



THE COMMISSION ON
ADMINISTRATIVE STRUCTURE

Summary

2004



Recommendation of the Commission on Administrative Structure

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**Recommendation no. 1434
The Commission on
Administrative Structure
January 2004**

**Recommendation of the Commission on Administrative Structure,
no. 1434, January 2004**

The publication can be ordered at:

Danmark.dk

Tel.: 1881

www.netboghandel.dk <<http://www.netboghandel.dk/>>

Orders are only accepted by telephone or electronically.

Published by:

The Ministry of the Interior and Health

Department of Economics

Slotsholmsgade 10-12

DK-1216 Copenhagen K

Tel.: +45 3392 3360

Front page: b:graphic

Printed by: Nordsjællands Trykcenter

ISBN:	All volumes:	87-601-9924-5
	Volume I (in Danish):	87-601-9928-8
	Volume II (in Danish):	87-601-9925-3
	Volume III (in Danish):	87-601-9926-1
	Summary (in Danish):	87-601-9929-6
	Summary (in English):	87-631-0005-3
	Electronic version (in Danish):	87-601-9931-8
	Electronic version (in English):	87-631-0015-0

Impression: Volume I, II and III are printed in 5,000 copies.

The summary is printed in 6,000 copies.

Price: All volumes: 150 DKK. incl. VAT.

Volume I, II or III: 75 DKK. incl. VAT.

The summary is available free of charge.

The publication is available at www.im.dk.

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Summary

1.1. Appointment and Terms of Reference for the Commission on Administrative Structure

In connection with the opening of the Danish Parliament on 1 October 2002, the government appointed a Commission on Administrative Structure. The Danish Prime Minister announced in his opening speech:

"The existing municipal structure in Denmark is now more than 30 years old and the government feels that it is time for a critical review of the current system. Therefore, the government will appoint a Commission on Administrative Structure this week to investigate whether the existing system lives up to the requirements of a modern welfare state. The commission will base its investigation on the requirements of the citizens and on the tasks to be solved [. . .]."

A Commission on Administrative Structure was set up charged with the task of providing a technical and expert analysis to be used as a decision basis with respect to changes of the framework for the performance of public sector tasks. According to the Terms of Reference, the Commission should assess "advantages and disadvantages of alternative models for the organisation of the public sector. Against this background, the Commission should present recommendations for changes that will remain sustainable for many years", cf. *the full wording of the Terms of Reference*:

"It is the task of the public sector to support a modern and democratic knowledge-based society. The public sector must be open and responsive,

uncomplicated and efficient. Citizens are entitled to value for money and the opportunity of choosing among various options. The organisation of the public sector must ensure that tasks are performed close to the citizen and against the background of dialogue between citizens and politicians. Decentralisation makes it possible to accommodate local needs and thus diversity, and it creates a broad democratic foundation for the performance of public sector tasks.

The structure for the performance of public sector tasks in Denmark was largely established with the local government reform in 1970. Since then, there have been significant changes in the preconditions that laid the groundwork for the organisation of the local government sector. During this period, the population's wishes regarding public service have changed in line with the appearance of new knowledge and technological change. Simultaneously, the preconditions for performing public tasks have changed.

Consequently, there is a need for assessing to what extent the public sector structure should be adjusted in order to sustain a decentralised public sector that is designed to meet future requirements, a public sector that will ensure efficient, high-quality performance of tasks, contribute to the development and support of local democracy, including the dialogue between citizens and politicians.

A Commission on Administrative Structure will be set up, charged with the task of providing a technical and expert analysis to be used as a decision basis with respect to changes of the framework for the performance of public sector tasks.

The Commission is to assess advantages and disadvantages of various models for the organisation of the public sector. Against this background, the Commission is to present recommendations for changes that will remain sustainable for many years.

When assessing the advantages and disadvantages of various organisations of the public sector, the Commission is to include the following criteria and weigh them against each other: efficiency and sustainability, democratic control, citizens' participation and the dialogue between citizens and politicians, quality assurance, closeness to the citizen, citizens' civil rights and options, transparency with respect to the distribution of responsibilities, and correlation in terms of competence and financial responsibility.

With these criteria as its point of departure, the Commission is to set up and assess various models for the distribution of responsibility regarding the performance of public sector tasks as well as for the appropriate sizes of public sector units.

In this connection, the Commission is requested to:

1. Make an assessment of which geographical and demographic criteria, including which municipal and county sizes, should in future constitute the basis for a division into municipalities and counties. The assessment is to take its departure point in the present distribution of tasks between the State, counties and municipalities.
2. Make an assessment of the advantages and disadvantages of various models for changed distribution of tasks between the State, counties and municipalities, the starting point being potential recommendations of changed municipal and county sizes, cf. point 1.
3. Make an assessment of the advantages and disadvantages of reducing the number of administrations with directly elected leadership from a three-tier to a two-tier structure. In this connection, the Commission is requested to draw up alternative proposals for where the responsibility for performing public sector tasks may be placed. In these deliberations, the Commission is to indicate whether changing the present distribution of tasks may impact on the assessment of appropriate local government sizes, cf. point 1.

The Commission's assessments are to consider whether, in certain cases, it may prove expedient to have public tasks carried out on the basis of municipal partnerships, including for example indirectly elected regional bodies, independent units or the private sector etc. Assessments of these possibilities are to be conducted against the background of the criteria referred to above, including regard for democratic control, citizens' civil rights and the dialogue between citizens and politicians.

The work of *Opgavekommissionen* (Public Sector Tasks Commission) and other previous analyses within the remit of the Commission on Administrative Structure may constitute the background for the Commission's work.

The Government has set up an advisory committee on the health care sector, which is expected to finalise its work on the organisation of the hospital sector at the end of the year 2002. The advisory committee's findings are to be incorporated into the Commission's work

The Commission is to include a general description of the need for changes in the funding as a result of changing the distribution of tasks. The description is to be based on the fact that only directly elected bodies may be assigned the right to levy taxes.

The Commission's work takes for its basis that the same types of task are placed at the same administrative level throughout the country.

Specific decision-making on the future geographical division lies outside the scope of the Commission.

The Commission should finalise its work by the end of the year 2003.

The Commission should include the following members:

- A chairman, to be appointed by the Minister for the Interior and Health.
- Three members with an expert knowledge of the subjects to be addressed by the Commission, to be appointed by the Minister for the Interior and Health.
- One representative of Local Government Denmark (LGDK), the Association of County Councils in Denmark, the City of Copenhagen and the Municipality of Frederiksberg, respectively.
- One representative of the Ministry of the Interior and Health, the Ministry of Finance, the Ministry of Economic and Business Affairs and the Ministry of Justice, respectively.

Deputies may be appointed for the local government and central government representatives on the Commission. The deputies of the two local government associations may attend the Commission's meetings on a regular basis.

The Commission may draw on other expertise in its work and may set up subcommittees.

The Ministry of the Interior and Health will undertake the Commission's secretariat function in co-operation with the Ministry of Finance and the Ministry of Economic and Business Affairs.

1.2. Composition of the Commission on Administrative Structure

The Commission on Administrative Structure includes the following members:

- Man. Director Johannes Due (Chairman)
- Director Erik Bonnerup
- Municipal Director Kurt E. Christoffersen (Municipality of Frederiksberg)
- Ass. Director Agnete Gersing (Ministry of Finance)
- Man. Director Peter Gorm Hansen (Local Government Denmark)
- Man. Director Erik Jacobsen (City of Copenhagen)
- Ass. Director Thorkil Juul (Ministry of the Interior and Health)
- Man. Director Otto Larsen (Association of County Councils in Denmark)
- Professor Poul Erik Mouritzen
- Finance Director Per Bremer Rasmussen (Ministry of Economic and Business Affairs)
- Ass. Director Johan Reimann (Ministry of Justice)
- Director Jørgen Søndergaard

The deputies for the representatives for the local government organisations were allowed to attend the meetings of the Commission on a regular basis. Jan Olsen, Chief Economist, Local Government Denmark, who has been appointed as deputy for Peter Gorm Hansen, Man. Director, Local Government Denmark, and Bo Johansen, Director, the County of Århus, who has been appointed as deputy for Otto Larsen, Man. Director, the Association of County Councils in Denmark, have therefore participated in the meetings of the Commission. In addition, Lone Neerhøj, Consultant, Ministry of Economic and Business Affairs, has participated in a number of meetings as a deputy for Per Bremer Rasmussen, Finance Director. Furthermore, Paul Sax Møller, Director, the City of Copenhagen, has participated in one meeting as a deputy

for Erik Jacobsen, Man. Director. Finally, Thorkild Fogde, Ass. Director, has replaced Johan Reimann, Ass. Director, as the representative for the Ministry of Justice from the 20th meeting.

The Ministry of the Interior and Health in collaboration with the Ministry of Finance and the Ministry of Economic and Business Affairs have been responsible for the secretariat function for the Commission on Administrative Structure. The Secretariat has been managed by Søren H. Thomsen, Head of Division of the 1st Finance Office, the Ministry of the Interior and Health.

2.1. The Task of the Commission

When appointed in October 2002, the Commission on Administrative Structure was charged with the following task:

"[. . .]to provide a technical and expert analysis to be used as a decision basis with respect to changes of the framework for the performance of public sector tasks."

The Commission was requested to assess advantages and disadvantages of alternative models for the structure of the public sector and more specifically to prepare and assess different models for placement of the responsibility for solution of public tasks and appropriate sizes of the public units, including the following:

"Make an assessment of which geographical and demographic criteria, including which municipal and county sizes, should in future constitute the basis for a division into municipalities and counties. The assessment is to take its departure point in the present distribution of tasks between the State, counties and municipalities.

Make an assessment of the advantages and disadvantages of various models for changed distribution of tasks between the State, counties and municipalities, the starting point being potential recommendations of changed municipal and county sizes, cf. point 1.

Make an assessment of the advantages and disadvantages of reducing the number of administrations with directly elected leadership from a three-tier to a two-tier structure. In this connection, the Commission is requested to draw up alternative proposals for where the responsibility for performing public sector tasks may be placed. In these deliberations, the Commission is to indicate whether changing the present distribution of tasks may impact on the assessment of appropriate local government sizes, cf. point 1.

When assessing advantages and disadvantages of different structures of the public sector, the Terms of Reference for the Commission also prescribes to:

"[. . .] include the following criteria and weigh them against each other: efficiency and sustainability, democratic control, citizens' participation and the dialogue between citizens and politicians, quality assurance, closeness to the citizen, citizens' civil rights and options, transparency with respect to the distribution of responsibilities, and correlation in terms of competence and financial responsibility."

In addition, the Commission has decided to include another two criteria in the assessment of the structure of the public sector. The two criteria are "simplicity" and "manageability".

The Commission's interpretation of the criteria is explained in *chapter 4*.

2.2. The Commission's Deliberations and Recommendations

2.2.1. The Proposed Models

The Terms of Reference for the Commission on Administrative Structure state:

"The Commission is to assess advantages and disadvantages of alternative models for the organisation of the public sector. Against this background, the Commission is to present recommendations for changes that will remain sustainable for many years."

The Commission has made a comprehensive analysis of the current distribution of tasks in the public sector and the challenges that the public sector will be facing in the coming years. On this basis, the Commission has identified a number of weaknesses in the structure related to the current size of counties and municipalities and the distribution of tasks between the municipalities, counties and the State. The weaknesses of the existing structure are expected to be intensified by future challenges in the public sector.

With the Terms of Reference as the point of departure, the Commission has prepared a number of models for the structure and distribution of tasks in the public sector, and it has assessed appropriate sizes for the municipal and regional units in the various models.

On this basis the Commission has proposed the following models for the structure of the public sector based on the number of administrative levels:

- Models with three directly elected administrative levels:
 - Unchanged distribution of tasks, but changed size of counties and municipalities.
 - "Broad county model" where especially the tasks of the regions and to some extent those of the municipalities are augmented with state tasks.
 - "Broad municipality model" where the tasks of the counties are reduced while those of the municipalities are augmented considerably with county and state tasks.
- Models with two directly elected administrative levels and one or more indirectly elected administrative levels:
 - "Municipal region model" where the municipalities are assigned new tasks while the regional level has limited tasks and is governed by a regional council indirectly elected by the local councils of the regions.

- "Party region model" where the municipalities are assigned new tasks while the regional level has limited tasks and is governed by an indirectly elected regional council composed by members of the local councils appointed by and from the members of the local councils in the region.
- Model with two directly elected administrative levels:
 - "State model" where all the tasks are placed in the municipalities and in the State.

It should be pointed out that these are "stylized" models. The models place different demands on for example the size of the municipal and regional units. The models have been prepared as a continuum, ranging from a model that, except for the recommended minimum sizes, is identical to the current structure of the public sector, to a model with only two administrative levels, i.e. the State and the municipalities. The purpose of preparing a number of stylized models is to illustrate some of the most important advantages and disadvantages associated with the distribution of tasks. Consequently, it will be possible to combine elements from the various models.

Each of the models for the structure of the public sector has its advantages and disadvantages. This applies to the way the various models fulfil the general criteria that the Commission, pursuant to the Terms of Reference, has used as a basis for its assessment of the various models, and to the models' ability to handle the problems that the Commission has identified in the existing structure and distribution of tasks as well as future challenges in the public sector.

The choice of a specific model for the structure of the public sector will largely depend on a political assessment. Therefore, the Commission has primarily focused on clarifying the advantages and disadvantages associated with the various models, including

the models' ability to solve to problems involved in the existing structure and their ability to meet future challenges.

This section contains the general deliberations and recommendations of the Commission.

2.2.2. Weaknesses in the Current Structure – do we need a Reform?

In an international context, the public sector in Denmark is characterised by a very high degree of political and financial decentralisation. Basically, decentralisation of the public sector provides a good basis for democratic control, simplicity for the users, management, coordination, efficiency and quality assurance, etc.

The Commission finds that the decentralisation principle underlying the structure of the public sector has significant qualities. A decentralised structure where the tasks are solved as close to the citizens as possible facilitates adjustment of task performance to the local environment and creates a broad democratic foundation for solution of public tasks. The Commission considers it essential that major importance is attached to the principle of decentralisation also in future, when considering the distribution of tasks.

Consequently, it is the assessment of the Commission that the current structure of the public sector, generally, has created a good framework for solution of public tasks. It is also the assessment that the structural framework for solution of tasks in certain areas, including primary school and day care, is reasonably successful even though it does not fully utilise the potential of economies of scale or ensure provision of a wide range of options for the citizens.

However, it is also the general assessment of the Commission that the current structure and distribution of tasks have a number of

weaknesses and that the public sector in its current form will not be able to meet the challenges of the future adequately.

Weaknesses of the current structure

The weaknesses of the current structure are partly related to the size of the municipalities and counties and partly to the distribution of tasks between the State, counties and municipalities. In addition, there are problems in the region of Greater Copenhagen, for example in the transport sector where the structure of authority and financing is fairly complicated.

In a number of sectors, significant weaknesses of the current structure have been identified. These weaknesses reduce the level of the service the citizens receive or increase the costs in areas of major importance to the citizens, such as health care, employment, groups with special needs, special education and taxes.

In other areas there are also indications of weaknesses that to some extent lead to a lower level of service and increased costs, but they are not of a type or importance that would justify changes of the structure of the public sector. They include psychiatry, youth education, integration, physical planning, environment, planning and operation of collective transport in the region of Greater Copenhagen and other operational tasks.

