



STRUCTURE AND OPERATION OF LOCAL AND REGIONAL DEMOCRACY

Situation in 2005

Iceland

Strasbourg, 2005

ICELAND
Territorial set-up



Figure 1 Municipalities in Iceland. Geographical boundaries

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1. LEGAL BASIS

1.1. Constitutional provisions relating to local authorities

The legal status of local authorities in Iceland, and their relationship with the central government, is based on Article 78 of the Icelandic Constitution, which reads as follows:

“Local authorities shall govern their own affairs themselves as provided by law. The revenue sources of local authorities shall be determined by law, as shall their right to decide whether, and to what extent, to exploit them.”

The Constitution therefore assumes that the autonomy of local authorities exists and cannot be abolished without an amendment to the Constitution. It also assumes, however, that the administration of local authorities falls within the limits of the law and that it is exercised under central government supervision. Parliament is therefore competent to make what changes it considers necessary to municipality competences , within the limits of Iceland's international obligations. The autonomy of local authorities is confirmed in the European Charter of Local Self-Government, drawn up under the auspices of the Council of Europe and signed by Iceland on 20 November 1985.

1.2. Main legislative texts concerning local authorities

The main legal framework for the role and administration of municipalities is provided for in the Local Government Act, no. 45/1998, as amended. Section 1, Article 1 of the Act states that the country is divided into municipalities which govern their own affairs.

Other main legislation regarding local authorities consists of the Local Government Elections Act no. 5 1998, as amended and the Local Government Finance Act no. 4 1995, as amended. In addition there is legislation for specific sectors, such as social welfare, education, building and planning, etc.

2. STRUCTURE OF LOCAL AUTHORITIES

2.1. Main subdivisions

Two levels of administration exist in Iceland: national/central government and local authorities (municipalities). There is no regional level, although regional committees, which operate within each district on a voluntary basis, have a supervisory role in various projects run by several local authorities. These committees are based on regional co-operation between local governments and do not constitute separate units of administration.

2.2. Statistical data on municipalities

Number of municipalities at 31 December 2004:	101
Number of municipalities at 1 January 1950:	229

Surface and population of municipalities

	Surface (km²)	Population (inhabitants)
Smallest	2	38
Largest	8 884	113 730
Average	1 017	2 904

Municipalities with a given population

Number of inhabitants	Number of municipalities	Percentage of total
0-1 000	69	68
1 000-5 000	23	23
5 000-10 000	4	4
10 000-50 000	4	4
50 000-100 000	0	-
100 000-500 000	1	1
Over 500 000	0	-

2.3. Rules governing changes in structures

Under the provisions of Article 3 of the Local Government Act, municipalities have definite boundaries, which cannot be changed except by law. The ministry responsible for local government matters may, however, change the boundaries of municipalities, in conjunction with merging of municipalities or in confirmation of an agreement between local governments.

According to Article 88 of the Local Government Act, the Ministry shall seek to enlarge municipalities by means of merging municipalities with a small population into larger and more effective units. The Ministry shall work toward this end in consultation with individual municipalities, the Association of Local Authorities and regional federations of municipalities. Since 1990, the number of municipalities has been reduced significantly through mergers. Most of these have been initiated by the municipalities themselves, although a few mergers have been effected on the basis of Article 6, Section 1 (see below).

Two or more municipalities can also decide to investigate the possibility of a merger (Article 90). To do so, they shall elect a co-operation committee to examine the matter. When the co-operation committee has delivered its opinion on a merger, the respective local authorities place the matter on their agendas. The matter is debated twice without voting. Following the local authorities' debates, a referendum on the merger takes place. The respective local authorities decide together when to hold the referendum , which has to take place on the same day in all municipalities concerned. Article 91 of the Local Government Act states that the municipalities can only be merged if a simple majority of the electorate in each municipality accepts the proposal. If the merger is accepted the respective local authorities decide on the municipalities' finances , the number of representatives required to form a new local authority, the name of the new municipality, and other relevant matters. The decisions are forwarded to the Ministry, which decides when the merger is to take place. Once a merger has come into effect, it cannot be undone except by legislation.

Under section 1 of Article 6 of the Local Government Act, the minimum number of inhabitants in a municipality is fifty. Section 2 states that if the population of a municipality has been under fifty for three consecutive years, the Ministry must take steps to initiate a merger with a neighbouring municipality. Under such circumstances, a municipality with a small population may also be divided between several neighbouring municipalities. Under the terms of Section 3, an exception may be made to the above provisions if exceptional circumstances exist which the Ministry feels would prevent the inhabitants of the small municipality from forming a cohesive social bond with the inhabitants of the neighbouring municipality.

2.4. General units of state administration at local level and their relationship to local authorities

Iceland is divided by laws and regulations into a varying number of districts for the purpose of carrying out many public tasks under state supervision or state responsibility, e.g. health centre districts, sanitary inspection districts and tax districts. There are also twenty-six district commissioners or magistrates. Most district commissioners serve as tax collectors for the Treasury, i.e. they are responsible for the collection of state taxes and local income tax in the district in question. At local level, the district commissioners also represent the administrative branch of the government. Among their duties are direction of police, crime investigation, public prosecution, direction of customs, collection of state revenues, civil marriages, separations and divorces, decisions on rights of access and support payments under family law, legal competence, real estate records, registration of deceased persons, distribution of estates at death, enforcement of judgments, forced sales, etc.

In most cases, local authorities are not directly involved in such institutions or the administration of the districts.

3. ORGANS OF EACH CATEGORY OF LOCAL AUTHORITIES

All municipalities have the same basic structure and responsibilities according to law. However, the actual scope of these responsibilities and the need for specific structures depend on the size and population of each municipality. Small municipalities often find it necessary to co-operate or to make service agreements with neighbouring municipalities to be able to offer particular services to their inhabitants.

3.1. Deliberative body

The deliberative body is called the local council. The council is responsible for carrying out duties which are legally assigned to the municipality, and for ensuring compliance with regulations on local government matters, as prescribed by laws, regulations and the council's resolutions. The council may make resolutions on any matter which it considers to be of concern to the municipality.

According to Article 44 of the Local Government Act, the municipal council shall determine the competences of the committees and the boards it elects, unless this is provided by law. Final decision-making authority can be allocated to an executive board, permanent committees and to administrators, unless provided otherwise by law or if the matter concerned considerably affects the local government's financial standing.

Municipal councils make a special ordinance on municipality government and administration , and on the rules of procedure to be followed in matters handled by the municipality. Both have to be sent to the Ministry responsible for local government matters for confirmation.

Under Article 12 of the Local Government Act, a municipal council shall consist of an odd number of representatives. The number of representatives permissible varies according to the population size of the municipality:

No. of inhabitants	No. of representatives
Under 200	three to five
200-999	five to seven
1 000-9 999	seven to eleven
10 000-50 000	eleven to fifteen
Over 50 000	fifteen to twenty-seven

These provisions notwithstanding, the Act also provides that the number of local councillors need be neither increased nor decreased unless a change in the number of inhabitants has persisted for eight years continuously. The number of representatives on the municipal council is laid down in the ordinance on municipality government and administration.

