

BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **New Israeli Shekel (ILS)**

POPULATION AND GEOGRAPHY

AREA: **21 643** km²

POPULATION: **8.212** million inhabitants (2014), an increase of 1.9% per year (2010-2014)

DENSITY: **379** inhabitants/km²

URBAN POPULATION: **92.1%** of national population

CAPITAL CITY: **Jerusalem** (10.6% of national population)

Sources: OECD, World Bank, UNDP, ILO

ECONOMIC DATA

GDP: **276.9** billion (current PPP international dollars) i.e. 33 718 dollars per inhabitant (2014)

REAL GDP GROWTH: **2.6%** (2014 vs 2013)

UNEMPLOYMENT RATE: **5.9%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **6 7384** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **20%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.894** (very high), **rank 18**

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|---|--------------------|-------------------------|----------------------|
| 255 LOCAL AUTHORITIES AVERAGE MUNICIPAL SIZE: 33 190 INHABITANTS | - | - | 255 |

MAIN FEATURES OF TERRITORIAL ORGANISATION. Israel has a single tier of local government, composed of 76 municipalities (cities with at least 20 000 inhabitants), 125 local councils (towns with fewer than 20 000 inhabitants) and 54 regional councils. The latter are responsible for governing a number of settlements spread across rural areas (mainly *kibbutzim* and *moshavim*). Mayors and chairpersons of local and regional councils are elected through direct elections since 1975 Law on Local Authorities – effective in 1978. In addition, there are six districts - North, South, Centre, Jerusalem, Tel Aviv and Haifa - all administrative districts. Israel is undergoing a decentralisation process, aimed at creating a better public administration and increasing accountability, transparency and financial responsibility. The “Municipalities Bill 2007” and the “Planning and Construction Bill 2013” are aimed at giving more discretion to local governments over local policy.

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. Israel has no written constitution, and while the Municipalities Bill of 2007 introduces some degree of delimitation between central and local functions, the allocation of responsibilities between levels of governments remains relatively unclear. Local government responsibilities include delegated and own functions. Education (upper-secondary schools only) and social services (in-kind social services and day care for infants) are provided jointly by municipalities and the central government. Own local services include water supply, sewerage, garbage disposal, road maintenance, public gardens and parks, social services, primary health, sports and culture.

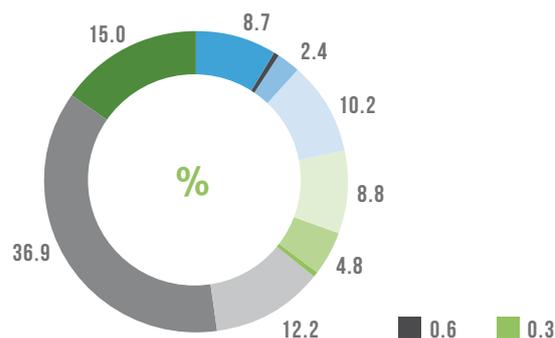
SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE | % GDP | % GENERAL GOVERNMENT (same expenditure category) | % SUBNATIONAL GOVERNMENT |
|---------------------------------|-------------|---|--------------------------|
| TOTAL EXPENDITURE (2013) | 5.9% | 14.2% | 100% |
| CURRENT EXPENDITURE | 4.5% | - | 76.7% |
| STAFF EXPENDITURE | 1.6% | 15.3% | 27.3% |
| INVESTMENT | 1.3% | 59.5% | 22.6% |

Although some responsibilities have been decentralised, Israel remains a centralised country from the local government spending responsibility perspective. Levels of SNG spending in GDP and public spending are well below the OECD average (16.6% of GDP and 40.0% of public spending), even when the OECD average for unitary countries is considered (13.4% of GDP and 29.0% of public spending). The SNG role as public employers is also very low, although staff spending represents almost 30% of SNG expenditure. However, SNGs are key public investors, carrying out almost 60% of public investment, close to the OECD average. Investment is one of SNG’s main functions (one quarter of SNG expenditure), even though they often act on behalf of the central government to implement national investment programmes.

