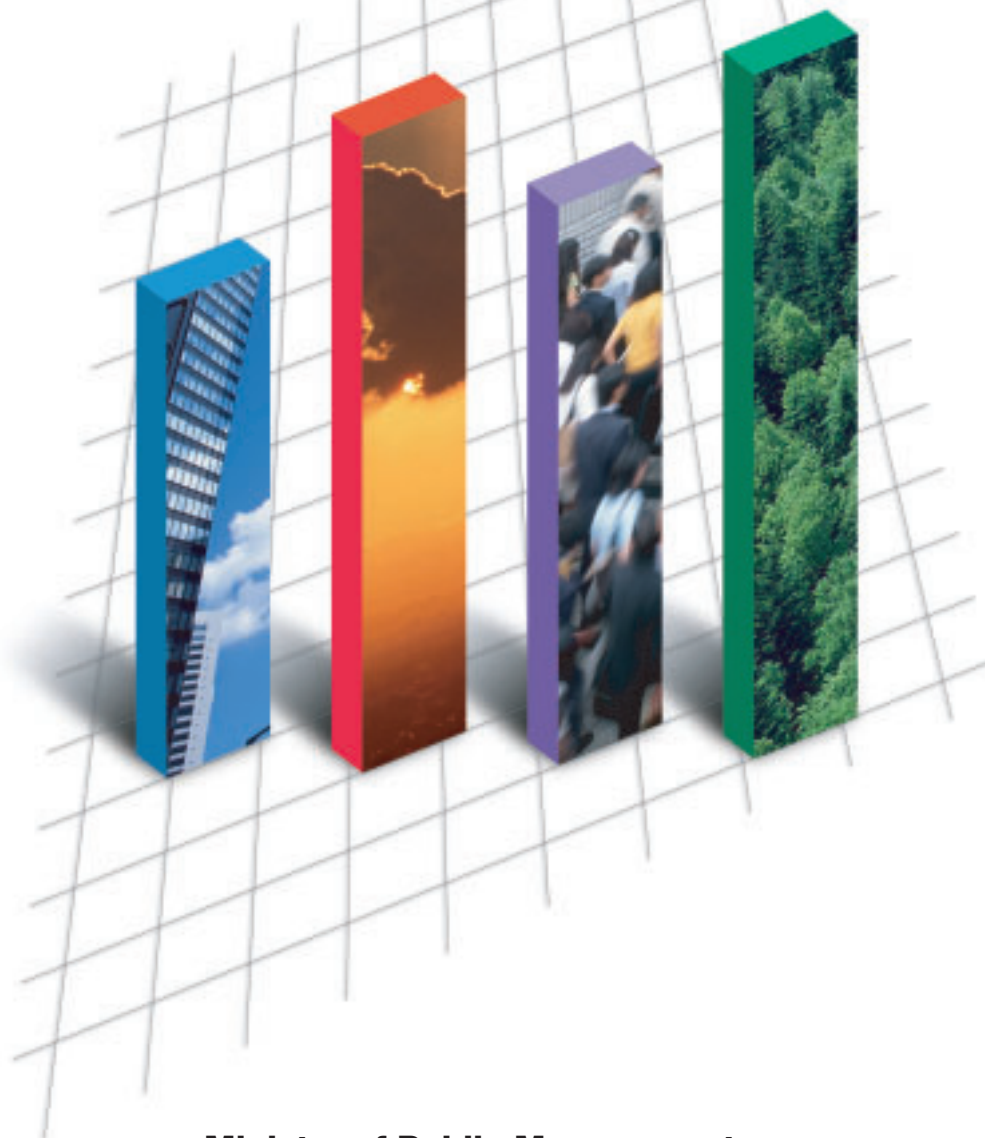


FY 2001 Settlement

White Paper on Local Public Finance, 2003

Tentative Translation

Illustrated



**Ministry of Public Management,
Home Affairs, Posts and Telecommunications,
The Japanese Government**



The Role of Local Public Finance

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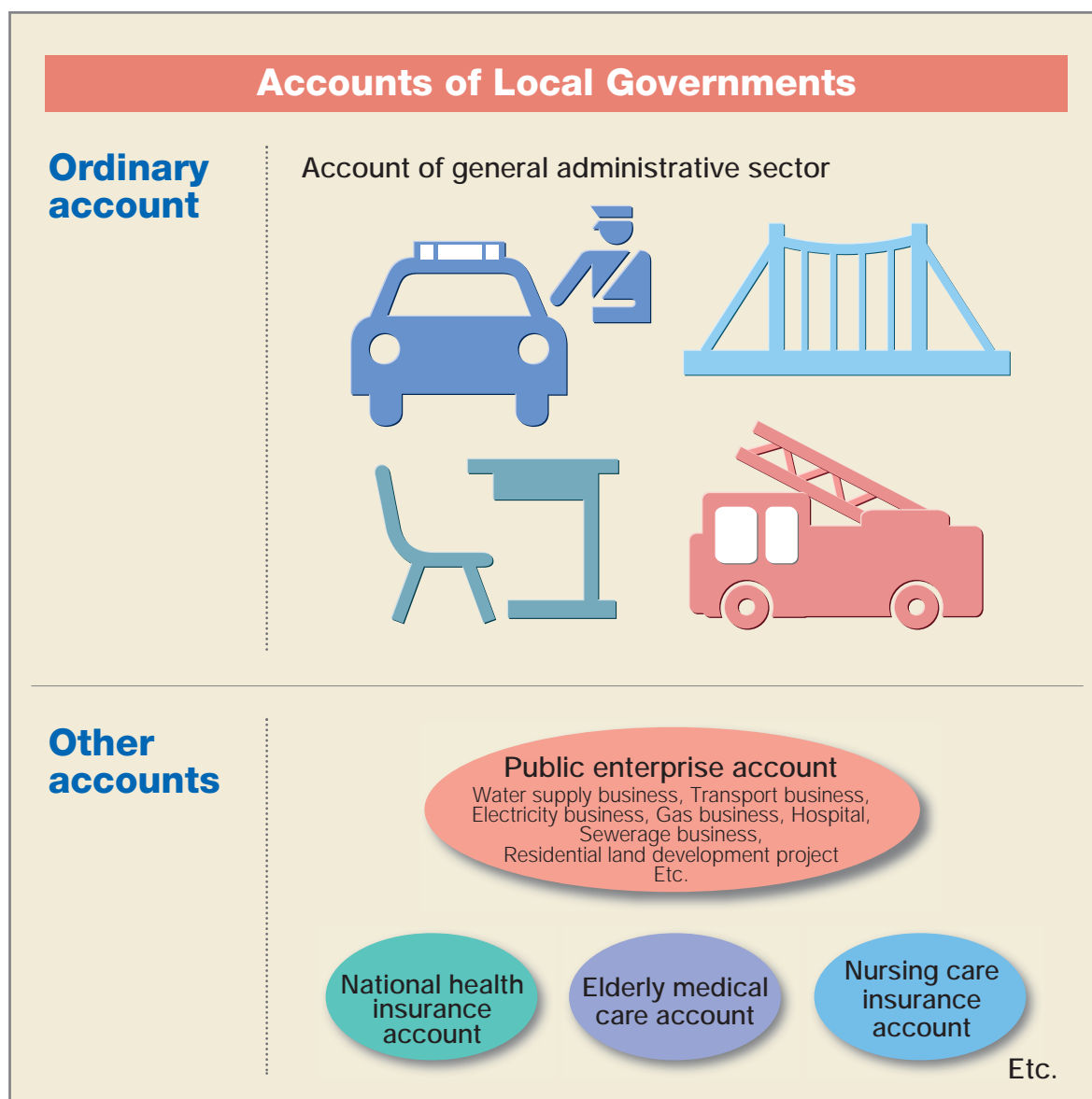
The Role of Local Public Finance

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

Regarding local public finance, which is the totality of the finances of local governments, we introduce here the state of settlement for fiscal 2001, efforts toward financial soundness of the local public entities, and so on, with the focus on the ordinary account.

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

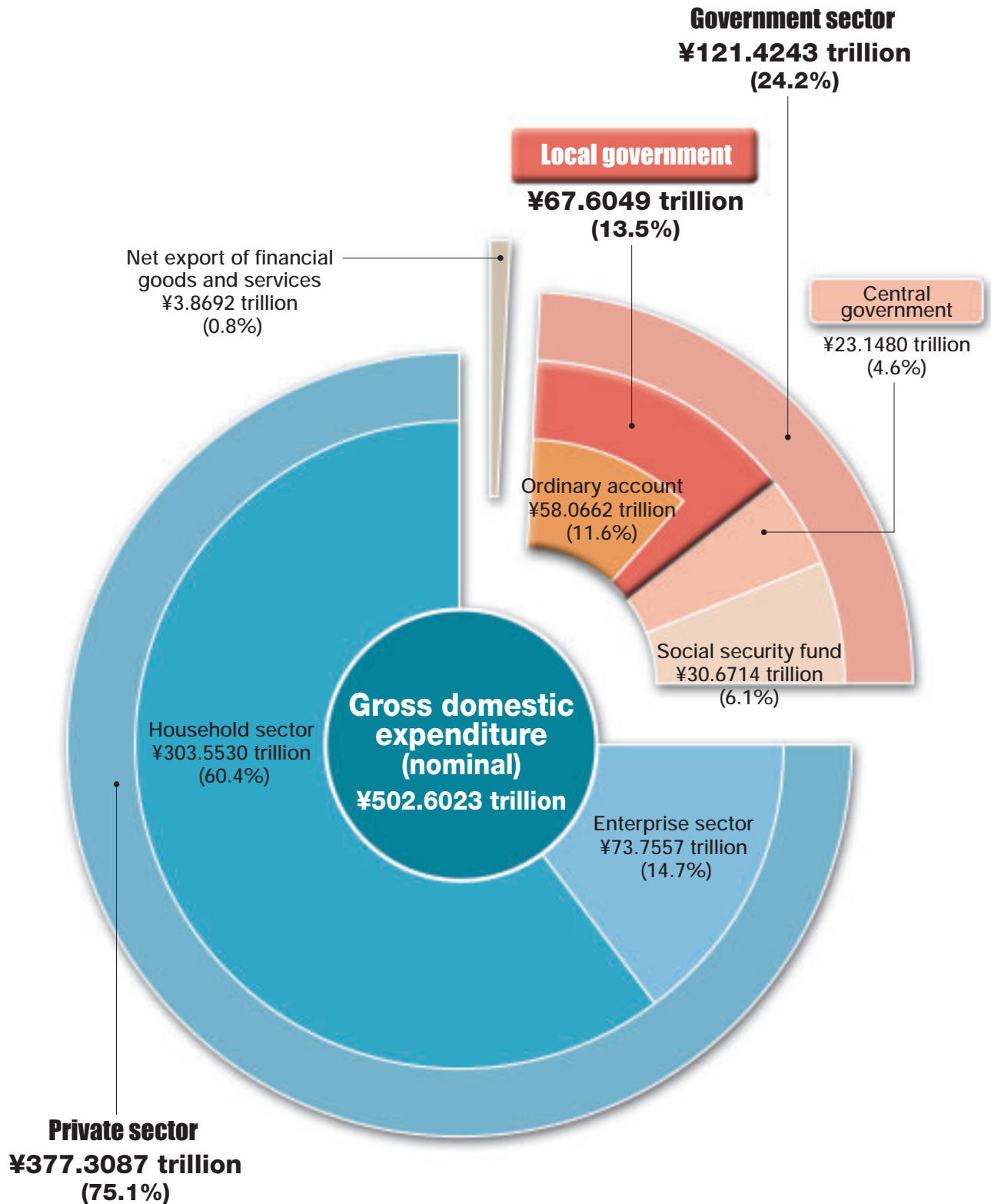
We have adopted a uniform method in the settlement account statistics and classify accounts as an ordinary account, which covers the general administrative sector, and other accounts. This enables us to make a statistical comparison of local governments even though the account classification of local governments is not uniform.



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

Looking at the ratio of local public finance to gross domestic expenditure, we see that the ratio of the local government sector is 13.5% , and it is about three times larger than the ratio of the central government.

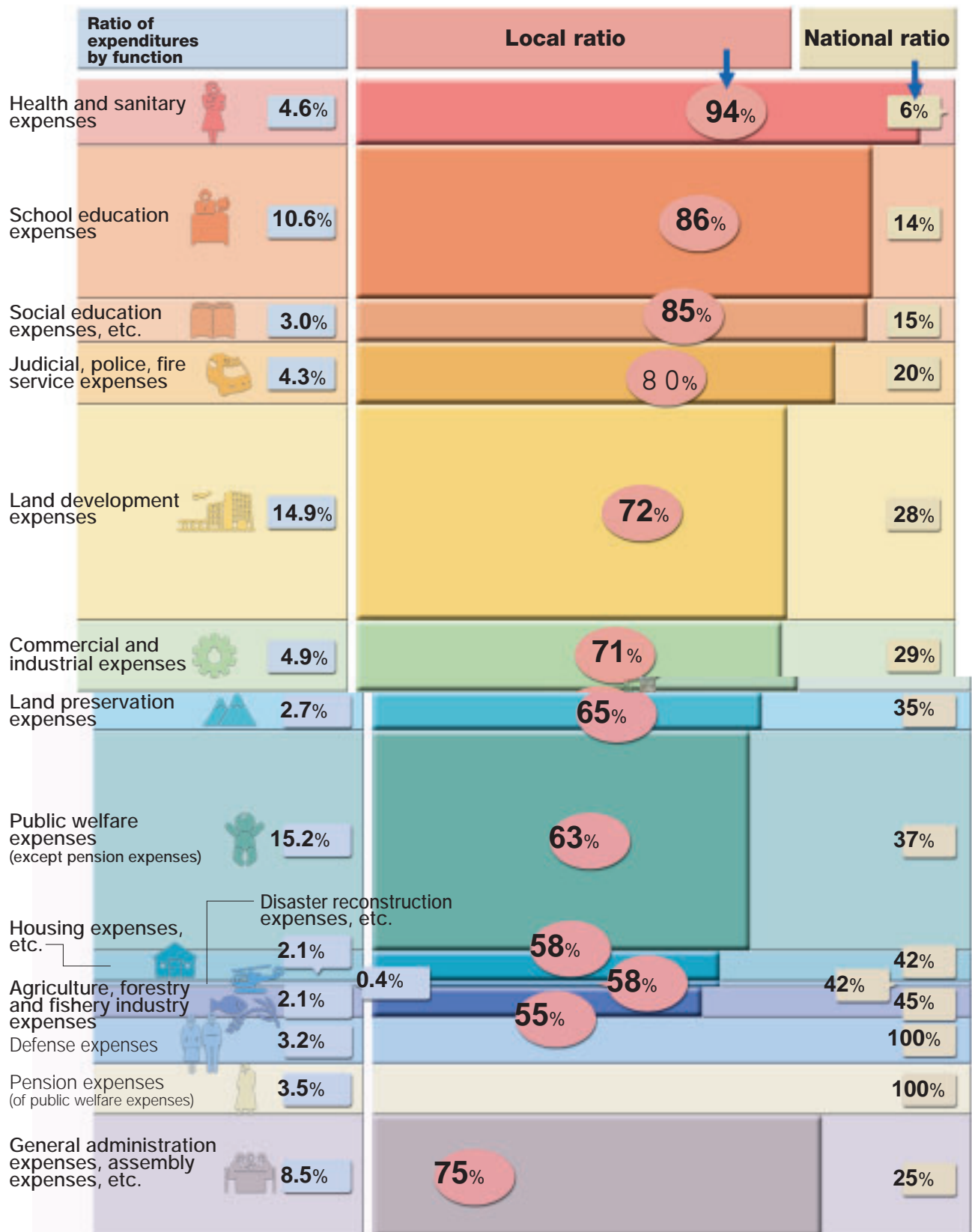
Gross Domestic Expenditure and Local Public Finance



In which fields are local expenditure ratios high?

Local expenditure ratios are higher in the areas that have a close relationship with daily life, 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)



Revenue

Where does the money for local government activities come from?

1. Revenue Breakdown

Local taxes account for about one-third of the revenue of local governments, followed by the local allocation tax, national treasury disbursements and local loans.

Revenue Breakdown (FY 2001)

General Revenue Resources

Local taxes, the local allocation tax and so on are called general revenue sources since their uses are not specified. It is extremely important for local governments to secure general revenue resources in order to respond to 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.

