

THE STATE CO-FINANCES UNEMPLOYMENT BENEFITS WITH MUNICIPALITIES. THE STATE'S INPUT REDUCES THE LONGER A PERSON IS UNEMPLOYED, ENCOURAGING MUNICIPALITIES TO GET UNEMPLOYED INTO WORK QUICKER.

Economic incentives for municipalities to reduce the time it takes to return people to employment

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The economic incentives model is a reimbursement system for municipalities which was reformed in 2016. The previous system created unintended consequences, with too much focus placed on receiving reimbursements rather than on effective efforts to return people to employment. A new, more results-focused reimbursement system was therefore introduced. Within the economic incentives for municipalities model, the state reduces the percentage of social benefits it pays to a municipality every given period of weeks that an unemployed individual is on public support. The national PES is responsible for implementing the reimbursement system, and supporting job centres respond to such incentives effectively. There have been successful examples of investments from municipalities, and the degree of early intervention with unemployed people is rising in almost all municipalities.

Name of the PES

Danish PES (Danish Agency for Labour Market and Recruitment (STAR))

Scope of measure

(a pilot project or a national reform)

National reform implemented in all municipalities.

When was the practice implemented?

Since 2016

What was the driver for introducing the practice?
Was it internal or external?

Denmark's PES business model is decentralised, meaning that its municipalities are directly responsible for implementing labour market services. Although regulated by national law and nationally funded, the 94 municipal jobcentres are agencies or departments of the self-governing municipalities and, unlike the former local PES agencies, are neither part of the PES nor subject to its hierarchical policy direction. Therefore there needs to be a way to influence jobcentres and local politicians, in order to create alignment between municipalities. There is a complex regulatory and management framework in place to influence municipalities, an element of which are economic incentives.

Denmark used to have a reimbursement system in place where the state's percentage of the municipality's social benefit expenses varied between different categories of social benefit and was dependent on minimum requirements for active employment initiatives. The former model created unintended consequences and was considered to be too focused on receiving reimbursements and meeting targets on time, rather than on effective efforts to return people to employment. As a result, as part of the 2014 employment reform, a state reimbursement system reform (2015) was agreed which took effect in 2016.¹ The new reimbursement system is simpler and more transparent. The state percentage of social benefits paid to municipalities varies solely according to the number of weeks a person has received social benefits.

Which organisation was involved in its implementation?

The Danish PES (STAR) received support from 'KL – Local Government Denmark' (KL), an interest organisation of which all municipalities are a member. This national organisation is a key strategic partner who worked with the Danish PES in order to create a dialogue with municipalities. The organisation has been involved in the implementation of the economic incentives model. As the reform highly affects municipalities' economies, it was crucial that KL support it.

Which groups were targeted by the practice?

The main target groups are the individual jobcentres and local politicians. Jobcentres receive support from the Danish PES in order to implement initiatives to get the unemployed back into work quickly. Local politicians are, in turn, also targeted by jobcentres who try to persuade them to invest in employment efforts within the municipality. Unemployed people are indirectly targeted, as these economic incentives aim to get them into work quickly and help them become self-sufficient. However, the economic incentives do not target any specific group of unemployed.

1. <http://star.dk/da/English/Recent-labour-market-policy-reforms/The-new-state-reimbursement-reform-2015.aspx>

<p>What were the practice's main objectives?</p>	<p>The model aims to provide municipalities with economic incentives to influence jobcentres and their efforts to get the unemployed back into work, and thus align the actions of the municipal actors responsible for implementation with national goals. It ensures a greater financial incentive for municipalities to prevent individuals from receiving social benefits on a long-term basis and helps them become self-sufficient, thus tackling long-term unemployment.</p> <p>As part of this model, the state co-finance part of the expenses paid in unemployment benefits, and this share decreases the longer the individual has been on public support. This means that the municipalities have an incentive to get the unemployed into work as quickly as possible. There are also economic gains to be made if newly unemployed find work quickly instead of receiving social benefits. The municipality can generate savings in the budget, if it, through increased investment in employment measures, manages to create better results for the target group.</p>
<p>What activities were carried out?</p>	<p>While municipalities are incentivised to get unemployed into work quickly, the economic incentives do not specify what activities jobcentres must put in place and when. The model is still in a transition phase where different jobcentres are doing different activities as part of their implementation. Nevertheless, a number of key activities have been carried out by the Danish PES as part of its performance management:</p> <ul style="list-style-type: none"> ▶ The Danish PES built IT systems that could support this reform and assist jobcentres in implementing the right activities. For example, a digital self-booking system was implemented nationwide which allows jobseekers to book their own job centre meetings online. This aims to help empower citizens by becoming more responsible for their own career search, and to speed up the job search process. In addition, the Danish PES uses their dedicated website <i>Jobindsats.dk</i> to track and monitor how each municipality is performing and how it is benchmarked against the others.² This also ensures transparency and allows a dialogue to take place between municipalities in order for them to learn from each other and implement best practices. ▶ The Danish PES plays a key role in gathering knowledge centrally from municipalities on what works and what does not work for each target group, and disseminates this knowledge to jobcentres. The Danish PES acts as a convener for dialogue between different municipal actors and holds regular meetings with them to share knowledge and best practice. As a result, a number of networks have been developed. ▶ The Danish PES uses knowledge of what works best in order to support municipalities with implementation projects for each target group. An example of this is investing in an intensified contact period with the unemployed person, for example, by conducting additional interviews with them. ▶ Technical assistance is provided to build the local capacity of jobcentres. The Danish PES helps them develop business cases for local politicians to invest more in employment efforts, showing evidence that such efforts and investments create positive results for long-term unemployment and generate savings that can benefit the municipality's economy. Support is provided to jobcentres in terms of understanding how to raise such issues within the budgeting process of municipalities, and how to work strategically with local politicians. Capacity building also consists of helping jobcentres to learn how to get the unemployed to use their own resources.
<p>What resources and other relevant organisational aspects were involved?</p>	<p>The funding used for the economic incentives is the same as monies already allocated to the previous reimbursement system, therefore no reallocation of resources from other areas was necessary. There was, however, a reallocation of funds from the state to the municipalities in order to cover the increased share of funding by the municipalities. The state still covers a percentage of each municipality's social benefit expenses, and the municipalities must co-finance the rest. The state's share during the first four weeks a person receives social benefits is 80 %. The state then contributes 40 % during the subsequent 5-26 weeks, 30 % during the subsequent 27-52 weeks and 20 % after 52 weeks.³</p>
<p>What were the source(s) of funding?</p>	<p>Danish PES budget (State and Municipality budget)</p>

