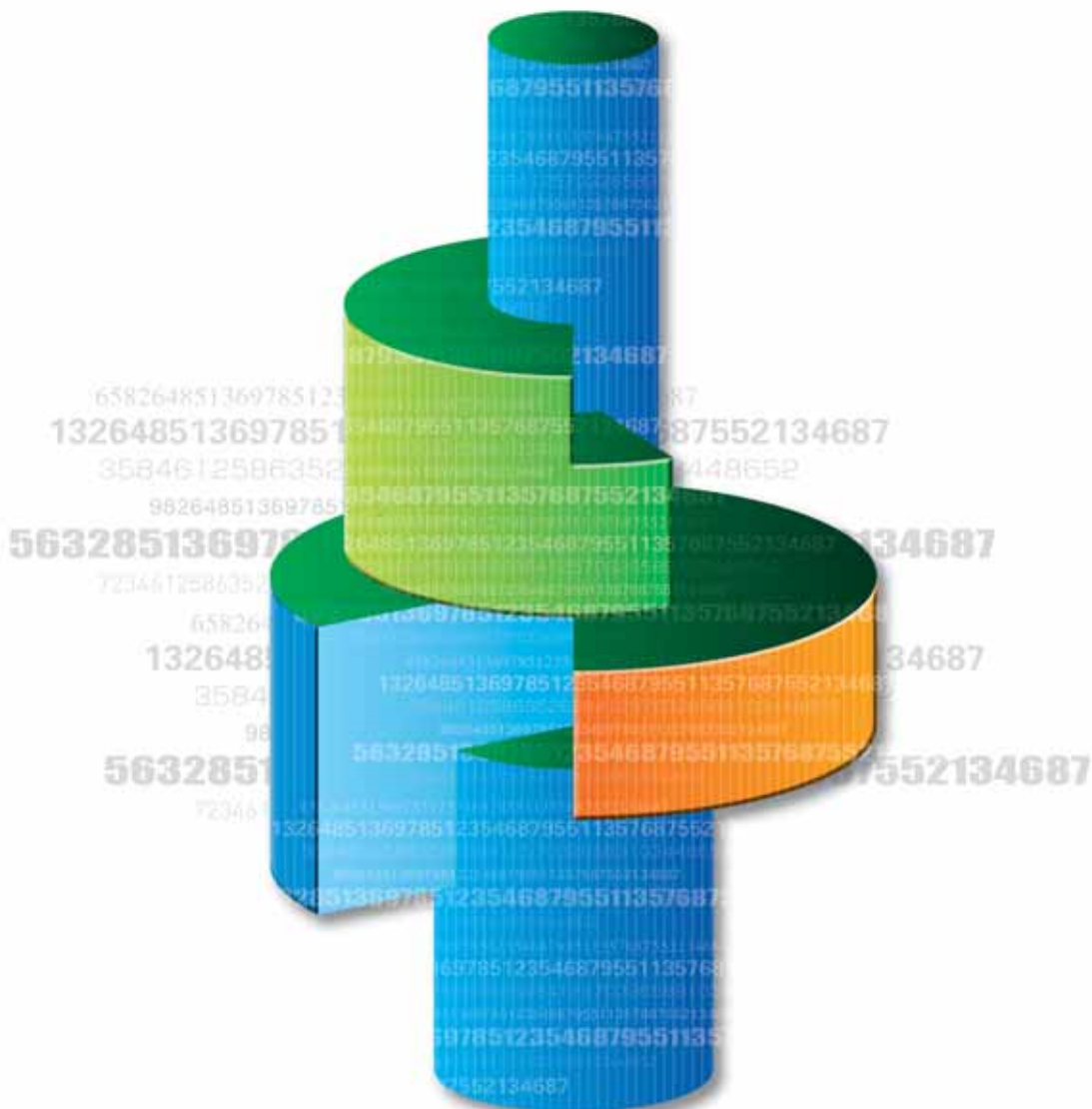


FY 2005 Settlement

# White Paper on Local Public Finance, 2007

— Illustrated —



Ministry of Internal Affairs  
and Communications



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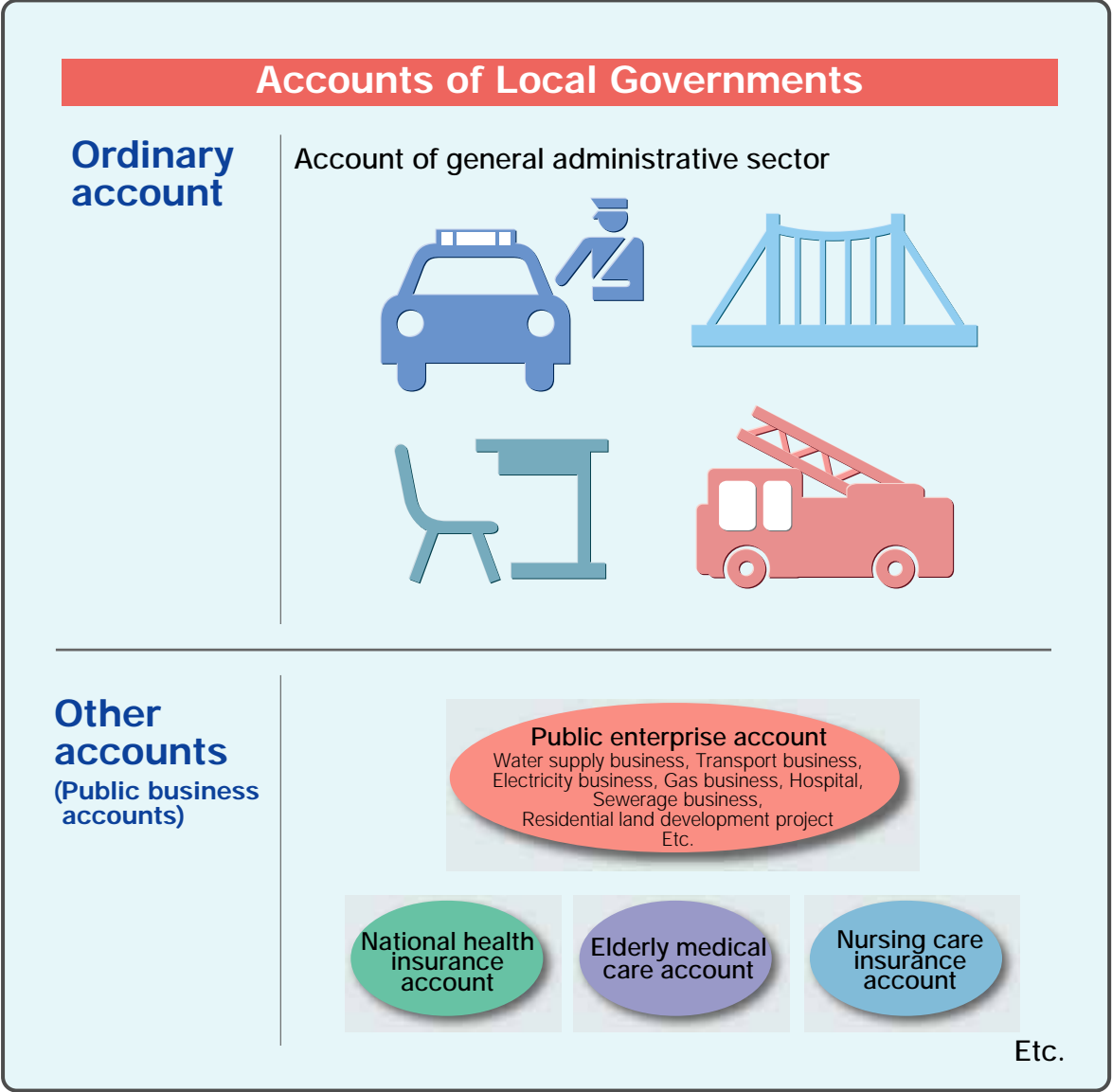
# The Role of Local Public Finance

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

This brochure will introduce the state of local public finance, which is an assemblage of the finances of individual local governments, with particular focus on the state of settlements for fiscal 2005 and efforts toward financial soundness of the local public entities centered on the ordinary account.

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

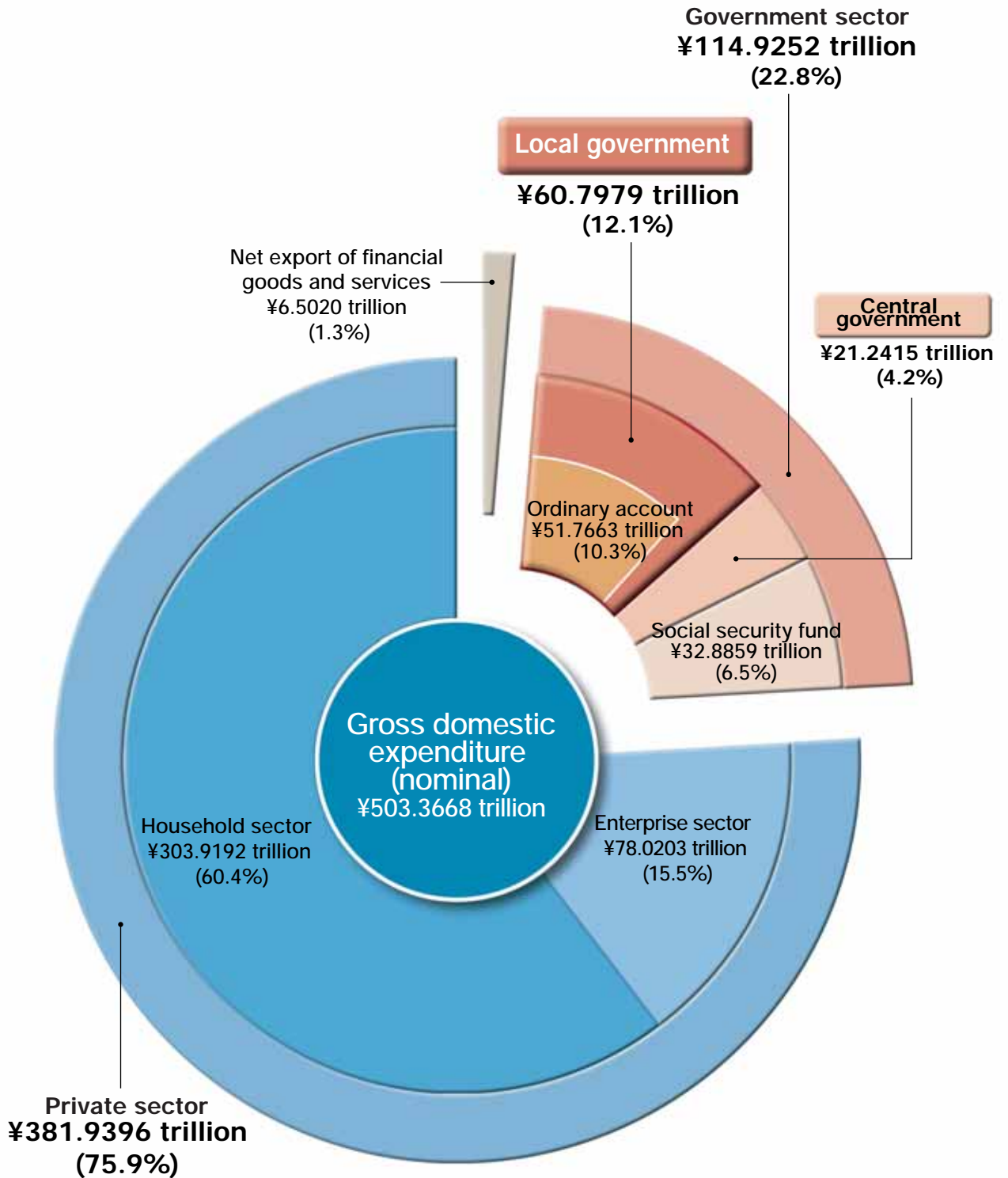
Although the accounts of local governments are divided into general accounts and special accounts, the account classification of each local government is not uniform. Therefore, we have adopted a uniform method in the settlement account statistics by classifying accounts as an ordinary account, which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



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

Looking at the scale of local public finance to gross domestic expenditure, we see that the ratio of the local government sector is 12.1%, which is about three times larger than the ratio of the central government.

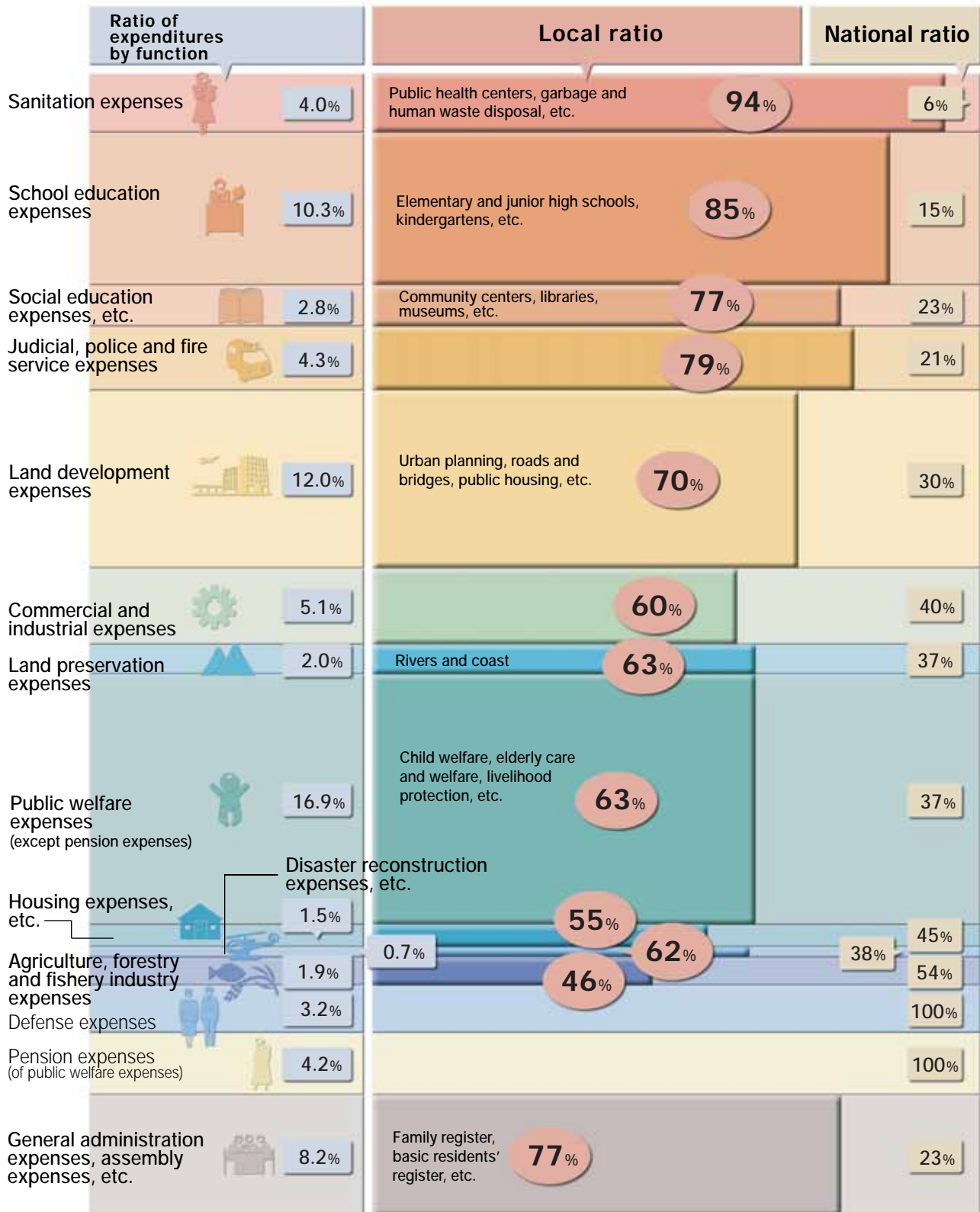
### Gross Domestic Expenditure and Local Public Finance



## In which fields are local expenditure ratios high?

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

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



# The State of Local Public Finance (FY2005 Settlement)

## Outline of FY 2005 Account Settlement

### 1. Decline in expenditure due to decreases in personnel expenses, ordinary construction expenses, etc.

Total expenditure declined for the sixth consecutive year to ¥90.6973 trillion.

Real expenditure, excluding special causes involving the Large Earthquake Rehabilitation Fund, amounted to ¥89.8004 trillion, a decline of approximately ¥1.1421 trillion.

The reasons for this decline were, among other things, decreases in personnel expenses (down ¥349 billion, or 1.4%, compared with the previous fiscal year) and ordinary construction expenses (down ¥1.2324 trillion, or 7.5%).

### 2. Decline in revenue

Total revenue declined for the sixth consecutive year to ¥92.9365 trillion.

While local tax revenue increased by ¥1.2656 trillion (up 3.8% over the previous fiscal year), national treasury disbursements (down 4.6%), local bonds (down 16.2%)\*, and so on declined.

\*Due to declines in emergency financial countermeasures bonds, ordinary construction expenses, etc.

### 3. Increase in number of deficit organizations

The number of organizations with a deficit in their real balances increased by 1 from fiscal 2004 to reach a total of 26 (2 prefectures [Hokkaido and Osaka] and 24 municipalities).

### 4. Financial structure remains highly rigid

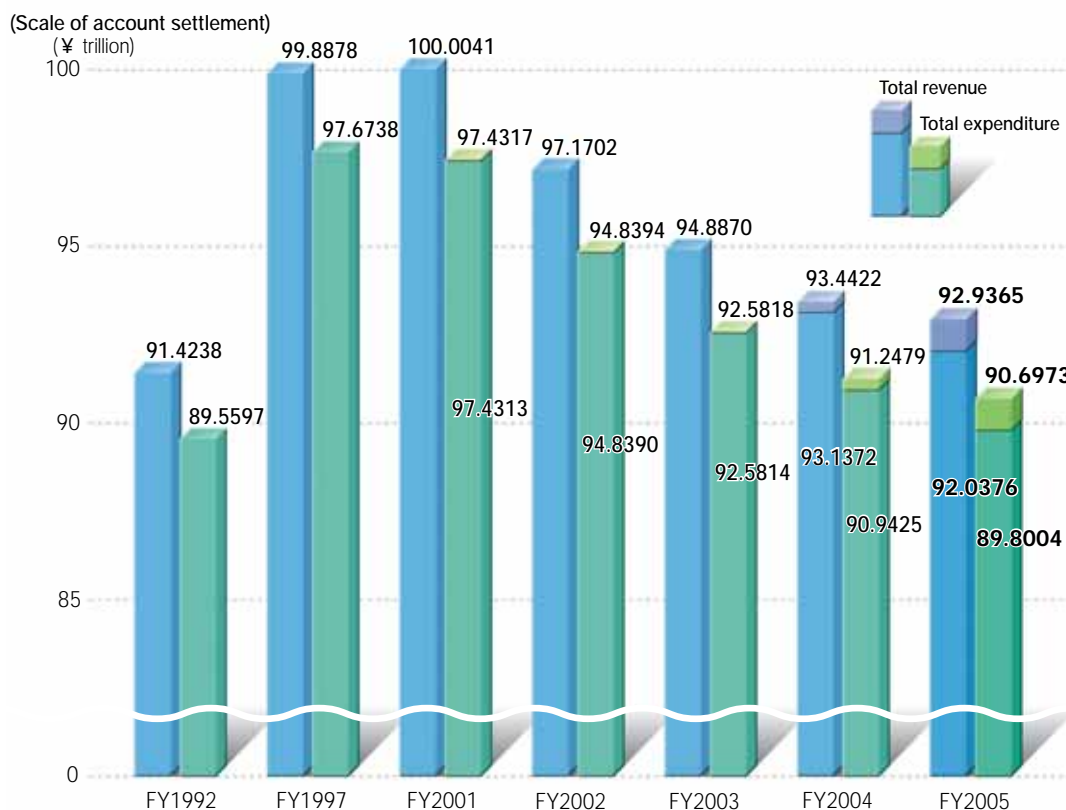
The ordinary balance ratio remained at a high level of 91.4%, almost the same as the previous fiscal year.

The debt service payment ratio (used for permission to issue local bonds) was 11.7%, the same as the previous fiscal year.

The amount of outstanding borrowing that should be shouldered by the ordinary account remained at a high level of approximately ¥201 trillion.

# Scale of Account Settlement

As a result of the fact that, on the revenue side, local bonds and national treasury disbursements declined and, on the expenditure side, personnel expenses, ordinary construction expenses, and so on declined, both revenue and expenditure decreased for the sixth consecutive year. Excluding special causes involving the Large Earthquake Rehabilitation Fund, revenue and expenditure declined from the previous fiscal year by ¥1.0996 trillion and ¥1.1421 trillion, respectively.



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

# Revenue and Expenditure Settlement

Although the real single fiscal year balance showed a surplus, the number of real balance deficit organizations increased.