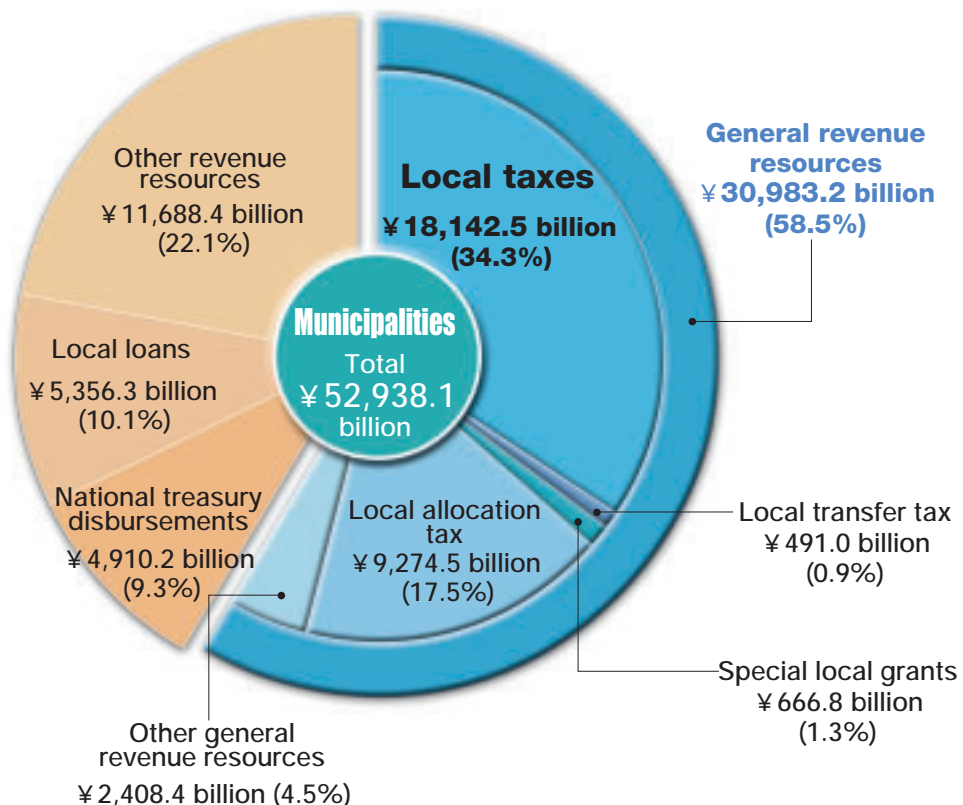
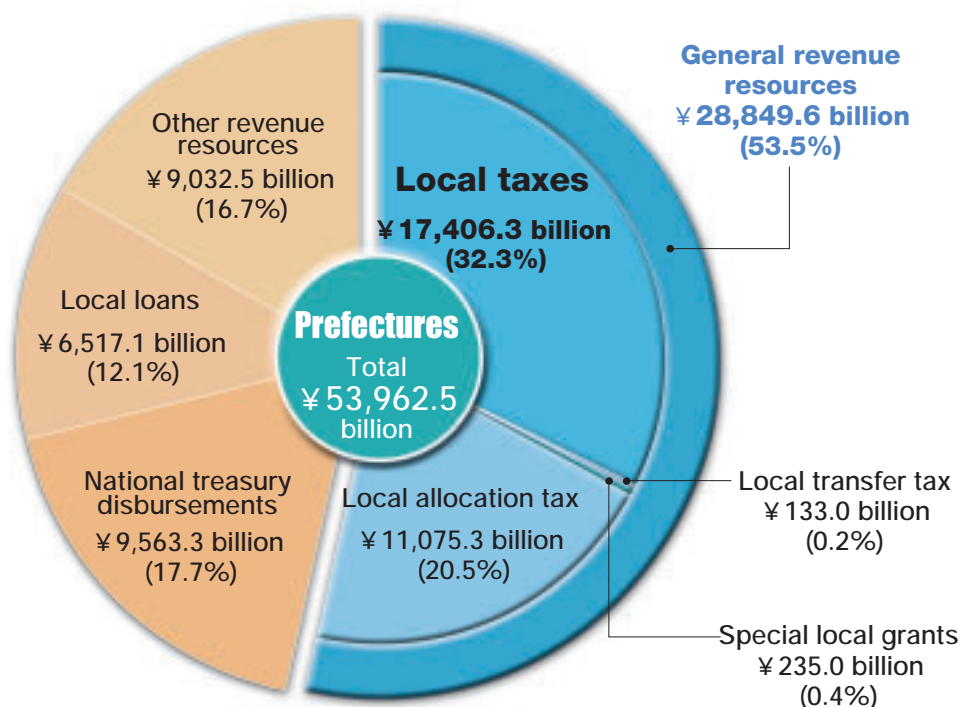
Local allocation tax An intrinsic revenue source shared by local governments in order to adjust imbalances in tax revenue among local governments and to guarantee revenue sources so that local governments in whatever region can provide a certain level of administrative services. Calculated as a certain ratio of five national taxes. (See pages 8 and 9 for details.)

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

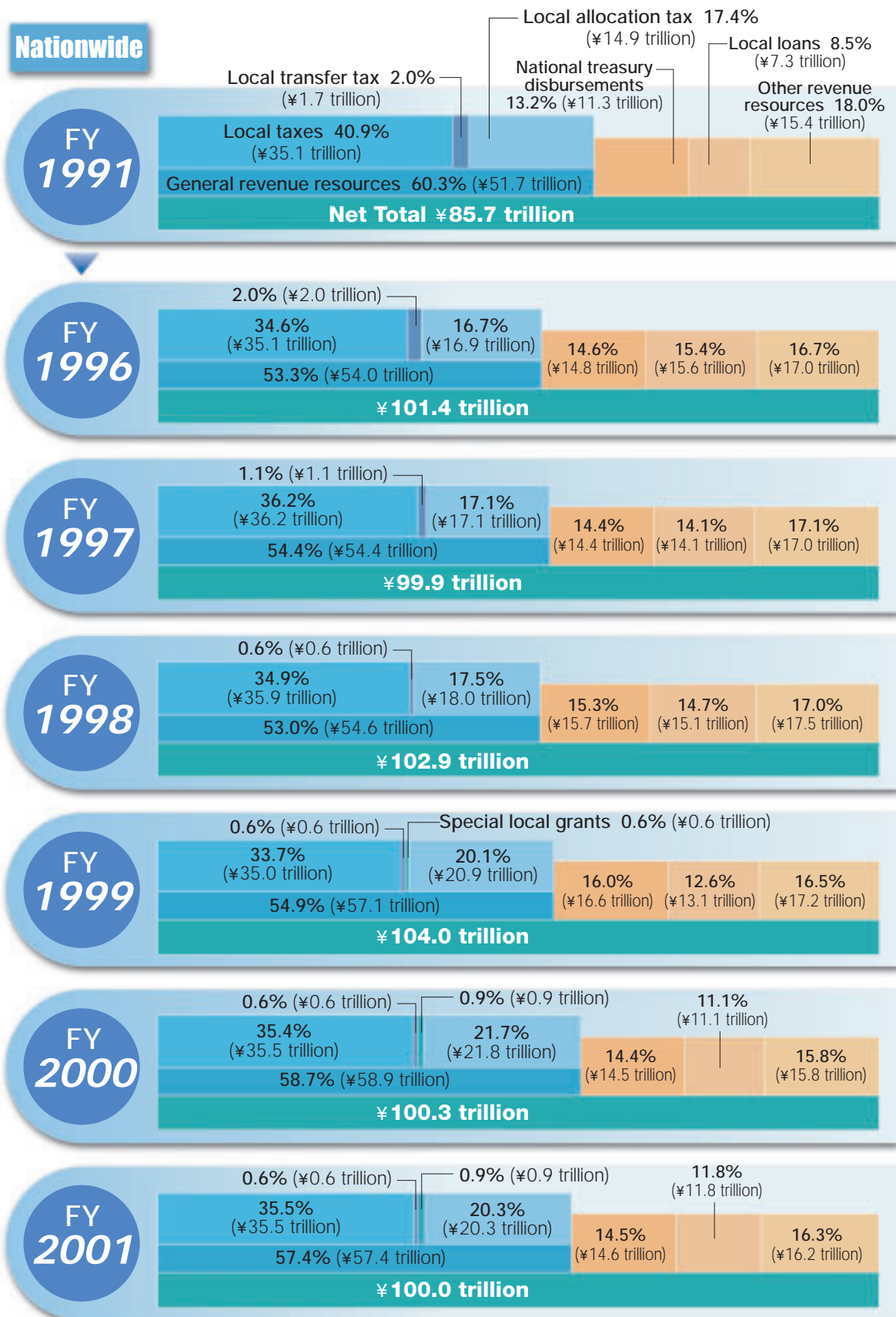
Local loan Borrowing of local governments not redeemed within the fiscal year.

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 pages 18-20.)
2. The figures for each item are rounded off under the given unit. Therefore, they do not necessarily add up exactly to the total.



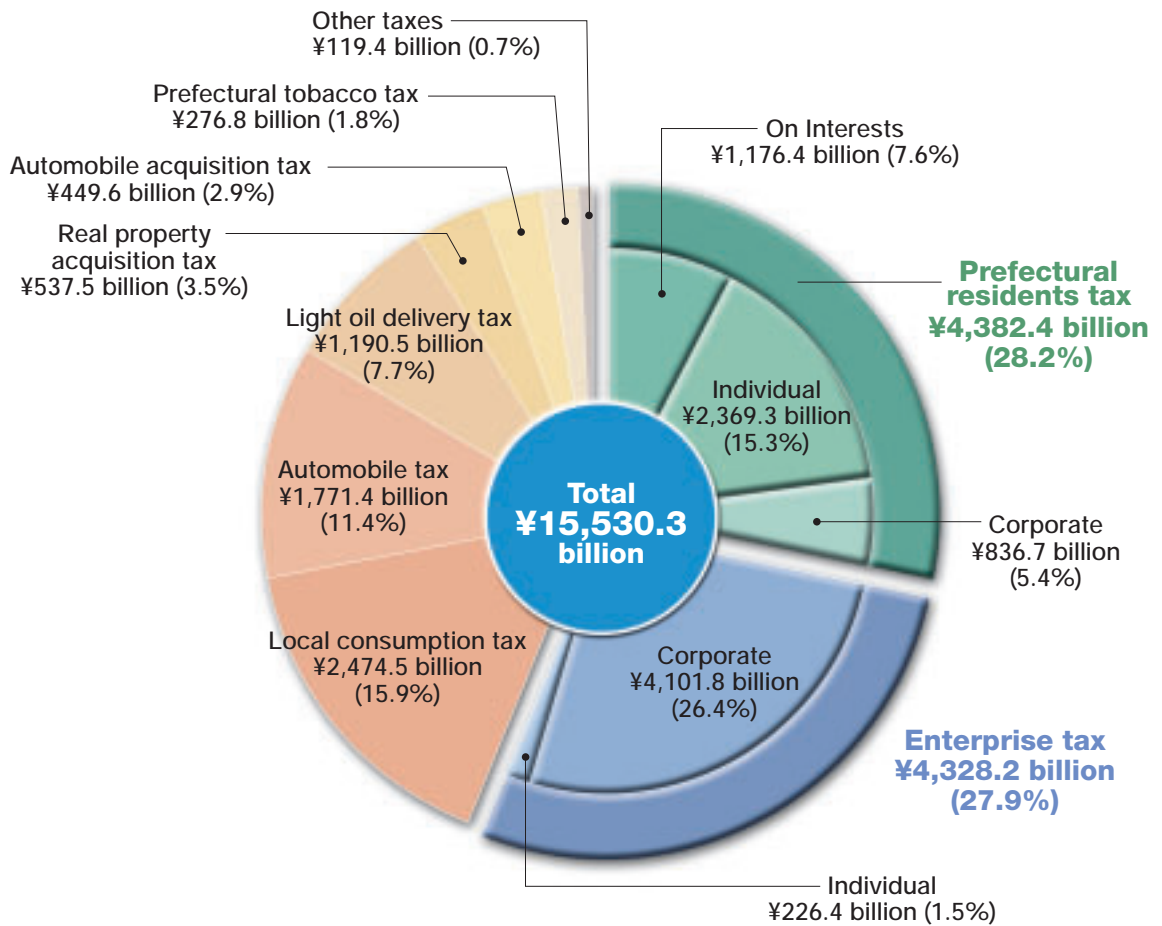
2. Revenue Trends



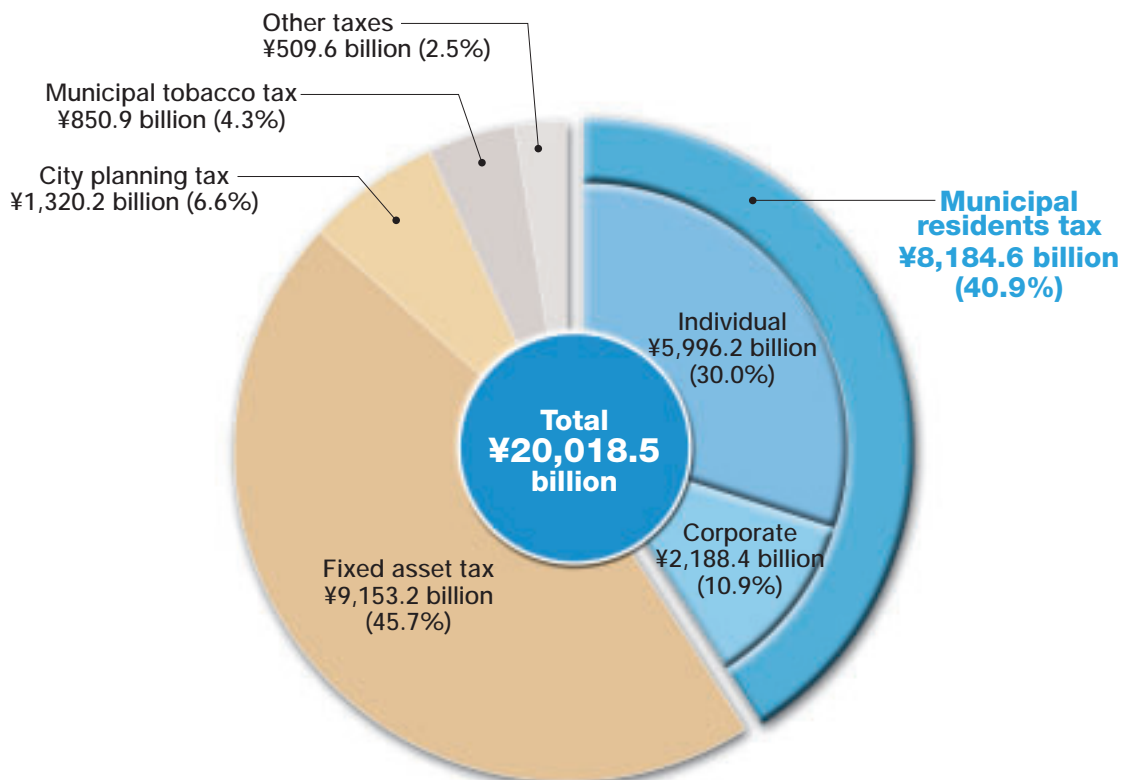
3. Local Taxes

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 2001 settlement)



Composition of Revenue from Municipal Taxes (FY 2001 settlement)

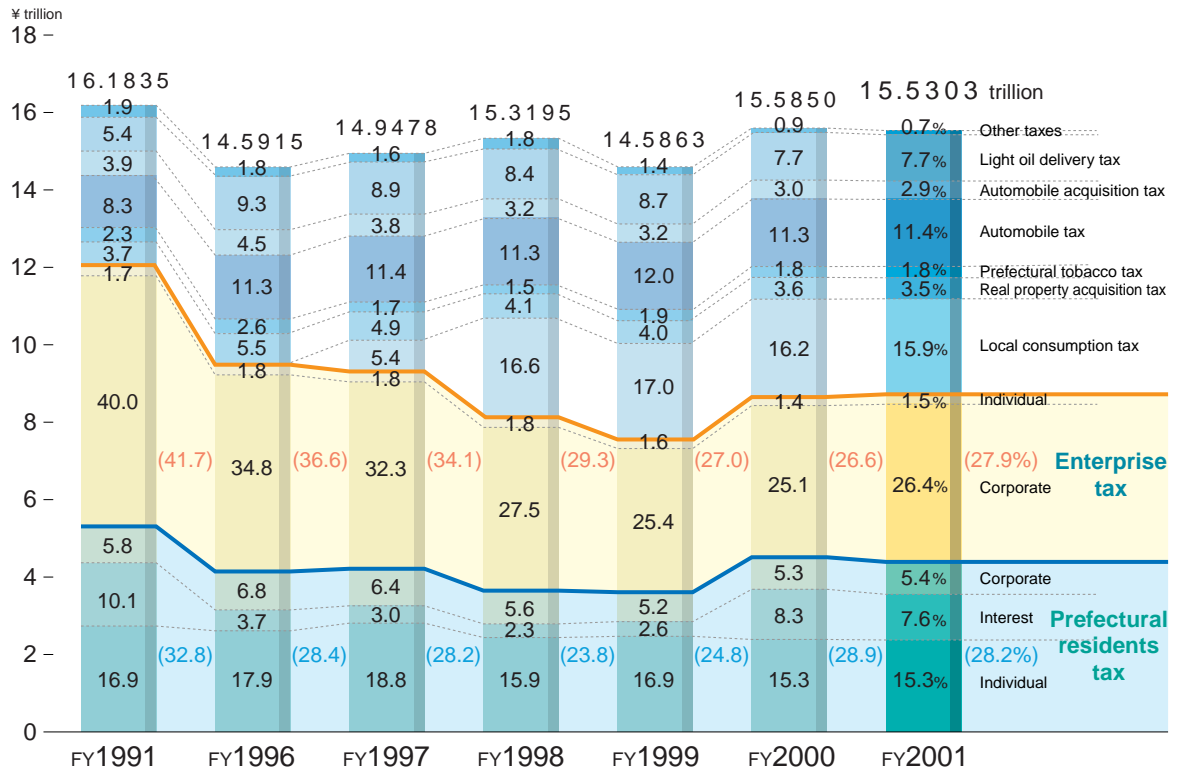


Among prefectural taxes, the ratios of the two corporate taxes (corporate business tax and corporate prefectural residents tax) are high. Among municipal taxes, the ratios of the fixed asset tax and individual municipal residents tax are high.

