

DENMARK

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: DANISH KRONE (DKK)

POPULATION AND GEOGRAPHY

Area: 42 924 km²**Population:** 5.767 million inhabitants (2017), an increase of 0.48% per year (2010-2015)**Density:** 134 inhabitants / km²**Urban population:** 87.8% of national population (2017)**Urban population growth:** 0.9% (2017)**Capital city:** Copenhagen (23.0% of national population)

ECONOMIC DATA

GDP: 296.4 billion (current PPP international dollars), i.e. 51 387 dollars per inhabitant (2017)**Real GDP growth:** 2.2% (2017 vs 2016)**Unemployment rate:** 5.7% (2017)**Foreign direct investment, net inflows (FDI):** 2 357 (BoP, current USD millions, 2017)**Gross Fixed Capital Formation (GFCF):** 20.4% of GDP (2017)**HDI:** 0.929 (very high), rank 11 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Kingdom of Denmark is a constitutional monarchy. It has a representative parliamentary system with a Prime Minister acting as Head of Government, a Monarch as Head of State and a unicameral parliament known as the "*Folketing*". The Kingdom also comprises two autonomous constituent countries in the Atlantic, The Faroe Islands and Greenland, neither of which are EU members and which both have their own legislative assemblies. The country is decentralised in regions and municipalities, with no hierarchy between both levels. The principle of local self-government is enshrined in article 2 of the Danish Constitution.

Municipalities are ruled by the Law on Local Self-Government (1968) which has been amended several times over the last years. Decisions at the municipal level are vested in the local council. Local councillors are elected for a four-year period. The council elects the mayor from amongst its members for a four-year term. Regional governments are ruled by the Regional Government Act. Regional councils are made of 41 members, elected for four years during general regional elections, with a Chairperson as its Head.

An important local government reform was launched on 1 January 2007 after several years of preparation and negotiations, which significantly changed the territorial and institutional organisation. The 14 counties were abolished and replaced by five new regions. The former 271 municipalities were merged into the current 98. The State territorial administration was also reformed. This reform had three main aims: improving the efficiency of the public sector in order to provide optimum services but without increasing taxation; reinforcing local democracy and local social services delivery, closest to the citizens; and improving the allocation of responsibilities across levels of government with clearer tasks and less overlapping.

From 2012 to 2019, part of a wider reform of the public sector administration, nine municipalities (initial number, extended afterwards) took part in a policy experiment called the "Free Municipality" initiative. They were granted exemptions from government rules and bureaucracy requirements, with the aim to review potential future legislation simplifying and de-bureaucratising Danish municipalities. The Centre for Collaborative Democracy (CfSD) was also established to offer advice to all subnational entities on planning and participatory processes.

In January 2019, the government announced the health care reform, which will abolish the five current regions with elected councils. According to the reform plan, hospital services will be organised by five new organisations, which are governed by nominated boards. The rest of the current social and health services will be transferred to 21 new health associations, which are organised and governed by municipalities.

TERRITORIAL ORGANISATION

| 2018 | MUNICIPAL LEVEL | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGS |
|------|--------------------------------------------|--------------------|----------------------------------|----------------------|
| | 98 municipalities (<i>kommuner</i>) | | 5 regions (<i>regioner</i>) | 103 |
| | Average municipal size: 58 449 inhabitants | | | |
| | 98 | | 5 | 103 |

* The number of municipalities does not include Christiansø, which has a special status.

OVERALL DESCRIPTION. Denmark has a two-tier system of local government resulting from the 2007 local government reform that significantly changed territorial organisation.

REGIONAL LEVEL. Following the abolition of counties in 2007, the regional level is composed of five regions: the Copenhagen Region (the Capital Region of Denmark), Mid Jutland, North Jutland, Zealand and Region of Southern Denmark. Population ranges from 590 000 inhabitants (North Denmark) to more than 1.82 million in the Capital Region. Regional disparities in terms of GDP per capita have increased by 17% in Denmark over the last 16 years, as the result of the strong economic growth of the Copenhagen region, whose GDP per capita is 1.8 times higher than in Zealand, the region with the lowest level of GDP per capita. Denmark remains however a country with regional disparities below the median of OECD countries. The abolition of the current regions as self-governing bodies have been announced by the government.

