

# Municipalities and Regions - Tasks and Financing

June 2014

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Rounding up in tables may result in  
incorrect totals.

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Electronic publication:  
ISBN: 978-87-92856-53-1

The publication is available at  
the website of the Ministry for Economic Affairs and the Interior  
[www.oim.dk](http://www.oim.dk)

# A review of the decentralised public sector

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The booklet "Municipalities and Regions – Tasks and Financing" provides a relatively brief and factual description of municipalities and regions in 2014.

The local government reform in 2007 resulted in a rather comprehensive change of the local government sector and the establishment of five new regions.

Since then, there have been further changes, including the integration of the employment effort in the municipalities and establishment of a new authority – Udbetaling Danmark – that has taken over a number of tasks regarding the actual payment of various services to the Danish citizens.

Most recently, some adjustments of task distribution have been made, and new collaboration structures and management tools have been implemented after the evaluation of the local government reform in 2012-13. These adjustments involved the healthcare sector, groups with special needs, the environmental sector, growth, business development and regional government.

This booklet focuses on describing the current task distribution and financing of the municipalities and the regions, but also includes a description of government systems, supervision, interaction with the state, etc.

The Ministry for Economic Affairs and the Interior hopes that the booklet will provide a user-friendly view of the very decentralised public sector in Denmark and that the English version will provide readers abroad with basic information about the local and regional sector in Denmark.

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Editing was completed on June 23th 2014.



# 1. Historic development and the local government reform

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The structure and task distribution that we know from the Danish municipalities today are based on the local government reform of 2007 that replaced the reform of 1970.

## 1.1 The local government reform of 2007

The local government reform of 2007 consisted of three parts:

- A division reform
- A task reform
- A financing reform

Today, Denmark has 98 municipalities and five regions compared with 271 municipalities and 14 counties before the reform.

After a number of task relocations, local governments now to an even greater extent undertake most of the citizen-related tasks such as eldercare, child daycare, and primary and lower secondary schools as well as employment, transport and environment, whereas the main focus of the regions is the healthcare service.

The reform was implemented in the course of a few years, cf. Box 1.1.1.



**Box 1.1.1****The local government reform of 2007 – chronologically**

<b>Time</b>	<b>Contents</b>
Oct. 2002	Appointment of the Commission on Administrative Structure
Jan. 2004	The Commission on Administrative Structure concludes that there is a need for a reform of the structure of the public sector
April 2004	The Government (Liberal Party and Conservative Party) presents its proposal for "The new Denmark – a simple public sector close to the citizen"
June 2004	After negotiations, a political agreement on a new structural reform is made
Feb. 2005	50 draft bills regarding the structural reform
1 January 2007	The structural reform enters into force

Source: Ministry for Economic Affairs and the Interior

Financially, the reform was implemented based on the principle that funds accompanied the task, but there was no additional financing as a result of the reform apart from limited access to loans for one-time expenses in connection with the implementation of the reform.

For the local democracy in Denmark, relocation of tasks meant increased political responsibility in the municipalities. A responsibility that, as a result of the merger of the municipalities, is taken on by fewer local politicians, but in larger local councils than those in the old municipalities. For the regions, a new government body elected by the people called the regional council was established.

### 1.1.1 Agreement in 2013 on adjustment of the local government reform

In February 2012, the current Government initiated a service check of the local government reform, which resulted in the report, *Evaluation of the local government reform*, published on 1 March 2013. The evaluation focused on three areas: Healthcare, social services and special education, environment and regional development.

The purpose of the evaluation of the local government reform was to investigate possibilities of improving support to an efficient and modern public sector that provides services of superior quality and is equipped to handle future challenges. The evaluation showed that the local government reform has created a framework for a more robust public sector, but the evaluation also revealed that there are certain areas where it would be relevant to consider an adjustment of task distribution, cooperation and government practices.

In June 2013, the Parties in the Danish Folketing decided to follow up on the proposals included in the evaluation by making an agreement on implementation of a number of adjustments, cf. Box 1.1.2. The majority of these initiatives have already been or will be implemented in 2014.

**Box 1.1.2****Facts – Agreement in 2013 on adjustment of the local government reform**

The hospitals' decision power when it comes to rehabilitation plans for patients with complex needs will be strengthened. This is to support increased professionalism in the overall local government effort. In addition, efforts will be made to improve service correlation for the citizen, including reduction of the number of healthcare agreements from 98 to 5, and an evaluation of the local government co-financing.

A new national coordination structure should give the state (Socialstyrelsen = Social services agency) an important role in ensuring that the required services for special target groups are available, including the specialised effort within special education. The municipalities will have full responsibility for special education, and special advisory services will be undertaken by VISO (a national organisation for knowledge and special advisory services). The regions' obligation to provide social services and special education will continue, and, in future, the municipalities will only be able to take over regional services every four years.

Approval of deposit plants is transferred from the local governments to the state, and the authority to issue approvals for extraction of raw materials is transferred from the municipalities to the regions. These adjustments of task distribution should result in increased professionalism.

The regional development plan and the regional business development strategy will be integrated in one growth and development strategy with a view to gaining increased impact and visibility.

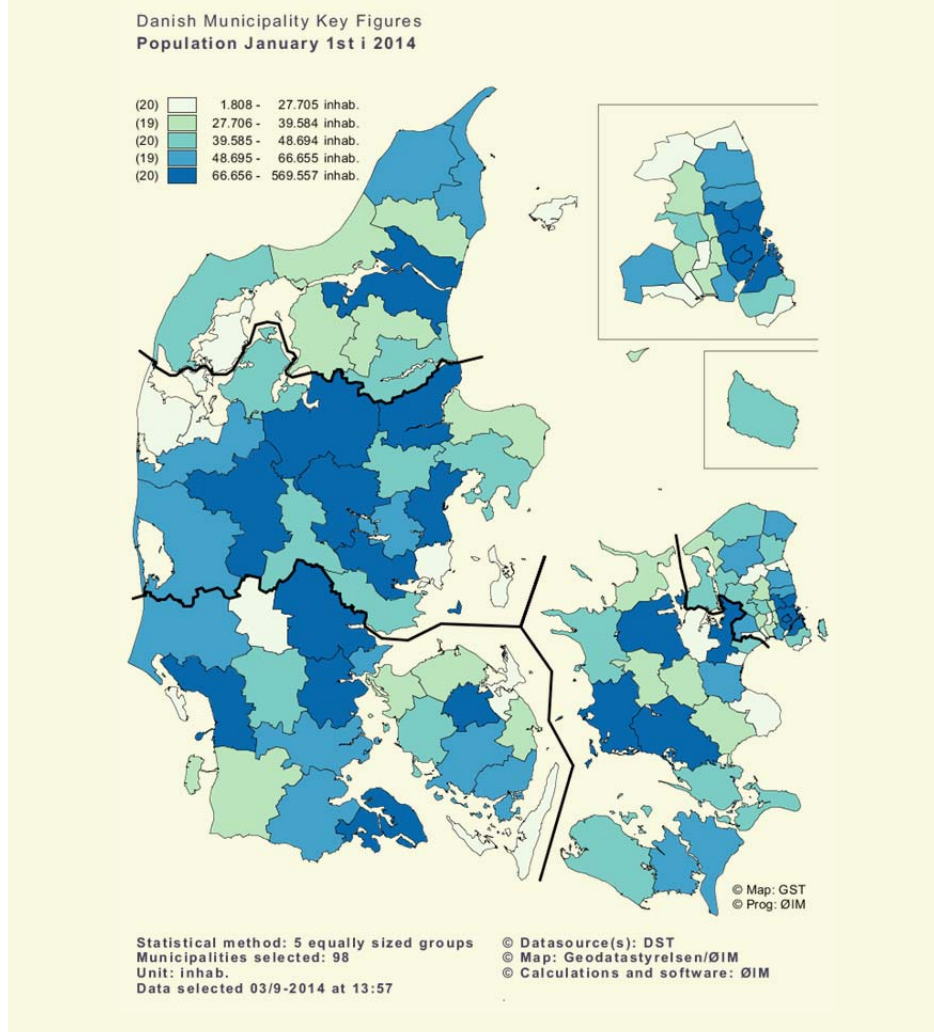
The regional councils will be given more freedom enabling them to appoint standing committees, participate in enterprises etc. within the healthcare sector without prior consent from the Minister of Health, and perform tasks for other public authorities.

Source: Ministry for Economic Affairs and the Interior

### 1.1.2 Population

Figure 1 shows the distribution of inhabitants in the municipalities. There is an average of 57,420 inhabitants in a municipality, and generally, there are more than 20,000 inhabitants in each municipality after the local government reform.

**Figure 1.1.1**  
Population in the municipalities as of 1 January 2014



Source: Key figures from the municipalities

Figure 1.1.1 also shows the division into five regions, and the population of these regions is shown in Table 1.1.1.

**Table 1.1.1**  
Area and population in the regions as of 1 January 2014

Region	Population	Area in km <sup>2</sup>	Population per km <sup>2</sup>
Capital	1,749,405	2,561	683
Zealand	816,726	7,273	112
Southern Denmark	1,202,509	12,191	99
Central Denmark	1,277,538	13,142	97
North Denmark	581,057	7,931	73
Total	5,627,235	44,098	128

Source: Statistics Denmark

Compared to the rest of Europe, Danish municipalities are currently some of the largest, cf. Table 1.1.2.

