

The Danish Local Government Reform¹

Preamble

On 1 January 2007, the Danish Local Government Reform came into force. The reform is the largest overall reform of the public sector in a generation. The reform has created a new map of Denmark. 98 municipalities replaced the previous 271. 13 counties were abolished and five regions were created. The larger and more sustainable municipalities are now responsible for most of the welfare tasks. And the new regions are established primarily to strengthen health care and hospital services.

This paper gives a brief description of the background for the reform. Additionally the paper contains an overview of the new map of Denmark and of the distribution of tasks in the public sector. Finally the paper is looking into the consequences of the reform concerning public finances and local democracy.

1. Creation of the local government reform

The previous reform of local government structure in Denmark was implemented in 1970. In the following years, the public sector gradually became more decentralised.

The reform in 1970 created a basis for continuous transfer of tasks to counties and municipalities and a concurrent restructuring of the financial system between the state, counties and municipalities. Previously, the state mainly financed local government expenditure through reimbursements. After the local government reform in 1970, a major part of the reimbursements schemes were replaced by general state grants – the so-called block grants and financial equalisation schemes between the rich and the poor municipalities were expanded. These changes provided a better correlation between the decision competence and the financial responsibility of municipalities and counties as they were in charge of the funds to finance any services that the municipal council or the county council decided.

After 1970, ongoing deliberations and activities took place to adapt the structure of the public sector to new demands and problems arising as a

¹ This paper is primarily based upon the publication "The Local Government Reform – in brief", Ministry of Interior and Health, 2006, http://www.im.dk/publikationer/government_reform_in_brief/ren.htm

result of the development of the welfare society and the increased decentralisation.

The local government reform takes shape

On the basis of an increasing debate on the structure of the public sector, the government established a Commission on Administrative Structure in October 2002. The commission was charged with the task of assessing *“advantages and disadvantages of alternative models for the structure of the public sector and on this basis to make recommendations for changes that would remain sustainable for a number of years”*

In January 2004, the Commission on Administrative Structure concluded that a reform of the structure of the public sector was required (cf. Box 1.) The conclusion was partly based on the fact that the size of the counties and municipalities was insufficient for proper task performance and partly that the distribution of tasks in the public sector in various areas was inappropriate.

Box 1. The Deliberations and Recommendations of the Commission on Administrative Structure

“It is the Commission’s overall assessment that there is a need for a reform of the structure of the public sector.

The weaknesses of the current structure are partly the size of the municipalities and counties and partly the distribution of tasks between the state, counties and municipalities.

- A major part of the current administrative units are too small considering the performance required by the legislators today.
- In a number of areas it is difficult to ensure a consistent and coordinated effort. The problem is mainly based on the fact that responsibility for some tasks has been divided between several decentralised administrative units. The result is a risk of “grey zones”.
- In some areas there are problems due to parallel functions/tasks in several administrative units. This makes it more difficult for the administrative units to coordinate and prioritise task performance and to improve efficiency and quality.

The Commission recommends a total reform of the public sector, including a change of boundaries and transfer of tasks between the state, counties and municipalities.

(Excerpt from the Recommendation of the Commission on Administrative Structure)

After the publication of the recommendations, the government submitted the recommendation of the Commission for a public hearing. Almost 500 organisations, counties, municipalities, associations and individuals made use of this opportunity.

On the basis of the analysis of the Commission and the hearing of the recommendation the Danish government and the Danish People's Party reached an agreement on a reform in summer 2004 (cf. Box 2).

The structural reform contained the criteria for a new division of municipalities and regions and a new distribution of tasks between municipalities, regions and the state. Finally, the agreement included a decision regarding a financing and equalisation reform.

Box 2 The Purpose of the Local Government Reform

“The purpose of the reform is to maintain and develop a democratically governed public sector with a sound basis for continued development of the Danish welfare society.

Therefore, the decentralised public sector, which is a distinctive Danish feature, needs to be designed in such a way that it can meet future requirements by creating sustainable units with a clear responsibility to provide high quality welfare service to the Danish population.

Larger municipalities can provide the basis for improved task solution where more welfare tasks are solved locally and democracy will be strengthened as more political decisions are made locally.”

(Excerpt from the Agreement on a Structural Reform).

