

FY2009 Settlement

White Paper on Local Public Finance, 2011

- Illustrated -



Ministry of Internal Affairs
and Communications

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The Role of Local Public Finance

Prefectures and municipalities (cities, towns, and villages) are the central 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 sewage systems, thereby fulfilling a major role in the lives of the citizens of the nation. This brochure describes the status of local public finance (which comprises collectively the finances of individual local governments), the state of settlements for FY2009, and efforts toward establishing the financial soundness of local public entities, with particular attention given to ordinary accounts.

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 classification of accounts is not uniform between local governments. Accordingly, a uniform method for settlement account statistics has been adopted in this paper. Accounts are classified as ordinary accounts, which cover the general administrative sector, and other accounts (public business accounts). This makes it possible to clarify the financial condition of local governments as a whole and to make a statistical comparison between local governments.

Local Government Accounts

Ordinary accounts

General administrative sector accounts



Other accounts (Public business accounts)

Public enterprise accounts

Water supply, transportation, electrical power, gas, hospitals, sewer systems, residential land development, etc.

National health insurance accounts

Latter-stage elderly medical care accounts

Nursing care insurance accounts

Etc.

How large is local public finance compared with central government finance?

The ratio of gross domestic expenditure consisting of local public finance is 12.0%, about 2.6 times that of the central government.

Gross Domestic Expenditure and Local Public Finance

Gross domestic expenditure (nominal)

¥474,040.2 billion

Government sector ¥116,346.8 billion (24.5%)

Local government

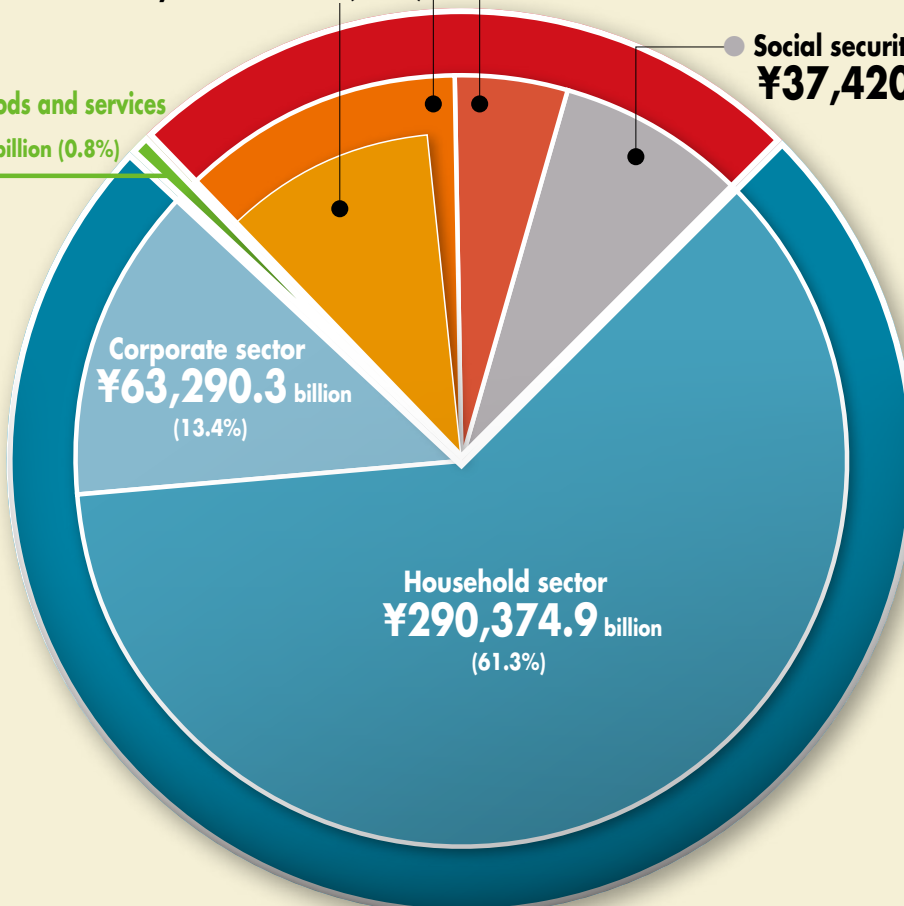
- Local government
¥57,061.2 billion (12.0%)
- Ordinary account
¥50,347.1 billion (10.6%)

Central government

- Central government
¥21,865.6 billion (4.6%)

● Social security fund
¥37,420.0 billion (7.9%)

Net export of goods and services
¥4,028.1 billion (0.8%)



Private sector ¥353,665.2 billion (74.6%)

In which areas are local expenditure ratios high?

Local expenditure ratios are higher than national levels chiefly in areas that are deeply related to daily life, such as public health and sanitation, school education, police and fire services, and social education.

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

Ratio of expenditures by function		Local ratio	National ratio
Sanitation expenses	3.8%	94%	6%
School education expenses	8.7%	89%	11%
Judicial, police, and fire service expenses	4.0%	78%	22%
Social education expenses, etc.	3.0%	72%	28%
National land development expenses	9.9%	69%	31%
Public welfare expenses (excluding pension expenses)	18.1%	68%	32%
National land conservation expenses	1.8%	59%	41%
Commercial and industrial expenses	7.9%	50%	50%
Public debt payments	18.9%	41%	59%
Housing expenses, etc.	2.0%	40%	60%
Disaster recovery expenses, etc.	0.2%	39%	61%
Agriculture, forestry and fishery industry expenses	1.9%	36%	64%
Onkyu pension expenses	0.5%	4%	96%
Pension expenses (of public welfare expenses)	5.9%		100%
Defense expenses	2.9%		100%
General administration expenses, etc.	8.0%		86%
Others	2.5%	1%	99%

The Status of Local Public Finance

FY2009 Settlement Overview

Revenues and expenditures increased due to national economic policy, etc.

1 Revenues

¥98,365.7 billion (up ¥6,152.2 billion, 6.7%, year on year)

Although local tax revenues (mainly the two corporate taxes) decreased, revenues from local allocation tax and municipal bonds (mainly extraordinary financial countermeasures bonds), etc., increased. In addition, total revenues rose for the second consecutive year with an increase of ¥6,152.2 billion, due to an increase of national treasury disbursements resulting from national government economic policy measures.

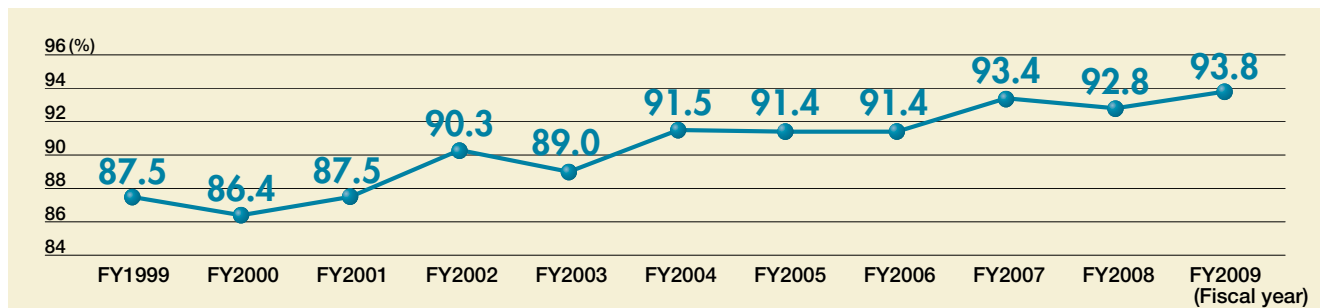
2 Expenditures

¥96,106.4 billion (up ¥6,415.0 billion, 7.2%, year on year)

Although personnel expenditures and public debt payments decreased, total expenditures rose for the second consecutive year with an increase of ¥6,415.0 billion, due to an increase in investment expenses and other expenses (mainly subsidies, etc.) resulting from national government economic policy measures, etc.

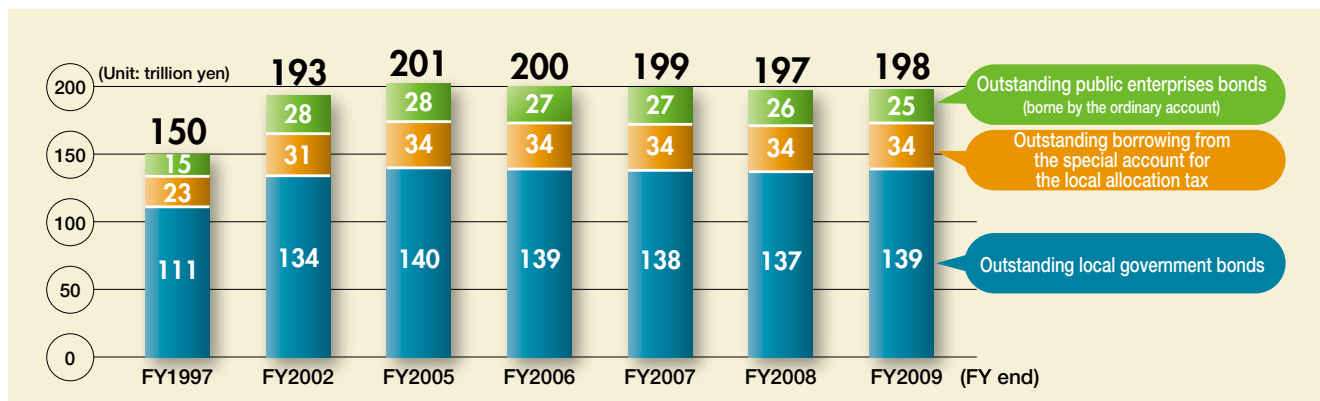
3 Flexibility of the Financial Structure

The ordinary balance ratio reached its highest level since calculation was started, and has maintained a high level.



4 Trends in Outstanding Borrowing that Should be Shouldered by Ordinary Accounts

Amounts remained at a high level.

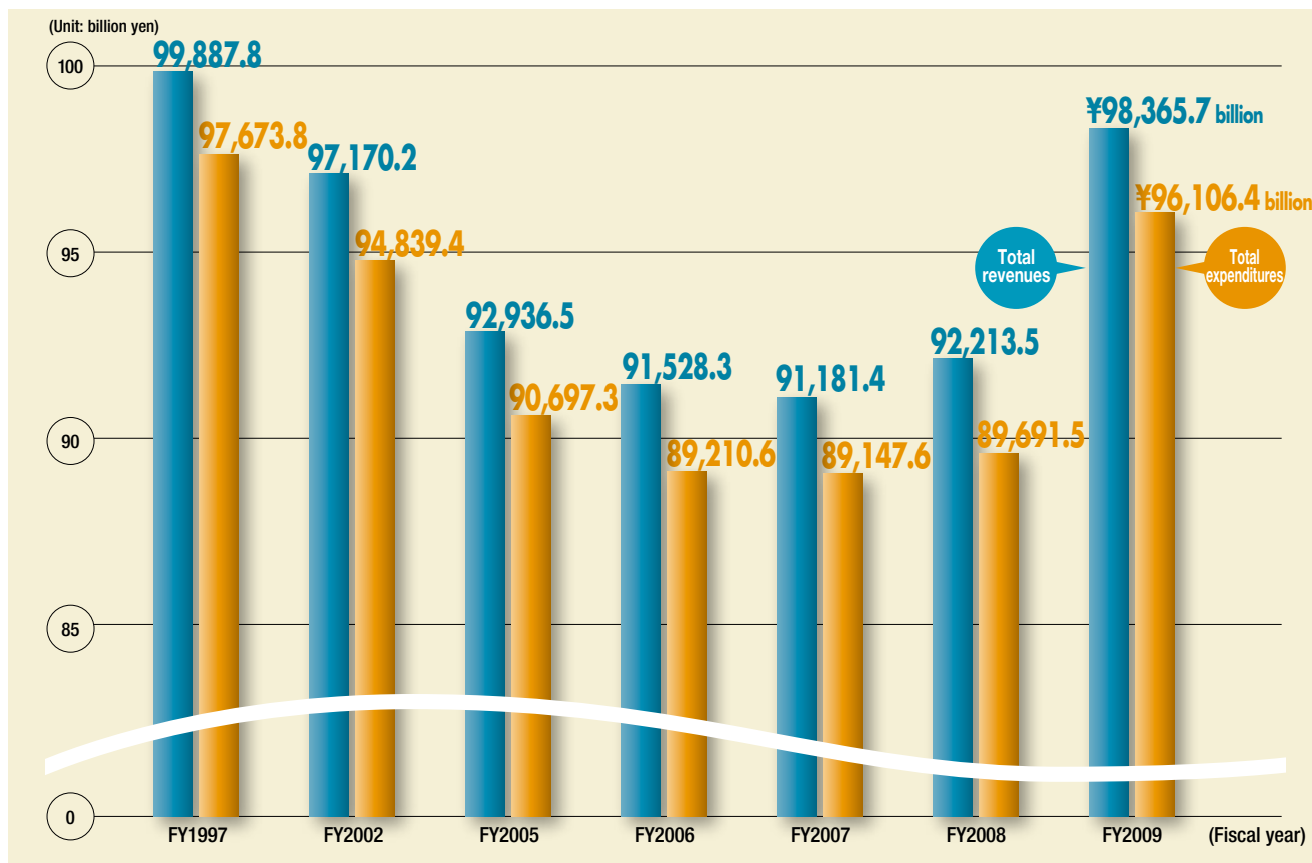


Notes:

1. Outstanding public enterprises bonds (borne by the ordinary account) are estimates based on settlement account statistics.
2. Outstanding local government bonds exclude special fund public investment bonds.
3. Figures for each item that are less than the given unit are rounded off. Therefore, they do not necessarily add up exactly to the total.

Scale of Account Settlement

Revenues and expenditures both showed year-on-year increases in settlement amount for the second consecutive year. The main factor for the increase in revenues was an increase in revenue from national treasury disbursements, local allocation tax, and municipal bonds (mainly extraordinary financial countermeasures bonds), etc., resulting from national government economic policy measures, etc. The main factor for the increase in expenditures was an increase in investment expenses, subsidies, etc., and reserves, etc., for each type of grant fund for special purposes, resulting from national government economic policy measures, etc.



Revenue and Expenditure Settlement

The real single fiscal-year balance showed a surplus for the second consecutive year, while the single-year balance showed a surplus for the first time in three years.

Category	Settlement period		No. of organizations with a deficit	
	FY2009	FY2008	FY2009	FY2008
Real single FY balance	¥238.2 billion	¥182.8 billion	440 (1,004)	611 (1,315)
Single FY balance	¥172.0 billion	△¥78.4 billion	579 (1,153)	843 (1,539)
Real balance	¥1,444.7 billion	¥1,279.7 billion	13 (13)	19 (19)

Notes:

1. Real single FY balance refers to the amount calculated by adding reserves and advanced redemption of local loans for the public finance adjustment fund to the single FY balance and subtracting public finance adjustment fund reversals.
Single FY balance refers to the amount calculated by subtracting the real balance of the previous fiscal year from the real balance of the relevant fiscal year.
Real balance refers to the amount 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 organizations with a deficit does not include partial administrative associations or wide-area local public bodies. Figures in parentheses indicate the number of organizations including partial administrative associations and wide-area local public bodies.
3. "△" denotes negative figures.

Revenues

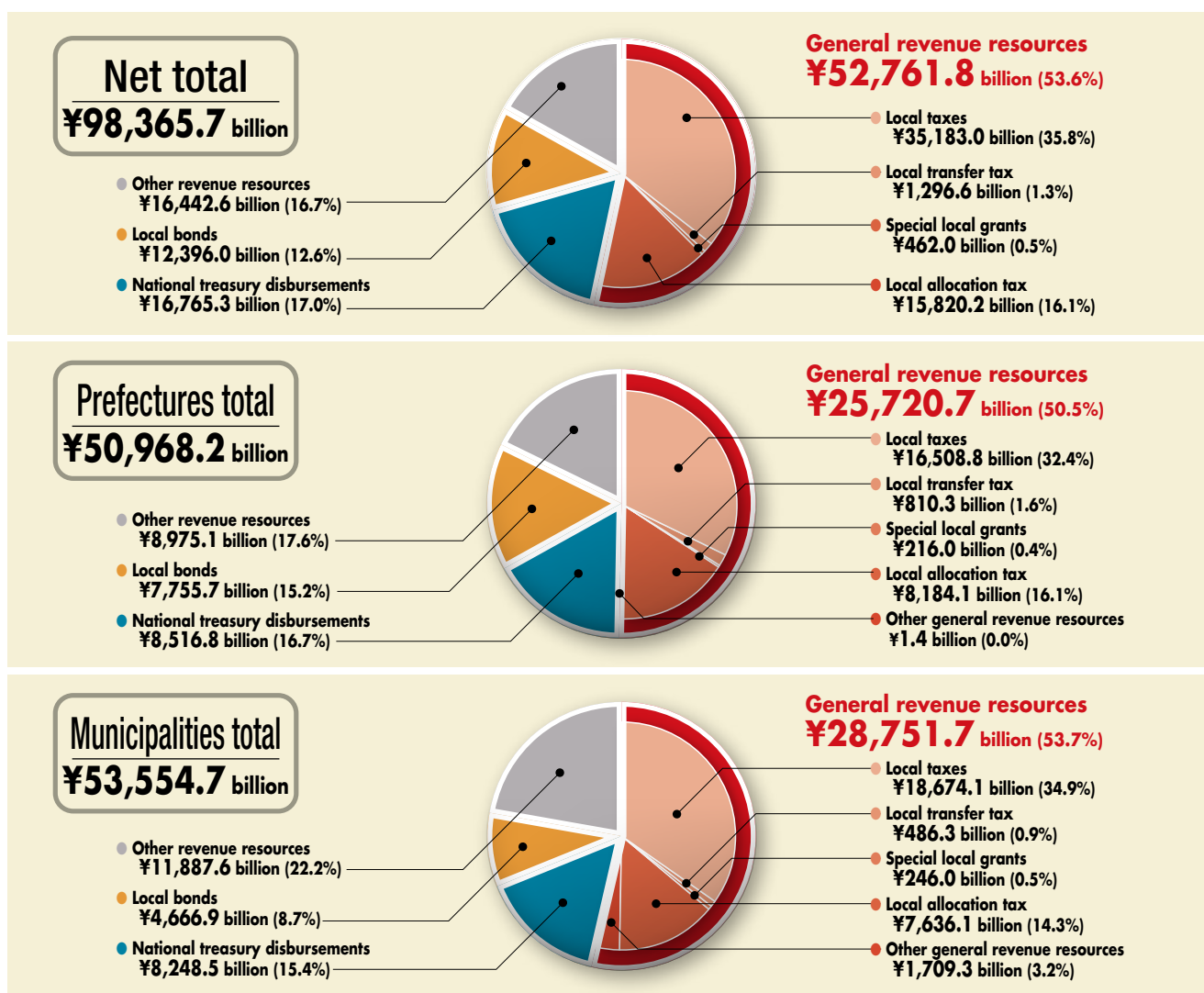
Where do the funds for local government activities come from?

1 Revenue Breakdown

The revenue of local governments comes mainly from local taxes (about 36%), national treasury disbursements, local allocation tax, and local bonds, in that order.