**Table 1.1.2**  
Average population per municipality and number of municipalities in other European countries

Country	Average population	Number of municipalities
UK	144,342	354
Denmark	56,735	98
The Netherlands	40,833	408
Ireland	40,088	114
Greece	34,800	325
Portugal	34,313	308
Sweden	32,483	290
Finland	16,781	320
Germany	7,265	11,252
Spain	5,651	8,167
Austria	3,568	2,354
Switzerland	3,268	2,408
Slovakia	1,780	3,028
France	1,768	36,786
Czech Republic	1,678	6,253

Source: The EU Information Centre and The Council of European Municipalities and Regions (CEMR), 2013

## 2. Structure of the municipalities and regions

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Public administration is a general term for the organisational system that prepares and implements the decisions made by political authorities.

In this publication we focus on the local and regional administration – the municipalities and the regions. The state administration is primarily included in sections regarding supervision and financing of the municipalities and regions, cf. in particular Chapter 7.

### 2.1 Municipalities

Local government is based on citizens being entitled to use their own democratically elected representatives to attend to a number of local tasks within their own municipality.

#### **Box 2.1.1**

##### **Facts – The Danish Constitution**

Section 82. The right of municipalities to manage their own affairs independently, under State supervision, shall be laid down by statute

The Danish Constitution prescribes that some of the public tasks should be allocated to the local governments. However, the Danish Folketing decides how much should be allocated. It is also prescribed that the municipalities are subject to state supervision.

The Local Government Act prescribes that each of the local councils must adopt a government by-law laying down rules on the number of committees and their tasks. Furthermore, the local councils must ensure that a local administration is established.

**Box 2.1.2****Facts – The Local Government Act**

The rules on local government are included in the Local Government Act. The Act contains rules on governing bodies, local councils, committees and the mayor that are basically the same for all the municipalities. The Act also lays down certain rules on financial management in the municipalities and, finally, provisions on supervision of municipalities and regions.

### 2.1.1 Local councils

The Local Government Act prescribes that the affairs of a municipality should be managed by the local council. Consequently, management of and responsibility for the entire organisation of the municipality rest with the local council. Basically, the local council can require that any issue be submitted for consideration and ruling.

The Local Government Act explicitly and absolutely places a number of powers with the local council, e.g. adoption of the annual budget and the annual accounts, adoption of certain rates, approval of loans, acceptance of guarantee obligations, etc.

Election of a local council and a regional council takes place every four years. The number of members of a local council must be uneven, min. 19 and max. 31. In municipalities with a population of less than 20,000, however, no less than nine, and in the municipality of Copenhagen max. 55. In the municipality of Copenhagen, the local council is called the City Council. The number of members is determined in the government by-law and is currently 55 members.

Local tasks are handled by the relevant function in the local council, the other local government bodies and the administration.

### 2.1.2 The mayor

The local council elects a chairman among its members – the mayor. It is the responsibility of the mayor to prepare, convene and chair the meetings of the local council and to prepare a draft for the agenda. The mayor is also the executive daily manager of the administration of the municipality and must ensure that the decisions of the local council are implemented.

The mayor can decide on an issue on behalf of the local council if this does not give rise to any doubt or if the matter is particularly urgent.

### 2.1.3 Government by committee

The general form of government according to the Local Government Act is government by committee. Using this type of government, the immediate administration is handled by committees while the mayor is the executive manager of the local administration.

The Local Government Act prescribes that the local council after an election must appoint a finance committee and, in addition, at least one permanent committee, a so-called standing

committee, to handle the immediate administration of local government tasks. The mayor is the chairman of the finance committee. The chairman of a standing committee is appointed by the majority in the committee.

The responsibilities of the finance committee are essentially provided directly in the Act. The committee is responsible for the economy, coordination of local planning and for administration in the local government. Furthermore, the finance committee must deliver an opinion in cases regarding the financial and administrative affairs of the local government, before they are considered in the local council. The most important task of the committee is to prepare proposals for the budget of the municipality based on the budget proposals from the other committees.

In practice, the local council mainly delegates to standing committees or the local government administration.

In addition to the standing committees, special committees can be established to take on certain duties or carry out preparatory or advisory functions for the local council, the finance committee or the standing committees. These special committees may include citizens, who are not members of the local council. The committees can be established at any time during the election period.

#### 2.1.4 Other types of government

The Local Government Act allows for the introduction of types of government other than government by committee.

##### *Corporation government*

The municipalities of Copenhagen, Frederiksberg, Odense, Aalborg and Aarhus may choose to establish corporation government. The corporation consists of a mayor and a number of aldermen elected according to proportional representation. The corporation attends to tasks that in other municipalities are the responsibility of the standing committees. In municipalities using government by corporation, tasks, which in other municipalities are allocated to the finance committee, are undertaken partly by the corporation and partly by the department of the mayor. The administration in municipalities using corporation government is divided into a number of departments headed by the mayor or the aldermen, respectively. Currently, only the municipality of Aarhus uses corporation government.

##### *Integrated government*

In a combined government, the finance committee and the standing committees are still responsible for the immediate administration. Contrary to government by committee, the chairmen of the standing committees are inherently members of the finance committee. Furthermore, the chairmen of the standing committees are elected by the local council by proportional representation effective during the tenure of the local council. Here, the local council may decide that the mayor should be elected by proportional representation along with the chairmen.



#### *Government by committee with shared administrative management*

The municipalities of Copenhagen, Frederiksberg, Odense, Aalborg and Aarhus may adopt shared administrative management. This means that the chairmen of the standing committees are responsible for the executive daily management of the part of local administration that concerns the affairs of the committee. The above-mentioned five municipalities are also allowed to combine shared administrative management with integrated government. Effective from 1 January 1998, the municipalities of Copenhagen, Odense and Aalborg adopted integrated government with shared administrative management. The municipality of Frederiksberg uses government by committee, cf. section 2.1.3.

#### *Other types of government*

The Local Government Act also allows the local council to decide to establish government without committees and government by committee, where the committees do not or only partly attend to the immediate administration (as is the case in Skanderborg). Finally, the local council may apply to the Ministry for Economic Affairs and the Interior for dispensation to introduce other types of government.

### 2.1.5 Inter-municipal enterprises

Pursuant to Section 60 of the Local Government Act, municipalities may enter into an agreement on cooperation that will entail a limitation of the powers of the participating local and regional councils. Such an agreement must be approved by the local supervisory authority. If an independent government body is established, the cooperation is called an inter-municipal enterprise.

Inter-municipal enterprises, e.g. transport companies and natural gas companies, are independent authorities and considered part of the public administration. This applies regardless of whether they are established in private organisations or not.

### 2.1.6 The local administration

Every municipality has a local administration. The administration is normally divided into administrations related to different areas, e.g. a technical administration, a social services and healthcare administration and a tax administration.

The Local Government Act includes no detailed provisions on the composition or conditions of the local administration. There are, however, certain provisions as to whether a member of the local council employed in the local administration, can be a member of a standing committee or the corporation (provisions on legal capacity).

### 2.1.7 Local Government Denmark

As a result of the local government reform in 1970, the interest organisation Local Government Denmark was founded by merging three associations in Denmark (Den Danske Købstadsforening, De Samvirkede Sognerådsforeninger i Danmark and Foreningen af Bymæssige Kommuner). However, the municipalities of Copenhagen and Frederiksberg did not become members until the local government reform in 2007, when they no longer had a double status as both county and municipality.

The purpose of Local Government Denmark is to safeguard the shared interests of the municipalities and thereby act as a negotiation body and a forum for initiatives and decisions. Local Government Denmark is for example the representative of the municipalities during the annual negotiations with the Government regarding the financial framework of the local governments. In addition, Local Government Denmark is an employer organisation and a negotiating party with the trade union of local government employees.

Local Government Denmark consists of a political management and approx. 400 employees. The executive committee of Local Government Denmark is elected every four years in connection with the local government election. The 17 seats are allocated on the basis of the political parties represented after the latest local government election.

## 2.2 Regions

The regional council is the executive regional authority in each region. The regional council has tenure of four years, i.e. the same as that of local councils. Therefore, elections for local and regional councils take place at the same time. In addition to the regional council, there is a business committee. The regions have a so-called flexible government by business committee. This means that the regional council decides whether the administration of the region's tasks should be undertaken by the regional council or the business committee.

However, the business committee should undertake the same tasks as those undertaken by the finance committee in a municipality according to the Local Government Act, i.e. tasks involving economy, budget, accounts, etc. In addition, the business committee must present its opinion in any case submitted to the regional council for a decision.

After an amendment to the Act, which became effective on 1 January 2014, regional councils may decide to adopt government by committee (or a Skanderborg model) according to the same rules that apply to the general local government by committee.

### 2.2.1 Danish Regions

The five regions have established an interest organisation, Danish Regions, to safeguard the common interests of the regions nationally. Danish Regions is headed by an executive committee composed on the basis of the distribution of party mandates at the latest regional election. Danish Regions has approx. 180 employees.

Danish Regions works on behalf of the regions in cases where the regions have shared interests, such as annual negotiations with the Government on the financial framework for the regions, but also when it comes to development of standards, proposals for legislation and cooperation with other organisations. In addition, Danish Regions is an employer organisation involved in collective bargaining on behalf of the regions.

# 3. Distribution of tasks in the public sector

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The tasks of the general public sector mainly include:

- Enforcement of Denmark's sovereignty through for example foreign policy and the defence.
- Issuing rules and making decisions with legal effect on citizens.
- Enforcement of the laws in Denmark through the police, the legal system, etc.
- Manufacture of products and services where the public sector is obliged to make a service available and where production cannot or should not be left to the private sector, e.g. healthcare, education, infrastructure, etc.
- Re-allocation of financial resources through taxes and transfer payments, e.g. unemployment benefits, cash benefits, rent allowance, etc. and making public services available.
- Ensuring a stable development of the national economy through fiscal policies in order to avoid significant cyclical fluctuations and subsequent unfortunate economic and social consequences.

