

The Local Government Reform in Denmark

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Agenda

1. Characteristics of the Danish welfare state

Assertion # 1: The Scandinavian welfare model fits in with a decentralized political and economic model.

2. The Danish model of decentralization to municipalities

Assertion # 2: Denmark has developed a decentralization model with a high degree of policy integration between the state and the municipalities.

3. The local government reform in 2007

Assertion # 3: The reform was a natural extension of the Danish decentralization model.



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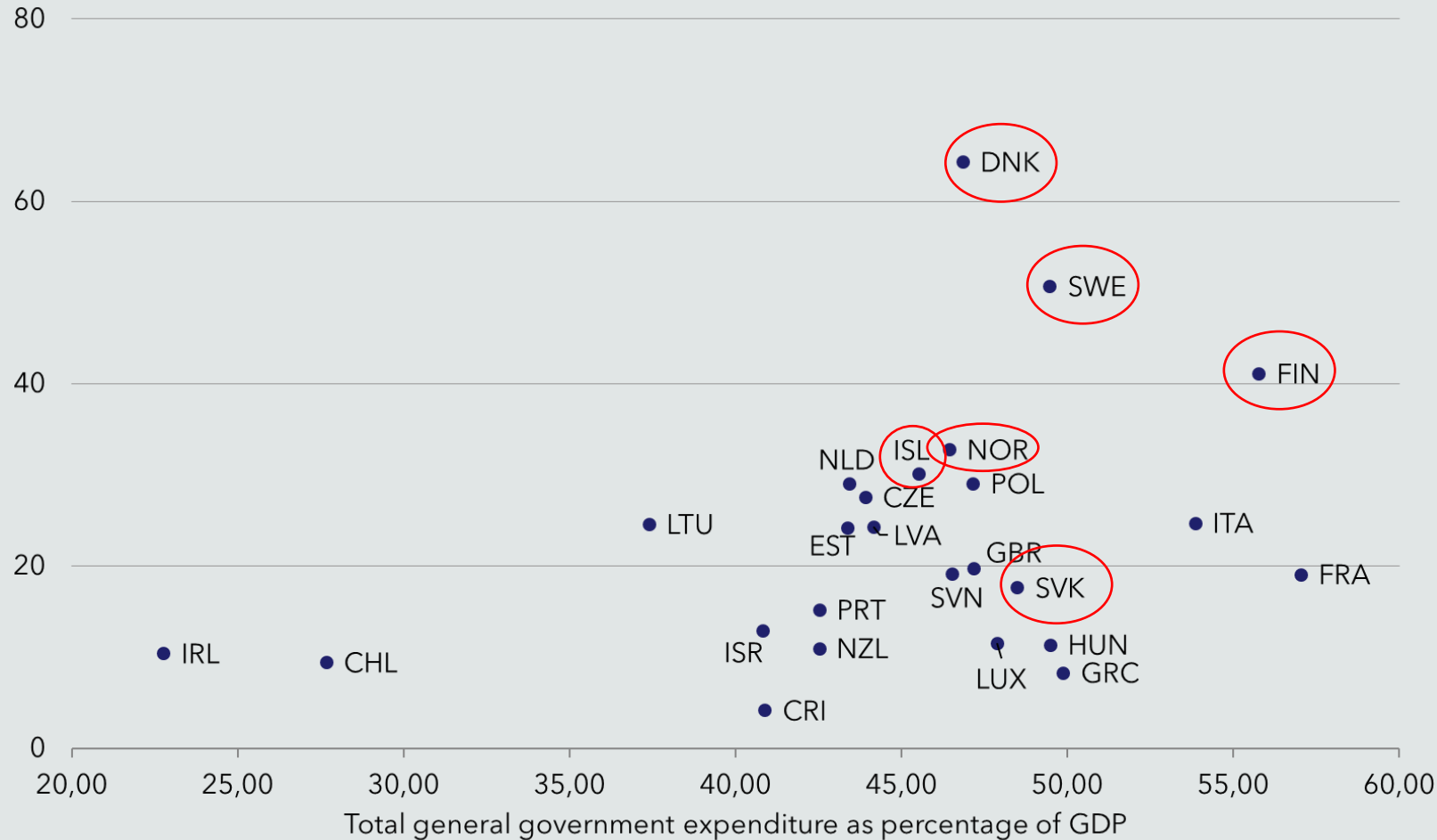
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Government size and decentralization of government expenditure

Local government expenditure as percentage of total general government expenditure

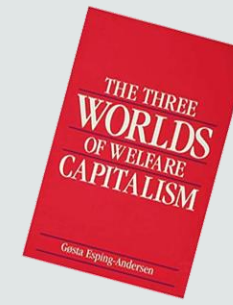


Source: Own calculations based on OECD data

Note: 2023-data for all countries except Chile and New Zealand (2022-data).