MUNICIPAL LEVEL. The municipal amalgamations took place through compulsory municipal mergers until municipalities reached the size of 20 000 inhabitants. The process started in 2002 by the appointment of a Commission on Administrative Structure. The reform was adopted by the Parliament in 2005 and implemented on January 2007. Its purpose included economies of scale, greater professionalisation of municipalities, and increased capacity to receive and manage new responsibilities, in particular in the social sector. In 2017-2018, the average municipal size was around 58 500 inhabitants (vs 9 700 inhabitants in the OECD on average) and the median size, 42 850 inhabitants. Despite the reform, 7% of municipalities still have fewer than 20 000 inhabitants (vs 30% in the OECD on average). Inter-municipal cooperation has decreased following the 2007 amalgamation reform.

The Capital-city, Copenhagen, has a special administrative and political structure, as do three other major cities (Aarhus, Aalborg and Odense). The Copenhagen Metropolitan Region combines the Enlarged Territorial Area with the municipalities of Frederiksberg and Roskilde.

STATE TERRITORIAL ADMINISTRATION. The 2007 reform also transformed the territorial organisation of the state. The 15 county prefectures were transformed in five regional prefectures (*statsforvaltning*). In 2013, a new reform of the state territorial administration established one central office in Åbenrå and eight regional representations. It is managed by one central State Administration director and several subordinate vice directors.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The 2007 territorial reform significantly changed the distribution of responsibilities between the central government, regions and municipalities. Following the reform, the five regions were granted responsibilities for a single sector, health care services. This included the exclusive task of managing the hospital system, controlled by national legislation. Moreover, they are in charge of advising the municipalities on spatial planning and regional development, and of organising regional public transportation (bus services and some non-state-owned railways) and road subsidies, in cooperation with the municipalities. The other responsibilities of the former counties were either transferred to the municipalities or recentralised.

Some of Danish municipalities' responsibilities are stipulated by law, while others are based on unwritten municipal authority rules. Municipalities gained in 2007 responsibilities for social welfare and education, making them responsible for most citizen-related tasks. Overall, their tasks include pre-school, primary, lower secondary and specialised education, healthcare (preventive medicine, dental care, home care, etc.), social welfare (child, elderly), support services (unemployment insurance, early retirement benefits, cash benefits, and sickness benefits), sports and culture, spatial planning, nature and environment, job centres, integration of immigrants, local roads, etc. Framework legislation includes the general competence clause for local public services, which means that municipalities and regions are free to choose how to address these local issues, as long as they meet goals and minimum standards of service delivery.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

| | REGIONAL LEVEL | MUNICIPAL LEVEL |
|----------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. General public services | General administration; Public buildings and facilities | General administration; Public buildings and facilities |
| 2. Public order and safety | | |
| 3. Economic affairs /transports | | Local roads; Maintenance of regional roads; Local highways |
| 4. Environmental protection | Action against soil pollution | Refuse collection |
| 5. Housing and community amenities | Regional development plans and regional growth strategies; Rebalancing action on behalf of the peripheral zones and rural areas | Administration of housing benefits transfers; Water supply; Spatial planning and environment |
| 6. Health | Public health (hospitals, psychiatric services, health insurance, primary healthcare and specialised medicine); Outpatient medicine | Preventive medicine; Dental care; Non-hospital rehabilitation |
| 7. Recreation, culture & religion | | Libraries; Theatres; Sports facilities |
| 8. Education | | Pre-school; Primary, lower secondary and specialised education; Educational assistance for young people |
| 9. Social protection | Support services for the disabled | Child welfare; Provision for the elderly; Occupational reintegration of the unemployed (job centres); Integration and literacy courses for immigrants; Support services (unemployment insurance, early retirement benefits, cash benefits, and sickness benefits) |

SUBNATIONAL GOVERNMENT FINANCE

| | | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|---------------------------------------------|-----------------------------------------------------|
| Scope of fiscal data: municipalities, municipal associations, county councils, and local government owned and controlled market corporations ⁵ regions, 98 municipalities, regional and municipal agencies. | SNA 2008 | Availability of fiscal data: High | Quality/reliability of fiscal data : High |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|---------------------------------------------|-----------------------------------------------------|

