

## MANAGING ACROSS LEVELS OF GOVERNMENT

## ICELAND

## 1. Institutions and authority

## 1.1 Structures

*Description of levels*

There are two levels of administration in Iceland; central and local government. The Local Government Act of 1986 states that the country is divided into local authorities which run their own affairs under their own responsibility. Those authorities are legal entities (rural districts or towns) and are autonomous in the sense that they can have rights and responsibilities. Towns have a population exceeding 1 000. Regional committees have a supervisory role over various projects run by several local authorities but they do not constitute separate units of administration.

The number of local authorities as of December 1996 was 165. The number in December 1995 was 170. Around 45 percent of the local districts have less than 200 inhabitants. The total area of Iceland is 103 000 square kilometres and the population in December 1996 was 269 735. As the country is very sparsely populated there is a wide disparity in population in different authorities. Table 1 summarises the distribution of population in the municipalities.

**Table 1. Area and population of sub-national governments (December 1996)**

Number	Municipalities	
	area (km <sup>2</sup> )	population
	165	
Largest	6 205	105 487
Smallest	300	28
Number of municipalities and population distribution		
Population size	Number of municipalities	
up to 1 000	132	
1 000-5 000	25	
5 000-10 000	2	
10 000-100 000	5	
over 100 000	1	

Source: Ministry of Finance.

*Central government at the sub-national level*

There are only two separate levels of authorities in Iceland, central government and local government with no administrative link between the two levels. Central representatives are not directly involved in decision-making at the sub-national level. There are, however, several types of organisations that might be called “deconcentrated State administration” as follows:

- The *Syslumadur* is the institution closest to the prefect. They are appointed directly by the minister (of justice) and enforce many different laws and regulations for many ministries. They are usually also the head of the police and of customs in the region. Although the *Syslumadur* has wide responsibilities, he is not involved in the decision-making of the municipalities, nor is he involved in the management or decision making of other deconcentrated administrations.
- Tax offices are an example of deconcentrated administrations. They are separate organisations which report directly to the minister and not to the central tax administration. Their managers are appointed by the minister.
- Many social services are run by the State with managers usually appointed by the minister. These include hospitals, health centres and secondary schools. The services have local boards which are also appointed by the minister, but the majority of the members are nominated by the municipalities in the region. These organisations, although formally a part of the central government, are more at an arms length from the minister than the other “deconcentrated” organisations.

*Creation, elimination and restructuring*

The legislation applying to local government in Iceland is based on Clause 76 of the Icelandic Constitution of 1944. This states that the right of communities to be in charge of their own affairs, under central government supervision, shall be guaranteed by law. Legislation concerning local authorities in Iceland is in two categories: general law on local administration and a number of special laws, mainly relating to the activities and responsibilities of local authorities. The Constitution asserts that the autonomy of local authorities exists and cannot be abolished without an amendment to the Constitution -- which is one of the reasons why the amalgamation process had to be voluntary.

A Local Government Committee reporting to the Minister responsible for local government affairs in 1992 made recommendations for a more balanced distribution of population in local authorities. The aim was to increase the efficiency of the administration through amalgamation of local authorities and experiments with “pilot” authorities. This plan is based on two objectives. The division of power between central and local government should be clear, and each field of responsibility, as far as possible, should be dealt with by a single actor, so that the design, implementation and financial responsibility (for initial costs and for operation) are united. On the other hand, local authorities are, on the whole, responsible for local matters, and central government for those matters which are more efficiently dealt with on a national basis.

The Committee's report states that the most successful means to achieve these objectives is to strengthen local government, by having fewer, larger local authorities. This was seen to enable them to take over various responsibilities from central government, and to have decision-making power in more fields thus enhancing local democracy, and possibly increasing efficiency by putting the provision of services closer to the citizen. The methods suggested by the Committee included a plan for the merger of

local authorities, and an experiment with so-called pilot authorities. Through the latter, municipalities will receive, on the basis of applications, the authority to undertake new projects for a given time; to be exempted from certain legal obligations which limit their decision-making freedom; to experiment with new methods of operation and financing in certain fields; and to develop administrative innovations.