The Local Government Reform in Denmark

Three welfare models



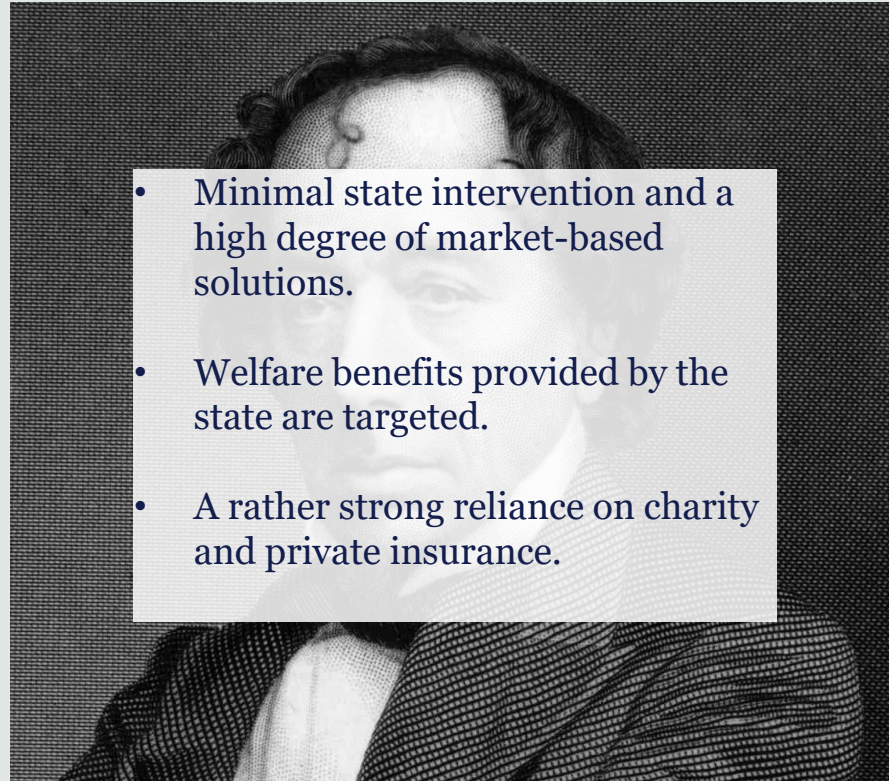
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The Continental Conservative model (social insurance)



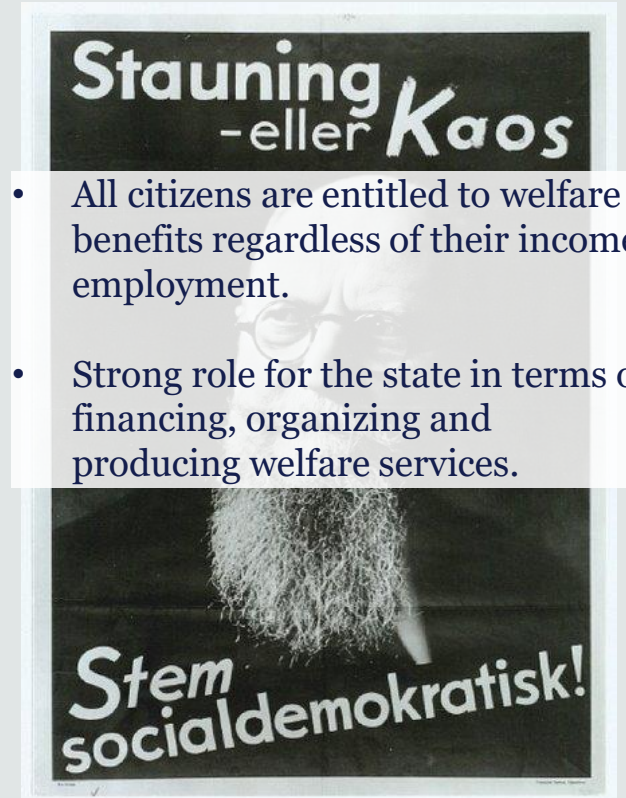
- Benefits often tied to the labor market and financed through contributions from employers and employees.
- Strong role for the state, but also for private and voluntary organizations.
- Social insurance is a central part of the model.

The Anglo-Saxon Liberal model (residual)



- Minimal state intervention and a high degree of market-based solutions.
- Welfare benefits provided by the state are targeted.
- A rather strong reliance on charity and private insurance.

