

NORWAY

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: NORWEGIAN KRONE (NOK)

POPULATION AND GEOGRAPHY

Area: 385 207 km²**Population:** 5.277 million inhabitants (2017), an increase of 1.2% per year (2010-2015)**Density:** 17 inhabitants / km²**Urban population:** 81.9% of national population (2017)**Urban population growth:** 1.3% (2017)**Capital city:** Oslo (12.6% of national population)

ECONOMIC DATA

GDP: 324.4 billion (current PPP international dollars), i.e. 61 414 dollars per inhabitant (2017)**Real GDP growth:** 2.0% (2017 vs 2016)**Unemployment rate:** 4.2 % (2017)**Foreign direct investment, net inflows (FDI):** 1 643 (BoP, current USD millions, 2017)**Gross Fixed Capital Formation (GFCF):** 24.1% of GDP (2017)**HDI:** 0.953 (very high), rank 1 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

According to the Political Constitution, adopted in 1814, Norway is a monarchy with a parliamentary form of government. The King acts as Head of State and the Prime Minister as Head of the Government. The Parliament (*Storting*) is composed of 169 members elected every four years. Among the 12 Parliamentary Standing Committees, there is the Standing Committee on Local Government and Public Administration, which is responsible for local government legislation (e.g. regional and rural policy; block grants to municipalities and counties; regional planning; government administration; personnel policy for state employees including pay, etc.)

The Norwegian Constitution makes no reference to local self-government. In 1837, local democracy and local self-rule was established and since then, the legal framework has been developed through several laws such as the Local Government Act of 1992 which states that the role of local democratic bodies is more administrative than legislative. According to the Local Government Act of 1992, municipalities and counties can choose between two administrative models. If a municipality chooses the traditional administrative system, the municipal council is the highest municipal body. In this case, the council elects a five-member executive board from among the members of the council. Also an executive officer is appointed to run the municipal administration under the executive board and council. The executive board is responsible for preparing economic and spatial four-year development plans, and for making proposals concerning the budget and other related financial and economic topics. The second alternative gives much more power to the executive board, which runs the municipal administration and has a large decision-making mandate. No executive officer is appointed in this case, as the members of executive board act as managers of the administration. There is also a third administrative model, formed by the City of Oslo, as the city is divided into fifteen boroughs, each of which has a borough council whose members are elected by direct universal suffrage.

In 1999, the Inter-municipal Companies Act of 1999 established the framework for inter-municipal co-operation. In 2001, the Act of 15 June, clarified local government boundaries. In 2002, the Representation of the People Act, laid down the rules governing the organisation of general and local elections. Also in 2002, the responsibility for hospitals was moved from the counties to the national government. In 2006, the Freedom of Information Act focused on matters related to access to official information both for national and local authorities. On 1 January 2010, a reform amending Norway's system of local government entered into force. The reform addressed power-sharing arrangements between the different levels of government. It transferred a number of tasks to county authorities, notably public roads, cultural activities, management of marine resources, operation of vocational schools and environmental protection. In addition, certain responsibilities on health and social services were transferred to municipalities.

Since 2014 new reforms have been discussed as the last municipal and regional reforms in Norway took place more than 50 years ago while greater responsibility has been given to counties and municipalities since then. In 2014, the Ministry of Local Government and Modernisation appointed an expert commission to propose criteria for the reform and to provide recommendations. In 2017, a new subnational structure was proposed to the Parliament, for both municipalities and counties, as well as the transfer of certain tasks to the new municipalities and regions. The reform was adopted in 2017 and, from 2020 there should be 356 municipalities and 11 regions.

The Norwegian Association of Local and Regional Authorities (KS) assembles the bulk of municipalities and counties and plays a significant communication role between the central government and subnational governments. They encourage multi-level communication by promoting regular meetings with the government in order to discuss general issues and financial matters, as well as to arrange meetings with ministries on specific matters (transport, health, occupational safety, refugees, etc.).

