



Extract from the report to the
Public Accounts Committee on
the financing of unemployment
benefits for insured unemployed
people

November
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1. Introduction and conclusion

1.1. Purpose and conclusion

1. This report concerns financing of unemployment benefits for insured unemployed people. The Danish financing model comprises local government co-financing of unemployment benefits under the Ministry of Employment and the employment subsidy provided to local governments by the Ministry of Economic Affairs and the Interior. Rigsrevisionen initiated the study in November 2013.

Annual expenditure for unemployment benefits for the years 2010 to 2013 was between DKK 20 and 22 billion. The amount of the local governments' co-financing of the unemployment benefits depends on whether the unemployed is registered with the local government as being active or passive in the respective period. During active periods when the unemployed is, for instance, enrolled in a job-training programme, the local governments will co-finance 50 per cent of the unemployment benefits against 70 per cent in the passive periods. In 2013, payments made to unemployed people totalled approximately 20 billion with the local governments co-financing approximately 60 per cent hereof, corresponding to DKK 12 billion. It follows that this is an economically important area.

The local governments' expenditure for co-financing of unemployment benefits is fully reimbursed by the Danish central government through an employment subsidy. The amount of this subsidy depends, among other things, on how the unemployment rate develops in the relevant parts of Denmark.

The purpose of the examination was to assess whether the model used for financing unemployment benefits for insured unemployed people functions satisfactorily. In order to make this assessment, we have, among other things, examined the soundness of the basis for the settlements made between central government and local governments, including whether the financing model is being supervised to the extent necessary. We have examined whether the model has significant negative consequences for the central government's and local governments' execution of budgets, follow-up and control. The report answers the following questions:

- Does the model of financing and the Ministry of Employment's performance of its tasks provide a sound basis for managing co-financing transactions between central government and local governments?
- Does the model of financing have inappropriate consequences for the government's and local governments' execution of budgets, follow-up and control in relation to financing unemployment benefits for insured unemployed people?

The local governments co-finance either 50 per cent or 70 per cent of the expenditure for unemployment benefits.

The administration and collection of the local governments' co-financing and the tasks to be performed by the local governments and unemployment funds in relation herewith are regulated in Executive Order no. 123 of 29 January 2014 on the local governments' co-financing of unemployment benefits, temporary labour market contributions and allowances for travelling to insured unemployed people.

CONCLUSION

The functioning of the model used for financing unemployment benefits for insured unemployed people is not considered entirely satisfactory by Rigsrevisionen.

For eight out of 12 months in 2013, the examination showed discrepancies of more than 15 per cent between the basis for the calculation of the local government co-financing amount and the expenditure for unemployment benefits. Accordingly, the monthly settlements made between central government and local governments are not true and fair. The primary reason for the discrepancies is the fact that the data held by the unemployment funds concerning this period is incorrect. In 2013, the accumulated basis for co-financing was approximately DKK 1.1 billion higher than the unemployment benefits paid to the unemployed. A correction for 2010 made by one unemployment fund accounts for part of the DKK 1.1 billion. When data is unreliable, it will affect central government as well as the local governments in the form of incorrect outflow of cash, which makes it difficult to follow up appropriately on the economy. Rigsrevisionen finds this unsatisfactory.

The unemployment funds are required to report data monthly on the unemployed for the calculation of the co-financing. Rigsrevisionen notes that the unemployment funds do not report this data consistently every month and thus fail to fully meet the legal requirement for monthly reporting.

The examination showed that the Ministry of Employment was informed of the number of errors and deficiencies in the data basis, including the missing reports from the unemployment funds. The ministry has throughout 2013 and from January to July 2014 only made limited efforts to address the problem. Rigsrevisionen noted that by the end of July there were still significant discrepancies between the basis for the calculation of the co-financing and the benefits payments made to the unemployed. Rigsrevisionen recommends that the Ministry of Employment should – through its follow-up and supervision of the unemployment funds – focus more on securing a correct basis for calculation of the monthly local government co-financing. Rigsrevisionen also recommends that the Ministry of Employment should consider defining bands of fluctuation for each unemployment fund in connection with the ministry's monthly follow-up activities. The fluctuation bands should reflect the importance of the financial management performed by the central government and local governments.

The Ministry of Economic Affairs and the Interior adjusts the employment subsidy the year after it was provided. The local governments that were included in Rigsrevisionen's study found it difficult to make sufficiently reliable estimates of the expected adjustments, because they lack the necessary data. The exercise is further complicated by the fact that the adjustments concern activities pursued by the local governments in a preceding accounting year. Rigsrevisionen notes that uncertainty about the adjustment of the employment subsidy curbs the local governments' ability to manage budgeting and cash flow effectively, and link revenue and expenditure for insured unemployed people.