



Report of the State Comptroller of Israel | May 2022

Ministry of Environmental Protection

The Maintenance of Cleanliness Fund – Financial Aspects



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Background

The Maintenance of Cleanliness Fund is managed by the Ministry of Environmental Protection (MEP), and its purpose is to concentrate financial resources to protect the environment's quality, including promoting cleanliness, waste treatment, preventing illegal garbage disposal, and recycling. Since 2007, a landfill levy paid to the Fund has been levied on every operator of a waste disposal site in Israel, intended to create a negative incentive for landfilling. This waste treatment method is more harmful to the environment than the alternatives. Among the environmental effects of the landfill are air pollution, land and groundwater pollution, greenhouse gas emission¹, hazardous smells, and the occupation of land, a precious resource. The Fund's deposits are managed in the MEP's financial system in a unique and separate budgetary clause and are intended to fulfill the objectives defined by law. Generally, the Fund allocates the projects brought to it for approval after a proceeding of publishing calls for proposals and tenders and by transferring funds to other government ministries.

Key figures

**NIS 3.22
billion**

the Fund's accumulative surplus, by the end of 2020

91.6%

the income rate of the Fund in 2020 from the landfill levy

36.9%

the utilization rate of deposits from the landfill levy during 2007–2019

20%

the landfill target for 2030, according to the strategic plan for 2021–2030

77%

the landfilling rate of municipal waste in Israel in 2019 from the total municipal waste produced

42%

the average rate of landfilling in the OECD countries in 2019

987%

the tariff increase rate of the landfill levy in 2007–2020

approx. 3%

the decline rate in landfilling in Israel in 2007–2019

¹ Regarding the effect of emission of greenhouse gas on climate change see: **the State Comptroller of Israel's Special Report** (2021), "The Government of Israel's Actions and its Preparedness for Climate Change", p. 34.



**approx.
NIS 964
million**

the potential income estimate from investing the accumulated balances of funds in 2011–2020, if they had been invested

**NIS 1.66
billion**

the total funds transferred from the Fund to the State Treasury contrary to the law

Audit actions



From February to August 2021, the Office of the State Comptroller examined various aspects of the Fund's activity, particularly the financial aspects. The audit focused on the Management of the fund using waste landfill levy funds, the primary source of income, for the objectives defined by the Maintenance of Cleanliness Law. The audit was conducted at the Fund's management and MEP, and supplementary examinations were conducted at the Ministry of Finance and the Center for Local Government.

Key findings



Budget utilization – in 2007–2019, the landfill levy funds were partially used to realize objectives in the waste landfill (approximately 37%). Thus, at the end of 2020, it had accumulated surplus funds of about NIS 3.2 billion.



Landfilling rates – despite the gradual increase in the landfill levy (at an inclusive rate of 987% from 2007 to 2020), the decline in the rate of municipal waste landfilling in Israel was moderate, and the rates of waste landfilling in Israel (77%) are almost double the average rate in the OECD member countries (42%).



The organizational structure for managing the fund – although in 2016 and again in 2018, the MEP examined the Fund's administrative structure vis-à-vis the structural alternatives, given the non-exhaustion of the Foundation's activities – this process did not mature into a resolution of the Ministry's senior officials and the Fund's management regarding the optimum structure of the Fund to realize its targets.