The analyses made by the Commission indicate that *a large number of the current administrative units are too small* in relation to the task load required by law today. The small municipalities have problems ensuring adequate professional sustainability in task performance in a number of areas and have higher expenditure per inhabitant (adjusted for differences in expenditure levels and financial capability of the individual municipalities). Furthermore, the smaller municipalities may find it difficult to ensure broadness in the options available to the citizens. The many relatively small administrative units are also unable to benefit fully from the advantages of digitalisation. Likewise, most of the existing

counties are too small to ensure optimal planning in the hospital sector. Finally, the limited geographical size of the counties in the region of Greater Copenhagen creates problems of coordination, especially within the areas of health care, transport and planning.

The work of the Commission has also shown that it is *difficult to ensure a coherent and coordinated effort* in a number of areas. The problem is mainly that the responsibility for some tasks is distributed between different decentralised, administrative levels. This entails a risk of "grey areas" where it may be unclear both to the citizens and to the authorities who actually has the responsibility for the task. Such grey areas are social services, special education and certain health care services where the responsibility has been divided between the counties and the municipalities. One result is that the citizens may experience unsatisfactory and lengthy processes and not always the most appropriate service offer from the public sector. Another result is that distribution of public tasks on several administrative levels, justified by professional and financial sustainability, makes financial management and overall prioritisation of tasks more difficult because the authorities involved can transfer the financial burden to each other. The problem will be intensified by the limited economic flexibility in the coming years due to the slow increase of the workforce compared with the development in the rest of the population.

Furthermore, the activities of the Commission have indicated that problems in certain areas are due to *parallel functions/tasks distributed on several administrative levels*. For example the employment effort, where the municipalities and the State have parallel functions, and the youth educations that are distributed between the State and the counties. This distribution may result in mutually uncoordinated offers for the citizens and it will make coordination and prioritisation as well as improvement of efficiency and quality assurance more difficult for the administrative levels. In addition, there is a risk that the effect of the effort is influenced

negatively. These problems will also be intensified by the limited economic flexibility in the coming years.

Future challenges

The analyses of the Commission also indicate that the current structure of the public sector is not designed to meet future requirements.

Consequently, a number of issues indicate that the weaknesses mentioned, not least those related to the size of the administrative units, will become more pronounced in the years to come due to the demographic development, increased mobility, increasing commuter distances and the very narrow macroeconomic framework.

The, historically, very narrow macroeconomic framework places considerable demands on future management and prioritisation of public expenditure. The limited flexibility suggests increased focus on efficient task performance and general management and prioritisation. Furthermore, it is the assessment that the current structure limits the possibility of benefiting from the technological development that a digitalisation of the public sector provides in terms of simple and more efficient services for the citizens, even though digitalisation may also reduce the vulnerability of the smallest administrative units. It is also the assessment that the narrow macroeconomic framework requires a significant increase of the workforce in general.

In addition, it is the assessment that divided responsibility in a number of areas may weaken overall management of expenditures and cross-prioritisation.

Likewise, the current structure of divided responsibility for employment reduces the possibilities of efficient employment efforts, especially directed at the group of people who for various reasons find it difficult to continue being part of the labour market.

Furthermore, the assessment is that increasing demands on the content of public services, introduction of statutory requirements to the level of service and provision of a wider range of service options will be challenges that especially the smaller municipalities will find it difficult to meet. Finally, there are challenges from the increasing internationalisation and more international rules, e.g. the Water Framework Directive and the tender rules.

A reform is a necessary, but not a sufficient precondition

It is the assessment of the Commission that the identified problems as well as future challenges will only partially be solved within the current structure with the existing municipality and county sizes and the existing distribution of tasks.

The problems specified regarding professional sustainability, lack of coherence in task solution and failure to utilise economies of scale are such that they cannot be solved through changes of the financing and equalisation system. Increased state grants or redistribution among the municipalities will only result in relieving the situation of the municipalities with financial problems, but cannot compensate for the problems of inadequate professional sustainability, lack of coherence in task solution or failure to utilise the benefits of economies of scale.

It is also the assessment of the Commission that the problems pointed out will not be solved satisfactorily through increased use of municipal partnerships. Voluntary municipal partnerships may be an expedient way to organise performance of certain tasks and it will probably, regardless of the size of the municipalities and counties, be necessary in certain areas as some tasks will not fit in with the structure chosen. However, these partnerships, especially in the form of inter-authority companies, will involve a risk of unclear placement of responsibility and therefore, they should not be a basis for the ability to solve the core tasks.

Consequently, the identified problems and development trends both point in the direction of a need to make the smaller municipal and regional units larger and thus more sustainable, as larger units will be able to ensure improved coherence in task solution.

However, it should be pointed out that changes in the structure of the public sector do not solve the problems alone. A reform will create the framework, but a full utilisation of the potential will require subsequent political initiatives and prioritisations, cf. *section 2.2.3*.

Democracy and sustainability

A new, comprehensive study of municipality size and local democracy shows that a successful local democracy alone does not justify maintenance of the small municipalities as the local democracy in larger municipalities is as successful as that of the smaller ones.

The study reveals the population's perception of local democracy based on a large number of democratic aspects: Affiliation, interest in and knowledge about local politics, participation in elections and other kinds of participation, political confidence and self-confidence as well as satisfaction with the politicians. However, the study does not clarify whether geographical issues, e.g. the geographical size of the municipality, has any effect on the perception of political closeness and democracy, and it goes without saying that it is impossible to assess if the fact that the geographical size of the municipality in general does not affect the citizens' perception of the local democracy will also apply to new merged municipalities.

The main conclusion of the study is that large municipalities are no less democratic than small ones. Interest in local politics, affiliation with the municipality, knowledge about local government politics, the citizens' access to exert influence, and the perception of a good local government have nothing to do with the size of the

municipality. Only when it comes to individual participation, participation in elections, satisfaction with local services and political confidence, there is a small tendency to slightly less democracy in the group of municipalities of more than 50,000 inhabitants.

However, it is impossible to determine when this tendency starts. It is only possible to establish that in the range between 20,000-30,000 inhabitants and probably up to 70,000-80,000, there is a small reduction in individual participation, participation in elections, political confidence and satisfaction with municipal services. Conversely, the study shows that collective participation increases slightly as there is a tendency in larger municipalities to participation in for example political party activities being more common than in smaller municipalities, where there is more personal contact with local officials and local politicians.

Consequently, the assumption so far of a dilemma between sustainability and thus the municipalities' ability and autonomy to make political decisions on the one hand and democracy on the other hand does not hold true.

The Commission has, therefore, no grounds to assess whether the political closeness perceived by the citizens will be affected by the size of the municipality, including the geographical size.

In an assessment of the function of democracy, it is also important to point out that more than half of the population (56%) today lives in municipalities with more than 25,000 inhabitants. Municipalities with less than 15,000 inhabitants constitute two thirds of all the municipalities, but less than one third of the population.

There is only limited documentation to clarify the function of local democracy in counties. The citizens' participation in elections to the county councils decrease slightly with an increase in the size of the county. Contrary to the analysis of elections to local government, demographic, social and financial issues have not been

taken into account and the correlation therefore has to be interpreted with caution.

Overall, it is the assessment of the Commission that a reform of the structure of the public sector is required. This is substantiated by the identified weaknesses of the current structure of the public sector, and not least the anticipation that future challenges will intensify these weaknesses.

2.2.3. Prerequisites for Implementation of a Reform

Changes of the structure have the overall aim of enabling the public sector to solve its tasks in the best possible way in the welfare state of the future.

However, implementation of a structural reform will involve costs due to the uncertainty and the restructuring process that large parts of the public sector will have to go through.

Furthermore, it is to be expected that a structural reform will involve a large amount of resources in the decentralised political system during the restructuring phase as political focus will be directed at the merging process and the transfer of tasks.

In addition, a reform will entail certain restructuring costs, including investments. The investments will primarily be related to implementation of organisational changes and information technology, but even without any reform, there will still be a significant need for investments in new technology, etc. in future which will reduce the extra costs.

The restructuring costs will mainly be short term, one-off costs whereas benefits from improved quality and efficiency due to utilisation of the possibilities that a reform will provide can only be reaped long term, but they will be permanent.

It is the assessment of the Commission that a reform will involve costs regardless of its size and scope. Even though direct restructuring costs will vary depending on how drastic the reform is, it is the assessment that the benefits or advantages of implementation of a reform will depend much more on the type of model that is chosen. The reason is that the various models for the structure of the public sector fulfil the established criteria in different ways, and the same applies to their ability to solve the problems and handle future challenges.

Therefore, it is the Commission's point of departure that the prerequisite for implementation of a reform of the structure and distribution of tasks in the public sector is that:

- The reform will address social problems that cannot be solved in a simpler way and that, as a minimum, it will create a considerably improved framework to address these problems
- The benefits of the reform measure up to the costs within a number of years
- The reform otherwise lives up to the considerations regarding the structure of the public sector as described in *chapter 15* of the Recommendation
- The reform is designed to meet future requirements or is "durable", i.e. it does not just take already identified problems into account, but it is also geared to handle the challenges that the Danish society is expected to face in the coming decades
- There is a clear political intention and ability both centrally and locally to make the required follow-up decisions.

Follow-up decisions imply for example a division into sustainable units throughout the country. Furthermore, only a few of the current problems in the public sector will *automatically* be solved by a change of the structure and a redistribution of tasks. A reform

will primarily create the framework for implementation of actions that present difficulties within the existing framework.

Consequently, full utilisation of the potential of a more efficient public sector will require political initiatives and prioritisations to be able to benefit from the new framework.

It is also important to point out that full utilisation of the potential of a reform will involve major changes of the current organisation, management, organisational culture, etc. Consequently, a reform can also be a good excuse to give up inefficient work processes and administrative structures and to start reaping the benefits of economies of scale in the new administrative units.

A reform could also give rise to a look at the management relations between the State and the local governments. A structure with larger and more sustainable municipalities will create a better basis for supporting decentralisation in the entire public sector through more consistent central management by objectives rather than central management of the municipalities with focus on details. Also in this area a reform should be followed up by political initiatives.

2.2.4. Recommendation of a Reform including Division and Redistribution of Tasks

It is the assessment of the Commission that the identified weaknesses of the current structure, including the need to ensure that the structure can meet future requirements, cannot be fully eliminated by a reform that only changes the minimum size of the municipalities and counties. Solution of these problems will require a reform that includes both boundary changes and redistribution of tasks.

It is also the assessment of the Commission that the benefits or advantages of implementing a reform will depend on which model is chosen rather than costs.

The wish to solve these problems and to prepare the public sector for the challenges of the future, and the wish to measure the benefits against the costs therefore speak in favour of implementing a reform of the public sector including both changed division (i.e. changes of the existing boundaries of municipalities and counties) and redistribution of tasks.

Boundary changes and redistribution of task should be closely correlated. Changes in the existing sizes of municipalities and counties will make it possible to place more tasks in decentralised administrative units thereby concentrating more tasks with one authority. Municipal and regional administrative units that are larger than the current minimum size will be able to improve quality and efficiency in their task performance and provide the basis for a wider range of options for the citizens.

As indicated in *chapter 18* of the Recommendation, it is the assessment of the Commission that even with the current distribution of tasks, it will be necessary to increase the size of small municipalities and counties to ensure satisfactory professional sustainability in the performance of more specialised tasks. In addition, this will provide improved possibilities of utilising economies of scale also long term. It is also the assessment of the Commission that this can be accomplished without jeopardizing involvement of the citizens and democratic sustainability. Regarding the size of the municipality, it should also be mentioned that the most appropriate size for utilisation of economies of scale has been increasing over the last decade. A recent analysis indicates that the size of municipality, where the average operational costs per inhabitant are the lowest (adjusted for differences in the expenditure level and financial capability of the different municipalities), has increased from 28,000 to 34,000 inhabitants from 1993 to 2002.

In other words, firstly, a reform including both changes of size and transfer of tasks will contribute to maintaining and developing a decentralised public sector based on consideration for the citizens and the tasks to be solved. As described above, this facilitates further decentralisation and anchoring of more public tasks in the local democracy.

Secondly, municipalities and regions that are sufficiently large will provide the basis for placement of those tasks, which are currently being performed by different authorities, with one authority. Concentration of a number of tasks, e.g. social services, employment and youth education, with one authority will contribute to ensuring coherence in task performance. Concentration of related tasks or parallel functions at one administrative level will improve general management and prioritisation.

Thirdly, a reform that also involves such transfers of tasks will facilitate establishment of simpler access to the public sector where more tasks and functions directed at the citizens are concentrated in the municipalities. However, this could also to some extent be accomplished with the current distribution of tasks through establishment of service centres, cf. *chapter 28 about digital administration*.

Fourthly, it is the assessment of the Commission that a comprehensive reform through establishment of more sustainable units will strengthen the basis for improvement of quality in task performance and provide the citizens with a wider range of options within the most important service areas.

Finally, it is the assessment of the Commission that a reform, including both a significant increase of the minimum size of the municipal and regional units and a major redistribution of tasks, will facilitate improvement of efficiency which may release resources long term. The assessment is that a change of the structure of the

public sector will make it easier to meet the challenges of the future within the narrow socioeconomic framework.

Overall, a change of the current boundaries of municipalities and counties is considered a necessity, but not a sufficient basis to solve the problems mentioned and to enable the public sector to meet the challenges of the future. Utilisation of the potentials associated with implementing a reform will require a redistribution of tasks.

All in all, the Commission finds that on *the regional level*, the development demands much larger regions.

The overall assessment of the Commission is that solution of especially health care and planning tasks suggests that the country in future should be divided into 7-8 regions at most. Furthermore, the Commission finds that the number of regions should not be less than three. Planning of special hospital treatment suggests relatively few counties whereas local knowledge, central management and handling of certain regional tasks suggest that the counties should not be too big. The specific number of regions should be seen in relation to the regions' portfolio of tasks and whether the management is appointed by direct or indirect election.

It is the assessment of the Commission that solution of the problems in Greater Copenhagen requires establishment of a region or a county enabling a suitable placement of the current tasks of the Copenhagen Hospital Corporation (H:S) and the Greater Copenhagen Authority (HUR).

At regional level it will be possible to concentrate tasks that are currently divided between the State and the counties, e.g. state youth educations that can probably be concentrated even with the current size of counties, labour market educations and short term further educations, and the remaining state roads (except the ge-

neral road network). Furthermore, trade promotion efforts in the counties can be strengthened.

Even though there is an element of uncertainty in the assessment of the requirements to the size of municipalities, the Commission finds that a division at *local government level* where the minimum size is approx. 30,000 inhabitants will facilitate concentration of tasks on the social and socio-psychiatric area in the municipalities, provided that the existing knowledge and consulting functions are maintained. This size of municipality will also create the basis for more local government responsibility within environment and planning. As a result it will be possible to minimize the "grey areas" and the parallel functions that the Commission has identified as major weaknesses in the current distribution of tasks. Furthermore, it is assessed that municipalities of approx. 30,000 inhabitants will have sufficient financial sustainability to establish a unified employment system.

There is also considerable uncertainty involved in assessment of a municipal minimum size with the current distribution of tasks. However, it is the general assessment of the Commission that a minimum size of 20,000 inhabitants will ensure a framework for satisfactory professional sustainability in the performance of the most important tasks. However, this municipality size will not provide the same opportunities as municipalities of 30,000 inhabitants in terms of concentration of responsibility for the tasks in the municipalities, e.g. within social and socio-psychiatric services. Furthermore, it cannot be assessed with any certainty whether municipalities of 20,000 inhabitants will be sufficiently financially sustainable to have a unified employment system.