2. A new map of Denmark

A minimum size for the new municipalities was set at 20,000 inhabitants. Municipalities with less than 20,000 inhabitants should therefore merge into new, larger municipalities with at least 20,000 inhabitants. Alternatively, they could enter into a (voluntary) binding partnership with neighbouring municipalities. Such a partnership should be based on a population of at least 30,000 inhabitants.

When drawing the new map of Denmark, special allowances were made for island municipalities that were given the option to enter into a binding partnership with a municipality on the mainland to be able to meet the new requirements regarding size.

A locally anchored process

In the summer of 2004, all the municipalities were asked to provide information before 1 January 2005 on how they planned to ensure that the municipality in future would live up to the requirements regarding sustainability (size).

During the autumn of 2004, concrete negotiations regarding mergers of municipalities took place all over the country. Some municipalities were large enough to continue independently. Nevertheless, several of these municipalities chose to merge with one or more neighbouring municipalities. Other municipalities were too small and had to merge or enter into partnerships with one or more neighbouring municipalities.

In January 2005, all the municipalities in Denmark had submitted their feedback to the Ministry of the Interior and Health. Only four of the 271 municipalities did not meet the requirements stipulated in the Agreement on a Structural Reform.

Agreement on the map of municipalities

On the basis of the feedback from the municipalities, the Minister for the Interior and Health initiated negotiations with the conciliation parties (the Liberal Party, the Conservative Party and the Danish People's Party) as well as the Social Democratic Party and the Danish Social-Liberal Party at the end of February 2005 regarding the new map of Denmark.

These negotiations resulted in a broad political agreement on the new map of Denmark. The parties accepted most of the requests submitted regarding the new municipalities. However, due to strong citizen requests, local referendums were held in 12 of the "old" municipalities regarding affiliation before approval of the planned merger of municipalities.

The parliament adopted the legislative basis for the map in June 2005 as part of the legislation for the reform. At the same time, the new municipalities submitted proposals for new names and the number of municipal council members in the new municipalities. On 23 June 2005 the new map of Denmark with 98 municipalities was completed (see figure 1 and box 3).

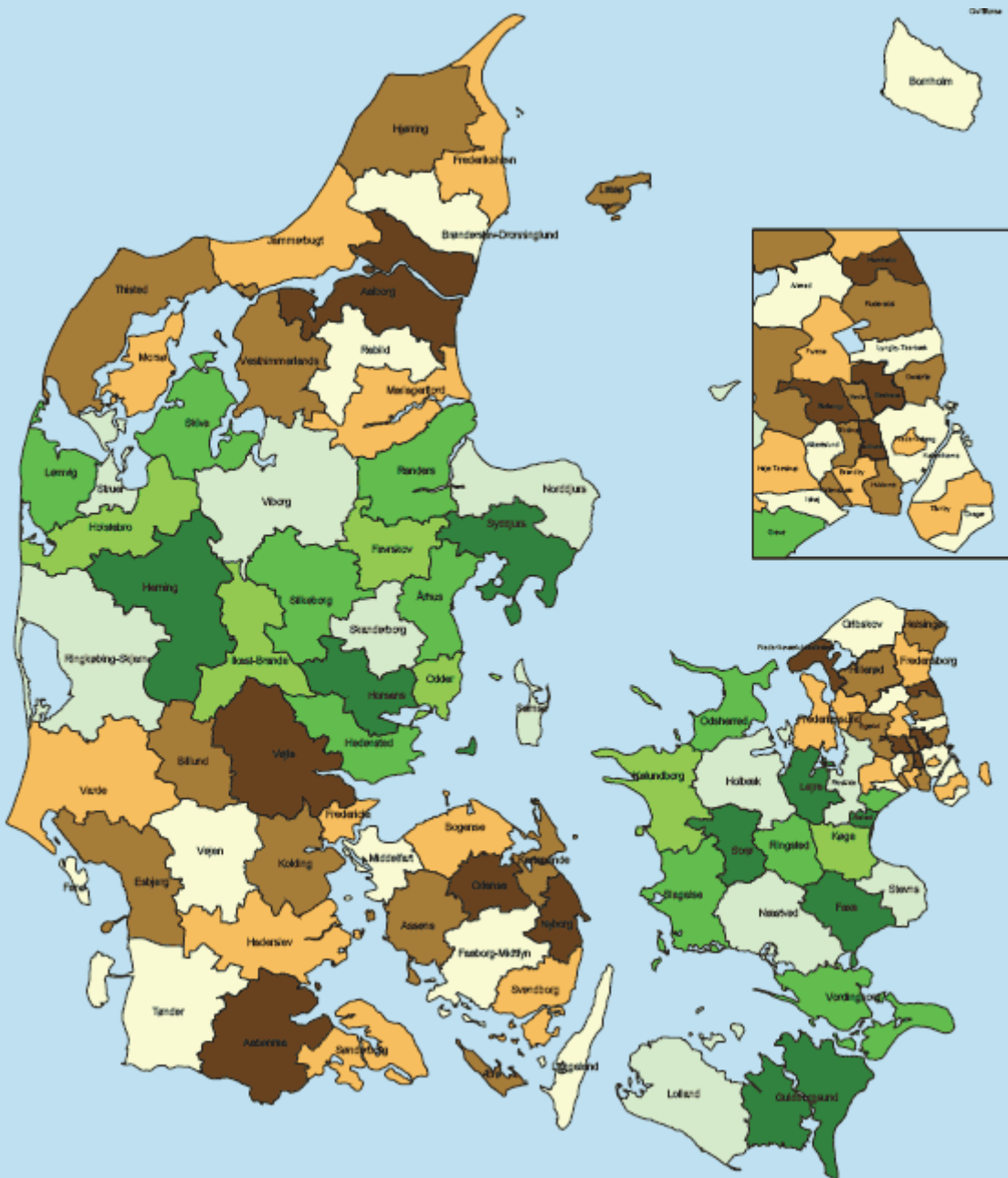
Integration and preparation committees in 2006