-  **Effectiveness examination** – the Fund does not examine the effectiveness of its activity and does not examine whether, over the years, the allocation of its resources has advanced its objectives as prescribed by law, and if so – to what extent.
-  **Activity reports** – in 2018 and 2019, the Minister of Environmental Protection and the Fund's management did not deliver activities reports to the Knesset's Internal Affairs and Environment Committee at the frequency required by law; in November 2020, the MEP, on behalf of the Minister of Environmental Protection and behalf of the Fund's management, delivered a biennial report on the Fund's activity and the implementation of its objectives, relating to 2018 and 2019. The report presented projects payments data without specifying their performance milestones as planned when the allocation was approved. This makes it difficult for the Knesset's Internal Affairs and Environment Committee to effectively monitor the projects' progress.
-  **The Fund's budget approval procedure** – in 2019–2021, no triennial budget was approved for the Fund's activity. Likewise, the annual budget approval procedure was followed during this period only in relation to the general account (out of the Fund's four accounts).
-  **Support for local authorities** – following seven Government decisions from January 2018 to June 2021 regarding support for specific local authorities, the Fund's management approved the transfer of funds to these authorities without examining them according to the defined criteria and even in one particular case, where a call for proposals was published – the assistance was given without the authority responding to the relevant call for proposals. The total allocation of funds approved by the Fund's management in this manner is about NIS 184 million.
-  **Investment of the funds' balances** – the audit found that in 2011–2020, though the Fund's balances had accumulated in to NIS 0.5–3.9 billion, they had not been invested; thus, no return is being yielded. The Office of the State Comptroller estimates the potential Fund's income from the balances investment it had accumulated in 2011–2020, if they had been invested, at about NIS 964 million.
-  **Transfers of funds to the State Treasury** – in 2016–2020, the Fund transferred NIS 1.66 billion to the State budget in return for authorization to commit. Thus, even though the sum was converted into an authorization to commit, the Fund was used as a budgetary source for financing Government activities – contrary to its designation and in violation of the Maintenance of Cleanliness Law.



The Office of the State Comptroller commends the preparation of a multiyear strategic plan for the treatment of waste in Israel and recommends that the Ministry of Environmental Protection implement it, given the high rates of waste landfilling in Israel (77%) and given the landfilling target of 20% in 2030, which was determined in the strategic plan.

Key recommendations



It is recommended that the MEP and the Fund's management comprehensively examine the reasons for utilizing only 36.9% of its funds and the creation of the considerable accumulated surplus of more than NIS 3.2 billion, which prevented it from achieving its objectives. Following this examination, it is appropriate that the MEP and the Fund's management realize the Fund's balances to reduce the landfilled waste and comply with its targets. It is recommended that the outline of the action will be formulated from the perspective of the existing waste foci in Israel and the local authorities' landfilling rates.



It is recommended that the MEP complete examining the alternatives for managing the funds and the waste industry management in Israel and decide upon the optimum alternative providing the most appropriate solution for effectively advancing the Fund's objectives. It is recommended that the MEP also consider the management of environmental funds principles formulated by the OECD.



It is recommended that the Fund's management regularly examine its activity effectiveness by determining, as allocating funds to a project, the environmental outcomes according to the Fund's objectives so it can track its targets achievements. Such an examination will allow it to consider new requests for allocations of the funds, among other things, based upon experience.



The Minister of Environmental Protection and the Fund's management should present to the Knesset's Internal Affairs and Environment Committee the Fund's activity and objectives implementation reports at the frequency prescribed by law, thus the committee can supervise the Fund and survey its activity on a regular and up to date basis. It is appropriate that the MEP and the Fund's management examine the report format and the need to add more information to it, including presenting the planned milestones vis-à-vis the actual budgetary performance and reflecting the landfilling rates segmented by geographical districts; this will enhance the Committee's ability to effectively monitor the Fund's work and the realization of its objectives.



The Fund's management should systematically process annual and multiyear budget approvals regarding all the Fund's accounts. This is especially required given the budgeting, among other things, of strategic plans for waste treatment and long-term



large-scale projects from the Fund's funds. The entire range of the control mechanisms outlined in the Maintenance of Cleanliness Law, in the regulations thereunder, and the Fund's procedures may be used to examine the proper operation of the Fund's conduct and its activity effectiveness and improve them as required. Careful observation of these mechanisms is particularly essential under the existing circumstances, where on the one hand, the Fund is rich in income and has an accumulative surplus of NIS 3.2 billion, while on the other hand, the rate of municipal waste landfilling in Israel is high (77%), notwithstanding the Fund's activity.