However, with municipalities of 20,000 inhabitants it will be possible to increase the base rates for social services and thus give the local governments a larger share of the social and socio-psychiatric tasks. Furthermore, it is assumed that it will be possible to con-

concentrate special education in municipalities with a minimum of 20,000 inhabitants.

A municipality of 20,000 and 30,000 inhabitants, respectively, will not hinder citizen involvement or impair democratic sustainability. There is no basis for assessment of the extent to which the size of the municipality will affect the perception of political closeness.

The Commission recommends that a comprehensive reform of the public sector is implemented, including both boundary changes and transfer of tasks between State, counties and municipalities. Consequently, the Commission recommends that the minimum size of administrative units both locally and regionally is increased considerably compared to the current level and that the existing distribution of tasks is changed so that related tasks to a larger extent are concentrated at one administrative level.

A reform where the size of the smallest municipalities is increased considerably is also expected to create a framework that will facilitate central management by objectives in relation to the municipalities.

2.2.5. Recommendation for a General Political Decision on Changes of the Size of Municipalities and the Distribution of Tasks

As mentioned, it is the recommendation of the Commission that a reform of the public sector, comprising both new divisions and a transfer of tasks is implemented.

The Commission finds it important that decisions on changes of the structure of the public sector, including redistribution of tasks between the administrative units, are correlated and made at the same time. A combined political decision will clarify the future distribution of responsibility and facilitate a relatively short restructuring process. A decision will primarily be based on the following two elements.

Firstly, changes especially of the minimum size of the municipalities will determine the transfer of tasks to be recommended.

Consequently, a further decentralisation and thus concentration of tasks depends on a population size in the municipal and regional units that will create the framework for sustainable task performance. If the required boundary changes are not in place, a number of task performance problems can be expected, especially lack of professional and/or financial sustainability. This may prove problematic partly with respect to ensuring service and quality for the citizens and partly with respect to avoiding that expenditure deviations within certain areas seriously affect other areas and/or taxation.

Secondly, the perspectives of a reform will be reduced if a decision is only made regarding size, as the changes in municipal and county sizes alone will not solve all the problems of the current task performance that the Commission has pointed out.

In addition, it is also important locally to be informed of the future distribution of tasks in connection with the implementation of a new structure. A merger of municipalities will require planning of future tasks in a new management and organisational structure, and any investment in IT and buildings should be based on knowledge of the future situation.

The Commission finds that decisions about changes of the size of municipalities and the general decisions on redistribution of tasks between the administrative levels should be viewed together and made at the same time.

2.2.6. Recommendation regarding Implementation of a Reform

Implementation of a reform should be planned with a view to ensuring that there is sufficient time to merge the existing municipi-

pal and county units and that there is a good framework for the transfer of tasks.

It is the overall assessment of the Commission that the implementation process should be as short as possible, while allowing sufficient time for the required preparations.

Regarding the sequence of the transfer of tasks, the Commission finds that it is important to ensure that sufficiently large municipalities and regions have been established for the specific tasks before the transfer actually takes place.

Furthermore, it is the assessment of the Commission that it is important that the decision process at local and regional level is relatively short both with respect to decisions on investments and because it will reduce the amount of time with political uncertainty.

Considerations regarding employees, productivity in task performance and a quick clarification for the citizens, including especially the users of the given services, suggest a quick implementation of the new divisions and redistribution of tasks. Likewise, the risk of adverse financial decisions will be reduced by a reasonably quick implementation.

In relation to implementation of a reform, i.e. practical planning and merging, the process should be organised to allow time both for the merging process and receipt of new tasks.

Therefore, it will be necessary to make the administrative preparations, including transfer of staff, organisational changes, contractual decisions with external suppliers and integration of IT and pay systems, which are required to ensure a proper merging process and takeover of the tasks in question. At political level it will also be important to ensure sufficient time for election preparations, etc.

It is the assessment of the Commission that these practical preparations should be incorporated in the entire process, while still aiming at the shortest possible restructuring process. Regarding practical preparations it will be important to allow room for organisation of a local implementation process that will be expedient within the overall framework.

The Commission recommends that the municipal boundary changes and the redistribution of tasks are made as quickly as possible with due consideration to the practicalities involved in the restructuring.

2.2.7. Recommendation of Geographical Criteria

The Commission has been charged with the task of making an assessment of which geographical and demographic criteria, including size of municipalities and counties, should apply in the coming years.

The Commission has found that the minimum size of municipal and regional administrative units will depend on the specific distribution of the tasks of the public sector.

As mentioned earlier, it is the assessment of the Commission that municipalities with a minimum size of 20,000 inhabitants will create the framework for satisfactory professional sustainability in the performance of the most important current tasks and facilitate inclusion of additional tasks. A municipality of 30,000 inhabitants will facilitate concentration of major tasks in the municipalities.

However, the Commission cannot dismiss the fact that in isolated cases, it may be necessary to deviate from the minimum sizes mentioned, e.g. in thinly populated areas, due to the citizens' feelings of political closeness combined with the geographical size of the municipalities.

The Commission has not found any evidence to support the argument that the largest municipalities should be made even larger through mergers. On the contrary, there are indications of drawbacks from economies of scale in municipalities with more than 50,000 inhabitants. However, geographical factors may in specific cases advocate expansions of such municipalities as well. The Commission also finds that municipalities that currently have a large number of inhabitants should not be divided as the key principle, which is the basis for the current division of municipalities, is still “one urban community - one municipality”. However, the Commission cannot dismiss the fact that there may be examples where it would be an advantage to integrate the extremities of a large municipality with the adjoining municipality.

Just as the assessment of appropriate sizes of municipalities and counties depends on the specific structure and distribution of tasks in the public sector, this also applies to other geographical and demographic criteria.

It is the recommendation of the Commission that implementation of the new divisions takes into account factors that support inter-dependence and affiliation with the new administrative units.

In this connection, the Commission has pointed out that for example trade catchments, inter-authority companies and issues regarding the infrastructure, nature and landscape can be included as criteria for the boundary changes of municipalities to safeguard local affiliation and solidarity and to make sure that investments in infrastructure and business areas are based on a general weighing of financial, nature conservation and other interests. Local commuter patterns can also have an influence on the solution of the employment task.

In some cases, these considerations suggest that a municipality or a county is not merged completely, but that a division is made with a view to individual parts of the municipality or county being

merged in different ways. There may be cases where there is currently no expressed interdependence within the individual administrative unit.

In order to ensure sufficient financial sustainability, the Commission recommends that the geographical division to the extent possible ensures more homogeneity in the local government units.

The Commission has pointed out that in order to ensure more homogeneity in the units, efforts should be made, whenever feasible, to create municipalities that include both rural and urban areas. In addition, the Commission has found that trade catchments and the location of schools could be included in the considerations of the geographical division. These issues could also be important for local solidarity.

Finally, the Commission has pointed out that the existence of one natural centre in the new local government unit should be included in the considerations regarding municipal division. However, it may be necessary to consider geographical factors as there are municipalities in parts of Denmark that cover a very large area. Finally, in and around major cities there may be special issues related to urban areas.

Regarding the *regional division*, the Commission finds that commuter regions will be important for handling of traffic planning, trade promotion and nature and environment protection, and on this basis they should be included in the considerations regarding changes of the existing regional division. Furthermore, establishment of sustainable regions should include considerations regarding demographic development and regional affiliation.

2.2.8. Other Recommendations

The activities of the Commission have indicated that it may be appropriate within certain areas, which are not mentioned in the Terms of Reference of the Commission, to further analyse the need

for change in the light of the recommendations described regarding changes of the current structure.

The analyses made by the Commission, especially of the expected development trends, including the potential of increased digitalisation of the public administration, indicate that in some areas it will be necessary to review the legislation, both special legislation and the Local Government Act, with a view to assessing whether existing barriers for exchange of information between the administration and the authorities can be removed. In some cases, other considerations such as confidentiality will speak against it.

It is the assessment of the Commission that a prerequisite for realisation of the potential of digital administration is that barriers in the legislation, etc. that prevent exchange of information and execution of services across or between different authorities should be removed, if possible.

Removal of such barriers will facilitate establishment of service centres with cross-sector citizen services. Service centres in the municipalities or so-called quick service counters will facilitate up-front citizen service as these units can serve the citizens on behalf of several public authorities.

The Commission recommends that the possibility of up-front citizen service is taken into account in connection with a new public structure, e.g. through establishment of local service centres.

The Commission has focused on assessment of those public tasks that are important for the structure of the public sector. However, in connection with a change of the current division and distribution of tasks, it will be necessary to make a decision on placement of a number of other tasks. Placement of these tasks will depend on the decision on the detailed structure, but the Commission finds that service close to the citizens and more coherence should

be considered important. The Commission has made a brief review of some of the customer services and licensing issues of the police, county services for the citizens, rescue and ambulance preparedness, some cultural tasks, coast protection, administration of the Forestry Act, certain tasks within the area of education and the agricultural committees. It is the assessment of the Commission that depending on the general decisions on the structure, it may be possible to place some of these tasks more appropriately.

The Commission recommends that it will be appropriate in connection with a restructuring of the public sector to review a number of other public tasks, including central tasks in order to assess whether some of these tasks could be performed closer to the citizens in a new structure and whether increased coherence in the service could be obtained.

2.3. Models for a New Structure and the Commission's Assessment hereof

On the basis of the Terms of Reference, the Commission has assessed the need for a change of the size of municipalities and counties and a possible redistribution of tasks between State, counties and municipalities. Furthermore, the Commission has assessed how the public tasks can be placed if the number of directly elected administrative levels is reduced from the current three to two levels. Based on the Terms of Reference, the Commission has assumed that a reduction of the number of administrative levels involves dissolution of the counties as a directly elected administrative level. However, dissolution of the counties does not imply that a regional administrative level cannot continue to exist. Instead of the counties, one or more administrative levels can be established to be governed by indirectly elected politicians.

The proposed models are:

1. Model with unchanged distribution of tasks, but with larger municipalities and counties.
2. Model with three administrative levels with direct election where especially the counties and to some extent the municipalities are assigned new tasks. This model is called "the broad county model".
3. Models where especially the municipalities are assigned new tasks, whereas the task portfolio of the counties is reduced so that they are only responsible for tasks requiring geographical scope and a large population. Three general models have been prepared depending on the type of election for the regional level:
 - a. "The broad municipality model" with direct election at regional level.
 - b. A "municipal region model" with the same distribution of tasks as under a., but governed by a regional council elected by the local councils of the regions.
 - c. A "party region model" with the same distribution of tasks as under a., but where the regions are governed by regional councils composed by members of the local council appointed by and from the party members of the local council in the region.The region models (b. and c.) include a sub-version which divides regional tasks into several statutory, regional authorities adapted to the demographic and geographical factors.
4. Model where all the tasks are placed at two directly elected, administrative levels – the State and the municipalities. This model is called the "state model".

When preparing the models, the Commission has based its assessments on appropriate placement of public tasks. The assessment of the size of municipalities and regions is thus based on the distribution of tasks in the individual models, and the election form for a possible regional level is included in the assessment of appropriate sizes of the regions.

All in all, regarding *the regional level*, it is the assessment of the Commission that the development requires significantly larger regions.

The overall assessment of the Commission is that solution of especially health care and planning tasks suggests that the country in future should be divided into 7-8 regions at most. Furthermore, the Commission finds that the number of regions should not be less than three. Planning of special hospital treatment favours relatively few counties whereas local knowledge, central management and certain regional tasks suggest that the counties should not be too big. The specific number of regions should be seen in relation to the regions' portfolio of tasks and whether the management is appointed by direct or indirect election.

Finally, it is the assessment of the Commission that solution of the problems in Greater Copenhagen depends on establishment of a region or a county of a size which allows suitable placement of the current tasks of the Copenhagen Hospital Corporation (H:S) and the Greater Copenhagen Authority (HUR).

The Commission has decided only to indicate the position in the interval and the criteria on which the number of regions in the various models is based.

The municipality size also depends on the distribution of tasks in the specific model. It is the assessment of the Commission that with the current distribution of tasks, the minimum size in the broad county model should be 20,000 inhabitants and 30,000 inhabitants in the other models. The Commission's assessment of the size of the municipalities is primarily based on the question of professional sustainability and utilisation of economies of scale to perform existing and new tasks and financial sustainability of the municipalities when new tasks are taken over.

When it comes to employment and tax administration, it is the assessment of the Commission that these areas will not be affected by other structural changes.

The assessment of the Commission is that an improved task performance within employment will be obtained if the current divided system is concentrated in one place. Such a unified system will involve concentration of the responsibility for all target groups and employment services with the same authority. This implies a concentration of responsibility for insured and non-insured unemployed, unemployed recipients of cash benefits, rehabilitees, recipients of sick pay, people with flexible or easier jobs, etc. Such a concentration creates a perspective where the potential workforce available in every target group gets into focus and where social and other services will be provided when relevant. It is important that the level of efficiency and quality in some parts of the local government performance is improved. It has been established that there is a significant difference in the performance of the municipalities both in terms of visitation and to some extent the scope and result of the performance. Thus, there is a potential for improvement, cf. *chapter 17*.

The Commission reasoned that the public employment effort in a unified system should be anchored in the municipalities as task performance is related to other local government tasks, especially social services. Such a restructuring will also result in the municipalities getting financial responsibility for the insured unemployed. However, establishment of a unified system will require significant central management and participation with a view to ensuring an efficient and uniform effort and a nationwide job placement effort. Furthermore, the Commission considers it important that the rules of the various relief systems are harmonised.

According to the Commission's assessment, a precondition for es-

establishment of a unified employment system is that the labour market parties still play a significant role in the employment effort.

The Commission considers it a precondition for establishment of a unified system that the current minimum size of municipalities is increased to obtain professional and financial sustainability. There is no clear basis for an estimate of how big a catchment area establishment of a unified employment system requires. But municipalities of approx. 30,000 inhabitants will probably have sufficient financial sustainability, whereas it is uncertain whether municipalities of 20,000 inhabitants will be sufficiently financially sustainable for a unified employment system.

Today, tax administration is divided between the municipalities and the State. It is the assessment of the Commission that significant benefits in terms of efficiency and quality can be obtained by an improved organisation, first and foremost through utilisation of economies of scale in tax assessment, but also by establishment of a basis for prioritisation within the entire administration of taxes and duties and a more expedient decision structure regarding IT system development. It is also important that a local citizen service function is maintained.

As there is no, and should not be any local political influence on the actual tax assessment, the State being responsible for the entire tax administration will not have any negative consequences for the autonomy of local government. One solution suggested by the Commission is therefore concentration of the responsibility for this task in the State combined with local citizen service in the individual municipalities.

An alternative solution suggested by the Commission is that the local government continues to be responsible for the task. This solution involves concentration of tax assessment activities in fewer units, such as local tax assessment centres combined with local

citizen service in the individual municipalities. However, the Commission points out that this solution will not ensure cross-management and prioritisation within the entire administration for taxes and duties.

Table 2.1. lists the distribution of tasks in the above-mentioned models. Please note that the table does not include any sub-versions of the models. Reference is made to a more detailed presentation of the models in sections 2.3.1-2.3.4. and *chapters 18-20*. Also, please note that these are stylized models and it is possible to combine elements from the various models.

