



## **Capitalizing on the Relative Advantage**

The scale of local municipalities and its effect on affectivity and governing

Written by: Ehud Uziel

Edited by: Guy Avruzky, Tomer Loten

September 2012

Jerusalem





## Table of Contents

Capitalizing in the size advantage in local municipalities – a must in complex societies	3
Budgetary efficiency: When does and doesn't size have an economic advantage?	4
Access and flexibility, wise allocation	5
Louder voice: Talking to the government, partners, entrepreneurs and suppliers	6
Strategic ability: regional planning and execution abilities to foster long term growth	7
Mapping out size's possible advantages	8
In Conclusion: So how do we do it?	10
Bibliography	11

## Brief

The main challenge many peripheral local municipalities encounter today is how to succeed in being effective, even when the strain of missions and services increases. We can see, then, the increasing importance of the question of the size of the optimal local municipality needed to manage services for its citizens.

Many countries the world over are promoting regional cooperation plans to take advantage of the size advantage. Research shows that only with regards to certain services does size actually save money. However, when regional cooperation plans were looked at, size has been shown to grant additional advantages, which make it worthwhile:

1. **Increasing Efficiency in Municipal Spending:** Financial savings with regards to specific services – infrastructure, large fixed expenditures or services tailored towards specific populations.





2. **Access and Flexibility:** Expanding access to new resources and services, taking advantage of government resources that small local municipalities don't have access to.
3. **Louder Voices:** Promoting interests as well as preferable negotiating position with the government, in the public awareness, with partners, entrepreneurs and suppliers.
4. **Strategic Capacity:** Regional planning and execution abilities, wider connections for long term activity – something not all local municipalities can execute properly.

Size does not always matter. When it does matter, it has a large affect on efficiency, strategic thinking, leadership development and improving resident services. Size offers the ability to increase transferring budgets and authority to the local municipal level, but no less importantly it also develops the government's abilities in managing and decision making, in increasing and improving information and planning on the local municipal level and in bettering the efficient usage of existing resources.

### **Capitalizing in the size advantage in local municipalities – a must in complex societies**

The challenge facing peripheral local municipalities around the world is to continue being effective even when the weight of missions and services increases. As the local government's responsibilities grow, so size has greater meaning.

All around the developed world there is a continuing trend of decentralization from the central government to the local or regional government: new governance approaches encourage local responsibility; the globalization process weakens the national identity and strengthens the local identity; privatization and the process of removing the centralized government force the local government to step in and take control – these have all been taking place in the past four decades, and lead to local municipalities to dealing with more demands from their residents, as well as





increasing difficulties in managing the entirety of the services for which they are responsible. Many of the OECD countries have increased their process of transferring budgets and authority from the central government to the regional government, and in 2005 the OECD declared that managing governmental grants and budgeting regional governments as one of the main governing challenges in developed countries. (Blom-Hansen et al. 2011 ;COE et al. 2010 ;Holtzer et al. 2009 ;OECD 2005)

These trends have not passed over Israel, and local municipalities in Israel are dealing with these phenomena within the Israeli context. One of the main consequences in Israel is the increase in the disparity between local municipalities in the center as opposed to those in the geographical periphery: local municipalities in the center have been more successful in dealing with the decentralization and shrinking of the central government, while local municipalities in the periphery, for any number of reasons including their small size and socio-economic standing, have been left behind. (Resin, 1998; Ben Elia 2006; Appelbaum and Hazan 2005) Local municipalities today are forced to provide more expansive services than they have until now, must possess advanced management capabilities, must stay within their balanced budget and raise capital to develop and operate services, must maintain high organizational and managerial standards in order to be eligible for grants from the state, must develop strategic plans and more. **The test facing every region is in its ability to transform from a passive body to an active factor in determining regional policy and development** (Ben Elia, 2006; Resin 1998).

