

MANAGING ACROSS LEVELS OF GOVERNMENT

NORWAY

1. Institutions and authority

1.1 Structures

Description of levels

Norway has a two-tier system of central and local government. There are two separate branches of sub-national government: counties (officially known as county municipalities) and municipalities -- but there is no hierarchical relationship between them. There are presently 19 counties and 435 municipalities. Oslo is classified as being both a county and a municipality.

There has been a tradition of regional government in Norway for centuries, but the present system of directly elected county councils with the right to tax directly did not exist until 1976. Unlike many other countries, local self-government is not established in the Constitution -- counties and municipalities are guided by law or regulation, but not by instruction.

The total area of Norway is 324 200 square kilometres and the total population in 1994 was 4 337 000. The municipalities differ considerably in size and population -- there is no such thing as a "typical" Norwegian municipality. Over half of them have less than 5 000 inhabitants, and only eight of them have more than 50 000 inhabitants. The range is summarised in Table 1.

Table 1. Area and population of sub-national governments (1995)

	Surface area (km ²)		Population	
	Counties	Municipalities	Counties	Municipalities
Largest	48 637	9 704	483 401 (Oslo)	483 401 (Oslo)
Smallest	454 (Oslo)	6	76 629	336
Average	20 366	890	228 864	9 996

Source: Population Statistics of Norway, Norwegian Office of Statistics, 1995.

Central government at sub-national levels

In each county a Governor represents central government and ensures that the activities of local authorities are carried out in accordance with the legislation, regulations and budgetary provisions of central government. The County Governors are an old institution. They represent central government in each county, are appointed for life, and are often former politicians. Their role was reduced when the

directly elected counties were set up in 1975, but more recently their function has increased in importance again. In particular their advisory and co-ordination functions concerning the counties and municipalities in fields such as environment, social welfare and justice have been strengthened.

Creation, elimination and restructuring

A special Act (1956) dealt with changes in municipal boundaries. This was driven in part by additional tasks (particularly in education) being given to municipalities and the need for larger units to carry them out. There was a wave of amalgamations from the late 1950s, significantly reducing the number of municipalities by some 40 per cent (there were 744 municipalities in 1958), and most of the mergers were completed by 1965.

Small changes of municipal boundaries can be decided by the county governor if the municipalities involved agree. Otherwise the decision is taken by the Ministry of Local Government and Labour, or Parliament if amalgamations or more substantial changes are involved. Local referendums are usually held when there is a suggestion to amalgamate municipalities, but they are only consultative. The municipalities themselves decide whether to carry out local referendums or not.

Co-operation between municipalities is a feature in sectors such as waste disposal and in water supply schemes; and through the joint ownership of entities such as power companies .

Control bodies

There is not a hierarchical relationship between the counties and the municipalities. The county governors, on the other hand, have many control functions over the municipalities, one of them being to control the legality of local government budgets. According to the 1992 Local Government Act, a group of three or more council members can ask the county governor to review the legality of a decision made by a county or municipality. This may be seen as a way of counter-balancing the trend to decentralise more responsibilities and give more spending discretion to the municipalities.

The new Local Government Act introduced a mandatory “control committee” in every municipality and county to monitor the administration on behalf of the local council. All municipalities and counties are required to employ an auditor or to participate in an inter-municipal auditing body. There is no national audit body in Norway.

1.2 Powers

Nature of sub-national institutions

Each county and municipality is governed by a council elected for a four-year period. The electoral system is based on the principles of direct election and proportional representation in multi-member constituencies. This is known as the “Board of Aldermen” model. In it, representation in the executive council (or executive committee/board) is drawn from the municipal council on a proportional basis. Thus, in this model, a party that gets 50 per cent of the votes has the right to that proportion of seats in both the municipal council and the executive committee. The 1992 Local Government Act also permits an alternative form of government: the “Parliamentary” model. In it the majority party alone assumes the executive role.

