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Delivering employability in a vanguard 'active' welfare state: the case of Greater Copenhagen in Denmark

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Abstract. Denmark has been regularly cited as a leading example of the 'active' welfare state. Regional and local governance and delivery structures have been crucial to the implementation of Denmark's strategies to improve the employability of unemployed people. In this paper we trace the development, implementation, and effectiveness of regional and local labour-market structures in Denmark, particularly focusing on the country's largest region—Greater Copenhagen. Drawing on interviews with key stakeholders and case-study research, we critically analyse the performance of: (a) the regional structures that have, until recently, provided the main framework for planning employability strategies; and (b) emerging frameworks for local-authority-led employability services. We argue that Denmark has successfully established effective regional governance structures, which have included employers, trade unions, and other stakeholders in the planning of provision for job seekers, while allowing for the tailoring of employability services to reflect the dynamics of local labour markets. However, there remain concerns that recent reforms that effectively dismantle regional structures in favour of more localised governance will threaten the capacity of future employability programmes to secure the buy in of stakeholders and respond to changing labour-market conditions.

1 Introduction

Denmark has been consistently highlighted as a key 'active' welfare state in Europe, with successive governments overseeing a series of reforms to convert the country's welfare state into a leading exponent of active employability strategies (Larsen and Mailand, 2007). Interest has been focused on the Danish experience for a number of reasons:

- the rapid development and near-'universalised' scale of employability programmes;
- the apparent contribution of these programmes (combined with sustained macro-economic recovery) to Denmark's relatively strong labour-market performance;⁽¹⁾
- the role of national, regional, and local stakeholders in a system that has combined strong leadership from central government, social partnership-based regional planning, and diverse forms of interagency cooperation at the local level;
- and the broader 'flexicurity' model that these active employability policies form together with generous unemployment benefit schemes and relatively liberal rules for hiring and firing labour. The flexicurity model is seen as creating a highly mobile and flexible labour market where the high level of income and employment security means that actors are willing to take risks. The role of the active employability policies in the model is to provide unemployed people with qualifications and skills and to motivate them actively to seek work (see, for example, Madsen, 2005).

⁽¹⁾ In 2006 Denmark's unemployment rate stood at approximately 4%, less than half of what it was in 1993, and well below the EU member state average of 8%. Denmark's employment rate (77%) and economic activity rate (81%) also compare well with EU member state averages (64% and 70%, respectively, in 2006).

Denmark's approach to the inclusion of social partners and other stakeholders at the regional and local levels is particularly distinctive and therefore forms a key theme for this paper. Focusing on a single Danish region, and reporting the findings of two phases of in-depth interviews with key stakeholders, we assess the extent to which regional and local partnership working has 'added value' in helping to develop approaches to employability that are responsive to the needs of particular labour markets and job seekers. We also consider recent changes that have further devolved responsibility for employability programmes from social partnership-based regional councils to local authority level (potentially weakening of the role of social partners), and the current and potential role of contracting out.

Following this introduction, in section 2 we discuss the background, content, and governance of Denmark's employability policy. In section 3 we summarise our methodology and the policy and labour-market context in the region that provides the focus for our research (Greater Copenhagen). In section 4 we report the findings of two phases of interviews with key stakeholders conducted on either side of a recent, major reform to regional and local governance frameworks for employability. In section 5 we discuss conclusions and key lessons from the research.

2 Background and policy context

2.1 Employability policy in Denmark

The origins of Denmark's current employability policy framework can to some extent be traced to the prolonged economic crisis and high unemployment of the 1970s and 1980s. Nevertheless, Danish labour-market policy at that time remained relatively focused on income support; through the second half of the 1970s and 1980s expenditure on income support and early retirement made up approximately 75% of total labour-market-related government expenditure (out of total consumption equivalent to 5%–6% of gross domestic product). A centre-right government elected in 1982 sought to promote what it termed a shift 'from cash line to work line' in dealing with the unemployed (Kosonen, 1999). Yet progress towards the 'activation' of employability policy remained limited during this period:

"Nothing much happened to employment policy during the Conservative-led coalition governments" (Kvist and Pedersen, 2007, page 102)

due to a lack of political consensus on the need and direction for reform.

Nevertheless, the emergence of new discourses of the late 1980s which saw an increasing concern with structural unemployment paved the way for a policy shift in the 1990s. The election of a Social-Democratic-led government in 1993 provided the political momentum to begin to challenge the country's still "rather passive" approach (Johansson, 2001). Prior to that key political change, a committee established by the then government in 1991 (the tripartite *Zeuthen* Committee) called for a major shift towards active employability policies. The report's findings were largely accepted by successive governments, and formed the basis for a series of policy reforms introduced from 1994 (Mailand and Due, 2003). The network of (often compulsory) employability programmes that emerged from these reforms sought to provide a diverse range of measures, with a focus on education and training reflecting individuals' needs. The reform process initially targeted claimants of insurance-based unemployment benefits, but local authorities (with responsibility for employability provision for social assistance claimants) gradually introduced similar measures.