The Local Government Committee recommended that the main method of amalgamation should be through elections on the issue i.e. voluntary unification and not through legislation forcing local authorities to amalgamate. The Committee suggested that a vote should take place on the proposed revised boundaries in autumn 1993. Special boundary councils were formed to make proposals for reorganised local authority areas. The resulting proposals would have reduced numbers from 196 to at most 43 local authorities. The vote, on 20 November 1993, rejected most of the recommendations, stalling the amalgamation process for some time. However there was the biggest reduction ever in local authorities (from 196 to 171) on 11 June 1994, representing a considerable amalgamation compared with the 229 local authorities which existed in 1950.

### *Control bodies*

Professional auditing for local authorities is done by private consultancy. If a disagreement on local government actions arises, the ministry responsible for local government matters can make a ruling. There are three ways to appeal against decisions of local authorities: by the ministry, an appeals committee or the courts. A ruling of the ministry or the appeals committee does not affect the right of parties to pursue the matter further in the courts.

## **1.2 Powers**

### *Nature of sub-national institutions*

Every local authority has a deliberative body, the local council, which consists of an odd number of representatives, ranging from 3-5 to 15-27 representatives according to the population. All voters are eligible to stand for election. Every citizen over the age of 18 legally residing in a district has the right to vote. Local government elections take place every fourth year and are not linked to the political cycle of national government.

The local council usually elects an executive body known as the district or town board which is elected for a term of one year. However in authorities where council members number three or five no executive board is elected. The executive board, together with the local authority's chief executive, is responsible for the management and financial administration of the local authority, in so far as these are not delegated to others. The board supervises the local authority administration in general, and its financial management in particular, prepares budget plans, and ensures that the local authority accounts conform with prescribed procedures. The chief executive makes arrangements for council and executive board meetings, and is responsible for the implementation of the decisions they make.

### *Type and degree of autonomy*

Local authorities have the right to decide on expenditure priorities, and on the execution of projects undertaken by the authority, provided that other provisions are not made by legislation. The sole responsibility for the execution of the duties which are legally assigned to the community, and for

ensuring that the council's resolutions, laws and regulations on local government matters are complied with, lies with the authority itself.

The independence of authorities is legally guaranteed. The ministry responsible for local government matters should, however, ensure that local authorities carry out their obligations according to the Local Government Act and other legally-binding texts. The autonomy of local authorities is also confirmed in the European Charter of Local Self-government, drawn up under the auspices of the Council of Europe, signed by Iceland in November 1985 and ratified by the Parliament in 1991. If a local authority neglects its responsibilities, the Ministry shall issue a warning, and require the local authority to make good its failings. Should the local authority not comply with the Ministry's instructions within the stated period, the Ministry may resort to other actions and thus de facto supervise the performance by local authorities of their legally-binding duties, although not on a regular basis.

Local governments have limited taxation powers. On the other hand, they have considerable discretion to charge fees for the services which they provide, and do not require the authorisation of central government to raise loans.

### **1.3 Responsibilities**

#### *Distribution of responsibilities*

The State is responsible for security and police, justice, secondary and higher education, and the financing of churches, roads, airports and communications.

Local governments deal with the running of harbours, fire protection, kindergartens and primary education, welfare assistance, home services to the aged, regional and spatial planning, water supply and purification, refuse collection and disposal, cemeteries and crematoria, parks and open spaces, sport and leisure facilities, urban road transport and district heating.

In an experiment with pilot authorities, some central government responsibilities are being transferred to participating local authorities, which are exempted from various obligations that normally apply to local authorities. The authorities concerned are also able to experiment with their financing and managerial arrangements.