Category	Settlement figure		No. of deficit organizations	
	FY 2005	FY 2004	FY 2005	FY 2004
Real single FY balance	¥429.2 billion	– ¥11.7 billion	923 (1,693)	1,528 (2,498)
Single FY balance	¥237.0 billion	¥127.6 billion	876 (1,644)	1,330 (2,288)
Real balance	¥1316.4 billion	¥1220.8 billion	26 (28)	25 (26)

Notes:

- Real single FY balance:** Calculated by adding reserves to the fiscal adjustment fund and advanced redemption of local loans to the single FY balance and subtracting the used part of the fiscal adjustment fund.  
**Single FY balance:** Calculated by subtracting the real balance of the previous fiscal year from the real balance of the fiscal year concerned.  
**Real balance:** Calculated by subtracting the revenue resources that should be carried over to the next fiscal year from the income-expenditure balance.
- The number of deficit organizations does not include partial administrative associations or wide-area local public bodies; the figures in parentheses are the number of organizations including partial administrative associations and wide-area local public bodies.
- The number of organizations with a real balance deficit excludes entities with a deficit resulting from discontinued settlement (entities with no income or expenditure in the account settlement period because of a merger, etc.).

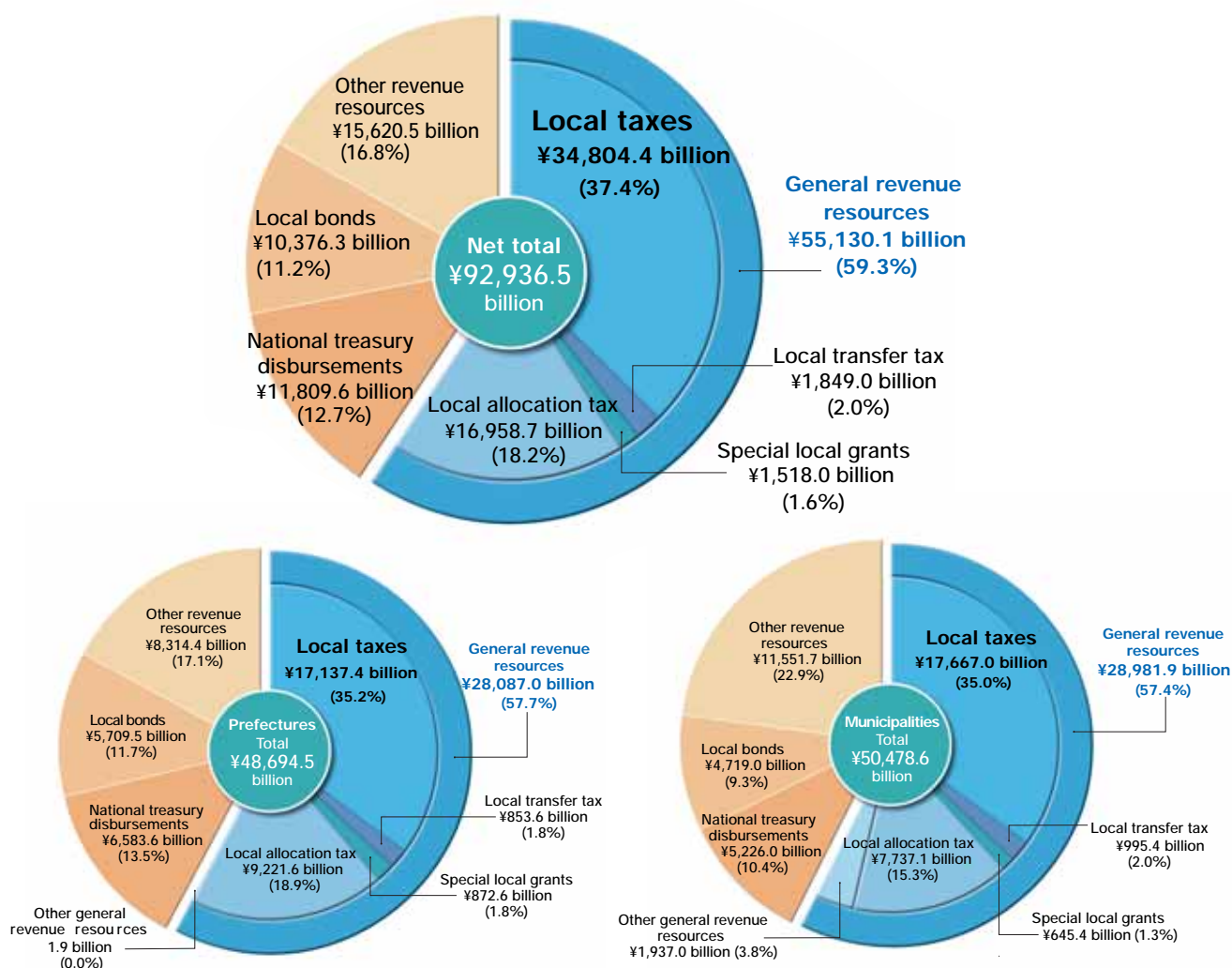
# Revenue

Where does the funds for local government activities come from?

## 1 Revenue Breakdown

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

### Revenue Breakdown (FY 2005 settlement)



### General Revenue Resources

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

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

**Special local grant** A revenue source with the character of a substitute for local taxes, introduced to supplement a part of the decrease of local tax caused by a tax cut since FY 1999 and grants from the central government to local governments as a result of a revision of national treasury subsidies.

**Local allocation tax** An intrinsic revenue source shared by local governments in order to adjust imbalances in tax revenue among local governments and to guarantee revenue sources so that local governments in whatever region can provide a certain level of administrative services. Calculated as a certain ratio of five national taxes. (See page 11 for details.)

**National treasury disbursements** A general name for funds disbursed from the central government to local governments for specified uses.

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

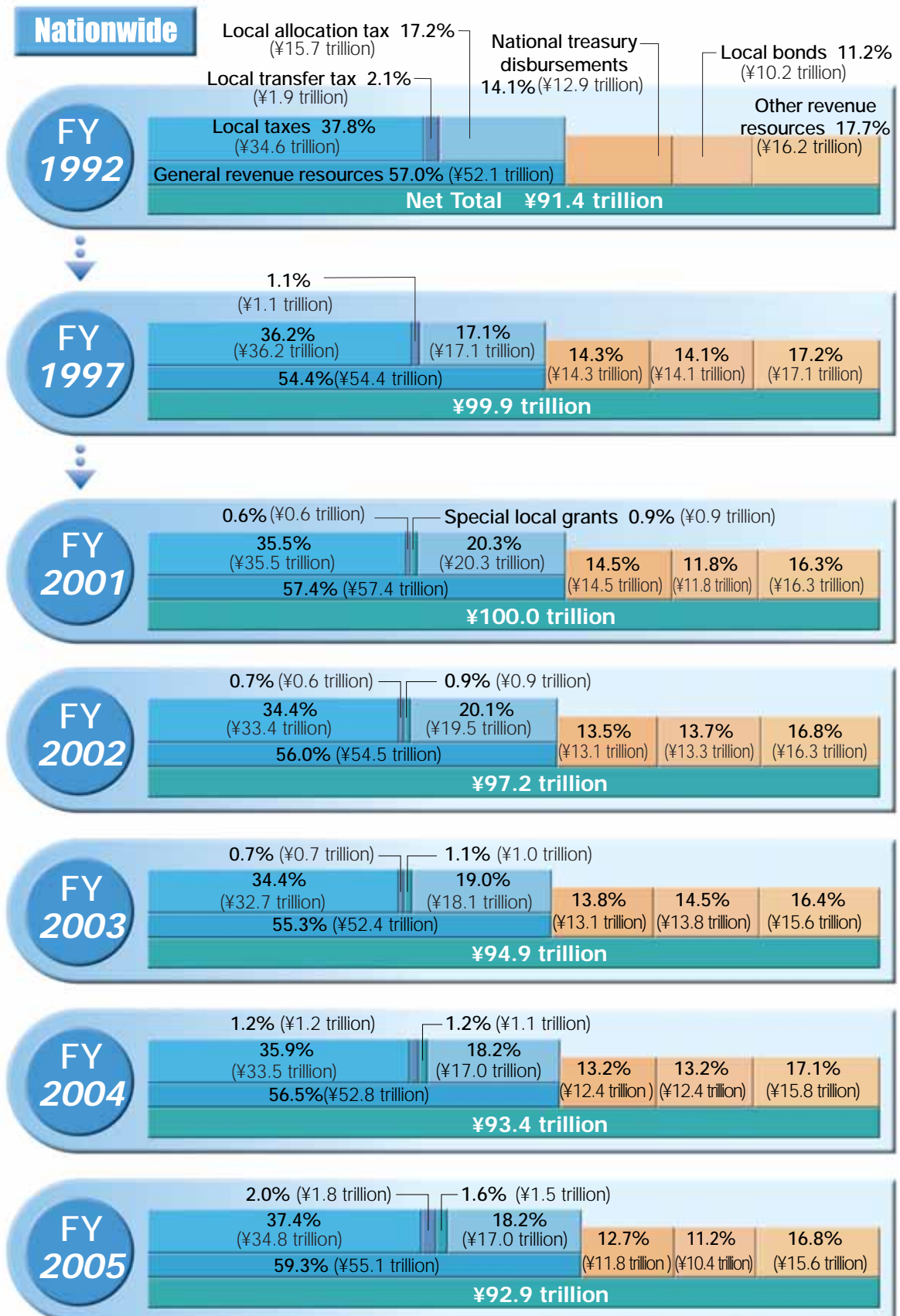
#### Notes:

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



## 2 Revenue Trends

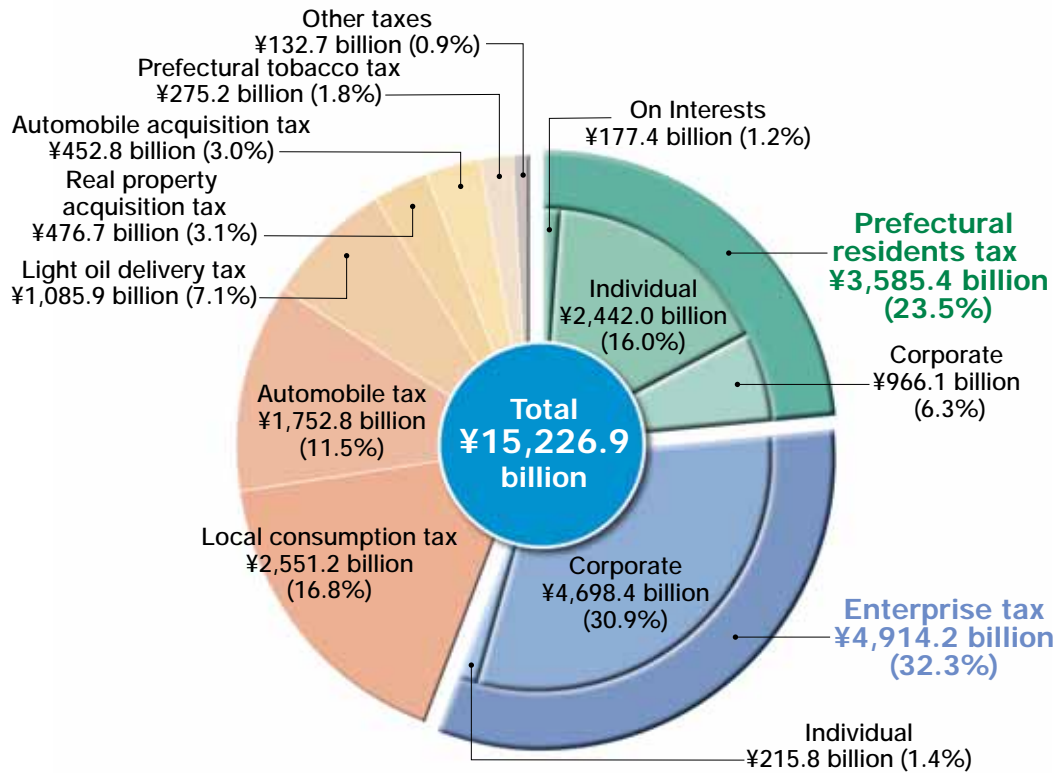
While the shares of local taxes, local transfer tax and special local grants to total revenue increased, the shares of local allocation tax, national treasury disbursements and local bonds are on a downward trend.



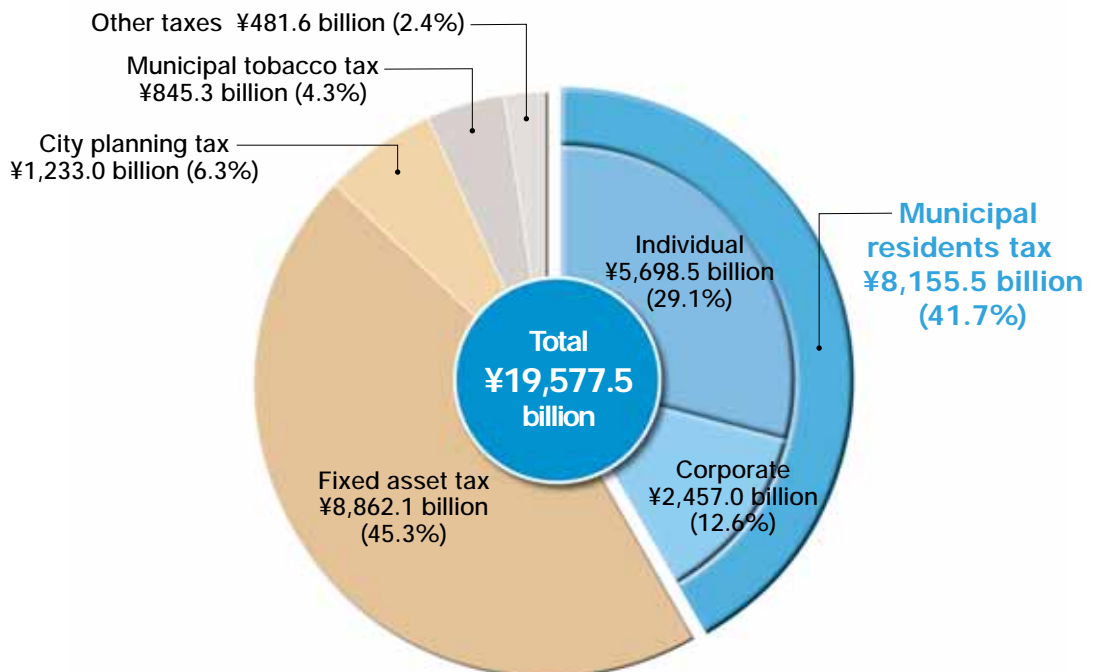
### 3 Local Taxes

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

#### Composition of Revenue from Prefectural Taxes (FY 2005 settlement)



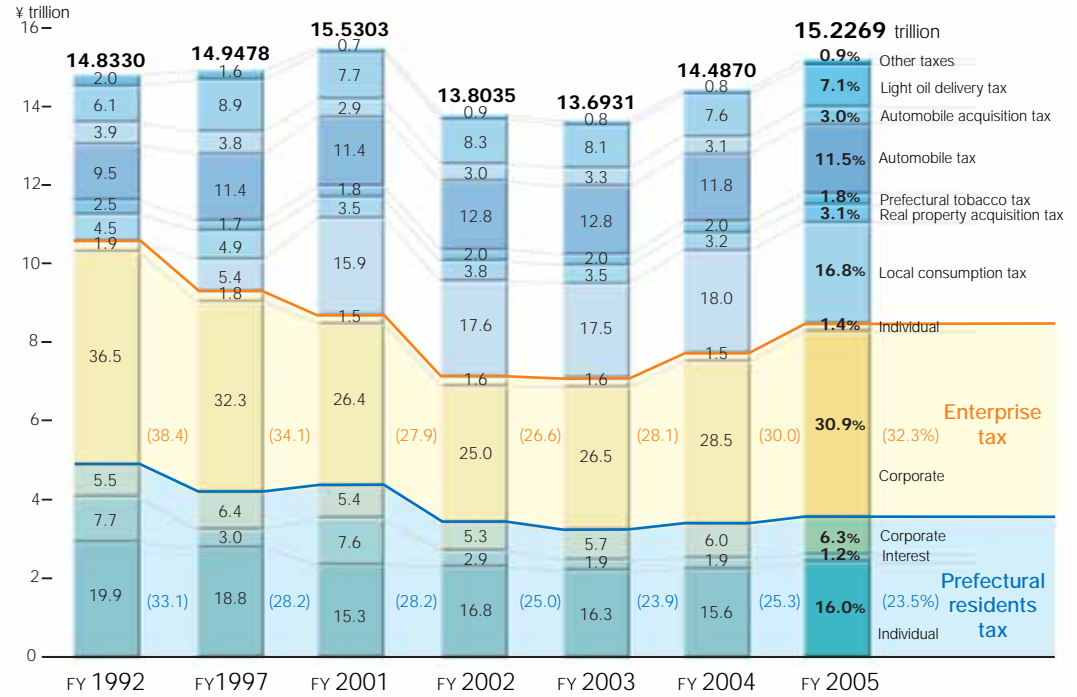
#### Composition of Revenue from Municipal Taxes (FY 2005 settlement)



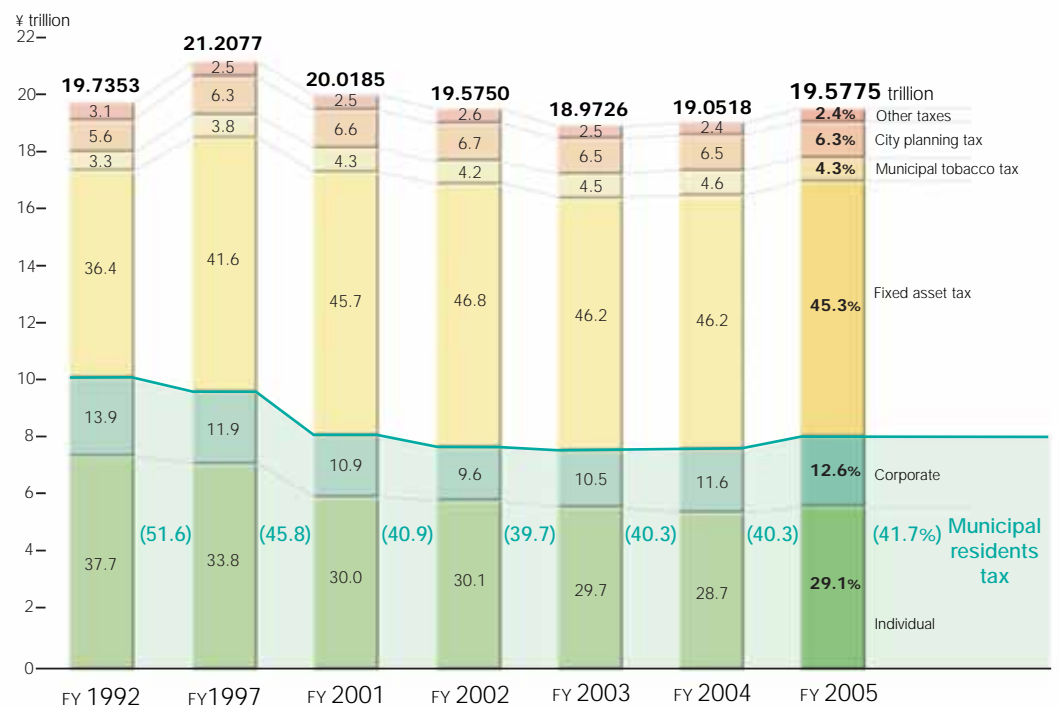
The municipal tax revenue figure includes municipal taxes collected by Metropolitan Tokyo.

Revenue from prefectural taxes, in which the share of the two corporate taxes (corporate business tax and corporate prefectural resident's tax) is high, increased for the second consecutive year due to such factors as buoyant corporate earnings. Furthermore, municipal tax revenue also rose for the second consecutive year due to such factors as an increase in municipal resident's tax.