Local government elections take place every four years (the next elections are to be held in 2006).

Icelandic citizens who are 18 years old at the time of the election and who are registered residents of Iceland have the right to vote. In addition, Danish, Finnish, Norwegian and Swedish nationals, who are 18 years old and have been legally domiciled in Iceland for three continuous years before the election day, and other foreign nationals who have been legally domiciled in Iceland for five continuous years before the election day, have the right to vote in local elections.

Each person is entitled to vote in the local elections of the municipality where he/she legally resides. Any person who is eligible to vote is also eligible to stand for office in local elections. The right to vote in local elections also conveys the right to participate in referendums on proposals to merge with other municipalities, etc.

According to Article 19 of the Local Government Election Act No. 5 1998, municipal councillors are elected by secret ballot. There are two kinds of election:

1. restricted elections following a system of proportional representation, whereby the election is limited to candidates on lists, and representatives from each list are duly elected in proportion to the number of votes each list receives;
2. open elections, whereby there are no specific candidates, but all electors are also candidates, except those who are legally exempted from the duty to take office, and those who have declared in advance that they do not wish to be candidates.

Article 20 of the Local Government Election Act provides that local government elections are generally restricted (ie proportional representation elections). However, the election shall be open if either no list of candidates is produced before the time limit expires, or if there are too few candidates on the lists submitted. In such cases, a restricted election would result in the municipal council being (partly) empty.

3.2. Executive body

A municipal council may decide in an ordinance on municipality government and administration to elect an executive board from among the municipal councillors. No executive board is elected in municipalities with only 3 or 5 council members.

The executive board shall be elected for a term of one year. In authorities where the council consists of seven or nine members, the executive board has three members , while in authorities with eleven or more councillors, the executive board has five or seven members. An equal number of substitutes must be elected.

The executive board, together with the local authority's chief executive, is responsible for the management and financial administration of the local authority, insofar as these are not delegated to others. The board supervises the local authority's administration in general, and its financial management in particular, prepares budget plans and ensures that the local authority's accounts conform to prescribed procedures. According to Article 39 of the Local Government Act, responsibilities of standing committees may be allocated to the executive board.

At the beginning of the term of office, the municipal council also elects various committees, both statutory and discretionary. These committees are responsible for the preparation and implementation of the council's decisions and for the administration of local authority functions. There has been a tendency in recent years to reduce the number of committees or to combine them, as authorised in Article 41 of the Local Government Act.

3.3. Political head of the local authority

At its first meeting, a newly elected council lawfully elects its chairman from among its members by a majority vote. The chairman's term of office is one year.

The chairman of the council chairs the debates at council meetings. He or she ensures that minutes are entered into the council's minutes book in an orderly manner, and that all decisions and resolutions are recorded correctly and accurately.

If a special municipal administrator (see below) has not been engaged, as was the case in 36 municipalities in the autumn of 2004, the chairman of the municipal council manages the daily affairs of the municipality. He / she then organises the meetings of the council and the municipal executive board, if applicable, carries out its decisions and performs other functions, such as correspondence, collection of dues and the keeping of accounts.

The political head of the local council does not exercise functions on behalf of the State.

3.4. Head of the administration

The municipal council may appoint a municipal administrator (mayor). The municipal administrator, in collaboration with the municipality's other employees, carries out the council's decisions and duties. The municipal council delimits the municipal administrator's area of responsibility, differentiating it from the council's and the executive board's scope of authority .

A municipal administrator may be chosen from among the elected councillors and is generally hired for the duration of the municipal council's term in office.

The municipal administrator attends meetings of the council and the executive board. He/she may speak and propose motions, but has no voting rights, unless he/she is an elected member of the council. He/she is entitled to attend meetings of the municipal committees under the same terms.

The municipal administrator makes the arrangements for council and executive board meetings and is responsible for implementing decisions taken by municipal bodies. The municipal administrator has the power to authorise expenditure, and has authority over other employees of the local administration.

3.5. Division of power and responsibility between the different organs of the local authority

The municipal council is the centre of power in local authorities. It can delegate power to other municipal organs within the limits already described, and as laid down in the municipal ordinance. A substantial decision-making and executive authority may therefore be given to the executive board, the municipal administrator and the standing committees. Article 44 of the Local Government Act entitles municipal committees and employees of local authority administration to decide on individual matters directly connected to their functions and their fields of work respectively. The municipality's ordinance on government must contain provisions on how cases which have been dealt with under these provisions may be reopened.

In addition, the municipal council may set up a management board for the operation of a municipal concern or institution and give it authority to take decisions. Two or more municipalities may also set up a joint board for carrying out projects and delegating decision-making power.

The municipal council remains responsible for the decisions made by the different organs of the municipality. Decisions of significant financial importance which have not been provided for in the municipal budget must be taken by the municipal council.

3.6. Legal provisions concerning the internal structures of local authorities

The terms of the Local Government Act apply to all local authorities in Iceland, with, as an exception, different clauses of the Act applying to different sized authorities (in terms of population) (see above in connection with local government elections, executive boards and chief executives). These alternative provisions are due to the large number of authorities with a small population.

Each municipality then determines its internal structure in an ordinance on municipality government and administration. The local authorities have substantial authority to determine their own structure, within the framework of the Local Government Act. Furthermore, legal provisions on certain other aspects of local authority internal structure can be found in special sector legislation such as the Planning and Building Act and the Act on Primary Schools, etc.

4. DIRECT CITIZEN PARTICIPATION IN DECISION-MAKING

4.1. Local referendums

Under Article 104 of the Local Government Act, a local authority may hold a referendum on particular issues.

According to Section 5 of Article 54, the local authority may hold a referendum in the municipality, or part of it, in order to determine the wishes of inhabitants of voting age with regard to some particular issue. The result of the referendum is not binding upon the local authority, unless the authority has decided otherwise in advance.

In large municipalities, public meetings cannot easily be arranged, so the views of the residents on particular issues must be obtained by other means. Some parliamentary acts prescribe the holding of a referendum in the municipality.

According to Article 90 of the Local Government Act a referendum must be held if a proposal for a merger is presented in accordance with the same said Article. Under Article 91 the merger can only take effect if a majority of voters in each municipality approves it.

4.2. Other forms of direct participation

Public meetings have been traditionally held in rural districts, and previous legislation on local authorities made reference to them. According to Section 1 of Article 104 of the Local Government Act, the municipal council can hold a referendum on specific issues or convene a public meeting on matters concerning the municipality. In addition, Section 2 of Article 104 states that a public meeting must be convened if one-quarter of the municipality's electorateso requests.

Decisions made by public meetings are not binding on the local authority, but in most cases the council will make its decisions in accord with the will expressed in such meetings, if participation in the meeting was general, and if it is clear that the meeting's decision reflects the will of the majority of voters.