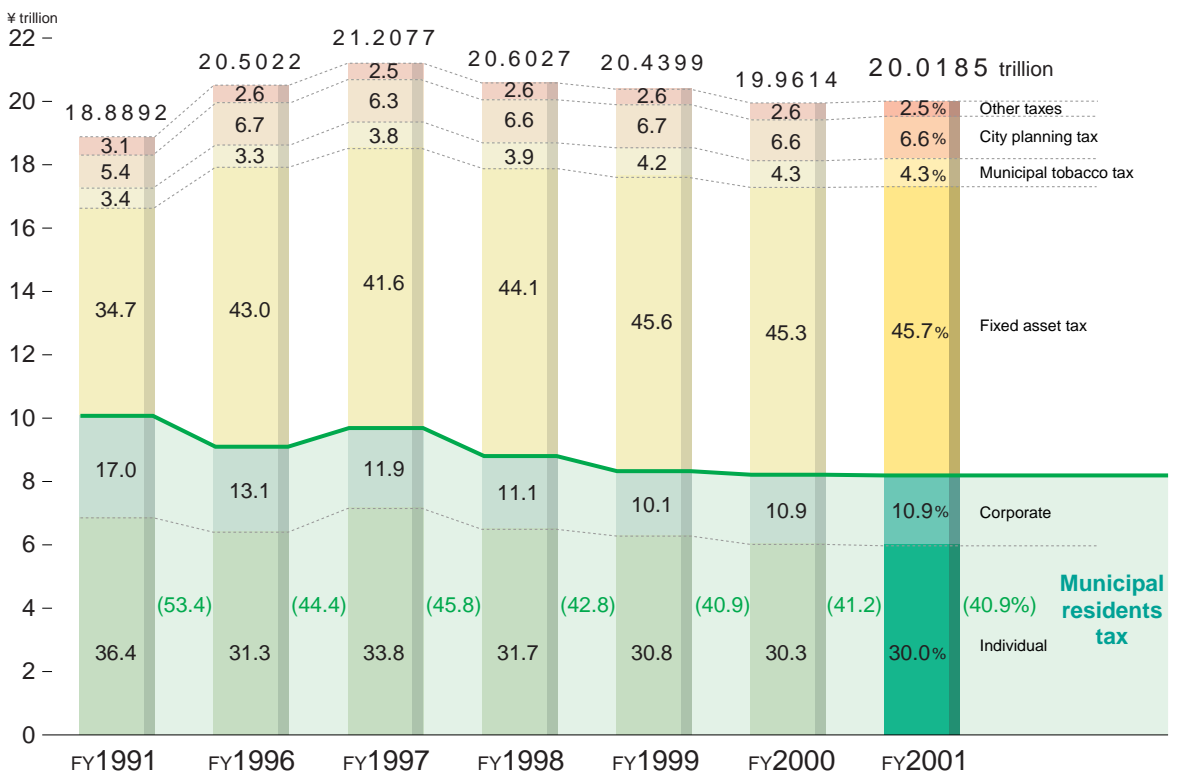
The two corporate taxes are impacted by the business cycle, so the tax revenue from prefectural taxes is less stable.

On the other hand, municipal tax revenue has been relatively stable, although it has been on a downward trend since fiscal 1998.

Prefectural Taxes Trend



Municipal Taxes Trend



4. Local Allocation Tax

The local allocation tax is an intrinsic local revenue source aimed at adjusting imbalances in the revenue sources of local governments and ensuring revenue so that local governments can provide a standard level of administrative services and make basic public investment for people in whatever region. In order to maintain the autonomy of local governments, the local governments themselves are free to decide how the local allocation tax is used, in the same way that they do on the use of the local taxes that they collect by themselves.

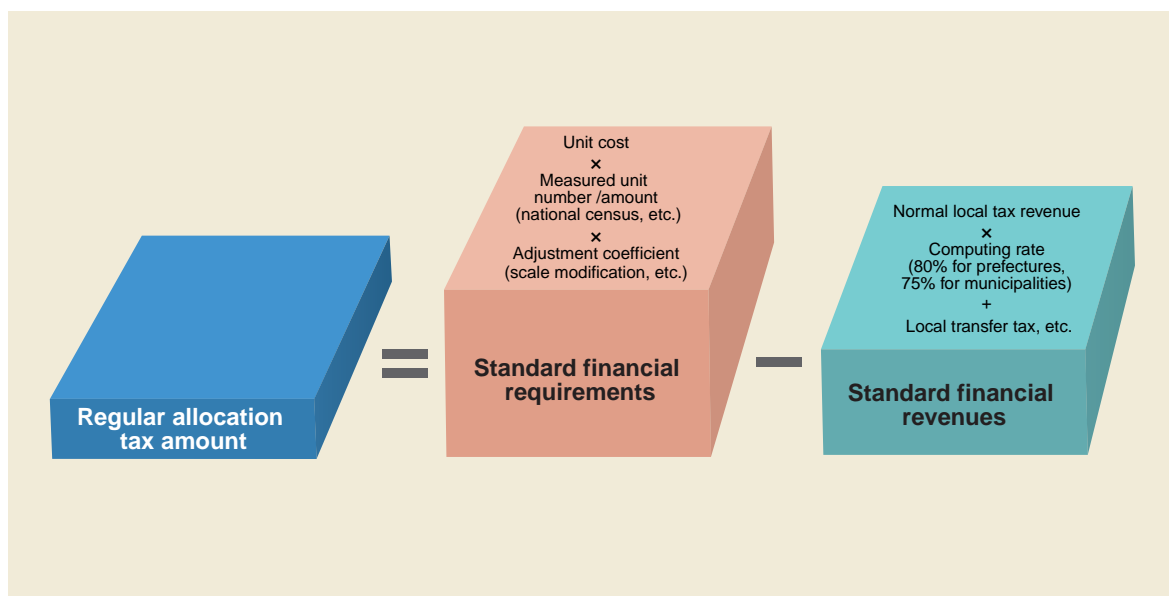
From the perspective of local autonomy, essentially it would be the ideal for each local government itself to secure the revenue sources necessary for administrative activities through local taxes collected from their residents. However, there are regional imbalances in tax revenue, and many local governments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

1 Determination of total amount

The total amount of the local allocation tax is determined on the basis of certain ratios of five national taxes (32% for income tax, corporate tax and liquor tax, 29.5% for consumption tax and 25% for tobacco tax [revised to 35.8% for the time being for corporate tax from fiscal 2000]) and on the basis of estimates of standard revenue and expenditure of local public finance as a whole.

2 Method of calculation of ordinary local allocation tax for each local government

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

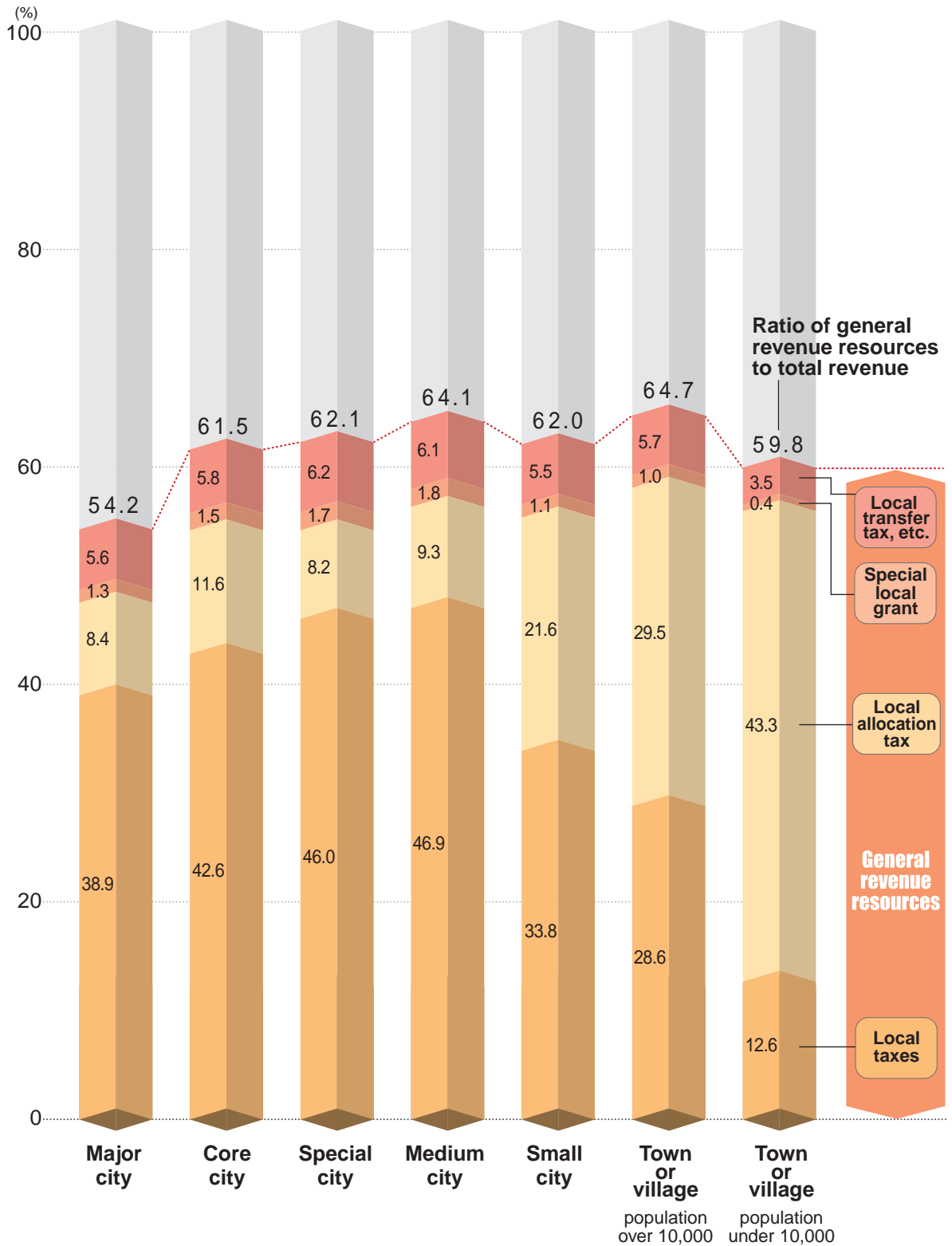


Notes:

1. Standard financial requirements are calculated as the financial requirements of each local government based on rational and appropriate standards. It is a duty to include the local share of the national treasury projects, such as compulsory education, public assistance and public works, in calculating the standard financial requirements. From fiscal 2001 to fiscal 2003, part of the standard financial requirements is being transferred to special deficit-financing bonds (extraordinary financial countermeasures bonds) under Article 5 of the Local Finance Law.
2. Normal local tax revenue neither includes non-statutory ordinary taxes and non-statutory special purpose taxes taxed independently by the local government nor excess tax that exceeds the standard tax rate stipulated in the Local Tax Law. From fiscal 2003 the calculation rate for both the prefectural portion and the municipal portion is 75%.

As a result of the financial adjustment, the ratio of general revenue resources to total revenue does not differ greatly among municipalities regardless of population, etc.

Ratio of General Revenue Resources to Total Revenue for Municipalities



Note:

A "major city" is a city that has received designation under Article 252-19-1 of the Local Autonomy Law. A "core city" is a city that has received designation under Article 252-22-1 of the Local Autonomy Law. A "special city" is a city that has received designation under Article 252-26-3-1 of the Local Autonomy Law. A "medium city" is a city other than the major cities, core cities, and special cities that had a population in its administrative area as of March 31, 2002, of 100,000 persons or over according to the national census report of 2000. A "small city" is a city with a population of less than 100,000 persons under the same conditions.

Expenditure

What is revenue being expended for?

1. Expenses by Function

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

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

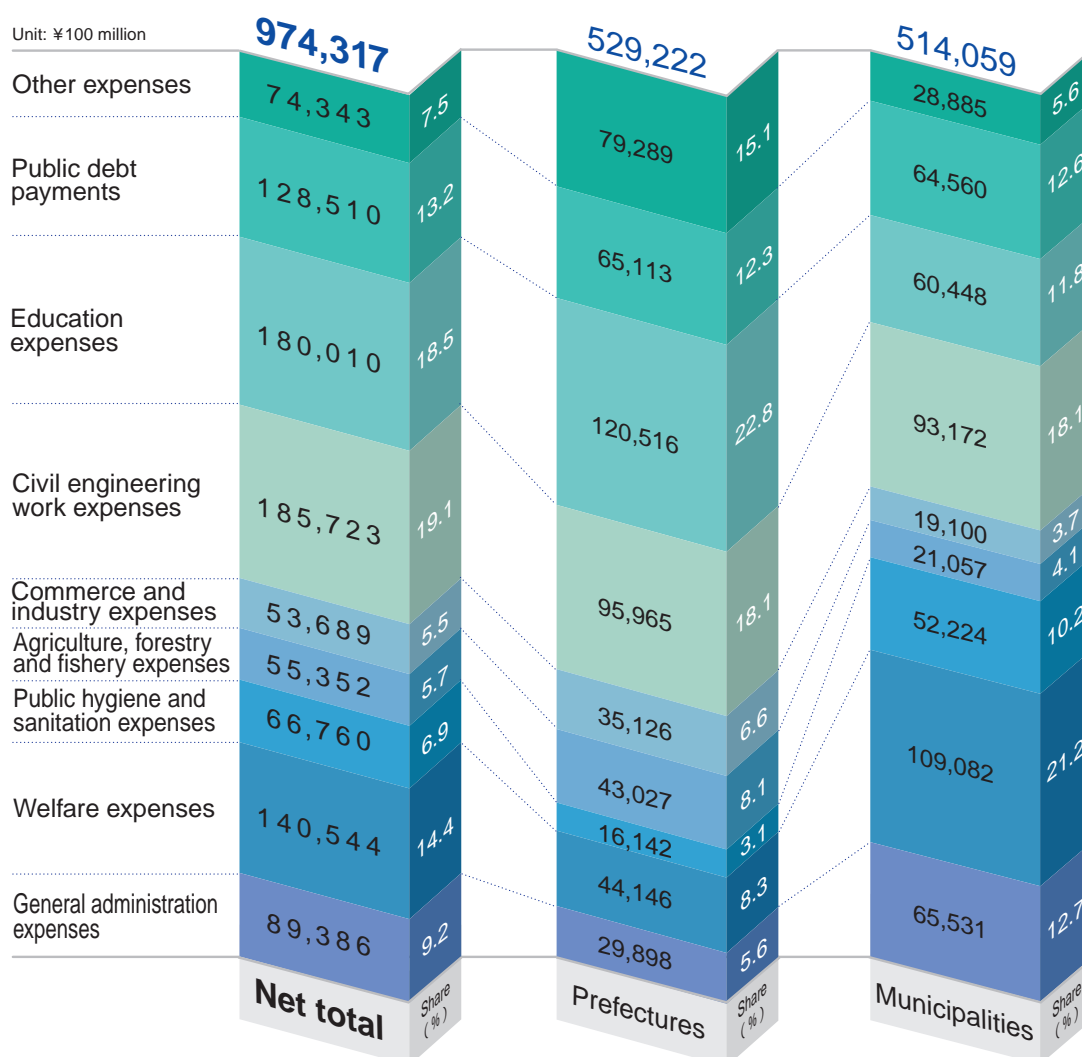
Education expenses: Expenses for school education, social education, etc.

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

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

General administration expenses: Expenses for retirement allowances (excluding those covered by police expenses and education expenses), fund reserves, taxation, etc.

