

# Compensation to municipalities for migration and integration – a poorly designed system

## Summary and recommendations

The central government compensates municipalities for the costs of receiving asylum seekers and newly arrived immigrants through around thirty forms of remuneration. Central government expenditure on compensation has increased sharply in recent years. In 2016 the Swedish Migration Agency, which processes the compensation, paid out more than SEK 20 billion in compensation to municipalities for asylum seekers, and SEK 12 billion in compensation for newly arrived immigrants. Compensation is expected to remain at high levels for the next few years.

The Swedish NAO has audited whether central government has designed the compensation system to allow municipalities a reasonable financial and planning framework for reception of asylum seekers and newly arrived immigrants, as well as whether the compensation system can be simplified or made more effective.

If reception of refugees impacts tax capacity and the demographically related costs in the municipalities, the outcome in the municipal equalisation system will be affected. To provide an overall picture of central government contributions to municipalities due to refugee reception the Swedish NAO has also highlighted how refugee reception impacts the outcome of municipal equalisation.

### Audit findings

*The purpose of the compensation is unclear and knowledge of the costs is lacking*

Neither the Government nor the Riksdag has stated any clear objectives for what individual compensation forms or the compensation system as a whole are to achieve. Nor is there any clear-cut principle for how the costs of reception should be allocated between central and local government.

The audit shows that the Government's documentation only gives a fragmentary picture of the municipalities' actual costs for the initiatives the compensation refers to. Consequently there is a lack of knowledge of how reception costs are allocated between central and local government.

### *Municipalities estimate that compensation has covered costs*

The Swedish NAO's survey shows that the majority of municipalities estimate that compensation in 2016 all in all corresponded to or exceeded the costs of reception. There are, however, great differences between types of municipality. A majority of the municipalities in urban areas estimate that the total compensation was lower than the costs, while the opposite applied in sparsely populated municipalities and small towns.

The municipal sector has a surplus from reception of unaccompanied minors, but this will probably disappear, since compensation levels are to be drastically reduced.

### *The municipalities' planning framework is poor*

Most of the forms of compensation require an application procedure with different detailed requirements in the application. In general municipalities are satisfied with the information provided by the Swedish Migration Agency concerning the costs covered by the various forms of compensation and how application is to be made. But the system is considered to be difficult. Applications must often be supplemented and it is common for some compensation to be refused. After autumn 2015 the volume of cases increased sharply and due to this the Swedish Migration Agency lagged behind with payments. The late payments, which at most amounted to about SEK 10 billion, create difficulties for the municipalities' accounting and creates uncertainty, as well as poorer liquidity for some municipalities.

### *The compensation system entails considerable administrative costs*

In 2016 the processing of compensation employed about 130 full-time equivalents at the Swedish Migration Agency and an estimated 490 full-time equivalents in the municipalities. An estimate of the direct wage costs for administration of compensation for the Swedish Migration Agency and municipalities is just over SEK 300 million.

Since the Swedish Migration Agency does not have an eService for applications the municipalities send applications for compensation by post. For example, in 2016 there were 180 000 applications for compensation for asylum seekers on paper forms. In addition, the IT support used in processing is out-dated and makes monitoring difficult.

The Swedish Migration Agency has an ongoing project to develop both new IT support and an eService for the application procedure. Previous attempts have been discontinued.

*The design of the compensation system can be simplified*

In light of the fact that the objectives are unclear, that there is no cost monitoring and that the compensation system gives the municipalities a poor planning framework as well as entailing considerable administrative costs, the compensation system appears to be unnecessarily detailed. In addition, several types of compensation account for a relatively small percentage of total compensation to municipalities.

A simplified system could reduce administrative costs and improve municipalities' planning framework. The Government has already decided to simplify compensation for unaccompanied minors, but it is possible to simplify other parts of the system as well.

*The equalisation system reallocates funds from municipalities receiving low numbers of refugees to municipalities receiving higher numbers*

- The equalisation system reallocates resources from municipalities receiving low numbers of refugees to municipalities receiving higher numbers. The Swedish NAO's simulation indicates that the reallocation due to refugee reception in 2005–2016 amounted to about SEK 4 billion in 2016. The calculation is based on the assumption that no dynamic effects arise that impact tax capacity in municipalities where the refugee population is growing.

The reallocation is mainly driven by income equalisation. There is a strong correlation between higher refugee reception and lower tax revenue per inhabitant in a municipality, which is because refugees have a lower average income than the population in general. The income equalisation compensates, however, for differences in tax revenues between municipalities that arise due to reception of refugees.

The correlation between refugee reception and outcome of cost equalisation is weak. Since municipalities' actual costs due to refugee reception are uncertain, it is not possible with certainty to assess whether cost equalisation accurately allocates them between municipalities.

## Recommendations

### *Recommendations to the Government:*

- The Government should clarify the overall principle that is to apply to cost allocation between central and local government for reception of refugees. This is important for the transparency and legitimacy of the compensation system.
- The Government should regularly and systematically monitor the municipalities' actual costs of reception. It is possible to improve the knowledge base by following up a representative sample of municipalities.
- The Government should review the balance between accuracy and simplicity in the compensation system for the purpose of also simplifying the parts of the compensation system that does not include unaccompanied minors. Standard compensation should be used as far as possible, and several types of compensation could be abolished. The application procedure should be applied to limited extent.

### *Recommendation to the Swedish Migration Agency*

- The Swedish Migration Agency should give priority to improving processing efficiency and simplifying the application procedure. A new eService and new IT support for processing could reduce the administrative costs for both the Swedish Migration Agency and the municipalities