The Planning and Building Act No. 73 1997 also obliges the local authorities to inform the public about their plans. All interested parties may party comment on such plans.

Moreover, special legislation sometimes contains provisions concerning the election of committees or boards of users. For instance, each school shall have a parent supervisory board in which three chosen parent representatives take part. In addition, parents shall have a representative on the municipal school committee and on the municipal children's day-care centre committee.

In recent years, municipal councils have put a significantly greater emphasis on making use of various forms of citizen participation in the decision-making process than they did previously. This has taken place on a voluntary basis and without any pressure or interference from the central government.

5. STATUS OF LOCAL ELECTED REPRESENTATIVES

5.1. Eligibility and term of office

The term of office of elected representatives is four years.

Any person eligible to vote in a municipality is eligible to stand for office in local elections. Any person who is in good health and not over 65 years of age has the duty of accepting office as member of a municipal council if he/she is eligible for office. However, a person's name shall not be included on a list of candidates without his/her approval in writing.

A person who has been a member of a municipal council for one term of office or longer does not have to accept a new term of office until a period of time has elapsed which is equal to the period for which he/she served continuously as a member of the municipal council, provided that he/she notifies the head of the election board of the request not to be re-elected.

The law does not rule any functions or activities directly incompatible with the status of a local elected representative. However, a municipal councillor must, under the terms of Article 19, withdraw from the municipal council's meeting when a matter is under discussion which affects him/her or a close relative to such an extent that his/her judgement may be expected to be affected. In addition, a municipal councillor shall be disqualified when a matter comes before the council if he/she is also an employee of the municipality and had taken part in preparing the matter. The municipal councillor may, however, make a brief statement of his/her viewpoint before having to withdraw from the council's meeting. The council decides without debate whether a councillor is to be disqualified. A municipal councillor who has been disqualified must leave the council's meeting place while the matter is being discussed.

Neither the State, local authorities nor other public authorities finance candidates' election campaigns to local elections.

There are few provisions in law preventing an elected member of a local authority from taking on other public offices. For example, in Iceland there are examples of the same person simultaneously serving as a cabinet Minister, elected Member of Parliament and elected member of a municipal council.

However, the Local Government Act stipulates that elected representatives of local authorities are not eligible to serve as auditors of the annual accounts of the local authority in question, its institutions or enterprises.

Should a municipal councillor feel that he/she cannot perform his/her duties in the council without undue pressure, the municipal council may then reduce his/her workload, or permit him/her to retire at his/her own request, for a limited period, or until the end of the electoral term.

A municipal councillor must withdraw from the municipal council should he or she lose eligibility. However, Section 4 of Article 24 of the Local Government Act states that when a member of the municipal council moves temporarily out of the municipality, a decision may be made to excuse him/her from the council until he/she returns to reside in the municipality. An alternate council member then takes his/her place.

Should a councillor's legal competency to manage his/her financial affairs have been suspended for some reason, the council shall release him/her from office for the duration of the suspension.

Alternate members take a seat on the municipal council in the order in which they have been elected when the principal representatives of the list from which they have been elected decease, leave the municipality, or otherwise become permanently unable to remain members of the municipal council.

5.2. Duties and responsibilities of local elected representatives

Rules concerning duties and responsibilities of local elected representatives are set out in Chapter III of the Local Government Act. As regards his/her attitude concerning particular matters, a member of a municipal council is only bound by law and by his/her own conviction, and councillors shall discharge their duties meticulously and conscientiously. Each member of the municipal council is obliged to discharge the duties assigned to him/her by the municipal council within the framework of its particular functions. Municipal council representatives are obliged to accept office when elected as members of municipal committees, panels or boards. Unless lawfully excused, a member of a municipal council has the duty to attend all meetings of the municipal council and meetings of committees under the auspices of the council.

Members of municipal councils have the duty to maintain the confidentiality of matters of which they may become aware in the course of the performance of their duties. The duty of confidentiality remains in force after the person has ceased to serve as a councillor.

5.3. Working conditions

The working conditions of elected representatives are not decided by law. The number of municipal council meetings each year varies in accordance with the size of the municipality. The Local Government Act states however that meetings shall be held at least quarterly, and where a municipal executive board has been elected municipal councils shall meet at least monthly. The municipal council must be convened if at least one-third of the councillors so request.

Councillors have the right to expect that council business will be conducted in a fashion which will permit them to take a reasonable amount of holiday each year.

Municipal councillors have the right to speak at meetings of the council, in accordance with local rules of procedure. They also have the right to propose motions and to vote, and they are eligible for election to committees.

Municipal councillors shall, in connection with their work for the council, have free access to the municipality's records, documents, agencies and activities.

There are no provisions in law entitling an elected member of a local authority to take time off from his/her principal occupation to attend meetings or other activities for the local authority. If there is a conflict between a person's duties to the local authority and his/her principal occupation, it is simply a matter of agreement between the member in question and his/her employer whether he/she is entitled to take a leave of absence to attend to his/her local authority duties.

The State offers no courses or other types of training for newly-elected local authority representatives. However, the Association of Icelandic Local Authorities (for a description of the this association, see section 7.2) has offered a course to inform new representatives of their prospective duties, etc., and intends to continue doing so in the future.

5.4. Remuneration

The municipal council must decide on a suitable remuneration for members of the municipalities committees, boards and councils for their work. No further rules are stated in the Local Government Act concerning remuneration. Such payments constitute wages, to which apply the same tax rules in force for the income of any other wage-earner in the country.

If a councillor must travel a long distance from his/her home to the meeting place, the council may also grant him/her a travel allowance. Should a councillor undertake a journey on behalf of the municipality, at the council's behest, he/she has the right to reimbursement of suitable travelling costs and living expenses.

Medical insurance and old-age pensions for Icelandic nationals are partly financed through the Treasury's general income base, and partly by taxing the income of wage-earners for which general tax regulations apply. It should be noted, however, that since municipal duties are in most cases considered to be a part-time job, most elected representatives hold another occupation as their principal source of income, where they enjoy the same benefits as other workers. However, the municipal council may, in the ordinance on government of the municipality, provide councillors with additional benefits in areas such as pension rights, parental leave, severance pay, etc.

If a local councillor must leave his/her work to attend municipal duties, the employer is not required by law or collective agreement to pay him/her wages during this time.

5.5. Equality of men and women

In the last municipal elections, held in 2002, 205 women - 31.1% of a total 657 representatives - were elected as representatives in local authorities . Thus, 452 of the representatives elected in 2002 were men. However, women have increased their proportion among representatives of local authorities. In the 1998 municipal elections, 213 women were elected - 28.2% of the total number of representatives . This can be explained by the total number of representatives having decreased by 99 between 1998 and 2002 as a result of a merger of local government areas.

Gender equality is well above the average in urban areas, where women constitute about 45% of councillors. In general, women in rural areas have experienced considerable difficulty in being elected in open elections, which are only used in municipalities with few inhabitants.

