



State Comptroller of Israel | Local Government Audit | 2022

Financial Audit

Budget Management in Local Authorities



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Background

The local authorities must manage their financial activity based on an annual budget and plan their economic activity according to it. Their budget must be balanced and divided into the current budget, intended for funding ongoing activities, and a specific extraordinary budget intended for, among other things, financing development projects. The achievement of their activities depends, among other things, on planning their economy and efficiency. The local authorities' budget is the primary tool to follow-up and control over meeting annually and budgetary objectives

Key figures

3.44
NIS billion

the net accumulated deficit of all local authorities at the end of 2019, an increase of approx. 3% compared to a deficit of NIS 3.34 billion at the end of 2016

174.76
NIS million

the local authorities' current deficit budget in 2019

71.71
NIS billion

local authorities' revenues in the current budget in 2019. Their expenses were NIS 71.89 billion

58%

rate of local authorities' internal revenues out of their current budget in 2019

41%

the rate of local authorities that ended the 2019 budget year with a current budgetary deficit, an increase of approx. 25% compared to 2015, with a rate of approx. 34%

9

the number of local authorities that ended the 2019 budget year with a current deficit of over 10%

3

in 2021, three local authorities did not approve their budget at the local authority council; in 2020, four; in 2019, two; in 2018, one

19

the number of local authorities whose budget for 2021 was not approved by the Ministry of Interior (as of November 2021)



Audit actions



From June to November 2021, the State Comptroller's Office examined various aspects of current budget management in local authorities (the budget). The audit focused on the budget formulation process, the local authorities' budget management across the year, and the interaction with Ministry of Interior districts that serve as supervision and regulation entities. The audit was conducted in **Baqa al-Gharbiyye, Yokneam Illit, Modi'in Illit, Kiryat Malakhi, Rosh Ha'ayin, and Ramat HaSharon** municipalities (the audited local authorities). Moreover, the audit was conducted in the Center for Local Government in the Ministry of Interior and the Central and Haifa districts of the Ministry of Interior and included a supplementary audit in the following Ministry districts: North, Tel Aviv, Jerusalem, South, and the Department of Israeli Settlements in Judea and Samaria.

Key findings





The rate of internal revenues in social clusters for 2019 – it was found that the higher the authority is classified on the socio-economic cluster, the higher its internal revenues are. For example, the average rate of internal revenues of local authorities classified in socio-economic cluster 1 is 17.5%, and the average rate of internal revenues of those classified in socio-economic cluster 10 is 80.7% – 4.5 times higher.





Total expenses per resident in the audited local authorities and gaps in education – there is a significant difference between the six audited local authorities' scope of expenses on local and state services per resident. For instance, the most significant expenditure on local services per resident was executed by the Municipality of **Ramat HaSharon** – NIS 2,189 in 2019, more than four times higher (approx. 454% higher) than the lowest parallel expense executed by **Modi'in Illit** municipality, which was NIS 482. The difference in expenditure per resident for state services is lower – the gap between **Ramat HaSharon** (NIS 4,956) and **Modi'in Illit** (NIS 2,622) municipalities is 189%. In addition, significant gaps were found between the audited local authorities regarding the rate of internal financing of educational services. For example, in **Ramat HaSharon** municipality, classified high on the socio-economic scale (9), the internal funding rate of educational services in 2019 was 48%. In **Baqa al Gharbiyye** municipality, which is classified low (3), the rate of internal financing was 12%.




-  **Strategic plans and budget-related plans – Baqa al-Gharbiyye, Yokneam Illit, and Ramat HaSharon** municipalities did not prepare strategic plans for the upcoming years, such as plans that focus on future city development, demographic growth, and revenue increase estimations, and they do not have budget-related work plans.

-  **Ministry Interior Guidelines to prepare Annual budget** – the guidelines for submitting a budget framework for the 2020 budget year were published at the end of December 2019 by the Ministry of Interior. Those for 2021 were published at the beginning of December 2020, i.e., around the beginning of the year budget, when the local authorities' budget was supposed to be ready, following submission to the local authority council.

