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1 “Net totals of the revenues and expenditures” are the ordinary net account totals of 3,102 organizations (47 prefectures, 1,719 municipalities, 23 special wards, 1,248 special districts and 112 inter-municipal/prefectural joint authorities).

2 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.

3 In FY2011, the revenues and expenditures of ordinary accounts are divided into the regular portion (Overall settlement figures less the Great East Japan Earthquake portion) and the Great East Japan Earthquake portion (Covering the revenues and expenditures related to recovery and reconstruction work and emergency relief and disaster mitigation work).
Prefectures and municipalities (cities, towns, and villages) are the central actors in various areas of public services, including school education, public welfare and health, police and fire services, and public works such 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 FY2012, and the status of the ratios for determining the financial soundness of local governments, with particular attention given to ordinary accounts (Public enterprises, such as water supply, transportation, and hospitals are described in the section on Local Public Enterprises).

Classification of the Accounts of Local Governments Applied in the Settlement Account Statistics

The accounts of local governments are divided into the general accounts and the special accounts, which vary in scope between local governments. Therefore, to secure standardization in the tabulation of local finance, the 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.
How large is local public finance compared with central government finance?

The ratio of gross domestic product (expenditure) consisting of local public finance is 11.6%, about 2.5 times that of the central government.
In which areas is the share of local expenditures high?

The share of local governments’ expenditures is higher in areas that are deeply related to daily life, such as public health and sanitation, school education, police and fire services, and social education.

### Share of Expenditures by Function of Central and Local Governments (final expenditure basis)

<table>
<thead>
<tr>
<th>Function</th>
<th>Share of Local Expenditure</th>
<th>Share of Central Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sanitation expenses</td>
<td>3.8%</td>
<td>98%</td>
</tr>
<tr>
<td>School education expenses</td>
<td>9.2%</td>
<td>87%</td>
</tr>
<tr>
<td>Judicial, police, and fire service expenses</td>
<td>4.0%</td>
<td>79%</td>
</tr>
<tr>
<td>Social education expenses, etc.</td>
<td>2.9%</td>
<td>74%</td>
</tr>
<tr>
<td>Public welfare expenses (excluding pension expenses)</td>
<td>20.9%</td>
<td>72%</td>
</tr>
<tr>
<td>Land development expenses</td>
<td>8.1%</td>
<td>76%</td>
</tr>
<tr>
<td>Land conservation expenses</td>
<td>1.3%</td>
<td>74%</td>
</tr>
<tr>
<td>Commercial and industrial expenses</td>
<td>6.2%</td>
<td>61%</td>
</tr>
<tr>
<td>Disaster recovery expenses, etc.</td>
<td>0.8%</td>
<td>77%</td>
</tr>
<tr>
<td>Debt services</td>
<td>20.9%</td>
<td>38%</td>
</tr>
<tr>
<td>Agriculture, forestry and fishery industry expenses</td>
<td>2.0%</td>
<td>37%</td>
</tr>
<tr>
<td>Housing expenses, etc.</td>
<td>1.7%</td>
<td>38%</td>
</tr>
<tr>
<td>Onkyu pension expenses</td>
<td>0.4%</td>
<td>4%</td>
</tr>
<tr>
<td>Pension expenses (of public welfare expenses)</td>
<td>6.3%</td>
<td>96%</td>
</tr>
<tr>
<td>Defense expenses</td>
<td>2.9%</td>
<td>100%</td>
</tr>
<tr>
<td>General administration expenses, etc.</td>
<td>6.7%</td>
<td>82%</td>
</tr>
<tr>
<td>Other</td>
<td>2.1%</td>
<td>82%</td>
</tr>
</tbody>
</table>

Local Public Finance, 2014 –Illustrated–
FY2012 Settlement Overview

1 Revenues

¥99,842.9 billion (down ¥226.7 billion, 0.2% year on year)

Regular portion: ¥93,834.0 billion (down ¥1,201.1 billion, 1.3% year on year)

Great East Japan Earthquake portion: ¥6,008.9 billion (up ¥974.4 billion, 19.4% year on year)

The decrease of revenues in the regular portion resulted from decreases of national treasury disbursements, money transferred, etc. The increase of revenues in the Great East Japan Earthquake portion resulted from increases of municipal bonds (bonds for emergency relief and disaster mitigation work, etc.), money transferred (from the funds related to Great East Japan Earthquake reconstruction), etc.

2 Expenditures

¥96,418.6 billion (down ¥584.0 billion, 0.6% year on year)

Regular portion: ¥91,098.7 billion (down ¥1,413.0 billion, 1.5% year on year)

Great East Japan Earthquake portion: ¥5,319.8 billion (up ¥828.8 billion, 18.5% year on year)

The decrease of expenditures in the regular portion resulted from decreases of ordinary construction work expenses, loans, personnel expense, etc. The increase of expenditures in the Great East Japan Earthquake portion resulted from an increase of construction expenses (recovery and reconstruction work and emergency relief and disaster mitigation work), etc.

3 Revenue and Expenditure Settlement

The real balance showed a surplus of ¥1,767.5 billion.