Table 2.1. Distribution of Tasks in the Commission's Main Models

<i>Task</i>	<i>The broad country model.</i>	<i>The broad municipality model, the municipal region model, and the party region model.</i>	<i>State model.</i>
Health	Unchanged.	The current country authority in the region. Municipal payment for hospital and health insurance services and full membership of the National Health Insurance Service (SFU).	Operation and planning of the hospital service in the State. Medicine and health insurance, excluding general practitioners and specialists in the municipalities. Partial municipal payment for hospital services and services of specialists in private practice.
Socio-psychiatry	The most specialised tasks in the countries. Increased responsibility in	Concentrated in the municipalities. Certain specialised tasks in the region.	Concentrated in the municipalities. Certain specialised tasks in the State.

	the municipalities.		
The physically disabled and groups with special needs	The most specialised tasks in the counties. More responsibility in the municipalities.	Concentrated in the municipalities. Certain specialised tasks in the regions.	Concentrated in the municipalities. Certain specialised tasks in the State.
Care for the elderly	Unchanged.	Unchanged.	Unchanged.
Children and young people (handicaps, placement away from their homes, etc.)	The most specialised tasks in the counties. More responsibility in the municipalities.	Concentrated in the municipalities. Certain specialised tasks in the regions.	Concentrated in the municipalities. Certain specialised tasks in the State.
Primary school	Unchanged.	Unchanged.	Unchanged.
Extensive special education	Concentrated in the municipalities.	Concentrated in the municipalities.	Concentrated in the municipalities.
Youth education, AMU (labour market educations) and KVV (short term further education)	Concentrated in the counties.	Concentrated in the State. Possibly municipal upper secondary schools.	Concentrated in the State. Possibly municipal upper secondary schools.
Environmental supervision	Unchanged.	Concentrated in the municipalities. Certain specialised tasks in the regions.	Concentrated in the municipalities. Certain specialised tasks in the State.
Other environmental responsibilities (preservation, ground water, nature care, etc.)	Unchanged.	The current county tasks in the regions.	The current regional tasks are concentrated in the State.
Physical planning	Unchanged.	General regional planning in the regions.	General regional planning in the State.

		More competence for local government plans.	More competence for local government plans.
Trade service/promotion	Strengthening of county responsibility for trade development in the regions.	Unchanged.	The current regional tasks are concentrated in the State.
Collective transport	Regional branch lines/suburban railways are transferred to the counties.	Unchanged.	Concentrated in the State.
Roads	General road network in the State. Remaining state road to the counties. Unchanged tasks in the municipalities.	Unchanged.	County roads are distributed between the State and the municipalities.
Integration	Unchanged.	Unchanged.	Unchanged.

In *sections 2.3.1.-2.3.4.*, the individual models are explained in further detail in terms of distribution of tasks and size and election form for the regional level. As employment and taxes are independent of the other tasks, these areas are not mentioned in the models.

The models are described in *sections 2.3.1.-2.3.4.* in terms of distribution of tasks, election form to the regional level, if any, and the size of the administrative units. *Section 2.3.5.* contains an overall assessment of advantages and disadvantages of the models.

2.3.1. Current Distribution of Tasks, Changed County and Municipality Sizes

It is the overall assessment of the Commission that both counties and municipalities that are larger than the current minimum size will be able to provide better public services at lower costs. The Commission's assessment is based on a number of different sources which combined form the basis for the conclusion that both the small municipalities and most of the current counties are too small to handle some of their existing tasks in the best possible way. Furthermore, it is the assessment of the Commission that a number of different development trends, cf. *section 2.2.2.*, in time will make these weaknesses more pronounced.

With the current distribution of tasks, it is the overall assessment of the Commission that a minimum municipality size of 20,000 inhabitants will create the proper framework for satisfactory professional sustainability for performance of the most important current tasks and improved utilisation of economies of scale.

Even though planning of special hospital treatment suggests relatively few counties, the assessment is that the appropriate number of regional units with an unchanged distribution of tasks due to the broad task portfolio, the right to impose taxes and a directly elected management lies in the upper end of the interval from 3-8 regions, e.g. 7-8. These county sizes will ensure sustainability in task performance and create the basis for increased utilisation of economies of scale.

2.3.2. Regions with a Broad Portfolio of Tasks (The Broad County Model)

The Terms of Reference prescribe that the Commission investigates whether a further decentralisation of tasks is possible when the municipalities and counties reach the minimum size that the current distribution of tasks seems to necessitate to be able to

meet future requirements.

It is the Commission's assessment that a regional division into the sizes mentioned in *section 2.3.1.*, i.e. at the upper end of the interval from 3-8, e.g. 7-8 regions and municipalities of minimum 20,000 inhabitants, will facilitate further decentralisation of tasks. The Commission is of the opinion that an increased task portfolio at regional level can only be realised in a structure with three directly elected administrative levels with the right to impose taxes at regional level.

The model proposed under these preconditions (the broad county model) involves transfer of a number of tasks from the State to the counties. These are state youth educations, labour market educations and the short and medium term further educations, the remainder of the state roads (except the general road network), regional branch lines and local railways. This will also strengthen regional trade promotion. Through an increase of the base rates, the municipalities will take over a larger part of the social and socio-psychiatric services, but the size of the municipality in this model does not seem to justify a complete concentration of these tasks in the municipalities. However, responsibility for special education can be concentrated fully in the municipalities. The independent county taxation for financing of health care services does not prevent introduction of municipal payments to the state for hospital and health insurance services in order to strengthen the municipalities' incentives regarding prevention and development of alternatives to hospitalisation, cf. chapter 17.

2.3.3. Regions with a Narrow Portfolio of Tasks

If the problems that the Commission has identified regarding divided responsibility in the current structure are to be fully addressed, a number of tasks have to be concentrated with the same authority. On the basis of the Terms of Reference, which require task performance close to the citizens, it is the assessment of the

Commission that concentration of the responsibility for individual areas and closely related/parallel functions should preferably be at local government level.

The Commission has therefore proposed a distribution of tasks between the State, counties and municipalities based on the main principle that if the size of the municipality meets the requirements of local democracy and closeness, etc., as many tasks as possible should be transferred to the municipality, and some of the current county tasks should be transferred to the State. The model also prescribes that the regional level only undertakes tasks where there is a need for regional coordination and financing and where large demands are placed on geographical size or the size of the population.

The model involves concentration of social and socio-psychiatric services as well as special education and environmental issues in the municipalities. Furthermore, the municipalities will get some responsibility for payment for hospital and health insurance services and full membership of the negotiating committee of the National Health Insurance Service (SFU).

Based on decentralisation of tasks in the municipalities, it is the assessment of the Commission that the municipalities should have a minimum size of 30,000 inhabitants. With fewer tasks at regional level, central management will be more compatible with a smaller number of regions than in the broad county model. Depending on the election form for the regional level, the number of counties can therefore be reduced to between 3 and 6, which will facilitate planning of special hospital treatment.

The Commission has stipulated that youth educations in this model lie with the State. However, a sub-version has been proposed where the responsibility for upper secondary school is transferred to the municipalities whereas the other youth educations remain in the State.

The regional units should only undertake health care services, some responsibility for the environment and nature and overall regional planning and collective transport, roads and trade promotion.

With a narrow task portfolio at regional level, the Commission finds that models can be made with both direct and indirect election at regional level.

In the models with indirectly elected regional government, a sub-version has been proposed which involves statutory, regional partnerships covering health care services, collective transport and youth educations, respectively.

The broad municipality model

The broad municipality model maintains direct election for the regional level. In this way main importance has been attached to the responsibility for all the tasks of the public sector being placed with directly elected politicians as this will provide the best framework for the citizens' democratic control of the public sector. However, improvement of cross-prioritisation between public tasks has not been fully taken into account.

With fewer tasks in the counties, central management will be more compatible with a smaller number of regions than in the broad county model. It is estimated that the number of counties in this model could be in the middle of the interval from 3-8, e.g. 4-6, which will facilitate planning of special hospital treatment, and the responsibility for traffic planning in Greater Copenhagen can be placed in one large region.

The very narrow task portfolio in the counties will result in hospital costs constituting the major part of county expenditures. In combination with the independent right to impose taxes, this may

be inexpedient for cost management. However, directly elected regional units without an independent financing responsibility will also affect cost management negatively.

As a sub-version of the model, the Commission has considered the possibility of the municipalities taking over the responsibility for health insurance (except specialists), including general practitioners and drugs. This version is especially relevant where the counties have no right to impose taxation.

In another sub-version of the model, the Commission has assessed the possibility of placing the responsibility for upper secondary education in the municipalities.

Region model with local government election form (municipal region model)

As an alternative to direct election at the regional administrative level, the Commission has proposed a model where the region is governed by a regional council composed by members of the local council appointed by the individual municipalities in the region where the members, in connection with major issues, are under the authority of the individual local councils. There could be several other versions of the local government election form, but the Commission finds that a model where the mayor is a fixed member of the regional council will provide the most legitimacy and decision-making competence due to the fact that the mayors will have a real mandate to represent the local council in the regional council.

With indirect election to the regional councils, no independent right to impose taxes and a narrow task portfolio, central management is more compatible with a smaller number of regions than in the models with three directly elected administrative levels. It is the assessment that the number of regions in this model could be at the lower end of the interval from 3-8, e.g. 3-5, where planning of special hospital treatment can be significantly empha-

sized and the responsibility for traffic planning in Greater Copenhagen can be placed in one large region.

No sub-version has been proposed for this model where health insurance is transferred to the municipalities as the correlation and coordination between health and social services are taken into account by the regions being anchored in the municipalities.

The tasks of the regions will be fully financed by the municipalities where the individual municipalities pay a basic subsidy to the region and pay for their own citizens' use of the region's services through rates. As the local councils in the regions through their members in the regional councils determine the expenditure, there is some degree of coherence between decision-making competence and financing responsibility in the model. As full financing of health care services lies with the municipalities, the local rates in this model can be significantly higher than in the other models.

Region model with party election form (party region model)

As another alternative to direct election at the regional administrative level, the Commission has proposed a model where the members of the regional council are appointed by the parties based on election by proportional representation in the region. It is a prerequisite that the members of the regional council should be elected by and from the members of parties (and any collaborating parties) in the local councils in the region. As the parties appoint the members of the regional councils, the local councils will have no authority in this model. Due to the party appointment, all the local governments do not necessarily get a representative in the regional council. The number of members of the regional council can be adjusted to ensure a certain geographical scope and a reasonable representation of different parties. In order to ensure geographical diversity, a quota scheme could be used based on geographical criteria.

Just like the region model with local government election, this model aims at maintaining the responsibility for health insurance at a regional level as an improved correlation and coordination between health care and social services are taken into account by municipal anchoring of the regions. It is the overall assessment of the Commission that the number of regions in the model could be at the lower end of the interval from 3-8, e.g. 3-5, where for example planning of special hospital treatment is given appropriate weight. In addition, traffic planning in Greater Copenhagen can be concentrated in one large region.

Other than the election form, the party model mainly differs from the municipality model by the way the tasks of the region are financed.

As the party model involves no direct relation between the decisions of the local councils and those of the regional councils, and the local councils have no authority over the members, it would not be expedient that the regional councils can decide which expenditure to impose on the municipalities for the services of the region.

Financing of regional tasks should therefore be based on a major state subsidy being granted, i.e. a general grant for the regions, while financial incentives for the municipalities regarding health care services are achieved through marginal activity-related payments for health care services that are regulated by the State.

Flexible division of regions

As a sub-version of the models with indirectly elected regional councils, the Commission has considered a model with more task-related, statutory, regional partnerships. Similarly to the main models, financing will be made by the municipalities and the State (depending on the election form). The regional units will not have the right to impose taxes.

Contrary to the main model, the regional tasks will be distributed on various municipal partnerships covering each of the following areas:

- Health care.
- Collective transport.
- Youth educations.

This sub-version facilitates adjustment of regional division to demographic and geographical factors which implies that special considerations can be taken to joint planning of collective transport in and around Greater Copenhagen.

2.3.4. Only Two Administrative Levels

Finally, the Commission has proposed a model with only two administrative levels, the State and the municipalities (the State model). In this model the municipalities take over the responsibility for as many tasks as possible, while the State undertakes those county tasks that place very high demands on the geographical size or the size of the population.

The distribution of tasks is based on the same requirements to municipality size as the models with a narrow task portfolio at regional level, i.e. 30,000 inhabitants. Just like the region models, the municipalities will undertake all the social and socio-psychiatric services as well as special education and environmental supervision. In addition, the responsibility for health insurance (excluding specialists in private practice) and part of the county roads will be transferred to the municipalities.

In this way the State can take on responsibility for the hospital service, specialists in private practice, youth educations, collective transport, certain environmental and nature-related tasks, general regional planning and parts of the county roads.

As a sub-version the Commission has proposed a model where upper secondary education is transferred to the local government.

2.3.5. Overall Assessment of the Advantages and Disadvantages of the Models

All the models require a considerable increase of the minimum size of municipalities and counties/regions which means improvement of the framework for professional sustainability, quality assurance, efficiency, citizens' civil rights and options with respect to the tasks, which are the responsibility of the municipalities and counties today.

A municipality size of 30,000 inhabitants facilitates concentration of social services in the municipalities and provides a relatively secure basis for establishment of a unified employment system which may increase efficiency and improve quality in this very important area.

Likewise, less than 7-8 regions will be more favourable for specialised hospital planning and will ensure appropriate placement of the responsibilities of the current tasks of the Copenhagen Hospital Corporation (H:S) and the Greater Copenhagen Authority (HUR).

The transfer of tasks that the Commission has proposed in the individual models also ensures professional and financial sustainability by adequate sizes of municipalities and regions.

It is the assessment of the Commission that physical closeness and involvement of the citizens are duly considered by the proposed size of municipalities.

Regarding change of the size of regions, the Commission is unable to assess the consequences in terms of physical closeness and citizen involvement.

In those models where the tasks have been decentralised, the Commission is of the opinion that these two considerations will be advanced further.

The Commission is of the opinion that the proposed sizes of municipalities will not affect democratic sustainability and democratic control significantly at local government level.

Based on the existing empiric data, it is not possible to conclude whether larger municipalities and regions will have any effect on the dialogue between citizens and politicians.

The models consider the following criteria very differently:

- Democratic control at regional level.
- Dialogue between citizens and politicians at regional level.
- Clear distribution of responsibility.
- Correlation between decision-making competence and financial responsibility.
- Manageability in relation to regional tasks.
- Simplicity.

As to the correlation between competence and financial responsibility, it applies to all the models that the authority that has the decision competence in relation to a specific task is also responsible for budgets and prioritisation of tasks, although the models give the authority different levels of influence on the financial framework. There is not correlation between decision competence and financing responsibility in all the models. Financing responsibility implies that an authority may – and can – cover its deficit with its own financing sources. The correlation between competence and responsibility will therefore, all things being equal, be larger if the authority has financing responsibility.

Furthermore, the models differ in terms of the way they solve the

problems related to divided task responsibility in the current structure and the way they handle the most important development trends, especially the need for improved cross-prioritisation.

The following describes the advantages and disadvantages of the models in relation to:

- Solution of problems in the current structure.
- Those criteria that have been considered differently in the various models.
- Handling of the most important development trends.

Model with unchanged distribution of tasks and changed county and municipality sizes

As mentioned, a municipality size of at least 20,000 inhabitants and a number of counties at the upper end of the interval from 3-8, e.g. 7-8, will facilitate improved task performance, also long term. However, the relatively large number of counties as a result of den broad task portfolio, direct election and the right to impose taxes, will not facilitate expedient planning of special hospital treatment, solution of the problems in Greater Copenhagen, and utilisation of the other advantages associated with a smaller number of counties.

As a result of direct election to counties, it is the assessment of the Commission that democratic control at regional level will be promoted and that political closeness, the dialogue between citizens and politicians as well as democratic sustainability at regional level will not be favoured any less if there are 7-8 counties.

