

**Local Government Act, No. 45/1998**  
as amended by Acts No. 100/1998, 123/1998, 74/2003,  
69/2004, 136/2004, 23/2005 and 150/2006.

SECTION I

**General provisions.**

Art. 1

*General.*

The country is divided into local municipalities, which govern their affairs on their own responsibility.

Municipalities are legal entities.

Each person shall be deemed a resident of the municipality in which he/she has his/her legal domicile.

Art. 2

*Administration of local government matters.*

Matters concerning municipalities are the responsibility of the Ministry of Social Affairs.

No matter which is specifically concerned with the interests of a municipality may be resolved without consultation with the municipal council.

Art. 3

*Boundaries of municipalities.*

A municipality has fixed boundaries. These may not be altered except by law.

Notwithstanding the provisions of para. 1, the Ministry may alter the boundaries of municipalities in conjunction with merging of municipalities, or in confirmation of an agreement between municipal councils.

Art. 4

*Names of municipalities.*

The municipal council decides upon the name of a municipality, having received the opinion of the Place Names Council. If a referendum is held among residents of the municipality on their views regarding a change of name, e.g. due to merging of municipalities, the opinion of the Place Names Council shall be elicited regarding the names to be included in the referendum. The committee shall make its recommendations within three weeks. The name of a municipality shall be consistent with Icelandic grammar and usage. The name of a municipality may not be changed except by confirmation from the Ministry. Confirmation of a change to the name of a municipality shall be published in *Stjórnartíðindi* [Law and Ministerial Gazette].

Art. 5

*Municipal logos.*

A municipal council may decide upon a logo for the municipality.

Municipal logos shall be registered with the Patents Office, which receives applications and assesses whether the logo may be registered.

The application shall be accompanied by the required fee. Registration of a municipal logo grants the municipality exclusive rights to use the logo.

The Minister of Industry shall issue more detailed rules<sup>1)</sup> on registration of municipal logos, e.g. with regard to applications and procedure, conditions for registration, invalidation, promulgation and fees for applications and for certificates from the register of municipal logos.

<sup>1)</sup> Regulation No. 112/1990.

Art. 6

*Minimum population numbers.*

The minimum population of a municipality is 50 inhabitants.

Should the population of a municipality have been under 50 for three consecutive years, the Ministry shall take the initiative to merge the municipality with a neighbouring municipality. A municipality of small population may also be divided between neighbouring municipalities.

An exception may be made to this provision if special circumstances, in the view of the Ministry, impede the residents of the municipality of small population in achieving social unity with the residents of the neighbouring municipality.

Art. 7

*General obligations of municipalities.*

Municipalities must carry out those tasks assigned to them by law.

Municipalities shall work for the common welfare of the residents, as far as they are able at any time.

Municipalities may undertake any task relating to the residents of the municipality, if it is not assigned to others by law.

Municipalities 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 the expenses of tasks undertaken by their companies and agencies.

Municipalities shall set objectives regarding profitability and dividends in operation of their companies and agencies, and they may allow for an appropriate return on their investment in these operations.

SECTION II

**Municipal councils and council meetings.**

Art. 8

*Municipal councils.*

In each municipality there shall be a municipal council, elected in accord with the provisions of the Local Government Elections Act.

Art. 9

*Role and areas of responsibility of municipal councils.*

The municipal council governs the municipality as provided in this Act and other legislation.

The municipal council has the power of decision regarding the use of municipal revenues, and on the discharge of those tasks carried out by the municipality, in so far as these are not regulated by law.

The municipal council shall ensure that the mandatory functions of the municipality are performed, and that the rules applying to procedures in local government by law, regulations and local ordinances, are observed.

A municipal council may pass resolutions upon any matters it deems relevant to the interests of the municipality.

Art. 10

*Ordinance on government and administration.*

Municipal councils shall make a special ordinance on government and administration of the municipality, and on procedures in the matters handled by the municipality. Such an ordinance shall be sent to the Ministry for confirmation.<sup>1)</sup>

<sup>1)</sup> *Advertisement No. 106/1987.*

Art. 11

*Titles of municipal councils etc.*

The highest authority within each municipality shall be called *sveitarstjórn* [municipal council]. A municipal council may use the title *hreppsnefnd* [rural district council] or *bæjarstjórn* [town council], these terms having traditional status. A *byggðaráð* [municipal

executive board] as provided in art. 38 may, by the same token, be termed *bæjarráð* [town executive board] or *hreppsráð* [rural district executive board] and the *sveitarstjóri* [head of the municipal council] may be termed *bæjarstjóri* [mayor].

In Reykjavík the municipal council is termed *borgarstjórn* [city council], the municipal administrator is termed *borgarstjóri* [city mayor] and the municipal executive board is termed *borgarráð* [city executive board].

The titles of the municipal council, municipal executive board and municipal administrator shall be determined in the ordinance on government of the municipality.

#### Art. 12

##### *Number of councillors on a municipal council.*

On a municipal council, the number of councillors shall be an odd number, and shall be within the limits stated here:

- a. where the population numbers under 200: 3 to 5 principal members,
- b. where the population numbers 200 to 999: 5 to 7 principal members,
- c. where the population numbers 1,000 to 9,999: 7 to 11 principal members,
- d. where the population numbers 10,000 to 49,999: 11 to 15 principal members,
- e. where the population numbers 50,000 or more: 15 to 27 principal members.

Notwithstanding the provisions of para. 1, it is not obligatory to increase or to reduce the number of representatives on the municipal council until the population of the municipality has been higher, or lower, than the stated levels for eight consecutive years.

The number of representatives on the municipal council shall be stated in the ordinance on government of the municipality.

#### Art. 13

##### *First meeting of a newly-elected municipal council.*

A newly-elected municipal council shall assume its functions 15 days after election day.

The elected member of the municipal council who has been a councillor for the longest time shall call the first meeting not later than 15 days after the council takes office after the election, and chairs the meeting until a council leader has been elected. Should two or more councillors have been on the council for an equal period, the elder/eldest of them shall undertake the tasks provided in this paragraph.

#### Art. 14

##### *Election of council leader and deputy.*

At the first meeting of a newly-elected municipal council, the council shall elect a leader and one or more deputy leaders. The title of the leader of the council may be decided in the ordinance on government of the municipality.

The electoral term of the leader and deputy leader is one year. Should a leader no longer have the support of a majority of members of the council, he/she shall step down, and a new leader shall be elected.

He/she who receives the votes of a majority of the members of the council is rightfully elected leader or deputy leader. Should no candidate receive a sufficient number of votes, another election shall be held between the two candidates who received the most votes. Should three or more candidates receive equal numbers of votes, lots shall be drawn to choose the two candidates to participate in the second vote. The person who receives more votes shall be rightfully elected, even if he/she does not receive half the votes. In the case of a draw, lots shall be drawn.

When a leader and deputy leader(s) have been elected, the Ministry shall be notified.

If a council leader dies, is permanently unable to take part in local government, or no longer has the support of the council, before the electoral term has expired, a leader shall be elected in his/her place to serve for the remainder of the term.

Art. 15

*Municipal council meetings.*

Municipal councils shall hold regular meetings as decided in advance by the council or as provided in the ordinance on government of the municipality. Meetings shall be held not less than quarterly, and in municipalities where a municipal executive board is elected, meetings shall be held not less than once a month. Councils may, however, decide to suspend meetings for up to two months each summer. Extraordinary meetings shall be held as required.

The municipal council must be convened if at least one-third of the councillors so demand.

Art. 16

*Open meetings.*

Council meetings shall be open to the public. A council may decide to debate specific issues *in camera* when this is deemed necessary due to the nature of the case.

Art. 17

*Calling of council meetings.*

The municipal administrator shall call meetings of the council in the manner decided by the council. He/she shall also decide the venue and time of the meetings, unless the council has done so.

Art. 18

*Announcement of council meetings.*

The residents of the municipality shall be informed by an advertisement of the time and venue of council meetings.

The council shall at the beginning of its electoral term determine how its meetings shall be advertised, and how long in advance. This decision shall be announced to the residents of the municipality by reliable means, e.g. by a circular or by an advertisement in the local press.