The transfer of all responsibility for primary education from central to local government took place in August 1996, accompanied by central government provisions to ensure that sufficient funds will be available for local authorities to run primary schools. Since then primary schools are totally run and financed by local authorities. Similarly services for the disabled are generally the responsibility of local governments, while institutions for the disabled are largely built and run by central government. The government and local governments have agreed upon a plan to transfer all public services for the disabled from the State to local government by 1999.

#### *Mandatory, optional and shared responsibilities*

Responsibility for policy implementation between levels of government is rather unclear. The uncertainty is especially acute in the smaller authorities and central government has tended to solve

overlapping competences on an ad hoc basis. Joint financing of responsibilities has been common because of the weakness of the local government level.

It may be regarded as natural for central government to undertake more responsibilities in Iceland than in neighbouring countries, because of the small population in local authorities. This has led to many matters being dealt with jointly by central and local government since local authorities have not had the financial means to undertake the tasks typically assigned to them in neighbouring countries. Paradoxically the smallness also means that central government is closer to the public than in other countries.

Some responsibilities are shared between the central and local level. This is the case for new school buildings for secondary education and building new houses for the health service, but the Government and local authorities are planning to change this.

Some other responsibilities are dealt with by both the State at the central level and by the municipalities at the local level. This is the case for civil defence and disaster relief, town planning, theatres and concerts and other activities in the field of culture and tourism.

Municipalities and the State share responsibilities at the local level in the following fields: adult education, hospitals and convalescent homes, personal health, housing and health and environmental protection.

In addition to such collaboration between central government and local government, many local authorities work closely together at a "regional" level. In many cases, two or more communities join forces to deal with particular services. Examples of this are:

- accommodation and services for the elderly;
- refuse collection and pollution prevention;
- culture, sport and youth work;
- the bus system in the Reykjavik metropolitan area;
- joint management of local heating systems and other utilities;
- co-operation in running primary schools and music schools.

Local authorities have some mandatory responsibilities but other activities are optional and can be undertaken without any interference from central government. Any optional activities are, however, constrained by financial considerations, as in recent years local authorities have been experiencing severe financial difficulties stemming from the slump in the economy and growing unemployment. In this context many local authorities have engaged in private enterprises, e.g. fishing and operating fish-meal factories. In most instances the goal has been to prevent local unemployment but some of the enterprises have made profits.

The general policy on the distribution of responsibilities is evolving towards a clearer division of competences between central and local government but the situation has not yet stabilised. Modification in the division of responsibilities has been a continuing issue in the management of relations between the two levels of government in recent years. It is not expected that this process will be totally halted by the negative results of the vote on amalgamation.

## 2. Management functions

### 2.1 Policy-making and co-ordination

#### *Coherence, consultation and conflict resolution*

Through the years the policy-making capacity of local government has, in many ways, been similar to that of central government. Central government is clearly more powerful but both levels suffer from a limited capacity to make policy because of weak policy-making structures. Decision-making by local authorities is not contingent on the approval or supervision of other public bodies, so long as decisions conform with the law, and do not encroach on territory assigned to other bodies by law. Local authorities manage their own affairs under their own responsibility and central government has no authority to intervene in local government policy.

The Parliament and government can, depending on the issue, make decisions which affect local communities in general, but in such cases the government is legally bound to consult the associations of local authorities. No policy or management decision which affects the interest of a specific local authority can be taken without consulting the authority concerned. Central government is, however, not formally bound by the opinion of local government.

Local democracy and devolution of political power are the main reasons for the existence of local authorities. Public participation on the local level takes various forms including referendums and public meetings. Referendums are not usually binding upon the local authority, unless it has been decided in advance that it shall be so. Public meetings are often held in rural districts although there is no reference to them in the legislation on local government.