However, changed municipality and county sizes without a change of the distribution of tasks will not solve the other main problem in the current structure, i.e. divided responsibility in a number of areas such as youth education, employment, social services and special education as well as part of the health care services. The result will not be a more simple, complete and coherent public sec-

tor, and there will be no benefits from the efficiency and quality associated with a concentration of related tasks at the same administrative level.

The model will only to a very limited degree improve cross-prioritisation between public tasks, especially between health care services and local tasks which is a major problem seen in the light of the socioeconomic challenges. Therefore, unchanged distribution of tasks will place heavy demands on the involvement of the Danish Parliament and the government to prioritise and reprioritise local government and county tasks.

As the number of counties is at the upper end of the interval from 3-8, concentration of the responsibility for regional planning and traffic planning in Greater Copenhagen will result in significant differences in the size of the population in the county of Greater Copenhagen and in the counties in the rest of Denmark. In addition, it will not be possible to concentrate the responsibility for collective transport in Greater Copenhagen as no transfer of tasks will take place.

Finally, the model involves no further decentralisation of tasks from the State to the counties and the municipalities and from the counties to the municipalities.

It is the general assessment of the Commission that the arguments for a change of the municipality and county size without a change of the distribution of tasks are establishment of an improved framework for sustainability and efficiency in task performance and the opportunity to ensure more options for the citizens. The arguments against the model are that it will not create more coherence in the distribution of tasks, cross-prioritisation will not be improved and the number of counties may hamper planning of special hospital functions. Concentration of the responsibility for regional planning and traffic planning in Greater Copenhagen will result in significant differences in the size of

population in Greater Copenhagen and in the counties in the rest of Denmark. Even though the model has its advantages, the Commission is of the opinion that additional benefits can be obtained by a redistribution of tasks which will be facilitated by larger municipalities and counties.

The broad county model

The broad county model will provide the possibility of improving task performance, also long term in the same way as the model with unchanged distribution of tasks.

In addition, the model will partially solve the problems associated with divided responsibility. Special education will be concentrated in the municipalities, whereas other types of youth education and the responsibility for regional business development will be concentrated in the counties. An increase of the base rates for social and socio-psychiatric services will result in the municipalities taking over a major part of the county tasks which will solve some of the existing problems of lack of coherence in task performance. A higher base rate can contribute to creating improved financial incentives in the municipalities with a view to making a preventive effort and task performance at the lowest possible, efficient level of specialisation. The independent county taxation to finance health care services does not prevent introduction of municipal payments to the State for hospital and health insurance services in order to strengthen local incentives for prevention and development of alternatives to hospitalisation.

Decentralisation of State tasks to the counties will also give the counties a more central role in the public effort to strengthen regional business development.

As a result of direct election to counties, it is the assessment of the Commission that democratic control at regional level will be promoted and that political closeness, the dialogue between citizens and politicians as well as democratic sustainability at regional

level will not be favoured any less if there are 7-8 counties than in the current structure. As the model also results in a certain decentralisation of tasks from the State to the counties and from the counties to the municipalities, it is assumed that this will provide a better basis to support these considerations.

A disadvantage of the model is that it does not fully solve the problems related to divided responsibility, for example for social services. It is also uncertain whether a municipality size of 20,000 will be suitable for establishment of a unified employment system anchored in the municipalities. In that case, two separate systems will be maintained depending on the service or insurance status of the individual despite the similarities of the tasks. Therefore, the model will result in the citizens experiencing an unclear distribution of responsibility and lack of simplicity.

The model does not create the basis for significantly improved coordination, etc. between health care and social services. Another drawback of the model according to the Commission is that there will be no improvement of cross-prioritisation between the public tasks, including county and municipal tasks, which will place heavy demands on the involvement of the Danish Parliament and the government in prioritisation between these tasks.

As the number of counties in the model is relatively high, some counties will not have any hospital service with special hospital functions. Therefore, there is a risk that too many counties will wish to become self-sufficient, also within the more specialised functions, which may thin out the patient base with a risk that the quality of the health care services will be reduced.

As the number of counties in this model is at the upper end of the interval of 3-8, there will be significant differences in the size of the population in the county of Greater Copenhagen and in the counties in the rest of Denmark, if a concentration of the responsibility for regional planning and traffic planning in Greater Copen-

hagen is to take place.

In addition to the advantages of larger municipalities and counties, it is the general assessment of the Commission that the arguments for the model are decentralisation of tasks primarily to the counties, direct democratic control of the regional administrative level and a better correlation between social services and special education. The arguments against the model are the continued, but less extensive, divided responsibility for social services, the uncertainty as to whether the municipalities will have sufficient professional and financial sustainability to manage a unified employment system, no improvement of cross-prioritisation and the risk of the patient base for the special hospital functions thinning out. Concentration of the responsibility for regional and traffic planning in Greater Copenhagen will result in significant differences in the size of the population in the county of Greater Copenhagen and in the counties in the rest of Denmark.

The broad municipality model and region models with indirect election

The broad municipality model and the two region models with indirect election have the same distribution of tasks and place the same demands on municipality and county sizes. Therefore, the advantages will be explained jointly for the three models whereas the advantages and disadvantages related to the election forms for the regional level will be explained subsequently.

Advantages and disadvantages of task distribution and municipality and county/region sizes

The significantly larger municipalities and regions will be much better equipped to solve the problems that are based on the size of the administration units, i.e. professional sustainability and efficiency, than the broad county model and the model with unchanged distribution of tasks.

Changed distribution of tasks where related tasks are concentrated at the same administrative level will solve the problems of divided responsibility in the current structure. Concentration of related tasks at one administrative level will create a simpler public sector with a clearer distribution of responsibility. Furthermore, concentration of tasks in the municipalities will provide the basis for task performance at the lowest possible, efficient level of specialisation.

Comprehensive decentralisation of tasks to local government level will result in more of the public tasks being solved closer to the citizens which will strengthen the feeling of political closeness. Furthermore, cross-prioritisation at local government level will be improved which is an advantage seen in the light of the narrow socioeconomic framework.

As the Commission is of the opinion that the narrow task portfolio at regional level facilitates fewer regions than the broad county model, it will – depending on the number of regions – be possible to establish a very large region in Copenhagen and thus create a better framework for planning of activities in the region of Greater Copenhagen without creating an imbalance in relation to the rest of the country.

However, there are also disadvantages involved in a change of the distribution of tasks. Transferring authority within special areas from the counties and the State to the municipalities, including social services, will result in the tasks being handled by much smaller units than today, even with larger municipalities. This may involve the risk of reduction of professional sustainability in these areas. In the same way as in the current structure, there will also be a need for municipal partnerships for solution of a number of the most specialised tasks as well as IT-supported service centres with a view to providing consulting services at local administrations and institutions.

Concentrating youth education in the State will result in centralisation of the responsibility for upper secondary education. Therefore, the Commission has proposed a sub-version of the model where the municipalities take over the responsibility for upper secondary education, as the Commission is of the opinion that it will not be possible or expedient to let the municipalities have the entire responsibility for youth education. With local government responsibility for upper secondary education only, the responsibility for upper secondary education will be decentralised further, but youth education will not be concentrated at one administrative level.

Based on the existing information, it is not possible to determine whether the feeling of political closeness and the dialogue between citizens and politicians will be affected by establishment of significantly larger municipalities.

In addition to the advantages of larger municipalities and regions, the assessment of the Commission regarding distribution of tasks in the broad municipality model and the region models is that the advantages are concentration of tasks at local government level, including social services, establishment of a unified employment system, improvement of cross-prioritisation for many of the tasks in the public sector and a better framework for task performance in Greater Copenhagen without creating significant differences in the size of the population in Greater Copenhagen and in the rest of the country. The disadvantages of the model are centralisation of tasks in the State, including the responsibility for upper secondary education, and the risk of reducing professional sustainability when it comes to the most specialised tasks that are transferred from county to local government level.

Specific advantages and disadvantages of the broad municipality model

In addition to the advantages and disadvantages related to size

and distribution of tasks, cf. above, the broad municipality model has specific advantages and disadvantages as a result of the direct election to counties.

Direct election to counties promotes democratic control at regional level. It is the assessment of the Commission that the fact that there is a limited number of county implies that political closeness, the dialogue between citizens and politicians as well as democratic sustainability at regional level will not be favoured any less than if there were 7-8 counties.

However, the combination of the very narrow task portfolio in the counties with direct election also involves the risk that the citizens' interest in and commitment to regional democracy will be reduced compared to today. Conversely, the task involved in the hospital service is expected to be so comprehensive in the coming years that the assumption is that the voters will consider it very important.

A major problem with this model is that the counties as a result of the very narrow task portfolio will have few possibilities of cross-prioritisation between the tasks of the county. The counties' actual political autonomy will also be limited due to significant State involvement in management and prioritisation of the hospital service. This could involve a risk of higher expenditure and taxes, not least due to the expected increase of hospital service costs.

Therefore, the Commission has assessed the consequences of depriving the counties of their right to impose taxes. Even though this may be an advantage in relation to the problems mentioned, it will cause other problems as the absence of the financing responsibility may reduce the counties' inclination to prioritise.

Finally, regardless of the question of financing responsibility, the model does not fully utilise the potential of general cross-prioritisation between county and local government tasks, espe-

cially concerning health care services and local government tasks. Prioritisation between the local government and county tasks will place heavy demands on the involvement of the Danish Parliament and the government.

The Commission's general assessment is that the arguments for the model are direct democratic control of the regional level and, compared to the region models with indirect election, correlation between decision competence and financing responsibility by maintaining the right to impose taxes. The arguments against the model are problems with cost management due to limited possibilities of cross-prioritisation at regional level and limited possibilities of general cross-prioritisation between local government and county tasks.

Specific advantages and disadvantages of a region model with municipal election form

Anchoring hospital service, etc. in indirectly elected regional councils with local representatives provides the possibility of ensuring improved coordination and coherence between local health care and social services and the health care services of the regional council. Local government financing of regional tasks will give the municipalities the incentive to strengthen the preventive effort and create alternatives to hospitalisation.

As the municipalities will have direct financing responsibility for hospital service, etc., the model will result in regional tasks to a larger extent being integrated and prioritised with the task portfolio of the municipalities. This will improve the possibilities of promoting cross-prioritisation and management.

Finally, the model will provide the possibility of a flexible division of the region where the division is adapted to the tasks required by demographic and geographical factors, cf. *the proposed sub-version*.

The most significant disadvantage of the model is indirect election to regions which will weaken the voters' opportunity to exert democratic control with regional tasks, including health care services, during an election.

If the members of the regional councils are to be appointed by the individual local councils, or if the mayors automatically become members, the regional councils will get an uneven representation of parties as the largest parties will be overrepresented in the regional councils in relation to the composition of voters. However, this disadvantage will be partially moderated by the fact that the local councils have authority over their member of the regional council and the smaller parties will then have some influence via the local councils.

However, the instruction authority may in some cases stand in the way of decisions in the regional councils as well as management of tasks of the regions.

Finally, the coherence between decision competence and financing responsibility will be smaller than is the case in directly elected counties with an independent right to impose taxes. This may involve the risk that cost management is weakened as a majority of the municipalities in the regional council can impose increased expenditures on the minority. Another risk is that the municipalities do not prioritise expenditures for regional tasks highly enough because the individual local councils do not have direct responsibility and decision competence in relation to the regional tasks.

The general assessment of the Commission is that the arguments for the models are improved possibilities of coordination, coherence and cross-prioritisation between municipal and regional tasks. Compared with the party model, a certain correlation between decision competence and financing responsibility is ensured, but it will not be as high as the one that applies when the

region has the right to impose taxes. Furthermore, contrary to the party model, the regional councils will be anchored in the local councils. Finally, it is an advantage that the model provides the opportunity to establish task specific regions with different geographical size. Arguments against the model are weakening of the voters' democratic control of the regional level, the uneven party representation in the regional councils and the fact that a majority of the municipalities can impose expenditures on a minority.

Specific advantages and disadvantages of the region model with party election form

As is the case with the municipality model, the party model anchors hospital service, etc. in indirectly elected regions with local representatives. This facilitates improved coordination and coherence of local tasks. However, the effect can be slightly smaller than in the municipality model as the decisions of the local councils and the regional councils do not have to be correlated. Furthermore, partial municipal payment for hospital and health insurance services gives the municipalities certain incentives to strengthen preventive activities and ensure a better coherence and coordination between the health care and social services of the municipality and the health care services of the regional council. However, the effect will be smaller than in the municipal region model.

Compared with the municipality model, the party model has the advantage that there is even party representation in the regional council.

In line with the local region model, the model will facilitate a flexible division of the region, where the division is adjusted to the tasks required, considering the particular demographic and geographical factors, cf. the proposed sub-version.

A major disadvantage of the model is the indirect election to regions which will weaken the voters' ability to exert democratic

control with regional tasks, including health care services.

The financial responsibility of the regional councils is limited as they are not responsible for financing the tasks. There is no correlation between decision competence and financing responsibility although the regional councils do have a financial responsibility. Absence of the financing responsibility may weaken the regional councils' inclination to prioritise depending on the councils' political ability to advocate for and obtain increased state grants.

Unlike the municipality model, the parties will appoint the members. Therefore, the voters can hold the parties responsible for the decisions of the regional councils – not the local councils.

It is the general assessment of the Commission that the arguments for the model are improved possibilities of coordination and correlation between the municipal and regional health care services, etc. in line with the other models with municipal payment schemes for health care services. Furthermore, it is an advantage that the model provides the opportunity to establish task specific regions of different geographical size. Compared to the municipality model, this will ensure an even representation of political parties in the regional councils. Arguments against the model are weakening of the voters' democratic control of the regional level and, compared to the municipality model, lack of correlation between decision competence and financing responsibility with the risk of pressure to get increased grants from the State and finally, the fact that the regional councils are not firmly anchored in the local councils.

State model

The distribution of tasks in the state model is largely the same as the one in the broad municipality model and in the region models with indirect election, and the requirement as to municipality size is also 30,000 inhabitants. The advantages related to the distribu-

tion of tasks at local government level and the size are therefore also the same. The significantly larger administrative units will solve the size-related problems regarding professional sustainability and utilisation of economies of scale. Likewise, concentration of tasks in the municipalities will create a clearer distribution of responsibility and enable the municipalities to make cross-prioritisation due to the larger number of tasks.

The specific advantages of the state model are a clearer placement of responsibility for planning and operation of the hospital service with the government/Danish Parliament. Furthermore, the model facilitates execution of general nationwide political goals for the hospital service, including a more appropriate specialty planning. State responsibility for the hospital service also ensures improved coordination and management, including cross-prioritisation of all the tasks in the public sector.

In the state model, the responsibility for health insurance is transferred to the municipalities. This will enable the municipalities to ensure improved horizontal coordination between general practice and local government tasks. However, the transfer will also involve the risk of reduced vertical coordination between general practice and the hospital service which may lead to a deterioration of the coherence and uniformity of the health care services.

Partial municipal payment for hospital services and transfer of the health insurance services will promote the municipalities' incentives to make a preventive effort and to establish municipal services as an alternative to hospital treatment. The incentives will not necessarily be as strong as in the municipal region model, but payment will, unlike the system in the other models, be determined while taking into account that the services of the general practitioners are fully paid by the municipalities.

Compared with the current structure and distribution of tasks, and in line with the broad municipality model and the region

models, the state model involves the risk of reduced professional and financial sustainability in handling the tasks of authority within special areas that are transferred from the counties and the State to the municipalities.

