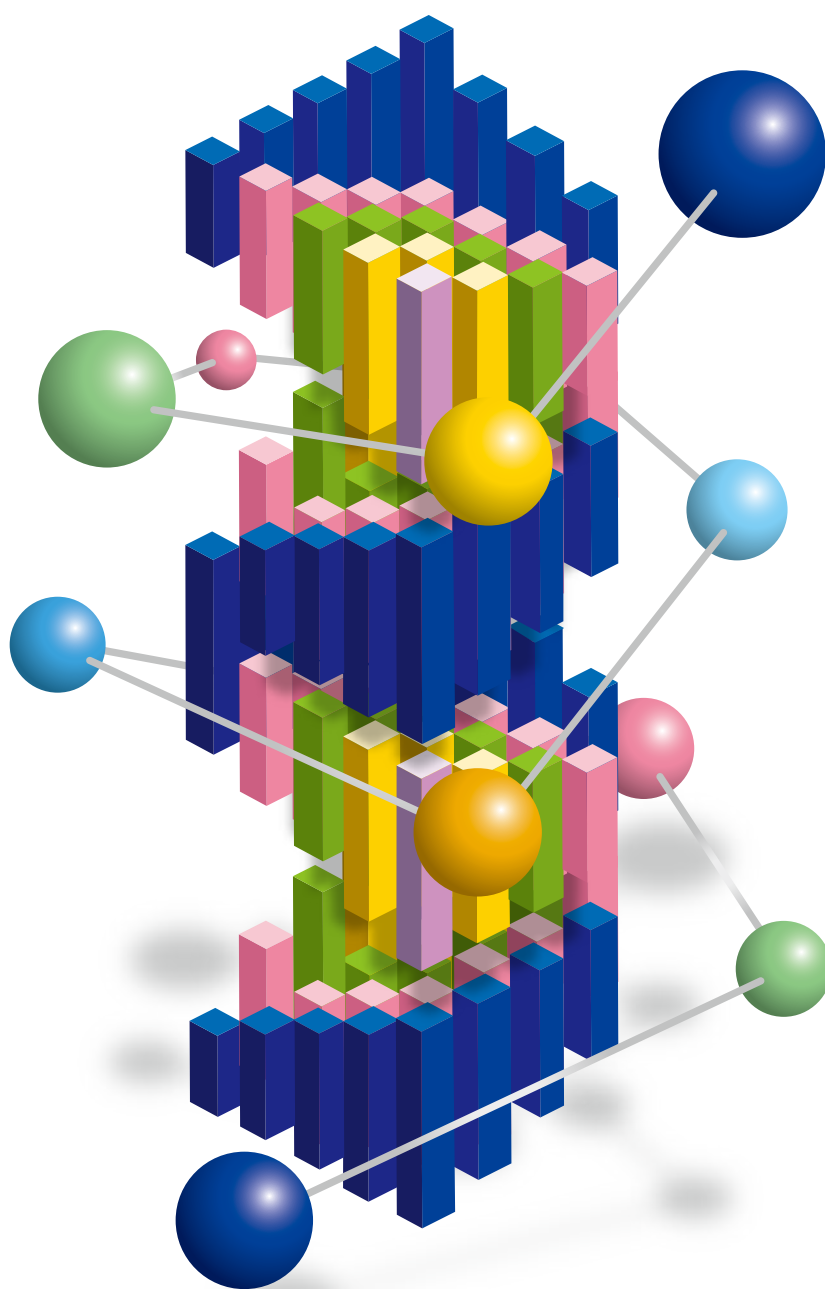


FY 2006 Settlement

# White Paper on Local Public Finance, 2008

—Illustrated—



Ministry of Internal Affairs  
and Communications

## The Role of Local Public Finance

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# The Role of Local Public Finance

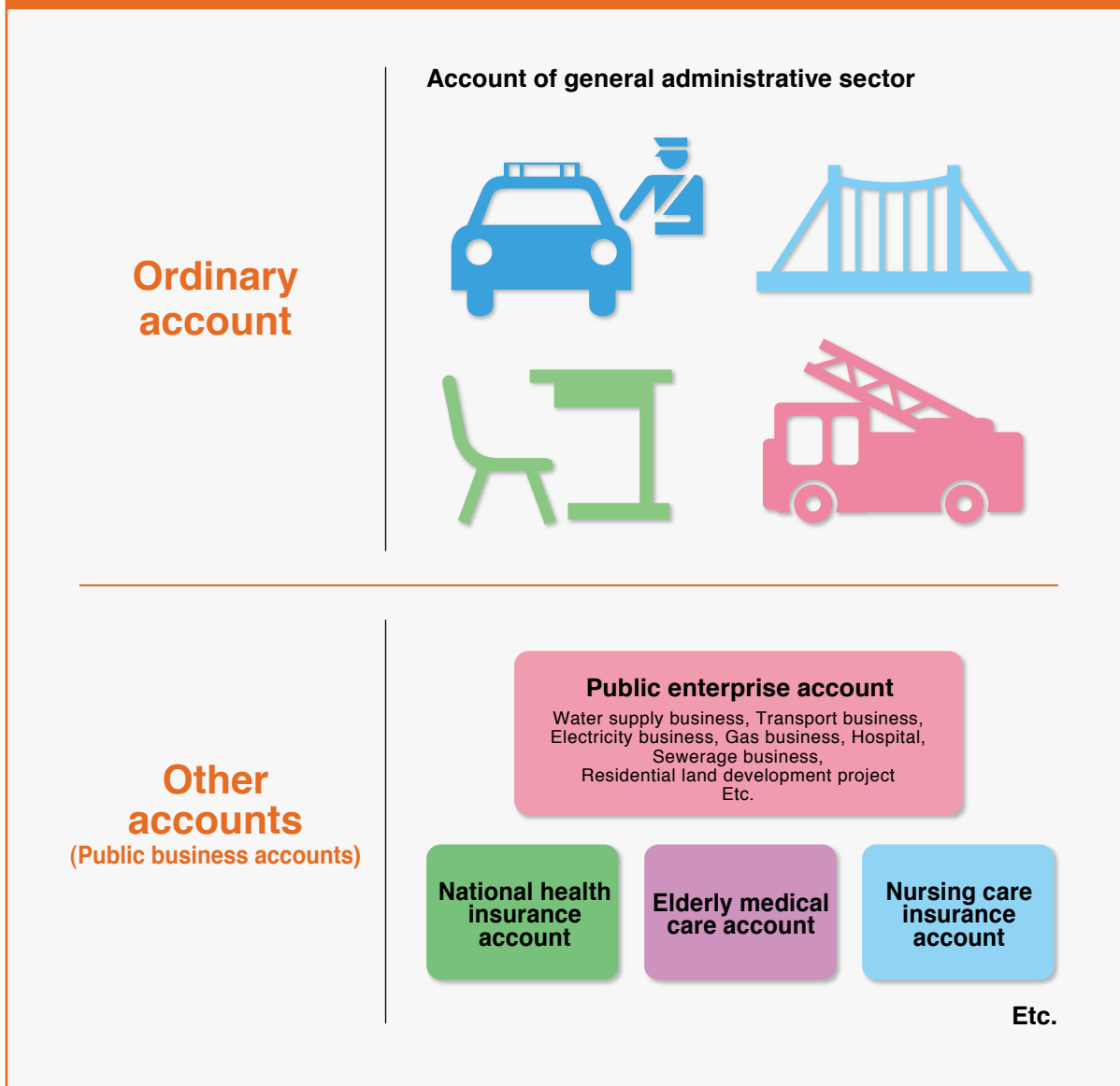
Prefectures and municipalities (cities, towns, and villages) are principal actors in various administrative areas, including school education, welfare and public health, police and fire services, and the construction of such public works as roads and sewerage systems. They play a major role in national life.

This brochure will introduce the state of local public finance, which is an assemblage of the finances of individual local governments, with particular focus on the state of settlements for fiscal 2006 and efforts toward financial soundness of the local public entities centered on the ordinary account.

## [Classification of the Accounting of Local Governments Applied in the Settlement Account Statistics]

Although the accounts of local governments are divided into general accounts and special accounts, the account classification of each local government is not uniform. Therefore, we have adopted a uniform method in the settlement account statistics by classifying accounts as an ordinary account, which covers the general administrative sector, and other accounts (public business accounts). This enables us to clarify the financial condition of local governments as a whole and to make a statistical comparison among local governments.

### Accounts of Local Governments

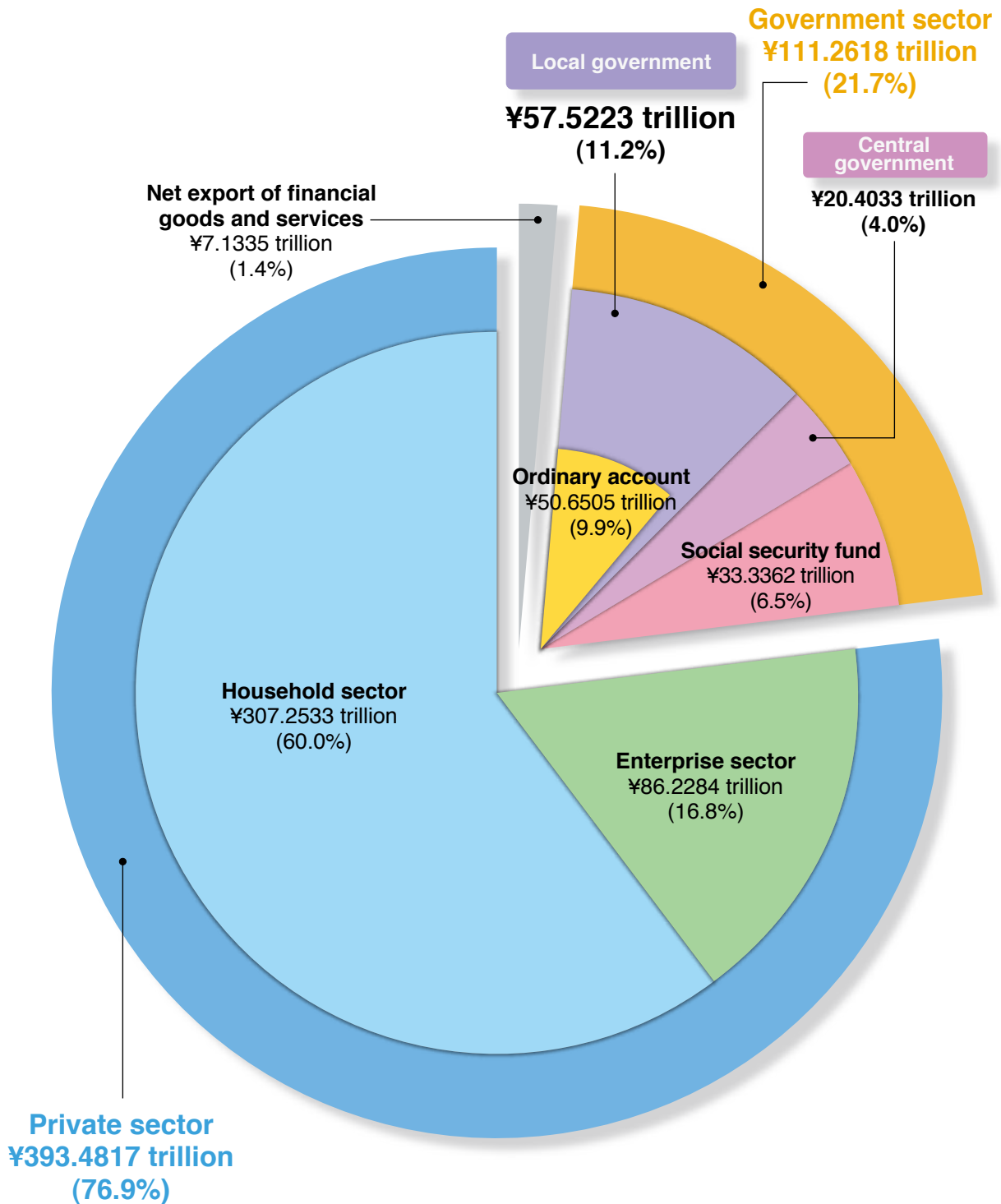


## [How large is local public finance compared with central government finance?]

Looking at the scale of local public finance to gross domestic expenditure, we see that the ratio of the local government sector is 11.2%, which is about three times larger than the ratio of the central government.

### Gross Domestic Expenditure and Local Public Finance

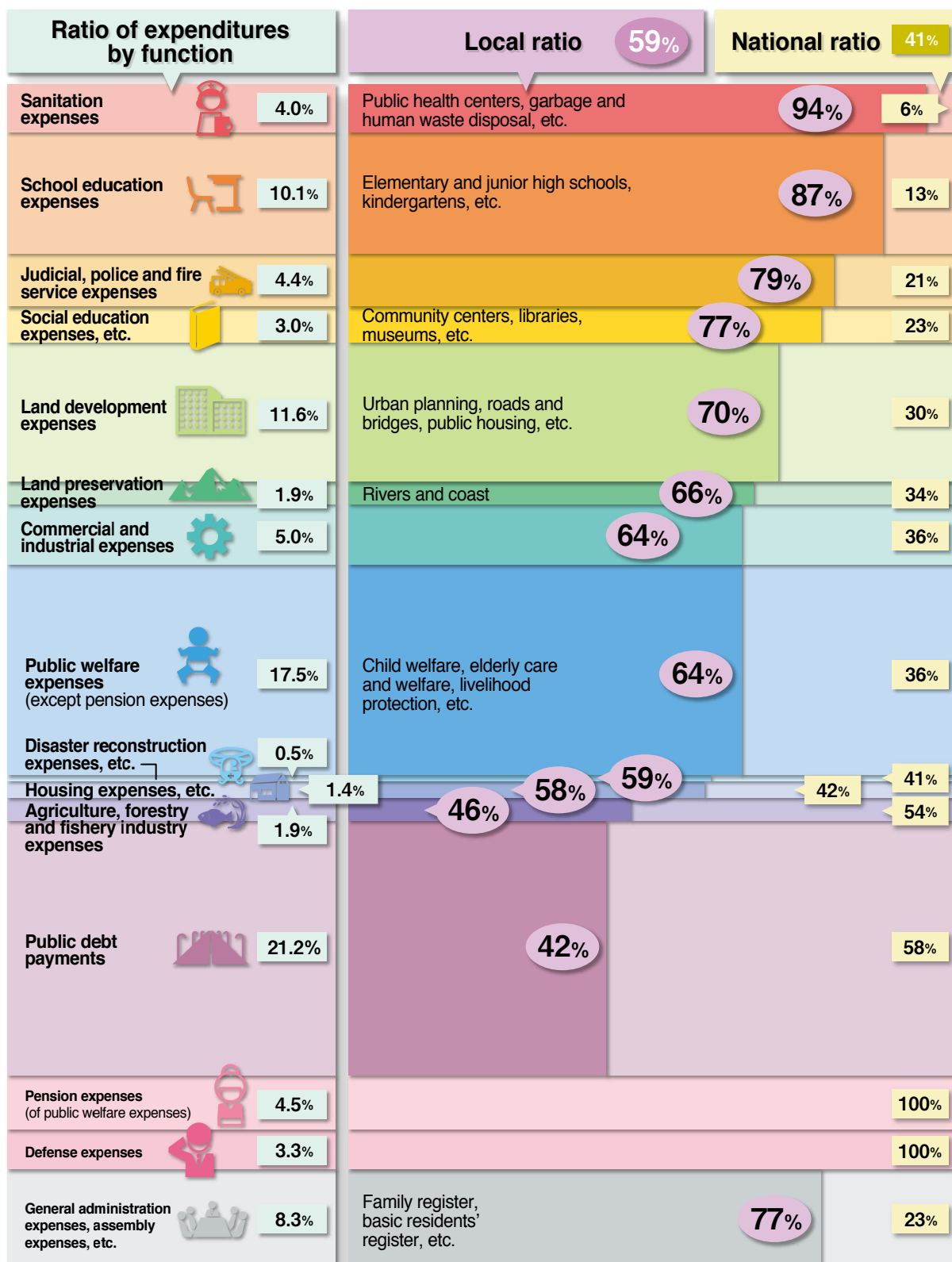
Gross domestic expenditure (nominal) **¥511.8770 trillion**



## [In which fields are local expenditure ratios high?]

Local expenditure ratios are higher in the areas that have a close relationship with our daily lives, such as public health and sanitation, school education, social education, and police and fire services.

Shares of National and Local Governments in Main Expenditures by Function (final expenditure base)



# The State of Local Public Finance

## Overall Condition of FY 2006 Settlement

**Drastic Cuts in Expenditures Under Severe Fiscal Circumstance** (seventh consecutive year of reduction)

### 1 Expenditure Continuation of Cuts in Expenditures

The total expenditure declined for the seventh consecutive year to ¥89.2106 trillion. While there were many factors that increased the expenditure such as the increase in the number of households receiving livelihood protection and the system changes concerning child allowance (raising of eligibility age), there were drastic cuts in expenditure such as employee salaries (reduction of 1.9% in comparison to the previous fiscal year), investment expenses (6.5% reduction), and so on.

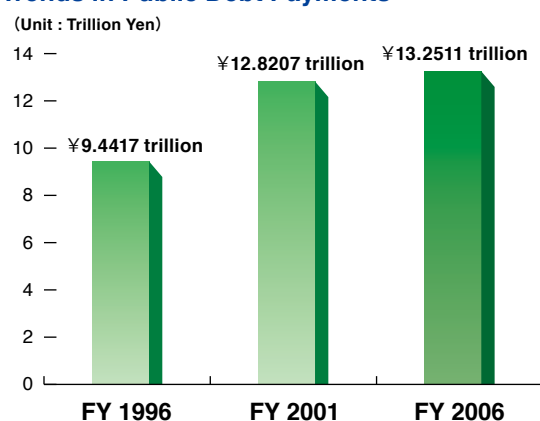
### 2 Revenue Decline in Revenue

The total revenue declined for the seventh consecutive year to ¥91.5283 trillion. While local tax revenue (4.9% increase in comparison to the previous fiscal year), local transfer tax revenue (101.7% increase), and so on increased, local allocation tax revenue (5.7% decrease), national treasury disbursements (11.5% decrease), and so on decreased.

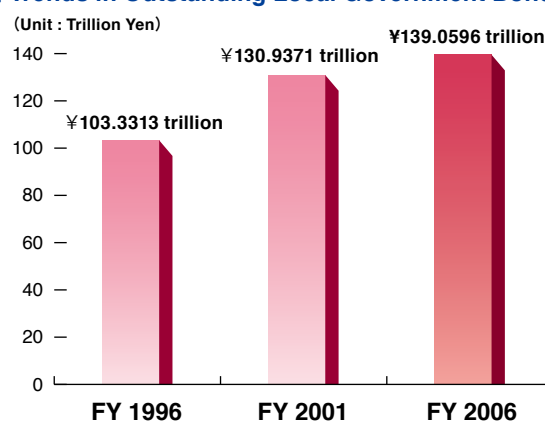
### 3 Public Debt Payments / Outstanding Local Government Bonds Still Remains at High Level

Public Debt Payments have fluctuated between ¥13 trillion and ¥14 trillion since fiscal year 2001. Outstanding Local Government Bonds have fluctuated between ¥130 trillion and ¥140 trillion since fiscal year 2001. Both increased significantly, compared with 10 years ago (FY1996).

#### ■ Trends in Public Debt Payments



#### ■ Trends in Outstanding Local Government Bonds



### 4 Flexibility of the Financial Structure Ordinary Balance Ratio Hovers at High Rate

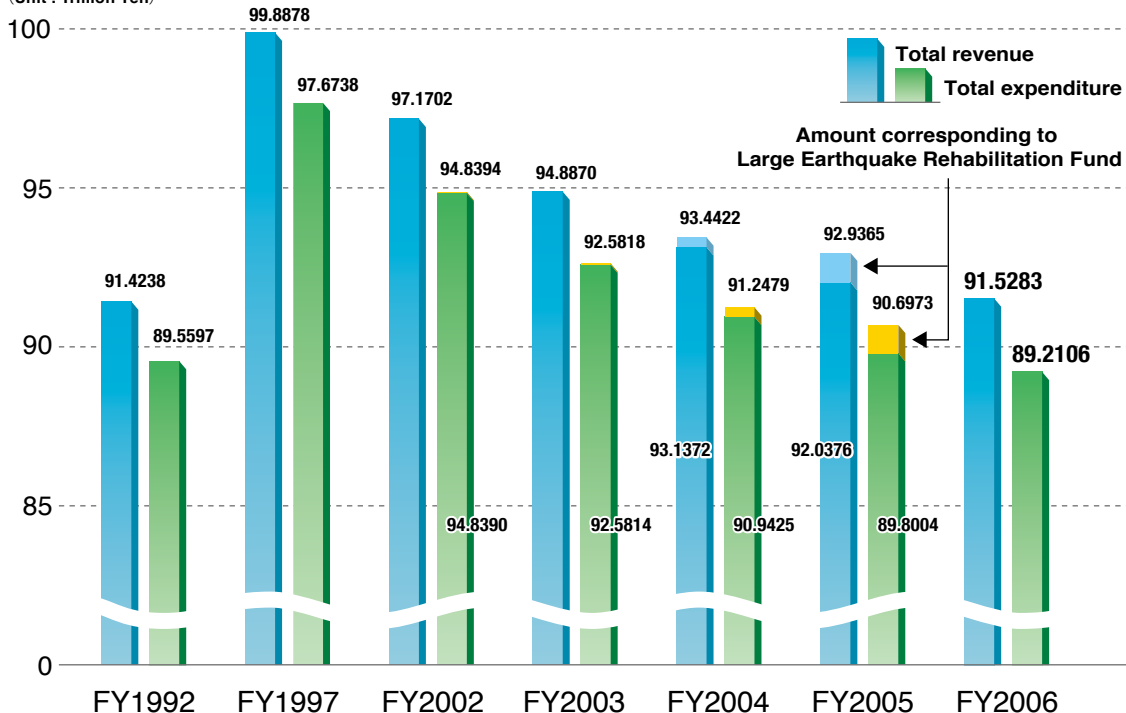
The ordinary balance ratio indicating the flexibility of the financial structure is the same ratio as the previous year at 91.4%. A 6.6% increase, compared with 10 years ago (FY1996).

# Scale of Account Settlement

As a result of the fact that, on the revenue side, local allocation tax and national treasury disbursements declined and, on the expenditure side, personnel expenses and investment expenses including ordinary construction expenses and so on declined, both revenue and expenditure decreased for the seventh consecutive year. Excluding special causes involving the Large Earthquake Rehabilitation Fund, revenue and expenditure declined from the previous fiscal year by ¥509.3 billion and ¥589.8 billion, respectively.

## Scale of account settlement

(Unit : Trillion Yen)



Note: The lower column shows amounts excluding special causes involving the Large Earthquake Rehabilitation Fund.

# Revenue and Expenditure Settlement

Although the real single fiscal year balance showed a surplus for the second consecutive year, the amount of surplus as well as the single fiscal year balance declined.

Category	Settlement figure		No. of deficit organizations	
	FY 2006	FY 2005	FY 2006	FY 2005
Real single FY balance	¥ 423.9 billion	¥ 429.2 billion	750 (1,446)	923 (1,693)
Single FY balance	¥ 220.4 billion	¥ 237.0 billion	768 (1,445)	876 (1,644)
Real balance	¥ 1524.5 billion	¥ 1316.4 billion	25 (27)	26 (28)

### Notes:

1. **Real single FY balance:** Calculated by adding reserves to the fiscal adjustment fund and advanced redemption of local loans to the single FY balance and subtracting the used part of the fiscal adjustment fund.  
**Single FY balance:** Calculated by subtracting the real balance of the previous fiscal year from the real balance of the fiscal year concerned.  
**Real balance:** Calculated by subtracting the revenue resources that should be carried over to the next fiscal year from the income/expenditure balance.
2. The number of deficit organizations does not include partial administrative associations or wide-area local public bodies; the figures in parentheses are the number of organizations including partial administrative associations and wide-area local public bodies.
3. The organizations with a real balance deficit in the fiscal year 2006 include entities with a deficit resulting from discontinued settlement.