<table>
<thead>
<tr>
<th>Category</th>
<th>Settlement Period</th>
<th>No. of local governments with a deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY2012</td>
<td>FY2011</td>
</tr>
<tr>
<td>Real balance</td>
<td>¥1,767.5 billion</td>
<td>¥1,795.3 billion</td>
</tr>
<tr>
<td>Single year balance</td>
<td>¥28.1 billion</td>
<td>¥125.5 billion</td>
</tr>
<tr>
<td>Real single year balance</td>
<td>¥437.8 billion</td>
<td>¥437.2 billion</td>
</tr>
</tbody>
</table>

Notes: 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. Single year 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 single year balance refers to the amount calculated by adding reserves and advanced redemption of local loans for the public finance adjustment fund to the single year balance and subtracting public finance adjustment fund reversals.
4. Trend in Scale of Account Settlement

Both revenues and expenditures of the regular portion have decreased for the last three consecutive years.

5. Major Financial Indices

Ordinary balance ratio rose 0.1 percentage points year on year, to 92.7%.
Real debt service ratio declined 0.5 percentage points, to 11.3%.

<table>
<thead>
<tr>
<th>Category</th>
<th>FY2012</th>
<th>FY2011</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary balance ratio</td>
<td>92.7%</td>
<td>92.6%</td>
<td>0.1</td>
</tr>
<tr>
<td>Real debt service ratio</td>
<td>11.3%</td>
<td>11.8%</td>
<td>▲0.5</td>
</tr>
</tbody>
</table>

6. Outstanding Borrowing Borne by Ordinary Accounts

Outstanding borrowing, which includes outstanding local government borrowing as well as borrowing from the special accounts for local allocation tax and outstanding public enterprise bonds (borne by ordinary accounts), amounted to ¥201,069.1 billion (up ¥674.2 billion, 0.3% year on year).

<table>
<thead>
<tr>
<th>Category</th>
<th>FY2012</th>
<th>FY2011</th>
<th>Change amount</th>
<th>Change rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding local government bonds</td>
<td>¥144,726.6 billion</td>
<td>¥143,231.9 billion</td>
<td>¥1,494.7 billion</td>
<td>1.0%</td>
</tr>
<tr>
<td>Outstanding borrowing from the special accounts for local allocation tax</td>
<td>¥33,417.3 billion</td>
<td>¥33,517.3 billion</td>
<td>▲¥100.0 billion</td>
<td>▲0.3%</td>
</tr>
<tr>
<td>Outstanding public enterprise bonds (borne by ordinary accounts)</td>
<td>¥22,925.2 billion</td>
<td>¥23,645.8 billion</td>
<td>▲¥720.6 billion</td>
<td>▲3.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>¥201,069.1 billion</strong></td>
<td><strong>¥200,394.9 billion</strong></td>
<td><strong>¥674.2 billion</strong></td>
<td><strong>0.3%</strong></td>
</tr>
</tbody>
</table>

Note: Outstanding public enterprise bonds (borne by ordinary accounts) are estimates based on settlement account statistics.
What are the revenue sources for local governments’ activities?

1 Revenue Breakdown

The revenue of local governments consists mainly of local taxes, local allocation tax, national treasury disbursements, and local bonds, in order of share size. Among them, revenue resources which can be spent for any purpose, such as local taxes and local allocation tax, are called general revenue resources. It is important for local governments to ensure sufficient general revenue resources in order to handle various administrative needs properly. In FY2012, general revenue resources accounted for 55.2%.

Composition of Revenues (FY2012 settlement)

- **Other revenue resources**
  - ¥16,886.2 billion (16.9%)

- **Local bonds**
  - ¥12,337.9 billion (12.4%)
    - Bonds for the extraordinary financial measures: ¥5,915.8 billion (5.9%)

- **National treasury disbursements**
  - ¥15,459.3 billion (15.5%)

Net total: ¥99,842.9 billion

General revenue resources: ¥55,149.5 billion (55.2%)
- Local taxes: ¥34,460.8 billion (34.5%)
- Local transfer tax: ¥2,271.5 billion (2.3%)
- Special local grants: ¥127.5 billion (0.1%)
- Local allocation tax: ¥18,289.8 billion (18.3%)

Local taxes: ¥16,116.7 billion (31.6%)
- Local transfer tax: ¥1,830.9 billion (3.6%)
- Special local grants: ¥51.0 billion (0.1%)
- Local allocation tax: ¥9,317.1 billion (18.3%)

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- Special local grants: ¥51.0 billion (0.1%)
- Local allocation tax: ¥9,317.1 billion (18.3%)

Local bonds: ¥3,757.8 billion (7.4%)
- Bonds for the extraordinary financial measures: ¥3,757.8 billion (7.4%)

National treasury disbursements: ¥6,583.3 billion (19.4%)
- National treasury disbursements: ¥6,583.3 billion (19.4%)

Other general revenue resources: ¥1.3 billion (0.6%)
- Other general revenue resources: ¥1.3 billion (0.6%)

Prefectures total: ¥50,937.2 billion
- Prefectures total: ¥50,937.2 billion

Local transfer tax: Collected as a national tax and transferred to local governments. Includes local gasoline transfer tax, etc.

Special local grants: Special local grants in FY2012 include special grants for covering decreases in local tax revenues issued to cover decreases in revenues of local governments in association with the implementation of special tax deductions for housing loans in the individual inhabitant tax.

Local allocation tax: An intrinsic revenue source of local governments in order to adjust imbalances in tax revenue among local governments and to guarantee revenue sources so that all the local governments across the country can provide a consistent level of public services. (See page 12, “5. Local Allocation Tax.”)

National treasury disbursements: A collective term for the national obligatory share, commissioning expenses, incentives for specific policies, or financial assistance, disbursed from the central government to local governments.