It is the Commission's opinion that centralisation of the responsibility for the hospital service will reduce the citizens' influence on task performance in the hospital service. As there is no regional anchoring of decisions within the hospital service, the model will also limit the possibilities of adjusting hospital services to different local wishes and requirements of the citizens.

Furthermore, the lack of regional anchoring may result in any decision on changes of the hospital structure becoming more difficult as the political responsibility lies with the minister/government only. However, a type of State management could be considered where the minister does not have direct responsibility for operations.

Anchoring in the State also involves the risk that cost management and general prioritisation, especially in the hospital service, are weakened and the hospital service can, depending on the management form, to a larger extent become subject to individualisation and ongoing nationwide politicisation.

In addition to the advantages of larger municipalities, it is the assessment of the Commission that the arguments for the model is concentration of tasks at local government level, improved possibilities of horizontal coordination between general practice and local government tasks, improved possibilities of cross-prioritisation in the public sector and a clear placement of responsibility for the hospital service in the State. The arguments against the model are centralisation of the hospital service, reduced vertical coherence within the entire health care service, the risk of reduced cost management and prioritisation within the hospital service and the risk of reduced professional sustainability when it comes to more

specialised tasks that are transferred from the counties and the State to the municipalities.

2.4. Separate Statements

2.4.1. Separate Statement from the Association of County Councils in Denmark

Otto Larsen, the representative from the Association of County Councils in Denmark, does not think that it is possible to place full responsibility for the special social services for children and young people or for the physically disabled or the mentally ill in the municipalities.

The number of people needing special and individual support, care and education will be limited even in municipalities of more than 30,000 inhabitants.

Therefore, responsibility for special social services should not be distributed on 100-150 units compared to the current 16 units. A public authority with sufficient professional and financial sustainability has to be the guarantor for supply reliability. The market will not in itself ensure offers of optimal quality at reasonable prices.

It is also necessary to maintain a consulting service system with competent and qualified employees who are independent of specific institutional interests. Such a consulting system would be best anchored at regional level.

The financial consequences of taking over full responsibility for the special social services may become a very large burden also for municipalities of 30,000-40,000 inhabitants. Therefore, the recommendation indicates that there may be a need for special insurance schemes. Such schemes will contribute to reducing trans-

parenry in the local equalisation system.

Therefore, it is necessary, both for professional and financial reasons, to maintain divided responsibility for social services in the municipalities and the regions.

Introduction of the base rate model has contributed to reducing some of the disadvantages of divided responsibility identified earlier. The base rate model is not yet fully implemented. The remaining weaknesses can be alleviated by a clearer legislation, an increase of the base rates and aggregation of the rates for certain services.

Especially concerning the mentally ill, the correlation between psychiatric treatment and socio-psychiatry suggests that as many offers as possible should be concentrated at regional level.

The offers for extensive special education and social services for some children and young people with special physical and mental handicaps should be seen as a whole across the provisions in the legislation on social services and education. The base rates for these children and young people should therefore be coordinated.

Considerations regarding planning of the special hospital service has been attached too much importance in the Recommendation compared to the wish to establish a coherent health care service. It is the assessment of the representative from the Association of County Councils that the activities of the Commission on Administrative Structure have not disclosed any material that change the basis of the recommendations of the advisory committee of the Minister for the Interior and Health¹, including the required size of population for the future regional units.

¹ The Advisory Committee of the Ministry for the Interior and Health: *Organisation of the health care service, hospitals, incentives, counties and alternatives*, The Ministry of the Interior and Health 2003.

The future regions should be managed by directly elected councils with the right to finance their own regional expenditures and with a task portfolio that is so broad that they can make a real cross-prioritisation of public tasks.

2.4.2. Special Statement by Jørgen Søndergaard, Poul Erik Mouritzen and Erik Bonnerup

The Recommendation includes a number of models for a future structure including advantages and disadvantages of the models in relation to the criteria stated in the Terms of Reference as well as another two criteria included by the Commission. The advantages and disadvantages of the individual models have not been weighed in relation to each other and therefore, a decision on a specific new structure and distribution of tasks has not been made.

In continuation of the general recommendations of the Commission, a minority consisting of Erik Bonnerup, Poul Erik Mouritzen and Jørgen Søndergaard would like to point out the proposals for structure and distribution of tasks that they find most appropriate to meet the challenges facing the public sector based on a general assessment of their advantages and disadvantages.

The minority recommends,

- 1. That counties or regions regardless of their number are governed by elected bodies with an independent right to impose taxes. The minority cannot recommend indirectly elected bodies regardless of the election form.*
- 2. That the State, if direct election at regional level is to be abolished, takes over the responsibility for hospitals and regional traffic.*
- 3. That a new regional division, in addition to professional sustainability for solution of the hospital tasks in the entire country, will create an appropriate framework for solution*

of the problems of Greater Copenhagen within hospital service, transport, planning and infrastructure. Erik Bonnerup and Jørgen Søndergaard recommend a structure with 3 regions, whereas Poul Erik Mouritzen recommends a structure with about 7 regions.

- 4. That the responsibility for youth education is concentrated at regional level. The counties' current environmental tasks should remain at regional level. Alternatively, both tasks could be transferred to the State.*
- 5. That a new municipality structure provides the opportunity to make a local employment effort as described in chapter 17. The municipalities should also have a financial co-responsibility for the expenditures for all the groups of unemployed. The transfer of tasks should be accompanied by a concurrent change in the financing and equalisation schemes to reduce the local economy's vulnerability to national as well as regional fluctuations.*
- 6. Financial robustness within the area of employment should determine whether the smallest municipalities should be larger than the 20,000 inhabitants that ensure sustainability in relation to the current municipal tasks. Only very few deviations downwards in terms of size of the municipality would be acceptable if a sustainable local government structure long term is to be ensured. Political closeness and prevention of geographically very large municipalities in thinly populated areas could justify that some municipalities do not quite meet the requirement stipulated for the minimum number of inhabitants.*
- 7. That an analysis is made of how the size of the municipality affects financial robustness within the area of employment, considering the concurrent restructuring of the financing and equalisation schemes.*
- 8. That any transfer of tasks within social services and extensive special education ensures access to highly specialised offers for the weakest citizens. Therefore, the minority recommends that the responsibility for an adequate range of*

the most specialised institution services as well as knowledge centres and consulting services for the municipalities and citizens should still be placed at regional level or alternatively be transferred to the State. With this proviso the minority can recommend that the municipalities take over the responsibility of authority and financing of extensive special education, if a detailed analysis is made regarding the consequences of any transfer of authority and responsibility for financing of those social and socio-psychiatric services that are currently undertaken by the counties.

9. *That taxation is transferred to the State and that consideration is also given to concentration of the administration of other tasks where the technology provides the potential of utilising economies of scale and where the service does not involve any local evaluation in central nationwide units.*

General comments to the recommendations of the minority

When weighing the many considerations, the minority finds it very important that a new local structure builds on the principles of closeness and directly elected political management and that the structure with a high degree of certainty:

- Creates the basis for long term professional and financial sustainability throughout the public sector.
- Creates an appropriate framework for solution of the capital's problems within hospital service, traffic, planning and infrastructure.
- Ensures the best possible foundation for prioritisation of tasks in the public sector within a very narrow financial framework, including solution of the long term employment problems in Denmark.

In connection with distribution of tasks, the minority considers it very important that the responsibility for tasks that affects many citizens and where it should be possible to meet different local

needs and preferences is placed at local government level and that the responsibility for these tasks forms the basis for the assessment of the future size of municipalities. Furthermore, these tasks should be solved as close to the citizens as possible. Therefore, when determining the size of future municipalities, it is important to make sure that municipalities in thinly populated areas do not become too big geographically. The minority is of the opinion that some of the weaknesses of relatively small municipalities could be minimised by appropriate utilisation of new technology.

Comments to the individual recommendations of the minority

Re 1.

The minority finds it crucial to maintain one of the cornerstones of representative democracy, i.e. that the elected politicians are made directly responsible to the voters at the elections concerning political government of areas of major importance to the rights and welfare of the citizens. Therefore, the minority cannot recommend indirectly elected bodies regardless of the election form.

Re 2.

If direct election is to be eliminated at regional level, it is the opinion of the minority that it would be more appropriate to let the State be responsible for hospital services and collective transport rather than establishing indirectly elected bodies. The State can choose a decentralised organisation of the operation, e.g. in the form of regional operators with local councils with both local knowledge and management skills. This will make room for an organisation and operational management that will at least fulfil the same considerations as is the case with government by indirectly elected politicians.

One advantage of a model with only two administrative levels is the potential savings and simplifications to be obtained long term. Distribution of tasks on several levels creates problems of coordination and hampers improvement of efficiency as is the case for

example with taxation, cf. chapter 41.

Another example is the development of a number of different patient journal systems at the hospitals that, in addition to major costs, hampers restructuring and staff transfers, delays utilisation of technology and hinders efficient communication between all the actors in the Danish health care service.

But reaping the potential benefits of improved efficiency by removing one administrative level naturally requires political and administrative willingness to acknowledge these benefits, and the same applies to utilisation of the benefits of merging municipalities.

Re 3.

The biggest challenge of a new regional division lies in the area of Greater Copenhagen where special, indirectly elected bodies have been established to take on the responsibility of the hospital service, collective transport and regional planning. The minority does not think that counties and regions should be governed by political bodies elected indirectly, and as stated in the Terms of Reference, the future structure should not be based on special schemes for the region of Greater Copenhagen.

The latter may be difficult to achieve as Greater Copenhagen differs from the rest of the country by having a very large metropolitan area with a corresponding transport infrastructure and a considerable amount of long-distance commuter traffic. An optimal solution of the hospital, transport and environment task requires a very large regional unit including all of Zealand (and Lolland-Falster and Bornholm) as this area already to some extent, and more so in future, constitutes one area in terms of hospital treatment, trade, traffic and environment.

It is assumed that the hospitals in the Copenhagen Hospital Corporation (H:S) will be transferred to the new region. Regional

transport requires a similar concentration of responsibility for the various companies involved in collective transport as the body to determine the rates of collective transport should also have a financial responsibility for the most important public or publicly owned companies offering collective transport. It should be pointed out that it will be a question of moving the heavy operating companies to the regional level. The assessment is that a large region will be able to undertake such a task.

It is the assessment of the minority that the best way to handle regional tasks in Greater Copenhagen within the framework of the Terms of Reference will be to establish one region or large county with direct election and the right to impose taxes on Zealand.

But this solution of the problems in Greater Copenhagen will involve some disadvantages for the rest of the country. If the regions are supposed to be more or less the same size and have the same task portfolio all over the country, only three or at most four regions can be established in Denmark. This means that the rest of the country will be divided into two, possibly three, geographically very large regions, breaking up historical divisions and identities. Especially those that are financially weak will risk being given lower priority in relation to the interests of the power centres. Alternatively, one of the following solutions could be considered:

1. That the counties could vary in size so that the country is divided into a county covering Zealand (including Lolland-Falster and Bornholm) whereas the rest of the country is divided into 5-6 counties.
2. Zealand (including Lolland-Falster and Bornholm) is divided into two counties of which one covers at least the existing area under Greater Copenhagen Authority (HUR, resulting in a less expedient solution of the problems in Greater Copenhagen, and the rest of the country is divided into 5-6 counties. In a model with 2 counties on Zealand

and 5 in the rest of the country, the relative difference between the largest and the smallest county will be smaller than it has been since the local government reform in 1970, and the difference will only be slightly larger if the county of Bornholm is not included.

Erik Bonnerup and Jørgen Søndergaard find that the best regional structure is 3 large regions. This will best solve the problems of the current structure, and 3 regions each with its own medical university faculty are considered the most appropriate organisation of the hospital service long term.

Poul Erik Mouritzen finds that a regional structure with 2 counties/regions east of Storebælt and about 5 in the rest of the country is the best solution. This will preserve regional identity and development potential in the financially weaker parts of the country in the best possible way. In addition, the model ensures an acceptable solution of the problems in the capital as the difference in size between a large capital county and the other counties will not be of major importance.

Re 4.

The minority cannot recommend that the current tasks of the counties regarding environmental approvals and control of polluting companies are transferred to the municipalities, as these issues may lead to a conflict of interest between environmental and employment considerations in the municipality. Therefore, an arm's length principle should be maintained within this area. The alternative to maintaining the responsibility at regional level would therefore be to place the responsibility in the State.

Re 5.

The biggest challenge for the public sector in the coming decades will be to prioritise the public tasks within a historically very narrow socioeconomic framework.

One of the most important prerequisites for the best possible socioeconomic framework in future is also a high employment rate seen in an international context. Therefore, it is the opinion of the minority that the future structure should provide the best possible framework for an efficient employment policy.

A unified system for all the unemployed, cf. chapter 17 including the requirements described, will contribute to solving this problem, and on the basis of the framework of the Terms of Reference, such a system can only be established if it is anchored in the municipalities. Nevertheless, it will require very comprehensive changes in legislation, etc. to establish a unified system and to obtain the potential socioeconomic benefits.

A transfer of parts of the financing of daily unemployment benefits as well as activation expenditures for the insured unemployed to the municipalities will result in the local budgets becoming significantly more sensitive to market fluctuations. The consequence will be that future municipalities will have a smaller core of tasks than today where you could say that they are able to manage their expenditures.

As mentioned in chapter 25, there is a risk that the municipalities in the periphery of Denmark will be under pressure in the coming decades due to an increasing obligation to render public assistance in terms of benefits in combination with the financial development in the regions. This pressure will be increased if the municipalities take over the responsibility for employment. The municipalities in those parts of the country severely affected by recessions will be hit threefold as they have to finance unemployment benefits and other transfer payments and increase their efforts within activation activities, while being pressured on taxation. This will place the local politicians in an unreasonable situation unless a major restructuring of the financing and equalisation system is made, as they will otherwise have to make some very difficult decisions in

relation to the voters regarding issues that they have little or no influence on.

Therefore, a unified employment system should be accompanied by a restructuring of the financing and equalisation systems so that the variation in tax percentages and the total cyclicity in the municipalities does not become larger than it is today.

Re. 6 and 7.

As stated in the Recommendation, there is a large element of uncertainty involved in the assessment of what a unified employment policy will require in terms of municipality size to obtain the necessary financial robustness. It is the assessment of the Commission that municipalities of 20,000 inhabitants will have sufficient sustainability to solve the current tasks. The minority finds it likely that financing and equalisation systems can be established so that municipalities with between 20,000 and 30,000 inhabitants will be sufficiently robust to handle the employment effort. But the Commission has not had a detailed basis on which to assess the required minimum size. Therefore, the minority recommends that an analysis is made as soon as possible of how the size of the municipality affects cyclicity in local budgets, taking into account the new equalisation system, before a decision is made on the minimum municipality size. The minority is of the opinion that it is essential to avoid that municipalities, who may be affected by company closures, etc. should have special support from the State to be able to get by financially.

Re 8.

Assuming that the municipalities will have at least 20,000 inhabitants, they can undertake both the authority and the financing of extensive special education. Concerning other tasks for the physically disabled as well as social and socio-psychiatric services, the assessment of the minority is that it is important in connection with further transfer of tasks to the municipalities that the special

expertise available in the counties today is not lost. Otherwise, there is a risk that the redistribution of tasks will harm the groups of weaker citizens that the new structure aims to favour.

Re 9.

