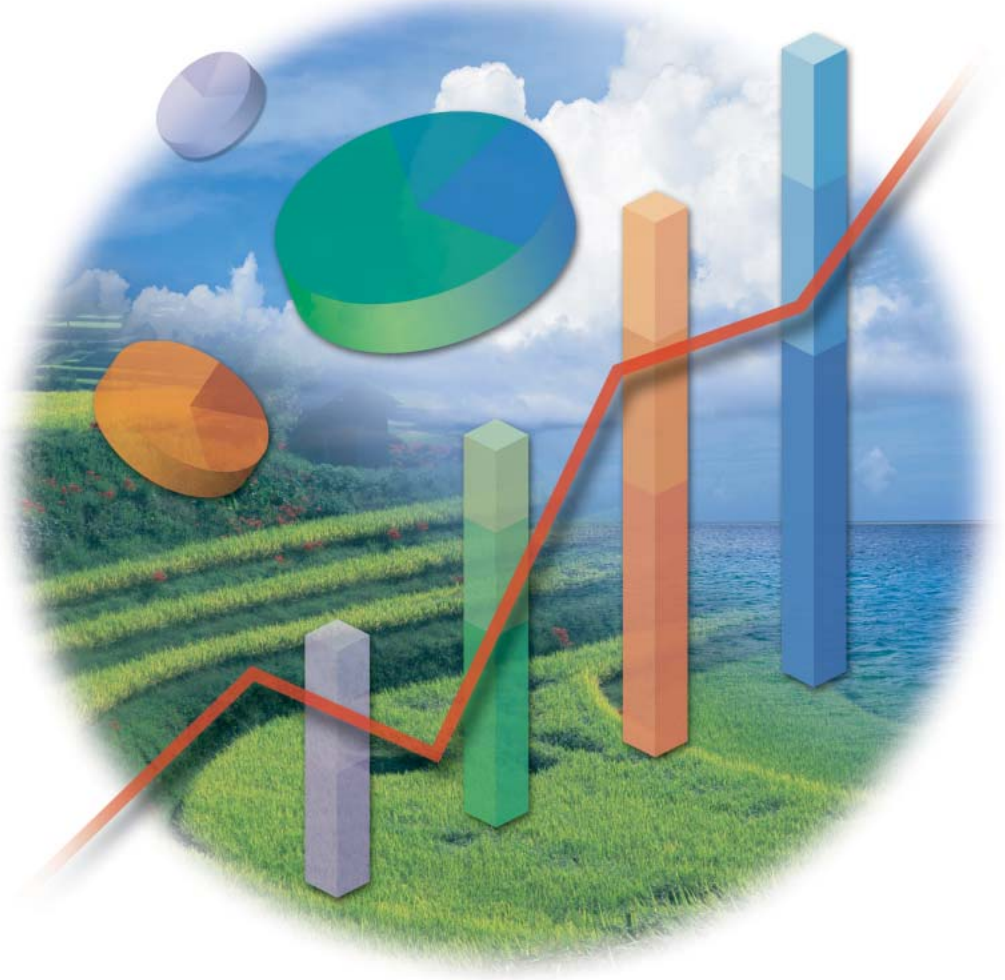
FY 2002 Settlement

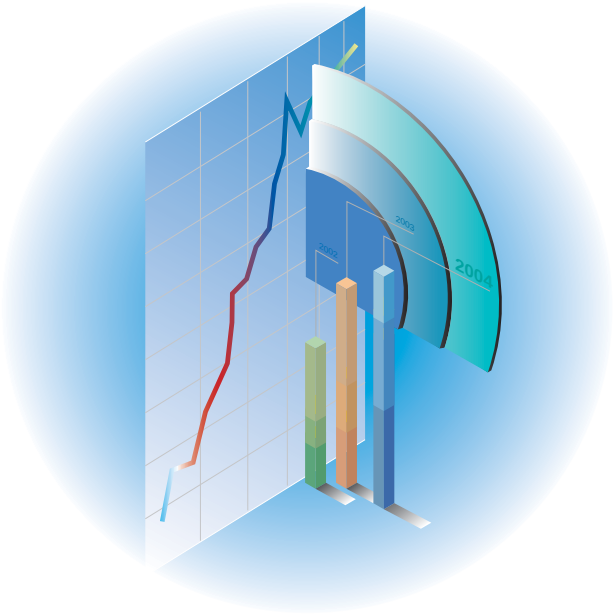
White Paper on Local Public Finance, 2004

Tentative Translation

— Illustrated —



Ministry of Internal Affairs and Communications



The Role of Local Public Finance

Prefectures and municipalities (cities, towns, and villages) are principal 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 play 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 2002, efforts toward financial soundness of the local public entities, and so on, with a focus on the ordinary account.

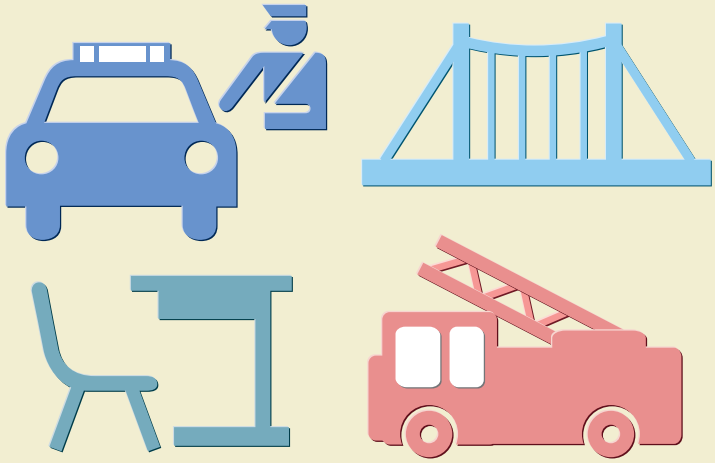
Classification of the Accounting of Local Governments Applied in the Settlement Account Statistics

We have adopted a uniform method in the settlement account statistics by classifying 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.

Accounts of Local Governments

Ordinary account

Account of general administrative sector



Other accounts

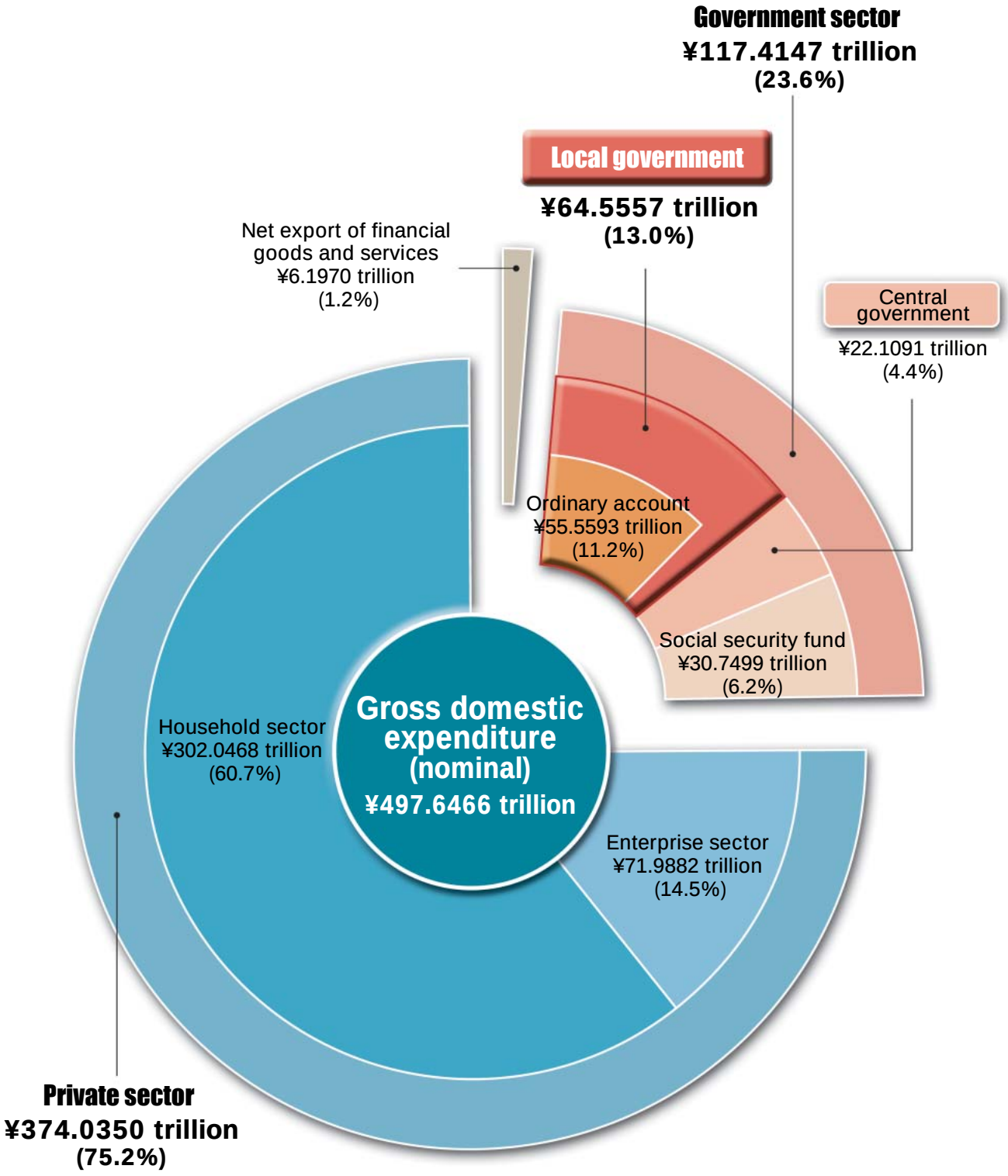
- Public enterprise account
  Water supply business, Transport business, Electricity business, Gas business, Hospital, Sewerage business, Residential land development project Etc.
- National health insurance account
- Elderly medical care account
- Nursing care insurance account

Etc.

