

DEVOLUTION TO CITIES

A case study of KL - Local Government Denmark

LUISE NORING

Co-publication
with ICLEI and City Facilitators



PREFACE

The City Finance Lab of the **Future City Network** is a vehicle for deepening and accelerating urban problem-solving. It is a source of applied research on the most promising models of urban governance and finance that are emerging to tackle hard economic, social and environmental challenges, and fuel investments and value creation in cities. The City Solutions are characterised as best-practice solutions that are self-governing and self-financing. Thus, the solutions do not rely on existing public and private institutions and finance mechanisms. Examples include affordable and social housing for inclusive growth and urban regeneration of deindustrialised harbours. Common to all the solutions is that they serve public purposes. The aim is to speed up the process by which solutions invented in one city are captured and codified, and then adapted and adopted to other cities.

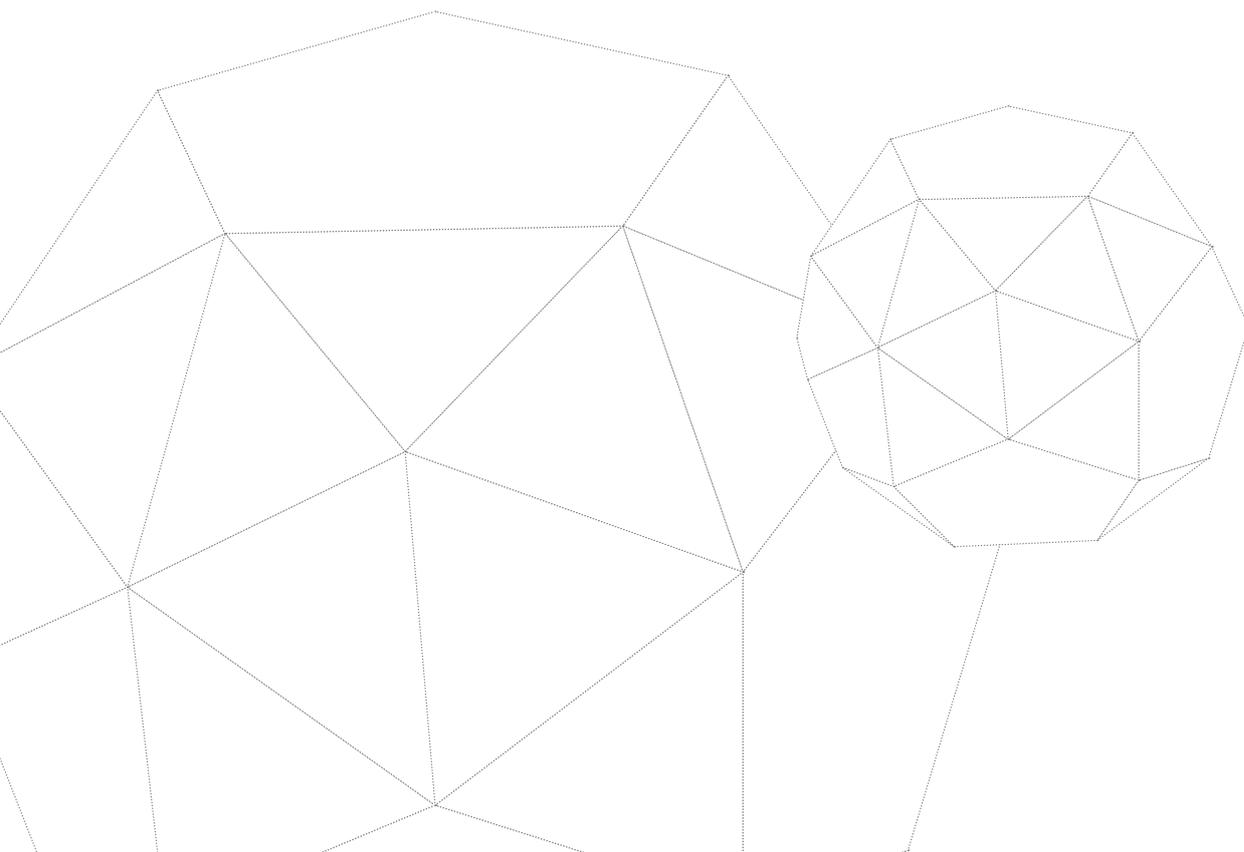
Unique to the City Solutions are that they present:

- Institutional forms that are tried and tested over decades – even centuries
- Institutions are either publicly owned or privately owned, yet, always operate as privately managed corporations
- Institutions operate independent of national and local government
- Institutions always serve public purposes such as providing large-scale affordable housing, public transit and other infrastructures
- Financing does not rely on taxpayers' money, including does not increase taxation nor builds tax credits
- Funds stem from private owners or publicly owned assets
- Yield is reinvested into the system
- Funds are accumulated and reinvested enabling consolidation and scaling
- Revolving funds model
- Self-reliant and -sustainable forms of financing

For further information on the City Solutions, please visit our website:

www.cityfinancelab.net/city-solutions-catalogue

City Finance Lab and Future Cities Network are administrated by City Facilitators.



ABOUT THE AUTHOR

Dr. Luise Noring specialises in urban governance and finance. Noring is a business economist with a master and Ph.D. in supply chain management; her Ph.D. was in supply chain partnerships. For the past years, Noring's focus has shifted to include research into the complexity of cities homing in on understanding how cities are governed and financed, including presenting intermediary institutional vehicles and non-tax financed mechanisms for urban regeneration, infrastructure investments and affordable and social housing. Noring's research is applied and gathers experience and lessons across predominantly European cities. Focus is on distilling best-practices and developing methods and tools that allow for those practices to be adapted and adopted across global cities. While most of Noring's work is EU-funded, she has also been commissioned by the Brookings Institution, Siemens Cities, LSE Cities, and La Fabrique de la Cité (the philanthropic branch of Da Vince Group), and she works on the continuous basis with several city governments and private corporations. With first-hand knowledge of field research into cities, urban challenges, and solutions, Noring has developed a broad experience with cities and city stakeholders.

Noring is an Assistant Professor and Research Director heading the Team for Sustainable Urbanisation at Copenhagen Business School in Denmark. During 2014-15, Noring worked as an EU commissioned expert advising on policy making and research proposals for sustainable urbanisation, renaturing cities, and nature-based solutions. Since 2016, Noring's company, City Facilitators, has provided specialist advice and guidance on urban governance, inclusive growth, business development and urban finance mechanisms.

ACKNOWLEDGEMENTS

Rasmus Nordholm Brask

Deputy Head of Finance, KL - Local Government Denmark, (Souschef, Kommunernes Landsforening).

Omer Ciric

Head of the Management Secretariat, KL - Local Government Denmark, (Ledelsessekretariat, Kommunernes Landsforening).

Kjeld Hansen

Former Mayor of Herlev Municipality (Tidligere Borgmester, Herlev Kommune).

Kristian Heunicke

Director, KL - Local Government Denmark, (Administrerende Direktør, Kommunernes Landsforening).

Louise Koldby Dalager

Head of the Collective Bargaining Unit, KL - Local Government Denmark.

Solvejg Schultz-Jakobsen

Vice Director, KL - Local Government Denmark, (Sekretariatschef [Vicedirektør] Kommunernes Landsforening).

Morten Slabiak

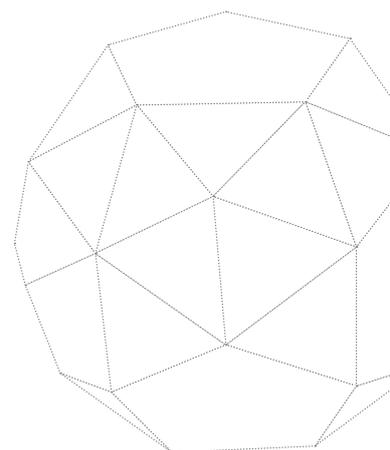
Personal Assistant to the Management. KL - Local Government Denmark, (PA, Kommunernes Landsforening).

David M. Struthers

Senior Research Analyst, City Facilitators.

TABLE OF CONTENTS

PREFACE	2
ABOUT THE AUTHOR	3
ACKNOWLEDGEMENTS	3
INTRODUCTION	6
Method	6
Main findings	7
THE DANISH WELFARE MODEL	8
Taxation level and system	8
Local versus national government roles and responsibilities	8
List of municipal responsibilities	8
KL - LOCAL GOVERNMENT DENMARK	10
THE ORGANISATION AND MANAGEMENT OF KL - LOCAL GOVERNMENT DENMARK	12
KL - CHALLENGES FACED BY LOCAL GOVERNMENT DENMARK	15
KL - LOCAL GOVERNMENT DENMARK NEGOTIATIONS	16
Other services rendered by KL - Local Government Denmark	16
Inter-municipal negotiations concerning fiscal equalisation	17
THE FINANCE AGREEMENT	18
The procedure	18
Process Innovation: DUT	19
The challenges	20
THE COLLECTIVE AGREEMENTS	21
The Trade Unions	21
The procedure	22
Institutional Innovation: The Conciliation Board	22
Strikes and lock-out	24
CONCLUSION	25
LIST OF INTERVIEWS	26
REFERENCES	28





INTRODUCTION

Many countries are debating the effectiveness of devolving governing responsibilities to cities. There is increasing recognition that many citizen-facing responsibilities, such as kindergartens, schools, elderly care, unemployment benefits, skills and job training, refugee shelter, and the integration of immigrants take place in cities under the management of municipalities. However, the fiscal capacity of cities to provide these services varies widely in different countries. For instance, continental European cities collect and allocate 50% of all taxes on average (Danmarks Statistik, 2012). In contrast, in the UK, despite the City Deals implemented since 2012 to increase the governing power of municipalities, UK cities only collect 5% of taxes (UK Parliament, 2018). UK Municipal expenditures extending beyond the revenue generated from their 5% tax share are financed through national government allocations that usually come with stipulations. Many cities struggle with a lack

of the political and fiscal power necessary to provide the level of services they are obliged to deliver; there is often a schism between municipal obligations and the capacity of cities to fulfil them.

This report presents how Denmark devolved power to municipalities in a successful and replicable manner. Successful devolution in Denmark is largely due to the institutional innovation of KL - Local Government Denmark (KL - Kommunernes Landsforening). This report explores KL - Local Government Denmark's strategies, while investigating **how municipalities gain from increased devolution of political and fiscal power through organising for increased self-governance at local and national levels**. The centrepiece of this investigation revolves around how KL - Local Government Denmark is instrumental in accruing power in municipalities and working on behalf of cities at the national level.

METHOD

This report is the result of an empirical study, based on interviews with KL - Local Government Denmark management and employees across multiple departments. The author interviewed seven key individuals, some multiple times, between April 2015 to May 2019. The research relied on an iterative process, where the author interviewed key stakeholders in KL - Local Government Denmark, analysed the data, before returning to the interviewees for further clarification and discussion. Lastly, the interviews were supplemented by an extensive reading of academic literature, sector-specific publications and newspaper accounts of governance in Denmark.

MAIN FINDINGS

Through the **membership of all Danish municipalities**, KL - Local Government Denmark is able to leverage political and fiscal power vis-à-vis national and regional governments and other key stakeholders in society. Emblematic of the leverage of Danish municipalities, they have the right to set tax levels, which they have used to control 60% of all taxes and allocate 50% of tax revenue locally. KL is instrumental in securing leverage of Danish municipalities.

KL represents Danish municipalities in their negotiations with 415,000 public sector municipal employees, a large majority of which are organised in trade unions (*overenskomstforhandlingerne*). KL matches the bargaining power of many trade unions in terms of scope and scale. This, in turn, enables a structured and managed approach to labour market negotiations. It also creates a durable framework for negotiations, which enhances dialogue and collaboration between the municipal employer representative and the municipal employee representative.

KL represents Danish municipalities in annual negotiations with the national government concerning the political and fiscal framework Agreement of the member municipalities (*Økonomiaftalen*). KL is able to weigh the municipalities' obligations with the fiscal means available to carry out those obligations. Thereby, the implementation of new legislative proposals is realistic, as it builds on a political and fiscal framework that weighs obligations with means. As municipalities execute political initiatives, the national government is reassured that policies are executed once the fiscal framework Agreement is settled between the national Finance Ministry and KL. In turn, the national Finance Ministry uses the fiscal framework for "checks and balances" with other national government ministries. When a proposal is made for a new policy or initiative, the national government ministry will be asked by the Finance Ministry to demonstrate how to fund the new policy or initiative.