#### *Formal and informal mechanisms*

Some reforms have sought to improve co-ordination. The review process that has been taking place over recent years, especially through the Local Government Committee, has examined the relationship between the two levels of government. This committee constitutes the first formal organisation guiding co-operation between the two levels. In January 1993 a co-operation agreement between central and local government was entered into. In it the parties agreed to co-ordinate their public management policy to make it possible to attain the economic goals set by the government and Parliament at any given time. At least two consultative meetings are held every year, attended by the Ministers of Social Affairs, Finance, Health, Education and Environment and a representative from the National Economic Institute, and on behalf of the local authorities, the board of the Union of Local Authorities.

Both meetings cover the outlook for the national economy, the finances of local authorities, and the employment situation. At the Spring meeting specific financial proposals made by individual ministries which concern local authorities are discussed. Any proposals which modify the division of responsibilities between central and local government are also discussed together with government policy on new legislation concerning local authorities, their sphere of activity or their tax base.

The autumn meeting covers policies concerning operations, investments and the use of the tax base during the coming year. Any provisions of the State Budget concerning the interests of the local authorities are also discussed, together with any requests presented by the local authorities. It is expected

that the Budget Committee of Parliament, or its representatives, attend this meeting during the discussions on the State Budget.

There are also several sectoral co-ordination bodies which relate more to regulation and implementation than to policy-making. Examples are the education authorities which regulate and direct school activities and ensure that all requirements and responsibilities are met.

There is formal co-operation of local authority associations at both the local and regional levels. The Union of Local Authorities is a federation of all local authorities in the country. The union provides a national forum for consultation for local authorities and plays an important role in protecting the interests of local authorities. It provides a national forum for consultation for local authorities, government, and other bodies. Each region has a federation of the local authorities in the region. These federations, which now number eight, aim to protect the interests of the local authorities, to collect information and give information on the authorities, and to provide a forum for discussion for the local authorities in the region.

## **2.2 *Financial management***

### *Sources of revenue*

The main sources of revenue for local authorities are: local income tax (paid by all wage earners), property tax, and contributions from the Communal Equalisation Fund. Local authorities also receive revenues from their own institutions, sewer fees, rents for land, bonds, licences and fees for various services. Two forms of revenue on businesses (turnover tax and a national income levy for local government) were abandoned in 1993. Local authorities compensated for this by raising local income and property taxes. Contributions from the Communal Equalisation Fund are by nature central government grants while local income tax and property tax are direct local taxation. The central government grants comprise both block and special grants. Block grants from the Communal Equalisation Fund are distributed to local authorities on a per capita basis usually accounting for 10-14 per cent of the total authority income. Special grants from the Communal Equalisation Fund are directed to low-income authorities to assist in various activities such as primary, secondary and comprehensive schooling. Other types of special grants paid by central government are subsidies to meet expenditure in fields including harbour-building, and main-road construction. The composition of local government revenues is shown in Table 2.

**Table 2. Main revenue sources of sub-national governments (1985, 1990, 1995)**(millions of *krónur*, current prices)

	1985	1990	1995
<b>Income from property</b>	<b>748</b>	<b>1 954</b>	<b>2 800</b>
From public enterprises	110	592	1 856
Interest income	529	998	517
Dividends and rental income	109	363	428
<b>Tax revenue</b>	<b>7 270</b>	<b>23 289</b>	<b>29 427</b>
Indirect taxes	3 491	9 590	8 258
Direct taxes	3 780	13 699	21 170
<b>Other income</b>	<b>56</b>	<b>1 380</b>	<b>2 696</b>
<b>TOTAL</b>	<b>8 074</b>	<b>26 623</b>	<b>34 924</b>

Source: Ministry of Finance.

#### *Expenditure responsibilities*

Local authority expenditure was about 22 per cent of total public expenditure in Iceland in 1994 -- which is very low in comparison with neighbouring countries where local authority expenditure accounts for 60-70 per cent of total public expenditure. This is explained by the fact that in Iceland, central government is responsible for various costly undertakings, which tend to be dealt with by local authorities in other countries.