# Revenue

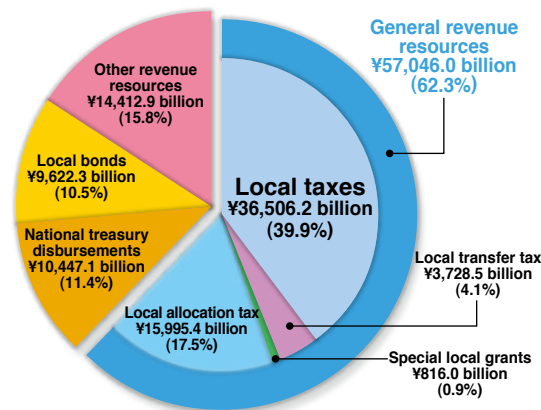
[Where does the funds for local government activities come from?]

## 1 Revenue Breakdown

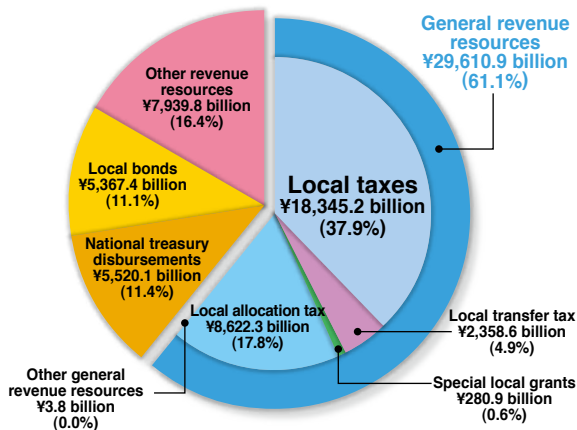
The revenue of local governments comes mainly from local taxes (about one-third), local allocation tax, national treasury disbursements, and local bonds, in that order.

### Revenue Breakdown (FY 2006 settlement)

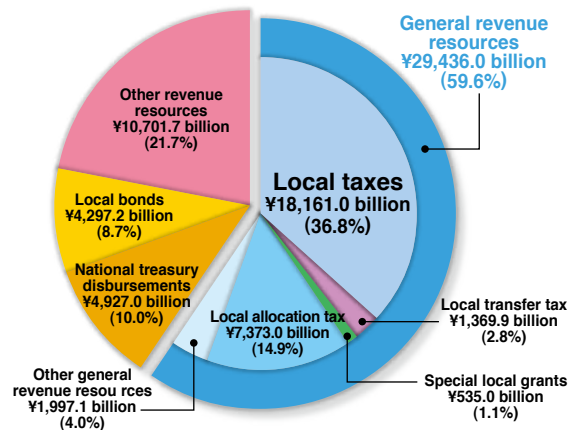
Net total **¥91,528.3 billion**



Prefectures Total **¥48,438.2 billion**



Municipalities Total **¥49,361.9 billion**



### General Revenue Resources

Revenue resources for which the use is not specified, like local taxes and the local allocation tax, are called general revenue resources. Here, the total of local taxes, local transfer tax, special local grants, the local allocation tax, and so on is treated as the general revenue resource. It is extremely important for local governments to ensure sufficient general revenue resources in order to handle various administrative needs properly.

- Local transfer tax** Collected as a national tax and transferred to local governments. Includes local road transfer tax, etc.
- Special local grant** A revenue source with the character of a substitute for local taxes, introduced to supplement a part of the decrease of local tax caused by a tax cut since FY 1999 and grants from the central government to local governments as a result of a revision of national treasury subsidies.
- Local allocation tax** An intrinsic revenue source shared by local governments in order to adjust imbalances in tax revenue among local governments and to guarantee revenue sources so that local governments in whatever region can provide a certain level of administrative services. Calculated as a certain ratio of five national taxes. (See page 11 for details.)
- National treasury disbursements** A general name for funds disbursed from the central government to local governments for specified uses.
- Local bonds** The debts of local governments for which fulfillment continues for more than one fiscal year.

#### Notes:

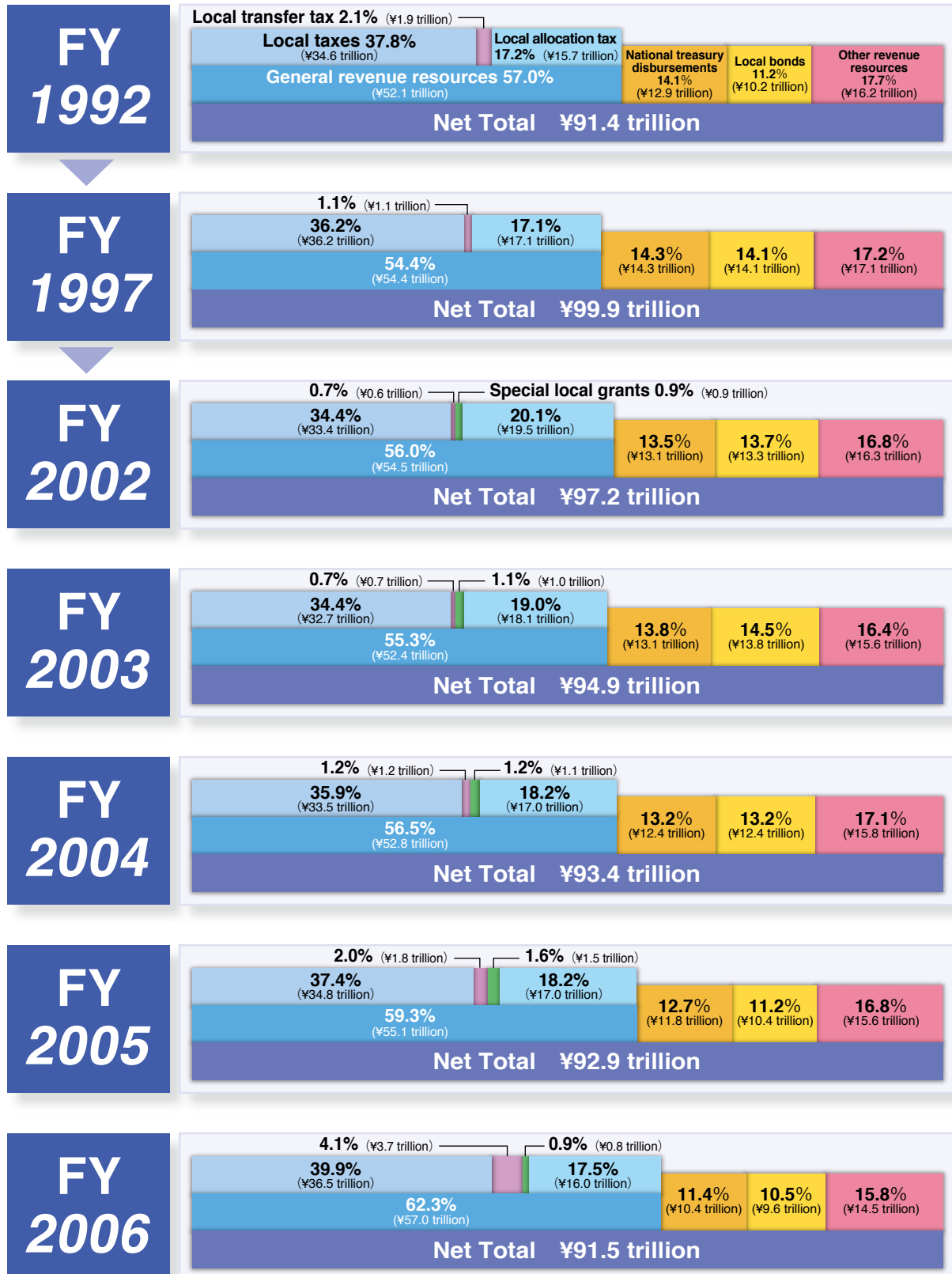
1. The figures here are mainly for the ordinary account. (For the accounts of public enterprises, such as water supply and sewerage businesses, transportation businesses, and hospitals, see page 23.)
2. The figures for each item are rounded off under the given unit. Therefore, they do not necessarily add up exactly to the total.



## 2 Revenue Trends

While the shares of local taxes and local transfer tax to total revenue increased, the shares of local allocation tax, national treasury disbursements and local bonds are on a downward trend.

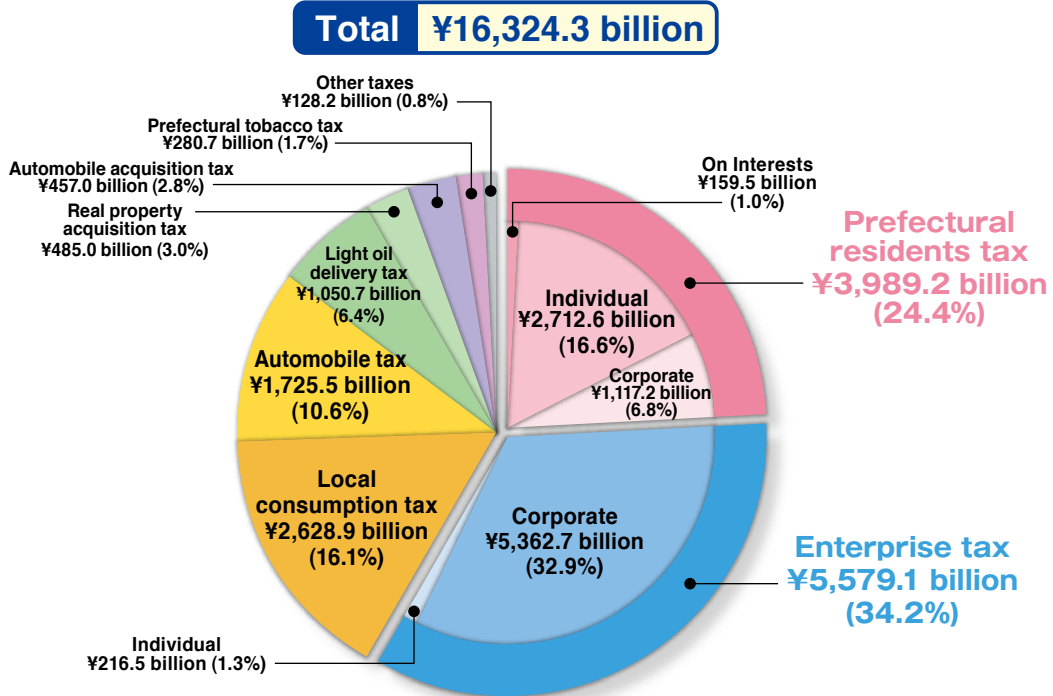
### Nationwide



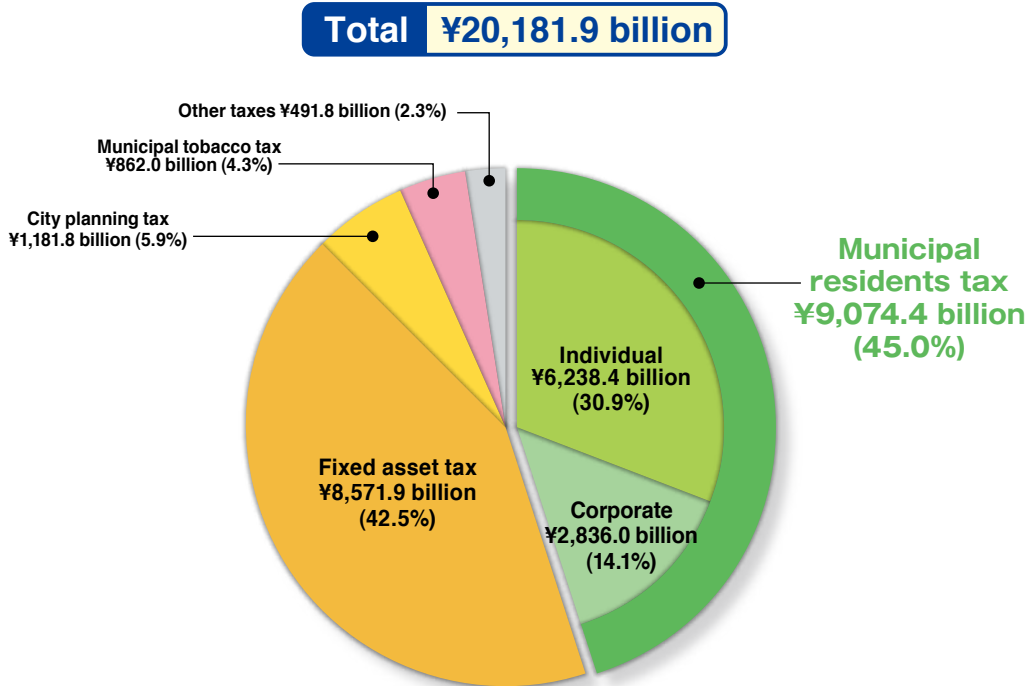
### 3 Local Taxes

Local taxes consist of prefectural taxes and municipal taxes. (In the case of the special wards of Tokyo, the Tokyo Metropolitan Government collects some municipal taxes.)

#### Composition of Revenue from Prefectural Taxes (FY 2006 settlement)



#### Composition of Revenue from Municipal Taxes (FY 2006 settlement)



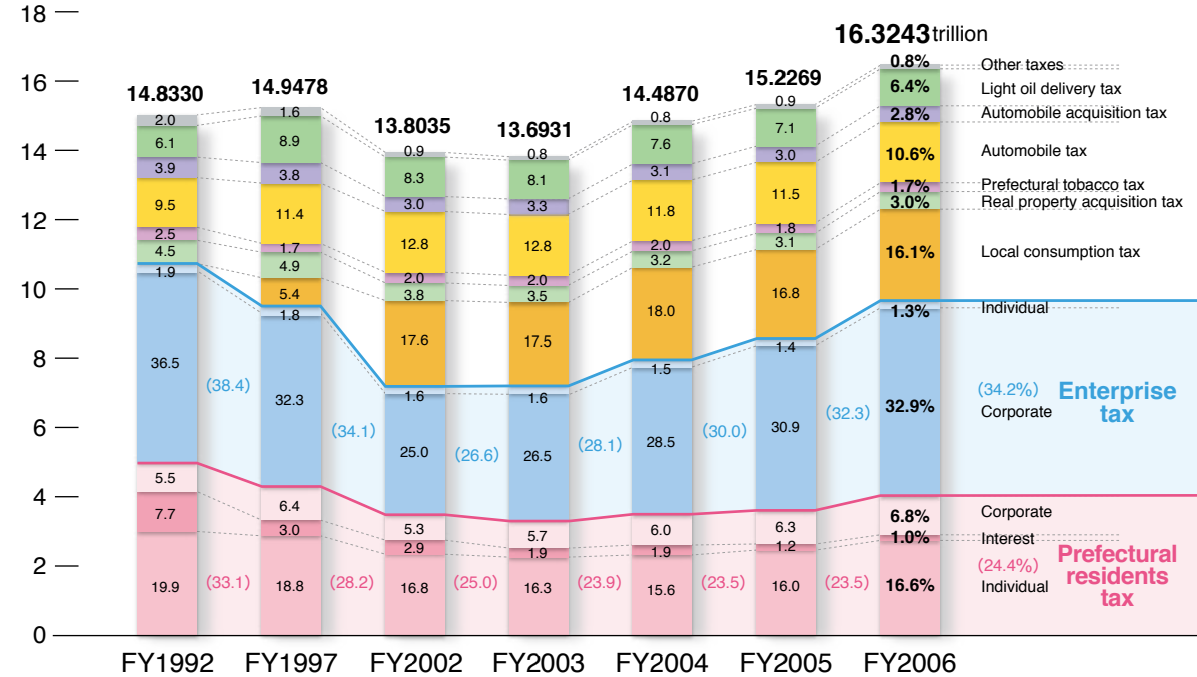
The municipal tax revenue figure includes municipal taxes collected by Metropolitan Tokyo.

Revenue from prefectural taxes, in which the share of the two corporate taxes (corporate business tax and corporate prefectural resident's tax) is high, increased for the third consecutive year due to such factors as buoyant corporate earnings.

Furthermore, municipal tax revenue also rose for the third consecutive year due to such factors as an increase in municipal resident's tax.

## Prefectural Tax Revenue Trend

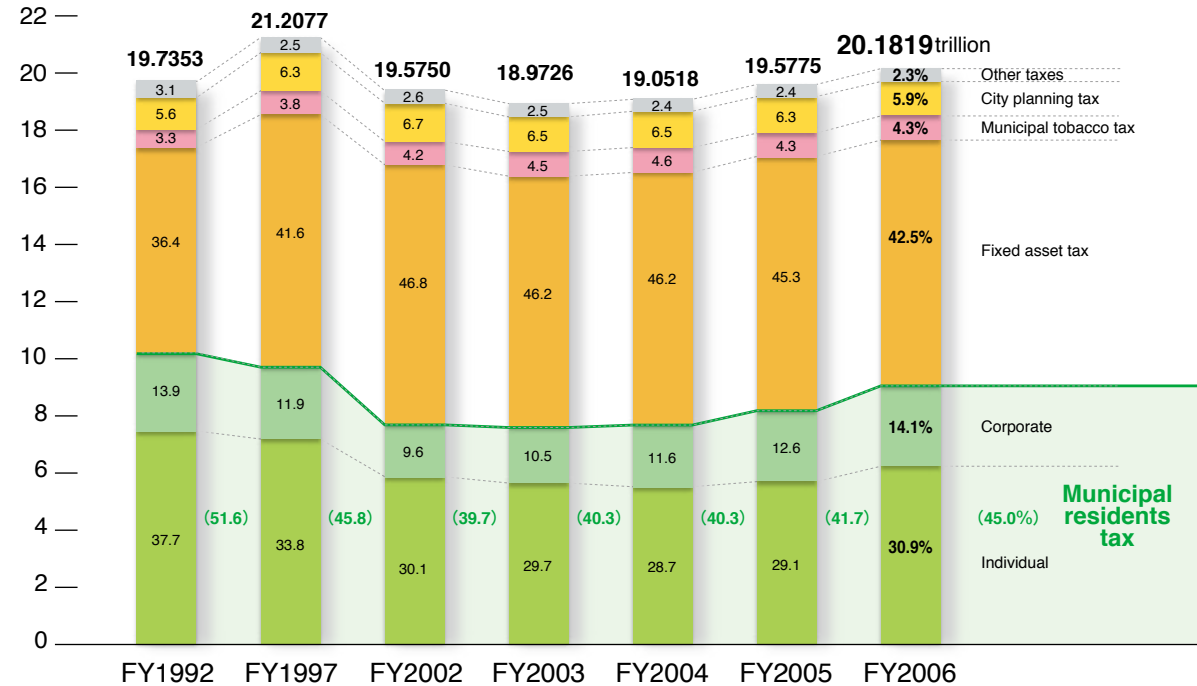
(Unit : Trillion Yen)



Figures in parentheses are the component ratios of the business tax and prefectural residents tax.

## Municipal Tax Revenue Trend

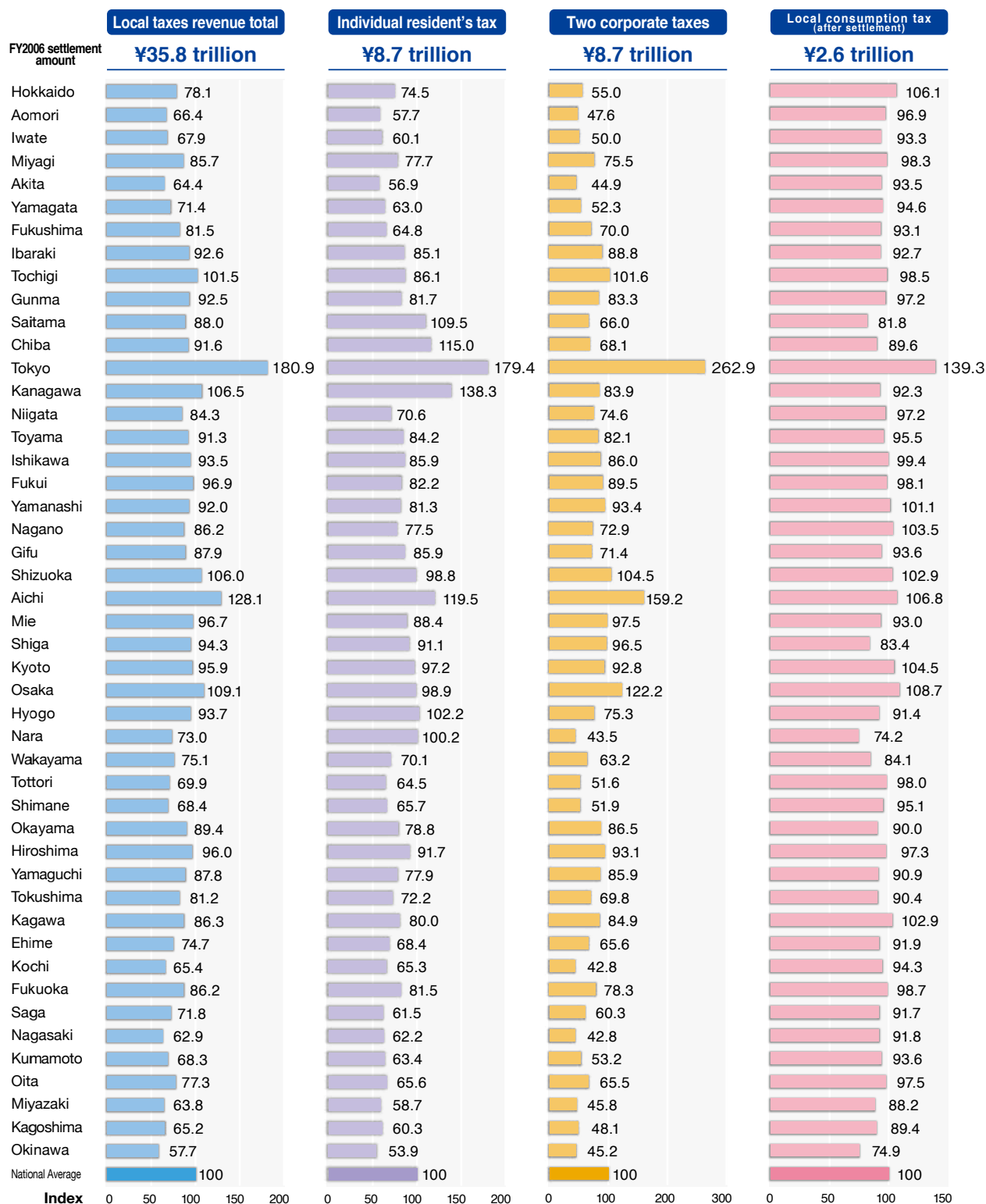
(Unit : Trillion Yen)



Figures in parentheses are the component ratio of the municipal residents tax. The municipal tax revenue figure includes municipal taxes collected by Metropolitan Tokyo.

In order for local governments to provide administrative services in response to local needs with responsibility and at their own discretion, it is necessary to expand and secure local taxes so as to build a local tax system in which the uneven distribution of tax sources is limited and the stability of tax revenue is ensured.

