4 The General Purpose Grant Scheme for the county authorities

4.1 Introduction

The Government has announced a comprehensive review of the General Purpose Grant Scheme for the county authorities. The Ministry of Local Government and Regional Development is now following up with a proposal for a new General Purpose Grant Scheme for the county authorities that will take effect from 2024.

The proposed new General Purpose Grant Scheme (abbreviated GPGS) must be seen in the context of the new division of counties that will take effect next year. The current scheme is not distribution-neutral. It must therefore be updated to ensure that it is adapted to the new division of counties. The cost matrix in the GPGS should also be updated regularly to take account of changes in population composition, travel distances and other structural factors.

It must be emphasised that, while the county division process is a triggering factor for the review of the scheme, most of the changes have nothing to do with the actual division process. In connection with the review, a number of changes are being made to ensure a stronger correlation between actual costs in different counties and the cost matrix. Nor is it the case, therefore, that counties that are divided will systematically benefit from the review, or that counties that remain unchanged will systematically lose out. On the contrary, some of the current county authorities come out badly while others benefit from the changes to the scheme. This also applies to the new county authorities.

The review of the General Purpose Grant Scheme is based on the report of the expert committee that has assessed the scheme as it relates to the county authorities. The committee was appointed by the Ministry of Local Government and Regional Development in March 2022 and submitted its report in December 2022. The Ministry has assessed the committee's recommendations, based on, among other things, the input from the public consultation process, and it proposes some changes to the committee's proposal.

The main elements of the current scheme are retained in the Ministry's proposal. The overall goal of the General Purpose Grant Scheme is to equalise the county authorities' finances, so that they can all provide equitable services. This goal stands firm. The General Purpose Grant Scheme will continue to consist of both *expenditure equalisation* to compensate the counties for involuntary variation in the cost of providing county services, and *income equalisation* of tax revenues.

The Ministry proposes a new cost matrix for the scheme based on the committee's updated analyses. However, the Ministry proposes three adjustments to the proposal put forward by the majority of the committee.

Firstly, the Ministry supports the committee's minority who believe that capital costs should continue to be excluded from expenditure equalisation.

Secondly, the Ministry proposes basing the public transport matrix on the alternative model presented in the committee's report. This cost matrix is better aligned with the county authorities' actual expenditure on public transport than both the current matrices and the committee's proposal.

Thirdly, the Ministry proposes a minor adjustment to the calculation of the standard ferry costs criterion in the cost matrix, based on new analyses carried out by the Ministry.

The Ministry agrees with the committee that a larger part of the general grant should be allocated based on the ordinary criteria in the General Purpose Grant Scheme. The Ministry therefore proposes that some of the cases that are currently subject to special allocation within the per capita grant (so-called Table C cases) be reallocated based on the ordinary criteria from 2024.

However, the Ministry believes that the reallocation of some of the Table C cases that the committee proposes allocating based on ordinary criteria, should be seen in conjunction with other ongoing processes. The Ministry therefore proposes that the funds that qualify for special allocation for county roads and zero-emission ferries should continue to fall under Table C also in 2024. A possible redistribution of funds is being considered in connection with the next national transport plan, which is scheduled for presentation in 2024, and the work on zero-emission requirements for all ferry services.

The Ministry further proposes that the rates for the Northern Norway county grant be allocated at an equal per capita rate for the three northernmost counties from and including 2024. Among other things, the adjustment of the rates must be seen in conjunction with the distributional effects of other changes to the General Purpose Grant Scheme for the northernmost counties. The Ministry also proposes that the general grant element of the discretionary grant be discontinued and that the funds be transferred to the per capita grant.

The county authorities' 'free' revenues are used to finance important welfare services that should not vary too much from year to year. The Ministry therefore proposes both a new compensation scheme to help the county authorities that will suffer a reduction of more than NOK 100 per capita as a result of the overall changes to the scheme, and a transitional scheme that will gradually phase in the distributional effects over a period of four years. The Government also proposes increasing the county authorities' free revenues, and thus their freedom of action, to NOK 300 million next year. Taking this growth into consideration, no county authority will see a decline in free revenues, according to preliminary estimates of the distributional effects.

4.2 The current General Purpose Grant Scheme

4.2.1 About the county authorities and funding

The county authorities are the regional level of government and administration in Norway. They have important tasks as service providers, exercisers of authority and social developers, and as a democratic arena. Among other things, the county authorities are responsible for important welfare services in the fields of transport, upper secondary education and dental health.

The county authorities' total revenues within the municipal scheme are the sum of tax revenues, state transfers (general grants and earmarked grants) and user payments/fees from inhabitants. The most important sources of income are local tax revenues and the general grant from the state, i.e. the free revenues. The county authorities' free revenues for 2023 are estimated at approximately NOK 84.3 billion, after the Storting's consideration of the National Budget 2023. The General Purpose Grant Scheme for the counties redistributes tax revenues and distributes the general grant to the individual counties.

Tax revenues constitute around 40 per cent of the local government sector's overall income. The county authorities receive tax revenues from income tax from personal taxpayers and natural resource tax from power companies, both of which are equalised through the income equalisation system in the General Purpose Grant Scheme. In addition, the county authorities have other income that is not covered by income equalisation in the GPGS, such as income from the concessionary sale of hydropower and payments from the Aquaculture Fund. The revenues from this hydropower income and the Aquaculture Fund vary greatly from year to year, and they accounted for about 1.5 per cent of the total income of the county authorities, excluding Oslo, in 2022.

The overall goal of the GPGS is to ensure that all the county authorities are able to offer their inhabitants services of an equitable standard. The county authorities are responsible for the same tasks and services, but both the tax revenues and the cost of providing these services vary. The GPGS therefore equalises a significant part of the differences in tax revenues (87.5 per cent symmetric income equalisation), at the same time as expenditure equalisation, as far as possible, compensates the county authorities for variations in the costs of providing services that are not the result of political choices made by the individual county authorities. At the same time, the county authorities are independent legal entities with local autonomy, that have a right to influence their own income. Tax revenues are therefore not equalised in full. The county authorities thereby have incentives to increase tax revenues.

Ensuring that the county authorities have predictable and stable income is another important consideration the scheme is intended to safeguard. The income is used to fund key welfare services that should not vary much from year to year. The scheme should also be as targeted as possible, at the same time as it is simple and transparent.

4.2.2 Previous changes to the General Purpose Grant Scheme

The General Purpose Grant Scheme for municipalities and county authorities was introduced in 1986. In connection with its introduction, around 50 earmarked grants were discontinued and replaced by general grants that the municipalities and county authorities can use as they see fit within the bounds of laws and regulations. The main goals of introducing the General Purpose Grant Scheme were to achieve a fairer distribution of income, and to achieve efficiency gains at both the local and central level. Furthermore, the central government wanted to give the local government sector greater freedom of action and a better overview of its own income.

Since its introduction, the General Purpose Grant Scheme has been subject to several major revisions. In 1994, a number of changes were made to simplify the scheme for both municipalities and county authorities. Among other things, previous sectoral general grants were merged into one expenditure equalisation grant, and a separate Northern Norway county grant was introduced for the northernmost counties. The county authorities in Northern Norway were previously given special treatment through income equalisation. In 1997, further changes were made as follow-up of the Rattsø Committee's proposal.[6]

During the period 1997 to 2015, the General Purpose Grant Scheme remained largely unchanged, with the exception of adjustments made as a result of the hospital reform in 2002, and a significant increase in the general grant to compensate for new tasks in connection with the administrative reform in 2010.

[6]Official Norwegian Report (NOU) 1996: 1 *Et enklere og mer rettferdig inntektssystem for kommuner og fylkeskommuner* ('A simpler and fairer General Purpose Grant Scheme for municipalities and county authorities' – in Norwegian only)

A comprehensive review of the General Purpose Grant Scheme for the county authorities was carried out in 2015. When the new scheme was introduced in 2015, it had been a long time since the last review, and the scheme had not been adapted to changes in infrastructure or other changes that had occurred in the intervening period. Some of the criteria in the cost matrix were based on information from the early 1990s or earlier. In 2015, new cost matrices were introduced for all sectors. The new sector matrices were partly based on the Borge Committee's report from 2005[7], but were updated based on new analyses conducted by the then Ministry of Local Government and Modernisation.

The last comprehensive revision of the General Purpose Grant Scheme for the counties entered into force with effect from 2020 through the regional reform. As part of the regional reform, the number of counties in Norway was reduced from 19 in 2017 to 11 in 2020, and the county authorities were also assigned some new tasks. The GPGS therefore had to be adapted to the new division of counties.

The last change to the General Purpose Grant Scheme to date came in 2022, when a new cost matrix was introduced for boats and ferries.

4.2.3 The current General Purpose Grant Scheme

The county authorities' free revenues in 2023 are estimated at approximately NOK 84.3 billion, of which tax revenues amount to approximately NOK 40.35 billion and the general grant to NOK 43.98 billion. The General Purpose Grant Scheme redistributes tax revenues (income equalisation) and distributes the general grant. The general grant consists of several grants and distributions: a per capita grant including expenditure equalisation, the Northern Norway county grant, a discretionary grant and cases subject to special allocation within the per capita grant.

Income equalisation

The tax revenues, measured in NOK per capita, vary significantly between counties. In order to achieve the goal of equalising finances, tax revenues are partly equalised. The income equalisation takes place by redistributing tax revenues from counties with tax revenues above the national average to counties with tax revenues below the average (measured per capita).

The current General Purpose Grant Scheme entails symmetric income equalisation with an equalisation rate of 87.5 per cent. This means that all counties with tax revenues below the national average are compensated for 87.5 per cent of the difference between their own tax revenue and the national average, measured per capita. Counties with tax revenues above the average are correspondingly deducted 87.5 per cent of the difference between their own tax revenue and the average. As for the municipalities, tax revenues are equalised continuously throughout the budget year.

General grants

Table 4.1 shows the total general grant to the county authorities, after the Storting's consideration of the National Budget 2023, broken down by the different budget lines within the general grant. The per capita grant accounts for around 97 per cent of the total general grant. The other grants are the Northern Norway county grant and the discretionary grant.

---

[7]Official Norwegian Report (NOU) 2005: 18 *Fordeling, forenkling, forbedring* ('Distribution, simplification, improvement' – in Norwegian only)

Tabell 4.1 The general grant to the counties in 2023.

Chapter and item	Amount (NOK 1,000s)
572.60 Per capita grant	42,860,056
572.62 Northern Norway country grant	735,939
572.64 Discretionary grant	382,000
Total general grant to the county authorities	43,977,995

Per capita grant

In principle, the per capita grant consists of an equal amount per capita to all county authorities, based on the population figures as of 1 July in the year preceding the budget year. There are several schemes under the per capita grant that redistribute income:

- Expenditure equalisation, based on cost matrices
- Cases subject to special allocation (Table C cases)
- Correction scheme for pupils in state and private schools
- Transitional scheme

In addition, income equalisation takes place continuously throughout the budget year under the per capita grant. In practice, this is done by adjusting the per capita grant for income equalisation purposes in the ten fixed instalments of the general grant.

Expenditure equalisation

There are major differences between the counties in terms of population composition, geography, size and social conditions. This leads to variation in what services people need and what it costs the county authorities to provide these services. The goal of expenditure equalisation is to equalise and redistribute these differences, so that the county authorities are better able to provide equitable, good services for their inhabitants.

Through expenditure equalisation, the counties will in principle receive full compensation for involuntary cost differences. By involuntary costs is meant costs that a county authority is not in a position to influence through its own decisions. Therefore, it should not be the activity or the efficiency of operations that determines how much a county receives in grants, but the underlying need calculated on the basis of the most objective criteria possible. Nor should the General Purpose Grant Scheme be a reimbursement or incentive scheme. Any incentives should be provided through instruments other than expenditure equalisation.

Expenditure equalisation is based on the estimated expenditure needs of each county, not on its actual expenditure. Counties with estimated expenditure needs above the national average receive a supplement through the expenditure equalisation system, while a deduction is made from counties with estimated needs lower than the national average.

Expenditure needs are calculated using a cost matrix. The cost matrix consists of a set of criteria and associated weighting, which gives an indication of the factors that result in variation in costs between counties. The criteria are factors that can explain why costs vary, while the weighting indicates how large an impact each factor has on the differences. The goal of the cost matrix is therefore to identify the underlying factors that indirectly affect the counties' costs, such as the age composition of the population and the settlement pattern in the county.

There are two types of factors that affect the counties' expenditure needs:

- the demand or need for the services provided by county authorities
- the cost of providing a service

The expenditure equalisation system applies to services that the county authorities are required to run or that are covered by national goals regarding standards and scope. In the current General Purpose Grant Scheme, there are five different cost matrices, which are intended to capture variations in expenditure needs within the various services included in the expenditure equalisation system: upper secondary education, dental health, bus and rail transport, boats and ferries, and county roads. The current cost matrix is discussed in more detail in section 4.2.4.

