

POLICY BRIEF

The Ministry of Education Budget 2000-2014: Trends and Issues

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Introduction

Any discussion of the Ministry of Education budget should begin with the understanding that there is not one budget, but rather at least three different types of budgets: the original budget, the amended budget, and the final or implemented budget. Differences between these budgets are substantial, and this makes the understanding of issues concerning the budget challenging for all involved and interested parties. The main difficulties are in understanding the rationale for the frequent and large budget changes throughout the year. To some extent, these changes serve to turn the budget approved by the Knesset into a meaningless document.

Original Budget. This is the annual budget proposal that the Ministry of Finance submits to the Knesset for approval.

Amended Budget. These are the budgetary funds that are actually available for use by the ministry in a given year. This budget is built on the original budget and includes the following additions and deductions:

- A. Changes and additions adopted during the Knesset Finance Committee discussions between the date of the budget's submission and the date of its approval by the Knesset plenum;
- B. Surpluses from the previous year's budget;
- C. Funds that were approved during an earlier fiscal year and were planned to be implemented in the current fiscal year;
- D. Transfers to and from the general reserves that were approved by the Ministry of Finance and the Knesset Finance Committee.

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This brief examines the three different types of budgets in the government ministries in Israel and specifically in the Ministry of Education.

Differences between these budgets make planning extremely difficult and point to a lack of transparency in the planning and budgeting process.

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Implemented Budget. The implemented budget is the budget actually utilized by the Ministry of Education as of December 31 of a given fiscal year. This budget has the greatest political, educational, social, economic, and practical significance, as it expresses the policy preferences of the Ministry of Education, the Ministry of Finance and the Knesset and shows – in financial terms – the ability of Ministry of Education officials to implement policy decisions.

The Accountant General's Report looks at the implemented budget and makes it possible to identify budget lines that were executed in accordance with the planning in the original budget; budget lines that deviated considerably from the planning; budget lines that were not originally budgeted but later received funding; and budget lines that remained unused at the end of the year. However, the Accountant General's Report has two limitations. First, it is published only at the end of April following the reported budgetary year (a delay of four months). Second, it is a report on cash execution, and does not reflect the many Ministry commitments made during the course of the year and not yet implemented.

The differences between the original budget, the amended budget and the implemented budget give rise to two phenomena that make it difficult to track the budget or use it as a planning tool for policy implementation. One challenge is that the amended budget is usually larger than the original budget. Furthermore, the implemented budget is only slightly larger than the original budget, and smaller on average than the amended budget by 4%.

Table 1. **Relation between the original budget, amended budget and implemented budget, 2000-2012**

Year	Amended budget as % of original budget	Implemented budget as % of original budget	Implemented budget as % of amended budget
2000	101%	100%	98%
2001	105%	104%	98%
2002	102%	98%	96%
2003	101%	96%	95%
2004	103%	100%	97%
2005	104%	100%	96%
2006	102%	98%	96%
2007	112%	105%	94%
2008	107%	104%	97%
2009	103%	99%	96%
2010	107%	102%	96%
2011	108%	103%	95%
2012	112%	108%	97%
Average	105%	101%	96%

Source: Nachum Blass and Yulia Cogan, Taub Center

Data: Ministry of Finance

These discrepancies between the various budget types make any public scrutiny of the planning and budgeting process difficult (Table 2). Gaps in specific budget items and specific budget lines between the original, amended and implemented budgets can be large even if there is no difference in the overall totals between the original budget and the amended budget or the implemented budget. These differences are, of course, even larger when there is a difference between the bottom line numbers of the amended budget and the original budget.

Table 2. Relation between the types of budgets
 by main area, average implementation 2005-2012

Area	Amended budget as % of original budget	Implemented budget as % of original budget	Implemented budget as % of amended budget
Staff units	28%	22%	76%
Administration	116%	109%	94%
Teacher administration	121%	116%	96%
Pedagogical administration	131%	110%	84%
Preschool education	109%	109%	100%
Primary education	105%	103%	98%
Secondary education	107%	103%	96%
Settlement education	106%	101%	95%
Recognized independent education	125%	117%	93%
Busing, equipment	126%	115%	91%
Transfers to religious education	137%	135%	99%
Special education*	102%	100%	98%

* For this analysis, special education has been separated out from primary education, because it contains allocations for age groups other than primary school age.