Local bonds: The debts of local governments to be repaid over a period of time in excess of one fiscal year for which redemption continues for more than one fiscal year.
Revenues in Regular Portion and Great East Japan Earthquake Portion

**Net Total**

- **Other revenue resources**: ¥15,249.6 billion (16.2%)
  - **Local bonds**: ¥11,738.8 billion (12.5%)
  - **National treasury disbursements**: ¥12,622.0 billion (13.5%)
    - Of this amount, ordinary construction expenses were ¥1,008.9 billion (1.1%)
    - Of this amount, recovery and reconstruction expenses were ¥215.9 billion (0.2%)
- **General revenue resources**: ¥54,223.6 billion (57.8%)
  - **Local bonds**: ¥599.1 billion (10.0%)
  - **National treasury disbursements**: ¥2,837.3 billion (47.2%)
    - Of this amount, ordinary construction expenses were ¥212.7 billion (4.8%)
    - Of this amount, recovery and reconstruction expenses were ¥374.9 billion (6.2%)
    - Of this amount, grants to measures for earthquake disaster reconstruction were ¥1,312.7 billion (21.8%)

**Prefectures**

- **Other revenue resources**: ¥8,292.5 billion (17.4%)
  - **Local bonds**: ¥6,961.0 billion (14.7%)
  - **National treasury disbursements**: ¥5,455.7 billion (11.5%)
    - Of this amount, ordinary construction expenses were ¥666.1 billion (1.4%)
    - Of this amount, recovery and reconstruction expenses were ¥157.6 billion (3.1%)
- **General revenue resources**: ¥26,794.9 billion (56.4%)
  - **Local bonds**: ¥1,570.8 billion (45.8%)
  - **National treasury disbursements**: ¥1,127.5 billion (32.8%)
    - Of this amount, ordinary construction expenses were ¥107.5 billion (3.1%)
    - Of this amount, recovery and reconstruction expenses were ¥223.6 billion (6.5%)
    - Of this amount, grants to measures for earthquake disaster reconstruction were ¥230.9 billion (6.6%)

**Municipalities**

- **Other revenue resources**: ¥8,779.7 billion (16.5%)
  - **Local bonds**: ¥4,797.5 billion (9.1%)
  - **Prefectural disbursements**: ¥3,008.2 billion (5.7%)
  - **National treasury disbursements**: ¥7,166.3 billion (13.6%)
    - Of this amount, ordinary construction expenses were ¥342.8 billion (0.6%)
    - Of this amount, recovery and reconstruction expenses were ¥58.3 billion (0.1%)
- **General revenue resources**: ¥29,114.1 billion (55.1%)
  - **Local bonds**: ¥340.3 billion (10.4%)
  - **Prefectural disbursements**: ¥397.1 billion (12.1%)
  - **National treasury disbursements**: ¥1,709.8 billion (52.1%)
    - Of this amount, ordinary construction expenses were ¥178.9 billion (5.5%)
    - Of this amount, recovery and reconstruction expenses were ¥153.3 billion (4.6%)
    - Of this amount, grants to measures for earthquake disaster reconstruction were ¥1,085.9 billion (33.1%)
The ratio of the general revenue resources fell substantially in FY2009, but rallied to an increase in FY2010. It remained almost at the same level in FY2012.
Local Taxes

Local taxes consist of prefectural taxes and municipal taxes.

### Composition of Revenue from Prefectural Taxes (FY2012 settlement)

- **Prefectural tobacco tax**
  - ¥288.9 billion (2.0%)
- **Real estate acquisition tax**
  - ¥335.6 billion (2.4%)
- **Light oil delivery tax**
  - ¥924.7 billion (6.5%)
- **Automobile tax**
  - ¥1,586.0 billion (11.2%)
- **Local consumption tax**
  - ¥2,551.1 billion (18.0%)
- **Other taxes**
  - ¥88.8 billion (0.7%)
- **Prefectural inhabitant tax**
  - ¥5,628.8 billion (39.8%)
  - Individual
    - ¥4,681.7 billion (33.1%)
  - Corporate
    - ¥832.0 billion (5.9%)
- **Enterprise tax**
  - ¥2,531.3 billion (17.9%)
  - Individual
    - ¥177.6 billion (1.3%)
  - Corporate
    - ¥2,353.7 billion (16.6%)

### Composition of Revenue from Municipal Taxes (FY2012 settlement)

- **Municipal tobacco tax**
  - ¥887.1 billion (4.4%)
- **City planning tax**
  - ¥1,215.5 billion (6.0%)
- **Fixed asset tax**
  - ¥8,580.4 billion (42.2%)
- **Other taxes**
  - ¥561.4 billion (2.7%)
- **Municipal inhabitant tax**
  - ¥9,070.8 billion (44.7%)
  - Individual
    - ¥6,942.1 billion (34.2%)
  - Corporate
    - ¥2,128.7 billion (10.5%)

Note: In the case of the special wards of Tokyo, the Tokyo Metropolitan Government collects a portion of the municipal taxes. Municipal tax revenue figures include municipal taxes collected by the Tokyo Metropolitan Government.
Prefectural tax revenues dropped lately due to a decrease in prefectural inhabitant taxes revenues and a decline in enterprise tax revenues (corporate) which is caused by the introduction of a special tax on local corporations, etc., but increased in FY2012.

Municipal tax revenues fell sharply in FY2009 mainly because of a decline in municipal inhabitant tax and have remained almost at the same level since then.
In order for local governments to provide public services in response to local needs on their own responsibility and at their own discretion, it is necessary to build a less imbalanced and stable local tax system. Comparing local tax revenue amounts, with the national average set at 100, Tokyo, the highest, was approximately 2.5 times the amount for Okinawa Prefecture, which was the lowest.

