



State Comptroller of Israel | Local Government Audit
Report | July 2024

The Urban Space

Collection of Betterment Levies and Their Use



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Background

Enhancement of real estate value due to changes in planning regulations requires property owners to pay betterment levies equal to half the value of the enhancement. The conceptual basis for imposing the levy is the principle of distributive justice, whereby property owners share the profits generated by the enhancement with the public and contribute to the costs of planning and physical-spatial development. Revenue from these levies can significantly impact the financial situation of local authorities, the economic disparities between them, and their ability to meet the challenges of future population growth and increased crowding expected in the coming decades. Betterment levies can amount to hundreds of thousands or even millions of NIS per levy. Therefore, fairness, certainty, and transparency in their administration, as well as their efficiency, can have a significant impact on real estate activity and the enhancement of economic activity.



Key Figures

8.7

NIS billions

total revenue from betterment levies collected by local authorities in 2021 increased by 171% compared to 2013

7.5

NIS billions

the balance of funds accumulated in betterment levy funds in 2021 increased by 275% compared to 2013

1,400%

a significant gap in per capita levy revenue in 2017–2021 between local authorities in high socioeconomic cluster in central Israel (NIS 8,476 per resident) and those in low socioeconomic cluster in the periphery (NIS 559 per resident)

60%

NIS 4.5 billion out of the NIS 7.5 billion in 2021 in accumulated balances in betterment levy funds held by authorities ranked in the highest socioeconomic clusters, where about 20% of the population resides

95%

the cases rate in which deciding appraisers reduced the betterment levy assessments set by local planning and building committees (average reduction rate of 36%), based on a random sample of 60 decisions from 2022 regarding assessments prepared by 34 local committees

70%

the cases rate in which deciding appraisers reduced over 25% of the levy set by the local planning and building committees based on a random sample of 60 decisions from 2022 regarding assessments prepared by 34 local committees

about

2 years


the average time required to handle an appeal of a betterment levy assessment in the Tel Aviv district

73%




the unresolved appeals rate in the Tel Aviv district as of the audit date, out of the total appeals submitted in the district in 2018–2022 (2,296 out of 3,156)



Audit Actions

 From June to December 2023, the State Comptroller's Office examined the collection procedures for betterment levies and their use, including relevant government actions, the impact of the levies on local authorities' budgets and financial situations, the duration of the assessment and dispute resolution processes, the implementation of fair tax principles, transparency of assessments and charges, and the quality of service to residents. The audit analyzed the financial statements of all local authorities and conducted in-depth audits in four municipalities: **Herzliya, Jerusalem, Ramat Gan, and Ramat Hasharon**. Additional checks were carried out at the Planning Administration at the Ministry of Interior, which regulates the local planning and building committees and concentrates data on the activities of the district appeals committees; at the Department of Regulation of Professions at the Ministry of Justice, which supervises the appraisers and the Council of Real Estate Appraisers; and at the Ministry of Interior.

Key Findings

-  **Establishment of a Public Committee to Examine the Betterment Levy Mechanism** – the government's decision to establish a public committee to examine the betterment levy mechanism was not implemented; no committee was established by the Ministers of Interior, who served from August 2021 to October 2023.
-  **Local Authorities' Revenues from Betterment Levies** – the revenues from betterment levies in local authorities in the most peripheral clusters and in the lowest socioeconomic clusters (1–4) were NIS 559 per resident on average, while the revenues from betterment levies in local authorities closest to the center of the country and in the highest socioeconomic clusters (8–10) were NIS 8,476 per resident on average, a 15-fold gap. The share of betterment levy revenues in the local authorities closest to the country's center, with 13.5% of the population and in the highest socioeconomic clusters, is about 40% of all revenues.
-  **Betterment Levy Fund Balance** – there are significant disparities between the authorities in the total balance of the betterment levy fund, which was about NIS 7.5 billion at the end of 2021. Local authorities ranked in socioeconomic clusters 8–10, where about 20% of the population resides, had a fund balance of about NIS 4.5 billion, about 60% of the total fund balance across all local authorities. In the remaining local authorities, where about 80% of Israel's population resides, the fund balance was about







NIS 3 billion, about 40% of the total betterment levy fund balance across all local authorities.