Tasks that do not require any local political assessment should basically be placed in the State unless there are special financial or professional reasons to justify another placement. It is the opinion of the minority that this does not apply to tax assessment. On the contrary, there seem to be significant possibilities of utilising economies of scale when concentrating these tasks in the State. Administration of other tasks where the technology facilitates economies of scale and where no local assessment of the service is required should also be placed in the State. With the Commission's proposal of up-front citizen service in the municipalities, such a redistribution of tasks will involve no changes in direct service for the citizens.

2.5. Summary of the Main Report

This section includes a brief summary of each chapter of the main report.

Chapter 3 describes the role and structure of the public sector and contains arguments for and against decentralisation and centralisation, respectively.

Chapter 4 explains the criteria on which the Commission has based its assessment of the various models for the structure of the public sector.

Chapter 5 through *chapter 12* describes the correlation between the size of the administrative units and the criteria considered: Democratic sustainability, involvement of the citizens and political closeness, democratic control and political management, the

citizens' options, quality assurance and professional sustainability, financial sustainability, efficiency and manageability. A few criteria have not been addressed individually as they depend very much on the specific distribution of tasks.

Chapter 13 contains the framework for execution of the public tasks and production types: Own production, municipal partnerships and involvement of the private sector are described and assessed in relation to the criteria of democracy and efficiency.

Chapter 14 describes financing of the public sector with special focus on the local sector, including current financing and the principles, etc. that are relevant in connection with redistribution of tasks, etc. in the public sector.

Chapter 15 contains a description of a number of important considerations that should form the basis for the deliberations regarding a reform.

Chapter 16 clarifies the most important challenges and weaknesses in the public sector, and *chapter 17* lists possible models for a redistribution of tasks.

Chapter 18, 19 and 20 include a number of stylized models for the structure of the public sector and an analysis of the advantages and disadvantages of the various models. Chapter 18 describes models with three directly elected administrative levels and chapter 19 deals with models with two directly elected administrative levels and one or more indirectly elected administrative levels. Chapter 20 describes a model with only two directly elected administrative levels.

Chapter 21 contains the Commission's deliberations regarding the geographical and demographic criteria that should form the basis for changing the current boundaries, and *chapter 22* describes the

Commission's deliberations about the process of the structural changes.

The following is a summary of chapters 3 to 15 as the contents of chapters 16 to 22 are reflected in *sections 2.2-2.3*.

2.5.1. The Role and Structure of the Public Sector

During the 20th century, the public sector has acquired an increasingly larger role in the society and today, this sector solves a wide selection of tasks ranging from upholding law and order to education and treatment of diseases.

The nature and scope of the tasks for which the public sector is responsible is a result of political decisions. Therefore, the development of the public sector can be seen as a product of generations of political prioritisations.

The need for a public sector is based on a number of welfare-economic arguments:

- In some areas it is impossible to obtain an efficient allocation of resources without public intervention.
- It is a public task to ensure a politically desirable distribution of benefits in the society.
- The public sector can contribute to a certain stabilisation of the national economy.

Furthermore, the need for political government of the public sector can be motivated by democratic considerations and the need for the general public's approval of the distribution of the social benefits.

The role and structure of the public sector is explained in Chapter 3 which also deals with the question of decentralisation versus centralisation of the public sector.

2.5.2. The Criteria of the Terms of Reference/The Commission

The Terms of Reference for the Commission on Administrative Structure prescribe that a number of different criteria should be included in the assessment of advantages and disadvantages of alternative structures of the public sector. The criteria are: Efficiency and sustainability, democratic control, involvement of the citizens and the dialogue between citizens and politicians, quality assurance, closeness to the citizens, civil rights and options for the citizens, clear distribution of responsibility and correlation between competence and financial responsibility.

In addition to the criteria mentioned in the Terms of Reference, the Commission has considered it relevant to include another two considerations in its assessment of the current structure and alternative models, i.e. simplicity and manageability. Consequently, it is a goal that the citizens perceive the public sector as simple and clear which implies that they know who to turn to, and that they feel that there is coherence in the solution of their problems. It is also considered important that the State is able to adequately manage the activities of the decentralised administrative units both in terms of subject matter and economy.

The Commission has decided to group the criteria in four groups:

1. *The citizens' influence and democratic control* relate to different aspects of influence on the political processes and democratic control. It involves democratic influence and control of task performance in a broad sense, including both questions of authority, the quality of the service offers and participation in the democratic processes regarding general political decisions, e.g. in connection with physical application or planning, etc. This group includes the crite-

- ria: Dialogue between the citizens and the politicians, closeness to the citizens, democratic sustainability and control and clarity in the distribution of responsibility.
2. *The citizens' position as users* involves the relationship between the citizens and the public sector where the citizen is the "user" of various services/institutions. This group includes the criteria: Physical closeness, civil rights and options for the citizens, citizen involvement and simplicity.
 3. *Efficiency and professional sustainability* relate to the possibility of ensuring efficiency and professional sustainability in administration and task performance and include the criteria: Financial efficiency, quality assurance and professional sustainability.
 4. Finally, the criteria *coordination and management* involve clarity in the distribution of responsibility, coherence between competence and financial responsibility, financial sustainability and manageability.

Chapter 4 contains a definition of the individual criteria that the Commission has decided should form the basis for the assessment of the different structures of the public sector.

2.5.3. Democratic Sustainability

Democracy in the Danish municipalities and counties is generally considered successful. The population supports the basic norms underlying representative democracy and has confidence in the representative democracy and the public institutions.

In an international context, participation in elections to local councils and county councils has been relatively high and stable at around 70% for the last 30 years. This can be interpreted as an expression of the democratic system being considered legitimate.

Participation in elections decreases slightly with an increase in municipality size, but it is not a continuous decrease. According to

the analysis, an increase in population from 10,000 to 30,000 is expected to result in a decrease in participation in elections of 2.5 percentage points, whereas a further increase in population from 30,000 to 50,000 inhabitants is expected to result in a further decrease in participation of 1.1 percentage points. Participation in elections to the county councils also decreases slightly with the increase in size.

Generally speaking, few people seek political influence through the political parties. This can be ascribed to the fact that the citizens increasingly make use of other kinds of participation and, therefore, it is not necessarily an indication of lack of support of the local democracy. Associations and parties are most active in the larger municipalities both in terms of type and scope of local political activity.

The nominated candidates cover a broader party political spectre in the counties and in the large municipalities which is due to more heterogeneity in the counties and in the larger municipalities and a larger share of local lists in the smaller municipalities.

The population has a fairly good knowledge of the local politicians, the composition and the tasks of the local councils and which political levels are responsible for the tasks. Compared with the municipalities, the population has less knowledge of the county politicians and the political work in the county councils.

An overall assessment of the correlation between the size of the municipality and the local democracy indicates that a municipality size not exceeding 50,000 inhabitants does not have any important effect on support of the local democracy and its function. When the local democracy is assessed on the basis of the citizens' interest in and knowledge of the local democracy, their feeling of affiliation with the municipality and their degree of confidence in the politicians, the size of the municipality has no direct effect. However, participation in elections decreases slightly and party

political representation increases the larger the municipality is.

In chapter 5 concerning democratic sustainability, the framework for the representative local democracy is described and an analysis is made of local democracy in the municipalities and counties, including a description of how the size of the municipality affects local democracy. The chapter assumes that the core of representative democracy is the election and control of the political representatives who make decisions on behalf of the voters.

2.5.4. Citizen Involvement and Political Closeness

Citizen involvement concerns involvement of the citizens in political decision-making and/or implementation processes. The point of departure is the participation-based understanding of democracy that considers the citizens' active involvement in the political processes as a democratic ideal.

Citizen involvement is described in terms of the types of participation in local politics and the users' influence on planning of the public services.

The principle of political closeness assumes that the politicians responsible for the tasks are close to the citizens and able to adapt the tasks to local wishes and requirements. There are no specific analyses about the citizens' perception of political closeness in large and smaller administrative units. It is only possible to say something about the citizens' involvement and participation in the political processes and their knowledge about local politics and the politicians.

When asked directly, the citizens claim a high degree of participation in meetings about local issues, collection of signatures, contact with officials, etc. If you look at the composition of the population, the only significant correlation between the individual types of participation and the size of the municipality is that individual

participation in municipalities of more than 25,000 inhabitants is lower than in municipalities of 7,500-10,000 inhabitants.

In addition, accessibility for the citizens is examined based on the opening hours of the local administration. Opening hours both for

personal and telephone contact are longer in the larger municipalities.

Generally, the users feel that they have powers of influence on local issues in institutions. The users have a positive opinion of user committees, but a low rate of participation in elections and a limited knowledge of these user committees. However, they are more active when it comes to informal participation. They often contact the staff and the management of institutions as well as other users. Participation in elections and the knowledge of user committees decrease slightly with the increase in municipality size as does the users' feeling of being well represented.

There is a little less direct contact and participation in the largest municipalities, but generally the correlation between municipality size and citizen involvement and political closeness seems to be very limited. It is not possible on the basis of the existing empiric material to conclude anything definite about the correlation between municipality size and political closeness.

Chapter 6 deals with citizen involvement and political closeness and describes which effect municipality size has on these factors.

2.5.5. Democratic Control and Political Management

The fact that elected politicians can govern and control the underlying administration is a basic principle for the public sector in Denmark and an important element in democratic control.

Chapter 7 deals with democratic control and government as it is exerted by elected politicians in the administration, and it com-

plements chapter 5 and 6 which focus on the voters' role in democratic control.

The main conclusion is that it is possible to exert democratic control and government in municipalities regardless of their size, but there may be a difference in the *type* of control and government. There is nothing to support the conclusion that control and government is better or worse in large or in smaller municipalities.

Municipalities and counties operate with administrative units and there are no formal requirements as to the distribution of the administration (except for the small municipalities with divided administrative management). Therefore, there is a good basis for promoting cross-management and coordination when organising the individual municipality and county. The terms of democratic control and government in the State are different as the minister has the legal authority to divide democratic government and control into sectors.

There are only very few empiric studies to contribute to clarifying the correlation between the size of the administrative units and democratic control and government. Based on existing studies and deliberations, the size of the municipality reflects the way democratic control and government can be exerted as the requirements regarding improved professionalism of democratic control and government increase with the size of the municipality.

In addition, there are indications that sector division of democratic control and government which may be a result of the traditional sector committee government in many counties and municipalities will be improved by a reduction of the number of standing committees and a strengthening of the finance committee. Other divisions than the traditional sectors are becoming more frequent in counties and municipalities. But it should also be mentioned that larger municipalities have more standing committees than smaller municipalities which may indicate more sector division. Further-

more, there are indications that large municipalities use more delegation in the administration than smaller municipalities. However, in municipalities with divided administrative management, it will not be possible to avoid sector division by delegation to the administration as the administration is also divided into sectors.

If we look at the locally elected politicians' perception of their own involvement in individual cases or general government, there is no difference between large and small municipalities. It is the assessment of the municipal directors that local politicians in their own personal opinion actually get involved in more individual cases than could be expected. In this respect there is only a very slight correlation with the size of municipality.

Finally, the chapter points out that development trends independently of the size of the administrative units require increased professionalism of political control and government.

2.5.6. The Citizens' Options

Since the middle of the 1990es, the citizens' options when it comes to public services have increased significantly. The new options vary in content and scope between the service areas, but they are primarily related to the choice of suppliers. From the beginning of the 21st century, the schemes in a number of areas now include freedom of choice, not just between the authorities' own suppliers but also between approved external suppliers. It is expected that a higher degree of freedom of choice is a basic condition and a challenge that all the public authorities will have to relate to in future.

Freedom of choice has been introduced in various forms in all the major service areas, including child care, primary school, care for the elderly and hospitals.

Successful schemes involving freedom of choice require adequate and useable information for the users, real competition between the different suppliers of services and absence of market errors. Within the more special service areas it can be difficult to provide the conditions for real competition as the size of the target groups and the degree of specialisation of the services only leave room for very few suppliers.

One of the management challenges of increased freedom of choice is that it limits the politicians' ability to control capacity within the large service areas. On the other hand, freedom of choice results in increased flexibility in terms of capacity as offers from other municipalities/counties and from private suppliers are available. Freedom of choice across municipality and county borders can, depending on the specific form, limit the local councils' choices of a given level of service and corresponding tax level based on local preferences.

The citizens' options are described in chapter 8, including the correlation between municipality size and the number of options within the large service areas.

Existing studies indicate that the range of options increases with the size of the municipality. Furthermore, the assessment is that larger municipalities are better equipped to handle the managerial challenges involved in increased freedom of choice, and it will be easier for the larger municipalities to create a market for private suppliers of publicly financed services.

2.5.7. Quality in Task Solution and Professional Sustainability

The public sector solves tasks of major importance to the individual citizen and of financial, social and cultural importance to the society as a whole. Therefore, it is important that the public sector to the extent possible realises the political goals laid down nationally and locally.

An important prerequisite for the public authorities and institutions reaching a high degree of goal fulfilment is that they have qualified employees, technology, organisation and management, i.e. they have professional sustainability.

Chapter 9 contains an assessment of professional sustainability in task performance in the municipalities and counties with the existing distribution of tasks. There is limited knowledge of the goal fulfilment rate of the municipalities and counties, and therefore, the assessment is only based on a small number of areas and on indications of systematic differences in the realisation of statutory national goals. A methodical assessment of whether professional sustainability of municipalities and counties is reflected in the ability to realise local political goals is only possible to a limited degree.

The general assessment is that the smaller municipalities have certain problems ensuring sufficient professional sustainability within the more specialised areas.

Studies of the attitudes of municipal directors show that a relatively large number is of the opinion that the professional level will be strengthened in larger municipalities, especially local administration. This may be attributable to the fact that there are fewer possibilities of specialisation and in some cases too few employees to ensure a professional level, and it can be difficult to ensure sufficient expertise to solve rare cases. Also, the administration of the municipalities is vulnerable due to few employees being responsible for task performance.

Furthermore, it is the assessment that the smaller municipalities do not have the required administrative capacity to handle the significant amount of legislative and governmental rules for task performance in local governments. There are also indications that

the administrative capacity in the smaller municipalities may be inadequate to handle schemes involving freedom of choice and tenders. However, there is no precise documentation that smaller municipalities in general find it more difficult to handle the overall management of local activities.

It is the assessment that there are indications in some areas of authority that professional sustainability can be inadequate in complex and/or rare cases where the solution requires special professional skills. This applies to employment, taxation and to a limited extent to the local government's compliance with procedural, statutory requirements in connection with placement of children and young people away from their homes.

Within the area of environmental management, the more complex tasks place such professional demands on task performance that a small municipality finds it difficult to handle it on its own. Extensive use of municipal partnerships within this area can be considered a means to strengthen professional sustainability.

When it comes to local service, i.e. areas with many users and relatively many similar cases/tasks, it is the assessment that professional sustainability in general is no major problem.

Concerning professional sustainability in hospitals, the general assessment is that there is correlation between the number of patients and the quality of treatment.

In the report from the advisory committee of the Ministry of the Interior and Health issued at the beginning of 2003, the assessment was that basic functions generally require a population of a minimum of 400,000-700,000 inhabitants with a tendency to increase. Furthermore, the committee stated that the basis level should be the point of departure for organisation of the hospital service.

It is the assessment of the Commission that most of the existing counties, viewed separately, are too small to take on the responsibility of hospital planning.

With the exception of hospital planning, including special hospital functions and a few specialised social services, the counties are considered professionally sustainable. The geographical size of the counties gives rise to the need for coordination within planning, environment and transport.