Cases subject to special allocation (Table C)

The per capita grant includes funds that are not allocated based on the ordinary criteria in the General Purpose Grant Scheme, but are subject to special allocation. This applies to tasks that only a few counties have, funds that are only allocated for a short period of time or funds that are subject to special allocation pending changes in the cost matrices. Special allocation is generally intended to be a temporary solution[8].

Approximately NOK 5.0 billion will be allocated in 2023 through Table C for the county authorities (excluding deductions for extraordinary hydropower revenues, which only applied in 2023), most of which is related to various county road-related cases: improving and renewing county roads (NOK 1.7 billion), rockfall and avalanche protection of county roads (NOK 903 million) and compensation for the road tunnel safety regulations (NOK 579 million).

The correction scheme for state and private schools

Private schools are funded through government grants and student fees, while county schools are funded through the counties' free revenues. When a student in a county chooses a private or state school instead of a county school, the county authority's expenses for this student will be significantly reduced. Every year, therefore, the total nationwide general grant to the county authorities is corrected for changes in the number of students attending private and state schools.

In addition to correcting the total general grant, there is also a redistribution between the county authorities (the correction scheme). Through the correction scheme, a deduction is made from the per capita grant for each individual county for students who live in the county but attend state or private schools. The funds this generates are then redistributed to all the counties based on the overall cost matrix. The correction scheme thereby simply redistributes funds between the counties.

[8]Ministry of Local Government and Modernisation (2020): *Statlig styring av kommuner og fylkeskommuner*. *Veileder*. ('State management of municipalities and county authorities. Guide.' – in Norwegian only)

Transitional schemes

The distributional effects of major changes to the General Purpose Grant Scheme are normally phased in gradually through a transitional scheme. For the county authorities, this has in practice comprised an addition to or deduction from the per capita grant, shown in Table B in the Green Book (technical documentation for the national budget, Proposition No 1) The design of the transitional scheme has varied over time and between different cases. There is no current transitional scheme in the General Purpose Grant Scheme for 2023.

Northern Norway county grant

Since 1994, the counties of Nordland, Troms and Finnmark have received a separate Northern Norway county grant. The grant is awarded at a per capita rate, with the highest rate in Troms and Finnmark and the lowest rate in Nordland, amounting to a total of NOK 736 million in 2023.

Discretionary grant

The discretionary grant is intended to compensate the counties for special local factors that are not covered by the fixed part of the General Purpose Grant Scheme. The Ministry distributes the bulk of the discretionary grant – the general grant – between the counties in the national budget. In addition, the Ministry withholds part of the discretionary grant to cover unforeseen events during the year.

In 2023, the discretionary grant amounts to NOK 382 million, the general grant element of which amounts to NOK 332 million.

4.2.4 The cost matrix in the current General Purpose Grant Scheme

The cost matrix in the current General Purpose Grant Scheme comprises five cost matrices, which are intended to capture variations in expenditure needs in upper secondary education, dental health, bus and rail transport, boat and ferry transport, and county roads.

The current cost matrix for upper secondary education

Upper secondary education is one of the most important responsibilities of the county authorities. The counties' total gross operating expenditure on upper secondary education amounted to around NOK 41 billion in 2022, and the sector accounted for more than 40 per cent of the counties' total operating expenditure.

The county authorities are obliged to provide upper secondary education for everyone who lives in the county. Pursuant to the Education Act, the county authority must plan and develop upper secondary education in accordance with national goals, applicants' wishes and society's educational needs. Counties with available capacity are obliged to offer places to applicants from other counties. The county of residence shall reimburse the expenses of the host county for students with places at a school in a county other than where they live.

Young people who have completed primary and lower secondary education are entitled to three years of upper secondary education or the training period stipulated in the curriculum. Adults who have completed primary and lower secondary education or equivalent, but who have not completed upper secondary education, are entitled to upper secondary education upon application from the year they turn 25. The Government's proposal for a new Education Act includes, among other things, several proposals to extend the right to upper secondary education (cf. Proposition No 57 (Bill)

(2022–2023) *Lov om grunnskoleopplæringa og den vidaregåande opplæringa (opplæringslova)* 'Act relating to primary and secondary education (the Education Act)' – in Norwegian only).

Table 4.2 shows the gross and net operating expenditure on upper secondary education in 2022, broken down by individual KOSTRA functions.

Tabell 4.2 Gross and net operating expenditure on upper secondary education 2022. Figures for the entire country in NOK 1,000s, excluding depreciation.

Function	Net operating expenditure (NOK 1,000)	Gross operating expenditure (NOK 1,000)
510 School buildings and dormitories	4,200,262	4,336,681
515 Joint expenditures and support services associated to secondary education	2,911,496	3,154,114
520 Educational management, educational joint expenditures and spare pupil places	3,038,797	4,054,295
521–537 Study programmes	15,201,791	15,644,795
554 Technical vocational schools/colleges	34,134	1,341,627
559 National level courses	55,768	298,816
561 Follow-up services and educational psychological counselling services	633,244	643,918
562 Adapted tuition and special needs education	3,123,945	3,201,493
570 Apprenticeships	4,177,137	5,118,244
581 Adult education	573,312	1,003,461
590 Other purposes besides ordinary secondary education	1,035,196	2,697,260
Total	34,985,082	41,494,704

The cost matrix for upper secondary education accounts for 52 per cent of the total cost matrix in the General Purpose Grant Scheme in 2023. The criteria in the current matrix are shown in Table 4.3.

Tabell 4.3 The current cost matrix for upper secondary education.

Criterion	Weighting
Inhabitants 16-18 years	0.7611
Applicants to high-cost education programmes	0.1769
Applicants for apprenticeships	0.0292
Travel distance to reach 11,000 inhabitants	0.0328
Total	1.0000

The matrix is based on a combination of statistical analyses (travel distance) and cost analyses (the criteria for applicants to high-cost education programmes and apprenticeships). The number of 16-18-year-olds is the most significant factor for expenditure on upper secondary education, and the criterion constitutes around 76 per cent of the cost matrix. This criterion reflects the demand for upper secondary education.

The costs per student vary between the different education programmes. The number of applicants to high-cost programmes criterion is intended to capture these differences. Students are divided into two categories, according to the cost per student of different education programmes. The criterion distinguishes between students in more expensive education programmes – the vocational programmes and the education programmes in music, dance and drama – and students in more reasonable education programmes (specialisation in general studies and sports subjects).

The weighting of the criterion is calculated using a cost analysis and determined based on the actual expenditure per student in the more expensive education programmes, relative to the average expenditure per student in the more reasonable programmes. The criterion has a weight of 17.7 per cent in the current matrix. This reflects the additional cost of students taking the more expensive programmes.

This criterion is also intended to capture the additional cost of apprenticeships, with a weight of 2.9 per cent. The criterion's weighting is calculated using a cost analysis, in the same way as the criterion for applicants to high-cost programmes. The expenditure per apprentice in vocational education and training is thus seen in relation to the expenditure per student in low-cost education programmes. The weighting of the criterion is set as the additional cost in relation to the low-cost group.

For both criteria (high-cost programmes and apprentices), the number of primary applicants is used as the criterion data, since this is a more objective measure than the actual number of students and apprentices. The county authority has less influence on the number of applicants to the various programmes than on the actual number of students. The average applicant numbers over three years have been used to make the criterion less prone to random variation from year to year.

The criterion for travel distance is intended to capture variations in the counties' expenditure on secondary education due to structural differences. In counties with long distances and a sparse population, a more decentralised school structure may be necessary than in more densely populated counties, which can be costly.

The travel distance criterion is calculated as the average travel distance to reach 11,000 inhabitants (the average number of inhabitants in the catchment area for each upper secondary school at the national level when the criterion was introduced in 2015). The criterion gives an indication of the settlement pattern in the county. Counties with a more dispersed settlement pattern and long distances have higher values for this criterion than more densely populated counties. The criterion has a weight of 3.3 per cent, determined using regression analyses.

Current cost matrix for dental health

The counties are responsible for the public dental service and can organise the service under their own auspices or enter into agreements with private service providers. Pursuant to Section 1 of the Dental Health Services Act, the counties shall 'ensure that dental services, including specialist services, are reasonably available to everyone living or temporarily staying in the county'. The county authorities also have a responsibility to coordinate the public service and activity in the private dental sector. Pursuant to the Dental Health Services Act, county authorities must provide a regular and outreach service for:

- Children and adolescents from birth up to and including the year they turn 18
- Intellectually disabled persons in and outside institutions
- Groups of the elderly, chronically ill and disabled in institutions and under home nursing care
- Young people who turn 19 or 20 in the treatment year
- Other priority groups that the county authority has decided to prioritise

In addition, some groups receive free dental health care based on the Storting's budget decisions.

Young people who turn 19 or 20 in the treatment year pay maximum 25 per cent of the rates set by the Ministry of Health and Care Services. From 2022, people who turn 21 or 22 in the treatment year are entitled to an expanded county dental health care service. In 2022, people in the age group 21-22 had to pay 50 per cent of the rates. From 2023, both the rates and age groups covered by the county dental services have changed, so that people in the age group 21-24 pay 25 per cent of the established rates (cf. circular I-2/2023 from the Ministry of Health and Care Services).

Total gross operating expenditure on the dental service amounted to around NOK 3.8 billion in 2022, while net operating expenses came to around NOK 2.9 billion.

Tabell 4.4 Gross and net operating expenditure on dental health 2022. Figures for the entire country in NOK 1,000s, excluding depreciation.

Function	Net operating expenditure (NOK 1,000)	Gross operating expenditure (NOK 1,000)
660 Dental health care – joint functions	665,845	821,220
665 Dental health care – treatment of patients	2,219,361	2,991,883
Total	2,885,206	3,813,103

The current cost matrix was introduced in 2020 and represents 4.6 per cent of the total cost matrix in 2023. The cost matrix was adjusted in 2023 to take into account that 21 and 22-year-olds have been granted a right to expanded county dental health care at reduced rates (cf. mention in Proposition No 110 to the Storting (2021–2022) *Kommuneproposisjonen 2023* (‘Local government sector proposition 2023’ – in Norwegian only).

Tabell 4.5 Current cost matrix for dental health

Criterion	Weighting
Inhabitants 1-18 years	0.7244
Inhabitants 19-20 years	0.0813
Inhabitants 21-22 years	0.0558
Inhabitants 67 years and over	0.1135
Intellectually disabled persons 18 years and over	0.0250
Total	1.0000

The current cost matrix consists of criteria related to the priority user groups listed in the Dental Health Services Act. The criteria weights are based on the different user groups’ use of resources, based on a resource mapping conducted in connection with the revision of the General Purpose Grant Scheme in 2020. The number of people in the different priority age groups is used as a criterion in the cost matrix. The criteria in today’s matrix are the age criteria of inhabitants 1-18 years, 19-20 years and 21-22 years, and the number of intellectually disabled people over the age of 18.

It is difficult to arrive at an objective criterion for the group comprising the elderly, chronically ill and disabled in institutions and under home nursing care. Based on the assessment that the majority of this group comprises elderly people, the number of inhabitants over the age of 67 is currently used to identify this priority group.

Today’s cost matrix for bus and rail transport

The county authorities and the City of Oslo are responsible for local public transport in their counties. They award grants for local bus, boat (except national road ferries), tram, subway and light rail services, and they determine the scope of the routes and rates etc. Pursuant to Section 22 (3) of the Professional Transport Act (in Norwegian only), the state shall provide an ‘annual general grant to cover part of the county authorities’ expenses. The grant is distributed through the General Purpose Grant Scheme for the municipalities and county authorities according to rules laid down by the King.’

Most of the local public transport is provided by companies operating on contracts with the county authorities. Pursuant to the Professional Transport Act, the counties are responsible for awarding grants to scheduled transport that the county has or is going to establish in a county, but the Act does not set requirements for the scope of the services. School transport is the only statutory public transport, and in many places the need for school transport is crucial to maintaining scheduled services.

In addition, the counties are responsible for facilitating transport for people with disabilities (the TT scheme), which is a special transport service for people who cannot use ordinary public transport due to disabilities. The county authorities adopt regulations for the service, and the TT scheme therefore varies from county to county. There are otherwise no national requirements for the dimensioning of local public transport.

Public transport is largely financed through free revenues. However, ticket revenues and earmarked grants – for example through urban growth and reward agreements – are also an important source of funding, especially for some county authorities.

The counties' net operating expenditure on bus and rail transport amounted to NOK 12.9 billion in 2022. Expenditure in 2022 was still affected by the coronavirus pandemic and infection control measures, which led to a decrease in passengers and ticket revenues, and thus to an increase in the counties' net operating expenses. The state compensated the decrease in ticket revenues up to and including July 2022 by increasing the general grant.