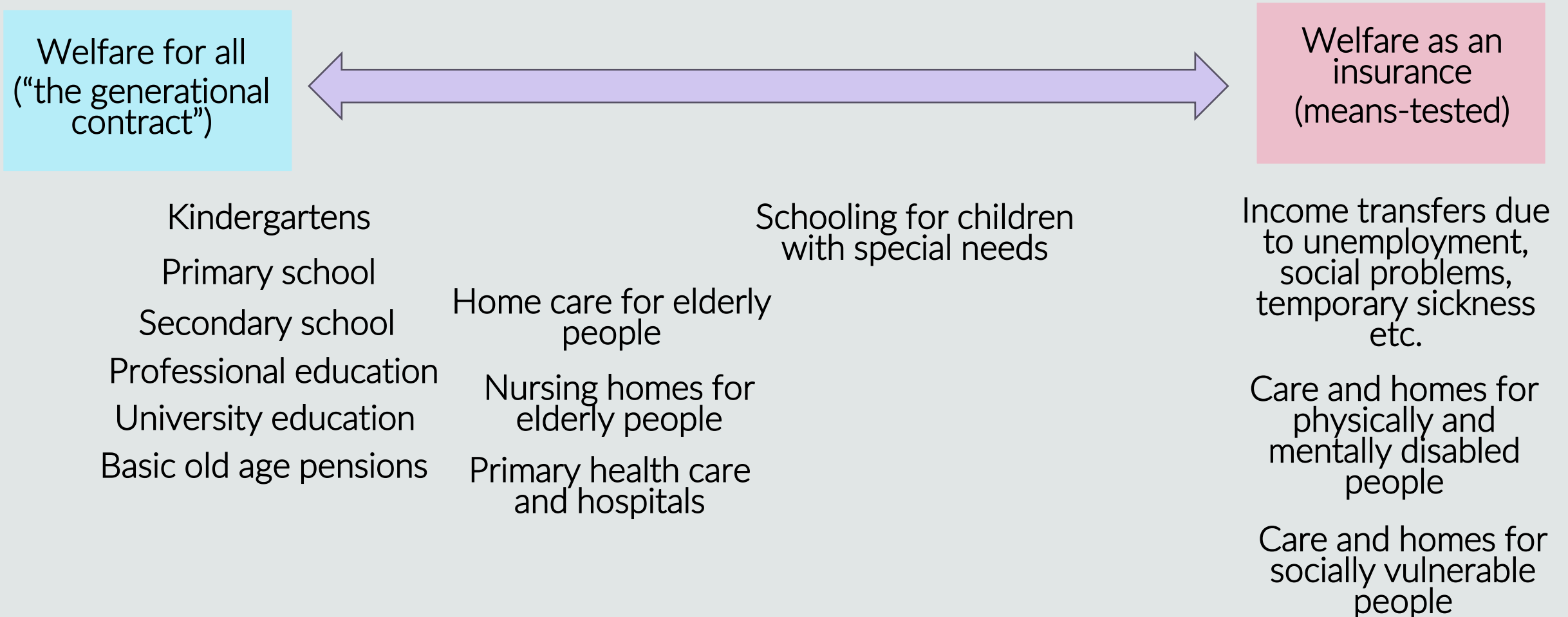
The Nordic Social Democratic model (universal)



- All citizens are entitled to welfare benefits regardless of their income or employment.
- Strong role for the state in terms of financing, organizing and producing welfare services.

The two pillars of the universal welfare state

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Eight good reasons to decentralize



The Social Reform Commission's recommendation in 1969:

The municipalities should be given a "positive incentive" for expansion and rehabilitative measures, but at the same time a "negative incentive" through municipal participation in the financing of disability pensions and social cash benefits.

Administrative arguments:

- A simple and effective organizational approach
- One entrance to the welfare state for citizens

Economic arguments:

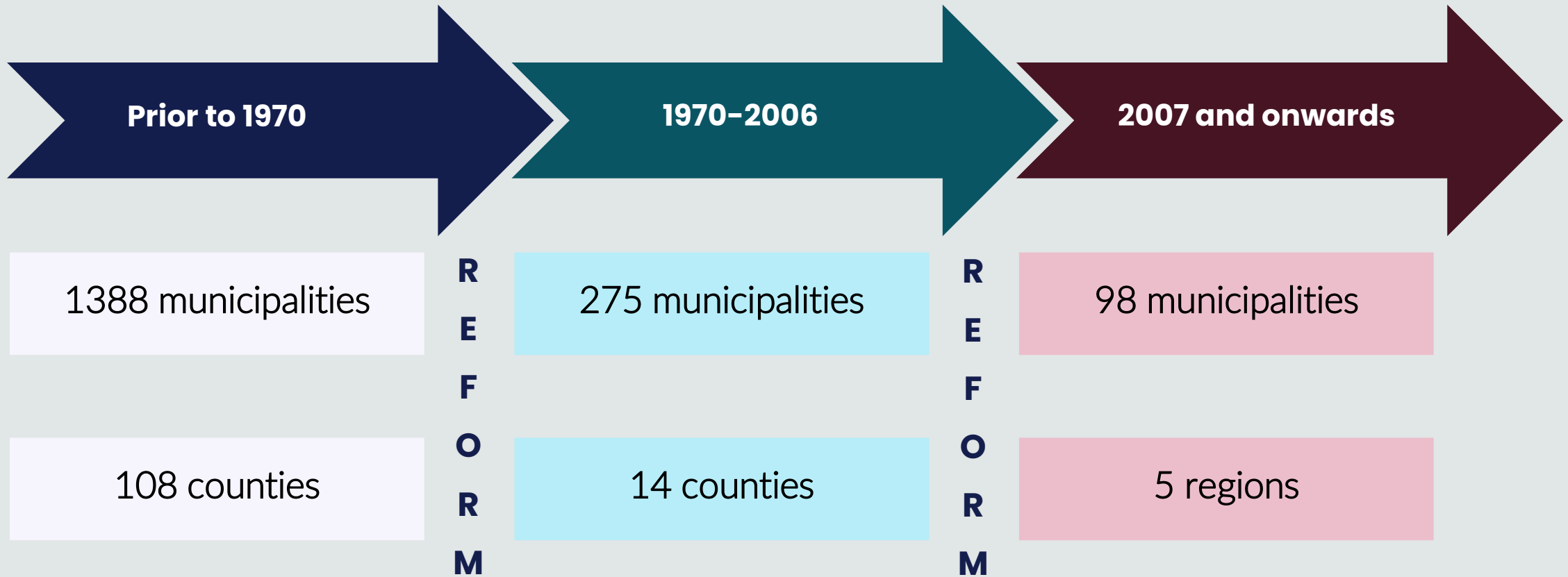
- Makes it possible to adapt taxes and public services to local needs and wishes
- Allows for competition and learning between decentralized units => innovation
- Provides an opportunity to increase financial responsibility

Democratic arguments:

- Strengthens political participation
- Strengthens voters' ability to hold politicians accountable
- Strengthens political attention to local, geographically defined problems

Changes in system of local governments

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Local autonomy within a national framework

Economic national goals

- Economic stability
- The overall public consumption
- The overall level of taxation

Political national goals

- Overall quality of welfare services (education, health etc.)
- Environmental standards
- Active employment policy
- Etc.



What is the system of mutual agreement?

- **The agreement system** entails that agreements are negotiated and entered into between the government and KL on the overall finances of the municipalities as well as a number of other themes.
- **The purpose** is to combine local considerations of autonomy and flexibility with overall considerations of national goals such as overall cost management.



The annual economic negotiations

- **Economy**
- Service expenditures
- Level of investments
- Financing (governments grants, loans etc.)
- Tax

Politics

- Signals in the policy sectors – e.g. the social area
- Cross-cutting themes – e.g. on handling corona or debureaucratisation

The Local Government Reform in Denmark

From the municipalities' point of view

- Local Governments can influence the municipal financial framework
- The negotiation system with collective agreement compliance provides greater freedom for the individual municipality in the organization of the task solution
- Influence at the central government's policy – both in terms of local degrees of freedom, but also national policy goals
- Opportunity to discuss developments in the major public sector areas annually

From the central government's point of view

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- Limiting expenditure growth
- Delegate responsibility for unpopular decisions
- The government can – if it dares – reduce the overall expenditure and leave the hard work to the municipal politicians
- Can make it easier to implement decisions that the parliament would otherwise have difficulty implementing

Vertical Policy Integration in DK –

International research indicates that a high level of VPI limits policy accumulation and increases government effectiveness!