**Table 3. Main expenditure patterns of sub-national governments (1985, 1990, 1995)**(millions of *krónur*, current prices)

	1985	1990	1995
<b>Administration and law enforcement</b>	<b>533</b>	<b>2 558</b>	<b>2 729</b>
General administration	419	2 170	2 118
Law enforcement and security	114	388	611
<b>Social services</b>	<b>5 248</b>	<b>15 991</b>	<b>24 595</b>
Education	1 147	4 237	6 965
Health	935	525	311
Social security and welfare	1 347	4 798	7 697
Housing, town planning, rubbish removal, sewage	650	1 895	3 195
Cultural affairs	1 169	4 536	6 428
<b>Economic affairs</b>	<b>1 701</b>	<b>4 626</b>	<b>6 015</b>
Energy	9	0	0
Agriculture	33	67	169
Fisheries	56	106	-25
Manufacturing and construction	83	288	541
Communications and transport	1 456	4 021	4 352
Other	64	143	978
<b>Other municipal services</b>	<b>213</b>	<b>1 719</b>	<b>857</b>
<b>Interest expenditures</b>	<b>368</b>	<b>1 533</b>	<b>2 174</b>
<b>Depreciation</b>	<b>184</b>	<b>521</b>	<b>747</b>
<b>TOTAL</b>	<b>8 246</b>	<b>26 948</b>	<b>37 117</b>

Source: Ministry of Finance.

*Balance between discretion and control*

The level of local income tax, property tax and other public levies must be within the prescribed limits set by central government. These limits give local authorities some latitude within the minimum and maximum levels. Local authorities have the right to determine the level of fees in their own institutions, such as utility companies, but such fees have to be confirmed by central government.

Local authorities do not require authorisation from central government in order to raise loans. There is a special Local Authorities Loan Fund which is an independent institution, jointly owned by all local authorities. The fund has its own board, and operates under central government supervision. The main aim of the fund is to grant loans to local authorities for projects which are so costly that they could only be financed from local authority revenues over a very long period. The fund also grants loans for the conversion of existing loans which have unfavourable terms, if better terms cannot be negotiated with the relevant financial institution. In 1991, 46 per cent of the fund went to conversion loans.

Local authorities do not have the right to impose public levies upon the inhabitants of the community other than fees for their own institutions. This can be seen as limiting the power of local authorities and giving central government sole power over taxation. Funding, except from special grants, is earmarked to the relevant responsibilities and a well run authority can take decisions to increase the level of service if it has sufficient funds.

Central government involvement in the finances of local authorities is minor although various government institutions have a supervisory function over some specific financial arrangements of local authorities. These supervisory functions should however be considered as consultative rather than investigatory of local finances. When a local authority is in severe financial difficulties it can be put under the direct administration of the ministry responsible for local government. This practise is, however, very rare and only called for in cases of extreme financial difficulties.

In recent years, government authorities have placed much emphasis on consistency between local authority actions and central government policy -- especially in relation to debt. Though central government has tried to influence local authorities in these matters, it has no authority to intervene regarding local government expenditure. This is confirmed in the co-operation agreement whereby the parties pledge to collaborate in order to attain the economic goals set by the Government and Parliament.

The Equalisation Fund seeks to balance the financial position of local authorities given their large number, varying numbers of inhabitants, and differing potential for raising revenue. Contributions are of various types: fixed contributions, special contributions, initial-cost contributions, contributions for primary schools, contributions for music schools, revenue equalisation contributions, and service contributions. Contributions have also been paid from the Equalisation Fund in order to meet the costs of amalgamating local authorities -- a role which has been enhanced in recent years.

The Equalisation Fund received extra funding to fulfil its role in furthering the amalgamation process using positive monetary incentives. In the short term the fund was to pay for the cost of amalgamating i.e. the remuneration for the boundary councils, the execution of the elections, and promoting temporary support and compensating measures. In the long term the fund is for compensating between bigger, more populated authorities and smaller ones -- particularly in relation to their debts as bad debt has often stood in the way of amalgamation.

