

Research Note

Measures Taken by Municipalities Undergoing Amalgamation

Ernst Jonsson

Background

On January 1st, 1971 a great many municipalities in Sweden were amalgamated and the number fell from 848 to 464. Three years later came more amalgamations, and these reduced the number of municipalities still further to 270. The usual procedure during amalgamation was for small rural municipalities to be incorporated in larger municipalities centred on larger urban townships.

Hypotheses

From having been an independent unit, the sparsely-populated rural municipality now becomes a relatively small part of a large municipality. After an amalgamation, investments and other outlays planned but not carried out by the small rural municipality have to compete with those of other units within the large municipality. This means that the absorbed municipality now runs the risk of having its investment plans regarded as less urgent by the large municipality, with the result that these plans are deferred indefinitely.

To prevent this from happening, it may be in the interest of the small municipality threatened with incorporation to implement such investment projects *before* amalgamation takes place. If the investments are concentrated to the year immediately prior to amalgamation, the large municipality will also have to accept responsibility for the cost increases entailed by the investments. In this way, a temporary expansion of investment by the municipality to be absorbed will find a place in the future spending plans of the larger one.

However, such an expansion is not possible in those areas (e.g. schools, roadworks funded from government grants) in which the central government authorities exercise a decisive influence on investments. Any move towards

investments prior to amalgamation is possible only in areas (mainly sports and outdoor activities, social welfare, building construction and planning, parks and roadworks) in which the small rural municipality has more or less complete freedom of action.

From the point of view of the absorbed municipality, it may seem attractive to finance the temporary expansion of investment through:

- a) available funds, including surplus savings from previous years which accrue to the municipality in question;
- b) borrowed funds, in which case the large municipality will have to accept responsibility for future interest and amortization payments.

On the other hand, it will not be in the interest of the municipality due to be absorbed to finance an expansion of investment through savings obtained as a result of increases in taxes or fees. The expansion will then have to be paid for by the municipality itself and not by the enlarged municipality. By reducing its current savings it will furthermore be possible for the small municipality to increase its operating expenses by an equivalent amount.

Selection, Data and Method of Testing

Of the municipalities which ceased to exist in 1971, 72% were declining. During the period 1965 to 1970 their populations had either decreased or had increased more slowly than that of the country as a whole. On the other hand, of the municipalities which were not absorbed in 1971 or 1974, 77% were expanding. Consequently, any difference that may be noted in the investment trends of these two groups of municipalities could be explained by the fact that on the whole their population trends diverged. To exclude the possible effect of the population trend, only declining municipalities have been examined in the investigation. From among the declining municipalities, of which 275 ceased to exist while 77 continued to do so, the following random selection has been made:

- 54 absorbed municipalities (with an average population of 3000) — group I
- 46 surviving municipalities (with an average population of 9000) — group II