### 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 or discretionary tax.
3. Individual inhabitant tax revenue is the total of the corporate prefectural inhabitant tax, the corporate municipal inhabitant tax, and the corporate business tax, 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 pre-fiscal amounts, and exclude overassessment.
6. Calculations were made in accordance with the basic resident register population as of March 31, 2013.

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

<table>
<thead>
<tr>
<th>FY2012 settlement amount</th>
<th>Local taxes total</th>
<th>Individual inhabitant tax</th>
<th>Two corporate taxes</th>
<th>Local consumption tax</th>
<th>Fixed asset tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥35.6 trillion</td>
<td>¥11.5 trillion</td>
<td>¥6.5 trillion</td>
<td>¥2.6 trillion</td>
<td>¥8.5 trillion</td>
<td></td>
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<tr>
<td>84.1</td>
<td>72.3</td>
<td>64.5</td>
<td>70.0</td>
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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 their 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 the necessary tax revenue. Accordingly, the central government collects revenue resources that would essentially 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 a fixed percentage 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 the local allocation tax in FY2012 was ¥18,289.8 billion, down 2.5% 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 through the following mechanism.

\[
\text{Regular allocation tax amount} = \left( \frac{\text{Standard financial requirements}}{\text{Standard financial revenues}} \right) \times (\text{Calculation rate (75%)} + \text{Local transfer tax, etc.})
\]

Notes:
1. Standard financial requirements are figured out based on the rational and appropriate service standards for each local government. For this reason, the local share of the services, such as compulsory education, benefits for livelihood protection, and public works which are subject to national obligatory share, is mandatorily included. Beginning in FY2001, part of the standard financial requirements is being transferred to special local bonds (bond for temporary substitution for local allocation tax) as an exception to Article 5 of the Local Finance Law.
2. Normal local tax revenue does not include Non-Act-based Tax or “over-taxation” that sets tax rates above the standard tax rate stipulated in the Local Tax Act.

3. Function of the local allocation tax
The function of the local allocation tax is to adjust imbalances in revenue resources between local governments and to ensure their financial capacity to provide standard public services and basic infrastructure to residents across the country.

The adjustment of revenue resources through local allocation tax makes the ratios of general revenue resources to the total revenues between local governments practically flat regardless of the size of population.
Expenses Classified by Function

Classifying the expenses by function demonstrates that much of public money is appropriated for public welfare expenses, education expenses, and debt service. In prefectures, education expenses, public welfare expenses, and debt service have the highest shares in that order. In municipalities, public welfare expenses, general administration expenses, and civil engineering work expenses account for the largest amounts in that order.

### Composition of Expenditure Classified by Function (FY2012 settlement)

- **Net total**: ¥96,418.6 billion

<table>
<thead>
<tr>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prefectures total</td>
</tr>
<tr>
<td>Municipalities total</td>
</tr>
</tbody>
</table>

#### Prefectures

- **Other expenses**: ¥7,524.2 billion (7.9%)
- **Agriculture, forestry and fishery expenses**: ¥3,181.3 billion (3.3%)
- **Sanitation expenses**: ¥5,993.2 billion (6.2%)
- **Commerce and industry expenses**: ¥6,206.9 billion (6.4%)
- **General administration expenses**: ¥9,961.8 billion (10.3%)
- **Civil engineering work expenses**: ¥11,242.3 billion (11.7%)

#### Municipalities

- **Other expenses**: ¥7,380.3 billion (14.8%)
- **Agriculture, forestry and fishery expenses**: ¥2,328.4 billion (4.7%)
- **Sanitation expenses**: ¥1,918.6 billion (3.9%)
- **Commerce and industry expenses**: ¥4,304.0 billion (8.7%)
- **General administration expenses**: ¥3,078.4 billion (6.2%)
- **Civil engineering work expenses**: ¥5,304.7 billion (10.7%)

### Public Welfare

- **Public welfare expenses**: ¥23,152.3 billion (24.0%)

### Education

- **Education expenses**: ¥16,147.9 billion (16.7%)

### Debt Service

- **Debt service**: ¥13,008.7 billion (13.5%)

### Other Expenses

- **Other expenses**: ¥7,524.2 billion (14.8%)

### Agriculture, Forestry, and Fishery

- **Agriculture, forestry and fishery expenses**: ¥2,328.4 billion (4.7%)

### Sanitation

- **Sanitation expenses**: ¥1,918.6 billion (3.9%)

### Commerce and Industry

- **Commerce and industry expenses**: ¥4,304.0 billion (8.7%)

### General Administration

- **General administration expenses**: ¥3,078.4 billion (6.2%)

### Civil Engineering Work

- **Civil engineering work expenses**: ¥5,304.7 billion (10.7%)

### Debt

- **Debt service**: ¥7,528.9 billion (13.9%)

### Education

- **Education expenses**: ¥10,862.7 billion (22.0%)

### Public Welfare

- **Public welfare expenses**: ¥23,152.3 billion (24.0%)

---

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.