General Revenue Resources

Revenue resources for which the use is not specified, such as local taxes and local allocation tax, are called general revenue resources. Here, the total of local taxes, local transfer taxes, local allocation tax, special local grants, etc., is treated as general revenue resources. It is 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 gasoline transfer tax, etc.

Special local grants: Includes such things as the special child allowance in response to the increased local burden as a result of the expanded child allowance system in FY2006 and FY2007.

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 every region can provide a consistent level of administrative services. Calculated as a fixed ratio of five national taxes. (See pg.11, "4. Local Allocation Tax.")

National treasury disbursements: A general name for subsidies, etc., disbursed from the central government to local governments for contributions, commissioning expenses, incentives for specific measures, or financial assistance.

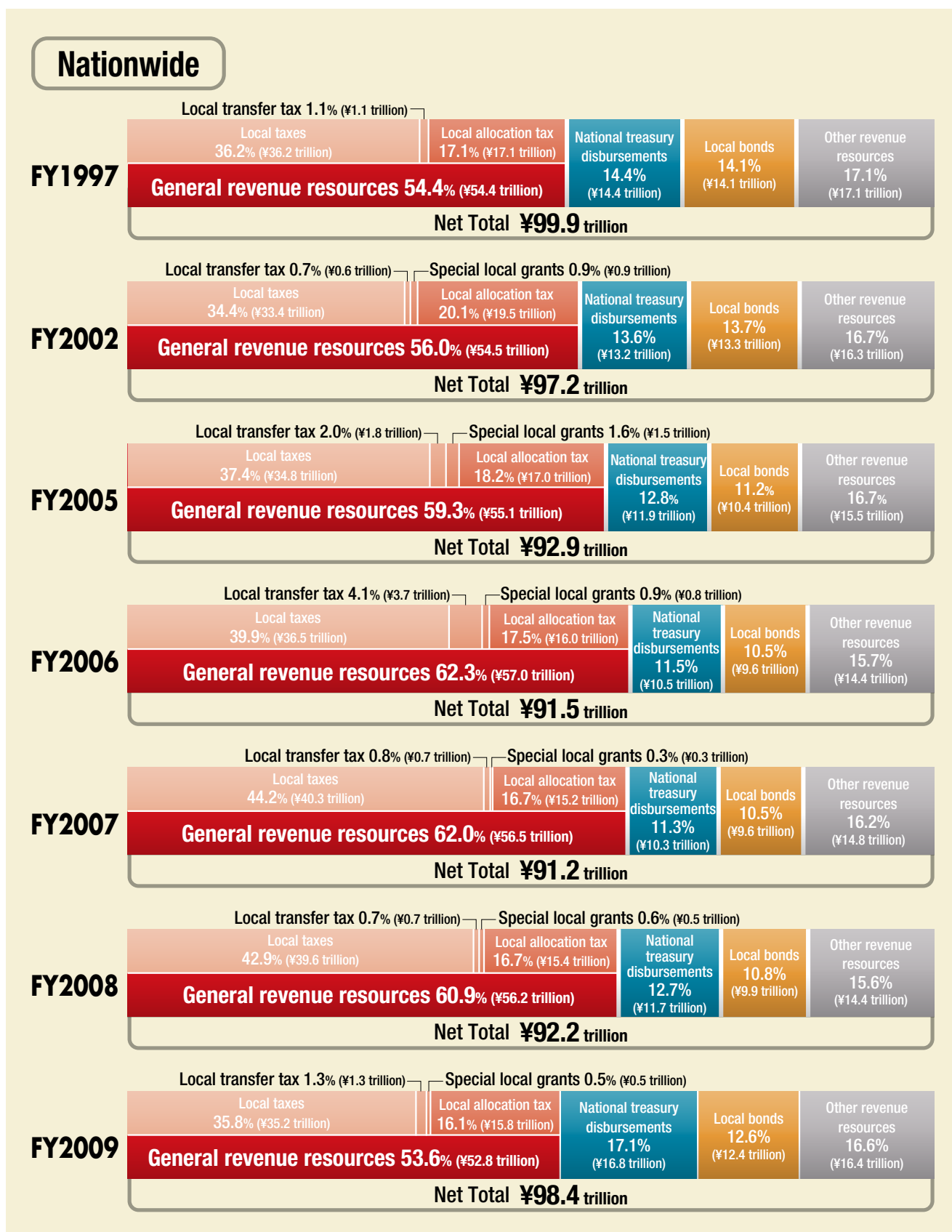
Local bonds: The debts of local governments for which redemption continues for more than one fiscal year.

Notes:

- The figures here are mainly for ordinary accounts. (For the accounts of public enterprises, such as water supply and sewerage businesses, transportation businesses, and hospitals, see "Local Public Enterprises.")
- Figures for each item that are less than the given unit are rounded off. Therefore, they do not necessarily add up exactly to the total.

2 Revenue Trends

General revenue resources constituted approximately 54% of total revenues, a year-on-year decrease resulting from a drop in revenue from local taxes and special local grants.

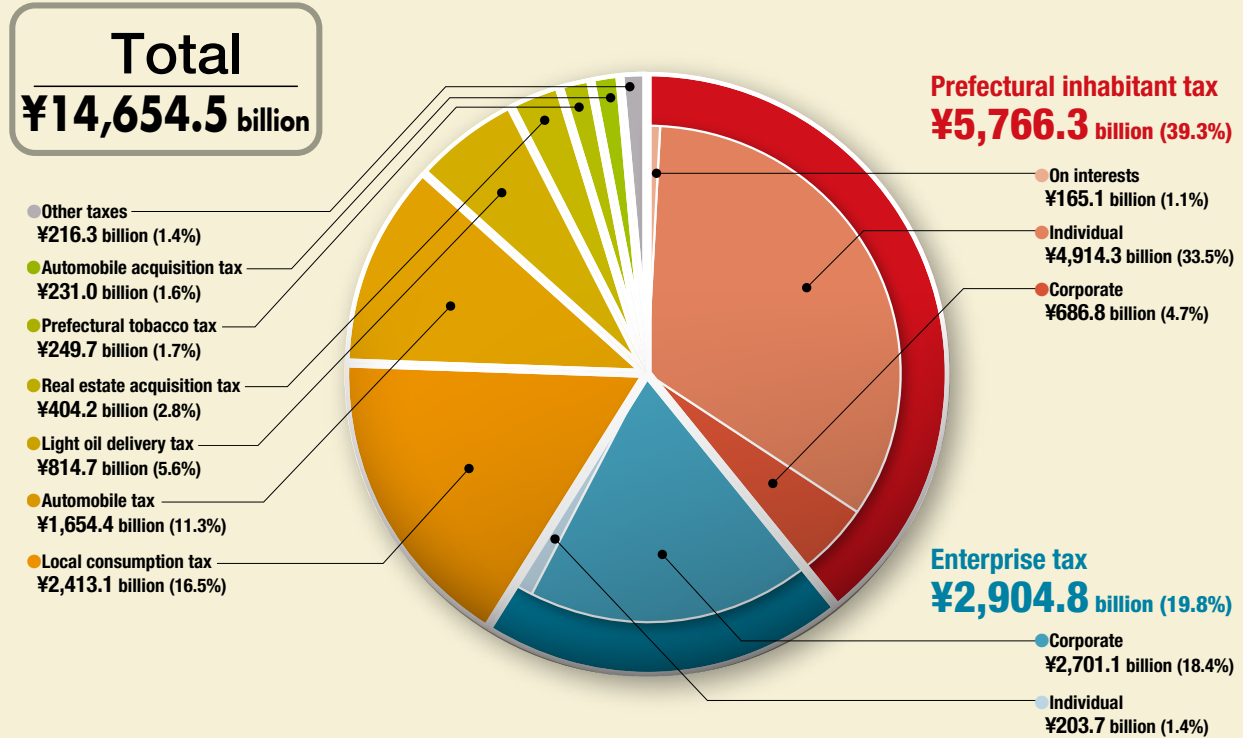


Note: "National treasury disbursements" includes "special grants to measures for traffic safety" and "grants to cities, towns and villages where national institutions are located."

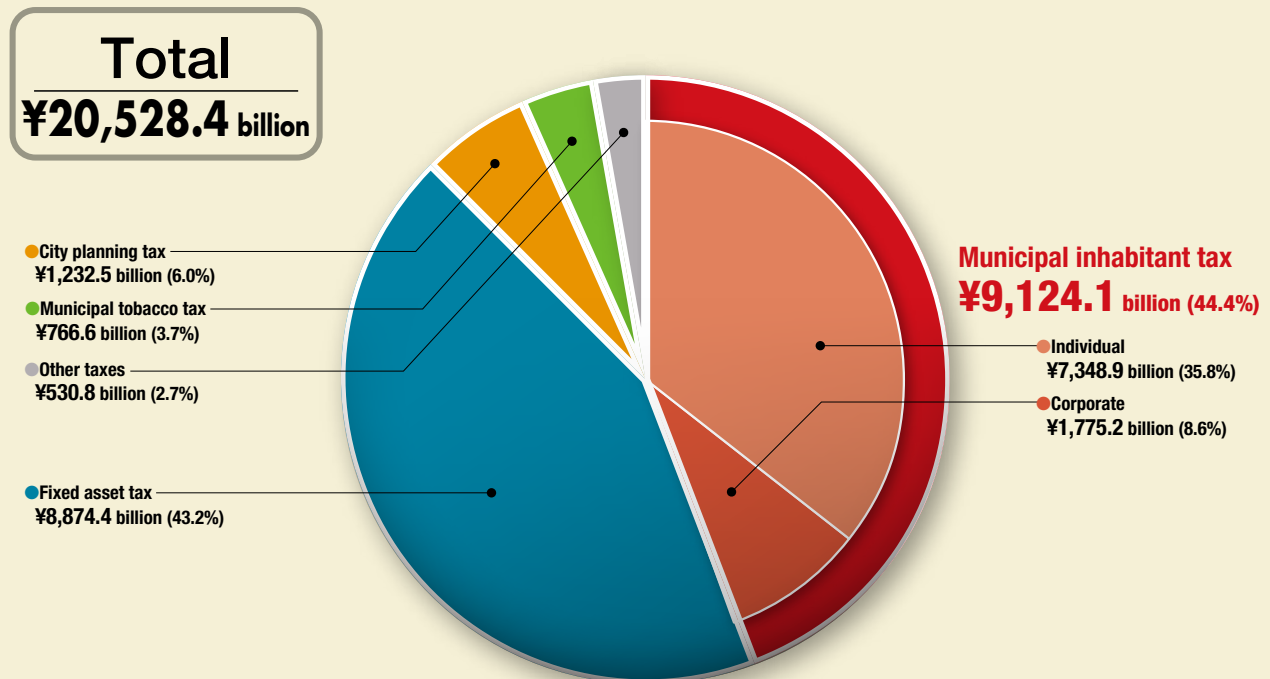
3 Local Taxes

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

Composition of Revenue from Prefectural Taxes (FY2009 settlement)



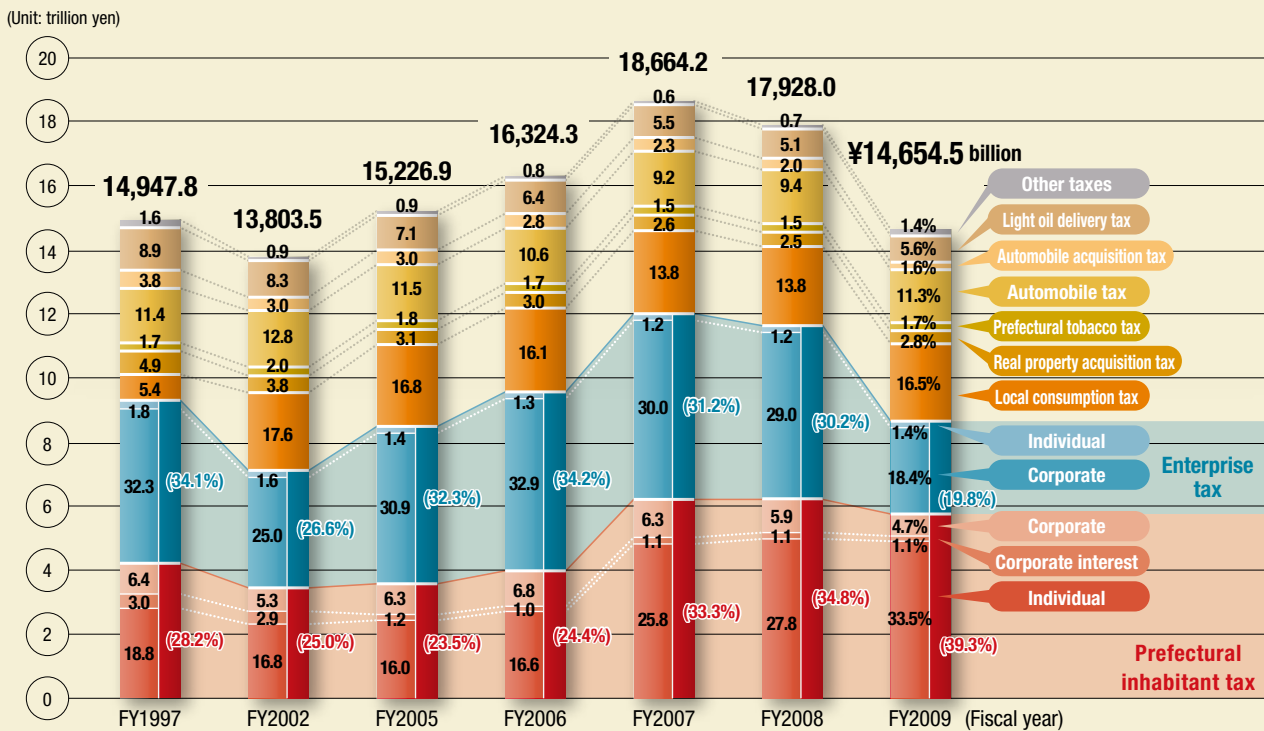
Composition of Revenue from Municipal Taxes (FY2009 settlement)



Note: Municipal tax revenue figures include municipal taxes collected by the Tokyo Metropolitan Government.

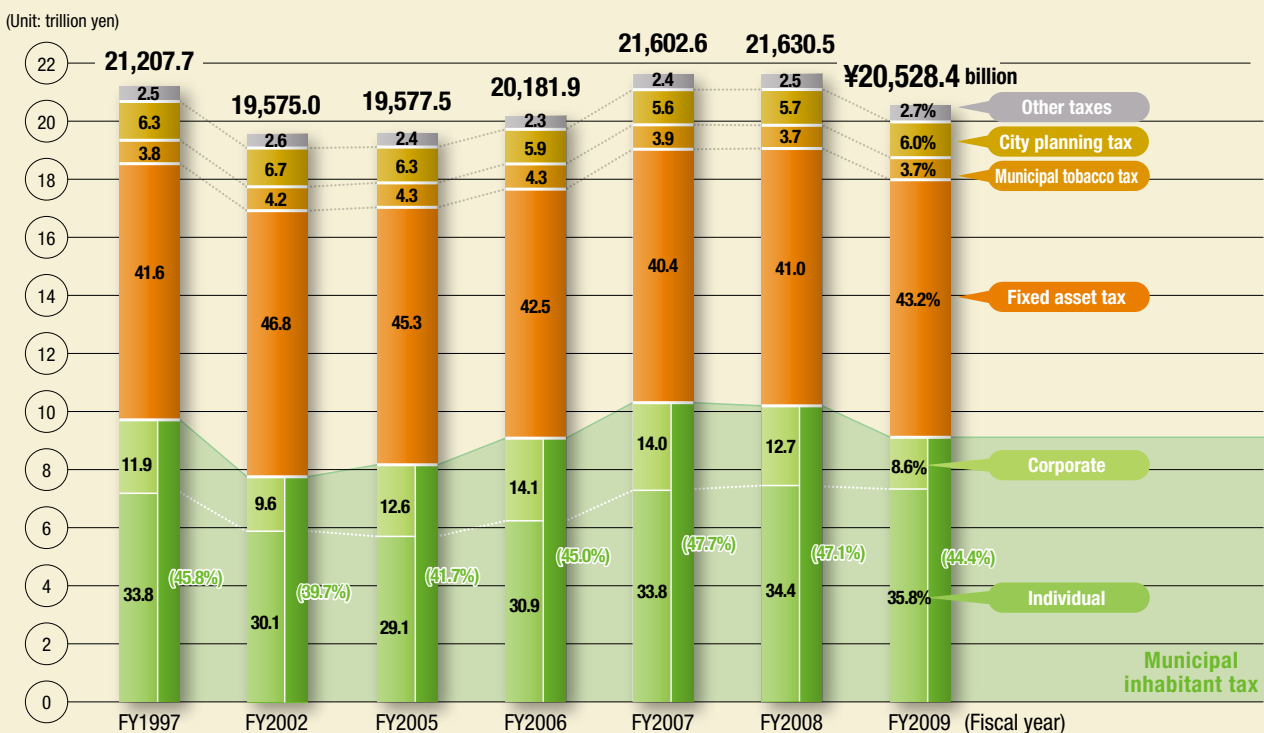
Prefectural tax revenues dropped from the previous fiscal year due to decreases in the two corporate taxes (corporate inhabitant tax, corporate business tax) resulting from a sluggish economy. A decrease in revenues from corporate municipal taxes and individual municipal taxes also led to a year-on-year decrease in municipal tax revenues.

Trends in Prefectural Tax Revenues



Note: Figures in parentheses indicate the component ratios of the business tax and prefectural inhabitant tax.

