



State Comptroller of Israel | Local Government Audit | 2022

Follow-up Audit

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# **Extraordinary Budgets in Local Authorities**





# Extraordinary Budgets in Local Authorities

## Background

The extraordinary budget (extraordinary or development budget) is generally used by the local authority to finance different projects related to development and is defined as investments. According to local authorities regulations, an extraordinary budget is "a municipality budget designated for a one-time use or a specific field of operation and includes assessment of receipts and payments for that use or for that field of operation and funds that were legally designated for purposes not included in the regular budget." The sources of receipts in an extraordinary budget include internal revenues and owner's participation<sup>1</sup>, ministries and public institutions, donations, and loans. Regarding the allocation of public resources, including extraordinary budgets, the local authority is free to use its discretion. When public resources are distributed, the local authority must properly serve all its residents and ensure proper management. Allocation of public resources must correspond with principles of reasonability and proportionality by fair, equal, practical, and transparent criteria.

<sup>1</sup> Revenues deriving from owners' participation in development works including fees, taxes, participation in road, sidewalks and sewage infrastructure development, drainage and pipeline projects, etc.



### Key figures

**approx. NIS  
19.6 billion**

local authorities' total expenses in extraordinary budgets in 2019, compared to about NIS 8.7 billion in 2010 (an increase of 125%). About 20% of the total budget

**approx. NIS  
1.76 billion**

the temporary annual deficit in extraordinary budgets in 2018, the municipal elections year, compared to the previous year's surplus of NIS 706 million in 2017

**approx.  
40%**

out of the total expenses of all local authorities for financing development works derived from government ministries in 2019

**approx. 50%**

of local authorities accumulated a total of approx. NIS 614 million finite deficits in extraordinary budgets by the end of 2019

**1,088 and  
1470 days  
(approx. 3 and  
4 years)**

**NIS 1,583**

the average annual expenditure of a local authority per capita in extraordinary budgets in 2010–2019

**91%**

the audited local authorities' extraordinary budgets (in the scope of NIS 561 million) were approved by council members in 2020 with no details given at the council meetings

**21**

local authorities began using extraordinary budgets in 2019 before the head of the district in the Ministry of Interior approved them

the duration between the opening of the extraordinary budget (designated for the construction and development of educational institutions) and the completion of works in Neve Midbar and Ness Ziona, respectively

## Audit actions



From June to November 2021, the State Comptroller's Office examined local authorities' different development budget aspects. The audit was conducted in six local authorities: Or Yehuda, Nof HaGalil, Ness Ziona, Sakhnin, and Kiryat Ono municipalities and the Regional Council of Neve Midbar (the audited local authorities) and in the Ministry of Interior – the Headquarters and the Northern, Central and Tel Aviv Districts. Supplementary audits were conducted in the Ministry of Education and the Ministry of Construction and Housing.



## Key findings



**Extraordinary budgets' deficits** – opposed to the approved balanced budget and the Ministry of Interior guidelines, 127 (approx. 50%) local authorities had accumulated NIS 614 million, finite deficits in their extraordinary budgets by the end of 2019. Moreover, the major temporary annual budget deficit was accumulated during municipal election years (2013 and 2018), about NIS 1.15 billion and NIS 1.76 billion, respectively, compared to temporary surpluses in the extraordinary budgets in regular years.



**Master plans and local master plans as a basis for extraordinary budgets** – local authorities' development directions derive from their policy and planning documents. Hence, statutory and strategic plans serve as the basis for development plans. It was found that three out of the six audited local authorities: **Or Yehuda, Ness Ziona, and Sakhnin**, do not have an updated, approved master plan; that two local authorities (**Neve Midbar and Nof HaGalil**) do not have master plans and that three local authorities (**Or Yehuda, Sakhnin and Kiryat Ono**) have two or three master plans for specific issues.



**Annual and multi-annual work plans** – four out of the six audited local authorities: **Nof HaGalil, Ness Ziona, and Sakhnin** municipalities and the Regional Council of **Neve Midbar** do not have annual and multi-annual work plans, which include Key Performance Indicators (KPI's); **Kiryat Ono** municipality prepared a multi-annual work plan, which includes KPI's, for 2021 only for the City Beautification Department, although that year, extraordinary budgets were approved for other departments as well. The multi-annual work plan of **Or Yehuda** municipality did not include KPI's.