The aim should be that as many as possible of the residents of the municipality should have access to advertisements regarding council meetings.

When the agenda for a council meeting has been drawn up and sent to councillors, it shall be accessible to the residents of the municipality, for instance on a municipal notice board, at the municipal offices during office hours, or by other means decided by the council.

Art. 19

*Disqualification of councillors.*

A councillor must disqualify him/herself from debate and resolution of a case when he/she or some close relative has such strong personal interests at stake, that his/her views may be deemed to be influenced to some extent by this.

Councillors are not disqualified when representatives are chosen to perform duties for the municipality, or when stipends for such work are decided.

Councillors who are also employees of the municipality, and have as such taken part in preparing a matter to be submitted to the council, shall always be disqualified when the matter comes before the council. This provision does not apply, however, to the municipal administrator.

The provision of para. 3 does not apply when the council debates and approves the municipality's budgets and annual accounts.

A councillor who is aware that his/her position may be invidious must draw attention to this fact. A councillor may, when a case is debated from which he/she is disqualified, give a brief explanation of his/her views. The council shall resolve, without debate, whether a situation is such that a councillor should be disqualified. The councillor in question may take part in the vote on his/her disqualification.

A disqualified councillor shall leave the council chamber for the duration of the debate and resolution of the matter.

Art. 20

*Quorum and vote.*

A council does not constitute a quorum unless more than half the councillors are present.

At a council meeting, decisions shall be made by a majority vote. Abstention shall be deemed participation in the vote.

If votes in favour of an issue and against are equal, it shall not be passed. In the case of an election, lots shall be drawn.

In the case of a majority vote, such as when a single representative is to be elected, the procedure shall be the same as for election of a council leader.

Art. 21

*First and second debates in council.*

Councils shall hold two debates, at an interval of at least one week, on the following issues:

- a. budgets of the municipality and its agencies and companies,
- b. annual accounts of the municipality and its agencies and companies,
- c. ordinances and regulations which by law are subject to confirmation by the Minister,
- d. longer-term municipal plans, such as land-use plans and development plans,
- e. request for assistance as provided in art. 75.

Art. 22

*Role of the council leader.*

The council leader shall chair debates at meetings of the council. He/she shall ensure that minutes are entered in the council's minutes book in an orderly manner, and that all decisions and resolutions are recorded correctly and accurately.

Art 23

*Minutes.*

Minutes of council meetings shall be written in a minutes book in accord with the council's rules of procedure. A council may engage a secretary for meetings.

All elected councillors who are present shall sign the minutes of the council, unless the council decides otherwise in specific cases.

A council may decide that minutes shall be recorded in computerised form. Should this be the case, the number of the meeting, its venue and date, and the fact that the minutes are recorded in computerised form shall be noted in the minutes book. The adjournment of the meeting and the page number of the minutes shall be recorded. When the meeting is adjourned the councillors shall write their names in the minutes book.

At the end of the meeting the computerised minutes shall be printed out, and signed by those present. In addition the leader and at least one other shall sign their initials to each page of the minutes, which shall be paginated continuously.

Signed computerised minutes shall regularly be bound into the council's minutes book for permanent preservation.

Art. 24

*Alternates.*

Alternates shall take seats on the council in the order in which they are elected, when councillors elected from the list they represent are deceased, move away or are otherwise permanently or temporarily unable to take their seat.

If a list of candidates is presented by two or more parties or groups, the councillors representing the list may agree on varying orders in which alternates shall take vacant seats, according to which councillor is unable to attend. A declaration of such an agreement shall be submitted to the first or second meeting of the council after the election.

Should no agreement be reached between parties or groups which have put forward a joint list of candidates, a councillor shall be replaced by an alternate from the same party or group, in the order elected, regardless of their place in the order of alternates. Should no alternate on such

a list be from the same party or group as the councillor in question at the time of the election, the list's alternates shall take seats according to normal procedure.

When a councillor temporarily moves out of the municipality, it may be decided that he/she shall step down from the council until he/she returns to the municipality. He/she shall then be replaced by an alternate as provided in the above rules.

Art. 25

*Council rules of procedure.*

Councils shall lay down rules of procedure which shall be sent to the Ministry for confirmation, together with the ordinance provided in art. 10.

The Ministry shall draw up a prototype for council rules of procedure, which shall be published in *Stjórnartíðindi* [Law and Ministerial Gazette].<sup>1)</sup> These shall apply to the council until specific rules of procedure of the council have been confirmed.

<sup>1)</sup> *Advertisement No. 527/1998.*

Art. 26

*Council unable to function due to emergency.*

Should a council become temporarily unable to function due to a state of emergency in the municipality, such as natural disaster, the Ministry may, at the request of the council, appoint the council of a neighbouring municipality to govern the municipality until the council can function anew.

SECTION III

**Rights and obligations of municipal councillors.**

Art. 27

*Attendance at meetings etc.*

Municipal councillors are duty bound to attend all council meetings, and meetings of council committees, unless prevented by lawful cause.

Each municipal councillor has a duty to perform the tasks assigned to him/her by the council, relating to the functions of the council.

Art. 28

*Position on individual issues etc.*

A municipal councillor is bound only by the law and his/her personal convictions with regard to his/her position on individual issues, and he/she must perform his/her duties meticulously and conscientiously.

Should a municipal councillor not wish to accept a ruling by the council leader regarding rules of procedure, the ruling may be appealed to the council, which shall rule without prior debate.

Art. 29

*Right to speak, propose a motion, vote, etc.*

Municipal council members shall have the right to speak at meetings of the council, as further provided in rules of procedure. They also have the right to propose motions and to vote, and they are eligible for election to committees.

Art. 30

*Access to information.*

Members of councils shall, in connection with their work for the council, have access to records and documents of the municipality, and free access to its agencies and activities.

Art. 31

*Entries in minutes.*

Those who are entitled to participate in council debates have a right to have recorded in the minutes their brief comments on their position on the matter under discussion.

Art. 32

*Confidentiality.*

Councillors are subject to a duty of confidentiality regarding matters of which they become aware through their work, and which by their nature or by law should remain confidential. The duty of confidentiality remains in force after the person has ceased to serve as a councillor.

Art. 33

*Duty to accept election.*

Council members and alternate members are duty bound to accept election to a municipal committee or board.

A person who has served as council leader for one electoral term or longer, or has served in a specified office within the council for an equivalent period, may decline to be elected to this office for a period equal to the period he/she has served in the office.

Art. 34

*Release from office.*

Should a councillor feel that he/she cannot perform his/her duties for the council without undue strain, the council may reduce his/her duties or release him/her from office for a specified period, or until the end of the electoral term.

Should a council representative cease to be eligible for office, he/she shall step down from the council, but see the provisions of para. 4 art. 24.

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.

Art. 35

*Stipend and travel expenses.*

A council must decide an appropriate stipend to councillors for their work. If the councillor must travel a long distance from his/her home to the meeting-place of the council, the council may in addition allocate to him/her payment of appropriate travel expenses.

Should a councillor undertake travel on behalf of the municipality, in accord with the council's decision, he/she is entitled to payment of appropriate travel and accommodation expenses.

Art. 36

*Holidays etc.*

It is the right of councillors that the work of the council be so organised as to permit them to take appropriate holiday time each year.

The council may, in the ordinance on government of the municipality, state provisions on the rights of councillors, for instance with regard to pension funds, parental leave, severance pay, etc.

Art. 37

*Rights and obligations of alternate councillors.*

The provisions of this section pertaining to the rights and obligations of councillors shall also apply to alternates who take seats on councils.

SECTION IV

**Committees and boards.**

Art. 38

*Election of a municipal executive board.*

A council may decide in the ordinance on government of the municipality that a municipal executive board shall be elected. In councils comprising three to five members, however, a separate executive board shall not be elected.

An executive board shall be elected for a term of one year, unless otherwise decided by the ordinance on government of the municipality.