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 13.0% , and it is about three times larger than the ratio of the central government.

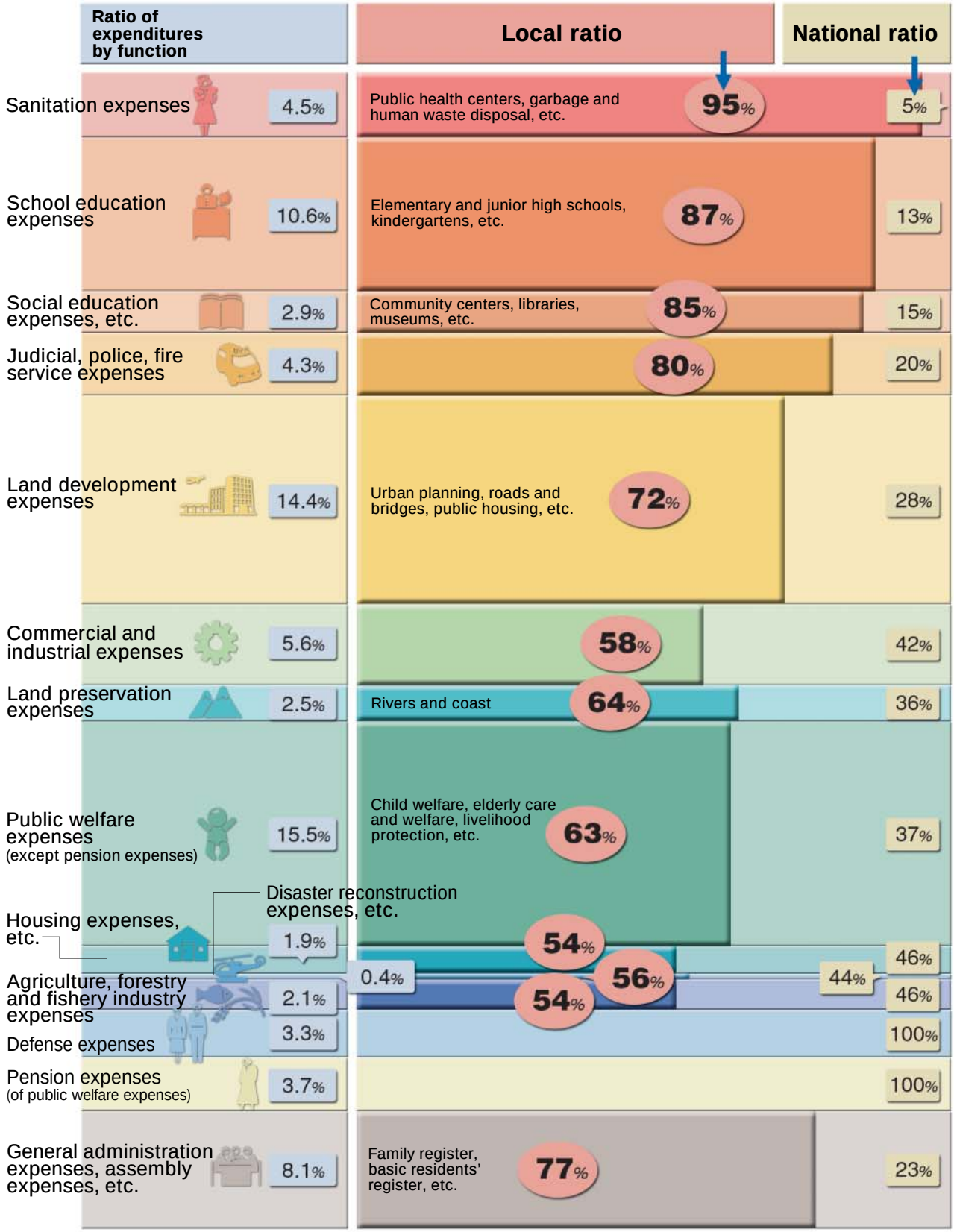
Gross Domestic Expenditure and Local Public Finance



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.

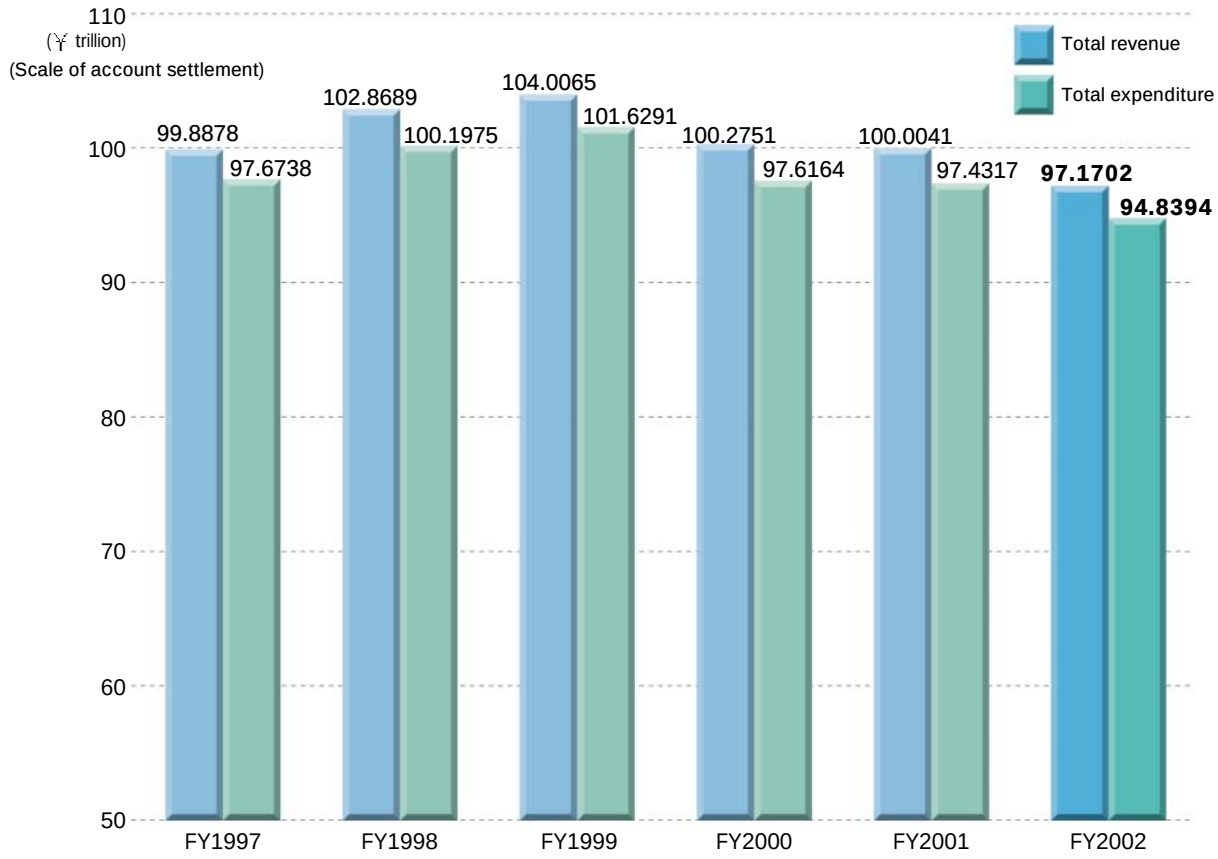
Shares of National and Local Governments in Main Expenditures by Function (final expenditure base)



The State of Local Public Finance (FY2002 Settlement)

Scale of Account Settlement

As a result of such factors as a decline in ordinary construction project spending and personnel expenses on the expenditure side and a drop in ordinary construction project spending disbursements on the revenue side, both revenue and expenditure have declined for three consecutive years.



Revenue and Expenditure Settlement

Both the single fiscal year balance and the real single fiscal year balance have fallen into the red, and the number of local government bodies with a deficit has increased.

Category	Settlement figure		No. of deficit organizations	
	FY 2002	FY 2001	FY 2002	FY 2001
Real single FY balance	−¥97.8 billion	¥318.5 billion	2,055 (2,932)	1,549 (2,540)
Single FY balance	−¥55.4 billion	¥4.7 billion	1,949 (2,845)	1,906 (2,932)
Real balance	¥1078.3 billion	¥1131.9 billion	25	24

Notes:

1. **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.
2. The number of organizations with real single FY balance deficits or single FY balance deficits does not include partial administrative associations; the numbers of organizations including partial administrative associations are shown in parentheses.
3. 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.).