## 3.1 The general distribution of tasks

The general distribution of tasks between state, municipalities and regions is described below. The local and regional tasks, respectively, are described in further detail in the next chapters.

### *Tasks of the municipality*

- Social services: Financing, supply and authority
  - Child care
  - The Danish Folkeskole, including special education and special pedagogical assistance for small children
  - Eldercare
  - Healthcare: Prevention, care, rehabilitation outside hospitals, special dental care and dental care at schools, home care and social psychiatry
  - Libraries, music schools, local sports facilities and other cultural sites
  - Integration and language lessons for immigrants
  - Support services: Unemployment insurance, early retirement benefits, cash benefits and sickness benefits
  - The active employment effort for both insured and non-insured unemployed people
-

- The local road network
- Participation in regional transport companies
- Nature, environment and planning, including specific tasks authority and citizen-related tasks
- The utility sector (partly privatised) and emergency services
- Local business service and promotion of tourism
- Citizen service regarding taxes and collection in cooperation with the state tax centres

*Tasks of the regions*

- Hospital service, psychiatry and the National Health Service, including general practitioners and specialists
- In addition:
  - Regional development, including secretarial services for regional growth forums
  - Soil pollution and raw materials
  - Operation of a number of institutions for vulnerable groups and groups with special needs who require social services and special education
  - Participation in transport companies

*State tasks*

- Police, defence and the legal system
- The foreign service and official development assistance
- Overall planning in the healthcare sector
- Education and research, except primary school and lower secondary schools and special education
- The Danish Working Environment Service and the employment policy
- Tax collection etc. and recovery of debts to the public sector
- Reimbursements of local government expenditure for unemployment insurance
- Early retirement benefits and cash benefits
- The road network and the Danish state railways
- Nature, environment and planning tasks
- Certain cultural measures
- Business economy subsidies
- Reception of asylum applicants

Generally, the tasks are allocated to the municipalities and the regions by statute. Basically, municipalities and regions cannot carry out any trade or industry. There are also narrow limits when it comes to granting financial support to individuals and enterprises.

## 4. Tasks of the municipalities

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Development over the years has resulted in local governments being allocated an increasing number of tasks. The municipalities took over a number of tasks from the former counties in connection with the local government reform in 2007. Most recently, they took over the active employment effort for insured unemployed when the one-tier local government employment system was established in 2009.

### 4.1 Services

Generally, a distinction is made between normal services aimed at the entire population and services aimed at citizens with special needs, which may be related to the socioeconomic situation in the municipality.

#### *General tasks*

Daily child care includes daycare for children from 0-5 years in private homes, a crèche, a kindergarten or an integrated institution. In addition, municipalities run after school-clubs. Daycare is one of the few services provided by the municipality where users pay part of the costs.

The Danish Folkeskole includes children from pre-school to 9th grade. Furthermore, there is a voluntary offer to attend 10th grade, but this is only used by a minority. The Danish Folkeskole Act lays down provisions on the max. number of pupils in each class, the curriculum, and min. number of lessons on each level.

Eldercare provides a number of services, i.e. both housing (special housing for the elderly and nursing homes) and personal and practical assistance in their own home (home care). An offer for services is made after a triage of the needs and health of the elderly person.

Local governments are also responsible for rehabilitation, which does not take place during admission at a hospital, as well as preventive and health promoting efforts to avoid unnecessary admissions and re-admissions. This requires close cooperation with the regions supported by regional health agreements to support the required correlation between treatment, prevention and care.

Local governments have a financial co-responsibility for the hospital service as they contribute with activity-based co-financing (20% of regional financing). The purpose of co-

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financing is to promote effective prevention and care and reduce the need for treatment at hospitals.

Finally, local governments are responsible for the libraries and support a number of cultural and recreational offers for all the citizens in the municipality. The cultural and recreational offers can also be included in the municipality's integration effort and be aimed at exposed children and young people. Each municipality decides the service level in this field.

#### *Special needs*

Local governments have full responsibility for activities to help the physically and mentally impaired, e.g. home care, housing and other specialised offers. They decide which offer each individual is entitled to. The specialised offers are provided by municipalities, regions and private individuals or enterprises. The municipality of residence pays the costs for these services. However, in individual cases that are very costly, the state may reimburse these costs.

Local governments are also responsible for the care of exposed children by providing advice, assistance and support to the family or placing the child with another family. Treatment of alcohol and drug abusers is also the responsibility of the municipalities, including daily and 24-hour treatment.

## 4.2 Support services

Local governments have a significant responsibility for a number of transfer payments both in terms of the task and the financing. The state contributes to the financing through state reimbursement of varying size, and the legislation within this field is relatively detailed.

Cash benefits are granted to unemployed citizens without any assets who are not supported by a spouse, unemployment benefits or a pension. It is a prerequisite that the citizen participates in activation, rehabilitation, etc. The state reimburses 50% of the municipality's expenditure in active periods and 30% in passive periods.

Early retirement benefits can be granted to people from 40 to 64 years, who, due to a permanent disability, cannot support themselves. An assessment is made of every possibility of self-support. The municipalities have gradually taken over a larger proportion of the financing of expenditure for early retirement benefits.

Employees who are not paid during sickness are entitled to sickness benefits. The municipality is reimbursed according to the duration of the sickness period. After 52 weeks, the reimbursement lapses. In case of a longer period of sickness, the municipalities must make sure that the individual returns to employment.

From 2010, local governments took over financing of the expenditure for insured unemployed people, and they receive an employment subsidy from the state. At the same time, local governments took over the active employment effort and the job centres.

Rent subsidy and rent allowance are granted independently of the household income. The state reimburses 75% of the municipalities' expenditure for rent allowance and 50% for rent subsidies.

The actual payment of certain services has been taken over by the authority Udbetaling Danmark. This authority was established in 2012 and manages payment of certain services with a so-called *objective case handling*, cf. Box 4.2.1.

**Box 4.2.1****Facts – The authority Udbetaling Danmark**

From 1 October 2012 to 1 March 2013, the authority Udbetaling Danmark took over the administration of payment of a number of services from the municipalities. These are family subsidies, maternity benefits, state pension, early retirement benefits and rent allowance. Family subsidies are payment of family allowance and advance payment of child support, collection of child and spouse contributions and payment of support for children and young people. In connection with the agreement on the municipalities' economy for 2015 (Economic Agreement 14) in June 2014, it was agreed to transfer the responsibility for international health insurance, contributions towards funeral expenses, flex support, support for the bereaved and partial pension to the authority Udbetaling Danmark.

These tasks are considered as objective case handling, i.e. payments where no assessment is required. The power to make a decision on granting or denying early retirement benefits, health benefits and other benefits that require an assessment still rests with the local governments.

The municipalities must still advise citizens on the kind of benefits they can apply for according to the Social Services Act and other legislation. This applies to benefits paid by the municipality and by the authority Udbetaling Danmark.

### 4.3 Transport, environment and utility services

The total road network is approx. 72.000 km of which the municipalities' road network constitutes 68,000 km, and they are responsible for construction, operation and maintenance. Needs and expenditure in the municipality can be determined by e.g. geography, road conditions and the business structure.

Public transport is run by regional transport companies established in connection with the Local Government Reform. Local governments are responsible for purchasing, financing and determining the service level for the local bus service.

Tasks involved in nature and environment are also the responsibility of the local governments. However, the state attends to the general nature and environment tasks, including approval and supervision of polluting activities. Local governments also prepare local planning and plans for waste water, refuse and water supply, and they are responsible for the protection of ground water, nature and environment.

Traditionally, municipalities have always undertaken utility services, e.g. water, heating and refuse collection and disposal. These areas are subject to another price regulation, i.e. they

are primarily user-financed and neutral in relation to the municipality's economy. In recent years, utility companies have been sold or established as independent companies. The supply of electricity and water/waste water has for example been privatised by statute. Utilities such as electricity and gas were privatised around 2000.

## 4.4 Distribution of expenditure in relation to local government tasks

The framework for local government service expenditure is determined in connection with the annual negotiations on the municipalities' economy between the Government and Local Government Denmark, cf. section 7.2.

Within this framework, it is possible to prioritise expenditure partly internally between the municipalities and partly across the sectors in each municipality. The expenditure of each municipality mainly depends on the need for public offers and services, but is also affected by the local government's choice of service level in each field and on the efficiency of task solution. Financing of the municipalities is described in Chapter 5.

Table 4.4.1 shows a general breakdown of total net operating expenditure in the municipalities in absolute numbers and percentages, respectively, based on local government budgets for 2014. Operating expenditure is not the same as service expenditure as service expenditure does not include costs regarding utilities, transfer payments and insured unemployed people. The service expenditure amounts to DKK 230.1 billion, whereas net operating expenditure amounts to DKK 323.7 billion. Of the total net operating expenditure, 47% is allocated to children and young people and elderly and disabled adults, cf. Box 4.4.1.