Trends in Municipal Tax Revenues

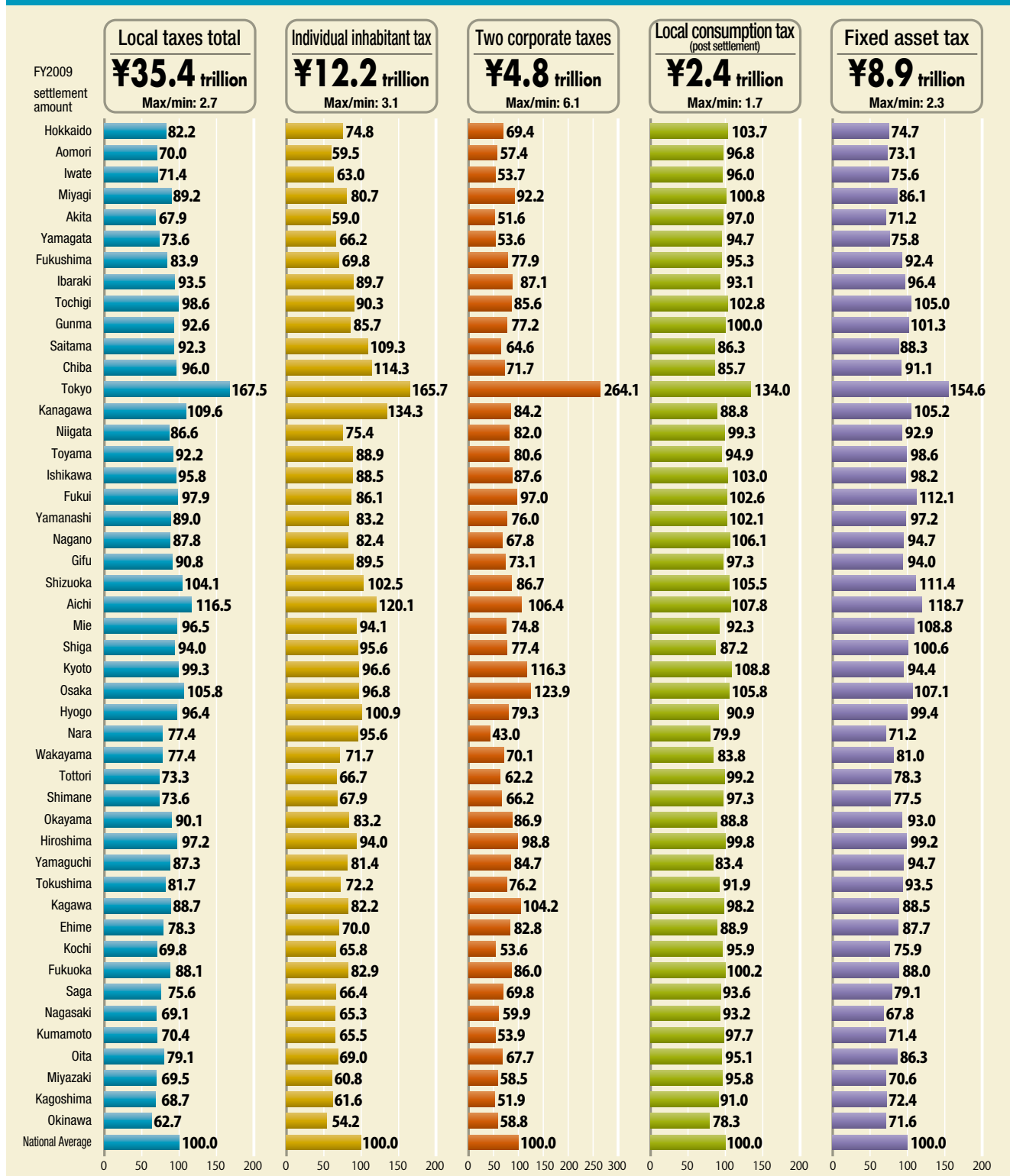


Notes:

- Figures in parentheses indicate the component ratio of the municipal inhabitant tax.
- Municipal tax revenue figures include municipal taxes collected by the Tokyo Metropolitan Government.

In order for local governments to provide administrative services in response to local needs on their own responsibility and at their own discretion, it is necessary to build a local tax system in which the uneven distribution of tax sources is minimized and the stability of tax revenue is guaranteed. Comparing local tax revenue amounts, with the national average set at 100, Tokyo, the highest, was approximately 2.7 times the amount for Okinawa Prefecture, which was the lowest.

Index of Per Capita Revenue in Local Tax Revenue (with national average as 100)



Notes:

1. "Max/min" indicates the value obtained by dividing the maximum value of per-capita tax revenue for each prefecture by the minimum value.
2. Local tax revenue amounts include local corporation special transfer tax, but do not include overassessment, discretionary tax earmarked for general use, or discretionary tax earmarked for special use. Further, the value is the amount after settlement of local consumption tax.
3. Individual inhabitant tax revenue is the total of the prefectural individual inhabitant tax (on a per-capita basis and on an income basis) and the municipal individual inhabitant tax (on a per-capita basis and on an income basis), and excludes overassessment.
4. Revenue from the two corporate taxes is the total of the corporate prefectural inhabitant tax, the corporate municipal inhabitant tax, and the corporate business tax, and excludes overassessment.
5. Fixed asset tax revenues include prefectural amounts, and exclude overassessment.
6. Calculations were made in accordance with the basic resident register population as of March 31, 2010.

4 Local Allocation Tax

From the perspective of local autonomy, it would be the ideal for each local government to ensure the revenue sources necessary for administrative activities through local tax revenue collected from their residents. However, there are regional imbalances in tax sources, and many local governments are unable to acquire necessary tax revenue. Accordingly, the national government collects financial resources that would normally be attributable to local tax revenue and reallocates them as local allocation tax to local governments that have weaker financial capabilities.

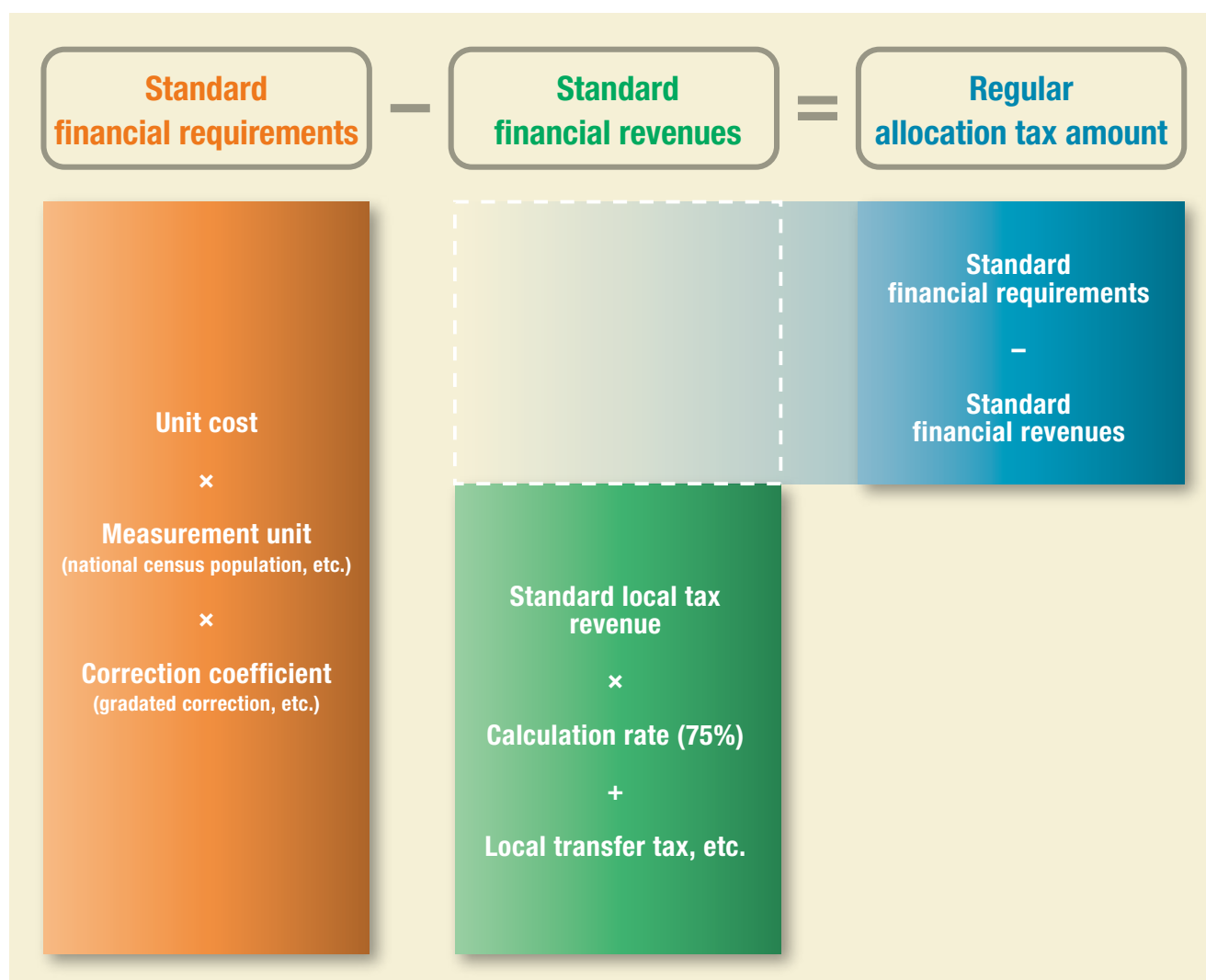
1 Determining the total amount of local allocation tax

The total amount of the local allocation tax is determined in accordance with estimates of standard revenue and expenditures in local public finance as a whole, based on fixed ratios for national taxes (32% for income tax and liquor tax, 34% for corporate tax, 29.5% for consumption tax, and 25% for tobacco tax).

The total amount of local allocation tax in FY2009 was ¥15,820.2 billion, up 2.7% year on year.

2 How regular local allocation taxes are calculated for each local government

The regular local allocation tax for each local government is calculated using the following mechanism.



Notes:

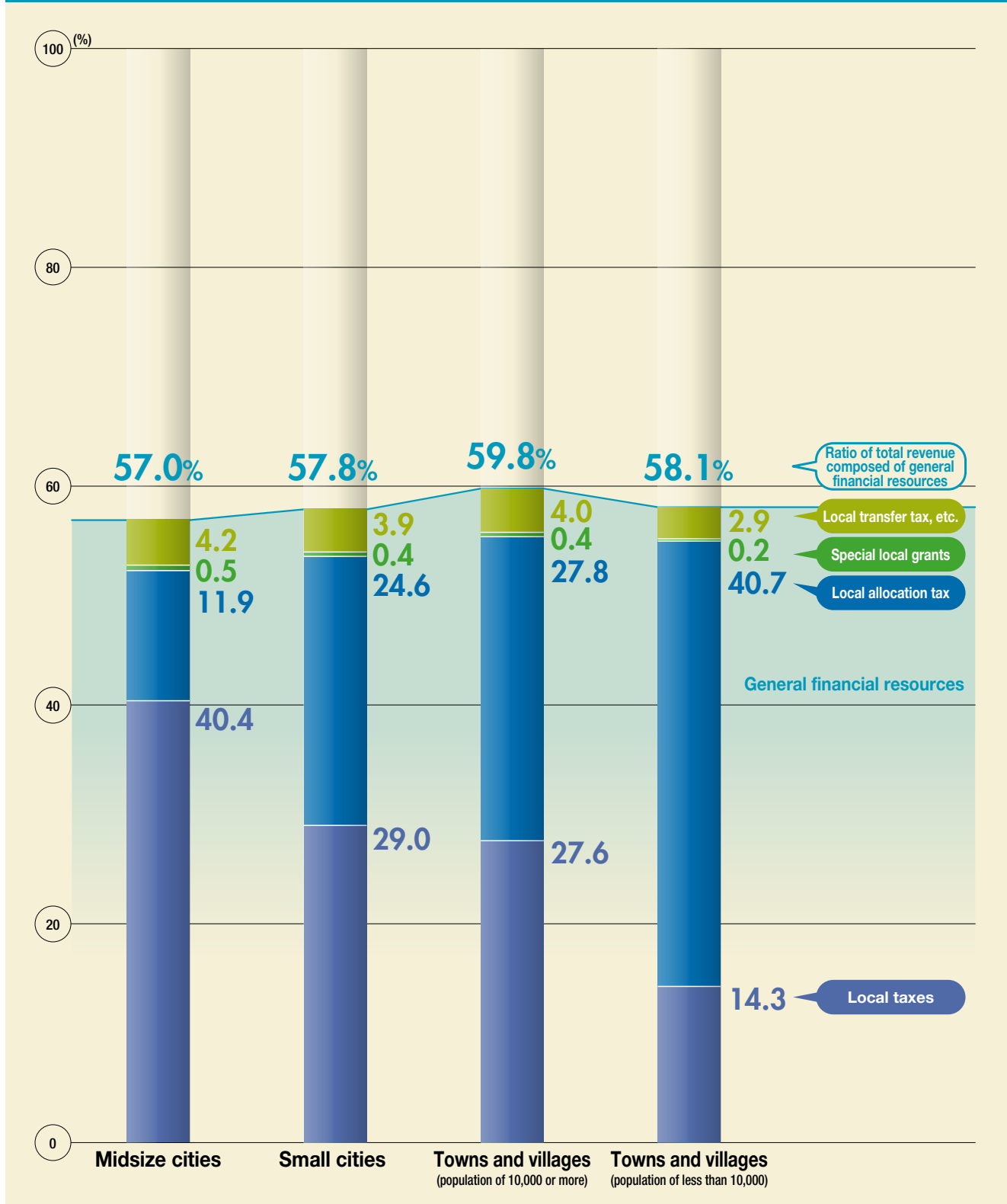
- Standard financial requirements are calculated as the financial requirements of each local government based on rational and appropriate standards. Calculation of the local share of the national treasury projects, such as compulsory education, public assistance, and public works, is mandatory. Beginning in FY2001, 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.
- Normal local tax revenue does not include "discretionary tax earmarked for general use" or "discretionary tax earmarked for special use" imposed independently by the local government, or "overassessment" 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 financial resources between local governments in order to guarantee that local governments have the financial resources that enable them to provide standard administrative services and basic social capital to their residents in each region.

Adjustment of financial resources through local allocation tax has prevented the size of population, etc., from creating significant differences in the ratio of total revenue composed of general financial resources.

● Ratio of Total Revenue for Municipalities Composed of General Financial Resources



Notes: A "midsize city" refers to a city with a population of 100,000 or more excluding government ordinance-designed cities, core cities, and special cities, and a "small city" refers to a city with a population of less than 100,000, excluding the aforementioned exceptions.

Expenditures

What are taxes spent on?

1 Expenses by Function

When expenses are classified by function, we see that many financial resources are utilized for public welfare expenses, education expenses, and civil engineering work expenses. In prefectures, such resources are mainly utilized for education expenses, public welfare expenses, and civil engineering work expenses, in that order. In municipalities, they are primarily utilized for public welfare expenses, general administrative expenses, and civil engineering work expenses, in that order.

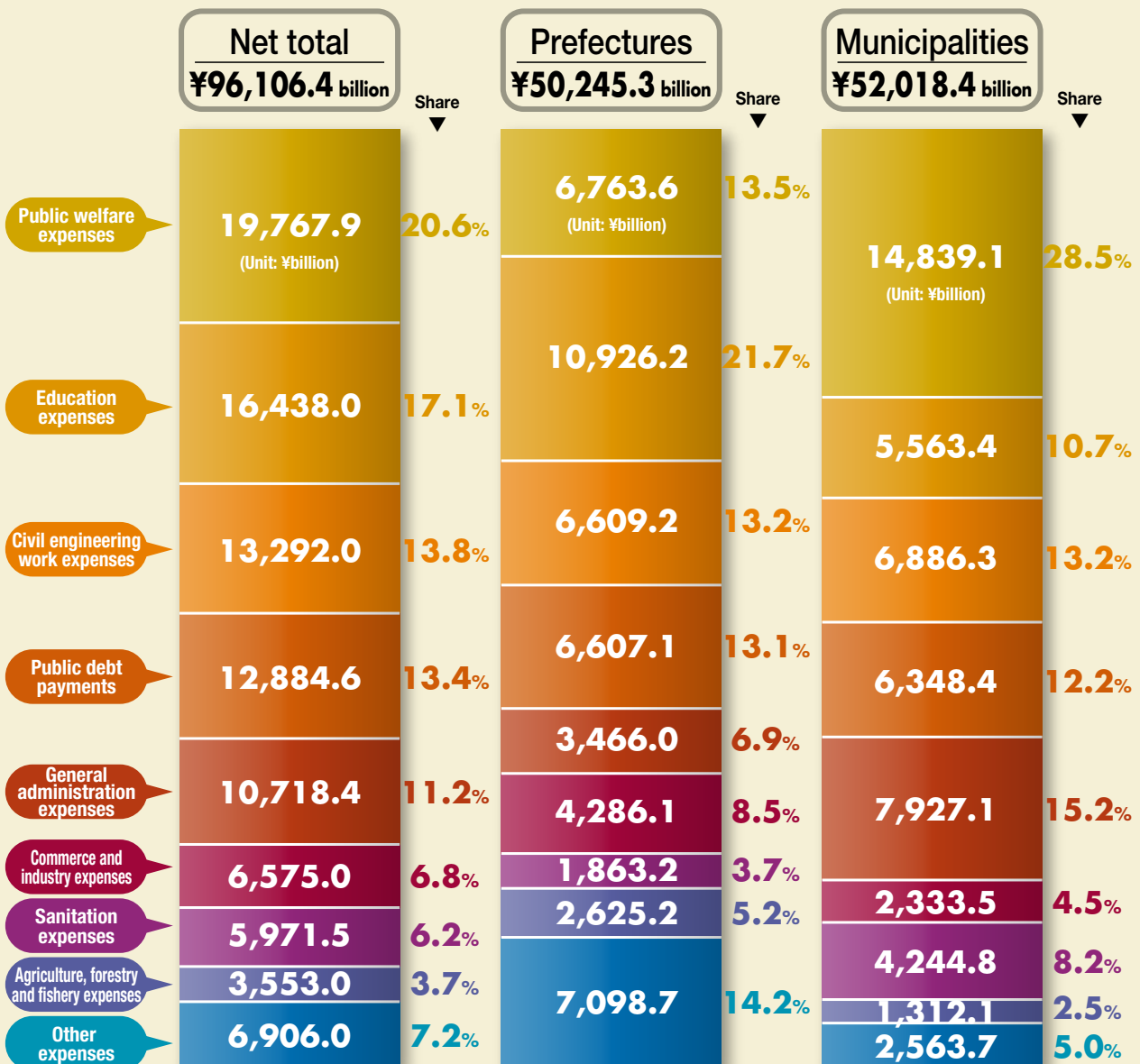
Public welfare expenses: Expenses for the construction and operation of welfare facilities for children, the elderly, the mentally and physically disabled, etc., and for the implementation of public assistance, etc.

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

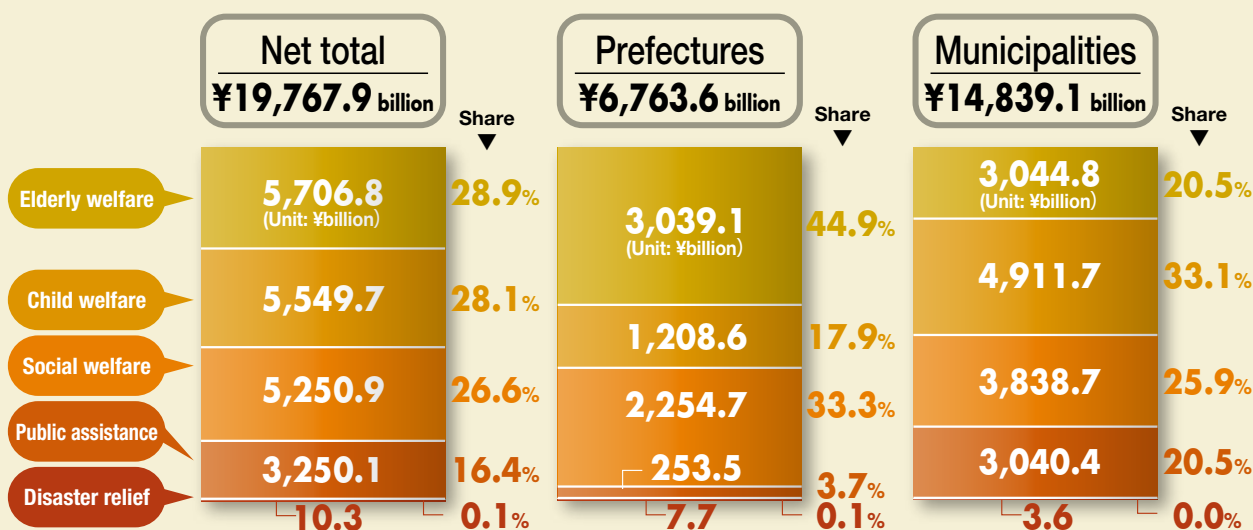
Civil engineering work expenses: Expenses for the construction and maintenance of public facilities, such as roads, rivers, housing, and parks.