The Extended Total Balance Process (DUT) begins after new laws are passed and when responsibility for tasks is transferred between agencies to estimate expenses of new national policies and legislation. The DUT evaluates the fiscal framework of laws and the costs of their implementation and management.

Another important aspect in relation to the negotiations of collective agreements is the Conciliation Board. The **Conciliation Board** (*Forligsinstitutionen*) serves as a neutral institution housing and managing the negotiations concerning the terms, conditions and salaries of all public employees in Denmark. The **Conciliator** orchestrates negotiations between the trade unions' representative, the **Negotiation Collective**, national government, regional authorities, and KL as the representative of all Danish municipalities and municipal employers when the parties fail to reach an agreement themselves. Negotiations across national, regional and local governments often take place simultaneously, as the national funds available remain intact. If municipal employees demand salary increases, national or regional funds must help cover the costs.

By having an organisation that consists of both a **highly professionalised support staff and political representatives from the municipalities**, KL - Local Government Denmark gains the professional and political legitimacy to act on behalf of all Danish municipalities.

Political positions in KL are allocated in relation to municipal elections. This, in turn, fosters **dialogue and collaboration across the partisan political divide**, as representatives from different political parties constitute the board of directors and other political positions in KL. The representatives agree on political and fiscal priorities and initiatives on behalf of Danish municipalities.

By **organising for municipal governance**, KL - Local Government Denmark is able to mitigate negative consequences of national government interventions, thereby sheltering itself and its member municipalities from overexposure to national political interference to foster political and fiscal stability.

THE DANISH WELFARE MODEL

Denmark has a comprehensive public sector after 150 years of expansion under a predominately social democratic political outlook. Despite changes in social policy in Denmark over roughly the last thirty years, the Danish welfare model continues to have a “high degree of universalism,” while incorporating “corporative elements” to deliver and finance social services (Greve, 2004). The basic assumption of universality benefits the Danish welfare system in two primary ways:

1. It is relatively easier and less bureaucratic to manage and monitor universal systems rather than systems that target welfare provisions to certain segments of the population.
2. Fostering a sense of fairness and unity makes it less politically contentious as everybody contributes and everybody gains.

TAXATION LEVEL AND SYSTEM

Denmark vertically redistributes fiscal resources through progressive income taxes that are among the highest in the world (OECD, n.d.). The high tax level and the tax system in Denmark underpin the Danish welfare model in the following ways:

The high **tax level** should be viewed in relation to the public services financed in their entirety through taxes, mostly available to all citizens with no additional out-of-pocket fee. In Denmark, public services encompass universal health care from birth to death, education from nursery to university graduate degrees, and re-skilling and job training programmes. In contrast, individual citizens in countries operating under different societal models incur considerable personal expenses for health care, education, childcare, and job training. Tax-funded universal health care, education, and associated social services for all citizens helps create a more equitable and democratic society, and increases economic mobility in Denmark.

The **tax system** has been continuously revised over the past two decades leading to the bundling and automation of taxes for individuals and corporations. Income and tax-deductible expenses such as mortgages, interest, investments, and savings are automatically reported to the tax authorities, which automatically calculate and deduct taxes. Individuals are only involved in the process if they contest the input and/or the output calculations. Both the bundling and automation of taxes makes the system easier to manage, monitor and produce efficiency gains. Yet, the bundling of taxes also makes

cross-national tax comparisons difficult. For example, when doing a simple rate comparison of income taxes in Denmark and the United States, the Danish tax burden is substantially higher. However, Danish tax-bundling that rolls many smaller categories of taxes into fewer and larger categories makes comparisons difficult. Including universal health care and education in Denmark makes the comparison even less fruitful.¹

In short, the role of the state in Denmark is substantial, and it provides a broad array of welfare provisions that are primarily financed through taxes.

LOCAL VERSUS NATIONAL GOVERNMENT ROLES AND RESPONSIBILITIES

Municipalities elect local representatives. Mayors are then elected by the representatives in an indirect process. Turn-out for local elections is relatively high with an average of 71% of eligible voters in the 2017 local elections (Økonomi og indenrigsministeriet, 2017), while 84.6 % of eligible voters cast ballots in the most recent general national election in 2019 (Danmarks Statistik, n.d.1).

Section 82 of the Constitutional Act of Denmark (1953), provides for municipal independence and self-governance, however, the national government determines the scope of responsibilities of local governments. The levels of government in Denmark have clearly delineated roles and responsibilities with very little overlap. The national government is responsible for the military, courts, police, and higher education. The regional authorities across Denmark’s five regions are in charge of the hospitals, environmental protection, and public transportation. Municipalities deliver a long list of public services that are free of out-of-pocket expense to citizens.

LIST OF MUNICIPAL RESPONSIBILITIES:

- **Health care** including rehabilitation, home care, abuse prevention, dental care for children, and promotion of health
- **Social services** such as care for the elderly and disabled, psychiatric treatment, social psychiatry, placement of neglected children, and specialised education

¹ **A note of warning.** Getting the Danish tax system to this level of automation has been costly. In total, there are uncollected debts to the Tax Authorities for 12 billion USD, of which 1.2 billion USD stem from dividend taxes illegally claimed by foreign investors and unjustifiably paid by the Tax Authorities.

“KL’s unique position comes from representing all 98 Danish municipalities in negotiations with the national government, trade unions and other negotiating partners.”

Solvejg Schultz-Jakobsen,
Vice Director, KL - Local Government Denmark

- **Employment stimulation** targeting businesses as well as unemployed citizens whether or not they are part of an unemployment-insurance system
- **Integration of refugees and immigrants** through mandatory introduction programs that focus on culture, language, and labour-market entrance
- **Industrial and economic development** at both a strategic and operational level
- **Labour-market involvement** regarding the Danish model of *flexicurity* (flexible labour practices combined with the security of a safety net for workers), active labour market policies, local employment strategies, operation of job centres, and taking actions based on agreements from the bi- and tripartite system of negotiation
- **Administration and digitalisation** such as providing and disseminating a number of administrative tools and best practices regarding effective administrative behaviour
- **Technology and the environment** covering supervision, sector planning, and preparation of regulations regarding construction, roads, transportation, drains, recreational areas, drinking water, waste, and waste-water management
- **HR and staff management at a local level**, e.g. taking demographic changes and foreseeable challenges into account in proactive and sustainable ways
- **Managing the finances of the municipalities**, based on local tax impositions, general grants from the state, and a system of financial agreements between the government and KL - Local Government Denmark
- **Primary schooling** that is free of charge and compulsory to everyone within the schooling age
- **Child care** available to all citizens in urban as well as rural areas

Source: KL (n.d.1)

Municipalities also provide energy, water and waste management, which are all partly user-fee financed.

KL - Local Government Denmark’s manifesto states, “the Danish welfare state is a local welfare state.” Emblematic of this, Danish municipalities allocate 49.3% of the national budget. In comparison, 26.8% of the national budget is allocated by the national government and 23.4% is allocated by the regional authorities (Finansministeriet, 2018). **Municipal revenue** stems from 71% tax revenue, 18% from municipal equalisation, 3% from national subsidies to unemployment benefits, 7% from national government refunds and 1% from “other revenue.” As taxes in Denmark are bundled, there are only three different types of tax revenues for Danish municipalities: income tax, property tax, and taxes on local businesses (Finansministeriet, 2018). The national government also has the capacity to tax, which it uses to tax the highest earners.

Danish municipalities are entitled to set their own tax level as tax levels are seen as one of two important competitive parameters with the other being service. By enabling municipalities to adjust taxes and service, the municipalities compete against each other for citizens and businesses. The general idea is that through inter-municipal competition, municipalities strive to reach the highest service level with the lowest possible tax. In addition, through decentralisation of decision-making concerning taxes and service, municipalities can tailor their price and product to the local citizens, as citizens’ demands are not identical across all municipalities. However, municipalities can only change so long as the aggregate national tax level of all municipalities remains the same. Denmark, though, has a tradition of equality and the national government coordinates inter-municipal equalisation. However, the fiscal equalisation between the municipalities does not aim at a 100% equalisation like in neighbouring Germany. Rather the aim is to maintain some recognition of each municipality’s own performance in terms of revenue (e.g. taxes) and expenses (e.g. services) (OIM.dk, n.d.).

The **municipal budget** is divided into several categories: 49% for service expenses, which include the salaries of 415.000 municipal employees, 32% for unemployment benefits and other social expenses, 7% for investments, 4% for subsidies, 2% for interests and 6% for “other expenses”, including the membership fee that municipalities pay to be part of KL. The salaries of public employees are the largest municipal expense. KL is responsible for negotiating the terms, conditions, and salaries of the public employees for all the municipalities with employees’ respective unions (Finansministeriet 2018a).

KL - LOCAL GOVERNMENT DENMARK

KL - Local Government Denmark was established in 1970 by the Danish Cooperative of Trading Cities, the Church Councils, and Cooperative of City Municipalities. In the same year, the national government reduced the number of Danish municipalities from 1,098 to 277 in the 1970 structural reforms (Ministry of the Interior and Health, 2005). In 2007, the number of municipalities was consolidated again down to only 98 (KL, n.d.2).

This should be viewed in relation to Denmark's population of 5.8 million. On average, 56,000 citizens live in each municipality. Municipalities must generally have 20,000 citizens. Towns with populations under this threshold are legally bound to larger municipalities. Thus, within each municipality, there will usually be several smaller towns and larger cities connected with rural areas (MEAI, n.d.).

TABLE 2. MUNICIPAL CONSOLIDATION

Municipal consolidation in Denmark in 2007 resulted from a top-down process pushed from the national level: "The amalgamations were carried through in a process that combined central control with local, semi-voluntary decisions" (Blom-Hansen, 2010, p. 53). Municipal consolidation occurred in exchange for the national government devolving more welfare responsibilities to the municipalities. It may seem like a poor bargain for the municipalities to acquire more responsibilities through municipal consolidation, which eliminated hundreds of smaller municipal governments. However, in return, **the national government allowed the remaining municipalities to increase their share of tax spending.** These reforms resulted from lengthy negotiations that took place over the course of three years, where, in the end, the municipalities were "semi-forced" to accept the consolidation (Blom-Hansen, 2010, p. 53).

Blom-Hansen (2010) argued that some smaller municipalities spent excessively on local projects just prior to being eliminated, as they would not have to manage the long-term consequences of overspending. However, at least some of the spending increases came from a requirement for municipalities to harmonise their spending, which led to spending increases in some smaller municipalities (Altinget.dk, 2015).

Attempts at amalgamating local governance in other countries have met with varied results. Municipal consolidation in the United States generally occurs through voter referenda. Between 1970 until 2010, around 100 municipalities voted on consolidation measures. Yet, 80% of such referendums were voted down. Structural consolidations that agglomerate small city governments into larger bodies are rare. More frequently, local governments join together for specific functions like school districts with the hope of fiscal and administrative benefits (Faulk & Hicks, 2011). In a recent study of eighteen of the thirty-nine consolidated city/county governments in the United States, Leland and Thurmaier (2010) found limited evidence that this form of consolidation created the fiscal benefits that proponents promised. In Norway, a country with a similar consolidation track record as Denmark, Sorensen (2016) found that municipalities with fewer than 5,000 residents were the most resistant to consolidation, yet, had the most to potentially gain fiscally. Thus, voters and politicians in small municipalities accepted the potential financial cost of their independence and resisted consolidation.

Yet, concluding, **Noring believes that consolidation is almost always beneficial for the following reasons:**

1. Consolidation eliminates duplication of tasks, whereby time and resource spending are reduced. For instance, it reduces the number of mayors, their political organisations and administrative staff. Public agencies have an obligation to always optimise operations to reduce costs and save taxpayers' money that can then be put to use for other more productive purposes.