## Index of Per Capita Revenue in Local Tax Revenue (with national average as 100; FY 2006)



### Notes:

1. The local tax revenue total amounts do not include excess taxation, non-statutory ordinary taxes, or non-statutory special purpose taxes.
2. The revenue of the individual resident's tax is the total of the prefectural individual resident's tax (taxation on per capita basis and taxation on income basis) and the municipal individual resident's tax (taxation on per capita basis and taxation on income basis) and excludes excess taxation.
3. The revenue of the two corporate taxes is the total of the corporate prefectural resident's tax, the corporate municipal resident's tax and the corporate business tax and excludes excess taxation.
4. Calculations are made from the basic residents' register population as of March 31, 2007.

## 4 Local Allocation Tax

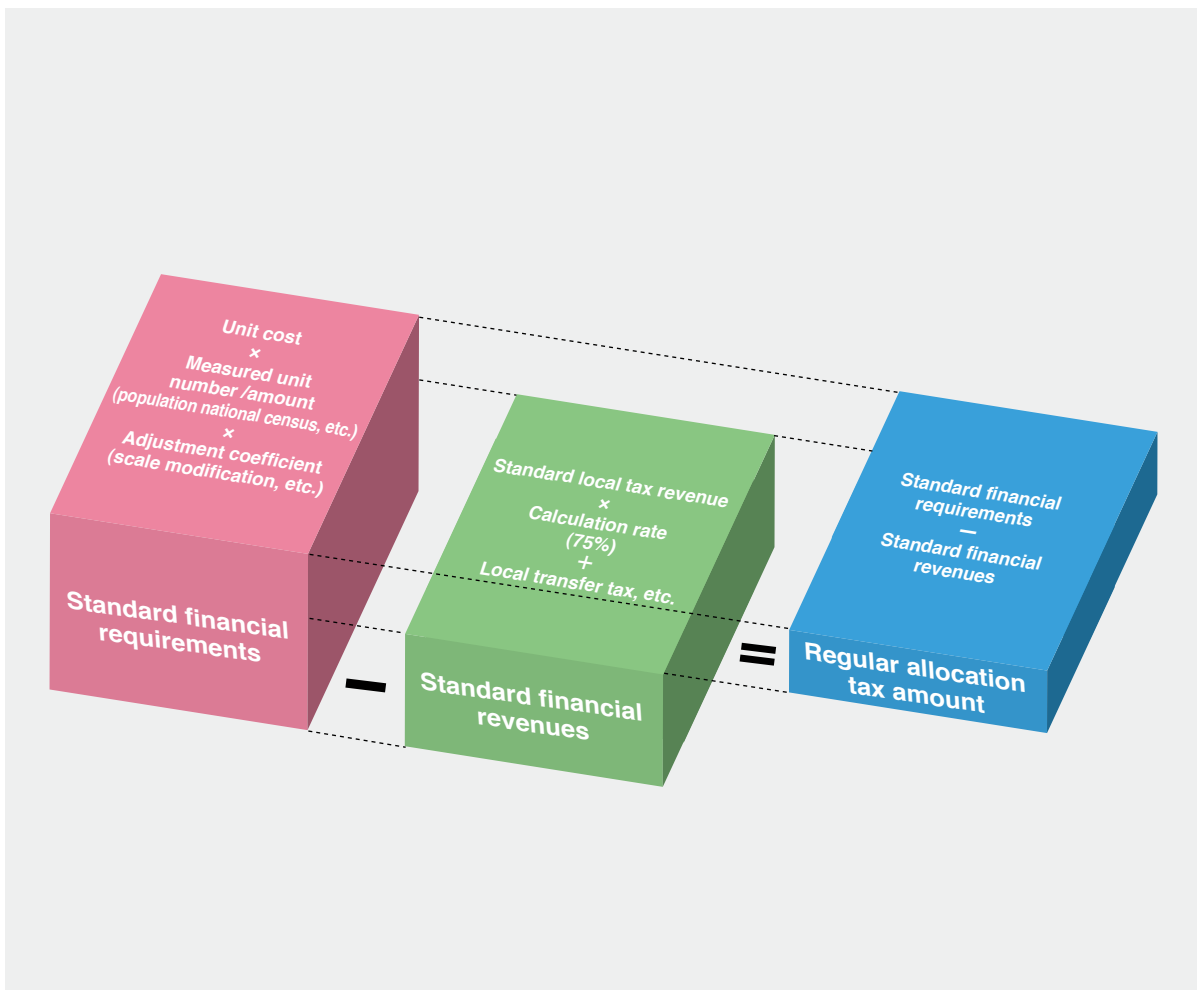
From the perspective of local autonomy, it would essentially be the ideal for each local government to ensure the revenue sources necessary for administrative activities through local taxes collected from their residents. However, there are regional imbalances in tax revenue, and many local governments are unable to acquire necessary tax revenue. Therefore, the central government collects financial resources that should fundamentally be attributable to local tax revenue through national taxation and reallocates them as the local allocation tax to local governments where financial resources are insufficient.

### 1 Determination of total amount of local allocation tax

The total amount of the local allocation tax is determined on the basis of certain ratios for national taxes (32% for income tax and liquor tax, 35.8% [34.0% from fiscal 2007] for corporate tax, 29.5% for consumption tax, and 25% for tobacco tax) as well as estimates of standard revenue and expenditure of local public finance as a whole. The total amount of local allocation tax in fiscal 2006 was ¥15.9954 trillion, down 5.7% from the previous fiscal year.

### 2 Method of calculation of regular local allocation tax for each local government

The regular local allocation tax for each local government is calculated by the following mechanism:



#### Notes:

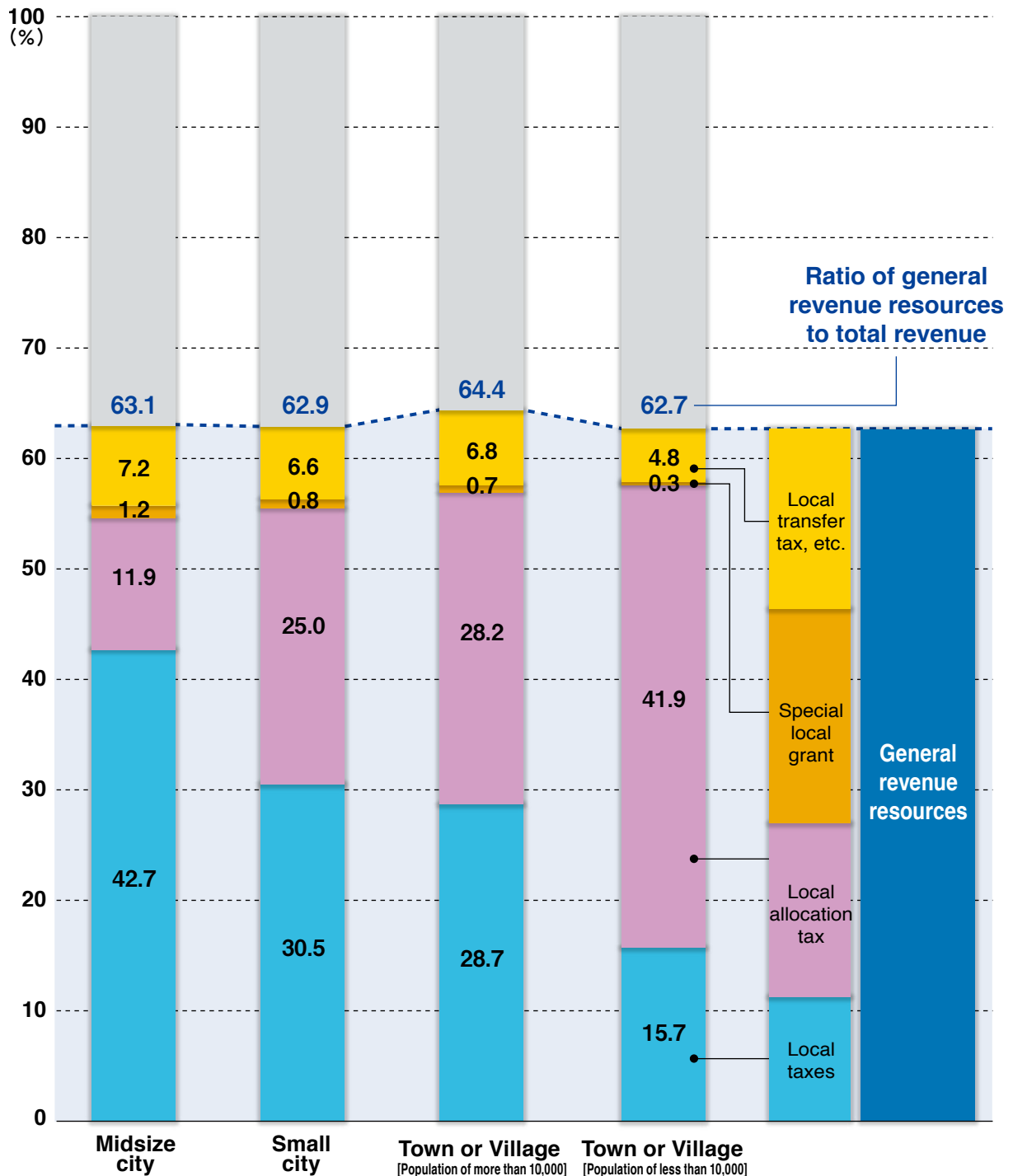
1. Standard financial requirements are calculated as the financial requirements of each local government based on rational and appropriate standards. It is required to include the local share of the national treasury projects, such as compulsory education, livelihood protection, and public works, work project in calculating the standard financial requirements. From FY 2001 to FY 2009, part of the standard financial requirements is being transferred to special deficit-financing local bonds (extraordinary financial countermeasures bonds) as an exception to Article 5 of the Local Finance Law.
2. Normal local tax revenue neither includes “non-statutory ordinary taxes” and “non-statutory special purpose taxes” imposed independently by the local government nor “excess tax” that exceeds the standard tax rate stipulated in the Local Tax Law.

### 3 Function of the local allocation tax

The function of the local allocation tax is to adjust imbalances in revenue among local governments in order to guarantee revenue so that local governments can provide standard administrative services and basic social infrastructure to their residents in whatever region.

Accordingly, as a result of the revenue adjustment mechanism through the local allocation tax, few differences in such factors as size of population have been found in the ratio of general revenue resources to total revenue.

#### Ratio of General Revenue Resources to Total Revenue for Municipalities



**Notes:**

A "midsize city" refers to a city with a population of more than 100,000 persons among cities excluding large cities, core cities, and special cities, and a "small city" refers to a city with a population of less than 100,000.

# Expenditure

[What is revenue being expended for?]

## 1 Expenses by Function

When expenses are classified by function, we see that a lot of revenue is expended for such items as education expenses, public welfare expenses, and civil engineering work expenses. In prefectures it is mainly expended for education expenses, debt servicing, and civil engineering work expenses, in that order. In municipalities it is primarily expended for public welfare expenses, civil engineering work expenses, and debt servicing, in that order.

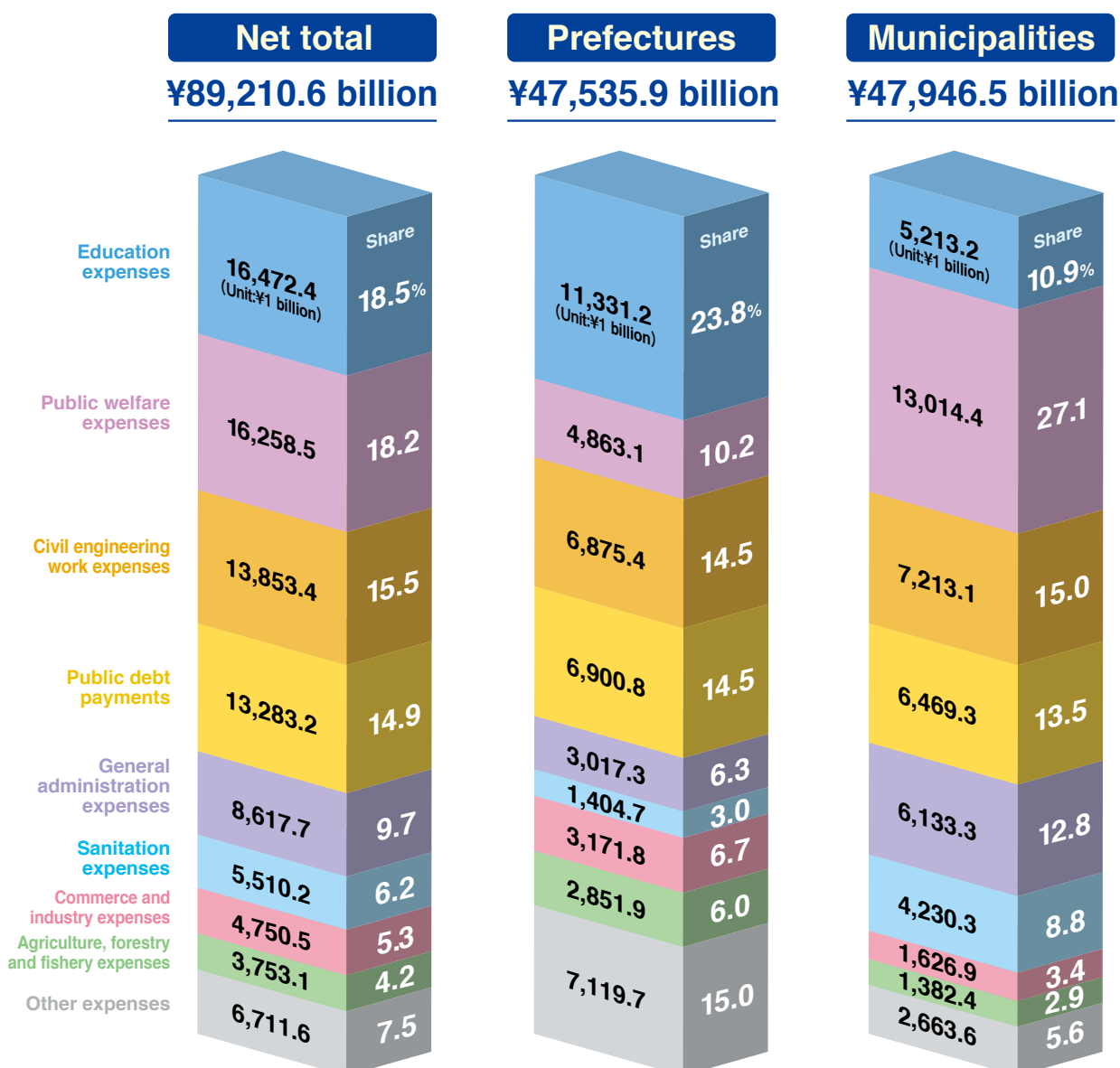
**Education expenses** : Expenses for school education, social education, etc.

**Public welfare expenses** : Expenses for the construction and operation of welfare facilities for children, the elderly, the mentally and physically disabled, etc. and for the implementation of livelihood protection, etc.

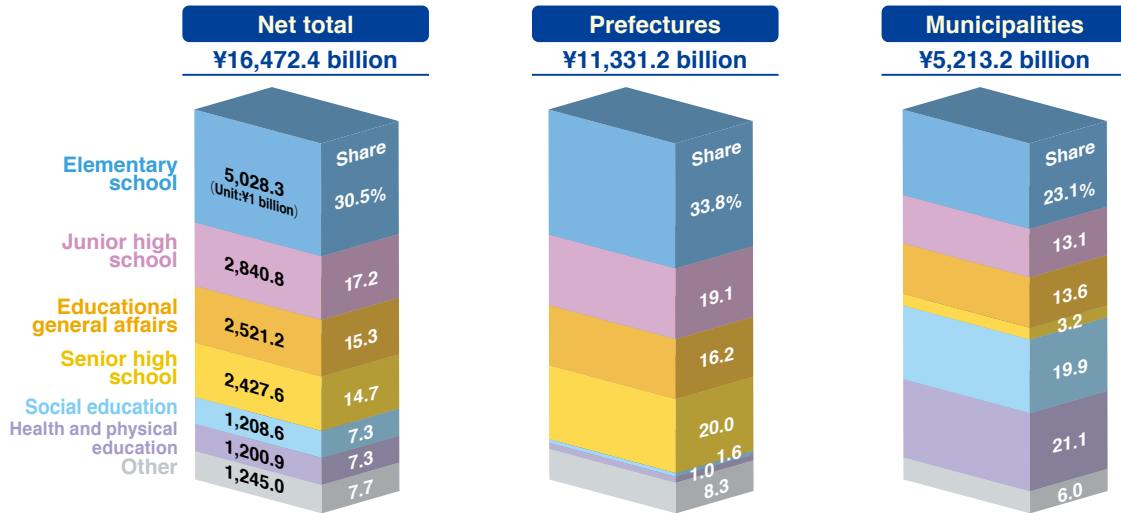
**Civil engineering work expenses** : Expenses for the construction and improvement of public facilities, such as roads, housing and parks.

**Public debt payment** : Expenses for the payment of principal, interest, etc. on debts.

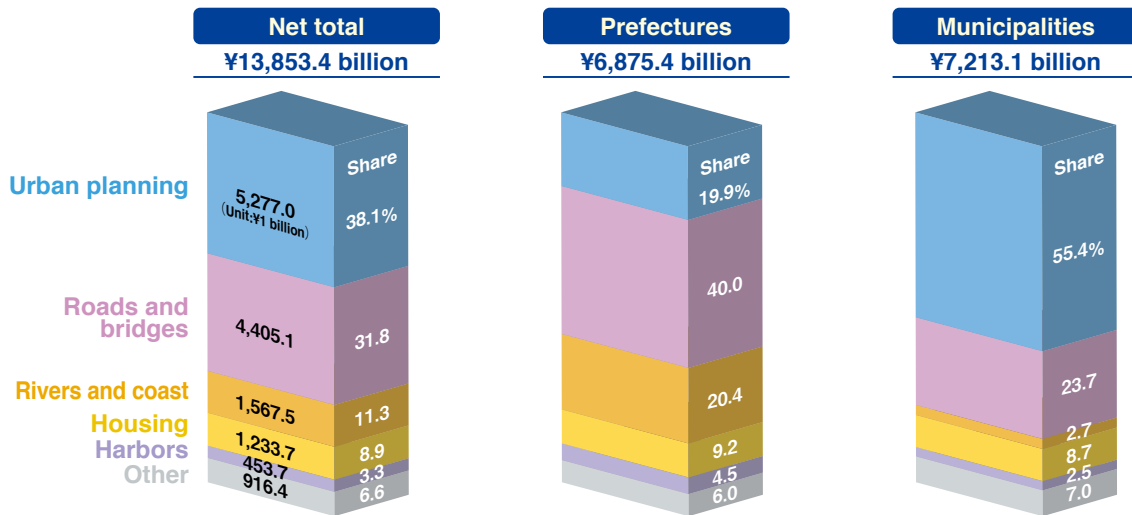
### Composition of Expenditure by Function (FY 2006 settlement)



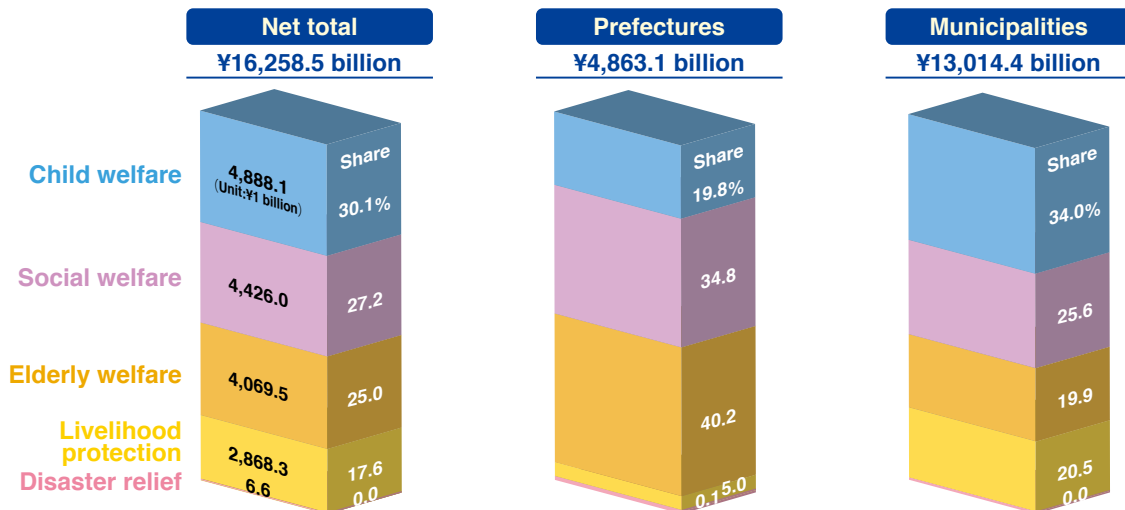
## Breakdown of Educational Expenses by Purpose



## Breakdown of Civil Engineering Work Expenses by Purpose



## Breakdown of Public Welfare Expenses by Purpose

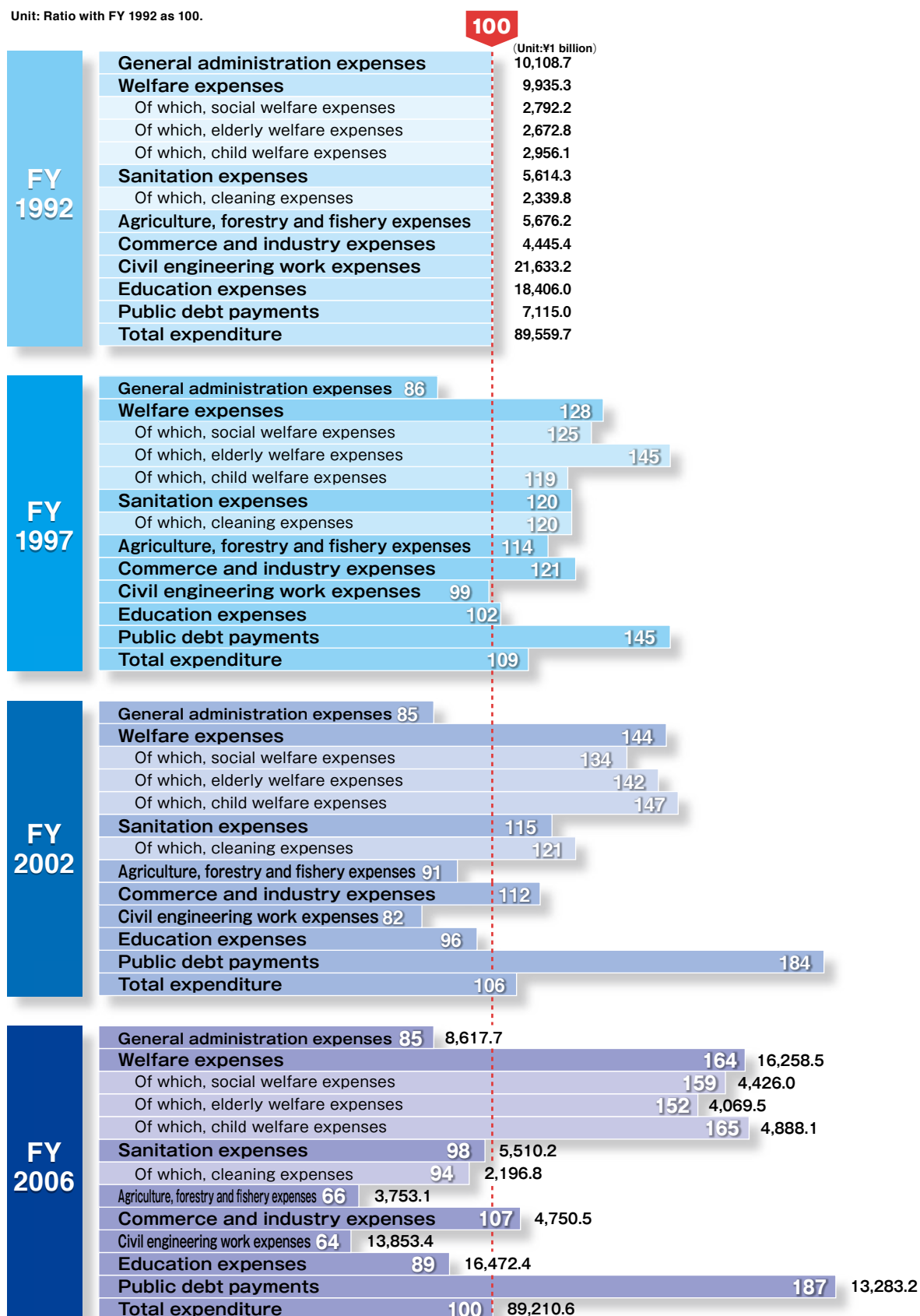




In recent years, while there has been a decline in such items as agriculture, forestry and fishery expenses and civil engineering work expenses, welfare expenses, public debt payments and so on have been increasing.