Research on the advantages of economic size (Economies of Scale) deals with the assumption, that the size of a local municipality affects its economic effectiveness. In a nutshell, bodies that are too small will have a hard time effectively competing in the market given the resources and abilities demanded of them. Bodies that are too large will be less effective due to their size and the resources needed to maintain the organizational structure. Their economic theory is used by many to examine





governmental bodies, specifically those in local government, in an attempt to identify a local municipality's most efficient size. (Keating 1999; OECD 2005)

When does size matter? In an expansive survey of existing research, Holtzer et al. (2009) show that the size advantage in local municipalities is a significant but complex phenomenon. Today, it is acceptable to assume that there is no optimal size for a local municipality to strive for, which will lead to maximum efficiency. Every type of service has a different optimal size: there are services for which size does not make much of a difference, and there are areas in which size has a critical effect. One of the clear differences can be found between capital-intensive services (infrastructure, roads, development, etc) and labor-intensive services (police, education, etc): While the former has a clear and definite advantage to size, the latter does not hold the same advantage, and can sometimes even be found to have a reverse correlation, since smaller municipalities can flexibly tailor their human services to the needs of the community. Sometimes, the size advantage even differs within different departments of the same service: in a series of studies in the United States, it was found that small communities have more advantages in creating an efficient community police department, while size holds the distinct advantage when it comes to developing investigative or forensic departments. (Holtzer et al. 2009; Blom-Hansen et al. 2011)

The question of the size advantage is not merely a question of fiscal efficiency: In recent years a wider discourse has developed examining the advantage size holds not only within the prism of economic savings, but also according to other indexes of improving service and local conduct – both in academic research as well as practically among policy-pushers. For instance, in 80% of the services provided by local municipalities in the United States, size does not have an effect on budgetary efficiency, once the local municipality is larger than 10,000-20,000 residents. Conversely, in the remaining 20% of offered services, this must be examined according to the properties of the local municipality. In France, regional cooperation plans did not save money, nor did they in Switzerland, and yet – in each of these





countries, the regional cooperation plans are considered successes, and we can see a growing trend of strengthening these plans (a 9.4% increase over 10 years in the United States, over 2/3 of the local municipalities in Switzerland are parts of regional cooperation plans) and a rise in both resident and mayoral satisfaction from these cooperation plans. (Holzer et al. 2009 ;Steiner 2003)

In many countries it has been found that size does not save money, but it does afford additional advantages. Possible advantages of a local municipality's size focus on four aspects (Joint et al. 2010; COE et al. 2010):

1. **Increasing Efficiency in Municipal Spending:** Financial savings with regards to specific services – infrastructure, large fixed expenditures or services tailored towards specific populations.
2. **Access and Flexibility:** Expanding access to new resources and services, taking advantage of government resources that small local municipalities don't have access to.
3. **Louder Voices:** Promoting interests as well as preferable negotiating position with the government, in the public awareness, with partners, entrepreneurs and suppliers.
4. **Strategic Capacity:** Regional planning and execution abilities, wider connections for long term activity – something not all local municipalities can execute properly.

We will now examine the different advantages size offers, and when they are expressed.

### **Budgetary efficiency: When does and doesn't size have an economic advantage?**

A series of OECD studies shows that physical infrastructure and service infrastructure are a decisive factor of the effect on various regions' competitive and developmental abilities. When there is a regional outlook, there exists the ability to develop infrastructure based on the area's unique strengths and needs, and not based solely on





the central government's decisions, which does not always delve into the specific area's attributes. On the other hand, when there is no regional coordination, many resources may be used ineffectively, or channeled solely to the local municipality that had the foresight to recruit them; but without regional development, local municipalities cannot prosper (OECD 2005). Holtzer et al.(2009) also note the realm of infrastructure as a distinct realm, where size has an advantage – in transportation, health, waste disposal, water and sewer, etc.

Another method of determining the budgetary efficiency of the size of a local municipality is to examine the size of the service's fixed expenditures: The larger a service's fixed expenditure is, the more importance the size of the local municipality has with regards to economic optimization and budgetary savings (Ben Bassat and Dahan, 2008).

