

Copenhagen Denmark

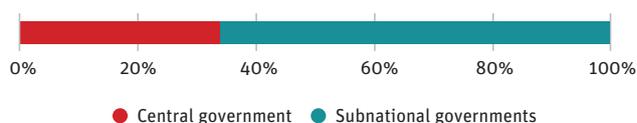
● CITY:
0.6 mil. inhabitants

● METROPOLITAN AREA
2.0 mil.
(+4.9% pop. change/5 years)

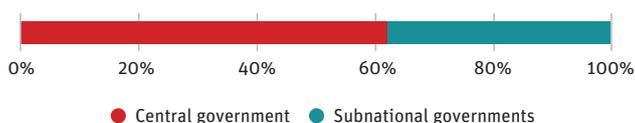
GDP: 156% of the average EU28 GDP
(+1.1% average annual change in GDP/5 years)

How local public finance systems work in Denmark

PUBLIC REVENUE



CAPITAL EXPENDITURE



Denmark has a **two-tier system of subnational governments** (SNG) – since the reforms in 2007, which made fundamental changes in the system. It is comprised of 5 regions (regioner) and 98 municipalities (kommuner). **Only municipalities have the power to collect taxes** (Danish regions have no taxation powers). The right to self-government is enshrined in the constitution from 1953 and in the Law on Local Self-Government from 1968 (and its many amendments). Despite the relatively great freedom of SNGs with respect to expenditures, SNGs are in large part dependent on transfers from the state. Regions are primarily responsible for health care and are partially involved in other matters (pollution, regional development, support for the disabled). By the end of 2020 the regional level will be eliminated.

Copenhagen (just like Aarhus, Aalborg and Odense, the other three largest cities) will have a specific administrative and political structure compared to the rest of the municipalities.

Denmark is the most decentralized country in the OECD with respect to expenditures, SNG is here responsible for a great number of public services. The expenditures of Danish SNGs correspond to 35% of the GDP and 65% of all public expenditures (compared to the OECD average of 16% of the GDP and 40% of public expenditures). The majority of officials in Denmark are employed by SNGs. SNGs are also responsible for social services (56% of the total local government expenditures) and health care (24% of the total expenditures). **The majority of responsibilities (and thus expenditures and investments) are assigned centrally to SNGs;**

despite high expenditures of SNGs is thus their expenditure independence quite limited.

Of all the OECD countries, Danish SNG enjoys the greatest share of the country's public revenue (both proportionally and in terms of GDP).

The main source of revenue for the regions are transfers and grants from the state budget. The main revenue of municipalities comes from taxes. 60% of the total SNG revenue comes from state transfers and grants (the OECD average was 37% in 2016). These transfers are governed by “expanded total balance” principle (**“det udvidede Totalbalanceprincip”**). This principle is similar to the Austrian system – through transfers and grants the state supplements the income side of SNG budgets to correspond to the amount of expenditures that correspond to their competences.

Since the local government reform of 2007, municipalities are the only level of SNG with the power to collect taxes. The most important tax is the local personal income tax (which accounts for 89% of municipal tax revenue, 32% of total SNG revenue and 11% of the GDP) and property tax (11% of municipal tax revenue, 4% of total SNG revenue). The local tax on personal income is collected by the state along with the state tax on personal income. Municipalities can set the income tax rate (within the rules that prevent too rapid an increase in personal income tax). With every rate increase, part of the newly acquired tax goes to the state. Property taxes are collected by municipalities. These consist of a land tax (the most important part – 88% of the property tax and 10% of municipal tax revenue), municipal duty

on land (public property) and municipal duties on buildings. Local governments may exempt certain entities from paying property tax. This typically concerns private schools, museums and non-profit organizations. The property tax and its individual components is currently under reform, especially with respect to the regular valorization of land values. Municipalities also set the rate of the church tax. Tax rates for taxes such as company tax, researcher tax and estate tax are determined by the state, and municipalities receive a fixed share of the overall revenue.

Municipalities primarily receive funding from the Danish state through the equalisation principle, where the state balances the differences between anticipated expenditures and municipal tax revenue. Part of the transfers and grants is tied to the number and makeup of citizens.

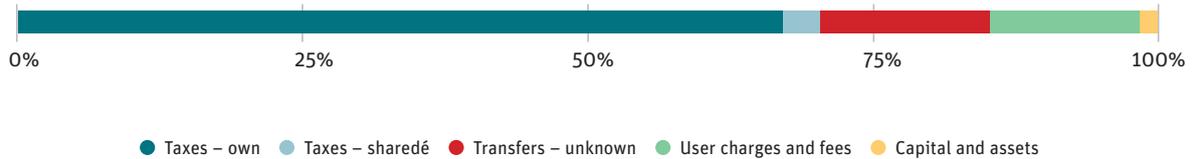
Other SNG revenues come from fees (5%) – especially fees for public services, water, electricity, gas) – and to a less significant degree asset income (2%).