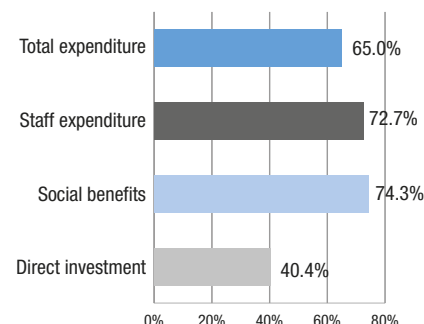
GENERAL INTRODUCTION. Municipalities are the only subnational level to raise tax revenues, as opposed to regions. The right of municipalities to manage their own affairs independently but under State supervision is enshrined in Article 82 of the 1953 Political Constitution. The specific rules on internal structure, financing and supervision of local and regional authorities are laid down in the 1968 Law on local self-government, which has been amended several times. Overall, despite high levels of fiscal decentralisation regarding expenditures, Danish SNGs rely primarily on grants from the central government, and Danish regions have no taxation powers.

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SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

| 2016 | DOLLARS PPP / INH. | % GDP | % SNG EXPENDITURE | % GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY) |
|----------------------------------|--------------------|--------------|-------------------|--------------------------------------------------------------|
| Total expenditure | 17 385 | 34.8% | 100% | |
| Inc. current expenditure | 16 599 | 33.3% | 95.5% | |
| Staff expenditure | 5 746 | 11.5% | 33.1% | 65.0% |
| Intermediate consumption | 2 984 | 5.9% | 17.1% | 72.7% |
| Social expenditure | 6 793 | 13.6% | 39.1% | 74.3% |
| Subsidies and current transfers | 1 014 | 2.0% | 5.8% | |
| Financial charges | 33 | 0.1% | 0.2% | |
| Others | 49 | 0.1% | 0.3% | |
| Incl. capital expenditure | 766 | 1.5% | 4.4% | |
| Capital transfers | 19 | 0.0% | 0.1% | |
| Direct investment (or GFCF) | 747 | 1.5% | 4.3% | 40.4% |



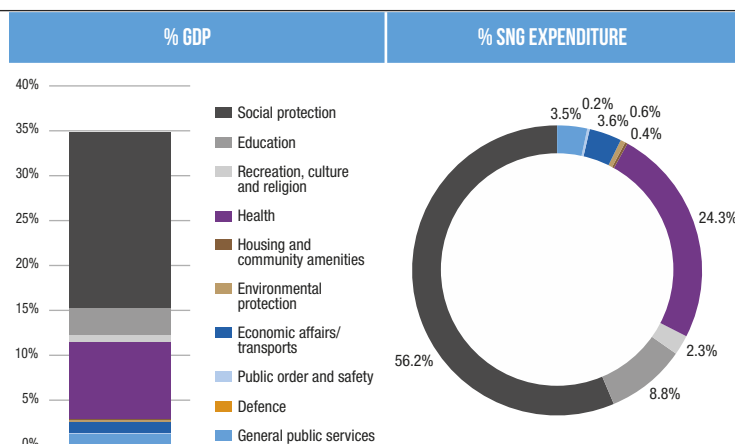
EXPENDITURE. SNGs, in particular municipalities, are providers of numerous public services and benefits in key areas, making Denmark the most decentralised unitary country of the OECD (as measured by spending). SNG spending in Denmark amounted to 34.8% of GDP and 65% of public expenditure to be compared to 16.2% of GDP and 40.4% of public spending in the OECD on average in 2016. SNG expenditure as a share of GDP and public expenditure in Denmark is even greater than most of OECD federal countries and close to Canada with 31.6% of GDP and 76.2% of public expenditure in 2016). SNGs employ the vast majority of public staff and are responsible for a very large share of social expenditure, much higher than the OECD average (74.3% versus 17% in 2016), given that both municipalities and regions are responsible for many social services.

