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1 “Net totals of the revenues and expenditures” in this document are the ordinary net account totals of 3,014 organizations (47 prefectures, 1,718 municipalities, 23 special wards, 1,160 partial administrative associations and 113 wide-area local public bodies).
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 were 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 nationwide disaster prevention 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 document describes the status of local public finance (which comprises collectively the finances of individual local governments), the state of settlements for FY2021, and the initiatives of local governments towards sound public finances (mainly the status of the ratios for measuring their financial soundness), 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, but classification of these accounts varies between local governments. Therefore, the accounts are classified in a standardized manner into 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

<table>
<thead>
<tr>
<th>Ordinary accounts</th>
<th>General administrative sector accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>School education</td>
<td>Welfare</td>
</tr>
<tr>
<td>Roads</td>
<td>Fire service</td>
</tr>
<tr>
<td>Etc.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other accounts (Public business accounts)</th>
<th>Public enterprise accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>National health insurance accounts</td>
<td>Water supply</td>
</tr>
<tr>
<td>Latter-stage elderly medical care accounts</td>
<td>Transportation</td>
</tr>
<tr>
<td>Nursing care insurance accounts</td>
<td>Electrical power</td>
</tr>
<tr>
<td></td>
<td>Gas</td>
</tr>
<tr>
<td></td>
<td>Hospitals</td>
</tr>
<tr>
<td></td>
<td>Sewerage systems</td>
</tr>
<tr>
<td></td>
<td>Residential land development</td>
</tr>
<tr>
<td></td>
<td>Etc.</td>
</tr>
</tbody>
</table>

White Paper on Local Public Finance, 2023
How large is local public finance?

The ratio of expenditure by local governments in gross domestic product (nominal) is 11.7%, about 2.4 times that of the central government.

Gross Domestic Product (Expenditure, nominal) and Local Public Finance (FY2021)
How large is local government expenditure in total public expenditure?

Looking at the breakdown of public expenditure classified by final expenditure entity, local government expenditure accounts for 41.6% of Government final consumption expenditure, and 50.4% of Public gross capital formation. As a final expenditure entity, local governments above the central government and play a major role for the national economy.
In which areas is the share of local expenditures high?

The below graph shows central and local governments’ expenditures by purpose as a share of net total expenditure, classified by final expenditure entity. The share of local governments’ expenditures is higher in areas that are deeply related to daily life, such as public welfare, sanitation, and school education.

Share of Expenditures by Purpose of Central and Local Governments (final expenditure based)
1 Revenues

¥128,291.1 billion (down ¥1,756.2 billion, 1.4% year on year)

- Regular portion ¥127,143.1 billion (down ¥1,045.2 billion, 0.8% year on year)
- Great East Japan Earthquake portion ¥1,148.0 billion (down ¥710.9 billion, 38.2% year on year)

The decrease of revenues in the regular portion resulted from a decrease in National treasury disbursements, Loan principal interests, etc.

The decrease in revenues in the Great East Japan Earthquake portion resulted from a decrease in General revenue resources, transfer, etc.

2 Expenditures

¥123,367.7 billion (down 2,091.1 billion, 1.7% year on year)

- Regular portion ¥122,400.0 billion (down 1,538.5 billion, 1.2% year on year)
- Great East Japan Earthquake portion ¥967.7 billion (down ¥552.6 billion, 36.4% year on year)

The decrease of expenditure in the regular portion resulted from a decrease in Subsidizing Expenses, Loans, etc.

The decrease in expenditures in the Great East Japan Earthquake portion resulted from a decrease in Ordinary construction work expenses, recovery and reconstruction expenses, etc.

3 Revenue and Expenditure Settlement

The real balance showed a surplus of ¥3,248.8 billion.

<table>
<thead>
<tr>
<th>Category</th>
<th>Account Settlement</th>
<th>No. of local governments with a deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY2021</td>
<td>FY2020</td>
</tr>
<tr>
<td>Real balance</td>
<td>¥3,248.8 billion</td>
<td>¥2,727.4 billion</td>
</tr>
<tr>
<td>Single year balance</td>
<td>¥521.8 billion</td>
<td>¥568.0 billion</td>
</tr>
<tr>
<td>Real single year balance</td>
<td>¥2,200.4 billion</td>
<td>¥248.5 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 year on year.

5 Major Financial Indices

Ordinary balance ratio declined 5.7 percentage points year on year, to 88.1%.
Real debt service ratio declined 0.2 percentage points year on year, to 7.6%.

<table>
<thead>
<tr>
<th>Category</th>
<th>FY2021</th>
<th>FY2020</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary balance ratio</td>
<td>88.1%</td>
<td>93.8%</td>
<td>▲5.7</td>
</tr>
<tr>
<td>Real debt service ratio</td>
<td>7.6%</td>
<td>7.8%</td>
<td>▲0.2</td>
</tr>
</tbody>
</table>

6 Outstanding Borrowing Borne by Ordinary Accounts

Outstanding borrowing, which includes Outstanding public enterprise bonds (borne by ordinary accounts) and Outstanding borrowing borne by the special accounts for Local allocation tax (borne by local governments) in addition to Outstanding local government bonds, amounted to ¥190,954.6 billion (down ¥1,408.2 billion, 0.7% year on year).

<table>
<thead>
<tr>
<th>Category</th>
<th>FY2021</th>
<th>FY2020</th>
<th>Change amount</th>
<th>Change rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding local government bonds</td>
<td>¥144,581.0 billion</td>
<td>¥144,606.2 billion</td>
<td>▲¥25.2 billion</td>
<td>▲0.0%</td>
</tr>
<tr>
<td>Outstanding local government bonds (bonds for the extraordinary financial measures)</td>
<td>¥54,107.4 billion</td>
<td>¥53,615.6 billion</td>
<td>¥491.8 billion</td>
<td>0.9%</td>
</tr>
<tr>
<td>Outstanding public enterprise bonds (borne by ordinary accounts)</td>
<td>¥16,261.3 billion</td>
<td>¥16,794.3 billion</td>
<td>▲¥533.0 billion</td>
<td>▲3.2%</td>
</tr>
<tr>
<td>Outstanding borrowing borne by the special accounts for Local allocation tax (borne by local governments)</td>
<td>¥30,112.3 billion</td>
<td>¥30,962.3 billion</td>
<td>▲¥850.0 billion</td>
<td>▲2.7%</td>
</tr>
<tr>
<td>Total</td>
<td>¥190,954.6 billion</td>
<td>¥192,362.8 billion</td>
<td>▲¥1,408.2 billion</td>
<td>▲0.7%</td>
</tr>
</tbody>
</table>
What are the revenue sources for local governments’ activities?