2. When planning tasks, such as public transit routes, waste handling, new social housing settlements and other municipal services, it is relatively easier, if there are fewer decision-makers, which can be achieved through municipal consolidation. In contrast, with multiple municipal decision-makers, decisions are unnecessarily complicated, which results in additional time and other resources.
3. Some municipalities have introduced an additional governance structure at the metropolitan level. The challenge is that if it is not accompanied by a consolidation of municipalities, it only adds yet another local decision-maker. In the cases, where most decisions are delegated to the metropolitan government, it leaves the multitude of municipalities with limited scope of responsibilities and decision-making competencies. In such cases, one could ask, if they should continue to exist on public funding or if the funds could be spent more productively.
4. A multitude of municipalities generates unnecessary inter-municipal competition at a very local level. Instead, cities and their local governments should look outwards towards global competition and focus on how to carve out a unique position in the national and global economy.
5. One could argue that in order to counter their multitude of municipalities, other countries can create organisations such as KL that represent all municipalities. The challenge is that without reducing the number of municipalities, the aforementioned weaknesses are transferred to such an organisation, including the inability to make decisions due to the multitude of decision-makers and a consequent overspending of time and other resources. A larger KL staff would be required to handle thousands of municipalities than hundreds of municipalities or tens of municipalities.
6. Scale means power vis-à-vis most societal stakeholders, such as commercial banks, pension funds, labour unions, social housing cooperatives, and state and federal governments. Generally, a small municipality does not have the muscle to take on commercial banks and other important stakeholders.
7. Lastly, some scholars and practitioners argue that local government is only local if it is small. Casting your vote is the most influential impact that citizens have, while citizen solidarity should extend beyond the very local community.

KL - Local Government Denmark is a private inter-municipal cooperative organisation owned and financed by its member municipalities. It was established with the principal mission of representing the interests of all municipalities vis-à-vis national government and other key stakeholders, such as the regional authorities and the public employees' trade unions. Thus, Solvejg Schultz-Jakobsen said, "KL draws together the 98 municipalities to manage political and fiscal priorities in negotiations with the national government" (Schultz-Jakobsen, 27.06.2018, interview).

KL - Local Government Denmark thrives by speaking with one voice in central political and fiscal issues. "As a mayor of Herlev, I resigned some of my decision-making power to KL," says Kjeld Hansen. For 16 years, Kjeld Hansen was the mayor of Herlev, a suburban municipality of Copenhagen, at the same time he became the head of the salary and staff council at KL, responsible for conducting the negotiations (*overenskomstforhandlingerne*) for the Collective Agreements on behalf of KL and its members (Hansen, 12.04.2018, interview). The negotiations take place on three levels: national, regional, and municipal. The Collective Agreements are one of two crucially important negotiations of KL - Local Government Denmark that this report will return to shortly.

THE ORGANISATION AND MANAGEMENT OF KL - LOCAL GOVERNMENT DENMARK

KL - Local Government Denmark has several politically appointed positions managing the organisation. There are 2,500 municipal politicians in Denmark compared with 116 political positions that need to be filled in KL. The organisational structure and positions fulfilled by KL - Local Government Denmark are reflected in the chain of command that operates as follows:

1. **Setting political priorities:** The 17-member **Executive Committee** (*Opgavefordeling i KL's bestyrelse*) meets during the first week of each month and sets KL's political priorities. The seats are distributed based on the results of municipal elections, which elevates local political and fiscal concerns in KL. The executive committee elects its chairperson with a simple majority of 9 votes. The vice chair goes to the person receiving the second highest number of votes from the executive committee.

Generally, the Chairperson and Vice Chairperson represent the majority and opposition political blocs. Currently, the seats of the executive committee are based on the November 2017 municipal election that mandates for the period 2018-2022:

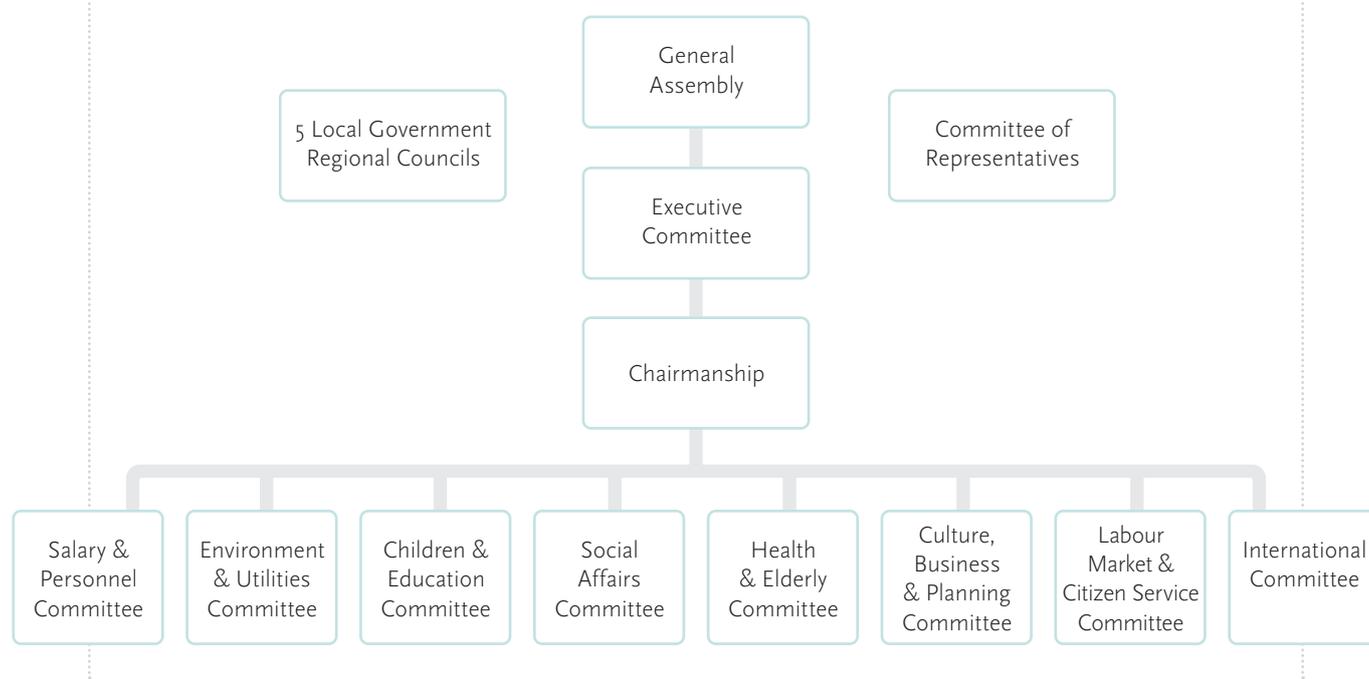
- Social Democratic Party (Socialdemokratiet): 7 mandates
- Venstre, Denmark's Liberal Party (Venstre, Danmarks Liberale Parti): 5 mandates
- Danish People's Party (Dansk Folkeparti): 1 mandate
- Socialist People's Party (Socialistisk Folkeparti): 1 mandate
- Conservative People's Party (Konservative Folkeparti): 1 mandate
- Red-Green Alliance (Enhedslisten – De Rød-Grønne): 1 mandate
- Danish Social Liberal Party (Radikale Venstre): 1 mandate

2. The **Committee of Representatives** (*repræsentantskabet*) is an advisory body to the executive committee of KL. All of the Danish mayors are members of the Committee of Representatives in addition to another 60 members, reflecting the results of the last municipal elections. Furthermore, some of the members of the local councils are elected as representatives by their respective parties for the Committee of Representatives.
3. The KL **Chairmanship** (*formandskabet*) advises the Executive Committee on policy initiatives. The KL Chairmanship meets during the second week of each month. The Chairmanship consists of five political representatives. The head of the salary and staff committee sits in on the meetings of the Chairmanship. Dialogue and collaboration across partisan lines are fostered by the Chairmanship working on scoping out the political initiatives proposed by the executive committee.

Lastly, the eight thematic **Political Committees** (*de politiske udvalg*) are elected for the same period as the Executive Committee and meet monthly to formulate and advise the **political initiatives** in support of KL's agenda. The councils are advisory and assist the executive committee within their respective areas of responsibility. The chairperson and the vice chairperson of the Political Committees are elected by the board of directors. The other members of the Political Committees are appointed by the Committee of Representatives. For the electoral period 2018-2022, KL - Local Government Denmark has appointed the following eight committees:

- Salary & Personnel Committee
- Environment & Utilities Committee
- Children & Education Committee
- Social Affairs Committee
- Health & Elderly Committee
- Culture, Business & Planning Committee
- Labour Market & Citizen Service Committee
- International Committee

FIGURE 1. ILLUSTRATION OF THE POLITICAL ORGANISATIONAL DIAGRAM OF KL - LOCAL GOVERNMENT DENMARK (KL, N.D.3)



4. KL has five **Local Government Regional Councils (KKRs)** that are regional agglomerations of the municipalities, one in each Danish region (KL, n.d.4). The Local Government Regional Councils include the mayors from the municipalities within each of the regions and a number of local council members. In this way, the Local Government Regional Councils reflect the results of the municipal election in their corresponding regions. Each Local Government Regional Council has a chairperson and a vice chairperson. The Local Government Regional Councils' primary policy concentrations lie in health, social matters, growth, employment, education, integration, traffic, infrastructure, climate, and the environment (KL n.d.4).
5. Lastly, a series of informal meetings take place throughout the year across the country between the different managing bodies of KL and other local committee representatives. This is crucial because it helps KL's Executive Committee and management set priorities that are in reflection of the local committees and their mayors. Thus, Solvejg Schultz-Jakobsen said, "The more knowledge and insights we have about the municipalities, the more we are able to understand and collaborate with our members" (Schultz-Jakobsen, 27.06.2018, interview).

All the top-level political positions at KL are held by politicians creating an attentive and responsive organisation.

Municipal elections run on four-year cycles. KL's nimble organisation has a staff of two consultants that allocate the political positions at KL according to election results. In this way, positions for the top tiers of KL's political organisation are selected by the municipal branches of the political parties that have come into power through local elections. Thus, generally, the municipal branches of the political parties are instrumental for selecting and presenting candidates for KL's political organisation. However, the political members of KL also search in their hinterlands for potential candidates within their own parties. **In total, almost 300 KL political appointments have to be filled after each municipal election.** This number represents eight thematic councils with nine members each, 17 board members, and six members of the Chairmanship. Finally, KL has representatives that sit on a number of companies that KL owns itself or other public, private and civic organisations that hold reserved board member seats for KL, including pension funds, trade unions, etc. (KL, n.d.3).