In very small municipalities, size has a significant effect: In Israel, a clear correlation was found between size and budgetary efficiency, in local municipalities under 10,000-15,000 residents. Even clearer results were found in local municipalities that didn't have incomes aside from property taxes (excluding business property taxes) (Resin, 1998). In a comparative study around the world, it was found that once over 25,000 residents, size no longer held a significant advantage in most existing services. However, size has a distinct advantage when referring to capital-intensive products, and these constitute the main cause for regional cooperation plans: infrastructure, development, industry. The size advantage constitutes the main incentive for regional cooperation plans (Holtzer, 2009). For instance, when looking at waste-removal services, it was found that at least 70,000 residents are needed for the service to operate efficiently, and beneath that the maintenance costs rise drastically (COE et al. 2010).

That being said, the size of the local municipality also has limitations which may increase service costs. One of size's financial limitations, especially when looking at regional cooperation plans, is the larger mechanism cost. It is hard to estimate the





actual cost – in time, money and political capital – when you create a larger mechanism and it is hard to compare these costs to the unified service’s budgetary savings. Around the world – in Switzerland, France, Australia and elsewhere – it was found that forcefully merging local municipalities did not lead to budget savings, and oftentimes even led to higher costs than efficiency (OECD 2005, Dollery 2007). With regards to regional cooperation plans as well, budgetary savings were not always created (OECD 2005, Keating 1999, Steiner 2003).

When examining which services should be unified or shared to gain the size advantage, we must take into account their costs and weigh them against the budgetary savings the union will create. We should examine not only what is financially worthwhile to unite, but also what is implementable and has reasonable chances of success, with relatively little effort on the side of the mechanism and the various political and economic systems (Appelbaum and Hazan 2005, Blom-Hansen et al. 2011, OECD 2005).

### **Access and flexibility, wise allocation**

As governmental resources shrink, spreading them over many different municipalities and projects is inevitably inefficient, especially in weakened areas. The larger the municipality, the higher their chances are of capitalizing on opportunities for government grants, to create cooperation plans with businesses, to draw investments and promote a more efficient allocation of resources, all while coordinating the grant’s expenses instead of wasteful competition. Regional cooperation plans are not obligated to maintain formal boundaries, though these can most definitely be created (OECD 2005).

In Australia, there were many frequent forced municipality mergers during the 90’s, which did not lead to the desired result – neither leading to savings in expenses, nor in improving services for residents. In the past years, different models are being tried out in Australia: creating regional cooperation plans, which determine their own cooperation boundaries. The ability on the one hand so increase existing political







capital, while at the same time being flexible with regards to which realms the size advantage should be created, have led to success in all four realms of the regional cooperation plan – chosen by the partners, and granted federal backing: capital raising, risk and infrastructure management and establishing a regional GIS array. The flexible choice of where to utilize the size advantage only in areas where it is relevant led to savings in expenses and to higher quality of service. Furthermore, the smaller local municipalities could enjoy from services they themselves could not supply (Dollery et al. 2005).

Another clear example is Ireland, which ran a successful project titled “Leader”, which encouraged regional cooperation plans surrounding the relevant service, as opposed to formally belonging to any specific region. The practicality leads to success and effective use of the size advantage both either in savings or in improving service for residents. In British Columbia, Canada, there has been great success with regional cooperation plans which allow local municipalities to choose which projects to participate in and which do avoid – and so use the size advantage when it is truly necessary (OECD 2005). Promoting regional cooperation plans can lead to a more focused identification of needs, as well as the identification of resources that can be promoted. In order to do this, both bottom-to-top initiatives as well as lateral regional cooperation plans instead of hierarchical plans.