### Revenue Breakdown

The revenue of local governments consists mainly of Local taxes, National treasury disbursements, Local allocation tax, 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. General revenue resources accounted for 50.5%.

#### Composition of Revenues (FY2021 settlement)

- **Other revenue resources** ¥19,658.8 billion (15.3%)
- **General revenue resources** ¥64,815.3 billion (50.5%)
- **Local bonds** ¥11,745.4 billion (9.2%)
- **Bonds for the extraordinary financial measures** ¥4,421.3 billion (3.4%)
- **National treasury disbursements** ¥32,071.6 billion (25.0%)

---

### Local Bonds

- **Local bonds** ¥6,542.4 billion (9.6%)
  - **Local transfer tax** ¥1,998.9 billion (32.9%)
  - **Special local grants, etc** ¥195.9 billion (10.1%)
  - **Local allocation tax** ¥10,210.4 billion (14.9%)

### National Treasury Disbursements

- **National treasury disbursements** ¥16,205.1 billion (23.7%)
  - **Other general revenue resources** ¥0.5 billion (0.1%)
  - **General revenue resources** ¥34,513.2 billion (50.5%)
  - **Local bonds** ¥6,542.4 billion (9.6%)

### Prefectures

- **Prefectural disbursements** ¥5,226.7 billion (7.8%)
  - **Bonds for the extraordinary financial measures** ¥294.5 billion (5.2%)
  - **Local transfer tax** ¥2,141.9 billion (40.7%)
  - **Local allocation tax** ¥12,230.4 billion (7.4%)

### Municipalities

- **Municipal disbursements** ¥70,502.6 billion
  - **Bonds for the extraordinary financial measures** ¥234.5 billion (0.3%)
  - **Local transfer tax** ¥995.4 billion (1.4%)
  - **Local allocation tax** ¥3,798.4 billion (5.4%)

---

Note: "National treasury disbursements" includes "special grants to measures for traffic safety" and "grants to cities, towns and villages where national institutions are located."
2 Revenues in Regular Portion and Great East Japan Earthquake Portion

**Net Total**

- **Local bonds**: ¥11,717.0 billion (9.2%)
- **Other revenue resources**: ¥19,099.9 billion (15.1%)
- **General revenue resources**: ¥64,648.5 billion (50.8%)
- **National treasury disbursements**: ¥31,677.7 billion (24.9%)
  - Ordinary construction expenses: ¥2,242.0 billion (1.8%)
  - Recovery and reconstruction expenses: ¥331.8 billion (0.3%)
- **Great East Japan Earthquake portion**: ¥1,148.0 billion
  - Ordinary construction expenses: ¥71.2 billion (6.2%)
  - Recovery and reconstruction expenses: ¥96.4 billion (8.4%)
- **Regular portion**: ¥127,143.1 billion
  - Ordinary construction expenses: ¥49.8 billion (4.3%)
  - Recovery and reconstruction expenses: ¥71.2 billion (5.7%)

**Prefectures**

- **Local bonds**: ¥6,534.2 billion (9.7%)
- **Other revenue resources**: ¥10,715.4 billion (15.8%)
- **General revenue resources**: ¥34,453.3 billion (50.9%)
- **National treasury disbursements**: ¥15,951.6 billion (23.6%)
  - Ordinary construction expenses: ¥1,494.0 billion (2.2%)
  - Recovery and reconstruction expenses: ¥234.2 billion (0.3%)
- **Great East Japan Earthquake portion**: ¥669.8 billion
  - Ordinary construction expenses: ¥52.1 billion (7.8%)
  - Recovery and reconstruction expenses: ¥52.1 billion (7.8%)
- **Regular portion**: ¥67,654.5 billion
  - Ordinary construction expenses: ¥26.0 billion (3.9%)
  - Recovery and reconstruction expenses: ¥52.1 billion (7.8%)

**Municipalities**

- **Local bonds**: ¥5,205.7 billion (7.4%)
- **Other revenue resources**: ¥10,490.2 billion (15.0%)
- **General revenue resources**: ¥106.9 billion (19.8%)
- **National treasury disbursements**: ¥118.9 billion (22.1%)
  - Ordinary construction expenses: ¥70.2 billion (13.0%)
  - Recovery and reconstruction expenses: ¥71.2 billion (13.0%)
- **Great East Japan Earthquake portion**: ¥538.7 billion
  - Ordinary construction expenses: ¥23.8 billion (4.4%)
  - Recovery and reconstruction expenses: ¥19.1 billion (3.5%)
- **Regular portion**: ¥69,964.0 billion
  - Ordinary construction expenses: ¥118.9 billion (22.1%)
  - Recovery and reconstruction expenses: ¥71.2 billion (13.0%)

**Note**: “National treasury disbursements” includes “grants to cities, towns and villages where national institutions are located” and excludes “special grants to measures for traffic safety.”
### 3 Revenue Trends

The ratio of general revenue resources turned upward year on year.

#### FY2011
- **General revenue resources**: ¥11.8 trillion (11.8%)
- **National treasury disbursements**: ¥5.9 trillion (5.9%)
- **Other revenue resources**: ¥2.2 trillion (2.2%)
- **Net Total**: ¥19.9 trillion (20.0%)

#### FY2017
- **General revenue resources**: ¥10.1 trillion (62.4%)
- **National treasury disbursements**: ¥3.9 trillion (2.4%)
- **Other revenue resources**: ¥0.4 trillion (0.4%)
- **Net Total**: ¥14.4 trillion (88.1%)

#### FY2018
- **General revenue resources**: ¥9.8 trillion (50.3%)
- **National treasury disbursements**: ¥3.5 trillion (1.9%)
- **Other revenue resources**: ¥0.2 trillion (0.2%)
- **Net Total**: ¥13.5 trillion (73.4%)

#### FY2019
- **General revenue resources**: ¥9.5 trillion (51.2%)
- **National treasury disbursements**: ¥3.3 trillion (1.7%)
- **Other revenue resources**: ¥0.2 trillion (0.2%)
- **Net Total**: ¥13.0 trillion (74.2%)

#### FY2020
- **General revenue resources**: ¥9.2 trillion (50.1%)
- **National treasury disbursements**: ¥3.1 trillion (1.7%)
- **Other revenue resources**: ¥0.1 trillion (0.1%)
- **Net Total**: ¥12.4 trillion (73.9%)

#### FY2021
- **General revenue resources**: ¥9.0 trillion (50.0%)
- **National treasury disbursements**: ¥2.9 trillion (1.6%)
- **Other revenue resources**: ¥0.1 trillion (0.1%)
- **Net Total**: ¥12.0 trillion (73.7%)

[ ] shows general revenue resources + bonds for the extraordinary financial measures.