The number of county council members depends on the number of inhabitants, a minimum of 19 for the smallest, and a minimum of 43 for the largest. The county council elects approximately one-quarter of its members (but not more than 15), to form a county board of aldermen. The council elects a chairman (mayor) to be the political head and preside over both the council and the board of aldermen. The council also appoints a chief executive officer as the head of the entire county administration and a chief treasurer. The main tasks of the executive officer are to prepare and execute decisions, and he/she may be authorised to create or abolish positions and to make decisions concerning employees.

Municipal councils have not fewer than 11 members but, as for the county council, the minimum depends on the number of inhabitants. Each municipal council elects one-quarter of its members to form a board of aldermen and a chairman to preside over both the council and the board of aldermen. It also elects standing committees for school administration, social administration, and building control -- although according to the 1992 Local Government Act, this is not strictly necessary and considerable freedom of committee structure is allowed for.

Type and degree of autonomy

The right of counties and municipalities to levy taxes is limited to maximum and minimum rates determined by the Parliament (*Storting*) each year. In 1995 the maximum rate of local government personal income tax was 12.25 per cent for municipalities and 7.0 per cent for counties. The maximum rate for companies is lower. In practice, all local authorities levy the maximum rates and this lack of differential may be seen to dilute local financial accountability. Municipalities are also entitled to levy a property tax on commercial property and on housing in urban areas. Each municipality decides whether or not a property tax will be levied (in 1992, slightly fewer than half of all municipalities had revenues from property tax). A major change introduced in the 1992 Act permits each county to choose its own organisational structure.

1.3 Responsibilities

Local government services represent two-thirds of Norway's public service production making municipalities and counties important actors in the national economy.

Distribution of responsibilities

There is no stipulation in the Constitution nor in any general legislation about how government functions are to be divided among the State, counties and municipalities. The division of functions between the various levels of government is decided by the *Storting*, but counties and municipalities may voluntarily assume tasks or functions not assigned to other authorities by law. The distribution which results is a mix of Parliamentary decisions and local government initiatives, and is a recurrent theme of debate. In recent years, for example, there has been discussion about whether or not central government should be made responsible for the entire hospital sector.

The counties provide the services not handled by central government and which require a larger population base than that found in the municipalities. Most of the tasks performed by counties are established compulsorily in the legislation. Counties are, however, free to perform functions and provide services of their own choosing, if they are within the framework of existing legislation and have not been allocated to another authority.

The main compulsory functions of counties are:

- hospital and other specialised health services;
- secondary education and vocational training;
- child welfare institutions;
- institutions for the care of drug and alcohol abusers;
- construction and maintenance of county roads;
- co-ordination and provision of local public transport;
- regional planning.

In recent years local government has taken over more tasks from central government, some being carried out on an inter-municipal basis. At present municipal government is responsible for the following services and functions:

- primary and lower secondary education;
- nursery schools;
- services for elderly and disabled persons in their own homes;
- institutions for elderly and disabled persons;
- economic support for needy people;
- primary health care;
- public libraries;
- maintenance of local roads and parks;
- water supplies;
- fire services;
- sewerage and removal of garbage;
- physical planning and building control;
- urban renewal.

As with the counties, municipalities -- in addition to the tasks determined by legislation -- may undertake any local functions which are not vested by law in other authorities.

Until 1975, the county councils were elected by the municipalities and financed by taxes paid by the municipalities. After 1975, the autonomy of the counties has steadily increased. Over the past 15 years, however, the largest change in financial terms has been a transfer of authority and functions from counties to municipalities. This has included the transfer of responsibilities for nursing homes in 1988 and, especially, for the mentally disabled in 1991 from the county to the municipal level.

Mandatory, optional and shared responsibilities

In addition to the distribution of functions noted above, two levels of government may be involved in providing some services in some sectors (e.g. transport) and it is not always clear who pays for what. Another aspect of shared responsibility is the role of the county governor as the representative of central government in decision-making. His office handles complaints and has the authority to overturn decisions made at the municipal level, even on matters concerning payments made by municipalities to individuals.