Debt service: Expenses for the payment of principal, interest, etc., on debts.
Expenditures in Regular Portion and Great East Japan Earthquake Portion (Expenses Classified by Function)
While civil engineering work expenses and agriculture, forestry and fishery expenses fell, public welfare expenses significantly rose.
Expenditures

Breakdown of Public Welfare Expenses by Purpose

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Net total (¥ billion)</th>
<th>Prefectures (¥ billion)</th>
<th>Municipalities (¥ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net total</td>
<td>¥23,152.3</td>
<td>¥7,302.4</td>
<td>¥18,457.3</td>
</tr>
<tr>
<td>Municipalities</td>
<td>¥18,457.3 (79.8%)</td>
<td>¥5,546.2</td>
<td>¥12,911.1</td>
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<tr>
<td>Prefectures</td>
<td>¥7,302.4 (31.6%)</td>
<td>¥2,237.7</td>
<td>¥5,064.7</td>
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<td>Disaster relief</td>
<td>¥301.1</td>
<td>¥70.8</td>
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<tr>
<td>Elderly welfare</td>
<td>¥5,725.2 (24.7%)</td>
<td>¥2,996.5</td>
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<tr>
<td>Social welfare</td>
<td>¥5,567.3 (24.0%)</td>
<td>¥2,237.7</td>
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<tr>
<td>Public assistance</td>
<td>¥3,905.1 (16.9%)</td>
<td>¥270.8</td>
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<td>Child welfare</td>
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Breakdown of Educational Expenses by Purpose

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<th>Prefectures (¥ billion)</th>
<th>Municipalities (¥ billion)</th>
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<td>Net total</td>
<td>¥16,147.9</td>
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<td>Municipalities</td>
<td>¥5,364.6 (33.0%)</td>
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<td>Senior high school</td>
<td>¥2,166.2 (13.4%)</td>
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<td>Health and physical</td>
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<td>Social education</td>
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Breakdown of Civil Engineering Work Expenses by Purpose

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<td>Municipalities</td>
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<td>Prefectures</td>
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<td>Road and bridges</td>
<td>¥3,727.8 (33.2%)</td>
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<td>Rivers and coasts</td>
<td>¥1,216.8 (10.8%)</td>
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<td>Housing</td>
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White Paper on Local Public Finance, 2014
Expenses Classified by Type

Expenses are also classified, according to their economic nature, into “mandatory expenses” (consisting of personnel expenses, public assistance expenses, and debt service), the payment of which is mandatory and the amount of which is difficult to reduce at the discretion of individual local governments, “investment expenses” including ordinary construction work expenses, and “other expenses,” such as goods expenses, subsidizing expenses, and reserves.

Composition of Expenditures Classified by Type (FY2012 settlement)

Net total ¥96,418.6 billion

Mandatory expenses ¥48,022.2 billion (49.8%)
  - Personnel expenses ¥23,017.6 billion (23.9%)
  - Public assistance expenses ¥12,022.1 billion (12.5%)
  - Debt service ¥12,982.4 billion (13.5%)

Investment expenses ¥7,021.4 billion (13.0%)
  - Ordinary construction work expenses ¥6,221.4 billion (12.6%)
  - Subsidized public works expenses ¥2,200.0 billion (4.4%)
  - Non-subsidized public works expenses ¥2,062.4 billion (4.2%)

Other expenses ¥4,992.8 billion (10.1%)
  - Public assistance expenses ¥1,389.6 billion (28.1%)
  - Debt service ¥6,981.8 billion (14.1%)

Goods expenses ¥1,787.0 billion (3.6%)
  - Ordinary construction work expenses ¥6,508.9 billion (13.2%)
  - Subsidized public works expenses ¥3,503.8 billion (7.1%)
  - Non-subsidized public works expenses ¥2,167.2 billion (4.4%)

Reserves ¥1,870.2 billion (3.8%)
  - Ordinary construction work expenses ¥6,199.1 billion (6.4%)
  - Subsidized public works expenses ¥5,393.3 billion (5.6%)

Subsidizing expenses ¥11,826.0 billion (23.9%)
  - Ordinary construction work expenses ¥6,520.0 billion (12.1%)
  - Subsidized public works expenses ¥2,280.0 billion (4.5%)
  - Non-subsidized public works expenses ¥3,659.9 billion (7.4%)

Prefectures total ¥49,461.8 billion

Municipalities total ¥54,176.4 billion

Local Public Finance, 2014 –Illustrated–
While investment expenses and personnel expenses fell, public assistance expenses, subsidizing expenses and transfers to other accounts rose.

**Trends in Expenditures Classified by Type (Net total)**

- Personnel expenses
- Public assistance expenses
- Debt service
- Investment expenses
- Goods expenses
- Subsidizing expenses
- Other account transfers

*Indices use FY2002 as base year of 100*

**Trends in Breakdown of Public Assistance Expenses by Purpose**

- Social welfare
- Elderly welfare
- Child welfare
- Public welfare
- Other

### Expenditures

#### Trends in Breakdown of Subsidizing Expenses by Purpose

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<td>Agriculture, forestry and fishery expenses</td>
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### Trends in Breakdown of Transfers to Other Accounts

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</tr>
<tr>
<td>National health insurance accounts</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Elderly health care accounts</td>
<td>1.7</td>
<td>1.7</td>
<td>1.6</td>
<td>1.5</td>
<td>1.5</td>
<td>1.4</td>
<td>1.4</td>
<td>1.3</td>
<td>1.3</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Latter-stage elderly healthcare accounts</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.9</td>
<td>1.1</td>
<td>1.1</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Elderly nursing care insurance accounts</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Other</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
</tr>
</tbody>
</table>

*Note: All values are in trillion yen.*
How financially capable are local governments to respond to local demands?