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	422 municipalities (<i>Kommuner</i>)		18 counties (<i>Fylker</i>)	
	Average municipal size: 12 408 inhabitants			
	422		18	440

OVERALL DESCRIPTION. Norway has a two-tier subnational government system, composed of 422 municipalities and 18 counties with no hierarchical link. The city of Oslo is both a county and a municipality.

REGIONAL LEVEL. There are currently 18 counties. In 2017 however, it was decided to abolish counties and to replace them with 11 larger regions by 2020. Some of the new regions will be unchanged and some will be merged, in some cases corresponding to the historical divisions of Amt (county) used until 1918 and Len (Swedish for county). The Oslo Region for example is unchanged, comprising the city and the former county of Oslo. The rationale behind the proposal is to strengthen the regions as functional units and to provide more coherent housing and labour market areas.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. The population sizes of municipalities ranges from a few hundred inhabitants in the smallest rural communities to nearly 600 000 in the capital Oslo, while the average and median sizes amounted to around respectively 12 400 inhabitants (vs 9 700 inhabitants in the OECD on average) and 4 715 inhabitants. In 2016, 52% of municipalities had fewer than 5 000 inhabitants and 22% fewer than 2 000. The considerable differences in municipal population size and financial capacity, together with increased municipal responsibilities and demands for equity of access to services, spark, on a regular basis, debate on the need to reform the municipal structure. Despite this, the number of municipalities has remained relatively stable during the past two or three decades. The last wave of municipal mergers took place in the 1960s when the number of municipalities was reduced from 744 (in 1957) to 454 (in 1967). As previously mentioned, the reform currently underway will reduce the number of municipalities to 356 from 2020. The objectives of the reform, which seeks to align new municipal boundaries with functional development areas are as follows: good, equal services for the citizens; comprehensive and coordinated community development; sustainable and financially robust municipalities and strengthened local democracy

Beyond the aim of increasing the technical capacity and expertise of small municipalities by encouraging mergers, the aim of the reform is also to promote inter-municipal cooperation. Nevertheless, inter-municipal cooperation has already taken place, especially for issues related to waste management, auditing, emergency clinics, emergency services, educational-psychological services, and child welfare. The three most frequent areas of cooperation where more than half of the municipalities are involved in formalised cooperation are waste management (93% of municipalities), auditing (86%) and emergency clinics (83%).

The central government has a deconcentrated administration at territorial level: the county governor (fylkesman) who acts as the representative of central government at regional and local levels. In addition to coordinating the activities of other central government bodies at the county level, the County governor supervises local government activities according to the Local Government Act article 59. In the framework of the current reform, the number of fylkesmen will be reduced from 18 to 10.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

With the exception of Oslo, which is both a county and a municipality, all Norwegian municipalities have the same responsibilities and are required to fulfil the same functions. The municipalities and counties are free to choose the method of service delivery between own production, outsourcing or inter-municipal cooperation. While decentralisation has been the clear trend in Norway, a major centralisation reform was carried out in 2002 as the hospital services were transferred from counties to the central government. This made hospitals autonomous state health enterprises. Since then, decentralisation has however continued in other service sectors. In 2006, the government presented a white paper on the division of powers and responsibilities between the various levels of government. As a result, a reform was introduced in 2010, handing more competences to municipalities and counties. The current reform will significantly change the distribution of responsibilities across levels of government. The impact will be stronger at the regional level, whose current responsibilities will be strengthened and which will also gain significant new responsibilities. In particular, the reform strengthens the counties as "community developers", and their responsibilities in transport, roads, business development, research and innovation, agriculture, public health, climate and environment, integration (immigrants), planning and culture.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS (IF RELEVANT)	MUNICIPAL LEVEL
1. General public services	General administration	General administration
2. Public order and safety		Comprehensive municipal emergency planning responsibility; Fire protection; Disaster prevention and response
3. Economic affairs/transport	Public transport; Trade and industrial policy	Municipal roads
4. Environmental protection	Environmental protection	Environmental protection; Recycling waste water; Waste collection and removal
5. Housing and community amenities	Regional development (planning and business development)	Water supply; Planning (including land use planning); Housing
6. Health	Dental health	Primary health care (general practitioners, health centres and emergency rooms); Outpatient health care
7. Recreation, culture & religion	Libraries; Museums; Sports facilities	Cultural facilities; Churches' maintenance
8. Education	Upper-secondary education	Access to and facilities in primary schools; Lower secondary education
9. Social protection	Dental care	Nursing homes and home based care for the Elderly; Social assistance and child custody; Kindergarten; Prevention and care for the elderly and people with disabilities