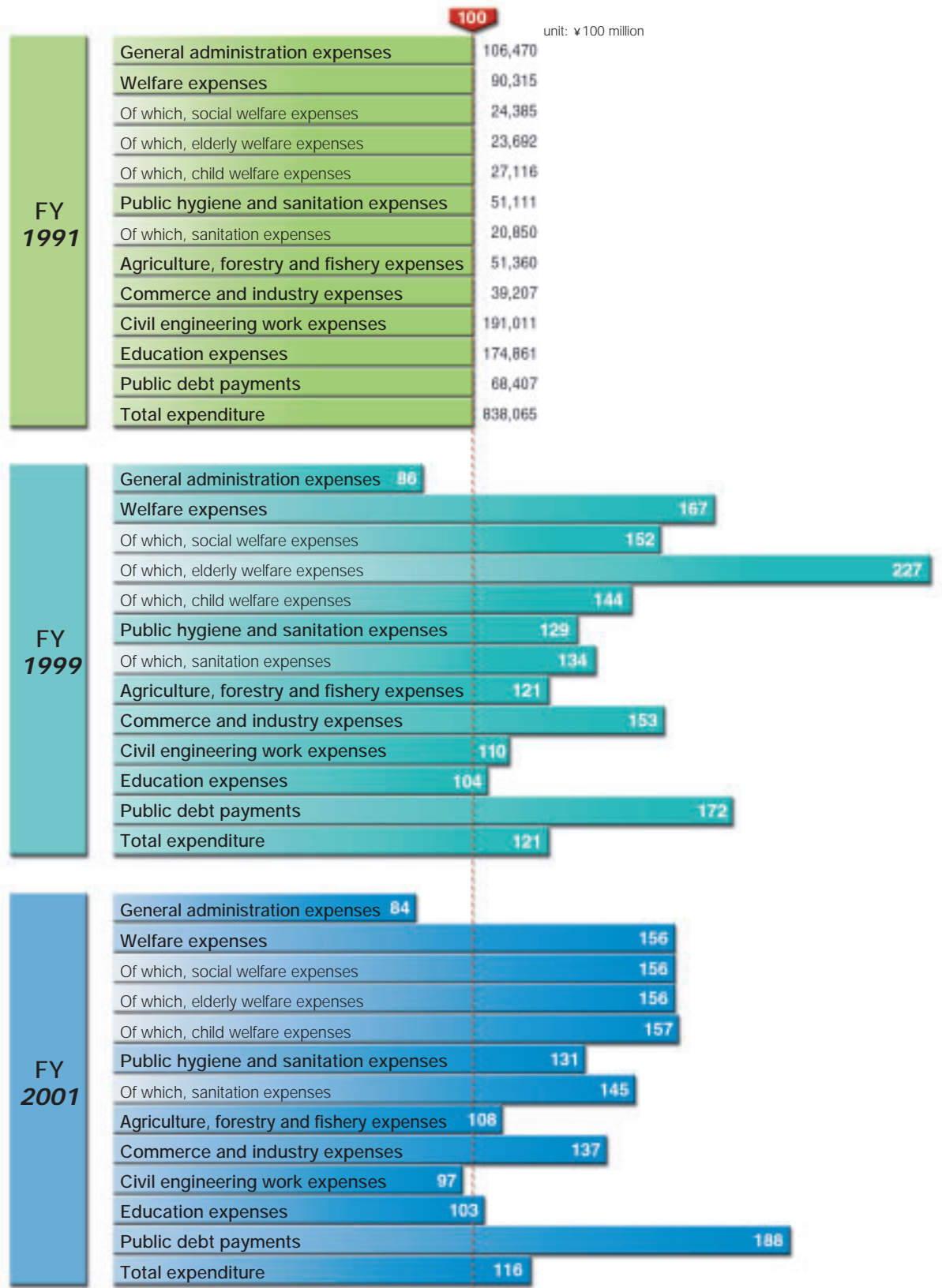
Composition of Expenditure by Function (FY 2001)



Welfare expenses and public debt payments have been increasing in recent years.

Trends in Expenditures by Function (ordinary account net total)

Unit: Ratio with FY 1991 as 100.

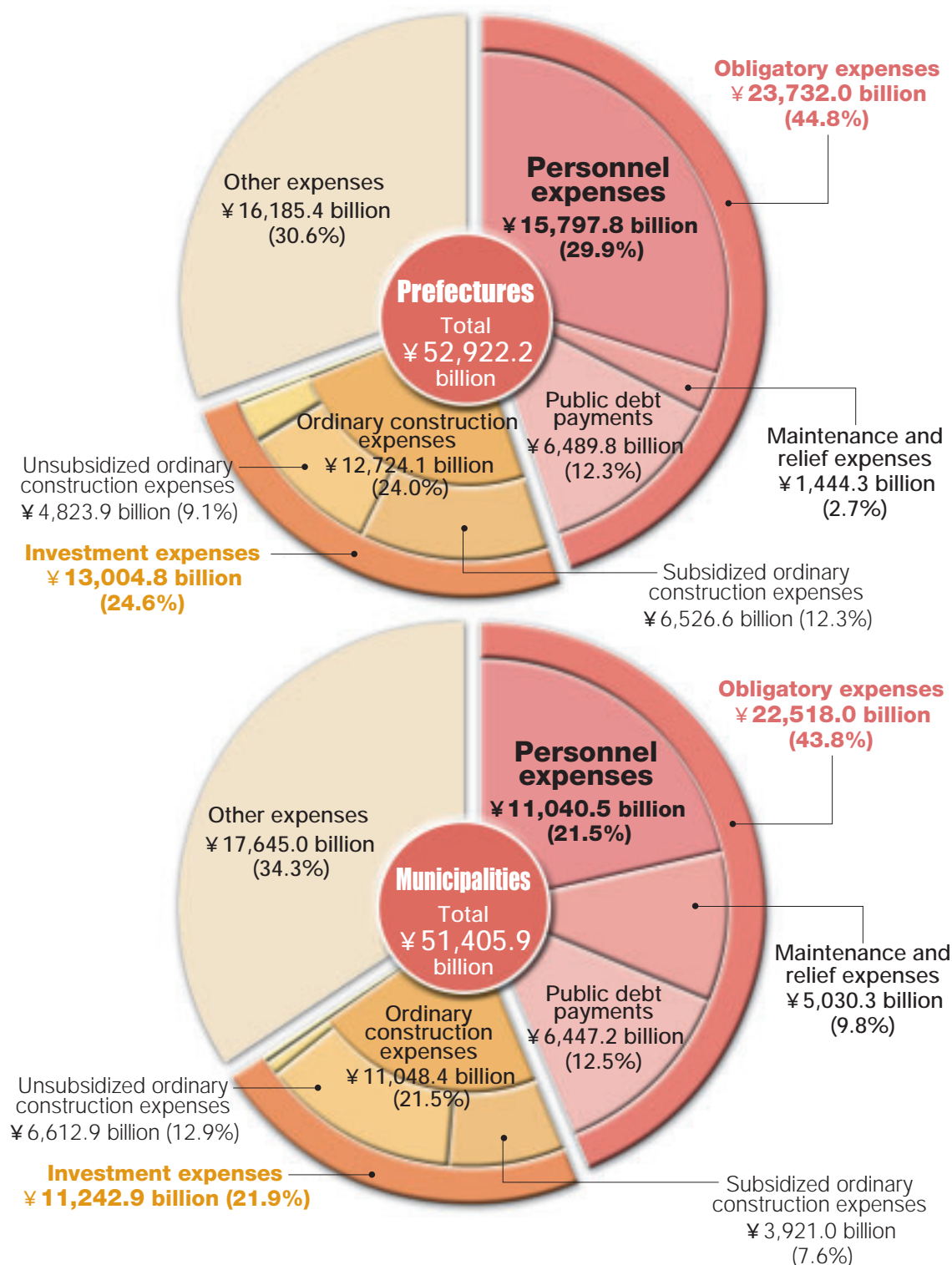


What are expenses for?

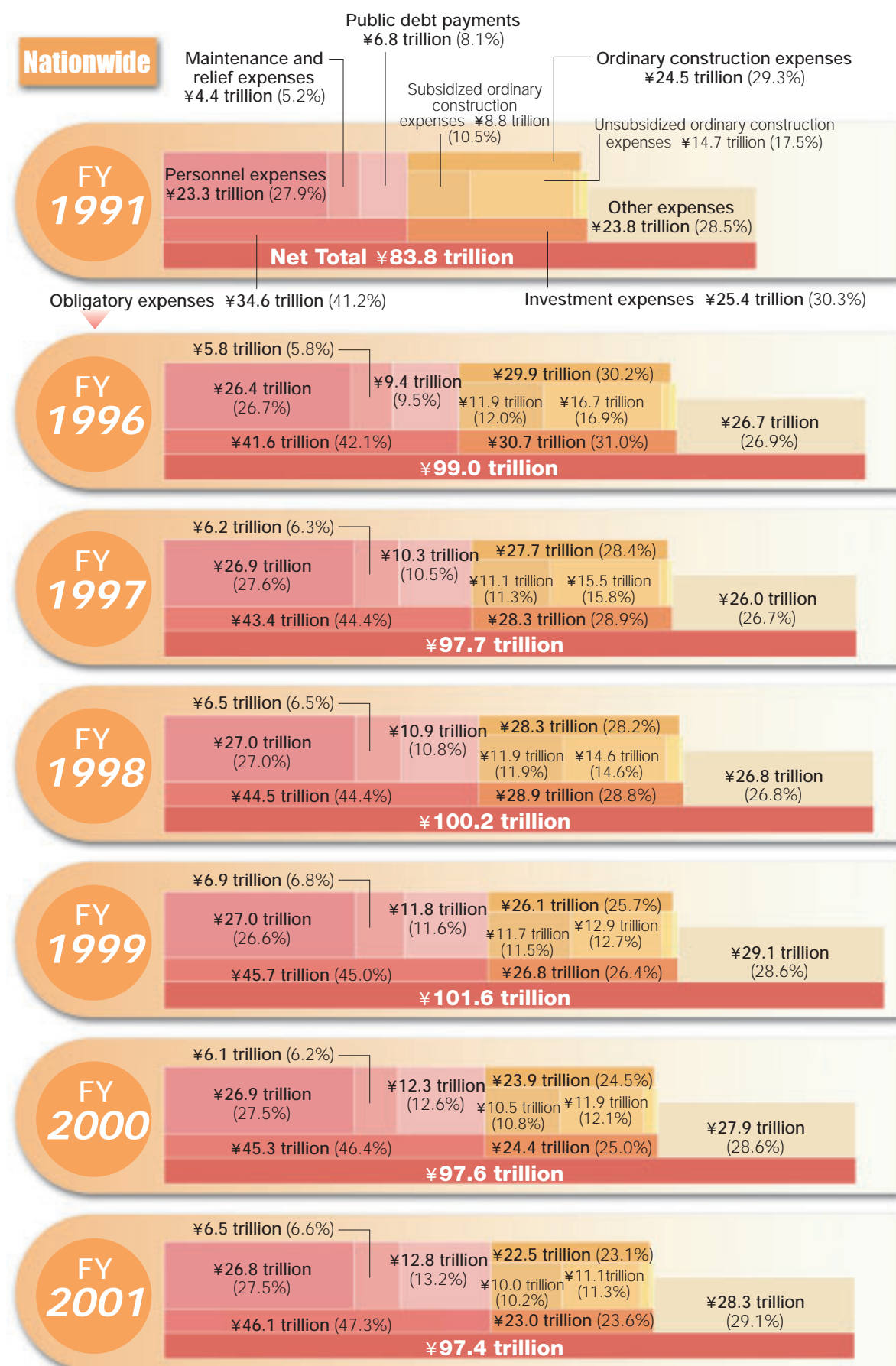
2. Expenses by Character

Classified by character, expenses can be divided into "obligatory expenses" (personnel expenses, maintenance and relief expenses and public debt payments), which are obligatory and difficult to cut down spontaneously; "investment expenses," including ordinary construction expenses, etc.; and "other expenses."

Expenditure by Character (FY 2001)



Trends in Expenditures by Character



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

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

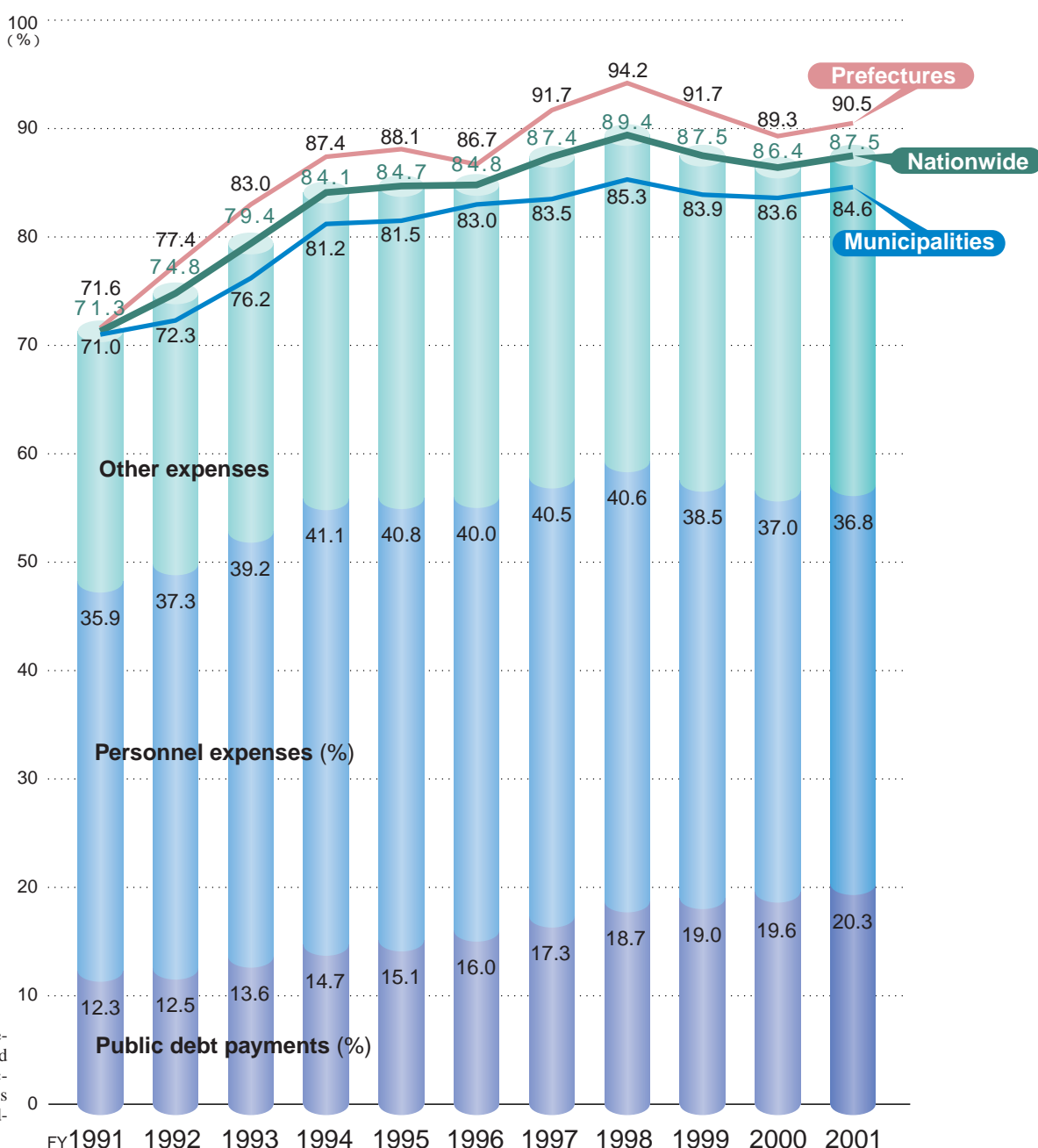
Flexibility of the Financial Structure

How can local 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 secure 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 sources can be secured is called the flexibility of the financial structure.

1. Ordinary Balance Ratio

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, and tax-reduction supplementary bonds and extraordinary financial countermeasures bonds [see note]) had been decreasing since fiscal 1999 because of such factors as the decline in personnel expenses share, but it increased in fiscal 2001 because of such factors as an increase in public debt payments.