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE



Education is by far the primary area of SNG spending, representing almost 40% of SNG expenditure. Other main areas of spending include social protection, recreation, culture and religion and economic affairs/transport. In addition, SNGs are responsible for the vast majority of overall public spending in the areas of environmental protection (85% of public spending) and housing and community amenities (64% of public spending). In some sectors, such as education and social affairs, local governments are still subject to control by the central government and have only limited discretionary powers.

| REVENUE BY TYPE | % GDP | % GENERAL GOVERNMENT (same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|--------------------------|
| TOTAL REVENUE (2013) | 5.7% | 15.4% | 100% |
| TAX REVENUE | 2.3% | 8.8% | 39.3% |
| GRANTS AND SUBSIDIES | 3.0% | - | 52.7% |
| OTHER REVENUES | 0.5% | - | 8.0% |

Local government derive their income from two sources: taxation and other own revenue (47%) and intergovernmental transfers (53%) in the form of grants. SNGs are highly dependent on central government transfers, as are a majority of OECD unitary countries (grants and subsidies represented 50.1% of SNG revenue in the OECD unitary countries on average in 2013 while tax revenues accounted for 36.8%).

TAX REVENUE. By far the largest source of SNG tax revenue is the local property tax (*arnona*). In 2013, it represented 81% of SNG tax revenue and 2.0% of GDP, among the highest level in the OECD (3rd in rank with Japan after France, Canada and the United States). It is levied on land and building according to the size of the property, its location, use and age of the property, whether residential or commercial. Each local government determines the classification of buildings and neighbourhood zoning for the purpose of calculating the annual municipal tax rates per square metre. Local authorities also receive a Land Betterment Tax (*Hetel Hashbacha*, 14% of local tax revenue) paid upon sale of investment property that has benefited from an increase in value due to a land-use zoning change or the approval of additional building rights. The tax is 25% of the calculated real betterment accrued during ownership.

GRANTS AND SUBSIDIES. Transfers from the central government include transfers for general funding, balance grants and other grants. General transfers include "service grants" for education and social welfare, originating from the Ministry of Welfare and the Ministry of Education, as the central government provides 75% of the funding for municipal education and social welfare services. Balance grants are equalisation funds from the Ministry of Internal Affairs which aim at bridging the gap between local government revenues and expenditure. They are allocated according to different criteria reflecting the socio-economic development of the municipality. The Ministry of Interior also provides development grants for specific local projects and special fiscal recovery grants are given to local authorities that have accumulated deficits and are engaged in the fiscal recovery programme. Other grants are for specific purposes such as implementing the national agenda or the capital grant for the city of Jerusalem, etc. Capital grants represented 15% of all grants in 2013.

OTHER REVENUES. Other revenues for local governments include charges and fees for the use of local educational, cultural and recreational services, bylaws-generated income, tolls, revenues from local assets, etc. The share of user charges and fees (3.8% of SNG revenue) is particularly low compared to the OECD average (15.2%).

| OUTSTANDING DEBT | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | 2.5% | 3.3% |

The Ministry of Internal Affairs is responsible for overseeing local governments. In co-operation with the Ministry of Finance, it approves the SNG budget and audits their accounts. Authorities that fail to meet certain budgetary performance criteria are put under administration (the "fiscal recuperation" programme) and run by a state accountant. Since 2001, local authorities that fulfil certain performance standards related to fiscal stability have been granted more independence from central authorities, and are exempted from obtaining approval with respect to wages, hiring, bank loans, enactment of municipal by-laws and other regular operations. Municipalities can borrow for investment (golden rule) and total outstanding loans must not exceed 75% of own revenue (including grants) in any fiscal year. SNG debt is low by international standards, well below the OECD unitary country average at 15.1% of GDP and 12.0% of public debt. In 2013, outstanding debt was made up of other accounts payable (38%) and financial debt (62%), which comprised only loans.

A joint study of:



Sources: • OECD National Accounts Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries: Key data • Knesset (2015) http://www.knesset.gov.il/lexicon/eng/LocalAuthorities_eng.htm • Beer I. (2013): "Governmental Strategies towards Poorly-Performing Municipalities: From Narrow Perceptions to Ineffective Policies", Lex Localis Vol. 11; Local authorities in Israel (2013) official government paper available at: http://www.cbs.gov.il/publications13/local_authorities11_1531/pdf/h_print.pdf • European Union Committee of the Regions (2013) FACT SHEET, Division of Powers by Policy Area, Vertical Division of Power • OECD (2011) OECD Economic Surveys: Israel 2011 • OECD (2009) OECD Economic Surveys: Israel 2009.