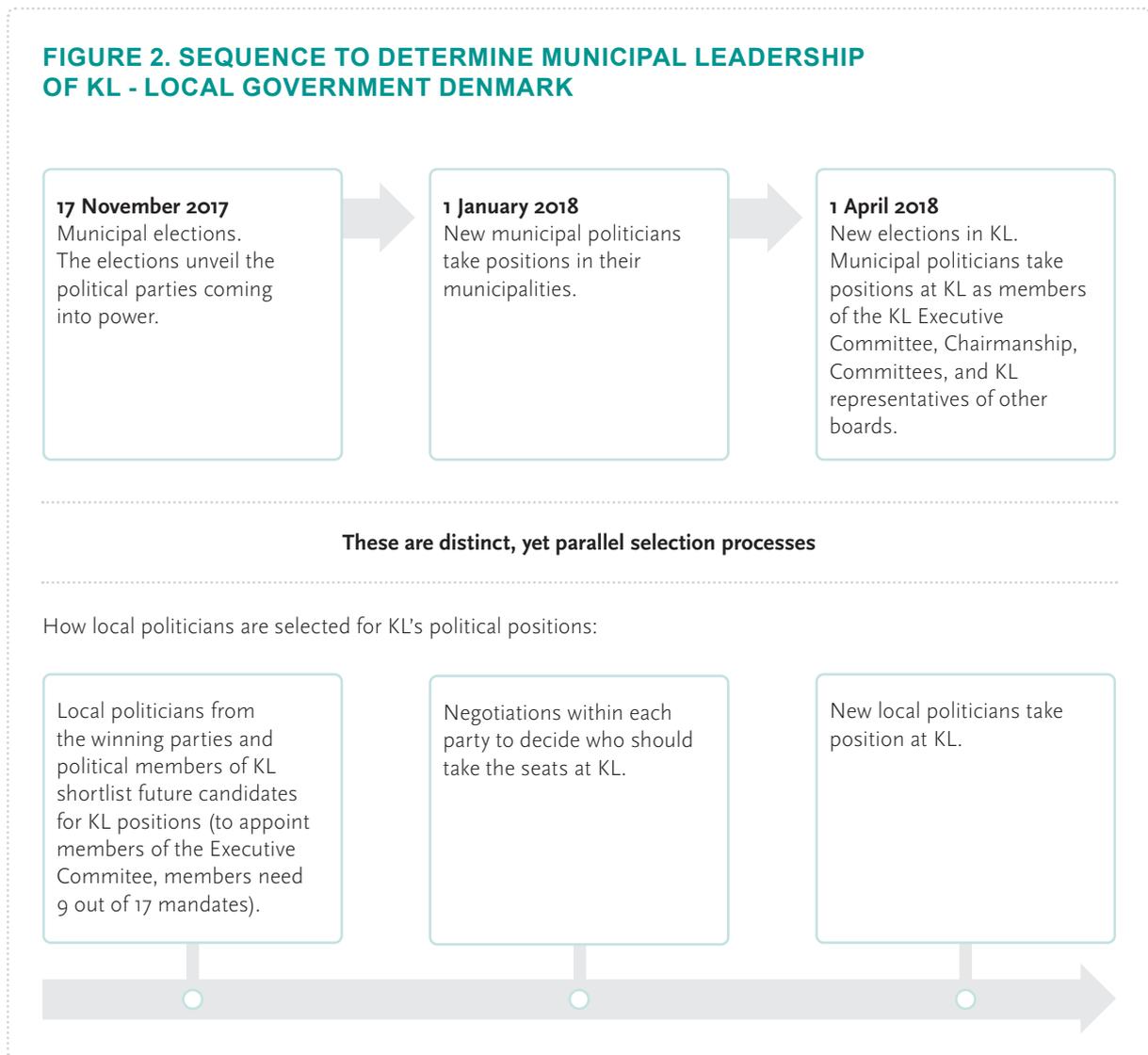
KL has a politically elected organisation. However, in parallel, it has an administrative organisation that consists of career professionals that are private

sector employed. Thus, there is a board of directors of KL that consists of professional board members normally represented by the private sector. The CEO of KL's bureaucratic organisation is elected by the politically elected Executive Committee. The CEO invites the board members of the politically elected Executive Committee to co-decide on the professional board members of the bureaucratic board of directors.

It is similar to a government ministry: the minister is politically elected by the people. Sometimes other positions in the ministry are also politically elected.

The whole support staff is a non-political organisation consisting of career civil servants. The Executive Committee consists of politically elected politicians. KL has a politically elected board of directors and a support staff organisation (KL proper) board of directors consisting of professionals/non-politicians. Our work in this section describes the political organisation, not the bureaucracy.

The illustration below presents the sequence of determining which municipal politicians have taken positions in the leadership and organisation of KL - Local Government Denmark:



CHALLENGES FACED BY KL - LOCAL GOVERNMENT DENMARK

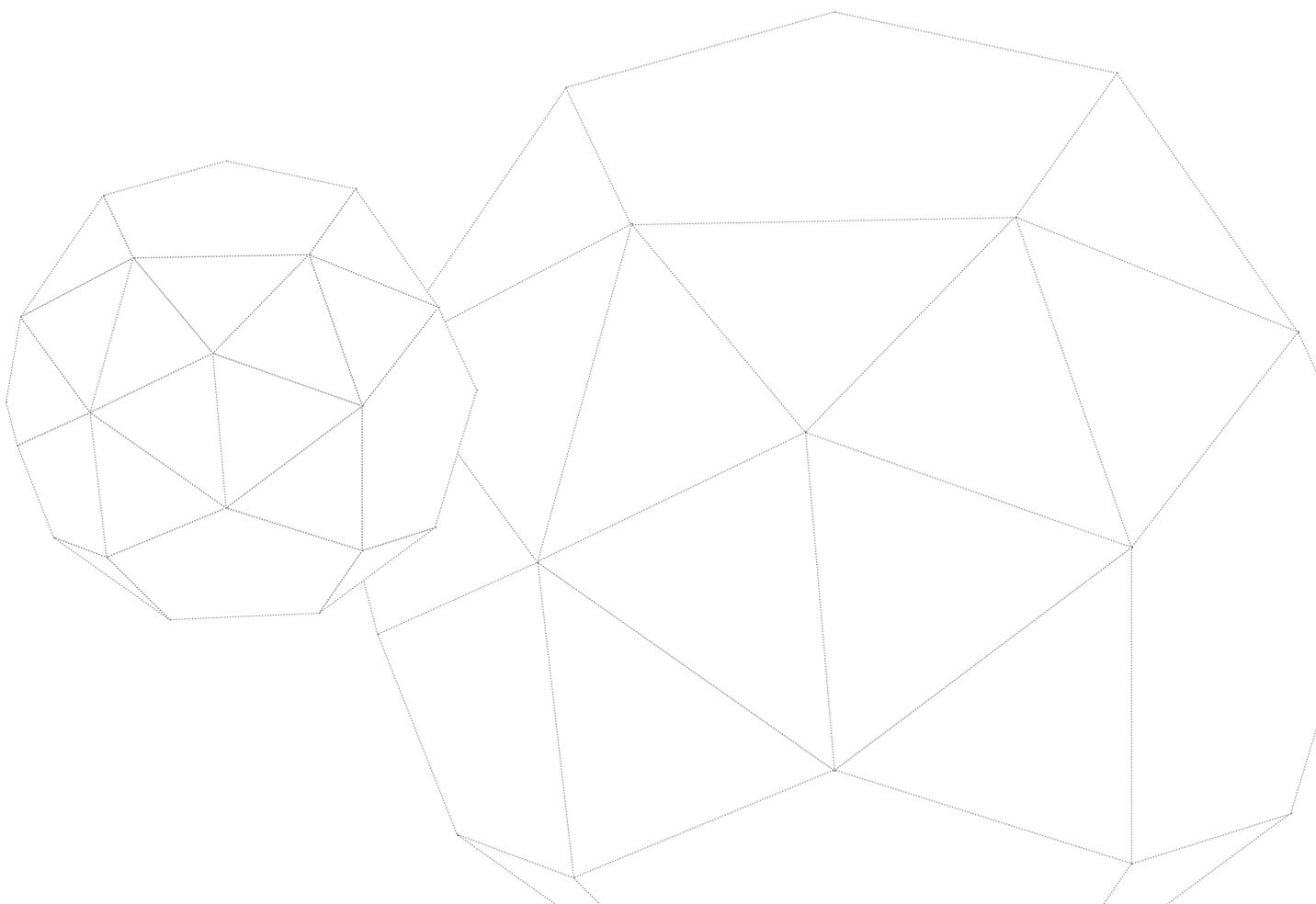
“The board of directors constantly communicates with municipalities - small, large, rural, and urban - to understand their distinct needs so they can collaborate in setting priorities.”

Louise Koldby Dalager,
Head of the Collective Bargaining Unit,
KL - Local Government Denmark

KL - Local Government Denmark works closely with municipalities to understand their diversity so they can cooperate to achieve their shared objectives. Illustrative of this approach, in year 2000, the mayor of Farum, a suburban municipality of Copenhagen, decided that he did not need KL (Børsen, 2000). Consequently, when KL and its negotiation partners started negotiations for the Finance Agreement and Collective Agreements, the mayor of Farum had to conduct his own negotiations. This example reveals

the challenge of mastering the balance of compromise required by the KL member municipalities. However, the alternative is certainly not an option. Thus, Kjeld Hansen confirms, “All the 98 municipalities do not always see eye-to-eye on all issues. KL works deliberately at negotiating and compromising with the five regional political councils (KKRs) in order to reach a unified decision that it, subsequently, negotiates with national government, regional authorities, trade unions and other stakeholders” (Hansen, 12.04.2018, interview).

Another challenge faced by KL is to **manage long-term municipal interests when the national government moves to institute narrow or expedient policy changes driven by mass media**. Some policies that would, in effect, constrain Danish municipalities on very specific political and economic “hot” topics. In certain instances, these topics present emergent municipal challenges, such as the large intake for refugees and migrants in the period 2015-2017, where municipalities had to provide many of the welfare service provisions, such as free-of-charge housing, health, and education.



KL - LOCAL GOVERNMENT DENMARK NEGOTIATIONS

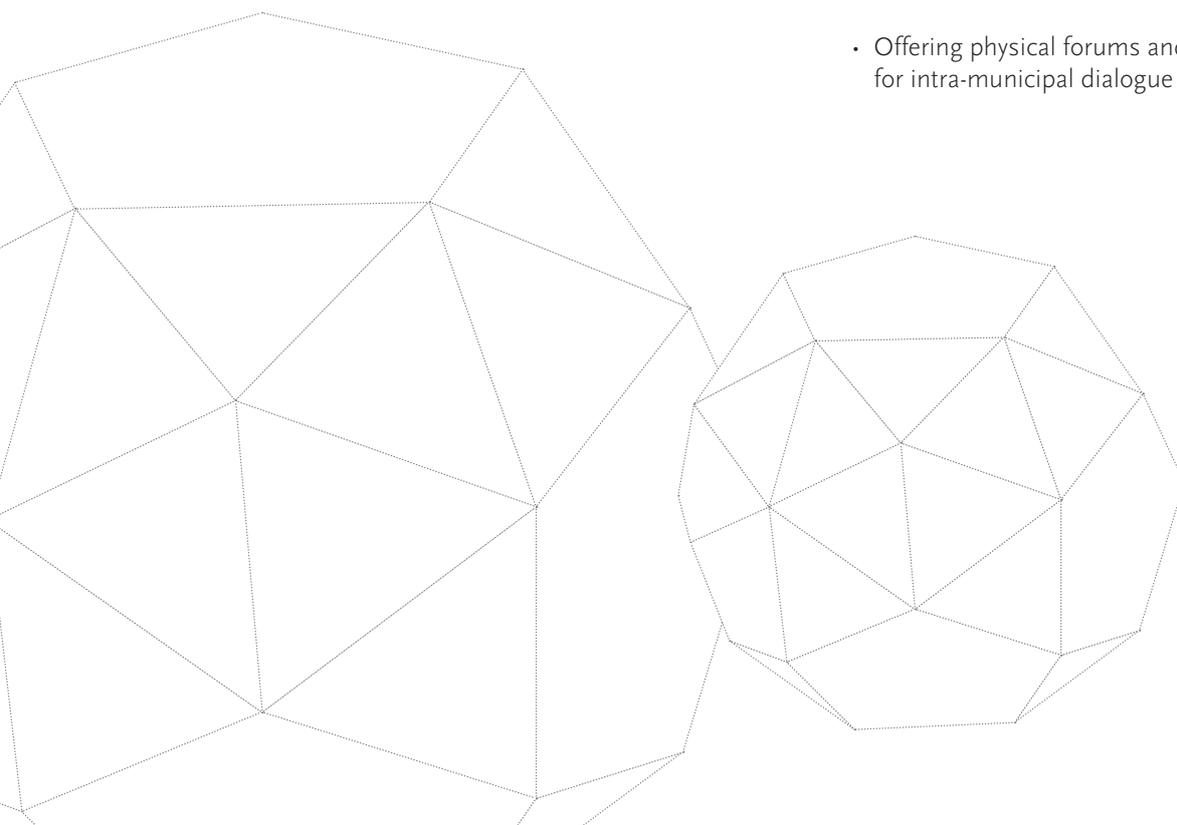
As a politically driven organisation, KL engages in negotiations with key stakeholders across society. The negotiations are a way to impact politics and gain political and fiscal power for KL's member municipalities. There are two main negotiations that are institutionalised within the organisation:

1. **The Finance Agreement** (*Økonomiaftalen*): an agreement negotiated once a year with the national government concerning the political and fiscal framework agreement of the member municipalities (Folketinget, n.d.).
2. **The Collective Agreement** (*Overenskomsten*): contains several individual agreements negotiated with different trade unions and concerns the 415,000 public employees of the member municipalities. The Collective Agreement can last up to three years; however, its duration is subject to negotiation and may vary.