Tabell 4.6 Gross and net operating expenditure for bus and rail transport 2022. Figures for the entire country in NOK 1,000s, excluding depreciation.

Function	Net operating expenditure (NOK 1,000)	Gross operating expenditure (NOK 1,000)
730 Bus routes	10,712,837	14,580,807
733 Transport (arrangements) for disabled	544,160	771,556
734 Tramways and suburban railways	1,632,439	1,909,411
Total	12,889,436	17,261,774

Comment: The difference between gross and net operating expenditure is largely related to ticket revenues, Whether counties recognise ticket revenues in their own or in the transport companies' accounts varies. Thus, the accounting figures do not necessarily provide a full overview of the total operating costs and ticket revenues.

The current cost matrix for bus and rail transport was introduced in 2020 and represents 16.3 per cent of the total cost matrix in 2023. The criteria in the current matrix are shown in Table 4.7.

Tabell 4.7 Today's cost matrix for bus and rail transport.

Criterion	Weighting
Inhabitants, sparsely populated	0.1256
Employed persons by place of work (in excess of 29 per cent)	0.8744
Total	1.0000

The matrix is based on statistical analyses (regression analyses) carried out by the Ministry for the revision of the General Purpose Grant Scheme in 2020. Based on the analyses, the Ministry proposed a cost matrix based on the criteria employed by place of work and inhabitants, sparsely populated. The inhabitants, sparsely populated criterion is indicative of the settlement pattern in the counties and takes into account that the cost of public transport is higher in more sparsely populated areas. This is largely linked to the need for school transport, and it also reflects the fact that there are fewer paying passengers on these routes than in more densely populated areas.

The employed by place of work criterion captures costs related to the need for transport to and from work. The proportion of employed also covaries with the proportion of young people in the population and metropolitan indicators. The criterion will thereby also indirectly capture cost drivers related to different age composition and urban conditions.

Today's cost matrix for boats and ferries

The counties are responsible for more than 110 ferry services and around 80 boat services. Ferry services mainly consist of car ferries that are part of the county road network. Boat services are mainly passenger boats, that, in some cases, may also carry a small number of cars.

The importance of the boat and ferry sector for the transport system varies considerably between counties, which is also reflected in large regional variations in expenditure. Expenditure is modest in Southern and Eastern Norway, but for some counties in Western Norway and Northern Norway, the sector accounts for a significant share of total operating expenditure. Ferry and boat services are vital infrastructure in many places. Total gross operating expenditure on boats amounted to around NOK 1.6 billion in 2022, while net operating expenditure for ferries came to around NOK 3.5 billion.

Tabell 4.8 Gross and net operating expenditure for boats and ferries 2022. Figures for the entire country in NOK 1,000s, excluding depreciation.

Function	Net operating expenditure (NOK 1,000s)	Gross operating expenditure (NOK 1,000)
731 Ferry connections for county roads	3,472,474	4,149,793
732 Regular coastal routes	1,558,457	1,962,081
Total	5,030,931	6,111,874

Comment: The difference between gross and net operating expenditure is largely related to ticket revenues, Whether counties recognise ticket revenues in their own or in the transport companies' accounts varies. Thus, the accounting figures do not necessarily provide a full overview of the total operating costs and ticket revenues.

In the same way as for bus and rail transport, school transport is the only statutory service in the boat and ferry sector. There are otherwise no national requirements as to which boat and ferry services should be established or maintained, and nor are there any requirements as to the standard of these services. The current route structure will thus to a certain extent be a result of local priorities and choices made over a long period of time.

The situation is slightly different for ferry operations, because the ferries are part of the county road network and because more than 70 of the ferry services that the counties are responsible for today were transferred from the state in connection with the administrative reform in 2010. The structure of ferry services is thus based on assessments and choices made before the counties took over responsibility for operations. However, since the transfer of responsibility, the counties have been free to adjust the services in line with local needs and priorities.

The current cost matrix for boats and ferries was introduced in 2022 and represents 7.4 per cent of the total cost matrix in 2023. The internal weighting between the criteria for car ferries and passenger boats, respectively, was adjusted in 2023 to take account of the compensation awarded for reduced ferry fares. The current cost matrix is shown in Table 4.9.

Tabell 4.9 The current cost matrix for boats and ferries.

Criterion	Weighting
Standard ferry costs	0.6812
Length of coastline	0.1594
Standard boat costs	0.1594
Total	1.0000

Standard ferry costs are the criterion for county ferry operations. They are calculated using a cost model developed by Møreforsking Molde, and a revenue model for estimating ticket revenues developed by the then Ministry of Local Government and Modernisation. The criterion was introduced in 2018 and is discussed in more detail in Proposition No 128 to the Storting (2016–2017) *Kommuneproposisjonen 2018* (‘Local government sector proposition 2018’ – in Norwegian only).

Møreforsking Molde’s cost model calculates what it should cost to operate a ferry service if it is based on a common standard. The model distinguishes between various factors that affect the cost of operating a ferry service, such as the length of the route, traffic volume and the type of waters the ferry operates in. The Ministry’s income model is used to estimate the ticket revenue for each ferry service, provided that all services use the same fare system. The standard ferry costs criterion is finally calculated as the standard gross costs minus the estimated ticket revenues. Since the criterion is used to redistribute a given general grant, it is the counties’ relative share of the standard costs that is most important, and not the level of the standard costs.

The criteria for county passenger boats are the length of coastline and the standard boat costs. The coastline criterion was introduced in 2018, while the criterion standard boat costs was introduced in 2022. The standard boat costs are calculated using a cost model developed by Møreforsking Molde and the Institute of Transport Economics (TØI), and are discussed in more detail in Proposition No 192 to the Storting (2020–2021) *Kommuneproposisjonen 2022* (‘Local government sector proposition 2022’ – in Norwegian only). The criterion, which is based on the county boat services in operation, calculates an estimate of the net costs of operating the services if a common norm or standard is used as the basis for the provision of services. The model thus largely follows the same methodology as used to calculate the standard ferry costs criterion.

The choice and weighting of the two criteria is based on a trade-off between objectivity and accuracy. The length of coastline criterion is completely objective, but is not a sufficient measure to capture variation in the expenditure needs of boat services. Some counties have short coastlines, but many boat routes that are important for the transport network. Other counties have long coastlines, but few boat routes. Nor does the criterion capture changes in expenditure needs over time, since the coastline is fixed. The criterion standard boat costs may be better aligned with the actual costs of boat routes, but will never be completely objective since the number of boat routes and the services available are the result of the county authority's prioritisations. Therefore, in the current cost matrix, both criteria are included, with each weighing 50 per cent.

Current cost matrix for county roads

The counties are the road authority for and owner of approximately 44,700 km of county roads, constituting just under half of the public road network. Around 17,000 km of today's county roads were reclassified from national roads to county roads in connection with the administrative reform in 2010. In 2022, the county authorities' total gross operating expenditure on county roads amounted to NOK 10.5 billion (excluding depreciation), while total gross investment expenditure came to NOK 12.5 billion.

The county authorities are responsible for the planning, construction, improvement, maintenance and operation of county roads. The county authorities themselves decide which county roads are built and how they are to be operated and maintained, within the bounds of applicable laws and regulations.

There is significant variation between counties with respect to operating expenditure on county roads. Variation in operation and maintenance costs is closely related to road length, road type and the need for winter operations (for example, snow clearing and salting). For example, it is more expensive to maintain a bridge or a tunnel than an ordinary road, and the amount of traffic will also have an impact on wear and maintenance needs.

The road sector is currently the only sector in the expenditure equalisation for county authorities that includes investment costs. This is partly due to the inclusion of investment funding from the 2010 administrative reform in the cost matrix in 2015. The road sector is also distinguished by high investment costs in relation to operating costs.

The cost matrix for the county roads accounts for around 19.7 per cent of the total cost matrix in 2023 and consists of the criteria maintenance needs for county roads and total number of inhabitants.

The criteria for county roads in the cost matrix have long been based on normative cost models that are intended to capture variation in county road operation and maintenance needs. During the period 2015–2021, the county roads' maintenance needs criterion was calculated using the Norwegian Public Roads Administration's Motiv model, which is a normative model for calculating what it costs to maintain a given standard of maintenance in the road network. When responsibility for administering county roads was transferred from the Norwegian Public Roads Administration to the counties in 2020, the Motiv calculations were discontinued for the county roads. From 2022, a simplified model for calculating maintenance needs is used, which is discussed in more detail in Proposition No 192 to the Storting (2020–2021) *Kommuneproposisjonen 2022* ('Local government sector proposition 2022' – in Norwegian only).

In the current matrix, the operating funds are allocated based on the county road maintenance needs criterion, while investment funds are distributed with 70 per cent weight on this criterion and 30 percent weight on the number of inhabitants. The total county road matrix, including both operating and investment funds, is shown in Table 4.10.

Tabell 4.10 Current cost matrix for county roads.

Criterion	Weight operations	Weight investments	Overall weighting
County road maintenance needs	1.0000	0.7000	0.8826
Total population		0.3000	0.1174
Total	1.0000	1.0000	1.0000

The total cost matrix in the current General Purpose Grant Scheme

The individual cost matrices are weighted together to form a total cost matrix based on their share of net operating expenditure on services included in the expenditure equalisation. For county roads, net investment expenses are also included to arrive at the weight of the cost matrix for the sector. The total cost matrix for 2023 is shown in Table 4.11.

Tabell 4.11 Total cost matrix for the county authorities 2023. Green Book 2023.

Criterion	Criteria weight
Inhabitants 1-18 years	0.0331
Inhabitants 19-20 years	0.0037
Inhabitants 21-22 years	0.0025
Inhabitants 67 years and over	0.0052
Intellectually disabled persons 18 years and over	0.0011
Inhabitants 16-18 years	0.3962
Applicants to high-cost education programmes	0.0921
Applicants for apprenticeships	0.0152
Travel distance to reach 11,000 inhabitants	0.0171
Inhabitants, sparsely populated	0.0205

Employed by place of work, scaled (in excess of 29 per cent)	0.1425
Standard ferry costs	0.0506
Total coastline	0.0118
Standard boat costs	0.0118
County road maintenance needs	0.1735
Total population	0.0231
Total	1.0000

The total cost matrix is used to redistribute the total expenditure needs between the counties. Expenditure needs are first calculated at the national level based on net operating expenses for the services included in the expenditure equalisation, plus net investment expenses for county roads. The figures are then corrected for any changes in tasks and other factors. Expenditure is then estimated based on projected growth in free revenues from the year the accounting figures are from to the budget year in which the cost matrix is to apply.

4.3 The expert committee's proposal for a new General Purpose Grant Scheme

On 8 March 2022, the Ministry of Local Government and Regional Development appointed an expert committee to assess the General Purpose Grant Scheme (GPGS) for the county authorities. Pursuant to its remit, the committee was tasked with reviewing the GPGS, with particular emphasis on expenditure equalisation. The committee's review was to be based on the fundamental principles for the scheme. Among other things, the committee was to emphasise that the scheme is intended to enable the counties to provide good, equitable services for their inhabitants.

The expert committee had eight members, four with a research background and four from county authorities. The committee was chaired by Trond Erik Lunder, senior researcher at Telemarksforsking research institute. The committee's recommendations were submitted to the Ministry on 2 December 2022[9] and distributed for public consultation the same day.

4.3.1 The committee's proposal for a new cost matrix

Basis for analysis and method

The committee's proposal for a new cost matrix is based on several analyses and analysis methods. The purpose of the analyses is both to identify which criteria can explain variations in expenditure needs between the counties, and to quantify the importance of each criterion in the cost matrix.

[9]Report from expert committee. (2022). *Forslag til nytt inntektssystem for fylkeskommunene fra 2024*. ('Proposal for a new General Purpose Grant Scheme for the county authorities from 2024' – in Norwegian only) December 2022. Ministry of Local Government and Regional Development.

The committee's analyses are mainly based on data for the period 2017–2019, based on the division of counties that applied at that time. No data for 2020 and 2021 have been used, since the coronavirus pandemic and infection control measures had major consequences for the counties' expenditure and service production, especially in public transport. The committee therefore believes that the expenditure figures for 2020 and 2021 are not representative of the expenditure needs going forward.

The committee has used the same methods as previous publicly appointed committees to find criteria and determine the weighting in the cost matrix. These are the same methods used by the Ministry in the previous revision of the General Purpose Grant Scheme in 2020:

- Normative models: A normative model is based on established norms and standards. The cost of providing the same level of services in all counties is then calculated.
- Statistical methods: Statistical models are based on the counties' actual expenditure on various services, and endeavours are made to find criteria that can explain the variation between the counties. The statistical analyses are normally carried out as regression analyses.
- Resource mapping: In some cases, the criteria in the cost matrix are calculated based on the average use of resources or costs for different user groups or services. In the current GPGS, this applies to the dental matrix and some of the criteria in the cost matrix for upper secondary education.

