



State Comptroller of Israel | Local Government
Audit Report | 2023

Financial Audit

Recovery Plans in Local Authorities



Recovery Plans in Local Authorities

Background

By the end of 2003, many local authorities were in a financial crisis. As a result, in February 2004, the government adopted a resolution designed to bring about a comprehensive solution to the deficits in the local authorities so that, among other things, the provision of municipal services in an equitable manner and with maximum efficiency would be possible for all residents of the country. As part of the solution, recovery plans were formulated for the authorities. The recovery plans included measures the authorities would be required to take for efficiency purposes to achieve budgetary balance. Following the government's resolution, a recovery plan was established by law to balance the local authorities' budget. From 2005, local authorities with problematic financial situation worked according to recovery plans formulated in cooperation with the Ministry of Interior.



Key Figures

71 local authorities

operated in 2011–2020, according to recovery plans. In June 2022, the date the audit began, 33 local authorities operated according to recovery plans

79%

of the local authorities that operate according to recovery plans are authorities from the Arab sector

13 recovery plans

were implemented repeatedly and unsuccessfully in the four examined local authorities: 5 plans in **Bustan al-Marj**, 2 – in **Beit Aryeh**, 3 – in **Jisr az-Zarqa**, and 3 – in **Sajur**

NIS 62.9 million

were transferred by the Ministry of Interior to the four examined local authorities to cover accrued deficits as part of the recovery plans in 2011–2020

about NIS 42.2 million

loans taken by the examined local authorities to cover accrued deficits according to the recovery plans in 2011–2020

84 out of 186

requirements set as milestones and as additional goals within the 13 recovery plans – the examined authorities failed to meet

NIS 27 million out of about NIS 145 million


grants that the examined authorities did not receive due to failure to meet the goals of the recovery plans

only 3% to 26%

the average annual collection rates of municipal property tax due to the examined authorities' arrears in 2011–2020




Audit Actions


 From June to November 2022, the State Comptroller's Office examined the implementation of the recovery plans in the local authorities in 2011–2020. The main topics examined were the formulation of recovery plans, achieving the goals of the recovery plans and meeting their targets, grants, and loans given to the authorities, and control over the implementation of the plans. The examination was carried out in four local authorities, in each of which several recovery plans have been implemented over the years: in the local authorities of **Beit Aryeh**, **Jisr az-Zarqa**, and **Sajur** and in the **Bustan al-Marj** Regional Council (the examined authorities). The examination was also conducted at the Ministry of Interior – at the headquarters and in the Judea and Samaria, Haifa, and the North Districts.

Key Findings




 **The Scope of Local Authorities that Operated According to Recovery Plans** – in 2011–2020, 71 local authorities operated according to recovery plans. Usually, each recovery plan lasts one to two years. For the most part, the number of recovery plans imposed on each of the 71 authorities above ranges from only one plan to four plans at most. The Ministry of Interior does not have collated data on the total number of recovery plans implemented in 2011–2020 in 71 local authorities that operated in the years above, according to a recovery plan.







 **The Recovery Plans Application Period in the Examined Local Authorities** – 11 of the 13 recovery plans were signed between two and ten months after their implementation began. I.e., the plans were signed retrospectively, and as a result, the recovery plans stipulated actions for achieving goals that had already been carried out in practice. In the **Bustan Al-Maraj** Regional Council, four recovery plans were partially implemented over two years, in overlapping periods: when the Council and the Ministry of Interior realized that the implemented recovery plan was not working properly due to failure to meet the goals, they canceled it and implemented a new, more lenient plan.



 **Meeting the Main Goal of the Recovery Plans (balancing the regular annual budget)** – in two of the four examined authorities (**Beit Aryeh** and **Jisr az-Zarqa**) the debts of the local authority (which include the accrued deficit in the regular budget, the final deficits in the unusual budgets and the burden of the loans) increased during the implementation period of the recovery plans were – the total debts of **Beit Aryeh** increased by about NIS 15.4 million in 2016–2020, and the total debts of **Jisr az-Zarqa**



increased by about NIS 33.23 million in 2011–2020; And in two authorities (**Bustan al-Marj** and **Sajur**) the debts did decrease, but this was mainly due to NIS 43.2 million grants they received from the Ministry of Interior and not due to their actions. The recovery plans implemented over the years in the four examined local authorities failed to stabilize their budget. These local authorities did not meet the goals of the recovery plans they signed with the Ministry of Interior, and they continued to operate with accrued deficits despite grants of NIS 62.9 million transferred to them and despite about NIS 42.2 million loans given to them.