In order to ensure proper preparation of the merger of municipalities, the councils in the merged municipalities were elected already on 15 November 2005, and acted as integration committees in 2006.

It was the responsibility of these committees to prepare the merger of municipalities, i.e. make decisions on the administration, service level, budget, tax level etc. of the merged municipality. Already prior to the local government election in November 2005, the municipalities made a major effort in preparing the merger, but the final decisions were made by the integration committees elected in November 2005.

In order to ensure continued operation in the municipalities included in mergers, the tenure of the council in these municipalities was be prolonged by one year until the end of 2006.

Figure 1: The new map



Note: Boundary adjustments due to local referendums are indicated on the map. See Executive Order 656 of 29 June 2005 on revision of the local and regional division and on binding partnerships for more detailed information about the new boundaries. Number of inhabitants as per 1 January 2005. See Appendix 3 regarding population in the municipalities.

Box 3 The New Map of Denmark

The new map of Denmark with 98 municipalities was then created from:

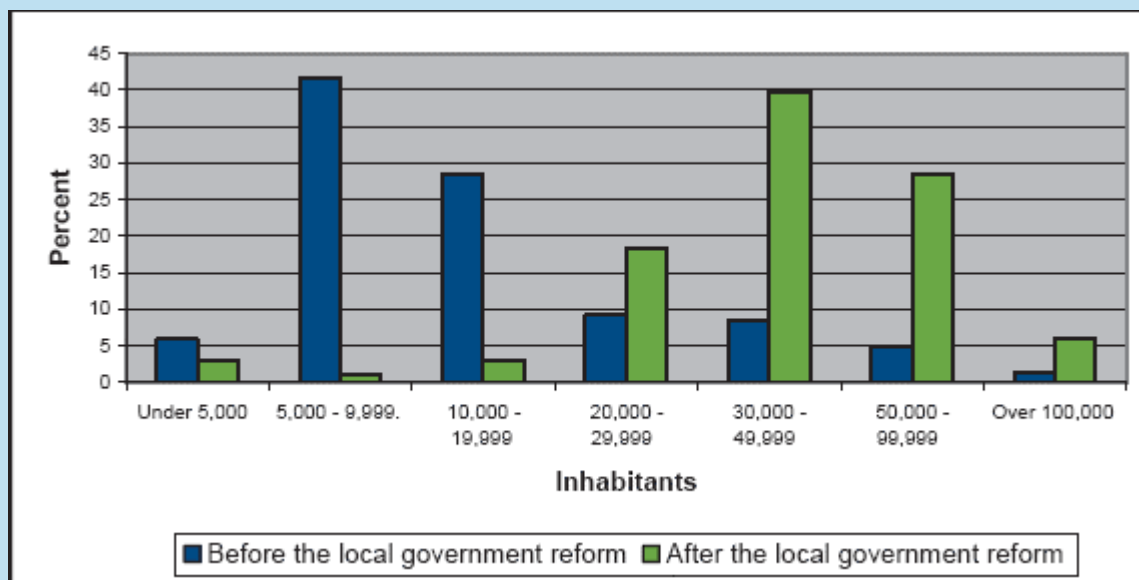
- 65 merged municipalities
- 33 unchanged municipalities. Seven of these municipalities have less than 20,000 inhabitants and therefore, they all enter into binding partnerships. Five of the seven municipalities are islands.
- 11 municipalities were divided as a result of local referendums

