

Study reveals local council mergers depend on efficiency

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Local council mergers make economic sense only if bigger councils operate more efficiently than smaller ones, according to a new study by researchers at The University of Western Australia.

The researchers said greater efficiency was not achieved by simply joining two councils with a small population.

The study, published in *The Australian Economic Review*, was carried out by Assistant Professor James Fogarty and Assistant Professor Amin Mugera, from UWA's School of Agricultural and Resource Economics and Institute of Agriculture.

The authors used the data envelopment analysis method to investigate efficiency and identify the contribution of scale effects to overall sector inefficiency at 98 local councils in WA in 2009 and 2010.

They found that although incorrect scale was a source of inefficiency, the source of the scale inefficiency was in some cases that local government areas were too large, while others were too small.

"Rather, economics of scale benefits are realised when an increase in the mix of different services provided by a council results in a decrease in the overall average cost of service delivery," the report said. "The average cost at each council will depend on the mix of services delivered, the unique nature of the production characteristics of each service and prevailing market conditions."

The authors concluded that a merged council serving a larger population was not necessarily able to deliver services at the minimum possible cost.

"In terms of the amalgamation debate, policies that encourage consolidation only make economic sense if larger councils tend to be more efficient than smaller councils and if merging will improve both pure technical efficiency and scale [efficiency](#)," they said.

"The results suggest there will be a number of possible council amalgamation scenarios that meet these criteria, but also a large number of amalgamation scenarios that do not."

The researchers found significant differences between information submitted annually to the State Government and matching values contained in councils' audited financial statements.

"This lack of consistency should be a concern for all levels of government and all agencies that use this information...", they said. "The

lack of consistent data also makes objective analysis of sector performance difficult."

The authors also noted a strong clustering of councils into groups of efficient and inefficient operators and suggested that some councils were likely to have implemented substantially better processes and operating practices than others. They suggested in such an environment it was valuable to provide opportunities for managers to share their experiences.

More information: [onlinelibrary.wiley.com/doi/10 ...
013.12015.x/abstract](https://onlinelibrary.wiley.com/doi/10.1111/1365-3113.12015.x/abstract)

Provided by University of Western Australia

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