



Report of the State Comptroller of Israel | March 2022

Israel Defense Force

Outsourcing in the IDF



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Background

Outsourcing specific activities in the IDF – not including its core activities – means transferring these activities to be executed by civilian companies. The IDF uses outsourcing as an instrument for implementing its policy – reducing its involvement in managing economic activity, thus becoming more efficient. Since the beginning of the 1990s, the IDF has been examining ways of enhancing its economic efficiency, among other things, through the implementation of outsourcing. Since September 2015, a General Staff Civilianization Team has been examining and guiding these processes. Since 2017, the head of the Budget Department in the Ministry of Defense and the financial advisor to the Commander in chief of the Israel Defense Force have led this team.

Key figures

55

activities for execution by outsourcing, raised by IDF branches to be considered by the General Staff Civilianization Team in 2016–2019

30

activities for execution by outsourcing approved by the Director-General of the Ministry of Defense in 2016–2019

19

outsourcing in the various IDF branches began in 2016–2020 (among the 30 activities approved by the Director-General of the Ministry of Defense)

2

the outsourcing was carried out in the navy, without presenting it before the General Staff Civilianization Team and without the Director-General of the Ministry of Defense approval

NIS 7 billion

the 2019 budget for "current, and operations, administration maintenance (OAM)":
Ground Forces – 3.1
Air Force – 3.4
Navy – 0.5

NIS 147.5 million

the planned annual cost of 19 activities outsourced:
Ground Forces (9) – 93.8
Air Force (9) – 31.3
Navy (1) – 22.4

NIS 17.2 million


the sum of planned annual saving from performing outsourcing:
Ground Forces – 8.8
Air Force – 2.3
Navy – 6.1

0.25%

the planned ratio of budget savings in the "current and operations, administration and maintenance" from outsourcing:
Ground Forces – 0.28%
Air Force – 0.07%
Navy – 1.21%



Audit actions

 From June 2019 to November 2020, the State Comptroller's office audited, intermittently, outsourcing processes of specific activities in the IDF, mainly: regulating the outsourcing, examination of outsourcing vessels maintenance in the General Staff Civilianization Team, outsourcing processes for the maintenance of two navy vessels, and control by the Department of Production and Procurement in the Ministry of Defense (DOPP) as well as the Budgets Department in the Navy on this matter. The audit was conducted at the Ministry of Defense and the IDF.


The report was presented to the Prime Minister and the State Control Committee of the Knesset on 15.2.21, with the duty of confidentiality imposed on it until discussion in the subcommittee of the State Control Committee.


Under the authority vested in the State Comptroller's Office under Section 17(c) of the State Comptroller Law 1958 [Consolidated Version] and considering the government's arguments, and after consulting with the bodies in charge of the protection of national security information and coordination with the Chairman of the Knesset, and since the stated subcommittee failed to convene, it was decided to publish this report while imposing confidentiality on parts of it. These sections shall not be submitted to the Knesset, nor shall they be published.

The findings of the audit report and its recommendations are valid as of the above date of its presentation.

Key findings



 **The cost of outsourcing in IDF branches** – the Ground Forces budget for OAM in 2019 was NIS 3.1 billion, and the estimated savings from outsourcing was approximately NIS 8.8 million per annum, out of about NIS 103 million per annum – the estimated cost of execution by the IDF; the Air Force budget in 2019 was – approximately NIS 3.4 billion, and the savings were approximately NIS 2.3 million out of approximately NIS 34 million the estimated cost of execution by the IDF; the Navy budget was approximately NIS 0.5 billion, and the savings were approximately NIS 6.1 million out of approximately NIS 29 million.

 **Orders and instructions in the Defense Establishment** – the standing order of the Ground Forces and procedure of the Air Force do not discuss the examination



process in the Budgets Department, and the Director-General of the Ministry of Defense may authorize outsourcing. In the Navy, there is no order or procedure on this matter.

Integration of the examination of insourcing and outsourcing – the IDF General Staff, does not have a complete status of insourcing¹ examination and optimizing and outsourcing activities. Except for the economic examination performed by the Budget Department upon renewal of engagement agreements with companies, the General Staff does not examine periodically the activities that civilian companies have begun to perform for the IDF before the establishment of the General Staff Civilianization Team.

Examination of the outsourcing of vessel maintenance in the General Staff Civilianization Team – the latter has not completed its examination of outsourcing of the maintenance of large and small vessels, including Navy maintenance echelons, including the painting of vessels which is a comprehensive activity about all maintenance content in the Navy. This is contrary to the former head of the IDF Planning Directorate's decision that such an examination be made. In addition, at the end of the audit in November 2020, the Navy and DOPP had still not presented "insights and conclusions" from the outsourcing carried out on maintaining a small² vessel to the General Staff Civilianization Team.