A further labour-market policy reform took effect in 2003, which saw a change in emphasis away from long-term skills upgrading, and towards wage subsidy programmes combined with 'work first' measures. This *Flere i Arbejde* ('more people at work') reform also sought to simplify interventions around the guiding principle

of a 'one string system' (so that insured and uninsured unemployed people receive similar services and opportunities), emphasising more direct routes into work as a priority (Larsen and Mailand, 2007).

As noted above, in seeking to place the Danish system in European context, successive governments' broader commitment to what has been termed a 'flexicurity' model needs to be acknowledged. An increasingly comprehensive system of activation has nevertheless retained a strong focus on human capital development (Lödemel and Trickey, 2001) and apparently universalised social protection benefits that are typical of social democratic welfare structures. Yet critics of the 'presumed best case' offered by Denmark (Mailand, 2001) have consistently pointed to problems: a failure to fully integrate provision for new migrants (Andersen and Mailand, 2005); a recent turn towards work first or 'hard workfare' approaches for some groups, through increasing compulsion and reductions in benefit rates, which may force some of the most vulnerable towards low-paid, insecure work (Larsen and Mailand, 2007); and a failure to counter the continuing relatively severe disadvantage faced by very low-skilled people and older workers (Bredgaard et al, 2007). Nevertheless, Denmark's extensive active labour-market reforms have corresponded with a period of high employment and declining worklessness, so that it continues to be held up as an example of best practice in responding to unemployment—for Daguerre (2007, page 11) stories of the Danish employment 'miracle' "serve to disseminate supply-side policy paradigms throughout Western Europe." How this model will respond and adapt to the looming economic crisis remains to be seen.

2.2 Governance and delivery of employability policy

2.2.1 Regional and local structures established in 1994

In terms of the governance, planning, and delivery of employability services, the policy reform process started in 1994 also saw the emergence of new forms of inter-agency cooperation. Existing tripartite bodies were reformed and fourteen new regional employment councils (RARs)—coordinated by the Public Employment Service (PES) but with equal membership from social partner (employer and trade union) organisations and local authorities ('municipalities')—were established to plan services for people entitled to contributions-based unemployment benefits. Programme content for the PES client group was agreed on an annual basis between RARs and the national Labour Market Authority (LMA—the government agency leading the implementation of policies for the unemployed), in accordance with broad guidelines set by ministers. However, RARs were granted some latitude in terms of 'tools and targets'—the precise content of services—and additional target groups and areas where resources should be channelled. RAR partnerships also oversaw the contracting out of some services.

The RAR system arguably marked a step change in the decentralisation of Danish labour-market policy, and the involvement of social partners in planning and shaping employability provision has been seen as adding to the credibility of activation programmes. As Walker and Sankey (2008) note:

"The representation of the social partners on the RARs and the discretionary powers afforded to them was intended to enable the design of locally sensitive employment policies, and to give those policies a legitimacy in the view of local partners involved in implementation. The reasoning here is that if, for example, an employment initiative involving on-the-job training is designed with inputs from employer representatives, then local employers are more likely to respond favourably than might otherwise be the case" (page 21).

Evaluations have concluded that the increased involvement of the social partners generally improved the quality of employability provision: regional action plans responded to specific labour-market conditions and RARs provided effective political leadership within PES regions. There also appear to have been benefits in securing the commitment of social partners to make programmes work on the ground (Haahr and Winter, 1996; Larsen et al, 1996). However, the same evaluations also pointed to a number of weaknesses, inter alia, that regional policies did not always consistently reflect national-level policy goals, and that the generally positive culture of consensus promoted by the RAR model sometimes acted as a brake on innovation.

At the local level, 271 local authorities led the delivery of employability services for the uninsured unemployed between 1994 and 2006. After 1998 multipartite local coordination committees (drawing representation from trade unions, employers, and local community organisations) advised local authorities on the implementation of employability policies. But these committees lacked the decision-making power of RARs—funding, targets, and priorities for employability services were instead agreed on an annual basis between local authorities and the LMA. Nevertheless, in general terms local services for the uninsured unemployed were

“rather more decentralised due to the semi-autonomous role granted to local authorities” (Lindsay and Mailand, 2004, page 196).

Evaluations of the impact of local coordination committees were less clear as to their added value. The considerable variation in the structures and approaches of committees was noted, so that clear findings as to their effectiveness were difficult to establish, but they appear to have delivered some benefits in relation to improved cooperation and the identification of inefficiencies at municipality level (Andersen and Torfing, 2002).