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

---

**Net Total**

<table>
<thead>
<tr>
<th>Year</th>
<th>¥100.1 trillion</th>
<th>¥101.3 trillion</th>
<th>¥103.2 trillion</th>
<th>¥130.0 trillion</th>
<th>¥128.3 trillion</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2011</td>
<td>¥11.8 trillion</td>
<td>¥5.9 trillion</td>
<td>¥2.2 trillion</td>
<td>¥0.4 trillion</td>
<td>¥19.9 trillion</td>
</tr>
<tr>
<td>FY2017</td>
<td>¥10.1 trillion</td>
<td>¥3.9 trillion</td>
<td>¥0.4 trillion</td>
<td>¥0.1 trillion</td>
<td>¥14.4 trillion</td>
</tr>
<tr>
<td>FY2018</td>
<td>¥9.8 trillion</td>
<td>¥3.5 trillion</td>
<td>¥0.2 trillion</td>
<td>¥0.2 trillion</td>
<td>¥13.5 trillion</td>
</tr>
<tr>
<td>FY2019</td>
<td>¥9.5 trillion</td>
<td>¥3.3 trillion</td>
<td>¥0.2 trillion</td>
<td>¥0.2 trillion</td>
<td>¥13.0 trillion</td>
</tr>
<tr>
<td>FY2020</td>
<td>¥9.2 trillion</td>
<td>¥3.1 trillion</td>
<td>¥0.1 trillion</td>
<td>¥0.1 trillion</td>
<td>¥12.4 trillion</td>
</tr>
<tr>
<td>FY2021</td>
<td>¥9.0 trillion</td>
<td>¥2.9 trillion</td>
<td>¥0.1 trillion</td>
<td>¥0.1 trillion</td>
<td>¥12.0 trillion</td>
</tr>
</tbody>
</table>

0 100 trillion yen
4 Ratio of National Taxes and Local Taxes

The total of taxes collected as national and local taxes amounted to ¥114,290.0 billion. Of this amount, national and local taxes accounted for 62.9% and 37.1% respectively.

5 Local taxes

Local taxes consist of prefectural taxes and municipal taxes.

 Composition of Revenue from Prefectural Taxes (FY2021 settlement)

- Prefectural inhabitant tax ¥5,665.8 billion (28.0%)
  - On interest paid ¥26.0 billion (0.1%)
  - Individual ¥5,028.2 billion (25.3%)
  - Corporate ¥511.7 billion (2.6%)
- Enterprise tax ¥4,967.3 billion (25.0%)
  - Corporate ¥4,742.8 billion (23.8%)
  - Individual ¥224.5 billion (1.1%)
- Other taxes ¥108.5 billion (0.5%)
- Prefectural tobacco tax ¥1,614.0 billion (8.1%)
- Real estate acquisition tax ¥926.5 billion (4.7%)
- Light oil delivery tax ¥392.1 billion (2.0%)
- Automobile tax ¥1,614.0 billion (8.1%)
- Local consumption tax ¥6,170.3 billion (31.0%)

 Total ¥19,886.8 billion

 Composition of Revenue from Municipal Taxes (FY2021 settlement)

- Municipal inhabitant tax ¥10,287.9 billion (45.7%)
  - Individual ¥8,331.5 billion (37.0%)
  - Corporate ¥1,956.4 billion (8.7%)
- Other taxes ¥715.3 billion (3.1%)
- Municipal tobacco tax ¥711.1 billion (3.9%)
- City planning tax ¥1,325.7 billion (5.9%)
- Fixed asset tax ¥9,322.1 billion (41.4%)

 Total ¥22,522.1 billion

Note: Municipal taxes collected by the Tokyo Metropolitan Government are included in municipal tax revenue figures, but not included in prefectural tax revenue figures.
Prefectural tax revenues increased 8.3% year on year.

Trends in Prefectural Tax Revenues

Municipal tax revenues increased 0.3% year on year.

Trends in Municipal Tax Revenues

Note: Municipal tax revenue figures include municipal taxes collected by the Tokyo Metropolitan Government.
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 2.3 times the amount for Nagasaki Prefecture, which was the lowest.

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

<table>
<thead>
<tr>
<th>Prefecture</th>
<th>Local taxes total (¥41.4 trillion)</th>
<th>Individual inhabitant tax (¥12.8 trillion)</th>
<th>Two corporate taxes (¥6.4 trillion)</th>
<th>Local consumption tax (¥6.2 trillion)</th>
<th>Fixed asset tax (¥9.3 trillion)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Max/Min 2.3</td>
<td>Max/Min 2.5</td>
<td>Max/Min 5.9</td>
<td>Max/Min 1.2</td>
<td>Max/Min 2.3</td>
</tr>
<tr>
<td>Hokkaido</td>
<td>86.4</td>
<td>61.3</td>
<td>69.7</td>
<td>106.2</td>
<td>77.8</td>
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<td>Aomori</td>
<td>74.7</td>
<td>67.6</td>
<td>59.0</td>
<td>100.7</td>
<td>74.8</td>
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<td>Akita</td>
<td>83.1</td>
<td>72.4</td>
<td>64.1</td>
<td>102.5</td>
<td>75.5</td>
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<tr>
<td>Shimane</td>
<td>79.3</td>
<td>87.4</td>
<td>50.5</td>
<td>102.8</td>
<td>78.0</td>
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<td>Niigata</td>
<td>74.3</td>
<td>65.5</td>
<td>60.6</td>
<td>104.7</td>
<td>72.5</td>
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<td>Yamagata</td>
<td>79.3</td>
<td>72.7</td>
<td>63.6</td>
<td>104.4</td>
<td>75.5</td>
</tr>
<tr>
<td>Toyama</td>
<td>92.4</td>
<td>78.8</td>
<td>86.8</td>
<td>107.7</td>
<td>74.9</td>
</tr>
<tr>
<td>Ibaraki</td>
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<td>82.2</td>
<td>97.8</td>
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</tr>
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<td>Tochigi</td>
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<td>Gunma</td>
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<td>103.5</td>
<td>86.5</td>
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<td>Saitama</td>
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<td>60.1</td>
<td>101.9</td>
<td>95.9</td>
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<td>Chiba</td>
<td>163.6</td>
<td>107.0</td>
<td>64.4</td>
<td>95.9</td>
<td>91.3</td>
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<td>Tokyo</td>
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<td>123.9</td>
<td>73.3</td>
<td>103.2</td>
<td>158.7</td>
</tr>
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<td>Kanagawa</td>
<td>86.9</td>
<td>110.0</td>
<td>71.0</td>
<td>103.6</td>
<td>100.0</td>
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<td>Okayama</td>
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<td>Gifu</td>
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<td>92.5</td>
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<td>100.6</td>
<td>90.7</td>
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Notes:
1. "Max/Min 2.3" 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, not including the amount of special corporation business transfer tax, and exclude overassessment and discretionary taxes, etc.
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 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 (excluding special corporation business transfer tax) and excludes overassessment, etc.
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 January 1, 2022.
Local Allocation Tax