### Prefectural Tax Revenue Trend



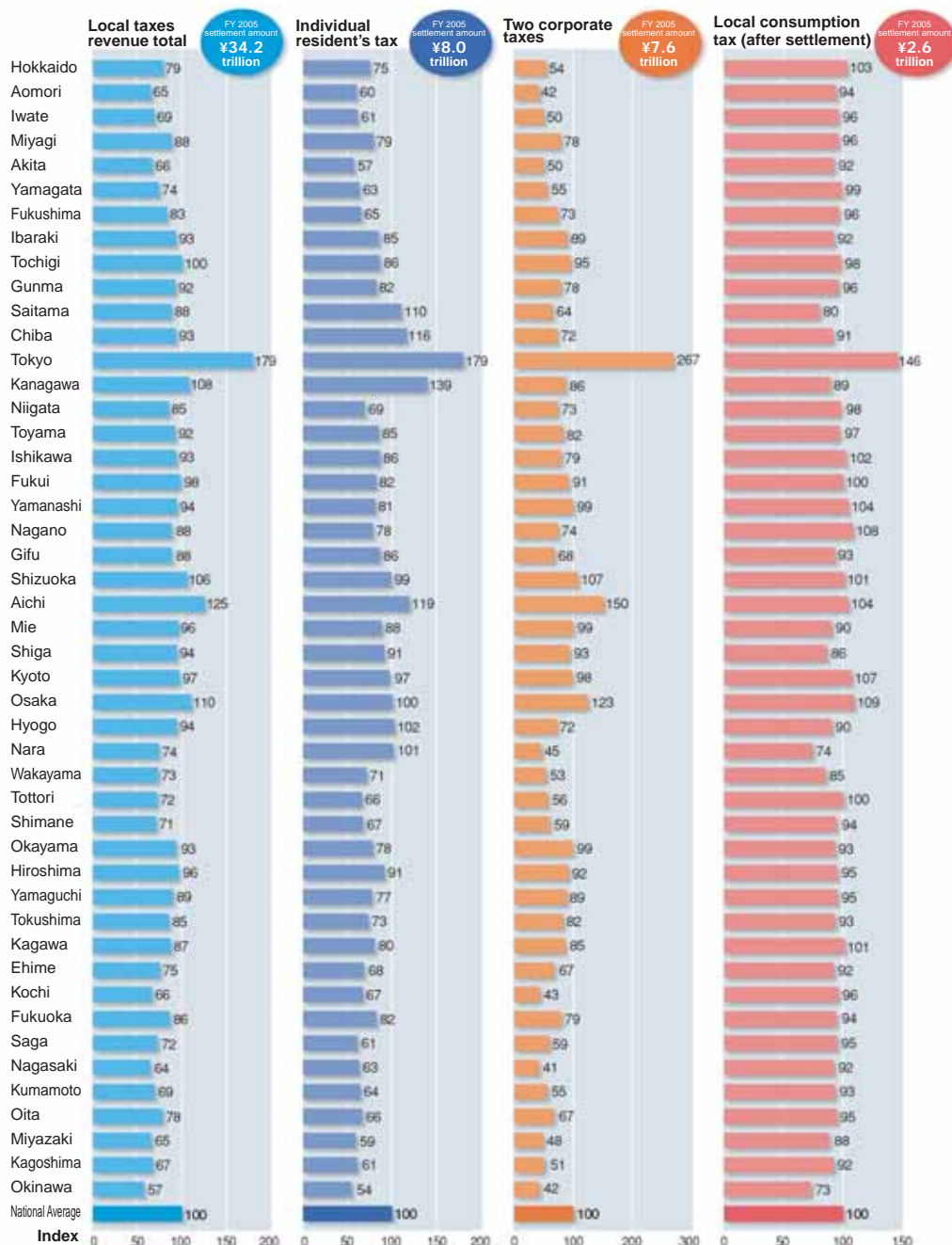
### Municipal Tax Revenue Trend



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

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

## Index of Per Capita Revenue in Local Tax Revenue (with national average as 100; FY 2005)



### Notes:

1. The local tax revenue total amounts do not include excess taxation, non-statutory ordinary taxes, or non-statutory special purpose taxes.
2. The revenue of the individual resident's tax is the total of the prefectural individual resident's tax (taxation on per capita basis and taxation on income basis) and the municipal individual resident's tax (taxation on per capita basis and taxation on income basis) and excludes excess taxation.
3. The revenue of the two corporate taxes is the total of the corporate prefectural resident's tax, the corporate municipal resident's tax and the corporate business tax and excludes excess taxation.
4. Calculations are made from the basic residents' register population as of March 31, 2006.

## 4 Local Allocation Tax

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

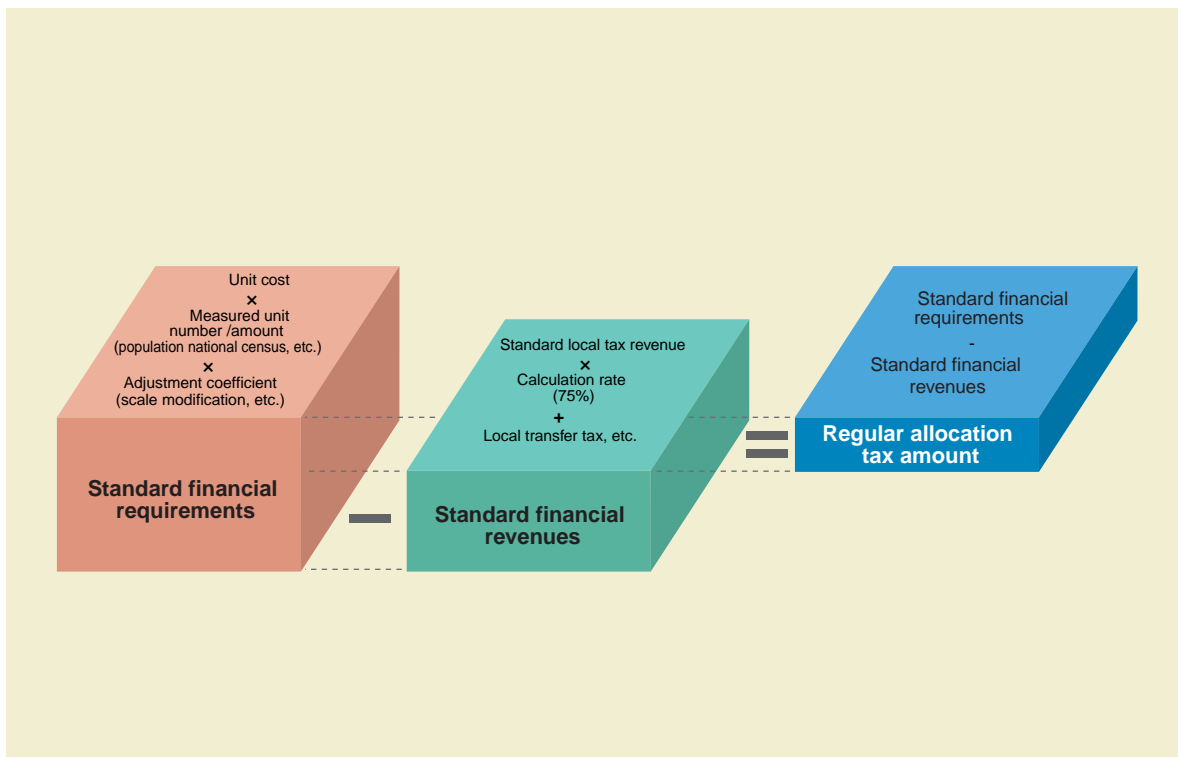
### 1 Determination of total amount of local allocation tax

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

The total amount of local allocation tax in fiscal 2005 was ¥16.9587 trillion, down 0.4% from the previous fiscal year.

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

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



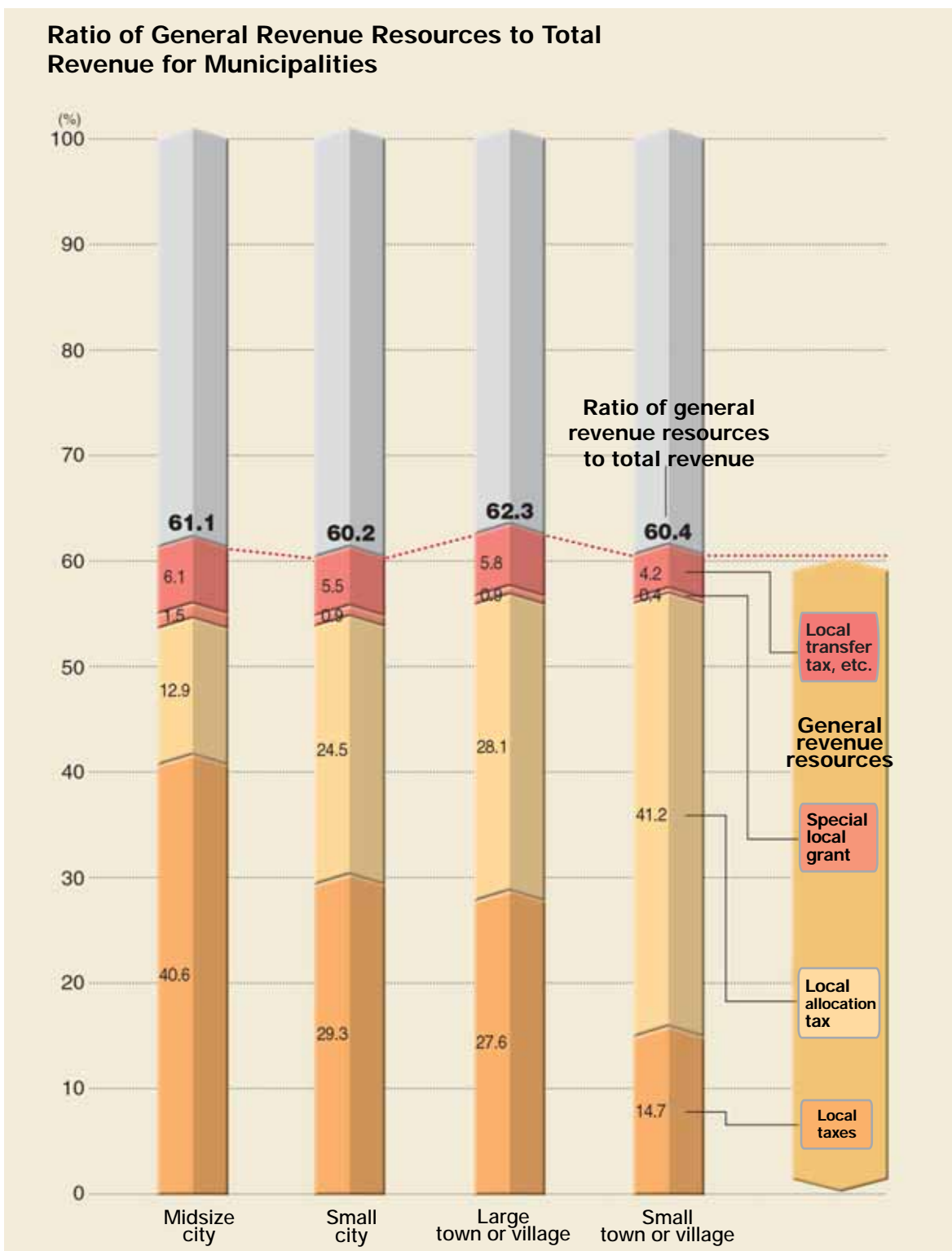
#### Notes:

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

### 3 Function of the local allocation tax

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

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



**Notes:**

1. A “midsize city” refers to a city with a population of more than 100,000 persons according to the national census of 2005; a “small city” refers to a city with a population of less than 100,000.
2. A “large town or village” refers to a town or village with a population of more than 10,000; a “small town or village” refers to a town or village with a population of less than 10,000.

# Expenditure

What is revenue being expended for?

## 1 Expenses by Function

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

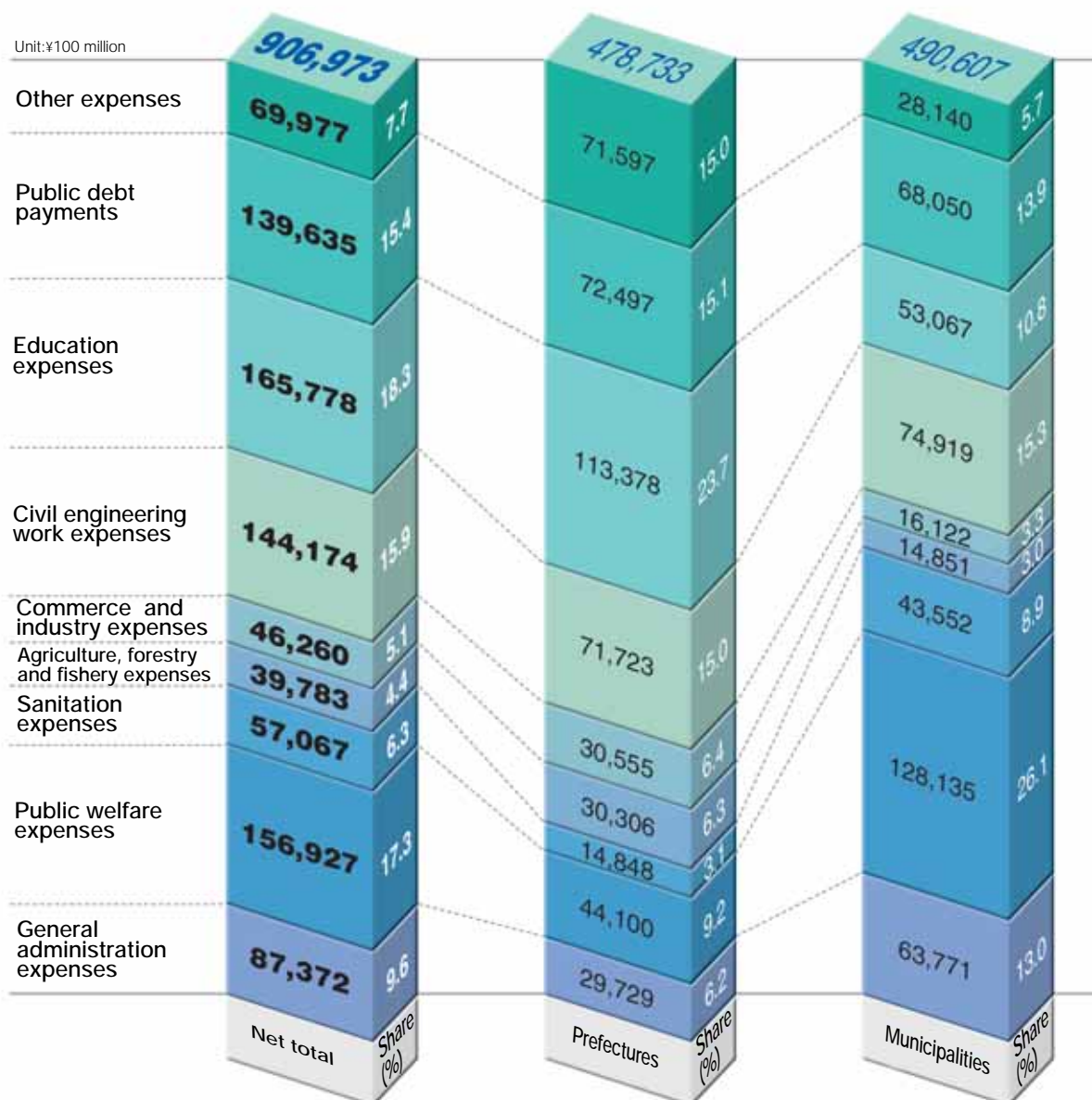
**Education expenses:** Expenses for school education, social education, etc.

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

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

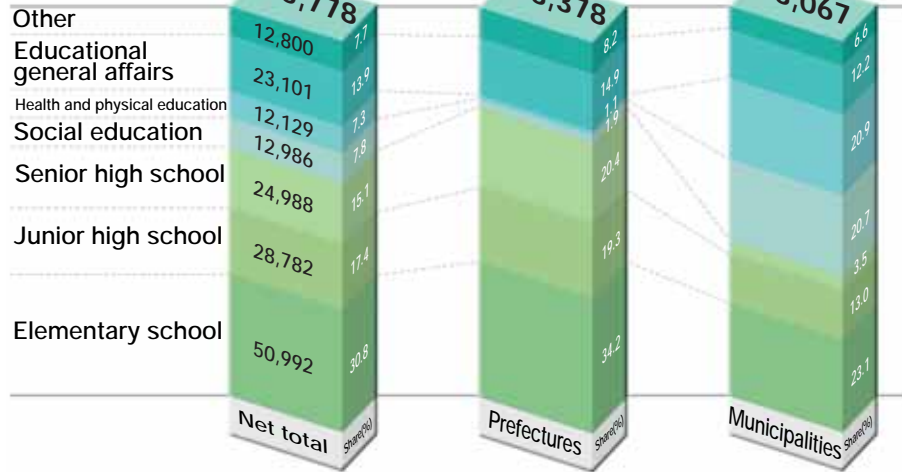
**Public debt payment:** Expenses for the payment of principal, interest, etc. on debts.

### Composition of Expenditure by Function (FY 2005)



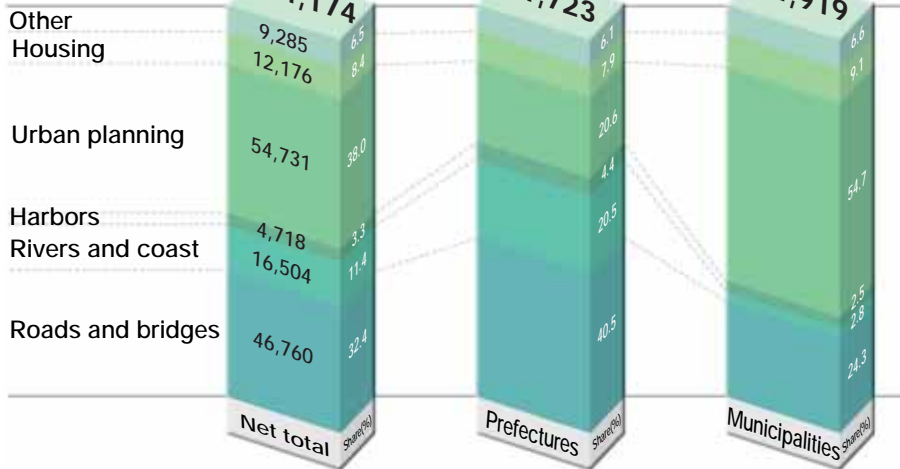
## Breakdown of Educational Expenses by Purpose

Unit: ¥100 million



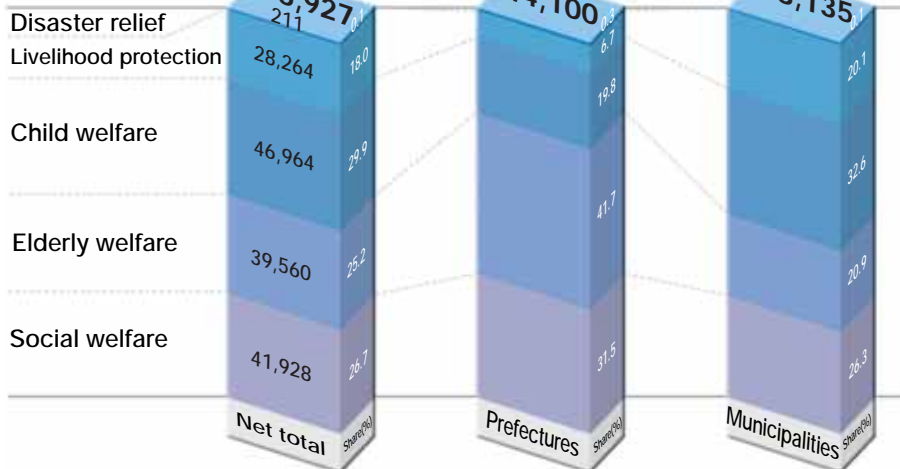
## Breakdown of Civil Engineering Work Expenses by Purpose

Unit: ¥100 million



## Breakdown of Public Welfare Expenses by Purpose

Unit: ¥100 million

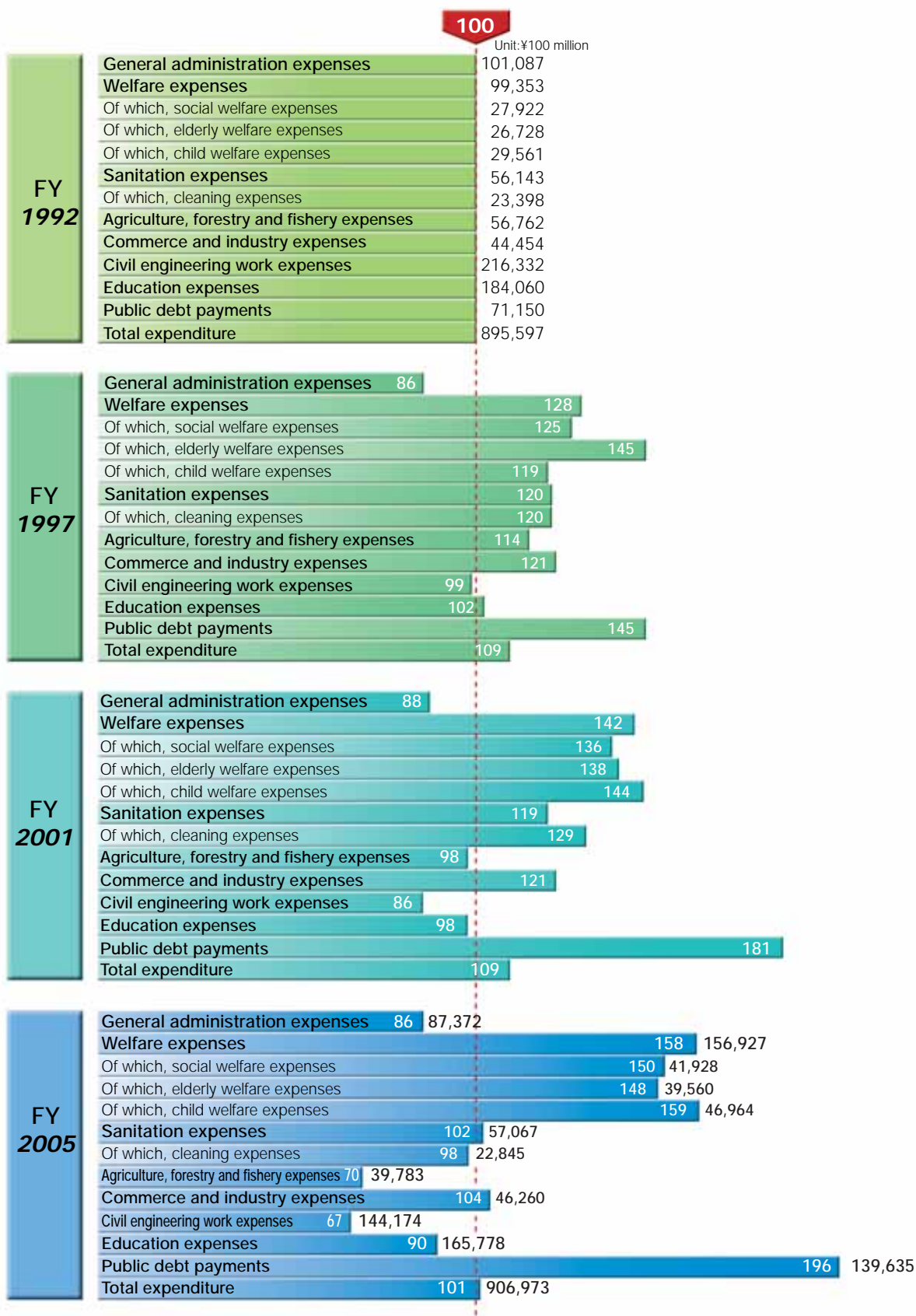




In recent years, while there has been a decline in such items as agriculture, forestry and fishery expenses and civil engineering work expenses, welfare expenses, public debt payments and so on have been increasing.