- Reducing Disparities** – it was found that the Ministry of Interior took measures to bridge income gaps between local authorities, such as balancing grants and funds to reduce disparities without considering the revenues from betterment levies. This is despite the significant disparities in per capita revenues between local authorities across different socioeconomic and peripheral clusters, with differences reaching hundreds of percent and total revenues at billions of NIS. Furthermore, the ministry's development grants to local authorities do not address the disparities in betterment levy revenues between authorities. The amount transferred in 2021 to local authorities in socioeconomic clusters 1–4 (about NIS 100 million) is equivalent to about 3% of the disparity in betterment levy revenues between them and authorities in clusters 8–10 and about one-seventh of the disparity in betterment levy revenues between them and authorities in clusters 5–7.
- Preparation of Assessments** – it was found that the audited municipalities – **Herzliya, Jerusalem, Ramat Gan, and Ramat Hasharon** failed to prepare assessment tables in 2018–2022, despite their benefits in enhancing transparency, public supervision and reducing the risk of corruption. Instead, they drew up individual assessments for each property – upon realization of rights or at the request of property owners, about 11,500 individual assessments were drawn up during this period. The State Comptroller's Office mapping raised that within the audited municipalities, there were areas with a concentration of hundreds of individual assessments. Using an assessment table could have streamlined the processes by consolidating them into a comprehensive assessment document.
- Completing the Handling of Appeals Regarding Betterment Levy Assessments** – in 2018–2022, 6,991 appeals were filed across all districts on betterment levy assessments, and 3,156 (about 45%) were submitted in the Tel Aviv district. However, as of the audit's conclusion, 2,296 (about 73%) of the appeals filed in the Tel Aviv district remained unresolved. In the Northern District, 423 (43%) out of 995 appeals filed during the same period were unresolved. In contrast, the Southern district had a relatively low rate of unresolved appeals (10%), and the Haifa district had 12%.
- Duration of Appeal Handling** – the average time to complete the handling of appeals across all districts was 429 days, three times the standard time for completing the process (140 days). The Tel Aviv district had the longest processing time – about two years, nearly five times. In the Jerusalem district, the processing time was 1.3 years – almost 3.5 times the standard. The average processing time in the Southern, Haifa, and Northern districts was over 282 days – twice the standard. The prolonged duration of appeal proceedings regarding betterment levy assessments is undesirable, as it creates ongoing uncertainty about the levy that will be paid and the validity of the charge itself.





It also reflects inefficiency and cumbersome procedures for charging and collecting levies.

-  **Outcomes of Appeal Procedures and Deciding Appraisers Decisions** – in 55% of the appeal procedures initiated in 2018–2022 regarding assessments prepared by local committees (1,305 out of 2,353 cases), the appeal was fully or partially accepted or concluded with an agreement or compromise between the parties. Hence, in about half of the cases, the appeal led to a change or cancellation of the assessment. Regarding disputes over assessments brought before deciding appraisers, in 57 (95%) of the 60 randomly sampled decisions, the appraisers reduced the committee's assessment with an average reduction rate of 36%; in 70% of the cases, the reduction was over 25%. An analysis of 451 cases of disputes over assessments prepared by **Herzliya**, **Ramat Gan**, and **Ramat Hasharon** brought before deciding appraisers raised that in the vast majority (95% or more) of cases, the appraisers reduced the charges in the municipalities set assessments. The rate of cases where the difference between the charges was more significant than 25% was 63% in **Herzliya**, 57% in **Ramat Gan**, and 58% in **Ramat Hasharon**. These findings on the discrepancies between assessments after the decisions of the deciding appraisers may indicate significant overcharging, sometimes at hundreds of thousands or even millions of NIS – amounts that can significantly impact the economic viability of a project or real estate transaction. In three audited municipalities – **Herzliya**, **Ramat Gan**, and **Ramat Hasharon**, the average charge amount following the appraisers' decisions ranged from about NIS 320,000 to NIS 1.42 million. The median difference in charges was between about NIS 83,000 and NIS 105,000. This might undermine public trust in how authorities set betterment levies and reflect the uncertainty inherent in the current charging system regarding the final amounts to be collected. **Jerusalem** does not compile data on the amounts set by deciding appraisers in disputes over its assessments. This hinders its ability to analyze the data on significant discrepancies in assessment amounts, examine trends in this area, and reduce them.
-  **Regulators' Actions – The Planning Administration and the Ministry of Justice** – the Planning Administration failed to examine the performance of local committees regarding the managerial aspects of setting betterment levies, the transparency of procedures, and the drawing of conclusions. Therefore, the disparities between assessments and final charges were not examined. The Ministry of Justice lacks data on the disparities arising in proceedings before deciding on appraisers whose activities it supervises; hence, it can neither conclude nor reduce significant disparities.
-  **Transparency of Betterment Levies Information** – the audited municipalities publish neither the betterment assessments they prepared, the final assessments, nor the levies collected from property owners. Thus, the public's ability to make informed decisions, review betterment assessments and payment demands, evaluate whether they are justified, and reflect equal and fair charges is compromised.
-  **Service Charter and Informing the Public – Herzliya, Jerusalem, and Ramat Hasharon** lack a service charter regarding the provision of betterment levies services.