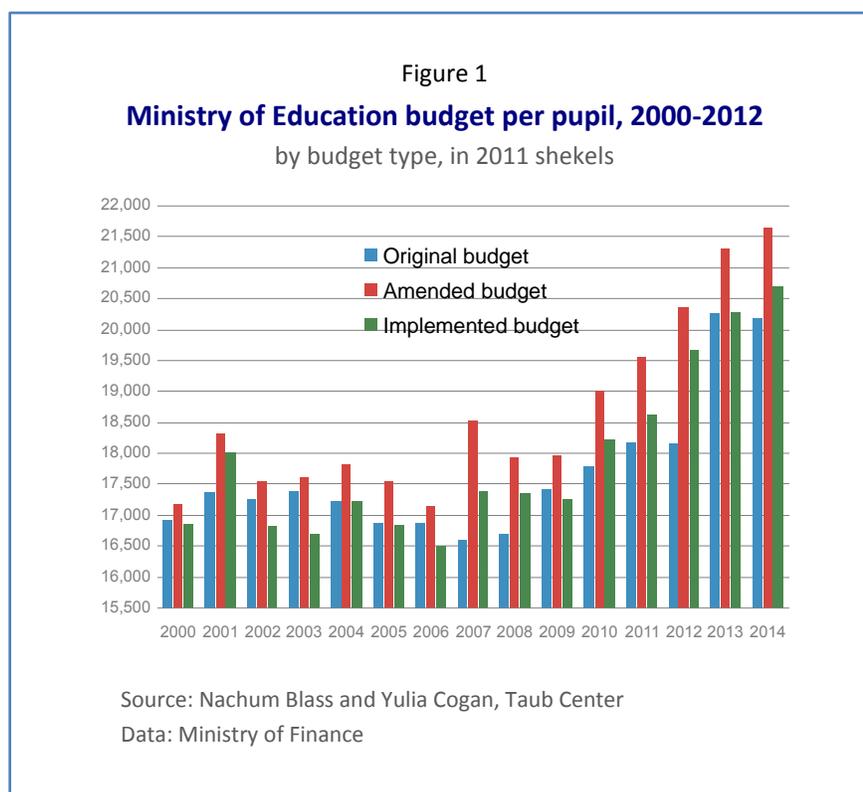
Source: Nachum Blass and Yulia Cogan, Taub Center

Data: Ministry of Finance

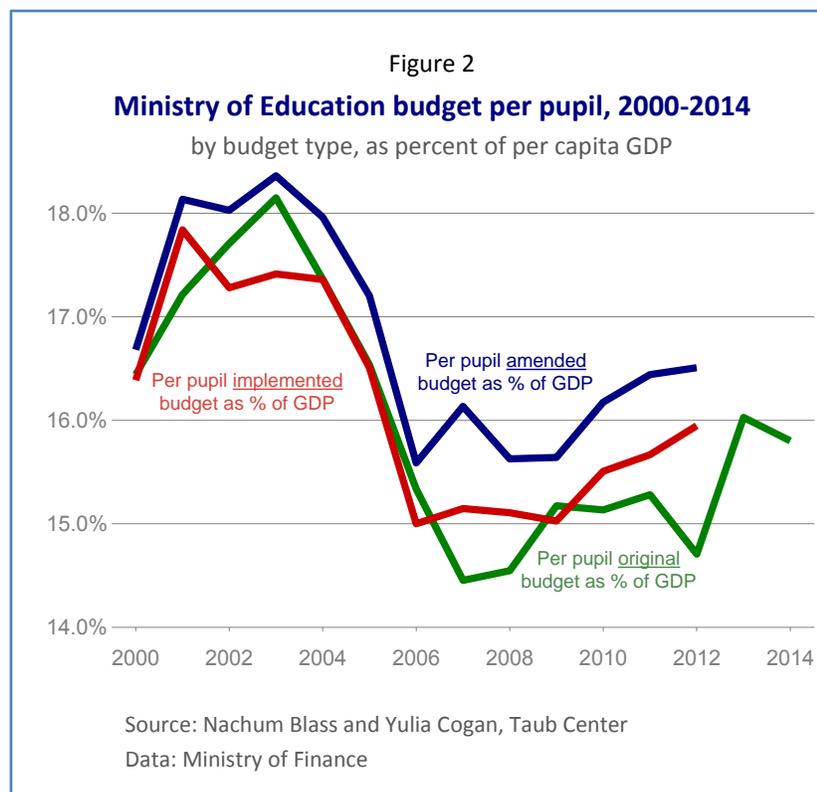
Ultimately, the budget is finalized only at the end of the budgetary year, and it gives expression to all of the changes introduced into it over the course of the year. The amended budget is in effect the real annual budget, and as noted previously, it is larger than the original budget by an average of 4.7%.