## Trends in Breakdown of Expenditures by Function (ordinary account net total)

Unit: Ratio with FY 1992 as 100.



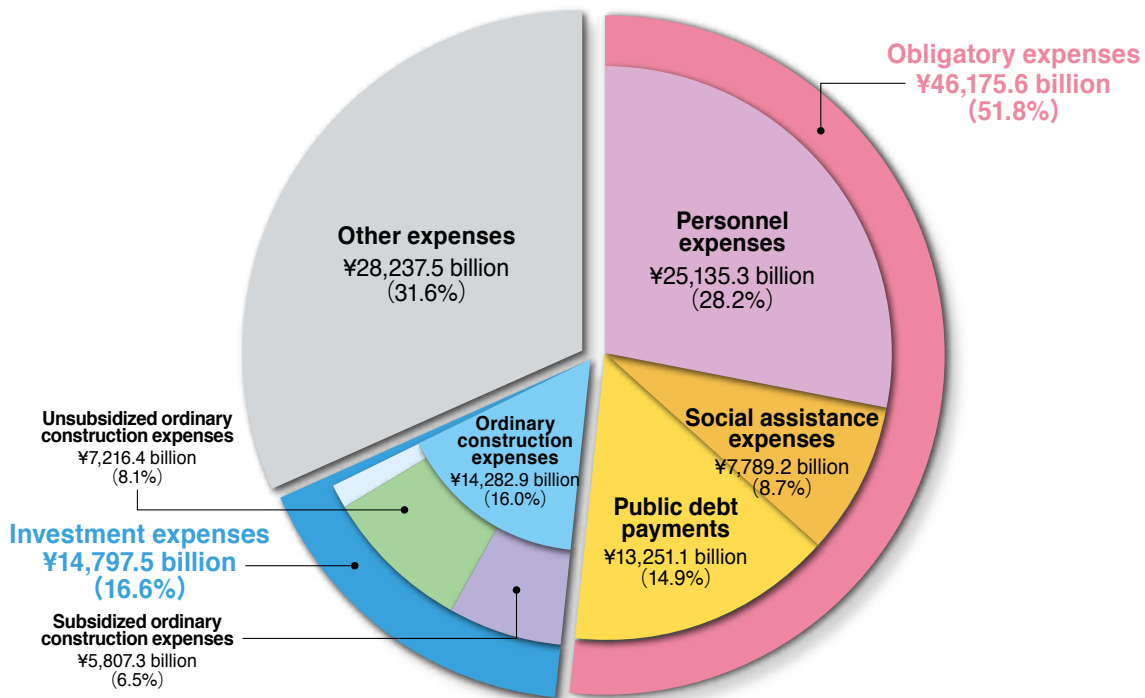
# [What are expenses for?]

## 2 Expenses by Character

Classified by character, expenses can be divided into "obligatory expenses" (personnel expenses, social assistance expenses and public debt payments), which are mandatory and difficult to cut down at the discretion of individual local governments; "investment expenses," including ordinary construction expenses, etc.; and "other expenses."

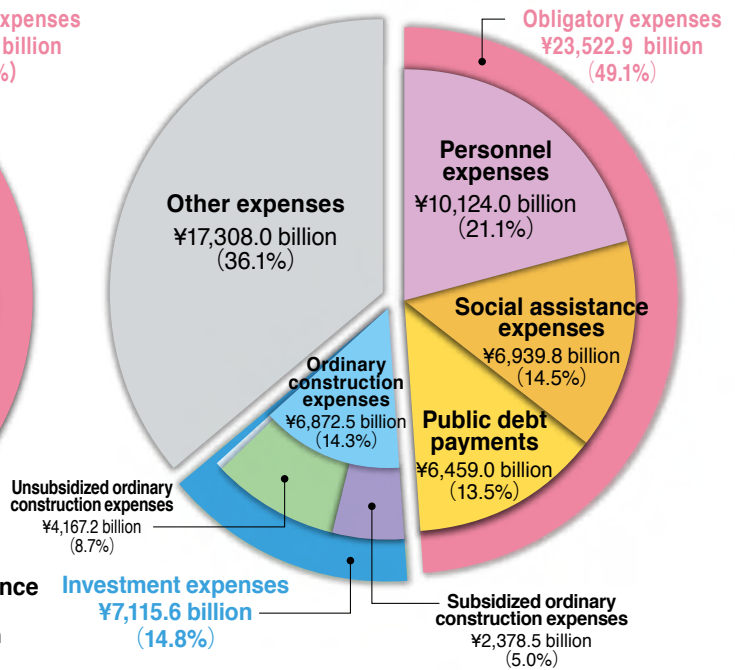
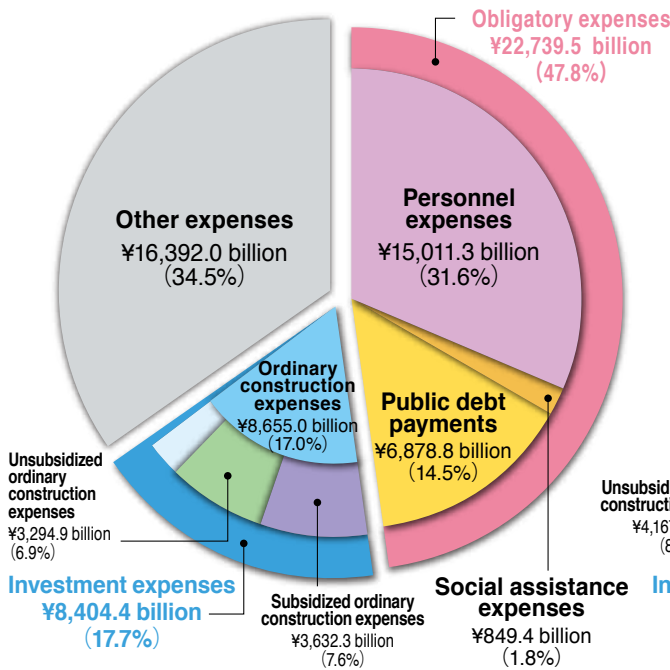
### Composition of Expenditure by Character (FY 2006 settlement)

**Net total ¥89,210.6 billion**

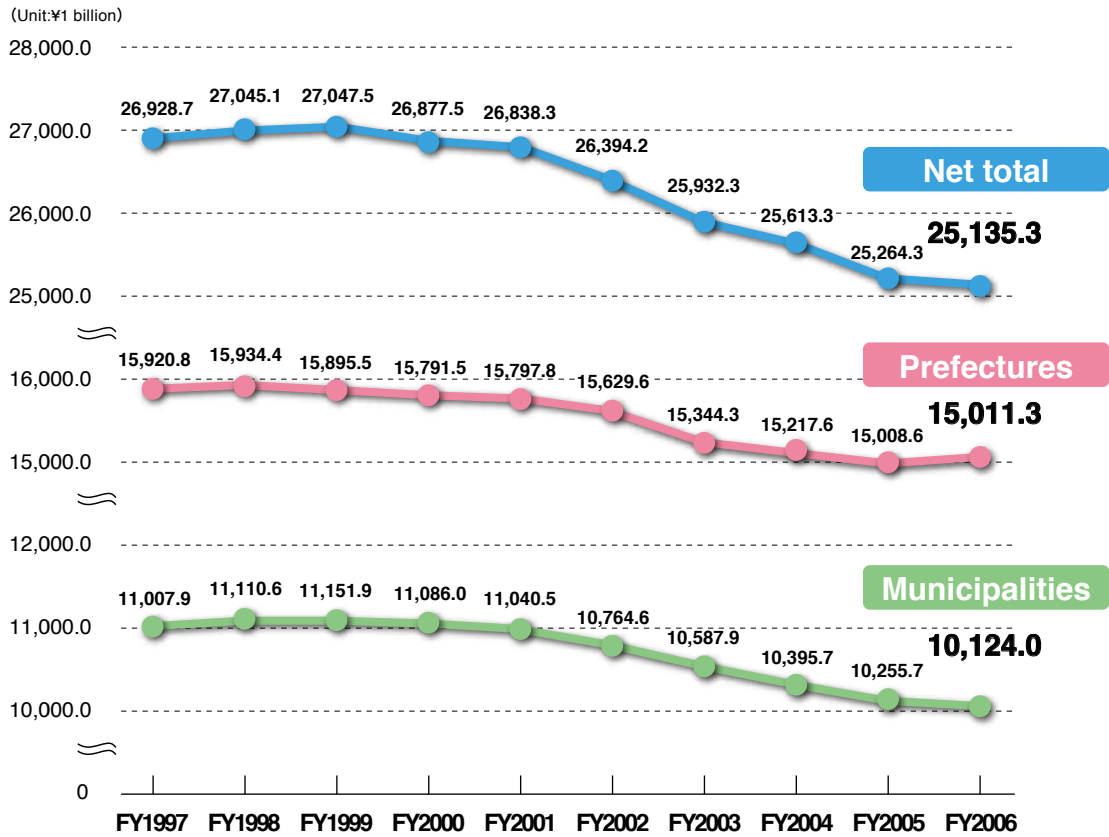


**Prefectures Total ¥47,535.9 billion**

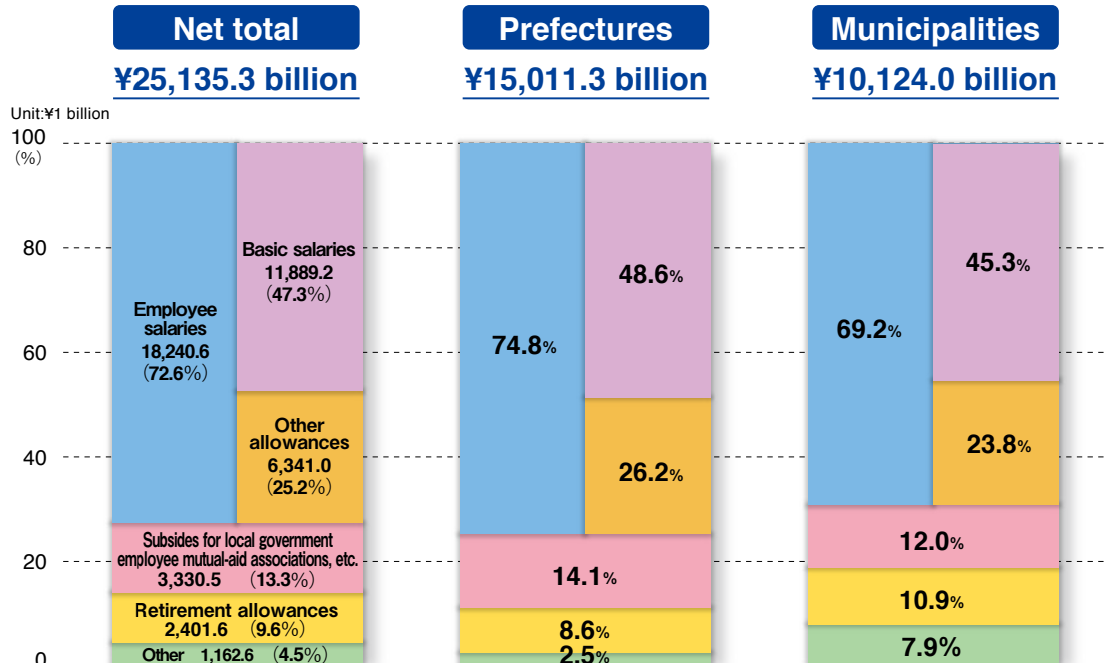
**Municipalities Total ¥47,946.5 billion**



## Trends in Personnel Expenses



## Breakdown of Personnel Expenses by Item



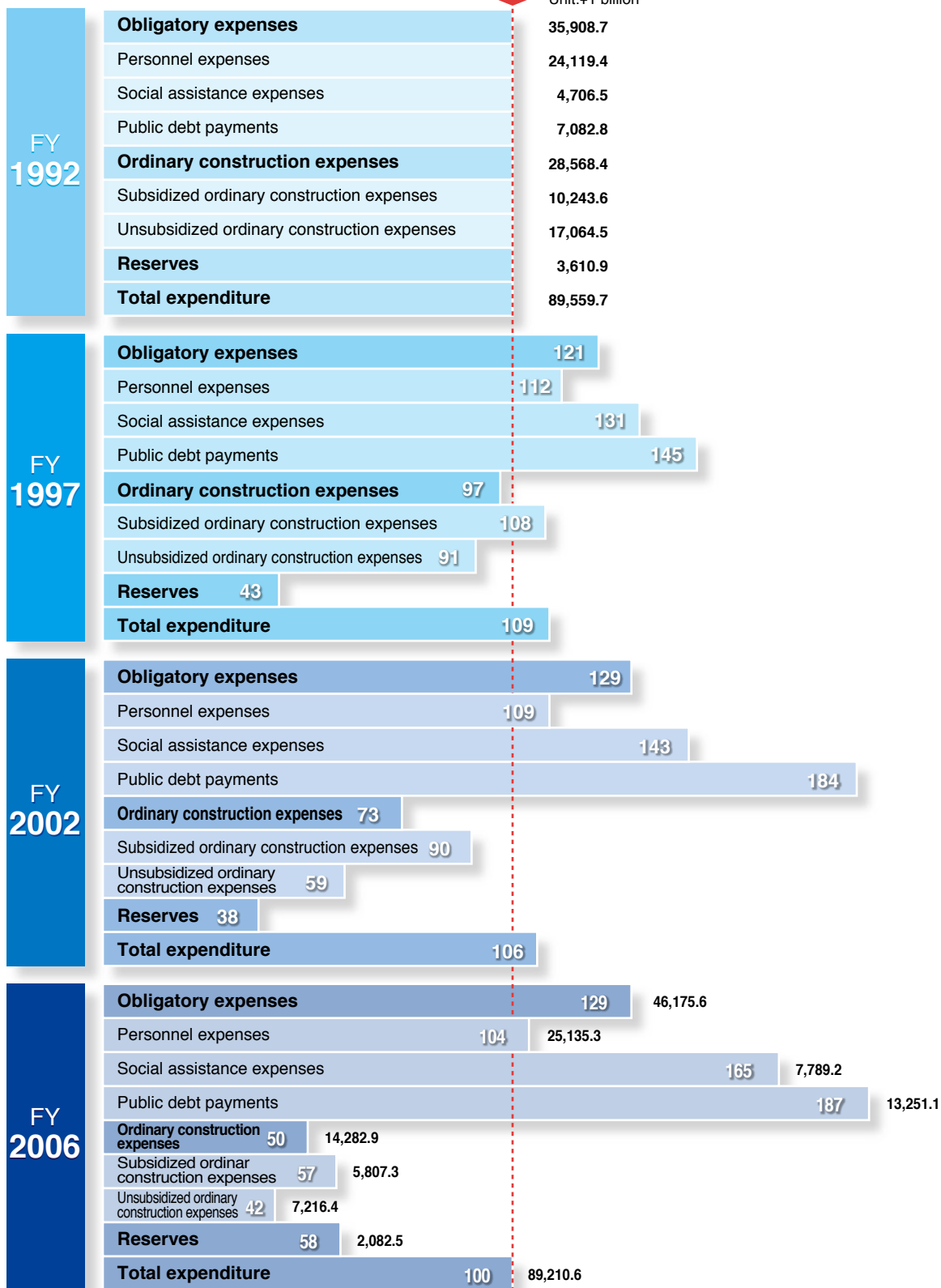
In recent years, while there has been a decline in such items as ordinary construction expenses, social assistance expenses, public debt payments and so on have been increasing.

## Trends in Breakdown of Expenditures by Character (ordinary account net total)

Unit : Ratio with FY 1992 as 100.

100

Unit:¥1 billion



**Social assistance expenses :**

Expenses which include child welfare expenses, livelihood protection expenses, etc., aimed at assisting the needy, children, the elderly, mentally and physically disabled, etc., as a part of the social security system.

**Ordinary construction expenses :** Expenses necessary for the construction of social capital, such as roads, bridges, parks, schools, etc.

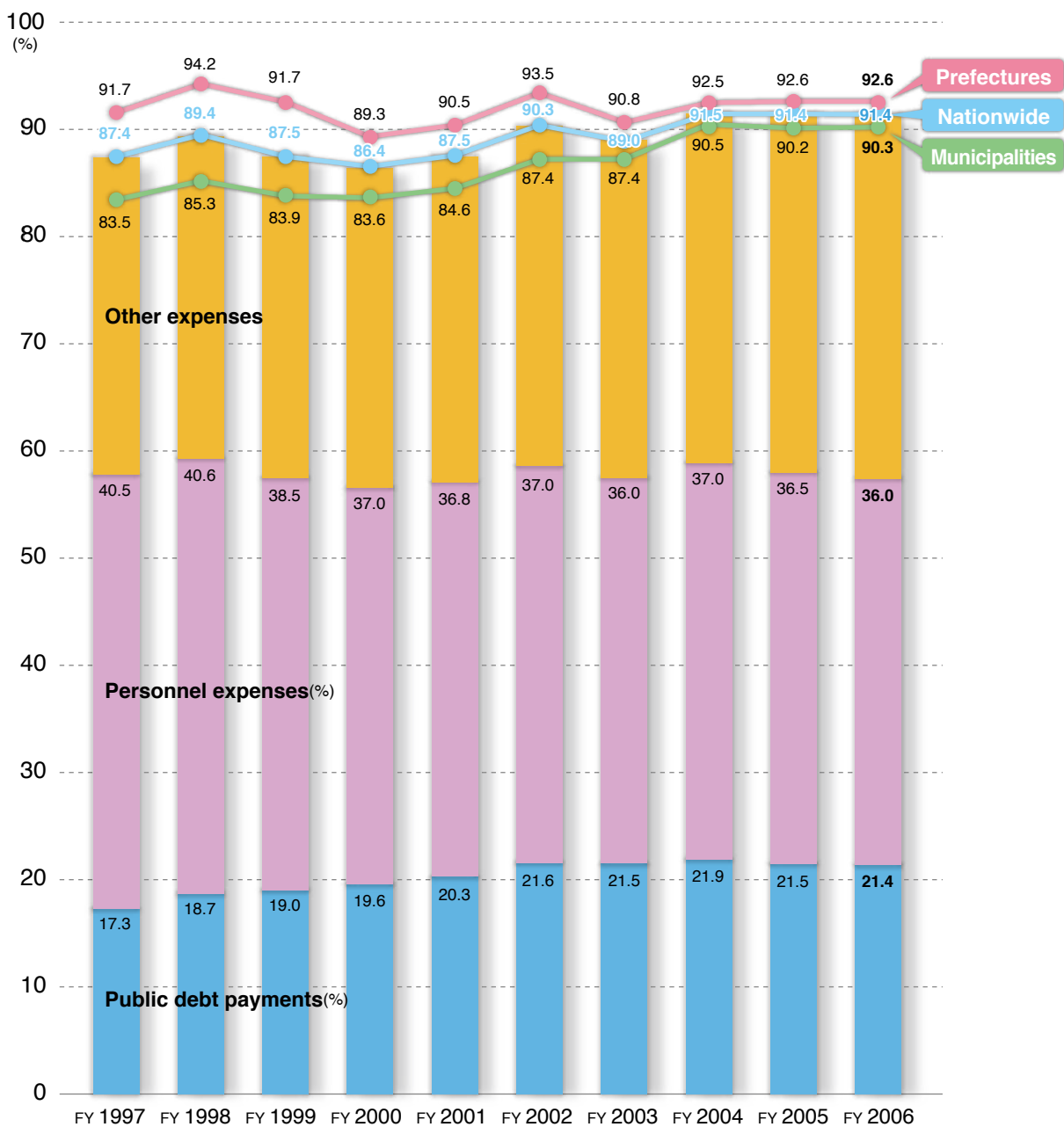
# Flexibility of the Financial Structure

## [How can local finance respond to the demand toward local governments?]

In addition to revenue sources allocated to obligatory expenses required every year, it is necessary for local governments to ensure revenue sources for measures to respond properly to social and economic trends and changes in the demand of the residents. The extent to which these revenue resources can be ensured is called the flexibility of the financial structure.

### 1 Ordinary Balance Ratio

The national average of the ordinary balance ratio (the ratio of ordinary revenue allotted to expenses recurring every fiscal year to the total of ordinary revenue recurring every fiscal year, centered on local taxes and the local allocation tax, as well as tax reduction supplementary bonds and extraordinary financial countermeasures bonds [see note]) remained at a high level of 91.4%, the same as the previous fiscal year.



**Notes:**

Tax-reduction supplementary bonds and extraordinary financial countermeasures bonds have been added since fiscal 2001.

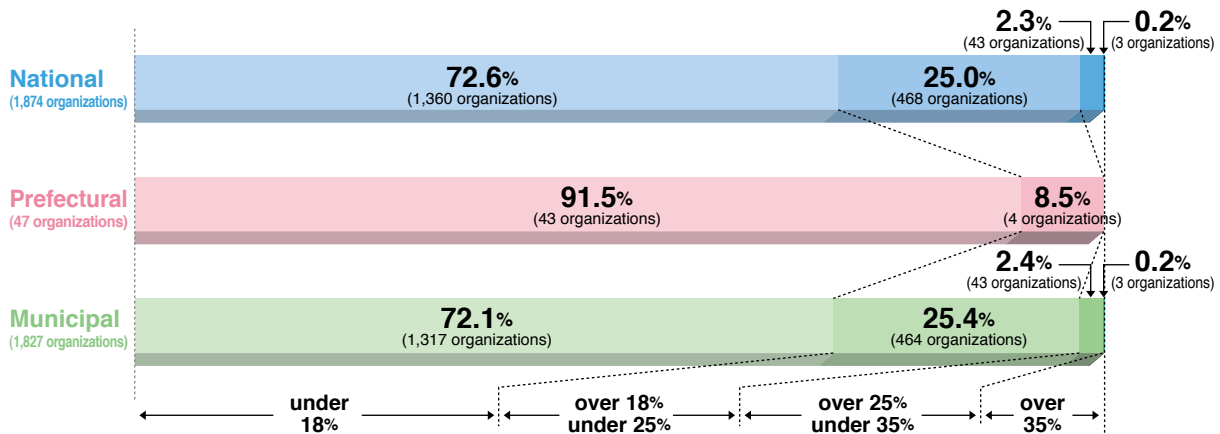
## 2

### Real Debt Service Ratio and Debt Service Payment Ratio Used for Permission to Issue Local Bonds

It is necessary to keep a close watch on trends in public debt payments at all times, since public debt payments, payments of principal and interest on the debts of local governments, are expenses especially lacking flexibility. The real debt service ratio, which is an index indicating the extent of the real debt payment burden, was calculated for the first time on the basis of fiscal 2005 account settlements. Past trends can be seen in the debt service payment ratio used for permission to issue local bonds.