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October 2002

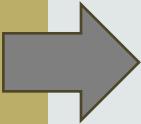
Commission on administrative structure



- Ongoing debate about:
 - Units being too small considering the performance required by legislation
 - Grey Zones: Tasks divided between units
 - Growing central mistrust: Recentralization and regulation
 - New government in 2001 (a structural reform was not mentioned in the government program).
 - The summer of 2002: “Danish Industry” initiated a debate on the need to modernize the hospital system
- => The government seized the moment and set up a commission

January 2004

This argument was used in particular in connection with the hospital sector

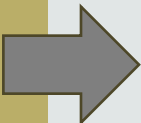


Commission on Administrative Structure - Recommendations

Larger municipal and regional units to ensure:

- Professional sustainability
- Utilize economies of scale

This argument was used in particular in connection with to the municipal sector



Change in distribution of tasks to ensure:

- Coherence in task solution and responsibility
- Coordinated offers for citizens– termination of grey zones
- One entrance to the public sector – easy access for the citizens

April 2004

Government program - "The New Denmark"

- **Combined "Broad municipality model" and "State model"**
 - Municipalities: The majority of welfare state tasks
 - 5 regions with a single task = Health care
 - State: National/regional coordination and highly specialized institutions
- **Consistent "Citizens in focus"**
 - The Municipality: "One entrance to the public sector"
 - Task performance closer to the citizens
 - Avoidance of unclear division of responsibilities

June 2004

– A narrow majority agrees on a new division of tasks

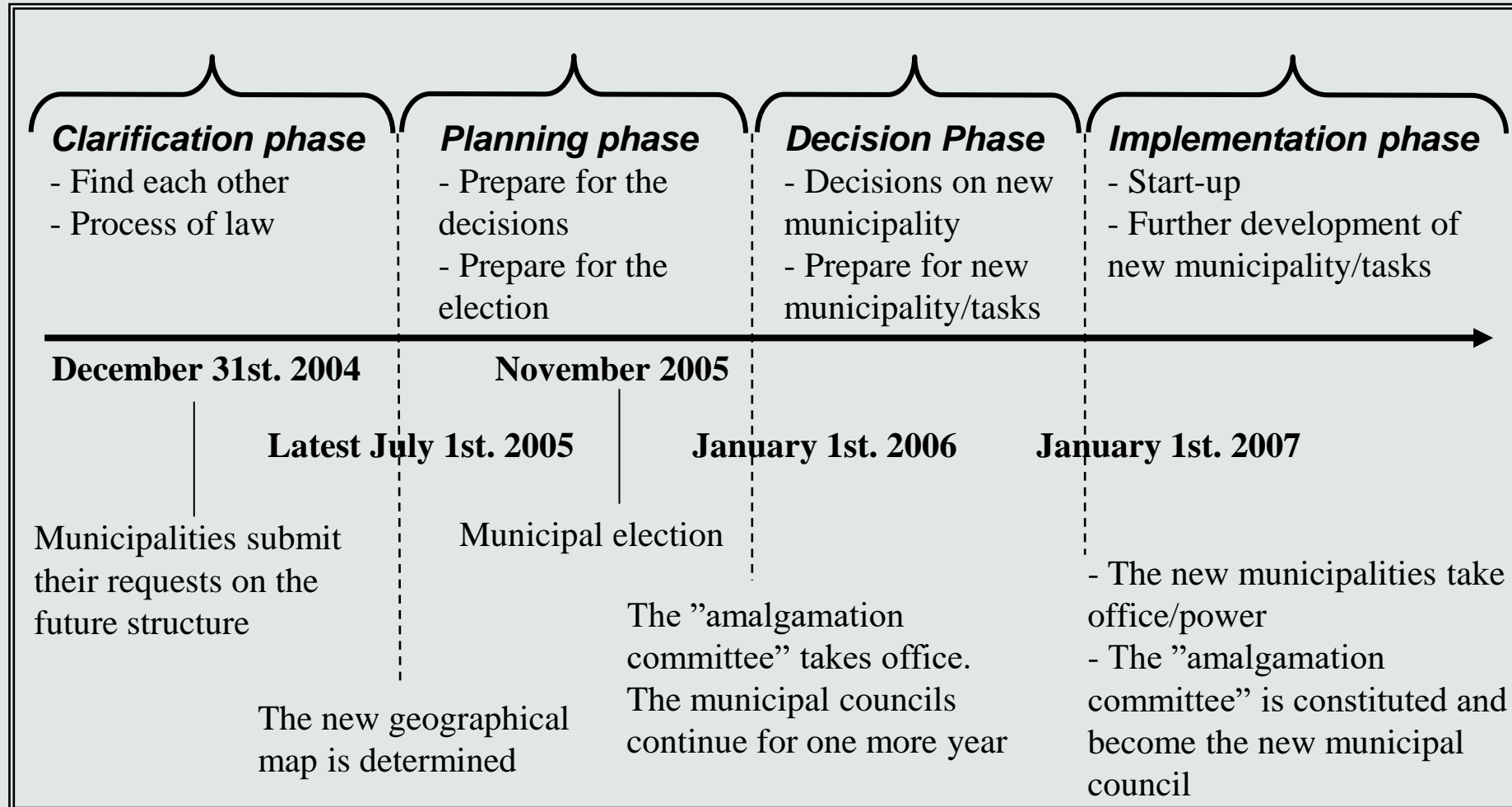
- **The 5 new regions**
- Hospitals/public health (primary tasks)
- Regional development
- Soil solution
- Operate specialized social institutions
- Establishing transport companies