-  **Submission of Budget Proposal to Council members – Baqa al-Gharbiyye, Yokneam Illit, Modi'in Illit, Kiryat Malakhy, Rosh Ha'ayin, and Ramat HaSharon** municipalities submitted the budget proposals for discussion to the members of the council later than required by law: **Baqa al-Gharbiyye** – the budget proposal for 2020 was submitted to members of the council four months after the due date. The municipality has no references to summons sent to members of the council discussing annual budgets for 2018 and 2019; **Yokneam Illit** – budget proposals for 2018–2021 were submitted to council members between 46 to 102 days after the due date; **Modi'in Illit** – budget proposals for 2018–2021 were submitted to council members between 48 to 109 days after the due date; **Kiryat Malakhi** – the budget proposal for 2021 was submitted to council members two months after the due date. **Kiryat Malakhi** municipality has no references to summons sent to members of the council for discussing annual budgets for 2018–2020; **Ramat HaSharon** – budget proposals for 2018–2021 were submitted to council members between 79 to 214 days after the due date; in **Rosh Ha'ayin** – budget proposals for 2018–2021 were submitted to council members between 42 to 97 days after the due date.

-  **Finance Committee meetings – Baqa al-Gharbiyye, Modi'in Illit, Kiryat Malakhi, and Ramat HaSharon** municipalities did not convene their finance committees at least once every quarter as specified in the Ministry of Interior guidelines. The Finance Committee in **Baqa al-Gharbiyye** convened once in 2018 and 2020 and twice in 2019 and 2021; the committee in **Modi'in Illit** convened once in 2018, three times in 2019, and twice in 2020 and 2021; the committee in **Kiryat Malakhi** convened once in 2018 and three times in 2021; in **Ramat HaSharon**, the committee convened three times in 2018 and three times in 2021 by the date of audit completion.

-  **Local authority council budget approval** – according to information from the Ministry of Interior, in 2018–2021, several local authorities operated throughout the year without an approved budget: in 2018 in **Nazareth**, in 2019 in **Tiberias**, and in Local Council of **Yarka**; in 2020 in **Or Akiva**, the Local Council of **Gush Halav**, the Local Council of **Dabburiya** and the Local Council of **Kfar Manda**; in 2021, **Or Akiva**,



the Local Council of **Peki'in** and the Local Council of **Kfar Manda**. In 2021, approx. 35% of the local authorities in the southern district of the Ministry of Interior did not approve their budgets on time. By the end of the first half of 2021, approx. 16% of all local authorities in Israel (40 local authorities) did not approve their budgets at the local authority council. However, they were supposed to do that by the beginning of the new budget year.




Reserve Budget approval (approval of the additional budget in the year) by the local authorities and the Ministry of Interior – Yokneam Illit and Ramat HaSharon municipalities did not approve reserve budgets for 2018 and 2019. However, they exceeded their approved budget for these years and did not ask the Ministry of Interior to approve the deviations as prescribed by law. **Modi'in Illit** approved the first reserve budget for 2018 at its council at the end of August 2018 and the second reserve budget at the beginning of 2019 (after the end of the budget year). It approved the reserve budget for 2019 at the end of November 2019. The Ministry of Interior approved the final reserve budget for 2018 a month after the end of the budget year, and the Ministry approved the final reserve budget more than two months after the budget year. **Kiryat Malakhi** approved its reserve budget for 2018 and 2019 by its council on the last day of the budget year in each of these years. The Ministry of Interior approved the budget for 2018 three months after the end of the budget year, and the reserve budget for 2019 was approved five months after the end of the budget year. According to some Ministry of Interior Districts, they find it difficult to adhere fully to the provisions of the law regarding approval of budgetary changes throughout the year due to a lack of necessary resources. It should be noted that approval of the reserve budget by the local authority council around the end of the budget year and the approval by the Ministry of Interior after the end of the budget year, or even several months afterward, is a technical action with no practical significance since the approval is given in retrospect and does not allow the Ministry of Interior and supervision entities from within the municipality, such as the municipality council and the finance committee, to monitor the municipality's financial activities effectively.