The committee points out that it is demanding to develop a good, robust analysis system for the cost matrices in the General Purpose Grant Scheme for the counties, since having few entities (counties) presents methodological challenges and more uncertain results. The committee has therefore tried to test how reliable the analyses are by using several different methods and by analysing data over several years.

The committee acknowledges that there is uncertainty in the analyses used to design new cost matrices. However, the committee believes that the analyses form a good basis for the assessments and the proposal for new cost matrices. The committee emphasises that established methods have been used, and that emphasis has been placed on selecting analytical models that provide stable results over time and using different ways to specify the models. The committee believes that it is better to base the cost matrices on the methods and data that are available than to adopt criteria and weights based on purely discretionary assessments.

At the same time, however, the committee believes that the uncertainty in the analyses indicates that the cost matrices should be reassessed in a few years, when there is data based on the new division of counties.

Treatment of capital costs

The free revenues are intended to finance both operating and capital costs in service production. In the current GPGS, variations in capital costs are not included in the expenditure equalisation. This means that grants for capital purposes are in practice allocated through the per capita grant (basically an equal amount per capita) and tax revenue. The exception is the county roads matrix, which also includes investment costs.

Capital costs consist in principle of two elements: capital depreciation and interest expenses as a result of funds being tied up in fixed assets. Capital depreciation is an expression of the fact that fixed physical assets such as buildings, means of transport, equipment and roads decrease in value as a result of normal wear and tear, damage and obsolescence. For local government, capital depreciation is recognised as historical, linear depreciation in the accounts and included in the accounting figures in KOSTRA. In the national accounts, on the other hand, depreciation is measured based on the replacement principle, to ensure that inflation is taken into account. The national accounts only include capital depreciation figures for the whole local government sector, and not for each county authority.

The expert committee believes that expenditure equalisation should in principle include both operating expenses and capital costs, but it is divided on whether changes should be made now. The majority of the committee (six of eight members) believe that there are good reasons for treating capital costs differently in the GPGS for the county authorities than in the scheme for the municipalities. Firstly, capital costs constitute a larger share of the county authorities' costs than the municipalities' total costs. The majority believes that this should be reflected in the GPGS.

Secondly, capital costs should be treated in the same way across the different county service areas. The majority points out that this is not the case in the current system, since county road investments are included as part of the cost matrix for county roads. In addition, parts of the capital costs in the field of public transport are indirectly included in the cost matrices. The majority believes that capital costs should in principle be treated in the same way across the different service areas.

Thirdly, the analyses indicate that there are systematic variations in capital costs between the counties that should be reflected in the weighting of the criteria. Previous committees have assumed that the capital needs for most municipal and county services are roughly in proportion to the production of the service. These committees have therefore concluded that the criteria that explain the differences in operational needs can also explain the differences in capital needs. However, the majority of the expert committee appointed to assess the scheme for the county authorities believes that, when the weighting of the criteria in a cost matrix changes as a result of depreciation being included in the analyses, this suggests that the criteria can capture systematic variations in capital costs between the counties.

The majority therefore recommends that capital costs also be included in the expenditure equalisation for upper secondary education, dental health and public transport, in addition to county roads. In practice, this means that depreciation is included both in the basis for the analysis for new cost matrices, in the calculation of the sector weightings used when the different cost matrices are weighted together to form a total cost matrix, and in the calculation of the total expenditure needs to be redistributed through the cost matrix.

The committee's minority (two of eight members) believes that including capital costs in the expenditure equalisation would represent a major and fundamental change to the General Purpose Grant Scheme for the county authorities. The minority believes that the committee's analyses of capital costs are not a sufficient basis for proposing that capital costs should be included in the expenditure equalisation. The minority believes that further analyses should be carried out before considering changing how capital costs are treated.

The minority also points out that, to a greater extent than the operating level, the counties' investment level may be the result of local priorities. The minority believes that consideration should be given to whether the county authorities' investment levels and capital expenditure are income-driven and more the result of local priorities and opportunities, rather than variation in depreciation reflecting additional expenditure resulting from involuntary cost differences. The minority therefore recommends that the current practice should be continued, where only capital costs for county roads are included in expenditure equalisation.

The cost matrix for upper secondary education

The committee believes that the criteria included in the current cost matrix for upper secondary education are still well suited to explaining the variation in expenditure between county authorities. The number of inhabitants in the age group 16-18 years is still the most important criterion, and it captures the main target group for upper secondary education. The committee believes that there should still be criteria that capture the additional costs of having many apprentices and students in high-cost education programmes, and a criterion that captures the cost disadvantages associated with long distances.

The current cost matrix is based on both regression analyses and cost analyses, and the committee does not propose any changes in this regard. The committee has updated the cost analyses used to calculate the weight of the applicant criteria using more up-to-date figures from KOSTRA. The new cost analyses show that the criterion for applicants to high-cost education programmes is given somewhat lower weight, while applicants for apprenticeships are given slightly more weight.

With regard to the cost disadvantages of long distances, the committee proposes that the current travel distance criterion, travel distance to reach 11,000 inhabitants, should still be used. The committee further proposes that the weight of the criterion be adjusted on the basis of new analyses. This results in a slight increase in the weight of the travel distance criterion.

The number of inhabitants aged 16-18 has the highest weight in the current cost matrix. It is determined as the remaining weight after the applicant criteria and travel distance criterion have been calculated. The committee proposes that the criterion be given slightly lower weight than under the current scheme, since the other criteria will be given slightly increased weight.

The committee has also considered socioeconomic variables related to students, such as low grade averages from compulsory education, low education and low income. The committee has found no effect of these variables in analyses at the county level.

Cost matrix for dental health

The committee believes that the dental health matrix should still reflect the key user groups within the public dental service, and therefore recommends that the criteria in the current matrix be continued. The committee has updated the resource mapping that forms the basis for the current matrix, resulting in some minor adjustments to the weighting of the different user groups.

The committee further proposes that travel distance be included as a new criterion in the dental health matrix. The reason for this is that the committee’s analyses indicate that long distances are an involuntary cost disadvantage in dental health, partly because counties with a sparse population may need a more decentralised clinic structure. The committee proposes that the weight given to travel distance be determined based on the regression analyses, and that the residual weight be divided between the other criteria based on the updated resource mapping.

The committee has also assessed whether socioeconomic conditions can explain the county authorities’ dental health expenditure. Among other things, the committee considered whether the proportion of inhabitants with immigrant backgrounds, low income and/or low education may be related to the counties’ expenditure on dental health. The analyses showed no correlation between these variables and expenditure on dental health at the county level.

Cost matrix for public transport

Under the current General Purpose Grant Scheme, there are two cost matrices for public transport, one for bus and rail transport, and one for boat and ferry transport. The committee has analysed the two parts of the public transport system both based on a continuation of the current division, and an alternative where the cost of passenger transport by bus, rail and boat are seen in conjunction (car ferries are excluded from these analyses).

Based on the analyses and other assessments, the committee points to two weaknesses in the current cost matrices:

- The criteria in the current bus and rail matrix have relatively weak statistical explanatory power when used in analyses of updated data, and one of the two criteria is no longer statistically significant (inhabitants, sparsely populated). This means that there is no longer as good a match as in previous analyses between the actual expenditure on bus and rail transport and the estimated expenditure needs with the current cost matrix.
- The standard boat costs criterion is not objective, since it is calculated on the basis of information about each boat route. This means that counties that decide to create a new or prolong an existing boat route will receive higher grants through the GPGS. Since the cost matrix is used in a distribution system, it is the other counties that finance this increase.

The committee therefore believes that changes should be made to the cost matrix, regardless of whether the current division into separate cost matrices for bus/rail and boat/ferry is continued or not.

The committee has analysed several models and believes that the analyses in which all public transport (bus, rail and boat, but not car ferries) are seen in conjunction forms the best basis for a new cost matrix. The analyses have been conducted as regression analyses, and have good explanatory power when the entire public transport sector is seen as a whole. They show that a joint matrix for public transport has several advantages, both compared with current matrices, and with updated analyses of bus and rail and boat routes as two different sectors:

- A joint cost matrix can consist of criteria that are completely objective. This avoids the problem of the standard boat costs criterion not being objective.
- The criteria can be calculated from official statistics, making the annual updates easier for both the ministry and the counties.
- A joint cost matrix will be based on analyses with better explanatory power than both the current matrices and updated analyses of bus and rail and boat transport individually. The matrix thus better captures the variation in expenditure between counties.

The committee therefore proposes introducing a new cost matrix for public transport, which views transport by bus, rail and passenger boats together. The boat and ferry matrix is thus converted into a solely ferry matrix, only including car ferries.

The committee presents two different models that can form the basis for a joint cost matrix for public transport. Alternative 1 consists of the criteria inhabitants aged 19-34 years, average travel distance to reach 11,000 inhabitants and a 'congestion factor'.[10] The criterion for inhabitants aged 19-34 years is intended to take account of the fact that younger age groups use public transport

[10]The congestion factor is based on the population in urban settlements with more than 50,000 inhabitants, but with different weighting depending on their size. The population of the largest city (Oslo) counts 100 per cent, while the population of other urban settlements will be given a lower weight. The weight of the other urban settlements is calculated based on the relative distance to the largest urban settlement.

more than older ones. The criterion average travel distance is intended to capture higher public transport costs in outlying areas, relating, among other things, to boat routes and school transport. The congestion factor is intended to capture extra costs in cities and surrounding areas.

Alternative 2 consists of the criteria average travel distance and number of employees. Compared with the current matrix, the average travel distance replaces the criterion inhabitants, sparsely populated. The number of employed persons criterion is calculated as the average number of employed persons by place of work and place of residence, and not just place of work as in the current matrix.

The committee believes that both alternatives may be relevant as a basis for a new cost matrix for public transport and that they both have clearly greater explanatory power than the current matrix. Overall, of the two models, model 2 best matches the actual costs in different counties. However, although both models clearly have greater explanatory power than the current matrix, the two alternatives differ in terms of their effects on different counties.

Alternative 1 identifies cost drivers related to congestion and urban conditions to a greater extent, while alternative 2 estimates somewhat higher expenditure needs for counties where expenditure on boats constitutes a relatively large part of the total expenditure on public transport.

The committee believes that a factor that could favour alternative 1 is that the criterion for the number of employed persons, which is included in alternative 2, is vulnerable to cyclical fluctuations. If the number of employed persons is used as a criterion, a temporary economic downturn in parts of the country could lead to distributional effects between the counties, without necessarily changing public transport needs.

The committee points out that alternative 2 also captures key cost drivers in public transport related to sparse population and variation in demand, particularly as regards travel to/from work. The committee believes that one argument that favours this alternative is that the analysis includes fewer variables. With few units in the analyses, the number of variables should be limited.

The committee believes that the cost matrix for public transport should reflect the fact that a large proportion of public transport takes place in and around the largest cities. The committee also believes that the criteria should be stable over time, and not vary with cyclical fluctuations. On that basis, the committee recommends that alternative 1 be used as the basis for a new cost matrix for public transport. However, since there is little difference in the overall explanatory power of alternatives 1 and 2, and since there is a clear difference in the distribution profile of the two models, the committee believes that both alternatives should be considered in the follow-up of the committee’s work.

Cost matrix for ferries

In spring 2022, the Ministry of Local Government and Regional Development commissioned the Institute of Transport Economics (TØI) to develop a new or updated model for calculating the ferry criterion in the current cost matrix.[11] The expert committee was given an opportunity to submit input and it based its assessments on TØI’s report.

---

[11]Rødseth et al. (2022): *Revidert modell til beregning av fergekriteriet i inntektssystemet for fylkeskommunene*. (‘Revised model for calculating the ferry criterion in the General Purpose Grant Scheme for the county authorities’ – in Norwegian only) Report No 1914/2022. Institute of Transport Economics.

The purpose of the assignment was to take account of two significant changes in the ferry sector in recent years. Firstly, the use of low and zero-emission technology has become more and more common in new ferry tenders, and a number of ferry services have already introduced low and zero-emission ferries. The Ministry therefore wanted to develop a cost model based on the use of zero-emission technology for all ferry services. Secondly, most ferry services have now switched to automatic ticketing, using fares from the AutoPASS regulations for ferry fares.

TØI's cost model for calculating the ferry criterion is based on the same basic principles as the current cost model, but it differs in two areas in particular: Firstly, TØI's model assumes that electric ferries are used on all ferry services, while the current model calculates the cost of using diesel ferries.