It is necessary that local governments have financial resources for not only the mandatory expenses but also projects to address properly challenges caused by changes in the social economy and administrative needs so that they can meet adequately the needs of their residents. The extent which the resources for such purposes are secured is called the “flexibility of the financial structure.”

1 Ordinary Balance Ratio

The FY2012 ordinary balance ratio rose 0.1 percentage points year-on-year, to 92.7%, staying above 90% for the ninth consecutive year.

Ordinary Balance Ratio

Ordinary balance ratio = \[
\frac{\text{General revenue resources allotted to personnel expenses, public assistance expenses, debt service, etc.}}{\text{Ordinary general revenue resources, etc. (local tax + regular local allocation tax, etc.)} + \text{special exception portion of loans for covering decreases in local tax revenues} + \text{bonds for temporary substitution of local allocation tax}} \times 100
\]

The ordinary balance ratio is the proportion of general revenue resources allotted to ordinary expenses such as personnel expenses, public assistance expenses, debt service and other annually disbursed expenses with regularity to a total amount of ordinary general revenue resources primarily consisting of local tax and regular local allocation tax, special exception portion of loans for covering decreases in local tax revenues and bonds for temporary substitution of local allocation tax.

Shifts in the ordinary balance ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Prefectures</th>
<th>Municipalities</th>
<th>Net total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2002</td>
<td>87.4</td>
<td>90.3</td>
<td>90.3</td>
</tr>
<tr>
<td>FY2003</td>
<td>89.0</td>
<td>90.8</td>
<td>90.7</td>
</tr>
<tr>
<td>FY2004</td>
<td>92.5</td>
<td>91.5</td>
<td>91.4</td>
</tr>
<tr>
<td>FY2005</td>
<td>92.6</td>
<td>91.4</td>
<td>91.4</td>
</tr>
<tr>
<td>FY2006</td>
<td>92.6</td>
<td>91.4</td>
<td>93.4</td>
</tr>
<tr>
<td>FY2007</td>
<td>94.7</td>
<td>93.9</td>
<td>93.3</td>
</tr>
<tr>
<td>FY2008</td>
<td>95.9</td>
<td>91.9</td>
<td>91.5</td>
</tr>
<tr>
<td>FY2009</td>
<td>94.9</td>
<td>92.6</td>
<td>92.0</td>
</tr>
<tr>
<td>FY2010</td>
<td>94.6</td>
<td>92.7</td>
<td>91.9</td>
</tr>
<tr>
<td>FY2011</td>
<td>92.7</td>
<td>92.5</td>
<td>92.6</td>
</tr>
<tr>
<td>FY2012</td>
<td>92.7</td>
<td>92.5</td>
<td>92.6</td>
</tr>
</tbody>
</table>

Breakdown of the ordinary balance ratio (Net total)

<table>
<thead>
<tr>
<th>Year</th>
<th>Personnel expenses</th>
<th>Public assistance expenses</th>
<th>Debt service</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2002</td>
<td>37.0</td>
<td>36.0</td>
<td>37.0</td>
<td>36.5</td>
</tr>
<tr>
<td>FY2003</td>
<td>27.4</td>
<td>27.2</td>
<td>28.0</td>
<td>26.8</td>
</tr>
<tr>
<td>FY2004</td>
<td>21.6</td>
<td>21.5</td>
<td>21.9</td>
<td>21.5</td>
</tr>
<tr>
<td>FY2005</td>
<td>4.3</td>
<td>4.3</td>
<td>4.6</td>
<td>4.8</td>
</tr>
<tr>
<td>FY2006</td>
<td>29.0</td>
<td>21.4</td>
<td>21.5</td>
<td>5.0</td>
</tr>
<tr>
<td>FY2007</td>
<td>30.5</td>
<td>21.5</td>
<td>21.5</td>
<td>5.2</td>
</tr>
<tr>
<td>FY2008</td>
<td>30.9</td>
<td>21.5</td>
<td>21.5</td>
<td>5.3</td>
</tr>
<tr>
<td>FY2009</td>
<td>31.8</td>
<td>21.5</td>
<td>21.5</td>
<td>5.7</td>
</tr>
<tr>
<td>FY2010</td>
<td>30.7</td>
<td>20.7</td>
<td>21.1</td>
<td>6.2</td>
</tr>
<tr>
<td>FY2011</td>
<td>31.7</td>
<td>21.1</td>
<td>6.4</td>
<td>6.4</td>
</tr>
<tr>
<td>FY2012</td>
<td>32.6</td>
<td>20.9</td>
<td>6.6</td>
<td>6.6</td>
</tr>
</tbody>
</table>
2 Real Debt Service Ratio and Debt Service Payment Ratio

Close attention should be paid to the trend of the debt service, which is the expense required to repay the principal and interest of the debts of local governments and has an especially negative impact on financial flexibility. The real debt service ratio and the debt service payment ratio are indices that determine the extent of the burden of the debt service.

Trends in the Real Debt Service Ratio

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>13.5</td>
<td>12.8</td>
<td>12.3</td>
<td>12.1</td>
<td>12.0</td>
<td>11.8</td>
</tr>
</tbody>
</table>

Trends in the Debt Service Payment Ratio

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>19.8</td>
<td>19.4</td>
<td>19.3</td>
<td>19.1</td>
<td>19.3</td>
<td>18.6</td>
<td>18.4</td>
<td>18.6</td>
<td>18.4</td>
<td>18.6</td>
<td>18.6</td>
</tr>
</tbody>
</table>

Debt service payment ratio: The debt service payment ratio indicates the ratio of general revenue resources allocated for debt service (amount of repayment of the principal and interest on local bonds) in 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 debt service restricts the freedom of use of general revenue resources.