Ministry of Interior supervision of local authorities' budget management – the Ministry of Interior's Department of Supervision and Budgeting held only one annual supervision meeting that focused on local authorities' budgetary management (chaired by the Ministry of Interior director general) in each of the years 2018, 2019 and 2020. In 2021 until November, no supervision meetings were held, although the department stated that such meetings should be held every quarter. In addition, no meeting protocols were found. **The Local Authorities Audit Department in the Ministry of Interior** – the local authorities' audited financial statements for 2019 were prepared by accountants appointed by the Department up to seven months after the due date set by the Ministry. It was further raised that in three of the local authorities (**Kiryat Malakhi, Rosh Ha'ayin, and Ramat HaSharon**), the statements were prepared more than a



year after the end of the fiscal year. In early August 2021, about seven months after the end of the 2020 fiscal year, the Department appointed accountants to audit 150 local authorities (58% of 257 local authorities). As of October 2021, ten months after the end of the fiscal year, no audited statements had been submitted to the Ministry of Interior.

 **Approval of local authorities' budgets by the districts** – as of the end of the first half of 2021, the **Ministry of Interior's** districts approved the budget of 57% of local authorities, i.e., as of that date, 43% of the local authorities operated without an approved budget. As of November 2021, a month before the end of the budget year, there were 19 local authorities whose budgets had not been approved by the Ministry of Interior, including the **Kiryat Malakhi**. The municipality's budget for 2018–2020 was approved by the Ministry of Interior 6–8.5 months after the beginning of the budget year, and the municipality's budget for 2021 was only approved in mid-December 2021. In 2020 and 2021, the state budget was not approved. Thus, during those years, there was no option of imposing the legal sanction of dispersing the councils of the authorities that did not approve their budget on time.

 **Publishing local authorities' budgets** – **Baqa al-Gharbiyye** did not publish its budgets for 2018–2021 on its website.



Encouraging authorities to increase their internal revenues – the Ministry of Interior held diverse activities to encourage local authorities to increase their internal revenues, including the creation of geographical committees¹; Making Several Governmental Decisions for the sake of Empowering and strengthening "weakened" local authorities²; Implementing the "Mirror" Plan intended to assist local authorities to advance improvements related to their organization conduct and their ability to create

1 Changing municipal boundaries of local authorities and the request of local authorities to advance revenue distribution from adjacent authorities or to change their municipal status require a recommendation from the Ministry's director general and Minister of Interior's approval. To make a decision, the Minister of Interior must receive a recommendation through a public committee. From the Ministry of Interior's Website – <https://www.gov.il/he/departments/topics/geographical/govil-landing-page>.

2 Amongst Government Resolutions: Resolution 959, **Plan for Development and Empowerment of Druse and Circassian Towns for 2016–2019** (January 2016); Resolution 922, **Government's Actions for Economic Development amongst Minority Populations for 2016–2020** (December 2015) (in October 2020 the plan was extended by one year as part of Government Resolution 468); Resolution 1480, **A Governmental Plan for Empowerment and Economic – Social Strengthening of Bedouin Towns in the North for 2016–2020** (June 2016) (in October 2020 the plan was extended by one year as part of Government Resolution 469); Resolution 2397, **Social and Economic Development – a five-year plan for the Bedouin Sector 2017–2021** (February 2017); Government Resolution 2262, **Economic Development of the Northern District and complementary actions for the city of Haifa** (January 2017).



additional sources of income to improve the level of municipal services they provide to their residents.

Publishing of authorities' budget – Kiryat Malakhi, Rosh Ha'ayin, and Ramat Hasharon municipalities published specified and accessible information about their budget on their websites.

Key recommendations



It is recommended that the Ministry of Interior and the Ministry of Education examine educational services budgeting in local authorities to minimize the gaps between the different local authorities. **Baqa al-Gharbiyye, Yokneam Illit, Kiryat Malakhi, Rosh Ha'ayin, and Ramat Hasharon** municipalities should approve their budgets before the beginning of a budget year, according to the law and the Ministry of Interior guidelines. It is further recommended that **Baqa al-Gharbiyye** and **Yokneam Illit** municipalities develop a strategic plan and that **Ramat HaSharon** completes the preparation of the plan. Moreover, **Yokneam Illit, Modi'in Illit, Kiryat Malakhi, and Ramat HaSharon** should operate under an approved budget. If needed, they should approve a reserve budget at the municipality's council and have it approved by the Ministry of Interior.