### **Louder voice: Talking to the government, partners, entrepreneurs and suppliers**

One of the main advantages to size is in the ability to negotiate and take advantage of opportunities, especially with regards to the central government but also with strengthening the public image, in negotiations with suppliers, factories and employment places, philanthropy and other sources. In Serra, Brazil, it was found that creating regional municipalities that unite villages and small towns allows these regions to compete with more central cities. The regional cooperation plan strengthened their negotiation positions with suppliers, investors and the government, and developed a more regional point of view, which allows investing in the unique





elements that are relevant to the area instead of trying to duplicate the advantages of the big cities. It was found that there was also a decrease in unemployment as well as a decrease in the sector gap. The entire state grew at a higher rate than that of Brazil, and the peripheral areas paced the central cities for extended periods of time. (Bar el 2007)

In Switzerland, regional cooperation plans did not lead to distinct budgetary savings, yet still 2/3 of the local municipalities willingly joined regional initiatives. The relative size advantage was expressed in the regional cooperation plan's ability to deal with the central government, and create more effective policies together. The relative flexibility – every partner declares its own goals – also allowed the government to be more easily persuaded that this would be a more effective use of the budget, and grant more incentives to local municipalities that decided to cooperate, as opposed to those that remained solitary (Steiner 2003).

In the USA there is a constant rise in the amount of regional cooperation plans. In the '90s, 43 out of 50 states marked a rise in the amount of regional cooperation plans, which afforded size advantages when dealing with the central government. Local municipalities prefer to combine out of their own free will, rather than wait until such a union is imposed on them – in order to increase their voice and to optimize their services (OECD 2005). Combining forces also strengthens the region by preventing internal competition for public and governmental attention.

**Strategic ability: regional planning and execution abilities to foster long term growth**

The more a local municipality has larger autonomy and responsibility when it comes to budgeting and supplying services – there is more need for strategic planning, creating work plans and developing a wide policy view among the decision makers. In Israel, only 13% of the budget is enabled by the local municipalities, as opposed to 30%-50% in most OECD countries, but even in Israel, expectations from the local





municipalities are steadily increasing, and there is greater importance to developing and training a local leadership to strengthen them (Ben Bassat and Dahan 2008)

On the strategic level, size has a distinct advantage: the heads of local municipalities are empowered and develop as a result of their exposure to a higher, more sophisticated level of decision making, as well as due to the cooperation and coordination required in regional cooperation plans. In countries where regional cooperation plans flourish, this is one of the distinct advantages size offers – In Finland, Switzerland, France and more (OECD 2005). This wide view develops the local leadership, but preserves the local outlook, and residents don't experience a distancing from the decision makers, as can be seen in municipality merging (Dollery 2007).

As the range of services the local municipality is expected to offer increases, so management, planning and integration skills must be higher. A larger municipality, or a regional cooperation plan, can create the necessary depth required to develop such skills. Also required are long-term seeing, the ability to make long-term plans and a lateral view of the range of services required and adapting them to specific populations. Size has an inherent advantage, when one needs to deal with many types of welfare services for various types of disabled people, or developing roads for various vehicles and types of transportation, both public and private (Ben Bassat and Dahan 2008). In France it was found that regional cooperation plans did not always lower the service cost, but it did prevent unnecessary duplication in creating unique services, as well as preventing competition between adjacent communities (Holtzer 2009).

A process including a regional economic analysis – identifying economic sectors, distributing population and manufacturing centers, urbanization processes, etc... - lead to identifying unique market failures, which allows both policy development and the ability to set an effective list of priorities. Such a process can lead to the growth of





the most effective regional development projects – in a manner that will maintain its advantages and competes with the larger cities (Bar el 2007).

When there is a regional network, it also constitutes an advantage in supplying significant information to the central government, being large enough to provide a regional context in various fields – broader than that supplied by a solitary local municipality, and more in depth than a look-down analysis performed by the centralized government (OECD 2005).