6. DISTRIBUTION OF POWER BETWEEN THE VARIOUS CATEGORIES OF LOCAL AND REGIONAL AUTHORITIES

6.1. Principles governing the distribution of power

In general, the legislation on the organisation of public functions stipulates first whether the national government or the local authorities shall be responsible for the implementation of the activity in question. Next, legislation must determine principles to guide the management of a particular field, the allocation of duties between state and local authorities and the rights of the citizens. Such legislation applies to all the principal activities of local authorities, such as infant and primary schools, fire prevention, water utilities, sewage, etc. In most instances, however, the relevant Ministry, or a specific State institution, is entrusted with a supervisory role and in some cases the power of arbitration, if disagreements should arise between the local authority and local residents as to the administration of a particular matter. Furthermore, local authorities' freedom to manage their own activities often varies from one field of activity to another.

If no statutes govern the field in question, then local authorities are, in general, free to carry out their tasks in a manner which they deem suitable, subject, however, to limitations set by general laws on administrative practices and competition. In that respect academics have written much about Article 7 of the Local Government Act, mainly in connection with Sections 2 and 3. Section 1 states that municipalities must carry out those tasks assigned to them by law. Section 2 states that municipalities shall work for the common welfare of the residents, as far as they are able at any time, and Section 3 states that municipalities may undertake any tasks relating to the residents of the municipality, if they are not already assigned to others by law.

The State and local authorities carry out many projects jointly. The State's share in the cost of individual projects carried out in collaboration with local authorities varies considerably and is affected by various factors.

For approximately the last decade, the local authorities' share of public expenditure has been increasing, rising from 22.9% in 1991 to 33.3% in 2001. The most important financial change during that decade was the transfer of responsibility for the primary schools from the State to the municipalities in 1996.

Compared to other Nordic countries, Iceland's local authorities' share in public spending is relatively small because the State takes responsibility for many of the costly functions handled by local or regional authorities in other Nordic countries. The larger role played by the central government in Iceland can be attributed to the size and disparate territorial distribution of the population.

In August 2004 a pilot project agreement originally made in 2002 was extended for two more years. Under the project central government bills and regulations which exclusively or substantially affect municipalities are evaluated regarding the overall effect they have on the municipalities' financial standing. Participants in the project are the Ministry of Social Affairs, the Ministry of Education, Science and Culture, the Ministry of Environmental Affairs and the Association of Icelandic Local Authorities.

The table at the end of this chapter provides detailed information about the distribution of powers between each level of government.

6.2. Competencies of local and regional authorities in their own right

Only judicial power is assigned by the Constitution. Other powers are assigned by legislation.

In each category to which law applies, the national government can issue decrees or orders concerning the infrastructure, but usually not concerning the powers.

Function	Competent authority			Type of competence				Exercise of the competence				Remarks ***
	State	Intermediate*	Municipality	Exclusive	Shared	Compulsory	Discretionary	Direct	Indirect	In own right	For another authority	
General administration												
Security, police	●			●		●		●		●		
Fire protection			●	●		●		●		●		1
Civil protection	●			●		●		●		●		
Justice	●			●		●		●		●		
Civil status register	●				●	●		●		●		2
Statistical office	●			●		●		●		●		
Electoral register			●		●	●		●		●		3
Education**												
Pre-school education			●	●		●		●		●		
Primary education			●	●		●		●		●		
Secondary education	●			●		●		●		●		
Vocational and technical	●			●		●		●		●		
Higher education	●			●		●		●		●		
Adult education	●			●		●		●		●		
Other												
Public health												
Hospitals	●			●		●		●		●		
Health protection	●			●		●		●		●		

(***) For any remarks see last page in this country's table.

Function	Competent authority			Type of competence				Exercise of the competence				Remarks **
	State	Intermediate*	Municipality	Exclusive	Shared	Compulsory	Discretionary	Direct	Indirect	In own right	For another authority	
Social welfare												
Kindergarten and nursery			●	●		●		●		●		4
Family welfare services			●	●		●		●		●		
Welfare homes	●		●	●	●	●		●		●		
Social security	●			●		●		●		●		
Other												
Housing and town planning												
Housing	●		●	●	●	●		●		●		1
Town planning			●	●		●		●		●		1
Regional/spatial planning			●	●		●		●		●		1
Environment, public sanitation												
Water & sewage			●			●		●		●		5
Refuse collection & disposal			●			●		●		●		5
Cemeteries & crematoria	●		●		●	●		●		●		5
Slaughterhouses	●		●		●	●		●		●		5
Environmental protection	●		●		●	●		●		●		5
Consumer protection	●											
Culture, leisure & sports												
Theatres & concerts	●							●		●		6
Museums & libraries	●		●		●			●		●		7
Parks & open spaces	●		●				●	●		●		8
Sports & leisure			●	●			●	●		●		9

(***) For any remarks see last page in this country's table.

Function	Competent authority			Type of competence				Exercise of the competence				Remarks ***
	State	Intermediate	Municipality	Exclusive	Shared	Compulsory	Discretionary	Direct	Indirect	In own right	For another authority	
Religious facilities	●						●					10
Other cultural facilities												
Traffic, transport**												
Roads		●		●	●	●		●		●		11
Transport		●	●	●	●		●	●		●		12
Urban road transport	I			●		●		●		●		12
Urban rail transport												13
Ports			●	●		●		●		●		
Airports	●			●		●		●		●		
Other traffic & transport												
Economic services												
Gas												
District heating			●	●			●	●		●		
Water supply			●	●			●	●		●		
Agriculture, forests, fishing												14
Electricity	●		●				●	●		●		
Economic promotion	●		●	●	●	●		●		●		15
Trade & industry	●		●	●		●		●		●		16
Tourism	●		●		●		●	●		●		17
Other economic services												
Other functions												

(**) The competence refers to infrastructures (!).

(***) For any remarks see last page in this country's table.