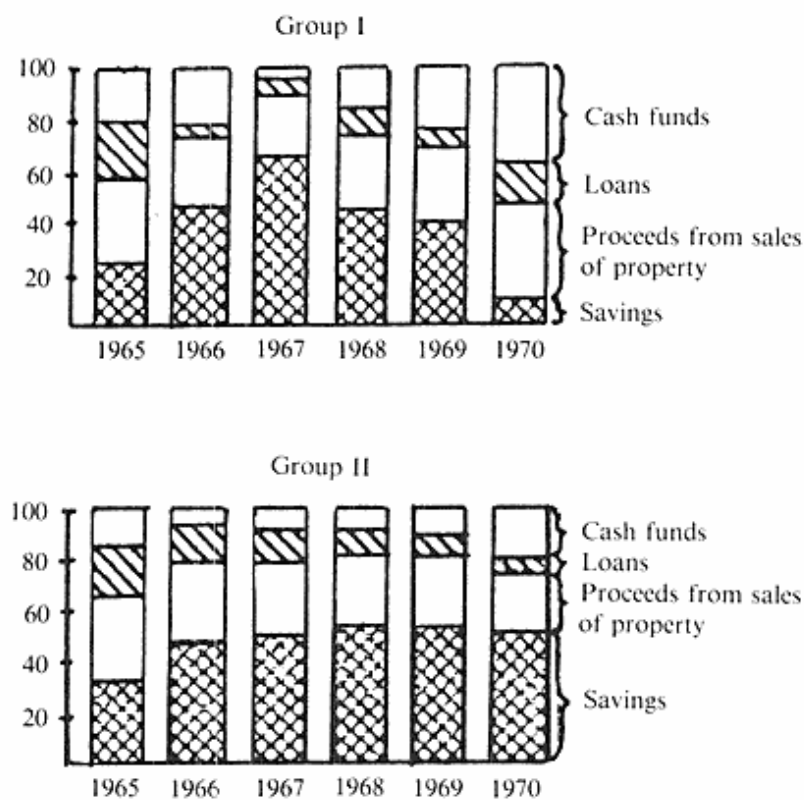
As the time at which a definite decision concerning amalgamation was taken varied as regards certain municipalities, the investigation has covered a relatively long period, namely, 1965-1970. Annual returns of investment and financing in respect of this period have been obtained from the statistics of municipal finance prepared by the Central Statistical Bureau.

The analysis is based on the annual percentage changes (at current prices) in each municipality in the variables examined. These changes have formed the basis on which the average values for the two groups of municipalities have been calculated. These values will then be subjected to statistical testing. With the aid of the Chi square test there will be an investigation of whether the trend in absorbed municipalities differs from that in municipalities that survived. Unless otherwise stated, the differences reported between the two groups of municipalities are significant to within 5%.

Results

Those municipalities which ceased to exist on 1 January 1971 increased their investments by an average of 38% during the year immediately prior to the amalgamation (that is, 1970), while the investments of those that continued to exist fell by an average of 1%. The difference between the two groups of municipalities is even more pronounced if one studies the "free" investment areas (that is, sport and outdoor activities etc). Those municipalities which ceased to exist increased their investment in these areas by an average of 150% compared with a fall of 10% for the others.

Fig. 1. Financing of capital expenditure during the period 1965-70 by the groups of municipalities investigated.



As the diagram indicates, there are also statistically reliable differences in the pattern of financing between the two groups where 1970 is concerned:

- In the municipalities that ceased to exist there was a sharp drop (from 40% to 11%) in the percentage of expenditure financed out of savings (that is, through taxes and fees), while the other municipalities recorded only an insignificant fall.
- Between 1969 and 1970 the municipalities which ceased to exist recorded an increase from 7% to 15% in the proportion financed by means of loans, while the proportion raised in this way by the other municipalities fell from 8% to 4%.
- The proportion of investments financed with the aid of funds generated by the sale of sites and buildings increased from 28% to 38% in the group of municipalities that ceased to exist, compared with a moderate fall in the other group.

Similarly, during the year prior to amalgamation those municipalities that ceased to exist made more use of their cash funds (that is, cash in hand, bank and postgiro balances as well as short-dated bonds), though this increase was not significantly greater than that which took place at the same time in those municipalities which continued to exist.

Summing up

When the amalgamations take place it is usual that small, sparsely-populated municipalities are incorporated in larger, urban ones. An investigation of the amalgamations in Sweden in 1971 confirms the following hypotheses: The municipality that is to be absorbed will be interested in increasing its investments before the amalgamation takes place and in financing these through loans rather than by current savings (via such measures as higher taxes or fees). This kind of financing will not require the inhabitants of the municipality that is to be absorbed to bear the burden of this temporary expansion in investment. As a result of this, it also transpired that this expansion was even financed with the aid of a considerable increase in sales of property owned by such municipalities. The increase in financing by means of reverse funds or other liquid funds did not, on the other hand, differ from the increase also recorded for municipalities which continued to exist.