

State Comptroller Report

November 2024 | 75A Part Two

A b s t r a c t s



State of Israel

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Foreword

The State Comptroller's annual audit report – November 2024 is submitted to the Knesset according to the State Comptroller's Law, 1958 [Consolidated Version]. The report includes the results of the audit on government ministries, state corporations, and the local government. The report also includes two special (separate) reports pursuant to Section 14(b)(1) of the State Comptroller's Law.

Since October 2023, the State of Israel is engaged in the Iron Swords War, both in the northern and southern regions, following the murderous surprise attack by the Hamas on settlements in the Gaza Envelope and its vicinity during the Jewish holiday of Simchat Torah, on October 7th. As previously announced, our office is conducting a comprehensive audit on matters related to the massacre on October 7th and the Iron Swords War. In my view, there is a public and moral obligation to conduct an audit that will examine the performance of all ranks on the day of the massacre, in the period leading up to it, and in the period thereafter.

Alongside this audit regarding the Iron Swords War, our office continues to conduct audits on other matters. Below is an overview of several audits:

- The Office of the State Comptroller places special emphasis on conducting audits on systemic issues with broad national implications. The report outlines findings from a systemic audit regarding **The State's Response to Concentration and Monopolies in the Food and Consumer Goods Sector**. The cost of living in Israel is pivotal in the lives of its citizens; Private consumption expenditure on food and non-alcoholic beverages amounted to NIS 138 billion in 2021. Some of the rising prices stem from structural challenges in the food and consumer markets, including centralization, economy competitiveness, customs barriers, plant protection barriers, and public health constraints. The audit raised that three food suppliers dominate over 85% of total sales of 20 food products categories, with Israel's import rate (relative to GDP) standing at only 23.4%, compared to an OECD average of 47% as of 2020. Additionally, food and consumption prices rose by 2.9% during the first three months of the Iron Swords War, according to an examination conducted by the Ministry of Economy.

It is noteworthy that following the audit, three legislative amendments were enacted, intended to increase the volume of import as part of the "What is good for Europe is good for Israel" reform. The Ministries of Finance, Economy, Agriculture, and Health, along with the Competition Authority and the Consumer Protection Authority, must proactively undertake measures to encourage and increase market competition and



reduce centralization, each through the tools available to it and with collaborations of the relevant government ministries, and should it be necessary to increase the arsenal of tools at their disposal act to establish the relevant legislative amendments. The Prime Minister, alongside the Ministers of Finance, Economy, Health, Agriculture, and others involved in the Ministerial Committee addressing the cost of living (Environmental Protection, Energy and Infrastructure, Welfare and Social Security, Religious Services, Construction and Housing, the Negev, the Galilee and National Resilience, Communications, Tourism and Aliyah, and Integration), should monitor the implementation of the reforms, act to complete and update the reforms if necessary, and ensure that government actions aimed at reducing the cost of living remain coordinated and updated, in order to effectively address the cost of living and the rising food prices.

- In the past 15 years, the global financial market for digital assets, including digital currencies (cryptocurrencies), has experienced significant growth, including in Israel. The digital asset market is characterized by volatility, reaching a peak of approximately \$3 trillion in 2021 and 2024. The estimated tax collection potential in Israel from income derived from cryptocurrency activities is high, potentially amounting to NIS 2–3 billion. This report includes an audit regarding the **Taxation of Digital Currencies**. The audit found that Israel was among the first countries to establish principles for cryptocurrency taxation; However, over time, while other nations, including the European Union, the United States, and the United Kingdom, have advanced their regulatory frameworks, Israel has fallen behind. The audit indicated that between 2018 and 2022, an average of only 500 individuals reported cryptocurrency activities to the Tax Authority, out of a potential reporting base of approximately 200,000 users. The definitions and taxation guidelines of this matter were not regulated by legislation, leading to unresolved taxation uncertainties regarding many issues in the crypto field, despite the significant influence of taxation rules and various definitions on the determination of tax liability and calculations.

