

Preliminary Findings Regarding the Consolidation of Local Authorities in 2003

As part of the 2003 Recovery Plan for the Israeli Economy, twenty-three local authorities were consolidated into eleven larger ones through a legislative process. The goal of this move was to reduce their dependence on the central government for funding through the exploitation of economies of scale. An examination of the budget data for the consolidated local authorities shows that the hoped-for increase in efficiency has not yet been achieved. Thus, for example, the ratio of expenditure per resident in local authorities that were consolidated to that of similar local authorities that were not rose between the two years before consolidation and the two years after. In most of the cases, the opposition of the residents to the consolidation and the lack of coordination with government ministries were the factors that led to the increase in this ratio, particularly among the non-Jewish local authorities.

Similar studies in Israel and other countries have found that in the longer term as well, the consolidation of local authorities leads to budget savings only if it has the support of the residents and creates economic opportunities that did not exist previously or if it leads to the dismantling of less efficient local authorities. In many cases, the consolidation leads to an increase in expenditure along with an improvement in the services provided to the residents; however, this occurs without the expected increase in efficiency in expenditure categories that are subject to economies of scale.¹

An analysis of the effect of the consolidation on the local authorities' revenues and expenditures in the relatively short run is liable to be problematic since the initial years following the consolidation are characterized by one-time expenses resulting from the dismissal of employees and organizational changes. Nonetheless, it is in the public interest to analyze the results of the consolidation even in the short run in order to draw conclusions that can be implemented in the consolidation of additional local authorities in the future.²

Consolidation of Local Authorities and Economies of Scale

¹ Davidovich-Martin, R, and A. Tabac (2005). "Consolidation of Local Authorities – Documentation, Conclusions and Recommendations", Ministry of the Interior, position paper. See also the recommendations of the Local Authorities Group at the Caesarea Conference, "Reform of Local Government: Decentralization for the Strong and Reorganization for the Weak", the Institute for Democracy, July 2004.

² In January 2006, the local authority Menahemya was consolidated with the Beit-Shean Regional Council. Recently, the Ministry of the Interior published an updated plan for the consolidation of additional local authorities, according to the government decision made on September 2006 regarding the continuation of the process to consolidate local authorities.

The effort on the part of the government to consolidate local authorities is based on the lack of economies of scale in small local authorities. Economies of scale are concentrated in expenditures that have a large fixed component. An example would be expenditure from the "General and Administrative Expense" budget calculated per resident, which is up to four times larger in small local authorities (less than 10,000 residents) than in large ones. Expenditure on salaries for elected positions in the local authorities is also subject to economies of scale and thus decreases with the size of the local council when calculated per resident. As a result, the burden of the salaries of elected positions is 12 times higher in small local authorities than in large ones (Table 1). These findings are particularly significant in view of the large number of small local authorities.

Table 1: Characteristics of the Local Authorities, 2005

Size of the Authority	Number of Local Authorities	Residents (thousands)	Regular Budget Expenditure per Resident (shekels)	General and Administrative expense per Resident (shekels)	Salaries of Elected Positions per Resident (shekels)
50+	23	3,731	5,160	172	10
20-50	47	1,534	4,887	230	36
10-20	43	615	4,427	272	59
5-10	52	362	5,035	332	74
5-0	32	91	6,784	603	170
Regional Councils	54	609	7,007	699	63
Jewish	171	5,574	5,196	203	21
Arabs	80	1,368	4,129	262	61

The consolidation of local authorities was carried out against the background of a budget crisis, which particularly affected the weak local authorities. The crisis was the result of poor management in some of the local authorities and of a sharp cut in equalization grants, which amounted to more than NIS 800 million (about 19 percent), as part of the 2003 Economic Plan. The cut disrupted the supply of many municipal services. Some of the local authorities were on the verge of a liquidity crisis which led to delays in the payment of salaries and expenses for an extended period. This was particularly true for the local authorities in the lower socioeconomic groupings, for which the grants are the principal source of revenue, and in particular non-Jewish local authorities in the four lowest clusters.³

³ Navon, G., (2006). "The Budget Dynamics of the Local Authorities", Bank of Israel Survey 79, 139-172.

Budget Data for 2004-2005: Initial Findings

Below is a comparison of data on budget performance for the consolidated local authorities relative to similar unconsolidated local authorities for the years 2001-2002 (before the consolidation) and 2004-2005 (after the consolidation). The reference group of Jewish local authorities includes all 73 local authorities whose population was less than 10,000 prior to the consolidation while the reference group of non-Jewish local authorities includes all 43 non-Jewish local authorities that were not consolidated.