Outsourcing of activity in the Navy in 2016–2019 – the Navy had not submitted for examination to the General Staff Civilianization Team the outsourcing of the maintenance of the two small vessels A and B, nor had the Director-General of the Ministry of Defense approved it. Nevertheless, the DOPP, whose representative is a team member, acted to realize the Navy's procurement requirements for the performance thereof and proceeded to engage with civilian companies. It was found that no one in the Navy Economy and Budget Department or DOPP had alerted the General Staff Civilianization Team and Head of Navy Equipment Division that these should be submitted for examination by the team and approval by the Director-General of the Ministry of Defense.

Outsourcing of activity in the Air Force in 2016–2019 – the Air Force had not submitted for examination to the General Staff Civilianization Team two outsourcing activities regarding spare parts for aircraft and support for ICT systems. This illustrates a lack of clarity regarding the content of the Ministry of Defense provision regarding renewal of engagement, including a substantial change of content.






1 In this report, insourcing means the transfer of activity carried out by civilian parties to the IDF.

2 With the exception of the topic presented in December 2019 by the State Comptroller's office to the Budgets Department with regard to the outsourcing of two small vessels A and B without approval by the Team.



Instruction by the Head of the Budget Department and Financial Advisor to the Chief of Staff – the latter has instructed the branches to submit outsourcing for examinations to the General Staff Civilianization Team.

Key recommendations

-  It is recommended that the Ministry of Defense and the IDF consider setting annual objectives for the scope of savings achieved through outsourcing, the scope of financial planning and execution of outsourcing, and improvement in operational ability or level of service in each branch, track the fulfillment of these objectives and, according to the results, examine the profitability of continued outsourcing of these activities in the IDF.
-  It is recommended that the Budget Department and Planning Directorate examine, every year, the sums saved by the branches following the outsourcing and determine financial criteria for budgeting the branches if they have succeeded in optimizing and consider awarding them a General Staff prize. This is to motivate the branches further to take the initiative and conduct outsourcing processes, and thus increase efficiency in the IDF. It is additionally recommended that the Budget Department regulate the branches report of the outsourcing costs presented to the General Staff Civilianization Team, in an orderly and timely manner including a sums hierarchy of execution of which significant differences between the planned and actual costs shall be reported.
-  It is recommended that the General Staff Civilianization Team form a framework for examining outsourcing satisfaction, within the branches, through surveys, their analysis, and drawing of general and specific inter-branch conclusions. In addition, the branches shall present to the Team the stated findings for periodically examination, among other things, for tracking and control, by the General Staff, regarding the outcomes obtained and the nature of the operational solution.
-  It is recommended that the General Staff Civilianization Team require the branches to present periodic examinations of the outsourcing performed to improve conclusions drawing and their future outsourcing implementation and increase economic efficiency and provision of an operational response through them. Further, the examinations must be published for mutual learning among all IDF branches.
-  It is recommended that the Director-General of the Ministry of Defense and General Staff Civilianization Team form a hierarchical model according to engagement sums and substance of changes in management concept or work content in existing outsourcing. Regarding small or less substantial sums, it is recommended to authorize the branches



to continue with the outsourcing and consider an alternative mechanism of reporting these cases to the Team. This is to allow management flexibility and encourage the branches to optimize through outsourcing.



It is recommended that the Ministry of Defense and IDF properly define outsourcing activity in Ministry of Defense Instructions and General Staff Orders, including reference to new activity hitherto performed in the IDF, and regarding distinguishing between outsourcing and assistance activity, to the extent that such exists.

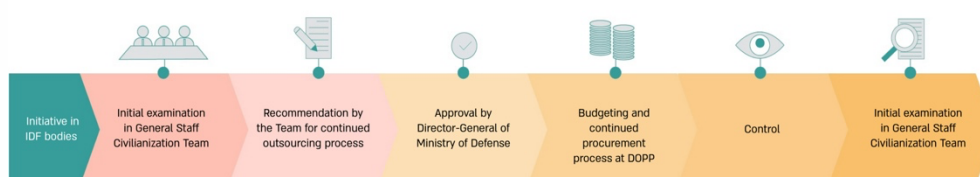


It is recommended that the IDF consider General Staff control, regarding the proper answer it requires as well as economic efficiency in both insourcing and outsourcing, including the need to determine a body to coordinate the two; and organize periodic examination by the General Staff concerning the profitability of outsourcing begun before the establishment of the General Staff Civilianization Team.



It is recommended that IDF branches and General Staff departments, in coordination with the General Staff Civilianization Team, map out the activities performed through civilian companies, and examine which of them constitute outsourcing and require that the Team discuss and refer them to the Director-General of the Ministry of Defense for approval. In addition, it is recommended that the Ministry of Defense examine optimal methods of control, including those required in the computerized procurement system, to identify any activity that constitutes outsourcing.

Process for outsourcing



Budget Department presentation on examination and guiding privatization moves in the IDF since March 2017, arranged by the State Comptroller's office.



Summary

In light of the importance of optimizing the IDF in general and primarily through outsourcing and to optimize the processes of initiating, examining, and guiding outsourcing in the Defense Establishment, the Ministry of Defense and IDF should work together on rectifying the various deficiencies raised in this report and strengthen and optimize its control mechanisms. This is most valid during a period of economic efficiency such as is expected to occur in the Defense Establishment in the coming years.