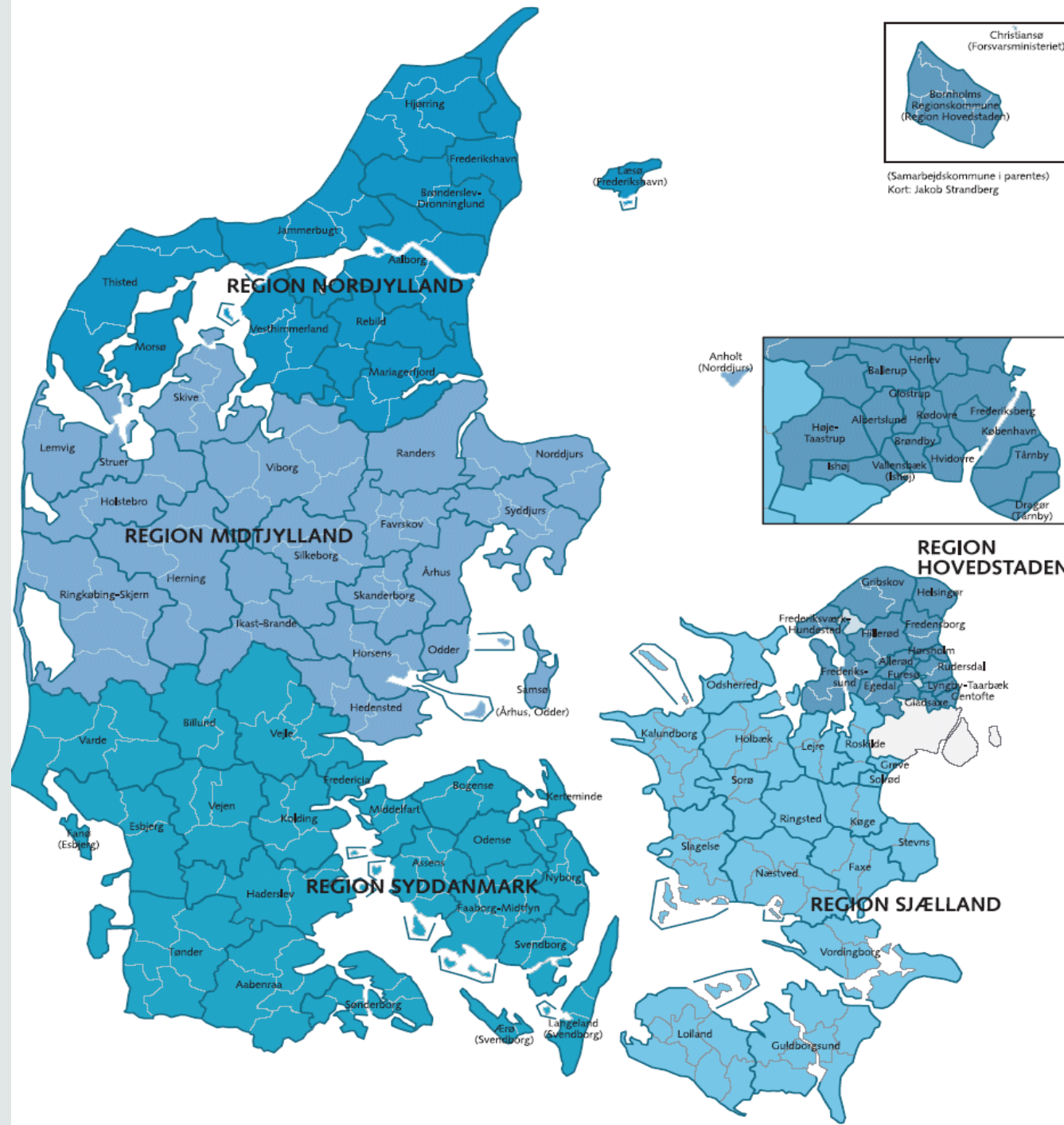
The new municipalities (>20.000 inhabitants)

Areas with extended responsibility :

- Employment
- Health services
- Environment and nature
- Planning
- Enterprise policy
- Social welfare
- Special education
- Roads
- Passport and drivers license

Main phases and the administrative-territorial reform





- **98 new municipalities:**

66 mergers

32 municipalities continue

- 7 less than 20,000 inhab. –
enter into binding partnership

- **Political discussions**

Majority approved without
conditions

Referendums in 24
municipalities

8 supplementary decisions

3 forced mergers

Key challenges for Local Authorities

1. Simultaneous introduction of new tasks and structures (e.g. service level)
2. Politicians versus administration versus citizens
3. Project management and election campaign
4. Reliable operation versus development versus broad ownership
5. Speed and consideration
6. Communication – employees, citizens, media etc.

