



Government Support Payments in Israel's Budget – Analysis and Recommendation for Change

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This paper examines the state budget component of government support payments; i.e., all government payments made without direct return. These include: funds transferred to various entities – including local authorities – to pay salaries; public goods; social transfer payments; subsidies; and support payments under Article 3(a) of the Budget Foundations Law. In light of the major failings in supervision over these payments, a proposal for the necessary changes is laid out.

The **first chapter** introduces the subject, explaining what government payments and support payments are, describing Article 3(a) of the Budget Foundations Law, and detailing the current breakdown of government support payments.

The **second chapter** points out the flaws in the current system, particularly: (i) inefficient procedural guidelines; (ii) lack of focus on output; and (iii) lack of appropriate personnel.

The **third chapter** proposes the way to improve the system.

Summary:

The Israeli government spends more than 400 billion shekels a year through its budget, with more than a quarter of it paid as a form of government support, designated as "transfers" by the Ministry of Finance's Budgets Department. In light of the scope of this expense and its impact on citizens' lives, it is of utmost importance to ensure that these support payments are executed in an optimal manner, because while the government support payments' intended objectives are widely discussed in the Knesset, in the media and in civic discourse, the aspect of their actual implementation, mostly determined by internal government guidelines, is more opaque, despite the fact that it is no less important to society's proper function. The lack of supervision over implementation impairs the achievement of objectives; inefficiency or slowness leading to either only partial achievement or to not reaching the set objectives at all.

Unlike other government expenses such as procurement and salaries, much of the government's expenditure by way of support payments is not guided by any procedure. In cases where there are procedures, they are often unclear, and vary from office to office, making it difficult to keep track of them. There is, in fact, virtually no governmental oversight of support payments, including how the money is subsequently used.

Excessive permissiveness is no less harmful than excessive bureaucracy, and unfortunately, the current situation *vis a vis* support payments suffers simultaneously from both. In many cases, there are, on the one hand, excessive requirements for paperwork, while on the other, little connection between funding and the objective it was meant to achieve.

One key factor in the mix is the issue of Article 3(a) of the Budget Foundations Law 5745-1985. This law provision, meant to remedy the laxity in oversight, provides rules for the distribution of government support for public institutions, according to which the Ministry of Justice and the Ministry of Finance's Accountant General crafted a set of procedural guidelines. These focus mostly on technical issues of equality rather than on ensuring objectives are met.

The current system's primary failings are:

1. *The inefficiency of procedural guidelines.* Guidelines should ensure both efficiency and fairness, but the government provisions for Article 3(a) concentrate mostly on fairness, resulting in a bureaucratic system that is very difficult to comply with, and ends up being unfair as well, since smaller or newer organizations are less able to navigate the necessary procedures. The difficulty of the guidelines results in ministries making an effort to find alternative ways to make support payments.
2. *No focus on outputs.* There is a tendency to focus on the identity of the supported body, rather than to examine the utility of the support. The Finance Minister's procedure for the allocation of support to public institutions emphasizes the characteristics of the institutions, rather than their activities. This problem is also reflected in the main supervisory mechanism the State employs – accountants' audits. Auditors receive a report on the ongoing activities of the institution, but their focus is rather on the institution's organizational status: reports, balance sheets, bank accounts, etc.
3. *The lack of a proper workforce.* There is no support payments department or supports officer in charge of support payments, unlike, for instance, the vehicle officer in every government unit responsible for all government vehicles operated by the unit. This results, at best, in slow and cumbersome performance; at worst, in the exploitation of the disorder to channel funds to

questionable recipients. In addition, both the ministries of Justice and Finance deal with support payments.

4. *Inadequacies in payments to local authorities.* Despite the substantial amount of money in support payments given to local authorities, they are undertaken in the most problematic fashion. There is a misconception that they are distinct from other support payments and not governed by the same rules, being in a sense part of the governmental system. Authorities are often uncertain when they will receive promised funds, and the payment is frequently delayed even when dates are given. In many cases, there is no precise definition of the activity the authority is meant to perform in return for the payments it receives. As a rule, the government does not check up on the quality of the activity performed.