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: counties, municipalities, as well as non-market corporations classified within local government and joint parish councils.	SNA 2008	Availability of fiscal data: High	Quality/reliability of fiscal data : High
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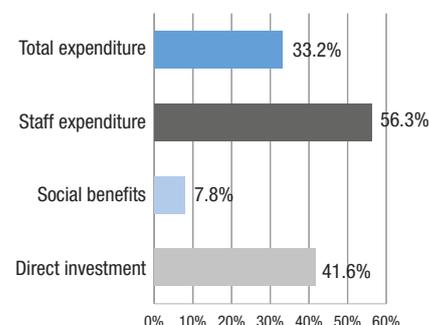
GENERAL INTRODUCTION. The Local Government Act determines the ground rules for the organisation of the municipalities' and county authorities' work including their finance plan, annual budget, annual accounts and reporting, debts, etc. Regulations are the same for municipalities and county authorities.

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SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	11 951	16.9%	100%	
Incl. current expenditure	10 383	14.7%	86.9%	
Staff expenditure	6 113	8.6%	51.2%	
Intermediate consumption	2 248	3.2%	18.8%	
Social expenditure	972	1.4%	8.1%	
Subsidies and current transfers	828	1.2%	6.9%	
Financial charges	217	0.3%	1.8%	
Others	5	0.0%	0.0%	
Incl. capital expenditure	1 568	2.2%	13.1%	
Capital transfers	25	0.0%	0.2%	
Direct investment (or GFCF)	1 543	2.2%	12.9%	

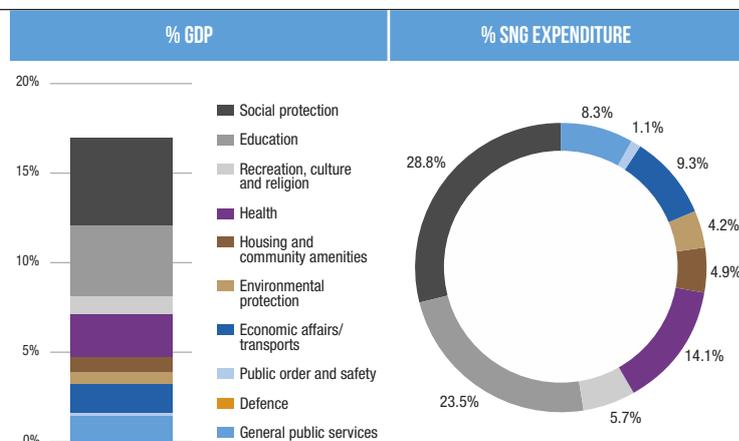


EXPENDITURE. SNGs accounted for a third of general government expenditure in 2016 (a smaller percentage relative to the OECD average in 2016, 40.4%), and for 16.9% of GDP, which is in line with the rest of OECD countries which accounted for an average of 16.2% in 2016. SNGs are also a major employer since the municipalities and counties are responsible for more than half of public staff expenditure, one of the highest shares among OECD countries (with an average of 36% of subnational expenditure in 2016), outpaced solely by Chile (52.1%), and the Slovak Republic (51.9%).

DIRECT INVESTMENT. Direct investment at the subnational government level accounts for 2.2% of the GDP (a larger percentage in comparison with the OECD average of 1.7% for 2016) and more than 40% of general government direct investment (which remains below the OECD average of 56.9%).