In the case of councils comprising seven or nine members, the executive board shall comprise three of the councillors, and in the case of councils comprising eleven or more councillors, the executive board shall comprise five to seven of the councillors. An equal number of alternates shall be elected. A council may decide, however, in the ordinance on government of the municipality, that those members and alternates who have been elected from the same list of candidates as the person elected to the executive board, shall be his/her alternates in the same order as on the list of candidates.

The chair of the executive board shall be chosen from among the elected members of the executive board.

A council which is elected by restricted proportional representation may authorise a candidacy which is represented on the council, but which has not been elected to the executive board, to attend meetings of the executive board, with the right to speak and to propose motions. A candidacy which is represented on the council but not on the executive board shall be accorded this right during the time when the council does not meet due to summer holidays.

The municipal administrator shall attend meetings of the executive board, with the right to speak and to propose motions. He/she shall only have the right to vote, however, if he/she is an elected member of the council and has been elected to the executive board.

#### Art. 39

##### *Role of the executive board.*

The executive board shall, together with the municipal administrator, have executive and fiscal authority in the municipality, in so far as these are not allocated to other parties. It shall be responsible for general supervision of the municipality's administration and its fiscal administration specifically; it shall prepare budgets and ensure that the municipality's annual accounts are prepared in accord with the rules.

It is permissible to allocate to the executive board most of the responsibilities of standing committees.

The executive board has final authority on issues not crucial to the financial status of the municipal treasury or of its agencies, provided that there is no disagreement within the executive board or with the municipal administrator regarding the decision in question [but during the municipal council's summer holiday, the executive board has the authority otherwise held by the municipal council.]<sup>1)</sup>

Otherwise the provisions of this section shall apply to executive boards.

<sup>1)</sup> Act No. 69/2004, Article 1.

#### Art. 40

##### *Election to other committees and boards.*

The council shall elect representatives on committees and boards as provided in law and in the ordinance on government of the municipality, and also grants them release from office. The electoral terms of such committees shall be the same as the electoral term of the council, unless otherwise provided by law or by the council.

Election to the executive board, committees and boards shall be by secret ballot, and by restricted proportional representation if so requested.

Only those who are eligible to vote in the municipality are eligible for office on municipal committees and boards.

[Employees of municipal companies and agencies are ineligible to serve on committees and boards of those companies and agencies where they are employed. A municipal council may decide to make an exception to the terms of this provision if matters concerning the employer play a very minor role in the work of the relevant committee, and if the work of the relevant individual is not of such a nature that there would be a risk of conflict of interest if he/she served on the committee.]<sup>1)</sup>

The council may elect committees to handle specific areas of responsibility during the electoral term.

A council shall elect representatives on committees and boards to which the council is party under the relevant ordinance or law.

A council may elect *ad hoc* committees to handle specific designated tasks. The authority of such committees may be revoked by the council at any time, and it expires automatically at the end of the electoral term of the council in question.

A council may elect a committee to deal with specific matters in a part of the municipality in question. It may be determined by the ordinance on government of the municipality that such a committee shall be elected by direct election of the electorate in the relevant part of the municipality.

<sup>1)</sup> Act No. 69/2004, Article 2.

#### Art. 41

##### *Combination of committees.*

A council may combine committees, so that one committee handles tasks in more than one field, notwithstanding provisions in law stipulating that a separate committee shall be elected to handle specific tasks.

In municipalities where manning committees is difficult, the council may itself perform the duties of a statutory committee, unless the tasks of the committee are incompatible with the work of the council in the view of the Ministry.

#### Art. 42

##### *[Release from committees and new appointments.*

Representatives on municipal committees and boards who are not councillors or alternate councillors may resign their seat on a committee at any time during the electoral term. Other representatives may ask the municipal council to release them temporarily or for the remainder of the electoral term, in the same manner as provided in Article 34.

A municipal council may at any time during the electoral term decide to change representatives on committees or boards it elects or appoints, if there is no disagreement within the council, or if substantial reasons justify such a change, for instance if a committee member, without valid reason, fails to attend committee meetings, or violates confidentiality. A councillor may also request that a committee be appointed anew, for instance in the case of changes in coalition during the electoral term. A council may, however, refuse such a request if it is clearly unfounded. When a change is made, such as is described above, to the appointment of representatives to municipal committees and board, all the representatives shall be elected anew, and the election shall be subject to the provisions of para. 2 art. 40, unless there is no disagreement within the council regarding the changes.]<sup>1)</sup>

<sup>1)</sup> Act No. 69/2004, Article 3.

#### Art. 43

##### *Alternates.*

When a committee member is temporarily unable to perform his/her duties, an alternate member shall take his/her place on the committee. When a committee member dies, moves away or is otherwise permanently unable to perform his/her duties, the alternate shall take his/her place, cp. the previous sentence, unless the council decides to elect a new member. [Otherwise the municipal council shall appoint a new alternate to serve on the committee.]<sup>1)</sup>

If two or more parties or candidacies have collaborated on committee elections, the party which nominated the relevant person to the committee shall also nominate the alternate to replace him/her, unless otherwise stated in a declaration, see art. 24.

<sup>1)</sup> Act No. 69/2004, Article 4.

#### Art. 44

##### *[Role and jurisdiction of committees.*

A council shall determine the competences of committees and boards it elects, unless this is provided by law.

In order to conduce to efficiency, effectiveness and more rapid process, a council may decide, in the ordinance on government of the municipality, cp. art. 10 of this Act, to allocate to a municipal committee or board final authority in matters not crucial to the finances of the municipality, unless law or the nature of the case militates especially against this.

In the same manner and on the same conditions as specified in para. 2 a council may assign final decision-making authority to other parties within the municipality's administration. The municipal council, executive council or appropriate committee shall monitor the handling of cases under this paragraph, and shall request regular reports on decisions made on the basis of the paragraph.

The party who has been assigned the power for final authority under para. 3, or one-third of the representatives in the case of a committee or board, cp. para. 2, may request at any time that the municipal council, executive council or relevant committee as provided in the municipality's ordinance on government, make a decision in a case.

When a municipality uses its authority under para. 2 or 3, it shall also be stated in the municipality's ordinance on government how cases may be reopened which have been dealt with under these provisions.]<sup>1)</sup>

<sup>1)</sup> Act No. 74/2003, Article 1.

#### Art. 45

##### *Calling of first meeting.*

The municipal administrator shall call the first meeting of committees and boards after they have been elected, or shall decide who is to call the meetings, unless the council has elected a chair specifically, in which case the chair shall be responsible for calling the first meeting.

The municipal administrator may call a joint meeting of two or more committees to discuss issues within the jurisdiction of more than one committee.

#### Art. 46

##### *Election of chair, deputy chair and secretary, and their roles.*

At the first meeting of a newly-elected committee a chair, deputy chair and secretary shall be elected, unless otherwise determined by law or by the council.

The chair of the committee shall call meetings or have them called, giving an appropriate period of notice.

The chair of a committee shall chair its meetings. Meetings shall normally be held *in camera*. A committee may summon municipal employees to attend a meeting of the committee if deemed necessary. It may also invite other parties to a meeting of the committee for discussion of specific issues.

#### Art. 47

##### *Rights and obligations of representatives on committees and boards.*

Committee members are duty bound to attend meetings of the committee.

The provisions of sections II and III of this Act otherwise apply to representatives on municipal committees and boards, as applicable.

#### Art. 48

##### *Minutes.*

Committees and boards of a municipality shall keep a minutes book, in which minutes of meetings are entered. The minutes of committees shall be kept in the same manner as those of municipal councils, cp. art. 23.

In the case of an advisory committee, which has not been allocated final authority in its field by law or by the ordinance on government of the municipality, its resolutions shall have the status of proposals to the council, although they may be termed decisions or resolutions of the committee.

Art. 49

*Approval of minutes.*

Minutes of committees and boards shall be submitted to the executive board and or full council, according to the procedure of final approval in the relevant field. If the minutes do not include resolutions or proposals which must be especially confirmed by the executive board or municipal council, the minutes are submitted for information purposes. If resolutions or proposals require confirmation by the executive board or the council, these must be debated specifically. A committee resolution which involves expenditure shall be submitted to the executive board, according to the procedure prescribed in the ordinance on government of the municipality.