The national average is 11.6%, which is approximately the same ratio as the previous fiscal year, and remains at a high level.

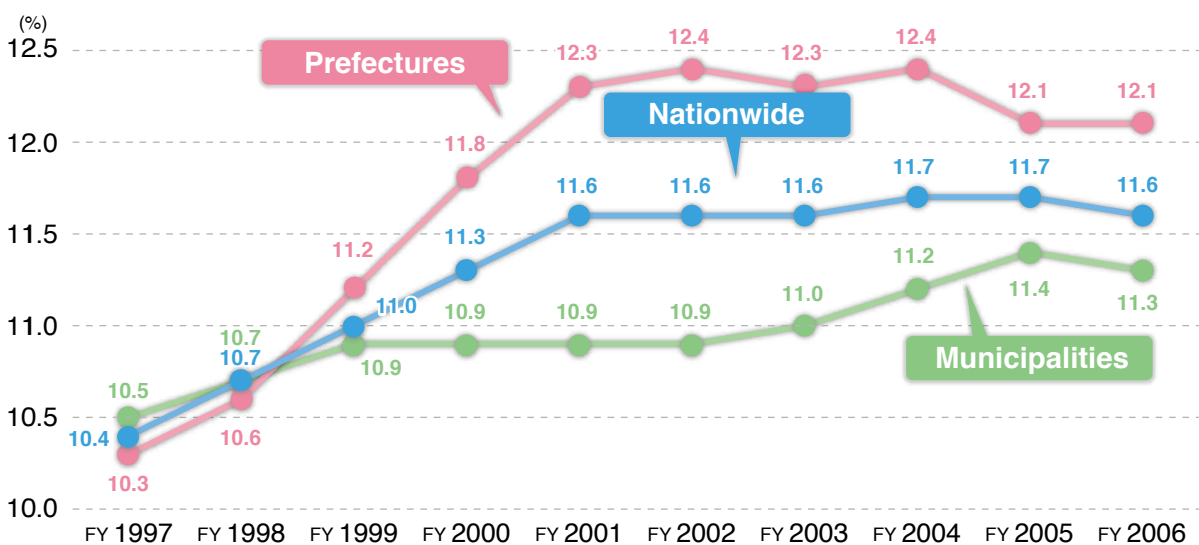
#### State of the Real Debt Service Ratio



#### \*Real debt service ratio

The real debt service ratio indicates the ratio of the principal and interest repayments on local bonds (excluding advanced redemption, etc.) and the real debt service amount, including items corresponding to debt service expenses, such as disbursements to public enterprise bonds, minus that portion of the local allocation tax allotted for this purpose to the total of the standard financial amount and the issuable extraordinary financial countermeasures bond amount. It is used to determine organizations that require consultations or permission to issue bonds. If the ratio is over 18%, the organization needs permission to issue bonds; if it is over 25%, the issue of certain kinds of local bonds is restricted; and if it is over 35%, the restrictions are tightened even more.

#### Trends in the Debt Service Payment Ratio Used for Permission to Issue Local Bonds



#### \*Debt service payment ratio used for permission to issue local bonds

The debt service payment ratio used for permission to issue local bonds indicates the ratio of the total of local debt principal and interest and expenditure relating to debt-burden acts corresponding to debt service expenses, excluding the amount of advanced redemption, and also excluding the amount of general revenue resources calculated for this purpose that includes the local allocation tax, to the total of the standard financial amount and possible issue of extraordinary financial countermeasures bonds (excluding the amount of local allocation tax calculated for service payment).

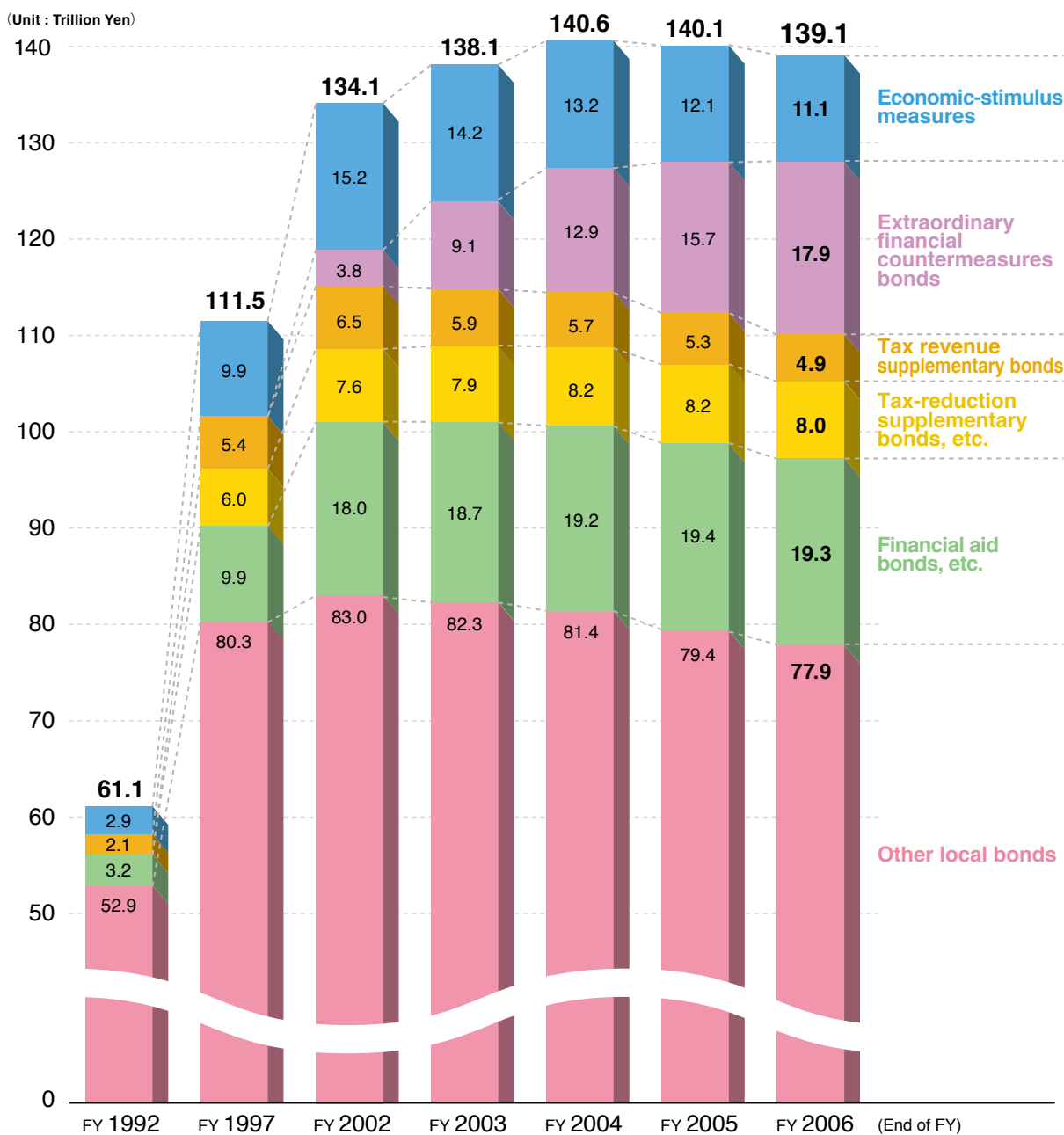
# Outstanding Local Government Borrowing (Ordinary Account)

[What is the state of debts in local public finance?]

## 1 Trends in Outstanding Local Government Borrowing

Outstanding local government borrowing, the debts of local governments, amounted to approximately ¥139 trillion at the end of fiscal 2006. This figure has been increasing in recent years because of such factors as the need to supplement tax revenue as a result of tax cuts and the issue of extraordinary financial countermeasures bonds. The figure is 1.5 times larger than total revenue and about 2.4 times larger than the total sum of general revenue resources, such as local taxes and local allocation tax.

### Trends in Outstanding Local Government Borrowing



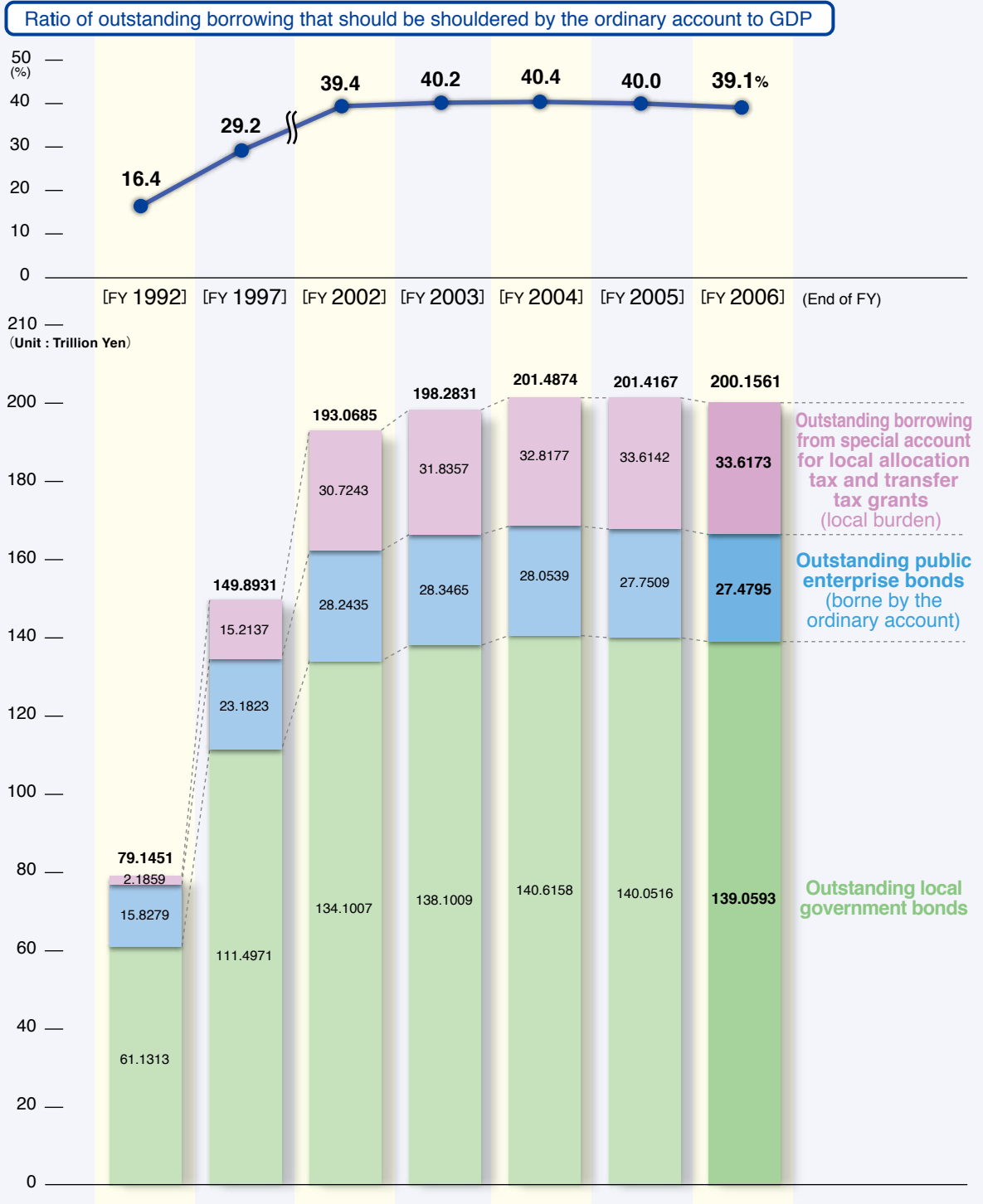
**Notes:**

1. Outstanding local government borrowing excludes special fund public investment bonds.
2. Economic-stimulus figures are estimates.

## 2 Outstanding Borrowing of Local Finance

Also, the outstanding borrowing of local public finance, which includes the local burden of borrowing from the special account for local allocation tax and transfer tax grants and those public enterprise bonds borne by the ordinary account, as well as current outstanding local government bonds, remains at a high level, amounting to approximately ¥200 trillion at the end of fiscal 2006.

### Trends in Outstanding Borrowing That Should Be Shouldered by the Ordinary Account and Ratio of Outstanding Borrowing to Gross Domestic Product



**Notes:**

1. Outstanding local government borrowing excludes special fund public works bonds and special fund public investment bonds.
2. Outstanding public enterprise bonds (borne by the ordinary account) are estimates based on settlement statistics.



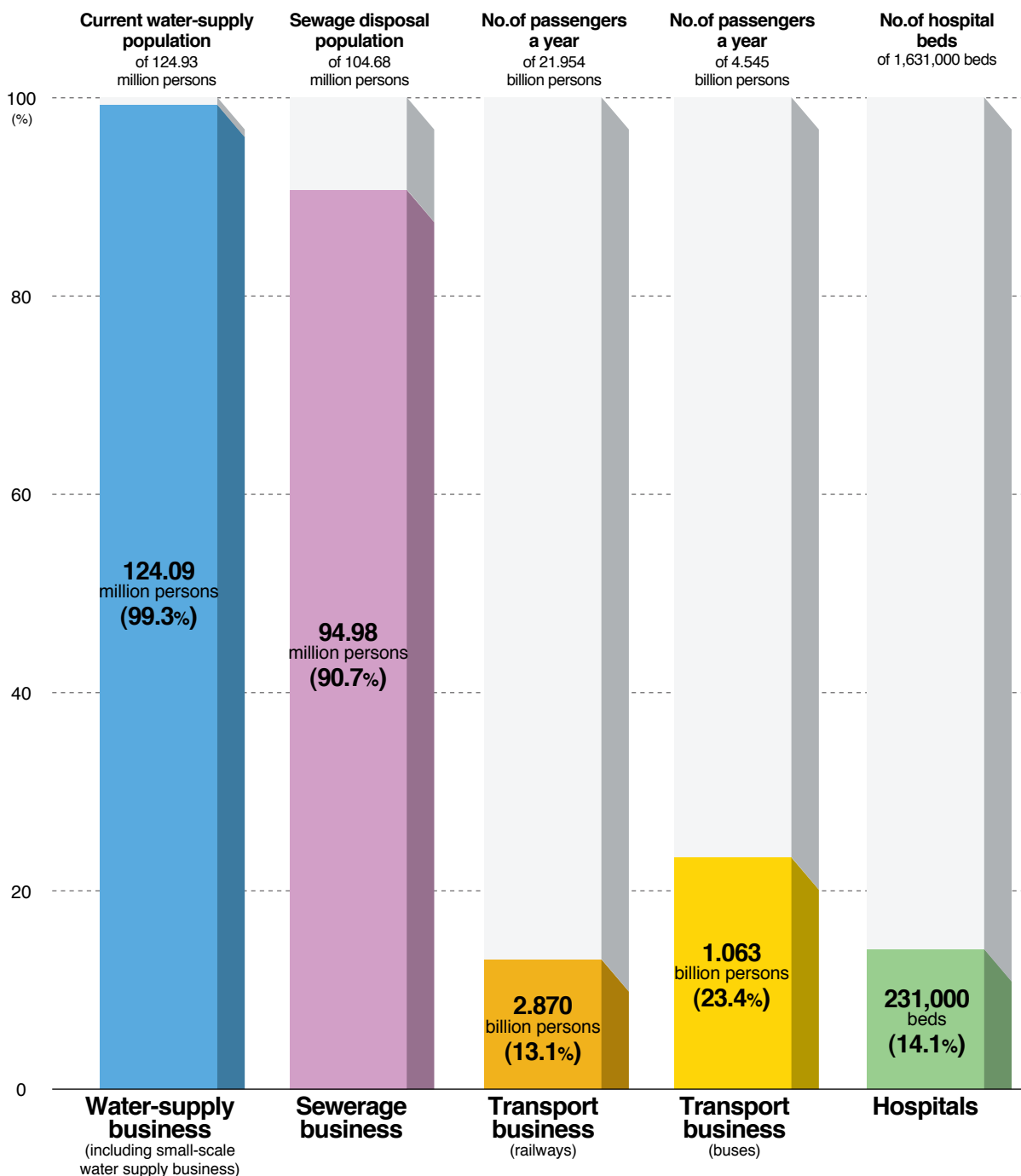
# Local Public Enterprises

## [What is the state of local public enterprises?]

Local public enterprises are managed directly by local governments for the purpose of social and public benefit. They provide social infrastructure and services indispensable for local residents and the development of the community, including water supply, sewerage, transport and hospitals.

### 1 Ratio of Local Public Enterprises

Local public enterprises play a major role in improving the standard of living of residents.

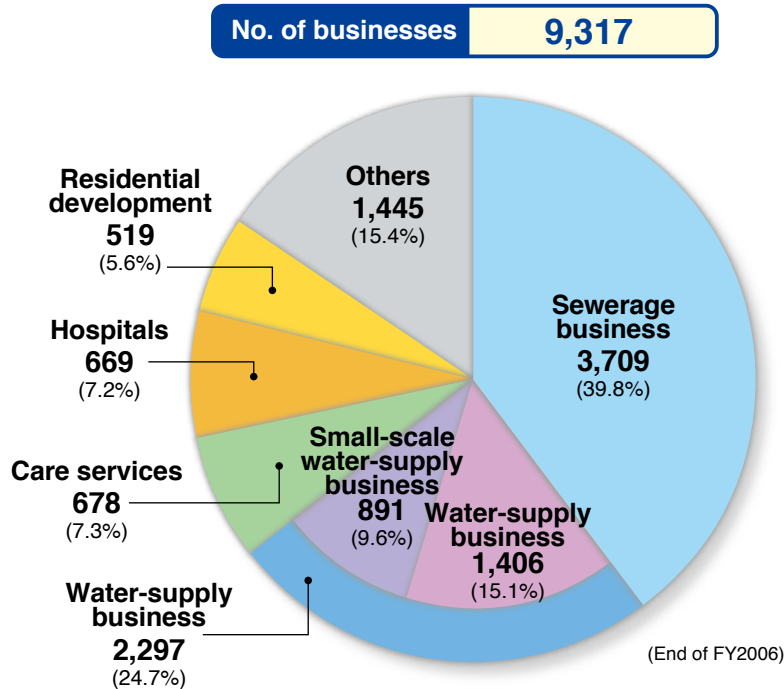


#### Notes:

- The graph shows the ratio of local public enterprises when the total number of business entities nationwide is taken as 100.
- Figures for the total number of enterprises nationwide are compiled from statistical materials of related organizations; figures for local public enterprises are compiled from figures for the total number of enterprises and settlements for the previous fiscal year.

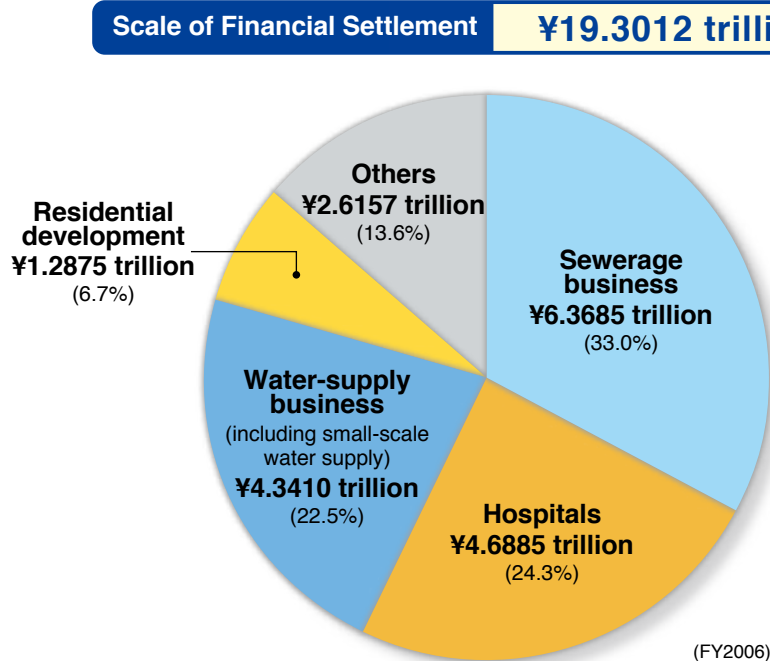
## 2 Number of Businesses Operated by Local Public Enterprises

The number of businesses is 9,317. By type of business, sewerage accounts for the largest ratio, followed in order by water supply, care services, and hospitals.



## 3 Scale of Financial Settlement

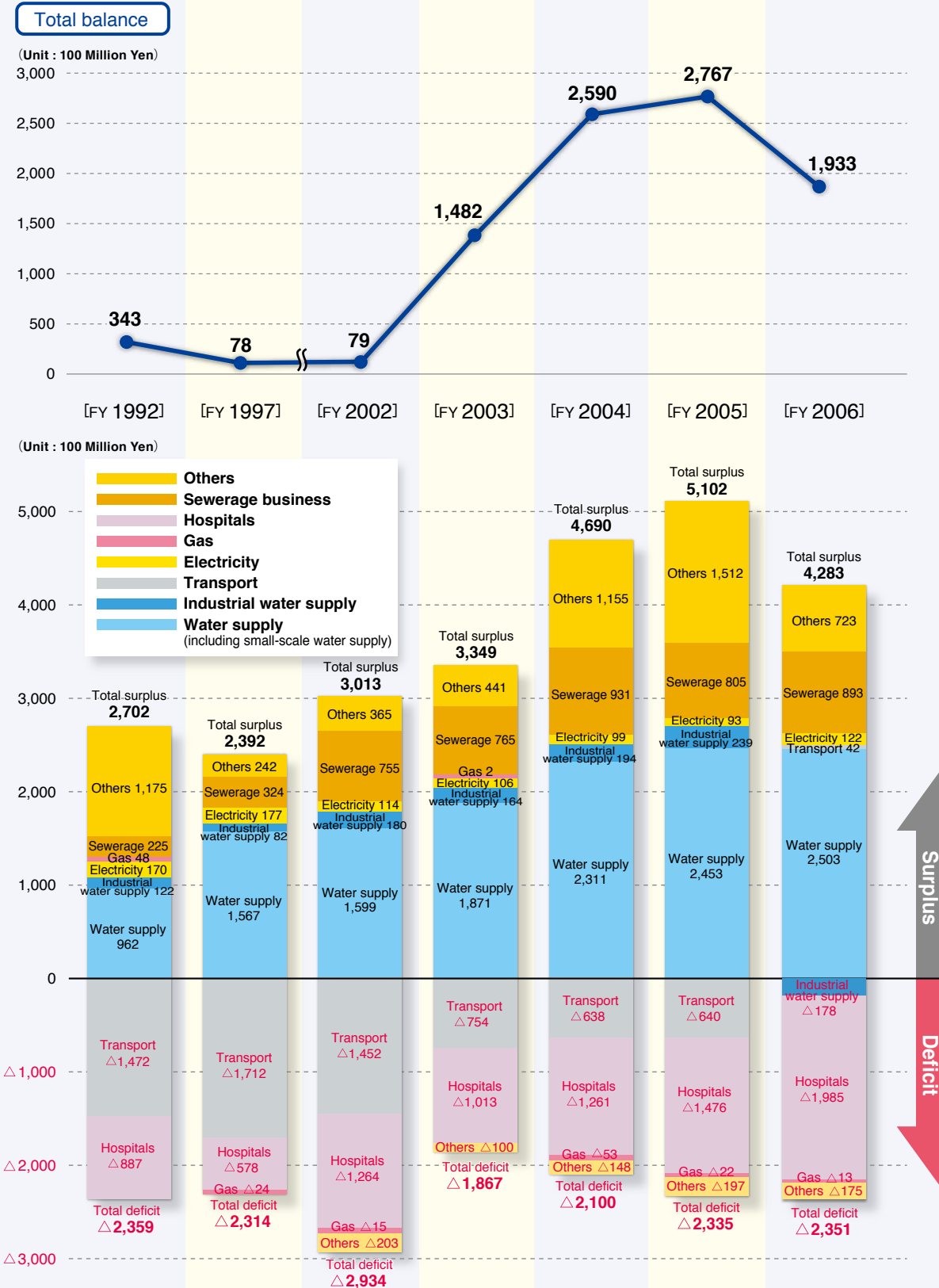
The total financial settlement scale is ¥19.3012 trillion. By type of business, sewerage accounts for the largest ratio, followed in order by hospitals, water supply, and Residential development.