The ratio of expenditure per resident in the local authorities that were consolidated to the expenditure per resident in the local authorities that were not rose during the two years following the consolidation (2004-2005) in comparison to the two years previous to the consolidation (2001-2002; Table 3) in most of the cases. This means that the drop in expenditure per resident in the local authorities that were consolidated was more moderate than in the parallel local authorities that were not. An exception is the consolidation of Modi'in with Maccabim-Reut where there was no significant change in expenditure per resident relative to the reference group, which reflected an 11 percent decrease in expenditure per resident (achieved through the dismissal of 42 percent of senior employees and the transfer of the Maccabim-Reut Council to the consolidated Modi'in Local Authority). The real expenditure per resident in the City of Carmel and the consolidated municipality of Baka-Gat rose by 17 percent and 6 percent, respectively, during the two years following the consolidation, despite the dismissal of employees. This was a result of the opposition of residents, which prevented the organizational change.

Table 2: Expenses per Resident relative to Similar Local Authorities that were not Consolidated¹

	Before the Consolidation		Year of the Consolidation	Following the Consolidation	
	2001	2002	2003	2004	2005
Jewish Local Authorities					
Kadima-Zoran	83	68	79	79	82
Binyamina-Givat Ada	93	78	84	94	89
Yehud-Neve Ephraim	99	81	93	94	94
Modiin-Maccabim-Reut	77	61	69	70	66
Non-Jewish Local Authorities					
City of Carmel (Dalyat el Carmel-Ossifieh)	89	85	103	89	117
Baka-Gat	79	80	86	83	87
Shagur (Bana, Dir el Assad and Majad el Krum)	84	81	80	77	79

¹ The Jewish local authorities that were consolidated are compared to small Jewish local authorities (less than 10,000 residents) that were not.

The non-Jewish local authorities that were consolidated are compared to the rest of the non-Jewish local authorities. A number greater than 100 indicates higher expenditure relative to the reference group.

In this context, it is important to mention the findings of the committee that monitors the implementation of the consolidation, according to which the consolidation of local authorities is worthwhile in two extreme cases: if the consolidation leads to the dismantling of a failing local authority and its assimilation within a nearby stable local authority or if it produces a stable economic revenue infrastructure in the consolidated local authority over time.

Another important comparison is related to the collection of municipal tax. In 2005, the rate of collection of municipal tax in Arab local authorities was 30 percent on average, as compared to 65 percent in Jewish local authorities. This difference is the result of the *hamula* structure that makes collection difficult in the Arab local authorities and the difference in socioeconomic levels. In addition, residents are less willing to pay for local services out of a feeling of discrimination and lack of trust in the government authorities. Even when socioeconomic characteristics are controlled for, the collection of municipal tax in the Arab local authorities is lower by 20 percent on average than in parallel Jewish ones.⁴

A comparison of the rates of municipal tax collection during the two years prior to the consolidation (2001-2002) to the two years following (2004-2005) show that in the Jewish local authorities that were consolidated the rate remained almost unchanged,⁵ as expected, while in the Arab local authorities that were consolidated the rate of collection dropped significantly, even relative to other Arab local authorities. This finding is particularly noticeable in the consolidation of Baka-Gat and of Shagur where there was strong opposition to the consolidation among the residents and the heads of the local authorities.

⁴ Brender, A. (2004). *“Do Minorities Respond to Discrimination with Intensified Self Effort or with Alienation? Tax Collection in the Arab Local Authorities as a Case Study”*, Falk Institute, Discussion Paper 04.03, September 2004.

⁵ An exception is the consolidated town of Yehud-Neve Ephraim where there was a decrease in the rate of municipal tax collection.

Table 3: Rate of Collection of Municipal Tax in Local Authorities that were Consolidated¹

	Before Consolidation		Year of Consolidation	Following Consolidation	
	2001	2002	2003	2004	2005
Jewish Local Authorities					
Kadima-Zoran	80	80	69	83	84
Binyamina-Givat Ada	84	84	70	80	83
Yehud-Neve Ephraim	89	89	58	74	69
Modiin-Maccabim-Reut	91	83	85	88	85
Non-Jewish Local Authorities					
City of Carmel (Dalyat el Carmel-Ossifieh)	60	60	29	54	47
Baka-Gat	57	57	16	43	21
Shagur (Bana, Dir el Assad and Majad el Krum)	61	61	15	33	36

¹ Includes municipal tax on residences and non-residences less doubtful debts.