* For more detailed information please refer to page 33.
What is the status of debt in local public finance?

1 Trends in Outstanding Local Government Borrowing

Outstanding local government borrowing amounted to approximately ¥145 trillion at the end of FY2012, and has been increasing in recent years with the growing issue of bonds for the extraordinary financial measures. The figure is 1.45 times larger than the total revenue and about 2.62 times larger than the total general revenue resources.

Note: Outstanding local government borrowing excludes special fund public investment bonds.

2 Trends in Outstanding Borrowing Borne by the Ordinary Accounts

Outstanding local public finance borrowing—which includes borrowing in the special account for local allocation tax and transfer tax for addressing revenue resource shortages, as well as the redemption of public enterprise bonds borne by the ordinary accounts, remains at a high level, amounting to approximately ¥201 trillion at the end of FY2012.

Notes: 1. Outstanding local government borrowing excludes special fund public investment bonds. 2. Outstanding public enterprise bonds (borne by the 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.

- **Current water-supply population**: 124.77 million (99.5%)
  - Out of 125.41 million
- **Sewage disposal population**: 101.73 million (91.3%)
  - Out of 111.38 million
- **No. of passengers per year**
  - **Water-supply business (including small-scale water supply business)**: 928 million (20.9%)
    - Out of 4,437 million
  - **Sewage business**: 3,066 million (13.3%)
    - Out of 23,042 million
  - **Transportation business (railways)**: 196,000 (12.4%)
    - Out of 1,578,000
  - **Transportation business (buses)**
  - **No. of hospital beds**: 196,000 (12.4%)
    - Out of 1,578,000

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 8,724 businesses that are operated by local public enterprises. By type of business, sewage accounts for the largest ratio, followed, in order, by water supply, hospitals, care services, and residential development.

3 Scale of Financial Settlement

The scale of total financial settlement is ¥17,024.6 billion. By type of business, sewage accounts for the largest ratio, followed, in order, by hospitals, total water supply, transportation, and residential development.
Local public enterprises had a surplus of ¥523.1 billion. By type of business, total water supply, electricity, and sewages showed a surplus.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Balance (billion yen)</th>
<th>Total Surplus (billion yen)</th>
<th>Total Deficit (billion yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2002</td>
<td>600</td>
<td>457.9</td>
<td>7.9</td>
</tr>
<tr>
<td>FY2008</td>
<td>500</td>
<td>424.6</td>
<td>187.9</td>
</tr>
<tr>
<td>FY2009</td>
<td>600</td>
<td>523.1</td>
<td>298.6</td>
</tr>
<tr>
<td>FY2010</td>
<td>500</td>
<td>452.7</td>
<td>7.9</td>
</tr>
<tr>
<td>FY2011</td>
<td>400</td>
<td>446.0</td>
<td>107.0</td>
</tr>
<tr>
<td>FY2012</td>
<td>300</td>
<td>431.9</td>
<td>126.4</td>
</tr>
</tbody>
</table>

Total surplus: 526.8 billion yen
Total deficit: 7.3 billion yen

Other (billion yen)
- Sewage business: 106.0
- Gas: 5.2
- Electricity: 11.4
- Industrial-use water: 22.3
- Transportation: 19.7
- Hospitals: 0.9
- Other: 47.1
- Gas: 1.5
- Other: 81.5

1. Specified Disaster-Struck Prefectures

In FY2012, the total revenues of the nine specified disaster-struck prefectures amounted to ¥11,407.3 billion, decreasing by ¥695.1 billion year on year, or 5.7% (2.3% decrease on national basis). Total expenditures for the entities amounted to ¥10,775.6 billion, falling by ¥868.4 billion year on year, or 7.5% (2.9% decrease on a national basis).

* Specified disaster-struck prefectures: Prefectures stipulated in Article 2, Paragraph 2 of the act on special public finance support and assistance to deal with the Great East Japan Earthquake (Act No. 40 of 2011). These prefectures are Aomori, Iwate, Miyagi, Fukushima, Ibaraki, Tochigi, Chiba, Niigata, and Nagano prefectures.
2. Specified Disaster-Struck Municipalities

In FY2012, the total revenues of the 227 municipalities designated as specified disaster-struck municipalities amounted to ¥8,514.1 billion, increasing by ¥1,271.1 billion year on year, or 17.5% (2.5% increase on national basis). Total expenditures for the entities amounted to ¥8,032.1 billion, rising by ¥1,203.9 billion year on year, or 17.6% (2.4% increase on a national basis).

* Specified disaster-struck municipalities: Municipalities designated in Appended Table 1 and those designated in Appended Tables 2 and 3 that are other than specified disaster-struck local public bodies of the Japanese government ordinance (No. 127, 2011) concerning Article 2, Paragraphs 2 and 3 of the act on special public finance support and assistance to deal with the Great East Japan Earthquake. (A total of 227 organizations in 11 prefectures, including, 33 organizations within Iwate Prefecture, 35 organizations within Miyagi prefecture, and 59 organizations within Fukushima prefecture.)
**Financial Status of Businesses of Local Public Enterprises of Disaster-Struck Organizations**

Total revenues and expenditures of local public enterprises of disaster-struck organizations amounted to a surplus of ¥76.3 billion, increasing by ¥51.6 billion year on year, or 208.4%. There were 848 businesses with surpluses, or 90.5% of all businesses, while 89 businesses had deficits, or 9.5%.

