

The Danish System – Reflections for English local government

Purpose of report

To review what could be learnt from the Danish system to inform the LGA's work on the future direction of local government in England, and also to consider what other learning from international local government can support our current and future lobbying work.

Summary

The January 2013 Leadership Board meeting requested a discussion paper exploring the lessons which can be drawn from the Danish local government model for community budgets.

The following paper that is before Executive will also be considered by the LGA Leadership Board on 13 March.

Recommendations

Members are invited to:

1. discuss ways in which the LGA can draw learning from Denmark for our policy and lobbying work; and
2. provide a steer on how we can integrate learning from other local government systems to enhance our work.

Action

Officers to take forward Members' suggestions and recommendations.

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Background

1. Leadership Board of 9 January 2013 asked for a report on the experience of local authority budgeting in other countries. In particular, it showed an interest in the Danish system, prompted by a visit there by Cllr Marianne Overton as part of the LGA's leadership development programme.
2. This report sets out the Danish context and approach to local authority budgets and invites comparisons with the Community Budgets process in England as requested by Cllr Overton. It also seeks the Leadership Board's observations and considers how such comparisons involving a wider range of countries can inform the LGA's work on a New Model for Local Government, which was considered by Councillors Forum and the Leadership Board in March.
3. The analysis below is intended as a strategic overview to prompt discussion rather than as an in-depth analysis. A range of sources are provided at the end of the report for further reading.

Overview of the Danish system

4. Denmark has a population of just over 5.5 million. The two main cities are Copenhagen (0.5 million) and Aarhus (0.3 million). The Danish public sector system was subject to wholesale reform in 2007. It is arranged into five regions and 98 unitary municipalities. The arrangements are not strictly hierarchical but divide government into a number of spheres of activity. The Constitution states that there must be 'municipalities', but does not detail how they should be organised.
5. With the exception of Copenhagen City and Aarhus, most municipalities are small, averaging around a population of 56,000, with 25 having populations of less than 30,000. This is compared to an average English District Council population of 120,000. However they have a much higher gross budget than English councils because of the wide range of responsibilities set out below.

Functions

6. Danish local government acts as the single entry point for citizens to access public services, and it is empowered to devise and deliver these without reference to, or interference from, central government. It has a far wider range of responsibilities than in England, including:

6.1 *Education and Culture*: primary education; leisure and cultural activities; and public libraries.

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6.2 *Environment, Planning and Public Utilities*: town and country planning; local and regional roads; construction permits and building inspections; waste management; water supply and waste water; environmental control; district heating; gas; and electricity.

6.3 *Children and adult social care, welfare and health*: elderly care institutions/homes including home care; childcare; primary healthcare; social assistance/support to families and individuals; social security benefits and job creation; and training of some of the unemployed.

7. Acute healthcare is commissioned by municipalities and there are a range of initiatives under way to reduce time to discharge and thus the cost. This includes municipalities commissioning their own pre-discharge units because they are less expensive than acute care beds.
8. Standard welfare benefits, including pensions, housing benefits, maternity pay and child benefit have been reviewed, and from Autumn 2012 will be delivered to five regional benefits centres financed by the municipalities.
9. Central government is responsible for: economic policy; food control; foreign and security policy; higher education; hospitals (split with regions – see below); the judicial and penal system; postal authorities; tax and customs; and transport (railways, national highways).
10. Danish regions are responsible for economic development, hospitals, public transport, and strategic planning. They cannot levy taxes and have no independent source of finance. Regions are financed by a central government grant and by municipalities when their residents are hospitalised.

Local government system

11. Local political arrangements are based on a proportional representation (PR) list system covering the whole municipality rather than wards, and the executive Mayor is elected by the council. There are generally fewer elected members, with 75 per cent of municipalities having between 21 and 31. As a result of the PR system coalition administrations are the norm both at national and local levels. Regional elections are held simultaneously with municipal elections. Turnout for Danish local government election has since 1970 been stable, with an average of 70 per cent.
12. There is considerable co-operation between municipalities which includes brokering major infrastructure projects and work on business processes. The lead membership body is Local Government Denmark (LGDK), which has a parallel role to that of the LGA, with the important addition of a role in Denmark's *System of Budgetary Cooperation*.

