



Benchlearning Initiative External Assessment

Summary report – STAR Denmark



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PES of Denmark – The Danish Agency for Labour Market and Recruitment (STAR)

Summary Report

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Benchlearning Initiative External Assessment

The Danish Agency for Labour Market and Recruitment – STAR

Summary Report

1. Introduction

This report outlines the results of the Benchlearning (BL) external assessment of the PES of Denmark (The Danish Agency for Labour Market and Recruitment – STAR) conducted between 9th and 11th November 2015. The team of six external assessors comprised three peer PES staff (Italian, Latvian and Slovenian PES), one from the European Commission and two experts from ICON-Institute (the supporting contractor). The programme of the three day visit included meetings in STAR's head office with senior management/directorates and a visit to two local job centres in the municipalities Odense and Middelfart (about 170 km and 210 km west of Copenhagen, respectively). The time and resources invested in the preparation for the Benchlearning visit by STAR and the two municipal job centres and in particular their internal self-assessments, were crucial to its success. The team gratefully acknowledges those efforts.

STAR is an executive agency under the direct control of the Ministry of Employment. STAR is not responsible for the disbursement of neither unemployment nor other social benefits. Instead, there are 25 unemployment insurance funds¹ in Denmark. Unemployment insurance is a voluntary scheme administered by the unemployment insurance funds which covers around 70% of the labour force. These funds are responsible for the disbursement of benefits to their members. Persons, who are not a member of one of the unemployment insurances but want to receive social benefits, must contact their local job centre. The social benefits including cash benefits are family-based, means-tested and administered by the municipalities.

The Danish Agency for Labour Market and Recruitment was established on 1st of January 2014 and replaced the two former agencies, i.e. the National Labour Market Authority and the Danish Agency for Labour Retention and International Recruitment. The structure of the PES-system and the distribution of responsibility within it can be described as follows:

- At the national level the Danish Agency for Labour Market and Recruitment develops strategic policy and employment initiatives to be implemented at the local level and assists the Ministry in policy development, legislative work and developing reform proposals. Hence, at the national level the main objectives of employment policy are set by the Ministry with the support of STAR. The national level also comprises the National Employment Council which has the role of an advisory body to the Minister

¹ The unemployment insurance funds are private associations of employees or self-employed persons. Unemployment benefits are, however, largely financed by the State. The Act on Unemployment Insurance is administered by the Danish Agency for Labour Market and Recruitment.

of Employment for all topics related to labour market policy. The Council comprise 26 members from the Danish Employers' Confederation, the Federation of Danish Trade Unions and a variety of other actors, including local governments, Danish Regions and the Danish Council of Organisations of Disabled People.

- At the regional level, there are 8 regional labour market councils. A regional labour market council consists of the social partners, the Danish Regions, the municipalities and the disabled people's organisation in Denmark. In general, the regional labour market councils do not have any specific authority over municipalities; they rather play an advisory role. In addition, STAR has 3 regional divisions with the tasks to support network activities for directors and team managers in the job centres, focusing on the implementation of reforms as well as on improving services for enterprises.
- At the local level, 94 job centres are run by the 98 municipalities. Job centres perform the task of supporting the unemployed to access employment or education and are also responsible for company contacts. Thus, the municipalities have the main responsibility for the provision of employment services. Each municipality has its own council elected by the population and to some degree the right to raise municipal taxes to finance its expenditures.

Finally, Denmark has a long tradition of involving social partners into labour market policy. As mentioned above, both at the national as well as the regional level there are tripartite bodies with representatives from the social partners and other stakeholders.

2. Strengths

In the Danish model of flexicurity – a combination of flexible labour markets, income security and active labour market policy – the system of public employment services play an important role. In this system the local job centres which are run by the municipalities are responsible for the provision of services to clients and have a large degree of freedom regarding the concrete design of operational processes and services. Simultaneously, the Danish Agency for Labour Market and Recruitment and its three regional divisions are responsible for the supervision and control of the municipalities to assure accountability. Hence, STAR is a central actor within the Danish system of public employment services with important tasks and has developed an elaborate and well-balanced approach to perform them.