Where a government decision has required the Fund to consider assistance to a specific local authority, the Fund should decide according to criteria prescribed in advance by the Fund's management and from a broad viewpoint, by the Fund's rules. So that it is possible to make the most of the provision of assistance according to the authority and other relevant authorities needs, regarding region-wide or other considerations.



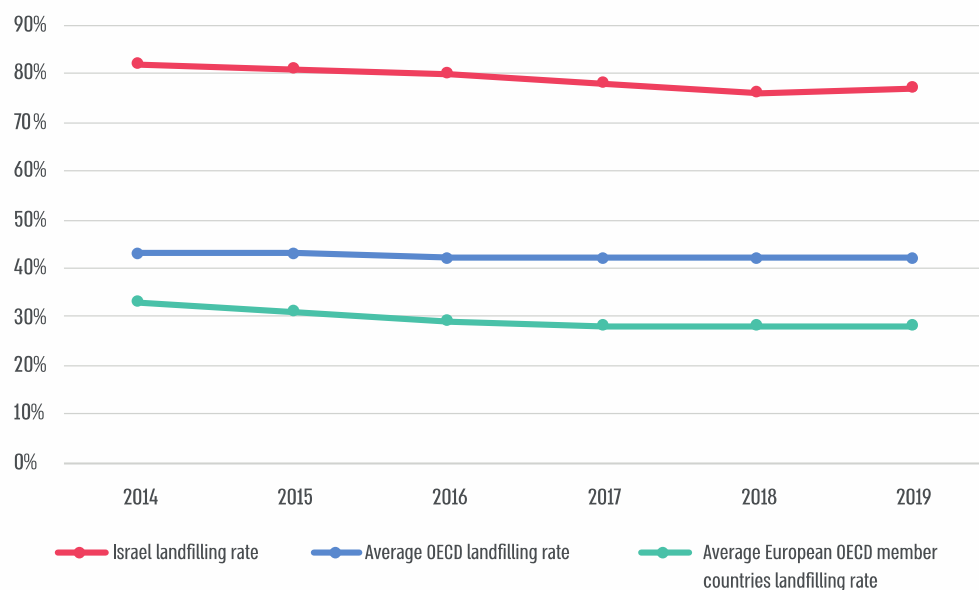
It is recommended that the Fund's management consider investing the available funds that have accumulated in the Fund while ensuring its ability to meet its commitments and plans, considering the Fund's anticipated short-term and long-term cash flow. The investment policy should also be formulated, regarding the ESG considerations.



The Ministry of Finance, in conjunction with the MEP and the Fund's management, should formulate an outline for the repayment of funds in the sum of NIS 1.66 billion, which were transferred in 2016–2020 to the State budget from the Fund's landfill levy account, for the Fund's compliance with the provisions of the Maintenance of Cleanliness Law. It is further recommended that the Fund should be credited for the yield on the balances withdrawn from its sources to realize the Fund's targets and make maximum use of its income while paying attention to the need to advance the objectives for which it was established.



The Rates of municipal waste landfilling in Israel compared to the OECD countries in 2014–2019



According to data from the Central Elections Committee, processed by the Office of the State Comptroller.

Summary

Despite the considerable financial resources at the Maintenance of Cleanliness Fund's disposal and the adverse environmental effects of waste landfilling, this is still the most common method of waste treatment in Israel – 77% of the total municipal waste produced is buried. It is recommended that the MEP and the Fund's management act to implement the strategic plan for waste treatment prepared in 2020; and that the Fund's management conducts an ongoing evaluation of the effectiveness of its actions by determining environmental outcomes derived from its objectives and assimilating control processes over the implementation of its decisions. It is recommended that the MEP and the Fund's management complete the examination of the entire range of actions required to improve and optimize the Fund's activity to achieve its established objectives. The results of this comprehensive examination should be used for improving the Fund's management and activity for full and optimum use of its resources to realize its objective.