Minutes shall accompany the agenda of regular council meetings.

Art. 50

*Stipend.*

A council must decide on an appropriate stipend for elected representatives on the municipality's committees and boards, for their work, in accord with the council's assessment and with rules laid down by the council, and also travel and accommodation expenses in accord with art. 35.

A council may decide to pay a stipend to those who have observer status for their work on municipal committees and boards.

SECTION V

**Municipal administration and employees.**

Art. 51

*General.*

The council shall employ a municipal administrator and other employees as provided in art. 56 to implement the decisions of the council and the tasks incumbent upon municipalities.

Art. 52

*No municipal administrator appointed.*

Should a municipal administrator not be appointed, the council leader shall handle the daily management of the municipality, prepare meetings of the council and executive board (if elected), and shall implement the council's decisions and other municipal matters, such as correspondence, collection of municipal taxes, and financial records.

Art. 53

*Salary of council leader where no municipal administrator is appointed.*

The salary of the council leader, where no municipal administrator or other employees are appointed to the government of the municipality, shall be determined by the council. The salary shall be regularly reviewed in accord with general salary trends in the country.

In the case of special, extensive temporary tasks on behalf of the municipality, handled by the council leader, he/she shall be entitled to special remuneration for this work, as determined by the council.

Should a council leader contribute accommodation and other facilities for administrative work and meetings on behalf of the municipality, he/she shall be entitled to special remuneration for this service.

Art. 54

*Appointment of a municipal administrator.*

A council may appoint a municipal administrator. Two or more municipalities may appoint a joint municipal administrator.

The council shall make a written contract of employment with the municipal administrator, stating his/her terms of employment.

A municipal administrator shall normally be appointed for the same period as the electoral term of the council. A municipal administrator may be appointed for an indefinite period, in

which case employment may be terminated by either party at three months' notice, counting from the end of a calendar month.

The municipal administrator's contract of employment shall state whether the appointment is for the council's term of office, or for an indefinite period.

#### Art. 55

##### *Municipal administrator's area of responsibility.*

The municipal administrator shall attend meetings of the council, where he/she has the right to speak and to propose motions, but not the right to vote unless he/she is an elected member of the council. He/she is also entitled to attend meetings of municipal committees, with the same rights.

The municipal administrator prepares meetings of the council and executive board, and implements the council's decisions.

The municipal administrator shall have the right of procuration on behalf of the municipal treasury. The municipal administrator may grant the right of procuration to another council employee with the consent of the council. Those who have rights of procuration on behalf of the municipal treasury must be legally competent to manage their financial affairs.

The municipal administrator shall sign documents regarding purchase and sale of municipal real estate, loans and guarantees, and other documents which entail obligations or measures which require the consent of the council.

The municipal administrator is the highest authority over other municipal employees.

The ordinance on government of the municipality shall state further provisions regarding the municipal administrator's area of responsibility, and the distinction between this and the authority of the council and executive board.

#### Art. 56

##### *Appointment of other employees.*

The council shall appoint staff to major management posts for the municipality and its agencies, and shall be responsible for their termination of employment.

Employment of other staff shall be subject to provisions made in the ordinance on government of the municipality. If it does not contain such provisions, the council shall issue general guidelines on appointment of employees.

#### Art. 57

##### *Terms of employment, rights and obligations.*

Municipal employees' salaries, rights and obligations shall be subject to collective agreements in force at any time and/or the terms of the contract of employment.

[Municipal employees are bound by an obligation of confidentiality on matters of which they become aware in their work, which should remain confidential, by law, by instruction from a superior or by their nature. The obligation of confidentiality remains in force, even if employment ceases.]<sup>1)</sup>

<sup>1)</sup> Act No. 74/2003, Article 2.

### SECTION VI

#### **Municipal finances.**

#### Art. 58

##### *General provisions on municipal bookkeeping and accounts.*

Municipalities, i.e. municipal treasuries and municipal agencies and companies, are legally required to keep accounts.

Accounts shall be kept in a clear and accessible manner, and financial statements shall give a clear picture of the operation and assets and liabilities of the municipality as a whole. In so far as they are applicable, the provisions of the Accounting Act, the Annual Accounts Act and other good bookkeeping and accounting practice shall apply.

Art. 59

*Fiscal year.*

The fiscal year of municipalities shall be the calendar year.

Art. 60

*Categories of municipal financial statements.*

Municipal financial statements shall be categorised as follows:

- a. municipal treasury, which within the meaning of this Act shall mean the principal fund of the municipality, in addition to other funds and agencies whose activities are entirely or partially financed by tax revenue,
- b. municipal agencies, companies and other administrative units of which the municipality owns 50% or more, and which are operated as autonomous financial units.

Art. 61

*Budget.*

[Before the end of December the council shall make a budget for the municipal treasury and municipal agencies for the following year.]<sup>1)</sup> The Ministry may grant a council more time, in the case of exigent reasons.

A budget as provided in this article shall lay down principles on the municipality's sources of revenue, disbursement of funds and financial management for the relevant fiscal year. In the making of a budget, account shall be taken of the financial position of the municipal treasury and municipal agencies.

The council shall each year ensure as far as possible that the total expenditure of the municipality, including operating expenditure, does not exceed its total revenues.

The budget shall be debated at two meetings of the council, at an interval of at least one week.

The budget shall include a plan for operations and development projects, an estimated balance sheet for the beginning and end of the year, and an estimate of capital movements. The form of the budget shall be consistent with the form of the annual accounts [and government directives issued under para. 4 art. 67 with regard to budgets.]<sup>1)</sup>

<sup>1)</sup> Act No. 74/2003, Article 3.

Art. 62

*Revision of budget.*

The budget for the municipal treasury and municipal agencies may be revised and amended as necessary, if changes occur to the premises on which the budget was based. The council decides such amendments to the budget following a single debate. Amendment proposals shall be sent to all councillors, together with the agenda of the relevant council meeting.

Should the council approve appropriation outside the budget, it shall also determine how this disbursement is to be funded. Consent to such appropriation shall be deemed an amendment to the budget.

[If a council makes a decision regarding substantive obligations which are not included in the budget, including long-term obligations under the terms of leases, contracts on management of property, or services to residents, or comparable contracts, it shall notify the monitoring committee of this decision, cp. art. 74.]<sup>1)</sup>

<sup>1)</sup> Act No. 74/2003, Article 4.

Art. 63

*Three-year plan.*

In addition to the budget as provided in art. 61, the council shall each year prepare and debate a three-year plan for operations, projects and finances of the municipality. This plan shall provide the framework for the annual municipal budget. It shall be made and approved by the council within [two months]<sup>1)</sup> of the approval of the annual budget as provided in art. 61.

[The form of three-year plans shall be consistent with the form of annual accounts and with government directives issued under para. 4 art. 67 on three-year plans.]<sup>1)</sup>

<sup>1)</sup> Act No. 74/2003, Article 5.

Art. 64

*[Disbursements from the municipal treasury and handling of assets and properties.]*

A municipal council shall maintain responsibility in the handling of the municipality's assets and ensure their safe investment.

A council shall at all times ensure the right of use of properties which are necessary in order for the municipality's mandatory tasks to be performed.]<sup>1)</sup>

Disbursements which are not mandatory by law, subject to a contract, or a consequence of prior council decisions, must not be undertaken without the consent of the council.

<sup>1)</sup> Act No. 74/2003, Article 6.

Art. 65

*[Major investments and sale of properties.]*<sup>1)</sup>

Should a council plan to embark on an investment, of which the estimated total cost, or the municipality's share in the costs, exceeds one quarter of the tax revenues for the current fiscal year, an expert opinion on the cost estimate, anticipated effects on the financial performance of the municipal treasury during the period of the project, and an estimate of annual operating costs to the municipal treasury, if applicable, must be submitted to the council. It shall also be explained how the project is compatible with the municipality's three-year plan.

[By the same token the opinion of an expert party shall be elicited before a municipality confirms contracts on projects or services to the residents of the municipality which are to be valid for a long time, and which entail substantial obligations on the part of the municipal treasury. This applies also to contracts on the sale or subletting of properties subject to para. 2 art. 73.