### **2.3 Performance management**

#### *Mechanisms*

The National Audit Office audits the State Budget but professional auditing for local authorities is done only by private consultancies. If there is reason to believe that there are serious irregularities of accountancy at the local level, the ministry responsible for local government has powers to intervene. The National Audit Office has grown stronger in recent years since it was put under the authority of the Parliament instead of the Government. This seems to have enhanced its autonomy.

There are no formal broad public management reforms taking place in local government; most initiative being with individual local authorities. The ethos of the public management reform in central government has, however, clearly spilled over to local government. These reforms have aimed to lessen pressures to increase taxation, to finance the budget deficit which currently accounts for about 2.2 per cent of the GDP and to introduce some market-type mechanisms in the provision of public services. The main management reforms in central government thus relate to the use of:

- contracting out in the field of supplies;
- the use of nominal user fees to influence demand for public services;
- a pilot project in contract management (i.e. devolved budgets), and

- privatisation.

### *Quality standards*

The law defining the division of responsibility between central and local government and other more specific legislation include frameworks for local authority services, but no formal quality standards have as yet been developed. Local authorities decide on the quality and quantity of their service within these frameworks, taking into account the wishes and demands of inhabitants, and financing.

A new law on primary schools provides, as from 1995, for formal evaluation of the quality of education but this has not yet been evaluated. However, the fact that evaluation is mentioned in a law is, in itself, an innovation.

## **2.4 Human resource management**

### *Statutory distinctions*

The autonomy of communities in dealing with their own affairs also applies to the appointment of staff, and to the local authority projects to which staff are assigned. All those employed in local administrations have the rights and duties of public employees. Conditions of employment are in accord with general wage agreements between the level of government in question and its employees. There are some regional differences in pay as local authorities have tended to pay higher overall wages to compensate employees for moving from one region to another. This practice of regional pay is, however, on the wane, at least in some authorities, as unemployment in Iceland has increased in the public sector as well as in the private sector.

Distinctions are made between local authority employees according to the nature of their work and consequently they belong to different trade unions, but the majority are members of the Federation of State and Municipal Employees. The unions range from those for unskilled labour to those for specialists (represented by many small unions). Collective bargaining takes place between the different unions and representatives of the relevant level of government. Central government has a committee responsible for all bargaining between central government and its employees. The Union of Local Authorities does not have a formal role in negotiating wage agreements and the local wage agreements are usually on similar terms as the central one.

Decisions on the level of staffing are taken at each level of government and are put forward in the State Budget and local authority budget plans respectively. However in the light of recently rising unemployment both central and local governments have tried to inflate the demand for labour and made some changes to working hours. Table 4 shows the evolving distribution of employment across levels of government.

*Mobility:* There are no formal rules on how employees move between levels of government but the practice is rather common since conditions of employment are similar. There is no organised mobility of staff -- either between the two government levels or internally among local authorities. However, employees may leave a job in one level of government and then be hired by the other level.

**Table 4. Public sector employment by level of government (1985, 1990, 1993)**

(person years)

	1985	1990	1993
Central government	12 500	14 600	15 100
Local government	8 800	9 700	10 600
<b>TOTAL</b>	<b>21 300</b>	<b>24 300</b>	<b>25 700</b>

*Source:* Ministry of Finance.

### **2.5 Regulatory management and reform**

The only major area of regulation under the responsibility of the municipalities is health and environmental inspection. Each municipality is responsible for health inspection in areas such as restaurants, food distribution and processing (excluding fish handling and processing, slaughtering and milk processing which fall under State health inspection), schools and public establishments. The municipal health inspection system has in recent years received the added responsibility of environmental inspection, including the control of emissions of toxic substances into the environment. This function is performed in accordance with regulations set by the Ministry for the Environment.