2. Management functions**2.1 Policy-making and co-ordination***Coherence, consultation and conflict resolution*

Local governments, being largely service providers, have strong links with sectoral ministries such as health and education. The Ministry of Local Government and Labour has amongst its responsibilities, the co-ordination of government measures concerning municipalities and counties. It evaluates whether such measures are in accordance with general guidelines concerning the distribution of activities between different levels of administration. It monitors the relationship between the Local Government Act and sector legislation; and is also responsible for drafting municipal legislation.

The Ministry oversees the distribution of funding between municipalities and counties and is responsible for the development and implementation of the revenue system by which government grants are distributed to counties and municipalities. It is also in charge of drawing up the total local government budgetary framework in connection with the national budget. The County Governor has general advisory and co-ordination functions concerning the municipalities and counties. This function is changing as the nature and content of the dialogue between levels of government evolves: the role in inter-governmental relations is becoming more important.

Formal and informal mechanisms

In Norway, in large part due to its small size, informal dialogue is an important co-ordinating mechanism. Nevertheless, it has been recognised that there has been insufficient coherence between central policy-making and local implementation capacities. Since the beginning of 1995, therefore, there has been a new set of control procedures in the form of instructions requiring the main ministries concerned with sub-national affairs to consult with local bodies on the implementation of new measures. Thus the Ministry of Finance is now required to consult on costs; the Ministry of Government Administration on the administrative effects; and the Ministry of Local Government and Labour on local impacts. A report has been prepared which includes a section on the economic and administrative consequences of proposals. This has become an important, if “soft”, new tool in co-ordinating central government actions concerning sub-national bodies.

The Norwegian Association of Local and Regional Authorities (KS) is a service and interest organisation that represents all the municipalities and counties in the country. It is a consultative body acting on behalf of local government vis-à-vis the State, and as such receives for comment those government draft policy documents that are considered of special relevance for local governments. After the various bodies consulted have sent their comments on the government draft, the central government considers the reactions to the policy document before preparing the final bill. The KS also promotes co-

operation and exchanges of experience between members, and serves as the central collective bargaining agent with regard to unions for those employed in local government. Other functions include training and information dissemination.

2.2 *Financial management*

Sources of revenue

There are great variations between individual municipalities and counties in the proportion of their total income which comes from taxation. The range is from about 15 to 85 per cent in municipalities, and from about 20 to 70 per cent in counties. County tax revenues come entirely from income tax; while municipal tax revenues come mainly from income tax and taxes levied on property. Table 2 illustrates the main sources of local government incomes.

Table 2. Main revenue sources of sub-national governments (1993)

	(percentage)	
	Counties	Municipalities
Block grants from central government	36	22
Earmarked grants from central government	18	14
Net tax revenues	41	48
Fees and charges, etc.	5	16
TOTAL	100	100

Source: *Report on the calculation*, Committee for Local Government Finance, June 1994 as cited in *Local Government Financing in Norway*, Royal Ministry of Local Government and Labour, 1995.

The proportion of total local government revenues from taxation has been decreasing since 1945. The most important reason for this is that central government has imposed new and costly responsibilities on counties and municipalities (see section on "Responsibilities"). The goal of providing municipal services of a more or less equal scope and quality across the country has also made it necessary to increase central government transfers.

In the 1980s, general purpose (block) grants from central government replaced conditional (earmarked) grants. The block grant scheme for hospitals was introduced in 1980 and similar financing arrangements were introduced for municipal health and social services in 1984. These reforms were in many ways the precursors of the new General Purpose Grants Scheme (GPGS) for counties and municipalities introduced in 1986. It is based on a system of block grant which replaced some 50 earmarked grants. From 1986 to 1994 counties received a general income support grant and three sectoral grants: for secondary schools, transport, and health. In 1994, the three sectoral grants were amalgamated into a single expenditure equalisation grant. A parallel system operates for the municipalities with sectoral grants for primary schools, health and social service, and culture. These have now also been amalgamated.