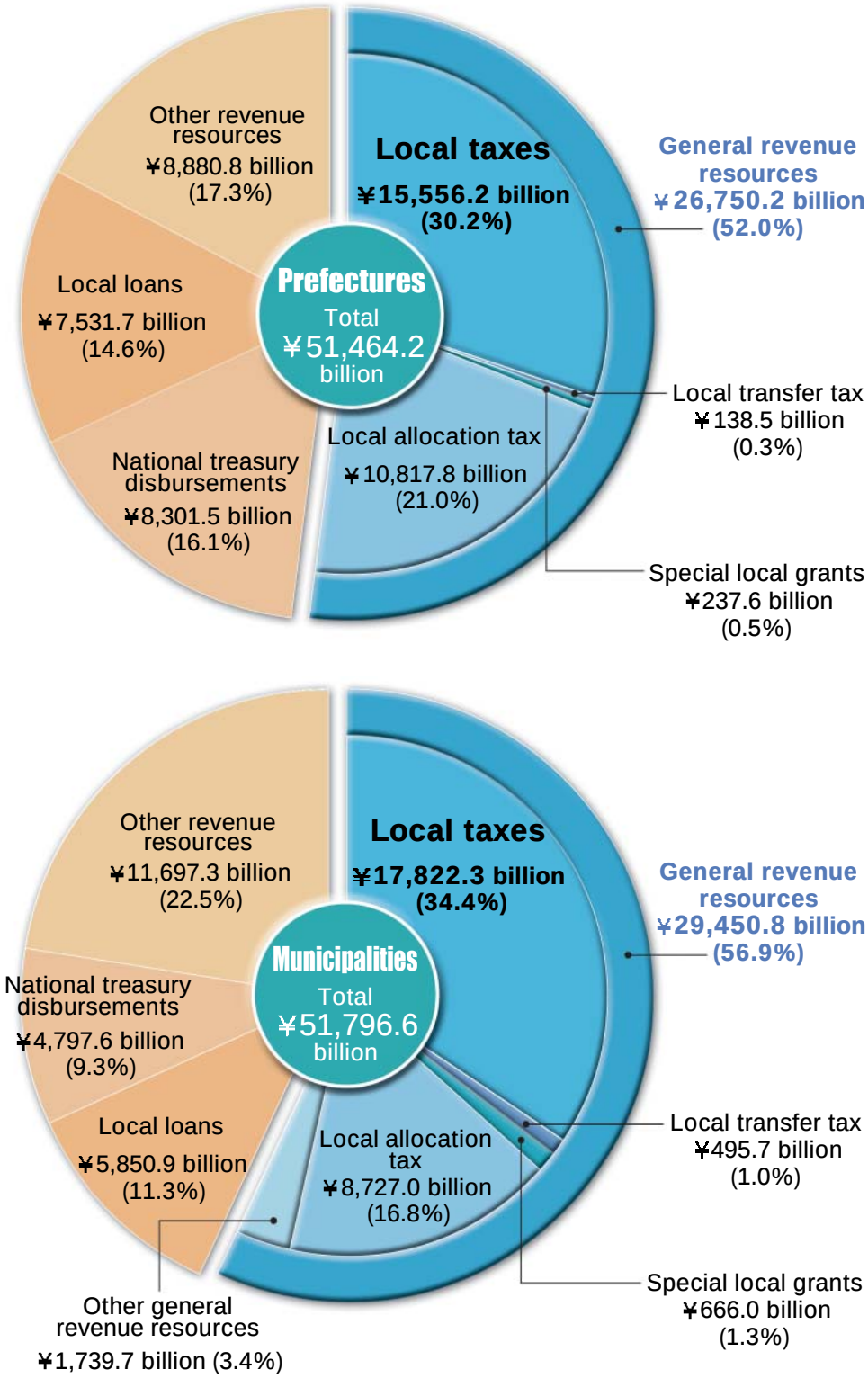
Revenue

Where does the 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, local loans, and national treasury disbursements.

Revenue Breakdown (FY 2002)



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 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.

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 8 for details.)

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

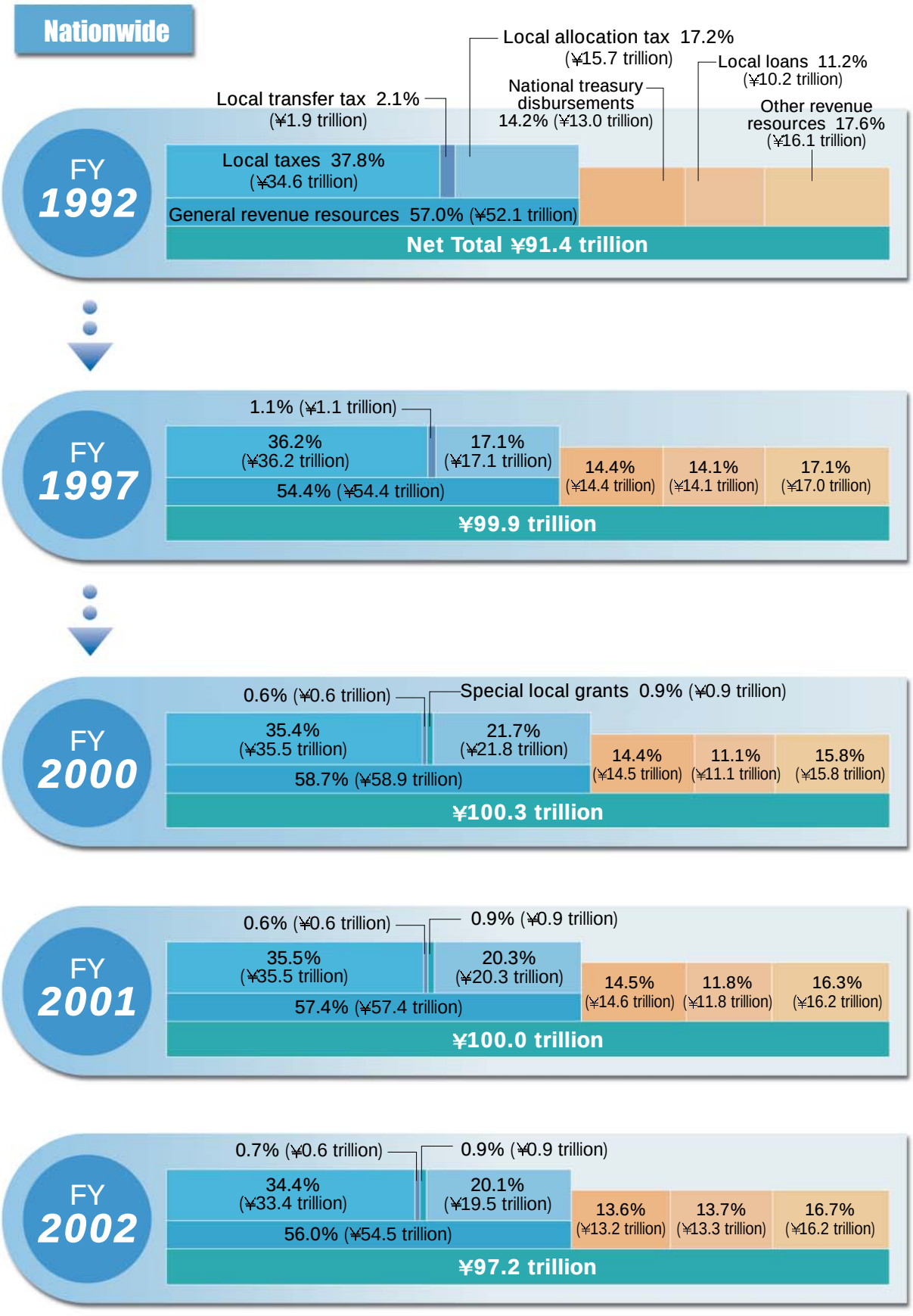
Local loans These refer to the debts of local governments for which fulfillment continues for more than one fiscal year.

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 19.)
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