NOTES

1. The law confers a supervisory role on a State institution .
2. The Statistical Bureau of Iceland is responsible, but local authorities have a duty to send information to the Statistical Bureau.
3. Before each election local councils establish the electoral register, which is based on a basic register which the Statistical Bureau of Iceland delivers to the local council.
4. Local councils also issue work permits to private kindergartens and nurseries.
5. The law confers a supervisory role on a state institution . Regional environment and sanitation committees are set up. These committees are selected by local councils. Their role is primarily to ensure environmental sanitation in their area.
6. The one national theatre and the Icelandic Symphony Orchestra are run by the State. Other areas and concerts are run by private associations or companies. No special legislation applies to theatres and concerts.
7. The State operates a national museum and a national library. A public library operates in each part of the country, in each municipality or in larger areas. Municipalities fund these public libraries. Municipalities can run museums on their own or as an individual initiative or in co-operation with other municipalities. No legislation applies to these museums.
8. No special law applies to parks and open spaces.
9. Sports are compulsory in every primary school. Private sports associations are responsible for other sports activities. No special law applies to leisure.
10. The State church supervises its religious facilities in close co-operation with each regional congregation. Other religions provide their own religious facilities.
11. The State is responsible for a highway which passes through a town, but the municipality is responsible for other roads and streets within the town limits. The State is responsible for most roads in rural areas.
12. The State is responsible for issuing work permits, but this sector is managed by private companies or individuals.
13. There are no railways in Iceland.
14. The State issues fishing quotas to the fishing fleet, and agriculture quotas for certain agricultural areas. These sectors are managed by private companies or individuals. The State operates a national forestry service that works in close co-operation with private forestry associations.
15. No legislation applies to economic promotion.
16. In trade and industry, the State has mainly a supervisory role.
17. According to law, the State operates a tourist board to promote tourism in the country. Some municipalities have also decided to promote tourism in their own areas. No legislation applies to tourism except for laws governing the Icelandic Tourist Board.

6.3. Participation of local authorities in national economic and spatial planning

The national government is obliged to consult the local authorities on questions concerning them. Under Article 100 of the Local Government Act, the national government is to enter into formal co-operation with the Association of Icelandic Local Authorities by signing a contract of co-operation and by other means. This applies in matters concerning the division of responsibilities between the State and the local authorities, as well as in other relations between them. For example, the Road Act stipulates that the Public Roads Administration is responsible for drawing up plans for projects on specific roads in consultation with regional committees and road-building co-operatives. In addition, Article 20 of the same act states that in instances where a highway passes through an urban area, the Treasury only bears the costs directly related to the road. Any costs directly related to the urban area, such as sewers, the shifting of conduits, footpaths etc. shall be covered by the local authority in question.

The national government is not obliged to consult local authorities on the annual preparation of the State budget. However, should the budget propose major changes to the division of responsibilities, or financial relations between the State and municipalities, these proposals, before being formally finalised, shall be discussed by a consultative committee comprising representatives of the national government and of the Association of Local Authorities cf. the Local Government Act, Art. 101.

The Planning and Building Act No. 73 1997 has the objective of ensuring that the development of settlement and land use in the country as a whole is in accordance with development plans. It also aims to encourage rational and efficient management of natural resources, development activity and environmental protection.

The Act has general provisions for the development of urban areas, land use and building projects. The Minister for the Environment has an overall control of planning and building under the Act. The National Planning Agency advises the Minister and monitors the application of the Act. It also provides advice on planning and building issues and assists local authorities if required. The local authorities examine applications, grant building permits and carry out building inspection.

Either the National Planning Agency or an inter-municipal committee of all interested local authorities, at their own initiative, prepares regional plans. The objective of a regional plan is to co-ordinate the policies of the local authorities concerning land use and urban development. Each municipal council must approve the plan before the Minister approves it finally.

It is the responsibility of each municipality to prepare and approve the municipal plan that covers the entire territory within the municipal boundaries. This plan expresses the local authority's policy over a period of not less than 12 years with regard to land use, communications, service systems, environmental matters and the development of built-up areas in the municipality. The National Planning Agency supervises local authority planning. The Minister for the Environment approves municipal plans, as advised by the National Planning Agency.

6.4. Tasks delegated to local authorities acting as agents of the central authority

Under Article 1 of the Authorisation for Joint Collection of Public Levies Act, the Minister of Finance may establish a mutual agreement on behalf of the national government and the managers of local authorities and public institutions on the joint collection of levies owing to such entities. The collection of levies may be entrusted to the collectors of the Treasury, the municipal treasury or a special collection agency.

The Local Authorities Claims Department was established as a joint venture of all the local authorities in Iceland. Its role is to collect child support from parents who are obliged to pay it, as the State Social Security Institute has paid the respective support to the legal guardians of their children . The Claims Department is obliged to return any money collected to the State Social Security Institute on a monthly basis. However, the Department's annual losses are compensated by contributions from the Local Authorities' Equalisation Fund.

A Pilot Local Authorities Act was passed in 1994. Its objective is to enable local authorities to experiment on paving the way for amendments to laws on the administration of local authorities, the implementation of their tasks, the income base of the local authorities, and the division of responsibilities between the State and local authorities. Under this Act, the experimental local authorities were granted authorisation, which was to be valid until 1 January 2003, to accept the implementation of new projects, be exempt from specific provisions of laws and regulations and to try new methods of operations and financing within specific fields of activities. Furthermore, they were granted permission to develop innovations in the administration of local government areas. The tasks undertaken by the experimental local authorities involved, among other things, social housing, employment, general construction, health care, experiments involving administration and services for the elderly and the disabled.

The experimental local authorities were in many ways a success and the participating municipalities have been encouraged to continue their experiments and innovations. For that purpose, several service agreements have been made between the State and individual municipalities or municipal organisations, mainly for health-care and services for the handicapped and the elderly.

6.5. Proposal or bills leading to a change in the distribution of power

On 1 August 1996, the local authorities became responsible in law for all running costs of the country's primary schools. Previously, the Treasury was responsible for paying part of these costs. As a result and in keeping with the agreement made between the national government and local authorities on the transfer of costs and income following the change in status of primary schools, a law was enacted which amended the tax base for local authorities, and provided local authorities with increased revenue by raising the municipal income taxThe law also provided for contributions to be made by the Treasury and the Municipalities Equalisation Fund for the construction of new primary schools, which would secure the legal viability of the plans to make it possible for all primary school children to attend school at the same time. Legal provision was also made with regard to equalisation measures, which are a prerequisite for transferring the resulting operational costs from the primary schools to the local authorities.

Further proposals that are under discussion between the State and the local authorities will be dealt with in chapter 12.

7. CO-OPERATION AND OTHER TYPES OF LINKAGE BETWEEN LOCAL AUTHORITIES

7.1. Institutionalised co-operation (consortia) for the performance of tasks of common interest

The legal framework for municipal co-operation is set out in Chapter VIII of the Local Government Act. According to Article 81 municipalities may collaborate on the implementation of specific tasks, via for example regional boards, co-owned agencies, regional federations and the Association of Icelandic Local Authorities. The municipalities are free to decide how the regional committees and sectional federations operate. Article 82 states that in cases of long-term collaboration, such as the running of schools, health facilities or fire departments, the municipalities may form a co-owned agency to handle the implementation of the task.

The municipalities involved must make an agreement on the co-owned agency providing for the agency's board, the election of the board's representatives, their number and electoral term, on substitutes and other relevant matters. The contract shall contain provisions on the quorum required for the board's meetings and on the authorisation of the board to bind the municipal treasuries legally. It shall, furthermore, identify which decisions must be approved by the municipal councils concerned. Where a different arrangement is not prescribed by a co-owned agency's charter, the principles of the Local Government Act apply to the procedure, the rights and duties of board members and staff, financial management and audit. Municipal treasuries are liable for the financial obligations of their co-owned agency; financial liability is divided among the municipalities in proportion to their respective populations.