Municipalities before and after the local government reform

The municipalities after the local government reform are significantly larger than the municipalities before the reform. Before the local government reform, 206 municipalities (out of 271) had less than 20,000 inhabitants, but after the reform only 7 municipalities (out of 98) have less than 20,000 inhabitants. The population of the average municipality increases from just under 20,000 inhabitants before the reform to approx. 55,000 inhabitants after the local government reform.

Figure 2 illustrates municipalities grouped by population before and after the local government reform.

Figure 2 Distribution of Municipalities by Population



Source: Statistics Denmark, number of inhabitants as per 1 January 2005.

As shown in figure 2, most of the municipalities before the local government reform had 5,000-9,999 inhabitants (42%) followed by the group with 10,000-19,999 inhabitants (28%). After the local government

reform, most municipalities have 30,000-49,999 inhabitants (40%) followed by the group with 50,000-99,999 (29%).

Size of municipalities in Europe

A comparison of the population in municipalities in selected European countries shows that there are major differences, cf. *Table 2.1*. Like Sweden, Denmark has no municipalities with less than 1,000 inhabitants. However, more than half of the Spanish municipalities and more than 75% of the French municipalities have less than 1.000 inhabitants.

Table 1 Population in Municipalities in Selected European Countries

	Under 1,000	1,000- 5,000	5,001- 10,000	10,001- 50,000	50,001- 100,000	Over- 100,000		
	Per cent						Total	Average size
Denmark 2005	0	5.9	41.7	46.1	4.8	1.5	271	19,900
Denmark 2007 ¹	0	3.1	1	61.2	28.6	6.1	98	55,200
Finland	5.1	46.3	25	20.4	1.8	1.4	432	12,100
France	76	19	2.7	2.1	0.2	0.1	36,565	1,600
The Nether- lands	0.2	2.1	12.6	71.3	8.4	5.6	467	34,900
Italy	24.2	47.1	14.6	12.4	1.2	0.0	8,101	7,200
Norway	5.3	50.3	21	20.6	1.6	1.2	433	10,500
Spain	60.7	24.3	6.6	6.8	0.9	0.7	8,109	5,300
Sweden	0	4.5	21	59.7	10.7	4.1	290	31,100

Note.:¹) Municipalities with 1-5,000 and 5-10,000 inhabitants are islands and municipalities entering into binding partnerships

Source: Denmark: Statistics Denmark. Population as per 1 January 2005; Finland: Statistics Finland. Data from 2004. France: Ministère de L'intérieur. DGCL. "Les collectivités locales en chiffres 2004". Data from 1999. The Netherlands: Statistics Netherlands. Data from 2005. Italy: Istat. Data from 2004. Norway: Statistisk Sentralbyrå. Data from 2005. Spain: Instituto Nacional de Estadística. Data from 2004. Sweden: Statistiska Centralbyrån. Data from 2005.

In the majority of the countries, there are less than 10,000 inhabitants in more than 50% of the municipalities. In Sweden, the proportion of municipalities with less than 10,000 inhabitants is somewhat lower (approx.

25%) and in the Netherlands there are less than 10.000 inhabitants in approx. 15% of the municipalities. After 2007, Denmark differs from the other countries in that only approx. 4% of the municipalities will have less than 10,000 inhabitants.