2. Further information on this website is available on the PES Practice Repository and can be accessed here: <http://ec.europa.eu/social/BlobServlet?docId=17006&langId=en>

3. Internet: <http://star.dk/da/English/Recent-labour-market-policy-reforms/The-new-state-reimbursement-reform-2015.aspx>

What were the outputs of the practice: people reached and products?

- ▶ The Danish PES has developed an external analysis of the economic perspectives of investing in municipal employment efforts. One municipality was used as an example, and an intensified interview effort was used for recipients of benefits who had been on public support for a period of 5-26 weeks. The analysis found that investing in an intensified contact period with the target group can lead to the municipality actually saving money. The savings include both the social benefit savings as payments cease when the recipient moves into employment, as well as the increased tax revenue generated from the person who is now employed.⁴ Studies have shown that the intensive contact period on average shortens the average duration of the public support period by 1.3 weeks for an individual recipient.⁵
- ▶ The Danish PES have collected and created a lot of evidence on the efforts that achieve the best results. This evidence is available on a dedicated website, *Jobeffekter.dk*, which provides an overview of the effects of efforts in the field of employment, according to different target groups. This online tool provides municipalities with knowledge of what they can gain from investing in employment efforts and knowledge on how to create good results.
- ▶ The use of the self-booking system for the unemployed is rising.

What outcomes have been identified?

The Danish PES is still in the transition phase of getting all jobcentres to implement effective activities as part of this new model. Nevertheless, there have been successful examples of investments from municipalities, where jobcentres have built business cases and brought these forward to local politicians. This in turn changed the municipalities' budgeting and brought more money to employment efforts. The economic incentives model has also created a greater awareness of employment efforts among local politicians, who are now becoming more interested in what their jobcentres are doing and playing a more active role in their efforts. The Municipalities of Hjørring, Aabenraa, Nordfyn, Silkeborg have made extraordinary investments and gained a lot of political status as a result of this, demonstrating that this awareness is indeed spreading. Furthermore, in general the unemployment rate in Denmark is falling, and the degree of early intervention with unemployed people is rising in almost all municipalities; however, it is difficult to say to what extent the economic incentives discussed here are contributing to these outcomes and to what extent improvement is due to general positive economic development.

What are the lessons learnt and success factors?

Key factors and lessons learnt which need to be taken into account:

- ▶ There is a risk of creating unintended consequences. For example, the emphasis on quick reintegration of the unemployed into work may be at the cost of getting people into jobs that are more suitable for them.
- ▶ In a decentralised system it is important to share knowledge and experience across the municipalities as to what works and what does not work, and this takes time. The Danish PES (STAR) plays a central role here, as well as in the dialogue-based performance management of municipalities.
- ▶ Jobcentres must work strategically with local politicians and convince them to invest in the model, by demonstrating why it is a good investment. It is important to think about the local decision making processes and how to affect them. This requires having strong jobcentre leaders who can build internal capacity and develop a political case for municipalities to invest.
- ▶ National PES need to carry out a number of activities simultaneously across various competences which go beyond economic techniques, including building local capacity continuously, ensuring transparency, helping jobcentres develop investment cases that can assist them in their dialogue with local politicians, as well as collecting knowledge from municipalities on what works and disseminating this.
- ▶ The Danish PES has been able to collect knowledge on what activities work, and through this has found that early intervention, self-booking, and knowledge about job opportunities are crucial.

4. Danish Agency for Labour Market and Recruitment (2016), 'Economic perspectives for investment in municipal employment efforts - Calculation examples for Frederikshavn Municipality' (Økonomiske perspektiver ved investering i den kommunale beskæftigelsesindsats - Beregningseksempler for Frederikshavn Kommune). Study conducted by Mploy on behalf of the Danish Agency for Labour Market and Recruitment (STAR). Only available in Danish.

5. Rosholm, M. and Svarer, M. (2009), Kvantitativ evaluering af Hurtig i gang 2 Af.



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