This approach is characterized by

1. a sophisticated performance management system based on the pillars
 - a. legislation which contains specific regulations regarding the implementation of employment policy in the municipalities,
 - b. financial incentives for better performance in the local job centres,
 - c. implementation support structure and
 - d. extensive dialogue with job centres via the regional divisions

as well as

2. the generation of transparency and dissemination of knowledge about what works (and for whom) in employment policy based on the pillars
 - a. encompassing labour market monitoring,
 - b. a culture of evaluating the causal impact of services and reforms and
 - c. testing new ideas/approaches by randomized controlled trials (RCT).

Both characteristics and their pillars together ensure a strong evidence-base for policy making and service provision which can be perceived as being exceptional in Europe. Furthermore, the whole approach is clearly based on inspiration instead of instruction and the combination of transparency, feedback and mutual learning results in a system which is characterized by mutual respect and accepted controlling. In this system the regional divisions of STAR play a central role since they perform coaching and organise networking activities for the local job centres. In doing so, they have to justify their existence by creating value for the job centres.

A key element of the system is clearly the financial incentive for local job centres which is refined and strengthened by the new reimbursement system entering into force on January 1st 2016 (for details see section 3 below) to make the Danish public employment system more efficient. In this system municipalities will receive more money from the central state the faster they bring benefit recipients (back) into employment or education. However, there is not only an incentive to bring benefit recipients into employment as quickly as possible but also to take care that this employment is sustainable. This is due to the fact that municipalities will only be *fully* reimbursed for benefit expenditures *again* if a person has left benefit recipience for more than 52 weeks within three years.

Finally, the above mentioned two characteristics are complemented by STAR's approach towards jobseekers who are perceived as citizens. This perception results in a high level of service orientation on all levels. The provision of services has furthermore a clear focus on education for the young and employment for all others which was visible on all levels, also in the job centres. To achieve this aim STAR has a clear and encompassing activation strategy which is based on early intervention using intensive guidance/counselling. This activation strategy is the result of extensive testing of different options by RCTs and inter alia implies that jobseekers have the right and obligation to participate in six in-depth interviews during their first six months of unemployment.

3. Contextual influences

Institutional context

In recent years a number of labour market reforms were enacted which all aim at gradually moving public employment services in Denmark from a system which is characterized by rather strong elements of control to one which is more characterized by risk sharing. Among the major reforms were the Cash Benefit Reform (2013), the Employment Reform (2014)

and the Reform of the State Reimbursement System (2015). The latter can be seen as one of the most fundamental reforms. It will enter into force on January 1st 2016 and will replace the current rather complex set of regulations in which the percentage of municipalities' cost for social benefits that is covered by the central state varies by type of benefit and the number of participants in active labour market policy receiving benefits. In the new system reimbursement varies only with the number of weeks a person receives benefits². Specifically, municipalities will be reimbursed 80% of benefits during the first four weeks, 40% after four and until 26 weeks, 30% after 26 and until 52 weeks and 20% after 52 weeks. Furthermore, municipalities will only be fully reimbursed for benefit expenditures again if a person has left benefit recipience for more than 52 weeks within three years. In this case, the "counter" for benefit recipience of a person is reset to zero. In all other cases, the "counter" will simply continue from the value it had before the person left benefit recipience.

In a recent study, the OECD³ concludes that Denmark is among the OECD countries with the highest degree of autonomy at the local level to design and finance appropriate employment measures within the general framework conditions set by the Ministry of Employment. Once a year, the Minister of Employment announces a small set of objectives for employment policy in the municipalities for the coming year. These objectives are announced in areas where it has been assessed to be of particular importance that the job centres prioritise measures. With the employment reform of 2015 it is up to the municipalities to decide to which degree they will incorporate these objectives in their planning for the coming year. Within this system the central objective of STAR is to support as many people as possible to move from unemployment into employment or education and to ensure that enterprises have access to the labour they need. With the employment reform of 2015, there has been a shift in the focus of STAR from monitoring and controlling municipalities' efforts and results to putting more emphasis on supporting the implementation of employment policy by the municipalities.