Ramat Gan has prepared a draft procedure for a service charter, including service hours, standard times, and guidelines for monitoring and reporting on the service charter's implementation. **Herzliya, Ramat Gan,** and **Ramat Hasharon** do not inform through their websites of the circumstances allowing exemptions from betterment levies. In addition, **Ramat Gan** does not provide information on the right to file appeals or request the appointment of a deciding appraiser. **Herzliya, Jerusalem, Ramat Gan,** and **Ramat Hasharon** do not inform those liable for a levy due to permit for deviant use for business purposes that they may, among other options, provide a guarantee of up to 40% of the set levy (despite this right being established in the Planning and Building Law). Instead, they require full payment of the levy to receive the permit.

 **Computerized Interface with the Land Registry and Settlement of Rights Authority – Jerusalem** has joined the computerized interface with the Land Registry and Settlement of Rights Authority's systems, whereas **Herzliya, Ramat Gan,** and **Ramat Hasharon** have not. Without this computerized connection, the risk of forging certificates of no debt, including betterment levy debts (a condition for land rights registration), increases, the efficiency of land registration processes is compromised, and the service provided to residents becomes more cumbersome.

 **Collection of Advance Payments from Property Owners Requesting a Betterment Assessment** – the Minister of Interior has failed to regulate the fee for conducting assessments at property owners' request. Three of the audited municipalities – **Herzliya, Jerusalem,** and **Ramat Gan,** require a financial advance from property owners as a condition for preparing the assessment, even though no regulations authorize them to do so. **Jerusalem** has limited the preparation of preliminary assessments to exceptional cases due to legal challenges arising from the lack of regulations. Additionally, no uniformity exists among these municipalities regarding calculating the advance: some demand a fixed, predetermined fee, while others request a variable fee based on the expected cost of preparing the assessment. Among the municipalities that set predetermined advance fees, there is also no uniformity in the amount charged.








Deciding Appraiser Proceedings – the process was completed in the vast majority (97%) of proceedings initiated in 2018–2022. This indicates that no undesirable proceedings are dragging on for years without resolution.




Information for the Public on the Website – the landing page of **Jerusalem's** website contains relatively comprehensive information about betterment levies. The service areas are grouped by processes, and information on the various service channels is provided.



Key Recommendations

-  The Minister of Interior should appoint a suitable public committee to examine the mechanism of betterment levies, considering all aspects mentioned in the government's decisions. It should then present its recommendations to the government to ensure optimal implementation of the levy mechanism in Israel. It is recommended that the committee be presented with the findings of this report.
-  It is recommended that the Ministry of the Interior and the Ministry of Finance analyze the disparities in betterment levy revenues between local authorities and include them in all the considerations for the budgeting of the local authorities. Additionally, it is recommended that local authorities with low per capita betterment levy revenues be provided with other fiscal tools to help finance public infrastructure development. Thus, reducing revenue disparities from structural characteristics of betterment levies, such as land value and real estate market activity.
-  It is recommended that the audited municipalities – **Herzliya, Jerusalem, Ramat Gan, and Ramat Hasharon**, consider the broader use of assessment tables, depending on the circumstances, and consider the pros and cons of this option. Thus, streamlining the assessment preparation process, increasing certainty regarding levies and their amounts, and ensuring that uniform valuation principles are applied to all properties. It is recommended that the Planning Administration supervise the activities of local planning and building committees as part of its regular reviews.
-  It is recommended that the district appeals committees, in collaboration with the National Planning Headquarters and the Planning Administration in the Ministry of Interior, examine the reasons for the prolonged appeal processes regarding betterment levy assessments and shorten their duration. Particular attention should be given to the **Tel Aviv District**, considering its high workload, the fact that 73% of appeals remain unresolved, and the average time required to complete the appeals process is 696 days, i.e., about two years.
-  It is recommended that the Planning Administration audit betterment levies within local planning and building committees and issue professional guidelines and instructions for their proper functioning. Thus, reducing significant disparities between assessments and final charges, streamlining procedures, and reducing the risk of disputes. The Ministry of Justice should collect data on the issue and examine the significant discrepancies between real estate appraisals to determine whether further actions are necessary to reduce these disparities. Additionally, it should thoroughly analyze the disputes on betterment assessments and the frequency of recurring conflicts and, based on the findings, consider issuing professional guidelines. It is further recommended that a dedicated standard for betterment assessments be developed based on accumulated experience and lessons learned from assessment disputes and their outcomes.





