-  **Formulation of a Recovery Plan** – it was found that although the government resolution set requirements for the selling of local authority's assets, for making structural and organizational changes, and for streamlining procurement and improving tenders, in practice, in all 13 recovery plans implemented in the four examined local authorities, such requirements were not included. Furthermore, no documentation was found that the Ministry of Interior examined jurisdictional changes regarding **Beit Aryeh** and **Sajur**, and the transfer of Own Income between the local authorities was not examined. It was further found that the Ministry of Interior does not have written criteria for selecting the milestones and additional goals of the recovery plans proposed to the local authorities.
-  **Meeting the Milestone Goals and the Additional Goals** – **Bustan al-Marj**, **Beit Aryeh**, **Jisr az-Zarqa**, and **Sajur** did not meet 84 out of 186 of the requirements set in the milestones and the additional goals defined for them as part of the 13 recovery plans, and as a result they did not receive loans required for their recovery and grants of about NIS 27 million out of about NIS 145 million allocated to the recovery plans (19% of the total amounts included in the recovery plans). It should be noted that there is variation in the allocation of grant amounts. To meet some goals, grants were sometimes allocated in considerable amounts, so even though the authorities did not meet 45% of the goals, they received 81% of the total allocations.
-  **Doubtful Debts and Bad Debts (debts to be written off)** – at the end of 2020, the doubtful debts and the debts to be written off in **Bustan al-Marj** were about NIS 15.7 million, in **Beit Aryeh** about NIS 2.7 million, in **Jisr az-Zarqa** about NIS 181 million and in **Sajur** about NIS 53.7 million. The high percentage of doubtful debts and debts to be written off from all debts in **Bustan al-Marj**, **Jisr az-Zarqa**, and **Sajur**, from 57% to 83%, indicates that the authorities did not make an effort to collect debts from their residents and as a result, non-payment became a norm.
-  **Property Survey for Municipal Property Tax Payments** – **Beit Aryeh** did not conduct a property survey for 13 years, and **Sajur** did not conduct a property survey for 11 years; however, the Ministry of Interior set this goal for them at a very late stage, as part of the newest recovery plans in 2020. Following the surveys conducted in 2019–2020, the size of areas subject to financial charging by **Beit Aryeh** and **Sajur** increased by about 44,000 and about 30,000 square meters, respectively, and the



financial charging (gross – before discounts) increased by about NIS 2.4 million and NIS 1.4 million, respectively.



Collection of Municipal Property Tax – in 2011–2020, the average rate of total municipal property tax collection (current and arrears) in **Jisr az-Zarqa** and **Sajur** was 35% and 28%, respectively; this compared to a national average of 66%. In 2011–2020, the average rate of collection of municipal property tax in arrears of three authorities (**Bustan Al Marj**, **Beit Aryeh**, and **Sajur**) was low and was 19%–26%, while the collection rate in **Sajur** was only 3%; this compared to a national average rate of 28%. The recovery plans of the **Jisr az-Zarqa** and **Sajur** did not include requirements for collecting debts in arrears. The **Bustan Al-Marj** Regional Council does not operate the local committees, does not delegate their powers, and does not allow them to collect local committee taxes.



Non-Residential Municipal Property Tax – municipal property tax charges for non-residential properties of **Beit Aryeh**, **Jisr az-Zarqa**, and the **Bustan Al-Marj** Regional Council in 2020 comprised a relatively small part of their total municipal property tax charges (3%–8%) compared to the national average (49%), among other things, due, to the lack of appropriate local economic infrastructures which are a necessary condition for the establishment of factories. In the recovery plans of the four examined authorities, except for **Sajur's** 2020 recovery plan, requirements for developing commercial and industrial areas were not included in the additional milestones and goals.









The Ministry of Interior's Control over the Implementation of the Recovery Plans – the Ministry of Interior does not have complete, collated data regarding the grants given to each of the authorities that operated according to the recovery plans and to all the authorities each year, and it also does not have collated data on the loans taken by each local authority; In 2011–2020, the Ministry of Interior did not appoint a supervising tax collector or an accompanying accountant as a supervising tax collector in **Jisr az-Zarqa** (except for 2020) and **Sajur**, even though they met the criteria for the appointing of a supervising tax collector; Although **Bustan Al-Marj**, **Jisr az-Zarqa**, and **Sajur** did not meet some of the main goals in their recovery plans, and even though the recovery plans failed and the authorities continued to accrue deficits – the Minister of Interior did not exercise its authority and did not order the appointment of a committee to fulfill the duties of the council and those of the head of the council.



Municipal Property Tax Collection – the average rate of municipal property tax collection from current charges in 2011–2020 in the **Bustan Al-Marj** Regional Council and **Beit Aryeh** was 89% and 92%, respectively, compared to a national average of 86.4%.