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

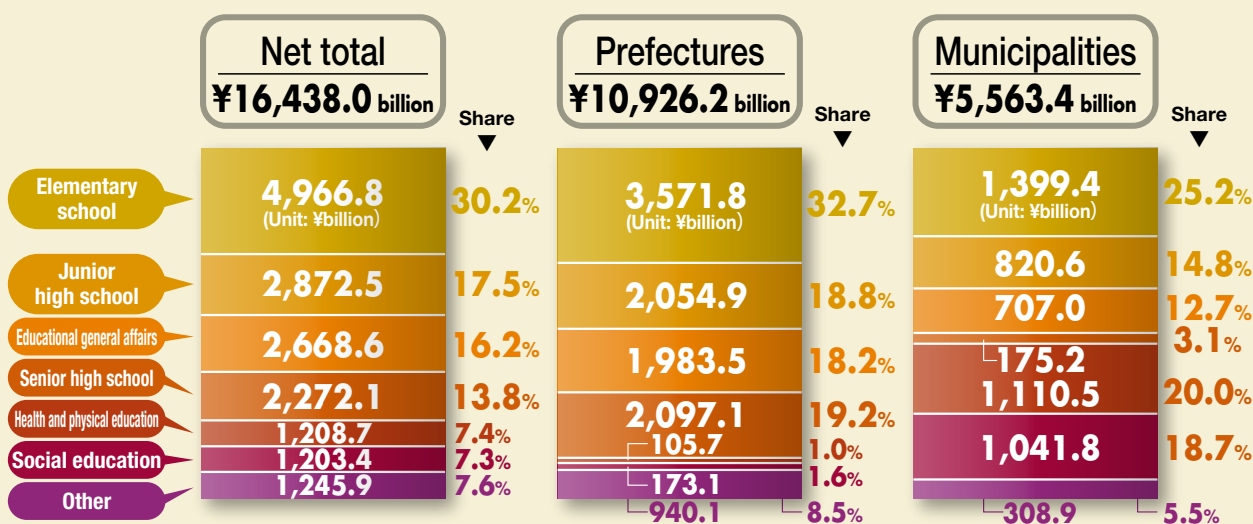
Composition of Expenditure by Function (FY2009 settlement)



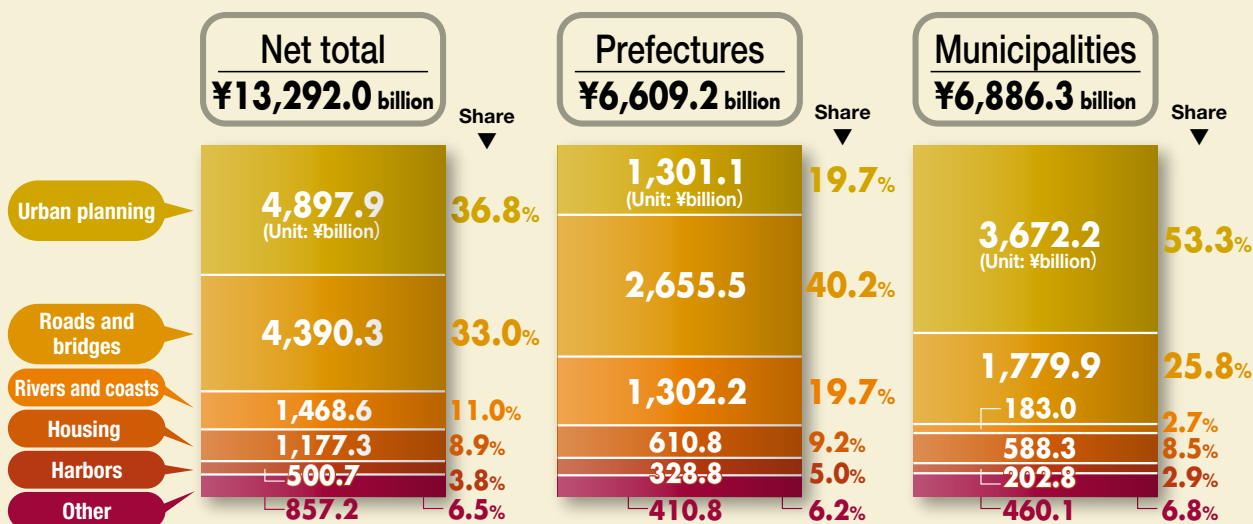
Breakdown of Public Welfare Expenses by Purpose



Breakdown of Educational Expenses by Purpose

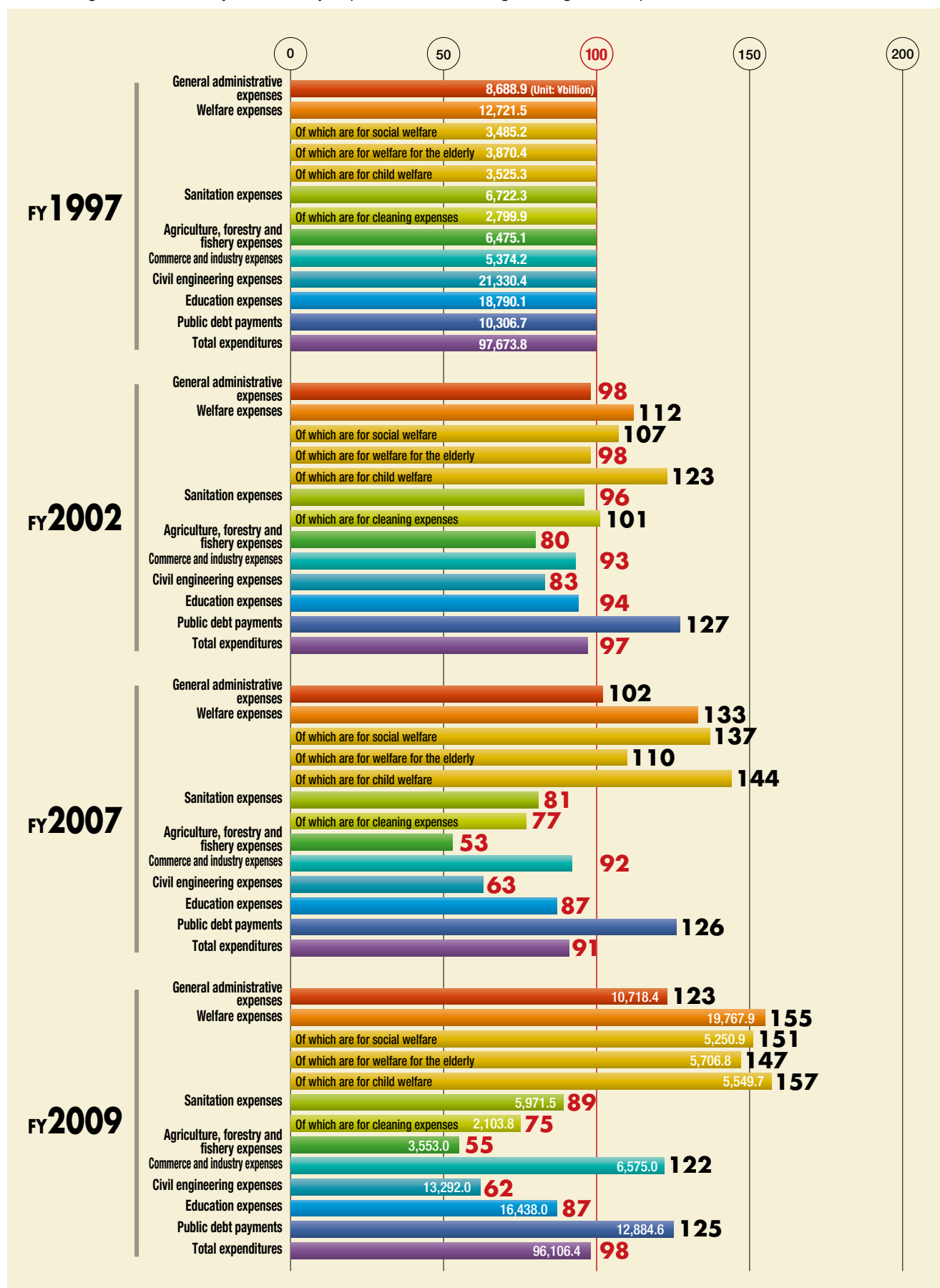


Breakdown of Civil Engineering Work Expenses by Purpose



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

In recent years, welfare expenses, public debt payments, etc., have increased, while there has been a decline in such items as agriculture, forestry, and fishery expenses and civil engineering work expenses. Unit: Ratio with FY1997 set at 100.



What are expenses used for?

2 Expenses by Type

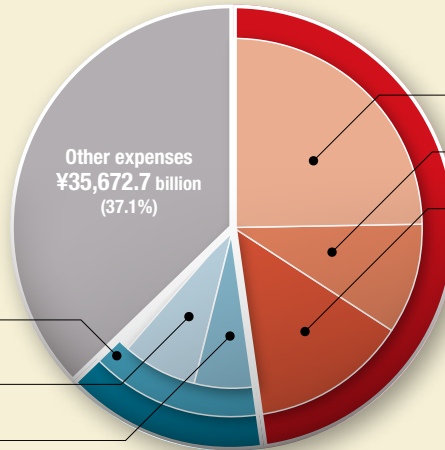
Classified by type, expenses can be divided into "mandatory expenses" (personnel expenses, public assistance expenses, and public debt payments), the payment of which is mandatory and difficult to reduce at the discretion of individual local governments, "investment expenses," including ordinary construction expenses, etc., and "other expenses."

Composition of Expenditures by Type (FY2009 settlement)

Net total
¥96,106.4 billion

Investment expenses
¥14,518.5 billion (15.1%)

- **Ordinary construction expenses**
¥14,380.9 billion (15.0%)
- **Unsubsidized project expenses**
¥7,200.3 billion (7.5%)
- **Subsidized project expenses**
¥5,899.4 billion (6.1%)



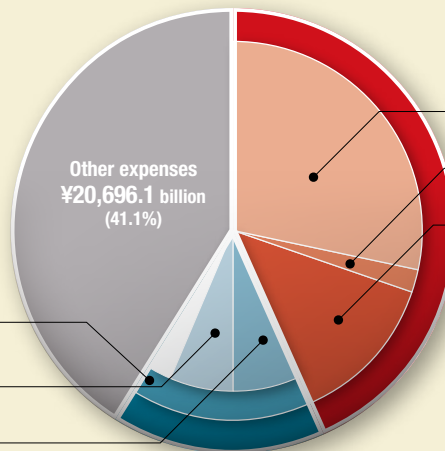
Mandatory expenses
¥45,915.2 billion (47.8%)

- **Personnel expenses**
¥23,975.6 billion (24.9%)
- **Public assistance expenses**
¥9,086.3 billion (9.5%)
- **Public debt payments**
¥12,853.2 billion (13.4%)

Prefectural total
¥50,245.3 billion

Investment expenses
¥7,766.1 billion (15.5%)

- **Ordinary construction expenses**
¥7,689.0 billion (15.3%)
- **Unsubsidized project expenses**
¥3,175.6 billion (6.3%)
- **Subsidized project expenses**
¥3,354.9 billion (6.7%)



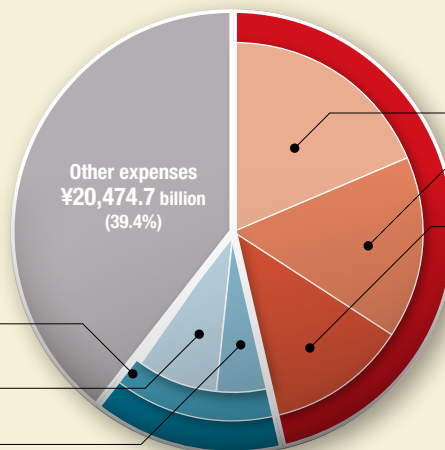
Mandatory expenses
¥21,783.1 billion (43.4%)

- **Personnel expenses**
¥14,286.2 billion (28.4%)
- **Public assistance expenses**
¥914.3 billion (1.8%)
- **Public debt payments**
¥6,582.7 billion (13.1%)

Municipalities total
¥52,018.4 billion

Investment expenses
¥7,341.1 billion (14.1%)

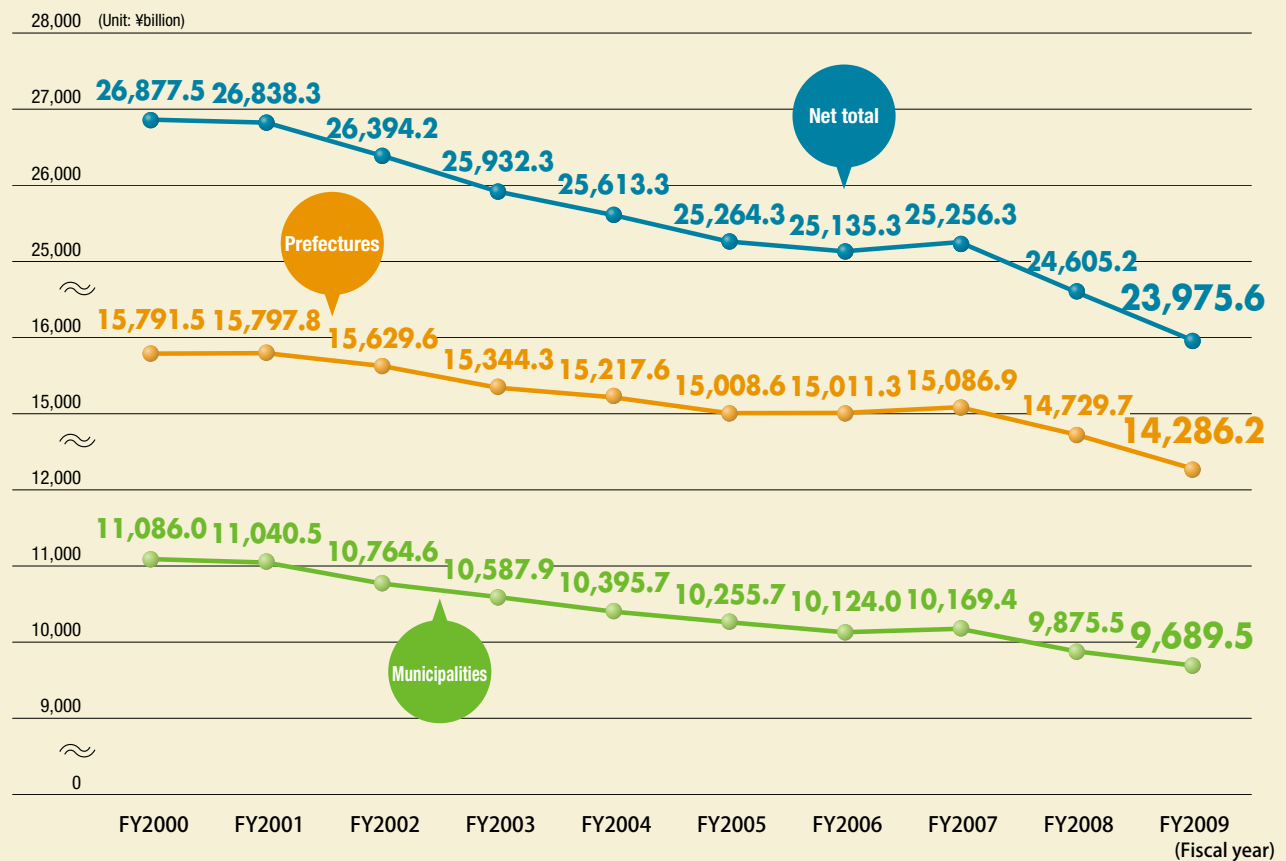
- **Ordinary construction expenses**
¥7,266.3 billion (14.0%)
- **Unsubsidized project expenses**
¥4,256.6 billion (8.2%)
- **Subsidized project expenses**
¥2,720.8 billion (5.2%)



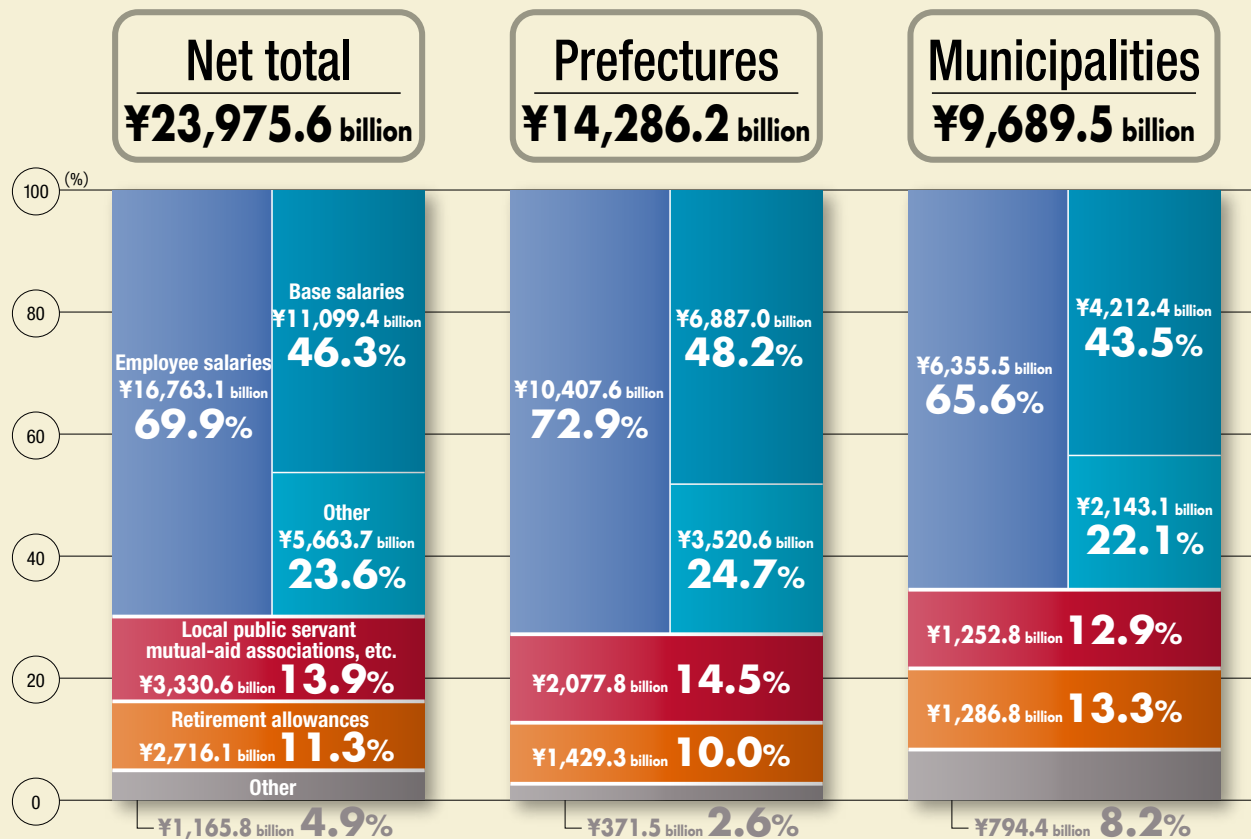
Mandatory expenses
¥24,202.6 billion (46.5%)

