

# English translation of the Weekly Web Release



MINISTRY OF FINANCE IN ICELAND

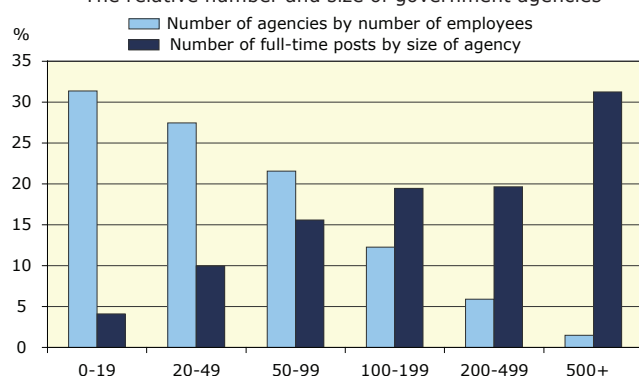
September 13<sup>th</sup> 2007

## Fewer government agencies

In 1998, the total number of government agencies was a little less than 250, but now the total is closer to 200. This was among the statistics published in survey concerning the work environment of government employees, conducted at the end of last year and published (in Icelandic) on April 11<sup>th</sup>.

In October 2006 the number of agencies in the executive branch of government was 204. Their size, in terms of number of employees, varies greatly. The smallest one had two employees, but the largest one had over 4,700 employees. The median agency had 38 employees in 33 full-time posts. More than half the number of government agencies had fewer than 50 employees, which covers only around 10% of the total government workforce. 59% of the agencies had fifty or fewer full-time posts, against 68% in 1998, when a comparable survey was conducted. So as well as becoming fewer, government agencies have become larger.

The relative number and size of government agencies



As stated above, there is a large variability in number of employees and full-time posts within government agencies. The most variability is in the health sector, where the smallest agency has 10 employees but the largest has 4,700. The largest workplaces are generally in the health sector even if Landspítali hospital, the largest one by far, is excluded. Larger than average agencies are in the educational sector (colleges and universities), but the smallest workplaces are agencies in the area of taxes and customs.

In October 2006, the number of government employees was 21,600 in 17,600 full-time posts. In comparison, the total number of employed persons on the labour market was 169,900 in the fourth quarter of 2006. There can be considerable fluctuations in the number of employees depending on the time of year, e.g. due to summer vacations or workload. The average number of employees and full-time

The number of agencies, employees and full-time posts

Agency sector	Agencies	Employees	Full-time posts
Ministries / Government offices	16	735	707
District magistrates, police and prison sector	30	1,642	1,571.30
Tax and customs sector	13	512	488.2
Other agencies of the ministries of finance, justice and ecclesiastical affairs	11	603	474.1
Health sector	23	8,210	6,413.50
Social services and public health	22	2,005	1,465.50
Colleges and universities	33	4,480	3,538.20
Other agencies in the educational, cultural and science sectors	20	936	805.9
Agencies in economic, environment, zoning, transportation and communications sectors	36	2,444	2,149.60
<b>Total</b>	<b>204</b>	<b>21,567</b>	<b>17,613.30</b>

posts can, therefore, be slightly higher over the course of a whole year. Over 3,100 employees in 760 full-time equivalent posts work in less than half-time jobs. These are mostly young people working in the health sector or in social services. The health sector is the largest sector, with one-third of all the full-time posts. The second largest sector is colleges and universities, with 20% of the posts. The smallest sectors are in the areas of taxes and customs, and agencies of the ministries of finance, justice and ecclesiastical affairs.

## State aid in the form of public service compensation

Article 61 of the EEA Agreement states the main rule that aid granted through State resources which distorts or threatens to distort competition and affects trade between the EEA Contracting Parties is incompatible with the EEA Agreement. The second and third paragraphs of Article 61 add certain exception clauses to this main rule. For further clarification on this provision the EFTA Surveillance Authority (following the institutions of the European Union) issues State Aid Guidelines which deal with substantive and procedural rules on State aid matters. The State Aid Guidelines are divided into separate chapters which are amended once the need for amendment arises. Therefore, the State Aid Guidelines include for example a special chapter on state guarantees, regional aid, aid to shipbuilding, aid to maritime transport and so forth.

Recently a new chapter was added to the State Aid Guidelines, concerning state aid in the form of public service compensation. The institutions of the European Union have for some time been looking at whether aid granted to a body which has been entrusted with providing a public service shall be regarded as state aid in accordance with Article 61 of the EEA Agreement. Following judgments from the European Court of Justice (e.g. Altmark C-280/00) it is generally regarded that four conditions have to be fulfilled in order for such aid to be in accordance with the Agreement. Firstly, the relevant body actually has to carry out a defined public service. Secondly, the aid has to be defined beforehand in a transparent manner. Thirdly, the aid may not be more than the actual cost of providing the public service. Fourthly, the amount of the aid, if the body is not selected through a tender procedure, has to take aim of the costs of comparable undertakings for similar operations.

Only if these four conditions are fulfilled can the aid be regarded as not being selective and subject to a notification. Following the jurisprudence of the European Court of Justice the EFTA Surveillance Authority has, as stated above, issued State Aid Guidelines on state aid in the form of public service compensation. According to these guidelines all existing aid will as of 20 July 2007 become new aid which is subject to notification. The concept of existing aid refers to aid which was in place when the EEA Member State in question became a member of the EU Treaty (or the EEA Agreement). The concept of new aid refers to all new aid which is granted after membership. In the case of new aid the Member State in question can be obliged to recover any unlawfully granted aid, but in the case of existing aid the obligation is of amending existing aid schemes for the future in the form of accepting appropriate measures.

Amongst the EEA Member States it is debated how far reaching the new guidelines are and what impact they will have on public service and furthermore what is to be considered as public service. As an example of this it can be mentioned that a case is pending before the EFTA Court which concerns the question of whether aid granted by the Norwegian state to public kindergartens is to be regarded as unlawful state aid. In this case a private kindergarten ("Private Barnehagers Landsforbund") has challenged the EFTA Surveillance Authority's Decision from 27 February 2007 which concluded that such aid falls outside of Article 61 of the EEA Agreement. It is foreseen that in the nearby future more issues of this nature will appear before the European Court of Justice and the EFTA Court and thereby clarify the concept of public service.

Treasury revenue January - July		
12 month changes (%)	2006	2007
Total tax revenue	21.6	12.1
Taxes on income & profit	39.7	16.8
Taxes on property	-29.5	11.5
Taxes on goods & services	16.3	8.7
Social contributions	16.0	6.8
Total revenue	16.4	16.9

Treasury expenditure January - July		
12 month changes (%)	2006	2007
General public services	-18.2	0.3
Health	6.1	7.4
Social security & welfare	-6.8	15.4
Economic affairs	-0.9	18.8
Education	11.0	11.3
Total expenditure	-1.5	14.2

Treasury finances January - July		
Million krónur	2006	2007
Cash from operations	36,500	46,526
Net financial balance	34,116	-22,320
Debt redemption	-35,088	-36,416
Gross borr. requirement	-3,282	-61,047
Net borrowing	19,735	53,245
Overall cash balance	16,453	-7,802

Economic indicators		
12 month changes (%)	2006	2007
Inflation (September)	7.6	4.2
Core inflation (September)	7.2	5.2
Wage index (July)	10.2	8.3
Total turnover (Jan. - April)	13.6	11.7
Retail turnover (Jan. - April)	6.7	6.5
Unemployment rate, sa (Aug.)	1.2	0.9