ICELAND

FINANCING FOR EQUITY IN PRIMARY AND SECONDARY EDUCATION

Introduction

In Iceland, the education system is highly decentralised, operating under a two-tiered system: central government and municipalities. Most (76%) of education funding is spent at local level, with 24% coming from the central government.

The **Ministry of Education and Children** is responsible for the implementation of education legislation and policy for all education levels from pre-primary to upper secondary education but is only responsible for the financing and operation of upper secondary schools.

Municipalities are responsible for the financing, operation and construction of pre-primary, primary and lower secondary schools (including teacher salaries, training, and operational costs), with no administrative responsibilities at the upper secondary level. The cost of education (including both current and capital expenditure) at these education levels is borne by the 62 local municipalities, except for the cost for educational materials, national examinations, policy implementation, and school evaluation, which is borne by the state. Municipalities spend approximately half of their total expenditures on the operation of pre-primary schools, primary schools, music schools, and various other educational activities.

Funds are raised through public taxation at the central level and transferred directly to the municipalities in the form of block grants combined with earmarked grants, with municipalities then allocating funds to pre-primary and compulsory (primary and lower secondary) schools. The education budget of pre-primary and compulsory schools is determined at the local level at the discretion of local authorities.

All costs at the upper secondary level are covered by the state at the central level, with the exception of initial school construction, where local authorities contribute 40%. Upper secondary education is funded directly from the central government to schools in the form of a block grant.

There is no administration of schools at the regional level, with 'local level' referring exclusively to municipalities.

1. Education resources to subnational governments

Local Authorities Equalisation Fund

Since 1996, when municipalities assumed full responsibility for the financing and operation of compulsory education, funds have been transferred from the central government (Ministry of the Interior) to municipalities via the Local Authorities Equalisation Fund, established under the 1995 Local Government Financing Act. Although the Fund was originally created in 1937, it was restructured in 1995 to accommodate the decentralisation of responsibilities, including compulsory school financing, to municipalities. The Fund is designed to address the financing of growing demands for special needs education and to reduce financial disparities between municipalities.

The Equalisation Fund provides support in two forms. First, a block grant finances compulsory education, with 2 per cent of total income tax revenue allocated to education at the local level. Second, a combination of a block grant (71 per cent) and an earmarked grant (29 per cent) is used to balance differences in municipal expenditure and income. The allocation formula considers students with special educational needs, support for students with diverse language and cultural backgrounds, and student transportation costs.

Payments to municipalities are conditional on the student being a legal resident and having a diagnosed disability where special assistance is required under the Fund's remit. The grant includes general equalisation contributions for compulsory school operations (70–80 per cent, calculated according to each municipality's expenditure needs and estimated revenue), as well as contributions for students with disabilities, students learning Icelandic as a second language, and children under child protection services. Payments for students with disabilities are determined by the Advisory Committee of the Local Authorities Equalisation Fund, with uniform amounts paid per student with the same level of disability, regardless of variations in the type of special education provided across municipalities.

Since the 1996 decentralisation policy, there have been no major changes in the mechanisms for funding education through the Equalisation Fund.

2. Education resources to schools

School Grants

At the pre-primary, primary, and lower secondary levels, school grants for current expenditure are transferred from local authorities to schools to cover salaries, operational costs, and additional support for specific student groups. Local municipalities determine the amount of funding for schools using specific funding models or general budget frameworks established in consultation with local school leaders. Some municipalities allocate a block grant, while others earmark part of the funding for designated purposes. Funding criteria generally include the number of students, legal requirements, collective labour agreements, school size, location, fields of education offered, and the proportion of low-achieving students and students from diverse language and cultural backgrounds. Most municipalities calculate resources based on the number of general class hours and hours required for supported teaching or instruction for students with special needs. Larger municipalities typically have more complex allocation rules, whereas smaller municipalities often base their budgets on the previous year's plan.

At the upper secondary level, grants are provided directly from the central government to schools for all types of expenditure. Allocations follow a funding formula that considers general criteria applicable to all schools, as well as specific criteria reflecting the individual circumstances of each school. These criteria include the number of students, school size and location, fields and types of education offered, teacher characteristics, and the presence of students with special educational needs and diverse backgrounds. The 1999 act lists distance from Reykjavik as a factor, and obligations for funding special education were part of the Upper Secondary Schools Act No. 92/2008.

3. Education resources to students and families

Financial Support for Upper Secondary Students

Students who must leave their legal residence and family to attend upper secondary schools are entitled to non-refundable compensation grants to cover associated expenses. Compensation grants are divided into residence and driving allowances. A driving allowance is provided to students who commute daily from their legal residence to the school when it is not nearby, while a residence allowance is available to students who relocate at least 30 km from their legal residence and family for study purposes. Grants may be awarded for a maximum of four years.

Students enrolled in certified trades and other vocational programmes are eligible to receive study loans from the Icelandic Student Loan Fund, where, in the case of students of certified trades, the Student Loan Fund may loans for upper secondary and vocational education in addition to higher education. The amount of the loan is determined primarily by basic living expenses, annual income, and academic progress.

Grants for upper secondary students who attend school far from their families may be provided by the Student Loan Fund.

4. Social policies and family support programmes

Family Allowances

Family allowances are paid based on family income and the number of children, without a specific education component. Parents may receive certain tax reliefs if their children aged 18–21 are enrolled in upper secondary school.

Child pension

The Social Insurance Administration provides child pensions to until the age 18 in connection with school studies or vocational training under the 2007 Social Assistance Act. Eligibility applies if both parents are deceased or if one or both parents receive a retirement or incapacity pension. Income and assets are considered when determining eligibility. Proof of school attendance or vocational training must be submitted for the pension to be granted.

5. School meal programmes

Since 1995, school authorities have been responsible, together with municipalities, for operating school canteens. As of 2025, school meals are free of charge for primary school children under the Ministry of Education and Children.

This profile has been reviewed by Guðni Olgeirsson and Hulda Herjlfsdóttir Skogland of the Ministry of Education and Children (Iceland).

Related resources

- 2022 Education Finance Watch
- How committed? Unlocking financing for equity in education
- 2026 GEM Report: Access and equity

The Profiles Enhancing Education Reviews (PEER) platform has moved to a new website, https://www.unesco.org/gem-report/peer, where it now provides updated, indicator-based analysis and continuous monitoring. The current website, https://education-profiles.org/, remains available for reference but will be progressively archived; its profiles, linked to earlier GEM Reports, are no longer being updated.

Last modified: Fri, 27/02/2026 - 10:24