

DENMARK

UNITARY COUNTRY

EUROPE

BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **Danish Krone (DKK)**

POPULATION AND GEOGRAPHY

AREA: **42 959** km²

POPULATION: **5.643** million inhabitants (2014),
an increase of 0.4% per year (2010-14)

DENSITY: **131** inhabitants/km²

URBAN POPULATION: **87.5%** of national population

CAPITAL CITY: **Copenhagen** (22.2% of national population)

Sources: OECD, Eurostat, World Bank, UNDP, ILO

ECONOMIC DATA

GDP: **256.8** billion (current PPP international dollars)
i.e. 45 500 dollars per inhabitant (2014)

REAL GDP GROWTH: **1.3%** (2014 vs 2013)

UNEMPLOYMENT RATE: **6.6%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **677** (BoP, current USD
millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **19%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.923** (very high), **rank 4**

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
98	-	5	103
MUNICIPALITIES (KOMMUNER) AVERAGE MUNICIPAL SIZE: 58 155 INHABITANTS		REGIONS (REGIONER)	

MAIN FEATURES OF TERRITORIAL ORGANISATION. Denmark has a two-tier system of local government resulting from a reform in 2007 which significantly changed territorial organisation. The former 14 counties were abolished, and 5 regions were introduced. The former 271 municipalities were merged into the current 98. There are no hierarchical links between either level. Denmark also has two autonomous regions, the Faroe Islands and Greenland, which have their own legislative assemblies.

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. The 2007 reform significantly changed the distribution of responsibilities between the central government and regions and municipalities. The five new regions are now granted responsibilities for health care services (including hospitals, health insurance and outpatient medicine), regional development, regional transport and environment. Municipalities gained responsibilities for social welfare and education, making them responsible for most citizen-related tasks. Overall, municipal 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.

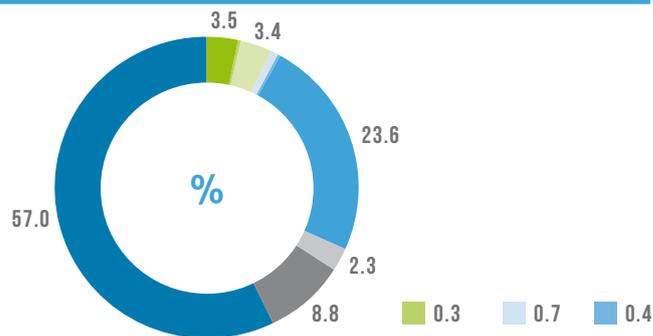
SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	36.4%	63.8%	100%
CURRENT EXPENDITURE	34.9%	-	95.7%
STAFF EXPENDITURE	12.2%	72.6%	33.5%
INVESTMENT	1.6%	43.3%	4.3%

SNGs, in particular municipalities, are providers of numerous public services and benefits in key areas, making Denmark the most unitary decentralised country of the OECD. SNG expenditure as a share of GDP and public expenditure is even greater than in most OECD federal countries (Canada is the only exception). SNGs employ the vast majority of public staff. However, an important share of SNG spending is made on behalf of the central government and the social security sector, with little autonomy for municipalities. The role of SNG in public investment is lower than in the OECD averages (in the OECD, investment accounted for 59% of public investment and 11% of SNG expenditure).

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE



SNG largest area of spending is by far social protection, which accounts for almost 60% of subnational expenditure. It is followed by health and education. For the regions, the main category of spending is health care (almost 90% of total regional expenditure). For the municipalities, social protection is also by far the main item. Although some other spending areas occupy a relatively low percentage of SNG expenditure, they may represent a substantial share of total public spending in these areas (housing and community amenities, recreation and culture, environment protection). Comparatively to other OECD countries, spending in economic affairs and transports is lower.

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	36.4%	65.0%	100%
TAX REVENUE	12.5%	26.1%	34.3%
GRANTS AND SUBSIDIES	21.9%	-	60.3%
OTHER REVENUES	2.0%	-	5.4%

The 2007 reform also brought major changes to the financing of SNGs. The share of taxation in SNG revenue decreased as the new regions are not entitled to levy taxes unlike the former counties (it went from 82% in 2005 to one-third in 2013). Grants and subsidies are now the main funding source for regions while taxes are the main source for municipalities.

TAX REVENUE. Since the reform, only municipalities can levy taxes, which represent 70% of municipal revenue. Major own-source taxes are the local personal income tax (89% of municipal tax revenue in 2013) and land tax (11%). The local income tax (average rate is 25%) is collected by the central government together with the national income tax, while land tax is collected by municipalities. Municipalities can set the income tax rate and land tax, within limitations set by the Ministry of Finance.

GRANTS AND SUBSIDIES. 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. Municipalities receive earmarked grants and block grants. Municipalities also receive grants awarded under the statutory financial equalisation arrangements, which were modified in 2007. The equalisation system is based upon the "structural deficit" (or surplus) i.e. the difference between municipal tax revenues (calculated with an average rate of taxation) and its spending needs. Municipalities with high structural deficit benefit from additional equalisation grants.

OTHER REVENUES. Other revenues include mostly user tariffs and fees for sewage disposal, waste disposal, gas, electricity, heating, water supply, nurseries, etc. (less than 5% of local revenue). Another source of revenue includes the sales of assets and return on capital investments.

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	11.4%	19.9%

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. Regions are not allowed to borrow on capital markets. Municipal borrowing (loans and bonds) is subject to the supervision and approval of the central government. They can only borrow for certain purposes and not at all for current expenditure. SNG outstanding debt as a percentage of GDP is lower than in OECD unitary countries on average (15%). It is made up of financial debt (65%) and other accounts payable (35%). Financial debt comprises only loans. Kommunekredit, a credit association owned by regions and municipalities and active in the financial markets for more than 110 years, is the main lender (market share about 95%).

A joint- study of:



Sources: OECD National Accounts Statistics • OECD (2015 and 2016) Subnational Governments in OECD Countries: Key data • OECD (2015) The State of Public Finances 2015: Strategies for Budgetary Consolidation and Reform in OECD Countries • Ministry for Economic Affairs and the Interior of Denmark (2014) Municipalities and Regions: Tasks and Financing • European Committee of the Regions (2014) Division of Powers Between the European Union, Member States, Candidate and some Potential Candidate Countries, and Local and Regional Authorities: Fiscal Decentralisation or Federalism" • Council of Europe (2013) Local and regional democracy in Denmark.