**Reporting multi-annual development plans to the Ministry of Interior** – in 2018–2021, **Nof HaGalil and Sakhnin** municipalities did not report their development plans to the Ministry of Interior; **Or Yehuda and Kiryat Ono** municipalities reported their development plans to the Ministry of Interior, but the plans did not include all the necessary details; the Regional Council of **Neve Midbar** reported all the essential information except for estimated completion time.



**The approving process of an extraordinary budget by the finance committee and Local authority council** – it was found that the finance committees of **Or Yehuda, Nof HaGalil, and Sakhnin** approved the extraordinary budgets, though minimal details were presented about most of the extraordinary budgets (124 out of the 133 that were approved in 2020). In the audited local authorities, members of the council used to approve extraordinary budgets for development works, although about 91% of the extraordinary budgets (371 out of 407), approved in 2020, in the scope of



NIS 561 million, out of NIS 671 million, were approved with no detailed explanations presented in council meetings.

-  **Performing development works before extraordinary budget approval and deviations from approved budget** – in 2015–2019, 7%–26% of local authorities carried out projects before receiving approval from the Ministry of Interior as required. At that time, about 84 (33%) of local authorities used extraordinary budgets while deviating from the approved budgetary framework.
-  **Work processes at the ministry of Interior headquarters (Department of Supervision, Budgeting, and Development of Local Authorities) and the districts** – the Ministry of Interior Headquarters has no designated, general work policy regarding extraordinary budgets. The Headquarters focuses its supervision efforts on auditing the finite deficits of local authorities and does not review the overall operation of local authorities regarding extraordinary budgets unless the Ministry finances the extraordinary budget or when the budget is funded by loans (as part of the supervision required for loan approval). The districts have not always acted according to the policies established by them; the Central District does not keep data about the date on which applications are made and closed, or the time it takes to handle them; the Tel Aviv and Central Districts do not have a regulated work plan for auditing local authorities, and they do not audit the local authorities within their jurisdiction.
-  **Extraordinary budgets' management computerized system** – two out of the seven Ministry of Interior Districts (Tel Aviv and Central Districts) have not implemented, or only partially implemented, "Zavit Mekomit," the system that is used for extraordinary budgets' management, thus, the Ministry of Interior Headquarters does not have a complete picture of the extraordinary budgets of all local authorities. It was further found that the Ministry of Interior Headquarters does not use the "Zavit Mekomit" system and has not submitted requests to the computerized system to issue various reports for performing follow-up and analyzing data related to the districts that have implemented the computerized system. The Ministry of Interior stated that its Information Systems Department has been developing a new unified system designated to handle all regulation policies, including the submission of extraordinary budgets.
-  **Handling requests for development loans** – the Ministry of Interior Headquarters and the audited Districts do not review the total loan interest rates every now and then to ensure optimal mix. In addition, no rules have been established regarding receiving credit vis-a-vis future funding resources that can be used for loan repayment (such as neighborhood populating and collecting fees and taxes).
-  **Handling loan applications** – the Ministry of Interior Headquarters and one audited district out of the three (Central District) operate with no policy regulating the loan approval process.



**Audits conducted by the northern district regarding extraordinary budgets** – the State Comptroller Office commends the Northern District for preparing a plan for auditing local authorities concerning extraordinary budgets and rapidly handling local authorities' requests for approval of extraordinary budgets.

**The proportion of loans in funding development budgets** – the State Comptroller Office commends the positive trend of decreasing the proportion of loans (which put pressure on the local authorities to repay them) in funding development budgets over the years. It might increase the quality and diversity of services the local authorities provide to their residents and improve their well-being.