## 4 Management Conditions

Local public enterprises had a surplus of ¥193.3 billion. By type of business, while water supply, electricity, and sewerage showed a surplus, hospitals are continuing to register a deficit.

### Trends in Management Conditions of Local Public Enterprises

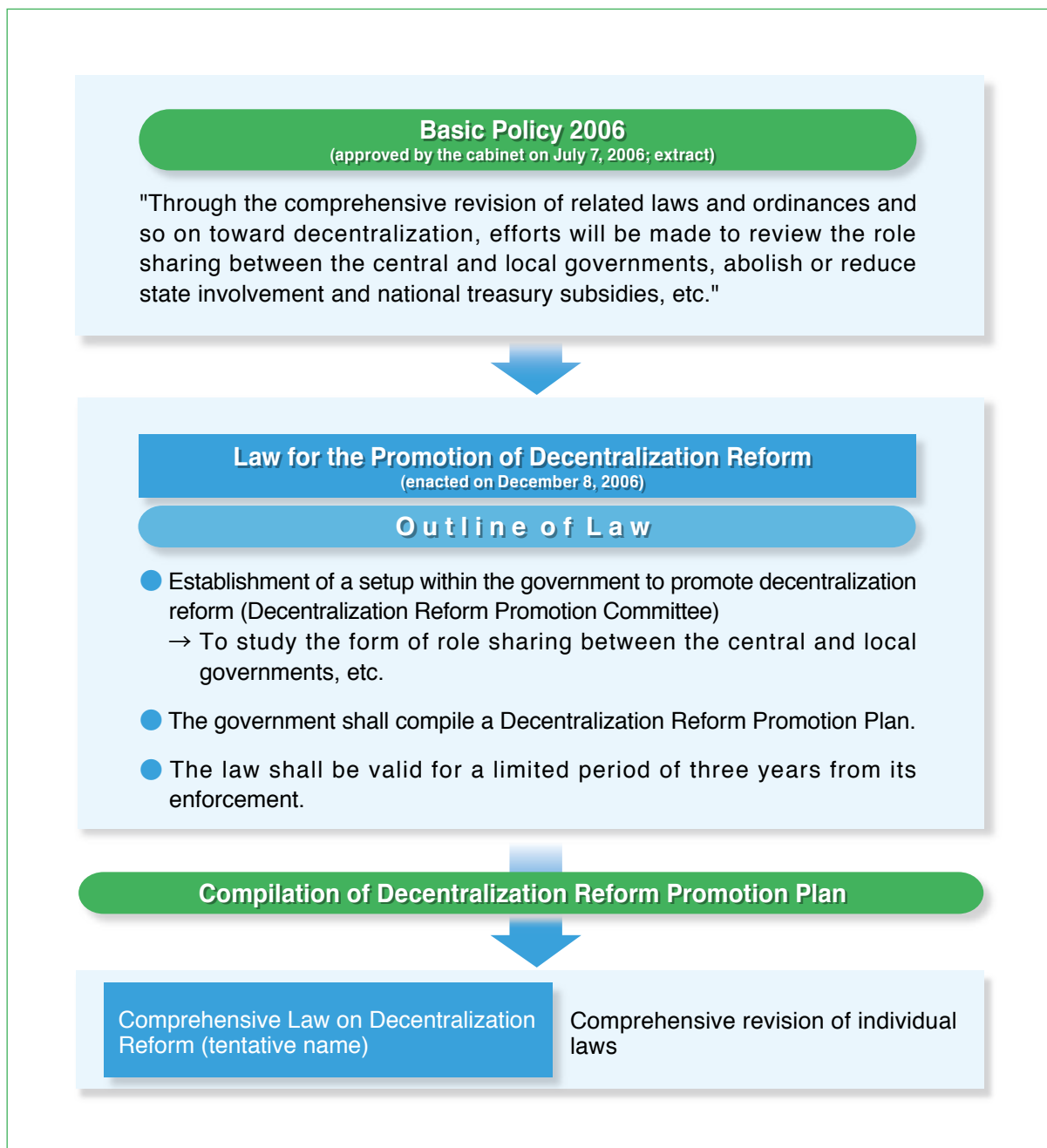


# Trends and Issues in Local Public Finance

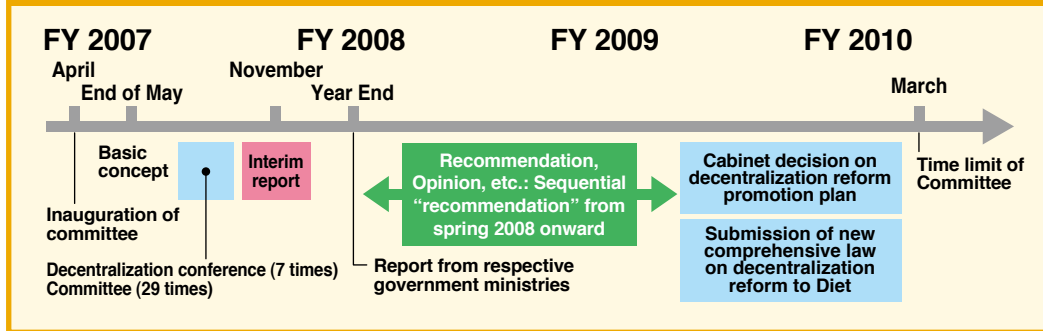
## 1 Promotion of Decentralization Reform

### Enactment of the Law for the Promotion of Decentralization Reform

The Law for the Promotion of Decentralization Reform, which aimed to clarify the basic philosophy for the promotion of decentralization and the responsibilities of the central and local governments, to stipulate fundamental matters, and to promote decentralization in a comprehensive and planned manner by establishing the necessary system, was enacted on December 8, 2006, and enforced on April 1, 2007. On the basis of this law, efforts are being made to promote new decentralization reforms, thoroughly review the role sharing between the central and local governments, advance the transfer of authority and financial resources to local governments, and establish the independence and responsibility of the regions.



“Compass” showing the direction of study toward recommendation



Efforts so that “Local Governments Play Leading Part in Nation Building”

- Transfer of power for establishing local governments
- Realization of completely autonomous entities
- Ensurement of comprehensiveness of governments
- Revitalization of local communities
- Improvement of capabilities for assuming autonomous control

Review of Legal Schemes, etc.

- ① Thorough abolishment or curtailment of obligations, framing (method of enforcement, etc.) and involvement (consultation, consent, etc.) by the central government
- ② Expansion of ordinance making power
- ③ Check system regarding new obligation, framing and involvement
- ④ Legislation of transfer of power from prefectures to municipalities

Drastic Review and Examination of Individual Administrative Areas and Administrative Works

● Priority Issues

- ① Medical care
- ② Public assistance
- ③ Unification of kindergartens and nursery schools
- ④ Compulsory education
- ⑤ Roads
- ⑥ Rivers
- ⑦ Agriculture

● Other Key Issues

- ① Welfare and health
- ② Labor
- ③ Children
- ④ Education
- ⑤ Housing and cities
- ⑥ Transportation
- ⑦ Environment
- ⑧ Agriculture
- ⑨ Commerce and industry
- ⑩ Disaster prevention

Decentralization Reform and Revitalization of Local Communities

Path to revitalization of depopulated central cities and local villages

Public Finance and Taxation

- ① Financial relation of central and local governments
- ② Rectification of interregional disparities in financial strength
- ③ Financial burden on social capital improvement
- ④ Central government subsidy reform
- ⑤ Financial discipline

Administrative System Toward Conversion to Decentralized Society

- ① Enhancement of wide-range cooperation
- ② Concept of large city system
- ③ Review of local branch offices, etc.

## 2 Promotion of Administrative Reform

### (1) Intensive Reform Plans

In order to solidly promote local administrative reform, the Ministry of Internal Affairs and Communications compiled the New Guidelines for the Promotion of Administrative Reform in Local Governments (the New Local Administrative Reform Guidelines) and notified local governments of them on March 29, 2005.

As a result, local governments have compiled and disclosed intensive reform plans indicating specific efforts, such as the reorganization and arrangement of administrative work and projects and the promotion of private-sector consignment, to be undertaken in general until fiscal 2009.

### (2) Further Promotion of Administrative Reform

On August 31, 2006, the Ministry of Internal Affairs and Communications formulated "Guidelines for the Further Promotion of Administrative Reform in Local Governments" and requested local governments to make positive efforts toward three reforms: reform of total personnel expenses, reform of public services, and reform of local public accounting.

#### Reform of total personnel expenses

- Further net reduction in number of employees bearing in mind the net reduction (down 5.7%) in the number of national public employees
- Promotion of salary reform (reflection of regional private-sector salaries, further streamlining of salaries)
- Efforts to curb personnel expenses in third-sector enterprises, etc.

#### Reform of public services

- Implementation of studies in light of project classification and overall inspection of need for public services and implementing entities
- Setting of performance indexes relating to the maintenance and improvement of public services and numerical targets relating to expenditure reduction, etc. in the implementation of marketization tests

#### Reform of local public accounting (local asset and debt management reform)

- Promotion of the compilation of four documents: balance sheet, administrative cost statement, financial balance statement, and net asset fluctuation statement
- Formulation of the direction and specific measures for asset and debt reform including promotion of the sale of unused assets, effective utilization of assets, etc.

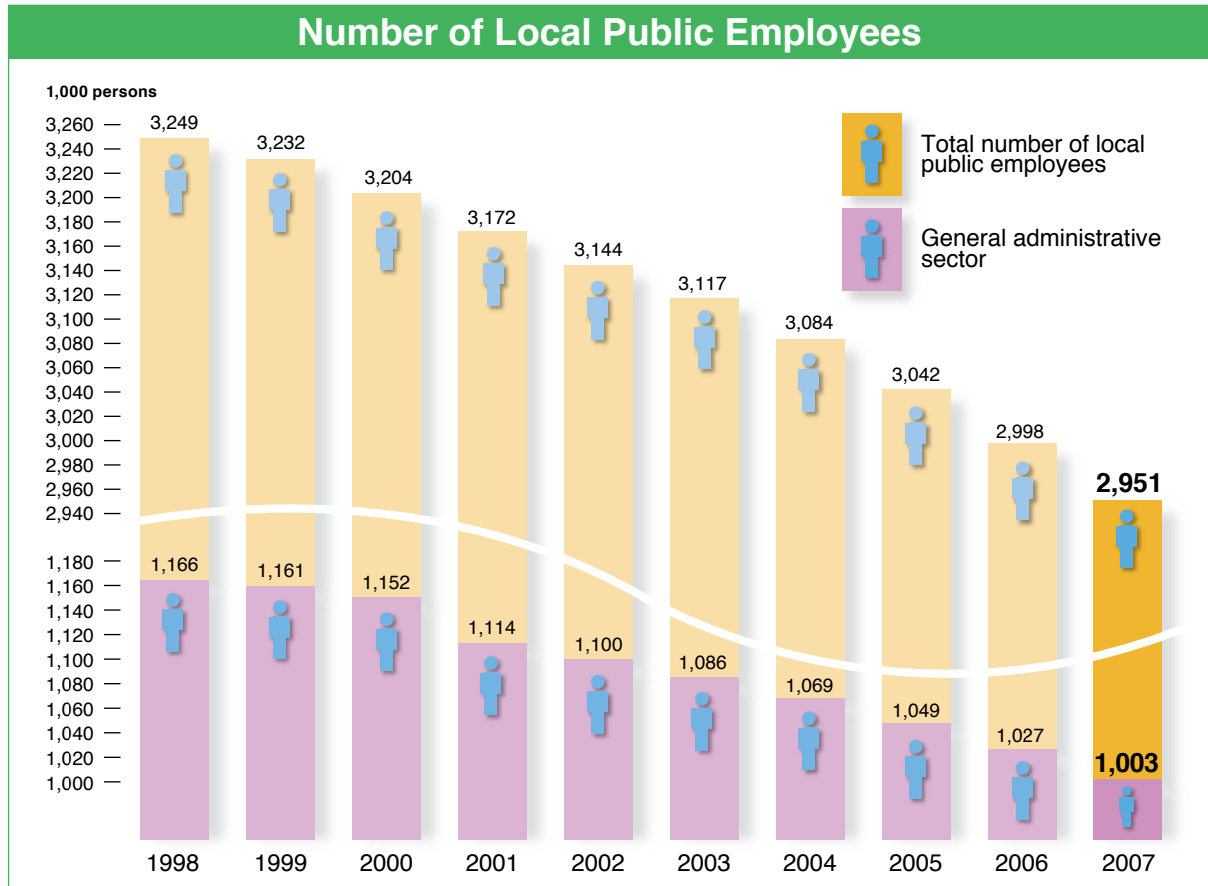
#### Formulation of Rules for Information Disclosure to Facilitate Comparisons and Appraisal Between Local Governments and Strengthening of Resident Monitoring

- Enhancement of disclosure systems, including salary information
- Further promotion of financial information disclosure to enable comparisons between organizations
- Disclosure of implementation process and implementation results of marketization tests
- Active appointment of outside personnel as auditors and utilization of external auditing

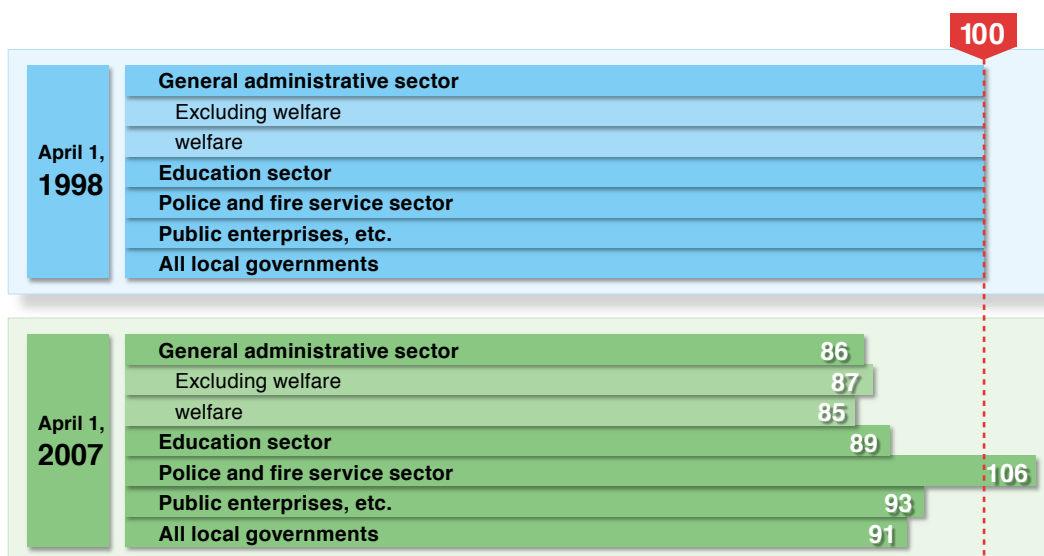
Reference **Number of Public Employees**

The number of local public employees has declined for 13 consecutive years since 1995. The number of employees has fallen for 12 consecutive years in the general administrative sector and 6 consecutive years in the public enterprise sector.

The reason for these declines is that, although the number of staff in the police and fire service sectors is increasing due to such factors as the enhancement of public security and disaster-prevention measures, efforts are being made to reduce the number of staff as a whole by, for example, setting numerical targets for personnel management and implementing cuts in other sectors on the basis of scrap-and-build policies.



### Trends in the Number of Staff in Local Governments by Sector



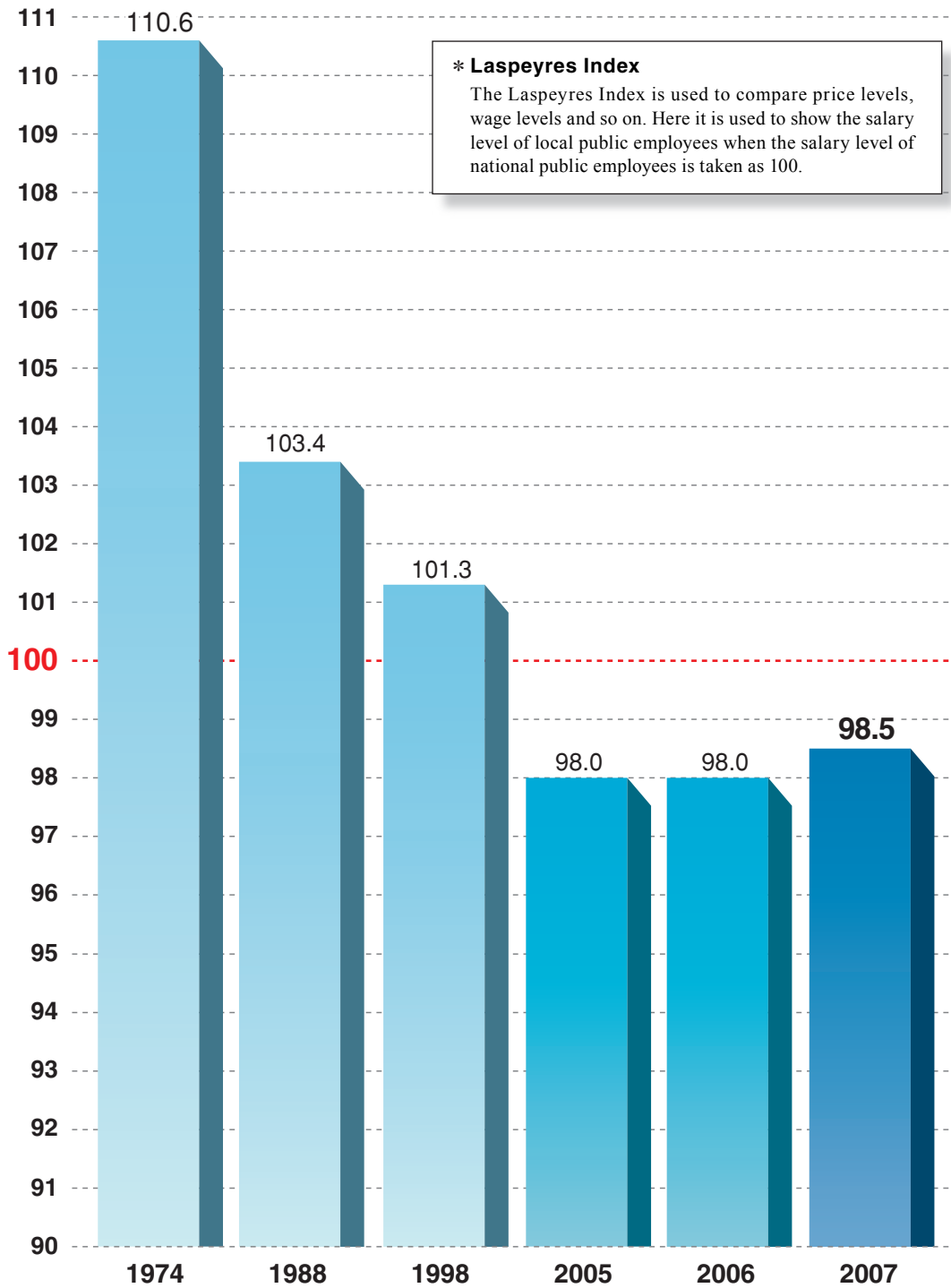
Unit: Ratio against 100 as the number of staff as of April 1, 1998.

Reference **Salary Level**

When the salary level of local public employees is shown on the Laspeyres Index, the average for all local governments is 98.5.

In fiscal 2006 a total of 577 local governments adopted measures to correct wage levels, such as the revision of salary scales, and a total of 781 local governments implemented the revision of various allowances and retirement allowances. In addition, 1,636 organizations (approximately 87%) among 1,874 organizations had a Laspeyres Index of less than 100.

**Trends in the Laspeyres Index** (Trends in the Average for All Local Governments)





### 3 Promotion of Soundness of Local Public Finance

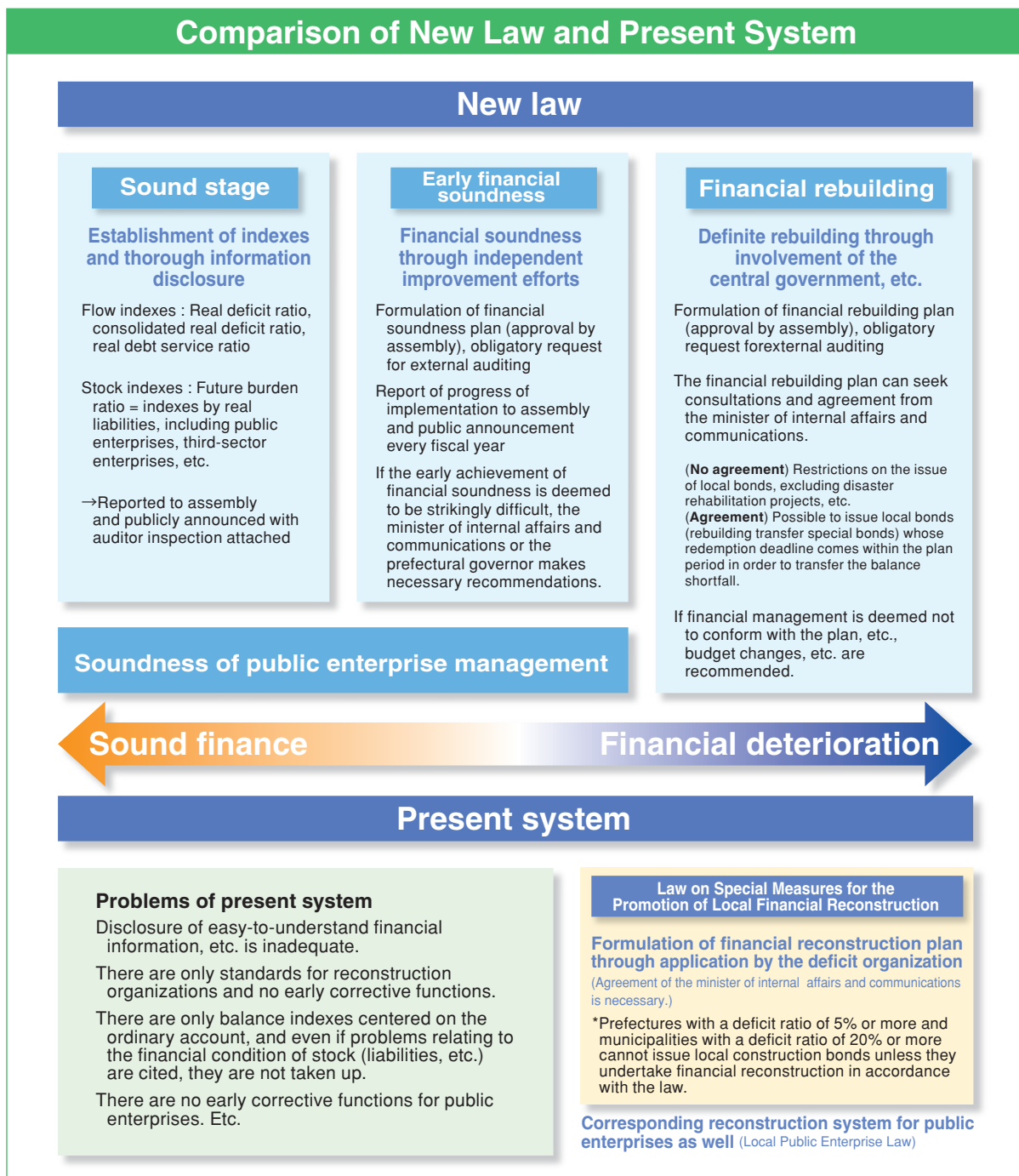
#### (1) Law Relating to the Financial Soundness of Local Governments, etc.