2.2.2 *Recent reforms to regional and local governance*

A fundamental reform of regional and local structures—implemented from January 2007—has had an important impact on the governance of employability. It has been suggested that, in order to persuade the local authorities to accept a process of rationalisation establishing larger municipal government areas, the implementation of employability policies was used as ‘bait’: if local authorities agreed to a reduction in their number, central government would grant them greater control over the employability agenda (Larsen and Mailand, 2007). Hence, despite concern among opposition parties and the social partners, the fourteen PES regions (and the related RAR structures) were wound up. Four new ‘state–region’-level employment councils were established with a remit of ensuring cohesion between the national and regional employment policy.⁽²⁾ PES and local authority employability service departments were amalgamated within ninety-one municipality-level one-stop-shop ‘job centres’. Local employment councils—covering each of the ninety-one job centre areas—now advise on local employability strategies.

However, despite similar interest groups being represented in these new local and ‘superregion’ bodies, the decision-making authority and influence enjoyed by RARs has been lost (Lindsay and McQuaid, 2008). Targeting and resourcing of employability services is now the remit of job centre managers, based on annual performance agreements with the national LMA. In contrast to their previous substantial proactive

⁽²⁾ The 2007 reform had important consequences for the region in focus in the present paper. The previously separate Greater Copenhagen RAR–PES region was amalgamated with the rest of the wider Zealand area to form one of the four new employment regions, covering half of persons on the Danish labour market. In the following discussion we focus on implications for the original Greater Copenhagen region wherever possible.

influence on the design of initiatives (input), the role of the social partners has become more reactive, their main task being to monitor effects (output), with the possibility of recommending actions to underperforming job centres and local authorities (Larsen and Mailand, 2007).

Nevertheless, as Bredgaard (2008) notes:

“the new structure did not achieve full municipalisation as the government intended, but a rather incoherent organisational compromise” (page 67).

Although local authorities ‘hosted’ the ninety-one new job centres, seventy seven of these centres were still divided into a large section responsible for the social assistance clients (staffed by local authorities) and a smaller section responsible for unemployment insurance clients (staffed by former PES employees). In fourteen so-called ‘pilot’ job centres the local authorities were, on a trial basis, responsible for employability services for both groups.

2.2.3 *Contracting out PES services*

Finally, the period since 1994 has seen an increase in the importance of contractual relationships with external service providers. Following the 2003 ‘more people into work’ reform, PES managers were encouraged to contract with a broader range of providers—prior to this reform limited outsourcing of services was directed mainly towards public sector further education and training institutions. The Liberal Conservative government made the case for increased contracting out as a route to improved efficiency, targeting of services and ‘debureaucratisation’ (Bredgaard and Larsen, 2007). A rapid increase in outsourced activation ‘framework contracts’ followed, with the number of insured unemployed referred to external services peaking in early 2005 at around 40% (Bredgaard, 2008).

However, despite the increasing penetration of private sector providers in the employability services market, the scale of contracting out has sharply declined and stood at approximately 10% of insured clients by 2007. High transaction costs and provider reward structures based on payment-by-job entries quickly drained budgets for contracted-out provision (Ramböll Management, 2004), as PES managers came to see contracting out as a means of relieving administrative workloads, rather than as a strategic tool to maximise benefits for clients (Bredgaard, 2008). A restructuring of the market for employability services introduced in 2005 sought to impose a more centralised and standardised contractual model, simplifying the tender process and further emphasising ‘payment by results’ (with 75% of providers’ fees dependent on achieving job entries for clients). It remains unclear as to whether this further reform will be able to ‘reboot’ the market for employability services.

2.2.4 *Delivering employability in Denmark—key issues*

The discussion above demonstrates that Denmark, like many other EU states, has seen a process of substantial change in the governance and delivery of employability in recent years. To some extent the reform process in Denmark shares common features with other countries that have seen a shift towards new forms of governance in employability (Borghesi and Van Berkel, 2007)—that is, a shift towards regional–local approaches involving a range of stakeholders, and the contracting out of services previously provided by the public sector. The rationale for such new approaches relate to a dissatisfaction with ‘traditional’ modes of governance in addressing the complex needs of disadvantaged individuals and areas, and an acknowledgement of the potential for nonstate actors to add value in addressing these needs. Accordingly, in Denmark the government has argued that its new local authority-level, integrated job centre model will ensure greater consistency in the quality of services, and employability provision that is more responsive to the needs of individuals and local labour markets.

However, as Lindsay and McQuaid (2008) note, it is unclear whether concurrent processes of localisation, on the one hand, and contracting out, on the other hand, are always complementary. These issues are of particular interest in Denmark, given its reputation as a leading exponent of flexicurity, so that the compatibility of recent reforms to governance with this overarching ethos are worthy of further consideration.