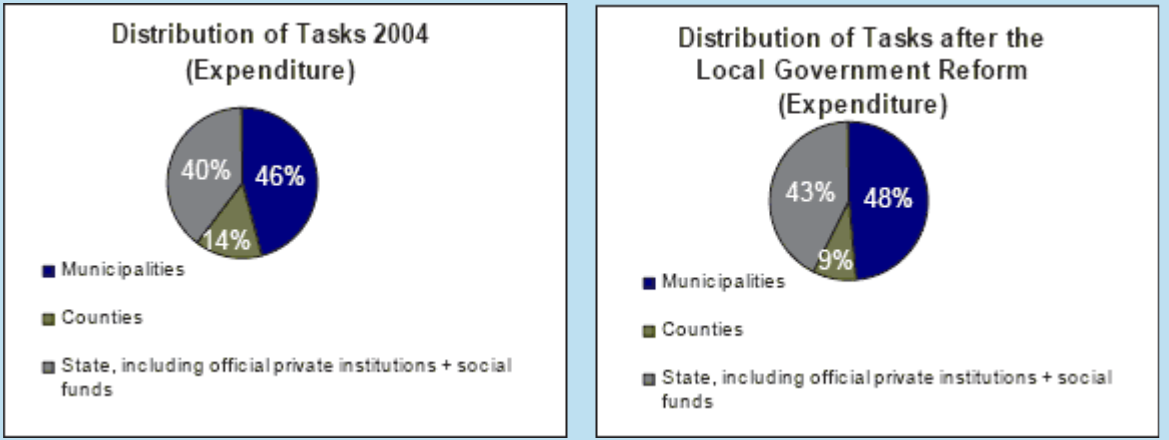
The size of the five regions

The five new regions have between 0.6 and 1.6 million inhabitants.

3. New distribution of tasks in the public sector

The Danish Local Government Reform also resulted in a comprehensive reorganisation of tasks in the public sector. The tasks of the former counties were distributed between regions, municipalities and the state. Furthermore, some tasks were transferred between the state and the municipalities. Figure 2 shows the distribution of tasks (distribution of expenditure) between the state, counties/regions and the municipalities before and after the reform.

Figure 3 Distribution of Tasks between the State, Counties/Regions and Municipalities before and after the Local Government Reform



Note: The distribution of tasks after the local government reform is to some extent based on estimates, including estimates of the amount of regional tasks within the area of social services and special education.

The figure shows that the municipalities’ share of public tasks (measured on expenditure) increases after the local government reform. However, the regional share of tasks is falling.

Municipalities as the citizens access point to the public sector

Already before the local government reform, the municipalities had undertaken a major part of the citizen-related service tasks such as care of

the elderly, child care, primary school and a number of social services. When the local government reform came into force on 1 January 2007, the municipalities were assigned a number of new tasks within the following areas:

- Health care
- Employment
- Social services
- Special education
- Business service
- Collective transport and roads
- Nature, environment and planning
- Culture
- Citizens Service Centre

As a consequence of the assignment of citizens related service tasks the municipalities has establish citizen service centres so that citizens only have to go to one place regardless of which public authority or administration has the final responsibility for case handling. In these citizen service centres the municipality solves local tasks as well as tasks on behalf of other authorities.

When applying for a passport or a driving licence, citizens are able to submit a photo and an application to the municipality where the documents will be paid for and subsequently delivered. However, production and authority regarding the issue of passports and driving licences still lie with the police.

Box 4 Responsibilities of the Municipalities after 1 January 2007:

- Social services: Total responsibility for financing, supply and authority
- Child care
- Primary school, including any special education and special pedagogical assistance for small children
- Special education for adults
- Care for the elderly
- Health care: Preventive treatment, care and rehabilitation that do not take place during hospitalisation, treatment of alcohol and drug abuse, home care, local dental care, special dental care and social psychiatry
- Activation and employment projects for the unemployed without insurance in job centres run jointly with the state (10 pilot municipalities undertake the task for the unemployed with insurance on behalf of the state)
- Integration and language education for immigrants
- Citizen service regarding taxation and collection in cooperation with state tax centres

- Supplies and emergency preparedness
- Nature, environment and planning: E.g. specific authority and citizen related tasks, preparation of local plans and plans regarding waste water, waste and water supply
- Local business service and promotion of tourism
- Participation in regional transport companies
- The local road network
- Libraries, schools of music, local sports facilities and culture

Regions

The main responsibility of the regions is health care. This task involves responsibility for the hospital service, including psychiatry and health insurance, general practitioners and specialists, etc.

The purpose of establishing five regions within the health care sector is to support the quality of patient care by exploiting the advantages of specialisation and ensuring the best possible utilisation of resources. The regions' expenditure within the health care sector will be financed through a block grant, a state activity pool and local co-financing.

In addition, the regions are also responsible for regional development, operation of a number of social institutions and for the establishment of transport companies and certain regional tasks regarding nature, environment and physical planning.

Legislation delimits the responsibilities of the regions positively, i.e. the regions will not be able to undertake tasks other than those mentioned in the legislation.