**Table 4.4.1**  
Local government net operating expenditure in the budget for 2014

Sector	In billion DKK
Children and young people	83.8
Elderly and disabled adults	66.9
Administration	37.2
Transfer payments	63.6
Healthcare, excl. co-financing	7.5
Other	64.6
<b>Total</b>	<b>323.7</b>

Source: Ministry for Economic Affairs and the Interior

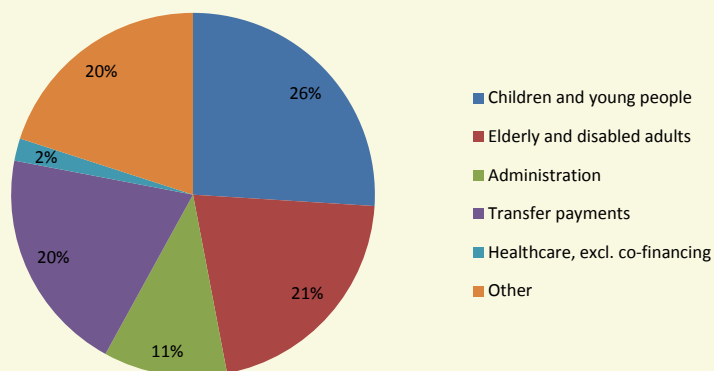


In addition to the net operating expenditure, the total gross capital expenditure of the municipalities amounts to DKK 18.3 billion in the budget for 2014 of which DKK 3.6 billion are allocated to the primary and lower secondary schools, DKK 4.2 billion to transport and infrastructure, DKK 4.5 billion to utilities, and DKK 6 billion to other purposes.

**Box 4.4.1****Net operating expenditure in the 2014 budget**

Total net operating expenditure in the local government 2014 budget is estimated at DKK 323.7 billion.

The funds are allocated as follows:



Source: Ministry for Economic Affairs and the Interior

## 5. Financing of the municipalities

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Local governments are responsible for about half of the total public expenditure. The framework for the total expenditure of the municipalities is decided upon annually according to the Act on provision of expenditure limits for state, regions and municipalities, cf. section 7.2.1 about the Budget Act, and in an agreement between the Government and Local Government Denmark on the economy of the municipalities for the coming year. It also deals with the framework for total local government expenditure for service.

In 2007, a financing reform was introduced in connection with the local government reform, which took changes in the distribution of tasks into account. This reform resulted in changes in taxation due to the abolition of the counties. The municipalities were allocated the proportion of the county income taxes that were not converted into healthcare contributions and the county land tax of 10 o/oo. The reform also resulted in various simplifications of the tax and subsidy scheme legislation.

A new subsidy and equalisation system was introduced according to which the distribution of the block grant is based on population instead of tax base. The actual equalisation is calculated on the basis of the overall economic situation of each municipality, also called the net equalisation method.

Total revenue in the municipalities in 2014 is expected to be DKK 357.1 billion. Below, you will see the general allocation of the total revenue of the municipalities in the 2014 budget.

**Table 5.0.1**  
The municipalities' financing revenue in the 2014 budget

Sector	In billion DKK
Taxes	255.2
General subsidies	94.5
VAT rebate	0.0
Interests	1.3
Raising of loans	5.0
Net changes	1.7
<b>Total</b>	<b>357.7</b>

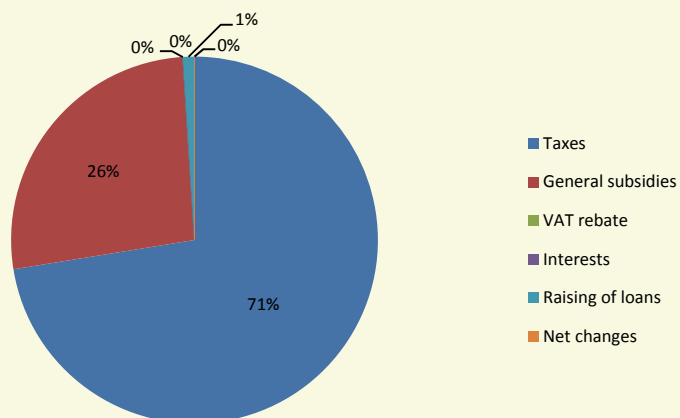
Note: Financing revenue does not include revenue from sale of plants, products and services, i.e. revenue listed under account 0-6

Source: Ministry for Economic Affairs and the Interior

**Box 5.0.1**

**Revenue for the 2014 budget**

The financing revenue of the municipalities is in the 2014 budget estimated at DKK 357.7 billion. The funds are allocated as follows:



Note: Financing revenue does not include revenue from sale of plants, products and services, i.e. revenue listed under account 0-6

Source: Ministry for Economic Affairs and the Interior

## 5.1 Taxes

Taxes, mainly from personal income, are the most important source of revenue for the municipalities. Municipal income tax is collected together with the state income tax and paid by employers etc. to SKAT, which settles the tax amounts with the municipalities.

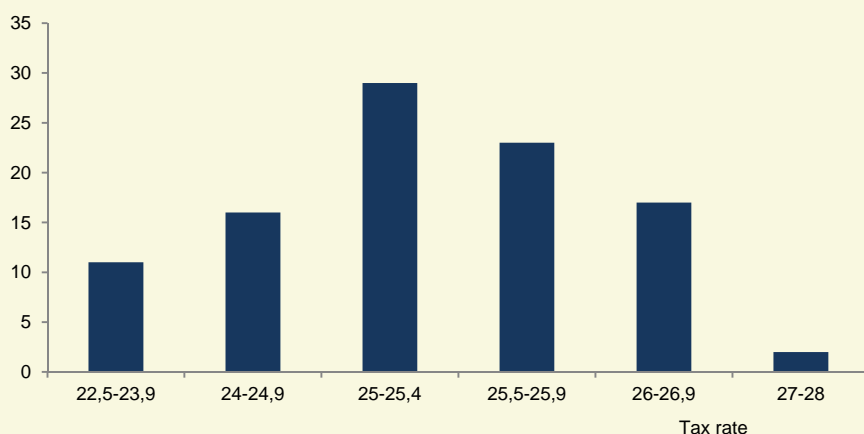
The municipalities' tax revenue comprises:

- Income tax, land tax and service charge: Tax sources where the municipalities are able to influence the proceeds.
- Other tax revenue such as company tax, researcher tax and estate tax: Tax rates determined by the state where the municipalities receive a fixed share of the overall proceeds.

The local government income tax rate is determined in connection with the adoption of the budget after a calculation of the total revenue requirements of the municipalities. The local government tax rates for 2012 are shown in figure 5.1.1. The average tax rate in 2014 is 24.9% and most of the rates range between 24 and 25.9%.

**Figure 5.1.1**

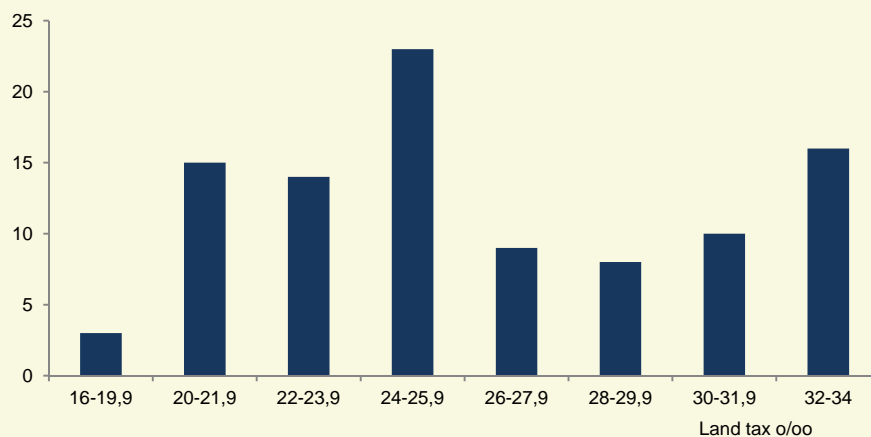
Number of municipalities shown by local government tax rate in 2014



Source: Ministry for Economic Affairs and the Interior

The local governments impose taxes on land values as a land tax amounting to between 16 and 34 o/oo. The average in 2014 was 26.16 o/oo, cf. Figure 5.1.2. The local government can exempt certain properties from land tax, e.g. private schools, non-profit institutions and museums. Protected properties are exempt from land tax by statute. A particularly low land tax also applies to farms, etc.

**Figur 5.1.2**  
**Number of municipalities distributed by land tax in 2014**



Source: Ministry for Economic Affairs and the Interior

Local governments can also impose a service charge. For business properties, a service charge is imposed on the difference value which can be set between 0 and 10 o/oo. The difference value is the proportion of the difference between the land value and the property value on which a service charge can rightfully be imposed. On public properties a service charge can be imposed based on the land value which is half the land tax o/oo in the municipality, however max. 15 o/oo, and on the difference value, which is determined by the local council with a limit of 8.75 o/oo.

## 5.2 Operating and capital revenue

In the local government economy, a distinction is made between what is financed by taxes where the municipality provides the service for free or with a considerable subsidy and what is financed by rates (utilities and housing for the elderly) where the citizens pay for the service themselves.

The area financed by taxes also includes rate revenue where citizens finance part of the expenditure for a service through rates. These are for example daycare centres, after school-clubs, leisure time learning, etc.

When the service and gross capital expenditure in the municipality is estimated, the services financed by rates are not included as users through payment of rates cover the expenditure for a limited period of time. Consequently, the local government economy is not affected by these services.

### 5.3 Subsidy and equalisation scheme, etc.

The purpose of the equalisation scheme is to even out the differences in the economic situation in the municipalities due to differences in tax base, composition of age groups and social structure. The effect of the equalisation is that the municipalities can offer services at the same financial terms. Consequently, the aim is not to equalise the service levels, as that is a local policy priority, but to give the municipalities the same financial basis on which to solve their tasks.

The equalisation scheme is based on the so-called net equalisation method. This means that the equalisation is calculated on the basis of a municipality's estimated structural surplus or deficit, i.e. the difference between a municipality's estimated expenditure need and its tax revenue based on an average tax rate. The structural deficit (or surplus) expresses the overall economic situation of a municipality where expenditure need and taxation options are taken into account. Consequently, it shows whether a local government is able to finance an estimated expenditure need by imposing taxes at an average tax rate. The structural deficit does not include the financing that municipalities receive through the subsidy and equalisation scheme. Therefore, only very few municipalities have an estimated structural surplus.