From the perspective of local autonomy, it would be 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 (33.1% for Income tax and Corporate tax, 50% for Liquor tax, 19.5% for Consumption tax, and the total amount of Local corporate tax).

The total amount of the Local allocation tax in FY2021 was ¥19,504.9 billion, up 14.8% 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 by the following formula.

\[
\text{Regular allocation tax amount} = \frac{\text{Standard financial requirements}}{\text{Standard financial revenues}} \times \text{Unit cost} \times \text{Measurement unit (national census population, etc.)} \times \text{Correction coefficient (gradated correction, etc.)} - \text{Standard financial requirements} \times \text{Calculation rate (75%)} + \text{Local transfer tax, etc.}
\]

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.
What are expenses spent on?

1 Expenses Classified by Purpose

Classifying the expenses by purpose demonstrates that much of public money is appropriated for Public welfare expenses, Education expenses, and Commerce and industry expenses. In prefectures, Commerce and industry expenses, Education expenses, and Public welfare expenses have the highest shares in that order. In municipalities, Public welfare expenses, General administrative expenses, and Educational expenses account for the largest amounts in that order.
Expenditures in Regular Portion and Great East Japan Earthquake Portion (Expenses Classified by Purpose)

**Net total**

- **Public welfare**: ¥31,272.7 billion (25.5%)
  - Of this amount, disaster relief expenses were ¥18.8 billion (0.0%)
- **Education**: ¥17,764.3 billion (14.5%)
- **Debt service**: ¥12,592.3 billion (10.3%)
- ** Commerce and industry**: ¥14,857.8 billion (12.1%)
- **Sanitation**: ¥11,313.8 billion (9.2%)
- **Agriculture, forestry and fishery**: ¥3,197.7 billion (2.6%)
- **Disaster recovery**: ¥613.7 billion (0.5%)
- **Other**: ¥6,103.6 billion (5.2%)

**Great East Japan Earthquake portion**

- **Public welfare**: ¥40.3 billion (4.2%)
  - Of this amount, disaster relief expenses were ¥30.0 billion (3.1%)
- **Education**: ¥25.3 billion (2.6%)
- **Debt service**: ¥72.7 billion (7.5%)
- **Commerce and industry**: ¥122.5 billion (12.7%)
- **Sanitation**: ¥61.3 billion (6.3%)
- **Agriculture, forestry and fishery**: ¥106.7 billion (11.0%)
- **Disaster recovery**: ¥92.6 billion (9.6%)
- **Other**: ¥12.8 billion (1.3%)

**Regular portion**

- **Public welfare**: ¥12,265.3 billion (10.0%)
- **Education**: ¥17,764.3 billion (14.5%)
- **Debt service**: ¥12,592.3 billion (10.3%)
- **Commerce and industry**: ¥14,857.8 billion (12.1%)
- **Sanitation**: ¥11,313.8 billion (9.2%)
- **Agriculture, forestry and fishery**: ¥3,197.7 billion (2.6%)
- **Disaster recovery**: ¥613.7 billion (0.5%)
- **Other**: ¥6,103.6 billion (5.2%)

**Prefectures**

- **Public welfare**: ¥9,299.4 billion (14.1%)
  - Of this amount, disaster relief expenses were ¥12.2 billion (0.0%)
- **Education**: ¥7,654.7 billion (11.4%)
- **Debt service**: ¥7,025.7 billion (10.7%)
- **Commerce and industry**: ¥11,994.5 billion (18.2%)
- **Sanitation**: ¥5,140.5 billion (7.8%)
- **Agriculture, forestry and fishery**: ¥2,358.6 billion (3.6%)
- **Disaster recovery**: ¥377.4 billion (0.6%)
- **Other**: ¥8,171.0 billion (13.3%)

**Municipalities**

- **Public welfare**: ¥25,522.5 billion (38.0%)
  - Of this amount, disaster relief expenses were ¥9.2 billion (0.0%)
- **Education**: ¥10,254.4 billion (15.6%)
- **Debt service**: ¥7,025.7 billion (10.7%)
- **Commerce and industry**: ¥11,994.5 billion (18.2%)
- **Sanitation**: ¥5,140.5 billion (7.8%)
- **Agriculture, forestry and fishery**: ¥2,358.6 billion (3.6%)
- **Disaster recovery**: ¥377.4 billion (0.6%)
- **Other**: ¥8,171.0 billion (13.3%)
### Trends in Expenditures Classified by Purpose

General administration expenses for FY2021 dropped significantly. The recent trend shows increases in Public welfare, Education.