![Bar chart showing financial status of businesses](chart.png)

**Settlements by Businesses of Local Public Enterprises of Disaster-Struck Organizations**

![Bar chart showing settlements by businesses](chart2.png)
Overview of the Act on Assurance of Sound Financial Status of Local Governments

A number of drawbacks were pointed out with the conventional system of financial reconstruction of local governments, including the lack of a legal obligation to disclose comprehensible financial information and of rules for early warning. In response, the Act on Assurance of Sound Financial Status of Local Governments was enacted and has been in force since April 2009. The act establishes new indexes and requires local governments to disclose them thoroughly, aiming to quickly achieve financial soundness or rebuild.

Outline of the Act on Assurance of Sound Financial Status of Local Governments

**Sound stage**
- Establishment of indexes and thorough disclosure
  - Flow indexes: Real deficit ratio, consolidated real deficit ratio, real debt service ratio
  - Stock indexes: Future burden ratio = indexes by real liabilities, including public enterprises, third-sector enterprises, etc.
  - Subject to auditor inspection, reported to the council and publicly announced

**Early financial soundness restoring stage**
- Restoring financial soundness through their own efforts
  - Formulation of financial plans (approval by the council), mandatory requests for external auditing
  - Report on progress of implementation to the council and public announcement every fiscal year
  - If the early achievement of financial soundness is deemed to be significantly difficult, the Minister for Internal Affairs and Communications or the prefectural governor makes necessary recommendations

**Financial rebuilding stage**
- Solid rebuilding through involvement of the central government, etc.
  - Formulation of financial rebuilding plans (approval by the council), mandatory requests for external auditing
  - Agreement on the financial rebuilding plan can be sought through consultation with the Minister for Internal Affairs and Communications
  - If financial management is deemed not to conform with the plan, the Minister for Internal Affairs and Communications makes necessary recommendations, such as budget changes

Financial soundness of public enterprise

<table>
<thead>
<tr>
<th></th>
<th>Prefectures</th>
<th>Municipalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real deficit ratio</td>
<td>3.75%</td>
<td>11.25% ~ 15%</td>
</tr>
<tr>
<td>Consolidated real deficit ratio</td>
<td>8.75%</td>
<td>16.25% ~ 20%</td>
</tr>
<tr>
<td>Real debt service ratio</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Future burden ratio</td>
<td>Prefectures, Government-ordinance-designated city: 400%</td>
<td>Municipalities: 350%</td>
</tr>
<tr>
<td>Finance shortfall ratio (for each public enterprise)</td>
<td>20%</td>
<td></td>
</tr>
</tbody>
</table>

Public announcement of indexes began with FY2007 settlement of accounts. Obligatory formulation of financial soundness plan was applied as of FY2008 settlement of accounts.

※ The real deficit ratio and consolidated real deficit ratio standards for Tokyo were set separately from the general municipalities ratios.
Promotion of the Financial Soundness of Local Public Finance

**Targets of the Ratio for Determining Financial Soundness**

(Previous Reconstruction Law)  
- Local governments  
- General account  
- Special accounts  
- Of this, public enterprise accounts  
- Public enterprise accounts  

(Act on Act on Assurance of Sound Financial Status of Local Governments)  
- Real deficit ratio  
- Consolidated real deficit ratio  
- Real debt service ratio  
- Future burden ratio

* Calculated for each public enterprise account

Partial administrative associations, wide-area local public bodies

Local public corporations, third-sector enterprises, etc.

2 Status of the Ratios for Determining Financial Soundness

**Real Deficit Ratio**

The following graph shows the trend in the number of local governments with a real deficit. Based on FY2012 account settlements, there were no local governments with a real deficit (i.e., with a real deficit ratio that exceeds 0%) among municipalities.

![Graph showing the trend in the number of local governments with a real deficit from FY2007 to FY2012.](image)

Real deficit ratio = \( \frac{\text{Real deficit amount of real account, etc.}}{\text{Standard financial scale}} \)

The real deficit ratio is an index of the deficit level of the general account, etc. of local governments offering welfare, education, community-building, and other services, and represents the extent to which financial administration has worsened.

*Calculated for each public enterprise account*
Consolidated Real Deficit Ratio

The following graph shows the trend in the number of local governments with a consolidated real deficit.

Based on FY2012 account settlements, there were seven local governments with a consolidated real deficit (i.e., with a consolidated real deficit ratio that exceeds 0%) among municipalities. Of those local governments, none had a consolidated real deficit ratio that equals or exceeds the early financial soundness restoring standard.

Real Debt Service Ratio

The following graph shows the trend in the number of local governments with a real debt service ratio equal to or exceeding 18%.

Based on FY2012 account settlements, there was one local government with a real debt service ratio equal to or exceeding the financial rebuilding standard.
Future Burden Ratio

The following graph shows the trend in the number of local governments with a future burden ratio equal to or exceeding the early financial soundness restoring standard. Based on FY2012 account settlements, there were two local governments with a future burden ratio equal to or exceeding the early financial soundness restoring standard.

Financial Shortfall Ratio

The following graph shows the trend in the number of local public enterprises with a financial shortfall. Based on FY2012 account settlements, there were 69 local public enterprises with a financial shortfall (i.e., with a financial shortfall ratio that exceeds 0%) among municipalities. Of these, 20 local public enterprises had a financial shortfall ratio that equals or exceeds the management soundness standard.