Population changes and municipal investments

Are capital costs compensated?

Summary

During the period from 2000 to 2017, the population in Norway has increased by approx. 780 000, or 17.4%. Growth has been particularly high in the counties of Oslo, Akershus and Rogaland, with around 30% growth. In these regions, a strong development of municipal services is required. Population density is already relatively high (by Norwegian standards), and this may increase the cost of expanding the service offer. On the other hand, lower costs per capita may also follow from a more concentrated settlement structure.

During the same period, more than 180 municipalities have experienced a negative population growth. However, the reduced number of residents does not necessarily allow expenses to be cut accordingly. Closing down small schools often leaves a building with little value for alternative use. Sometimes, closing down is not an option because the next school is too far away. In addition, since the younger generations are more likely to move, communities with a decreasing population nevertheless tend to have increasing needs for health and care services.

Block grants and centrally regulated taxes constitute the bulk of municipal income. Both in the assessment of the total budget for the municipal sector and in the distribution of grants between municipalities, changes in population size and age composition are taken into account. The overall question for this report is whether the costs resulting from investments are included in the calculation in a manner that gives the municipalities full compensation for population changes or if the system primarily takes operating costs into account.

The report describes how the cost of investments is omitted from the system for expenditure equalization, which means that the resource allocation between municipalities only relates to operating costs. We also show that large parts of the costs due to investments are missing from the calculation of what is called the demographic costs. This is a calculation showing how much extra resources the municipal sector needs for the next fiscal year due to expected national changes in the population.

The investments are not captured in these calculations because adequately measured capital costs are lacking from the municipal accounts. In addition, the system ignores many of the sectors where investments make up a large part of the costs. Based on the analyses we make in the report, we conclude that the omission of capital costs is more problematic for the calculation of demographic costs than for the expenditure equalization. We propose a possible change for calculation and presentation of demographic costs in the national budget, relying on investment expenditures rather than capital costs.

Although there are major differences between municipalities with population growth and municipalities with population decline, capital costs per capita are largely unaffected by population changes. Municipalities with population growth invest more, but the number of residents to share the costs is also growing. Municipalities with declining population have somewhat higher capital costs per citizen, but this is primarily explained by the general cost disadvantage of small municipalities rather than population growth rate. Municipalities with negative population growth also tend to have a small population.