It is recommended that the **Ministry of Interior** examine tools to ensure that all local authorities submit their budgets for approval as early as possible, examine ways of improving follow-up and supervision over budgetary changes requested by local authorities in a budget year, publish guidelines for budget preparation as early as possible to enable the local authorities to prepare their budgets as early as possible and approve it at their councils, clarify its guidelines for the accountants who audit the authorities' financial statements regarding deviations from approved budgets without an arrangement as part of a reserve budget, track the financial and budgetary situation of the local authorities quarterly, document the key findings and the decisions that were made and shorten the time frames for completion of the local authorities' audited statements.



Kiryat Malakhi should adhere to the provisions of different laws and the Ministry of Interior guidelines when managing its budget. It is recommended that the **Ministry of Interior** examine the various options to act vis-a-vis local authorities that do not adhere to the provisions of the law and its guidelines, including taking gradual action.

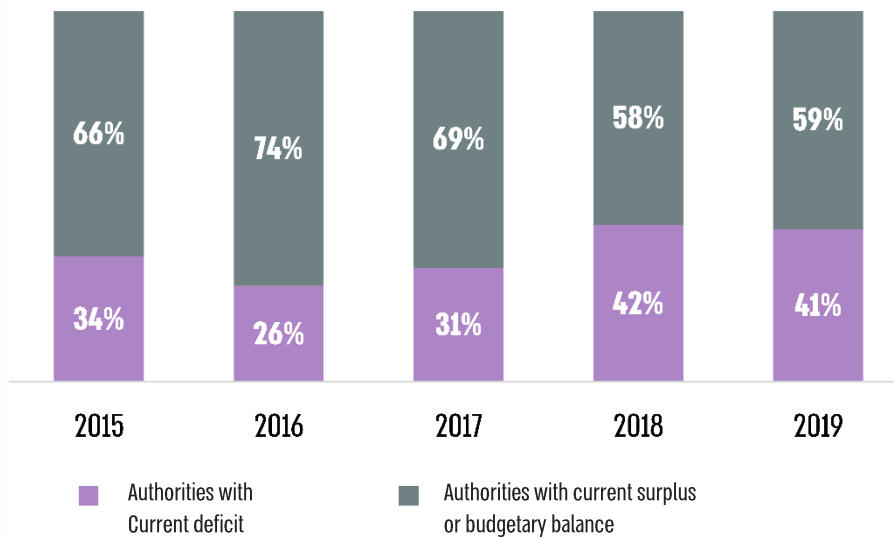


It is recommended that the **Ministry of Interior** consider the regulation of sanctions that might be used whenever there is no approved state budget so that it can act vis-a-



vis the local authorities and make sure they operate according to their budget. In addition, it is recommended that the Ministry form specified working procedures that focus on supervision of the authorities' budget approval and management throughout the budget year to assist all relevant entities in the Ministry that deal with budgets, including the Ministry's districts.

Division of local authorities into two groups. The local authorities that had a surplus or budgetary balance and those that had a budgetary deficit at the end of the budget year, 2015–2019.



According to data from the Local Authorities Audit Department in the Ministry of Interior, processed by the State Comptroller Office.

Summary

Each local authority is required to operate using an annual budget, which is the financial manifestation of its work plan and is supposed to reflect its objectives and priorities. The importance of the local authority's budget lies in its being the primary tool for planning the authority's activities and for conducting follow-up and supervision over meeting annual and budgetary objectives. The audit's findings raised some deficiencies in budget management in



local authorities. In addition, deficiencies were found in how the Ministry of Interior supervision over the authorities' conduct. To improve the local authorities' conduct and efficiency of financial matters and budget, the **Ministry of Interior** and the local authorities should rectify the deficiencies, approve and manage the local authorities' budgets according to the law and examine ways to optimize budgetary planning processes and allocation of budgets by the authorities. Moreover, it is recommended that the **Inter-ministerial Power Distribution Committee** and the **Ministry of Interior's Power Distribution Committee** examine the key findings and recommendations in this report as part of forming their recommendations regarding the distribution of powers in local authorities.