In addition to the collaboration between the State and municipalities, many local authorities work closely together on a voluntary basis. In many cases, two or more municipalities will join forces to deal with particular services, mostly in connection with joint projects. Joint projects are popular because they lead to greater efficiency and lower costs. Examples of such co-operation include homes and services for the elderly, waste management and pollution prevention, co-operation in the fields of culture, sports and youth work, public transport, utilities and education.

Article 83 of the Local Government Act states that the articles of association of a co-owned agency shall be reviewed no later than ten years after the founding of the agency, and then at least every ten years. Municipalities are free to withdraw from a co-owned agency in accordance with the law.

7.2. Associations of local authorities at national or regional level and their relationship with governmental authorities

Federations of local authorities operate within each region of the country. These federations, eight in total, aim to protect local and regional interests, to collect and give information to the authorities, and to provide a forum for discussion for the local authorities. Some federations are entrusted with certain public tasks but they are not assigned any particular assignments by law. However, all the federations receive a substantial annual grant from the Local Authorities' Equalisation Fund.

The Association of Icelandic Local Authorities, a federation of all local authorities in Iceland, plays an important role in public administration protecting the interests of local authorities. The Association of Icelandic Local Authorities provides a national forum for consultation for local authorities. The national government, local authorities and other bodies consult its staff and committees on local government matters. According to Article 87 of the Local Government Act the State recognises the Association of Icelandic Local Authorities as the common guardian of the interests of Icelandic municipalities. The Association gets most of its income from the Local Authorities' Equalisation Fund, in accordance with law.

Under Article 100 of the Local Government Act, the national government should establish formal collaboration with organisations of municipalities using a collaborative agreement between the State and municipalities, or other means. Moreover, the national government shall act in close consultation with the Association of Icelandic Local Authorities on the division of responsibility between the State and municipalities, and other relations between these parties.

The most recent collaborative agreement, signed in 2002 between the State and municipalities expired at the end of 2004. Its main aim was to harmonise as much as possible the contracting parties' policies in public management, so that the economic goals set by the national government and the Parliament could be reached. In a statement signed in September 2004, the parties stated their intention to review the agreement and to make their collaboration on economic and wage issues, as well as on their financial dealings, more efficient.

7.3. Co-operation between local authorities in different countries

Local authorities in Iceland and their associations have in recent years and decades developed extensive relations with local authorities in the other Nordic and European countries. In addition Icelandic municipalities take part in several of the European Union's co-operation projects. There are no provisions in Icelandic law to limit such co-operation or the membership of local authorities or their organisations to international organisations.

The Association of Icelandic Local Authorities in Iceland is associated with the Congress of Local and Regional Authorities of the Council of Europe, the Council of European Municipalities and Regions (CEMR), and the United Cities and Local Governments (IULA).

8. FINANCE

8.1. Taxes

Section 4 of Article 7 of the Local Government Act states that local authorities shall have their own sources of revenue, and shall be autonomous in determining fees collected by their own companies and agencies in order to meet their own expenses .

Local authorities' "own taxes" are real estate taxes and local income taxes. The Local Government Finance Act authorises municipalities to levy them. The Act also makes provisions for transfer payments to local authorities through the Local Authorities' Equalisation Fund.

Real estate taxes are mandatory. The tax base is determined by law but each municipal council is free to determine the precise rate within a given framework established by law. Real estate taxes represented 10.8% of total local government resources in 2003.

There are two types of income tax in Iceland. One is paid to the State and the other to the municipalities. Both are collected by central government, but different laws apply to the two taxes. Income tax is levied on the actual or presumptive income of individuals. The local income tax is a fixed rate of the tax base. By law the rate may not be higher than 13.03% or lower than 11.24%. The municipal councils are free to set the tax rate within this range. The average tax rate in 2005 is 12.98%. In 2003, the local income tax represented 61.9% of total local government resources.

Article 77 of the Icelandic Constitution declares that the tax system shall be decided by law. Local authorities are therefore not entitled to introduce new types of taxes.

8.2. Grants from higher authorities

The base of all grants systems in Iceland is decided by law. The source of earmarked grants is the national government. By law there are certain conditions whereby the national government must participate in various activities of the municipalities, e.g. in education and health care. In 2003, earmarked grants represented 1.1% of total local government resources.

The source of block grants is also the national government. Each year, the national government pays 2.12% of its collected tax income to the Local Authorities' Equalisation Fund, as well as an amount equivalent to 0.264% of the previous years local income tax base. In addition, the municipalities make a collective contribution to the fund amounting to 0.77% of the local income tax base.

The State also contributes direct financial transfers to municipalities for road and harbour maintenance. Those transfers are decided each year in the national government budget. In 2003, block grants constituted 9% of total local government resources.

8.3. Arrangements for financial equalisation

Because Iceland has so many local authorities, with varying numbers of inhabitants and differing potential for raising revenue, there is a great need for financial equalisation. Regulations on the Local Authorities' Equalisation Fund prescribe the basis for contributions to individual municipalities. These regulations were last reviewed in 2001 by a committee appointed by the Minister of Social Affairs.

The structure of equalisation payments has undergone some changes in recent years. The trend has been to reduce contributions that are earmarked for specific investment projects or operational expenditures in preference to contributions which are based on more general principles.

The fund makes four types of contributions to the municipalities: fixed contributions, special contributions, equalisation contributions and equalisation contributions to primary schools.

The fixed contributions are mainly paid to the municipalities' agencies and associations. The special contributions, among other uses; help meet the costs of merging local authorities and compensate local authorities for loss of real estate tax revenues as a result of a recent law amendment which effectively reduced the tax base in rural areas. There is also a special contribution to meet the municipalities' costs in connection with housing benefits. Finally, there is a special contribution allocated to municipalities with fewer than 2000 inhabitants in order to part-finance the initial costs of projects such as water supply, schools, nursery/infant education, sports facilities and community centres. This contribution was suspended at the end of 2005 and replaced by increased general contributions .

Equalisation contributions are divided into revenue equalisation contributions and expenditure equalisation contributions. Both types of contribution take account of several factors including the size of a municipality's territory, age of its population and number of towns and villages.

The equalisation contributions to primary schools are to be spent on the local authorities' cost of teaching in primary schools and other expenditures resulting from the recent transfer of the operation of primary schools from the national government to the local authorities.

In addition, since 1997 contributions have been allocated to municipalities with more than 2000 inhabitants as a result of initial costs incurred to meet the requirements of a law promoting the enlargement of teaching space in primary schools. The allocation of those contributions were suspended at the end of 2005.

8.4. Other sources of income

Local authorities levy user charges for various services and licences, e.g. for utilities, harbours, public transport services, swimming pools, nursery/infant schools, libraries, building permits etc. In 2003 these revenues represented 18.6% of total local government resources.