Should a council decide to sell municipal properties which are subject to para. 2 art. 73, the monitoring committee shall be notified of this decision. The monitoring committee shall assess the financial effects of the sale upon the operations of the municipality. The monitoring committee may submit its proposals to the relevant municipal council with regard to the allocation of the proceeds of the sale, or their investment. The Minister may, after consultation with the Association of Local Authorities, issue regulations containing more detailed directives on the form of notification, criteria for the monitoring committee's investigations, and other matters regarding the implementation of the provision.]<sup>1)</sup>

<sup>1)</sup> Act No. 74/2003, Article 7.

Art. 66

*Submission of budget etc. to the Ministry.*

When a budget as provided in art. 61, or three-year plan as provided in art. 63, has been approved by the council, it shall immediately be sent to the Ministry. The same applies to a revised or amended budget as provided in art. 62.

Art. 67

*Annual accounts.*

Annual accounts shall be prepared for the municipal treasury, and for municipal agencies and companies. Consolidated annual accounts shall also be prepared for the municipality, i.e. for the municipal treasury and municipal agencies and companies with separate accounting, cp. art. 60.

The annual accounts shall be prepared in accord with the law, rules and generally accepted accounting principles.

The annual accounts shall include a statement of operations and projects for the fiscal year and a balance sheet at year-end, together with explanatory notes. The annual accounts shall include the budget for the fiscal year for comparison, and shall include a statement of the municipality's financial obligations.

The Minister shall specify in regulations<sup>1)</sup> further provisions regarding municipal bookkeeping and annual accounts, in consultation with the Statistical Bureau and the Association of Local Authorities.

<sup>1)</sup> *Regulation No. 944/2000, cf. Advertisement No. 414/2001 and No. 945/2004; Regulation No. 721/2001, Advertisement No. 790/2001, cf. No. 948/2004 and No. 1184/2006; Advertisement No. 156/2002, No. 802/2002 and No. 803/2002 and Regulation No. 561/2004.*

#### Art. 68

##### *Audit of annual accounts.*

The municipal council shall engage a chartered accountant or accounting firm to audit the municipal accounts.

The council may, however, determine that auditing of the municipal treasury and the municipality's agencies and companies shall be carried out by an auditing office operated by the municipality. Such an auditing office shall be under the management of a director who is a chartered accountant. The office shall be directly answerable to the council, and be independent of all municipal committees, boards, companies and agencies in its auditing work.

A municipality's accountant shall carry out the audit in accord with law and rules and with generally accepted auditing standards as practised at any time by public bodies. By the audit, the accountant shall reach a reasoned conclusion regarding the reliability of the annual accounts, and determine whether the provisions of law, rules and resolutions on municipalities' handling of funds and their duty to provide information, have been observed.

The municipality's accountant shall present his/her audit and observations to the examiners as provided in art. 69 within an appropriate time before the signing of the annual accounts.

#### Art. 69.

##### *Examiners.*

At the first meeting of a newly-elected local council, two examiners, and two alternates, shall be elected, for the electoral term of the council. Those who are elected as examiners must have the right to vote, and be eligible for office, in the relevant municipality. Councillors and alternates, and municipal employees, are not eligible to be elected examiners for the municipality.

Examiners shall examine the annual accounts of the municipality. They shall also examine individual financial affairs of the municipality, and its agencies and companies, as they deem necessary.

Examiners shall submit to the municipality's accountant in a timely fashion their observations and information, which they believe may be relevant and useful to the auditing procedure.

#### Art. 70

##### *Access to information.*

The accountant and examiners must be granted facilities to carry out such examinations as they see fit. They shall have access to all municipal assets, accounting records, supporting documents and other records. The council and municipal employees shall provide them with all information relating to their task, which they request and can be provided.

#### Art. 71

##### *Signing of annual accounts.*

The accountant and examiners shall sign the annual accounts.

The accountant shall make a declaration that the annual accounts have been audited and that they have been prepared in accord with the provisions of law, rules and ordinances. The accountant shall also give a written declaration of his/her evaluation of the annual accounts, and in other respect state the results of the audit.

The examiners shall by their signatures confirm that they have examined the annual accounts, and also state the results of their examination.

Should the accountant and examiners be of the view that the annual accounts do not contain the information that is mandatory, this should be stated in their signed statements and explained in a report, and they shall provide additional information if possible. In other respect, they may state which information should, in their opinion, be included in the annual accounts.

Comments and observations, which the accountant and examiners wish to make to the council or to the municipal administrator, shall be made in writing, allowing a suitable time for an answer.

Should the accountant or examiners deem necessary, they shall make proposals to the council regarding improvement to the municipality's handling of funds, and on amendments to internal control, administration and other matters which they believe may be beneficial to the running of the municipality's operations.

The council shall keep in a secure manner all documents relating to the audit, and communications with the accountant and examiners.

The accountant or examiners may not pass information to any unauthorised party regarding the financial situation of the municipality, its agencies and companies, nor other information of which they may become aware in their work.

The Minister may, in consultation with the Association of Local Authorities, make further provisions in regulations on municipal audits, for instance with regard to the respective responsibilities of the accountant and the examiners.

#### Art. 72

##### *Council approval of annual accounts.*

The municipality's annual accounts shall be completed, audited and ready for approval by the council before the end of April.

The council shall debate and vote on the opinions, reports and proposals of the accountant and examiners, as provided in art. 71.

The council shall have completed its final approval of the annual accounts of the municipality and its agencies and companies not later than 1 June. The council and municipal administrator shall sign the annual accounts and send them to the Ministry and the Statistical Bureau before 15 June each year, together with the reports of the accountant and examiners.

Should a council neglect to finalise or to submit the annual accounts within the time required, the Ministry may suspend payments from the Local Authorities' Equalisation Fund, and take legal action against the parties responsible for the negligence.

#### Art. 73

##### *Security and guarantees.*

The total assets of the municipality shall serve as security for its liabilities.

A municipality may not pledge its income, nor real estate necessary in order for the municipality to perform its mandatory tasks. The municipality may pledge other assets on behalf of the municipal treasury, agencies and companies.

A municipality may put up its revenues as security for loans it receives from the Local Authorities Loan Fund [ohf.]<sup>1)\*</sup> [and for guarantees it grants cf. para. 6] in favour of the fund's borrowers.]<sup>2)</sup> The Minister of Social Affairs may make further provisions in regulations,<sup>3)</sup> regarding the Local Authorities Loan Fund's [ohf.]<sup>1)\*</sup> security in municipal revenues.

Those assets of a municipality which are necessary in order for it to perform its mandatory tasks are not subject to attachment for debt, and municipalities cannot be subjected to insolvency proceedings.

Claims against the municipal treasury may not be offset against mandatory payments due to the municipality or its agencies.

[A municipal council may indemnify loans to agencies and companies owned by the municipality, which are as provided in item b. art. 60. A municipal council may also provide a guarantee for loans for projects undertaken by companies owned and run by the municipality, in collaboration with other municipalities or other public bodies, in order to provide mandated services; the guarantee shall be provided by the owners in proportion to their holdings. The guarantee is conditional upon the relevant company being wholly owned by public bodies, and

upon all the owners providing a guarantee for the loan in proportion to their holdings. The guarantee is rendered void if the company is transferred to some degree into private ownership.]<sup>4)</sup>

The holder of the municipal treasury's power of procuration may, on behalf of the municipality, guarantee by an endorsement the payment of business papers which the municipality has acquired in a normal manner in connection with its daily operations.]<sup>4)</sup>

<sup>1)</sup> Act No. 150/2006, Article 5. <sup>2)</sup> Act No. 136/2004, Article 11. <sup>3)</sup> Regulation No. 123/2006. <sup>4)</sup> Act No. 69/2004, Article 5.

[Section VII  
**Monitoring of municipal finances.]<sup>1)</sup>**

Art. 74

*Monitoring committee.*

The Minister shall appoint a three-person monitoring committee, whose role is to monitor the finances of municipalities. One member of the committee shall be appointed by nomination from the Association of Local Authorities, and two without prior nomination, one of whom shall be a chartered accountant. Three alternates shall be appointed in the same manner. The Minister shall appoint the chair of the committee.

