

# Summary

The State often has specific goals and ambitions for its municipalities. Reform packages will then come in short intervals. Examples from past years include: complete coverage of nursery care and reduced parent pay, longer school days, greater municipal support for preventative health initiatives and hospital discharges, and single rooms for elderly at hospitals. The common denominator for all these programs is additional expenses for municipalities.

There is prevailing consensus that reforms which are passed at the State level and implemented locally, should be fully financed by the Government. Costs related to decisions over the establishment, expansion and/or quality improvement of an offer should thus be fully funded. Nevertheless, although the Government says it commits to covering such additional costs, discussions frequently arise as to whether the Government is in effect bearing these costs. Several municipalities claim they have been deceived when confronted with real costs.

A lack of commitment for reform funding reduces the playing field for municipal democracy. Local politicians fulfill government ambitions by using money initially intended for local purposes. This bears implications not only for a narrower playing field, but also for a reduction in effective allocation.

Decision-makers face challenges in designing accurate finance schemes, overall and within the variation in cost and demand from the 430 municipalities. Reforms bear financial risks for both the government and each municipality.

In the following report, we present our results from a survey on State-funded reforms for municipalities, and whether these are over- or underfunded. Three reforms have been studied in more detail:

The day care reform, longer school days, and the qualification program for social clients.

The report discusses the following questions:

- What are the implications of complete coverage of reform funding?
- What framework has been put in place to secure complete coverage of reform funding?
- Are governmental reforms fully financed within a macro-perspective?
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- What explains a lack of funding?
- How can improvements be made to the reform finance institute?

The questions related to over- or underfunding are raised both in a macro and micro perspective. The former relates to whether reforms are fully funded in all municipalities taken as a whole. The latter relates to whether certain municipalities get too much or too little in government grants to cover their costs; this last point targets accuracy in the finance structure, not the amount of resources provided.

A reform may be fully financed in a macro perspective while at the same time underfunded within certain municipalities. Of the three reforms that have been studied (day care reform, longer school days and the qualification program for social clients), the report finds that the first of these is clearly underfunded, while the two others are suitably funded in a macro perspective. In a micro perspective there exist both over- and underfunded municipalities related to all three reforms. Regarding the day care reform, about half the municipalities are underfunded.

An explanation as to why reforms are unable to meet the relevant needs can be found at both a national and local level. The reforms may be poorly planned and specified at the governmental level, which could result in not all cost components being included in the municipal grants. This subsequently makes it harder for municipalities to factor in future expenses. Another explanation may be that municipalities do not fully understand the implications of the reform and thus are not

able to prepare for its execution in a satisfactory way. But perhaps most importantly, several municipalities, driven by selfish ambitions, may have set out on a road they cannot sustain through government grants.

What type of finance structure offers the best risk controls for the government and municipalities – earmarked funding or grants given within a wider framework? Our project cannot give any definite answers here. Earmarked funding may provide clearer guidelines for municipalities as to the government's expectations, and may also shield the remaining portfolio from being tapped due to an underfunded reform, at least in the short term. Placing reform funding within the framework of municipal subsidies may increase efficiency, provide discipline and further gains that benefit the greater good of a municipal and its area of responsibilities.

How can frameworks to secure full funding improve? In the past decade, frameworks covering reform funding in Norway have become clearer. An important aspect is the consultation-agreement. Our assessment affirms that reforms need to be better defined before they are implemented. It will be easier for municipalities to plan and complete reforms in their own municipality if clearer guidelines have been set out as to how the State wishes to reach reform goals. A win-win situation will then arise, as the economic risk of execution will then be reduced. This is due to the fact that it becomes clearer to the State, the municipalities and the informed public what lies within the scope of the reform, including where the State's responsibilities end and the municipality's begins.