KL's support regarding implementation of the reform

- Task force and one entrance – The Secretariat of structural reform
- Material on KL's website: process guide, theme guides, articles etc.
- Courses, conferences etc.
- Support to networks and exchange of information between local governments
- FAQ on the associations' homepage
- 1:1 consultancy assistance

The first 100 days

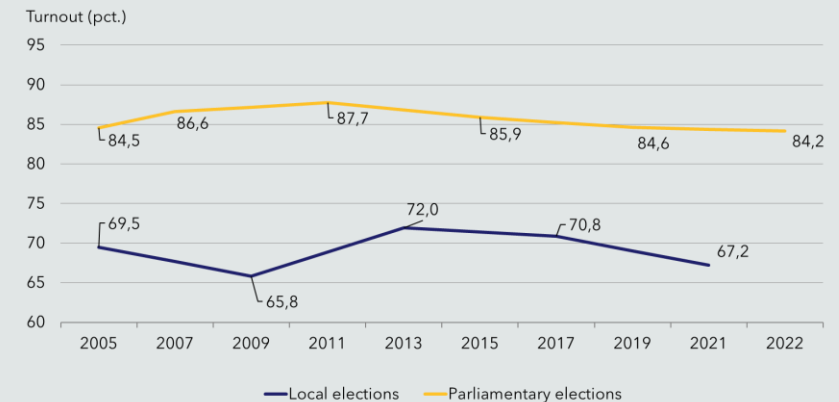
- Relatively uncomplicated

Although:

- Blurred budget situation
 - Service harmonization
 - Uncertainties about health care finance
 - Increase in rehabilitation services
- Tiredness amongst the employees

In the longer run

- Capacity to manage the economy has increased
- Economies of scale regarding administration and maintenance of roads has been realized
- No valid conclusions can be drawn regarding the quality of welfare services:
 - Difficult to measure
 - Local economic conditions changed quite dramatically after 2011
- Local democracy



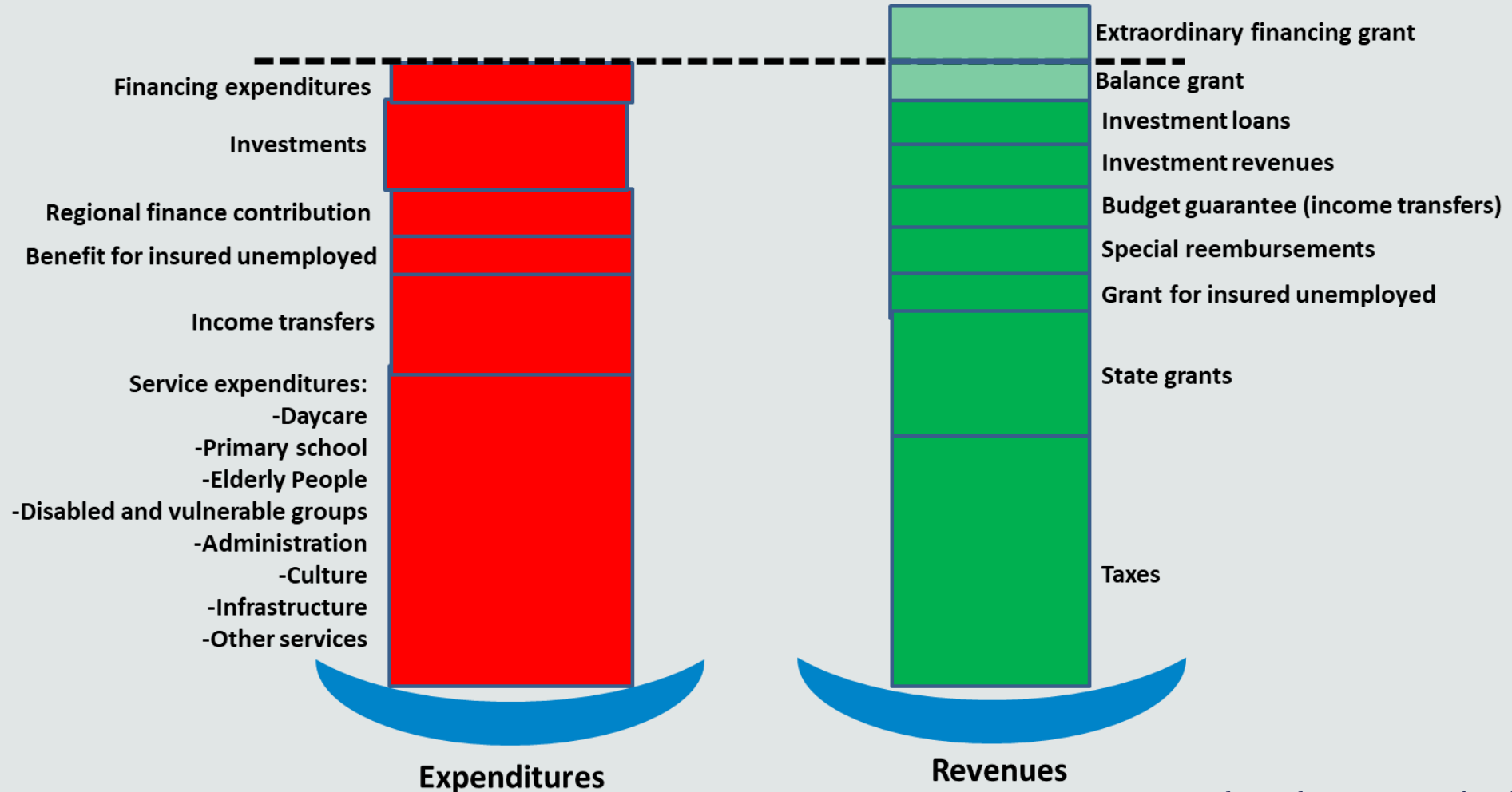
Thank you for your
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Extra slides