[The committee shall examine the municipalities' financial statements and budgets and compare them with the criteria provided in para. 4 of this article and monitor the compliance of municipal financial management with the provisions of para. 3 art. 61. Should the monitoring committee's examination reveal that the municipal treasury's financial standing is not consistent with para. 3 art. 61, or that other difficulties are imminent in a municipality's finances, the committee shall warn the relevant municipal council, and request an explanation. The committee shall at the same time inform the Ministry of its opinion. A municipal council must in such a case inform the monitoring committee within two months of how it plans to respond to the committee's warning.]<sup>1)</sup>

A stipend to the members of the monitoring committee shall be determined by the Minister. The stipend and other expenses of the committee shall be paid by the Treasury.

The Minister shall, in consultation with the Association of Local Authorities, issue regulations<sup>1)</sup> on the work and procedures of the monitoring committee, and criteria regarding the financial matters. The financial criteria shall cover the paramount issues in evaluation of the operations and financial status of municipalities.

<sup>1)</sup> Act No. 74/2003, Article 9. <sup>2)</sup> Regulation No. 374/2001, cf. No. 829/2003 and No. 352/2005.

Art. 75

*Financial difficulties.*

Should a municipality find itself in financial difficulties, such that the council believes that it cannot meet its obligations, the council shall notify the monitoring committee as provided in art. 74. A decision regarding such notification shall be made after two debates in the council.

The monitoring committee shall immediately have the finances and operations of the municipality examined, and then submit proposals to the council regarding improvements, within an appropriate period of time.

The monitoring committee may take measures as provided in para. 2, should a council have ignored a warning of the committee as provided in para. 2 art. 74, or if the committee deems the response of the council to the committee's warning to be unsatisfactory.

Should the investigation reveal that the municipality's finances are such that, given normal operating procedures, it cannot meet the expenses of its mandatory tasks or other obligations, the Ministry may, on the proposal of the monitoring committee, provide the municipality a grant or loan from the Local Authorities' Equalisation Fund, in order to rectify the finances of the municipality, on conditions laid down by the Ministry. The Ministry may authorise or propose to the council, in such a case as is discussed here, on the proposal of the monitoring committee, as a surcharge of up to 25% of municipal tax and property tax.

#### Art. 76

##### *Suspension of fiscal powers.*

In a case where the municipality's debt service burden so far exceed its ability to pay that it is clear that no solution can be achieved in the short term, the Minister may, on the proposal of the monitoring committee, suspend the council's fiscal powers over the municipality, and appoint a financial management board as provided in art. 77, provided that the council has so neglected its duties as provided in this Act as to create difficulties, that the financial management of the municipality has been in disarray, and that measures as provided in art. 75 will not foreseeably prove effective.

Before a council's fiscal powers over the municipality are suspended as provided in this article, the Ministry shall, however, urge the council to put its financial affairs in order, and the Ministry may grant a council a period of grace of up to six months for this purpose. The Ministry may also request that the municipality be granted authority for a moratorium on debts, or to seek composition in accord with the normal rules.

A council may take legal action to have the Minister's decision to suspend fiscal powers quashed.

#### Art. 77

##### *Financial management board.*

A municipal financial management board shall comprise three people, one of them nominated by the Association of Local Authorities. The chair shall be appointed by the Minister.

The financial management board shall be appointed for a specified period, not to exceed one year at a time.

Stipends to the members of the board shall be determined by the Minister and shall be paid by the Treasury.

A decision to suspend fiscal powers and appoint a financial management board shall be published in *Lögbirtingablað* [Official Gazette] and in Section B of *Stjórnartíðindi* [Law and Ministerial Gazette].

#### Art. 78

##### *Role of financial management board.*

The financial management board shall take over the fiscal management of the municipality, and no payment may be made from municipal funds without the board's consent. Resolutions of the council and decisions made by its subsidiary authorities, which involve expenditure, are not valid without the consent of the financial management board. In other respect the council continues to govern municipal affairs.

The financial management board shall examine the finances of the municipality, and all its operations, and make a new plan for municipal revenues and expenditure for the next two fiscal years.

This plan shall be sent to the Ministry for confirmation, along with the comments of the council. After confirmation by the Ministry, this plan is valid as the municipality's financial budget, at least while the municipality is subject to the financial management board.

The financial management board may, with the consent of the Ministry, sell municipal assets in order to pay off debts, but not those assets which are necessary to the municipality performing its mandatory tasks, cp. art. 73. By the same token, the financial management board can decide to transfer a certain activity which has been carried out by the municipality, to a private enterprise.

#### Art. 79

##### *Merger with another municipality.*

Should the above-mentioned measures 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 a financial management board, or a part of it.

Art. 80

*Cessation of suspension of fiscal powers.*

Suspension of fiscal powers and the appointment of a financial management board shall cease by decision of the Minister, when the finances of the municipality may be deemed to be acceptable. An advertisement of this shall be published in the same manner as the suspension of fiscal powers was published.

[SECTION VIII]<sup>1)</sup>

**Collaboration between municipalities.**

Art. 81

*General.*

Municipalities may collaborate on the implementation of specific tasks. Such collaboration may take place within the context of, for instance, regional boards [*héraðsnefnd*], co-owned agencies [*byggðasamlag*], regional federations [*landshlutasamtök*], and the Association of Local Authorities.

<sup>1)</sup> Act No. 74/2003, Article 8.

Art. 82

*Foundation of a co-owned agency.*

In the case of a long-term collaborative arrangement between municipalities, such as the operation of schools, health facilities or fire departments, the municipalities may form a co-owned agency to handle the implementation of the task.

An agreement which shall be made on the co-owned agency shall make provision for the agency's board, election of representatives to this board, their number and electoral term, on alternates, and other relevant matters.

The agreement shall provide for when a board meeting constitutes a quorum, and for the board's mandate to undertake obligations on behalf of the municipal treasuries. It shall also include provisions on when a resolution of the agency's board is subject to confirmation by the municipal councils.

Where not otherwise specified in the articles of association of the co-owned agency, the principles of this Act shall apply, as applicable, with regard to procedure, obligations and rights of board members, staff, financial procedures and auditing of annual accounts.

The municipal treasuries are individually liable for the financial obligations of the co-owned agency to which they are party; the liability of each is in proportion with their respective populations.

Art. 83

*Review of articles of association of co-owned agencies.*

The articles of association of a co-owned agency shall be reviewed not later than ten years after the foundation of the agency, and then at least every ten years. In such a review, the experience of the work of the relevant co-owned agency, and its administration, shall be evaluated, and with regard to the number of representatives on the board of the agency, account shall be taken of changes due to altered circumstances, including changes to the population of the member municipalities and to their organisation.

An amendment to the articles of association of a co-owned agency requires confirmation by a two-thirds majority in the councils of the member municipalities, or must be approved by a vote of the electorate in the region of the co-owned agency; such a vote on a proposal for an amendment to the articles may be demanded by two-thirds of the board members.

Art. 84

*Withdrawal from a co-owned agency.*

In the case of a municipal council wishing to withdraw from a co-owned agency, it may do so, and a review of the agency's articles must be made at the same time, cp. art. 83.

Should the council request to redeem its net share of the assets of the co-owned agency, it is not obligatory to pay this over a shorter period than 20 years. Should an agreement not be

reached on the value of the municipality's share of the assets, or on the terms of payment, a ruling shall be made by three court-appointed, competent and impartial persons, who shall take account, among other things, of the ongoing benefits to the residents of the relevant municipality from the activities of the co-owned agency, and the liquidity of the co-owned agency, or of the municipalities which continue to operate it.

Art. 85

*Disbandment of a co-owned agency.*

A proposal to disband a co-owned agency is only valid if confirmed in accord with the provisions of para. 2 art. 83.

In the case of a decision to disband a co-owned agency, or if this is provided by law, a board of receivership shall be appointed to settle its assets and liabilities and to terminate its operations. The board of receivership may advertise for outstanding claims against the co-owned agency by a formal calling-in of claims. After such claims have been paid, the balance of the assets or liabilities shall be distributed among the relevant municipal treasuries, in proportion with their populations.