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| Local Public Finance, 2023 –Illustrated–
Expenditures

### Breakdown of Public Welfare Expenses by Purpose

- **Net total**: ¥31,313.0 billion
  - **Prefectures**: ¥9,339.8 billion
  - **Municipalities**: ¥25,559.2 billion

### Breakdown of Educational Expenses by Purpose

- **Net total**: ¥17,789.6 billion
  - **Prefectures**: ¥10,268.5 billion
  - **Municipalities**: ¥7,667.6 billion

### Breakdown of Civil Engineering Work Expenses by Purpose

- **Net total**: ¥12,685.8 billion
  - **Prefectures**: ¥6,310.5 billion
  - **Municipalities**: ¥6,549.6 billion

---

**Legend**
- Disaster relief
- Public assistance
- Child welfare
- Elderly welfare
- Social welfare
- Other
- Educational general affairs
- Health and physical education
- Social education
- Senior high school
- Junior high school
- Elementary school
- Other
- Housing
- City planning
- Harbors
- Rivers and coasts
- Road and bridges

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*White Paper on Local Public Finance, 2023*
What are expenses used for?

### Expenses Classified by Type

Expenses are also classified, according to their economic nature, into "Mandatory expenses" (consisting of Personnel expenses, Social 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, Reserves, Transfers to other accounts).

#### Composition of Expenditures Classified by Type (FY2021 settlement)

- **Mandatory expenses**
  - Personnel
  - Social assistance
  - Debt service

- **Investment expenses**
  - Ordinary construction work
  - Subsidized public works
  - Non-subsidized public works

- **Other expenses**
  - Transfers to other accounts
  - Reserves
  - Subsidizing
  - Goods

#### Net total

- ¥123,367.7 billion

#### Prefectures total

- ¥66,324.2 billion

#### Municipalities total

- ¥67,579.4 billion

#### Local Public Finance, 2023 –Illustrated–
Expenditures

5 Expenditures in Regular Portion and Great East Japan Earthquake Portion (Expenses Classified by Type)

Net total

- **Other** ¥14,480.4 billion (11.7%)
- **Reserves** ¥5,325.9 billion (4.4%)
- **Subsidizing** ¥20,645.1 billion (16.9%)
- **Goods** ¥12,315.4 billion (10.1%)

Mandatory expenses ¥54,107.5 billion (44.2%)
- **Personnel** ¥22,991.0 billion (18.8%)
- **Social assistance** ¥18,552.7 billion (15.2%)
- **Debt service** ¥12,563.8 billion (10.3%)

Investment expenses ¥15,525.7 billion (12.7%)
- **Ordinary construction work** ¥14,912.1 billion (12.2%)
- **Disaster recovery project** ¥613.6 billion (0.5%)

Subsidizing ¥20,645.1 billion (16.9%)
- **Reserves** ¥5,325.9 billion (4.4%)
- **Other** ¥14,480.4 billion (11.7%)

Great East Japan Earthquake portion ¥967.7 billion
- **Personnel** ¥16.3 billion (0.2%)
- **Social assistance** ¥2.8 billion (0.0%)
- **Debt service** ¥72.3 billion (7.5%)

Investment expenses ¥483.4 billion (49.9%)
- **Ordinary construction work** ¥390.7 billion (40.4%)
- **Disaster recovery project** ¥92.6 billion (9.6%)

Mandatory expenses ¥91.4 billion (9.4%)
- **Personnel** ¥9.5 billion (1.6%)
- **Social assistance** ¥1.2 billion (0.2%)
- **Debt service** ¥15.3 billion (2.6%)

Investment expenses ¥191.1 billion (41.5%)
- **Ordinary construction work** ¥156.4 billion (34.0%)
- **Disaster recovery project** ¥34.7 billion (7.5%)

Prefectures

- **Other** ¥6,901.9 billion (10.6%)
- **Reserves** ¥2,390.9 billion (3.6%)
- **Subsidizing** ¥24,792.1 billion (37.7%)
- **Goods** ¥2,767.9 billion (4.2%)

Mandatory expenses ¥20,601.8 billion (31.3%)
- **Personnel** ¥12,391.7 billion (18.9%)
- **Social assistance** ¥1,206.8 billion (1.8%)
- **Debt service** ¥7,003.4 billion (10.7%)

Investment expenses ¥8,281.6 billion (12.6%)
- **Ordinary construction work** ¥7,904.2 billion (12.0%)
- **Disaster recovery project** ¥377.4 billion (0.6%)

Subsidizing ¥110.4 billion (17.7%)
- **Reserves** ¥42.1 billion (6.6%)
- **Other** ¥67.3 billion (10.1%)

Goods ¥25.3 billion (4.3%)
- **Subsidizing** ¥104.0 billion (17.7%)
- **Reserves** ¥42.1 billion (7.2%)
- **Other** ¥87.2 billion (14.8%)

Municipalities

- **Other** ¥7,604.3 billion (11.3%)
- **Reserves** ¥2,935.0 billion (4.4%)
- **Subsidizing** ¥5,587.8 billion (8.3%)
- **Goods** ¥9,547.4 billion (14.2%)

Mandatory expenses ¥33,531.7 billion (50.0%)
- **Personnel** ¥10,599.3 billion (15.8%)
- **Social assistance** ¥17,346.0 billion (25.8%)
- **Debt service** ¥5,560.4 billion (8.3%)

Investment expenses ¥7,912.7 billion (11.8%)
- **Ordinary construction work** ¥7,603.3 billion (11.3%)
- **Disaster recovery project** ¥306.4 billion (0.5%)

Subsidizing ¥74.4 billion (16.1%)
- **Reserves** ¥8.1 billion (1.7%)
- **Other** ¥8.1 billion (1.7%)

Goods ¥35.8 billion (7.8%)
- **Subsidizing** ¥74.4 billion (16.1%)
- **Reserves** ¥8.1 billion (1.7%)
- **Other** ¥8.1 billion (1.7%)

Net total

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Investment expenses ¥7,912.7 billion (11.8%)
- **Ordinary construction work** ¥7,603.3 billion (11.3%)
- **Disaster recovery project** ¥306.4 billion (0.5%)

Subsidizing ¥74.4 billion (16.1%)
- **Reserves** ¥8.1 billion (1.7%)
- **Other** ¥8.1 billion (1.7%)

Goods ¥35.8 billion (7.8%)
- **Subsidizing** ¥74.4 billion (16.1%)
- **Reserves** ¥8.1 billion (1.7%)
- **Other** ¥8.1 billion (1.7%)
Trends in Expenditures Classified by Type

Subsidizing expenses for FY2021 decreased. The recent trend shows increases in Social assistance and Goods.