Table 5.3.1 shows the subsidy and equalisation schemes which will be explained in further detail. First, we will explain the significance of the choice of budgeting method.

**Table 5.3.1**

**The subsidy and equalisation scheme**

National equalisation	Equalisation of 58% of the difference between the estimated expenditure need and the estimated tax revenue.
Equalisation in the capital	Equalisation of 27% of the difference between the estimated expenditure need and the estimated tax revenue.
Equalisation subsidies for municipalities with a high structural deficit	Subsidies of 32% of the part of the difference between the municipality's estimated expenditure need and the estimated tax revenue which exceeds the national average difference.
Block grant	Part of the block grant is used to finance national equalisation and equalisation subsidies for municipalities with a high structural deficit. The remaining part is as a general rule allocated to the municipalities by population.
Special subsidies and equalisation schemes	See table 5.3.2.

Source: Ministry for Economic Affairs and the Interior

### 5.3.1 Choice of budgeting method

The year before the subsidy year, the Ministry for Economic Affairs and the Interior issues a statement of the subsidy and equalisation amounts for each municipality for the coming year. When budgeting, the municipalities can choose to budget on a state guaranteed tax base and the announced guaranteed subsidy and equalisation amount. The amount can be entered directly into the budget, and no subsequent adjustments will be made.

A local government can also choose to budget with its own estimate of the tax base, land value and population. Here, the local government calculates its subsidy and equalisation amount based on the estimates used to prepare the budget. For these municipalities, a preliminary subsidy and equalisation amount is paid during the subsidy year. Two years after the subsidy year, the final subsidy and equalisation amount is calculated on the basis of a statement of actual data from the local government. Then, a subsequent adjustment will be made between the final and the preliminary subsidy and equalisation amount. A subsequent adjustment is also made for the actual tax proceeds. It may be an advantage for a local government to choose self budgeting if it expects more growth in the tax base than the rest of the country. However, this choice also involves a risk of a negative subsequent adjustment if the local government's estimate is too high.

For municipalities opting for the state guarantee, the amounts from the subsequent adjustment are paid by the state, i.e. the state receives or pays any such amounts. For municipalities opting for self budgeting, payment of any amounts from the subsequent adjustment will be made three years after the subsidy year. A decision to register for the state guarantee is made in connection with the adoption of the budget and is thereby binding for the budget year. Since 2008, a decreasing amount of local governments have chosen self budgeting. In 2014, two municipalities chose self budgeting.

### 5.3.2 National equalisation

The national equalisation includes all the 98 municipalities in Denmark. If a municipality has a structural deficit, it will receive a subsidy equal to 58% of the structural deficit through national equalisation. If the municipality has a structural surplus, it must pay 58% of this surplus to the equalisation scheme. However, the majority of the expenditure for the scheme is financed by the state through the block grant as the structural deficit exceeds the structural surplus significantly. In 2014, only 9 municipalities have an estimated structural surplus and must pay an equalisation amount hereof.

A municipality's expenditure need for determination of the structural surplus or deficit is calculated based on population, composition of age groups and an index of the socioeconomic structure in the municipality. The expenditure need must reflect the expenditure facing the municipality that it has no influence on.

The overall expenditure need for the municipality is the sum of the demographic and the socioeconomic expenditure need.

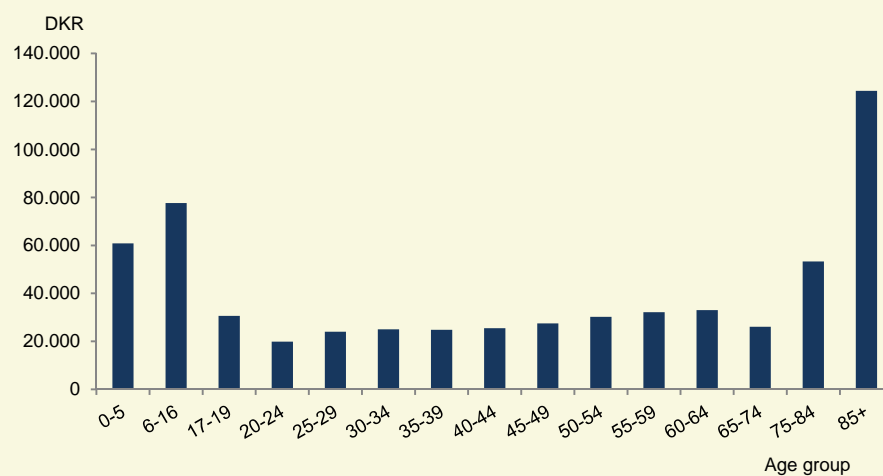
### *The demographic expenditure need*

The demographic expenditure need reflects the expenditure of the municipality in terms of the composition of age groups. It must take into account any differences in the composition of age groups between the municipalities. The age-related expenditure need is determined based on estimated unit amounts per inhabitant for each age group. Figure 5.3.1 shows the age-related unit amounts for each age group. Especially the number of children and old people affects the age-related expenditure need.

The total demographic expenditure need for each municipality is calculated by multiplying the number of people in each age group with the unit amount for the age group in question. It should be noted that also social challenges to a certain extent are included in the demographic criteria. The unit amounts for each age group are calculated on the basis of the overall expenditure in the municipality and also include expenditure for social services. Most of the people on early retirement benefits are in the age group 40 to 64, and this type of expenditure is mainly allocated to these groups. The same applies to other expenditure in the social sector such as expenditure for 24-hour care centres.

**Figure 5.3.1**

**Graph of unit amounts for the age-related expenditure need in the national equalisation for 2014**



Note: The unit amount is based on typical costs for an average citizen in a certain age group.

Source: Local government equalisation and general subsidies 2014

### *Socioeconomic expenditure need*

The socioeconomic expenditure need is calculated on the basis of a number of criteria regarding the socioeconomic burden in the municipality. These are elements that do not necessarily give rise to local government expenditure, but based on experience they can be used as an indicator of the socioeconomic burden in the municipality. The socioeconomic



expenditure need is estimated on the basis of a socioeconomic index calculated by weighing the criteria using different weights, cf. Table 5.3.2.

The weight of each criterion in the index is calculated by multiplying the population of the municipality within the criterion with its weight and dividing it by the total population in the municipality. The sum gives the total socioeconomic index. If the index is more than 100, the municipality has a relatively heavy socioeconomic burden compared to the national average. The socioeconomic expenditure need in a municipality is then calculated by multiplying the socioeconomic index with a unit amount per inhabitant and the population in the municipality. The socioeconomic criteria and the weighing hereof have been determined in advance and selected on the basis of analyses of the correlation between the criteria and the local government expenditure.

**Table 5.3.2**  
Criteria and weights for the socioeconomic expenditure need in the national equalisation for 2014

Criterion	Weight in the national equalisation
20-59 year olds without employment over 5% 1)	19%
25-49 year olds without vocational training	16%
Rented apartments	5%
Psychiatric patients	5%
Families in certain types of housing	15%
Children in families where the parents have no or little education	8%
Singles of 65 years and older	2.5%
Individuals with a low income in three out of four years	8%
Number of mentally handicapped	5%
Number of immigrants and descendants	3%
20-59 year olds with basic skills	5%
Estimated annual reduction of the population	2%
Children with single parents	4%
Children who have moved to another municipality at least three times	2.5%

Note 1) The largest number of 20-59 year olds without employment exceeding 5% the year of the last calculation or three years before. The correction should ensure that municipalities benefit financially from increasing employment.

The equalisation system includes an annual raise of the socioeconomic criteria to automatically take into account the gradual increase in expenditure for early retirement benefits. On the basis of the expected development, it has been decided that the overall weight of socioeconomic criteria as of 2008 will be increased by ¼ percentage point each year. The demographic criteria are reduced accordingly. For 2014, the age-related expenditure need had a weight of 68.25% and the socioeconomic expenditure need a weight of 31.75%.

### 5.3.3 Equalisation in the capital

Equalisation in the capital is an inter-municipal equalisation scheme that re-allocates funds *between* the municipalities in the capital region. It is an addition to the national equalisation to reflect the special expenditure needs in the municipalities in the capital. Just like the national equalisation scheme, equalisation in the capital is based on a net equalisation system where a structural surplus or deficit is estimated for each municipality.

**Table 5.3.3**

**Criteria and weights for the socioeconomic expenditure need in equalisation in the capital for 2014**

Criterion	Weight in the equalisation in the capital
20-59 year olds without employment over 5% 1)	10%
25-49 year olds without vocational training	25%
Rented apartments	8%
Psychiatric patients	8%
Families in certain types of housing	7%
Children in families where the parents have no or little education	25%
Singles of 65 years and older	7%
Number of immigrants and descendants	5%
Children with single parents	5%

Note 1) The largest number of 20-59 year olds without employment over 5% the year of the last calculation or three years before. The correction should ensure that municipalities benefit financially from increasing employment.

Source: Local government equalisation and general subsidies 2013

The municipalities in the capital that have estimated a structural deficit will receive an equalisation subsidy of 27% of the calculated structural deficit. The municipalities with an estimated structural surplus, however, will pay an equalisation contribution of 27% of their surplus.

The estimated tax revenue for equalisation in the capital is calculated by multiplying the tax base in the municipality with a tax incidence factor. This is calculated by dividing the overall net operating and capital expenditure of the municipalities in the capital by the overall tax base for the municipalities in the capital region. This is to ensure that the overall estimated tax revenue in the capital region equals the overall expenditure need.

Just like the national equalisation, an automatic, annual increase of the weight of the socioeconomic criteria and a corresponding reduction of the weight of the demographic criteria by ¼ percentage point have been made since 2008.