Presently, nearly 70 per cent of central government transfers to counties and municipalities are distributed through the GPGS in the form of a lump sum (not earmarked for special purposes). At the

same time there are about 100 specific grants from central to local governments -- in most cases with conditions requiring the local authority to contribute a proportion of the costs itself.

Local government also earns revenue from fees and charges paid for local services including water, sewage and waste disposal. Municipalities have a large degree of freedom to determine the size of fees and charges. Where an activity is considered as a natural local government responsibility, or where the municipality has a monopoly, the cost price principle applies.

Expenditure responsibilities

By far the largest amount of local government operating expenditure (in both counties and municipalities) -- as shown in Table 3 -- is for health and social services, and about one-quarter of their total operating expenditure is devoted to education.

The GPGS is central government's main instrument for distributing income. It equalises differences in both municipal tax revenues (by evening out differences in levels of tax revenue per inhabitant) and expenditures (by ensuring equal standards of municipal services). Differences in expenditure can have two causes: differences in demand for a service (e.g. due to variations in age structure) and/or differences in the cost of providing the same service (e.g. due to variations in population density). Expenditure equalisation has two components: the cost key (consisting of a number of weighted criteria such as age structure) and the proportion of own financing. The latter varies according to the number of inhabitants as all municipalities must contribute the same amount of money per inhabitant for the services provided.

Table 3. Main operating expenses in counties and municipalities (1993)

	(percentage)	
	Counties	Municipalities
Health and social services	58	42
Education	24	28
Central administration	3	7
Communication services	10	3
Housing, environment, other economic affairs	3	5
Church and cultural purposes	2	6
Technical purposes	0	9
TOTAL	100	100

Source: *Statistical Yearbook, 1995.*

Balance between discretion and control

The Ministry of Finance, responsible for overall control of public expenditure, establishes the amount of growth, the amount to local authorities, and how much revenue will be raised through taxes (both the tax base and associated tax rates). There is then close co-operation with the Ministry of Local Government and Labour to fix transfers -- earmarked grants are decided by each line ministry and summed; general grants make up the rest.

The 1992 Local Government Act was drawn up to balance regard for effective local democracy with regard for national control. It had as its paramount objective, to strengthen and further develop

county and municipal autonomy, while establishing conditions to enable counties and municipalities to become efficient suppliers of services to their inhabitants. This is realised mainly by giving them more freedom to organise their activities according to local needs and circumstances; and by toning down the central government's supervision and control of the local government sector. In fact, since 1986 it has been central government policy to have fewer specific grants in favour of more general grants, but in practice many specific grants for a fixed term remain. (In the 1992 State Budget there were 110 earmarked grants to the local government sector. They may not be used for any purpose other than that specified).

The new Act also, for the first time, requires every municipality and county to have a "finance plan" -- a long term budget, the contents of which are stipulated in regulations issued by the Ministry of Local Government and Labour. Other conditions, such as need to have approval by the Ministry to raise loans, remain unchanged.

There is a degree of municipal dissatisfaction with the fact that although they have considerable discretion over the allocation of funds within the total amount transferred from the centre, they have no control over what that total amount is. Also, the number of specific grants has been reduced but the volume involved has increased. There is, however, a trend towards an increasing amount of municipal independence over how money is spent locally.

2.3 *Performance management*

Mechanisms

Audit is not institutionalised in Norway in the way it is in Sweden, for example. It is more based on financial monitoring than on performance. Experience has shown the need to pay closer attention to internal supervision and control in each local authority. The mandatory "control committee" introduced in every municipality and county by the new Local Government Act (see section on "Control bodies") emphasises the importance of an extensive and efficient auditing system. The requirement for all municipalities and counties to employ an auditor or participate in an inter-municipal auditing body reflects a perceived need at the centre for larger auditing units and most inter-municipal audit bodies are not voluntary but the result of central government requirements.

The new Act entails rather sweeping changes in central government supervision and control of local government by abolishing the need for government approval of the budget and replacing it by a control of legality by the Ministry or the County Governor. This represents a shift from checking if a budget is "good" to checking if it is "legal".