Recommendations:

1. *Abolish the requirement of separate budgets.* The Budget Foundations Law stipulates that support payments for public institutions should be budgeted under separate and special budgetary regulations. This entails a lot of bureaucracy, especially if there is a desire to change the outlay of funds for a particular purpose during the course of the budget year. To simplify procedures, this provision should be abolished.
2. *Concentrate the management of support payments into one unit.* Establish that only one of the two ministries currently handling support payments be responsible to the government on this matter. Either (i) a new unit in the Ministry of Finance Accountant General's office, which would be equal in status and authority to the other existing units of the Government Procurement Administration and the Salary Benefits and Retirement Division, receiving legal support as needed from the Ministry of Finance's legal advisor, who already provides many services to the Accountant General; or (ii) specific authority granted to the Ministry of Justice, in which case, the Accountant General's staff dealing with support payments would become a remote branch of the Ministry of Justice. Either way, it would be clear to all who sets policy and makes decisions.
3. *Simplify Article 3(a) guidelines and criteria.* Remove unnecessary requirements and create a faster and simpler process, thus making it possible to apply these guidelines to other support payments.
4. *Emphasize **what**, rather than **who**, is being subsidized.* The Minister's procedures and criteria for granting support should be changed, with the

identity of the supported entities much less carefully scrutinized, and the focus shifted to those qualities directly related to the ability to faithfully perform the supported activity. Criteria relating to the supported activity should be made more stringent, and deadlines for periodical reporting should be set in advance, and oversight conducted by professionals thoroughly familiar with the activity, rather than by accountants.

5. *Classify "support payments" as "purchases" wherever appropriate.* There are many cases in which the government supports a specified service provided by third-sector institutions or by local authorities, and there is no reason to avoid treating the support payment as procurement of service rather than a grant of money. By changing the classification from "support payment" to "purchase", payments will be made on the basis of competitive bidding rather than on the basis of meeting criteria. If necessary, it is possible to stipulate in certain tenders that they are intended for non-profit public institutions only. The transition to a service procurement model has the advantages of: flexibility; the formal framework that automatically accompanies all procurement; improved service to the public for the taxpayers' money; and above all, better supervision at the inspection phase: a government office that understands it is paying for a return is more careful to check that this is indeed the case, whereas in granting subsidies treated as gifts, officials see no special reason to check up on the public's money.
6. *Create a skilled workforce.* Create the position of "Director of Support Payments Department", subordinate to the Director General or Deputy Director of the ministry (either Finance or Justice), who shall be the primary contact in the Ministry for queries from the various units in the Ministry of Finance and the Ministry of Justice; give professional guidance to all ministerial units regarding the processes of support payments; maintain contact with all the bodies receiving support; and monitor the processes of contracts, reportage and payment. Thus, the gaping void in the supervisory and control apparatus of the government ministries would be filled. This department would quickly develop the currently lacking expertise in handling support payments, something that shall benefit both the ministries and the supported institutions.
7. *Radically alter government ministries' attitude to support payments transferred to local authorities.* Payments to local authorities should proceed as follows: (i) continue in their present format the transfer of the Ministry of Interior's budget-balancing grants; the Ministry of Education's support grants for primary and secondary education; and the Ministry of Welfare's support grants to the local authorities' welfare departments, alongside full and detailed disclosure of the formulas used for the distribution of funds among authorities and the

considerations on which these formulas were based; (ii) in cases where government ministries transfer funds to a significant number of local authorities, they shall act in accordance with the provisions of Article 3(a), while taking care to predetermine a schedule for the transfer of support payments. (The AG's opinion that Article 3(a) does not apply to payments made to local authorities is baseless); and (iii) all other payments should be treated as procurements of service.

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