Economic context

The economic background in which STAR operates is characterized by unstable growth of GDP. Specifically, Denmark experienced positive GDP growth rates of 1.6% and 1.2% in 2010 and 2011, respectively, followed by a moderate decline of GDP in 2012 and 2013 and a subsequent increase of 1.1% in 2014. Despite positive growth rates in 2010 and 2011 employment decreased in both years and only recovered in 2014. Accordingly, the unemployment rate has risen between 2010 and 2012 and declined in 2013 and 2014. However, in 2014 the unemployment rate was still substantially higher (6.6%) than in 2008 (3.4%). According to the forecasts of the EU Commission GDP will grow by 1.6% in 2015 and 2.0% in 2016 and the unemployment rate is predicted to further decline to 6.1% and 5.8% in these years.

² The benefits covered by the reimbursement system comprise (among others) unemployment benefits, social cash benefits and sickness benefits (with jobs).

³ Giguère, S. and F. Froy (eds.) (2009), *Flexible Policy for More and Better Jobs, Local Economic and Employment Development (LEED)*, OECD Publishing, Paris, p. 26.

4. Current and potential Good Practices identified during the assessment

The strengths of STAR outlined above are supported by a large number of potentially transferable good practices. For the clarity of exposition only a brief selection will be presented below. Before that, it has however to be emphasized that the approach of STAR to fulfil its tasks within the highly decentralized Danish employment system is a good practice example for other countries with a similar degree of decentralization.

The cooperation between the different levels in the Danish employment system is based on mutual respect and accepted controlling. STAR provides support for job centres and contributes to the finding of solutions and, thus, adds value to the system without prescribing what has to be done at the municipal level. In doing so, STAR has developed a governance model which supports performance without direct control. Thus, STAR is not only a good practice example for countries with highly autonomous regions. By contrast, it is worth of studying for all PES which aim at fostering the creativity of local units in order to unleash their full performance potential. However, it also has to be emphasized that a particular feature of the Danish system is the fact that low performance at the local level is directly perceptible, i.e. has considerable budgetary consequences for the municipalities. This clearly helps STAR to fulfil its tasks in the described manner and has to be taken into account in any attempt to transfer the governance model of STAR to other PES.

Further good practice examples are:

- STAR has a clear and encompassing activation strategy which is based on early intervention using intensive guidance/counselling and a strong focus on bringing jobseekers (back) into employment. This activation strategy is strongly anchored at all levels of the PES and becomes manifest in the six in-depth interviews which jobseekers are obliged to have during their first six months of unemployment. This approach was tested in a randomized controlled trial and has proven to be the most efficient way of reducing the duration of unemployment.
- The early intervention strategy is further accompanied by a clear strategy regarding the use of ALMP-measures which strongly focuses on company-directed programmes like internships and wage subsidies. According to the empirical evidence collected by STAR these programmes are the most efficient measures to support the counselling and guidance process described above.
- STAR has a very clear and encompassing approach towards youth based on long standing experiences. This approach is characterized by an “education first” strategy for young people without education which offers several bridges into education and further on into employment. In particular, the mentoring system (post-placement services regarding education and employment) is worthy of examination by partner PES since it is a commendable effort to contribute to sustainable education and employment.

- The initiative "Jobservice Denmark" which established a channel of targeted and coordinated recruitment services for large and nationwide companies appears to be an adequate way to cope with the challenges of addressing important actors of the demand side of the labour market in a decentralized system of employment services.
- The business partnership "Together for integration" to create jobs/internships for refugees is an innovative and proactive way to cope with the challenges of relatively large immigrant inflows.
- The encompassing set of countrywide IT-tools for jobseekers and employers like Jobindsats, Jobnet, My Plan, Joblog, self-service booking, My Job Compass, Jobbing, Workindenmark.dk etc. provide an excellent basis for a structured and efficient communication between the job centres and their customers.
- The strong evidence-base which can be seen as the backbone of the Danish employment system is particularly commendable. STAR has established a very deep knowledge on which activation measures work (and for whom) by collecting encompassing data and strategically cooperating with external researchers. The existence of a national research and evidence strategy and the impressive list of RCTs make STAR exceptional among European PES. For partner PES in particular the "cook book" on the implementation and follow-up of RCTs (which can also be used by job centres if they want to implement their own RCT) is worthy of study.
- Finally and again regarding STAR's approach towards youth, the common understanding of all partners involved in the provision of the Youth Guarantee is worth mentioning. The cooperation between job centres, Youth Guidance Centres and education institutions (public and private) is based on the common understanding that only joint efforts and their continuity (early activation, pre-education, education/VET, internships, apprenticeships, job placements) can bring visible positive results.