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

Unit: Ratio with FY 1992 as 100.

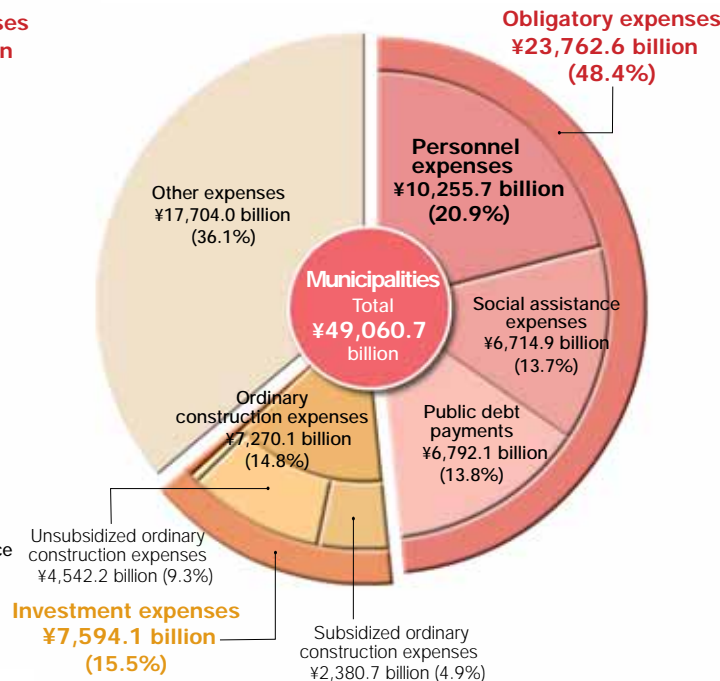
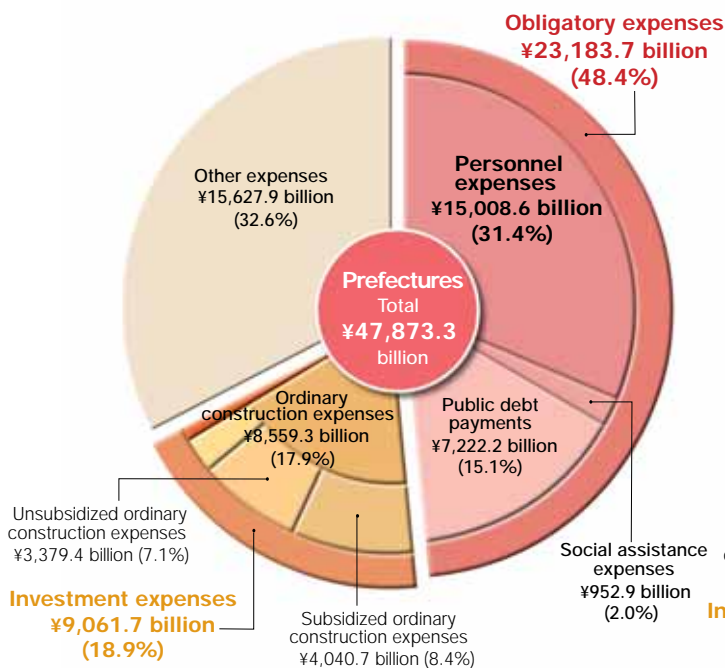
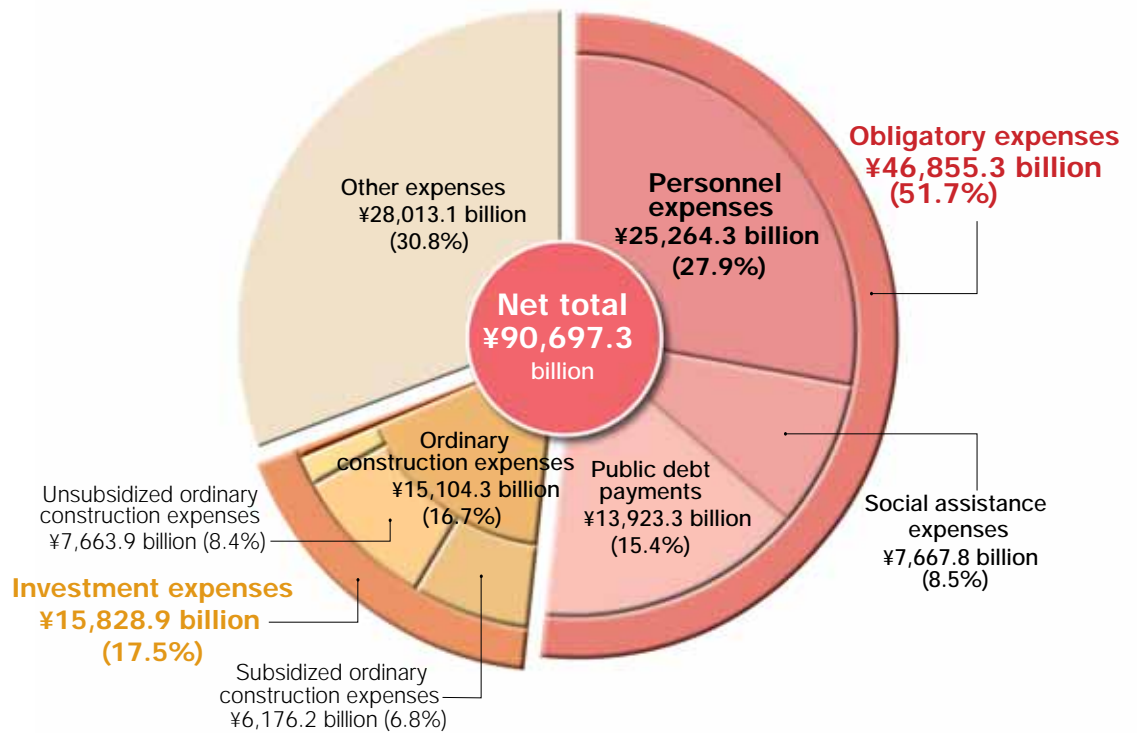


# What are expenses for?

## 2 Expenses by Character

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

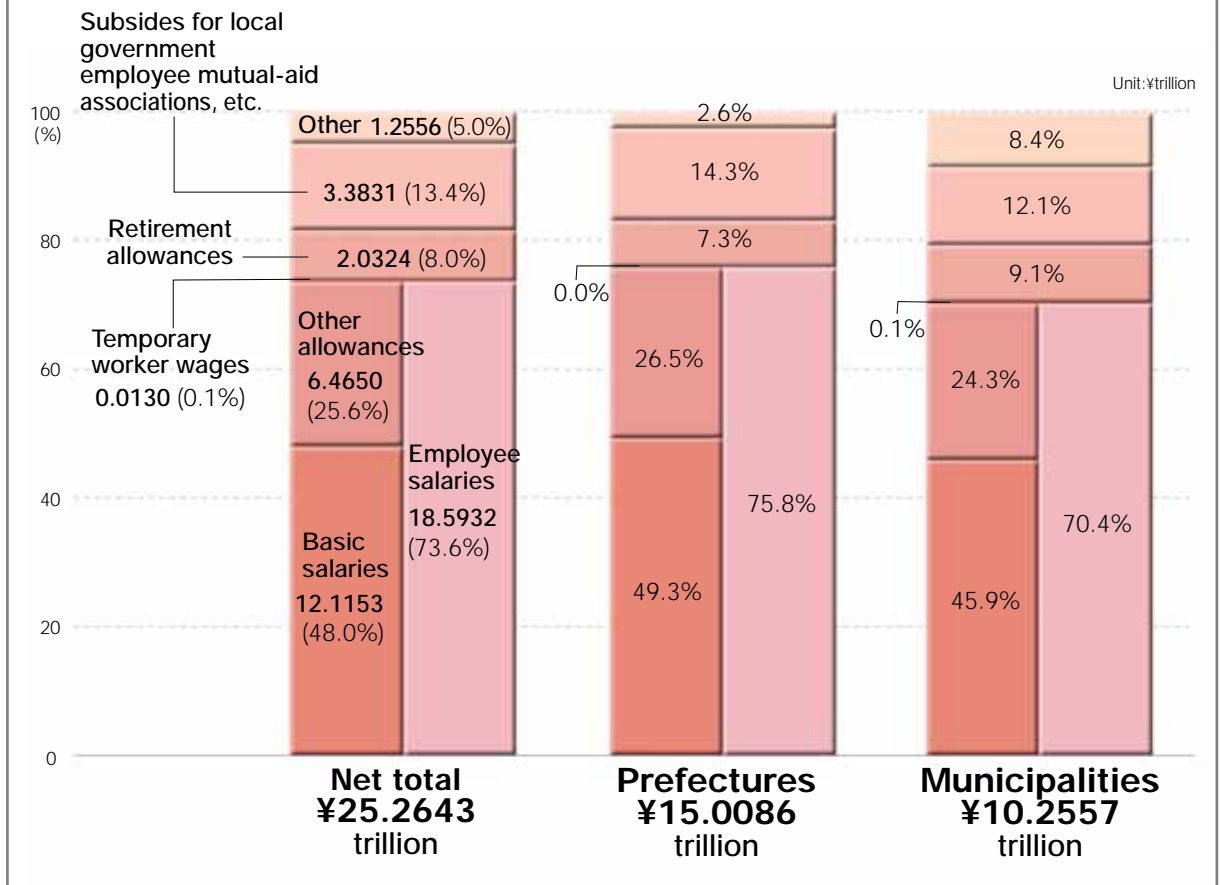
### Expenditure by Character (FY 2005 settlement)



## Trends in Personnel Expenses



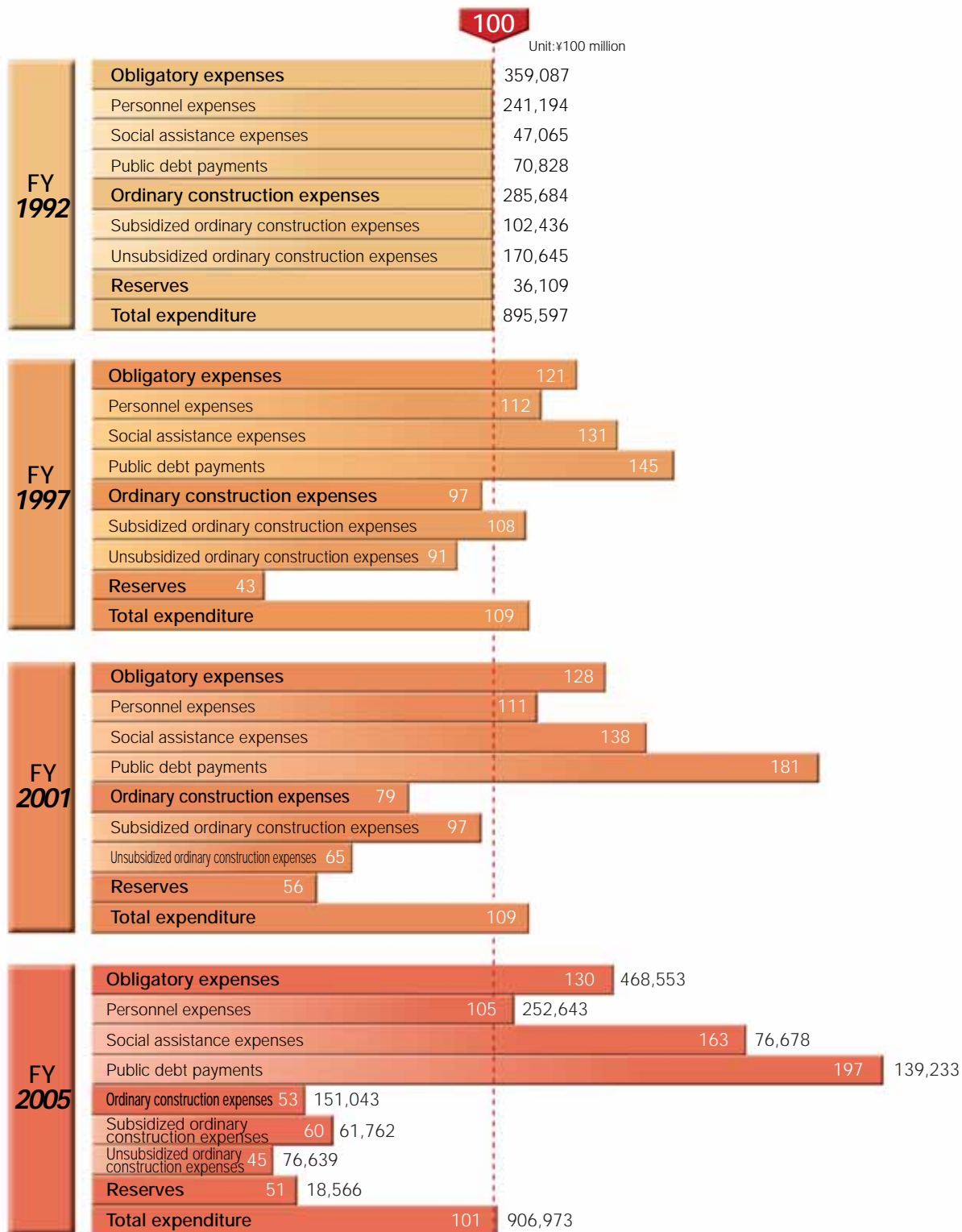
## Breakdown of Personnel Expenses by Item



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

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

Unit: Ratio with FY 1992 as 100.



### Social assistance expenses

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

### Ordinary construction expenses

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

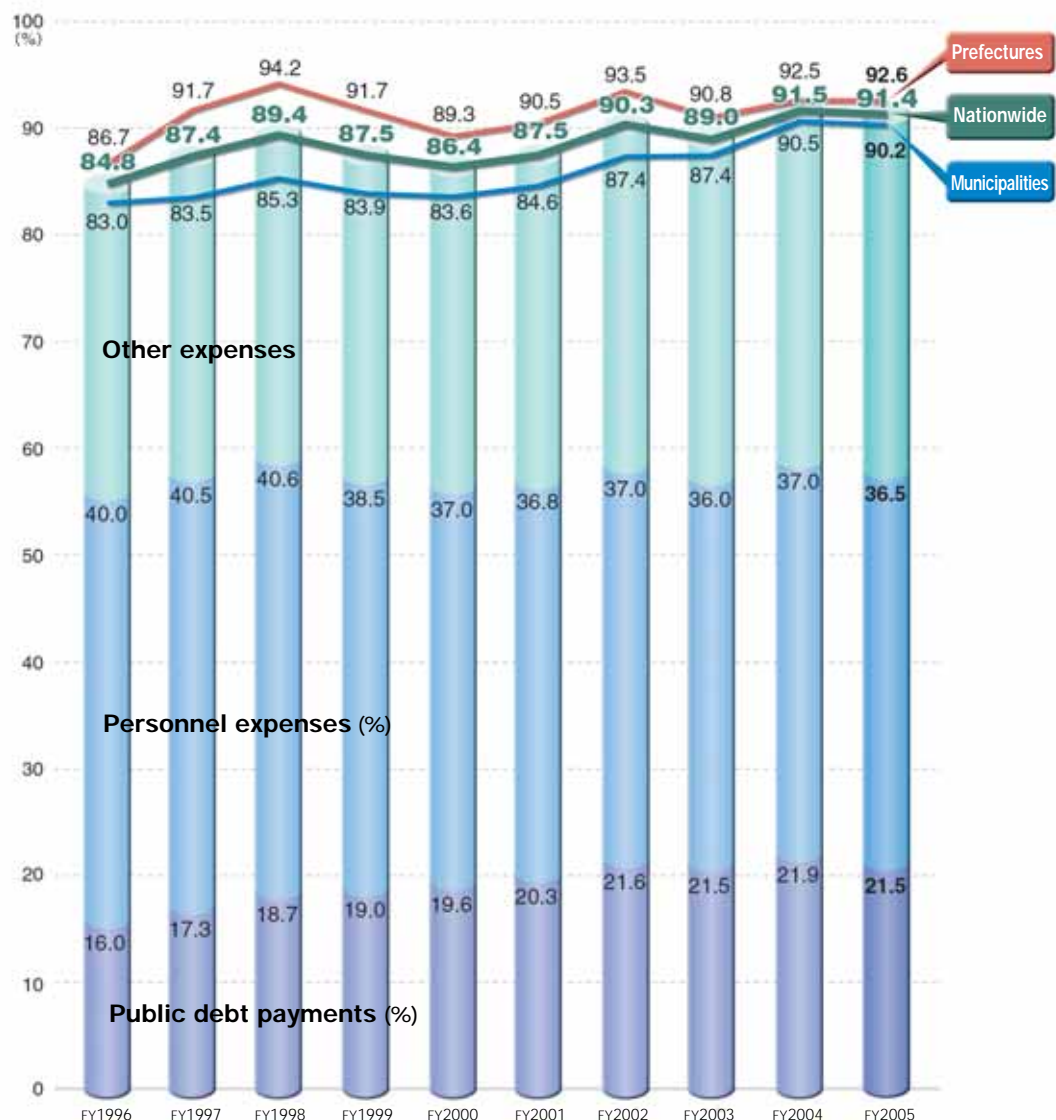
# Flexibility of the Financial Structure

How can local finance respond to the demand toward local governments?

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

## 1 Ordinary Balance Ratio

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



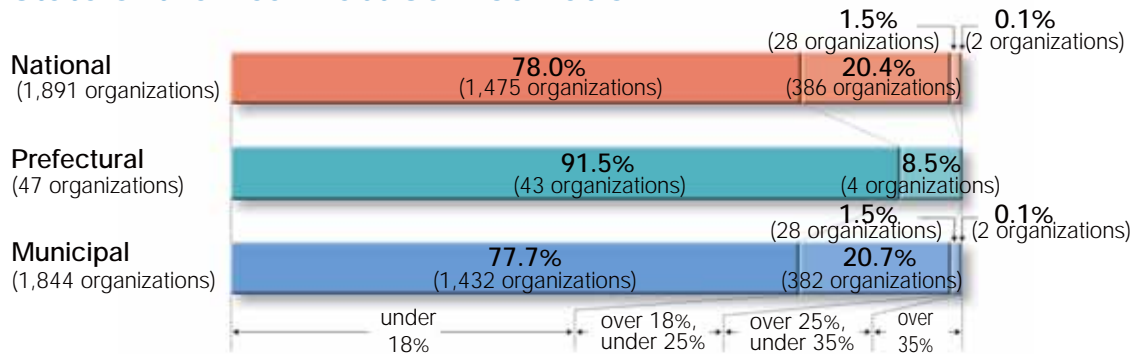
Note:  
Tax-reduction supplementary bonds and extraordinary financial countermeasures bonds have been added since fiscal 2001.

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

It is necessary to keep a close watch on trends in public debt payments at all times, since public debt payments, payments of principal and interest on the debts of local governments, are expenses especially lacking flexibility.

The real debt service ratio, which is an index indicating the extent of the real debt payment burden, was calculated for the first time on the basis of fiscal 2005 account settlements. Past trends can be seen in the debt service payment ratio used for permission to issue local bonds. The national average is the same ratio for the previous fiscal year and remains at a high level.