Overview of the Ministry of Education Budget

The first question regarding the Ministry of Education budget is whether the education system's budget increased or decreased in real fiscal terms between the years 2000 and 2014 and to what degree. Over the years 2000-2014, the original budget grew by 54%. The amended budget increased by 47% over the years 2000-2012, and the implemented budget increased by 45% in the same period. In order to examine that growth more closely, though, the increase in the numbers of pupils in the system must be taken into account. In that period (2000-2012), the number of pupils increased by 24%; so while the Ministry of Education budget grew as a whole, the per pupil budget grew by much less. The main reasons for this growth were the implementation of the new employment agreements with the teachers' unions and the accelerated implementation of the Compulsory Education Law for Ages 3-4 – two steps that required larger budgets.



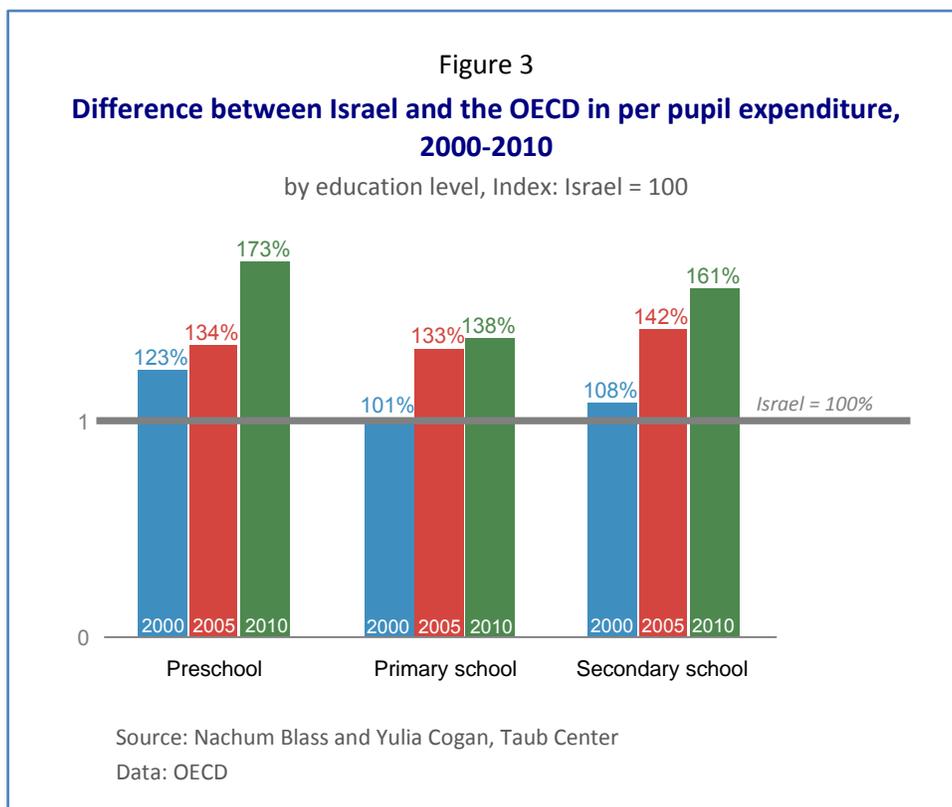
A related, but separate, question concerns the size of the education budget per pupil and its development relative to per capita GDP. Generally speaking, until 2006, the per pupil budget (across all budget types) declined relative to per capita GDP, and since then, it has remained stable with even a slight rise (Figure 2).