DIRECT INVESTMENT. The role of Danish SNGs in public investment is lower than the OECD average where SNG investment accounted for 56.9% of public investment. The share of investment in SNG expenditure is low compared to the OECD on average (4.3% in Denmark vs 10.7% in the OECD in 2016). In many cases, public investment depends on the room for manoeuvre that SNGs have for prioritising their spending. Even if Danish SNGs are responsible for a large share of public expenditure (especially in terms of social benefits), an important part of it is determined by the Central Government, decreasing the spending autonomy of SNGs.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

The largest area of spending for SNGs is by far social protection, which accounts for 56% of subnational expenditure, a much higher share than the OECD average (14.0% of subnational expenditure in 2016) and 19.6% of GDP (2.2% of GDP in the OECD on average). Social protection is a key responsibility of municipalities. Health expenditure is the second highest budget item, accounting for 24% (vs 18.1% in the OECD) and 8.5% of GDP (vs 2.9% in the OECD). It is almost exclusively the responsibility of regions (health care represents 90% of total regional expenditure), which are responsible, among other things, for the organisation of hospital services.

Although some other spending sectors represent a relatively low percentage of total SNG expenditure, they may represent a substantial share of total public spending in the following areas: housing and community amenities, recreation and culture, environment protection. Compared to other OECD countries, spending in economic affairs and transports is relatively low (18% of subnational government expenditure in 2016).



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

| 2016 | DOLLARS PPP / INH. | % GDP | % GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY) | % SNG REVENUE |
|----------------------|--------------------|--------------|------------------------------------------------------|---------------|
| Total revenue | 17 542 | 35.2% | 66.1% | |
| Tax revenue | 6 218 | 12.5% | 26.8% | 35.4% |
| Grants and subsidies | 10 401 | 20.9% | | 59.3% |
| Tariffs and fees | 820 | 1.6% | | 4.7% |
| Property income | 75 | 0.2% | | 0.4% |
| Other revenues | 28 | 0.1% | | 0.2% |

OVERALL DESCRIPTION. In Denmark, SNG revenue as a share of GDP and as part of public revenue was the highest amongst OECD unitary countries in 2016. Grants and subsidies are the main funding source for regions, which are no longer entitled to levy taxes unlike the former counties, while taxes are the main source for municipalities. Grants account for almost 60% of total subnational government revenue, a much higher share than in the rest of the OECD countries (37.2% on average in 2016). The Danish system for allocating financial resources is based on the “expanded total balance” principle (*Det Udvidedede Totalbalanceprincip* - DUT), which guarantees a balance between the tasks assigned to municipalities and their financial resources. The “DUT” balance principle means that the state allocates funds to municipalities and regions in line with their expenditure needs.

TAX REVENUE. Since the 2007 reform, municipalities are the only subnational level of government allowed to levy taxes. Major own-source taxes are the local personal income tax (89% of municipal tax revenue, 31.5% of SNG revenue and 11.1% of GDP) and the recurrent taxes on immovable property (11% of municipal tax revenue and 3.9% of total SNG revenue). The local income tax is collected by the central government together with the national income tax. Municipalities can set the income tax rate. There is however a system that aims to slow down the tax rate growth. If a municipality decides to increase tax rates, using a complicated formula, a share of tax revenue raised by local tax rate increase will be paid to the central government.

Recurrent taxes on immovable property are collected by the municipalities. They comprise the land tax which accounts for the larger part (88% of property tax and 9.7% of municipal tax revenue), a municipal duty on land (public property) and municipal duties on residential and non-residential buildings. Local governments are entitled to exempt private schools, non-profit institutions and museums, amongst others, from the land tax. A property tax reform was approved in 2017 and will become fully effective in 2021. New valuations will be implemented to reflect property market values, thereby ending the property valuation freeze in place since 2002, which has led to falling effective tax rates for homes experiencing increases in value. Valuations will be updated every second year starting in 2020. As for many homes, this change will lead to higher valuations, tax rates will be lowered and homeowners whose overall housing taxes increase with the new system will be compensated through a tax rebate. The payment of tax increases after 2021 will also be deferred until the home is sold. In 2016, the municipal recurrent taxes on immovable property accounted for 1.4% of GDP, above the OECD average of 1.1%. Another tax for which municipalities are able to influence the rate is the Church tax. Tax rates for taxes such as company tax, researcher tax and estate tax are first determined by the state, and then municipalities receive a fixed share of the overall windfall.