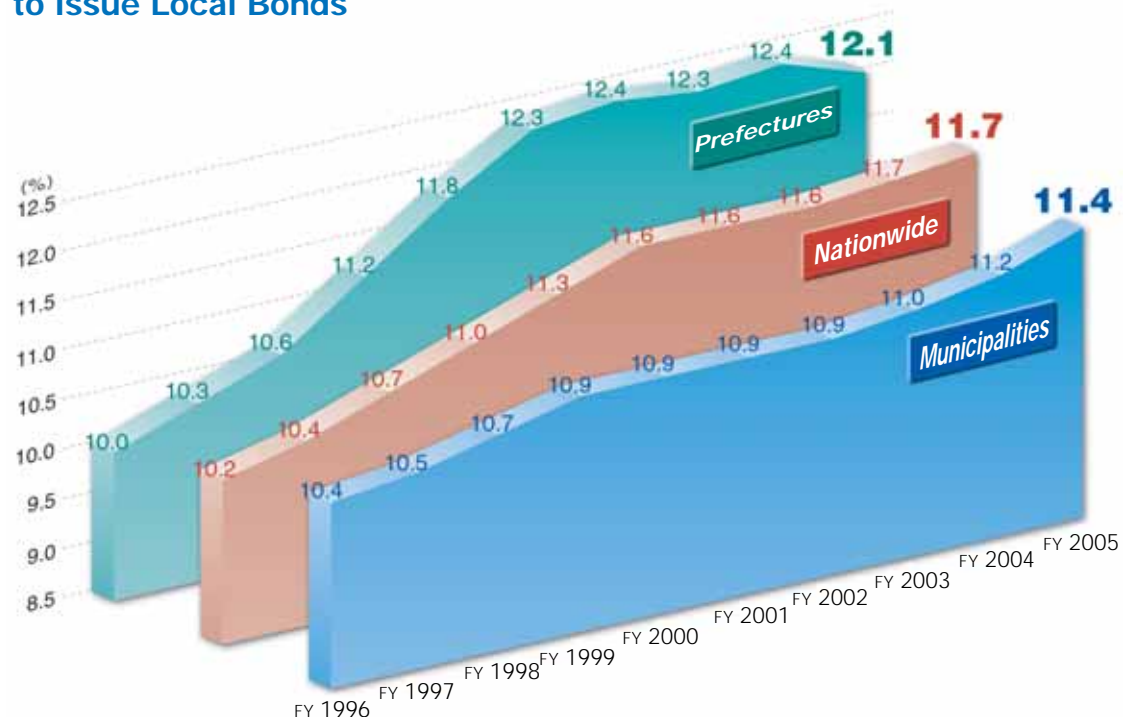
### State of the Real Debt Service Ratio



#### \*Real debt service ratio

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

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



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

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

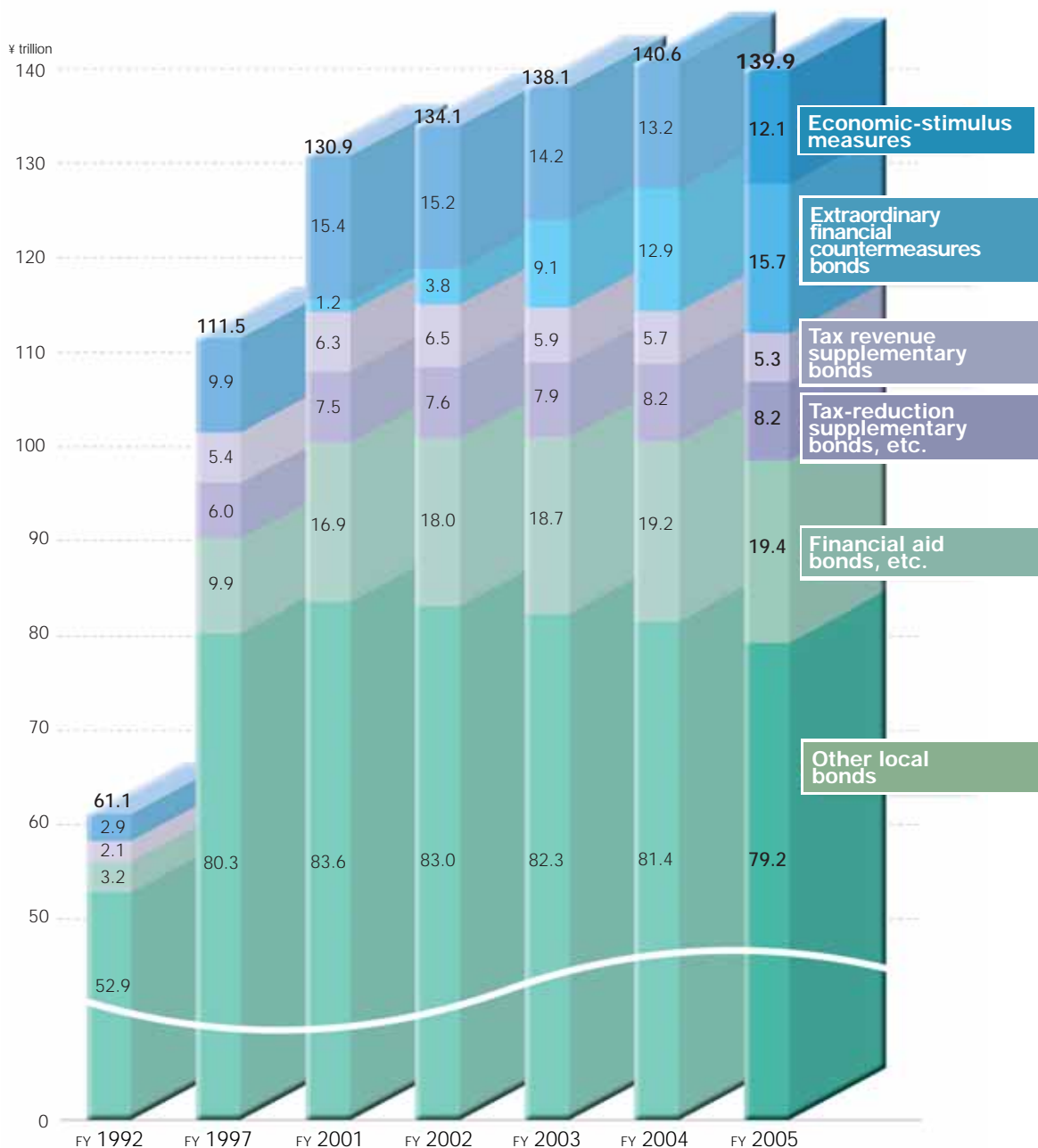
# Outstanding Local Government Borrowing (Ordinary Account)

What is the state of debts in local public finance?

## 1 Trends in Outstanding Local Government Borrowing

Outstanding local government borrowing, the debts of local governments, amounted to approximately ¥140 trillion at the end of fiscal 2005. This figure has been increasing in recent years because of such factors as the need to supplement tax revenue as a result of tax cuts and the issue of extraordinary financial countermeasures bonds. The figure is 1.5 times larger than total revenue and about 2.5 times larger than the total sum of general revenue resources, such as local taxes and local allocation tax.

### Trends in Outstanding Local Government Borrowing



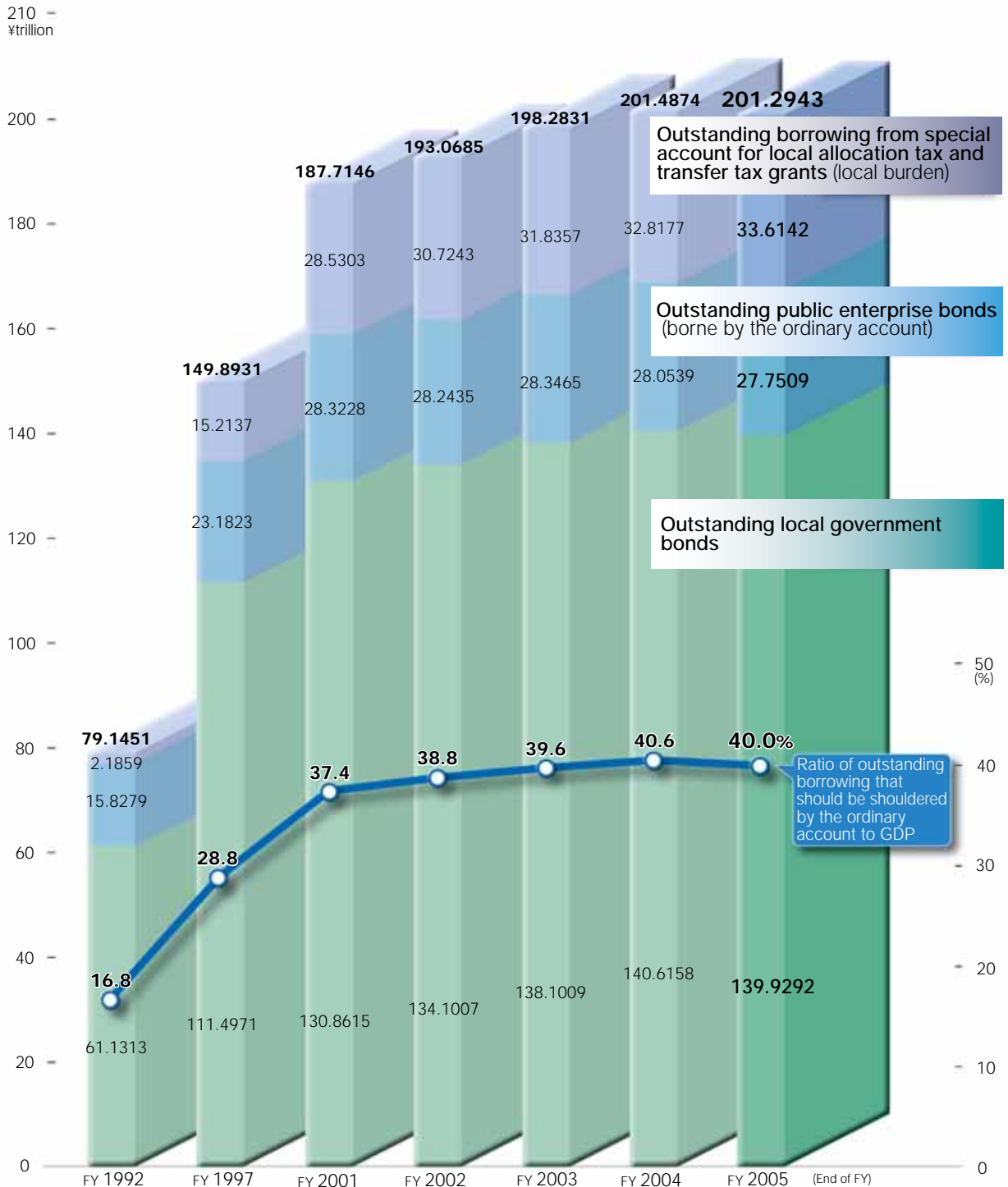
**Notes:**

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

## 2 Outstanding Borrowing of Local Finance

Also, the outstanding borrowing of local public finance, which includes the local burden of borrowing from the special account for local allocation tax and transfer tax grants and those public enterprise bonds borne by the ordinary account, as well as current outstanding local government bonds, remains at a high level, amounting to approximately ¥201 trillion at the end of fiscal 2005.

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



**Notes:**

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



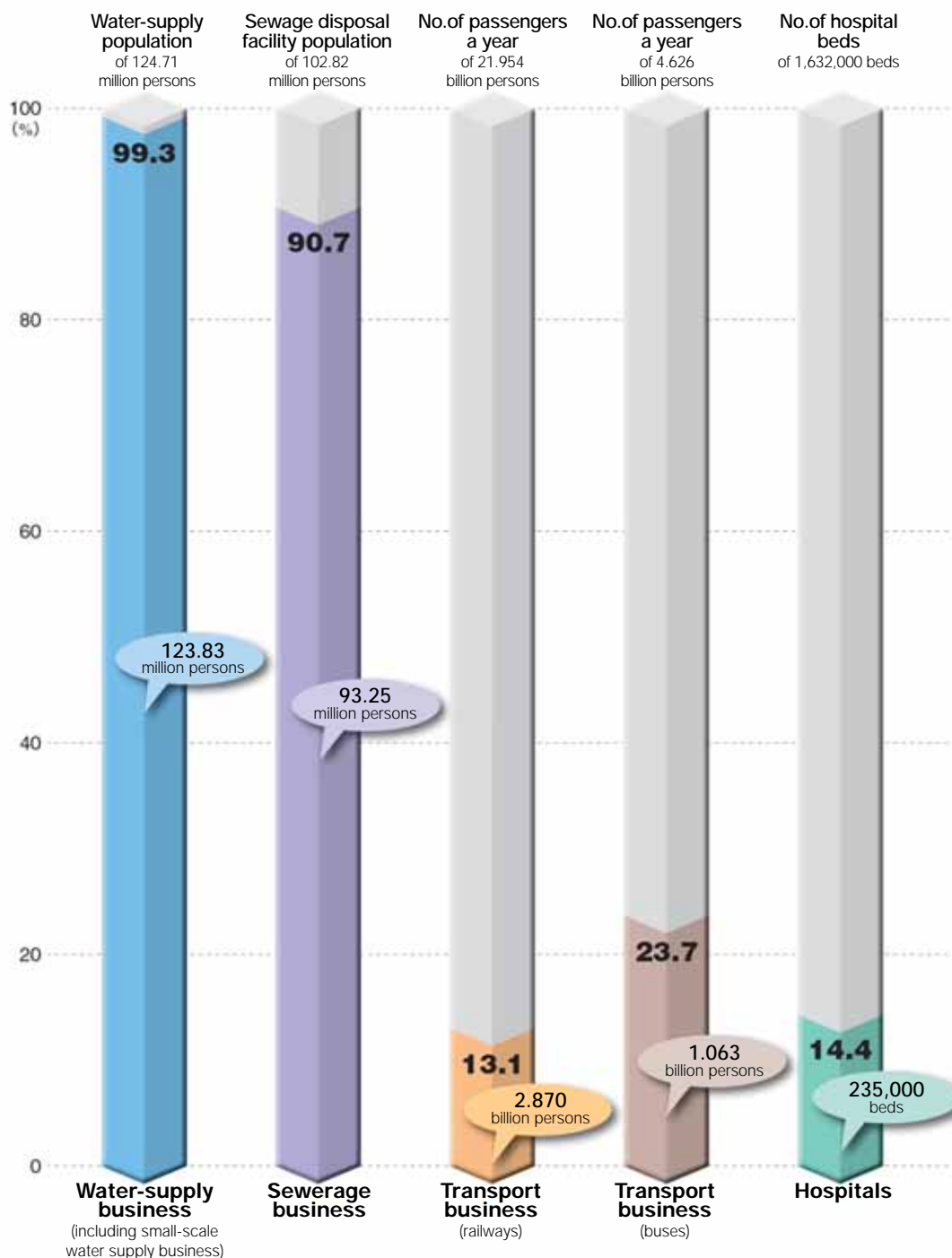
# Local Public Enterprises

## What is the state of local public enterprises?

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

### 1 Ratio of Local Public Enterprises

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

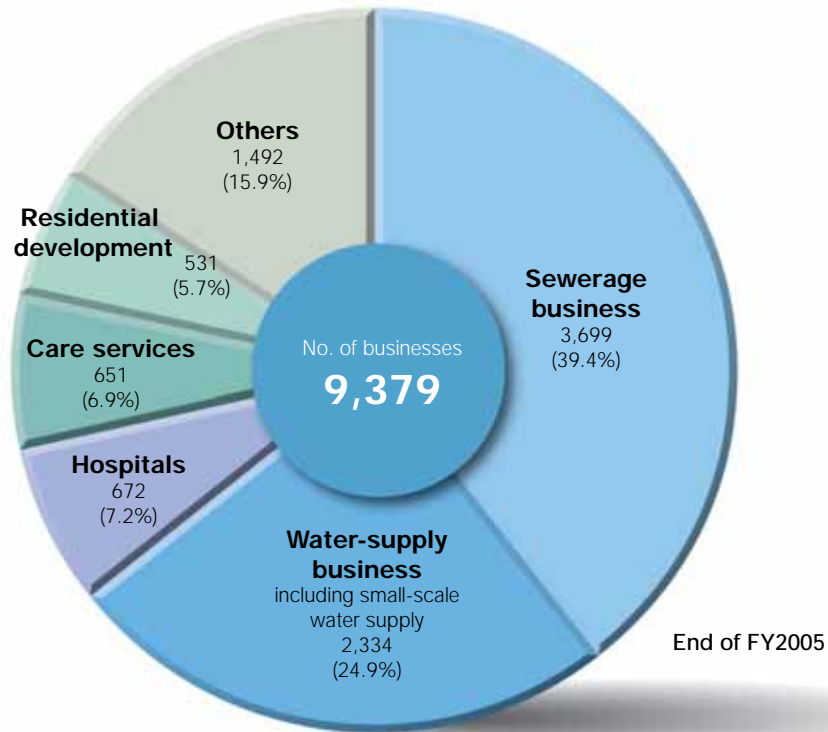


#### Notes:

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

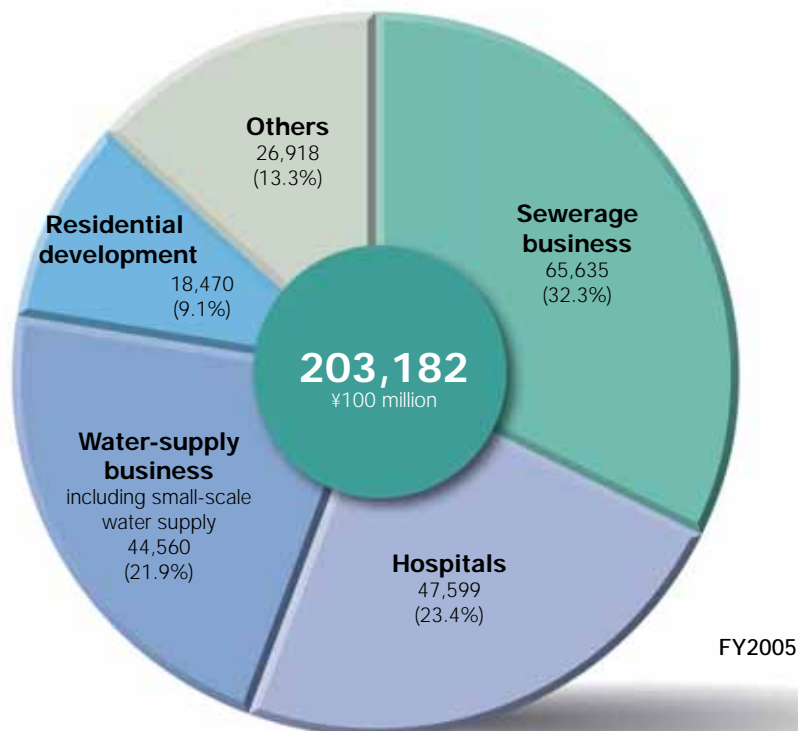
## 2 Number of Businesses Operated by Local Public Enterprises

The number of businesses is 9,379. By type of business, sewerage accounts for the largest ratio, followed in order by water supply, hospitals, and care services.



## 3 Scale of Financial Settlement

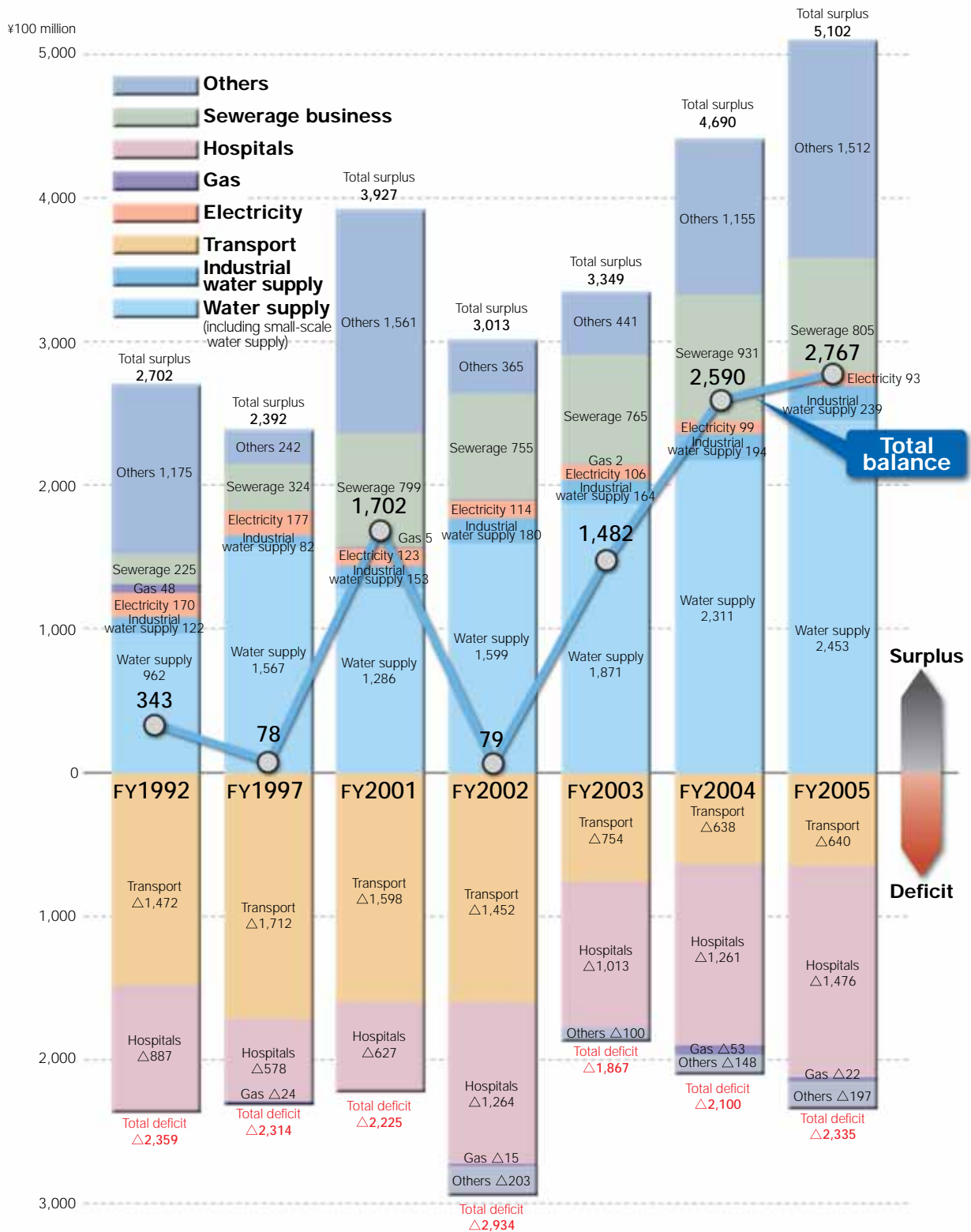
The total financial settlement scale is ¥20.3182 trillion. By type of business, sewerage accounts for the largest ratio, followed in order by hospitals, water supply, and Residential development.