Within some areas, inadequate sustainability of a municipality or a county can be remedied by making partnership agreements with other municipalities or by outsourcing the task. However, these solutions are not possible or appropriate everywhere. Basically, tasks involving authority cannot be delegated unless authorised by law, and invitation to tenders also require professional sustainability in the departments.

2.5.8. Financial Sustainability

Another aspect of sustainability is financial sustainability which is defined as the ability of the municipalities and counties to finance local tasks and the robustness of their economy. Lack of financial sustainability can be due to large, varying expenditures that are not sufficiently covered by the financing system. Varying expenditures can both occur as more or less permanent differences between municipal units and as differences in the same unit from one year to the next.

The municipal equalisation schemes contribute to obtaining financial sustainability. The system is suitable for ensuring a relatively uniform and stable basis of income in the municipalities and counties. It is less suitable to ensure against random expenditure variations in the municipalities and counties that are not covered by the objective criteria of demography and social structure that the system uses for expenditures.

In most cases it is to be assumed that random variations in expenditures will cancel each other out. But especially in smaller municipalities, large variations in one area can lead to a considerable pressure on the financing of the municipality which, depending on the type of financing system, will result in either considerable savings in other areas or a tax increase.

An analysis of the expenditure variations in the municipalities points at transfer payments and "other social services" as those presenting the biggest challenge to financial sustainability. The challenge is very significant in the relatively few, but expensive individual cases within social services, including base rates.

Chapter 10 clarifies the concept of financial sustainability and local expenditures, equalisation and the correlation between unit sizes and financial sustainability.

2.5.9. Efficiency

Financial efficiency can be defined as the relation between results (outcome) and costs.

The size of the administrative units can affect financial efficiency by the so-called benefits and/or disadvantages of economies of scale.

Financial efficiency in task performance could also be affected by the distribution of tasks between the different levels of administration. Basically, it is likely that involvement of several levels of administration will reduce total efficiency, but it may also provide the opportunity to reap the benefits of economies of scale. However, there are no studies to substantiate this argument.

There is only very few data regarding results or effects of the various activities. Chapter 11, which deals with the concept of efficiency, is therefore based on analyses of expenditure per inhabi-

tant (adjusted for differences in the expenditures and the financial capability of the municipality). The analyses are snapshots which may change in line with for example the technological development.

With a large element of uncertainty, the analyses of the municipalities indicate that there are benefits of economies of scale in municipalities of up to at least 18,000-25,000 inhabitants and probably more. A recent analysis shows that the benefits of economies of scale have increased over the last ten years so that the municipality size with the lowest average expenditure per inhabitant has increased from 28,000 to 34,000 inhabitants. Some of the analyses also show that there are disadvantages of economies of scale in municipalities of more than about 50,000 inhabitants. In municipalities with between 20,000 and 50,000 inhabitants, there are very small differences in the expenditure per inhabitant.

Benefits of economies of scale are mainly related to administrative functions. In addition, there are benefits in day care services in municipalities with up to about 18,000-25,000 inhabitants and disadvantages in municipalities with more than 25,000 inhabitants. Primary schools benefit from economies of scale in municipalities of up to 50,000-70,000 inhabitants. Some analyses indicate some disadvantages of economies of scale with an even larger population while others do not. Generally, there are benefits of economies of scale in tax administration. The largest potential of improved efficiency is available in municipalities with up to 20,000 tax payers.

The total potential of improvement of efficiency for municipalities with less than 18,000 inhabitants can, with a considerable element of uncertainty, be calculated at 1.5% of the total net expenditure in the municipality. For those municipalities affected there is a significant effect especially on administration where the total potential in municipalities with less than 18,000 inhabitants is around 10%. In municipalities with more than 50,000 inhabitants,

the disadvantages of economies of scale and the resulting potential of improved efficiency are, with a large element of uncertainty, estimated at 0.8% of the total net municipal expenditures. The calculated results do not provide the basis for an assessment of whether there would be similar benefits of economies of scale if the existing smaller municipalities were merged into new and larger municipalities.

Regarding counties, only an analysis of productivity in hospitals has been included. It is not possible to make a definite conclusion that there is a correlation between productivity and the size of the county.

2.5.10. Manageability – The Management Relation between State, Counties and Municipalities

Within the framework of the constitution, the Danish Parliament can formulate policies within any area nationwide. Therefore, it is important that a municipal and regional structure supports the Danish Parliament and the government's formulation of new types of management and implementation of these in political areas covered by municipalities and counties.

Since the local government reform, the relationship between the State and the municipalities has been characterised by a goal to decentralise suitable tasks from the State to the municipalities and counties. In line with increased decentralisation, a number of different methods have been developed to ensure the required communication and central management of municipalities and counties. The purpose has been to ensure realisation of national goals, including economic policy goals, and political ability in counties and municipalities to solve tasks involving different local conditions and preferences. A wide range of management tools are currently being used aimed at the decentralised economy and the content, level and performance of the activities.

Since the 1980es and 1990es, the annual economic agreements, which constitute the central management tools, have evolved to increasingly comprising detailed sector specific activities. This can be seen partly as an increasing nationwide political interest in the decentralised service areas and partly as the municipalities' wish to lay down shared expectations to general goals and action areas in the agreements. The tendency to make agreements with a broader content, including specifications of task performance, has been most pronounced in the hospital service. However, in recent years the agreements have reverted to being more financially oriented.

There has been an increase in state regulation of the municipalities. Studies of state regulations made in 1980 and 1998 show that municipal directors experience that the amount of regulations makes it more difficult to retain a perspective of administrative law. Furthermore, they experience an increasing amount of state regulation of the work processes in the municipalities. However, the many planning systems introduced during the 1970s, 1980s and 1990s have now been phased out or made more lenient.

Chapter 12 that deals with the concept of manageability and the management relation between State, counties and municipalities concludes that manageability increases along with professional and financial sustainability in municipal and regional units, as the opportunity of the decentralised administrative units to implement national political goals is improved. In addition, it is pointed out that manageability, all things being equal, will be easier the more uniform the municipalities and regions are in terms of administrative capacity and financial ability. Manageability requires that the government, with the support of the Danish Parliament, has sufficient political strength in relation to the municipal and regional units to undertake national interests.

The assessment is that manageability in general is good. This is attributable to the dialogue-based management form. However,

there are indications that the considerable heterogeneity, especially in local governments, hampers central management. Comparisons of agreed and budgeted growth in tax percentages and in net operating and service expenditures show that the municipal and regional structure based on the agreement system is reasonably manageable.

Therefore, it has also been assessed that a structure with larger and more sustainable municipalities will provide a better basis for the State using management by objectives rather than a detailed management with state regulation of the work processes of the municipalities.

2.5.11. Performance of Public Tasks

Execution of public tasks ranges from own production to municipal partnerships and involvement of the private sector. The main part of public tasks is own production.

Own production can for example be justified by the absence of an efficient market. Own production to some extent takes democratic considerations into account as the general public rules of law and the internal supervision of the local/county councils support the citizens' civil rights and their influence and democratic control. If the public authorities have both the role of supervisor and producer, there is a risk of limiting the civil rights of the citizens. However, in such cases, the supervisory authority will be able to decide whether the legislation has been set aside and the risk is also counterbalanced by the possibilities of appeals.

Basically, own production takes into account the political freedom of action in that delivery of services can flexibly be adapted to changing wishes, requirements or financing opportunities. However, the actual freedom of action depends on the established capital assets and agreements. Furthermore, the local/county councils

will have influence on and insight into production. Own production does not necessarily support efficiency in every aspect, but management tools focusing on price and quality and exposure to competition may solve the problems involved.

Another type of operation is municipal partnerships ranging from less formalised service agreements to inter-authority companies and bodies established by law. The most important difference in the types of cooperation is whether competence is transferred from the local or the county council to an independent body. This applies to inter-authority companies and bodies established by law. In recent years, there has been a significant increase in the use of municipal partnerships, but very little increase in the number of actual inter-authority companies. Inter-authority companies constitute just under a tenth of the total number of municipal partnerships.

Establishment of municipal partnerships and inter-authority companies is often based on a desire to strengthen professional sustainability and reap the benefits of economies of scale in areas where the individual municipality or county is unable to solve the task satisfactorily on its own.

Inter-authority companies where competence is transferred to an independent body may result in weaknesses in terms of democracy such as placement of responsibility and protection of the minority. Partnerships may reduce efficiency, but they can also be established with management tools that support efficient production through focus on price and quality and exposure to competition.

Large and small municipalities have the same average number of partnerships. However, there is a significant difference in the distribution of work in the partnerships in large and small municipalities.

Finally, the public authorities can use the private sector for delivery of public tasks. From 1980-2000 there has been an increase in the use of outsourcing both from municipalities and counties of 63% and 92%, respectively. In 2000, the outsourcing factor of municipalities was 11.6% and that of the counties was 7.4%.

When using the private sector, separation of the order and execution function will increase the need to clarify the service level. Involvement of the private sector will support efficiency through exposure to competition. Task solution in the private sector results in increased focus on price and quality through competition and utilisation of economies of scale. However, it does require genuine competition between the private suppliers and more than one qualified supplier. These requirements may be difficult to fulfil in certain specialised service areas all over the country.

Chapter 13 explains the framework for performance of public tasks with a description and assessment of the use of own production, municipal partnerships and involvement of the private sector in relation to the criteria of democracy and efficiency.

2.5.12. Deliberations about Financing

The local sector has a relatively high degree of self-financing through taxes, etc. Other income includes transfers from the State through reimbursement and general subsidies.

In Denmark, the State, church, counties and municipalities impose income taxes which may affect the tax burden upwards through so-called vertical tax competition. However, concurrent increases in expenditure in some areas can have the opposite effect. Likewise, horizontal tax competition between authorities on the same level, e.g. between municipalities, can affect the tax burden downwards. The total effect of the tax burden depends on the balance between these different factors.

An important principle for financing of the local sector is that the financing responsibility should follow the decision competence regarding expenditure (financing responsibility in this context means financing through taxation). The question of the most appropriate placement of the financing responsibility for a local task should be determined on the basis of the extent to which the local government has any influence on task performance.

If one taxation level is eliminated, placement of taxation and the differences between state and municipal tax sources and bases should take into account placement of the individual tasks and appropriate financing. Furthermore, the degree of own financing on the basis of the total task portfolio and expenditure of the municipalities should be included.

Changing placement of taxation requires that various basic considerations are taken into account, e.g. correlation between responsibility and competence. Furthermore, the consequences for the rest of the financing system, including subsidies and the equalisation system should be considered. Transferring taxation to the municipalities can, viewed separately, result in a larger municipal variation in the tax percentages which can be counterbalanced by the equalisation system. Transfer to the State will, viewed separately, lead to less regional variation, but it can reduce the correlation between the financing responsibility and the competence to act.

Chapter 14 includes a description of financing of the public sector with special focus on the local government sector, including the current financing system and the principles, etc. that are relevant when considering a redistribution of tasks, etc. in the public sector.

2.5.13. Important Deliberations regarding a Structural Reform

The assessment of whether there is a need to make a structural reform and on which model the reform should be based will de-

pend on a specific weighing of a number of important considerations.

The important considerations are based on the criteria stated in the Terms of Reference supplemented by the criteria *simplicity and manageability*.

Regarding the general *distribution of tasks* between the State and the decentralised administrative levels, the conclusion is that decentralised task performance is particularly expedient in relation to service production where local prioritisations and adjustments carry the most weight. This will facilitate adjustment of services to the wishes and requirements of the citizens within the framework laid down by the Danish Parliament. However, features of the individual tasks may suggest that the service production should rather be the responsibility of larger regional units or the State. Furthermore, it is pointed out that the ministerial sector division can basically make the State less equipped to solve tasks that require a cross-sector effort, while concentration of the political responsibility for the entire administration in local councils basically makes the decentralised authorities better suited to solve such tasks.

Regarding the relationship between the structure and the most important considerations, the conclusion is as follows:

The citizens' influence and democratic control are best served when the individual administrative levels are governed by a directly elected management with a clear distribution of tasks. The citizens' influence and political closeness is strongest when the tasks are placed in the municipalities.

When it comes to *the citizens' position as users*, the responsibility for the task should be placed as close to the citizens as possible to facilitate adjustment of the services to the users' needs. This consideration also advocates that the size of the administrative units

ensures high professional sustainability in task performance. Likewise, the citizen's position as user will be strengthened if the responsibility for related tasks is concentrated with one authority. There is not necessarily any correlation between the election form or the number of directly elected administrative levels and considerations for the citizen as a user. However, more administrative levels with similar tasks will make it more difficult to make a coherent and coordinated effort. In addition, the assessment is that it will be easier for larger municipalities than smaller ones to offer the users a wide range of public services, and larger municipalities generally have longer opening hours for personal and telephone contact.

Efficiency and professional sustainability are best served with a certain minimum size of population where financing and decision competence are linked and the tasks are placed at the administrative level where the production output facilitates optimal task planning. In this way efforts can be made to obtain the benefits of economies of scale and avoid the disadvantages. Efficiency may also advocate concentration of related tasks at one administrative level.

Coordination and management suggest sufficient professional and financial sustainability and a clear distribution of responsibility and correlation between financial responsibility and decision competence. The correlation is strongest when financing responsibility is included. Coordination and management are also best served by concentrating related tasks at one administrative level. Distribution of the public tasks at several administrative levels may hamper the Danish Parliament and the government's general prioritisation of tasks across the administrative levels, especially when macroeconomic flexibility is limited. In addition, the size of the administrations is important for manageability. Very large administrative units with a large task portfolio can shift the balance of power between the State and the decentralised units, especially if they are elected directly. Very small units may find it more diffi-

cult to implement national legislation, and large differences in the size of the units can complicate central management. Likewise, administrative levels with indirectly elected political government and a broad task portfolio can reduce manageability because it is impossible to establish full correlation between decision competence and financing responsibility.

Chapter 15 includes an assessment of how a number of important considerations in principle are best served when establishing the structure of the public sector and distributing the tasks.

2.6. Other Information about the Recommendation

Volume II of the Recommendation contains a factual description of municipalities and counties in relation to parameters such as size of population, area, income and expenditure, cf. *chapter 23*, and a description of the local reform in 1970 and subsequent considerations regarding the reform, cf. *chapter 24*.

Furthermore, volume II includes a description of the demographic development (*chapter 25*), the macroeconomic framework (*chapter 26*) mobility of the citizens (*chapter 27*), digital administration (*chapter 28*) and income in the municipalities (*chapter 29*). Finally, volume II contains a brief description of municipalities and counties in an international context (*chapter 30*).

Volume III of the Recommendation contains a description of the distribution of tasks in the most important areas of the sector and an assessment of the advantages and disadvantages associated with the current municipality and county sizes and the existing distribution of tasks. The areas mentioned are health care (*chapter 31*), psychiatry (*chapter 32*), groups with special needs (*chapter 33*), children and young people (*chapter 34*), care for the elderly (*chapter 35*), employment (*chapter 36*), nature and environment (*chapter 37*), physical planning (*chapter 38*), primary school

(chapter 39), youth education *(chapter 40)*, administration of tax and duties *(chapter 41)*, transport *(chapter 42)*, promotion of trade *(chapter 43)* and integration *(chapter 44)*.

In addition, *chapter 45* describes a number of other, primarily central operational tasks, which to a varying degree involve contact with citizens and companies. They include the county tasks, customer service tasks regarding justice, the prison service, the Danish Working Environment Service, food control, the agricultural committee, rescue and ambulance preparedness, coast protection within the area of the Danish Ministry of Transport, nature, culture, short and medium term further education, and adult education, including labour market education (AMU), etc.

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