban renewal would extend to 76,000 housing units, around 18% of the total planning for these years (most of which are located in the Tel Aviv, Central, Jerusalem and Haifa districts). According to the Israel Land Council (the Council), the umbrella agreements enabled the ILA to allocate supplementary lands for up to 10% of the housing units in the umbrella agreements for urban renewal, so that the potential is for building up to 44,000 housing units. The audit found that by the end of 2020 only in one of the settlements that signed umbrella agreements, supplementary plots were allocated, as part of a plan that included 3,500 housing units (a plan constituting 0.8% of the total housing units in all umbrella agreements) hence, the agreements did not serve as a main tool for implementing urban renewal projects.



-  **Housing needs of populations in minority communities** – the audit found that in January 2021, the audit completion date, the Ministry of Construction or the ILA had not yet signed an umbrella agreement with a local authority of a minority community, despite the government acknowledged the importance of promoting construction in the minority communities. It should be stated that in September 2021 (after the audit completion date) the ILA signed an umbrella agreement with the Um-El-Fahm municipality.
-  **Housing needs of the ultra-orthodox population** – despite the need to build 200,000 housing units for the ultra-orthodox population from 2016–2035, as of the audit completion date no ultra-orthodox neighborhoods had been marketed in any heterogonous city that was included in the umbrella agreements, according to the government decision regarding housing for the ultra-orthodox community from August 2016. It was found that in three local authorities, neighborhoods designated for the ultra-orthodox community are in various planning stages, totaling 2,350 housing units (in Ramla and Netivot) as well as in Acre as part of the "Acre Gates" 8,000 housing units plan for the general population. At the audit completion date these plans had not yet been marketed. Moreover, despite more than four years have passed since the government decision was made, the Ministry of Construction and the Budgets Department at the Ministry of Finance have not yet formulated a system of incentives to include neighborhoods for the ultra-orthodox population in the umbrella agreements.
-  **Reporting on implementation of the government decision on umbrella agreements** – the government decision on umbrella agreements did not determine any system of reporting on the implementation of the decision. Moreover, during 2013–2020 the Council did not discuss failure to fulfill the marketing capacity or the obstructions preventing it. Furthermore, the audit found the annual statements for 2013–2019 submitted by the ILA to the Council including a report on the umbrella agreement signed in the relevant years, and sometimes even included details of the number of housing units marketed and a report on agreements expected to be signed. However they did not include any report on obstruction to implementing the agreements or on the disparity between the actual marketing and the marketing capacity as determined by the government decision on the umbrella agreements.
-  **Marketing commercial and employment areas as part of the umbrella agreements** – as of June 2020 only 7% per the lands for commerce and employment included in the umbrella agreements plans were successfully marketed, in terms of built-up sqms. For over half of the local authorities that signed the umbrella agreements by the end of 2017 (13 out of 25) the rate of lands for housing successfully marketed (by housing unit) out of the lands included in the agreement plans was greater by 10% and more than the rate of successfully marketed lands for commerce and employment (by sqm of built-up area according to the plans) out of the total lands for commerce and employment included in the agreement plans. Due to the fact that the local authorities relied mostly on their expected revenues from collecting business municipal fees, which


may affect the local authorities financial situation and their ability to provide their residents with an appropriate level of services.

 **The rate of building permits and the duration for their issue** – the rate of building permits of the total housing units included in the agreements plans with 11 local authorities audited was from 7% in Beer Yaakov to 58% in Rosh Ha'Ayin, which was one of the first local authorities to sign the umbrella agreement. On average building permits were issued for 23% of the total housing units included in the umbrella agreement plans for the 11 audited local authorities. The duration for receiving building permits at ten of the audited local authorities was over 90 days as determined by the umbrella agreement. The duration for receiving a building permit ranged from 132 days in Netivot to 504 days in Netanya, and on average 309 days. It should be noted that the duration for receiving permits depends on various factors, including the applicants submitting the request and those who edit it, and the circumstances some of which are not in the local authority's control. It was further found that the umbrella agreements grant at the amount of NIS 129 million, was given to local authorities that signed the umbrella agreements during 2019 and 2020 according to indexes relating to population growth in the local authority and not according to the number of building permits issued by the local authority, despite the Ministry of Interior's program being "a program of incentive to local authorities to issue building permits for housing units". As a result the grant did not serve as an incentive for these local authorities to issue building permits.



Savings on development costs – the results of ten tenders to perform development works, as part of the umbrella agreements audited, indicated that an accumulated saving of NIS 157 million (24%) on the estimated costs of these works, was achieved through these tenders.