Given this context, our research spoke to key stakeholders about the benefits and limitations of the regional governance structures established in 1994, with interviews conducted both immediately before and after the 2007 reform that saw the RAR model replaced by rationalised regional structures and integrated local employability services. The same interviews discussed the potential benefits and problems of a shift towards localised forms of governance and integrated local job centres, and then evaluated progress soon after this key change. Crucially, in the discussion below we consider the extent to which recent changes will result in the more locally responsive and joined-up services sought by policy makers, and any potential negative consequences associated with the dismantling of existing regional structures which gave social partners a role in planning. Finally, we review recent changes in contracting out and discuss the extent to which the involvement of other actors has added value to employability services.

3 Methodology and labour-market context

3.1 Research methodology

In this paper we report the findings of case study research in what was Denmark's largest region—'Greater Copenhagen'. Our research involved a review of literature and policy documents, followed by two phases of in-depth interviews with key stakeholders involved in the employability policy agenda during mid-2006 and then mid-2007—either side of a major reform to regional and local governance structures. Both phases of interviews asked key stakeholders about the capacity of systems of governance, planning, and delivery to provide: flexible employability services that reflect the dynamics of local labour markets; planning and decision-making structures that can tap the knowledge, expertise, and resources of different actors; and an ethos of partnership or 'shared ownership', which can be vital to ensuring that interventions work on the ground.

The first phase of interviews, conducted in April 2006, explored the views of national policy actors and stakeholders involved in the then Greater Copenhagen RAR. Specifically, those interviewed included: representatives of the national LMA—the government agency leading the implementation of employability policies; national and regional representatives of *Landsorganisationen i Danmark* (LO)—the main Danish trade union confederation; national and regional representatives of the *Dansk Arbejdsgiverforening* (DA)—the main Danish employers' confederation; a regional manager of the *Arbejdsformidlingen*—the Danish PES; a local-authority-funded employability service provider; and two employers offering training and job guarantees for the unemployed in collaboration with this provider. In total, data were gathered from ten interviews—a relatively small number, but taking in senior managers and policy officers within relevant key stakeholders.

A second phase of interviews conducted in September 2007 reviewed progress under new regional governance structures and local job centres, as well as considering processes around the contracting out of some services. A smaller number of interviews was conducted, so as to focus data gathering on those bodies most affected by the shift from regional to more localised planning and delivery structures. Accordingly, interviews were undertaken with: a regional PES manager with responsibility for the new Greater Copenhagen and Zealand employment region; and regional-level representatives of the LO and the DA. We should also acknowledge that our second phase of

interviews were undertaken relatively soon after changes to governance structures that may take some time to fully ‘bed in’. This meant that we were not able to gauge key stakeholders’ views after the inevitable immediate disruption caused reforms had subsided. Nor were we able to gather data on any changes in performance or job outcomes associated with the reform process (although, even with more time, problems of attribution mean that linking the outcomes achieved by employability interventions to models of governance can be difficult). Nevertheless, we are able to reflect upon stakeholders’ immediate experiences of a major governance reform affecting the delivery of employability services.

3.2 Regional labour-market context

Greater Copenhagen covers one third of the Danish labour market and hosts the city capital, which is four times the size of the second-largest city (Aarhus). Greater Copenhagen is now (again) the unchallenged centre for growth and jobs in the country. The region saw a sharp decline in its manufacturing base from the 1960s, with related increases in unemployment. However, the region’s recovery since the 1990s—based on the growth of high-tech manufacturing, biotech, and information technology (IT) (as well as the capital city’s strong hospitality sector)—saw unemployment decline. Unemployment remained below the national average in 2006, at 4%.

Nevertheless, there remain a number of challenges facing the region. Employers in key sectors such as construction, health, education, and finance report recruitment and skills shortages. Policy makers have been concerned to address the labour-market mismatch that has seen these problems persist alongside long-term unemployment among hard-to-reach groups. There are also specific challenges associated with the region’s relatively diverse population—minority ethnic groups represent 8.4% of the regional labour force and have an unemployment rate of 10%, nearly three times that of ethnic Danes. Claimants of social assistance benefits are also overrepresented in the region compared with the national average, and members of this group have been less likely to progress towards work than those claiming unemployment benefits.

4 Findings: regional and local governance and employability policy in Greater Copenhagen

4.1 From regional partnerships to centralised localism?

The first phase of interviews (conducted prior to recent reforms) highlighted a number of strengths associated with local and regional governance structures operating between 1994 and 2007. A key advantage associated with these structures appears to have been that—within parameters agreed with the LMA—regional partners were able to develop targeted responses to specific labour market conditions. RAR members interviewed in 2006 consistently highlighted the added value associated with the degree of freedom in defining ‘targets and tools’ for PES employability interventions (ie the targeting of additional resources on particularly disadvantaged client groups and/or specific programmes).