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Central- local relations and finance

13. Public sector expenditure is linked to responsibility of functions. In 2011, Danish local government accounted for 47 per cent of public spend (the remainder comprises 30 per cent state, 22 per cent regions).
14. Danish municipalities raise 60 per cent of their revenue from local taxes (mainly income tax), and a further 14 per cent from charges for services. They are dependent upon central government for only 27 per cent of their funding (12 per cent reimbursements for social expenditure and 13 per cent block grant including an equalisation equation). In England, the financial situation is reversed.
15. Central government and LGDK, acting on behalf of all municipalities, negotiates local government expenditure limits annually. LGDK then works with individual authorities to determine individual spending plans within this overall total. The process, operating under the “Extended Total Balance Principle” has been in place for twenty five years. It covers changes in general grant to compensate local government for the financial impact of policy changes. The process differs in two respects from the “new burdens principle” applied in England. Firstly, local government is not merely a consultee; local government representatives negotiate directly with spending ministries, with the Treasury acting as an umpire and intermediary if agreement cannot be reached. Secondly, the process can see adjustments to the grants made in subsequent years if initial estimates turn out to be incorrect and of significant magnitude.
16. While decentralisation has given municipalities greater functions, central government has simultaneously become more interventionist, imposing tighter performance management and penalties in return for local government’s functional and financial autonomy. This means a LGDK keeps an overview of local plans to avoid penalties on municipalities.

Comparison with England’s emerging local government model

17. While the usual caveat about comparative research applies i.e. models cannot be straightforwardly compared or simply transplanted, the Danish example provides considerable support to arguments for greater devolution. A 2009 LGA commissioned report on international comparisons of local government ‘*With a Little Help From Our Friends*’, characterised Denmark as a ‘high spending, high self-sufficiency’ model, in contrast to our ‘high spending, low self-sufficiency’ model.

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18. Comparisons with the Danish system provide some important pointers for all of the key themes set out in the New Model and will inform the LGA's work going forward:
 - 18.1 Growth.
 - 18.2 Good social services.
 - 18.3 Welfare reform.
 - 18.4 Funding.
 - 18.5 Independent Local Government.

19. It is clear that Denmark has a very strong local state, which gives municipalities a great deal of independence with equal amounts of responsibility, both for individual municipalities but also LGDK. The relationship is one of negotiation.

20. However, while drawing comparisons about the Danish model, it is worth noting that Denmark is in a rather different economic situation (it is not cutting public spending and has no real deficit problem), public spending accounts for 57 per cent of GDP, and it does not appear to as significant a range of regional economic disparity than in England. The public sector structure is affordable because Denmark has taxes and spending about 10 and 15 per cent of GDP higher, respectively, than the UK. The negotiating role of LGDK is therefore relatively easier than it could be here.

21. In effect the Danish system embodies in its structure many of the aims of the whole place community budget framework. However, it differs in fundamental respects. In Denmark the whole budget for an area is with the municipality, and does not operate in a system with a range of agencies. By comparison, in England, while pooling budgets and resources might have been an aspiration and might yet be a target, practical difficulties with a pooling approach led the pilots towards planning an alignment of resources to deliver their improvements. Also in England, rather than funding/powers being embedded in any one council as in Denmark, the pilots have shown the effectiveness of councils working together in partnership with other public service providers (i.e. London Tri-Borough – three councils; Essex – fifteen councils; and Greater Manchester – ten councils).

Next steps

22. It is suggested we draw learning from international local government more systematically to help inform all of our current and future lobbying work suggested in paragraph 18. This can be done through existing links with LGAs worldwide i.e. CEMR (European LGA) which brings together 40 LGAs from 50 countries, UCLG (global LGA) and CLGF (the Commonwealth LGA).

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23. Leadership Board Members are invited to explore ways to make better use of visiting international delegations, and how they wish to be involved. The most recent, from the French LGA in January, focused on local government's role in economic growth; which proved useful in developing LGA's growth work.
24. Over the coming months, it is proposed we draw on international learning to support a range of LGA lobbying. To support our growth work, we could evidence how devolved powers and/or funding deliver growth more rapidly in other countries. Specifically for the LGA annual conference, Martine Aubry, Mayor of Lille, has been invited to speak about the French model of local economic growth. The LGA may also be interested in work taking place to explore councils' role in stimulating local growth across the 'developed' Commonwealth (Canada, NZ, Australia etc). It is also suggested a speaker from Denmark could provide useful views to support our Independent Local Government campaign. In addition, a Swedish delegation has requested a visit in June which could cover a range of issues including adult social care.
25. As a further extension of our work, it is proposed we test ways to move beyond pure case studies. One suggestion is to turn what we know works for local government in other parts of the world through devolved infrastructure and regeneration, transport, skills, and labour market functions into an ambitious picture of how councils can aspire to be drivers of economic growth across functional economic areas. It would forecast how the devolved functions could work, how they inter-relate, and what economic benefit they would bring locally (and nationally).
26. Members are invited to comment on how the LGA can make better use of the links highlighted in paragraphs 22 and 23, and additional ways in which these can support our current and future lobbying including paragraphs 24 and 25.

Sources

LGA commissioned report on international comparisons of local government:
[*With a Little Help From Our Friends* \(2009\)](#)

Business Process Trends: [Case study of co-operation on core processes](#)
[Local Government Denmark](#)

OECD: [Summary of Danish system](#)