Trends in Breakdown of Social Assistance Expenses by Purpose


- Personnel
- Social assistance
- Debt service
- Investment expenses
- Goods
- Subsidizing
- Transfers to other accounts
- Other

Local Public Finance, 2023 –Illustrated–

20
Personnel expenses in FY2021 decreased by 0.1% year-on-year due to a decrease in employee salaries.
Ordinary construction work expenses in FY2021 decreased 3.6% year on year due to decreased Non-subsidized public works, etc. In addition, Civil Engineering Work Expenses account for the largest ratio in the breakdown of Ordinary construction work expenses by purpose.

**Breakdown of Ordinary Construction Work Expenses by Purpose**

- **Net total**: ¥15,302.8 billion
  - ¥839.0 billion (5.5%)
  - ¥2,144.0 billion (14.0%)
  - ¥510.7 billion (6.3%)
  - ¥5,062.2 billion (62.1%)
  - ¥3,211.3 billion (41.4%)
  - ¥1,683.5 billion (11.0%)
  - ¥1,491.6 billion (18.3%)
  - ¥455.4 billion (5.9%)
- **Prefectures**: ¥8,148.1 billion
  - ¥839.0 billion (10.2%)
  - ¥3,752.2 billion (46.3%)
  - ¥530.7 billion (6.5%)
  - ¥1,431.2 billion (17.4%)
  - ¥1,065.4 billion (13.1%)
  - ¥250.2 billion (3.1%)
  - ¥150.9 billion (1.9%)
- **Municipalities**: ¥7,762.7 billion
  - ¥1,504.7 billion (19.6%)
  - ¥4,316.9 billion (56.0%)
  - ¥5,062.2 billion (62.1%)
  - ¥1,647.8 billion (21.2%)
  - ¥510.7 billion (6.3%)
  - ¥427.4 billion (5.5%)
  - ¥834.6 billion (10.8%)
  - ¥352.1 billion (4.3%)

**Ordinary construction work expenses in FY2021 decreased 3.6% year on year due to decreased Non-subsidized public works, etc. In addition, Civil Engineering Work Expenses account for the largest ratio in the breakdown of Ordinary construction work expenses by purpose.**
Flexibility of the Financial Structure

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 for the expenses for projects to properly address challenges caused by changes in the social economy and administrative needs so that they can adequately meet the needs of their residents. The extent to which the resources for such purposes are secured is called the "flexibility of the financial structure."

1 Ordinary Balance Ratio

The FY2021 Ordinary balance ratio dropped 5.7 points year-on-year to 88.1%, turning below 90%.

Trends in the Ordinary Balance Ratio

Breakdown of Ordinary Balance Ratio (Total)
Flexibility of the Financial Structure

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 measure the extent of the burden of the Debt service.

Trends in the Real Debt Service Ratio

![Chart showing trends in the Real Debt Service Ratio]

*Real debt service ratio: The real debt service ratio is an index of the size of the redemption amount of debts (local bonds) and similar expenditure, and represents the cash-flow level.

Trends in the Debt Service Payment Ratio

![Chart showing 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 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 measure the flexibility of the financial structure by assessing the degree to which Debt service restricts the freedom of use of General revenue resources.
What is the status of debt in local public finance?

1 Trends in Outstanding Local Government Bonds and Debt Burden

Real future financial burden resulting from outstanding local government bonds and debt burden amounted to ¥136,937.2 billion at the end of FY2021, decreased 1.8% year on year. Out of this, outstanding local government bonds amounted to ¥144,581.0 billion, decreased 0.0% year on year, due to decreased in outstanding local road improvement businesses bonds.

![Graph showing trends in outstanding local government bonds and debt burden](image)

Notes: Debt burden is the amount scheduled to be expended in the following fiscal years.

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 ¥190,954.6 billion at the end of FY2021.

![Graph showing trends in outstanding borrowing borne by the Ordinary Accounts](image)
Future Financial Burden

3 Trends in Reserves on hand

Reserves on hand at the end of FY2021 was ¥25,808.3 billion, an increase of ¥6,216.1 billion from the end of FY2011.

Note: Reserves on hand do not include the amount of reserves for Sinking fund to be appropriated for principal and interest for local government bonds to be redeemed in full on maturity.
What is the status of local public enterprises?

Roles Played by Local Public Enterprises
Local public enterprises play a major role in improving the standard of living of residents.

![Chart showing the scale of financial settlement by type of business.]

- Hospitals: ¥6,095.8 billion (33.9%)
- Water supply business (including small-scale water supply): ¥5,459.3 billion (30.6%)
- Sewerage business: ¥3,972.6 billion (22.4%)
- Other: ¥1,970.8 billion (11.2%)

Current water-supply population:
- Out of 123.82 million: 123.29 million (99.6%)

Sewerage disposal population:
- Out of 116.21 million: 105.05 million (90.4%)

No. of passengers per year:
- Out of 18,805 million: 1,936.0 million (10.3%)

No. of passengers per year:
- Out of 3,467 million: 690.0 million (19.9%)

No. of hospital beds:
- Out of 1,500,000: 202,000 (13.5%)

Number of Businesses Operated by Local Public Enterprises
8,108 businesses are operated by local public enterprises. By type of business, sewerage accounts for the largest ratio, followed, in order, by water supply, hospitals, care services, and residential development.

Scale of Financial Settlement
The scale of total financial settlement is ¥17,976.6 billion. By type of business, hospital accounts for the largest ratio, followed, in order, by sewerage business, water supply business, transportation, and residential development.
Local public enterprises had a surplus of ¥1,019.2 billion. By type of businesses, water supply, industrial-use water, electricity, gas, hospitals and sewerage business showed a surplus.
Response to COVID-19

Expenses related to the response to COVID-19

Net totals of the revenues and expenditures in the ordinary net account totals of local governments in fiscal year 2021 showed decrease from the previous fiscal year due to termination of the Special Cash Payments program and other factors, among which the net total expenditure of the response to COVID-19 amounted ¥21,100.9 billion, 17.7% decrease year on year.

Expenditures: ¥21.1 trillion
(Major businesses)
- Compensation payment for co-operating with a voluntary government scheme: ¥5.4 trillion
- Financing system loans: ¥4.5 trillion
- Special benefit of livelihood support for child-rearing households program: ¥2.8 trillion
- Support to secure sickbeds: ¥2.0 trillion
- Vaccination program: ¥1.5 trillion, etc.