Respondents were able to point to a number of specific instances of resources and programmes targeting problems of particular relevance to the region, such as: the development of specialist provision addressing the needs of migrant and minority ethnic groups; and the prioritisation of sector-specific training in response to skills upgrading needs articulated by major employers in key sectors. The degree of freedom afforded to RARs in selecting ‘tools and targets’ also allowed for the piloting of ‘early intervention’ initiatives in local areas of high unemployment (where job seekers were offered activation through employability services within four months of becoming unemployed).

Both government and social partner stakeholders also pointed to the range of expertise encompassed within the RAR process, which brought together employers' representatives (with knowledge of skills needs), trade unions (with their authority as workers' representatives and playing a key role in the administration of unemployment benefits), and local authorities (responsible for administering both benefits and employability services for people claiming social assistance, and with a range of other linked remits taking in social work, economic development, and lifelong learning). There was an acknowledgement that the restriction of these stakeholders to an advisory role within larger employment councils could limit their ability to directly influence programme planning.

Furthermore, while the current government has characterised the abolition of RARs as promoting decentralisation and increasing the control of the semiautonomous local authorities, the clear 'central line' that has always defined Danish employability policies (or at least policies affecting claimants of unemployment insurance benefits) is arguably stronger than ever. By abolishing partnership bodies that had genuine decision-making authority, the government has strengthened its own ability to direct policy from the top down, while allowing some freedom in the local implementation of programmes. Lödemel and Trickey (2001), considering the UK's employability services, have described such an approach as 'centralised localism'—promoting localised delivery, but retaining ultimate power over the aims, content, and direction of policy within central government.

Reviewing the impact of the 'localisation' reform in 2007, two of the key stakeholders interviewed noted that there have not been any major changes in the degree of central control of programmes for the *insured* unemployed. Regarding services for the uninsured unemployed, however, the 2007 reform represents a change of policy, where local authorities, which previously had a high level of autonomy, are now faced with similar demands from central government in terms of implementing centrally defined measures. In this sense the net impact of the 2007 reform has been to strengthen 'centralised localism'. A third interviewee recognised that local authorities are now faced with a stronger control from the central level, but suggested that the move from the 'steering on input' to 'steering on output' had left job centres with a greater freedom to design employability services.

4.2 Reforming regional structures—a weakening of partnerships?

As noted above, the RAR structures established in 1994 saw government share *some* authority and resources in regional-level employability planning with local authorities, employers, and trade unions. Our initial phase of interviews with both government and social partner representatives suggested that this sharing of authority had delivered important benefits.

First, it secured the commitment or 'buy in' of these stakeholders, who in turn contributed to the legitimacy of services. Employers' representatives interviewed in 2006 suggested that their participation in the regional planning of employability interventions had added to the credibility of programmes. Representatives of the government's LMA and regional PES management shared this view, suggesting that the involvement of employers' associations in the planning process had made it easier to engage with individual employers (who play an important practical role in employability programmes by offering work experience placements and participating in wage subsidy programmes). Similarly, a number of our interviewees suggested that the role of trade unions in planning employability interventions (through their RAR involvement) had helped to legitimise employability programmes in the eyes of redundant workers.

Respondents interviewed in 2006 highlighted the way in which RAR structures had given employers, trade unions, and other partners a genuine stake in, responsibility for, and a sense of shared 'ownership' over the development and success of services. By ceding and sharing a degree of responsibility for budgetary control and programme direction with employers' associations and trades unions (as well as local authorities), the then Danish government ensured that these organisations had a sense of commitment to seeing that programmes worked on the ground. There were concerns among social partners in particular that, by reclaiming and/or devolving many of the responsibilities that were shared among RAR partners, the 2007 reform could undermine this sense of shared ownership, with real practical consequences for the impacts achieved by programmes.

Reflecting on the reform of regional structures in 2007, interviewees confirmed that the new system, as intended, has reduced the formal influence of these stakeholders on policy input, while granting them a greater role in the surveillance of outputs. Regarding this latter role, the new employment council at regional level has initiated an 'intensified dialogue' with some 'underperforming' job centres. It was also noted that new employment councils have retained some influence through their role in setting regional-level priorities to complement targets agreed with national government, but there was an acknowledgement that these priorities are nonbinding—unlike their predecessor RARs, new employment councils do not have the authority to require the PES (now job centres) to pursue specific targets.