**Mapping out size’s possible advantages**

In a combined Council of Europe and United Nations project, a “tool box” for developing regional cooperation projects was built, in order to maximize the size advantage to improve service and budgetary savings. Within that framework, they created a map which emphasizes how one could locate specific missions in which size affords an advantage for all fields of service. Naturally, the map is incomplete – since each region has a relevant local context – but it emphasizes the wide range of possibilities (COE et al. 2010):

---

<b>Policy Field:</b>	<b>Possible Size Advantage:</b>
----------------------	---------------------------------

---





## **Health**

- Opening unique services which could not be opened on the local municipal lever (night clinics, shifts, experts).
- Coordinating between municipalities regarding basic healthcare services (education and prevention, unique infrastructure, dental health, etc).
- Preventing supplantation of services and maintaining a level of standard.

## **Welfare**

- Developing infrastructure and welfare services which have few customers in each municipality (rare disabilities, etc).
- Coordinating welfare services for communities and families that live in several municipalities in the same region.

## **Education**

- Creating unique educational services (unique study majors, special education for specific populations, etc).
- Cooperation between municipalities to prevent closing classes or services due to small population size.

## **Environmental**

- Coordinating a regional environmental policy.
- Preventing NIMBY and the spread of environmental hazards.
- Promoting regional environmental standards.
- Joint dealing with hazards through political consensus.





### **Waste Disposal**

- Locating waste disposal sites, partnerships with regards to purchasing equipment and infrastructure (trucks, garbage cans, etc).
- Promoting recycling and decreasing garbage on a regional scale.

### **sWater & Sewage**

- Partnerships with regards to buying equipment and infrastructure.
- Partnerships with regards to purchasing maintenance and repair services – size advantage in negotiations.
- Joint capital raising for infrastructure development.

### **Agriculture**

- Efficient distribution of agricultural water resources
- Coordinating and creating regional strategic and research plans.

### **Regional Economic Development**

- Improving tourism potential by creating a larger regional market.
- Regional cultural development, while pooling and optimizing resources.

### **Cultural Development**

- Joint management of large sports centers and maximizing their usage.
- Organizing regional festivals with the ability to draw larger crowds.





**Regional & Urban  
Planning**

- Long-term development coordination; coordinating between the interests and needs of municipalities throughout the region; coordination that transcends formal borders.
- Creating a higher level of plans, due to the pooling of resources and planning experts.
- Avoiding neglect and negotiations between municipalities over allocation of future resources.

**Managing  
Government  
Grants**

- More efficient management of government grants.
- Better abilities to raise money from the government.

**Roads**

- Jointly planning and determining priorities on the regional level; coordinating road building and maintenance.

**Public  
Transportation**

- Creating more efficient public transportation for a wider area.

**Traffic  
Management**

- Joint management of traffic, traffic lights, dealing with traffic congestion and road hazards.

**Rescue Services**

- Regional maintenance can improve equipment, as well as pool resources due to the size advantage.
- Joint purchasing of unique rescue and policing equipment.

As can be seen, size does allow budgetary savings and more efficient use of resources in some of the fields. In some fields it allows better strategic planning and





coordination. It largely affords better and more efficient negotiations with suppliers and the government and in other fields it succeeds in stabilizing that region on the map and helps the region enter the public consciousness.

The municipality size does not have a distinct advantage in all fields. Every policy field has services where size is significant. The wisdom is in creating the right size for each and every mission, and to allow the flexibility that local municipalities require to allow maximum efficiency.







### **In Conclusion: So how do we do it?**

Size doesn't always matter. But when it does matter, it has a large effect on efficiency, strategic thinking, leadership development and improving services for residents. There is no one-size-fits-all approach: it is important not to be fixated to a single solution, applying it to all local municipalities, since a unique policy must be developed for each case (Keating 1999).

**In order to close the gap, a combination of regional management is required, one that will increase the unique regional advantages, in cooperation with government backing and systematic support to realize the development.** Many times the periphery contains smaller, and weaker, municipalities. Forcing a municipality merging on them from above will only serve to weaken them and their residents – increasing the odds for a regional market-failure. The concept of growth in the center and a later redistribution of wealth has also failed the empirical test: even when there is growth, it is accompanied by a sharp rise in the sector gap. Regional cooperation plans that are built from the ground-up, determining their own unique set of priorities – can lead to a true closing of the gap. (Bar el 2007).