5. Areas where improvements may further enhance PES operations and outcomes

As outlined above, a key element of the Danish system is the financial incentive for the municipalities and the local job centres induced by the new reimbursement system. Against this background, STAR's elaborate and well-balanced approach to perform its tasks (see section 2) can be amended by some small additional elements which might help to refine the existing approach.

The most important element to be added is the formulation of an **expected** value for the performance of each and every job centre given its economic context, or in other words, the performance **potential** of individual job centres based on the forecasted development of their economic context. Currently, the performance of job centres is compared on the basis of realised values of performance outcomes using clusters of comparable job centres. Hence, ex ante there is no clear expectation on the national level of what "good performance" means for a specific job centre against the background of the predicted development of its economic context. The formulation of such expected values for all job centres

can refine the strategic performance management of STAR and be an integral of regular dialogues between STAR, its regional divisions and the local job centres.

Furthermore, such expectations can help to assess the practical relevance of a major risk of the new reimbursement system: the risk of initiating a downward spiral. In the new system municipalities are reimbursed the expenses for benefits according to the length of benefit recipience. However, the reimbursement rate is equal for all municipalities, i.e. it does not depend on the extent to which contextual factors (which are out of control of municipalities) determine the length of benefit recipience. Thus, municipalities' reimbursement does not only depend on the real achievement of their job centres but also on their economic context for which they are not responsible. This runs the risk that contextually disadvantaged municipalities (e.g. Odense compared to Middelfart) will become even more disadvantaged over time which might initiate a downward spiral in that sense that such municipalities have higher expenditures for benefits due to context, have to increase municipal taxes to finance these expenditures (or to reduce services in other areas), companies and high-skilled workers move away, the number of jobseekers increases etc. Currently, it is not clear whether and to which extent the block subsidy granted to municipalities is able to adjust for this or whether it even contradicts the incentive for better performance.

Thus, STAR can use its rich data and high-level expertise in statistical/econometric methods to predict the expected length of benefit duration of new entries into the system using individual characteristics **and** (forecasts of) regional labour market context indicators. By doing so, it is possible to identify expected values (predications) for the duration of benefit recipience in all 94 job centres. These expected values can be compared with actual benefit duration to identify those job centres which really perform well. Hence, they allow an assessment to which extent the new reimbursement system in fact rewards true achievement of its job centres.

A second small additional element which can help to refine the already sophisticated system is the extension of the elaborate labour market monitoring by indicators which inform about the allocation of resources in the job centres towards specific jobseeker groups. This can help to assess the practical relevance of a second major risk of the new reimbursement system: the risk of "creaming". The new system with its stepwise reduction of reimbursement rates implies that "every day counts" since the marginal costs of a jobseeker receiving e.g. benefits for four weeks plus one day are very high (costs of municipalities double in this example). This provides an incentive for job centres to devote more resources (personnel, time, efforts and active measures) to those jobseekers that have newly entered the system in order to get rid of them as soon as possible. With a fixed amount of total resources in the job centres this can go at the expense of those jobseekers which are either hard-to-place and/or longer in the system and entail debates on the "fairness" or "justice" of the system. Thus, if STAR extends labour market monitoring to indicators like caseloads, contact intervals, number of interviews within one year etc. for different jobseeker groups like hard-to-place vs. easy-to-place and observes their development over time it is possible to assess to which extent "creaming" really plays a role.

The third small element worth of consideration refers to the risk of a “beggar your neighbour” policy and non-cooperation. The reimbursement system provides an incentive for job centres to focus their resources on tasks which cannot also be fulfilled by neighbouring job centres (“beggar your neighbour”). For instance, in municipalities from which many workers can easily commute to neighbouring municipalities the job centres might decide to reduce the efforts to keep in contact with employers and use their resources instead to activate and motivate jobseekers more intensively so that they find a job in the neighbouring community.