When reviewing the effect on the 2007 reform it is also important to consider issues of quality and buy in around the new local employment councils that should be the centre of gravity for local partnership working. The 2007 interviewees reported that employers' representatives have experienced difficulties in recruiting sufficiently qualified and committed participants for many local councils. The problem is not new (see Mailand, 1999) but the capacity imbalance has been intensified and seriously weakens partnerships. It reflects employer organisations' lack of capacity at the local level, and perhaps also the fact that these bodies lack the influence over resources and clear, concrete decision-making authority once enjoyed by RARs. This situation is different from the new regional councils, where there have not been the same recruitment problems, and where interviewees painted a picture of a body that had been able to sustain a level of commitment and capacity to reach consensus despite its reduced formal influence.

Interviewees accepted that the RAR model operating between 1994 and 2006 was not a panacea for the problems of planning and implementing employability policy. For nongovernmental stakeholders, the decision-making power enjoyed by these regional partnerships was too limited to fully respond to specific labour-market conditions. Government agency officials (within both the regional PES and national government LMA) acknowledged that regional stakeholders would have valued even greater latitude to change the focus and content of policy, a view confirmed by social partners involved in the Greater Copenhagen RAR.

There was also awareness that the dynamism often attributed to effective partnership working was not always present under the RAR model. With 'consensus' central to the culture and ethos of RARs (and indeed Denmark's broader social partnership approach) prevailing ideas and policies rarely appear to have been challenged by nongovernmental actors. This tendency towards consensus, even at the expense of necessary 'tough choices', was among the criticisms consistently levelled at the RAR model (Mailand, 1999).

Finally, stakeholders interviewed in 2007 acknowledged some of the synergies achieved by the establishment of larger, superregional structures. With Greater Copenhagen and the

city itself the dominant source of labour demand for surrounding areas in Zealand, it was suggested that the new regional employment council (and similar structures in Denmark's other three new regions) tend to better reflect the reality of spatial labour-market dynamics. Interviewees similarly gave examples of specific demand-related initiatives (such as campaigns on 'adult apprenticeships') that could be more effectively coordinated since the establishment of new employment councils. These new councils—together with national-level social partner organisations—have also initiated a forum that discusses shared priorities and has sought revisions of the national targets for employability programmes set by the Ministry of Employment. This forum appears to represent a successful bottom-up attempt by Greater Copenhagen (and other regional employment councils) to influence national policy.

4.3 Added value through integrated local job centres?

Regional and national stakeholders interviewed in 2006 were divided as to whether the then imminent process of localisation and establishment of integrated job centres would improve the responsiveness of services. Local stakeholders shared the view that a more locally responsive set of policy initiatives would emerge from the new structures. However, some national and regional trade union and employer representatives were concerned that, given the limited capacity of smaller local authorities and the narrow geographical focus implied by the process of localisation, there might be problems in arriving at coherent area-based approaches.

A PES manager formerly involved in Greater Copenhagen's RAR noted the challenges faced by smaller local authorities in taking a more central role in the leadership of employability services. However, the same respondent saw benefits flowing from this process—it was hoped that colocation within integrated job centres would allow local authorities and the PES to better combine their areas of expertise. It was also suggested that real benefits would emerge from the job centre reform producing a more consistent approach to dealing with insured and uninsured job seekers. Employers' representatives similarly welcomed the shift towards more joined-up and, crucially, 'simplified' approaches.

Nevertheless, a recurring theme in interviews with key stakeholders related to the importance of retaining what might be termed as 'intellectual capital'—the detailed understanding of 'what's needed' and 'what works' that comes only from direct engagement with clients and service providers on the ground. Regional PES managers, trade unions, and employers' representatives involved in the Greater Copenhagen RAR highlighted the importance of 'securing knowledge' during processes of reform. With employability services in Denmark facing considerable institutional change, these stakeholders pointed to the need to retain the expert knowledge of specialists with experience of developing specific services or assisting particular client groups. This was considered particularly important given the shift towards local-authority-level provision and the resulting dispersal of some PES officers and managers from regional to local centres. There were fears among social partners and even PES managers that this diaspora of professional expertise could undermine the effectiveness of services.

Our interviews with PES and regional employment council representatives following the 2007 reform found little evidence of the sought-after more consistent approach to dealing with social assistance and unemployment insurance clients. It was suggested that, despite occasional examples of improved joint working, job centres are still largely divided according to state-controlled and local-authority-led services. Walker and Sankey (2008) have similarly found that

“work with these [social assistance and unemployment insurance] workless groups tends to be divided according to the previous functions of staff” (page 29), with local authority professionals generally focusing on the needs of social assistance claimants while PES officers are more likely to engage with the insured unemployed. Establishing a more integrated job centre model has also proved difficult due to differences of organisational culture, staffing issues (partly because many frontline employees have left as a result of the workload and stress connected to the transition), and data-sharing and IT problems. There was a view that localisation had also undermined the PES’s ability to tap economies of scale that were previously available under regional structures.