TØI also proposes simplifying and improving the model for estimating ticket revenues per service. In the current income model, revenue is calculated based on the number of vehicles in different fare groups, which means that detailed traffic information has to be collected for each ferry service in order to estimate ticket revenues. TØI suggests that revenue should instead be estimated based on just a few variables (the length of the service, the number of ports of call and the proportion of zero-emission vehicles). TØI's calculations show that this model gives approximately the same result, while data collection is much simpler.

TØI concludes that it is possible to calculate standard ferry costs in a model based on the use of zero-emission technology, but points out that there is still considerable uncertainty about several of the parameters in the new cost model, for example as regards technology development and the price of energy. TØI therefore believes that the new cost model should not be introduced in the General Purpose Grant Scheme now, and its potential introduction should be postponed until more is known about the cost level going forward. TØI further recommends changing the model for estimating ticket revenue, as this much simpler calculation method leads to approximately the same result.

The committee supports TØI's assessments and recommends continued use of the current cost model for calculating the standard ferry costs for the time being.

The committee also recommends that the model for estimating ticket revenue be changed in line with TØI's proposal, as it will simplify the annual updating and since the current income model is based on a fare regulation that few ferry services use today.

The cost matrix for county roads

The cost matrix for county roads is intended to capture both operational and investment needs. It consists of the criteria maintenance needs and number of inhabitants. The committee proposes continuing with these criteria, but with changes to their weighting.

In spring 2022, the Ministry of Local Government and Regional Development commissioned the Centre for Economic Research (SØF) at NTNU Social Research to develop a model for calculating the criteria for county roads in the cost matrix.[12] The expert committee had an opportunity to submit input and it based its assessments on SØF's report.

[12]Krehic and Nyhus (2022). *Vedlikeholdskriteriet i delkostnadsnøkkelen for fylkesveg* ('The maintenance criterion in the cost matrix for county roads' – in Norwegian only). Report No 05/22. Centre for Economic Research

The background to the assignment was that the current model contains some fixed factors per county, for example relating to climatic conditions, which means that it is not merger or distribution-neutral. This means that dividing a county will have distributional effects between the county authorities, and the model must therefore be changed.

SØF's proposal for a new model broadly follows the analysis that forms the basis for the current model, developed by the company ViaNova and introduced in the General Purpose Grant Scheme in 2022. However, the SØF model is more flexible with regard to changes to the division of counties, and it also places greater emphasis on the objectivity of the criteria for calculating maintenance needs.

The SØF model consists of a total of ten different criteria that, together with an estimate of unit costs, are used to calculate an estimate of the total maintenance needs for county roads. The model is based on information such as the length of different types of roads, tunnels and bridges, and also includes a winter factor to capture the costs of keeping roads open in winter.

The committee believes that the SØF report is a good starting point for a new model for calculating the county roads criterion, and it recommends using the new model in the GPGS from 2024.

The committee proposes keeping the number of inhabitants as a criterion for allocating investment funds in the county roads matrix, but giving it a reduced weight. This is justified by some uncertainty in the analyses and that there is reason to believe that the investment level, more so than the operating level, is the result of local priorities.

Proposed total cost matrix and calculation of total expenditure needs

As in the current GPGS, the committee proposes that the different matrices be weighted together to form a total cost matrix based on their share of net operating expenditure on services included in the expenditure equalisation. The committee further proposes that net investment costs for county roads should continue to be included in the calculation of the sector weightings. The committee's proposal for a new total cost matrix is shown in Table 4.12. The table shows both the majority's and the minority's proposals. The difference between the majority's and the minority's proposals relates to the treatment of capital costs: In the majority's proposal, depreciation is included both in the analyses and in the calculation of the sector weightings, while depreciation is excluded in the minority's proposal.

Tabell 4.12 The Ministry's proposal for a new overall cost matrix.

Criterion	Weight based on majority proposal	Weight based on minority proposal
Inhabitants 1-18 years	0.0294	0.0301
Inhabitants 19-20 years	0.0022	0.0023
Inhabitants 21-22 years	0.0015	0.0016
Inhabitants 67 years and over	0.0055	0.0056

Intellectually disabled persons over 18 years	0.0014	0.0014
Inhabitants 16-18 years	0.3999	0.3934
Applicants to high-cost education programmes	0.0852	0.0820
Applicants for apprenticeships	0.0260	0.0257
Travel distance to reach 11,000 inhabitants	0.0740	0.0747
Congestion factor	0.0275	0.0304
Inhabitants 19-34 years (in excess of 10 per cent)	0.1131	0.1083
Standard ferry costs	0.0462	0.0481
County road maintenance needs	0.1806	0.1885
Number of inhabitants	0.0075	0.0079
Total	1.0000	1.0000

The total cost matrix is used to redistribute the total expenditure needs between the counties. In contrast to the calculation of the sector weightings, what are known as county treasury figures are currently used to calculate total expenditure needs. These figures do not include the expenditure and revenues of county enterprises and inter-county companies. The committee believes that the same underlying figures should be used in the different parts of the GPGS, and that the group figures, i.e. figures that also contain accounting information from county enterprises and inter-county companies, provide the best picture of the county authorities' expenditure.

Using consolidated accounts in isolation will result in slightly lower overall expenditure needs. This is because transfers from the county treasury to county enterprises and inter-county companies are, as a whole, greater than the operating expenses reported by county enterprises and inter-county companies.

4.3.2 The committee's proposals for other changes to the General Purpose Grant Scheme

Income equalisation

In its remit, the committee was asked to assess the design of the income equalisation system, for example whether the degree of equalisation should be changed. The committee was not asked to consider which tax basis should be included in income equalisation.

The committee points out that the county authorities' roles, both as service provider, in social development and as a democratic arena, indicate that the county authorities should retain some of the revenues that are generated locally. This means that there should be some differences in tax revenues between the county authorities. However, the committee believes that the counties' possibility to actually influence their tax revenues is open to discussion. The county authorities are responsible for large, important public tasks, and their capacity to provide services of an equitable standard in these areas should not differ too much.

The committee proposes that the current equalisation rate of 87.5 per cent income equalisation be continued. The committee also believes that the symmetrical equalisation model should be retained, as it means that there are still some incentives to generate local revenue.

Use of special allocations

In its remit, the expert committee was asked to assess the extent of and need for the use of special allocations under the per capita grant, based on the guidelines in the guide *State governance of municipalities and counties.*[13] Cases subject to special allocation, often referred to as Table C cases, are an exception to the rule that the general grant should be allocated according to ordinary criteria. According to the guide, special allocations can be used when:

- it concerns a one-off grant, or an allocation for a short period,
- changes are pending to the cost matrix , or
- it concerns a pilot scheme under the Pilot Schemes in Public Administration Act.

The guide emphasises that special allocations should only be used for a short period, that is predetermined and normally limited to a maximum of two years. It is further specified that the funds allocated through Table C are free revenues that the county authorities can use as they wish, in the same way as the general grant otherwise.

The committee's review shows that the general two-year rule for special allocations is rarely followed. Several Table C cases appear to be permanent arrangements. The committee writes that some cases may require a permanent arrangement where funds are subject to special allocation. However, the scope of such long-term arrangements should be limited, since extensive use may be perceived as the government tying up counties' free revenues.

There is considerable variation between the different cases that are subject to special allocation in the current GPGS, in terms of their purpose, the amount involved and the distribution between the county authorities. The committee recommends that most cases can or should be reallocated based on the ordinary criteria in the GPGS. If this does not result in a satisfactory distribution of funds, consideration should be given to withdrawing funds from the general grant and earmarking schemes outside the GPGS.

However, the committee believes that only a few of the current cases should still qualify for special allocation. There are three Table C cases that are permanent or long-term schemes, where the state has signalled or promised a special allocation as long as required. The committee is of the opinion that these cases should continue to qualify for special allocation:

- Compensation for the road tunnel safety regulations, where it is assumed in the National Transport Plan 2022–2033 that the compensation shall be subject to special allocation throughout the planning period, or until the county authorities have been compensated for the additional cost.
- The ferry replacement scheme, where the guidelines for the scheme specify that the funds shall be provided subject to special allocation for up to 45 years.

[13] Ministry of Local Government and Modernisation (2020): *Statlig styring av kommuner og fylkeskommuner*. Guide ('State governance of municipalities and county authorities' – in Norwegian only)

- Grants for the child welfare service in Oslo, which are awarded because Oslo has greater responsibility for child welfare than the municipalities in other counties.

In the committee's view, the following five cases should be continued within the GPGS, but allocated according to ordinary criteria instead of under Table C:

- Funds for low and zero-emission solutions for ferries and express boats: The current allocation is based on the number of electric ferry services in 2020, and since then even more ferry services have switched to battery operation. This allocation is therefore outdated, and the committee recommends using the ferry cost matrix instead.
- Compensation for the free ferry scheme: Today's allocation is based on actual ticket revenues on the various ferry services in 2019. The committee believes that special allocation is sensible while the scheme is in the introductory process. However, when the scheme is fully implemented with full-year effect, the funds should be allocated based on the ferry criterion in the cost matrix. This can be done by adjusting how the ferry criterion is calculated.
- Administration of grants for agriculture: The current allocation is based on the use of resources by the county governors before this responsibility was transferred to the county authorities in 2020. This is a task that applies to all county authorities and is not significantly different from other administrative tasks. The committee therefore believes that the funds should be allocated based on the ordinary criteria with an equal amount per capita.
- The grant scheme Job Chance Part B: The current allocation is based on the number of immigrants in the different counties. The grant is intended to increase the completion rate in upper secondary education. All county authorities have a responsibility to help ensure that young people who do not have a satisfactory basic education can complete upper secondary education. The committee believes that this is an ordinary task that can be financed with an equal amount per capita.
- Regional policy grants: The funds are distributed based on the 120 municipalities in Norway with the greatest regional challenges, measured by the regional index. The committee points out that all the county authorities are responsible for local and regional development, and believes that the funds should be allocated based on the ordinary criteria with an equal amount per capita.

The committee further believes that returning two cases to earmarked grants should be considered, if the intention of the grants is to be fulfilled:

- Rock-fall and avalanche protection on county roads: The grant amounts to a relatively large sum and needs are very unevenly distributed between the counties. The current county roads matrix does not capture these differences, and the committee points out that earmarking may be a suitable instrument.
- Grants for non-state-owned airports: The committee believes that the GPGS should not be used to distribute small amounts for purposes that fall outside the central welfare tasks of the local government sector, and proposes that responsibility for allocating grants to non-state-owned airports be returned to the state.

The committee is divided as regards whether the funds allocated for upgrading and renewing county roads should continue to qualify for special allocation, or whether they should be redistributed based on the county roads matrix. In 2014, the general grant was increased by NOK 780 million because of the need to upgrade and renew the county roads. The grant has been increased several times since then, and now amounts to just under NOK 1.7 billion in 2023. The funds are distributed between the counties based on the Norwegian Public Roads Administration's survey of the maintenance backlog on the county road network in 2010–2012, which has not been changed since.

The committee's majority (seven of eight members) believes that it should be emphasised that the counties have an independent responsibility for maintenance of their own roads, and that the bulk of the county road network has long been the responsibility of the county authorities. The funds for upgrading and renewing county roads have been subject to special allocation for almost ten years, based on a survey characterised by considerable uncertainty. The majority therefore believes that the entire grant should be allocated according to the county roads matrix from and including 2024.

The committee's minority (one of eight members) believes that the counties should have equal opportunities to reduce the county roads backlog, regardless of whether it concerns 'old' or 'new' county roads. The committee's minority believes that this indicates that the entire grant should be subject to separate allocation until further notice, based on a survey of the overall maintenance backlog.

Discretionary grant

The discretionary grant is intended to compensate the county authorities for special local conditions that are not covered by the fixed part of the General Purpose Grant Scheme. The main part of the discretionary grant, the general grant, is distributed by the Ministry of Local Government and Regional Development in the draft national budget, while a smaller part is withheld to cover any extraordinary events during the budget year.

In the committee's opinion, the grant should, as far as possible, be allocated on the basis of fixed criteria, and not on the basis of discretionary assessments. The committee therefore proposes that the general grant part of the discretionary grant be discontinued, and that the funds be allocated through the per capita grant with an equal amount per capita.

Northern Norway county grant

The committee believes that the scope of regional policy grants should in principle be limited, but nevertheless believes that a separate regional policy grant is needed for the counties in Northern Norway. The committee therefore proposes that the current Northern Norway county grant be continued, but proposes changes to the rates for the subsidy compared with the rates that applied before Troms and Finnmark were merged into one county in 2020. The committee proposes that the rate for both Troms and Finnmark be set at the same level as for Troms in 2019. Finnmark had a higher rate than Troms before 2020, and the proposal therefore entails reducing the rate for Finnmark. The reason for this is that the committee believes that the proposal for a new cost matrix captures Finnmark's cost disadvantages to a greater extent than the current matrix does.