- **Personnel expenses**
¥9,689.5 billion (18.6%)
- **Public assistance expenses**
¥8,172.0 billion (15.7%)
- **Public debt payments**
¥6,341.1 billion (12.2%)

Trends in Personnel Expenses

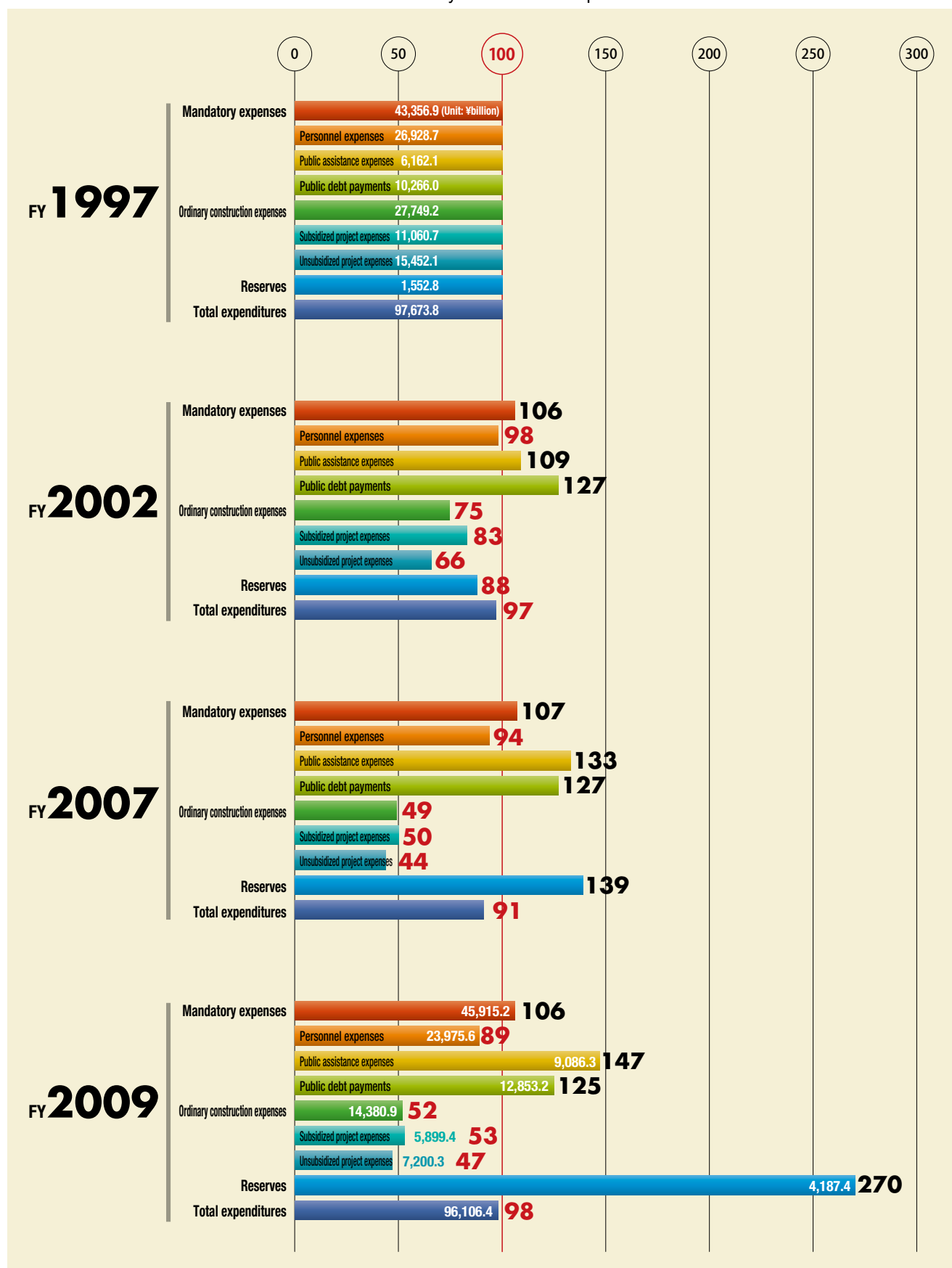


Breakdown of Personnel Expenses by Item



Trends in the Breakdown of Expenditures by Type (ordinary account net total)

In recent years, mandatory expenses such as public assistance expenses, public debt payments, etc., have increased, while there has been a decline in such items as ordinary construction expenses. Unit: Ratio with FY1997 set at 100.



* Public assistance expenses: Expenses which include child welfare expenses, livelihood assistance 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

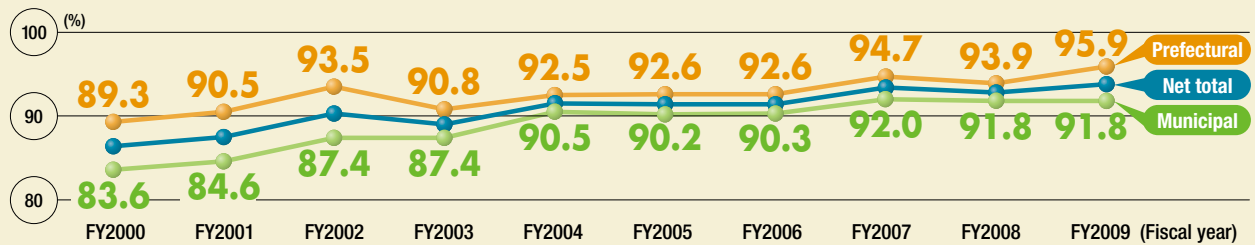
How can local financial administration respond to the demands of local governments?

In addition to financial resources allocated for mandatory expenses that require payment each year, local governments must also secure financial resources for measures to respond properly to changes in the social economy and administrative needs, in order to accurately meet the needs of residents. The extent to which these financial resources have been secured is called the “flexibility of the financial structure.”

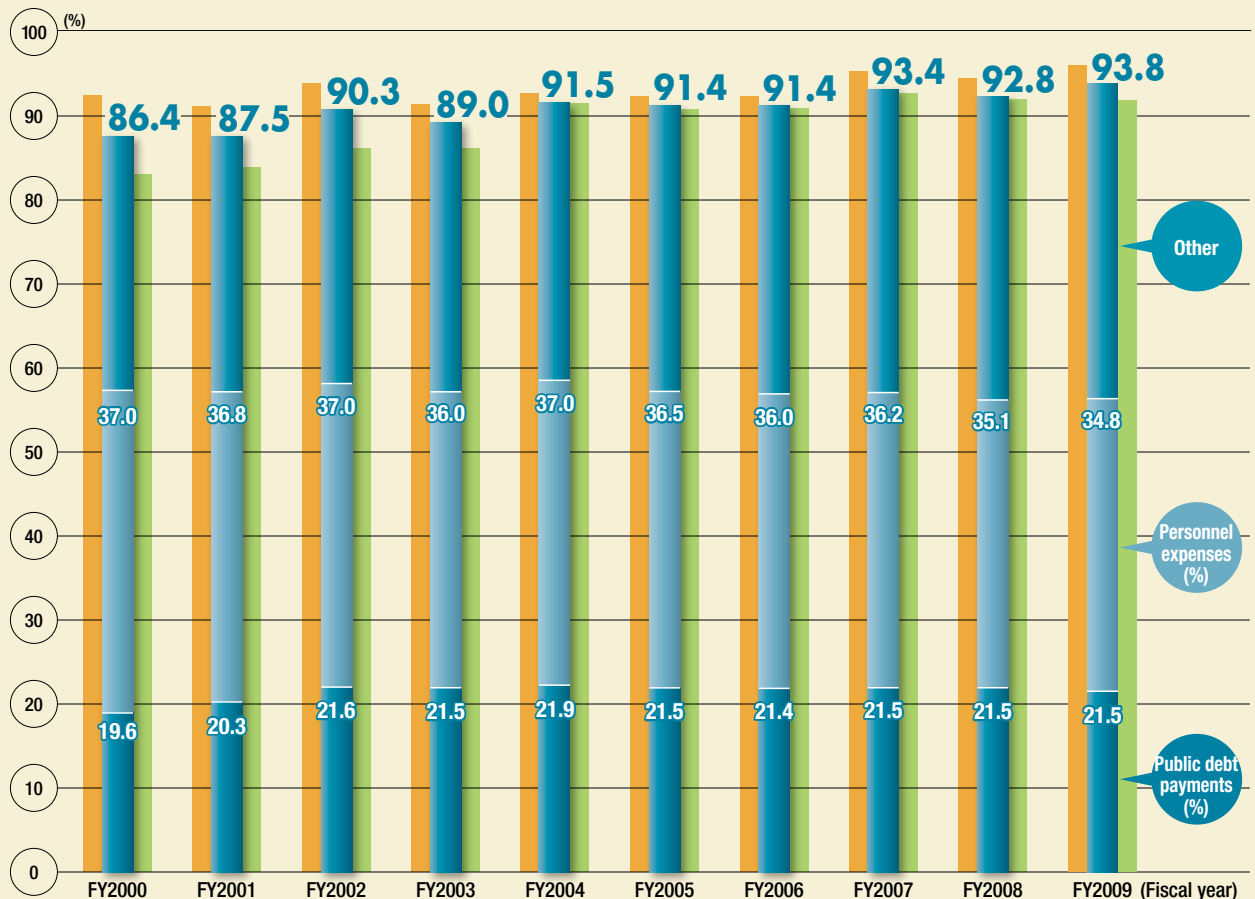
1 Ordinary Balance Ratio

The ordinary balance ratio (the weighted average excluding special wards and partial administrative associations, etc.) showed a 1.0 percentage point year-on-year increase to 93.8%, reaching its highest level since calculation was started, and has maintained a high level.

Shifts in the ordinary balance ratio



Breakdown of the ordinary balance ratio (Net total)



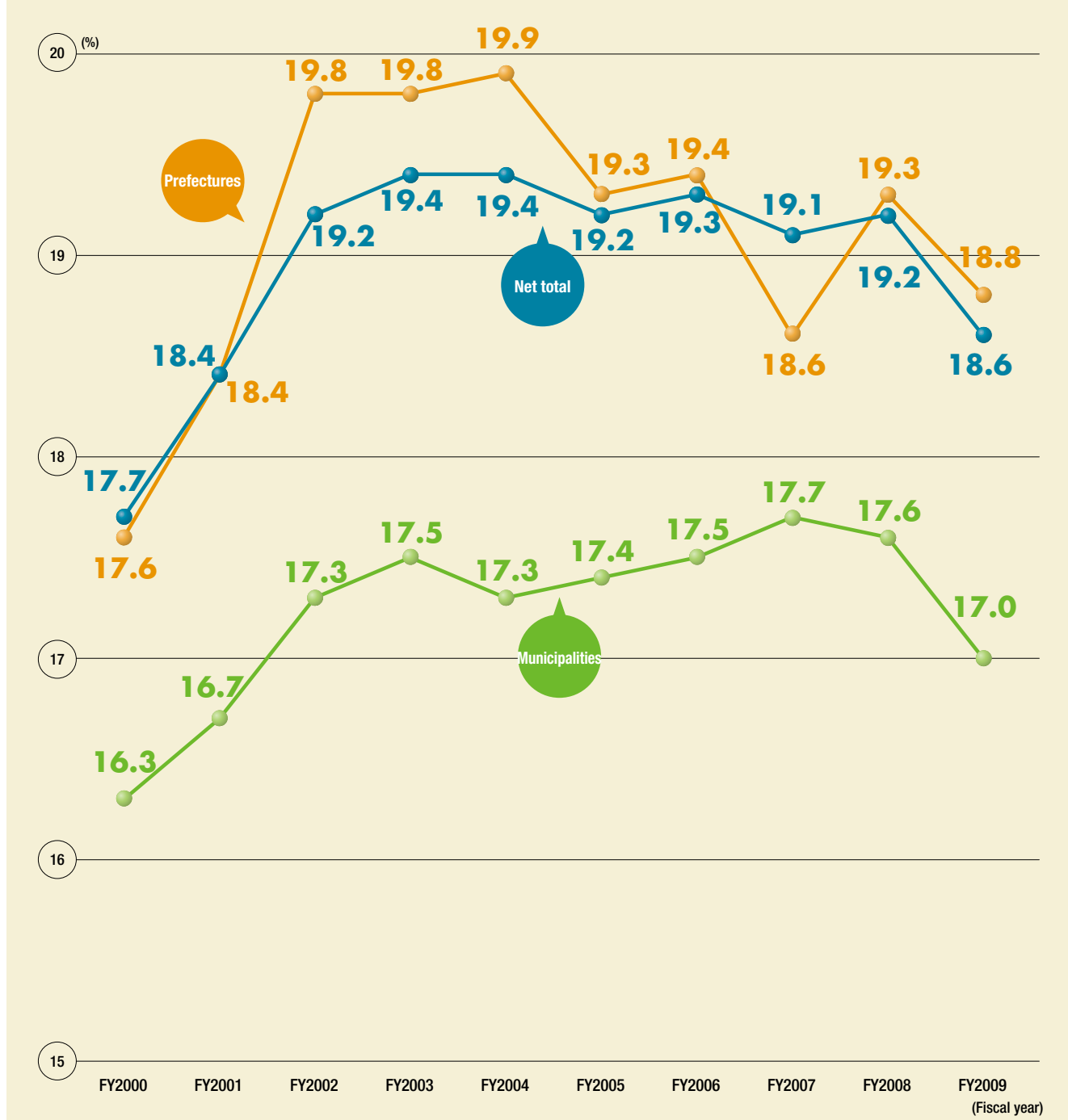
2 Real Debt Service Ratio and Debt Service Payment Ratio

Because public debt payments (which are payments of the principal and the interest on the debts of local governments) are particularly lacking in flexibility, it is necessary to give constant scrutiny to trends in such payments. The real debt service ratio and debt service payment ratio are indices used to determine the extent of the public debt payment burden.

State of the Real Debt Service Ratio

For information on the state of the real debt service ratio, please refer to the “State of the Ratio for Determining Soundness and Ratio of Fund Shortages” (page 29).

Trends in the Debt Service Payment Ratio



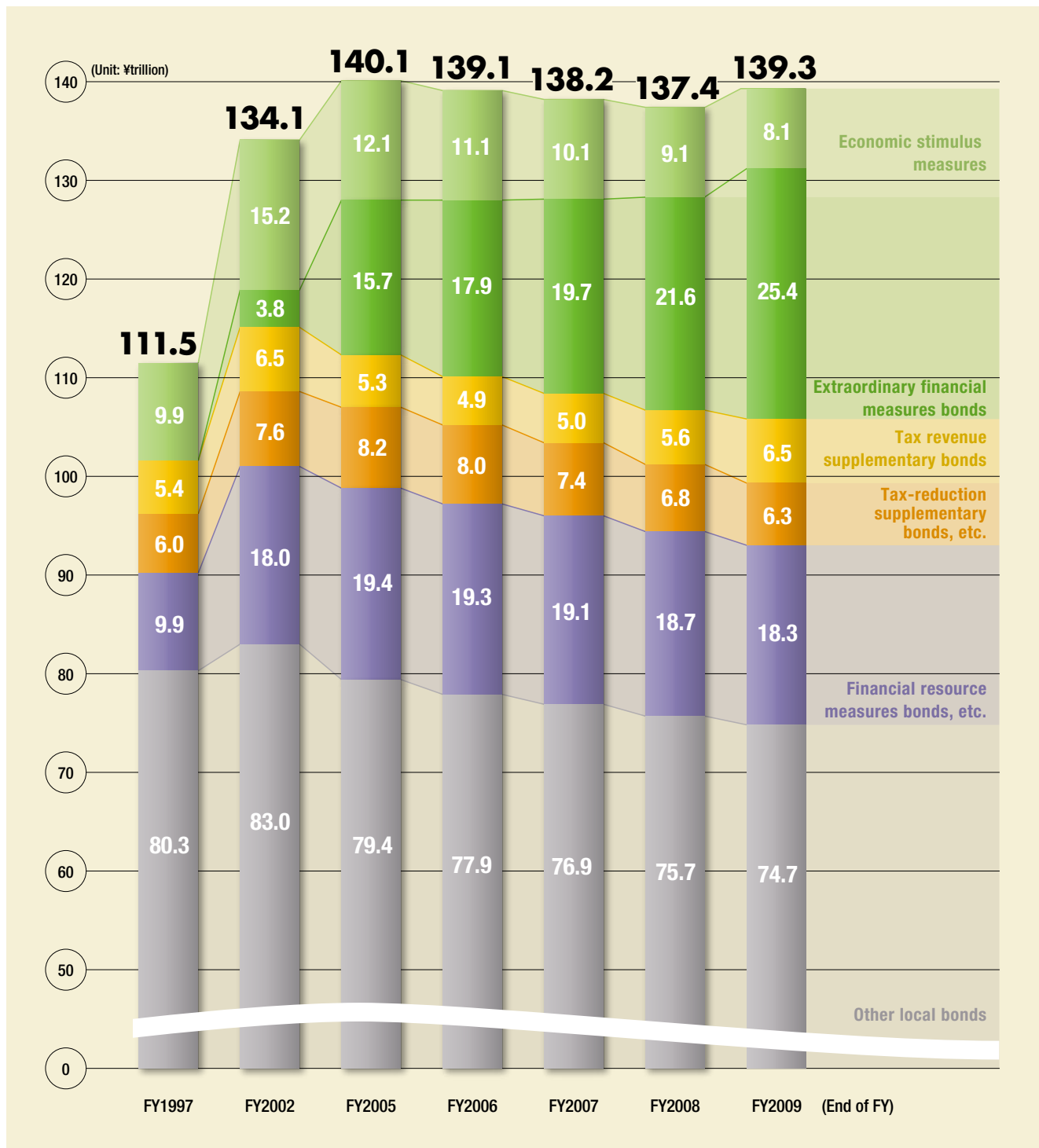
* Debt service payment ratio: The debt service payment ratio indicates the ratio of general revenue resources allocated for public debt service (general financial resources allocated for public service, including the principal and interest repayments on local bonds) to the total amount of general revenue resources. This index is used to determine the flexibility of the financial structure by assessing the degree to which public debt payments restrict the freedom of use of general financial resources.

Outstanding Local Government Borrowing

What is the status of debt 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 FY2009. This figure has been increasing in recent years due to factors such as the need to supplement tax revenue as a result of tax cuts and the issue of extraordinary financial measures bonds. The figure is 1.42 times larger than total revenue and about 2.64 times larger than the total of general financial resources, such as local taxes and local allocation tax.