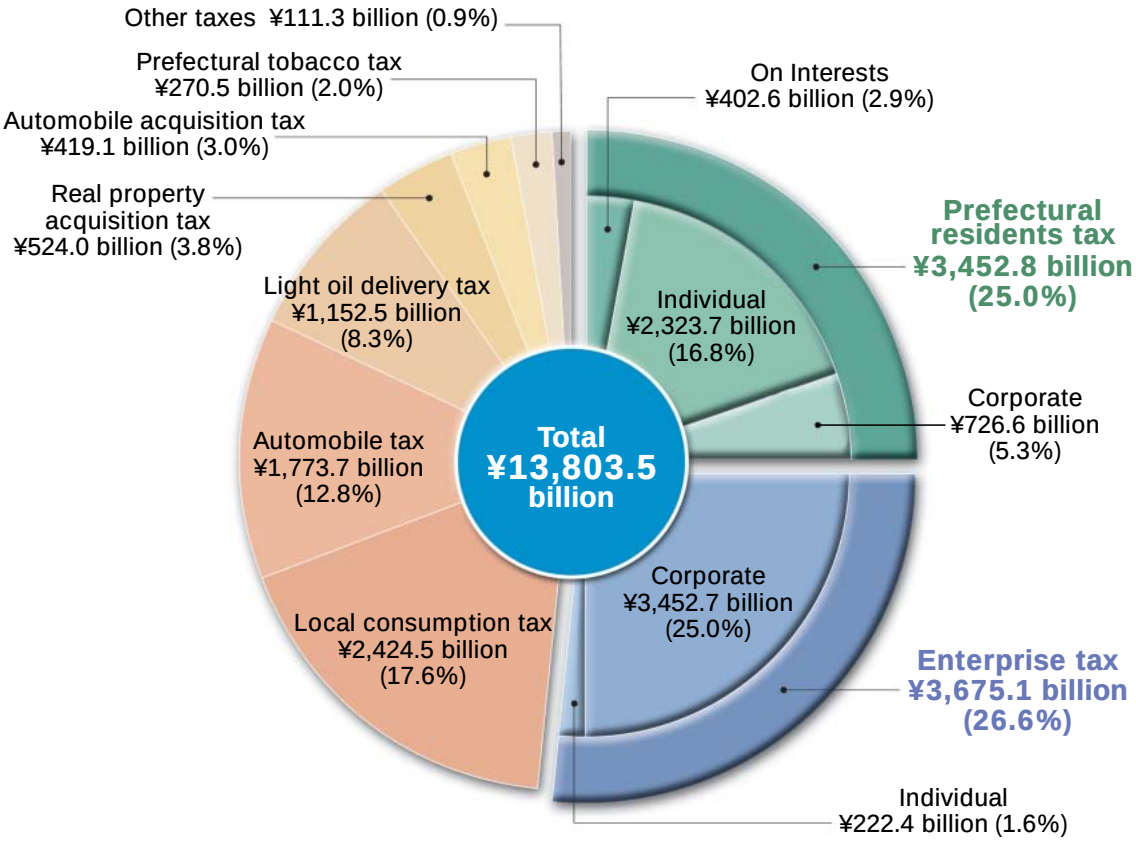
While the ratios of local taxes and local allocation tax in total revenue are on a downward trend, the ratio of local loans is increasing.



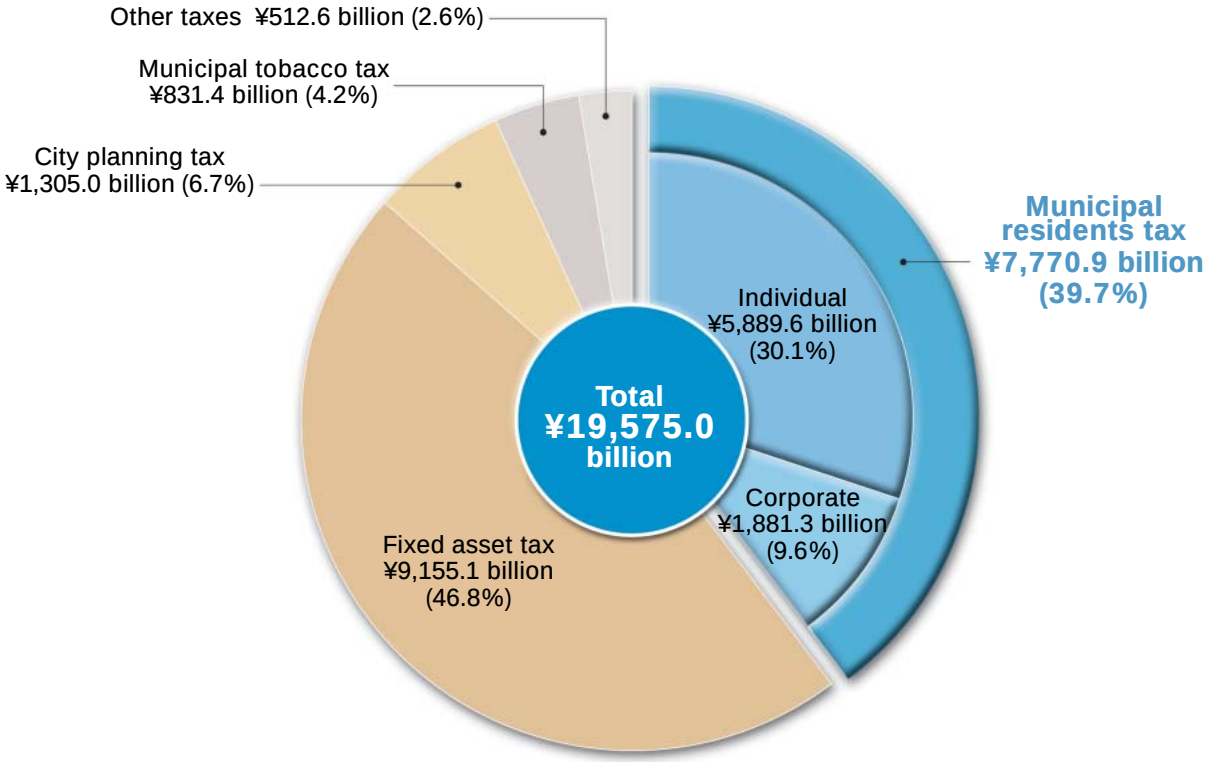
3. Local Taxes

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 2002 settlement)

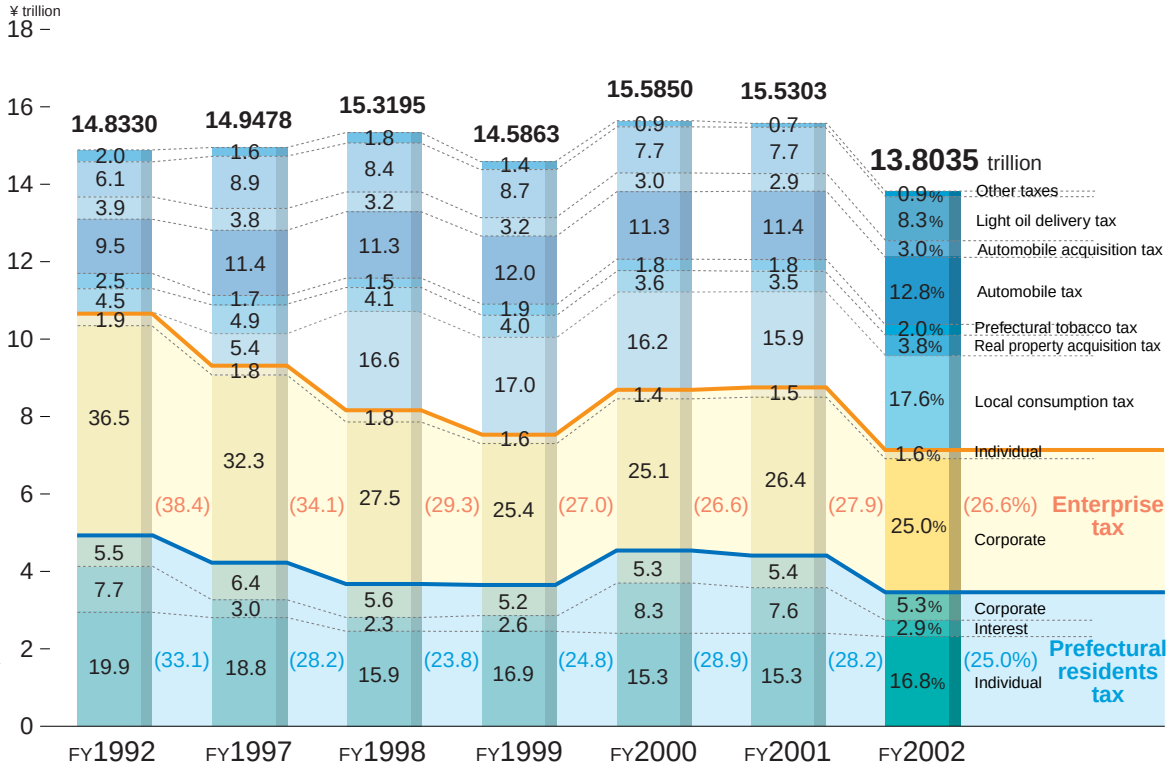


Composition of Revenue from Municipal Taxes (FY 2002 settlement)