The board of receivership shall be elected by the board of the co-owned agency.

Art. 86

*Regional federations of municipalities.*

Municipalities may establish localised regional federations of municipalities, to work in the interests of the residents of the region. The area covered by such an federation shall be as decided by the affiliated municipalities, and confirmed by the Ministry.

Municipal councils shall elect representatives to the annual general meeting of the regional federation, according to rules provided in the articles of association of the federation.

Art. 87

*Association of Icelandic Local Authorities.*

The Association of Icelandic Local Authorities speaks on behalf of municipalities in Iceland.

[SECTION IX]<sup>1)</sup>

**Enlargement of municipalities.**

Art. 88

*General.*

The Ministry shall seek to enlarge municipalities by means of the merger of municipalities of 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.

<sup>1)</sup> Act No. 74/2003, Article 8.

Art. 89

*Obligatory merger of municipalities.*

When the merger of a municipality with another municipality is obligatory, cp. para. 2 art. 6, the Ministry shall appoint a committee comprising two persons nominated by the municipal council of the municipality in question, and two nominated by the relevant regional federation. The Ministry shall appoint the chair of the committee, without prior nomination. The expenses of the committee shall be paid by the Treasury.

The committee shall submit a proposal on the options it recommends for merging the municipality with one or more other municipalities.

When the committee's proposal has been submitted, the Ministry shall request that the municipality or municipalities in question nominate additional representatives to the committee, so that each municipality will have two representatives. Should the Ministry not receive nominations for the committee within the time stated, the Ministry shall appoint representatives to the committee without prior nomination.

The committee shall subsequently make proposals to the municipal councils in question, regarding the implementation of the merger.

If there is more than one proposal, the Ministry may decide to submit the proposals to a referendum of the residents of the municipalities in question.

The Ministry shall elicit the opinions of the municipal councils in question regarding the merger, after which the Ministry decides how the merger is to be implemented.

The Ministry may postpone merging of municipalities under the circumstances specified in para. 3 art. 6.

#### Art. 90

##### *Voluntary merger of municipalities.*

When two or more municipal councils have decided to explore the possibility of a merger, they shall elect a joint committee to examine the matter.

Each council shall elect two or more representatives to the committee, as agreed between them. The committee shall elect a chair from among its members.

The joint committee shall act in collaboration with the Ministry, and the Ministry shall provide the committee with such assistance as it deems necessary, and rule on debatable points that may arise.

When the joint committee has submitted its opinion on the merger, the matter shall be placed on the agenda of the councils in question. There shall be two debates on the matter, without a vote.

Following the council debate, the proposed merger shall be submitted to a referendum within the municipalities. The councils in question shall jointly decide when the referendum is to be held, which shall be on the same day in both/all municipalities.

The joint committee or the councils in question shall promulgate to the residents of the municipalities the proposal which is to be put to the vote, with appropriate notice, and by reliable means, for instance by a circular or public meeting.

The council shall prepare the ballot papers to be used in the referendum, in consultation with the Ministry. A referendum under this article shall be in accord with the provisions of the Local Government Elections Act, as applicable.

#### Art. 91

##### *Criteria for voluntary merger.*

A municipality cannot be merged with other municipalities unless more of the voters in a referendum as provided in art. 90 are in favour of the merger, than against, but see para. 2 of this article.

[Municipal councils in municipalities where a proposed merger is approved by the inhabitants may decide to merge those municipalities, even if the proposal of the joint committee is not approved in all the municipalities concerned. This is on condition that the proposal has been approved in at least two-thirds of the municipalities, and that the population of those municipalities comprises at least two-thirds of the population of the relevant area.]<sup>1)</sup>

<sup>1)</sup> Act N. 69/2004, Article 6.

#### Art. 92

##### *Financial measures following approval of proposed merger.*

Should a proposed merger have been approved as provided in art. 91, the councils of the municipalities in question are prohibited from undertaking obligations on behalf of the municipal treasury, or approving expenditure from the municipal treasury, which is not entailed by law, the municipal budget or prior decisions of the council, unless such measures are approved by all the municipal councils in question.

#### Art. 93

##### *Confirmation by the Ministry.*

Should a merger have been approved as provided in art. 91, the municipal councils involved shall make decisions on the financial affairs of the municipalities, the number of councillors on

the new council, the name of the merged municipality, when the merger is to be implemented, and other matters. These decisions shall be submitted to the Ministry, which then confirms the merger.

Should the municipalities which are to merge be located within the area of jurisdiction of two or more district commissioners, the Ministry shall elicit the views of the Ministry of Justice before a decision on a merger is made.

Art. 94

*Merger across constituency boundaries.*

It is permissible to merge municipalities across the boundary between constituencies; such a merger does not affect the organisation of constituencies for parliamentary elections.

Art. 95

*Promulgation of a decision to merge.*

When the Ministry has confirmed the merger of the municipalities in accord with the above, a announcement of the merger shall be published in Section B of *Stjórnartíðindi* [Law and Ministerial Gazette]. This shall state the name of the new municipality, which municipalities merged to form it, the date from which the merger takes effect, the number of councillors, and whether an election as provided in art. 96 is to take place, and when.

Art. 96

*Election of a new council.*

The Ministry may decide that elections shall be held for the council of the merged municipality immediately upon merging, and it may fix the date of such an election.

Art. 97

*Revision of ordinances and regulations.*

The council of the merged municipality shall ensure that ordinances and regulations which were in force in the municipalities which have merged are reviewed and standardised.

Art. 98

*Financial assistance from the Local Authorities' Equalisation Fund.*

The Ministry may, on recommendation from the Association of Local Authorities, issue general rules<sup>1)</sup> authorising the Local Authorities' Equalisation Fund to provide financial assistance to facilitate the merging of municipalities. Such assistance may be provided for up to five years after the merger.

<sup>1)</sup> Regulation No. 295/2003, cf. Regulation No. 644/2005.

Art. 99

*Discount on property tax.*

When an urban and a rural municipality merge, the council of the merged municipality may decide that for a certain period, not exceeding 10 years from the merger, a certain discount may be granted on property tax in the rural area, due to differences in the level of service to property owners in rural and urban areas.

[SECTION X]<sup>1)</sup>

**Relations between state and municipalities.**

Art. 100

*Contract of collaboration.*

The Government should establish formal collaboration with organisations of municipalities, by means of a collaborative agreement between the state and municipalities, and by other means. The government shall act in close consultation with the Association of Local Authorities regarding those matters concerned with division of responsibility between the state and municipalities, and other relations between these parties.

<sup>1)</sup> Act No. 74/2003, Article 8.

Art. 101

*Changes in division of responsibility, or financial relations.*

Should major changes be proposed to division of responsibility, or financial relations, between the state and municipalities and municipal revenues, which are subject to law or to a specific agreement, these proposals shall be discussed by a consultative committee comprising representatives of the government and of the Association of Local Authorities, before being formally finalised.

Art. 102

*Monitoring role of the Ministry.*

The Ministry shall monitor municipal councils' performance of their duties as provided in this Act and in other lawful directives.

Should a council neglect its duties, the Ministry shall issue a reprimand, and call upon the council to rectify matters.

Should a council not comply with the Ministry's instructions within a period specified by the Ministry, the Ministry may suspend payments to the municipality from the Local Authorities' Equalisation Fund until the neglect has been rectified. The Ministry may also, by taking legal action, seek to impose daily penalties upon the persons responsible for the neglect; such penalties may amount to up to five times the daily salary of the person(s) in question.

Art. 103

*Ministry's power of adjudication.*

Various matters of doubt which may arise in the implementation of local government issues, shall be subject to adjudication by the Ministry, but this does not affect the rights of the parties to take further legal action in such cases.

The Ministry shall seek to make its ruling within two months of receiving the case for adjudication.

The Ministry shall publish every year its rulings in adjudication of local government issues.

[SECTION XI]<sup>1)</sup>

**Other provisions.**

Art. 104

*Referenda and public meetings.*

A council may hold a referendum on specific issues, and call public meetings on matters concerning the municipality.