## 4 Management Conditions

Local public enterprises had a surplus of ¥276.7 billion. By type of business, while water supply, industrial water supply, electricity, and sewerage showed a surplus, transport and hospitals are continuing to register a deficit.

### Trends in Management Conditions of Local Public Enterprises

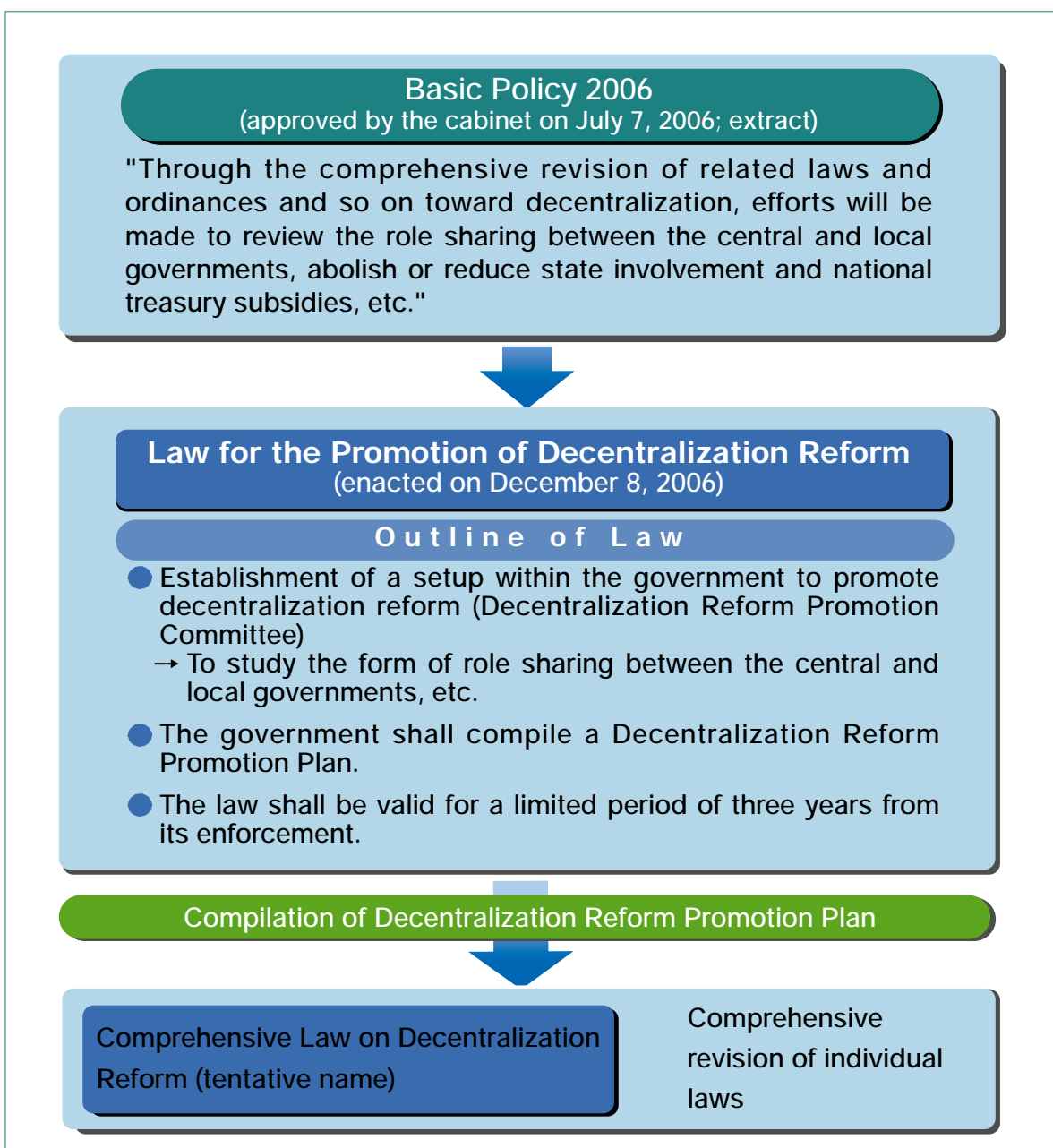


# Trends and Issues in Local Public Finance

## 1 Promotion of Decentralization Reform

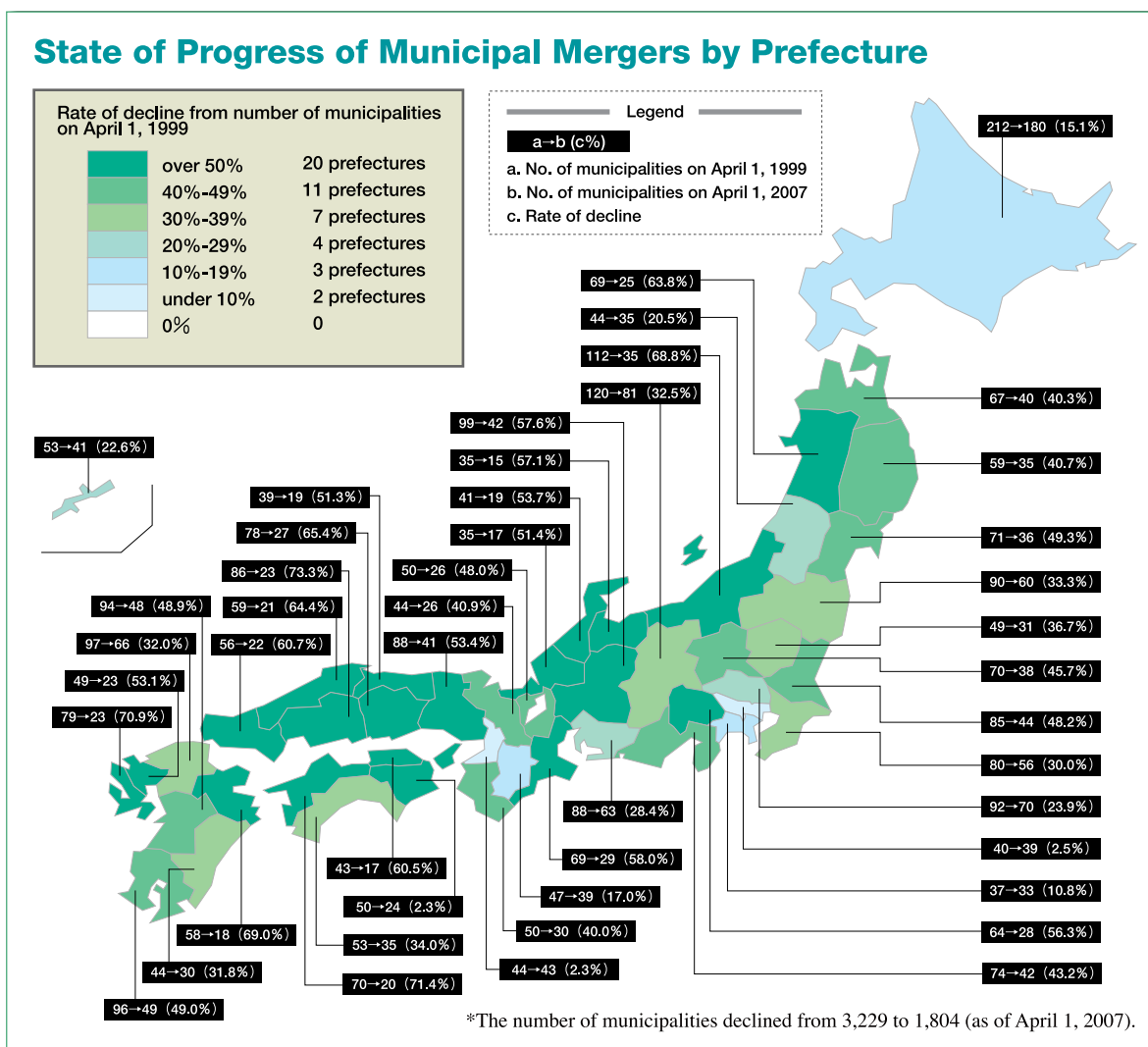
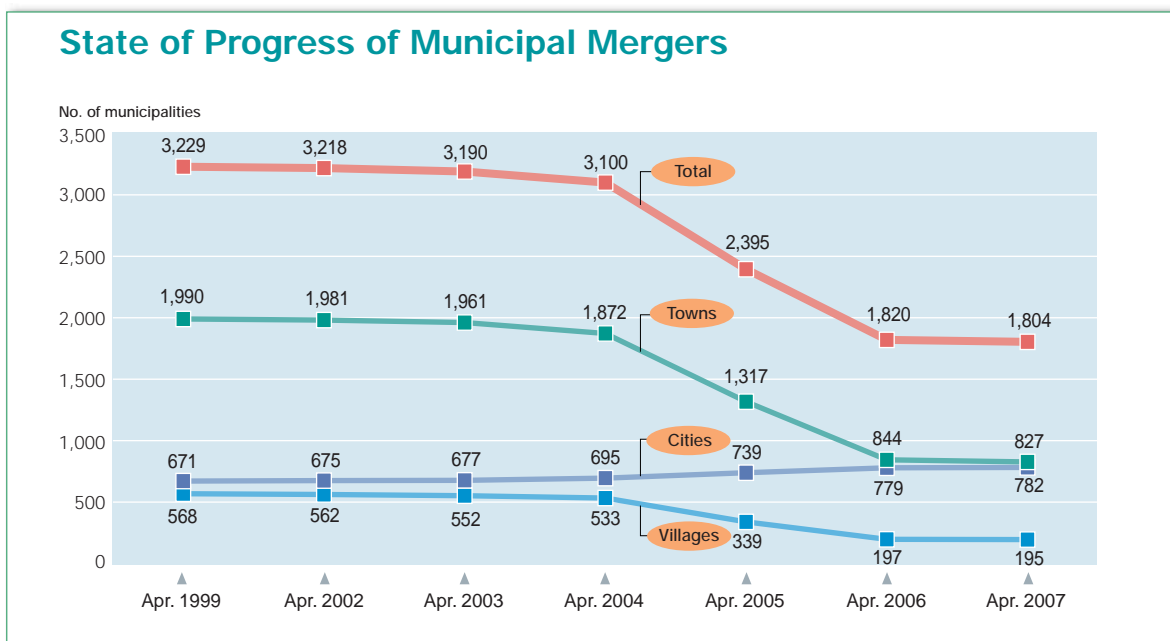
### (1) Enactment of the Law for the Promotion of Decentralization Reform

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



## (2) Promotion of Municipal Mergers

As decentralization advances and the role of the municipality becomes increasingly important, in the present situation of severe fiscal conditions both centrally and locally, the promotion of municipal mergers is important in order to strengthen the administrative and financial bases of municipalities and to maintain and improve their administrative services.



## Community Development Efforts of Merged Municipalities

In many merged municipalities, positive efforts have begun toward building an energetic and individualistic community in response to local issues.

### Examples

#### Improvement in the convenience of residents!

- Through mergers, it has become possible to go beyond municipal boundaries and use child day-care centers that have vacancies. (Niigata City, Niigata Prefecture)
- In order to facilitate the efficient use of libraries, library systems have been integrated so that it is now possible at any library to search the books stocked at other libraries and to request, borrow, and return them. (Tahara City, Aichi Prefecture)



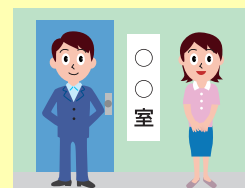
#### Upgrading and diversification of administrative services!

- A clinic was opened for the first time in about 30 years in the mountainous district of Besshiyama, which previously did not have a doctor. (Niihama City, Ehime Prefecture; formerly the mountainous area of Besshiyama)
- A new fire station has been established in the town, which previously did not have any emergency fire-prevention service or a fire station, and the ambulance and fire-prevention services have been expanded and strengthened. (Kibichuo Town, Okayama Prefecture)



#### Wide-area community development!

- A Children's Comprehensive Support Office has been established as a key station for assisting and coordinating enhancement of the child-raising, health, and educational environment in a comprehensive manner, and more specialist services are now provided. (Kameyama City, Mie Prefecture)
- In addition to the former Takayama City area, which boasts the popular Takayama Festival and a historical townscape, such attractions as the former Kamitakara area of the Northern Alps and the Oku-Hida Hot Springs Village have been added to the municipality, making it possible to aim for the establishment of a new Hida-Takayama brand by, among other things, launching an accommodation- and tour-style tourist strategy linking urban and rural areas. (Takayama City, Gifu Prefecture)



#### Greater administrative and financial efficiency!

- As a result of a survey of 557 local governments that merged between April 1999 and March 2006, it is estimated that after fiscal 2016 (that is, about 10 years after the mergers) efficiency will amount to about ¥1.8 trillion a year.

## 2 Promotion of Administrative Reform

### (1) State of Efforts Through Intensive Reform Plans

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

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

### Specific Examples of Intensive Reform Plans

#### Prefecture A

- **Reduction of number of employees**
  - Reduction of 7.8% (about 2,800 persons) in the six years from FY 1999 to FY 2004
  - Reduction of 6.9% (about 2,300 persons) in the five years from FY 2005 to FY 2009
- **Restraint of salary expenses**
  - Pay-rise period extension measure (12-month extension)  
Period: FY 1999-2003
  - Salary-cut measure  
Period: FY 2004-2006 (7% for department heads and bureau heads, 5% for office heads, 3% for other staff)  
: FY 2007 (7% for department heads and bureau heads, 5% for office heads)
- **Promotion of private-sector consignment, etc.**
  - Fundamental revision of all nonclerical work (17 businesses, 361 persons)  
Private-sector consignment, etc. of security work, road inspection work, kitchen work, telephone operator work, etc.
  - Introduction of designated manager system  
149 facilities as of April 1 2007 (of which, prefectural housing: 113 facilities)
- **Reduction of internal management expenses**
  - Reduction based on the results of the comprehensive inspection of administrative work, which was implemented in fiscal 2006 and individually inspected all administrative work of prefectures, etc.
    - Revision of facility management standards, curbing of expenses, etc.
    - Revision of travel expenses, commodity procurement methods, etc.
- **Reduction of ordinary construction project expenses, etc.**
  - Planned reduction of public works
    - 35% reduction of subsidized public works compared with the fiscal 2006 initial budget by fiscal 2009
    - 35% reduction of unsubsidized public works (construction) compared with the fiscal 2006 initial budget by fiscal 2009
    - 17.5% reduction of unsubsidized public works (maintenance) compared with the fiscal 2006 initial budget by fiscal 2009
    - 17.5% reduction of direct obligations compared with the fiscal 2006 initial budget by fiscal 2009
  - Reduction of investment expenses other than public works in a planned manner by 35% compared with the initial budget for FY 2006 by FY 2009
- **Revision of administrative work**
  - Reduction based on the results of the comprehensive inspection of administrative work, which was implemented in fiscal 2006 and individually inspected all administrative work of prefectures
    - Thorough revision of work from the perspectives of necessity, effectiveness, and efficiency, optimization of information systems, review of contracts, etc.
    - Revision of subsidies, etc. corresponding to obligatory subsidies

#### City B

- **Reduction of number of employees**
  - Reduction of number of employees by about 1,700 persons (about 11.4%) through efforts in the five years from FY 2005 to FY 2009 (Reduction of 687 persons by April 2007 due to efforts in FY 2005 and 2006)
- **Formation of new salary system**
  - Revision of pay scale in response to work stages and shift to salaries that reflect job and work responsibility (Salary structure reform implemented in April 2007 and special work allowances, employee health and welfare systems, etc. under continuous review.)
- **Formation of new personnel system**
  - Promotion of personnel system reform to make maximum use of the abilities of employees through the operation of a new personnel evaluation system, compilation of a human resource development plan, etc. (New personnel evaluation system introduced in April 2006, and second human resources development basic plan formulated in June 2007.)
- **Promotion of private-sector consignment, etc.**
  - Promotion of shift to method of providing public services through utilization of the private sector through utilization of the designated manager system, etc. (system introduced at about 179 facilities as of April 2007)
- **Promotion of equity corporation reform**
  - Clarification of new reform targets for equity corporations, including their integration and abolition, and steady promotion of reform (one corporation abolished in FY 2005)
- **Promotion of soundness of public enterprises**
  - Regarding the four projects for the full operation of the Local Public Enterprise Law, compilation of individual new medium-term management plans and promotion of efforts toward establishment of financial structure to enable management through independent settlement
- **Efforts toward financial soundness**
  - Efforts to build a sustainable financial structure to achieve an account balance without borrowing from the sinking-fund in FY 2009

## (2) Further Promotion of Administrative Reform

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

### Reform of total personnel expenses

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

### Reform of public services

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

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

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

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

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



## Reference Number of Public Employees

The number of local public employees has declined for 12 consecutive years since 1995. The number of employees has fallen for 11 consecutive years in the general administrative sector and 5 consecutive years in the public enterprise sector.

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

### Number of Local Public Employees



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



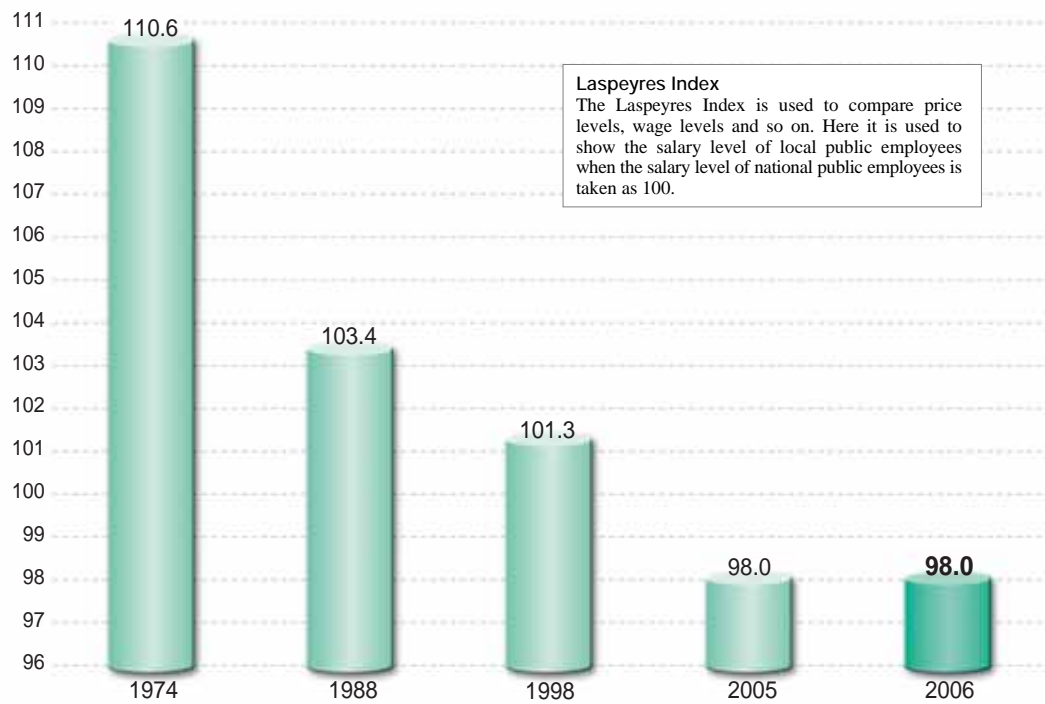
Unit: Ratio against 100 as the number of staff as of April 1, 1997.

## Reference Salary Level

When the salary level of local public employees is shown on the Laspeyres Index, the average for all local governments is 98.0.

In fiscal 2005 a total of 1,015 local governments adopted measures to correct wage levels, such as the revision of salary scales, and a total of 1,573 local governments implemented the revision of various allowances and retirement allowances.