Amid severe financial conditions caused by such factors as the redemption of local bonds and the advance of aging, local governments are required to conduct autonomous financial management that takes into account the needs of local residents. Furthermore, it is extremely important to establish the financial discipline of local governments in order to promote decentralization from now on.

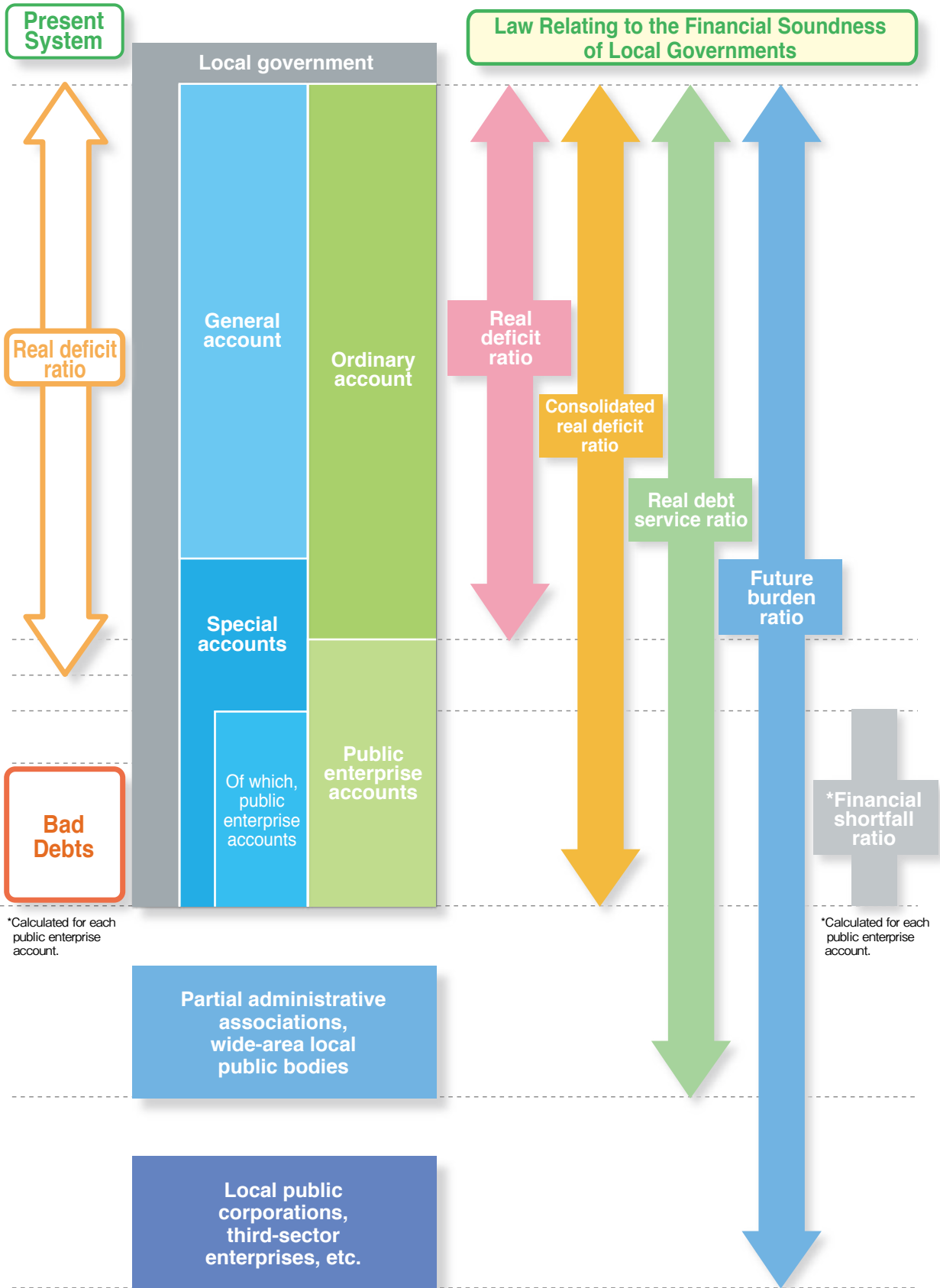
In response to this situation, the present system of local government financial reconstruction only uses flow indexes for the real deficit, such as the general account, and various problems have been pointed out, such as the fact that it is a mechanism for reconstruction through application.

Therefore, the present system of local government financial reconstruction was drastically revised for the first time in about 50 years, and in June 2007 the Law Relating to the Financial Soundness of Local Governments (2007, Law No. 94) has been enacted as a new system to thoroughly establish and disclose financial indexes and to strive for the early soundness and rebuilding of financial affairs. Financial indexes will be enforced from April 2008, and regulations concerning duties of formulating financial soundness plan, etc. will be enforced from April 2009.

#### Comparison of New Law and Present System



# Subject of Ratio for Determining Soundness



## Outline of Ratio for Determining Soundness

$$\text{Real deficit ratio} = \frac{\text{real deficit of general account, etc.}}{\text{standard financial scale}}$$

- **Real deficit of general account, etc.:** Amount of real deficit in account corresponding to ordinary account among general account and special accounts
- **Amount of real deficit = amount of advanced appropriation + (amount of deferred payment + amount of business balance carried forward)**

$$\text{Consolidated real deficit ratio} = \frac{\text{consolidated real deficit}}{\text{standard financial scale}}$$

- **Consolidated real deficit: If the total amount of A and B exceeds the total amount of C and D, such exceeding amount**
  - Among general account and special accounts excluding public enterprises (enterprises regulated and enterprises not regulated by the Local Public Enterprise Law), the total amount of real deficit of accounts subject to real deficit
  - Among special accounts of public enterprises, the total amount of deficit of funds of accounts subject to deficit of funds
  - Among general account and special accounts excluding public enterprises, the total amount of real balance surplus of accounts subject to real balance surplus
  - Among special accounts of public enterprises, the total amount of surplus of funds of accounts subject to surplus of funds

$$\text{Real debt service ratio (3-year average)} = \frac{\text{(redemption of principal and interest of local bonds + quasi-redemption of principal and interest) - (special revenue sources + amount included in standard financial requirements pertaining to redemption of principal and interest and quasi-redemption of principal and interest)}}{\text{standard financial scale - (amount included in standard financial requirements pertaining to redemption of principal and interest and quasi-redemption of principal and interest)}}$$

- **Quasi-redemption of principal and interest: Total amount of A to E**
  - Amount corresponding to annual redemption of principal in a case of principal equal amortization where the redemption period is 30 years regarding bullet local bonds
  - Among the transfers from the general account, etc. to special accounts other than the general account, etc., the amount acknowledged to be appropriated for revenue resources for the redemption of public enterprise bonds
  - Among the burdens and subsidies to associations/local development corporations ("associations, etc."), the amount acknowledged to be appropriated for revenue resources for the redemption of local bonds issued by the associations, etc.
  - Expenditure based on liabilities that can be treated similarly to debt service among the expenditures based on debt burden
  - Interest of temporary loan

$$\text{Future burden ratio} = \frac{\text{future burden amount - (amount of appropriable funds + estimated amount of special revenue sources + amount expected to be included in standard financial requirements pertaining to outstanding local government bonds, etc.)}}{\text{standard financial scale - (amount included in standard financial requirements pertaining to redemption of principal and interest and quasi-redemption of principal and interest)}}$$

- **Future burden amount: Total amount of A to H**
  - Outstanding local government bonds as of end of fiscal year previous to relevant fiscal year of general account, etc.
  - Expected amount of expenditure based on debt burden (those pertaining to the expenses of each item under Article 5 of the Local Finance Law)
  - Estimated amount of transfer from the general account, etc. to be appropriated to the redemption of principal of local bonds of accounts other than the general account, etc.
  - Estimated amount of burden, etc. of the local government concerned to be appropriated for the redemption of principal of local bonds of the associations, etc. of which the local government concerned is a member
  - Among the expected amount of retirement allowance to be paid (amount of allowance that will be paid to all employees at the term end), the estimated amount of burden of the general account, etc.
  - Among the amount of debts of certain corporations established by the local government and among the amount of debt burden in the case of bearing the debts for such certain corporations, the estimated amount of burden of the general account, etc. giving consideration to the financial and business condition of the such corporations, etc.
  - Consolidated real deficit
  - Among the amount corresponding to the consolidated real deficit of the associations, etc., the estimated amount of burden of general account, etc.
- **Amount of appropriable funds: Funds under Article 241 of the Local Autonomy Law that can be appropriated for the amount of redemption, etc. of A to F**

$$\text{Financial shortfall ratio} = \frac{\text{deficit of funds}}{\text{size of business}}$$

- **Deficit of funds:**  
**Deficit of funds (enterprises regulated by the law) = (current liabilities + outstanding local government bonds issued to be appropriated for revenue resources of expenses other than construction and improvement expenses, etc. - current assets) – resolvable amount of financial shortfall**  
**Deficit of funds (enterprises not regulated by the law) = (amount of advanced appropriation + amount of deferred payment and amount of business balance carried forward + outstanding local government bonds issued to be appropriated for revenue resources of expenses other than construction and improvement expenses, etc.) – resolvable amount of financial shortfall**

\*Resolvable amount of financial shortfall: A fixed amount to be deducted from the deficit of funds when there are circumstances where deficit of funds will arise due to the nature of the project or structurally for a given period of time after the commencement of the project.

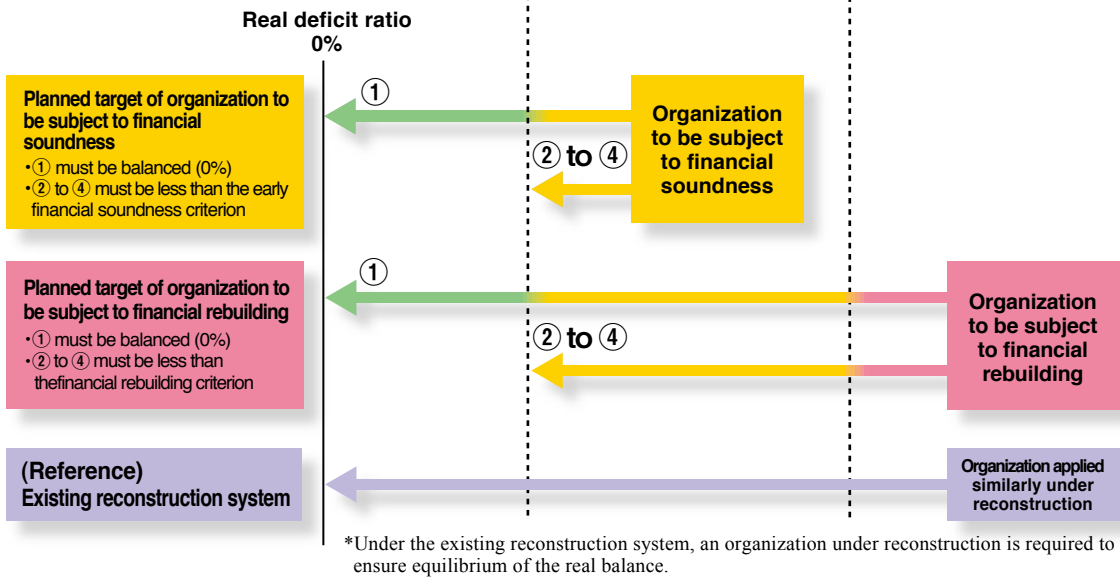
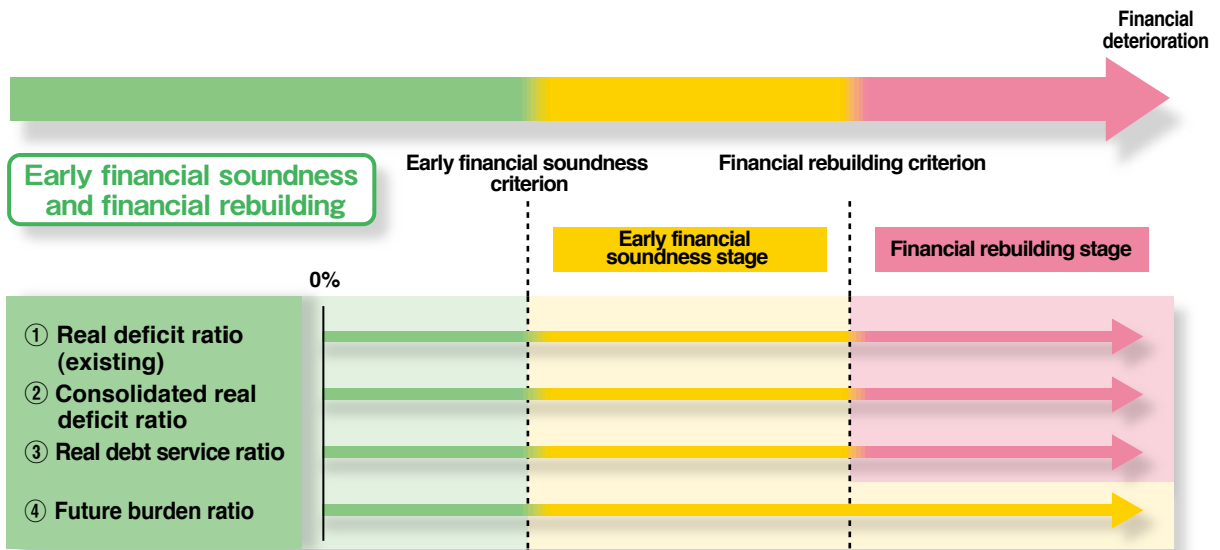
\*Public enterprises that are engaged in residential land development projects are subject to a special exception concerning the calculation of the current assets pertaining to the assessment of the land, etc.

- **Size of business : Size of business (enterprises regulated by the law) = amount of operating revenue – amount of consigned construction profit**  
**Size of business (enterprises not regulated by the law) = amount of profit corresponding to operating revenue – amount of profit corresponding to consigned construction profit**

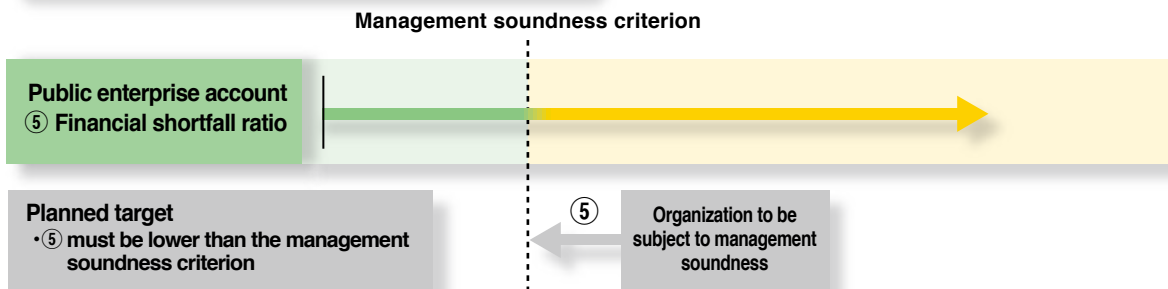
\*Public enterprises adopting the designated administrator system (usage fee system) are subject to a special exception concerning the amount of operating revenue.

\*The size of business of public enterprises that are only engaged in residential land development projects shall be the total amount of capital and debts that show the "financial resource scale for business management" (scale of procured funds).

# Image of Early Financial Soundness, Financial Rebuilding and Soundness of Public Enterprise Management



## Soundness of public enterprise management



**Early Financial Soundness Criterion, Financial Rebuilding Criterion, Management Soundness Criterion, etc.**

- “Law Relating to the Financial Soundness of Local Governments” was enacted in June 2007.
- Regulations concerning the disclosure of financial indexes has been enforced since April 1, 2008, and will be applied from the settlement of FY 2007.
- Regulations concerning the obligation to formulate plans, etc. will be enforced from April 1, 2009, and applied from the settlement of FY 2008.

**Early financial soundness**

Formulation of financial soundness plan, request for external auditing, etc.

**Financial rebuilding**

Formulation of financial rebuilding plan, procedure for seeking agreement of central government on plan, restriction on the issue of local bonds, rebuilding transfer special bonds, etc.

	Early financial soundness criterion	Financial rebuilding criterion
<b>Real deficit ratio</b> • Real deficit ratio of general account, etc.	Prefectures : 3.75% Municipalities : 11.25 to 15% according to financial size	Prefectures : 5% Municipalities : 20%
<b>Consolidated real deficit ratio</b> • Real deficit ratio of all accounts	Prefectures : 8.75% Municipalities : 16.25 to 20% according to financial size	Prefectures: 15% (*) Municipalities: 30% (*)
<b>Real debt service ratio</b> • Ratio of debt service expenses and expenditures similar to debt service expenses	Prefectures and municipalities : 25%	Prefectures and municipalities : 35%
<b>Future burden ratio</b> • Ratio of substantial debts to be borne by the general account, etc. in the future in addition to outstanding local government bonds	Prefectures and cities designated by government ordinance: 400% Municipalities: 350%	—
<b>Financial shortfall ratio of public enterprises</b> • Financial shortfall ratio of each public enterprise	20%	—

(\*) With respect to the financial rebuilding criterion of the consolidated real deficit ratio, a 3-year temporary criterion (in the case of municipalities, 40%→40%→35%) is provided.

## (2) Promotion of Local Public Accounting Reform and Information Disclosure

### A. Promotion of reform of local public accounting

With respect to the establishment of local public accounting, the Ministry of Internal Affairs and Communications requested local governments to make efforts toward disclosing information that is required for the compilation and formulation of financial documents based on “Guidelines for the Further Promotion of Administrative Reform in Local Governments.” In consideration of the fact of the formulation of the direction and specific measures for asset and debt reform by fiscal 2009 and the enforcement of “Law Relating to the Financial Soundness of Local Governments,” it is important for every local government to conduct certain asset valuation and compile financial documents by fiscal 2009. Further enhancement of transparency in the financial conditions of local governments through the establishment of local public accounting is expected, and it is, therefore, important to disclose information to residents, etc. in an easy-to-understand manner, and the Ministry of Internal Affairs and Communication gave the model of financial documents showing concisely the overall financial conditions.

### Balance Sheet

- A balance sheet shows the state of assets/properties and the revenue resources for procurement as of the end of the fiscal year.

Assets	Amount	Liabilities	Amount
<b>1. Public assets</b>	***	<b>1. Fixed liabilities</b>	***
<b>(1) Assets for business</b>	***	<b>(1) Local government bonds</b>	***
<b>(2) Infrastructure assets</b>	***	<b>(2) Retirement allowance reserve</b>	***
<b>(3) Disposable assets</b>	***	<b>(3) Other</b>	***
<b>2. Investments, etc.</b>	***	<b>2. Current liabilities</b>	***
<b>(1) Investments and capital investments</b>	***	<b>(1) Local government bonds redeemable in following year</b>	***
<b>(2) Loans</b>	***	<b>(2) Other</b>	***
<b>(3) Reserve funds, etc.</b>	***	<b>Liabilities total</b>	***
<b>3. Current assets</b>	***	<b>Net assets</b>	<b>Amount</b>
<b>(1) Funds</b>	***	<b>Net assets total</b>	***
<b>(2) Accounts due</b>	***		
<b>Assets total</b>	***	<b>Liabilities and net assets total</b>	***



## Net Asset Fluctuation Statement

- A net asset fluctuation statement shows the fluctuations of net assets calculated as the difference between assets and liabilities during the year.

	Amount
<b>Net asset balance at beginning of year</b>	***
<b>Net ordinary administrative cost</b>	△ ***
<b>Revenue resources</b>	***
<b>Local tax</b>	***
<b>Local allocation tax</b>	***
<b>Ordinary subsidy</b>	***
<b>Construction subsidy</b>	***
<b>Other</b>	***
<b>Asset re-valuation and acceptance without consideration</b>	***
<b>Other</b>	***
<b>Net asset balance at end of year</b>	***

Incidentally, local governments are required to specify whether they used the “reference model” or the “MIC system revised model” upon disclosing their financial documents.

With respect to the state of compilation of financial documents, all municipalities of prefectures and designated cities answered “Compiled” and 1,047 (58.2%) out of 1,799 municipalities excluding designated cities answered “Compiled,” 232 municipalities (12.9%) answered “Being compiled” and 520 municipalities (28.9%) answered “Not yet compiled” as a result of the survey as of March 31, 2008.

## State of Compilation of Financial Documents of local governments

### State of compilation of financial documents pertaining to settlement of FY 2006

(The models scheduled to be compiled in the future were counted for municipalities of “Not yet compiled”)

(Unit: Organization, %)

	Prefectures		Municipalities		Designated cities		Municipalities excluding designated cities	
<b>Compiled</b>	47	(100.0%)	1,064	(58.6%)	17	(100.0%)	1,047	(58.2%)
<b>Reference model</b>	0	(-)	2	(0.2%)	0	(-)	2	(0.2%)
<b>MIC system revised model</b>	0	(-)	45	(4.2%)	2	(11.8%)	43	(4.1%)
<b>MIC system</b>	44	(93.6%)	995	(93.5%)	15	(88.2%)	980	(93.6%)
<b>Other</b>	3	(6.4%)	22	(2.1%)	0	(-)	22	(2.1%)
<b>Being compiled</b>	0	(-)	232	(12.8%)	0	(-)	232	(12.9%)
<b>Reference model</b>	0	(-)	3	(1.3%)	0	(-)	3	(1.3%)
<b>MIC system revised model</b>	0	(-)	143	(61.6%)	0	(-)	143	(61.6%)
<b>MIC system</b>	0	(-)	83	(35.8%)	0	(-)	83	(35.8%)
<b>Other</b>	0	(-)	3	(1.3%)	0	(-)	3	(1.3%)
<b>Not yet compiled</b>	0	(-)	520	(28.6%)	0	(-)	520	(28.9%)
<b>Reference model</b>	0	(-)	82	(15.8%)	0	(-)	82	(15.8%)
<b>MIC system revised model</b>	0	(-)	393	(75.6%)	0	(-)	393	(75.6%)
<b>Other</b>	0	(-)	45	(8.7%)	0	(-)	45	(8.7%)

\*Number of municipalities at time of survey: as of March 31, 2008, 1,816.



## B. Promotion of Information Disclosure

Amid the increasing severity of local public finance, various efforts are being made to fulfill accountability. In order for each local government to promote financial soundness while gaining the understanding and cooperation of residents, etc., the Ministry of Internal Affairs and Communications has compiled “expenditure comparative analysis tables” and “financial comparative analysis tables,” etc. and posted them on its homepage with the aim of disclosing information to residents, etc. in an easy-to-understand manner based on forms that are comparable with those of other local governments.

From the settlement of FY 2006, it is expected that the formulation and disclosure of “expenditure comparative analysis tables” for conducting a comparative analysis of expenditures among similar organizations will be utilized for the effective reduction of expenditures.