-  It is recommended that the audited municipalities – **Herzliya, Jerusalem, Ramat Gan,** and **Ramat Hasharon,** publish the main points of the betterment assessments they prepared through the GIS system on their websites, including the final assessments determined after dispute resolution and the amounts of betterment levies charged about various properties within their jurisdictions. Thus, it provides the public information to make informed decisions about their properties and reduces uncertainty and disputes. The Planning Administration and the Ministry of Interior should also formulate guidelines for local planning and building committees and municipalities to regulate the publication of this information to the public.
-  **Herzliya, Jerusalem,** and **Ramat Hasharon** are recommended to develop a service charter to provide services on betterment levies and publish it for the public. **Ramat Gan** should complete the service charter and publish it on its municipal website. Given the advantages of online services, the audited municipalities – **Herzliya, Jerusalem, Ramat Gan,** and **Ramat Hasharon,** should expand the online services and information available on their websites on betterment levies. Additionally, **Herzliya, Ramat Gan,** and **Ramat Hasharon** are recommended to join the Land Registry's computerized interface to reduce the risk of forged debt clearance certificates, streamline the process, and improve service to residents.
-  It is recommended that the Minister of Interior exercise his authority under the law and regulate the collection of fees for preparing betterment assessments. This will ensure that such funds are collected under the proper legal authority, provide property owners with certainty regarding the cost of preparing assessments, and guarantee transparency and equality in collecting these fees.



Disparities in Per Capita Revenue from Betterment Levies

Revenue from betterment levies per capita, their proportion of total revenue, and the population proportion in local authorities grouped by two combined rankings, 2017–2021

		Socio-economic cluster		
		1–4	5–7	8–10
Peripherality cluster	4–1	 559 NIS (2%)  10.8% of the population	 1,254 NIS (3.6%)  8.6% of the population	 1,394 NIS (0.4%)  0.9% of the population
	7–5	 1,156 NIS (3.6%)  9.1% of the population	 2,025 NIS (17.4%)  24.6% of the population	 3,679 NIS (6.4%)  5.2% of the population
	10–8	 1,899 NIS (9.1%)  13.6% of the population	 3,527 NIS (17.1%)  13.7% of the population	 8,476 NIS (40.4%)  13.5% of the population

According to data from the financial statements of local authorities and the Local Authorities File of the Central Bureau of Statistics, processed by the State Comptroller's Office.

The shades in the table cells represent, for each cell, relatively high revenues from betterment levies per capita (green shades), intermediate revenues (yellow and orange shades), and relatively low revenues (red shades). Dark green represents the highest revenues from betterment levies per capita, and dark red represents the lowest.



Summary

In 2021, local authorities collected about NIS 8.7 billion from betterment levies; the balances accumulated in the designated betterment levy funds was about NIS 7.5 billion at the end of that year. The audit raised that the current structure of betterment levies exacerbates economic disparities between local authorities in central Israel and those in peripheral areas and between those in high and low socioeconomic clusters. Furthermore, the findings on dispute resolution outcomes regarding the assessments indicate a widespread issue of significant disparities between the initial assessments made by the local planning and building committees and the final assessments set by deciding appraisers, often disadvantaging those liable for the levy. This situation can undermine public trust in the fairness of the betterment levy and the certainty necessary for informed economic activity in real estate. Hence, it is recommended that the accuracy of assessments be improved.

Additionally, the transparency of information on assessments and betterment levy charges is lacking; hence, it should be digitized and published for public access. Deficiencies were also found in public services, such as a lack of information, the absence of online services, and the lack of a service charter. The Minister of Interior should establish a public committee to review the betterment levy mechanism, as decided by the government, to address these deficiencies and provide local authorities with an efficient, fair, and reliable tool for realizing the principle of distributive justice, as well as for financing the development of public spaces and public buildings required due to expected population growth and consequent urban densification.