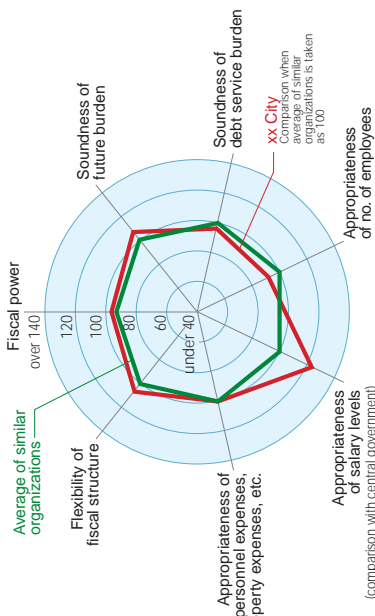
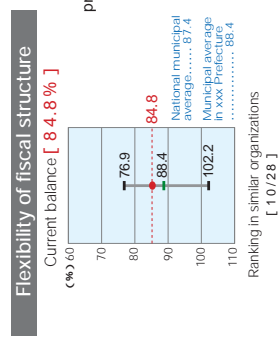
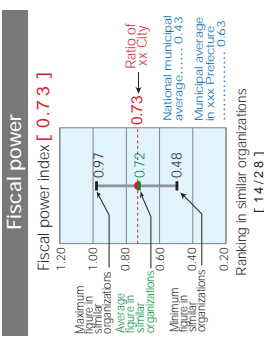
### Trends in the Laspeyres Index (Trends in the Average for All Local Governments)



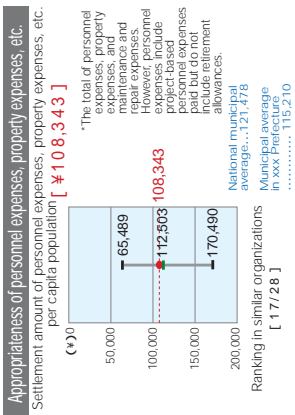
# Municipal Financial Comparative Analysis Table (FY 2005 Settlement)

**xx City, xxx Prefecture**

Population: 129,236 (as of March 31, 2006)  
 Area: 63.19 sq. km  
 Total revenue: ¥31,223.867 million  
 Total expenditure: ¥31,217,996 million  
 Real balance: ¥5,036 million

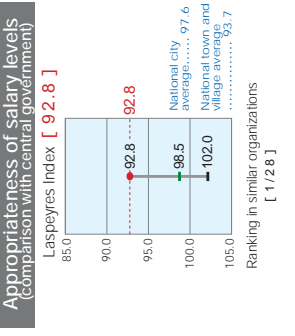


\*Similar organizations refer to those local governments in the same group as the organization concerned as a result of the classification of municipalities nationwide into 88 groups according to population, industrial structure, etc.



**Current balance ratio:**  
 This ratio is lower than the average for similar organizations and is deteriorating year by year as a result of an increase in welfare-related expenses. The ratio will maintain the present level due to efforts to reduce obligatory expenses through efforts toward administrative and financial reform, such as cuts in personnel expenses.

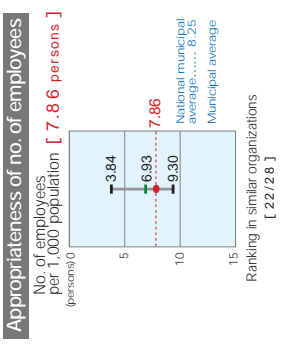
**Debt service payment ratio:**  
 This ratio is increasing due to debt repayments relating to waste processing facility and recycling center construction expenses, etc. and is slightly above the average for similar organizations. Over the next five years the ratio will drop below the average for similar organizations as a result of



restrains on large-scale projects and proper debt service management.

**Lasayres Index:**  
 This index is at the lowest level among similar organizations due to the implementation of employee salary cuts (5% for managers, 3% for general staff). From now on efforts will be made toward the further rationalization of salaries through an overall inspection of allowances, etc.

**No. of employees per 1,000 population:**  
 This number exceeds the average for similar organizations due to large-scale recruitment in the period of rapid growth of the population. On the basis of an employee rationalization plan, over the next five years the number of employees will be cut by 5% (50 persons) through the nonreplacement of mandatory retirees and the promotion of private-sector consignment.



In addition, the settlement data of all prefectures and municipalities (since fiscal 2001) are shown in balance sheets for each individual organization posted on the homepage.

### Example of Settlement Card

Settlement for FY 2005		Population		Industrial structure		Concentrated population zone		Name of prefecture		Name of local government		Type of municipality	
Category	Settlement figure	Share	2005 national census	2000 national census	1995 national census	Area (km <sup>2</sup> )	Population density (persons)	2000 national census (persons)	1995 national census (persons)	Prefecture	City	Local allocation tax area	-3
State of revenues (unit: ¥ thousand; %)		Basic residents' register population		Rate of change		2005 national census		105,975		State of income-expenditure balance		2-8	
Category	Share	March 31, 2006	131,838	127,733	2.7%	Primary	1,349	105,975	102,815	Category	FY2005 (¥ thousand)	FY2004 (¥ thousand)	
Category	Share	Rate of change	Rate of change	Rate of change	Rate of change	Secondary	2.2	43.19	3,038	Total revenues	32,168,871	32,671,555	
Category	Share	Current general revenue resources, etc.	131,592	127,333	0.2%	Tertiary	25.0	State of designated organizations, etc.		Revenues minus expenditures	30,215,506	30,939,738	
Category	Share	Share	Share	Share	Share	State of municipal taxes (unit: ¥ thousand; %)	45,025	Former new industrial city		Revenue resources that should be carried over to the next fiscal year	1,953,365	1,731,817	
Category	Share	Share	Share	Share	Share	Revenue settled	72.0	Former industrial development special area		Real balance	830,659	461,290	
Category	Share	Share	Share	Share	Share	Excess tax portion	46,631	Underdeveloped area		Single FY balance	1,122,706	1,270,527	
Category	Share	Share	Share	Share	Share	Ordinary taxes	91.3	Rural development area		Reserve	-147,821	496,323	
Category	Share	Share	Share	Share	Share	Municipal ordinary tax	64,066	Former mining area		Advanced redemption of local loans	30,000	1,218,000	
Category	Share	Share	Share	Share	Share	Municipal residents tax	91.3	Rural development area		Reserve breakup amount	63,179	-720,677	
Category	Share	Share	Share	Share	Share	Individual equal apportionment	50.1	Formerly populated area		General staff, etc.			
Category	Share	Share	Share	Share	Share	Corporate equal apportionment	45.4	Metropolitan Tokyo area		Category	monthly salary (¥ hundred)	Per capita average (¥ hundred)	
Category	Share	Share	Share	Share	Share	Corporate tax apportionment	2.5	Kinki area		General staff	746	2,845,860	3,815
Category	Share	Share	Share	Share	Share	Fixed asset tax	37.6	Chubu area		Of which, skilled workers	87	307,090	3,530
Category	Share	Share	Share	Share	Share	Of which, net fixed asset tax	37.5	Special rural village		Education-related government employees	6	25,050	4,715
Category	Share	Share	Share	Share	Share	Light motor vehicle tax	0.4	Wide-area municipality		Fire-fighting staff	145	509,340	3,513
Category	Share	Share	Share	Share	Share	Municipal tobacco tax	3.1	Fiscal reconstruction organization		Temporary staff	-	-	-
Category	Share	Share	Share	Share	Share	Mining tax	-	Fiscal index reference organization		Total	887	3,380,250	3,768
Category	Share	Share	Share	Share	Share	Special land-holding tax	-	Organization with surplus		No. of employees			
Category	Share	Share	Share	Share	Share	Nonstatutory ordinary taxes	-	Organization		No. of applicable seats			
Category	Share	Share	Share	Share	Share	Statutory earmarked taxes	8.7	Organization		Special staff, etc.			
Category	Share	Share	Share	Share	Share	Statutory earmarked taxes	8.7	Organization		Mayor	1	18,041	8,630
Category	Share	Share	Share	Share	Share	Spa tax	-	Organization		Deputy mayor	1	18,041	7,370
Category	Share	Share	Share	Share	Share	Business office tax	-	Organization		Chairman of board of education	1	18,041	6,730
Category	Share	Share	Share	Share	Share	City planning tax	-	Organization		Reserve fire service	1	18,041	6,730
Category	Share	Share	Share	Share	Share	Water utility and land profit tax	-	Organization		Elementary schools	1	12,041	5,400
Category	Share	Share	Share	Share	Share	Nonstatutory earmarked taxes	-	Organization		Deputy speaker of assembly	1	12,041	4,800
Category	Share	Share	Share	Share	Share	Taxes from delinquent laws	-	Organization		Members of assembly	28	12,041	4,500
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Other	1	12,041	4,500
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Standard financial revenue	14,170,686	15,224,453	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Standard financial requirement	15,224,453	16,614,282	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Standard fiscal scale	19,731,092	19,731,092	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Real revenue-expenditure ratio(%)	5.7	5.7	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Current general revenue resources, etc. ratio(%)	99.3	99.3	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Debt service expenses burden ratio(%)	10.2	10.2	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Debt service ratio(%)	10.2	10.2	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Debt service payment ratio(%) (issue balance)	8.4	8.4	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Current reserve outstanding	1,534,000	541,000	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Fiscal adjustment	541,000	1,288,000	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Debt payments	27,026,165	27,026,165	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Special purposes	1,288,000	1,288,000	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Outstanding local government bonds	19,060,040	19,060,040	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Of which, government funds	1,894,989	1,894,989	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Contact authorization amount (schedule expenditure)	173,660	173,660	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Of which, supplies, etc.	-	-	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Guarantee, compensation	-	-	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Other	-	-	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Other items accruing from real (debt) burden acts	-	-	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Profit-generation business income	43,057	43,057	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Current local development fund outstanding	24,240	24,240	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Collection rate(%) [Current year, total]	97.9	93.1	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Total	98.4	94.5	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Municipal residents' tax	97.9	93.1	
Category	Share	Share	Share	Share	Share	Total	100.0	Organization		Net fixed asset tax	98.4	94.5	

**Note 1:** Supplementary business expenses of ordinary construction project expenses include the supplementary business expenses of commissioned project expenses, single project expenses of commissioned project expenses, and the fiscal power index is calculated from the above project expenses of commissioned project expenses.  
**Note 2:** The standard financial revenue figure and the standard financial requirement figure for the special wards of Tokyo are necessary for the calculation of the special ward financial adjustment grant, and the fiscal power index is calculated from the above standard financial requirement figure and standard financial revenue figure.

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

## Example of Table of Financial Condition, Etc.

Name of organization								
_____ Prefecture								
<b>1. Financial condition of general account and special accounts (mainly items relating to ordinary account)</b> (¥ million)								
	Revenue	Expenditure	Formal balance	Real balance	Current outstanding local government bonds	Borrowing from other accounts	Remarks	
General account	1,340,867	1,320,292	20,575	1,461	2,435,272	3,253		
Prefectural debt management special account	22,705	22,705	0	0	-	18,505		
Disaster relief project special account	4,987	4,986	1	1	5,439	3,788		
Mother-child widow welfare financial loan project special account	452	136	316	316	870	1		
Small and medium-sized enterprise support financial loan project special account	9,425	7,853	1,572	1,560	12,098	226		
Agricultural improvement financial loan project special account	1,197	98	1,099	1,099	406	22		
Forestry promotion financial loan project special account	848	551	297	297	160	1		
Offshore fishing improvement financial loan project special account	167	30	137	137	-	1		
Prefectural forest project special account	167	163	4	4	1,695	104		
Urban development finance project special account	1,320	1,320	0	0	-	3		
Ordinary account	1,251,970	1,227,495	24,475	3,835	2,451,403	217		
<b>2. Financial condition of other special accounts (items relating to public enterprise accounts)</b> (¥ million)								
	Total earnings (revenue)	Total expenses (expenditure)	Net profit/loss (formal balance)	Bad debts (real balance)	Current outstanding local government bonds	Borrowing from other accounts	Remarks	
Electricity business special account	4,758	4,415	343	-	27,142	-	Enterprises governed by law	
Industrial water supply business special account	1,746	1,432	314	-	3,916	209		
Industrial land development business special account	1,557	2,219	△ 662	-	11,920	23,741		
Toukou coastal land development business special account	367	367	0	-	94	6,100		
Hospital business special account	70,313	71,652	△ 1,339	-	66,056	11,498		
Notes:								
1. "Enterprises governed by law" means public enterprises to which the Local Public Enterprise Law applies.								
2. When bad debts amount to so many million yen, they are shown with a △ mark.								
<b>3. Financial condition of related partial administrative associations, etc.</b> (¥ million, %)								
	Revenue (total earnings)	Expenditure (total expenses)	Formal balance (net profit/loss)	Real balance (bad debts)	Current outstanding local government bonds	Burden share of organization concerned	Remarks	
Regional Federation of Water Supply Enterprises	951	807	144	-	2,955	13.4		
Federation of Coastal Water Supply Enterprises	196	246	△ 50	-	524	90.0		
<b>4. Management condition of third-sector enterprises, etc. and state of local government financial assistance</b> (¥ thousand)								
	Ordinary profit/loss (¥ thousand)	Capital or net assets (¥ thousand)	Investment from organization concerned (¥ thousand)	Subsidies from organization concerned (¥ thousand)	Loans from organization concerned (¥ thousand)	Outstanding debt involving debt guarantee from the organization concerned	Outstanding debt involving loss compensation from the organization concerned	Remarks
Cultural Promotion Foundation	63,424	2,280,506	2,010,000	28,273	-	-	-	
Industrial Creation Organization	73,904	4,693,525	258,972	1,069,970	3,555,820	-	2,985,819	
Construction Technology Center	55,252	1,960,679	3,000	-	-	-	-	
Cultural Deposits Research Corporation	△ 171	31,689	30,000	-	-	-	-	
Forest Development Human Resources Foundation	△ 1,734	2,006,329	1,950,000	-	-	-	-	
Marine Products Promotion Foundation	38,855	2,345,258	2,174,503	-	-	-	-	
Agriculture and Forestry Public Corporation	△ 26,781	38,8253	31,2700	63,3508	12,880,777	-	17,125,779	
Women's Foundation	607	120,419	98,982	37,123	-	-	-	
Sports Association	△ 24,822	76,9751	15,000	30,225	-	-	-	
Note: Enterprises that do not compile profit/loss statements enter their increase or decrease of net assets in the current term in the "Ordinary profit/loss" column.								
<b>5. Financial indexes</b>								
Financial strength index	Real balance ratio	Real debt service ratio	Ordinary balance ratio					
0.32570	08	143	90.5					
Note: The real debt service ratio is the three-year average from FY 2003 to FY 2005 used in such procedures as consultations on the issue of bonds in FY 2006.								

Meanwhile, in recent years an increasing number of local governments have been compiling balance sheets and other financial documents as a means of disclosing and analyzing financial conditions in order to grasp the state of their assets and liabilities in a comprehensive manner.

## Example of Balance Sheet (City A)

Ordinary Account Balance Sheet			
(As of March 31, 2006: unit: ¥ thousand)			
<b>(Assets)</b>			
<b>1. Financial assets</b>		40,196,119	F=D+E
Funds		18,911,616	E
Financial assets (excluding funds)		21,284,503	D=A+B+C
Credit	6,721,155		A
Tax and other accounts due	4,508,866		
Accounts due	1,332,777		
Loans	1,302,100		
Other credit			
(Deduction) Reserve for doubtful accounts	△ 422,588		
Securities	72,410		B
Investments, etc.	14,490,938		C
Capital investments	7,868,771		
Other investments	6,622,167		
<b>2. Nonfinancial assets</b>		7,174,537,750	M=J+K+L
Assets for business		287,625,664	J=G+H+I
Tangible fixed assets	287,502,677		G
Land	148,337,692		
Timber and bamboo	598,187		
Buildings	125,602,108		
Structures	1,681,927		
Machinery and equipment	7,507,524		
Goods	2,391,846		
Ships			
Aircraft			
Other tangible fixed assets			
Construction suspense account	1,383,393		
Intangible fixed assets	122,987		H
Superficies	99,740		
Patent rights			
Software	23,247		
Telephone subscription rights			
Other intangible fixed assets			
Inventory assets			I
Infrastructure assets		429,828,086	K
Public property land	227,280,153		
Public property facilities	196,345,590		
Other public property	0		
Public property construction suspense account	6,202,343		
Deferred assets		0	L
<b>Assets total</b>		757,649,869	N=F+M
<b>(Liabilities)</b>			
<b>1. Liquid liabilities</b>		17,209,330	O
Accounts payable and unpaid expenses	6,258		
Advance received and income in advance			
Reserves	1,276,819		
Bonus reserve	1,276,819		
Deposits (money in custody, etc.)	2,082,760		
Local government bonds (short-term)	13,843,493		
Short-term loans			
<b>2. Nonliquid liabilities</b>		166,779,157	P
Local government bonds (long-term)	145,034,516		
Long-term loans			
Reserves	21,744,641		
Retirement allowance reserve	21,744,641		
Other reserves			
<b>Liabilities total</b>		183,988,487	Q=O+P
<b>(Net assets)</b>			
Revenue sources	△ 779,807		R
Revenue sources allotted to asset formation	574,441,189		S
Fixed assets	557,182,109		
Long-term financial assets	15,865,448		
Appraisal and conversion differential, etc.	1,393,632		
Other net assets		0	T
Opening unanalyzed balance			
<b>Net assets total</b>		573,661,382	U=R+S+T
<b>Liabilities and net assets total</b>		757,649,869	U=Q+U

\*From the standard model form in Chapter 2 of the report of the Study Group on a New Local Public Accounting System (May 2006).

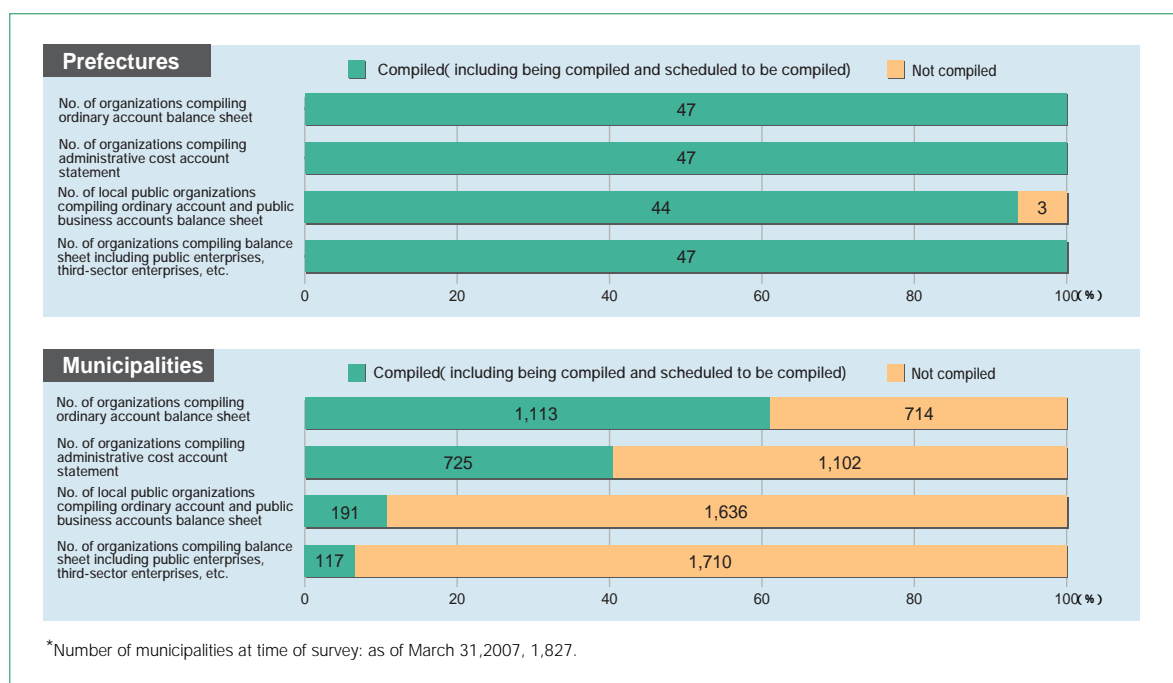
The administrative cost statement shows the amount of administrative resources spent on administrative services during the year.

## Example of Administrative Cost Statement (City B)

<b>Administrative Cost Total</b>		(unit: ¥ thousand)
From April 1, 2005, to March 31, 2006		
<b>Administrative costs</b>		
Personnel expenses	46,148,516	
Payment into retirement allowance reserve	3,839,860	
Property expenses	32,437,241	
Maintenance and repair expenses	2,991,546	
Depreciation expenses	44,091,083	
Assistance allowances	28,418,044	
Subsidy expenses, etc.	19,823,946	
Disbursements	14,942,664	
Subsidies, etc. to other organizations, etc. relating to asset formation	11,068,941	
Interest payable	6,961,365	
Estimated losses due to nonpayment recorded	767,245	
Other administrative costs	<u>308,828</u>	
<b>Administrative cost total</b>		<b>211,799,279</b>
<b>Administrative service revenue</b>		
Usage fees	△ 5,341,014	
Handling fees	△ 1,359,098	
Other administrative service revenue	<u>△ 2,649,997</u>	
<b>Administrative service revenue total</b>		<b>△ 9,350,109</b>
<b>Ordinary national treasury (prefecture) expenditure</b>		<b><u>△ 23,304,399</u></b>
<b>(Balance) Net administrative cost</b>		<b><u>179,144,771</u></b>

\*From the Ministry of Internal Affairs and Communications format revised model form in Chapter 3 of the report of the Study Group on a New Local Public Accounting System (May 2006).