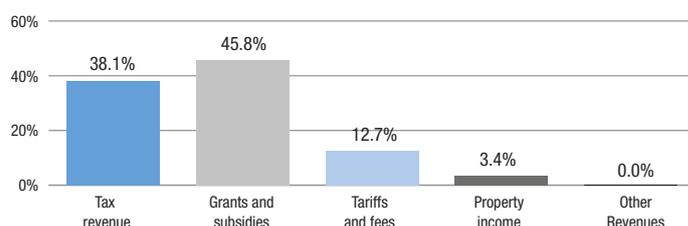
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Following the Nordic tradition, the local public sector in Norway is a major provider of welfare services, which explains why education, health and social sectors account for the bulk of SNG expenditure. The most important budget item is social protection, which accounted 4.9% of GDP (a level well above the OECD average of 2.2% of GDP) and almost 29% of SNG expenditure (also well above the OECD average of 14.0%). As far as education is concerned, Norway is in line with the OECD average both as a share of GDP where it accounted 4.0% of GDP in the OECD in 2016 and as a share of SNG spending (24.8%). Despite the fact that hospitals are under central government, health is an important subnational expenditure sector, accounting for 2.4% of GDP and 14.1% of SNG expenditure. SNGs are responsible for more than 25% of the general government expenditure in this area. Finally, SNGs are active in economic affairs and transport, especially since they hold the responsibility of local roads maintenance, however, it remains a smaller share relative to the OECD average (13.6% in 2016) and as a share of the GDP (2.2% in 2016).



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	11 661	16.5%	30.0%	
Tax revenue	4 442	6.3%	22.3%	
Grants and subsidies	5 341	7.5%	-	
Tariffs and fees	1 483	2.1%	-	
Property income	396	0.6%	-	
Other revenues	0	0.0%	-	



OVERALL DESCRIPTION. Grants and subsidies accounted for almost half of the SNG revenue, which means that they rely more on transfers from the central government than on taxes and other non-tax sources (OECD average accounted for 37.2% in 2016). The share of taxes is smaller than the OECD average, which was 44.6% in 2016.

The municipal level is more than five times as large as the county level in terms of revenue. The revenue structure differs considerably between municipalities and counties. Counties are more dependent on central government grants, while tax revenue and user charges are more important for the municipalities. Property income is particularly important by international standards and related to SNG links with power companies.

TAX REVENUE. The primary source of tax revenue is the shared personal income tax (PIT). In 2016, it represented (87% of subnational government tax revenue, 33% of SNG revenue and 5.4% of GDP. Each year, the Parliament decides the maximum tax income rates of central, municipal and county levels. For 2019, the total maximum income tax level has been set to 22%. For municipalities, the maximum income tax rate is 11.55%, and for counties it is 2.6%. Therefore, the central government rate is 7.85%. Municipalities and counties are allowed by law to set lower than the maximum regulated rate, but in practice all municipalities and counties use the maximum rate. This is because the subnational governments do not want to give signal to central government that their transfer funding is too generous. It is interesting to note that the PIT revenue is collected by the municipalities for the central government, counties and themselves.

Other municipal taxes include a wealth tax (also shared with the central government), which accounted for 6% of the tax revenue of SNG in 2016, while counties and municipalities raise a tax on natural resources paid by companies operating in the energy sector (1% of tax revenue in 2016). The base for the tax is power production above a specified level. Additionally, there is a tax on goods and services that accounted for 1% in 2016.

Property tax is levied at the municipal level only and comprises both residential and business properties. In 2006 the Property Tax Law was changed and, since 2007 property tax can also be levied on non-urban areas. The property tax is an optional tax at rates ranging from 0.2% to 0.7% of the assessed value of the property. Municipalities have significant leeway regarding tax base, rates and methods of calculation. In 2016, it represented 12% of SNG tax revenue and 0.8% of GDP, which is lower than the OECD average in 2016 (1.1% of GDP). As per 2018, 370 of the 422 municipalities had introduced property tax, of which 290 levied the tax on residential properties in all or part of the municipality.