The above analysis yields conclusions that are relevant to the implementation of plans for the consolidation of additional local authorities in the future: in order for a consolidation to succeed, it is important to explain its rationale to residents and to coordinate the move with them in the hope that they will convince the heads of the local authorities of its necessity. In the literature, the involvement of the local authorities being consolidated is a significant factor in the achievement of increased efficiency. In addition, consolidations should be closely monitored in order to identify problems at an early stage.⁶ There should be continued monitoring of the performance of consolidated local authorities in the longer term and the findings of the monitoring committee should also relate to the changes in the level of services to residents.

It is important to also consider a policy based on the multi-organizational approach, i.e. the development of inter-municipal organizations for the supply of joint services in the areas of education, welfare, water and sewage. Experience in other countries shows that the consolidation of local authorities does not, in general, lead to budget savings in the long term if not accompanied by comprehensive change, since expenditure per resident in the absorbed local authority rises to the level in the absorbing local authority.⁷ The multi-organizational

⁶ See the recommendations of the report prepared for the 2004 Caesarea Conference.

⁷ Dollery, B. E. and L. Crase (2004). "Is Bigger Local Government Better? An Evaluation of the Case for Australian Municipal Amalgamation Programs", *Urban Policy and Research*, 22(3), 265-276.
Sancton, A. (2000). *Merger Mania: The Assault on Local Government*, Montreal and Kingston: McGill-Queen's University Press.

approach emphasizes the importance of cooperation between local authorities and of providing optimal service.

An exceptionally large-scale municipal reform was carried out in Denmark in 2007. As part of this reform, the number of local authorities was reduced from 271 to 98 and the number of districts from 14 to 5 with the goal of exploiting economies of scale and increasing the efficiency of service to residents. As part of the consolidation, it was decided that a local authority would not include less than 30,000 residents. In addition, the consolidations were chosen by the local authorities themselves and negotiations were held between them in order to arrive at the most appropriate matches. The reform also included agreements for cooperation between neighboring local authorities, primarily in the same metropolitan area, for the supply of various services, as advocated by the multi-organizational approach.

Table 4: List of Towns in the Consolidation of Municipalities and Local Councils⁸

	Primary Local Authority			Secondary Local Authority			Consolidated Local Authority		
	Name	Population	Cluster	Name	Population	Cluster	Name	Population	Cluster
1	Majad el Crum	11,125	2	Bana	6,535	2	Shagur	25,672	2
				Dir el Assad	8,012	2			
2	Baka el Garbiya	19,224	3	Gat	8,388	2	Baka-Gat	27,612	3
	Dalyat el Carmel						Dalyat el Carmel-		
3		13,099	4	Ossifieh	9,381	4	Ossifieh	22,480	4
4	Kadima	8,733	7	Tsoren	5,452	7	Kadima-Tsoren	14,185	7
5	Benyamina	6,044	8	Givat Ada	2,452	7	Binyamina-Givat Ada	8,496	7
				Neve					
6	Yehud	21,578	7	Monoson	2,560	9	Yehud-Monoson	24,138	7
				Maccabim-			Modiin-Maccabim-		
7	Modiin	30,996	8	Reut	10,663	9	Reut	41,659	8
8	Kochav Yair	4,903	9	Tsur Yigal*	6,630		Kochav Yair	11,533	8
				Ganei					
9	Savion	2,488	10	Yehuda*	740		Savion	3,228	10

* Tsur Yigal and Ganei Yehuda were prior to the change in the local councils in the South Sharon Regional Council district.

Table 5: List of Towns in the Consolidation of Regional Councils⁸

	Before Consolidation			Incoming Local Authority		Outgoing Local Authority		After Consolidation	
	Name	Population	Cluster	Name	Population	Name	Population	Number of Towns	Population
10	Hof Carmel	43,388	6	Atlit*	4,477			22	47,865
	Emek								
11	Hayarden	9,211	6	Kinneret*	469			21	9,680
				Ramot					
12	South Sharon	24,316	8	Hashavim*	1,069	Tsur Yigal	6,630	29	18,015
						Ganei			
						Yehuda	740		
13	Match Asher	16,399	5	Shavei Zion*	648			32	17,047

* Local councils that joined regional councils as local boards.

⁸ The Central Bureau of Statistics, "Characterization of Local Authorities and their Socioeconomic Grouping" (2004).