Such a public meeting must be called if one-quarter of the electorate in the municipality so request.

A public meeting of the electorate shall be called by means of a public advertisement, which shall state who is entitled to vote, if the intention is to carry out a vote at the meeting.

Resolutions of such meetings are not binding upon the council.

A council may hold a referendum in the municipality or part of it, in order to explore the views of the electorate with regard to some specific issue. The results of such a referendum are not binding upon the council for the resolution of the issue, unless it has previously decided that they shall be so.

In the implementation of a referendum as provided in para. 5, the principles of the Local Government Elections Act shall apply, as applicable.

<sup>1)</sup> Act No. 74/2003, Article 8.

Art. 105

*Entry into force.*

[This Act shall take force immediately.]<sup>1)</sup>

...

<sup>1)</sup> Act No. 123/1998, Article 1.

## Temporary provisions.

### I.

With regard to para. 1 art. 1 of the Act, those parts of the country, including glaciers, which have not already been placed within boundaries of municipalities on the basis of art. 1 or 3 of the Local Government Act no. 8/1986, shall be allocated within the boundaries of municipalities in the following manner:

Land which is owned shall be placed within the boundaries of the same municipality as that farm to which it has previously belonged, unless specific evidence exists to the contrary.

In a case where the residents of a specified municipality have a right to upland grazing in an area which has not been allocated within the boundaries of any municipality, this land shall be allocated to that municipality. If the residents of more than one municipality have a right to upland grazing, and no agreement can be reached on allocating it to a municipality, this shall be subject to adjudication by the Committee for the Interior, which functions as provided in the Act on National Lands and the Fixing of Boundaries between Owned Land, National Lands and Upland Grazing. The Committee for the Interior shall also adjudicate on disputes which arise in connection with para. 2.

When the Committee for the Interior rules that an area of land shall be deemed national lands, the Committee shall specify how that sector of it which is not classified as highland pasture is to be allocated within the boundaries of a municipality. The aim shall be to extend the boundaries of existing municipalities into the country, including glaciers, but to follow natural features, or lines based on special evidence about boundaries, where the Committee deems these more applicable. The Committee for the Interior may in such a case amend boundaries from what may have been decided between municipalities, including as provided in para. 5 of this article and para. 2 art. 3 of this Act, or by other means.

When the Committee for the Interior has not ruled on specific areas of land which have not been allocated within the boundaries of municipalities, the Minister of Social Affairs may confirm an agreement made between municipalities on boundaries between municipalities within such areas.

The Ministry of Social Affairs shall promulgate an advertisement<sup>1)</sup> on fixing of boundaries of municipalities as provided in this article in *Sjórnartíðindi* [Law and Ministerial Gazette].

<sup>1)</sup> *Advertisement No. 614/1999, Advertisement No. 629/1999, Advertisement No. 634/1999, Advertisement No. 132/2000, Advertisement No. 228/2000, Advertisement No. 965/2000, Advertisement No. 120/2002 and Advertisement No. 414/2002.*

### II.

In connection with the special action plan of the Government and the Association of Local Authorities to strengthen the local government level, a Merger Committee, appointed by the Minister of Social Affairs, shall prepare and submit proposals for merger of municipalities.

In the preparation of its proposals the committee shall take account of geographical and social factors, and of the views of the relevant municipal councils and regional federations of municipalities. Proposals shall aim for each municipality to be an integral employment and service zone.

The committee shall present its proposals to municipal councils and their federations and allow them an appropriate period of time to comment upon the proposals. The public shall also be given the opportunity to express their views to the committee.

When the deadline for submitting comments on the merger proposals has passed, the Merger Committee shall examine the comments. After this the committee shall decide whether to amend each proposal, withdraw it or submit it without amendment. The committee's final proposals shall be promulgated in daily newspapers and by other means determined by the committee, in consultation with the relevant municipal councils or their federations.

Those municipal councils to which a merger proposal applies shall each nominate two representatives to a joint committee to prepare a referendum on the proposal and to produce information material on the effects of the potential merger. The Merger Committee and the Ministry of Social Affairs shall provide the joint committee with the necessary advice regarding the handling of the proposals.]<sup>1)</sup>

<sup>1)</sup> Act No. 69/2004, Article 7. The provisions of Article 7 shall not prevent municipalities which have determined to appoint a joint committee as provided in Article 90 of the Act, before the Act No. 69/2004 came into force, from continuing those negotiations and holding a referendum on a merger on 23 April 2005 or earlier. The implementation and outcome of such a referendum which takes place after 31 December 2004 shall be subject to the provisions of temporary provisions II-IV, and the Merger Committee may, after consultation with the relevant municipalities, submit a binding proposal that more municipalities appoint representatives to the joint committee and take part in the referendum on the merger proposal, cf. Act No. 69/2007, Article 8.

### [III.]

A referendum on the proposals of the Merger Committee shall take place on [8 October 2005]<sup>1)</sup> in all municipalities to which proposals apply. [Notwithstanding the provision of the first sentence of this paragraph, the joint committee provided for in the fifth paragraph of Section II of the Temporary Provisions of this Act may decide, with 2/3 of the votes cast, and following consultation with the Ministry of Social Affairs, that a referendum is to be held before this date, providing it is the opinion of the committee that the proposal regarding the merger of the municipalities concerned will receive sufficient publicity among the inhabitants before the referendum day. The joint committee shall meet as soon as possible to take a decision on the referendum date and shall inform the Ministry of its decision not later than 20 May 2005.<sup>1)</sup>

The implementation of the referendum, electoral rights and the compilation of the electoral register shall be subject to the provisions of the Local Government Elections Act no. 5/1998, with subsequent amendments, as applicable.

Election boards in each municipality are responsible for implementation of the referendum and counting of votes, while the joint committee monitors the count and announces the results of the referendum.

Counting of votes may not commence until all polling stations have been closed in those municipalities which participate in a referendum on a merger proposal.]<sup>2)</sup>

<sup>1)</sup> Act No. 23/2005, Article 1. <sup>2)</sup> Act No. 69/2004, Article 7.

### [IV.]

A municipality is not to be merged with other municipalities in accord with a proposal of the Merger Committee unless more of its inhabitants declare in a referendum that they are in favour of the proposal, than opposed.

A merger of municipalities is deemed to be approved if the merger proposal is approved by the inhabitants of all the municipalities to which the proposal applies, cp. para. 1, and it takes effect on 9 June 2006, unless municipal councils decide upon another date in consultation with the Ministry.

If the proposal of the Merger Committee is not approved by the inhabitants of all the relevant municipalities, but a majority of those who express a view in the referendum are in favour of the merger, a new referendum shall be held within six weeks in those municipalities where the proposal was rejected. This is conditional upon the proposal having been approved in at least two municipalities. The same electoral register shall apply as for the prior referendum.

Following a referendum as provided in para. 3, municipal councils of municipalities where a merger proposal was approved may decide on the merger of those municipalities. This is not to be done, however, unless the proposal has been approved by at least two-thirds of the municipalities, and the population of those municipalities comprises at least two-thirds of the population of the relevant area.

Merger of municipalities under this provision shall take effect on 9 June 2006, unless municipal councils decide upon another date in consultation with the Ministry.]<sup>1)</sup>

<sup>1)</sup> Act No. 69/2004, Article 7.

### [V.]

The Merger Committee may decide to submit a new proposal on merger of municipalities if the committee's proposal is rejected in a referendum. A referendum on that proposal shall take place in the period October 2005 to January 2006, and a new electoral register shall be

compiled for that referendum [if more than six months have elapsed since the referendum on the proposals of the Merger Committee].<sup>1)</sup> Otherwise the implementation of the referendum shall be subject to temporary provisions II and III.<sup>2)</sup>

<sup>1)</sup> Act No. 23/2005, Article 2. <sup>2)</sup> Act No. 69/2004, Article 7. Referenced temporary provisions are number III and IV.

*[This translation is published for information only.  
The original Icelandic text is published in the Law Gazette.  
In case of a possible discrepancy, the original Icelandic text applies.]*