Since STAR’s regional divisions are in close contact with job centres they can easily devote attention to the relevance of this risk. Furthermore, STAR can support these endeavours by identifying functional labour markets, i.e. by identifying municipalities which belong together in that sense that changes in the economic structure (e.g. the shut-down of a big company) in one municipality has repercussions on other (neighbouring) municipalities. By doing so, STAR can anticipate for which job centres a beggaring the neighbour policy can be an option and which job centres should really cooperate in practice because they depend on each other.

6. Recommendations

Since STAR has proven to be a mature and well-balanced organization the assessor team will not provide recommendations, but rather suggestions. These suggestions, however, are worth thinking about, especially against the background of the above mentioned risks. For clarity, we present our main suggestions⁵ as a series of bullet points as follows:

- As already mentioned above, the introduction of an expectation level into performance dialogues between STAR HQ and regional divisions as well as between regional divisions and job centres seems to be an important additional element of the existing performance management system.
- Further attempts to define and standardize processes together with the job centres appear to be a promising way to support the convergence of service provision in the job centres to the most effective/efficient organizational solutions. This can also be used as a foundation for the implementation of a quality management system. For this it is recommendable to extent STAR’s evidence-base towards the performance impact of different organizational solutions (see also below).
- The launched development of an IT-supported tool together with the job centres to assess the employment potential of jobseekers (profiling) deserves support. The tool should allow a holistic assessment, i.e. take into account all relevant non-cognitive skills (“soft skills”) like motivation, ability to work in teams, communication skills etc. since these skills are transversal to formal education degrees and occupations but are important in a modern economy like the Danish one and will in all likelihood become even

more important in the future. Based on this tool, it appears to be useful to develop a manageable model of jobseeker segmentation (instead of the more than a dozen of current target groups) to help job centres to further refine the service provision to jobseekers. This also implies that STAR should get an easy access to the data on the educational attainment of jobseekers since it is a very important parameter of the jobseeker profile.

- In order to stimulate intensified activities to more actively address employers and acquire vacancies in the job centres it is worth considering to integrate employer-oriented targets into the performance management system. Furthermore, it appears reasonable to intensify the monitoring of the use of and satisfaction with the digital tools and on-line services made available to customers. The results can serve as a strong base for developing these tools and on-line services further.
- To support a better matching of vacancies and jobseekers the development of a matching tool based on competences and skills is recommendable. Clearly, such a tool can only work properly if the above mentioned profiling tool for jobseekers is functioning.
- To ensure that effective/efficient organizational solutions (in a wider sense) can finally prevail or become accepted by all job centres the extension of STAR's knowledge base towards specific designs of operational processes in the job centres and their impact on performance is advisable. This implies to collect more "hard empirical evidence" on which organizational solutions work, i.e. which specific designs of operational processes in the job centres have a significant positive impact on performance outcomes (like the average duration of benefit recipience).
- To further support the cooperation between job centres (e.g. by putting together their efforts to contact employers) the identification of functional labour markets seems to be a promising attempt. This implies to identify those municipalities which form one labour market since they depend on each other in that sense that, for instance, a shut-down of a large employer in one municipality has repercussions on the employment prospects of jobseekers in neighbouring municipalities. Such analyses can be conducted using models of spatial econometrics (and exploiting commuter flows) and have the positive side effect that the results can help you to assess in which regions and to which extent "beggar your neighbour policies" can occur.
- There is some overlapping of functions/activities regarding the activation of jobseekers and their job placement carried out by the unemployment insurance funds and job centres. The introduction of joint meetings with jobseekers is expected to avoid conflicting activities of both institutions and to smooth the whole process. Currently, it appears to be unclear to which extent this is successful on local levels. Thus, an external evaluation of the cooperation between unemployment insurance funds and job centres is recommended.
- To foster the understanding of the needs and challenges of every-day work in the job centres a short-term internship (on-the-job-training) in a job centre and/or in an unem-

ployment insurance fund could become part of the introductory training programme of the STAR staff.

- The current budget allocation model follows a strong top-down approach concerning the distribution of resources with only little flexibility. It might be worth considering to add a stronger bottom-up element based on local labour market knowledge and anticipation in order to actively address the potentials of the local labour market and thus also stimulating local ambition.