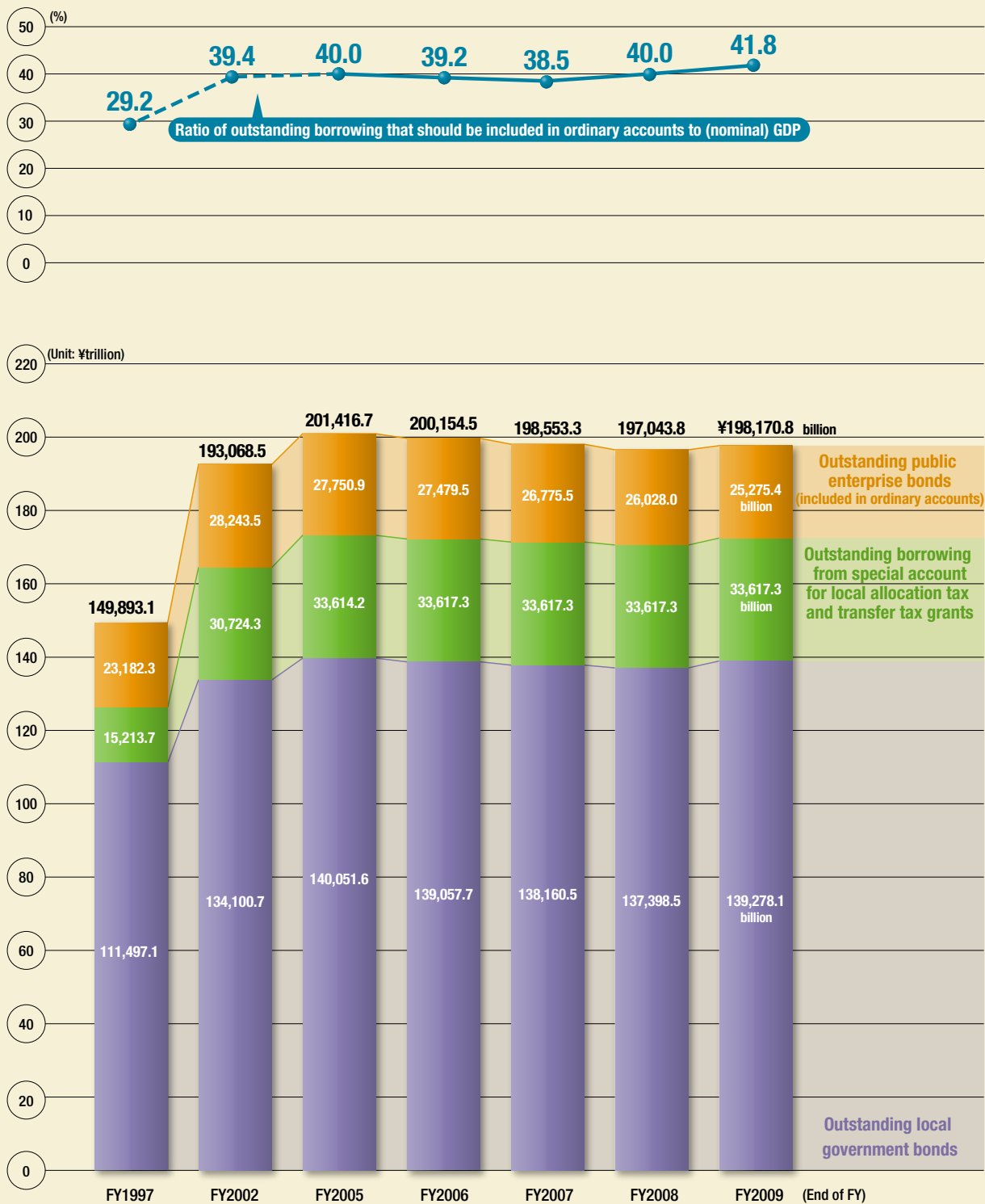


Notes:
 1. Outstanding local government borrowing excludes special fund public investment bonds.
 2. Figures for "economic stimulus measures" are estimates.

2 Outstanding Local Finance Borrowing

Outstanding local public finance borrowing—which includes borrowing in the special account for local allocation tax and transfer tax grants, which are used to address local financial resource shortages, as well as the redemption of public enterprise bonds borne by the ordinary account—remains at a high level, amounting to approximately ¥198 trillion at the end of FY2009.

Trends in Outstanding Borrowing that Should be Included in the Ordinary Account and the Ratio of Outstanding Borrowing to Gross Domestic Product



Notes:

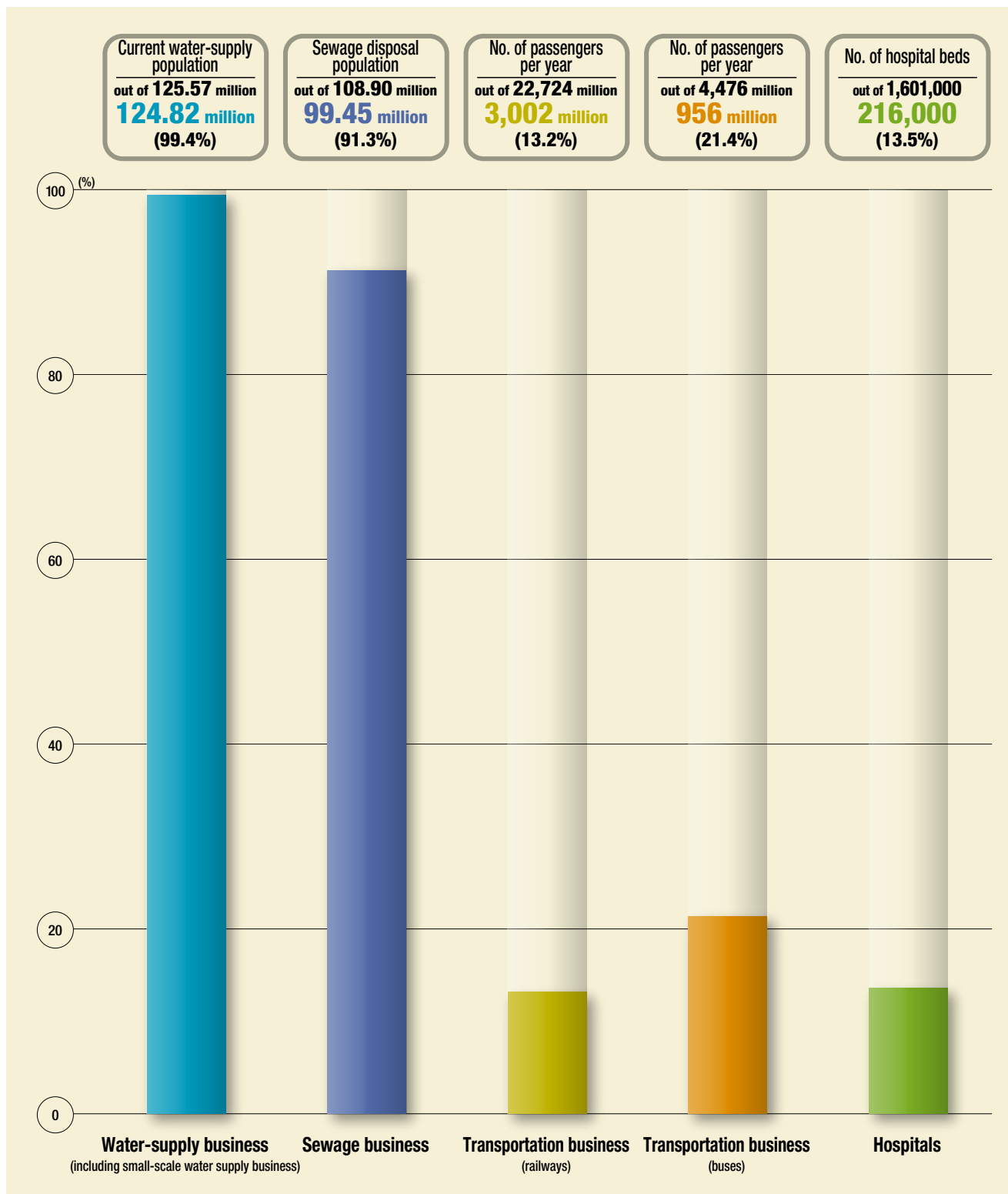
1. Outstanding local government borrowing excludes special fund public investment bonds.
2. Outstanding public enterprise bonds (included in ordinary accounts) are estimates based on settlement account statistics.

Local Public Enterprises

What is the status of local public enterprises?

1 Ratio of Local Public Enterprises

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

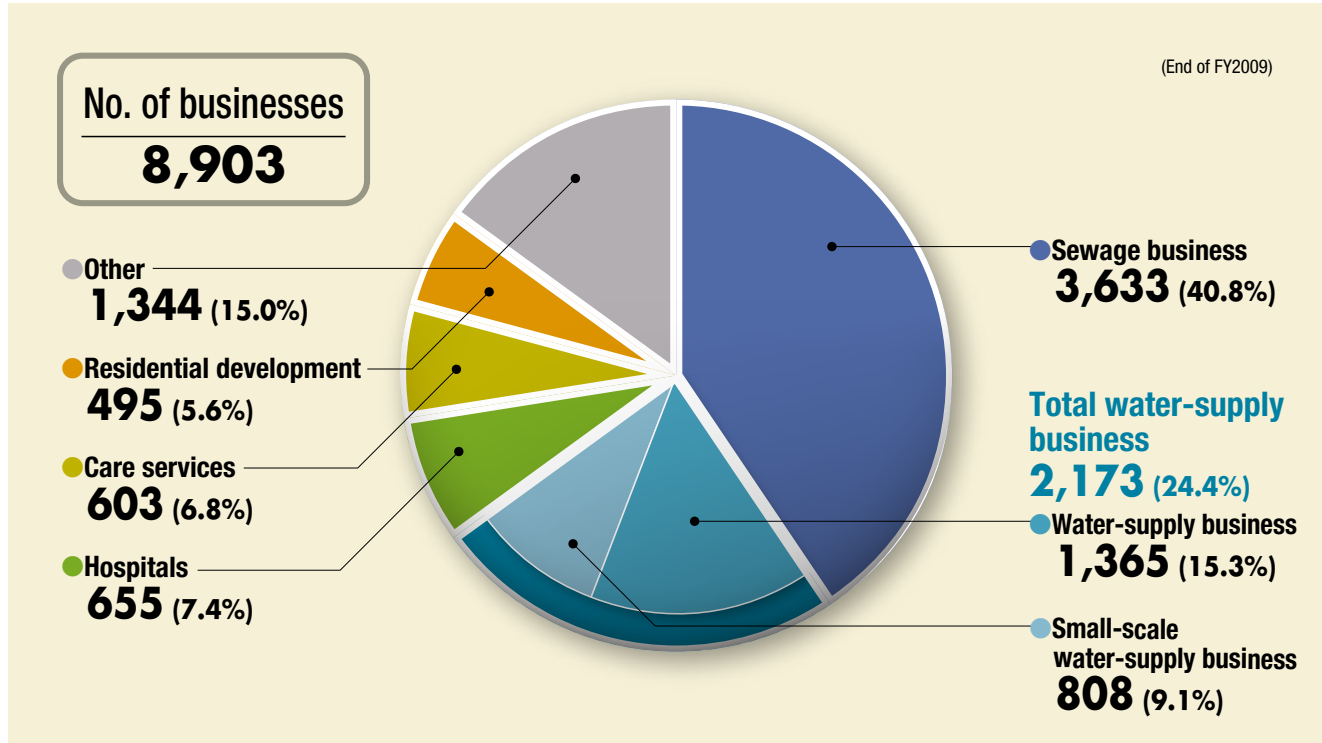


Notes:

1. The graph shows the ratio of local public enterprises when the total number of business entities nationwide is set at 100.
2. Figures for the total number of enterprises nationwide have been compiled from statistical materials of related organizations. Figures for local public enterprises have been compiled from figures for the total number of enterprises and settlements for the same fiscal year.

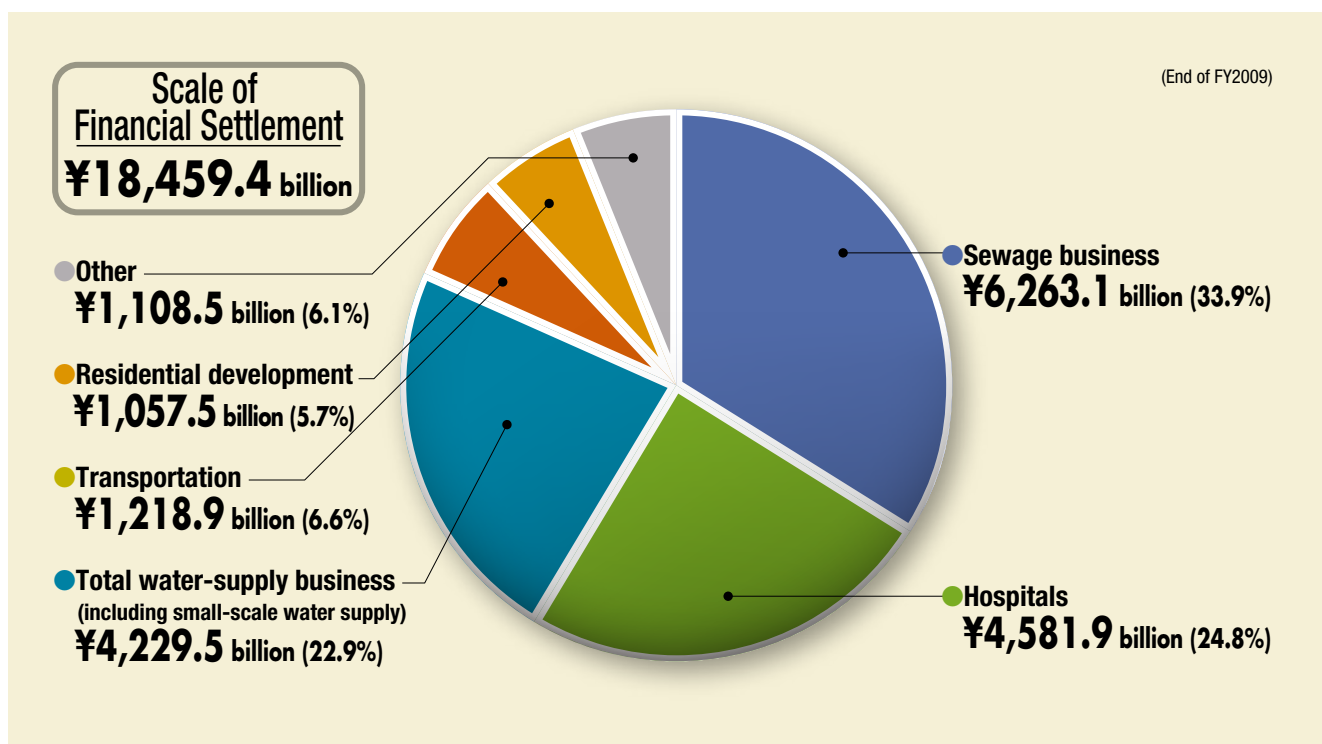
2 Number of Businesses Operated by Local Public Enterprises

There are 8,903 businesses that are operated by local public enterprises. By type of business, sewage accounts for the largest ratio, followed, in order, by total water supply, hospitals, care services, and housing development projects.



3 Scale of Financial Settlement

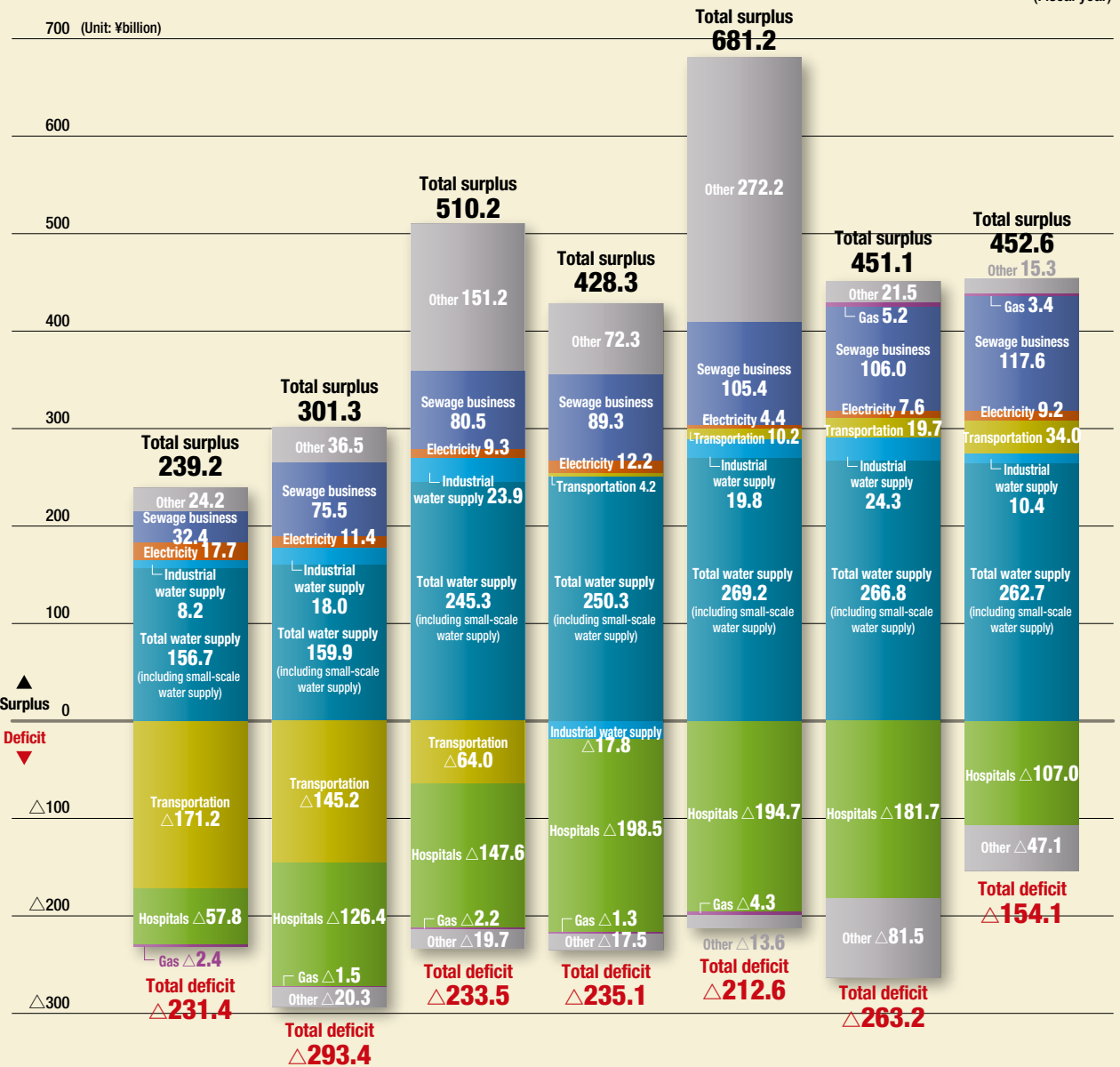
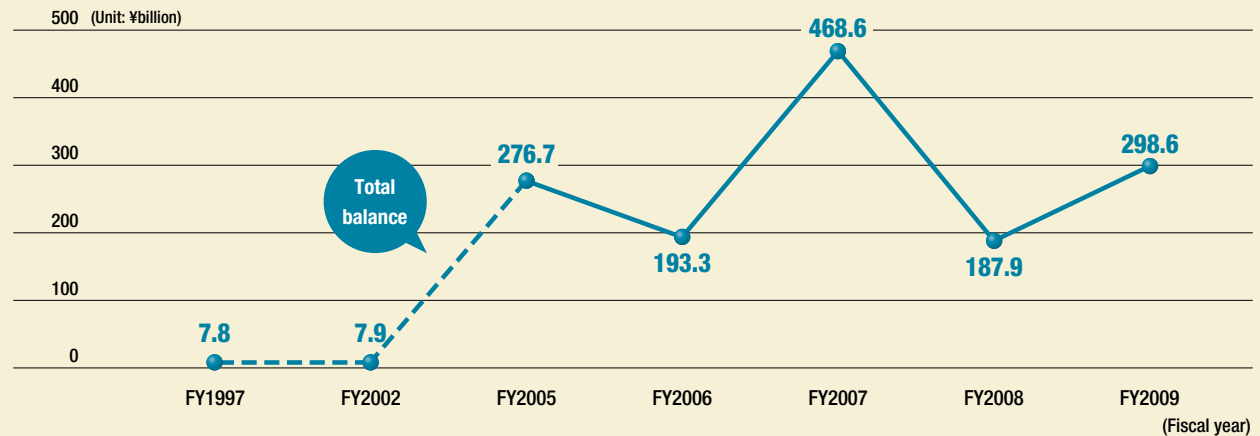
The scale of total financial settlement is ¥18,459.4 billion. By type of business, sewage accounts for the largest ratio, followed, in order, by hospitals, total water supply, transportation, and residential development.