It is recommended that the Tax Authority evaluate the effectiveness of procedures of tax payment via the Bank of Israel to the regulation of tax payments, and consider making adjustments and extensions to additional populations. The Tax Authority should consult with the Bank of Israel, the Money Laundering and Terror Financing Prohibition Authority, and other market stakeholders in this matter, in order to prevent the formation of an additional barrier to income reporting from cryptocurrencies. Furthermore, it is recommended that the Tax Authority collaborate with professional organizations, industry bodies, and counterparts from other countries to establish and publish clear taxation rules, as recently published by the European Union and the United Kingdom. Additionally, it is recommended that the Minister of Finance, in coordination with the Tax Authority, finalize the preparation of a bill to promote regulation in taxation, as outlined in Government Resolution 204 of February 2023.



Clear taxation policies have the potential to enhance public trust in the Tax Authority, facilitate the outlining of a path promoting the growth of Israel's cryptocurrency sector, and ensure that Israel maintains its position as a technological leader, thus reaping the benefits of increased reporting rates and maximizing tax collection from cryptocurrency activities.

- The electricity sector is expected to face major challenges by 2030. Those challenges stem from an accelerated demand for electricity driven by climate change, requirements to comply with governmental goals, including a transition to clean electricity production, the electrification of various transportation means (vehicles, public transport), and the establishment of additional desalination facilities. An audit regarding **Development of the Electricity Sector Towards 2030** indicates that it is inadequately prepared to address these challenges. Significant gaps exist between decision-making timelines and the necessary timeframes for the sector's development, characterized by under-regulation, insufficient physical infrastructure development, delayed decision making, short-sighted planning, and failure to address existing barriers. The electricity sector is on the verge of a crisis that may result in an inability to meet electricity demand in the coming years, potentially inflicting substantial economic damage. The Office of the State Comptroller has estimated annual losses ranging from NIS 0.76 to 2.4 billion, based on projections from Noga – Israel Independent System Operator Ltd., for the years 2027 and 2028 (respectively) in the event of failure to develop the production systems as required. Noga has indicated that delays in the development plan could equate to approximately 6.5 hours of unmet electricity demand in 2027 and approximately 9.9 hours in 2028. There is a doubt regarding the ability to close these gaps within the remaining time, especially in light of numerous existing barriers to the required development.

All stakeholders in the electricity sector, including the Ministry of Energy, the Ministry of Finance, the Electricity Authority, Noga, and the Israel Electric Company, must act urgently to remove barriers and further develop the electricity sector to the required extent by 2030. Alongside, they should currently examine and formulate long-term development plans, to establish policy and developmental needs in order to ensure these needs are addressed effectively. It is recommended that the Minister of Energy, who holds overarching responsibility for the development of the electricity sector, act to make the required decisions in advance and ensure the rectification of the deficiencies raised in the audit, to ensure reliable, available, efficient, and quality electricity supply as set in the electricity sector's objectives.

- According to the Ministry of Transport, approximately 72 million taxi travels take place annually, and according to the Tax Authority data, the revenues of the taxi industry reached approximately NIS 6.5 billion in 2022. The Ministry of Transport as the main regulator of the industry, together with the Ministry of Finance, sets travel fares and



the taxation policy. The audit regarding the **The Taxi Sector in Israel** raised that in order to improve the service provided to the passengers, changes in regulation are required, regarding several key aspects – monitoring the licenses of operating and driving taxis, establishing additional regulation regarding enforcement violations in the industry, equitable fare pricing for both drivers and passengers, increasing transparency regarding the rights and obligations of taxi drivers, and reducing the air pollution associated with transportation activities. Additionally, it is essential to regulate the 'share taxi' branch and the taxis operation in the Ben Gurion Airport area. Between 2019 and 2023, 70% of public complaints submitted to the National Public Transport Authority, totaling 4,668 out of 6,641 complaints, were related to price gouging (1,761 complaints, 26.5%), refusal of drivers to operate a meter (1,448 complaints, 21.8%), and driver behavior (1,459 complaints, 22%). Furthermore, the Claims Unit of the Ministry of Transport received 1,055 claims, resulting in only 152 indictments (approximately 14% of claims) against taxi drivers, out of about 72 million annual trips.