The Total Balance Principle – a means to protect municipalities from economic cycles

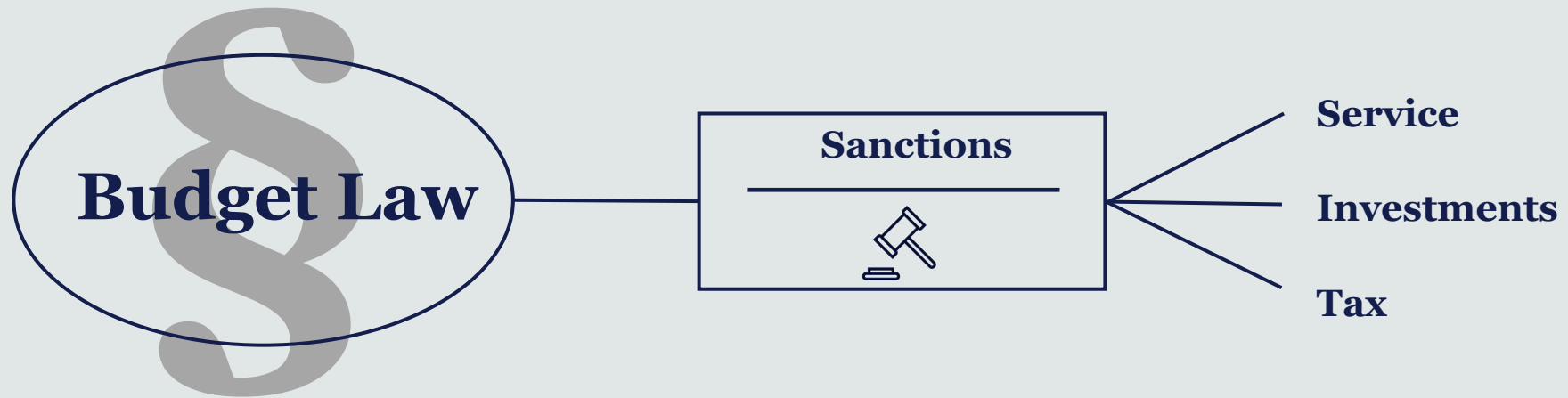


The Expanded Total Balance Principle

“The Expanded Total Balance Principle (DUT) means that in the event of a change in the distribution of expenditure or tasks between the state, the municipalities and the regions, as well as in the event of changes in the binding state regulation of the municipalities' and regions' activities, the general state subsidy (the block grant) to municipalities and regions must be adjusted for the financial consequences thereof.” (Section 1.1 of the Expanded Total Balance Principle (DUT) Guidance)

The Expanded Total Balance Principle was introduced by Act No. 211 of 16 May 1984.

The Budget Law



After having signed the agreement

The joint municipal budget coordination:

- A binding cooperation process between the municipalities with regard to comply with the financial framework of the financial agreement
- Means that the municipalities gradually adjust their budgets taking into account a national forecast

The joint municipal budget coordination 2023