(Breakdown)
- National treasury disbursements: ¥15.0 trillion
  - Special grant for regional revitalization
  - Emergency comprehensive aid special grant, etc.
  - Subsidy for Special benefit of livelihood support for child-rearing households program, etc.
- Local bond: ¥0.2 trillion
  - Loan principal interests, etc.: ¥5.0 trillion
- General revenue resources: ¥0.9 trillion

<Expenditure breakdown by category>

<table>
<thead>
<tr>
<th>Category</th>
<th>Net total expenditure (billion yen)</th>
<th>Prefectures</th>
<th>Municipalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandatory expense</td>
<td></td>
<td>3,252.3</td>
<td>15.4</td>
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<tr>
<td>Personnel expenses</td>
<td></td>
<td>95.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Social assistance expenditure</td>
<td></td>
<td>3,149.3</td>
<td>14.9</td>
</tr>
<tr>
<td>Investment expenses (Ordinary construction expenses)</td>
<td></td>
<td>376.3</td>
<td>1.8</td>
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<tr>
<td>Other expenses</td>
<td></td>
<td>17,472.2</td>
<td>82.8</td>
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<tr>
<td>Goods</td>
<td></td>
<td>2,686.0</td>
<td>12.7</td>
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<tr>
<td>Subsidizing</td>
<td></td>
<td>10,197.9</td>
<td>48.3</td>
</tr>
<tr>
<td>Reserves</td>
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<td>30.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Loans</td>
<td></td>
<td>4,482.0</td>
<td>21.2</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>21,100.9</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<Revenue resources>

<table>
<thead>
<tr>
<th>Category</th>
<th>Net total expenditure (billion yen)</th>
<th>Prefectures</th>
<th>Municipalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>National treasury disbursements</td>
<td>15,035.0</td>
<td>9,765.4</td>
<td>66.7</td>
</tr>
<tr>
<td>Prefectural disbursements</td>
<td></td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>local bonds</td>
<td></td>
<td>151.6</td>
<td>0.7</td>
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<tr>
<td>Other revenue resources</td>
<td></td>
<td>5,044.5</td>
<td>23.9</td>
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<tr>
<td>General revenue resources</td>
<td></td>
<td>869.8</td>
<td>4.1</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>21,100.9</td>
<td>100.0</td>
</tr>
</tbody>
</table>
1 Settlement of Disaster-Struck Organizations

1. Specified Disaster-Struck Prefectures

The total revenues of the nine specified disaster-struck prefectures amounted to ¥11,961.6 billion, increasing by ¥513.0 billion year on year, or 4.5% (10.4% national increase). Total expenditures of the entities amounted to ¥11,586.4 billion, increasing by ¥646.5 billion year on year, or 5.9% (11.1% national increase).

*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

The total revenues of the 227 municipalities designated as specified disaster-struck municipalities amounted to ¥8,235.7 billion, decreasing by ¥1,278.5 billion year on year, or 13.4% (9.7% national decrease). Total expenditures of the entities amounted to ¥7,804.7 billion, decreasing by ¥1,279.0 billion year on year, or 14.1% (10.6% national decrease).

*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.)

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### Revenues and expenditures of Specified Disaster-Struck Municipalities

#### <Current revenues and expenditures of Specified Disaster-Struck Municipalities> (billion yen, %)

<table>
<thead>
<tr>
<th>Category</th>
<th>FY2021</th>
<th>FY2020</th>
<th>Comparison (Reference) Nationwide</th>
<th>Change amount</th>
<th>Change rate</th>
<th>Change rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>11,961.6</td>
<td>11,448.6</td>
<td></td>
<td>513.0</td>
<td>4.5</td>
<td>10.4</td>
</tr>
<tr>
<td>Expenditures</td>
<td>11,586.4</td>
<td>10,939.9</td>
<td></td>
<td>646.5</td>
<td>5.9</td>
<td>11.1</td>
</tr>
</tbody>
</table>

#### <Current revenues and expenditures of Specified Disaster-Struck Municipalities> (billion yen, %)

<table>
<thead>
<tr>
<th>Category</th>
<th>FY2021</th>
<th>FY2020</th>
<th>Comparison (Reference) Nationwide</th>
<th>Change amount</th>
<th>Change rate</th>
<th>Change rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>8,235.7</td>
<td>9,514.2</td>
<td>▲1,278.5 ▲13.4 ▲9.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditures</td>
<td>7,804.7</td>
<td>9,083.8</td>
<td>▲1,279.0 ▲14.1 ▲10.6</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2 Financial Status of Businesses of Local Public Enterprises in Disaster-Struck Organizations

Total revenues and expenditures of local enterprises of disaster-struck organizations amounted to a surplus of ¥138.9 billion, an increase of ¥38.6 billion year on year, or 38.5%. There were 794 businesses with surpluses, or 90.0% of all businesses, while 88 businesses had deficits, or 10.0%.

Local enterprises of disaster-struck organizations: Nine 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, and 178 municipalities stipulated in Appendix Table 1 of the Japanese government ordinance 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 (including some labor unions joined by the above bodies).
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