The Act also requires that the best possible provision be made for public insight into the local administration, including active measures to provide the public with information. A specific innovation is that generally meetings of popularly elected bodies be open to the public.

Quality standards

Counties and municipalities are obliged to supply considerable amounts of information to many different central ministries, but at the moment there is little systematic collection and analysis of data designed for comparison of performance or productivity either across time or across local authorities. Service standard objectives are, however, seen as an integral part of performance management reforms. A project in the Directorate of Public Management of *Statskonsult* is seeking to improve information

resource management. A pilot experiment with 30 reference and four pilot municipalities will report on possibilities of developing result indicators and service profiles in 1997 after a year of monitoring.

There has also been a recent tendency, particularly in sectors such as health and education, towards the use of “charters” and “guarantees” clarifying the legal rights of individuals to specific services (for example, a maximum of six months on a hospital waiting list before getting treatment). This has, sometimes, been without sufficient consultation between central and local governments to ensure the feasibility of the proposals. As a result a new committee was set up in 1994 to calculate, neutrally, the cost implications of Parliamentary reform initiatives which have to be implemented by local government. It brings together representatives of both central and municipal authorities with the aim of testing feasibility and improving consultation (see also “Formal and informal mechanisms”).

2.4 *Human resource management*

The new Local Government Act contains provisions concerning the municipality and county as an employer and provides for the involvement of employees. This is done by, for example, requiring all local governments to establish at least one “jointly constituted committee” to deal with matters on relations between employees and employers, and having representatives of both.

Local government presently accounts for about one-fifth of the total working population in Norway and 75 per cent of all employment in the public sector. The share of local government has steadily increased since 1980 (see Table 4).

Statutory distinctions

Staff in central and local administrations are governed by two different pieces of legislation and by different rules and regulations. Both central and local levels have a scale comprising 75 steps but the two systems are separate for the purposes of salary negotiations -- that for the centre being done by the Ministry of Government Administration, and that for local governments by the Association of Local and Regional Authorities. Teachers (of whom there are about 100 000) are employed by the counties and municipalities, but wage bargaining is done by an informal central government committee of the Ministry of Government Administration. Pension rights are the same for central and sub-national staff.

Mobility: mobility across levels of government is possible. There is some movement from local to central government but not a lot; and some chief executives at the local level have previously worked in central government.

Table 4. Personnel in central and local government (1980, 1985, 1990, 1994)

	1980	1985	1990	1994 ⁽¹⁾
Central government services	133 600	141 500	150 800	152 600
Local government services	326 900	376 300	429 200	491 000
TOTAL general government	460 500	517 800	580 000	643 600
TOTAL employment	1 942 500	2 031 400	2 054 200	2 066 100

1. Break in homogeneity due to revision of national accounts according to EU standards.

Source: *Statistics Norway*, 1995.

2.5 *Regulatory management and reform*

The 1992 Local Government Act is based on a "Proposition" by the government which assumes that the current legislation entails too much detailed regulation of local government and that central government control should, to a greater extent, be exercised through management by objectives.

In the same year a general law on "Experiments in Public Management" was passed with the aim of providing more freedom to adapt to local needs by developing county and municipal management structures and promoting a more effective distribution of tasks between levels of government beyond the existing legislative framework.

Education tends to be heavily regulated from the centre, with requirements about class sizes, the allocation of teachers, and curriculum content. There is some pressure to deregulate here. Social services are also rather regulated with requirements on income support entitlements (although the level of support can be decided by municipalities); and on the rights of disabled people to live at home.

A Business Legislation Committee was appointed by the government in February 1990. The terms of reference of the committee are to examine legislation that affects businesses and to table proposals for simplification and other changes that can stimulate business activities. The objective of the work is to achieve smoothly functioning regulations which can create conditions for enhanced efficiency and productivity in the business sector and thereby improve competitiveness. The needs of small and medium-sized enterprises have been focused on particularly in the terms of reference of the committee. The committee has tabled 19 proposals since it was appointed. Some of these proposals involve both national and local legislation, but in general the committee works primarily with national legislation.