GRANTS AND SUBSIDIES. Municipalities receive earmarked grants and block grants. Municipalities also receive grants awarded under the statutory financial equalisation arrangements, which were modified in 2007. The Danish equalisation scheme aims to even out the differences across municipalities due to gaps in the tax base, composition of age groups and social structure in general, to give municipalities the same financial possibilities to accomplish their tasks and provide public services. It is based upon the “structural deficit” (or surplus), i.e. the difference between municipal calculated tax revenues (calculated with an average rate of taxation) and an estimate of its spending needs. It is composed of a national equalisation component (58% of the difference between the estimated expenditure need and the estimated tax revenue), an equalisation within the capital city (27% of the difference between the estimated expenditure need and the estimated tax revenue). The remaining part is, as a general rule, allocated to the municipalities by population. Regional financing mainly comes from transfers from the central government and municipal contributions, according to three main pillars: the health sector, regional development and educational/social institutions. For instance, in the health sector, the main grant (representing 75% of health care expenditure) is allocated according to a formula based on population size and objective criteria measuring regional spending needs, including the average population age and socio-economic structure.

OTHER REVENUES. Other sources of revenue consist mainly of charges and duties from public services (sewage disposal, waste disposal, gas, electricity, heating and water supply); private and public nursery schools (the cost of which is set by law); care for the elderly (elderly persons housed by the municipality are required to pay a rent, electricity and heating). They represent less than 5% of local revenue. Revenues from the sales of assets and return on capital investments, chiefly from the sale of property and net financial interest, represent a very small percentage of local revenue compared to the OECD average (2% in 2016).

■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

| 2016 | DOLLARS PPP/INH. | % GDP | % GENERAL GOVERNMENT DEBT | % SNG DEBT |
|-------------------------------|------------------|--------------|---------------------------|-------------|
| Total outstanding debt | 5 535 | 10.8% | 20.6% | 100% |
| Financial debt* | 3 673 | 7.2% | 16.0% | 66.4% |

* Currency and deposits, loans and bonds

FISCAL RULES. Local governments are subject to a structural balanced budget rule. With the 2012 Budget Law, legally multiannual binding expenditure ceilings were introduced in central government, municipalities and regions. The limits apply across the entire municipal sector, not individual municipalities, and there is a yearly negotiation between central government and municipal sector representatives about financing. These four-year binding expenditure ceilings are set annually, for current expenditure only. They do not cover investment. In case of non-compliance, the gap will have to be compensated the following year, and central transfers may be reduced.

DEBT. Regions are not allowed to borrow on capital markets and municipal borrowing (loans and bonds) is subject to the supervision and approval of the central government. In general, municipalities can only borrow for capital expenditure for certain utility services only. Municipalities are also allowed to borrow to meet their short-term needs with permission from central government. Danish SNG outstanding debt as a percentage of GDP is lower than in OECD countries where it accounted 24.5% of GDP in 2016. However, the share of SNGs in public debt is on par with the OECD average. It is made up of financial debt (66% of total outstanding debt) and other accounts payable (34%). The financial debt is composed primarily of loans (89%) and currency/deposits. Although Copenhagen and all other Danish municipalities have free access to the national capital market, they do not issue bonds directly. They often turn to *KommuneKredit*, a local government bank established in March 1898, and governed by Act No. 383 dated 3 May 2006 on the Credit Institution for Local and Regional Authorities in Denmark. Under the supervision of the Ministry of Economic Affairs and the Interior, it provides lending and finance leases to Danish municipalities and regions. Currently, all municipalities and regions are members of *KommuneKredit*, which hold 90% of subnational government loans in the country.



Lead responsible: OECD
Last update: 02/2019

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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // Statistics Denmark.

Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat // Statistics Denmark.

Other sources of information: OECD (2019) OECD Economic Surveys: Denmark 2019 // OECD (2018) Tax Policy Reforms 2018: OECD and Selected Partner Economies // OECD (2018) Regions and Cities at a Glance // OECD (2016) Economic Survey of Denmark // The Ministry for Economic Affairs and the Interior (2014) Municipalities and Regions: tasks and financing. Copenhagen: Ministry of Economic Affairs and the Interior // Juul, T. (2014) Local Government Equalisation in Denmark // Council of Europe (2013) Local and regional democracy in Denmark - Congress of Local and Regional Authorities // Blom-Hansen, Jens, & Heeager, A. (2010) Denmark: Between Local Democracy and Implementing Agency of the Welfare State. In F. Hendriks, A. Lidström, & J. Loughlin, The Oxford Handbook of Local and Regional Democracy in Europe // Local Government Denmark.