Size allows the increase of budget and authority transfers to the regional level, but it is just as important to maintain the central government's competence to manage and make decisions, to increase and improve the regional information and planning, which in turn improve and government's support and its output. A government which knows how to focus regional cooperation plans through specific contracts based on work plans and based on priorities that grow from the regional leadership will allow both regional management as well as national assimilation. It will allow municipalities to stay small and communal when needed, as well as enjoy the right size in fields where this is necessary in order to close the gap between them and the center (OECD 2005).



## Bibliography

- אפלבוים ל. חזן א. (2005), שיתוף פעולה בין רשויות מקומיות – לקחים לישראל, מכון פלורסהיימר למחקרי מדיניות, ירושלים.
- בן-אליא נ. (2006), החוליה החסרה: שלטון אזורי בישראל, מכון פלורסהיימר למחקרי מדיניות, ירושלים.
- גוינט ישראל-אלכא, מכון ראות, הסוכנות היהודית (2010), חזון ישראל 15: קפיצת מדרגה של הפריפריה – מסגרת תפיסתית, ירושלים.
- גזית, שחר ואח' (2003) הוועדה לאיחוד רשויות מקומיות בראשות דב גזית (דו"ח שחר) – הדו"ח המלא, משרד הפנים.
- רזין, ע. (1998) פערים בחוסן התקציבי של רשויות מקומיות בישראל 1972-1995, מחקרי פלורסהיימר, ירושלים.
- Bar El R., Schwartz D., (2007) Regional Development for Growth with Equity: The Ceara (Brazil) Experience, Progress in Planning, Vol 65-3, Elsevier Amsterdam.
- Bish R L., (2001) Local Government Amalgamations: Discredited Nineteenth-Century Ideals Alive in the Twenty-First, C.D. Howe Institute Toronto.
- Blom-Hansen J., Houlberg K., Serritzlew S. (paper in progress), Scale effects in local government? Evidence from local government amalgamations in Denmark, presented at the XX NORKOM conference in Gothenburg, Sweden, November 2011 – paper at work.
- Council of Europe (CoE), United Nations Development Programme (UNDP), Local Government Initiative (LGI) of the Open Society, (2010) TOOLKIT MANUAL INTER-MUNICIPAL COOPERATION, Bratislava.
- Dollery B., Burns S., Johnson A., (2005) Structural reform in Australian local government: the Armiale Dumaresq Guyara Uralla Walcha Strategic Alliance Model, Sustaining Regions, series of positions-papers, UNE business school.
- Dollery B., Byrnes J., (2007) Is Bigger Better? Local Governments Amalgamation and the South Australian Rising to the Challenge Inquiry, Economic Analysis & Policy Vol.37 No.1.





Frure Q., Leprince, M., Paty S., (2012) [The impact of inter-municipal cooperation on local public spending](#), Groupe D'analyse et de Th'orie Conomique Lyon.

Holzer M. et Al, (2009) [Literature Review and Analysis Related to Optimal Municipal Size and Efficiency](#), Rutgers Newark, School of Public Affairs and Administration.

Keating, M. (1999), [Rethinking the Region. Culture, Institutions and Economic Development in Catalonia and Galicia](#). Paper presented at ECPR Workshop, Regionalism Revisited. Territorial Politics in the Age of Globalization. Mannheim,

Morgan, K. (1997). The learning region: institutions, innovation and regional renewal. [Regional Studies](#). 31: 491-503.

OECD (2005) [Building Competitive Regions – Strategies and Governance](#), OECD Publishing.

Steiner R., (2003), The Causes spread and effects of Intermunicipal cooperation and municipal mergers in Switzerland [Public Management Review](#), Vol. 5, Num 4, Routledge.