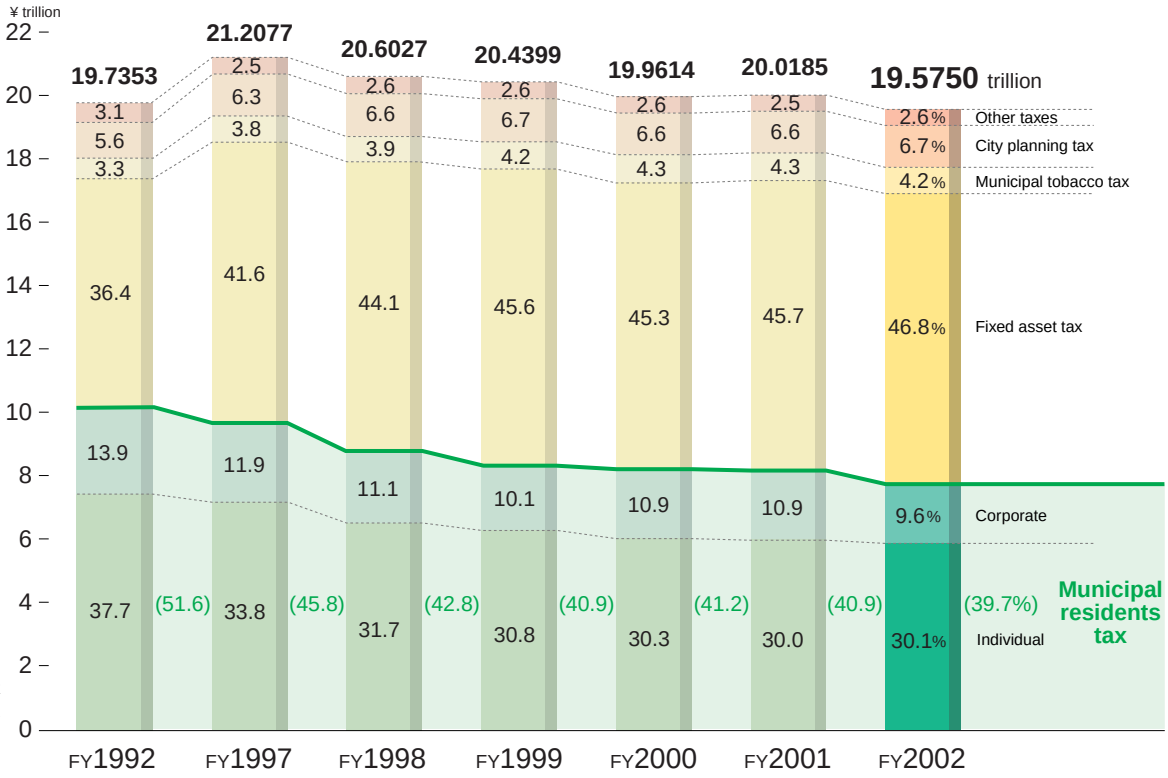
Among prefectural taxes, the ratios of the two corporate taxes (corporate business tax and corporate prefectural residents tax) are high. Among municipal taxes, the ratios of the fixed asset tax and individual municipal residents tax are high.
The two corporate taxes are impacted by the business cycle,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



Figures in parentheses are the component ratios of the business tax and prefectural residents tax.

Municipal Taxes Trend



Figures in parentheses are the component ratio of the municipal residents tax.

4. Local Allocation Tax

From the perspective of local autonomy, essentially it would 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 the necessary tax revenue. Therefore, the central government collects financial sources that should really be attributable to local tax revenue through national taxation and reallocates them as the local allocation tax to local governments where financial sources are insufficient.

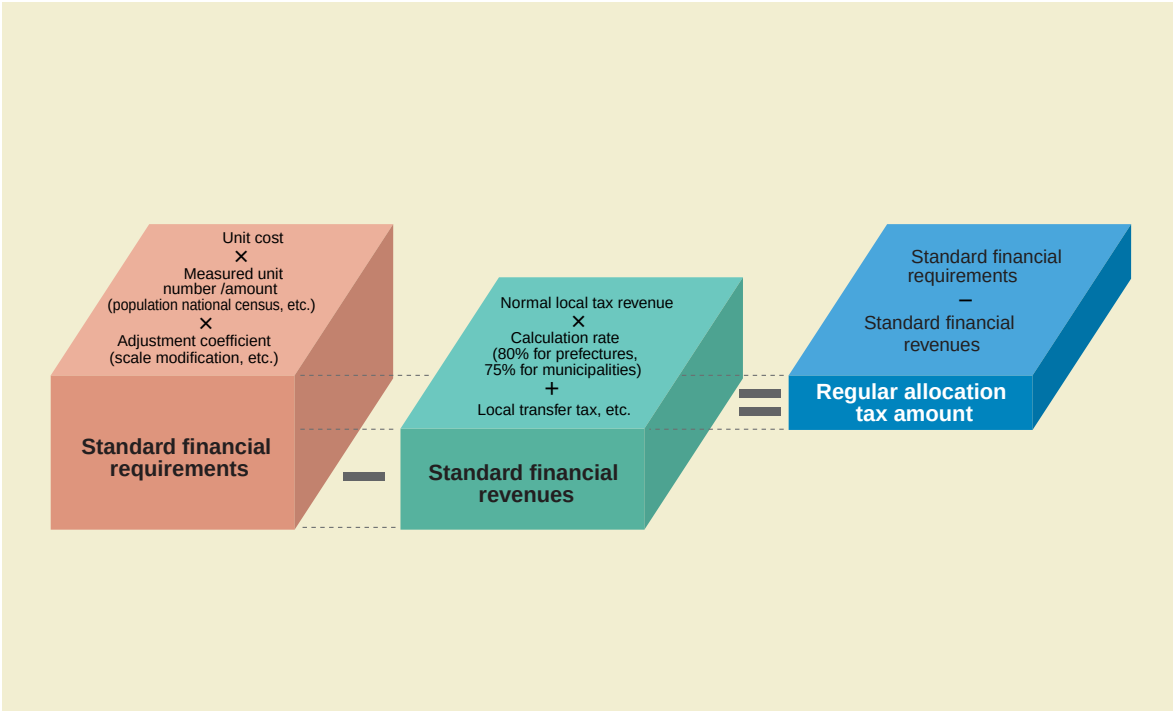
1 Determination of total amount of local allocation tax

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% 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 2002 was ¥19.5449 trillion, down 4.0% from the initial figure for 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.



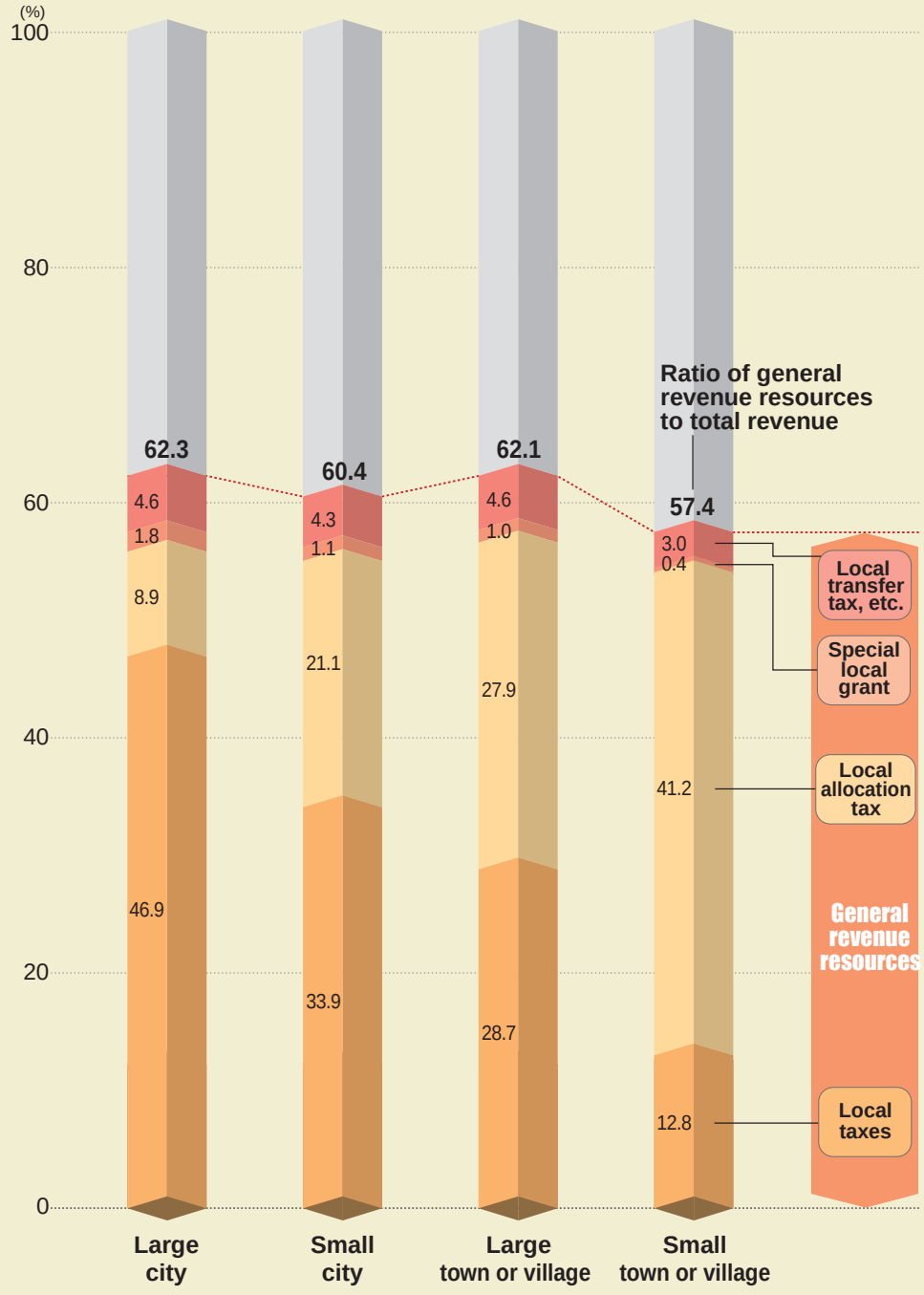
Notes:

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 fiscal 2001 to fiscal 2006, 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” imposed 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%.

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 have been found in the ratio of general revenue resources to total revenue because of such factors as size of population.