OTHER SERVICES RENDERED BY KL - LOCAL GOVERNMENT DENMARK

Apart from the two negotiations partaken by KL - Local Government Denmark, it assists member municipalities in other ways. The following list is not exhaustive (KL, n.d.3):

- Collecting and sharing knowledge and best practices
- Supporting implementation of new acts
- Clarifying legal issues, including issues related to EU legislation
- Arranging conferences and inspiring events for municipal politicians, executives, and employees
- Assisting the regional networks, e.g. the five Regional Political Councils improving political cooperation between the municipalities
- Representing the interests of the Danish municipalities in the EU institutions
- Developing and offering a wide range of practical tools and guidelines for municipal politicians and officials
- Issuing news and publications on political issues
- Offering physical forums and digital platforms for intra-municipal dialogue



INTER-MUNICIPAL NEGOTIATIONS CONCERNING FISCAL EQUALISATION

KL - Local Government Denmark does not get involved in inter-municipal negotiations, such as the fiscal equalisation conducted by the national government. The reason KL abstains from these negotiations is that KL must remain neutral vis-à-vis all the municipalities. As Solvejg Schultz-Jakobsen said, “KL works to ensure that there is sufficient local political and economic scope to adapt welfare decisions to local needs and opportunities” (Schultz-Jakobsen; Ciric, 11.06.2018, interview).

In 2018, Danish media reported that as the national government had been unable to determine the exact distribution of the fiscal resources available for municipal equalisation, the national government had provided an extra ½ billion USD as “gap financing” to the weaker municipalities (Mansø, 2018). This was in addition to the current “old” equalisation that saw Copenhagen municipality give up 30.4 million USD during the last equalisation in 2018. In other words, in absence of revised equalisation quotas that the national government and municipalities can agree on, cross-municipal equalisation is based on the last equalisation quotas dating back to 1937 that were subsequently renegotiated on several occasions, the last time was in 2007. The national government gap finances in the absence of a firm and universally agreed upon cross-municipal equalisation (Lundtorp, 2004).

The direct dealings between individual municipalities and the national government circumvent KL. For instance, KL is not involved in an ongoing case concerning three municipalities suing the national government for insufficient compensation for the skill-building of refugees, as their costs for refugee education turned out more expensive than anticipated (Buch, 2018).

Currently, the national government is relocating many national government agencies, such as the

Tax Authority (SKAT) from Copenhagen and Greater Copenhagen to the rest of the country, including rural areas that are more sparsely populated. Traditionally, almost all public authorities and agencies were centralised in Copenhagen and Greater Copenhagen. The national government is conducting this massive reorganisation under the slogan “a country in balance” promoting balanced growth and a fair allocation of government jobs and spending across the country. KL represents all municipalities, both the two Copenhagen municipalities that are losing thousands of skilled jobs and the rural municipalities that are competing to win the concessions for the public authorities and agencies relocating. Kjeld Hansen states, “KL does not involve itself with the out-migration of public jobs. The reason being that we are shifting existing resources from one municipality to another. As we represent all municipalities, we do not get in the middle of this” (Hansen, 12.04.2018, interview).

In contrast, KL is heavily involved in negotiations with the national government concerning increasing infrastructure and construction budgets across all municipalities. These negotiations fall within the remits of the annual Finance Agreement negotiations. Infrastructure and construction budgets were increased from 2.6 to 2.7 billion USD in 2018. Also, within the remits of KL is the budget for improving the efficiency of municipal administrations, “KL is concerned with safeguarding the cohesion of its circle of members. KL has therefore deliberately stayed out of discussions on the design of concrete solutions to the problem of a fiscal equalization. However KL has repeatedly called on the Parliament and the government to find a solution, precisely because it is unsustainable that political disagreement in the Parliament results in fundamental economic challenges for municipalities facing an uncertain economy” (Schultz-Jakobsen, 27.06.2018, interview).

Now, the report turns to the two most important negotiations that KL conducts on behalf of the municipalities.

THE FINANCE AGREEMENT

The annual Finance Agreement is negotiated between KL and the Ministry of Finance in the national government. **The negotiations primarily concern the level and scope of public welfare services in relationship to the funds needed to pay for these services.** In the negotiations of the Finance Agreement, the Ministry of Finance considers the tax revenue generated in each municipality. All municipalities report their tax revenue to the Ministry, which then finds the average and moves to equalise it between the municipalities. In this way, even though municipalities can increase their taxes, the incentives of doing so are reduced as it would lead to a decline of national government budget allocation through the equalisation process. This budget stems from either the inter-municipal equalisation or the gap financing of national government.

The Finance Agreement is the result of the negotiation between two stakeholders only: KL and the Ministry of Finance. To reach the 2018 Finance Agreement, these two parties negotiated the distribution of 38 billion USD to the municipalities. This should be viewed in light of a population of 5.8 million people and a gross national product of 330 billion USD. The Finance Agreement is not a settlement in the same sense as the Collective Agreement, discussed below, that is reached through compromising the demands of many different stakeholders.

Civil servants from the Ministry of Finance meet with KL representatives several months before the actual political negotiations start in order to discuss priorities, sequencing, and the agenda of the upcoming Finance Agreement negotiation. These meetings are intended to identify potential points of disagreement between the two parties and to give each side a sense of where the negotiations will be heading. Both the Ministry of Finance and KL formulate their negotiation strategies during this period.

THE PROCEDURE

Budget negotiations undergird the relationship between KL and the national government, especially the annual finance negotiations as Danish municipalities account for 50% of the national public budget (Danmarks Statistik, 2012). During the finance negotiations, KL negotiates the annual municipal budget with the Ministry of Finance, including pushing for items highly prioritised by KL members.

The Financial Agreement has broad societal impact. For example, education reforms in 2014 came through the Finance Agreement. In this instance, KL argued that if the national government reduced the number of children per classroom, municipalities would incur additional expenses by hiring more teachers and potentially expanding school facilities. Thus, the revised national education reforms proposed in September 2018 resulted in an adjustment of the annual municipal budget, as the municipalities are tasked with implementing the reform locally. KL's mandate is to advocate for the municipalities and not implement national policies.

“When a Finance Agreement is reached, the national government and the municipalities buy-in to each other’s policy and legislative initiatives.”

Rasmus Nordholm Brask,
Deputy Head of Finance,
KL - Local Government Denmark

In this way, if new legislation and political initiatives coming from the national government result in additional expenditures for the municipalities, KL and the Ministry of Finance negotiate the fiscal adjustment to municipal budgets. The budget adjustment is included in the following year's Finance Agreement after which the municipalities implement the new policies. **National laws are implemented through municipal action** KL (2018b).

From 2009 and up until 2012, the **national government gradually introduced sanctions on municipalities that spent in excess of their budgets stipulated in the Finance Agreement** (Finansministeriet 2018b). The sanctions hit all municipalities across the board. If one municipality overspends 100 million USD, the national government reduces the annual block grant to all municipalities by 100 million USD. In this way, there are strong incentives for each municipality to stay within the budgetary remits of the Finance Agreement. Yet, Rasmus Nordholm Brask argued, “This punitive action leads to some municipalities not spending all their budget because they need money

PROCESS INNOVATION: DUT

The Extended Total Balance Process (DUT) is a formal process to estimate the expenses of new national policies and when existing legislation or services are transferred between agencies (KL, n.d.5). As such, the DUT sets the fiscal framework within which the costs of implementing new laws are determined. The DUT is run by experts specialised in the area of a particular new law or political initiative. These experts come from within national government, the national public administration, and outside of government.

The DUT analyses 400 to 500 proposals per year. Of these, approximately 100 proposals will impact municipal budgets. Once it is clear that a new law or political initiative will impact municipal budgets, the national public administration and KL meet to negotiate a fiscal adjustment that will be included in the subsequent Finance Agreement. The fiscal settlement on the vast majority of new laws, perhaps 97-98 of the 100, is reached by specialised employees of the public administration of Finance Ministry and KL. Thus, they do not go through the DUT process. The remaining, perhaps **two to three broader or more contentious new laws or political initiatives, enter into the DUT process before reaching the annual Finance Agreement between the Ministry of Finance and KL.**

The Ministry of Finance uses the Finance Agreement as leverage to ensure that all national government ministries stay within national budgetary remits. National ministries have the ability to propose new laws and political initiatives. They are only included in the Finance Agreement if the Ministry of Finance determines that they will result in additional expenditures, and they entail a change of agency responsibilities. Thus, if a new policy or piece of legislation results in increased costs, the Ministry of Finance asks the ministry to demonstrate how it will raise the funds for its execution. Generally, this is done by reducing costs elsewhere. Once funds have to be reshuffled from one area to another, it requires a fiscal adjustment and potentially an adjustment to the Finance Agreement. **In short, by working within the fiscal framework for the Finance Agreement, municipalities and ministries are required to stay within the agreed budgetary remits.**

for unexpected events, such as heavy snow or storm water.” He continued, “Should we really sanction all municipalities so severely, because one municipality has gone a little over budget, when we negotiate each year for almost 106 billion USD during the Finance Agreement!” (Nordholm Brask, 28.08.2018, interview). There is an additional incentive for municipalities to save other than the fear of financial penalty levied by the national government: Municipalities retain unspent funds at the end of the fiscal year.

Municipalities are also able to raise their own taxes. Yet, raising taxes without improving service levels will reduce the competitiveness of the municipality. In addition, in 2009, the national government went to elections with a promise to freeze taxes. In this way, municipalities are allowed to increase their taxes, but **if one municipality wants to increase its taxes another municipality must decrease its taxes by the same amount to achieve a balance.** In much the same way, if one municipality wants to increase infrastructure spending beyond the amount stipulated

in the Finance Agreement, another municipality has to reduce their infrastructure spending by the same amount. In this way, the tax revenue and expenditure of the municipalities are regulated at national level and across all municipalities. These negotiations between municipalities occur within KL.

The national government provides guarantees for the Finance Agreement through the balancing principle. The balancing principle means that if unexpected eventualities occur, the national government guarantees that the municipalities can deliver the agreed level of service with the budgeted means. For instance, during the global financial crisis of 2008, unemployment benefits increased, while the tax revenue decreased. In this situation, the national government provided additional funds to cover municipal fiscal deficits.

During the negotiations of the Finance Agreement, the Finance Ministry may seek to add new service obligations without fiscal compensation to

the municipalities. In such circumstances, **the municipalities will ask for relief from other obligations to compensate for taking on new responsibilities without fiscal compensation.** Recently, municipalities negotiated to cut certain bureaucratic procedures to reduce administrative expenses in order to free funds for other services. In this way, the municipalities can reorganise service delivery within the same budget. Such trade-off negotiations to reorganising bureaucracy have also included the cost of service, infrastructure, unemployment, financing (e.g. interest rates), and estimates on tax revenue.

Once the Finance Agreement is closed, the budget percentage shared per municipality is sent to each municipality. Based on this, each municipality makes its own municipal budget that is presented after the summer holiday during inter-municipal negotiations hosted by KL. During these negotiations, the actual budget per municipality is negotiated based on **the principle of reciprocity**, where a municipality can increase its share of the budget, if the increase is matched by a decrease of the same size by other municipalities. Municipal budgets must be closed no later than 15 October of each year.

Lastly, the national Finance Law is passed by Parliament each year after the Finance Agreement is reached. Thus, once the budgetary requirements of the municipalities and regions have been determined, the national government knows how much they can account for in the national Finance Law.

THE CHALLENGES

In Copenhagen, whenever a large public building, such as a sports facility, community house, or concert hall is built, it presents an expense in the construction budget, which is part of the municipal budget allocated during the Finance Agreement. Kjeld Hansen said, “However, I know that some municipalities have speculated and found a way around this by **converting construction costs as operational expenses** in their existing budget.” He explained that in Jutland, non-profit membership organisations sometimes finance the construction of large (municipal) buildings through loans. The municipality guarantees the loan and rents the buildings, including staff hours. These workers present operational costs on the municipal budget that are covered by the Finance Agreement. In addition, “The municipality can show that it has increased its operational expenses and therefore, requires a budget increase,” says Kjeld Hansen (Hansen, 12.04.2018, interview).