A comparison of per pupil education expenditure in Israel with the same expenditure in other countries, particularly OECD countries, provides an important perspective on Israeli society's regard for education. In Finland, Canada and Israel, the expenditure relative to per capita GDP is similar (about 22% of GDP), but the value of the educational services received by the pupil in terms of purchasing power differs greatly. In contrast, while the level of resources allocated to education as expressed in dollars in purchasing power parity terms may be similar, the level of resources as expressed as a ratio of per capita GDP may differ substantially. For example, Slovakia allocates 25% of per capita GDP to each pupil in primary education, and Poland allocates 30% of per capita GDP to education. Israel, on the other hand, devotes only 22% of per capita GDP to education, even though the level of purchasing power parity dollars is equivalent.

In general, the OECD countries give greater per pupil funding to education which suggests that they grant education a higher priority at every age level.

A similar conclusion may be drawn from examining the resources actually available to the education system at each education level. As Figure 3 clearly indicates, per pupil expenditure at all age levels in the OECD was much higher than in Israel, and the gap is growing continuously.¹



Nonetheless, since 2008 – with the initial implementation of the "New Horizon" pay agreement with the primary school education teachers – there has been a significant, perhaps even dramatic, shift in the trend of investment in the education system. The rate of per pupil expenditure in Israel has risen rapidly, whereas per pupil expenditure in the OECD has stagnated and even declined slightly, despite the decline in the number of pupils (OECD, 2013).

Over the past 15 years, then, the Ministry of Education budget has grown both in overall terms and in terms of the per pupil budget. On the face of it, this indicates an improvement in the status of the education system, at least with regard to the state resources it receives. But did the Ministry of Education fully utilize the budget at its disposal? Here the answer is more complex. The implemented budget during the period under study (and also prior to it) amounted on average to about 102% of the original budget, and to about 96% of the amended budget. In monetary terms this means that in 2012, for example, the Ministry of Education failed to use NIS 1.34 billion of its budget.

¹ The trend has shifted for the better since 2010, although it should not be assumed that the gaps have closed.

At the end of the day, the data point to the growth of the Ministry of Education budget. In other words, the popular belief that the education budget has suffered constant cutbacks since the start of the period under study has no basis in reality. This in itself is a positive finding for the education system. There is always the question, though, whether the higher budget is reflected in the field, i.e., whether schools had more budget per class and more per pupil teaching hours at their disposal, as well as more teaching aids and improved learning conditions.²

The Budget as a Planning Instrument

There are a number of difficulties in using the original budget as a planning instrument.

In analyzing the budgets, there are some areas where the implemented budget is consistently larger than the original budget. These areas share several characteristics. The first is their relatively small budgetary scale. The second is that, in general, they involve transfers of money and not the transfer of teaching positions. A third shared characteristic is that these changes seem to be dependent on political or coalition agreements.

What is the significance of this consistent disparity between the original budget and the implemented budget in specific budget areas? First, the difference indicates that the Ministry of Education – with the consent of the Ministry of Finance and the Knesset's Finance Committee – systematically uses its reserves line to increase certain area budgets. Therefore, the original budget does not faithfully express the available resources of the various areas. It appears that the Knesset, the Ministry of Finance and the management of the Ministry of Education knowingly mislead the public regarding the resources available, and for reasons of their own do not change the original budget to reflect these changes more accurately. It is hard to find an acceptable explanation for this budgeting method, except for the organizational and political freedom that it affords those at the top of the education system. This freedom of action, however, comes at the expense of transparency and planning efficiency.

A second conclusion that is suggested and supported by the data is that the public is entirely unable to use the budget data as a means of examining the government's policy or its planning capacity. The data presented previously point to one of two possibilities (or perhaps both of them). One possibility is that the Ministry of Education's planning ability is questionable; otherwise, there is no explanation for the large discrepancies between the original budget and the amended budget. The second possibility is that the Ministry of Education and Ministry of Finance do their planning according to the amended budget, i.e., they anticipate the changes in the budget, and so the debates over the original budget are not to be taken seriously.

² See the chapter "[Trends in the Development of the Education System](#)," in the Taub Center's annual [State of the Nation Report 2014](#) for an in-depth consideration of these issues.

Another way to evaluate the budgetary planning of any institution is to examine the correspondence between the original budget and the implemented budget which shows the final distribution of expenditures among the various items. The Ministry of Education's implemented budget relative to the original budget seems to point to excellent planning, but the implementation as opposed to the amended budget is much less impressive. This is especially true when the relatively low levels of flexibility in the Ministry of Education's budget, which are for the most part intended to cover employee salaries, are taken into account.