There are no major reforms underway in this area, although some minor reorganisation is taking place under the Pilot Scheme for Municipalities. The current regulatory management of municipalities may be expected to change in concert with new regulations stemming from the European Economic Area as well as through regulations pertaining to improved environmental control.

## **3. Trends in redistributing authority across levels of government**

### **3.1 Evolving tendencies**

There are no proposals for new levels of government but co-operation between levels and authorities is increasing. There was a political movement, mainly in the north of the country, arguing for a regional tier but the issue now seems to have died. The main arguments against a regional level were based on the limited efficiency of the authorities and the view that a new level would not necessarily make the system more efficient. Instead of proposals for new levels, amalgamation has been proposed in order to increase both efficiency and local democracy. It remains to be seen whether this policy of amalgamation will be implemented further and how.

Some recent proposals recommended a change in the distribution of responsibilities between central and local authorities, mainly concerned with the amalgamation of local authorities and the so-called pilot authorities. These involved a fundamental reappraisal of the division of powers and competences following a reorganisation of local authority boundaries. In March 1992, the Local Government Committee reported to the Minister responsible for local government affairs on a policy of amalgamation following the Government's 1991 White Paper: "Prosperity on a Sustainable Basis". The objective of the Committee's work was to seek means of ensuring a more balanced distribution of the population, increasing local power and enhancing the efficiency of the administration.

### 3.2 *The current debate*

Decentralisation through amalgamation of local authorities is on the policy agenda of both levels of government although the amalgamation process has been halted for the time being. The Union of Local Authorities and the Government still see amalgamation as the prerequisite to further modifications in the division of responsibilities between central and local government. A modification in the division of responsibilities is generally a decentralisation issue in the Icelandic context. There are signs that the strategy of voluntary unification of local authorities, as followed by the central government and wholly supported by the Union of Local Authorities, will not further the amalgamation process. There are two other options: to use negative monetary incentives through the Equalisation Fund; or forced unification through legislation from central government.

The amalgamation process is also seen as an opportunity to enhance local democracy by making it possible for local authorities to take over new activities and responsibilities such as primary education. The number of small local authorities in Iceland has led to increased centralisation not decentralisation and the amalgamation process is thus seen as a part of a larger decentralisation process. Nevertheless the referendum in 1993 rejected most of the recommendations and successfully stalled the process.

Most of the small local authorities are not able to perform many of their current responsibilities and it has been argued that regional federations are a less democratic way to solve the problems of small authorities. It can, however, be argued that there is a need for a change in strategy given the vote on the proposed revised boundaries in autumn 1993. Modifications in the division of responsibilities is evolving but they are somewhat contingent upon the amalgamation process.

The small size of local authorities in Iceland clearly weakens the capacity of local government to take over tasks from the centre. It has been argued that this not only inhibits feelings of loyalty at the local level, but is harmful to the process of organised democracy in the smaller authorities. The strategy of voluntary unification of local governments is, however, undermined by the fact that feelings of loyalty are stronger in the smaller local governments than in the larger ones. Thus it was argued that only through national legislation is Iceland likely to create sufficiently large local authorities to be able to systematically transfer tasks to the local level and consequently improve its chances of winning greater loyalty. It has also been argued that both local and central government are in need of increased flexibility in personnel management in order to be better able to react to unexpected opportunities.

### 3.3 *Driving forces*

The driving forces of this evolution are a combination of economic, political and democratic influences. The economic case for amalgamation, pilot authorities and changes in the division of responsibilities between central and local government is accepted by all concerned. There has however been a reluctance by all political parties to force authorities to amalgamate and even the use of negative monetary incentives has not been adopted. The democratic argument is also well established given the low population density and difficulties in transportation. Providing more local public services could enhance local democracy, increase the quality of services and might also increase efficiency -- objectives which will be difficult to reach as long as local authorities remain small and weak.