Job centres’ ability to cooperate across municipalities was also questioned by some of our 2007 interviewees. These problems have led to a decline in the effectiveness of service delivery in job centres and a failure to deliver on service targets, reflecting negative impacts on the support available to job seekers. National and local government representatives have argued that the situation is improving, and all those interviewed in 2007 predicted that employability services would recover—but the credibility of job centres is likely to have been damaged among both employers and the unemployed.

4.4 Balancing partnership working and contractualism

As noted above, Denmark has seen an increasing shift towards the contracting out of *some* employability provision. From the perspective of the LMA there are clear benefits to be reaped from the expansion of the role of ‘other actors’ in employability services. Private and community sector organisations can, it was argued, add value by delivering specialist services. A regional PES officer similarly noted the value of the specialist services delivered by external providers, and the capacity brought to bear by these organisations, which facilitated one-to-one counselling and support. The same interviewee suggested that initial costs associated with outsourcing had been relatively high, but that a more robust and competitive service delivery market was gradually emerging. However, there remained concerns regarding the administrative and transaction costs associated with regulating a competitive service delivery market.

Other key stakeholders tended to be even more sceptical. National employers’ and trade union representatives shared the view that private sector inputs on employability could be effective, but were of value only if they were able to deliver content or efficiencies unavailable from existing providers. The trade union movement—while continuing to express concern about the implications of contracting out employability services—has adopted a pragmatic approach, reflected in the willingness of union organisations to become delivery agents. Nevertheless, a national trade union representative warned against a continuing focus on the process of developing an internal market for employability services, at the expense of a rigorous analysis of the outcomes achieved. As Wright (2008) notes, in the case of Danish employability policy there is a danger that, rather than promoting the dynamism and ‘debureaucratisation’ sought by policy makers, contracting out has resulted in ‘rebureaucratisation’ by necessitating elaborate contractual and project management systems.

Even government stakeholders interviewed in 2006 acknowledged the need for a gradual and careful approach to the expansion of contracting out. Indeed, an LMA representative noted that, while the performance of private providers had been acceptable to date (from the government’s perspective), the limited number and range of clients that these actors had dealt with meant that evaluation findings had to be treated with caution. Returning to the subject of contracting out with key stakeholders interviewed in 2007, it became clear that, in the Greater Copenhagen region, as in other areas of Denmark, there have been major problems with the market for employability provision. In late 2006

the Greater Copenhagen PES suspended its use of contracting out—poorly calibrated performance-related pay systems meant that the budget for external contractors had been exhausted long before the end of year. In 2007 continuing concerns over performance-related pay systems and generally lower levels of referrals saw a sharp decline in contracting out, which at the time of the interviews accounted for less than 5% of all employability provision in the region.

There are no available studies comparing the performance of external actors with the PES and the local authorities in the Greater Copenhagen region alone, but the few national studies conducted give little reason to believe that contracting out has been of great benefit. National LMA-commissioned research concluded that the performance of the 'other actors' is similar to that of the PES, but was inconclusive in relation to questions quality. It points to several strong features associated with the services of new actors (timing, strong communication lines between funder and contractor, individual tailoring of services to the needs of the unemployed, and an increased focus on promoting motivation to work), but also a number of weaknesses (a lack of supposedly strong networks with business, limited innovation, a lack of knowledge of the priorities of the then operating RARs, and variable quality in the services received by individuals) (Ramböll Management, 2004).

5 Discussion and conclusions

Between 1994 and 2006 Danish policy makers appeared to have arrived at a regional partnership model that—while sometimes cumbersome and too consensus oriented—offered important benefits in planning employability. RARs were able to tap the knowledge and expertise of employers' associations, trade unions, and local authorities. More importantly, with the PES and national government ceding *some* decision-making authority and resources to these regional partnerships, local authorities and social partners were left with a sense of ownership over, and responsibility for, the success of employability services. Sharing ownership with these stakeholders secured their buy in and helped to legitimise programmes in the eyes of both employers and job seekers.

There is a danger that this sense of shared ownership will be lost in the shift to advisory bodies at the local and regional levels, which lack the 'concrete authority' to influence programme content and targets. Advocates of Denmark's broader flexicurity approach have stressed the importance of mutual trust between social partners, government, and other stakeholders, alongside adequate institutional capacity and 'platforms' facilitating decentralisation (Wilthagen, 2005). The potential for 'recentralisation' of decision making (Larsen and Mailand, 2007) or at least 'centralised localism' (Lödemel and Trickey, 2001) as a result of recent changes to governance structures and an increasing reliance on contractualism may undermine these principles. By threatening to break the 'third leg' of the Danish flexicurity model (ie activation and employability), the 2007 reform arguably puts the whole flexicurity model in danger. Without the buy in of the social partners it will not be possible to have the tailored measures important to achieving the 'qualifications effect' sought from active policies (the increase in employability and employment that result from retraining unemployed people). What will be left is the 'motivation effect' to actively seek work (because it will always be more attractive to find a 'real' job than to be a client involved in activation, no matter the content of the active employability measures).