Ratio of General Revenue Resources to Total Revenue for Municipalities



Notes:
1. A "large city" refers to a city with a population of more than 100,000 persons according to the national census of 2000; 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

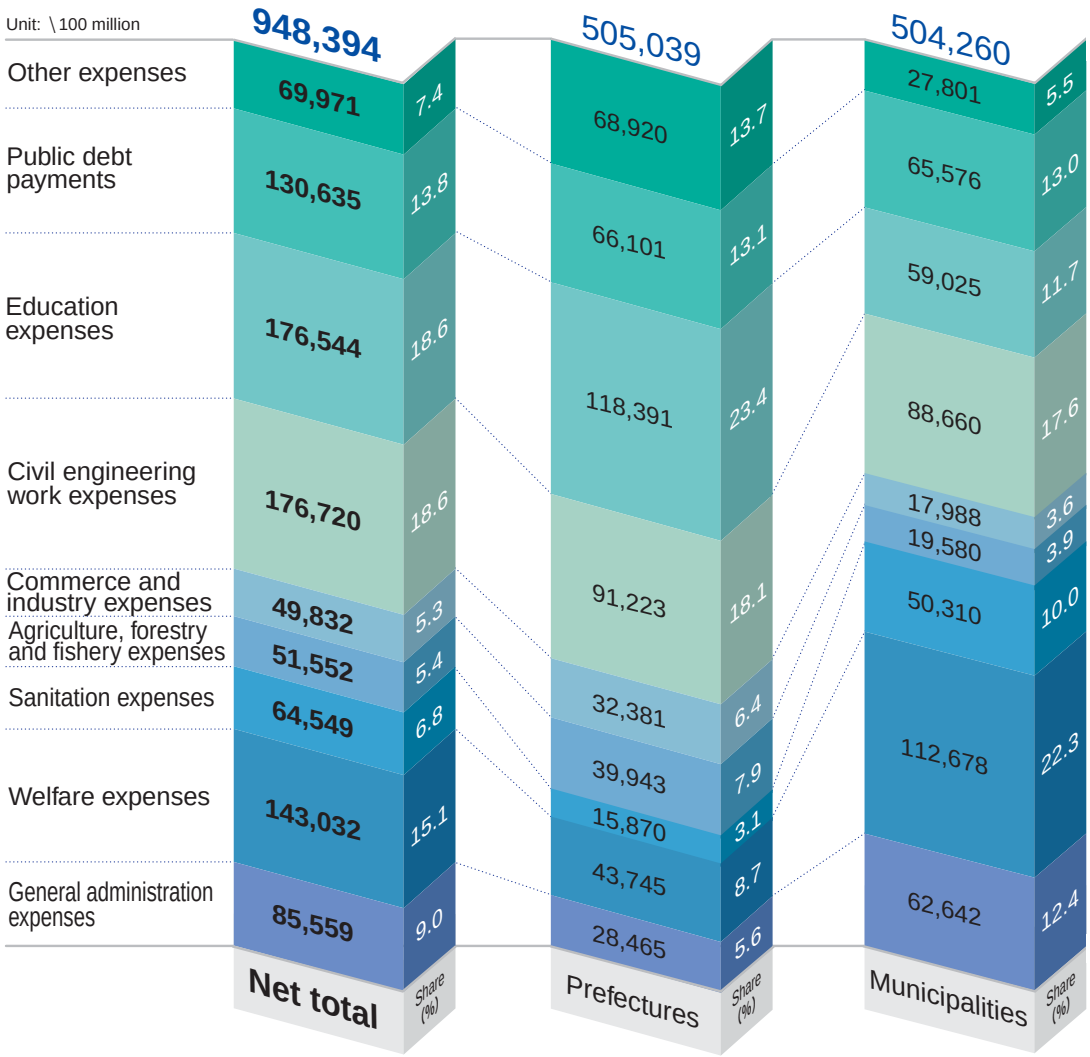
What is revenue being expended for?

1. Expenses by Function

When 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 mainly expended for education expenses, civil engineering expenses, and debt servicing in that order. In municipalities it is primarily expended for public welfare expenses, civil engineering expenses, and debt servicing 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.

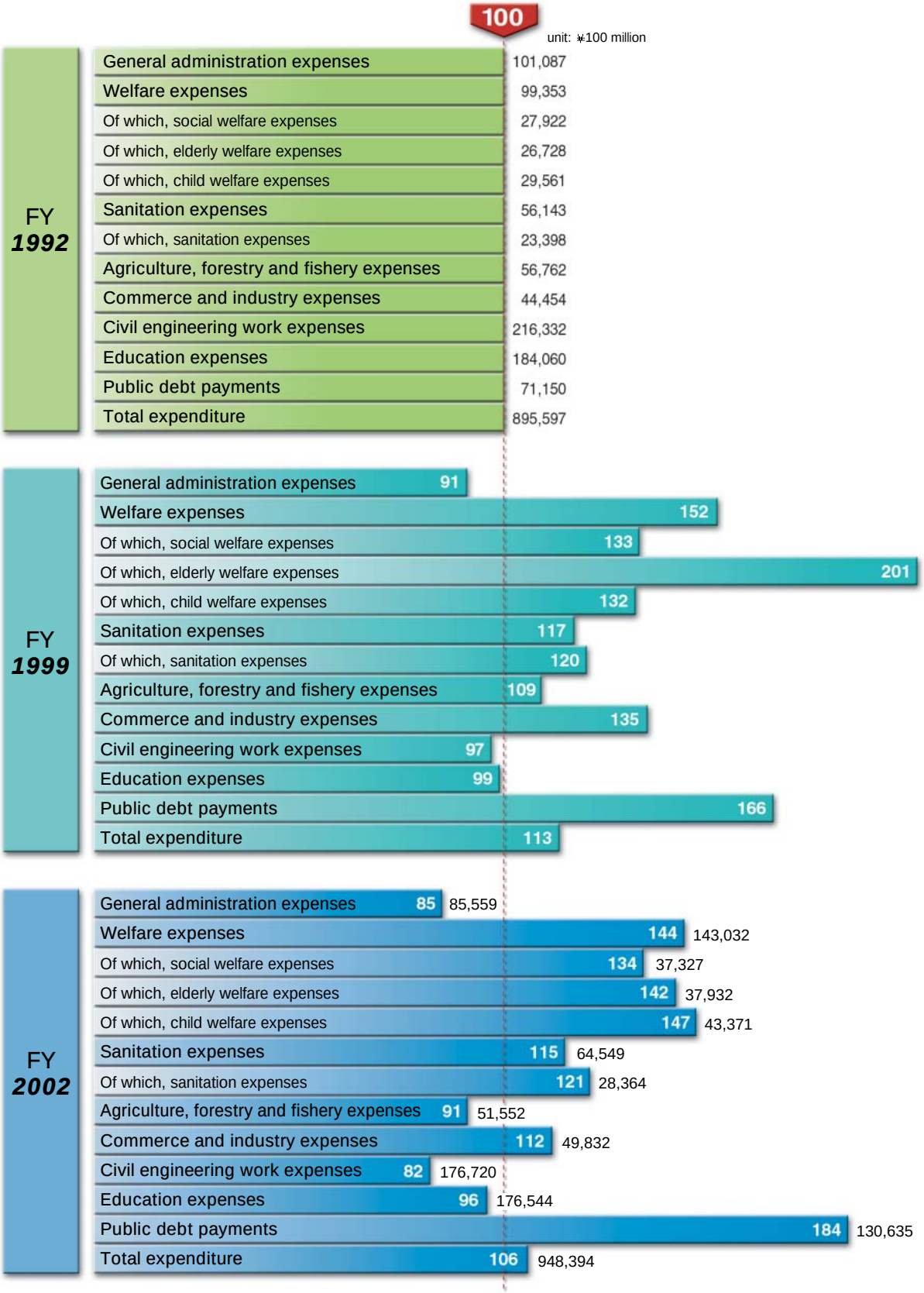
Composition of Expenditure by Function (FY 2002)



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

Trends in Expenditures by Function (ordinary account net total)

