



Extract from the report to the
Public Accounts Committee on the
Danish government's transfer of funds
to local and regional authorities in 2011

– reimbursement of additional expenses and loss
of earnings in the social services area

November
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I. Introduction and conclusion

1. In 2011 the Danish government transferred DKK 335.1 billion to local and regional authorities in the form of reimbursements and grants. This amount represents just under half of the government's total annual net expenditure. The transfers concerned reimbursements of various local authority expenditure for services provided to the citizens. In 2011, these reimbursements were administered by the Ministry of Social Affairs, the Ministry of Employment and the Ministry of Refugee, Integration and Immigration. The funds are now administered by the Ministry of Social Affairs and Integration, the Ministry of Employment, the Ministry of Housing, Urban and Rural Affairs, and the Ministry of Children and Education. The transfers also included government grants to local and regional authorities; these were in 2011 administered by the Ministry of Interior and Health, but have since been transferred to the Ministry for Economic Affairs and the Interior.

Government transfers

2. As indicated in table 1, reimbursements transferred to local and regional authorities by the Ministry of Social Affairs, the Ministry of Employment and the Ministry of Refugee, Integration and Immigration totalled DKK 174.7 billion. The transfers concerned reimbursement of various local authority expenditure for services directed towards the citizens like, for instance, social benefits, integration services, sickness benefits and retirement pension.

The Danish government reimburses the municipalities for certain citizen-directed services like, for instance, social benefits, integration services, sickness benefits and retirement pension.

The amount of government reimbursement is activity-based and depends, for instance, on the number of people receiving retirement pension.

Table 1. Government transfers to local and regional authorities in 2011 (DKK billion)

	Local authorities	Regions	Total
Government reimbursements:			174.7
§ 15. Ministry of Social Affairs	3.4		
§ 17. Ministry of Employment	169.8		
§ 18. Ministry of Refugee, Integration and Immigration	1.5		
Government grants:			160.4
§ 16. Ministry of Interior and Health	78.8	81.6	
Total	253.5	81.6	335.1

Source: The state accounts for 2011.

The framework for government grants to the municipalities and regions is determined every year in political agreements between the government, the association of local authorities (KL) and the five Danish Regions.

The grants consist of general grants, earmarked grants for, eg care for the elderly, and tariff-based grants (activity-based grants).

Table 1 shows that the Ministry of Interior and Health transferred block grants, special grants and employment grants totalling DKK 78.8 billion to the local authorities, and grants for the regions' running of the healthcare sector and regional development totalling DKK 81.6 billion.

3. This report does not address activities relating to the remit of the Ministry of Employment.

4. Rigsrevisionen audits government transfers to the local and regional authorities every year to assess whether the transfers are in compliance with agreements made, the funds are used in accordance with current rules and regulations and the financial statements are correct.

The results of the audit form part of the basis for Rigsrevisionen's overall opinion on the state accounts, which is included in the report to the Danish Public Accounts Committee on the audit of the state accounts for 2011 (issued in November 2012).

In this report, the Ministry of Social Affairs is referred to by its current name; the Ministry of Social Affairs and Integration, and the Ministry of Interior and Health is also referred to by its current name; the Ministry for Economic Affairs and the Interior.

Rigsrevisionen's study

5. This report is about the local authorities' administration of government reimbursements in two areas; services regarding additional expenses and loss of earnings provided to parents who support a child under the age of 18, who has considerably and permanently reduced physical or mental functional capacity, or is suffering from extensive chronic or long-standing illness pursuant to sections 41 and 42 in the Danish Act on Social Services. The report also addresses the Ministry of Social Affairs and Integration's supervision of the local authorities' settlement of government transfers.

Last, the report addresses the regions' follow-up on the audit performed, the financial policies governing the administration of the regions' cash position (capital) and debt, including the guidelines for entering lease and leasing agreements.

The report answers the following questions:

- Do the local authorities administer allowances for additional expenses and loss of earnings in a manner that provides a satisfactory basis for correct settlement of reimbursements with the Ministry of Social Affairs and Integration?
- Do the regions follow up on the audit performed in a satisfactory manner and do the financial policies of the regions support capital and debt management, including guidelines for entering lease and leasing agreements?

A draft version of the report was presented to the Ministry of Social Affairs and Integration, the Ministry for Economic Affairs and the Interior, the five Danish regions and the eight municipalities that Rigsrevisionen visited in connection with the audit. The comments made by these entities have to the widest possible extent been incorporated in this final version of the report.

MAIN FINDINGS AND CONCLUSION

In 2011, the government transferred DKK 335.1 billion to local and regional authorities. Rigsrevisionen is of the opinion that overall, transfers (government reimbursements and government grants) made to municipalities and regions for 2011 were correct. However, Rigsrevisionen detected significant irregularities in the municipalities' administration of reimbursements in one particular area.

As part of the audit of government transfers, Rigsrevisionen performed a specific audit of services concerning additional expenses and loss of earnings provided in compliance with the Danish Act on Social Services. These services include support to families with a child under the age of 18, who is provided for in the home and who has considerably and permanently reduced physical or mental functional capacity or suffers from extensive chronic or long-standing illness. In 2011, the Ministry of Social Affairs and Integration transferred DKK 1,08 billion to the municipalities as reimbursement for expenses of this nature. The audit showed significant irregularities in the case work, with implications for reimbursements in six of the eight municipalities that Rigsrevisionen visited. Rigsrevisionen therefore questions the correctness of the settlement of reimbursements between the government and the municipalities concerning additional expenses and loss of earnings.