As was seen previously with the original budget versus the amended budget, the main problem is not the overall implementation level, but the extent of internal changes in the budget. When the transfer of large sums from one budget line to another amounts to 12% or even more of the original budget, discussing planning seems moot. What is equally disturbing is that although the planning that takes place appears to be efficient – a supposition supported by the fact that the differences between the original budget and the amended and implemented budgets are quite stable – this planning, while understood by those in charge of the process, appears to be covert and hidden from the public eye.

Proposals for Improvement and Change

Reduce the number of budget items and budget lines. The Ministry of Education's budget includes approximately 1,200 budget lines, about 200 of which appear with zero allocation in the original, amended and implemented budgets. The fact that a budgetary transfer from one line to another requires approval by the Budget Department of the Ministry of Finance gives the Ministry a high level of power and control, but severely restricts the Ministry of Education's capacity to manage. This stems largely from a policy based on distrust between the different parts of the system and a desire to create efficient enforcement mechanisms. While another proclaimed advantage of this method is its transparency, this is a merely theoretical advantage. As long as the Ministries of Education and Finance are not required to provide meaningful explanations for every line, and the procedures concerning requests for changes in the budget remain obscure, they can allocate the funds for goals and objectives with a tenuous relation to the title of the line. In fact, they appear to almost do as they please with the budget lines over the course of the year.³

The author's proposal is that in the Ministry's budget, only budget lines with activity over NIS 10 million will appear. Reducing the number of budget lines will lead to a dramatic reduction in the Ministry of Finance Budget Department's intervention in the Ministry of Education's ongoing operations, because fewer approvals will be required for the transfer of funds from line to line. While this may be viewed as a curtailment of oversight capacity, it may be a vital step in boosting the Ministry of Education's capacity to manage its own budget.

³ For example, in the settlement education area there is a clause in the amount of NIS 317,000 under the title "Employment of students." What is this money for? For what purpose are the students employed, in which frameworks, what do they do, and what are the rules of payment? None of this is clear.

The Ministry of Education budget includes some 1,200 budget clauses. About 200 of them have zero budget allocation.

The author recommends that only budget lines with activity over NIS 10 million should appear in the budget, which will lead to a significant reduction in the number of budget lines.

Change the way the budget data is presented. Each budget line in the Budget Book has several columns. Some of the columns are very important, others are less so. Missing from the budget are columns which could be vital for the purpose of oversight on the part of the public and the Knesset. One of them is the percentage of change in the original budget relative to the previous year's original budget; a second is the implementation rate for the last reported budgetary year relative to the original budget of that year; a third is the average implementation rate for the previous years relative to the original budget; and a fourth is the implementation rate relative to the amended budget.

Expand the explanations that are part of the budget. Reliable, precise, clear, and updated explanations have a central and vital role in ensuring the transparency of the budget. These demands may sometimes be difficult to meet, but they are of great importance both to the public and to officials of the Ministries of Education and Finance. A uniform framework and fixed reporting protocol could be very helpful to those required to prepare the budget. Furthermore, the proposed reduction in the number of budget lines would make this a reasonable requirement.

The explanations should include the following:

- The budget line's goals;
- Timetables for the line's implementation;
- Criteria for evaluating the implementation level;
- In budget lines measured in physical units, such as teaching hours and procurements, the expected numbers should be detailed;
- If in the past year there have been deviations upwards or downwards in the implementation relative to the original budget, or in the implementation relative to the amended budget, the reasons for these deviations should be detailed.

Change the procedure for amending the budget. The author's proposal is that every request for changes in the budget be publicized in full at least two weeks before the discussion in the Finance Committee, on the Committee's website and on the Ministry of Education's website, including detailed items that will be affected by the change and the reasons for the changes. This is intended to allow any interested party to get in touch with Finance Committee members and draw their attention to the consequences of the change. This will allow lobby groups and other interested parties who monitor these proposals to apprise Knesset members of the implications of budget changes – for better or for worse.

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The Taub Center is an independent, nonpartisan, socioeconomic research institute based in Jerusalem. The Center conducts quality, impartial research on socioeconomic conditions in Israel, and develops innovative, equitable and practical options for macro public policies that advance the well-being of Israelis. The Center strives to influence public policy through direct communications with policy makers and by enriching the public debate that accompanies the decision making process.

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