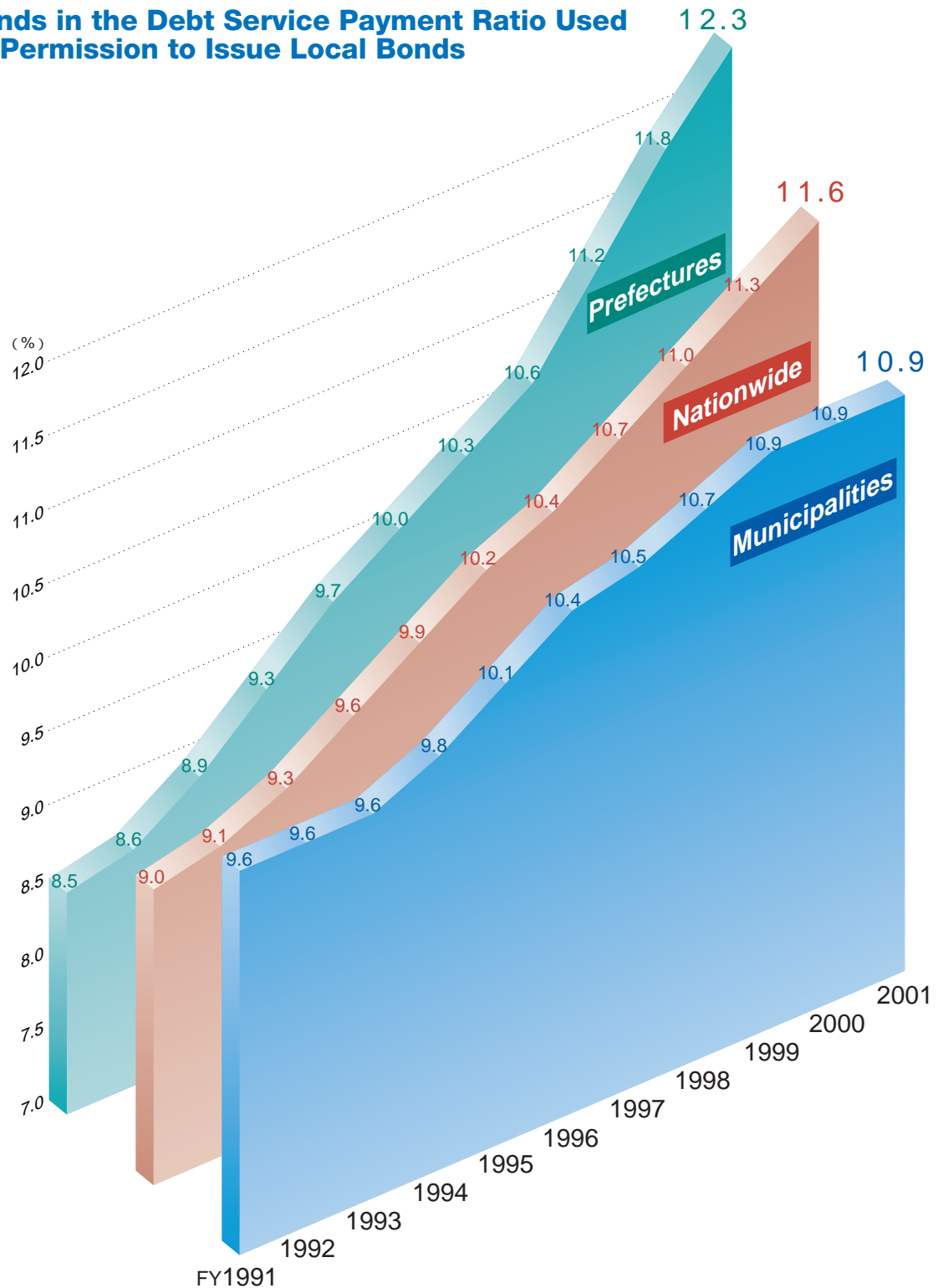
Note:
Tax-reduction supplementary bonds and extraordinary financial countermeasures bonds have been added since fiscal 2001.

2. 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 debt service payment ratio used for restricting to issue local bonds, an index that takes into consideration the local allocation tax calculated for debt payments and indicates the actual degree of debt payment burden, has been increasing in recent years, and the flexibility of the financial structure has become weaker.

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 is an index showing the ratio of local debt principal and interest repayment (excluding advanced redemption and the amount of general revenue resources calculated for this purpose that includes the local allocation tax) to the total of standard financial amount (excluding the amount of local allocation tax calculated for service payment) and possible issue of extraordinary financial countermeasures bonds. This index is one of the criteria to limit the issue of local bonds. In principle, the issue of local bonds relating to general unsubsidized projects, etc. is prohibited in the case of local governments with a ratio of 20% or over.

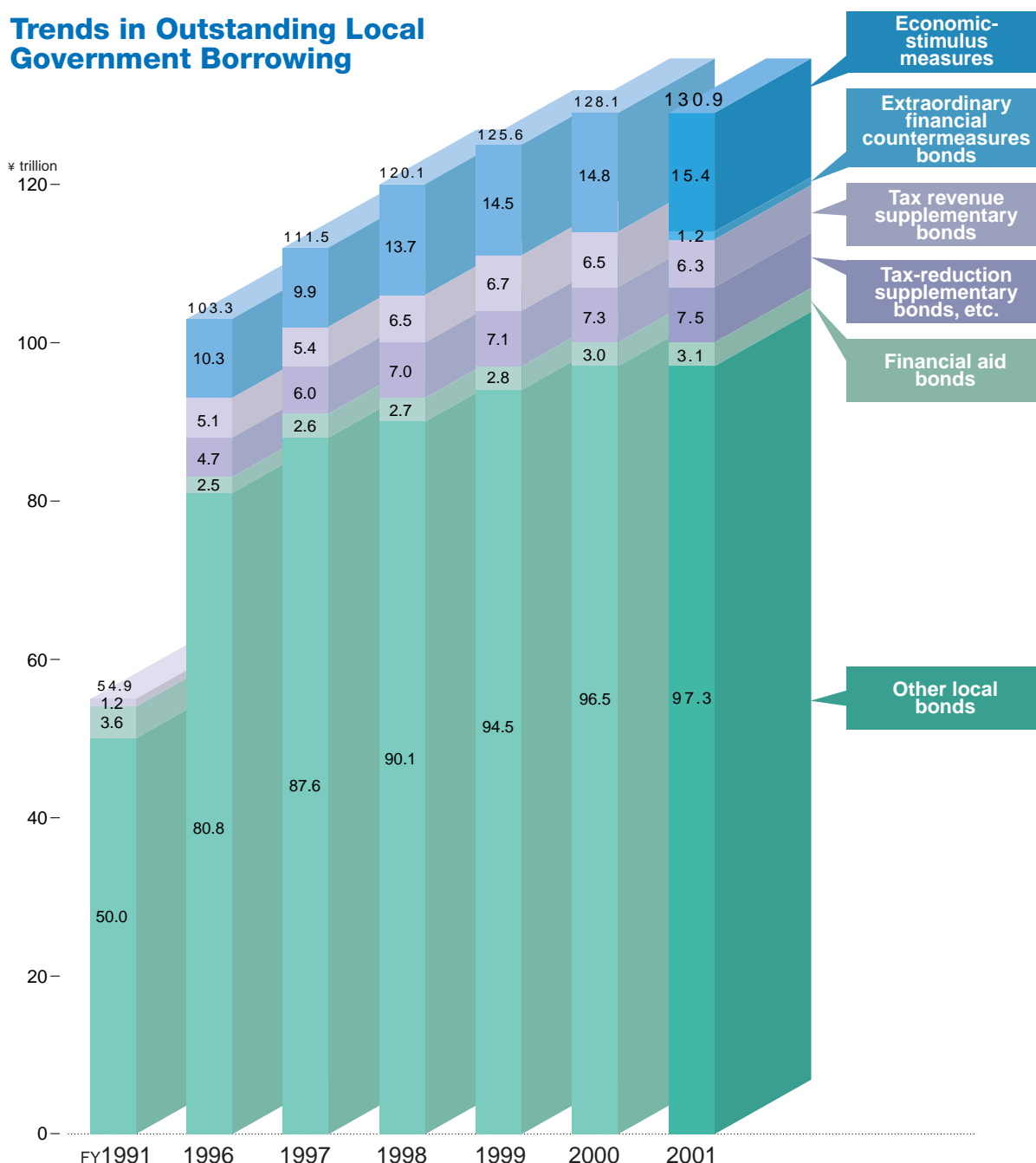
Outstanding Local Government Borrowing (Ordinary Account)

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 ¥131 trillion at the end of fiscal 2001. This figure has been increasing in recent years because of such factors as the need to supplement tax revenue as a result of the decrease in local tax revenue and tax cuts, the added public investment by economic-stimulus measures, and the issue of extraordinary financial countermeasures bonds. The figure is 1.3 times larger than total revenue and 2.3 times larger than general revenue resources, such as local taxes and local allocation tax.

Trends in Outstanding Local Government Borrowing



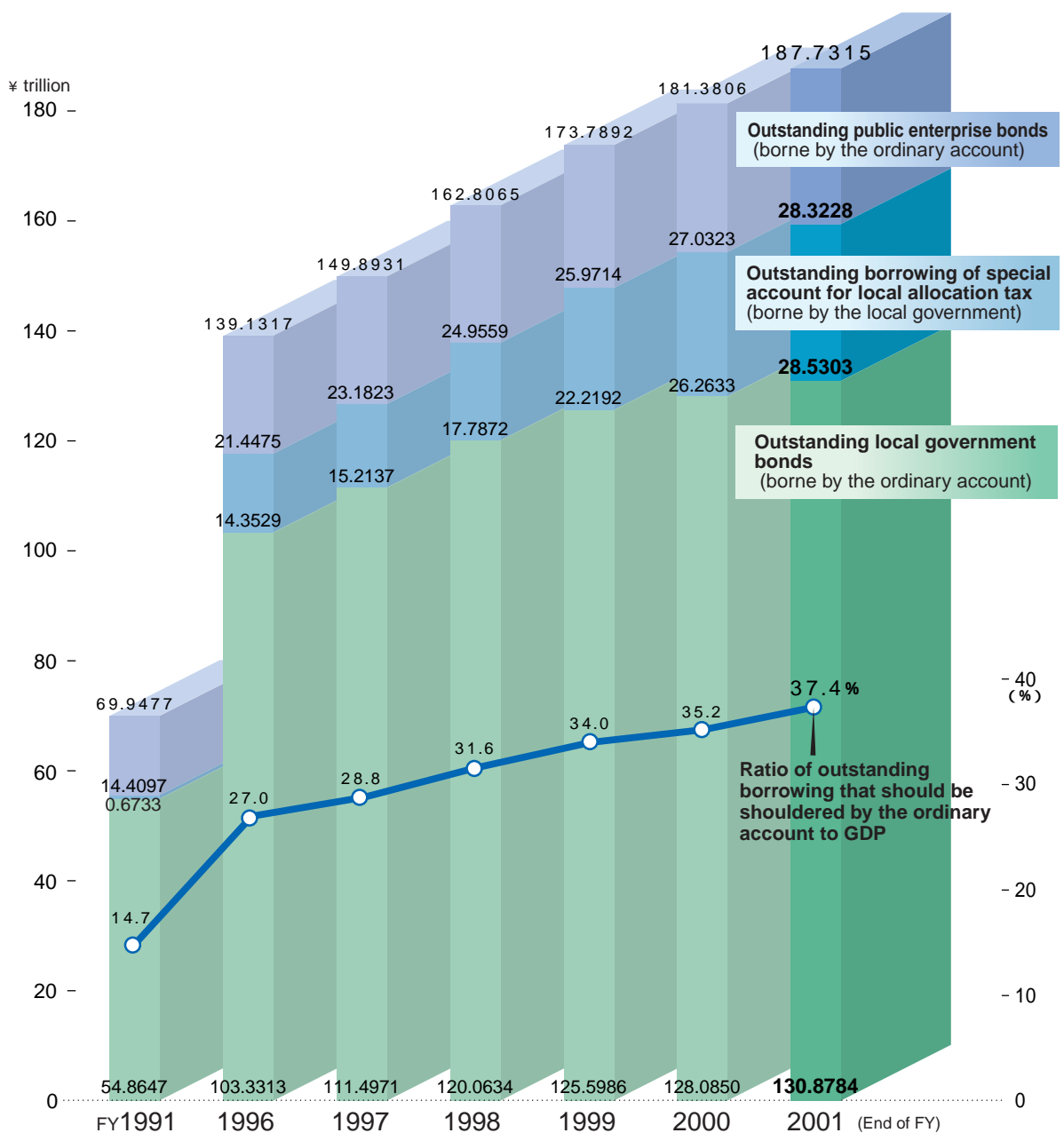
Notes:

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

2. Outstanding Borrowing of Local Finance

In addition to the current outstanding local government bonds, there are the outstanding borrowing of local governments including the local burden of the borrowing of special account for local allocation tax, and public enterprise bonds borne by the ordinary account. These outstanding borrowings have been increasing sharply in recent years. The figure reached about ¥188 trillion at the end of fiscal 2001 and is expected to reach ¥199 trillion at the end of fiscal 2003.

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.

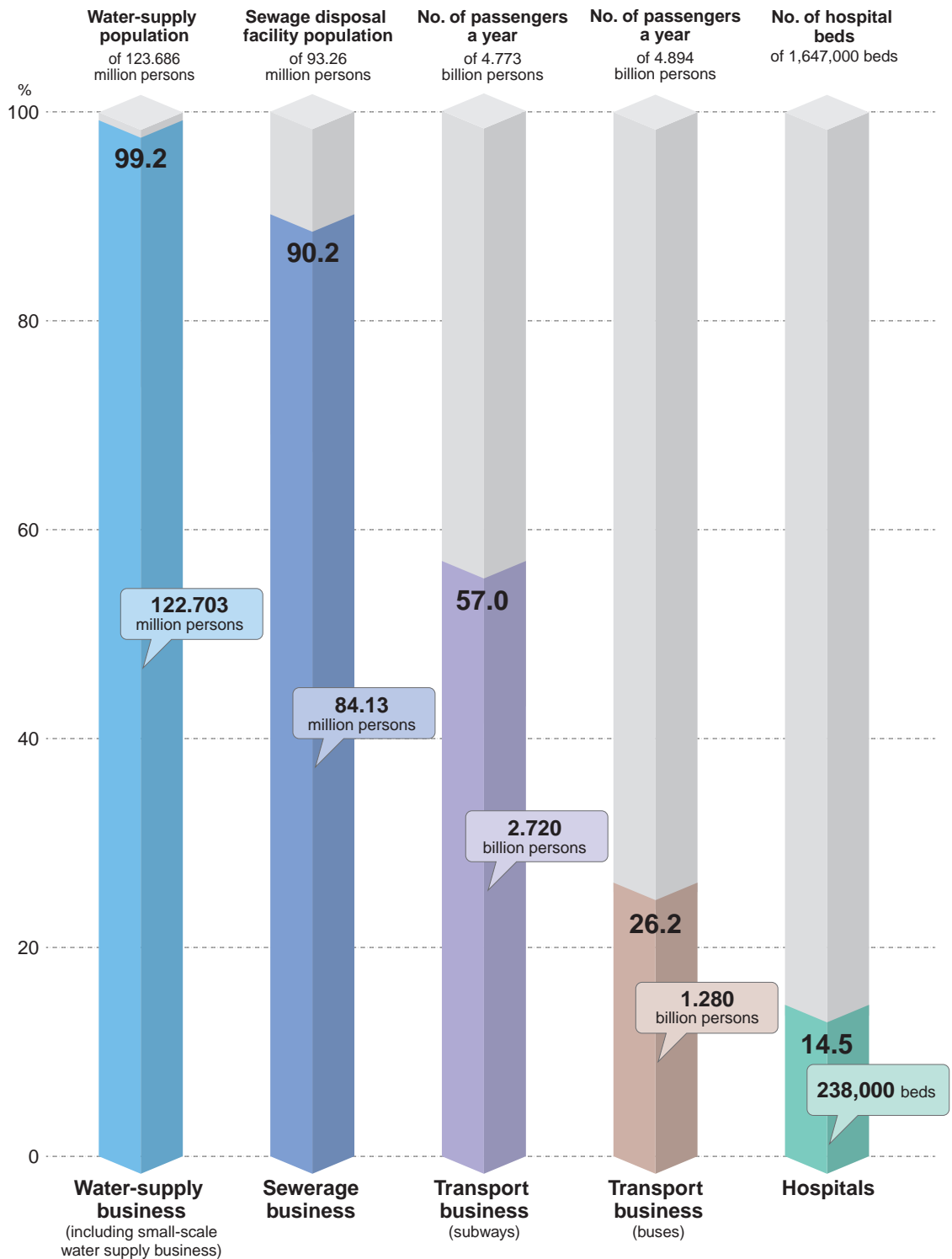
Local Public Enterprises

What is the state of local public enterprises?

Local public enterprises are those that 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

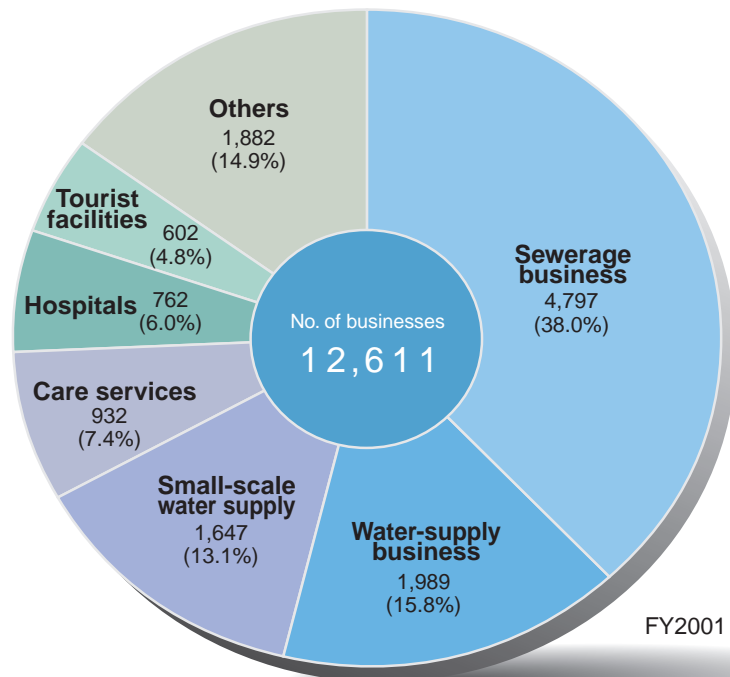
Local public enterprises play a major role in improving the standard of living of residents.