Kjeld Hansen says, “Few people make decisions on issues concerning national political and economic interests. These decision-makers are the political

“Our main purpose is to negotiate and impact national government in favour of all municipalities. Our strength is the collective bargaining power of all the 98 municipalities.”

Solvejg Schultz-Jakobsen,
Vice Director, KL - Local Government Denmark

leadership of national government, key civil servants and the leadership of KL. They predict the direction we will take and make the decisions. The rest of the time is spent convincing municipalities and other stakeholders that the decisions already made are the right ones. In this way, we build and strengthen the platform, so to speak, so that when decisions are announced, we already have a strong dialogue and political foothold.” In order to build such a platform of support, the KL CEO and civil servants travel around the country to set the agenda for the coming negotiations. They host dialogue meetings with all the municipalities, including mayors and civil servants. Kjeld Hansen described this process in the following way, “We collect information and gather the views that help us build and strengthen our platform. This includes a lot of informal meetings and negotiations. Most municipalities support us in order to build a united position. At the end of the day, the KL’s board of directors make the final decisions on the main points to negotiate with the Finance Ministry” (Hansen, 12.04.2018, interview).

The Finance Agreement presents an institutional platform for dialogue and negotiation with the national government over the municipal obligations and costs. However, this does not exclude the possibility of influencing and negotiating policies outside the Agreement. For instance, policies for business promotion, affordable housing or refugee skill-building fall outside the scope of the Finance Agreement. Yet, KL is continuously trying to influence national politicians—both those in government and those in the opposition—on all matters concerning municipalities.

KL has its greatest impact by bundling issues of concern with the Finance Agreement negotiations. Solvejg Schultz-Jakobsen said, “Whatever is negotiated outside the Finance Agreement is beyond our scope of impact, as it will be dealt with by the national government and their allied parties.” For this reason, KL continuously conducts research and publishes reports in support of their member municipalities to help inform national government politicians (Schultz-Jakobsen; Ciric, 11.06.2018).

THE COLLECTIVE AGREEMENTS

“The collective agreements define working conditions such as pay, pension and working time as well as other related issues agreed upon by the trade unions and KL. The high organisation rate sets the frame for a strong sense of ownership.”

Louise Koldby Dalager,
Head of the Collective Bargaining Unit,
KL - Local Government Denmark

For over 100 years, municipalities and trade unions have negotiated the Collective Agreements concerning pay, employment terms, and working conditions for all public employees of Danish municipalities. Collective Agreements are usually in effect for three years, but the period is subject to negotiation. The relationship between the municipalities and trade unions is long-standing and strong, in part because of the institutionalisation of negotiations through the Collective Agreements. Approximately 70% of employees, both public and private, are organised by trade unions in Denmark (IDA, n.d.). In 2016, 415,000 worked for the municipalities (Danmarks Statistik, n.d.2). An additional 300,000 public employees are employed by the national and regional governments. The representatives of the public workers join the negotiations with the municipalities. **Because the negotiation of labour terms, conditions and salaries of all public employees takes place at the same time and national budget remains fixed, it is a puzzle to make the pieces fall into place at the same time.**

There are predominately two different types of Collective Agreement negotiations:

1. Broad negotiations that span several themes
2. Negotiations on specific themes, such as sector specific Collective Agreements

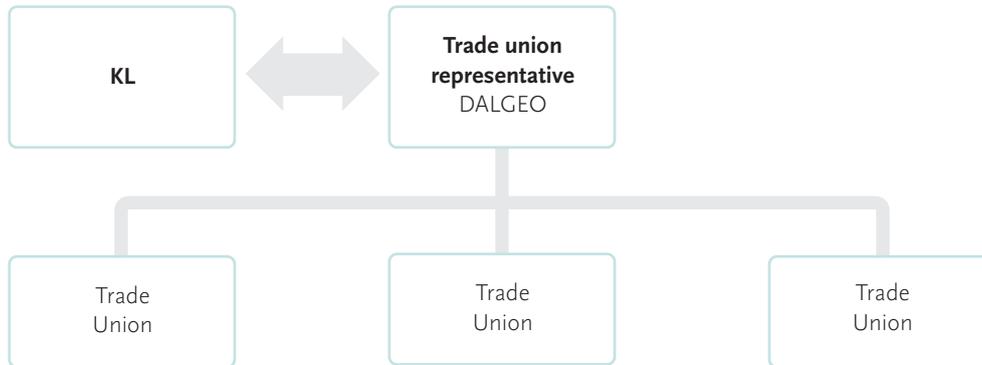
Prior to Collective Agreement negotiations, **KL and the trade unions will be in close dialogue with the national government in order to ensure that their topics are on the agenda.** Also, during the negotiation process, it happens that one party will introduce a specific theme as leverage in the bargaining process. These negotiations occur independently at the state, regional, and municipal level. Issues and themes of concern for each level are introduced at the three levels.

Kjeld Hansen said, “It gives us legitimacy in relation to the municipalities and their employees that we have finalised negotiations with the trade unions, often before we finalise the negotiations with national government and the regional authorities.” He continued outlining why the trade unions are important, “The salaries for civil servants represent the great majority of the municipal budgets. In Herlev, salaries represent 80% of the municipal budget, but we also need to attract good and ambitious employees” (Hansen, 12.04.2018, interview).

THE TRADE UNIONS

The trade unions often negotiate their own demands with their members prior to entering negotiations for Collective Agreements in much the same way as KL negotiates the municipalities’ demands before entering negotiations for Collective Agreements. KL is confronted with one representative of all trade unions and all municipal employees, called the Danish Association of Local Government Employees Organisations, DALGEO, (*Forhandlingsfællesskabet*). KL sits across the table from a comparable single organisation that also negotiates on behalf of all its members. This body negotiates on behalf of 51 trade unions, including the trade unions for teachers, social workers, cleaning personnel, academics, and managers (*Forhandlingsfællesskabet*, n.d.). Trade unions prioritise their demands and present a united front. Thereby, the unions leverage their decision-making competencies to mirror those of KL.

FIGURE 3. ILLUSTRATION OF KL - LOCAL GOVERNMENT DENMARK AND THEIR PRINCIPLE NEGOTIATION PARTNER SETTLING COLLECTIVE AGREEMENTS.



Two types of trade union negotiations occur simultaneously:

1. **General negotiations** apply to all trade unions represented by DALGEO. The general negotiations concern rules on vacation, maternity leave, work terms, conditions for elderly employees, and the economic framework for funds available to the public employees.
2. **Special negotiations** are with a **single trade union** over the terms and conditions (not salary) for one sector. Pensions, working hours, and resignation rules are included in these negotiations.

Even though, the two types of negotiations take place at the same time, KL and DALGEO commonly **conclude the general negotiations 14 days in advance of concluding the special negotiations** of Collective Agreements. In this way, the special negotiations are in part influenced by the outcome of the general negotiations.

In effect, **Collective Agreements are settled approximately a year after private sector partners have settled their Collective Agreements concerning salaries, terms and conditions for private sector employees.**

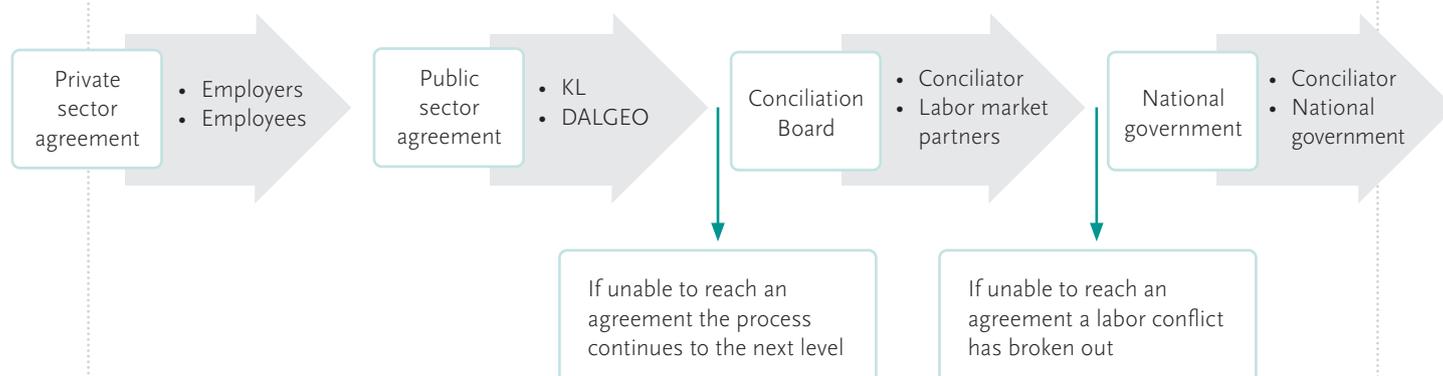
THE PROCEDURE

The process of collective bargaining is conducted autonomously according to the terms set by the parties: KL and the trade unions.

INSTITUTIONAL INNOVATION: THE CONCILIATION BOARD

The Conciliation Board is a formal conflict resolution system. The presentation of demands starts before Christmas and actual negotiations commence after the holiday. The parties seek to complete negotiations by the end of February. In the rare event that KL and DALGEO are unable to settle, negotiations proceed to the **Conciliation Board**, an arbitration institution that manages the negotiations for the Collective Agreements (Forligsinstitutionen, n.d.).

FIGURE 4. ILLUSTRATION OF THE NEGOTIATION PROCEDURE FOR COLLECTIVE AGREEMENTS.



The procedure goes as follows:

1. Private sector partners negotiate salaries, terms, and conditions for private sector employees. This step is presented in light grey, because it is not an institutional part of the operations of KL. Yet, it is a prerequisite for Collective Agreement negotiations in terms of indicating term, conditions and salaries of the Danish labour market.
2. KL (representing all Danish municipalities) and DALGEO (representing the trade unions of municipal employees) negotiate towards an agreement concerning salaries, terms, and conditions for all municipal employees.
3. **In the rare event that the labour market parties are unable to reach an agreement**, they are summoned by the Conciliator to the Conciliation Board. The Conciliator conducts the negotiations, including determining which topics should be discussed and in which sequence.
4. **In the extremely rare event that the labour market parties are still unable to reach an agreement**, the Conciliator will go to national parliament and present the negotiation pattern and path (Forligsinstitutionen n.d.). The Conciliator will present different solutions, and parliament will vote for which solution to implement. By national law, §409, **the solution with the most votes will be implemented**. However, it is very rare that the negotiations for Collective Agreements end up in parliament. As a last resort, the “The parties have established a conflict resolutions system to handle conflicts in close cooperation with the involved parties. The system is managed autonomously with no interference from the Danish legislative assemblies,” says Louise Koldby Dalager (Koldby Dalager, 28.06.2018).

There is a challenge that complicates the negotiations for Collective Agreements. While KL is in talks with DALGEO, **negotiations at regional and national levels are also occurring**. The regions are simultaneously negotiating salaries, terms, and conditions for the 120,000 regional employees, primarily in the public health sector, and the national government is negotiating salaries, terms and conditions for the 180,000 national government employees (Moderniseringsstyrelsen, 2018). If negotiations reach this stage, the Conciliator will usually summon all the labour market parties across national, regional and municipal levels to the Conciliation Board, until Collective Agreements are reached between employees and employers at national, regional and local levels. Negotiations at the Conciliation Board can only proceed when the Conciliator is present in the room to conduct the negotiations with the labour market partners. The tediousness and tiresomeness of the procedure is meant to “lock up” all the labour market partners at the Conciliation Board to increase their willingness to reach an agreement.

Before the Collective Agreements can be settled, both KL and DALGEO must gain final approval from their constituencies. For KL, approval of the final agreement comes from a state-appointed board called the Municipalities’ Salary Board. For DALGEO, the member trade unions have the final vote. Each member trade union holds a general election. In most instances, the constituency approve Collective Agreements. “KL cooperates closely with the municipalities so that their wishes and needs regarding wage and employment terms can be taken into account during negotiations. The 98 Danish municipalities have assigned KL the right to negotiate binding agreements on salaries as well as terms and conditions of employment for employees in the municipalities,” says Louise Koldby Dalager (Koldby Dalager, 28.06.2018, interview).