GRANTS AND SUBSIDIES. The central government system of transfers comprises both block and earmarked grants. All grants that are not included in the block grant system (General Grant Scheme) are conditional grants, since they must be spent on a specific program or a specific purpose. The most important ones are related to day care, care for elderly and disabled, and for refugees and immigrants.

The General Grant Scheme is an important source of revenue for SNGs (created in 1986, it replaced some 50 earmarked grants). The General Grant Scheme has both an equity dimension and a regional political dimension. This system has two main objectives; firstly, to equalize the economic opportunities across local governments given the large differences between municipalities and between counties, in both the level of income from local taxes and in the level of expenditure needed, and secondly, to promote regional policy goals, as well as the transfer resources to the local public sector. The system includes both the grants and the tax equalisation. General grants take into account both structural cost differences between municipalities (expenditure equalisation) and differences in tax bases (income equalisation). General grants are defined using indicators on demographic aspects, social characteristics, population size and population density. Also the rural and urban aspects are taken into account. There is also a discretionary grant, which is used to compensate for specific local and regional circumstances, which are not adequately taken into account by the General Grant.

Since the transfer system reform of the 1980s, the degree of earmarking has steadily increased. There are currently almost 250 grant schemes, which form around 44.4 billion NOK yearly. The government has initiated some enquiries to reform the system. An expert group that delivered its report to the Ministry of Local Government and Modernization and the Ministry of Finance in the end of 2017 suggested a clear reduction in the use of earmarking to strengthen the local self-rule and to improve the efficiency and coordination of the subnational government financing system.

OTHER REVENUES. Revenues from service fees and charges represented 13% of SNG revenue in 2016 (water, sewage, garbage collection, day care, etc.), a figure that is below the OECD average of 14,9% in 2016. For the municipalities, the revenues from user charges come mainly from utilities such as water, sewage and garbage collection, but also from day care and care for the elderly. User charges cannot be applied in primary and secondary education.

Property income share, which includes interest and dividends, is higher than the OECD average in 2016 (2.0% of the SNG revenue), reflecting how important holdings of financial assets in the electricity market are for local governments.

■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	12 431	18,0%	42,6%	100%
Financial debt*	10 767	15,6%	43,1%	87%

* Currency and deposits, loans and bonds

FISCAL RULES. The local budgets are regulated by the Local Government Act. The main requirement is operational budget balance. In the budget, current revenue must cover current expenditures, interest payments and regular installment of debt.

DEBT. The central control of local government borrowing and budgeting was relaxed in 2001. Since then, the detailed fiscal monitoring and control has applied only to local governments that have violated the balanced-budget-rule (BBR). Local governments subject to control are placed in a register (ROBEK). On September 2014, 54 municipalities out of 428 were listed on this register. Municipalities can have yearly deficits, but they must balance the budget within 2 years, or in 4 if, in understanding with the central government, the local council extends the adjustment period to 4 years. The debt-to-GDP ratio of Norwegian subnational governments is 18%, which is higher than the OECD unitary country average (14.5% in 2016). In 2016, SNG financial debt was made up of loans (70%) and bonds (30%).



Lead responsible: OECD
Last update: 02/ 2019

www.sng-wofi.org

Socio-economic indicators: OECD // World Bank // UNDP // UN Desa // ILO // Statistics Norway

Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database)

Other sources of information: Ministry of Local Government and Modernisation (2019) Meld. St. 6 (2018–2019) Notice to Stortinget Tasks for new regions // Ministry of Local Government and Modernisation (2017) Changes in the local government structure // Borge, L.-E. (2016) Local government in Norway // European Committee of Regions (2016) Division of Powers - Fiscal Powers // Government of Norway (2018). Municipalities and regions. Municipalities in the Register // Kommunal- og moderniseringsdepartementet. (2017) About the Standing Committees // NordRegio (2016) Administrative municipal and regional reforms: Overview // Council of Europe (2015) Local and regional democracy in Norway CG/2015(28)5FINAL // Hopland, B. L.-E. (2012). Fiscal adjustment and balanced-budget-rules: Evidence.