The graph shows the ratios of local public enterprises to whole business entities.

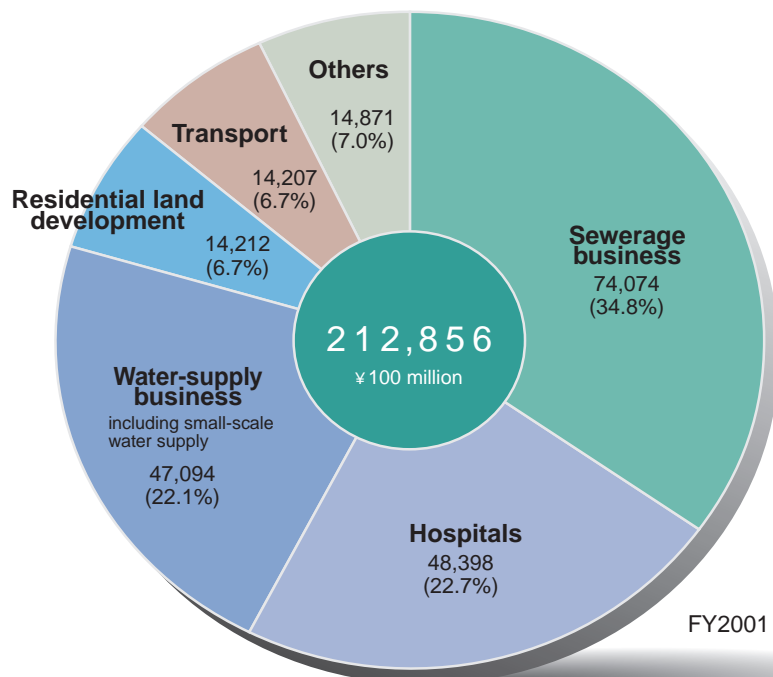
2. Number of Businesses Operated by Local Public Enterprises

The number of businesses is 12,611. By type of business, sewerage accounts for the largest ratio, followed in order by water supply, small-scale water supply, care services, and hospitals.



3. Scale of Financial Settlement

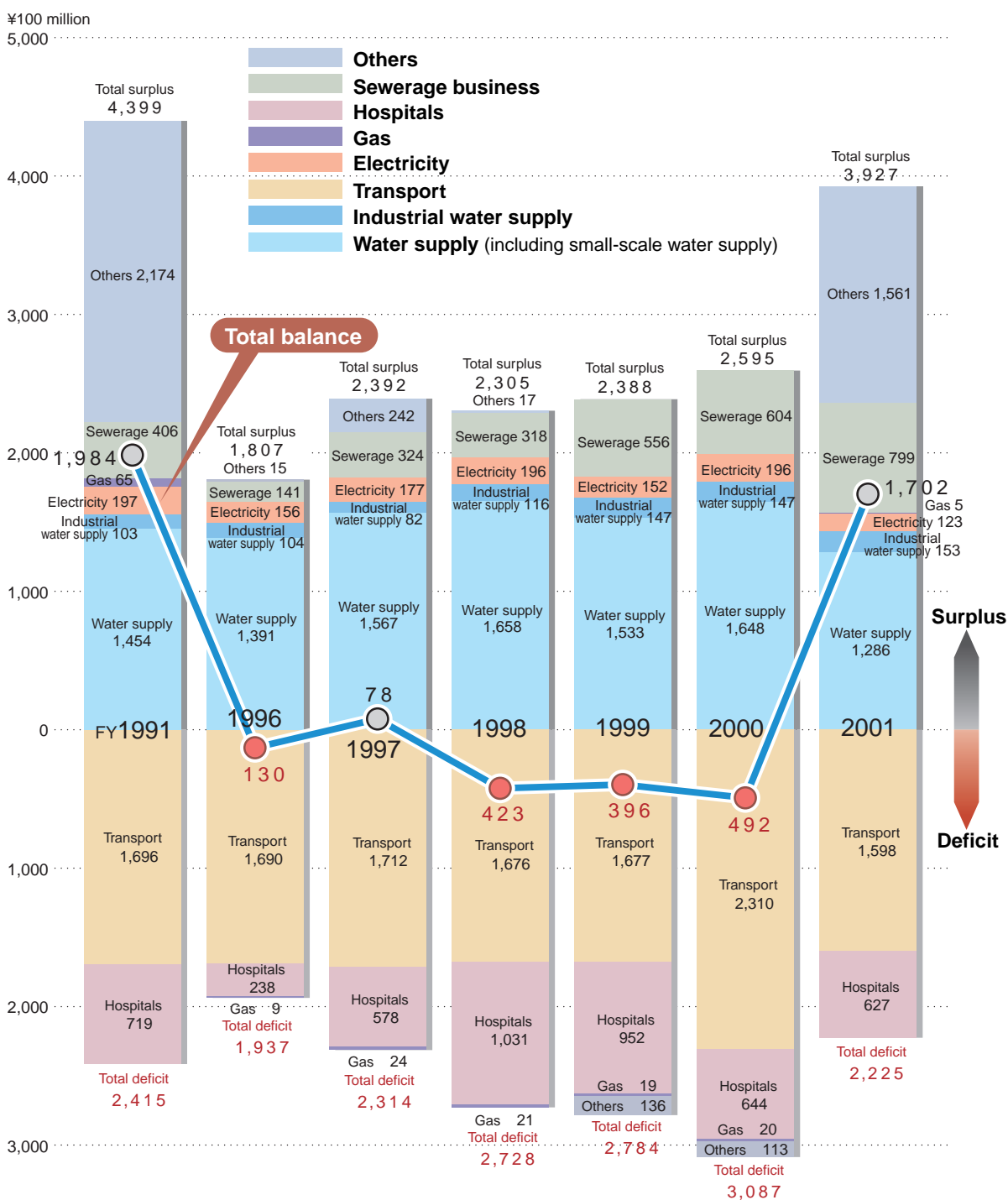
The total financial settlement scale is ¥21.2856 trillion. By type of business, sewerage accounts for the largest ratio, followed in order by hospitals, water supply, residential land development, and transport.



4. Management Conditions

Local public enterprises moved into the black for the first time in four years since fiscal 1997, with a surplus of ¥170.2 billion. By type of business, water supply, industrial water supply, electricity, and sewerage have registered a surplus, while transport and hospitals have continued to show a deficit.

Trends in Management Conditions of Local Public Enterprises



Efforts Toward Sound Financial Conditions

What efforts are being made toward sound local finance?

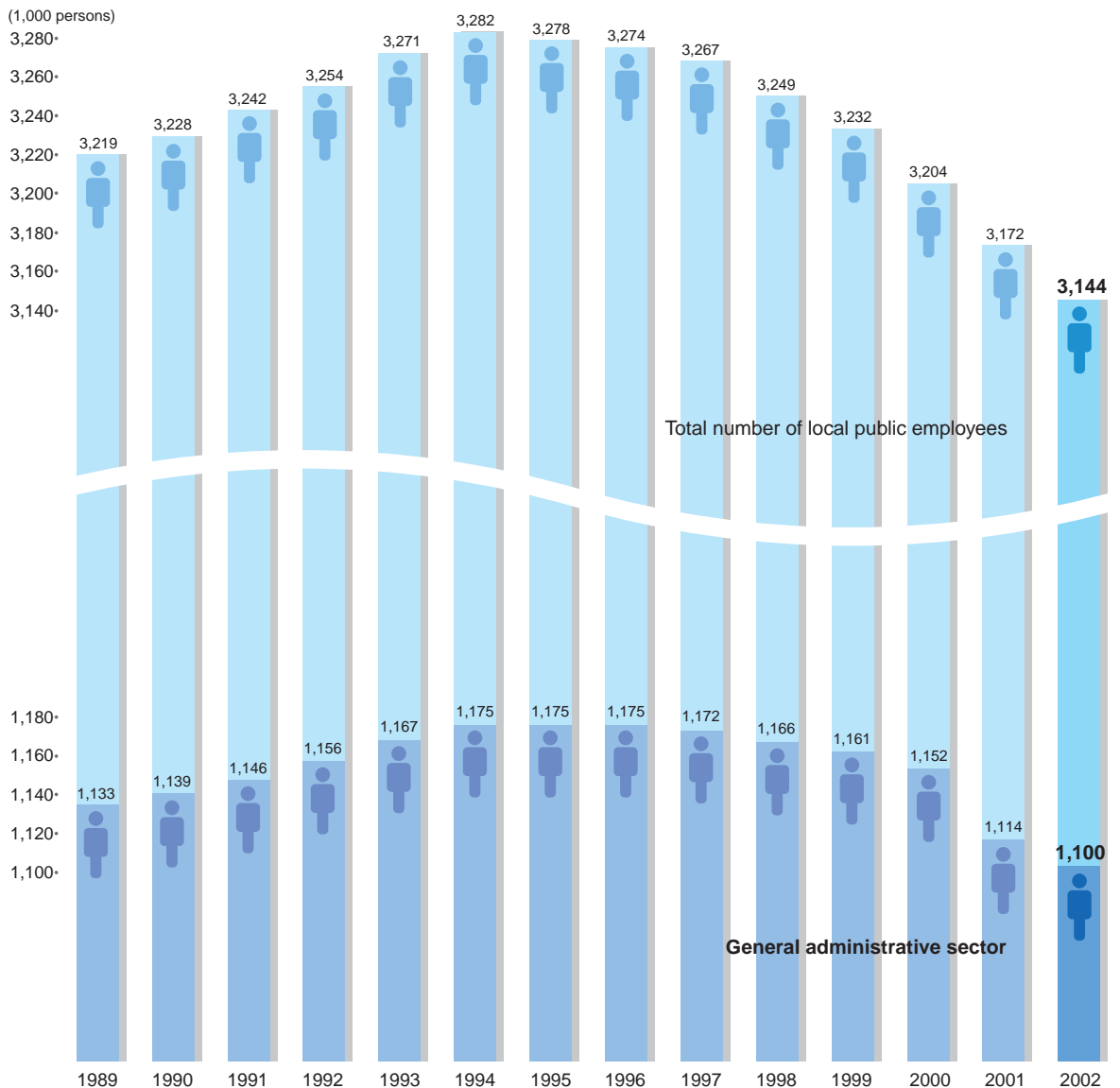
Although local public finance is certainly in an extremely severe situation, the role of the local government, which is clarified as the comprehensive administrative entity of the region, is becoming increasingly important. For this reason, various administrative reform efforts are being made with the aim of making administrative organizations simpler, more efficient and more responsible to new administrative issues.

1. Number of Public Employees

The number of local public employees has declined for eight consecutive years since 1995. The number of employees has fallen for seven consecutive years in the general administrative sector and 11 consecutive years in the special administrative sector and also dropped in the public enterprise sector.

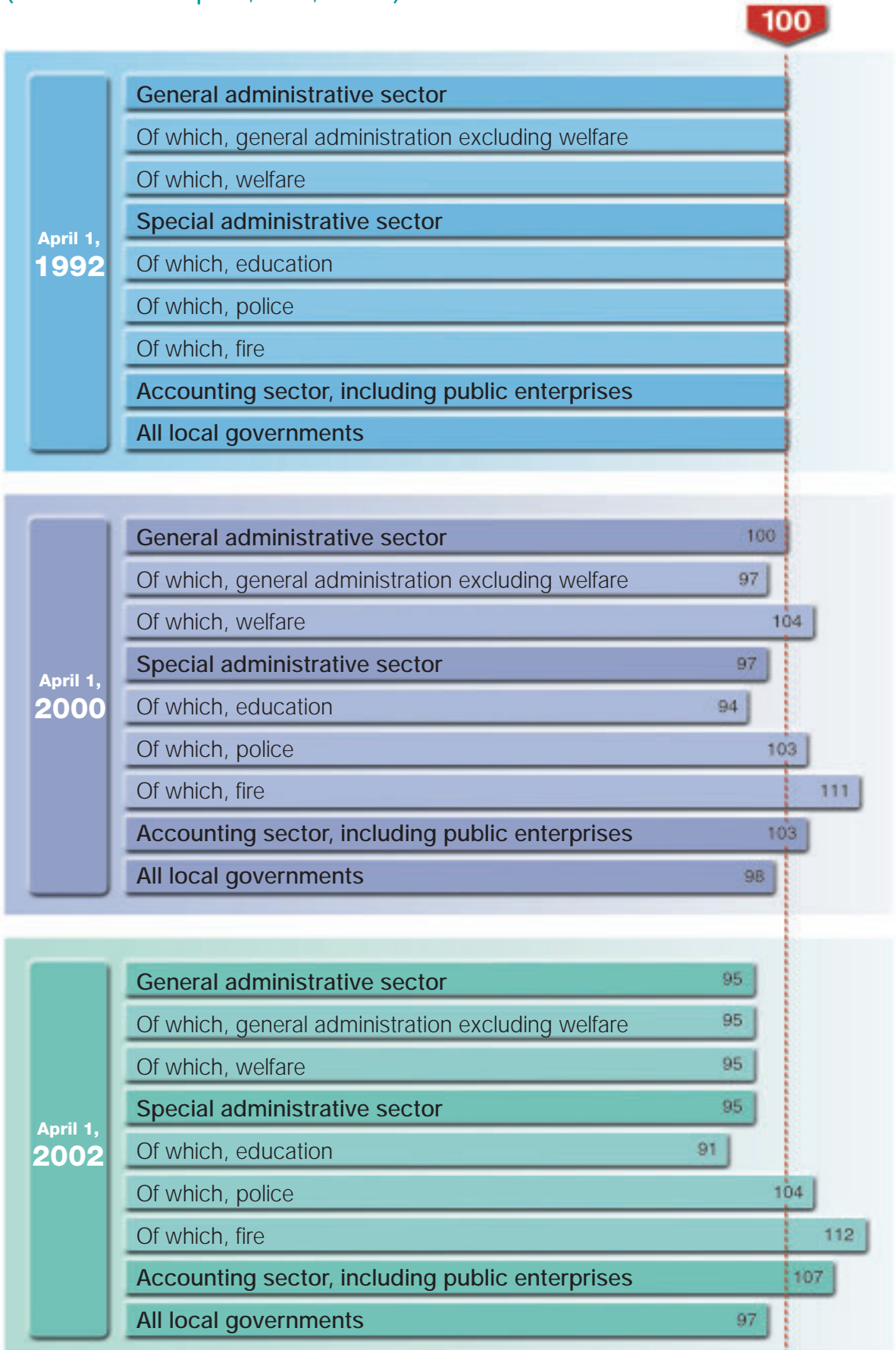
The reason for these trends is that although the number of employees has increased in some sectors because of such factors as the improvement of welfare and medical care and disaster-prevention measures, efforts have been made to restrain the increase of the total number of employees by numerical targeting measures and scrap-and-build measures.

Number of Local Public Employees



Trends in the Number of Staff in Local Governments by Sector

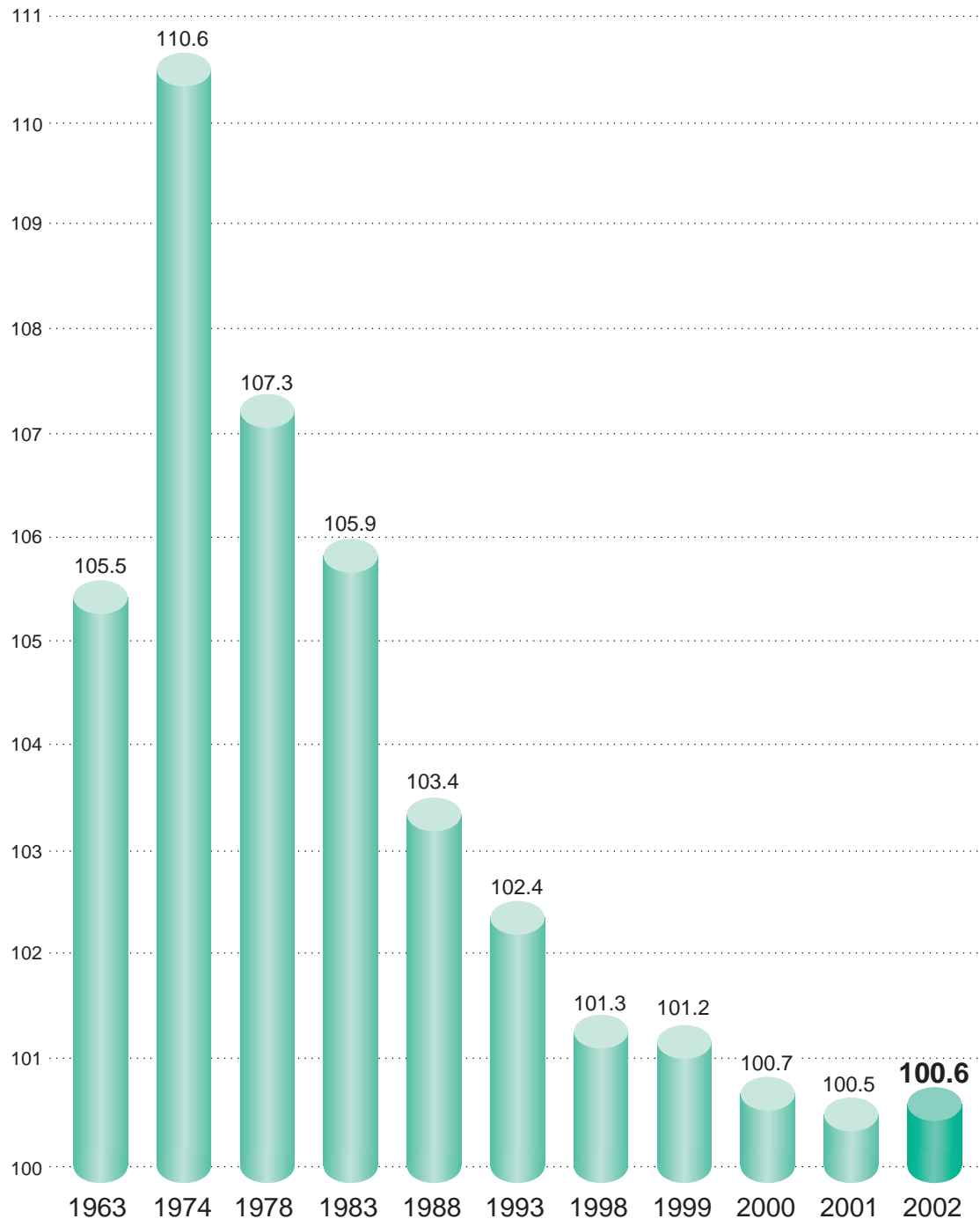
(Unit: Ratio with April 1, 1992, as 100)



2. Salary Level

When the salary level of local public employees is shown on the Laspeyres Index, the average for all local governments is 100.6.