Source: <http://www.oecd.org/cfe/regional-policy/Observatory-on-Subnational-Government-Finance-and-Investment.htm>

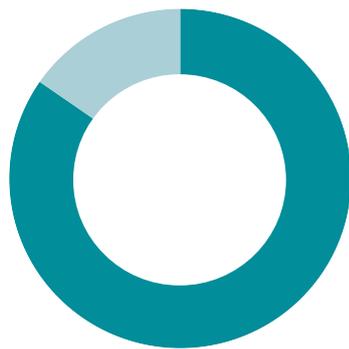
Finances of the City of Copenhagen

REVENUE SOURCES

Economic classification of revenue

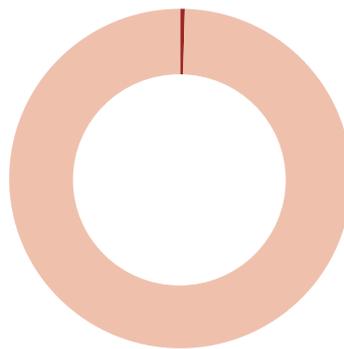


Tax base



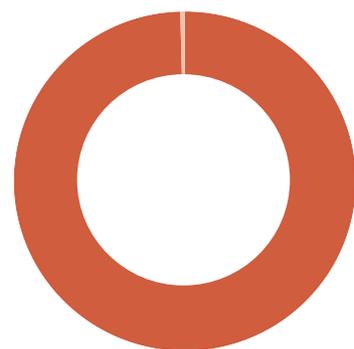
Income and wealth
Assets

Transfers conditionality



Earmarked
Non-earmarked

Transfers origin



Central
Private

Balance sheet and debt

-2%

BUDGET BALANCE

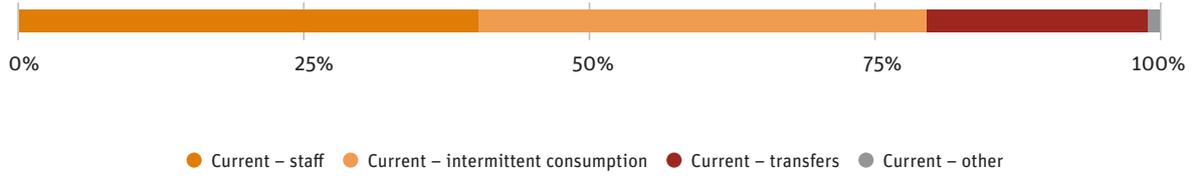
123%

DEBT AS A PERCENTAGE
OF ANNUAL REVENUE

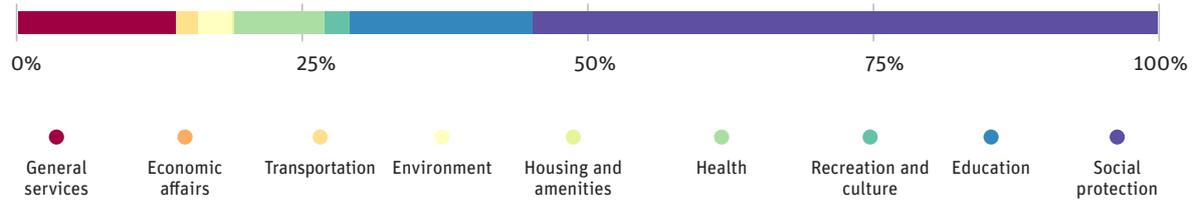
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EXPENDITURE COMPOSITION

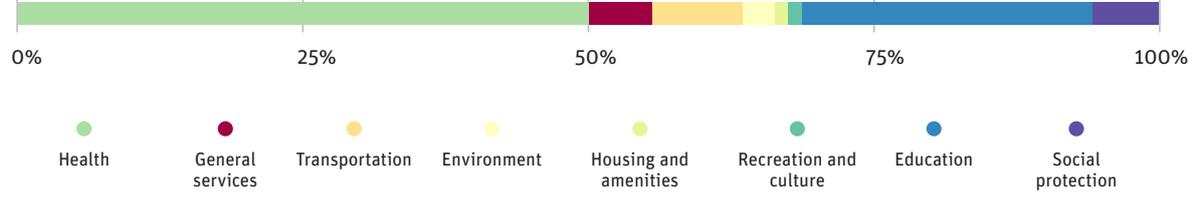
Economic classification of expenditure



Functional classification of expenditure



Functional classification of capital expenditure



Source: Own questionnaire survey (2019)