### 5.3.4 Equalisation subsidies for municipalities with a high structural deficit

This scheme ensures that municipalities with a structural deficit per inhabitant exceeding the national average receive subsidies. The subsidy per inhabitant amounts to 32% of the part of the structural deficit per inhabitant that exceeds the national average. Total subsidies are calculated by multiplying the estimated subsidy per inhabitant with the population of the municipality. The expenditure for this subsidy scheme is financed by the state's overall subsidies to the municipalities.

#### Box 5.3.1

##### Facts – Over equalisation

The equalisation amounts are calculated on the basis of an average tax rate. This entails a risk of over-equalisation as the tax proceeds are imposed based on the municipalities' own tax rate. The over-equalisation limit ensures that changes in the local government tax base cannot trigger equalisation that exceeds 92% of the municipality's tax proceeds from the change. Consequently, a municipality can max. lose 92% of additional tax proceeds in the equalisation.

All the municipalities are included in the national equalisation with an equalisation level of 58%. This in itself does not entail a risk of over-equalisation. For the municipalities included in the equalisation in the capital or equalisation for municipalities with a high structural deficit where a further equalisation by 27 and 23% is made, there is a risk of over-equalisation.

Source: Ministry for Economic Affairs and the Interior

### 5.3.5 Block grant

The state provides an annual general subsidy to the municipalities called a block grant. Part of the block grant is used to finance national equalisation and equalisation subsidies for municipalities with a high structural deficit. The remaining part is distributed equally between the municipalities according to population.

Determination of the annual block grant is the sum of the following four elements:

- The subsidy of the previous year excluding one-time adjustments

- Adjustments according to the expected price and wage development
- Adjustment according to an increase or decrease in local government expenditure:
  - as a result of changes in the distribution of expenditure and tasks between state, region and municipality, or
  - as a result of changes in the state equalisation of the municipalities
- Adjustment due to an increase or decrease of local government expenditure as a result of changes in expenditure for a number of transfer payments, etc. (budget guarantee)

Part of the block grant of DKK 3 billion is conditional on the local governments having budgeted in accordance with the agreed expenditure framework. Furthermore, up to DKK 1 billion of the block grant for each year can be made conditional on the local governments budgeting their gross capital expenditure within the agreed framework. For 2014, there is no condition on the block grant regarding capital expenditure.

**Table 5.3.4**  
Distribution of the state block grant 2014

	DKK million
Subsidies under the national equalisation	48,021
Subsidies for municipalities with a high structural deficit	4,740
Adjustment regarding increase of subsidies for particularly disadvantaged municipalities	219
Adjustment regarding subsidies for municipalities with a large share of citizens with social problems	286
Adjustment regarding subsidies for municipalities that reduced taxes for 2013	86
Total state subsidies according to population	18,102
Conditional block grant	3,000

Note: According to the Finance Committee's Act 125 of 14 June 2013, the block grant for 2014 amounts to DKK 71,454 million

Source: Local government equalisation and general subsidies 2014

### 5.3.6 Special subsidy and equalisation schemes

In addition to the schemes mentioned, there are a number of special schemes administered by the Ministry for Economic Affairs and the Interior. These schemes are shown in Box 5.3.2.

**Box 5.3.2****Special subsidy and equalisation schemes**

Employment subsidy	An employment subsidy is granted for the financing of expenditure for the insured unemployed in the municipalities. A special subsidy is granted to municipalities where unemployment for insured unemployed is considerably higher than in the rest of the region.
Subsidy for particularly disadvantaged municipalities	The subsidy is allocated by the Ministry for Economic Affairs and the Interior upon application.
Subsidies for municipalities in the capital region with special financial problems	The subsidy is allocated by the Ministry for Economic Affairs and the Interior upon application.
Subsidy for municipalities with a large share of citizens with social problems	The subsidy is allocated by the Ministry for Economic Affairs and the Interior upon application.
Subsidy for a general improvement of eldercare	The subsidy is allocated according to a demographic key regarding the expenditure need in the eldercare sector.
Subsidy for improved quality in eldercare	The subsidy is allocated according to a demographic key regarding the expenditure need in the eldercare sector.
Subsidy for improved quality in child daycare	The subsidy is allocated according to the number of 0-5 year olds.
Subsidy for reorganisation of the primary and lower secondary school	The subsidy is allocated according to objective criteria for municipalities with financial challenges in connection with the reorganisation of the primary and lower secondary school
Subsidy for municipalities with smaller islands	The subsidy is allocated by the Ministry for Economic Affairs and the Interior according to a key for the expenditure need for municipalities with smaller islands.
Subsidy for municipalities on islands without a bridge to the mainland	The subsidy is allocated by the Ministry for Economic Affairs and the Interior according to specific rules.
Equalisation for municipalities with an additional expenditure need for immigrants, refugees and descendants	A subsidy is granted to municipalities per immigrant, refugee and descendant in the municipality according to specific rules. All the municipalities contribute to the scheme according to population.
Equalisation of corporation tax	50% of the difference between a municipality's proceeds from corporation tax per inhabitant and the national average is equalised.

Source: Ministry for Economic Affairs and the Interior

Employment subsidy for the local governments' financing of insured unemployed is initially paid in the subsidy year and is subsequently adjusted to follow the development in the cyclical expenditure. The subsidy consists of a basic subsidy and coverage of an additional expenditure need. The basic subsidy corresponds to the overall subsidy for each municipality two years before the subsidy year with adjustment for the price and wage development and any amendments to the legislation. The additional expenditure need is generally calculated as the difference between the municipalities' basic subsidy and the estimated net expenditure for the subsidy year. This ensures that the municipalities in each region are fully compensated for the expenditure development for insured unemployed citizens.

The subsidy for particularly disadvantaged municipalities is allocated according to concrete applications. However, part of the subsidy can be used for municipalities that enter into a multi-year development agreement with the Ministry of Economic Affairs and the Interior. These special subsidies amount to DKK 400 million for 2014. From 2013, a special social subsidy of DKK 400 million per year (2013 price level) has been established for the local governments' initiatives to solve social problems that are more prominent in certain areas of the country and especially in larger cities.

The subsidy for municipalities in the capital region with particular financial problems is financed by the municipalities in the capital region with a contribution that, as of 2013, is imposed according to a share of the tax base of the municipalities in Greater Copenhagen. The subsidy is allocated by the Ministry for Economic Affairs and the Interior upon concrete applications.

The subsidy for municipalities with smaller islands and those on islands without a bridge to the mainland is meant to compensate the municipalities for the additional expenditure involved in their location, including ferries.

The local government proceeds from corporation tax are equalised by 50% of the difference between the proceeds from corporation tax per inhabitant and the national average.

### 5.3.7 Various subsidy and equalisation solutions in the Nordic countries

The other three Nordic countries also use a subsidy and equalisation system. The expenditure need is estimated on the basis of a number of demographic, socioeconomic and structural elements. Despite many similarities, there are also differences in the Nordic countries.

- The Norwegian and the Danish systems are based on an overall calculation of the local government expenditure need and cover all the expenditure in the municipality.
- In the Swedish and the Finnish system expenditure needs are determined by sector. They do not cover all the local government expenditure but only the areas that are mandatory for the municipalities.
- In the Norwegian and Swedish systems, they operate with an inter-municipal equalisation of expenditure need where subsidies for municipalities with a high

expenditure are financed by contributions from municipalities with a lower expenditure.

- In the Finnish system, calculation of the expenditure need is used to allocate state subsidies.
- In the Norwegian, Swedish and Finnish systems, geographic elements have direct influence. Especially with a view to special consideration for thinly populated areas and areas in the far north.
- In Denmark, we seek to solve the problems of fringe areas due to poor accessibility and population decrease by supplementary schemes.

## 5.4 Raising of loans in municipalities and regions

In the 1970's, access to raising loans was very limited in the municipalities to an extent where it was only possible to obtain loans for construction in connection with rate-financed utilities. Access to loans has since then been extended to include other areas in the municipalities and regions.

The reason for the local and regional government loan and deposit rules is mainly consideration for the national economy, i.e. the need to control public capital costs in relation to cyclical fluctuations, the wish to limit the municipalities and regions' loan options, and the need to protect future local councils' right to enter into commitments to avoid an inappropriate re-allocation between generations.

Basically, local governments should be able to finance their ongoing investments in properties, buildings, facilities and plants, etc. within the area financed by taxes. However, local governments have access to raise loans for capital investment in utilities that contrary to the tax-financed areas are paid by the users and as such in principle expenditure-neutral for the municipality.

Loan dispensation for local and regional governments can as a general rule only be given from so-called loan pools upon application. The purpose and the size of the loan pools are agreed upon during the annual negotiations between the Government and Local Government Denmark / Danish Regions on the economy of the municipalities for the coming year. Furthermore, municipalities and regions can in certain areas raise loans without dispensation from the Ministry for Economic Affairs and the Interior.

If a municipality or a region enters into an agreement, including a rental or leasing agreement, the agreement will normally be considered a part of the local government loan, as the agreement replaces capital expenditure which would otherwise be self-financed. In these situations, an amount corresponding to the value of the rented property must be deposited which is then released gradually over 25 years. This ensures that liquidity is affected corresponding to raising a loan.

In addition to access to loans, municipalities and regions can use an overdraft facility to handle daily variations in payment flows. The prerequisite is that total liquidity over one year is positive. The average of the daily balances on the overdraft account for the past 12 months

should not exceed the average of total balances on the accounts for the liquid assets in the municipality during the same period. If the local government's liquidity is declining, it may indicate that it is draining its financial reserves, i.e. its financial latitude. If a local government is getting into conflict with the overdraft rule, agreements are made with the Ministry for Economic Affairs and the Interior on how to re-establish the balance between expenditure and revenue.