## Key recommendations

- 💡 It is recommended that the audited local authorities: **Or Yehuda, Nof HaGalil, Ness Ziona, Sakhnin, and Kiryat Ono** municipalities and the Regional Council of **Neve Midbar** prepare annual and multi-annual plans, which include KPI's and act upon them. The audited local authorities should follow the guidelines and report their development plans to the Ministry of Interior as required. It is further recommended that all the local authorities publish their development plans on their website to be accessible to the public.
- 💡 It is recommended that the audited local authorities conduct a regulated process of initiating and selecting extraordinary budgets based on a comprehensive vision of development while setting long-term and short-term objectives, a process that relies on the analysis of the needs of the authorities and their residents while allocating resources according to equal, practical and transparent criteria and considering funding resources. The initiation should include written criteria for selecting extraordinary budgets and setting KPI's. Moreover, the local authorities should document the process in writing.
- 💡 The local authorities should ensure they begin development works only after receiving the relevant approvals. They should ensure that the costs of development works do not exceed the approved budget.
- 💡 It is recommended that the Ministry of Interior Headquarters review the process of approving extraordinary budgets in the different districts, set criteria for supervising extraordinary budgets, and examine them and the use of designated funds. It is further recommended that the Ministry of Interior form a unified policy for its headquarters and districts' work to allow unity and optimization of operation modes and grant binding validity to the way the districts handle identical requests to approve extraordinary budgets made by different local authorities.

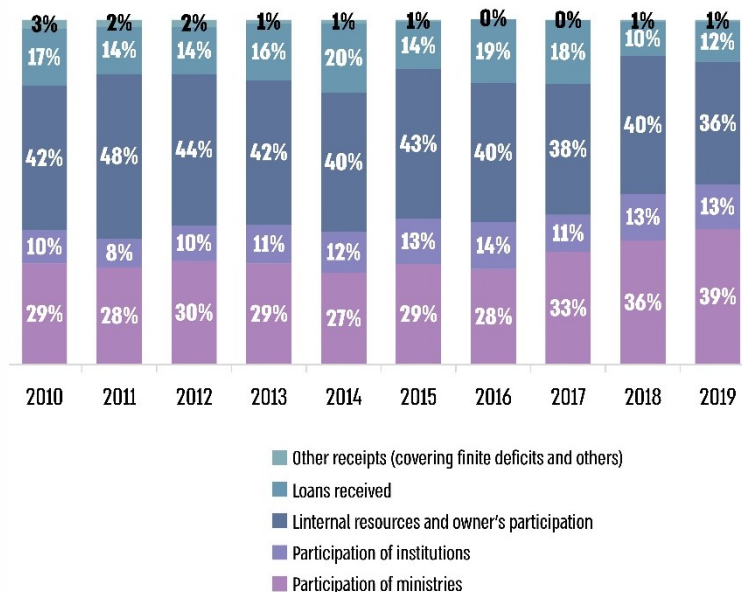


As a regulator, it is recommended that the Ministry of Interior ensure a comprehensive information collection mechanism, which is also used in case of extraordinary budgets of resilient local authorities.



It is recommended that the Ministry of Interior form a policy for handling loans, to be used by its Department of Supervision, Budgeting, and Development to exercise the Ministry's power regarding loans given to local authorities in a unified, efficient manner. Moreover, the policy refer, among other things, to loan eligibility, the process of taking loans, and supervision of their use. It is further recommended that the Ministry of Interior consider forming guidelines for the local authorities and develop supervision tools over loan recycling possibilities according to changes in inflationary expectations and interest rates and form rules for the approval of credit vis-a-vis future funding resources that might be used for repaying loans.

### Distribution of local authorities' annual revenues in extraordinary budgets, according to their resources in 2010–2019



According to data from the Ministry of Interior and the audited annual financial statements of all local authorities, processed by the State Comptroller Office.





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## Summary

The extraordinary budget is an essential resource through which the local authority increases, optimizes, and develops its public assets for its residents. This report raises that development is managed through an extraordinary budget through separate projects and that the entire process is not viewed as a whole. Initiation of an extraordinary budget and its management, performed in a planned, regulated manner, at the level of the Ministry of Interior and the level of the local authority, and according to multi-annual planning, will bring about development which is beneficial for the residents and improves their well-being while maintaining cost-effectiveness principles. It is recommended that the local authorities and the Ministry of Interior rectify the deficiencies and review the recommendations specified in this report.