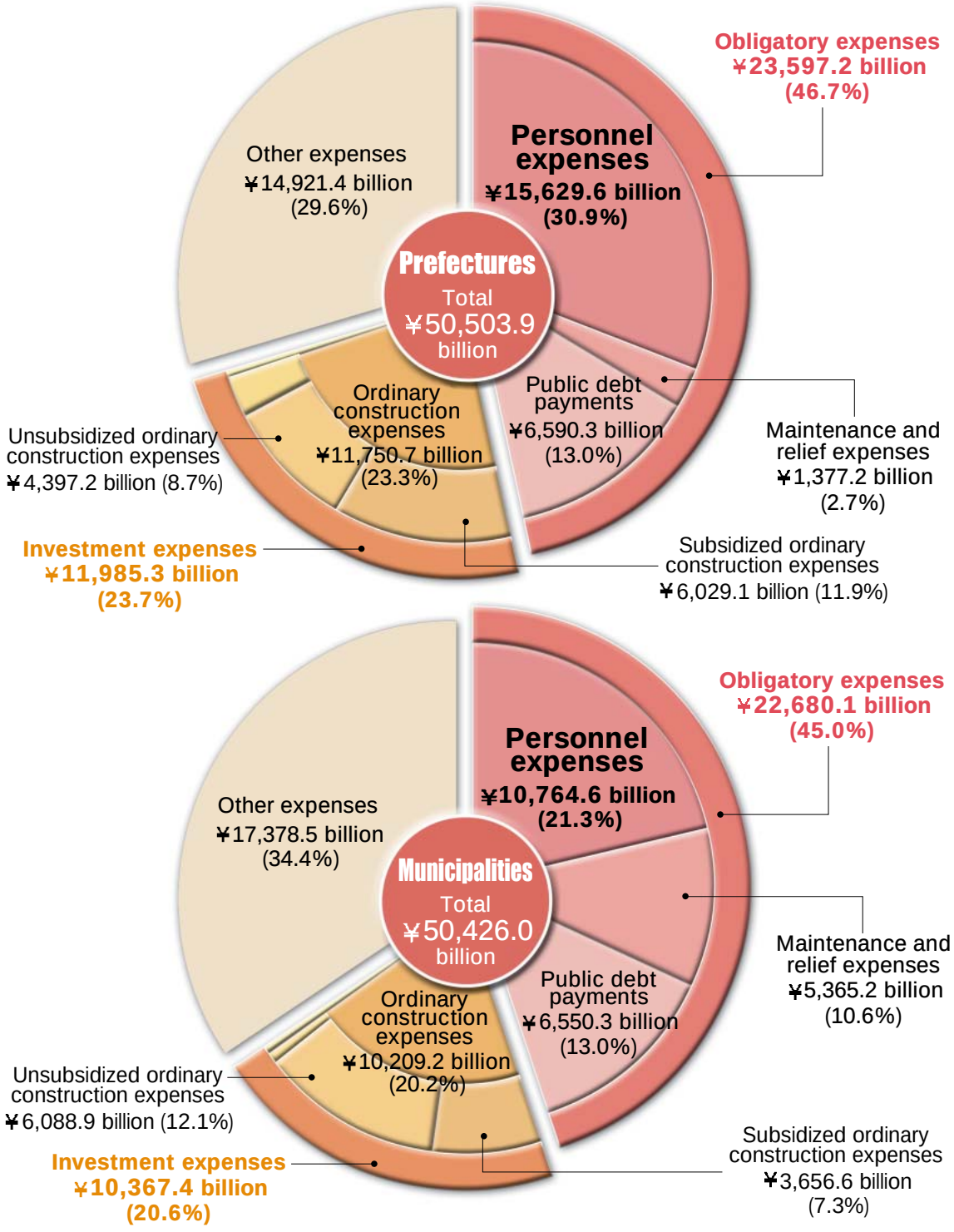
Unit: Ratio with FY 1992 as 100.



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 mandatory and difficult to cut down spontaneously; "investment expenses," including ordinary construction expenses, etc.; and "other expenses."

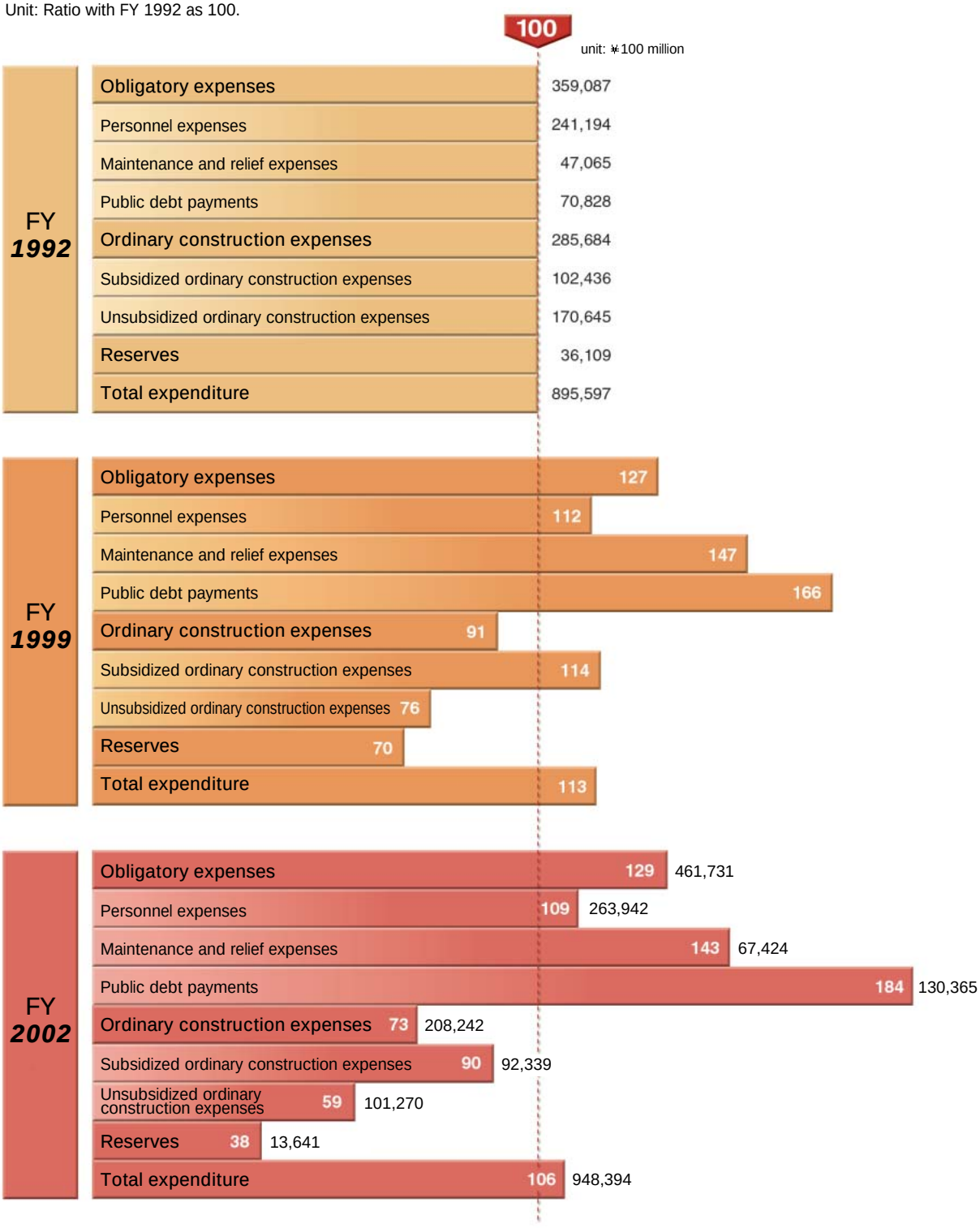
Expenditure by Character (FY 2002)



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

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

Unit: Ratio with FY 1992 as 100.



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.

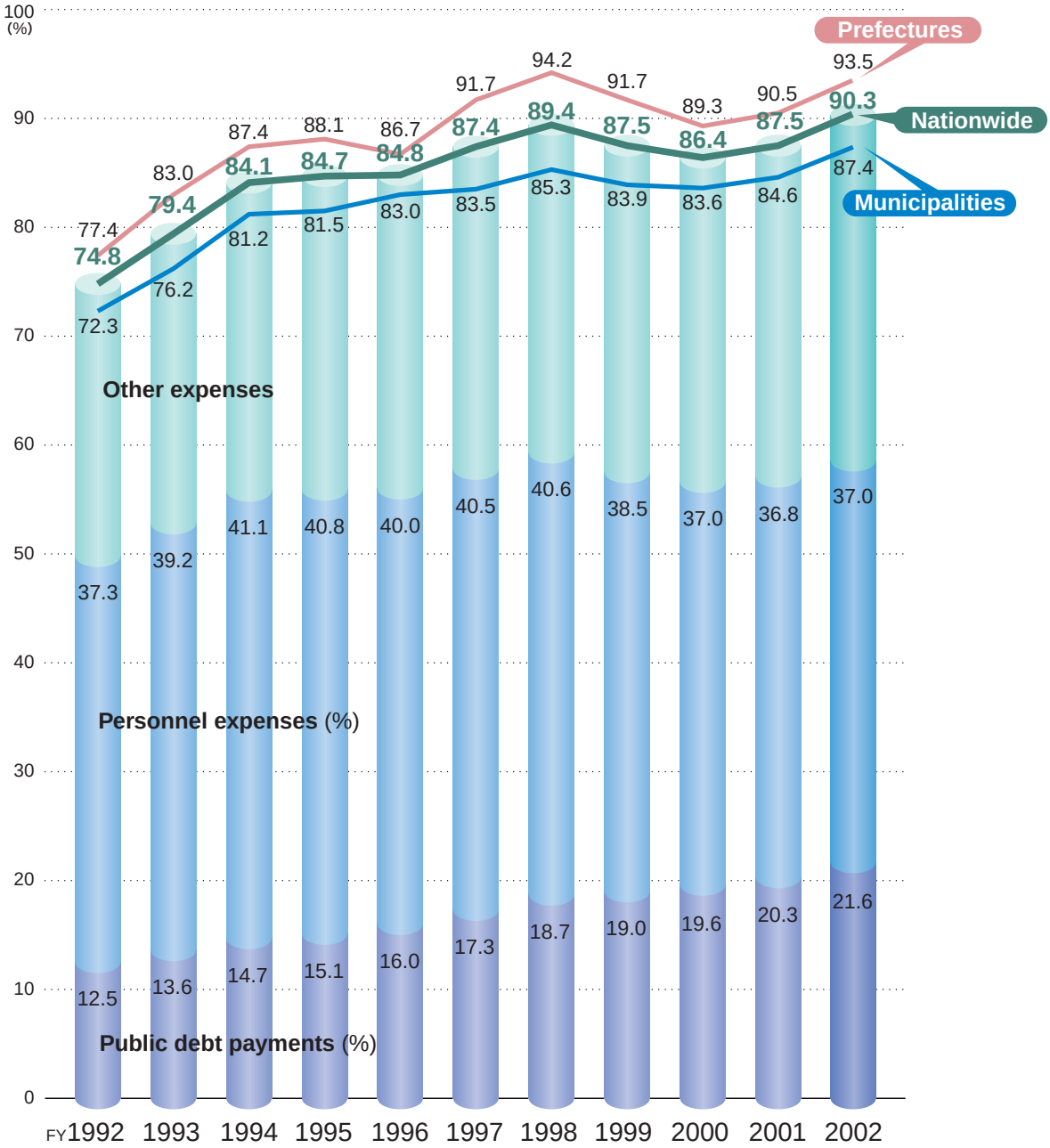
Flexibility of the Financial Structure

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 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 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]) has increased greatly because of such factors as a large decline in local tax revenue and a rise in public debt payments, and both the national average and the municipal average are all-time highs.