Sometimes user charges only partly reimburse the local authority cost of operating a service.. In other instances, an investment can become an important source of revenue for the municipal fund, e.g. investment in utilities.

8.5. Borrowing

Local governments in Iceland do not require authorisation from supervisory authorities in order to raise funds.

In Iceland a special credit institution exists to secure loan capital on favourable terms for municipalities, their institutions and enterprises . This institution, Municipality Credit Iceland, hereafter referred to as "MCI", is an independent organisation, jointly owned by all the municipalities in Iceland.

The supreme authority in the affairs of MCI rests with the owners' meetings. These meetings are attended by representatives elected by the municipalities to attend the national congress of the Icelandic Association of Local Authorities.

In 2004, MCI lent a total of 3,168 million ISK (256,608 m. EUR) to the municipalities. The largest contributions went to school buildings, roads and sewers, and sports facilities. MCI also refinances municipalities' existing loans.

In addition to loans from MCI, local governments also borrow from the domestic bond market and other financial institutions, both domestic and foreign. Municipalities do not have to obtain special authorisation to borrow from foreign financial institutions or in foreign currencies, nor are such transactions subject to special conditions.

The State does not provide guarantees to local governments when they raise funds. However, Article 73 of the Local Government Act allows municipalities to pledge as collateral to MCI their future income, such as contributions from the Local Authorities' Equalisation Fund, . The aim is to increase the municipalities' access to loan capital from MCI at all times.

8.6. Economic control

National government involvement in the finances of local authorities is minor. Various national government institutions, however, have a supervisory function regarding specific financial dealings of local authorities. This involvement may generally be classified as professional consultancy rather than investigation of finances. Although national government authorities have placed some emphasis on consistency between local authority actions and national government policy, the Government has no authority to intervene on local government expenditure.

Article 58 of the Local Government Act requiresmunicipal treasuries, agencies and companies to keep accounts. In addition, they must draw up a budget for the municipal treasury and municipal agencies for the following year before the end of December of each year and send it to the Ministry of Social Affairs along with a three-year budget for operations, projects and finances of the municipality.Municipalities must also prepare annual accounts and consolidated annual accounts for the municipal treasury, agencies and companies.

According to Article 68 of the Local Government Act, the municipal council shall engage a chartered accountant or accounting firm to audit the municipal accounts. However, the municipal council may determine that auditing of the municipal treasury, agencies and companies shall be carried out by an auditing office operated by the municipality. The accountant carries out his or her audit in conformity with generally accepted auditing standards for municipalities.

A newly elected municipal council must also elect two examiners for auditing the municipality, its institutions and enterprises. Elected representatives and municipal employees are not eligible to stand as examiners for the municipality. This means that former elected representatives are not eligible to audit the annual accounts for their last year in office.

In their audit the accountant and the examiners shall reach a reasoned conclusion as regards the accuracy of the annual account, and ensure that the municipality has prepared it in accordance with generally accepted accounting principles and has observed the provisions of laws, rules and orders regulating fund management and the duty of municipalities to provide information.

A Local Government Audit Commission, appointed by the Minister of Social Affairs, is entrusted with the role of observing municipalities' finances.

A municipality that encounters such financial difficulties that the municipal council considers it is impossible to honour its obligations must inform the Ministry of Social Affairs (Article 75 of the Local Government Act). The Local Government Audit Commission shall then immediately conduct an investigation of the operation and financial management of the municipality and order the municipal council to correct any shortcomings within a suitable period. Article 76 states that if the financial commitments of a municipality exceed its ability to settle them to such a degree that no improvement can be expected in the near future the Ministry may deprive the municipal council of its competence to manage the municipal finances and appoint a financial management board for this purpose. This assumption of control is allowed only if the management of municipal finances has been disorderly, the measures taken according to Article 75 will not suffice for the foreseeable future, or that the municipal council has caused severe difficulties by neglecting its duties according to the Local Government Act. In such a case, a financial management board is appointed for a finite period not exceeding one year at a time. However, before a municipal council can be deprived of its competence to manage municipal finances according to this article, the Ministry must call upon the municipal council to improve the financial situation of the municipality, and may grant the council a period of six months for this purpose.

Should a financial management board be appointed to manage the finances of a municipality, no payment may be made out of the municipalities' fund without its consent. Should the measures permissible by the financial management board not suffice for the financial recovery of the municipal treasury and municipal agencies, the Ministry may also decide to seek an agreement with neighbouring municipalities on a merger with the municipality which is subject to the financial management board. Suspension of fiscal powers and the appointment of a financial management board ceases on a decision of the Minister, when the municipality's finances may be deemed to be acceptable.

9. CONTROLS OVER LOCAL AUTHORITIES

The Ministry of Social Affairs oversees local government matters and ensures that local authorities carry out their obligations under the Local Government Act and other legally binding texts.

Decision-making by local authorities is not subject to approval or supervision by other public bodies, as long as decisions conform to the law and do not concern tasks which have been assigned to other bodies by law.

Section 1 of Article 2 of the Local Government Act states that matters concerning the municipalities are the responsibility of the Ministry of Social Affairs. Section 2 of Article 2 of the Act states that no decision shall be taken on any issue which affects the interests of an authority without consultation of the local authority. In spite of this provision, Parliament and central government can, depending on the issue, make decisions which affect local authorities in general. In such cases the Government should consult the Association of Icelandic Local Authorities under the terms of Articles 100 and 101 of the Local Government Act. As already mentioned Articles 100 and 101 state that the Government should establish formal collaboration with organisations of local authorities by means of a co-operation agreement between the Government and the local authorities or by other means. Additionally, proposals for major changes to division of responsibility or financial relations between the State and municipalities should be discussed by a consultative committee comprising representatives of the Government and of the Association of Local Authorities before being formally finalised.

According to Article 102 of the Local Government Act, the Ministry of Social Affairs shall monitor municipal councils' performance of their duties as provided in this Act and other lawful directives. The aim of this general administrative supervision is to ensure that local authorities perform their duties according to the Local Government Act and other legal instructions. Should a municipal council neglect its duties, it shall be admonished by the Ministry, which shall call upon it to correct the error. If the municipal council does not heed the Ministry's warning within a specified period, the Ministry may suspend payments to the municipal treasury from the Municipalities' (Local Authorities'?) Equalisation Fund until the error has been corrected. The Ministry may also, by court action, claim compensation from the person responsible for the negligence, which may amount up to fivefold the daily wages of the person in question.

General administrative supervision does not include control of the expediency of the acts of the local authorities. Such assessment is carried out at the discretion of the local authorities themselves on the basis of the independence of local authorities guaranteed by the Constitution. However, the Ministry urges the local authorities to take appropriate measures if it learns that the finances of individual local authorities are under threat.

If the local authorities are not ready to accept the decision of the Ministry in specific cases, they can either seek the advice of the Ombudsman appointed by the Parliament (*Althing*) or seek redress before the general courts.