## State of Compilation of Balance Sheets (no. of organizations)



## 4 Revision of Reconstruction Legislation

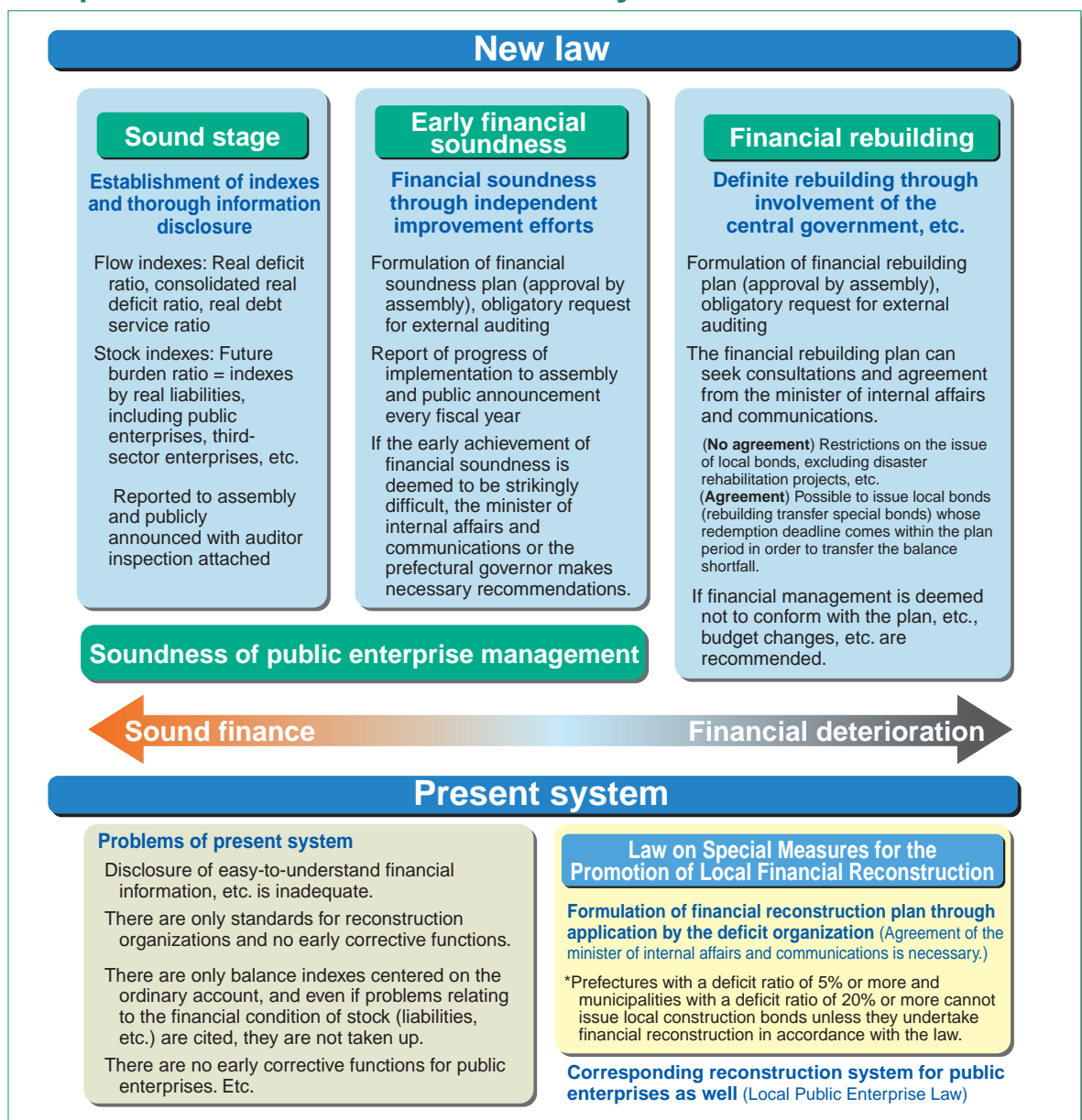
### Background of Revision

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

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

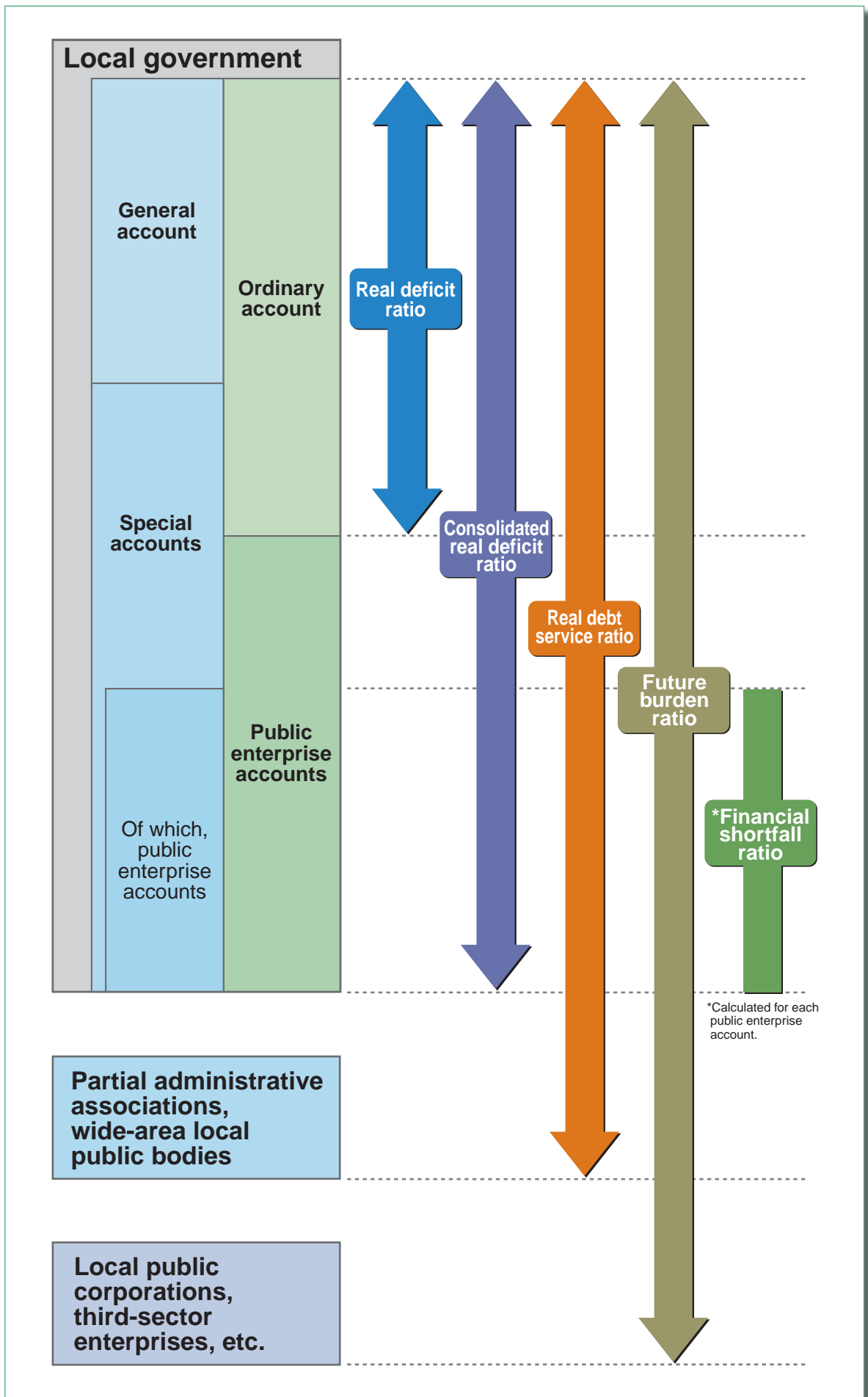
Therefore, the present system of local government financial reconstruction was drastically revised for the first time in about 50 years, and the Law Relating to the Financial Soundness of Local Governments (2007, Law No. 94) has been enacted as a new system to thoroughly establish and disclose financial indexes and to strive for the early soundness and rebuilding of financial affairs. Financial indexes will be enforced from a date stipulated by government ordinance within one year after the promulgation of the law, and other obligatory regulations will be enforced from April 2009.

### Comparison of New Law and Present System





## Scope of Financial Indexes in the New Law



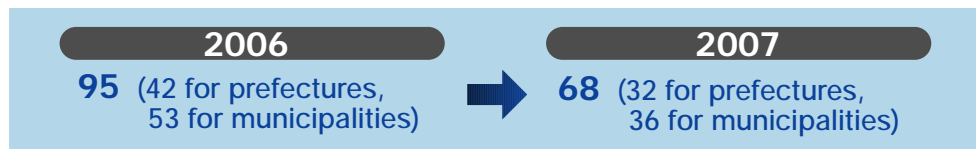
## 5 Reform of Local Allocation Tax Computation

### (1) Introduction of New Type of Local Allocation Tax

From the perspective of drastically simplifying the method of calculation of the local allocation tax and enabling forecasting of the local allocation tax, a new type of local allocation tax involving a simplified calculation based on population and area will be introduced from fiscal 2007.

The system has been designed to minimize the amount of fluctuation so that no difficulties arise in the financial management of local governments.

- ① Introduction of a new type of local allocation tax for computation of administrative fields for which there are no national standards or which are weak (about 10% of the standard financial demand amount)
- ② Reflection of administrative cost differences by population scale and form of land use, such as residential land and fields or paddies
- ③ 30% reduction of number of items in "individual estimated expenses" (previous type) through integration of expense items

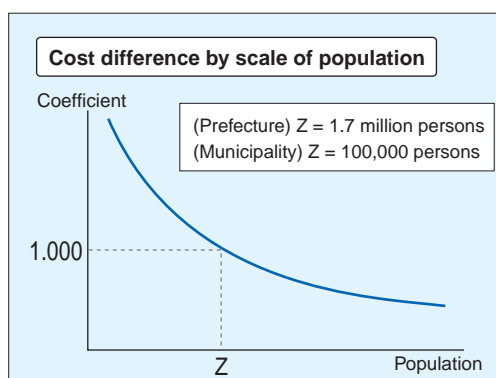


- ④ Ensuring of mechanism to respond to local governments that really do require consideration, such as remote islands and depopulated areas (establishment of local promotion expenses)

### Method of calculation

$$ax + by$$

a: ¥12,390 (prefecture), ¥23,220 (municipality)  
 b: ¥1,114,000 (prefecture), ¥2,357,000 (municipality)  
 x: Population reflecting cost difference by scale of population  
 y: Area reflecting cost difference by form of land use



Cost difference by form of land use	
<b>Prefecture</b>	Residential land: 1.00 (summary protocol of fixed asset price, etc.) Agricultural land: 2.87 (agriculture and forestry industry census) Forest: 0.60 (agriculture and forestry industry census) Other: 0.59 (other area announced by the Geographical Survey Institute)
<b>Municipality</b>	Residential land: 1.00 (summary protocol of fixed asset price, etc.) Fields and paddies: 0.90 (summary protocol of fixed asset price, etc.) Woodland: 0.25 (agriculture and forestry industry census) Other: 0.18 (other area announced by the Geographical Survey Institute)

# Integration and Revision of Estimated Expense Items

## (1) Prefecture

FY 2006

	Expense item	Unit of measurement	
Ordinary expenses	Police expenses	No. of police officers	
	Road and bridge expenses	Road area	
	River expenses	River length	
	Harbor expenses	Length of mooring facilities (harbor)	
		Length of mooring facilities (fishing port)	
	Other civil engineering expenses	Population	
	Elementary school expenses	No. of teachers	
	Junior high school expenses	No. of teachers	
	Senior high school expenses	No. of teachers	
		No. of students	
	Special education school expenses	No. of teachers	
		No. of classes	
	Other educational expenses	Population	
		No. of students in local public universities, etc.	
		No. of students in private schools, etc.	
	Livelihood protection expenses	Town and village area population	
	Social welfare expenses	Population	
	Hygiene expenses	Population	
	Elderly health and welfare expenses	Population aged 65 and over	
		Population aged 74 and over	
	Labor expenses	Population	
	Agriculture administration expenses	No. of farming households	
	Forestry administration expenses	Nonpublic forest area	
		Public forest area	
	Fisheries administration expenses	No. of fisheries businesses	
	Commerce and industry administration expenses	Population	
Tax collection expenses	No. of households		
Pension expenses	No. of people eligible to receive pensions		
Planning promotion expenses	Population		
Other expenses	Population		
Investment expenses	Road and bridge expenses	Road length	
	Harbor expenses	Length of auxiliary facilities (harbor)	
		Length of auxiliary facilities (fishing port)	
	River expenses	River length	
	Senior high school expenses	No. of students	
	Special education school expenses	No. of classes	
	Social welfare expenses	Population	
	Elderly health and welfare expenses	Population aged 65 and over	
	Agriculture administration expenses	Agricultural land area	
	Forestry administration expenses	Forest area	
Other expenses	Population		
	Area		

FY 2007

### 1. Individual estimated expenses (conventional type)

Expense item	Unit of measurement
Police expenses	No. of police officers
Road and bridge expenses	Road area
	Road length
River expenses	River length
Harbor expenses	Length of mooring facilities (harbor)
	Length of auxiliary facilities (harbor)
	Length of mooring facilities (fishing port)
	Length of auxiliary facilities (fishing port)
Other civil engineering expenses	Population
Elementary school expenses	No. of teachers
Junior high school expenses	No. of teachers
Senior high school expenses	No. of teachers
	No. of students
Special support school expenses	No. of teachers
	No. of classes
Other educational expenses	Population
	No. of students in local public universities, etc.
Livelihood protection expenses	Town and village area population
	Population
Social welfare expenses	Population
Hygiene expenses	Population
Elderly health and welfare expenses	Population aged 65 and over
	Population aged 75 and over
Labor expenses	Population
Agriculture administration expenses	No. of farming households
Forestry administration expenses	Nonpublic forest area
	Public forest area
Fisheries administration expenses	No. of fisheries businesses
Commerce and industry administration expenses	Population
Tax collection expenses	No. of households
Pension expenses	No. of people eligible to receive pensions
Community promotion expenses	Population

### 2. Comprehensive estimated expenses (new type)

Population
Area

## (2) Municipality

FY 2006

	Expense item	Unit of measurement	
Ordinary expenses	Fire-fighting expenses	Population	
	Road and bridge expenses	Road area	
	Harbor expenses	Length of mooring facilities (harbor)	
		Length of mooring facilities (fishing port)	
	Urban planning expenses	Population in urban planning zone	
	Park expenses	Population	
		Urban park area	
	Sewer expenses	Population	
	Other civil engineering expenses	Population	
	Elementary school expenses	No. of pupils	
		No. of classes	
		No. of schools	
	Junior high school expenses	No. of students	
		No. of classes	
		No. of schools	
	Senior high school expenses	No. of teachers	
		No. of students	
	Other educational expenses	Population	
		No. of children in kindergartens	
	Livelihood protection expenses	City area population	
	Social welfare expenses	Population	
	Public health and hygiene expenses	Population	
	Elderly health and welfare expenses	Population aged 65 and over	
		Population aged 74 and over	
	Waste disposal expenses	Population	
	Agriculture administration expenses	No. of farming households	
	Commerce and industry administration expenses	Population	
Other industrial and economic expenses	No. of workers in forestry, fisheries, and mining		
Tax collection expenses	No. of households		
Family register and basic residents' register expenses	No. of family registers		
	No. of households		
Planning promotion expenses	Population		
Other expenses	Population		
	Area		
Investment expenses	Road and bridge expenses	Road length	
	Harbor expenses	Length of auxiliary facilities (harbor)	
		Length of auxiliary facilities (fishing port)	
	Urban planning expenses	Population in urban planning zone	
	Park expenses	Population	
	Sewer expenses	Population	
	Other civil engineering expenses	Population	
	Elementary school expenses	No. of classes	
	Junior high school expenses	No. of classes	
	Senior high school expenses	No. of students	
	Other educational expenses	Population	
	Social welfare expenses	Population	
	Elderly health and welfare expenses	Population aged 65 and over	
	Waste-disposal expenses	Population	
	Agriculture administration expenses	No. of farming households	
	Other industrial and economic expenses	No. of workers in forestry, fisheries, and mining	
	Planning promotion expenses	Population	
	Other expenses	Population	
		Area	

FY 2007

### 1. Individual estimated expenses (conventional type)

Expense item	Unit of measurement
Fire-fighting expenses	Population
Road and bridge expenses	Road area
	Road length
Harbor expenses	Length of mooring facilities (harbor)
	Length of auxiliary facilities (harbor)
	Length of auxiliary facilities (fishing port)
Urban planning expenses	Population in urban planning zone
	Population
Park expenses	Population
	Urban park area
Sewer expenses	Population
Other civil engineering expenses	Population
Elementary school expenses	No. of pupils
	No. of classes
	No. of schools
Junior high school expenses	No. of students
	No. of classes
	No. of schools
Senior high school expenses	No. of teachers
	No. of students
Other educational expenses	Population
	No. of children in kindergartens
Livelihood protection expenses	City area population
Social welfare expenses	Population
Public health and hygiene expenses	Population
Elderly health and welfare expenses	Population aged 65 and over
	Population aged 75 and over
Waste-disposal expenses	Population
Agriculture administration expenses	No. of farming households
Forestry and fisheries administration expenses	No. of workers in forestry and fisheries
Commerce and industry administration expenses	Population
Tax collection expenses	No. of households
Family register and basic residents' register expenses	No. of family registers
	No. of households
Community promotion expenses	Population
	Area

### 2. Comprehensive estimated expenses (new type)

Population
Area

## (2) Support Program for Local Governments Making Efforts

Support measures, such as the local allocation tax, will be adopted for local governments that think up original projects by themselves and tackle them in a forward-looking manner so that enthusiastic local governments can freely develop their own policies and thereby transform their districts into attractive regions.

### Formulation and announcement of projects by local governments

- Local governments will formulate their own original projects (setting specific performance targets) and announce them to residents.
- The Ministry of Internal Affairs and Communications will announce the projects of local governments on its website.
- Project applications will be accepted for three years from FY 2007 to FY 2009.

### Support measures through the local allocation tax (about ¥300 billion)

- Special allocation tax measures will be adopted to help municipalities cover the expenses incurred in tackling the project.
- The results of the efforts (the performances indexes cited below) will be reflected in the calculation of the regular local allocation tax.

- |                                     |   |
|-------------------------------------|---|
| ● Administrative reform index       | ● In-coming population                                  |
| ● Agricultural production value     | ● Annual merchandise sales value of the retail industry |
| ● Manufactured goods shipment value | ● Employment rate for young people                      |
| ● No. of businesses                 | ● Waste-disposal volume                                 |
| ● Birthrate                         |   |

- Local allocation tax measures for the promotion of company location

### Support measures through cooperation with related ministries

- Through cooperation with the Ministry of Agriculture, Forestry and Fisheries, the Ministry of Economy, Trade and Industry, and the Ministry of Land, Infrastructure and Transport, consideration will be given to the priority selection of subsidy schemes, etc. relating to information and communications, symbiosis and circulation between urban and rural areas, export promotion of agricultural, forestry, and marine products and production-area brand formation, programs for the utilization of local resources by small and medium-sized companies, the promotion of company location, the promotion of tourism and exchange, the rejuvenation of local bus services and so on, etc.

## Examples of Support for Projects Formulated by Local Governments

### 1 Local Management Reform Project

Support is given to local governments that strive to realize simple and efficient administration through administrative and financial reforms, such as administrative organization and management reform, and create new vitality in the community.

### 6 Tourism Promotion and Exchange Project

Support is given to local governments that tackle local vitalization and exchange by, for example, promoting symbiosis and circulation between urban areas and rural and fishing villages, local consumption of local products, and dietary education and attracting foreign tourists.

### 2 Local Product Discovery and Brand Formation Project

Support is given to local governments that endeavor to strengthen the base of local industries through the discovery, utilization, branding, and so on of indigenous local resources, such as local products, nature, history, culture, and scenery, and build local attractions.

### 7 Community Regeneration Project

Support is given to local governments that tackle the revitalization of central urban areas as a part of community development and the realization of lively communities that are pleasant to live in for all people, including the elderly and children.

### 3 Low Birthrate Countermeasures Project

Support is given to local governments that tackle low birthrate countermeasures in a comprehensive and multilateral manner, such as the expansion of local child-raising support, the establishment of an environment in which women can give birth without anxiety, and the reform of ways of working to enable people to balance work and child raising.

### 8 Young People's Independence Support Project

Support is given to local governments that promote the occupational independence of young people, including NEETs (not in employment, education, or training) and freeters (job-hopping part-timers), and offer, for example, assistance for employment in the agriculture, forestry, and fisheries industries.

### 4 Company Location Promotion Project

Support is given to local governments that endeavor to attract domestic companies, foreign companies, and companies making a U-turn from overseas to locate in the locality and thereby to strengthen local vitality and competitiveness.

### 9 Safe and Secure Community Development Project

Support is given to local governments that, among other things, promote measures to protect children from crime, crime-prevention activities by the local community, the healthy upbringing of young children, and local disaster-prevention measures, such as large-scale earthquake countermeasures.

### 5 Settlement Promotion Project

Support is given to local governments that strive to promote settlement by providing people who wish to make a U- or I-turn, such as members of the baby-boom generation and young people, with places where they can enjoy a healthy life in the countryside, achieve self-realization, or make a return contribution to society.

### 10 Environmental Preservation Project

Support is given to local governments that make efforts toward energy saving, the development of new energy sources, the adoption of global-warming countermeasures, and the building of a recycle society, such as by promoting the 3Rs (reduce waste, recycle, reuse), as well as toward symbiosis with nature.



# White Paper on Local Public Finance 2007

FY 2005 Settlement

## Illustrated

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