Compensation and transitional scheme

The committee believes that the county authorities' revenues should be stable and predictable, since they are used to fund important welfare services that should not vary much from year to year. The committee believes that this means that there should be a fixed and predictable transitional scheme in the GPGS.

The committee has considered two models for a new transitional scheme. One option is a fixed symmetric transitional scheme, where the effect of all system changes is as a rule phased in through a fixed transitional scheme over four years.

The second option is to reintroduce an income guarantee scheme (INGAR) based on the model used for the county authorities during the period 2010–2014. Here, all counties with growth in the general grant measured in NOK per capita below a given limit value will receive full compensation for the difference between calculated growth and the limit value, before financing of the scheme. The scheme is financed by all county authorities with an equal amount per capita.

The committee believes that the transitional scheme should be simple and predictable, and that its main purpose should be to gradually phase in system changes. The committee also believes that particular emphasis should be placed on stable and predictable revenues in 2024, since more counties will have to spend time and resources on establishing new organisations. It advocates introducing the transitional scheme that most mitigates the distributional effects in the first year. The committee therefore proposes introducing a fixed symmetrical transitional scheme over four years, in which the distributional effects of system changes are gradually phased in with an equal share each year.

The committee further believes that permanent compensation schemes should be avoided. When changes in the GPGS have distributional effects between the counties, it is precisely because updated analyses and new assessments indicate that the distribution of income should be changed. A permanent compensation scheme will thus counteract intended and desired changes in the GPGS. The committee therefore proposes that the current compensation scheme be discontinued, and that the NOK 335 million currently allocated under the scheme instead be distributed between all the county authorities with an equal amount per capita.

4.4 Summary of the consultation round

The report from the expert committee was distributed for broad consultation on 2 December 2022 with a deadline for submissions of 3 March 2023. The Ministry has received 42 consultation submissions, 12 of which are from county authorities or the executive committees for new county authorities. The other submissions are from the Norwegian Association of Local and Regional Authorities (KS), municipalities (10), various regional councils (7), special interest organisations (9) and other public bodies (3). All the consultation submissions are published at regjeringen.no.

General comments

The consultation submissions from the county authorities largely reflect how the proposed changes affect the individual county authorities. Some county authorities take a largely positive view of the proposed change, although they have objections to some elements of the proposal. Other county authorities take a highly negative view of the proposal, although some of them nonetheless express support for individual elements.

Comments on the individual cost matrices

One county authority points to problematic aspects of using *statistical analyses* when designing the cost matrices. Among other things, it is pointed out that it is difficult to use statistical analyses when so few entities are involved.

The expert committee proposes continuing to use the cost matrix for *upper secondary education*, and it has updated the weighting of criteria based on new analyses. A majority of the county authorities support the expert committee’s proposal. Two county authorities find it unfortunate that the proposal does not include criteria that capture extra expenses relating to socioeconomic factors.

The expert committee proposes continued use of the current cost matrix for *dental health*, and also proposes using travel distance as a new criterion in the matrix. A majority of the county authorities support this proposal.

The committee proposes a joint cost matrix for *public transport* that will replace the current cost matrix for bus/rail transport and the criteria for boats. The committee presented two alternative cost matrices for public transport. Seven of the county authorities are highly critical of the committee's proposal and believe that it is important to continue to use separate criteria for boat transport in the General Purpose Grant Scheme (GPGS) for county authorities. Several of these county authorities believe that separate criteria for boat transport are crucial for coastal counties to be able to offer good public transport services. Some of the county authorities that take a negative view of the committee's proposal prefer the committee's alternative 2 proposal. Four county authorities support the committee's proposal for a joint matrix for public transport. One of the four prefers alternative 2, but takes a positive view of both alternatives.

Opinions differ about the committee's proposal for calculating the *county roads maintenance needs* criterion Four county authorities have no comments on the county roads cost matrix, while two county authorities support the committee's proposal. Two county authorities take a critical view of the committee's proposal to reduce the weighting of the total inhabitants criterion from 30 to 10 per cent in the allocation of investment funds for county roads.

Funds for upgrading and renewing the county roads network and capital costs

Many county authorities and consultative bodies are concerned with the proposal from a majority of the committee stating that funds for upgrading and renewing the county roads network should be based on the county roads cost matrix and not be subject to special allocation (Table C) as is currently the case. The consultation submissions are evenly divided on this point. Some county authorities and the Norwegian Public Roads Administration support the majority of the committee, while others believe that the funds should continue to be allocated on the basis of special allocation. Opinions are also divided on how capital costs should be treated in connection with the equalisation of expenditure needs.

The Northern Norway county grant and discretionary grant

Nordland county authority and Troms and Finnmark county authority support the committee's proposal to continue with the Northern Norway county grant. They believe that the grant is important to prevent depopulation in Northern Norway. One county authority believes that the Northern Norway county grant should be replaced by a regional policy grant for the whole country. A majority of the county authorities have no comments on the committee's proposal to discontinue the general grant element of the discretionary grant. Four county authorities support the committee's proposal.

Consultation submission from KS

KS believes that regularly updating the General Purpose Grant Scheme is important, and it supports revising the system in connection with the new division of the counties that will enter into force from 2024. As regards areas subject to special allocation, KS believes it is 'unfortunate for the county authorities that large sums for county roads are allocated outside the ordinary general grant'. KS takes a critical view of the committee's proposal for a joint cost matrix for public transport and believes that neither of the two alternatives captures the variation in the county authorities' expenditure on public transport.

4.5 The Ministry's proposal for a new cost matrix

The Ministry believes that the expert committee's report forms a good basis for a new cost matrix that can function for the new division of counties that will apply from 2024. At the same time, the

Ministry believes it is necessary to make changes to the committee's proposal in some important areas.

The committee has taken the same principles and methods that formed the basis for the current cost matrix as its point of departure, and it has carried out new, thorough analyses based on updated figures. As the committee emphasises in its report, the fact that the statistical analyses are based on few entities presents some additional challenges when designing new cost matrices. The committee has therefore used several different methods where possible, and analysed data for multiple years to establish whether the results are stable over time. The committee's proposal is based on statistical analyses, standard cost models and user statistics. The Ministry believes that, based on the information currently available, the analyses the committee has carried out form the best basis for designing new cost matrices in most areas.

The Ministry therefore proposes for the most part using the committee's analyses as the basis for the proposed new cost matrix from 2024. However, the Ministry proposes three adjustments to the proposal put forward by the majority of the committee. The adjustments concern the treatment of capital costs in connection with the equalisation of expenditure needs, which model should be used for a joint cost matrix for public transport by bus, rail and boat, and a minor adjustment to the calculation of the standard ferry costs criterion in the cost matrix based on new analyses carried out by the Ministry.

4.5.1 Treatment of capital costs in the equalisation of expenditure needs

After an overall assessment, the Ministry finds that depreciation should still be excluded from the equalisation of expenditure needs for the county authorities. The Ministry has particularly emphasised that previous publicly appointed committees, including the Committee on the General Purpose Grant Scheme for Municipalities, have pointed to weaknesses in the data basis for depreciation in KOSTRA (the Municipality-State-Reporting system).[14] Among other things, the Committee on the General Purpose Grant Scheme for Municipalities pointed out that depreciation in KOSTRA does not capture either inflation or write-downs. Depreciation as registered in KOSTRA can therefore underestimate capital costs, but it can also give an imprecise picture of the actual variations between the county authorities.

The Ministry also believes that the treatment of capital costs should as far as possible be independent of how the services are organised. The majority of the expert committee point out that this is not currently the case for public transport, since some investments are recognised in the county authorities' accounts while others are recognised in the accounts of public transport companies. However, the majority's proposal to include depreciation for those county authorities that make the investments themselves will not fully solve this problem, because a significant proportion of the public transport companies' capital costs are financed through ticket revenues, among other things.

Moreover, the Ministry notes that the General Purpose Grant Scheme Committee arrived at a different conclusion than the expert committee. The Ministry therefore believes that an overall, joint assessment should, as far as possible, be carried out of the treatment of capital costs for both municipalities and county authorities.

---

[14]Official Norwegian Report (NOU) 2022: 10 *The General Purpose Grant Scheme for municipalities*

How capital costs are treated in the General Purpose Grant Scheme is a key issue when designing the system for the equalisation of expenditure needs. The Ministry agrees with the committee's minority that there is still significant uncertainty about how far the depreciation registered in KOSTRA captures capital costs and variations in these municipalities and between the county authorities. There is also uncertainty about how the form of organisation chosen by the county authorities affects these figures in particular. The county authorities' investment level can also, to a greater extent than the operations level, be the result of local priorities. A more thorough study of this issue should therefore be carried out before including capital costs in the equalisation of expenditure needs. Such a study should jointly assess municipalities and county authorities, and any change in relation to current practice should enter into force at the same time.

4.5.2 The cost matrix for upper secondary education

The Ministry's assessment

In the Ministry's view, the committee has, in a satisfactory and thorough manner, examined factors that can affect the county authorities' expenditure on upper secondary education. The committee has used the same methods as in previous revisions of the cost matrix, and it has carried out new analyses based on more updated figures than those on which the current matrix is based. The Ministry therefore supports the committee's proposal for a new cost matrix for this sector.

As regards input advocating that the expert committee's proposal should take account of extra expenses relating to socioeconomic factors, the Ministry acknowledges that there may be extra expenses relating to groups of pupils at the individual school level. The Ministry nonetheless points out that, in its analyses, the committee has not found socioeconomic variables that help to explain variations in expenditure at the county level. The Ministry therefore endorses the committee's assessment that there are no grounds for including criteria relating to socioeconomic factors in the cost matrix for upper secondary education. The Ministry nevertheless believes that it could be worth looking in more detail at how socioeconomic factors affect the county authorities' finances, and that more detailed analyses should be carried out of this issue in connection with future reviews of the cost matrix.

The Ministry's proposal for a new cost matrix

On this basis, the Ministry proposes that the expert committee's proposal for a new cost matrix for upper secondary education be implemented in the General Purpose Grant Scheme from 2024, as shown in Table 4.13.

Tabell 4.13 The current matrix, and the proposed new cost matrix for upper secondary education

Criterion	Current matrix	Proposed new matrix
Inhabitants 16-18 years	0.7611	0.7539
Applicants to high-cost education programmes	0.1769	0.1572
Applicants for apprenticeships	0.0292	0.0493

Average travel distance to reach 11,000 inhabitants	0.0328	0.0396
Total	1.0000	1.0000

4.5.3 Cost matrix for dental health

The Ministry's assessment

In the Ministry's view, the committee's analyses form a satisfactory basis for considering changes to the cost matrix for dental health. Among other things, the committee has obtained new figures for the average use of resources per patient in the priority user groups. The committee has also carried out statistical analyses in order to establish whether other factors can explain variations in the county authorities' expenditure on dental health, for example distance-related disadvantages.

The Ministry agrees that travel distance should be included as a new criterion in the cost matrix for dental health in order to capture extra costs relating to sparse population and a decentralised clinic structure. The statistical analyses indicate that travel distance is an involuntary cost disadvantage in the dental health context that the county authorities should be compensated for through the system for equalising expenditure needs.

The Ministry also supports the expert committee's assessment that the analyses do not justify including living conditions criteria in the cost matrix for dental health. This is in line with previous analyses by the Ministry.

The Ministry's proposal for a new cost matrix

On this basis, the Ministry proposes that the expert committee's proposal for a new cost matrix for dental health be implemented in the General Purpose Grant Scheme from 2024.

However, the Ministry proposes an adjustment to take account of developments since the committee submitted its report. The committee's proposal was presented before the right to public dental health services was expanded to also include persons aged 23–24 years, and before the patient charge for persons aged 21–24 years was reduced from 50 to 25 per cent of the standard public rates. These changes have consequences for which age groups should be included in the criteria in the dental health cost matrix and for how the criteria are weighted.

In the Ministry's proposal for a new cost matrix for dental health, it is assumed that the use of resources per patient in the age group 21–24 years is the same as in the age group 19–20 years. This results in the new cost matrix as shown in Table 4.14.

Tabell 4.14 The current matrix, and the proposed new cost matrix for dental health.

Criterion	Current matrix	Proposed new matrix
Inhabitants 1-18 years	0.7244	0.6098
Inhabitants 19-20 years	0.0813	

Inhabitants 21-22 years	0.0558	
Inhabitants 19-24 years		0.1430
Inhabitants 67 years and over	0.1135	0.1146
Intellectually disabled persons 18 years and over	0.0250	0.0289
Travel distance to reach 11,000 inhabitants		0.1037
Total	1.0000	1.0000

4.5.4 Cost matrix for public transport

The Ministry's assessment

The Ministry notes that the committee points out two weaknesses in the current cost matrices for public transport. Firstly, the explanatory power of the criteria in the cost matrices for bus and rail transport is weaker in the updated analyses than it was in the analyses conducted before the current matrix was introduced. This means that the current criteria take less account of the variation in costs between county authorities. Secondly, the committee argues that the standard boat costs criterion is not objective, since it is based on the county boat services currently in operation and should therefore be changed.