“A characteristic of the Danish model is the general peace obligation. This means that during the periods between the renewal of the collective agreements, it is illegal for the parties of the agreement to initiate strikes and lockouts. However, they retain the right if they cannot agree on renewing the collective agreements.”

Louise Koldby Dalager,
Head of the Collective Bargaining Unit,
KL - Local Government Denmark

Importantly, **once Collective Agreements are reached, the negotiating parties are obliged to implement Collective Agreements without creating turmoil and obstacles.** At the end of the day, if there is a dispute, it goes to the Labour Court that will also punish anyone who refuses or strikes outside of the scheduled periods and thereby prevents the smooth implementation of Collective Agreements (Arbejdsretsloven n.d.).

STRIKES AND LOCK-OUTS

The Danish Labour Market Model, or simply the Danish Model, organises labour relations in Denmark (Danish Business Authority, n.d.). It stems from the September Agreement of 1899, when employers' and employees' organisations reached agreement on salaries, terms, and conditions. They also agreed that employees are only allowed to strike, and employers are only allowed to lock-out, if the parties fail to reach an agreement and negotiations break-down. In this way, still today, **Denmark is able to pre-empt and even plan in relation to announced strikes and lock-outs, as they only fall on the brink of collapse of Collective Agreements.** Thus, the last strike was in 2008 and

concerned 75,000 teachers demanding a 15% salary increase (Jørgensen, 2009). The employers were only willing to increase salaries by 12.5%. In 2013, the employers locked out 67,000 teachers for 25 days due to a disagreement concerning their pay, working terms and conditions (Danmarks Lærerforening, n.d.). The lock-out ended through political intervention by the national government in support of the employers that circumvented the normal rules of the Danish labour market. Teachers lost nearly a month's salary during the lock-out, while the municipalities saved approximately a billion Danish kroner (133,333,000 €). Subsequently, the Danish Union of Teachers lodged a complaint against the Danish government with the International Labour Office (ILO). In 2014, the ILO concluded that the Danish government hampered negotiations by disregarding several ILO conventions by blurring their roles as employer and legislator (Danmarks Lærerforening, n.d.).

Even though everything that goes on in the Conciliation Board is kept secret from the public and press, there is usually a massive turn-up of public employees in front of the Conciliation Board cheering on the DALGEO negotiation team. Previous disagreements have been predominately on teachers' pay, working terms and conditions. The trade unions representing the teachers demanded that their pay, working terms and conditions followed private sector trajectory. Yet, public sector salaries are maintained below private sector salaries in order for the public sector not to drive salaries in Denmark. In addition, if salary increases are accepted, national, regional and municipalities have to decide amongst them, how they divide and cover the increased costs, as the budget remains fixed.

CONCLUSION

Across the world, negotiations, including negotiations between local and national governments, and between trade unions and their employers, are hostile and often result in deadlocks. At the same time, many city leaders end up making empty promises to the electorate, as they do not have the resources or capacity they need to realise their promises. Thus, such promises remain unsubstantiated, as politicians have neither the institutions nor the fiscal means necessary to execute new political initiatives. The result is widespread political unrest and the rise of polarised political parties across the Western world, including in Germany, Sweden, France, U.S. to name but a few. People are rightly becoming tired with unrealised promises. Politicians are only able to make minor concessions, while the promised large-scale change requires a holistic approach to policy making and the fiscal resources required to support new policies. Without such strong institutions, solid decision-making consensus, and an efficient financial allocation system, politicians are only able to make modest political change in a piece-meal manner. Of course, there is also a status quo built into the Danish system of city devolution, but the budget negotiation system ensures that policies have sufficient fiscal means for realisation, and labour market consensus ensures that policies are not implemented in a stop-go manner but implemented for the duration they need in order to demonstrate and cement real and durable change. This does not mean that everybody agrees, but it manages disagreements, including strikes and lock-outs, and it rewards skilful policy making through manoeuvring a complex network of decision-makers.

This report has presented what at first glance appears to be a complex system of negotiations for political and fiscal power in the Danish municipalities. While,

it may not be possible to replicate all the intrinsic elements of the model, one message stands clear: by uniting—including surrendering some degree of the decision-making competency—each municipality gains increased political and fiscal power vis-à-vis important societal stakeholders, such as national government and trade unions. Such merging of municipal competencies can occur at different scales, such as all municipalities in a city, or in an urban conglomerate, or all municipalities in a certain state, region or country. Also, it can be sequenced by first uniting all municipalities of a city, then an urban conglomerate, then a state or region and lastly, all municipalities of the whole country. Thus, US states that are comparable with Denmark in population size, such as Wisconsin and Colorado, could aim at implementing an intermediating organisation like KL to enhance the efficiency with which policies and policy implementation are achieved within a fiscally prudent system.

Another way to proceed is to adopt only one or two of the most innovative elements of the models, such as the **Extended Total Balance System** (DUT). DUT estimates expenses of new national policy and legislative proposals and sets the fiscal framework within which new laws and the costs of implementation are determined. Another institutional innovation is the **Conciliation Board** that conducts labour market agreements concerning salaries, terms and conditions for all public sector employees. The negotiations are carried out between the national government, regional authorities and municipalities simultaneously. The principle of reciprocity penetrates the whole state apparatus. Thereby no unsubstantiated promises are made, and political change is implemented across all levels of government and societal stakeholders, albeit sometimes at a modest pace.

LIST OF INTERVIEWS

Ciric, Omer. Head of the Management Secretariat, KL - Local Government Denmark, (Ledelsessekretariat, Kommunernes Landsforening), 28 August 2018 & 20 May 2019.

Hansen, Kjeld. Former Mayor of Herlev Municipality (Tidligere Borgmester, Herlev Kommune), 12 April 2018.

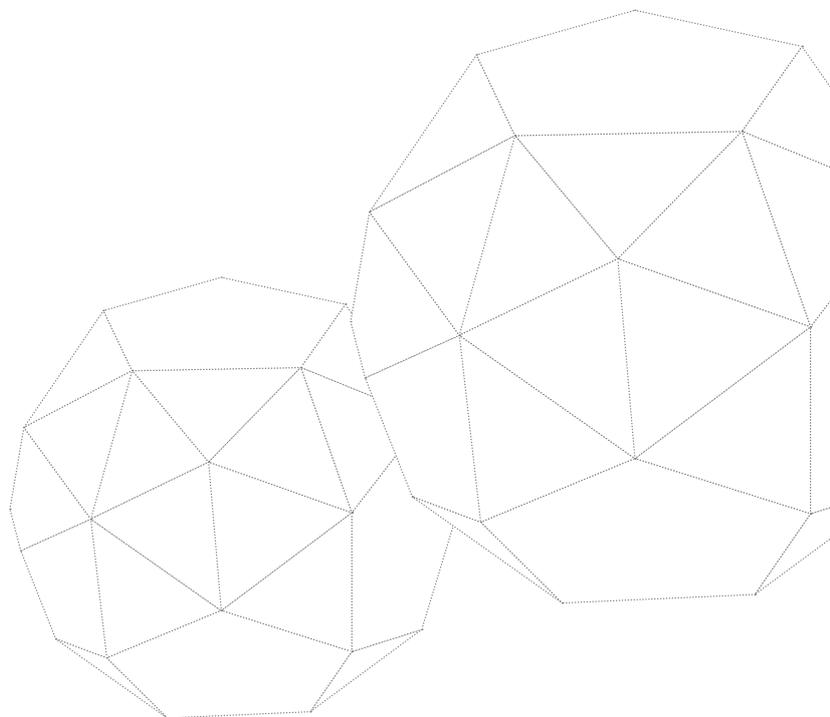
Heunicke, Kristian. Director, KL - Local Government Denmark, (Administrerende Direktør, Kommunernes Landsforening), 27 April 2015.

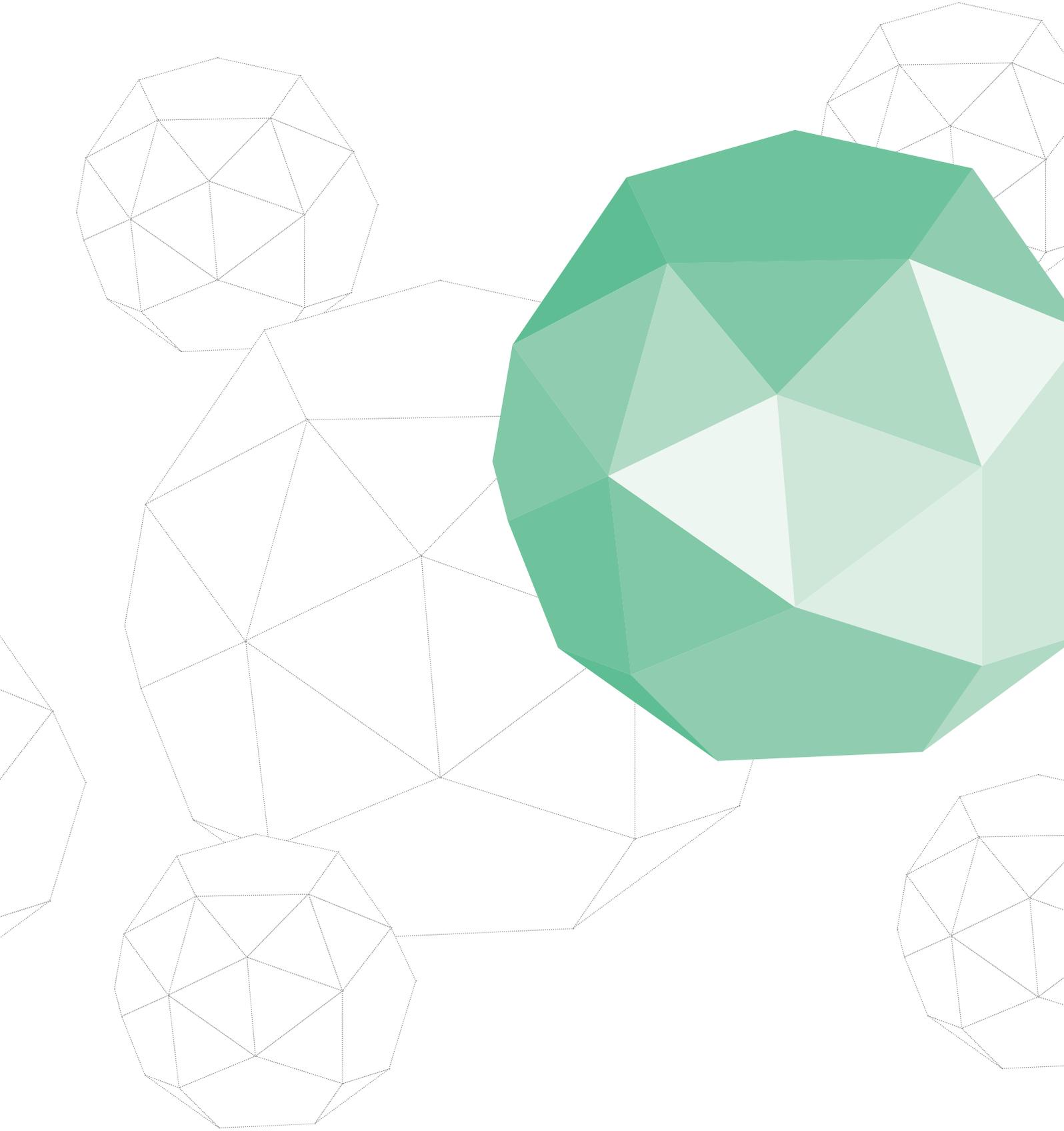
Koldby Dalager, Louise. Head of the Collective Bargaining Unit, KL - Local Government Denmark, (Kommunernes Landsforening), 28 June 2018.

Nordholm Brask, Rasmus. Deputy Head of Finance, KL - Local Government Denmark, (Souschef, Kommunernes Landsforening), 28 August 2018.