10. REMEDIES FOR INDIVIDUALS AGAINST DECISIONS OF LOCAL AUTHORITIES

Where there is disagreement over a local authority decision, the interested parties can appeal to the Ministry of Social Affairs or other appeal bodies provided for by law, such as an appeals committee or the courts.

Article 103 of the Local Government Act states that the Ministry responsible for local government matters shall rule on any issues which may arise in the context of local government actions. This does not, however, affect the right of parties to pursue the matter in court. Furthermore, the Ministry shall rule only on the procedure and whether the decision taken by the municipal council was according to law not on the material of the decision itself. The Ministry does not have the power to change a decision or take a new decision, as that would breach the local authority's right to self-government.

In 1994, a new Administrative Practices Act came into force, its object being to increase legal certainty for citizens in their dealings with the national government and the local authorities. This Act applies to the decisions of the national authorities regarding the rights and duties of the citizens, whether individuals or legal persons. It lists principles that authorities must bear in mind in handling citizens' complaints, including rules on the duties of the authorities to offer guidelines and reasons for ineligibility, the speed with which a case is processed, the right of the parties to appeal decisions and the procedure for authorities to publicise and justify their decisions.

Furthermore, the Act contains rules on how a higher authority should handle citizens' complaints about a local authority decision. In general, the higher authority has total liberty to review the decision by a lower authority. The higher authority not only has the power to rescind a decision, but most often the power to take a new decision.

In 1997 the Information Act came into force. The act guarantees the public the right to information from public authorities, whether national or local. Four years later, the Personal Protection and Treatment of Personal Information Act came into force. Its objective is to ensure that personal information is used in accordance with the principles and rules of personal protection and individual privacy.

In addition, individuals can complain formally about the decisions of local authorities to the Ombudsman appointed by the Parliament. The ombudsman may investigate the complaint. He can also investigate the legality of certain municipal resolutions on his own initiative. Nevertheless, he can only give his opinion if he believes that the decision or resolution is contrary to the law or accurate administrative practices, and request that the proper authority make compensation regarding the matter. He cannot nullify a municipal resolution, but he may express an opinion recommending nullification, disciplinary action, and compensation if possible.

11. LOCAL ADMINISTRATIVE PERSONNEL

Municipalities' autonomy in dealing with their own affairs extends to the appointment and assignment of staff .

The municipal council engages employees for the main management positions with the municipality and its institutions and terminates their engagement. The provisions of the municipal government order apply to the engagement of other staff. If the order does not contain particular provisions in this regard, the municipal council or the municipal executive board issues general directions on the engagement of staff to the persons managing the municipality affairs .

Municipal employees' salaries, rights and obligations shall be subject to collective agreements in force at any given time and/or the terms of the contract of employment according to Article 57 of the Local Government Act. Local authority employees belong to many trade unions, but the majority are members of the Federation of State and Municipal Employees.

In the spring of 2004, the number of local government employees amounted to the equivalent of 17,424 full-time positions, up from 9,110.9 full-time positions in January 1994. These figures include employees in public employees' unions and those in other unions. Local government employees are almost equal in number to national government employees, or about 10% of the labour market. The main categories of personnel (members of trade unions) are:

○ Federation of State and Municipal Employees	6,116.3 full-time positions
○ Association of Pre-School Teachers	1,175.8 full-time positions
○ Assoc. of Primary School Teachers and Headmasters	4,388.5 full-time positions
○ Association of Academics	985.2 full-time positions
○ Association of Music Teachers	254.3 full-time positions
○ Icelandic Federation of Labour	3,925.8 full-time positions
○ Other	352.3 full-time positions
○ Outside of unions	151.9 full-time positions

12. REFORMS ENVISAGED OR IN PROGRESS

In December 2004, there were 101 municipalities in Iceland. It is clear that many of them are too small to be able to carry out all their duties. In August 2003 the Minister of Social Affairs appointed a task force to coordinate a joint initiative by the Government and the Association of Icelandic Local Authorities in order to strengthen local government. A sub-committee was assigned to make proposals for reducing the number of municipalities. In March 2005, the committee presented its proposals, which envisage that the number of local authorities could be reduced to 46 by the year 2006. A referendum based on the committee's proposals took place on 8 October 2005 in each municipality concerned.

The inhabitants in most of the municipalities concerned did not approve of the committee's proposals. In 41 municipalities the inhabitants decided against merger, but in 20 municipalities the inhabitants accepted the proposal for a merger. Only one of the proposals was accepted by a majority of the electorate in all of the municipalities concerned.

In November 2004 and in April 2005 three other proposals for amalgamation were approved in a referendum. The number of municipalities in the next local government elections in May 2006 will therefore be 89 unless further mergers are approved before the elections.

12.1 Process of merger

In Iceland there is a long tradition for merger based on the local authorities' own initiative. Normally two or more local councils decide to put forward a merger proposal after formal discussions. The proposal is then presented to the inhabitants in the respective municipalities, who decide in a referendum whether or not the merger is to go ahead. A simple majority of votes in each municipality is required for the merger to be accepted. If a majority of the electorate in all the municipalities concerned agree to the proposal, the merger is considered accepted and will go through.

If, however, a majority of the electorate in any of the municipalities concerned vote against the proposal, voters will have to vote again on the same proposal within 6 weeks, provided that at least two of the municipalities concerned have accepted the proposal. The second round is organised to allow the inhabitants of the municipalities that decided against merger to reconsider their options when they know the will of the neighbouring municipalities. If after the second round the electorate in any of the municipalities concerned still vote against the proposal, the merger will not be completed automatically. However, the councils of the municipalities whose inhabitants voted in favour of the proposal can decide to merge those municipalities if more than 2/3 of the municipalities concerned voted for the proposal, and they encompass more than 2/3 of the total population affected by the merger as originally proposed.

Example:

Municipality	Inhabitants
A	1,500
B	1,000
C	500
Total	3,000

The councils of A, B and C have put forward a proposal of merger. A simple majority of the electorate of A and C have voted for the proposal, but a majority of the electorate of B have voted against. Within six weeks, the electorate of B have the chance to vote again on the same proposal. If a majority still decides against the proposal municipality B will not be merged

with the others. However the councils of A and C can still decide to merge in spite of the results in B, because they constitute 2/3 of the municipalities concerned and 2/3 of the total population live in those municipalities.

12.2 Further reforms in progress

Concurrently another committee was given the task of revising the system of the revenue sources of local authorities. Behind this revision, and the proposals for decreasing local authorities, are ideas regarding changes in the competencies of local and national authorities. The committee submitted its proposals in March 2005. The proposals do not include suggestions for any major changes to the current system but further committee work on the equalisation system will take place in 2005 and 2006.

The task force has also presented proposals to transfer responsibility for some public services from the State to the local authorities. These include certain aspects of health services and services for the elderly and the handicapped. In addition it is being examined how to reduce joint assignments between the different levels of government. The outcome of the referendum on 8 October 2005 may have a negative impact on the chances for these proposals to be implemented in the near future.