For several county authorities, there is a relatively big difference between the actual costs of public transport and the estimated necessary expenditure based on the current cost matrix. The differences can to some extent be due to local priorities that should not be compensated for through the cost matrix. However, the discrepancy could also indicate that the current criteria do not satisfactorily take account of some involuntary cost disadvantages.

One of the objectives of the General Purpose Grant Scheme is to ensure that the county authorities are free to prioritise as they see fit within the allotted limits. The requirement that the criteria must be as objective as possible is therefore a fundamental principle of the General Purpose Grant Scheme: If the criteria for the cost matrix are not objective, the county authorities can influence their own revenues through their prioritisations.

In the Ministry's view, criteria that are not objective should therefore only be used when it is not possible to find other alternatives. The expert committee's study shows that, for public transport by bus, rail and boat, it is possible to find criteria that are both objective and more targeted than the current criteria. Based on an overall assessment, the Ministry endorses the committee's alternative model for a joint cost matrix for public transport by bus, rail and boat that, all in all, is somewhat more precise than both today's cost matrix and the expert committee's proposal. The boat and ferry cost matrix will thereby be converted into a matrix for ferries alone based on the sole criterion of standard ferry costs (section 4.5.5).

The Ministry wishes to point out that the average travel distance criterion in the proposal for a joint cost matrix for public transport will also indirectly take account of necessary expenses relating to boat transport. The criterion is calculated based on the distances on all driveable roads. Where there are no roads, for example places that can only be reached by a ferry or boat service, the distances are given extra weighting in order to take account of the fact that the travel time is longer than it would be by road.[15] The average travel time criterion covaries strongly with the length of the coastline and will thereby indirectly take account of necessary expenses relating to boat services. The Ministry therefore believes that the necessary expenses for boats are taken into account in the joint cost matrix for public transport by bus, rail and boat.

The expert committee's analyses focus on two different models for a new cost matrix for public transport, both of which have better statistical explanatory power than the current matrices. Of the two, Model 2 is most in line with the actual expenditure of different county authorities on public transport.

Even though both of the committee's models have much greater explanatory power than the current cost matrix, the two alternatives differ in terms of their effects on different county authorities. Both the models include criteria that take into account that the use of public transport is particularly high in cities and surrounding areas, while sparsely populated areas and long distances result in high costs in rural counties. The model the committee has proposed results in somewhat higher estimated expenditure needs in the largest urban area in particular, while the alternative model results in higher expenditure needs for county authorities where boat expenses constitute a relatively high proportion of the total expenditure on public transport.

The expert committee's proposal for a joint cost matrix for public transport has attracted a lot of attention during the consultation period, especially from counties along the coast. This must be seen in conjunction with the fact that the committee's recommended model will result in a reduction of the general grant for all coastal counties from Rogaland and northwards, with the exception of Finnmark.

The Ministry has also noted that, during the consultation period, clear objections have been raised about how the 'congestion factor' criterion is defined in the committee's proposal. The criterion is based on Statistics Norway's statistics for inhabitants of urban settlements, but it does not take into account that some large towns in the statistics are divided between several urban settlements. This issue does not arise in the alternative model.

The Ministry believes that, all in all, the committee's alternative model for a joint cost matrix for public transport by bus, rail and boat results in the optimal solution that most closely matches the actual expenditure of the different county authorities and forms the best basis for a new cost matrix for public transport. In this assessment, one of the things that has been emphasised is that the alternative, analysis-based model appears to result in a better match between the calculated expenditure needs and the actual total expenditure on public transport by the county authorities (based on accounting figures for the period 2017–2019) than both the committee's recommended model and the current cost matrices.

[15]The travel distance criterion in the General Purpose Grant Scheme is calculated based on Elveg, a nationwide data set that shows all driveable roads and all car ferry services. Unlike car ferries, boat services are not included in Elveg. Where there are no roads, for example places that can only be reached by ferry or boat, the distances are given extra weighting in order to take account of the fact that the travel time is longer than it would be by road. The additional correction is higher for boat services than for car ferries.

The alternative cost matrix is based on a simpler analysis model that uses statistics that are published regularly, where, unlike the congestion factor, the underlying figures require less processing before they can be used as criteria data in the General Purpose Grant Scheme.

Moreover, the Ministry notes that the alternative model appears to be better suited to capturing the expenditure needs relating to the operation of boat services than the committee's proposal. This should be emphasised when the cost matrix no longer includes separate criteria related specifically to the boat services.

The Ministry's proposal for a new cost matrix

The Ministry's proposal for a new cost matrix for bus, rail and boat transport is shown in Table 4.15. The proposal consists of the criteria employed persons and average travel distance. The employed persons criterion is calculated as the average number of employed persons by place of work and place of residence, and not just the place of work as in the current cost matrix. In the same way as the current cost matrix for bus and rail, the employed persons criterion must be rescaled to take account of the expenditure variations between county authorities. The reason why rescaling is necessary is discussed in more detail in section 4.6 of the expert committee's report. The Ministry will evaluate experience of using a joint cost matrix in connection with the next review of the cost matrix for the county authorities.

Tabell 4.15 The Ministry's proposal for a cost matrix for public transport and the criteria for bus, rail and boat transport in the current cost matrices.

Criterion	Current matrix	Proposed new matrix
Employed persons by place of work (scale factor 29 per cent)	0.8744	
Employed persons by place of residence and work (scale factor 37 per cent)		0.7400
Inhabitants, sparsely populated	0.1256	
Travel distance to reach 11,000 inhabitants		0.2600
Total length of coastline	0.5000	
Standard boat costs	0.5000	
Total	2.0000	1.0000

4.5.5 Cost matrix for county road ferries

The Ministry's analyses and assessments

In recent years, low and zero-emission technology has been taken into use on more and more car ferry services. This can impact the county authorities' costs.

The Ministry agrees with the Institute of Transport Economics (TØI) and the expert committee that, in the long term, the ferry criterion should be calculated based on the cost of operating zero-emission ferries. However, as TØI points out, there is still great uncertainty associated with several of the elements included in the cost model. The Ministry therefore supports TØI's and the expert committee's recommendation that the current cost allocation model be retained for the moment.

The Ministry also agrees with TØI and the committee that the model for estimating ticket revenues should be simplified and updated to take account of changes in the fare regulations in recent years. The Ministry has noted, however, that some criticisms have been raised during the consultation process against TØI's proposed model for estimating ticket revenues. Among other things, the model has been criticised for not taking account of the fact that the proportion of vehicles that use discount schemes varies a great deal between ferry services. The variation in the use of discounts may partly be due to the fact that the proportion of travellers who commute daily, and who often use discount schemes, varies between ferry services.

The Ministry also points out that the introduction of the AutoPASS payment system for ferries means that the discount schemes are now more standardised across counties and ferry services. The Ministry therefore believes that the variation in the use of discounts can be viewed as a factor that is to a large extent outside the control of the county authorities, and that should be taken into account when calculating the ferry criterion in the cost matrix.

The Ministry has therefore obtained information from the Norwegian Public Roads Administration in order to assess whether adjustments should be made to TØI's proposed model for estimating ticket revenues. The Ministry's analyses are based on the same method as used by TØI, and they have been carried out as regression analyses with revenues per passenger car unit as the dependent variable. The purpose of the analyses is to find out which factors should be included in a simplified model for estimating ticket revenues per ferry service.

The results of the Ministry's analyses are shown in Table 4.16 together with the results of TØI's model. The Ministry's analyses differ from TØI's model in two ways. Firstly, the proportion of vehicles using a discount scheme is included as a variable in the Ministry's analyses. As expected, the table shows that a high proportion of vehicles with a discount results in lower estimated ticket revenues.

Tabell 4.16 Analysis results from the model for estimating ticket revenues. Regression analysis with revenues per passenger car unit as the dependent variable.

Variable	TØI's model	Ministry's model
Length of return journey	1.435***	1.789***
	(0.087)	(0.114)
Number of ports of call	-5.562***	
	(1.580)	
Share of zero-emission vehicles	-85.654***	-54.472***
	(25.186)	(17.976)

Share with discount		-36.040***
		(6.317)
Intercept	60.609***	59.727***
	(4.311)	(4.070)
Number of units	85	28
Adjusted R^2	0.831	0.917

Standard error in brackets * p > 0.10, ** p < 0.05, *** p<0.01

Source: The results from TØI's model are taken from the report *Revidert modell til beregning av fergekriteriet i inntektssystemet for fylkeskommunene (Revised model for calculating the ferry criterion in the General Purpose Grant Scheme for the county authorities – in Norwegian only)* (Rødseth et al. 2022). The results from the Ministry's model are from analyses carried out by the Ministry on figures from the Norwegian Public Roads Administration's ferry databank.

Secondly, the Ministry's analyses are limited to those ferry services that will still have ticket revenues after the introduction of the free ferries scheme. In 2022 and 2023, the Government has increased the general grant for the county authorities in order to enable ferry services with fewer than 100,000 passengers a year and ferry services to islands and other communities without a road connection to be made free of charge, In 2023, the funding for this scheme has been based on a special allocation as part of the per capita grant. From 2024, the Ministry proposes allocating these funds using an adjusted version of the ferry criterion (cf. Section 4.6.2), in practice by setting ticket revenues from ferry services covered by the scheme to zero when calculating the ferry criterion.

When the funding for free ferries is allocated based on the ferry criterion from 2024, the Ministry believes that the key objective of the income model should be a good estimate of ticket revenues for those ferry services that users will continue to pay for in future. The Ministry has therefore limited the analyses to these ferry services. As a result of this, the variable 'number of ports of call' is not statistically significant in the Ministry's model. This must be seen in conjunction with the fact that most ferry services that call at more than two ferry quays are now included in the free ferry scheme, so that it is no longer necessary to take this into account when calculating ticket revenues. This variable has therefore been excluded from the Ministry's proposed new income model.

The Ministry's income model has somewhat greater statistical explanatory power than TØI's model (cf. Table 4.16), and the Ministry therefore proposes that the ticket revenues that are included in the calculation of the ferry criterion be based on the updated model from and including 2024. The Ministry's proposed model has a small distributional effect compared with the current model, while the annual updating of the ferry criterion will be simpler than at present.

The Ministry's income model is based on traffic figures and ticket revenues for 2022. During the period leading up to the national budget for 2024, the Ministry will assess whether further adjustments of the model are required because of fare reductions that enter into force after 2022.

The Ministry's proposal for a new cost matrix

After the criteria for boat transport are removed from the boat and ferry matrix, the ferry matrix will consist of one criterion: the standard gross costs of ferry operation minus the estimated ticket revenues. The Ministry proposes continuing to calculate the standard gross costs based on the cost model developed by Møreforsking Molde, while the ticket revenues will be calculated based on the Ministry's income model as described above.

4.5.6 The cost matrix for county roads

The Ministry's assessment

The expert committee proposes using the updated model from the Centre for Economic Research (SØF) to calculate the criterion for county roads maintenance needs, since the current model cannot be applied to the new division of counties. The Ministry supports the committee's recommendation and proposes using SØF's model from 2024. Like the committee, the Ministry believes that SØF has carried out thorough analyses, and the proposed model is more robust as regards changes to the county structure.

As regards the criteria for investment funds in the county roads matrix, which are currently maintenance needs and number of inhabitants, the Ministry believes that it cannot be ruled out that the number of inhabitants has some significance. The Ministry therefore supports the committee's recommendation that the number of inhabitants be retained but with lower weighting.

The Ministry's proposal for a new cost matrix

On this basis, the Ministry proposes that the expert committee's proposal for a new cost matrix for county roads be implemented in the General Purpose Grant Scheme from 2024. The new cost matrix for county roads is shown in Table 4.17.

Tabell 4.17 The current matrix, and the proposed new cost matrix for county roads.

Criterion	Current matrix	Proposed new matrix
County road maintenance needs	0.8826	
County road maintenance needs (SØF)		0.9599
Total inhabitants	0.1174	0.0401
Total	1.0000	1.0000

4.5.7 Overall cost matrix

The Ministry's proposal for a new overall cost matrix is shown in Table 4.18. The individual cost matrices will be weighted in the usual way to form an overall cost matrix for 2024 based on the different sectors' share of net operating expenditure on the services that are included in the equalisation of expenditure needs. In addition, the sectors' share of the overall matrix will be adjusted to take account of any changes to assignments in 2024. The changes in the sector shares and any other adjustments will affect the weighting of the different criteria in the final cost matrix for 2024.