The Ministry of Transport, the Ministry of Finance, the Tax Authority, and Israel Airports Authority must each operate within their respective responsibilities and collaborate as required to rectify the deficiencies identified in this chapter.

- According to projections of the Water Authority dated June 2023, the supply of natural water is expected to decline until 2050, while demand for potable water is anticipated to rise in line with the expected population increase in Israel. A primary method for augmenting water supply is seawater desalination. This report includes an audit regarding the **Regulation and Oversight of Seawater Desalination Facilities**. Israel currently operates five large desalination facilities, which provided approximately 33% of total potable water in 2022, with the state incurring, in respect thereof, costs of approximately NIS 1.5 billion. For water supplied in 2023 that exceeded limits set in concession agreements, the Desalination Administration imposed on the desalination facilities agreed damages amounting to about NIS 1.6 million, an amount deemed insufficient to effectively deter excess supply.

In the coming decade, two concession agreements with desalination facilities are set to expire, with a production capacity of 205 million m³ for the facilities operated under these agreements. The Accountant General Division at the Ministry of Finance and the Desalination Administration must prepare in advance for the expiry of these agreements. The Accountant General Division, along with the Desalination Administration, should address this matter promptly, as delaying decisions may cause urgencies, forcing hasty and not thorough potentially decision-making process, which could increase costs for consumers. It is recommended that the Ministry of Health, the Water Authority, the Accountant General Division, and the Desalination Administration draw conclusions from this audit's findings, taking into consideration insights from prior



engagements with desalination facilities. This evaluation should encompass enforcement measures, scope of agreed damages, incentives, required inspection frequencies, agreed performance indicators and thresholds, and adherence to reporting obligations.

The conclusions can assist and support future decision-making concerning the terms of agreements with future desalination facilities that will operate the facilities following the expiration of current concessions, as well as with respect to additional desalination facilities to be constructed in the future, including their regulation and supervision.

- The report also features two audit chapters regarding local government operations: **Publication and Management of Tenders for Framework Agreements in Local Authorities and Municipal Corporations; Advancing Master and Detailed Planning in Non-Jewish Sector Communities in the North of Israel**. The audit found that despite all the resources allocated in recent years to advance planning within the non-Jewish sector, the planning institutions, local authorities, and committees have been unable to complete the development of detailed plans necessary for issuing building permits, in order to solve the housing crisis in this sector. This setback stems, inter alia, from the need to make changes to local outline plans, and in one case examined, also changes to a national outline plan, requiring approvals from the National Planning and Building Council as part of the promotion process, and legal complexities related to private land ownership and consolidation and division of land, unauthorized construction undermining planning efforts and the level of cooperation between local authorities and planning institutions.

In light of the importance of arranging the development of settlements in the non-Jewish sector, including addressing the housing shortage, the Minister of Interior should instruct the relevant planning authorities to focus and find solutions to advance planning in this sector, and monitor the promotion of those solutions, alongside enhancing enforcement measures to prevent unauthorized construction. The Planning Administration, the Ministry of Housing, the local authorities, and planning and construction committees must collaborate to identify and address the barriers to effective planning in non-Jewish settlements.

- Monitoring the rectifying of deficiencies raised in previous reports is an important tool whose purpose is to ensure rectification by the auditees. This report presents the findings of two follow-up audits: one on a classified subject, therefore confidentiality measures were taken by the Knesset's State Control subcommittee, in accordance with paragraph 17 of the State Comptroller Law, 1958 [combined text], and another concerning **the Accessibility of Public Transportation for People with Disabilities**.



The preparation of the report required a significant effort by the employees of the Office of the State Comptroller, who prepared it professionalism, thoroughness, fairness, and care and who carry out their public role out of a true sense of mission and they have my gratitude.

We will continue to pray and hope for the victory of the IDF and the Defense Establishment in this difficult war forced on us by our most bitter of enemies seeking to destroy us as a nation and as a state, for the return of the hostages to their homes, the return of residents from affected areas in the south and the north, the recovery of the injured and for peaceful and routine days.

A handwritten signature in blue ink, appearing to read 'Matanyahu Englman'.

Matanyahu Englman
State Comptroller and
Ombudsman of Israel

Jerusalem, November 2024