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



Laspeyres Index

The Laspeyres Index is used to compare price levels, wage levels and so on. Here it is used to show the salary level of local public employees when the salary level of national public employees is taken as 100.

The main cause of the increase in the Laspeyres Index in 2002 was that some of the local governments that carried out salary cuts in fiscal 2001 had completed these measures by the time of the survey on April 1, 2002.

3. Administrative Transparency

Amid the increasing severity of local public finance, various efforts are being made to fulfill accountability. In recent years, there has also been an increase in the number of local governments formulating balance sheets in order to grasp the state of their assets and liabilities in a comprehensive manner as a means of publicizing and analyzing their financial conditions.

Example of Balance Sheet (City A)

Debit		Credit	
(Assets)		(Liabilities)	
1. Tangible fixed assets		1. Fixed liabilities	
(1) General administration expenses	7,849,963	(1) Local government bonds	53,400,519
(2) Welfare expenses	2,635,732	(2) Contract authorization	
(3) Public hygiene and sanitation expenses	5,025,765	〔1〕 Purchase of property, etc.	0
(4) Labor expenses	406,532	〔2〕 Guarantee of obligation or loss compensation	0
(5) Agriculture, forestry and fishery expenses	5,295,694	Total	0
(6) Commerce and industry expenses	2,249,670	(3) Retirement allowance reserve	6,234,735
(7) Civil engineering work expenses	52,211,412	Total	59,635,254
(8) Fire service expenses	561,124	2. Liquid liabilities	
(9) Education expenses	48,250,835	(1) Scheduled redemption in next fiscal year	4,074,464
(10) Others	274,292	(2) Appropriation made in advance	0
Total	124,761,019	Total	4,074,464
(of which, land	42,664,316)	Total liabilities 63,709,718	
Total	124,761,019	(Net assets)	
2. Investment, etc.		1. National treasury disbursements	
(1) Investment and equity funds	4,055,425		19,187,061
(2) Loan	311,579	2. Prefectural disbursements	
(3) Funds			5,740,513
〔1〕 Special purpose funds	7,616,199	3. General revenue sources, etc.	
〔2〕 Land development funds	2,044,674		57,688,039
〔3〕 Fixed-in investment	44,000	Total net assets 82,615,613	
Total	9,704,873		
Total	14,071,877		
3. Liquid assets			
(1) Cash, deposits			
〔1〕 Adjustment fund for finance	2,040,545		
〔2〕 Sinking funds	1,726,458		
〔3〕 Cash in yearly account	1,151,958		
Total	4,918,961		
(2) Receivables			
〔1〕 Local taxes	1,844,860		
〔2〕 Others	728,614		
Total	2,573,474		
Total	7,492,435		
Total assets	146,325,331	Total of liabilities and net assets 146,325,331	
Information relating to contract authorization			
(1) Matters relating to the purchase of property, etc. (excluding items included in the main table)		4,443,824	
(2) Matters relating to guarantee of obligation and loss compensation (excluding items included in the main table)		5,931,001	
(3) Matters relating to compensation for paid interest, etc.		1,851,493	

4. Examples of Administrative Reform Efforts

Local governments are making various administrative reform efforts with the aim of achieving sound financial conditions. The following are some of them:

Examples of Specific Efforts

Figures in parentheses show achievements so far.

Prefecture

A

Reduction of number of staff by about 20% (about 3,000 persons) in the 10 years from fiscal 1999 to fiscal 2008. (In the four years from fiscal 1999 to fiscal 2002, the number of staff was reduced by 1,228 persons, or about 8%.)

Reduction of managerial allowance. (10% reduction in fiscal 2001 and 2002.)

Implementation of revision of administrative tasks. (119 administrative tasks were abolished or suspended in fiscal 2002.)

Reduction of number of staff in prefecture-related organizations by about 20% (about 600 persons) in the nine years from fiscal 2000 to fiscal 2008 through a revision of prefecture-related organizations. (In the three years from fiscal 2000 to fiscal 2002, the number of staff was reduced by 320 persons.)

Abolition, privatization, etc. of more than 26 public facilities (about 20%) in the seven years from fiscal 2002 to fiscal 2008 through a revision of public facilities.

Prefecture

B

Reduction of number of staff in departments and bureaus under the governor by about 10% (about 1,400 persons) in the 10 years from fiscal 1997 to fiscal 2006. (The prefecture brought forward the target year by four years and more than achieved the goal with a reduction of 1,581 persons (11.7%) in the six years from fiscal 1997 to fiscal 2002. Efforts are being continued toward further reductions.)

Reduction of general staff salaries, etc. in the five years from fiscal 2000 to fiscal 2004. (4% reduction for staff receiving managerial allowance; 2% reduction for general staff.)

Reduction of more than 10% in the number of main office bureaus, departments, sections, and offices in the five years from fiscal 1997 to fiscal 2001. (The target has already been more than achieved, with reductions in the six years from fiscal 1997 to fiscal 2002 of 4 departments or bureaus (28.6%) and 32 sections or offices (21.5%).)

Curbing of the issue of new prefectural bonds to less than 10% of independent financial sources, such as tax revenue, by fiscal 2006. (The ratio was 23.1% in the final budget for fiscal 1996 and 14.7% in the initial budget for fiscal 2003, a decline of 8.4 percentage points.)

Revision of existing projects. (In fiscal 2003, 88 projects were abolished or suspended and 1,009 projects were decreased or merged.)

City

C

Reduction of number of staff by 1,000 persons (about 5.5%) in the five years from fiscal 2001 to fiscal 2005. (Reduction of 736 persons in the two years from fiscal 2001 to fiscal 2002.)

Reduction of salaries for special posts. (15% reduction for mayor and 10% reduction for deputy mayor, etc. in fiscal 2002.)

Reduction of salaries for general staff. (In fiscal 2002, 5% reduction for bureau, department, and section chiefs; 4% reduction for assistant section chiefs and subsection chiefs; 3% reduction for other staff.)

Reorganization and merger of more than three auxiliary organizations in the five years from fiscal 2001 to fiscal 2005.

Raising the municipal tax collection rate from 94.1% in the settlement of fiscal 1999 to the 96% level in the fiscal 2003 settlement.

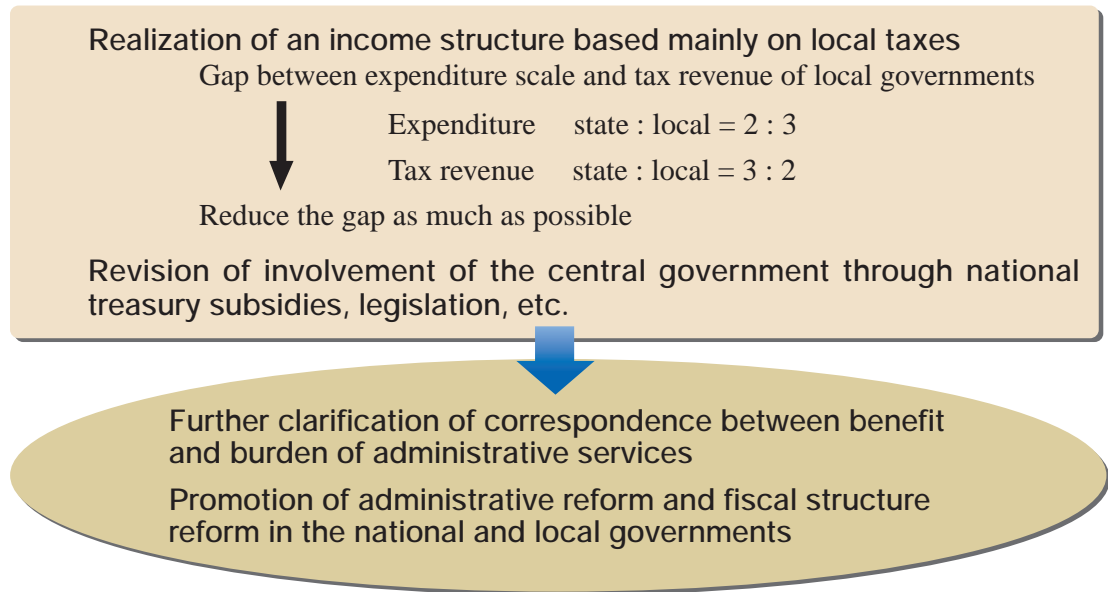
Implementation of revision of 142 administrative tasks in the five years from fiscal 2001 to fiscal 2005. (Achieved the planned target of 80 tasks in the two years from fiscal 2001 to fiscal 2002.)

Issues of Local Finance

1. Strengthening the Administrative and Financial Base for Further Decentralization

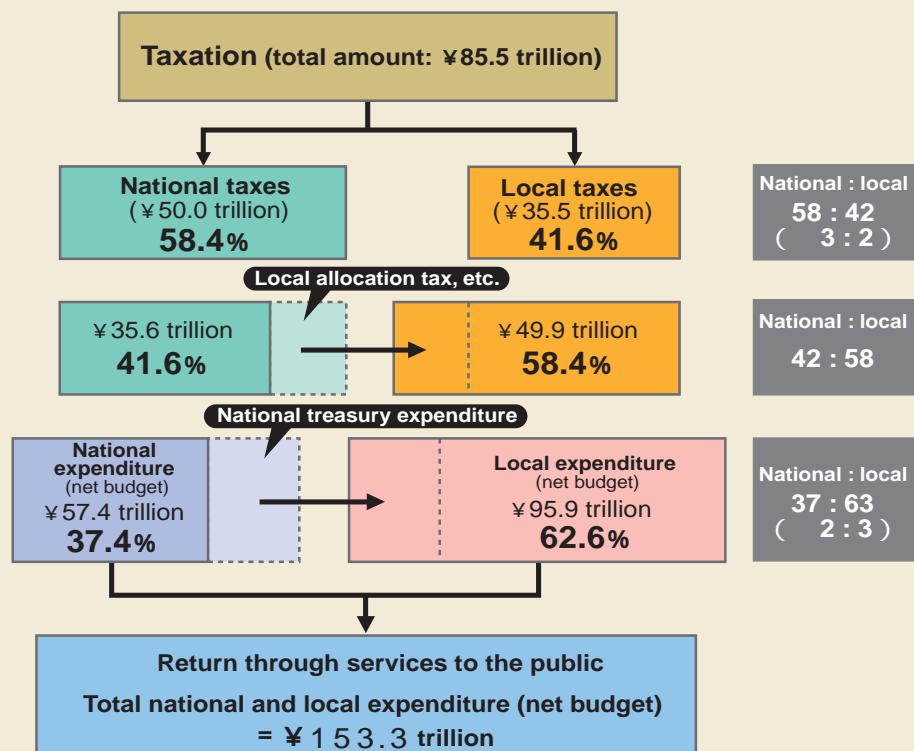
1 Strengthening the Financial Base of Local Governments

At a time when local government finance is suffering from a severe shortage of resources, in order to promote further decentralization, it is necessary to make efforts toward the realization of structural reform to increase the degree of freedom of local governments in terms of both income and expenditure and to achieve local independence under the principle of “entrusting to local governments what local governments can do.”



Reference

Distribution of Financial Resources Between the National and Local Governments (FY 2001)



Three-Pronged Reform

In order to promote structural reform toward local independence, it is necessary to mutually connect financial resources, including national treasury subsidies, the local allocation tax, and the transfer of financial resources, and to study them in a uniform manner.

Reference

(Decided by the cabinet on June 25, 2002.)

Basic Policy on Economic and Fiscal Management and Structural Reform, 2002 (Excerpt)

Part 4 Structural Reform in the Main Areas of Expenditure

3. National and local governments

(1) Regarding local administrative and fiscal reform, it is necessary to promote such reform in a forceful and uniform manner. First of all, state involvement should be reduced, and the powers and responsibilities of local governments should be greatly expanded. Taking account also of studies and discussions in the Committee for the Promotion of Decentralization, each minister, under the guidance of the prime minister, with responsibility should study the abolition or reduction of national treasury subsidy projects, including those in the fields of welfare, education, and social capital, with the aim of reaching a conclusion by the end of the year.

(2) In light of these considerations, a three-pronged study should be carried out on the form of national treasury subsidies, the local allocation tax, and the distribution of financial resources from taxes, including the transfer of financial resources from taxes from the state to the regions, and a reform draft including the desirable form of these elements and the specific reform process to achieve this result should be compiled within the next year from now.

This reform draft should aim for a reduction in the scale of national treasury subsidies of several trillion yen during the period of “reform and outlook.” At the same time, there should be a reform of the local allocation tax. It is necessary to drastically rectify the current situation in which more than 90% of local governments receive the local allocation tax. For this purpose, the reform should entail a revision of the local allocation tax’s financial resource guarantee functions as a whole and a reduction during the period of “reform and outlook.”

On the other hand, it still remains necessary to rectify the differences in financial strength among local governments. It should be discussed to what extent and how they should be corrected and included in the above-mentioned reform draft. Together with these reforms, with regard to those subsidies among the national treasury subsidies to be abolished that are deemed necessary to be continued independently by local governments, they should be transferred to independent financial revenue sources of the local governments after careful investigation of the necessary transfer amounts.

At present the shortage of financial resources in local governments amounts to approximately ¥14 trillion. This situation should be remedied as soon as possible through such efforts as the reduction of expenditures and the expansion of local taxes. After that, it should be aimed to break away from the dependence on financial resource guarantees through the local allocation tax and to realize the true financial independence of local governments.