Box 5 Responsibilities of the Regions after 1 January 2007:

- Hospital service, including hospitals, psychiatry and health insurance as well as general practitioners and specialists
- Regional development plans and secretarial service for regional growth fora.
- Soil pollution
- Raw material mapping and planning
- Operation of a number of institutions for exposed groups and groups with special needs for social services and special education
- Establishment of transport companies throughout Denmark

State

The state generally undertakes those tasks where delegation to municipalities and regions would be inappropriate. This applies to the police, the defence, the legal system, the foreign service and Official Development Assistance, further education and research.

4. Public Economy after the Local Government Reform

For the municipalities, the local government reform implies extra resources to finance the new tasks as the reform was implemented on the basis of the principle that funds follow the task. A financing and equalisation reform adjusted the equalisation system to the new distribution of tasks and the new local map to ensure an adequate balance between rich and poor municipalities.

Regions are partly financed by the municipalities and partly by the state. A novelty is that the municipalities are co-financing health care. When considering the new local health care tasks (preventive treatment, care and rehabilitation) the municipalities will acquire a more important role within health care. The purpose is to encourage the municipalities to initiate efficient preventive measures for their citizens.

In total the municipalities constitute approx. 10% of total financing of health care in the regions.

With the local government reform the number of taxation levels was reduced from three to two and as the regions, as opposed to the counties, cannot impose taxes.

In order to ensure that the local government reform did not lead to inappropriate changes in the distribution of the cost burden between the municipalities, a reform of the grant and equalisation system that took into consideration the new distribution of tasks and the new division of municipalities was introduced in 2006 (see box 6).

Box 6 The Equalisation System

There are major variations in the tax base of Danish municipalities which often have a very different demography and social structure. If each municipality were to finance its own expenditure, the service level and tax burden of the municipalities would therefore vary considerably.

The purpose of the equalisation system is to ensure that the same service level involves the same tax percentage regardless of the income of the inhabitants and any demographic factors.

A simplified version is that the grant and equalisation system means that money is transferred from the rich municipalities to the less affluent ones. Equalisation is not total – only part of the difference between rich and poor municipalities is equalised.

Funds follow the tasks

The parties behind the reform agreed that the reform should not result in higher taxes or increased public expenditure. Changes in distribution of tasks was based on the principle that the reform should be neutral when it comes to expenditure and the funds follow the tasks. This should ensure that the authorities taking on new tasks would be compensated by the authorities giving up the tasks.

The fact that the Local Government Reform, in general, should be neutral in terms of expenditure did not mean that there were no costs involved in merging municipalities and creating new regions. But the municipalities had to bear the costs of the mergers. However they can keep whatever they gain from the economy of scale. In this way the local government reform encourages the municipalities to keep costs down and also to gain as many benefits from the synergy effect as possible.

5. Local Democracy

It is a central goal of the Local Government Reform to strengthen local democracy in Denmark. cf. Box 7.

Box 7 Strengthening democracy

Democracy will be strengthened as more political decisions are made locally. Efforts should be made to expand democracy so that the citizens can be more actively involved in the decisions. The municipalities of the future should find new ways to involve citizens and users in local decisions.”

(Excerpt from the Agreement on a Structural Reform)

As mentioned above, it is a central element in the Local Government Reform that the municipalities become bigger and are assigned more of the central health care tasks. Larger municipalities imply that the distance to the town hall will increase for some citizens and that the number of members of the municipal council will be reduced. But it also means that more tasks will be located in the municipalities and that local politicians will have more responsibility.

Furthermore, larger and more sustainable municipalities makes it easier to conduct state government based on establishment of goals, framework and performance requirements rather than meticulous control, cf. box 8.

Box 8 Government by Goals and Framework – more Latitude to find Local Solutions

In the agreement on local finances for 2006 the government and Local Government Denmark (LGDK) agreed "that state government of municipalities should be based on the local government reform strengthening the role of the municipalities and providing increased local sustainability. Therefore, government should be based on goals and framework and documentation of goal attainment rather than on meticulous control".

Another element of the local government reform which contribute to strengthening local democracy is a clearer distribution of responsibility. As described one of the objectives of the local government reform is to create clarity and unambiguity as to who is responsible for which tasks. The "grey zones" between the different levels of government can to a large extent be eliminated by correlated tasks being solved by the same authority. This increases transparency and thereby the citizens' ability to hold the politicians responsible for their actions.