Tabell 4.18 The current matrix and the proposed new cost matrix for the county authorities.

Criterion	Weighting in current cost matrix	Weighting in proposed new cost matrix
Inhabitants 1-18 years	0.0331	0.0300
Inhabitants 19-20 years	0.0037	0.0023
Inhabitants 21-22 years	0.0025	0.0016
Inhabitants 67 years and over	0.0052	0.0056
Intellectually disabled persons 18 years and over	0.0011	0.0014
Inhabitants 16-18 years	0.3962	0.3924
Applicants to high-cost education programmes	0.0921	0.0818
Applicants for apprenticeships	0.0152	0.0257
Travel distance to reach 11,000 inhabitants	0.0171	0.0739
Inhabitants, sparsely populated	0.0205	
Employed by place of work, scaled (in excess of 29 per cent)	0.1425	
Employed by place of residence and work, scaled (in excess of 37 per cent)		0.1381
Standard ferry costs	0.0506	0.0506
Total coastline	0.0118	
Standard boat costs	0.0118	
County road maintenance needs	0.1735	0.1887
Total population	0.0231	0.0079
Total	1.0000	1.0000

The Ministry wishes to point out that the cost matrix in the table has not yet been adjusted for changes made in 2023 to the age groups with a right to expanded public dental health services, and the adjustments to the patient charges for persons aged 21–24 years (cf. Section 4.5.3). The adjustments will be made in the final calculations of the general grant for 2024.

The weighting of the standard ferry costs will be increased when the funding for free ferries is reallocated from Table C to the cost matrix. This is not included in the table above, but the effect of the reallocation is included in the Ministry's estimate of the distributional effects in Section 4.7.

4.6 The Ministry's proposal for other changes

4.6.1 Tax and income equalisation

The Ministry believes that the county authorities should retain more of the tax revenues generated locally, at the same as the goal of equitable service provision calls for a high degree of tax income equalisation. The Ministry does not propose any changes in income equalisation for the county authorities at the present time. How tax revenues have developed in and between county authorities over time and the degree of income equalisation could be a topic for further analyses and assessments.

4.6.2 Cases subject to special allocation

As a rule, free revenues should be allocated based on the ordinary criteria in the General Purpose Grant Scheme, i.e. based on the cost matrix or per capita. The special allocation in Table C is a temporary exception from this rule.

The Ministry agrees with the committee that a review is needed of the use of special allocations in the General Purpose Grant Scheme. In the Ministry's view, however, the Table C cases related to county roads and funding for zero-emission ferries should be assessed in connection with the next national transport plan and the work on introducing zero-emission requirements for all ferry services. The Ministry therefore proposes keeping these cases in Table C in 2024.

Moreover, the Ministry proposes that the funding for *Jobbsjansen* (Job Chance) Part B (NOK 104 million), the administration of grants for agriculture (NOK 9 million) and the current compensation scheme for changes to the General Purpose Grant Scheme in 2020 (NOK 335 million) be removed from Table C and reallocated based on the ordinary criteria in the general grant scheme from 2024, which is in line with the committee's proposal. The goal of Job Chance Part B is to increase the completion rate among immigrant youth in upper secondary education. Measures aimed at increasing the completion rate must be regarded as an integral part of the county authorities' responsibility for upper secondary education. Furthermore, the administration of grants is a task that falls under the category ordinary operations, and the amount involved is marginal. Both cases, moreover, involve tasks carried out by most or all of the county authorities.

As described in Section 4.5.5, the Ministry also proposes that the funding for free ferries be allocated based on an adjusted version of the ferry criterion from 2024. This will ensure that the funding for a general reduction of fares and free ferries will be allocated based on the same principles.

The Ministry plans to transfer funding for regional policy grants to an earmarked scheme in the Ministry of Local Government and Regional Development's budget from 2024. During the period leading up to the national budget for 2024, the Government will consider the expert committee's proposal to transfer funding for non-state-owned airports to an earmarked scheme in the Ministry of Transport's budget.

No changes are proposed in the other Table C cases at the present time.

4.6.3 Regional policy grants and discretionary grants

Northern Norway county grant

The Ministry supports the committee's assessment that separate regional policy grants for county authorities in Northern Norway are still needed.

The Ministry proposes that the Northern Norway county grant be awarded at the same per capita rate to the three northernmost county authorities from 2024, based on the rate that applied in Troms county in 2019. This means an identical rate for the Northern Norway county grant of NOK 1,533 per capita (in 2023 kroner). The rate for Finnmark is thereby reduced by NOK 561 per capita compared with the rate in 2019, while the rate for Nordland is increased by NOK 187 per capita (price-corrected to 2023 kroner). The total amount of the Northern Norway county grant will thereby remain unchanged.

Discretionary grant

The Ministry also proposes that the general grant part of the discretionary grant be discontinued and that the funds be transferred to the per capita grant.

A central contingency reserve will still be needed for unforeseen events that can arise during the year. As discussed in Chapter 5, it is proposed to merge the contingency reserve for the county authorities with the contingency reserve for the municipalities.

4.6.4 Compensation and transitional scheme

The county authorities' free revenues are used to finance important welfare services that should not vary too much from year to year. The Ministry therefore believes that schemes should be introduced to safeguard the county authorities against a sudden drop in revenues when the new General Purpose Grant Scheme enters into force in 2024. The Ministry therefore proposes both a new compensation scheme to safeguard the county authorities that see the biggest reduction in the general grant as a result of the overall changes, and a transitional scheme that gradually phases in the distributional effects over a period of four years.

Arguments can be made against permanent compensation schemes because they counteract the effect of intended changes to the General Purpose Grant Scheme. Because of the importance of predictable framework conditions and because a series of major and minor system changes have been made to the General Purpose Grant Scheme in recent years, the Ministry nonetheless believes that a new compensation scheme should be introduced to partly shield the county authorities that lose most per capita because of the changes to the system.

It is proposed to discontinue the current compensation scheme for changes made to the General Purpose Grant Scheme in 2020. Instead, a new compensation scheme is introduced in order to safeguard the county authorities that lose most per capita as a result of the new changes in 2024. The Ministry proposes designing the new scheme so that county authorities that lose more than NOK 100 per capita due to the overall changes will be compensated for 50 per cent of their loss in excess of NOK 100 per capita.

In the estimate of the distributional effects of the new General Purpose Grant Scheme, the new compensation scheme is financed by an equal amount per capita from county authorities that gain more than NOK 10 million as a result of the overall system changes. The scheme will thereby be revenue-neutral. The limit of NOK 10 million must be reconsidered and, if necessary, adjusted based on the final distributional effects in the national budget for 2024.

The Ministry proposes that the new compensation scheme – both its financing and the additional compensation – will remain at the same nominal level until the next overall review of the General Purpose Grant Scheme. The scheme is estimated to cost NOK 129 million.

The Ministry also proposes that the overall distributional effects, including the effect of the new compensation scheme, be gradually phased in over a transitional period of four years, in line with the committee's proposal.

The compensation and transitional scheme will ensure that the overall distributional effects will be small in 2024. The Government also proposes increasing the county authorities' free revenues, and thus their freedom of action, to NOK 300 million next year. Taking this increase into consideration, no county authority will see a reduction in free revenues, according to preliminary estimates (cf. Table 4.19).

4.7 Estimated distributional effects

Table 4.19 shows estimates of the total distributional effects of the Ministry's proposed changes to the General Purpose Grant Scheme. The estimates are largely based on figures from the General Purpose Grant Scheme for 2023.

The first two columns show an estimate of the effect of the overall system changes, before the effect of the new compensation scheme is included. The new compensation, including its financing, is shown in columns 3 and 4, and the total distributional effects including the new compensation are shown in columns 5 – 7. Column 7 shows the distributional effects as a percentage of free revenues in 2023, as estimated in the Green Book. For county authorities that will be demerged, the free revenues in 2023 are divided based on the different parts' share of the total cost matrix.

Columns 8 and 9 show an estimate of the effect in the first year, including both the compensation and transitional schemes. Columns 10 and 11 show an estimate of the effect in the first year, including an increase of NOK 300 million in the free revenues. The estimate assumes that the increase will be in the form of an equal amount per capita.

Tabell 4.19 Estimate of distributional effects of changes to the General Purpose Grant Scheme.

	Tot. distr. effect before comp.		Comp. incl. financ.		Tot. distr. effect incl. comp.			Effect first year with trans. scheme		Effect first year with increase	
	NOK mill.	*NOK per capita*	*NOK mill.*	*NOK per capita*	*NOK mill.*	*NOK per capita*	*Perc. of free rev.*	*NOK mill.*	*NOK per capita*	*NOK mill.*	*NOK per capita*
County authority	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*

Østfold	-15	-50	0	0	-15	-50	-0.4%	-4	-12	13	43
Akershus	19	26	-41	-58	-22	-31	-0.3%	-6	-8	33	47
Oslo	-196	-278	63	89	-133	-189	-1.5%	-33	-47	5	8
Innlandet	165	443	-22	-58	143	385	2.5%	36	96	56	151
Buskerud	73	275	-15	-58	58	217	1.6%	14	54	29	109
Vestfold	-55	-219	15	59	-40	-159	-1.2%	-10	-40	4	15
Telemark	-3	-16	0	0	-3	-16	-0.1%	-1	-4	9	51
Agder	-1	-3	0	0	-1	-3	0.0%	0	-1	17	54
Rogaland	-152	-310	51	105	-100	-205	-1.4%	-25	-51	2	4
Vestland	80	124	-37	-58	43	66	0.4%	11	17	46	72
Møre og Romsdal	8	32	0	0	8	32	0.2%	2	8	17	63
Trøndelag	-47	-100	0	0	-47	-100	-0.6%	-12	-25	14	30
Nordland	2	9	0	0	2	9	0.0%	1	2	14	57
Troms	18	108	-10	-58	8	51	0.2%	2	13	11	68
Finnmark	104	1,408	-4	-58	100	1,350	4.9%	25	337	29	392
Total	0	0	0	0	0	0	0.0%	0	0	300	55

The distributional effects are mainly based on the same underlying figures as those used in the General Purpose Grant Scheme for 2023, calculated on the basis of the new division of counties. For the applicants criteria in upper secondary education and the criterion county road maintenance needs, it has not been possible to calculate updated figures based on the new division of counties. These criteria constitute a relatively large share of the overall cost matrix.

The changes to criteria data, sector weightings and the size of the overall estimated expenditure needs and other factors mean that the final distributional effects, as they will be calculated in the national budget for 2024, will change. Since the General Purpose Grant Scheme is used to redistribute a large total sum between few entities, even small changes in the underlying figures will lead to changes of a certain magnitude in the distributional effects.

4.8 Inclusion of funding for free ferries in the ferry replacement scheme

A ferry replacement project entails building a bridge or subsea tunnel that either replaces or shortens a ferry crossing. Through the ferry replacement scheme, the county authorities can part-finance such road projects using funds they would have been allocated for the ferry service through the general grant. The scheme is run jointly by the Ministry of transport and the Ministry of Local Government and Regional Development, and, pursuant to the guidelines for the scheme, the ferry replacement funds will be subject to special allocation in Table C.

The ferry replacement funds are calculated as the net effect in the General Purpose Grant Scheme when a ferry crossing is replaced or shortened by a new road. The county authority will receive a reduced grant under the ferry criterion in the cost matrix, and an increased grant under the county road criterion. The annual amount of the ferry replacement funds is calculated as the net effect of these changes.

The ferry replacement funds are disbursed from and including the budget year after a ferry crossing is replaced or shortened. The annual amount of ferry replacement funds is disbursed until the county authority has had its nominal construction costs and up to 50 per cent of its estimated interest expenses covered, but for a maximum period of 45 years. Compensation for VAT and any financing from road tolls is deducted from the construction costs when calculating interest expenses and the length of the disbursement period. The annual ferry replacement amount is index-regulated by 2.5% a year from the year the decision was made and throughout the disbursement period.

The Ministry does not propose making any changes to the ferry replacement scheme for 2024, but the proposal to include funding for free ferries in the ferry criterion will nonetheless affect the calculation of ferry replacement funds (cf. Section 4.5.5). The funds allocated in Table C, such as the funding for free ferries, are not included when calculating the ferry replacement funds. The special allocation system is intended to be a temporary scheme, and the funds allocated for a short period in Table C should therefore not be included in long-term commitments covered by the ferry replacement scheme.

As a result of the Ministry's proposal to allocate the funding for free ferries through an adjusted ferry criterion, these funds will also be included in the basis for calculating ferry replacement funds. In practice, this will entail a further strengthening of the ferry replacement scheme.