<table>
<thead>
<tr>
<th>Local governments that do not meet Early financial soundness restoring standard</th>
<th>Early financial soundness restoration (Financial soundness restoring organizations)</th>
<th>Financial rebuilding (Financial rebuilding organization)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Establishment of indexes and thorough disclosure</strong></td>
<td><strong>Establishment of indexes and thorough disclosure</strong></td>
<td><strong>Establishment of indexes and thorough disclosure</strong></td>
</tr>
<tr>
<td>Flow indexes:</td>
<td>Flow indexes:</td>
<td>Flow indexes:</td>
</tr>
<tr>
<td>Real deficit ratio</td>
<td>Ratio of real deficit in General account against the standard financial scale</td>
<td>Ratio of real deficit which will be paid from General account, including deficit related to local public corporations and other corporations receiving indemnity</td>
</tr>
<tr>
<td>Consolidated real deficit ratio</td>
<td>Ratio of real deficit and deficit of funds in all accounts including public enterprise accounts against the standard financial scale</td>
<td>Ratio of redemption of principal and interest and quasi-redemption of principal and interest paid from General account against the amount based on the standard financial scale</td>
</tr>
<tr>
<td>Future burden ratio</td>
<td>Ratio of real deficit against the business scale</td>
<td>Ratio of real deficit which will be paid from General account, including deficit related to local public corporations and other corporations receiving indemnity</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Public enterprise that do not meet Management soundness standard</th>
<th>Financial soundness of public enterprise (Financial rebuilding organization)</th>
<th>Financial rebuilding (Financial rebuilding organization)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Establishment of indexes and thorough disclosure</strong></td>
<td><strong>Establishment of indexes and thorough disclosure</strong></td>
<td><strong>Establishment of indexes and thorough disclosure</strong></td>
</tr>
<tr>
<td>Flow indexes:</td>
<td>Flow indexes:</td>
<td>Flow indexes:</td>
</tr>
<tr>
<td>Real deficit ratio</td>
<td>Ratio of real deficit in General account against the standard financial scale</td>
<td>Ratio of real deficit which will be paid from General account, including deficit related to local public corporations and other corporations receiving indemnity</td>
</tr>
<tr>
<td>Consolidated real deficit ratio</td>
<td>Ratio of real deficit and deficit of funds in all accounts including public enterprise accounts against the standard financial scale</td>
<td>Ratio of redemption of principal and interest and quasi-redemption of principal and interest paid from General account against the amount based on the standard financial scale</td>
</tr>
<tr>
<td>Real debt service ratio</td>
<td>Ratio of redemption of principal and interest paid from General account against the amount based on the standard financial scale</td>
<td>Ratio of redemption of principal and interest paid from General account against the amount based on the standard financial scale</td>
</tr>
<tr>
<td>Finance shortfall ratio</td>
<td>Ratio of deficit of funds per public enterprise account against the business scale</td>
<td>Ratio of deficit of funds per public enterprise account against the business scale</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sound finance</th>
<th>Early financial soundness restoring standard</th>
<th>Financial rebuilding standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real deficit ratio</td>
<td>Prefectures: 3.75% Municipalities and special wards: 11.25% - 15%</td>
<td>Prefectures: 5% Municipalities and special wards: 20%</td>
</tr>
<tr>
<td>Consolidated real deficit ratio</td>
<td>Prefectures: 8.75% Municipalities and special wards: 16.25% - 20%</td>
<td>Prefectures: 15% Municipalities and special wards: 30%</td>
</tr>
<tr>
<td>Real debt service ratio</td>
<td>25%</td>
<td>35%</td>
</tr>
<tr>
<td>Future burden ratio</td>
<td>Prefectures, Government-ordinance-designated city: 400% Municipalities and special wards: 350%</td>
<td>Prefectures, Government-ordinance-designated city: 400% Municipalities and special wards: 350%</td>
</tr>
<tr>
<td>Finance shortfall ratio (for each public enterprise)</td>
<td>20%</td>
<td>Management soundness standard</td>
</tr>
</tbody>
</table>

| Financial rebuilding through involvement of the central government, etc. | Development of financial soundness plan (approval by the council) (Mandatory requests for external auditing in development) | Development of financial soundness plan (approval by the council) (Mandatory requests for external auditing in development) |
| Agreement on the financial rebuilding plan can be sought through consultation with the Minister for Internal Affairs and Communications [Without agreement] Issuance of local bond is limited, except for recovery and reconstruction [With agreement] Local bond whose maturity is within the period defined by the plan (rebuilding transfer special bond) can be issued as the shortage is transferred | Report on progress of implementation to the council and public announcement every fiscal year | Report on progress of implementation to the council and public announcement every fiscal year |
| If financial management is deemed not to conform with the plan, the Minister for Internal Affairs and Communications makes necessary recommendations | If the achievement of management soundness is deemed to be significantly difficult, the Minister for Internal Affairs and Communications or the prefectural governor makes necessary recommendations | If the achievement of management soundness is deemed to be significantly difficult, the Minister for Internal Affairs and Communications or the prefectural governor makes necessary recommendations |

*The real deficit ratio and consolidated real deficit ratio standards for Tokyo are set separately from the ratios shown here.*

*The Ratio for measuring financial soundness and finance shortfall ratio are evaluated by the audit committee and reported to the council and publicly announced.*
2 Status of the Ratios for Measuring Financial Soundness and Financial Shortfall Ratio

Real Deficit Ratio

The following graph shows the trend in the number of local governments with a real deficit. Based on FY2021 account settlements, no local municipal government has a real deficit (the real deficit ratio is greater than 0%).

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of local governments</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2007</td>
<td>24</td>
</tr>
<tr>
<td>FY2008</td>
<td>21</td>
</tr>
<tr>
<td>FY2009</td>
<td>19</td>
</tr>
<tr>
<td>FY2010</td>
<td>13</td>
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<tr>
<td>FY2011</td>
<td>8</td>
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<td>FY2012</td>
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<td>FY2013</td>
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<tr>
<td>FY2019</td>
<td>0</td>
</tr>
<tr>
<td>FY2020</td>
<td>0</td>
</tr>
<tr>
<td>FY2021</td>
<td>0</td>
</tr>
</tbody>
</table>

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.
Promotion of the Soundness of Local Public Finance

Consolidated Real Deficit Ratio

The following graph shows the trend in the number of local governments with a consolidated real deficit. Based on FY2021 account settlements, no local municipal government had a consolidated real deficit (i.e., a consolidated Real deficit ratio that exceeds 0%).

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 FY2021 account settlements, there was one local municipal government with a real debt service ratio equal to or exceeding Early financial rebuilding standard. This local municipal government equals to or exceeds the financial rebuilding standard. 

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**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 FY2021 account settlements, no local government with a Future burden ratio equal to or exceeding the Early financial soundness restoring standard.

The Future burden ratio is an index of the current outstanding balance of burden, including that of debts (local bonds) of the general account, etc. as well as other likely future payments, and represents the extent to which finances may be squeezed in the future. No Financial rebuilding standard is established for the Future burden ratio.

**Financial Shortfall Ratio**

The following graph shows the trend in the number of local public enterprises with a financial shortfall. Based on FY2021 account settlements, there were 44 local public enterprises with a financial shortfall (i.e., with a Financial shortfall ratio that exceeds 0%). Of these, 7 local public enterprises had a Financial shortfall ratio that equals or exceeds the Management soundness standard.

The Financial shortfall ratio is an index of the deficit of funds of public enterprises compared to the size of their income, which shows the size of business of local public enterprises, and represents the extent to which financial health has worsened.
Financial Management Division,
Local Public Finance Bureau,
Ministry of Internal Affairs and Communications
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