4 Management Status

Local public enterprises had a surplus of ¥298.6 billion. By type of business, while total water supply, electricity, and sewage showed a surplus, hospitals continue to register a deficit.

Trends in the Management Status of Local Public Enterprises



Note: "△" denotes negative figures.

Promotion of the Soundness of Local Public Finance

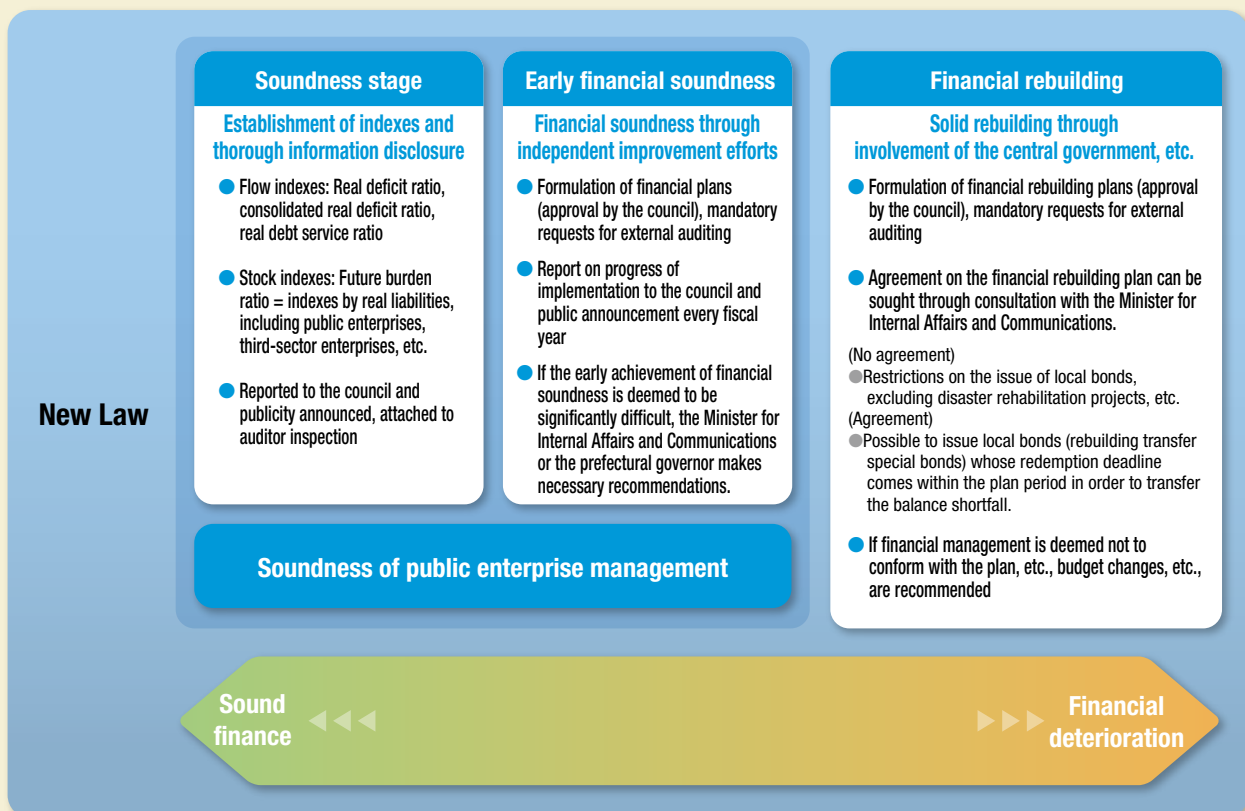
1 Overview of the Act on Assurance of Sound Financial Status of Local Governments, etc.

Amid extremely severe financial conditions and the hardening of the financial structure caused by such factors as the redemption of municipal bonds issued in the past and the aging of society, the soundness of local public finance is an important issue.

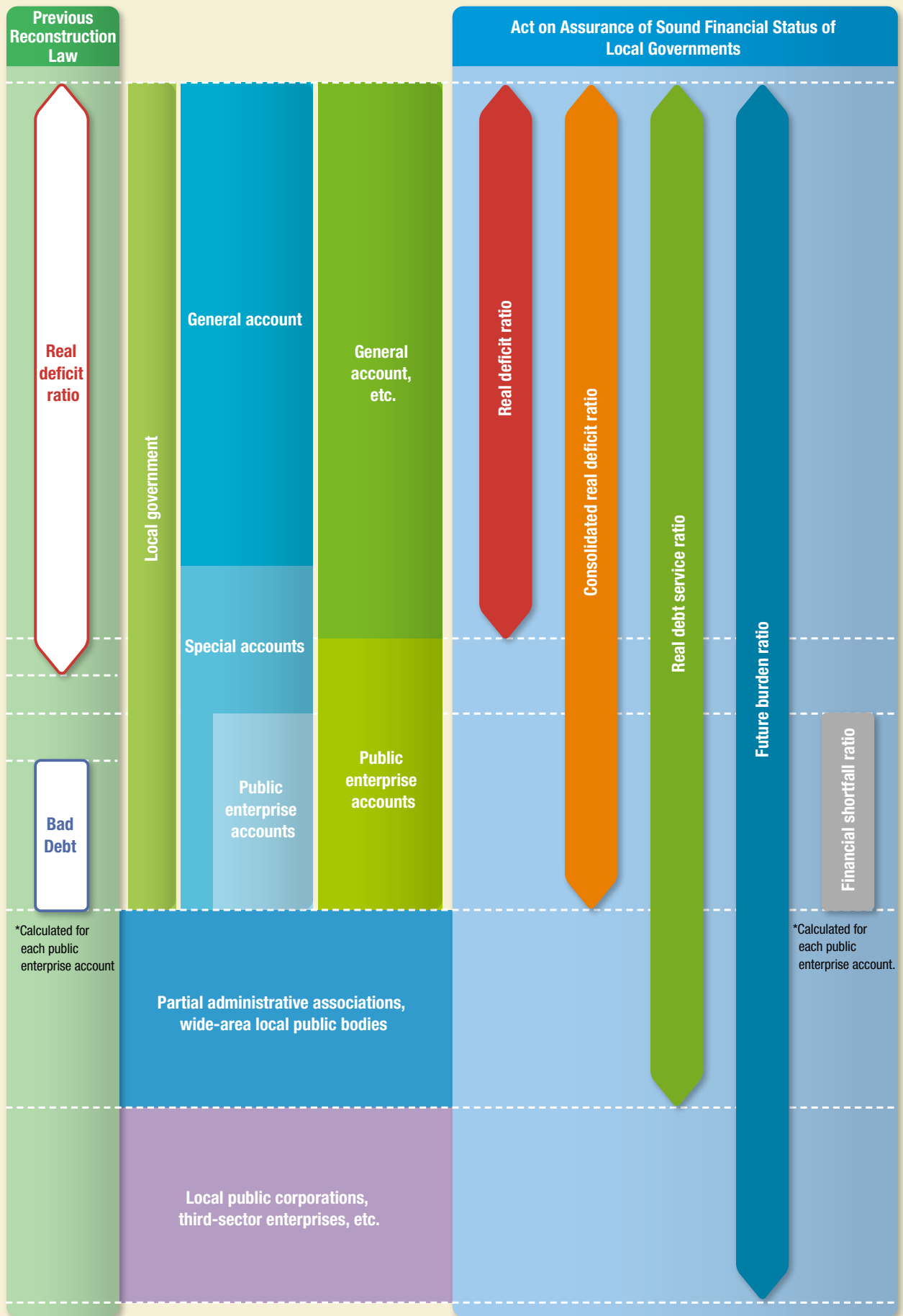
A number of issues were pointed out in the conventional system for the financial reconstruction of local governments, such as the lack of disclosure of easily understood financial information and a function for prompt correction.

Accordingly, the present system of local government financial reconstruction was drastically revised for the first time in about 50 years, and in June 2007 the Act on Assurance of Sound Financial Status of Local Governments (2007, Law No. 94) was enacted as a new system to thoroughly establish and disclose financial indexes and to strive for the early stage achievement of soundness and rebuilding of financial affairs. Financial indexes have been in force since April 2008 and regulations concerning the duty to formulate financial soundness plans, etc., have been in force since April 2009.

Comparison of the New and Previous Reconstruction Laws



Targets of the Ratio for Determining Soundness



Outline of the 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 general account and special accounts that are equivalent to an ordinary account
- 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: The difference, if the total of A and B exceeds the total of C and D
 - The total real deficit in general accounts and special accounts that have a real deficit, excluding public enterprises (enterprises regulated and enterprises not regulated by the Local Public Enterprise Law)
 - The total deficit of funds in special accounts of public enterprises that have a deficit of funds
 - The total real balance surplus in general accounts and special accounts that have a real balance surplus, excluding public enterprises
 - The total surplus of funds in special accounts of public enterprises that have a surplus of funds

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

- Quasi-redemption of principal and interest: Total of A through E
 - Amount corresponding to annual redemption of principal in a case of principal equal amortization in which the redemption period is 30 years for bullet local bonds
 - The amount of transfers from general accounts, etc., to special accounts other than general accounts, etc., acknowledged to be appropriated for revenue resources for the redemption of public enterprise bonds
 - The amount of burdens and subsidies to associations/local development corporations ("associations, etc.") acknowledged to be appropriated for revenue resources for the redemption of local bonds issued by the associations, etc.
 - Expenditures based on debt burden that corresponds to debt service
 - Temporary loan interest

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

- Future burden amount: Total amount of A through H
 - Outstanding local government bonds in general accounts, etc., as of the end of the fiscal year previous to the applicable fiscal year
 - Expected amount of expenditure based on the debt burden (those pertaining to the expenses, etc., of each item under Article 5 of the Local Finance Act)
 - Estimated amount of burden, etc., from general accounts, etc., to be appropriated for the redemption of principal of local bonds of accounts other than general accounts, etc.
 - Estimated amount of burden, etc., of the applicable local government to be appropriated for the redemption of principal of local bonds of the associations, etc., of which the applicable local government is a member
 - The estimated amount of burden in general accounts, etc., for 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 debts of certain corporations established by the local government and debt burden in the case of bearing the debts for such corporations, that is included in general accounts, etc., giving consideration to the financial and business condition of the those corporations, etc.
 - Consolidated real deficit
 - The estimated amount corresponding to the consolidated real deficit of the associations, etc., included in general accounts, etc.
- Amount of appropriable funds: Funds under Article 241 of the Local Autonomy Act that can be appropriated for the amount of redemption, etc., of A through F

$$\text{Financial shortfall ratio} = \frac{\text{Deficit of funds}}{\text{Size of business}}$$

- Fund deficit:

Fund deficit (enterprises regulated by the law) = (current liabilities + outstanding local government bonds issued to be appropriated as financial resources for expenses other than construction and improvement expenses, etc. - current assets) - resolvable amount of financial shortfall

Fund deficit (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 as financial resources for 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 fund deficit when there are circumstances in which fund deficits 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 land, etc.

- Size of business:

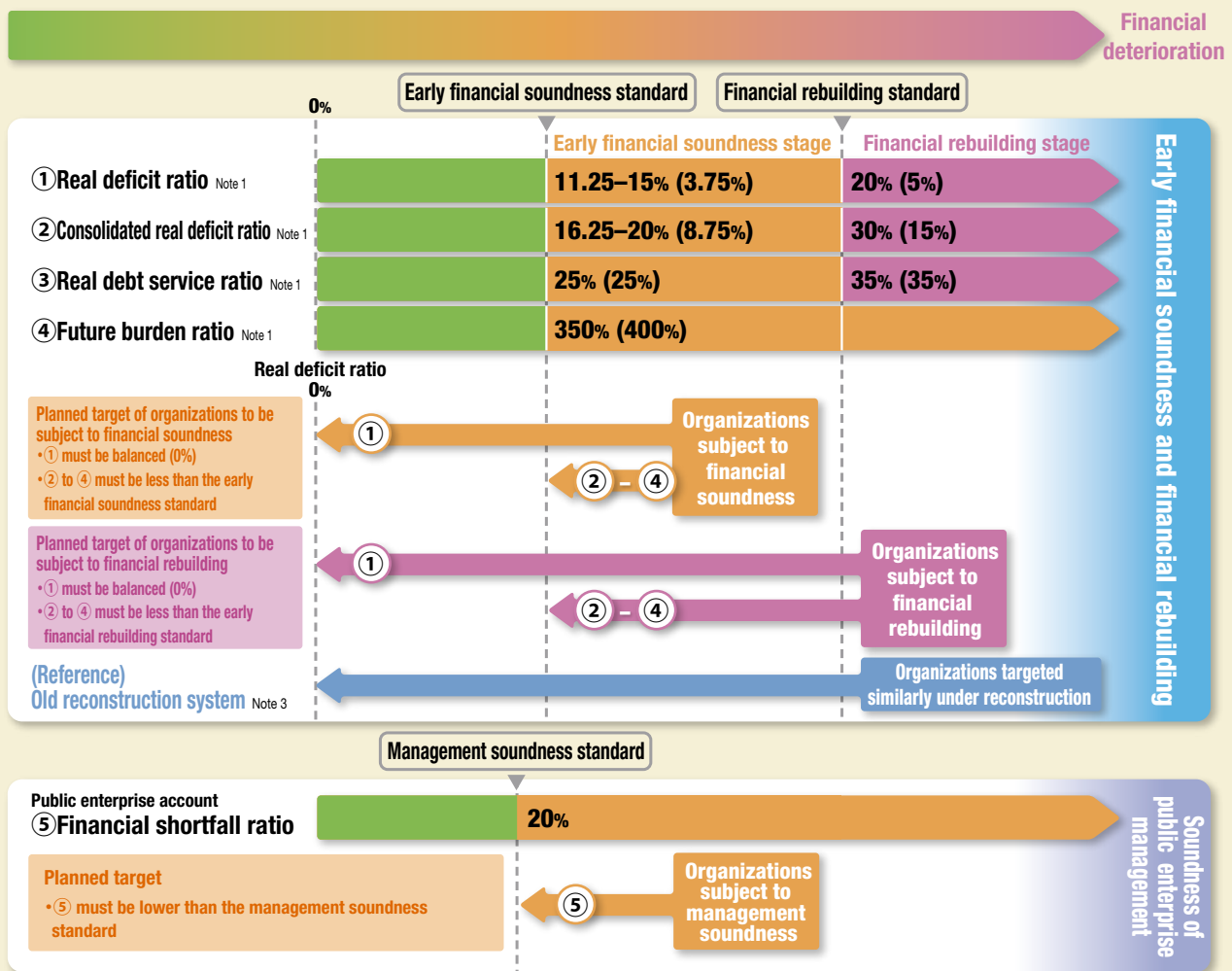
Size of business (enterprises regulated by the law) = amount of operating revenue - amount of consigned construction profit

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

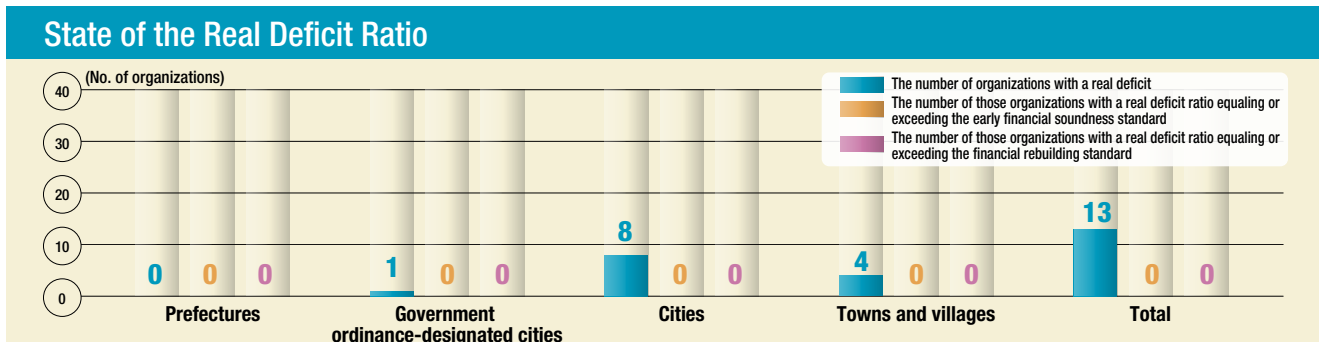


Note 1: Figures outside parentheses are the standards for municipalities. Figures inside parentheses are the standards for prefectures. The standards of the Tokyo Municipal Government regarding the real deficit ratio and the consolidated real deficit ratio are specified separately.
 Note 2: Transitional standards have been established for the financial recovery standards for the consolidated real deficit ratio (H21: 40% (25%), H22: 40% (25%), H23: 35% (20%)). Transitional measures have been established for the standards for the Tokyo Municipal Government as well.
 Note 3: Under the previous Reconstruction Law, an organization under reconstruction was required to ensure the equilibrium of the real balance.