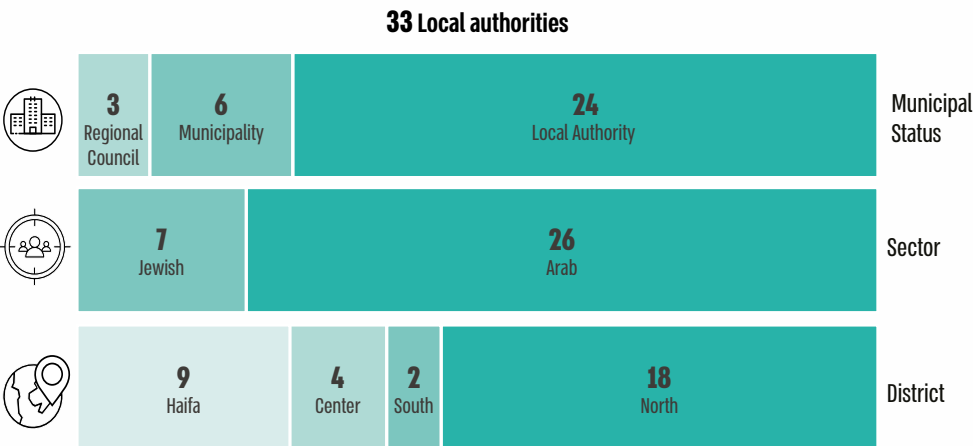


Key Recommendations

-  **Bustan al-Marj, Beit Aryeh, Jisr az-Zarqa, and Sajur** must meet all their goals in the recovery plans and reduce their accrued deficits. It is recommended that the Ministry of Interior consider a hierarchy of actions and controls vis-à-vis a local authority that does not meet the goals. The Ministry of Interior should refrain from signing an updated and lenient recovery plan before the end of the deadline set for the evaluation of the existing plan.
-  **Bustan al-Marj, Beit Aryeh, Jisr az-Zarqa, and Sajur** should increase the collection of municipal property taxes in arrears. It is recommended that the Ministry of Interior set goals for collecting municipal property tax debts in arrears.
-  To increase the authorities' Own Income in the non-Jewish sector, it is recommended that the Ministry of Interior include in the recovery plans targets for the development of employment and industrial areas and cooperate with the authorities to promote them, and alternatively promote border committees for the distribution of revenues.
-  To improve the Ministry of Interior's control over the implementation of the recovery plans, it should utilize an information system that includes an annual list of authorities operating according to recovery plans, the duration of each plan, annual data on the extent of the grants given to the authorities and the loans that each local authority took for its recovery plans.
-  It is recommended that the Ministry of Interior authorize the accompanying accountant as a supervising tax collector to increase the collection rates of the municipal property tax (also in cases where the collection of taxes in arrears is low), of the other mandatory payments and of the water payments in authorities such as those that were examined, I.e., authorities that met the criteria for the appointing of a supervising tax collector and whose rate of collection was low over the years. In cases where the authority does not meet the main goals of its recovery plans, it is recommended that the Ministry of Interior consider appointing an appointed committee.
-  It is recommended that the Ministry of Interior consider changing the format of the recovery plans for the authorities and consider what goals should be set and what additional steps and measures should be taken to help the local authorities improve their budgetary management and increase their revenue potential.



Breakdown of the Local Authorities Operating According to Recovery Plans, by Municipal Status, Sector and Districts of the Ministry of Interior, June 2022



According to the Ministry of Interior data processed by the State Comptroller's Office.



Summary

The State Comptroller's Office examined the activities of four local authorities – **Beit Aryeh, Jisr az-Zarqa, Bustan al-Marj, and Sajur** – within the framework of 13 recovery plans and the extent of their meeting the goals set for them in those plans in ten years (2011–2020). According to the report, the authorities above failed to meet 84 out of 186 of the requirements set in the milestones and the additional goals that were set for them as part of the 13 recovery plans, and as a result, they did not receive loans required for their recovery and grants of about NIS 27 million, that would have been included in the goals, had they met them. Hence, the authorities could not reach an annual balance in the regular budget and continued operating with accrued deficits. Therefore, the mechanism adopted by the Ministry of Interior for the recovery of those authorities and for improving their functioning is not effective enough.

The long-standing failure of the recovery plans highlights the need to examine their current structure thoroughly. The State Comptroller's Office recommends that the Ministry of Interior draw lessons and consider additional measures to help the local authorities and their residents. A change in the format of the recovery plans for the authorities is also recommended, especially given the Ministry of Interior's responsibility and its powers, so that these authorities become financially and administratively independent.