The rules governing this area are complex and practice is constantly changing to reflect decisions made by the various Danish social boards and the Danish National Social Appeals Board. To this should be added, that case work is also complex, because the case worker when assessing the allowance for additional expenses is required to perform a number of individual assessments. If the municipalities have not developed clear and concise administrative guidelines, this approach increases the risk of errors being made. In the opinion of Rigsrevisionen, this area can be considerably enhanced through better administrative routines. The Ministry of Social Affairs and Integration has for some years been aware that case work performed in the municipalities is affected by errors. Rigsrevisionen finds that the ministry should have mapped the causes of the errors and launched activities to further support the municipalities' administration of the services.

The main conclusion is based on the following sub-conclusions:

Do the local authorities administer allowances for additional expenses and loss of earnings in a manner that provides a satisfactory basis for correct settlement of reimbursements with the Ministry of Social Affairs and Integration.

In 2011, the municipalities paid a total of DKK 2.1 million in compensation for additional expenses and loss of earnings to families who at home cared for a child under the age of 18, who had considerably and permanently reduced physical or mental functional capacity or suffered extensive chronic or long-standing illness. 50 per cent of the municipalities' expenses are reimbursed by the government in the form of government transfers. From 2007 to 2011, the government's expenditure for reimbursement of additional expenses and loss of earnings increased by approximately 8.6 per cent. The municipalities' expenditure for these allowances is reimbursed by the government provided the handling of the individual cases is not materially affected by errors.

Rigsrevisionen finds that the municipalities have severe problems with the settlement of reimbursements concerning additional expenses and loss of earnings pursuant to sections 41 and 42 in the Act on Social Services. Rigsrevisionen finds that in significant areas, the case work relating to additional expenses and loss of earnings has been inadequate.

Rigsrevisionen established that in six of the eight municipalities that Rigsrevisionen visited, the processing of cases performed in 2010 was so materially affected by errors that reimbursements received for that year needed to be adjusted in the course of 2011. Rigsrevisionen also found that five municipalities had considered it necessary to re-assess 80-100 per cent of all cases concerning additional expenses and loss of earnings. Not all the municipalities had finished this re-assessment exercise and material errors in the municipalities' case work therefore persist. It therefore cannot be determined whether the settlement of reimbursements with the government is correct in all municipalities.

The municipalities are now improving their administration in the area, and decisions on payment of allowances made in 2011 in the individual municipalities have subsequently, and increasingly, been based on case work guidelines and involved increased focus on the assessment of target groups.

Keeping focus on developing case work guidelines and assessing the quality of the case work on an on-going basis, will allow the municipalities to improve their administration in the area further. The administration of the area can also be improved through strengthening of the financial management to ensure overview of the types of additional expenses that are covered pursuant to section 41 in the Social Services Act and focus on the services that most efficiently support the families that receive allowances.

The supervision performed by the Ministry of Social Affairs and Integration of the administration and settlement of reimbursements in the individual municipalities, is considered satisfactory. The ministry has since the accounting year 2007 known that the municipalities' administration of additional expenses and loss of earnings is affected by material errors. In 2011, the ministry became aware that the administration of additional expenses and loss of earnings in the accounting year 2009, in approximately 40 per cent of all municipalities, was severely affected by errors. According to the ministry, the error rate in the municipalities is also quite high for the accounting year 2010. Rigsrevisionen is of the opinion that the ministry should have mapped the causes of the high error rates and thereby improved the quality of administration in the municipalities. The municipalities will be better positioned to assess possible additional expenses if the ministry provides more clear and concise rules.

According to the Ministry of Social Affairs and Integration, section 41 in the Act on Social Service on additional expenses should in a number of cases only be applied after other support options have been considered. The municipalities had not always considered the support options available under other provisions and were unable to determine when section 41 should be considered subordinate to other provisions. Rigsrevisionen finds that the ministry should clarify when the municipalities should consider section 41 subordinate to other provisions and thus ensure correct entering of expenditure and avoid that the municipalities apply for reimbursement of expenses that are not reimbursable.

The Ministry of Social Affairs and Integration can improve administration in the area by supporting the municipalities' need for data on typical expenses incurred by an average family compared to additional expenses. Making such data available to the municipalities would result in a higher level of consistency in case work across municipal borders. Rigsrevisionen finds that the ministry should ensure on-going collection and communication of data on typical expenses as the municipalities would thus be better positioned to identify possible additional expenses.

The Ministry of Social Affairs and Integration has abandoned the idea of simplifying the set of rules underlying additional expenses, for instance by defining tariffs for the individual types of additional expenses. The reason is that the municipalities are required to perform concrete and individual assessments of the need for compensation in each specific case. In the opinion of Rigsrevisionen, the consequence of the ministry's position is that the municipalities – also in the future – will find it difficult to apply the rules consistently. Rigsrevisionen therefore welcomes that the ministry has stated its intention to consider how the underlying rules can be further clarified.

Rigsrevisionen detected large variations in the municipalities' expenditure for additional expenses. Rigsrevisionen finds it unsatisfactory that neither the municipalities nor the Ministry of Social Affairs and Integration has been able to explain the large variations.

Do the regions follow up on the audit performed in a satisfactory manner and do the financial policies of the regions support capital and debt management, including guidelines for entering lease and leasing agreements?

Following meetings with the auditors and review of the audit reports, Rigsrevisionen concluded that generally the regions have improved their business procedures and internal control and therefore produced financial statements of a better quality than in past years. However, the regions may improve their financial administration even further through, for instance, improved management of project accounts and financial reports on capital expenditure.

The audit showed that four of the five regions followed politically adopted financial policies, which supported the regions' capital and debt management. The fifth and last region has subsequently also adopted a financial policy for capital and debt management.