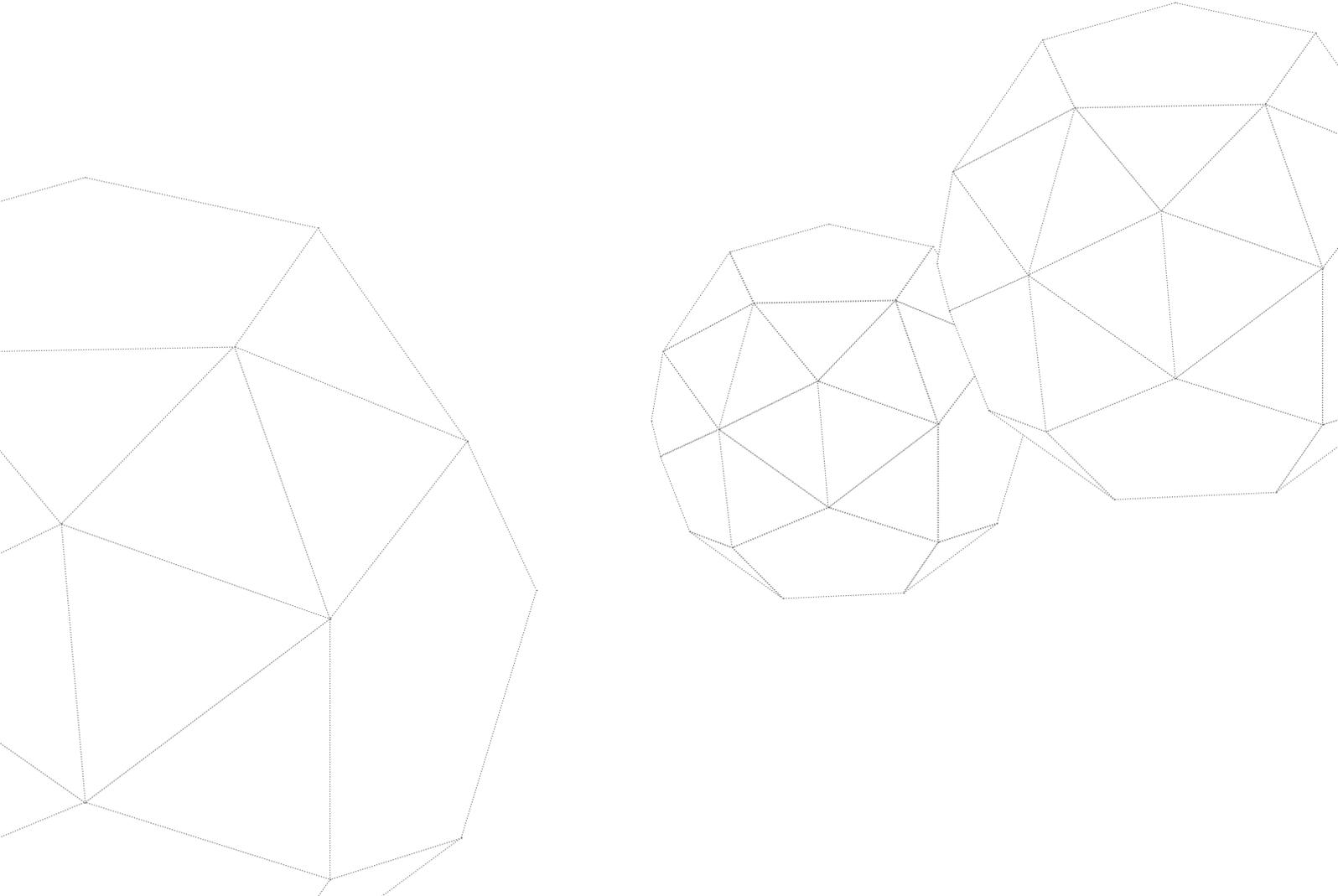
Schultz-Jakobsen, Solvejg. Vice Director, KL - Local Government Denmark, (Sekretariatschef [Vicedirektør] Kommunernes Landsforening, 27 June 2018.

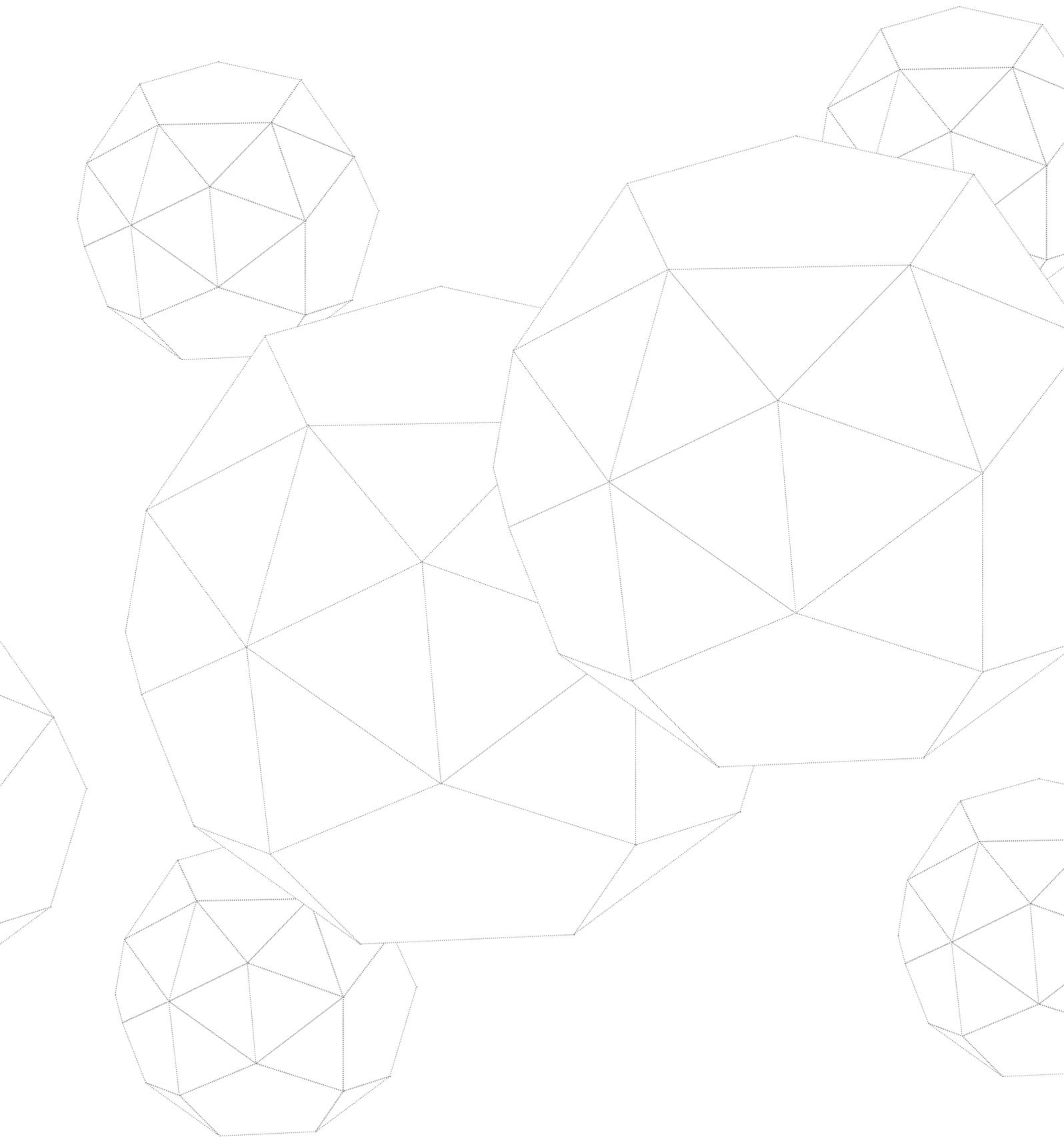
Schultz-Jakobsen, Solvejg and Omer Ciric. KL - Local Government Denmark, (Kommunernes Landsforening), 11 June 2018.





- Gyldendal (n.d.) KL. Available at: http://denstoredanske.dk/Samfund,_jura_og_politik/Samfund/Danmarks_lokalforvaltning/KL (accessed 22 March 2019).
- IDA (n.d.) Working in Denmark: Union membership in Denmark. Available at: <https://english.ida.dk/union-membership-in-denmark> (accessed 22 March 2019).
- Jørgensen C (2009) Strike Action and Work Stoppages in 2008. *Eurofound*. Available at: www.eurofound.europa.eu/publications/article/2009/strike-action-and-work-stoppages-in-2008 (accessed 22 March 2019).
- KL (2018a) KL's Regnskab 2017. *Danske Kommuner* No. 5. Available at: www.danskekommuner.dk/Global/Artikelbilleder/2018/DK-5/DK-5-2018-KLs-regnskab.pdf (accessed 22 March 2019).
- KL (2018b) Aftale om kommunernes økonomi for 2019. Available at: www.kl.dk/media/11535/oekonomiaftale-for-2019.pdf (accessed 11 June 2019).
- KL (n.d.1) Municipal Responsibilities. Available at: www.kl.dk/English/Municipal-Responsibilities (accessed 22 March 2019).
- KL (n.d.2) Local Government Reform. Available at: www.kl.dk/English/Local-Government-Reform (accessed 22 March 2019).
- KL (n.d.3) Local Government Denmark. Available at: www.kl.dk/English/Local-Government-Denmark (accessed 22 March 2019).
- KL (n.d.4) KKR. Available at: www.kl.dk/politik/kkr (accessed 22 March 2019).
- KL (n.d.5) Kort om DUT. Available at: www.kl.dk/nyhed/2009/maj/kort-om-dut (accessed 22 March 2019).
- Leland, S M, & Thurmaier, K. (Eds.). (2010). *City-County Consolidation: Promises Made, Promises Kept?* (Washington DC: Georgetown University Press).
- Lundtorp S (2004) Udviklingen i de kommunale udligningsordninger. Available at: www.kora.dk/media/272073/udligningsordninger.pdf (accessed 22 March 2019).
- Mansø R G (2018) Kommuner kalder regeringens tilbud om en milliard kroner for „en sølle trøst“ DR 29 May. Available at: www.dr.dk/nyheder/politik/kommuner-kalder-regeringens-tilbud-om-en-milliard-kroner-en-soelle-troest (accessed 22 March 2019).
- Ministry for Economic Affairs and the Interior (MEAI) (n.d.) About Municipalities and Regions. Available at: <https://english.oim.dk/responsibilities-of-the-ministry/governance-of-municipalities-and-regions/about-municipalities-and-regions> (accessed 22 March 2019).
- Ministry of the Interior and Health, Department of Economics (2005) The Local Government Reform – In Brief. Available at: <https://english.oim.dk/media/11123/the-local-government-reform-in-brief.pdf> (accessed 24 May 2019).
- Moderniseringsstyrelsen (2018) Fakta om statsansatte. Available at: https://2/media/17723/ok18_faktaark_statsansatte.pdf (accessed 22 March 2019).
- OECD (n.d.) Tax Policy Conclusion. Available at: www.oecd.org/tax/tax-policy/37154675.pdf (accessed 22 March 2019).
- OIM.dk (n.d.) Available at: https://oim.dk/media/18753/kommunal_udligning_og_generelle_tilskud_2018_pdfa.pdf (accessed 12 August, 2019).
- Økonomi og indenrigsministeriet (2017) Knap 71 procent stemte ved valg til kommuner og regioner. Available at: <https://oim.dk/nyheder/nyhedsarkiv/2017/nov/knap-71-procent-stemte-ved-valg-til-kommuner-og-regioner> (accessed 22 March 2019).
- Richardt M (2017) OVERBLIK 500 sider og 700 mia. kr.: Finansloven er Danmarks budgetkonto. DR. Available at: www.dr.dk/nyheder/politik/overblik-500-sider-og-700-mia-kr-finansloven-er-danmarks-budgetkonto (accessed 22 March 2019).
- Sørensen, R J (2006) “Local government consolidations: The impact of political transaction costs,” *Public Choice*, 127(75).
- UK Parliament (2018) City Deals. Available at: <https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN07158> (accessed 22 March 2019).





DEVOLUTION TO CITIES

A case study of KL - Local Government Denmark

LUISE NORING

Co-publication
with ICLEI and City Facilitators