Key recommendations

 It is recommended that the ILA and the Ministry of Construction monitor how the local authorities are fulfilling the marketing capacity of housing units as determined in the decision on the umbrella agreements, conduct joint strategic work to map out obstructions and difficulties of each of the umbrella agreements realization steps and act together to formulate proposals to remove these obstructions and overcome the difficulties. It is recommended that representatives of relevant entities, including government ministries and companies whose involvements are required as well as representatives of the Local Government, be included in this process. It is further recommended that the results of the process be presented to the Minister of Construction and Housing, discussed by the Council and if necessary alternative solutions be formulated to promote the government objectives for providing solutions to housing requirements. It is further recommended that the Minister of Construction and Housing



convene the Council from time to time to discuss the implementation of the umbrella agreements, and convene the Ministerial Committee for Housing and Transportation to examine the possibility of establishing a mechanism for reporting to the committee or the government on the implementation of the government decision on umbrella agreements. It is also recommended that as part of the decision making process on the extent of housing units to be marketed in each local authority, the development costs and land values be analyzed and the possibility of setting a basic development cost be examined based on coefficients relating to land conditions and other relevant variables.



It is recommended that the Ministry of Construction, the ILA and the Ministry of Finance, together with the Ministry of Interior, examine individually how realization of the umbrella agreements may affect the local authority's financial situation and its ability to provide an appropriate level of municipal services to its residents, including examining the feasibility of marketing and realizing lands for commerce and employment and the ability to rely on revenues from the derivative business municipal fees. In compliance with the examination findings it is recommended that the Ministry of Construction, the ILA and the Ministry of Finance formulate an appropriate response required for the local authority due to realization of the umbrella agreement and possible affect to its financial situation as a result of realizing the umbrella agreement. It is further recommended that the Ministry of Interior and Ministry of Finance, together with local authorities, the Ministry of Construction and the ILA, examine ways of promoting marketing and realizing lands for commerce and employment in their jurisdictions to increase their revenues from business municipal fees. It is further recommended that the Ministry of Construction and the ILA formulate objectives for marketing commercial and employment lands in all local authorities that signed the umbrella agreements.



It is recommended that the Ministry of Construction and the ILA examine, together with the Urban Renewal Authority, possible ways for promoting urban renewal projects in local authorities that signed the umbrella agreements, particularly in cases where the land value is too low for creating financial feasibility and formulate a multi-year plan that will enable the local authorities to fulfill the housing unit objectives regarding urban renewal planning.



It is recommended that the Ministry of Construction and the ILA act together with government ministries and other State authorities and together with the relevant local authorities to promote the signing of umbrella agreements with local authorities of minority communities, in addition to the agreement signed with the Um-El-Fahm municipality in September 2021.



The Ministry of Construction and the ILA should promote marketing of housing units for the ultra-orthodox population in all relevant local authorities that signed umbrella agreements, according to the government decision of August 2016 on that matter. Moreover, the Ministry of Construction and the Budgets Department at the Ministry of Finance should complete formulating a system of incentives to motivate local authorities



of heterogeneous communities signed on umbrella agreements to include ultra-orthodox neighborhoods in the agreements, according to the government decision on housing for the ultra-orthodox population.



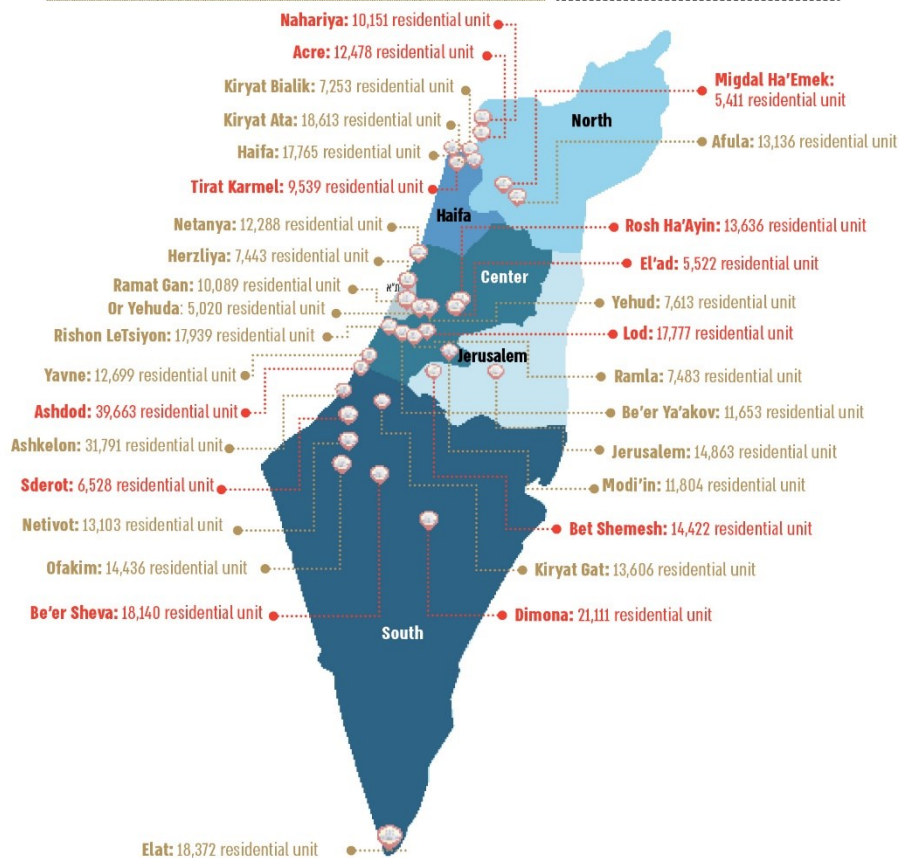
It is recommended that if the Ministry of Interior and the Ministry of Finance decide to continue distributing grants to local authorities as incentives for issuing building permits, the process will include an examination of the conditions for receiving these grants. This should be done in order to make these grants an incentive to the local authorities for issuing building permits, particularly in view of the data indicating that the local authorities issued a smaller rate of building permits than required and the extensive duration required for their issue.