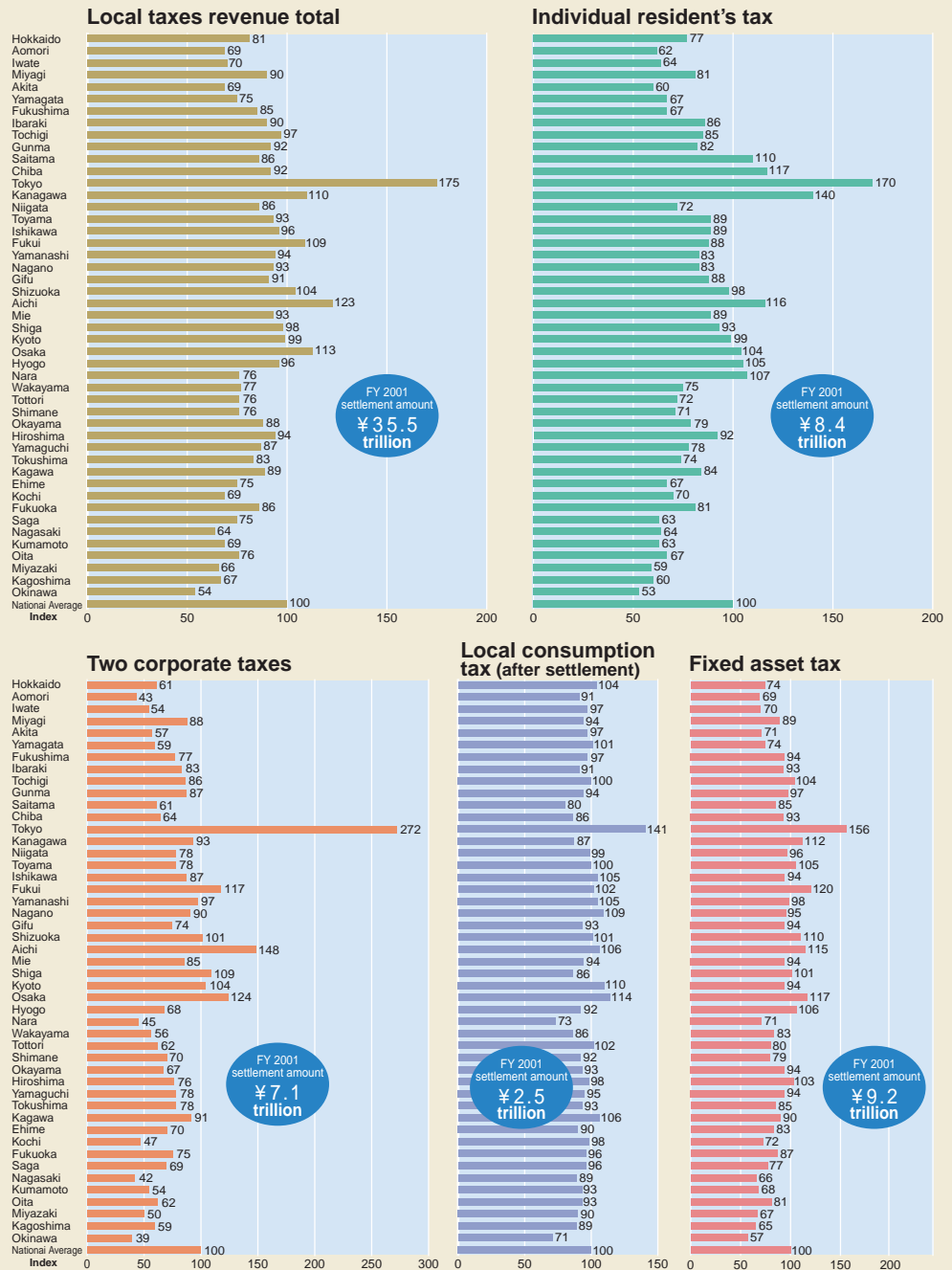
• Local Taxes

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.

Reference

Uneven Distribution of Tax Revenue in Local Taxes

Index of per capita tax revenue from the local tax revenue total, individual resident's tax, two corporate taxes, local consumption tax, and fixed asset tax (with the national average as 100; FY 2001)



Notes:

1. The tax revenue from the individual resident's tax is the total of the individual prefectural resident's tax and the individual municipal resident's tax.
2. The tax revenue from 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.
3. The tax revenue from the fixed asset tax includes the prefectural part.

Local Allocation Tax

The local allocation tax fulfills an extremely important role in view of the fact that there are differences in economic strength and financial strength among the regions and that in Japan, with regard to a large part of domestic administrative affairs, local governments are required through legislation, etc. to ensure a certain administrative level in the regions.

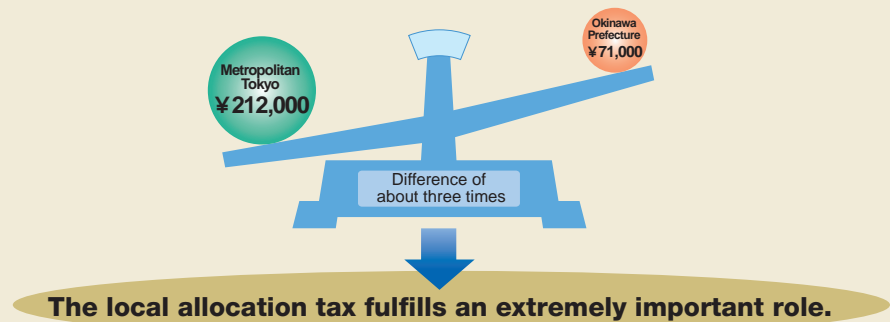
On the other hand, it is necessary to remedy the large financial shortage of local governments as soon as possible through such efforts as the reduction of expenditures and expansion of local taxes and, after that, to break away from dependence on financial resource guarantees through the local allocation tax and to realize the true financial independence of local governments.

Bearing these factors in mind, from now on also it is important to ensure the necessary total local allocation tax amount.

Reference

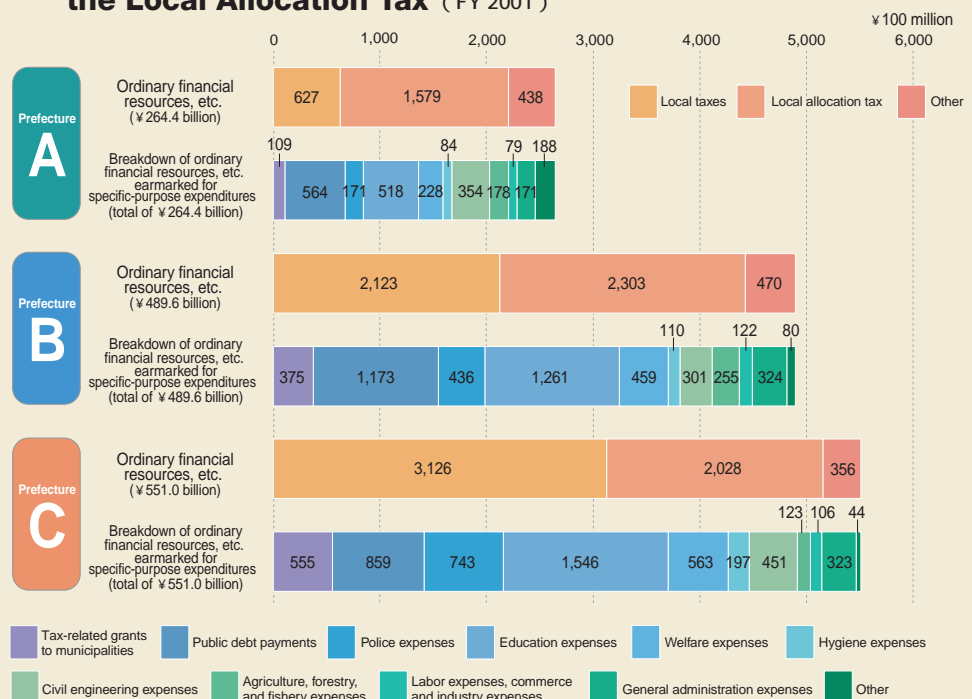
- Regarding a large part of domestic political affairs, the state is required through legislation, etc. to ensure a certain administrative level in the regions.
- There are large differences in economic strength and financial strength among the regions.

For example, the following diagram shows per capital tax amount in fiscal 2001:



Reference

State of Financial Resource Guarantees (Micro) Through the Local Allocation Tax (FY 2001)



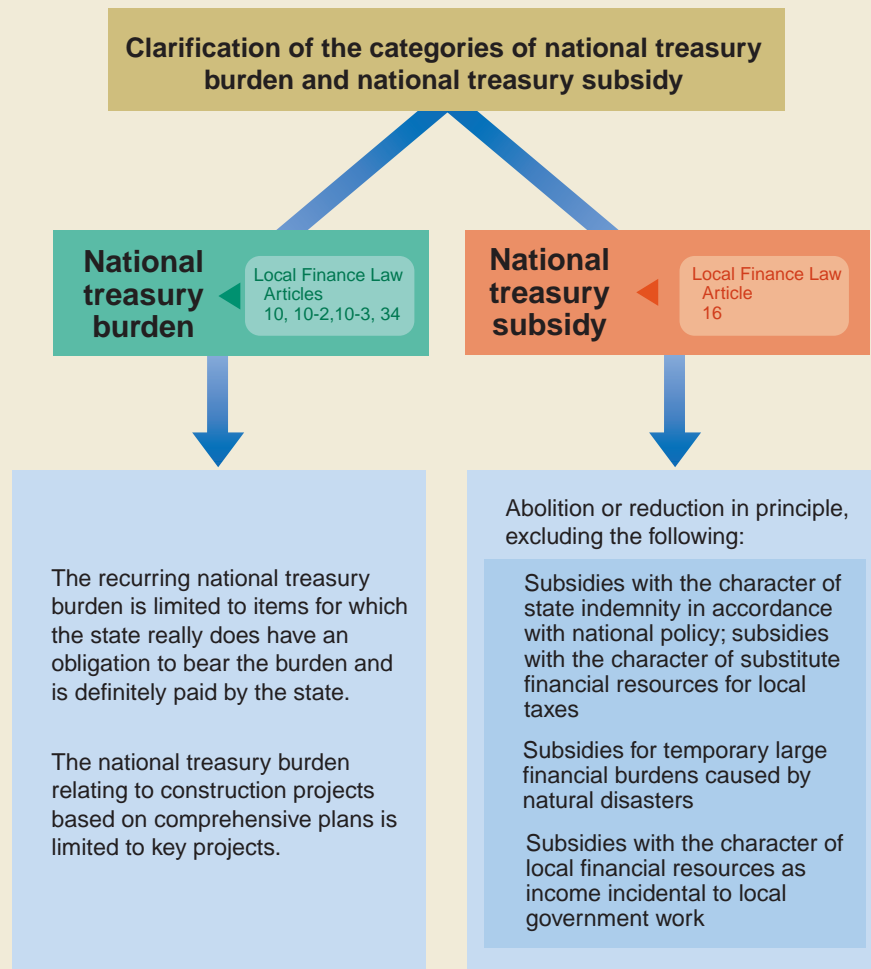
• National Treasury Subsidies

In order to increase the degree of freedom of local governments and to achieve local independence, it is necessary to promote the reorganization and rationalization of national treasury subsidy projects.

Reference

Basic Thinking on the Reorganization and Rationalization of National Treasury Subsidies

(From the Plan for the Promotion of Decentralization, decided by the cabinet on May 29, 1998)



Methods of Reorganization and Rationalization

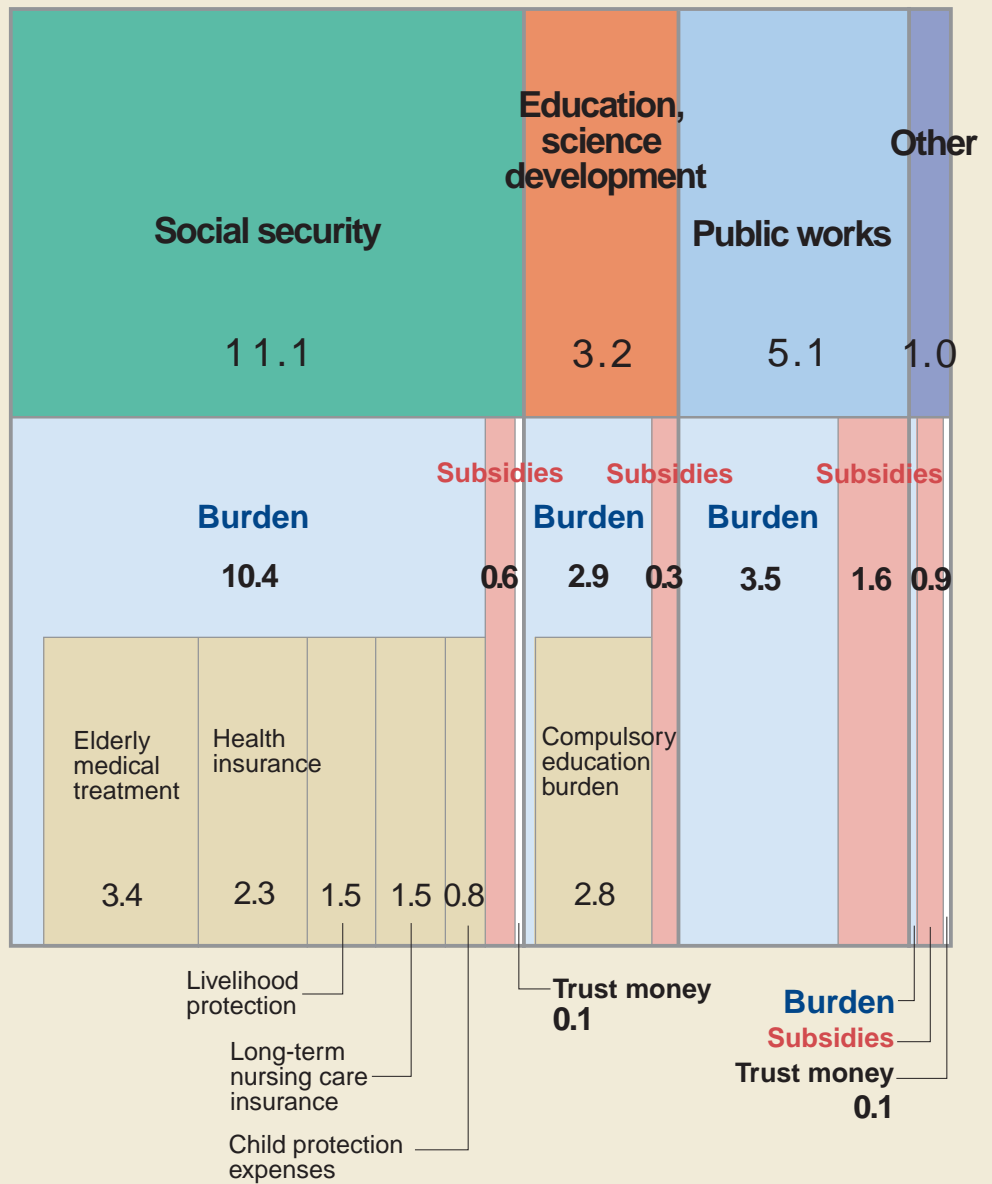
- (1) Coverage by ordinary financial resources of items that have become assimilated, established, or regular features of local government work and personnel expense subsidies
- (2) Abolition and coverage by ordinary financial resources of small national treasury subsidies (raising of small-sum subsidy standards and approval standards)
- (3) Setting of sunset dates and final periods (five years)
- (4) Abolition and coverage by ordinary financial resources of subsidies with a low subsidy rate (less than one-third) and subsidies that have passed a certain period after their establishment
- (5) Restraints on the establishment of new national treasury subsidies and thorough penetration of the scrap-and-build principle

Reference

National Treasury Subsidies, Burdens, Etc. for Local Governments

(General account and special account; FY 2003 budget base)

(Unit: ¥ trillion)



← **¥20.4 trillion** →

Burden 16.8
Subsidies 3.3
Trust money 0.2

2 Promotion of Municipal Mergers

In order to promote autonomous municipal mergers by March 2005, which is the expiration date of the Special Municipal Merger Law (Law No. 6, 1965), it is necessary to strengthen further efforts toward merger.

Support by the municipal merger support plan through ministerial cooperation

Support for various projects, etc. implemented in priority merger support regions and municipalities that merge by March 2005 (Expansion of local financial measures, priority selection and priority investment in public work projects, elimination of various obstacles relating to merger, etc.)

The following effects are expected through municipal mergers:

Improvement of convenience of residents, including an increase in the number of accessible administrative counters, setting of elementary and junior high school zones more comfortable for residents, enhanced usability of the public facilities of the other municipalities, etc.

Administrative services will be upgraded and diversified, and it will become possible for small-scale municipalities to implement special services, which they have not been able to do properly so far.

Priority investment will become possible, and it will be possible to construct high-grade facilities to operate as the core of the community and to implement projects that require large-scale investment.

It will become possible to implement city planning from a wide-area perspective in such fields as road and public facility construction, land use and zoning.

Administrative and financial affairs will be made more efficient, because it will be possible to increase efficiency in the management sector and distribute human resources and budget more appropriately in the required sector.



2. Efforts Toward Sound Financial Conditions

In order to improve the state of local finance, which is in an extremely severe situation, it is necessary to make efforts to increase revenue from local general revenue sources, such as local taxes, and at the same time to make the income-expenditure gap narrower and to reduce dependency on borrowing by making both national and local administration and finance more streamlined and more efficient.

1 Promotion of administrative reform

Efforts toward administrative reform in local governments are making progress, as we have seen, and it is necessary to continue to promote exhaustive administrative reform and to restrain and prioritize expenditures through comprehensive revisions.

Streamlining of personnel management and salaries

Simplification and increased efficiency of organization and structure

Revision of projects, promotion of private-sector consignment, public-built private-management method, utilization of private finance initiative (PFI), etc.

Private finance initiative (PFI) is a method by which the private sector takes over the construction of social infrastructure and supply of public services previously handled by the national or local governments, etc., from design to construction and operation, making use of the funds and know-how of the private sector.

2 Improvement of transparency

In order to respond to the increased decision-making powers and self-responsibility of local governments as a consequence of the advance of decentralization, local governments are required to ensure fairness in administrative procedures, improve transparency and fulfill accountability.

Compilation and release of balance sheets and administrative cost statements

Further disclosure of administrative information, sharing of information with residents

Introduction of public comment system

3. Response to Regional Policy Issues

It is necessary for local governments, which are general administrative entities in their communities, to respond positively to regional policy issues and to improve the welfare of residents.

Regional activation

Promotion of development and utilization of information technology

Protection and creation of good environment

Promotion of general and efficient local welfare measures

White Paper on Local Public Finance 2003

(FY 2001 Settlement)

Illustrated

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