Website address: <http://www.soumu.go.jp/iken/saishutsuhyo/index.html>



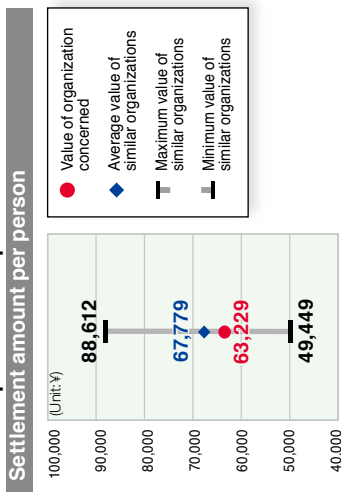
The Role of Local Public Finance

The State of Local Public Finance (FY 2006 Settlement)

Trends and Issues in Local Public Finance

Expenditure comparative analysis table (Ordinary account settlement of FY n) **xx Prefecture, xx City**

Analysis of personnel expenses and expenses similar to personnel expenses



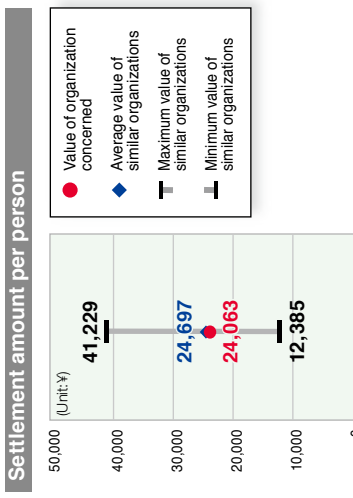
Personnel expenses and expenses similar to personnel expenses

	Settlement amount of organization concerned (Y thousand)	Settlement amount per person	
		Organization concerned (Y)	Comparison (%)
Personnel expenses	16,863,564	60,903	▲ 6.6
Wage (property expenses)	654,032	2,379	▲ 10.4
Burden of partial administrative associations (supplementary expenses, etc.)	836,702	2,635	20.5
Transfers to public enterprises (governed by law), etc. (supplementary expenses, etc.)	143,367	554	▲ 51.2
Transfers to public enterprises (governed by law), etc. (investments and capital investments, loans)	-	21	-
Transfers to public enterprises (not governed by law), etc. (transfers)	471,442	1,654	▲ 21.2
Employees' personnel expenses of business expense payments (investment expenses)	495,519	1,906	39.3
▲ Retirement allowance	▲ 1,877,371	▲ 6,802	▲ 1.1
Total	17,607,256	63,229	▲ 6.7

Reference

	Municipality	Average of similar organizations	Comparison (difference)
Number of public employees per 1,000 people (Persons)	6.36	6.58	▲ 0.22
Laspeyres Index	99.7	99.8	▲ 0.1

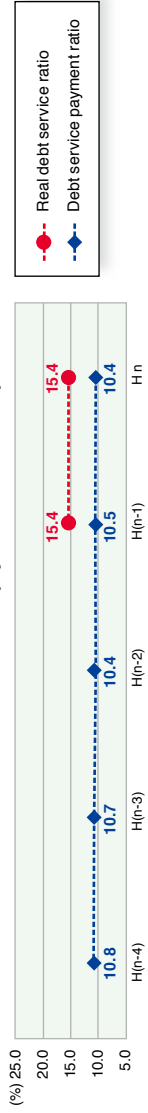
Analysis of debt service and expenses similar to debt service



Debt service and expenses similar to debt service (constituent of real debt service ratio)

	Settlement amount of organization concerned (Y thousand)	Settlement amount per person	
		Organization concerned (Y)	Comparison (%)
General revenue resources, etc. appropriated for debt service (excluding the amount corresponding to principal of advanced redemption and bullet local bonds)	8,909,877	32,400	▲ 6.3
Amount corresponding to annual redemption of principal of bullet local bonds (amount corresponding to annual appropriation), etc.	18,161	65	62.5
Amount transferred which is acknowledged to be the revenue resources allotted to the redemption of public enterprises bonds	3,785,068	13,666	5.0
Amount of general revenue resources, etc. appropriated for subsidies or burdens which is acknowledged to be allotted to the local bonds issued by the partial administrative associations, etc.	462,314	1,717	45.8
Amount of general revenue resources, etc. appropriated for expenses similar to debt service among the expenditures based on debt burden	526,002	1,866	▲ 0.6
Temporary loan interest (excluding interest paid for cash borrowings between accounts of the same organization)	1,737	7	16.7
▲ Amount included in the standard financial requirements in the calculation of regular local allocation tax as expenses required for the redemption of principal and interest and the quasi-redemption of principal and interest of local bonds	▲ 7,133,100	▲ 25,658	▲ 1.3
Total	6,570,059	24,063	▲ 2.6

\*Reference Trend of real debt service ratio and debt service payment ratio used for permission to issue local bonds

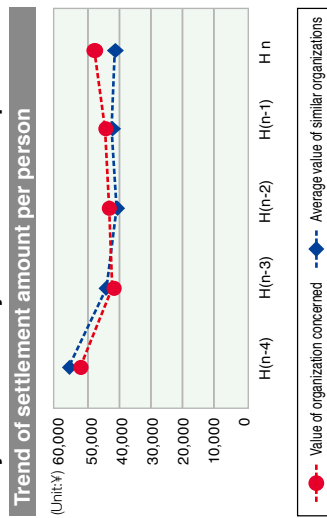


xx Prefecture, xx City

Expenditure comparative analysis table (Ordinary account settlement of FY n)

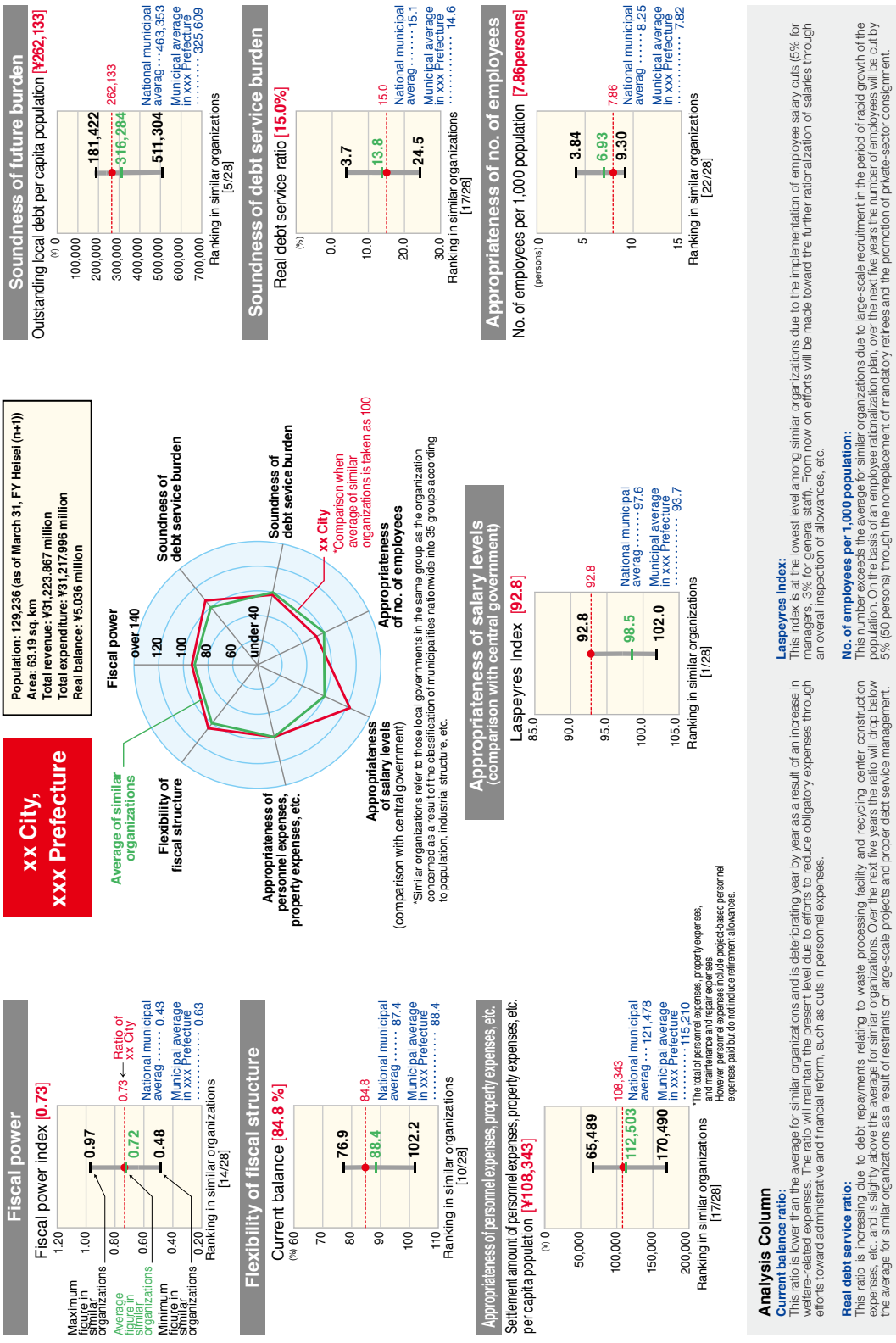
Ordinary construction expense

Analysis of ordinary construction expenses



	Settlement amount of organization concerned (¥ thousand)	Settlement amount per person		Increase-decrease rate(%) (B)	(A) - (B)
		Organization concerned (t)	Average of similar organizations (t)		
H(n-4)	13,567,090	52,493	▲ 8.5	▲ 7.0	▲ 1.5
Unsubsidized expenses	9,347,039	36,025	▲ 2.4	▲ 6.8	4.4
H(n-3)	10,814,997	42,296	▲ 19.4	▲ 21.5	2.1
Unsubsidized expenses	7,404,305	28,801	▲ 20.1	▲ 18.6	▲ 1.5
H(n-2)	11,273,984	43,269	2.3	▲ 7.2	9.5
Unsubsidized expenses	7,715,033	29,438	2.2	▲ 3.6	5.8
H(n-1)	11,780,495	44,579	3.0	3.9	▲ 0.9
Unsubsidized expenses	7,121,287	27,089	▲ 8.0	▲ 0.6	▲ 7.4
Hn	13,060,036	48,026	7.7	▲ 2.4	10.1
Unsubsidized expenses	8,332,576	30,348	12.0	▲ 3.2	15.2
Average of past 5 years	12,099,320	46,133	▲ 3.0	▲ 6.8	3.8
Unsubsidized expenses	7,984,048	30,340	▲ 3.3	▲ 6.6	3.3

## Municipal Financial Comparative Analysis Table(Ordinary account settlement of FY n)



The settlement data of all prefectures and municipalities (since fiscal 2001) are shown in balance sheets for each individual organization posted on the homepage.  
 Website address: <http://www.soumu.go.jp/iken/zaisei/card.html>

### Example of Settlement Card

Settlement for FY n		Population		Industrial structure		Area (km <sup>2</sup> )		State of designated organizations, etc.		Name of prefecture		Name of local government		Type of municipality	
Category	Settlement amount (¥ thousand)	Share	2005 national census	2000 national census	Category	2005 national census	2000 national census	Former new industrial city	Development special area	Underdeveloped area	XX	XXXX	Local allocation tax area	FY n-1 (¥ thousand)	
Category	Settlement amount (¥ thousand)	Share	Rate of change	Rate of change	Category	2005 national census	2000 national census	Former new industrial city	Development special area	Underdeveloped area	XX	XXXX	Local allocation tax area	FY n-1 (¥ thousand)	
Local taxes	108,181	52.3	131,838	131,838	Primary	1,135	1,349	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>32,168,871</td> <td>32,671,553</td>	XXXX	Local allocation tax area	32,168,871	32,671,553
Interest	18,115	8.3	13,216	13,216	Secondary	14,000	15,628	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>3,021,506</td> <td>3,059,738</td>	XXXX	Local allocation tax area	3,021,506	3,059,738
Local government grant	97,356	45.0	131,592	131,592	Tertiary	46,400	45,025	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>1,953,365</td> <td>1,731,817</td>	XXXX	Local allocation tax area	1,953,365	1,731,817
Local government grant	60,055	0.2	60,055	60,055	State of municipal taxes (unit: ¥ thousand; %)	22.2	23.0	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>830,659</td> <td>461,290</td>	XXXX	Local allocation tax area	830,659	461,290
Local government grant	99,970	0.3	99,970	99,970	Revenue settled	73.7	72.0	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>1,222,706</td> <td>1,270,327</td>	XXXX	Local allocation tax area	1,222,706	1,270,327
Local government grant	959,696	3.0	959,696	959,696	Share	—	—	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>496,323</td>	XXXX	Local allocation tax area	—	496,323
Local government grant	39,901	0.1	39,901	39,901	Excess tax portion	—	—	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>241,000</td> <td>1,000</td>	XXXX	Local allocation tax area	241,000	1,000
Local government grant	258,472	0.8	258,472	258,472	Ordinary taxes	15,356,319	91.3	64,066	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>30,000</td> <td>1,218,000</td>	XXXX	Local allocation tax area	30,000	1,218,000
Local government grant	764,357	2.4	764,357	764,357	Statutory ordinary tax	15,356,319	91.3	64,066	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>63,179</td> <td>—</td>	XXXX	Local allocation tax area	63,179	—
Local government grant	1,267,276	3.9	1,267,276	1,267,276	Statutory resident's tax	8,427,818	50.1	64,066	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Local government grant	1,117,237	5.7	1,117,237	1,117,237	Individual equal allotment	170,364	1.0	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Local government grant	1,117,237	5.7	1,117,237	1,117,237	Income equal allotment	193,819	1.2	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Local government grant	1,50,039	0.5	1,50,039	1,50,039	Corporate equal allotment	7,640,860	45.4	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Local government grant	21,185,000	65.9	21,185,000	21,185,000	Corporate tax allotment	422,775	2.5	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Local government grant	21,033	0.1	21,033	21,033	Fixed asset tax	6,330,559	37.5	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Local government grant	273,757	0.9	273,757	273,757	Of which, net fixed asset tax	6,315,545	37.5	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Local government grant	52,589	1.7	52,589	52,589	Light motor vehicle tax	71,704	0.4	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Local government grant	20,947	0.7	20,947	20,947	Municipal tobacco tax	526,238	3.1	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Local government grant	2,490,941	7.7	2,490,941	2,490,941	Mining tax	—	—	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Local government grant	—	—	—	—	Special land-holding tax	—	—	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Local government grant	1,083,349	3.4	1,083,349	1,083,349	Nonstatutory ordinary taxes	1,463,444	8.7	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Local government grant	46,148	0.1	46,148	46,148	Earmarked taxes	1,463,444	8.7	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Local government grant	256,468	0.8	256,468	256,468	Statutory earmarked taxes	—	—	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Local government grant	548,354	1.7	548,354	548,354	Spa tax	—	—	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Local government grant	1,31,817	3.4	1,31,817	1,31,817	Business office tax	—	—	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Local government grant	3,437,800	10.0	3,437,800	3,437,800	City planning tax	1,463,444	8.7	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Local government grant	277,800	0.9	277,800	277,800	Water utility and land profit tax	—	—	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Local government grant	3,129,000	9.9	3,129,000	3,129,000	Nonstatutory earmarked taxes	—	—	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Local government grant	1,329,800	4.1	1,329,800	1,329,800	Taxes from defunct laws	—	—	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Local government grant	32,168,871	100.0	32,168,871	32,168,871	Total	16,810,763	100.0	64,066	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	State of expenditures by character (unit: ¥ thousand; %)	19,592,025	100.0	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Settlement amount	30,5	0.1	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Share	30.5	0.1	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Appropriated general revenue resources, etc.	8,528,465	40.2	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Ordinary balanced budget	8,528,465	40.2	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Personnel expenses	6,669,434	22.1	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Of which, employee salaries	6,669,434	22.1	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Social assistance expenses	2,542,606	12.0	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Public debt payments	2,542,606	12.0	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Breakdown	2,608,146	8.6	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Principal and interest payments	2,608,146	8.6	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Temporary loan interest	—	—	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	(Total of obligatory expenses)	15,382,709	50.9	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Nonpersonal expenses	5,494,208	18.2	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Nonpersonal expenses	5,494,208	18.2	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Interest on loans	1,268,855	4.9	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Interest on loans	1,268,855	4.9	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Subsidies	1,268,855	4.9	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Subsidies	1,268,855	4.9	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Transfers	3,150,296	10.4	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Transfers	3,150,296	10.4	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Reserve	272,175	0.9	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Reserve	272,175	0.9	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Investment, capital, loans	1,780,623	6.0	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Investment, capital, loans	1,780,623	6.0	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Appropriations carried over from previous FY	3,964,960	13.1	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Appropriations carried over from previous FY	3,964,960	13.1	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Investment expenses	3,964,960	13.1	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Investment expenses	3,964,960	13.1	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Of which, personal expenses	2,691,141	8.9	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Of which, personal expenses	2,691,141	8.9	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Ordinary construction expenses	808,037	2.7	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Ordinary construction expenses	808,037	2.7	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Of which, subsidized expenses	2,691,141	8.9	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Of which, subsidized expenses	2,691,141	8.9	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Disaster reconstruction expenses	—	—	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Disaster reconstruction expenses	—	—	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Impairment countermeasure expenses	—	—	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Impairment countermeasure expenses	—	—	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Total expenditure	30,215,506	100.0	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	Total expenditure	30,215,506	100.0	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,871	State of expenditures by purpose (unit: ¥ thousand; %)	19,592,025	100.0	—	—	—	XX <td>XXXX</td> <td>Local allocation tax area</td> <td>—</td> <td>—</td>	XXXX	Local allocation tax area	—	—
Total revenues	32,168,871	100.0	32,168,871	32,168,8											

In response to the growing demand for comprehensive transparency in local public finance information, as a means of disclosing the overall financial condition of each local government, including the condition of special accounts, such as enterprise accounts, as well as the ordinary account, the management condition of third-sector enterprises and so on, and the state of financial assistance to them, the Ministry of Internal Affairs and Communications compiles financial condition tables and so on and posts them on its homepage.

Website address: [http://www.soumu.go.jp/iken/zaisei\\_ichiran.html](http://www.soumu.go.jp/iken/zaisei_ichiran.html)

### Example of Table of Financial Condition, Etc.

#### Example of Table of Financial Condition, Etc. (FY n)

(¥ million)

Name of organization	Standard financial scale (A)	Issuable amount of extraordinary financial countermeasures bonds (B)	Total (A) + (B)
Prefecture _____	554,057	34,288	588,345

#### 1. Financial condition of general account and special accounts (mainly items relating to ordinary account)

(¥ million)

	Revenue	Expenditure	Formal balance	Real balance	Current outstanding local government bonds	Borrowing from other accounts	Remarks
<b>General account</b>	1,340,867	1,320,292	20,575	1,461	2,435,272	3,253	
<b>Prefectural debt management special account</b>	22,705	22,705	0	0	-	18,505	
<b>Disaster relief project special account</b>	4,987	4,986	1	1	5,439	3,788	
<b>Mother-child widow welfare financial loan project special account</b>	452	136	316	316	870	1	
<b>Small and medium-sized enterprise support financial loan project special account</b>	9,425	7,853	1,572	1,560	12,098	226	
<b>Agricultural improvement financial loan project special account</b>	1,197	98	1,099	1,099	406	22	
<b>Forestry promotion financial loan project special account</b>	848	551	297	297	160	1	
<b>Offshore fishing improvement financial loan project special account</b>	167	30	137	137	-	1	
<b>Prefectural forest project special account</b>	167	163	4	4	1,695	104	
<b>Urban development finance project special account</b>	1,320	1,320	0	0	-	3	
<b>Ordinary account (Total of all accounts)</b>	<b>1,251,970</b>	<b>1,227,495</b>	<b>24,475</b>	<b>3,835</b>	<b>2,451,403</b>	<b>217</b>	

Notes:

Since the ordinary account is adjusted for the overlapping portions of the respective accounts, it does not coincide with the total of the general account and the respective special accounts.

#### 2. Financial condition of other special accounts (items relating to public enterprise accounts including public enterprises)

(¥ million,%)

	Total earnings (revenue)	Total expenses (expenditure)	Formal balance of <enterprises not governed by law>	Net profit or loss (real balance)	Outstanding enterprise loan (local bonds)	Borrowing from other accounts	Ordinary balance ratio of <enterprises governed by law>	Bad debts of <enterprises governed by law>	Accumulated loss of <enterprises governed by law>	Remarks
<b>Hospital business</b>	19,963	21,093	-	△1,130	28,094	4,455	93.6	0	25,707	Enterprises governed by law
<b>Industrial water-supply business</b>	2,422	2,416	-	6	9,400	41	100.5	0	0	
<b>Residential land development project (oceanfront development)</b>	10,917	15,194	-	△4,277	25,720	0	71.6	0	4,424	
<b>Residential land development project (other developments)</b>	4,169	5,249	-	△1,080	20,721	24	80.2	0	9,366	
<b>Water-supply business for water service</b>	11,026	9,097	-	1,929	52,298	206	121.5	0	0	
<b>Port improvement business</b>	(revenue) 19,772	(expenditure) 19,144	(formal balance) 627	(real balance) 604	117,639	363	-	-	-	
<b>Sewerage business (watershed sewerage business)</b>	(revenue) 8,741	(expenditure) 8,741	(formal balance) 1	(real balance) 0	30,345	2,769	-	-	-	
<b>Sewerage business (selected environment preservation public sewerage business)</b>	(revenue) 245	(expenditure) 245	(formal balance) 0	(real balance) 0	1,201	65	-	-	-	

Notes:

- "Enterprises governed by law" means public enterprises to which the Local Public Enterprise Law applies.
- With respect to enterprises other than the "enterprises governed by law," the items of "revenue," "expenditure" and "real balance" are indicated in the columns of "total earnings," "total expenses" and "net profit or loss."
- Bad debts and accumulated loss are shown in a positive number.

#### 3. Financial condition of related partial administrative associations, etc.

(¥ million,%)

	Revenue (total earnings)	Expenditure (total expenses)	Formal Balance of <enterprises not governed by law>	Real balance (net profit or loss)	Outstanding local bonds (enterprise loan)	Burden share of organization concerned	Ordinary balance ratio of <enterprises governed by law>	Bad debts of <enterprises governed by law>	Accumulated loss of <enterprises governed by law>	Remarks
Regional Federation of Water Supply Enterprises	951	807	144	-	2,955	13.4	113.9	-	350	
Federation of Coastal Water Supply Enterprises	196	246	△50	-	524	90.0	106.5	-	542	

#### 4. Management condition of third-sector enterprises, etc. and state of local government financial assistance

(¥ million)

	Ordinary profit/loss	Capital or net assets	Investment from organization concerned	Subsidies from organization concerned	Loans from organization concerned	Outstanding debt involving debt guarantee from the organization concerned	Outstanding debt involving loss compensation from the organization concerned	Remarks
<b>Cultural Promotion Foundation</b>	63	2,281	2,010	28	-	-	-	
<b>Industrial Creation Organization</b>	74	4,694	259	1,070	3,556	-	2,986	
<b>Construction Technology Center</b>	55	1,961	3	-	-	-	-	
<b>Cultural Deposits Research Corporation</b>	△1	32	30	-	-	-	-	
<b>Forest Development Human Resources Foundation</b>	△2	2,006	1,950	-	-	-	-	
<b>Marine Products Promotion Foundation</b>	39	2,345	2,175	-	-	-	-	
<b>Agriculture and Forestry Public Corporation</b>	△27	388	313	634	12,881	-	17,126	
<b>Women's Foundation</b>	1	120	99	37	-	-	-	
<b>Sports Association</b>	△25	770	15	30	-	-	-	

Notes:

Enterprises that do not compile profit/loss statements enter their increase or decrease of net assets in the current term in the "Ordinary profit/loss" column.

#### 5. Financial indexes

Financial strength index	Real balance ratio	Real debt service ratio	Ordinary balance ratio
0.46365	1.1	14.4	93.6

Notes:

The real debt service ratio is a 3-year average from FY Heisei (n-2) to FY Heisei n to be used in the procedures for the bond issue consultation of FY Heisei (n+1).

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