Total loans in the 2014 budget amount to DKK 4,929, but the local governments also make repayments of DKK 4,585. The net figure for loans is therefore DKK 464 million. As shown in Table 5.4.1, obligations for loans and leasing in the accounts for 2011 amount to DKK 81.4 billion in the municipalities and approx. DKK 19.3 billion in the regions. At the end of 2011, total debt in the municipalities and regions amounted to just over DKK 100 billion.

**Table 5.4.1**  
Municipalities and regions' long-term debt by function in the accounts for 2011

	Municipalities' accounts	Regions' accounts	Sum
Private institutions	547.2	55.4	601.6
State, other municipalities and KP	3,273.1	865.6	4,138.7
Mortgage credit	811.6	52.6	864.2
Financial institutions	1,093.3	181.0	1,274.3
Other domestic creditor	1,249.2	-	1,249.2
Housing for old people	23,326.8	154.3	23,481.1
KommuneKredit incl. ferries	47,096.6	17,508.9	64,605.5
Leasing	4,037.5	479.7	4,517.2
<b>Total in DKK million</b>	<b>81,435.3</b>	<b>19,297.5</b>	<b>100,732.8</b>

Source: Statistics Denmark, 31 December 2011



## 6. Tasks and financing of the regions

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The five regions are very different in terms of size, geography and population. The capital region is the smallest in terms of area, but almost one third of the Danish population lives there, cf. previous Table 1.1.1.

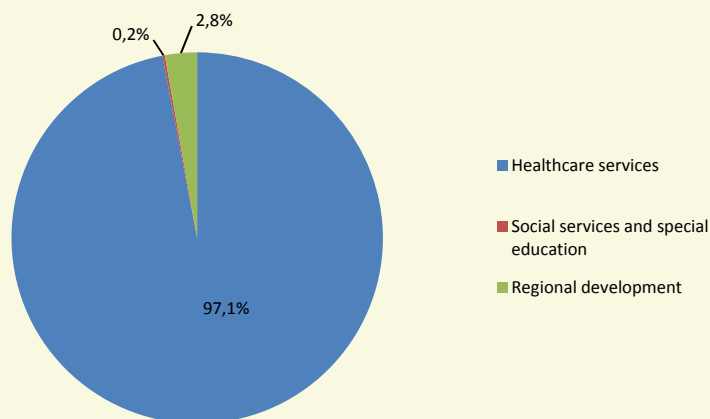
### 6.1 Tasks of the regions

The main responsibility of the regions is healthcare services. In addition, they are responsible for regional development tasks and certain operational tasks for the municipalities. Distribution of the net operating expenditure in the regions is shown in Box 6.1.1.

#### Box 6.1.1

##### Net operating expenditure for the 2014 budget

The net operating expenditure of the regions is allocated as follows:



Source: Ministry for Economic Affairs and the Interior

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### 6.1.1 Healthcare services

Responsibility for the healthcare service includes hospital treatment including psychiatry and ambulance service, general practitioners, specialists and subsidies for medication. In addition, subsidies are given to certain services at dentists, physiotherapists, psychologists and chiropractors. Every region must enter into a healthcare agreement with the municipalities in the region. This contributes to a correlated patient process across hospitals, private practices and municipalities. The regions therefore have a key role to ensure a correlated healthcare service from the most specialised service to the service closest to the citizen.

### 6.1.2 Regional development and growth

Regional development includes general regional development, the responsibility for providing secretarial service for regional growth forums and public transport, cf. below.

The regions must prepare regional growth and development strategies that ensure a consistent focus on growth and development in the regions. The strategy should include a discussion of the future development of the region and addresses regional growth and development conditions, including infrastructure, business development efforts, including tourism, education and employment activities, the development of urban and rural areas, nature and the environment, including recreation, culture, and the links to the region's potential cooperation with authorities in neighboring countries on developmental issues. In addition, the strategy should include a review of the initiatives that the regional council and growth forums will conduct to follow up on the strategy.

### 6.1.3 Participation in transport companies

The regions were responsible for the establishment of transport companies when the local government reform became effective. The companies are responsible for general transport service, fixing of rates, ticket systems, timetables and coordination. Region Zealand and the Capital Region have created a joint transport company that does not cover Bornholm, which has its own transport company.

### 6.1.4 Operation of institutions within social services and special education

The regions have an obligation to provide social services and special education. Consequently, the regions must provide services required by the municipalities which have the authoritative responsibility in relation to the citizen.

## 6.2 Financing of the regions

The economy of the regions covers three separate areas:

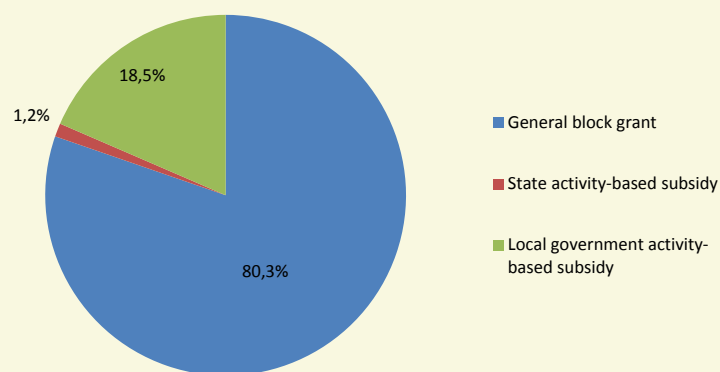
- Healthcare
- Development
- Operation of institutions within social services and special education

Revenue earmarked for one of these areas cannot be used to finance one of the other areas. The regions are mainly financed through subsidies from the state and activity-based co-financing from the municipalities.

The majority of the regions' expenditure, i.e. 97%, is for healthcare. In this sector, the percentages in the financing structure are the same as in Box 6.2.1. The financing structure will be described in further detail below.

**Box 6.2.1****Revenue in the healthcare sector for the 2014 budget**

The financing revenue of the regions in the 2014 budget estimated at DKK 105.2 billion. The funds are allocated as follows:



Source: Ministry for Economic Affairs and the Interior

### 6.2.1 Healthcare services

More than three fourths of the expenditure for the healthcare sector is financed by a general block grant from the state. In order for all the regions to have the same possibilities to provide healthcare services, the subsidy is allocated partly as a basic amount and partly according to a number of distribution criteria that reflect the expenditure need. The criteria must take into account the composition of age groups and the socioeconomic structure in each region, which may influence the need for healthcare services. In table 6.2.1 the socioeconomic criteria in the healthcare sector are shown as well as the weight they carry in the statement of the expenditure need.

**Table 6.2.1**  
**Socioeconomic criteria in the healthcare sector in 2014**

Criteria	Weight
Number of children with single parents	15%
Number of singles in the age group 65 years and older	25%
Number of people in rented housing	15%
Number of families receiving transfer payments	17.5%
Estimated number of lost years of life compared to the region with the highest average life expectancy	10%
Number of diagnosed psychiatric patients who, over a period of 10 years, have been in contact with the psychiatric hospital service	5%
Number of patients diagnosed with schizophrenia who, over a period of 10 years, have been in contact with the psychiatric hospital service	5%
The population on islands without a bridge to the mainland	2.5%
Average travelling time for 18,000 inhabitants multiplied by the number of inhabitants	5%

Source: Ministry for Economic Affairs and the Interior

In 2014, the state block grant for financing of the healthcare sector is DKK 84.4 billion, cf. Table 6.2.2. This corresponds to approx. 80% of the regions' overall financing of the healthcare sector. In 2014, the basic amount is DKK 100 million per region.

Furthermore, the regions receive a state activity-based subsidy amounting to approx. 1% of the financing. The activity pool is determined annually to strengthen the regions' incentive to create improvement in the healthcare sector. Revenue from this pool may depend on the extent to which the regions actually carry out the agreed activity.

The local government activity-based contribution to financing of the hospital service amounts to approx. 18.5% of the regions' overall financing of the healthcare sector. The local government co-financing aims at giving municipalities an incentive to provide efficient prevention, training and care. Max. limits for the regions' revenue from local government activity-based co-financing are determined by the healthcare services.

Table 6.2.2 shows the correlation between the regions' financing of the healthcare sector:

**Table 6.2.2**

Financing of the healthcare sector 2014

	DKK million
Block grant	84,442
State activity-based subsidy	1,300
Local government activity-based contribution	19,425
Total	105,166

Source: Ministry for Economic Affairs and the Interior

### 6.2.2 Development task and operation of institutions

The regions' development tasks are financed by a block grant from the state and a contribution from the municipalities in the region. The block grant is distributed to the regions according to their expenditure need. This need is based on population and structural infrastructure in the region, such as number of cars per kilometre of road and number of kilometres of private roads. In 2014, the state block grant for financing of the development sector amounts to approx. DKK 2.2 billion corresponding to about 76% of the regions' revenue in the development sector. The local government development contribution constitutes the remaining 24%.

The regions can charge a development contribution per inhabitant from the municipalities, which can amount to up to DKK 200 per inhabitant (2003 price and wage level) or approx. DKK 251 in 2014. The size of the contribution is determined annually by the regional council after discussions in the liaison committee between the region and the municipalities in the region. The limits for the development contribution is fixed by statute and adjusted every year. If a region wants to increase the contribution in relation to the fixed level, notification should be made in due time to allow discussions between the region and the municipalities, before a final decision is made in the region. Two thirds of the municipalities in the region can veto increases in the contribution which exceed the fixed level.

Finally, social services and special education are rate-financed by the municipalities.