Denmark's current government has argued that the local-authority-level integrated job centre model that has emerged following the abolition of RARs will ensure greater consistency in the quality of services delivered to both insured and uninsured unemployed people. The shift towards a one string system that equally values services for

claimants of unemployment and social assistance benefits is welcome. However, the process of integration has proved extremely difficult, impacting on the delivery of services. There also remain concerns around the capacity of local-authority-level job centres to deliver the full range of services in all areas. The worst-case scenario is that Denmark will be left with a system in which central government imposes programmes, targets, and contracting models from the top down (having weakened structures that shared ownership with social partners), while *delivery* at local level is variable and contingent on the capacity and expertise within particular municipality areas.

There is also some evidence that the feared loss of intellectual capital within the public sector has indeed been a by-product of the dismantling of regionally managed PES structures. The shift to a local-authority-level job centre model has contributed to a 'shake out' of experienced PES staff. The dispersal of remaining expertise to the municipality level may result in a lack of 'critical mass', a lack of capacity at the local level, to deliver services effectively. A highly developed and well-funded public service infrastructure (and the capacity to coordinate and deliver a range of services) has been seen as key to the success of the broader Danish flexicurity model (Bredgaard et al, 2007). There may therefore be important negative consequences associated with an undermining of PES-led employability services capacity in Denmark. In short, the abolition of RAR partnerships as a by-product of further localisation threatens the progress made in joint working on the planning of employability provision, while as yet there is limited evidence of the improved cooperation at the operational level.

These problems may be exacerbated by the decision (as part of the state budget process for 2009) to promote further 'municipalisation' by liquidating the state-governed part of job centres, thus leaving local authorities with full local responsibility for job centre services. This latest shift towards localisation was undertaken without consultation with social partners and without the promised evaluation of the 2007 job centre reform. The implementation of another large-scale reform of the job centres at the beginning of an economic downturn may prove to be a dangerous strategy. Job centres will face the double pressure of a relocation of tasks and an increase in the numbers of clients that they will be required to assist.

Finally, alongside processes of localisation, successive governments have seen contracting out as a means of promoting more efficient, flexible services. Yet, there is little evidence that such benefits have emerged in Denmark. Overspending and rapid declines in the level of outsourcing suggest that there are problems in 'procurement capacity' that have led to the inefficient use of scarce resources. A rather chaotic attempt to grow the market for employability services saw the rapid expansion and then contraction of contracted-out provision due to poorly designed reward systems. The attempt to expand contracting out *alongside* the imposition of a major reform to the governance of employability provision had a real, negative impact on the coherence and quality of services available to job seekers. The current government's enthusiasm for the marketisation of employability services and the imposition of a more centralised framework for contracting may yet see a recovery in levels of outsourcing, but the involvement of 'other actors' is no longer seen as panacea for the problems of labour-market policy in Denmark.

Denmark has been held up as an exemplar of a welfare state able to combine the benefits of the flexicurity model, while engaging with new forms of governance by involving a range of stakeholders in the planning and delivery of employability. Denmark's status as a vanguard 'active' welfare state, whose approach to employability has influenced practice elsewhere in the EU, means that reforms to how labour market policy is governed are of particular interest. Our research highlights that Denmark, like other countries, needs a range of regional and local stakeholders involved in the delivery of

employability provision. However, undermining or 'hollowing out' the PES (through too-rapid processes of localisation and/or contracting out) may result in a loss of intellectual capital within the public sector. There also remains a danger that the dismantling of robust PES-led services in favour of localised or contracted-out provision will lead to inconsistencies in the quality of services. Changes to governance and delivery systems inevitably cause a degree of dislocation in the short term, and we should again acknowledge that the findings presented above are preliminary, and capture key stakeholders' perspectives immediately prior to and after recent reforms in Denmark. Nevertheless, these findings suggest that the drive towards localisation and contracting out has delivered few benefits thus far, while the rush to implement changes may have negatively affected the services available to the unemployed.

Danish policy makers are faced with a complex series of challenges around the establishment of appropriate governance structures for employability services. Despite early problems, there are important potential benefits that *may* be associated with the emergence of more consistent, integrated local services. But there is a need for renewed efforts to ensure that the knowledge and credibility associated with preexisting structures are not lost, and that new structures find a way to share ownership and decision making with social partners and others, so that all relevant stakeholders feel that they have a say in the development of interventions and responsibility for making employability services work on the ground.

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