3. **Trends in redistributing authority across levels of government**

3.1 *Evolving tendencies*

Norway is increasingly being governed by means of objectives and framework management. There has been a shift by central government to give more local discretion by providing more general rather than specific grants. The General Purpose Grants Scheme (which replaced some 50 separate earmarked grants) distributes central government grants to individual counties and municipalities according to criteria. This results in the local government sector having little influence over the total amount of funding it receives from the centre. There are no limitations to the proportion of funds going to specific sectors, making these grants an important element in the trend to greater local self-government. On the other hand, this approach provides central government with better control over total local expenditures, in particular allowing the Ministry of Finance to send signals on spending levels to local governments. What it does not provide is a mechanism for reconciling the strong signals from sectoral ministries for increasing their expenditure.

3.2 *The current debate*

Central government cannot instruct local government. In this context there are signs of a reaction against decentralisation in terms of a need for greater transparency in the system of governance. There is, for example, some dissatisfaction and tension concerning the distribution criteria for the general grants scheme -- particularly among the poorer local authorities and in the health sector. Some say that this is the price of greater transparency. The process was simplified in 1994 by merging three grants into

a single large general grant. But hospitals are still financed by a mix of general and specific grants which makes it difficult to determine exactly how much financing they receive -- and there are pressures to give more general grants to counties for health services.

An expert committee was set up in 1995 to look at the General Purpose Grants Scheme and the financing of the local government sector in general. Its first report was presented to Parliament in 1996. The result was some minor modifications of the system. The second and last report from the expert committee, dealing with the financing of the sector and in particular taxes and user charges, is currently (Spring 1997) submitted to official hearing.

There is, at the same time, a degree of satisfaction with the present decentralised system. This is largely because it has its feet firmly planted in two domains where its advantages are much appreciated: (i) the degree of local autonomy and the implications for local democracy; and (ii) the quality of service provision and the associated nature and extent of the welfare state.

There is also some discussion of local government amalgamation in the context of municipalities now having a wider range of responsibilities, the need for efficiencies of scale, major changes in communications and the pattern of settlement. The Ministry of Local Government and Labour initiated some reform proposals in a White Paper of May 1995. Parliament decided that, for the time being, the question of amalgamation should be handled by local authorities themselves.

There is trend away from the detailed specification of standards, but another debate is on whether there is a need for national legislation to introduce minimum standards. The Ministry of Local Government and Labour is trying to develop better data on standards of service provision from different ministries; and some key economic indicators are being developed in sectors such as education. This in part is a reflection of the lack of a national audit body.

An underlying issue is that central government sees the local level mostly as a service delivery system, and sees its task therefore to be to make such delivery as efficient as possible. The alternate view is that while service provision is an important function, local government is legitimate in its own right as an essential component of the democratic system.

3.3 *Driving forces*

The demand for decentralisation has been driven to some extent by the search for more cost-effective delivery systems, but a counter-force is the limits in the capacity of counties and municipalities to service the demands. This is in part a factor of the small size of some units and a concern with efficiencies of scale. This seems to reflect a long-standing tension between the traditional independent status of municipalities and the need to satisfy central goals. The new focus on individual rights is one approach, but for which there is as yet no well established process.

The trend to information-technology-based systems is also a factor in changing inter-governmental relations in terms of the facility with which information can be shared. This is occurring between ministries (e.g. new collaboration between the Ministries of Finance and Local Government on statistical data aimed at exploring the optimum size of units for selected types of services); between central and local government; and between local authorities.

Norway is depicted as a small, consensus-oriented country in which informal rather than formal channels tend to be used. More use is being made of negotiation; and the centre is less able to impose

directives. The balance between the service delivery and democratic functions of sub-national government is being adjusted. This implies a readjustment also, in the relationships between local and central government and between local governments and local citizens.