### 6.2.3 Management of the expenditure

The composition of the regions' financing sources results in a high degree of budget security for the regions. The regions must act in such a way that they do not create a deficit. If a risk of a deficit arises, the region must take immediate remedial action. If a permanent deficit is created despite these measures, the regions, like the municipalities, can be subjected to increased supervision by the Ministry for Economic Affairs and the Interior. A financial recovery plan will be prepared as well as other possible measures. However, such situations have not occurred so far.

In order to support compliance with the agreed framework, sanction rules, cf. section 7.2, entail that up to DKK 1 billion of the block grant is conditional on the regions budgeting their operating expenditure in accordance with the assumed framework. Similarly, a proportion of up to DKK 0.5 billion of the block grant can be made conditional on the regions budgeting their gross capital expenditure in accordance with the assumed framework.

Furthermore, the rules imply that if the regional net expenditure exceeds the agreed framework, the block grant will be reduced accordingly the following year. 40% of the reduction will be paid collectively as a general reduction of the block grant. 60% will be settled directly with the regions that have exceeded their budgets.

# 7. State supervision and management of the local government and the regional sector

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The state supervises the local and the regional administration, including that the local council and the regional council, respectively, comply with current legislation. If unlawful activities occur, the state takes action to ensure that they are remedied.

In addition, the state applies some degree of financial management to adapt the development in the local and regional economy to the general economic policy. This is done through the annual agreement with Local Government Denmark and Danish Regions, respectively, regarding the economic framework for the coming year and most recently through the Budget Act.

## 7.1 Supervision of municipalities and regions

Supervision of the municipalities is the responsibility of the Central Administration with the Ministry for Economic Affairs and the Interior as the executive supervisory authority. The Ministry can only consider cases of fundamental or general importance, those of a serious nature and cases where sanctions have been imposed.

Supervision includes the activities carried out by the local council or on behalf of the local council. Therefore, the supervision also includes the committees, the mayor and the administration, when they act on behalf of the local council. Independent bodies, etc., e.g. committees for children and young people, school committees and rent committees are not included.

The local supervisory authority is a legal authority. This means that the authority can decide whether the municipality or the region has acted in accordance with the legislation. The legislation includes both the written legislation and regulations not governed by law. It is, however, a prerequisite that the rules only apply to public authorities and not to private entities as well.

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The supervisory authority's cases may be about legislation within the sphere of all the ministries.

In some areas, special supervisory or complaints authorities have been established to supervise or consider complaints about local government decisions and other task performance. Such complaints authorities can normally consider all aspects of a case, including compliance with the case handling rules. The local supervisory authority cannot consider cases where special complaints or supervisory authorities have already ruled or will be ruling.

Anyone who suspects that a local government has not complied with the legislation can bring a case before the local supervisory authority. This also applies to individuals other than the person involved in a specific case. The supervisory authority decides at its own discretion whether to consider the case or not. A citizen has no access to make complaints to the supervisory authority about the decisions of the local government.

The supervisory authority is only obliged to react on inquiries, etc. if there is reason to assume that something unlawful has taken place, which is not a trivial matter but of significance to the current legal status. Therefore, a grievance from a citizen or others is not necessarily a sufficient reason for the supervisory authority to consider the matter.

The local council is obliged to procure and provide the local supervisory authority with information required on issues in the local government, including an opinion on the local government's assessment of the matter. The local council can, if the supervisory authority agrees, leave it to a committee or the administration to answer questions from the supervisory authority in urgent matters concerning legal or technical issues.

The local supervisory authority's consideration of a case that is not rejected often results in a recommendation, including the legal opinion of the supervisory authority in relation to the specific case. The recommendation informs the local government what they, according to the opinion of the supervisory authority, are obliged to do. It can also include a recommendation to the local government to reconsider the case.

The supervisory authority also has the power to impose sanctions, if required:

- Annulment of the local government's ruling or decision.
- Temporary suspension of the ruling or decision until the supervisory authority has completed consideration of the case.
- Penalties for the responsible members of the local council or the regional council.
- Commencement of an action for damages against a member of the local council, who is responsible for the loss in the municipality.
- Offer of compensation if the supervisory authority waives an action for damages.

The use of penalties may be used to force a local council to comply with a binding decision made by a board of appeal or a sector authority. If the board or the authority does not have sufficient means, the local supervisory authority can be asked for assistance to enforce compliance with the decision. This is called enforcement proceedings.

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A member of the local council cannot evade responsibility by not voting. A member of the local council who commits gross negligence of the duties involved in the function he performs is punishable by a fine. However, simple negligence is not penalized. Criminal cases are handled by the police and public prosecutor, and it is no condition that the local supervisory authority has asked for charges to be brought.

## 7.2 Financial management

The continuous liaison between the Government and the local and regional sector on financial issues in the municipalities and regions is called the budget cooperation. The cooperation is based on the consensus that it is the responsibility of the Folketing and the Government to lay down the economic and political goals, but a more detailed planning of the municipalities and the regions' role in the economic policy should be based on voluntary agreements between the local and regional organisations and the Government. Ideally, the purpose is to carry out the required central coordination of important issues in the national economy while at the same time maintaining decentralisation in relation to the economy of each municipality and region.

The budget cooperation results in negotiations every spring between the Government, Local Government Denmark and Danish Regions, respectively. The result is a framework agreement for the local and regional economy, the so-called economic agreements. They lay down the overall framework for the economy for the coming year and the level for overall service expenditure and capital investments. On the basis of the agreed expenditure levels and the other conditions in the agreement, a block grant is decided upon that ensures that municipalities and regions have the financing required for the agreed expenditure.

The Budget Act, cf. section 7.2.1., lays down four annual expenditure limits that constitute the overall expenditure framework for the budget cooperation between the state and the regions. They also have an effect on the framework agreed on in the economic agreements.

The economic agreement has two crucial characteristics:

- They are general and apply to both municipalities and regions. They enable the municipalities to prioritize expenditure and taxes in relation to local needs taking into account the overall framework agreed upon.
- They are not legally binding, and the municipalities and the regions are not legally committed to them. However, the agreement system is based on observance of these rules, which is also supported by the sanction rules.

The major influence that municipalities and regions have on the national economy implies that the local and regional sector also plays an important role in relation to the economic policy. Municipalities and regions have in recent years contributed to the required consolidation of the public finances. Recently, the local government budgets have been kept within the agreed framework, and the accounts for 2011 and 2012 reflect a more stringent management of the local economy.

**Box 7.2.1****Budget cooperation – agreements between the state and the local government sector on the economic framework – chronologically**

Period	Contents/trend
End of the 1970's	Budget cooperation between the state the local government sector commences.
Beginning of the 1980's	The budget cooperation is based on proposals and agreements on expenditure and cuts in the general subsidies.
1986-1988	Introduction of various sanctions against municipalities and counties that do not comply with the fixed expenditure framework.
1988-	From then on, the budget cooperation has been based on voluntary agreements with the local government organisations.
1990-1995	The agreements are mainly about keeping the local government taxation at bay.
1992	A budget guarantee is introduced.
1993	It is agreed that the municipalities and the counties can obtain loans from the state to finance their operations.
1995-2000's	The agreements are characterised by the wish for stability and consolidation of the public finances. Important that the local government expenditure and capital investments do not contribute to overheat the building sector.
Recent years	In recent years, it has been all about ensuring consolidation of the public economy, including stable and average tax rates in the municipalities
2013	The agreements now reflect the need for implementation of reforms by 2020. They should contribute to creating room to prioritize public services. The Budget Act and expenditure limits become effective from 2014.
Now: 2014-	Still a need to rethink improvement of the public task solution. The Government and the municipalities will cooperate on the modernisation of the public sector.

Source: Ministry for Economic Affairs and the Interior

### 7.2.1 Introduction of a Budget Act with expenditure limits

The Folketing has adopted a Budget Act with a new expenditure management system for the public sector effective from 2014. The Act should support that the public expenditure develops in accordance with the objectives and the priorities in a new plan for 2020, including the requirements of the finance pact regarding public finances. Three expenditure limits create the framework for the expenditure in state, municipalities and regions. The limits are

adopted by the Folketing and apply for four years. Budgets and accounts in state, municipalities and regions must always be kept within the expenditure limit and are supported by economic sanctions. The Danish Economic Council should continuously assess whether the expenditure limits are aligned with the medium-term projection and whether the expenditure limits are complied with. There is room for some flexibility between the budget limits of the three sectors. The concrete distribution of increased consumption between state, regions and municipalities can therefore be adjusted, for example in connection with the decision on the annual block grant.

Effective from 2009, sanctions against local governments were introduced. Initially, these sanctions entailed that part of the block grant was made conditional on the local governments budgeting in accordance with the agreement. A sanction scheme was also introduced with effect from 2009 with a view to ensuring that the local governments' taxation was in accordance with the agreement. The sanction scheme implies that if all municipalities increase taxes in excess of a fixed framework, this increase will be set off against the block grant through a combination of individual and collective reductions of the block grant.

From 2011, the sanction system was tightened. The current sanction scheme was supplemented by a scheme which implies that if local governments exceed their budgets, the block grant will be reduced correspondingly. The reduction is made as a combination of individual and collective reductions of the block grant.

Initially, the above sanction schemes only applied to the municipalities. But in 2012, the Folketing adopted a similar sanction scheme for the regions with a view to motivating the regions to comply with the agreed expenditure levels. The scheme entails that a part of the regional block grant is made conditional on the regions budgeting in accordance with the agreement. As was the case for the municipalities, a sanction scheme was introduced, which entails that if the regions exceed their budgets, the block grant will be reduced correspondingly. The reduction is made as a combination of individual and collective reductions of the block grant.

## 8. Further information

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