2 Status of the Ratio for Determining Soundness and the Financial Shortfall Ratio

1 Real Deficit Ratio

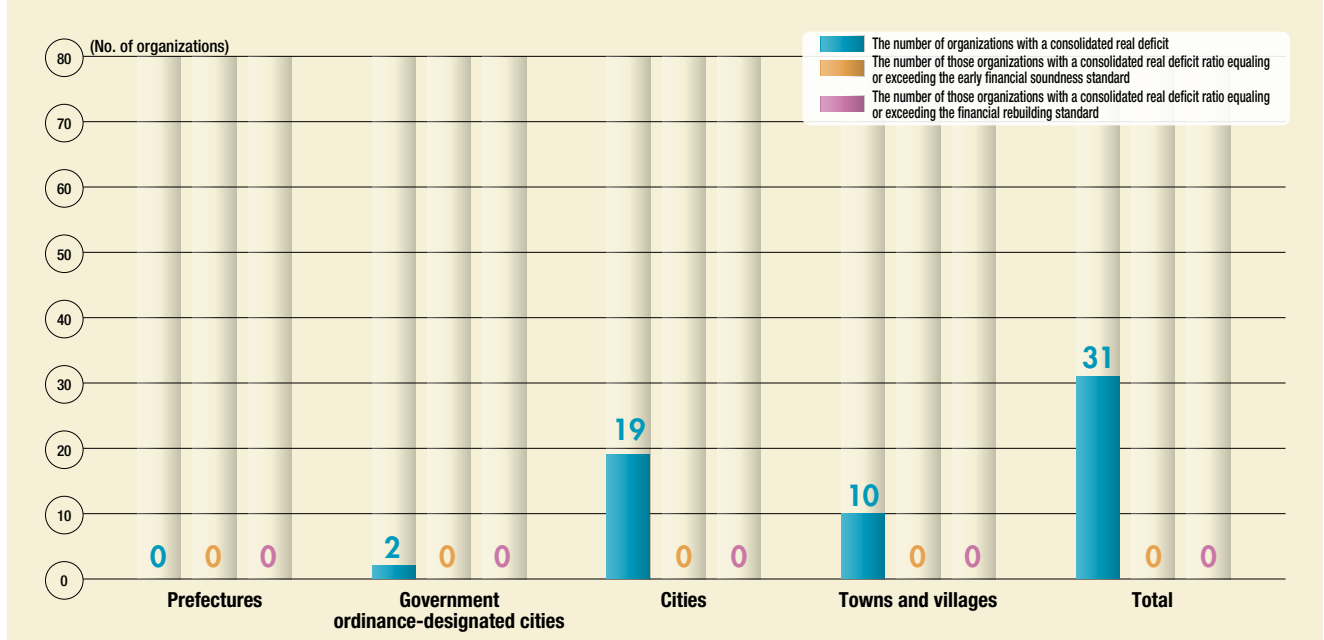
The following table shows the status of the real deficit ratio based on FY2009 account settlements. Thirteen organizations fall under the category of organizations with a real deficit (i.e., with a real deficit ratio that exceeds 0%). None of these organizations have a real deficit ratio that equals or exceeds the early financial soundness standard.



2 Consolidated Real Deficit Ratio

The following table shows the status of the consolidated real deficit ratio based on FY2009 account settlements. Thirty-one organizations fall under the category of organizations with a consolidated real deficit (i.e., with a consolidated real deficit ratio that exceeds 0%). None of these organizations have a consolidated real deficit ratio that equals or exceeds the early financial soundness standard.

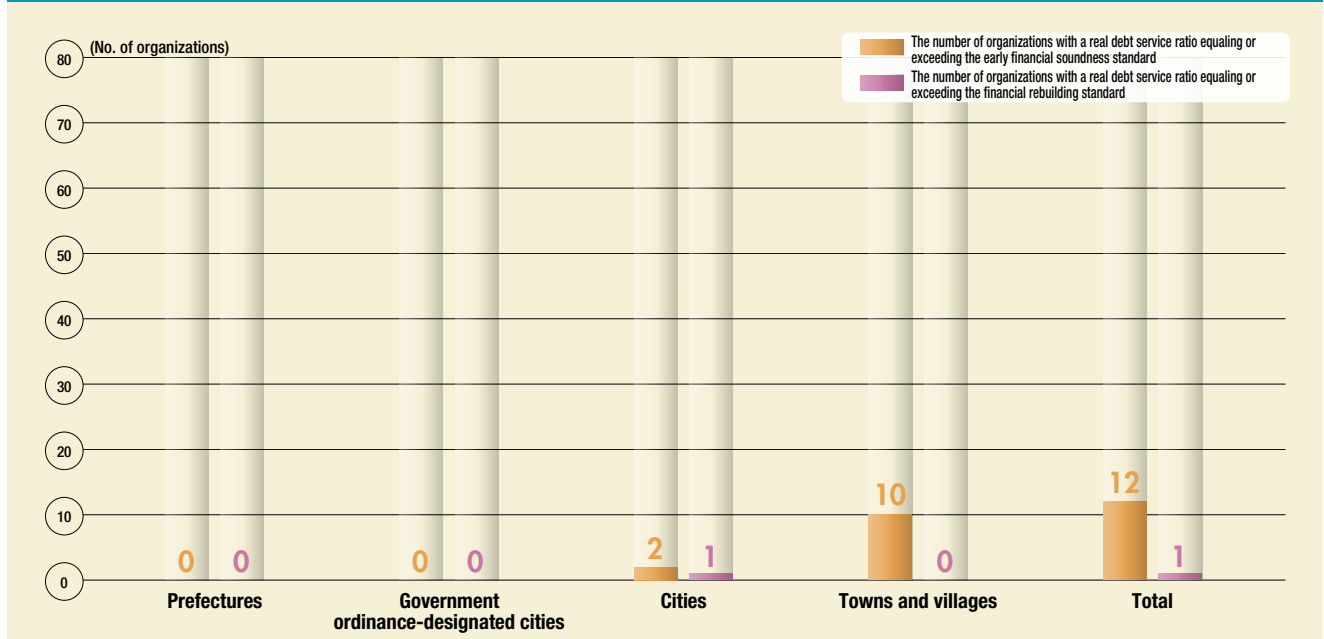
Status of the Consolidated Real Deficit Ratio



3 Real Debt Service Ratio

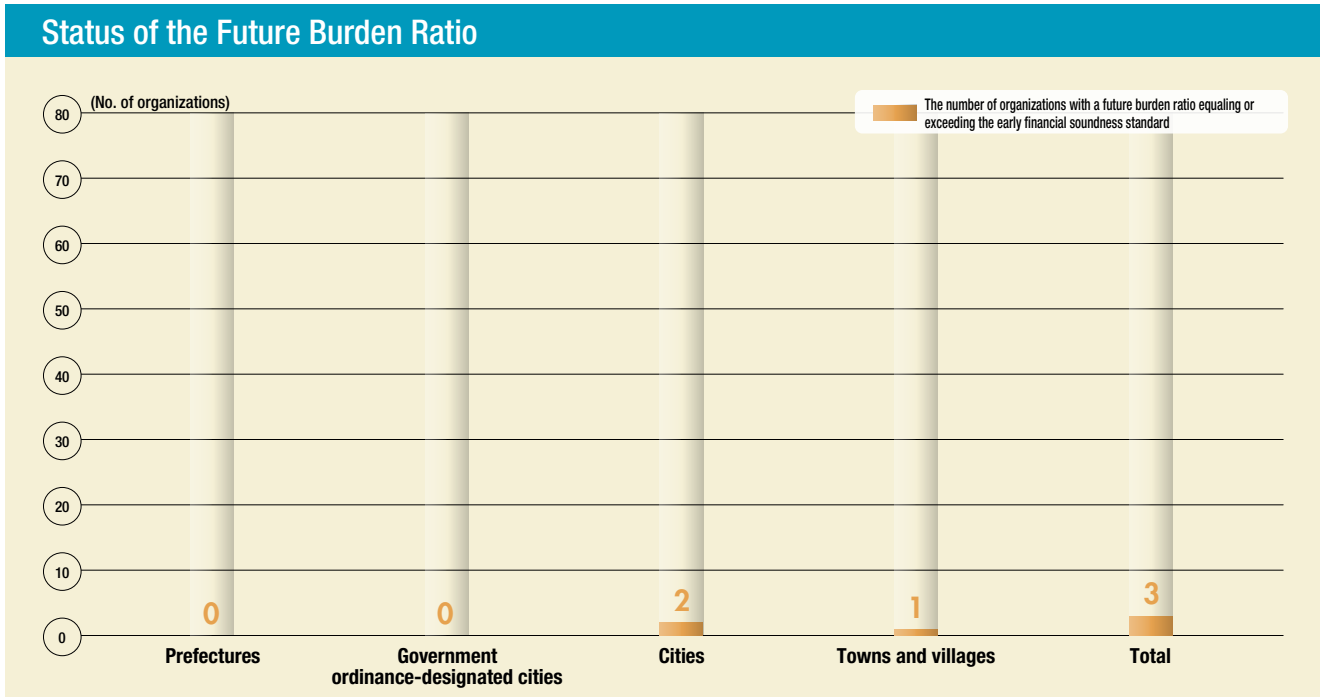
The following table shows the status of the real debt service ratio based on FY2009 account settlements. There are 12 organizations whose real debt service ratio equals or exceeds the early financial soundness standard. One of these organizations has a real debt service ratio that equals or exceeds the financial rebuilding standard.

Status of the Real Debt Service Ratio



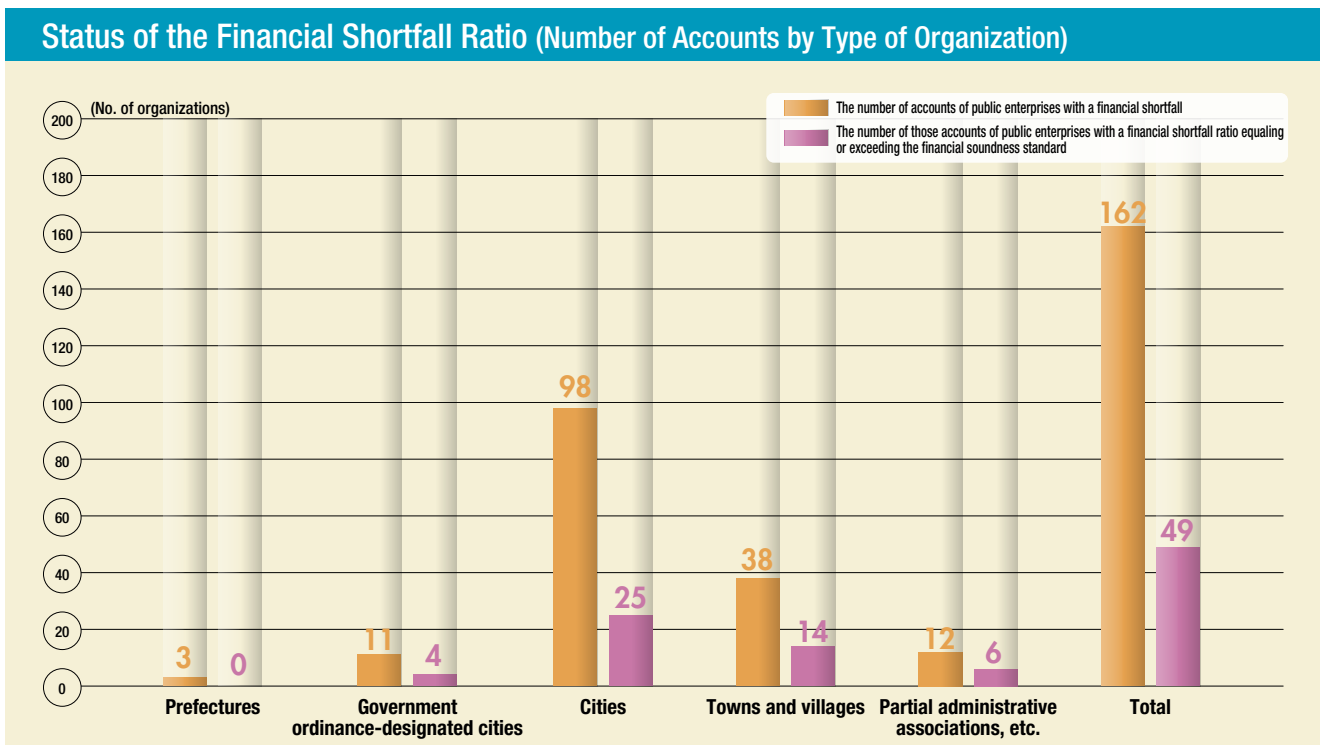
4 Future Burden Ratio

The following table shows the status of the future burden ratio based on FY2009 account settlements. There are three organizations whose future burden ratio equals or exceeds the early financial soundness standards.



5 Financial Shortfall Ratio

The following table shows the status of the financial shortfall ratio based on FY2009 account settlements. The accounts of 162 public enterprises fall under the category of accounts with a financial shortfall (i.e., with a financial shortfall ratio that exceeds 0%). Forty-nine of these accounts have a financial shortfall ratio that equals or exceeds the financial soundness standard.



Trends and Issues in Local Public Finance

1 Decentralization

The government promotes decentralization to allow residents of individual regions to take responsibility to determine the issues of those regions. Specifically, the Decentralization Strategy Council takes the lead in conducting discussions directed toward review and revision of the obligations and limitations and expansion of the power to establish ordinances, transfer of authority to municipalities, reform of local agencies of the national government, and conversion of “conditional national treasury disbursements” to bulk grants, etc.

1 Revision of obligations and limitations

Because laws and regulations contain a large number of obligations and limitations that restrict the implementation of office work and the methods for such work by the national government regarding the governmental affairs of local public entities, the government is working to review and revise those obligations and limitations, expand the power to establish ordinances, and reform the mechanism for implementation of public administration under the discretion and responsibility of local public entities themselves.

In addition, from the standpoint of increasing the independence and autonomy of local public entities, the government engages in activities to prepare and maintain the required laws, etc., such as removing the requirement for deliberation, as a rule, when organizations with favorable financial status issue private fund bonds.

2 Transfer of authority to municipalities

The government reviews and revises the distribution of office work between prefectures and municipalities, based on the “principle of subsidiarity,” and works to prepare and maintain the required laws, etc., that enable the municipalities that are the closest to the residents to handle the maximum amount possible of a wide range of office work related to public administration.

3 Reform of local agencies of the national government

The government is moving ahead with reforms of the local agencies of the national government that will make it possible to delegate the maximum amount possible of public administration that is close to the residents to local municipalities, and to enable local municipalities to independently and more comprehensively conduct public administration in the region.

4 Conversion of “conditional national treasury disbursements” to bulk grants

“Conditional national treasury disbursements” from the national government to local regions will be gradually discontinued, and beginning with the FY2011 budget, bulk grants that can essentially be used freely by the local governments will be established.

5 Ensuring enhanced local tax revenue sources

In addition to reviewing and revising the allocation of tax revenue sources between the national and local governments from the standpoint of expanding financial resources that can be used freely by local governments, efforts are underway to create a local tax system that provides stable tax revenue and has little imbalance of tax sources.

In addition, reforms are under way to expand the “independent judgment” and “executive responsibility” of local public entities and broaden their tax autonomy, thereby enabling local public entities to utilize their ingenuity in the aspect of taxes as well.

6 Revision of the allocation tax system

As part of efforts to simplify the method of calculating local allocation tax and make that method more transparent, it was decided that the 6% ratio of total allocation tax consisting of special allocation tax will be gradually decreased, with that portion being transitioned to ordinary allocation tax.

Meanwhile, exceptions have been established that make it possible to determine and allocate the amounts of special allocation tax on a case-by-case basis, in addition to the regular determination and allocations in December and March, when large-scale disasters that present the danger of significant impact on the financial administration of local public entities occur.

In addition, it was decided to implement further reductions in supplements for operating costs, from the standpoint of aiming for the independent and autonomous financial administration of local public entities.

7 Discontinuation of the contribution system for businesses controlled by the national government

It was decided to discontinue the contribution system related to maintenance management, beginning in FY2010.

8 Fundamental revision of the Local Autonomy Act

The Local Autonomy Act is undergoing fundamental review and revision from the standpoint of enabling local residents to think for themselves, take proactive steps, and assume responsibility for those actions and choices.

2 Creation of Regional Strength and New Growth Strategy

1 Creation of regional strength

To create active local communities and establish local power, the government promotes “green decentralization reform” and the “autonomous settlement region concept,” and provides support for the self-reliance and vitalization of under-populated regions and other disadvantaged areas, to enable various parties and entities in each region to collaborate and work together to utilize local resources, thereby implementing a variety of activities that boost the strength of the region.

2 Economic policy and regional revitalization based on new growth strategy

The “Comprehensive Emergency Economic Countermeasures to a High Yen Rate and Deflation” established the “Regional Revitalization Grant” (¥350.0 billion), the “Detailed Grant” (¥250.0 billion), and the “Grant to Focus Light to the Lives of Residents” (¥100.0 billion). The “Detailed Grant” provides support for the implementation of detailed work to respond to the revitalization needs of the region, such as laying power lines underground in sightseeing spots. The “Grant to Focus Light to the Lives of Residents” provides support for local efforts regarding issues that, while important in the lives of the residents, have not been given sufficient attention in the past.

3 Administrative and Fiscal Reform

1 Optimization of salaries and promotion of appropriate workforce management

Almost all local public entities have lowered salary table levels and implemented other reforms in consideration of the efforts of the national government to reform the salary structure.

In the 5 years from April 1, 2005 to April 1, 2010, there was a 5.3% decrease in workforce in prefectures, 10.6% in government ordinance-designated cities, and 9.9% in municipalities other than government ordinance-designated cities, for a 7.5% decrease in local public entities overall.

2 Reform of local public enterprises

The following activities are being conducted to enable local public enterprises to fulfill their purpose—that of providing public services—in the future.

- Promotion of fundamental reform of local public enterprises
- Promotion of fundamental reform of quasi-public entities
- Review and revision of the local public enterprise accounting system

3 Promotion of reform of local public accounting

Preparations are under way for public accounting through accrual accounting and double-entry bookkeeping, to enable the disclosure of financial information related to assets and expenses that are difficult to determine from cash accounting.

Promotion of information disclosure

As the circumstances of local public finance become more severe, a variety of efforts are under way to ensure accountability.

The Ministry of Internal Affairs and Communications compiles and posts "expenditure comparative analysis tables" and "financial comparative analysis tables" on its website. The purpose of this is to disclose information to residents in an easy-to-understand manner through forms that are comparable to those of other local governments. This enables each local public entity to promote sound financial administration while obtaining the understanding and cooperation of residents.

① Expenditure comparative analysis tables

It is expected that the creation and disclosure of "expenditure comparative analysis tables" for comparative analysis of expenditures between similar organizations will be utilized for the effective reduction of expenditures beginning with the FY2006 settlement.

Website

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

② Financial comparative analysis tables

"Financial comparative analysis tables" are used for comparative analysis of the principal financial indicators, etc., between similar organizations and analysis of the efforts, etc., of each organization toward the improvement of the indicators, etc.

Website

<http://www.soumu.go.jp/iken/bunsekihyo.html>

③ Settlement cards

The settlement data of all prefectures and municipalities (since FY2001) are shown using settlement cards for each individual organization and posted on the website.

Website

<http://www.soumu.go.jp/iken/zaisei/card.html>

④ Financial condition tables, etc.

In response to the demand for the disclosure of comprehensive financial information that can be taken in at a glance, the Ministry of Internal Affairs and Communications compiles financial condition tables, which, in addition to ordinary accounts, include the status of enterprise accounts and other special accounts, the management status of quasi-public enterprises, etc., and the status of financial assistance, and posts them on its website, as part of measures to disclose the comprehensive financial condition of each local public entity.

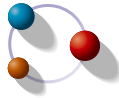
Website

http://www.soumu.go.jp/iken/zaisei_ichiran.html

FY2009 Settlement

White Paper on Local Public Finance, 2011

- Illustrated -



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