Communities for which an umbrella agreement has been signed, and the number of housing units in the plans in each agreement

District	Total housing units in the agreements	Their share out of the total housing units in the agreements	Their share out of the target set by the government
South	176,750	40%	37%
Center	123,434	28%	26%
Haifa	53,170	12%	11%
North	41,176	9%	9%
Jerusalem	29,285	7%	6%
Tel Aviv	17,532	4%	4%
Total	441,347	100%	93%

Attributed to the Ministry of Construction and Housing
Attributed to ILA



According to the ILA and Ministry of Construction and Housing data, as processed by the State Comptroller's Office.



Summary

From January 2008 until December 2020 the housing prices index increased by 103% in real terms; and from October 2013, the date the government decided to promote the signing of umbrella agreements with local authorities, the index increased by 34%. The umbrella agreements signed over recent years are heavily resourced complex land development and marketing agreements, that regulate the main framework for the development and construction of large scale housing projects for the coming years. The umbrella agreements signed in the years 2013–2020 were designed to create a "toolbox" for the large scale construction of housing units – with plans for 475,000 housing units by the end of 2020 – at a marketing capacity of 2000 housing units annually at each of the 32 local authorities that signed the umbrella agreements by the end of 2020, while decreasing the negative incentive of local authorities to increase the number of housing units in their jurisdiction. In fact, the umbrella agreements were meant to be a central tool for fulfilling the housing requirements of Israel's population, whereas the strategic plan requires the planning for 2.6 housing units and the construction of 1.5 million by 2040.

The audit indicated that difficulties and obstructions during the planning, development and marketing phases make it difficult for local authorities to fulfill the marketing capacity, and in fact by the end of 2020 land for a total of 80,000 housing units had been marketed in all local authorities, constituting an average of 33% of the expected marketing capacity. As a result the government will not be able to address Israel's housing requirements. The audit also found that as of the end of 2020 employment areas totaling 1.3 million sqm were marketed out of a total 17.6 million sqm employment areas included in the umbrella agreements plans (constituting 7% of the total areas included in the agreements). Significant additional housing construction without sufficient added sources of income, and particularly business municipal fees, may affect the ability of the local authorities to provide a proper level of services for the residents in the future.

In view of the above, it is recommended that the ILA and the Ministry of Construction monitor how the local authorities are fulfilling the marketing capacity of housing units as determined in the decision on the umbrella agreements, hold joint strategic work to map out obstructions and difficulties at each of the realization phases of the umbrella agreements and act together to formulate proposals to remove the mentioned above obstructions and overcome the difficulties. It is further recommended that the results of the process be presented to the Minister of Construction, be discussed by the council and if necessary – alternative solutions be formulated to promote the government objectives for providing solutions to housing requirements.

It is also recommended that the Ministry of Construction, the ILA and the Ministry of Finance, and the Ministry of Interior, examine how realization of the umbrella agreements may affect the local authority's financial situation and its ability to provide a proper level of municipal services to its residents, and according to the examination findings, formulate a solution



required for the local authority as a result of realizing the umbrella agreement. It is further recommended that the Ministry of Interior and the Ministry of Finance, together with local authorities, the Ministry of Construction and the ILA, examine ways of promoting the marketing and realization of lands for commerce and employment in their jurisdictions to increase their revenues from business municipal fees.