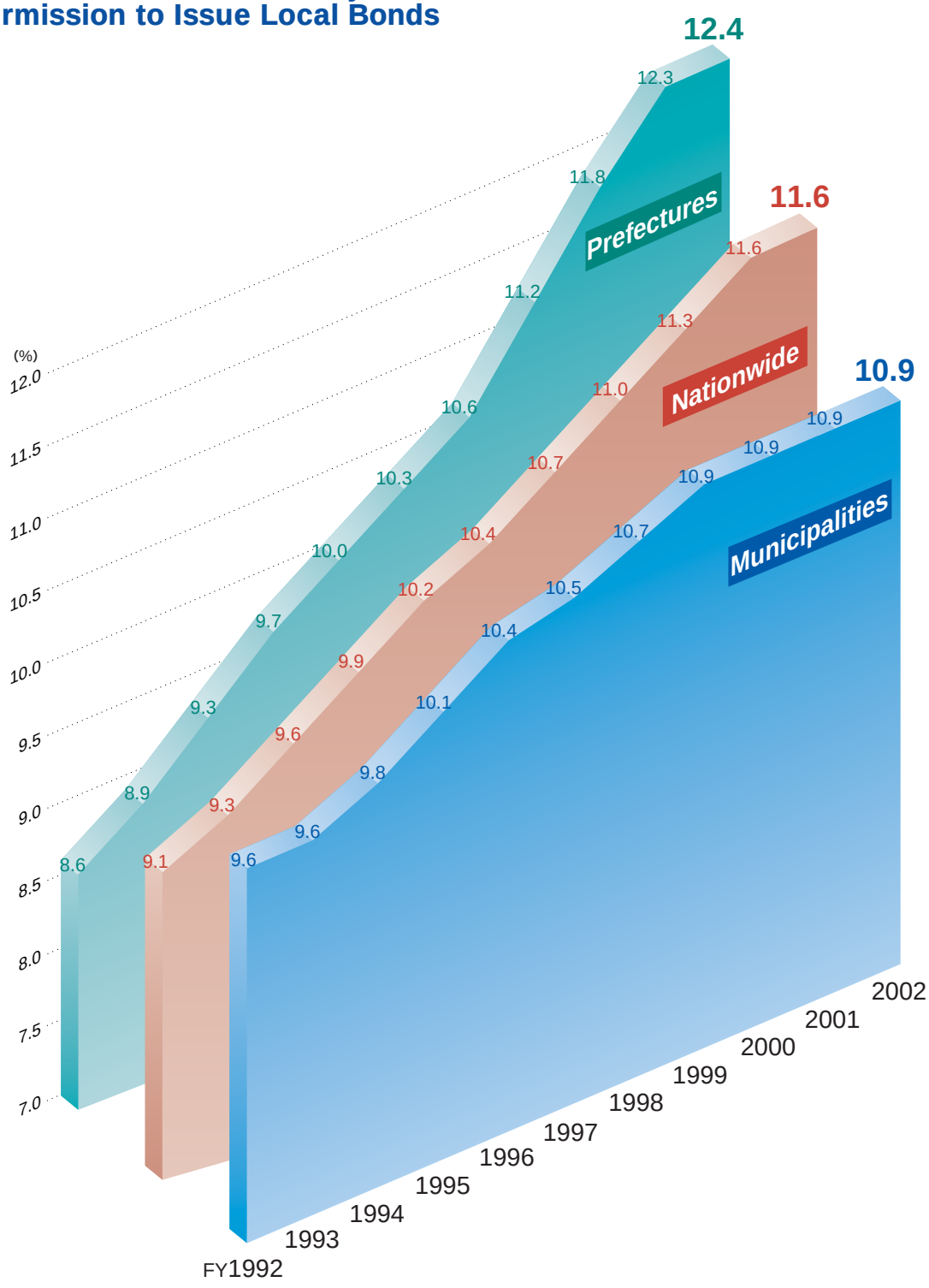
Note:
Tax-reduction supplementary bonds and extraordinary financial countermeasures bonds have been added since fiscal 2001.

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 to restrict the issue of local bonds, which is 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 continuing to maintain a high level; the national average, for example, was the same as the record high figure of the previous fiscal year.

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.

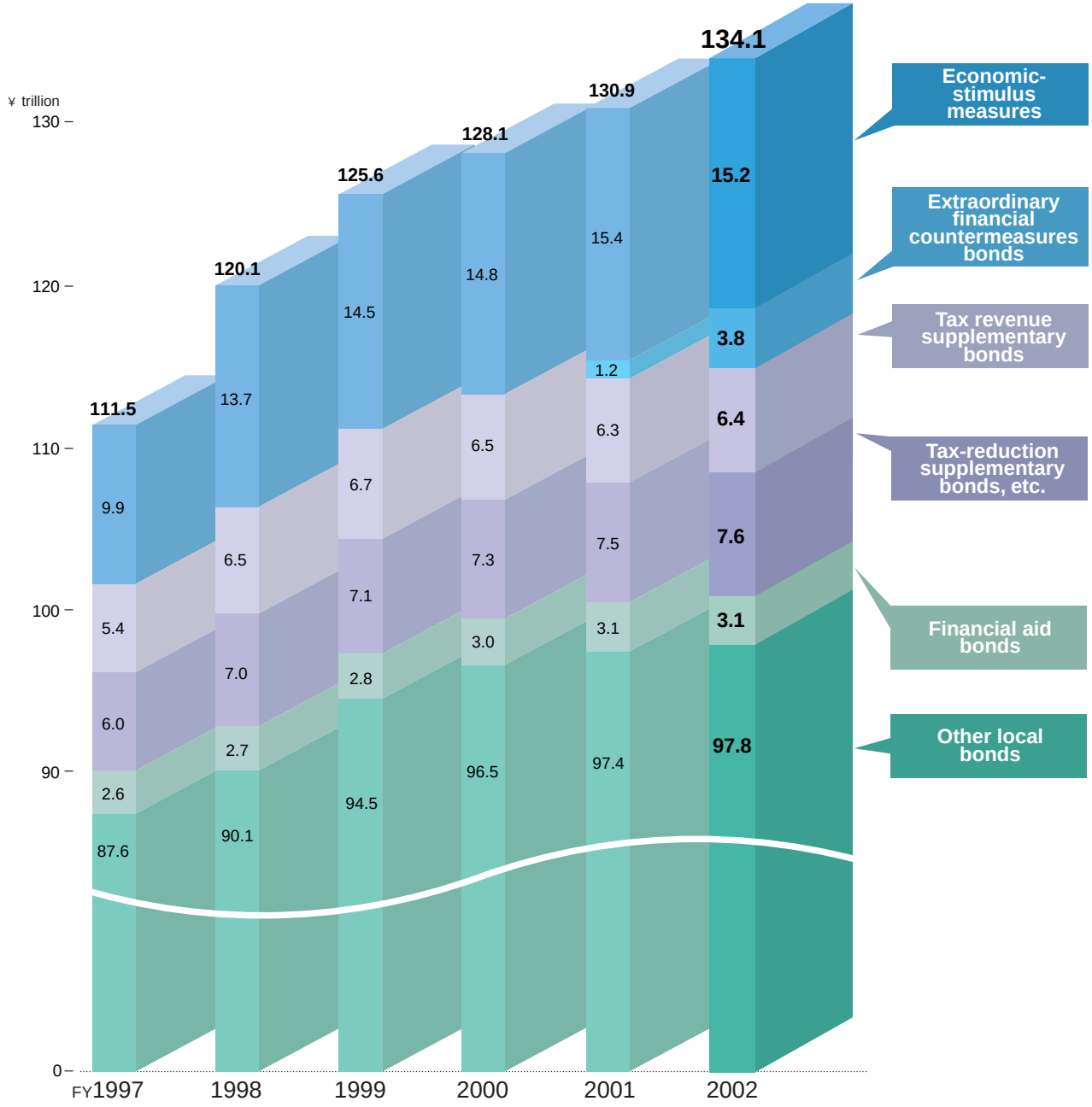
Outstanding Local Government Borrowing (Ordinary Account)

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 ¥134 trillion at the end of fiscal 2002. 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 1.4 times larger than total revenue and 2.5 times larger than general revenue resources, such as local taxes and local allocation tax.

Trends in Outstanding Local Government Borrowing

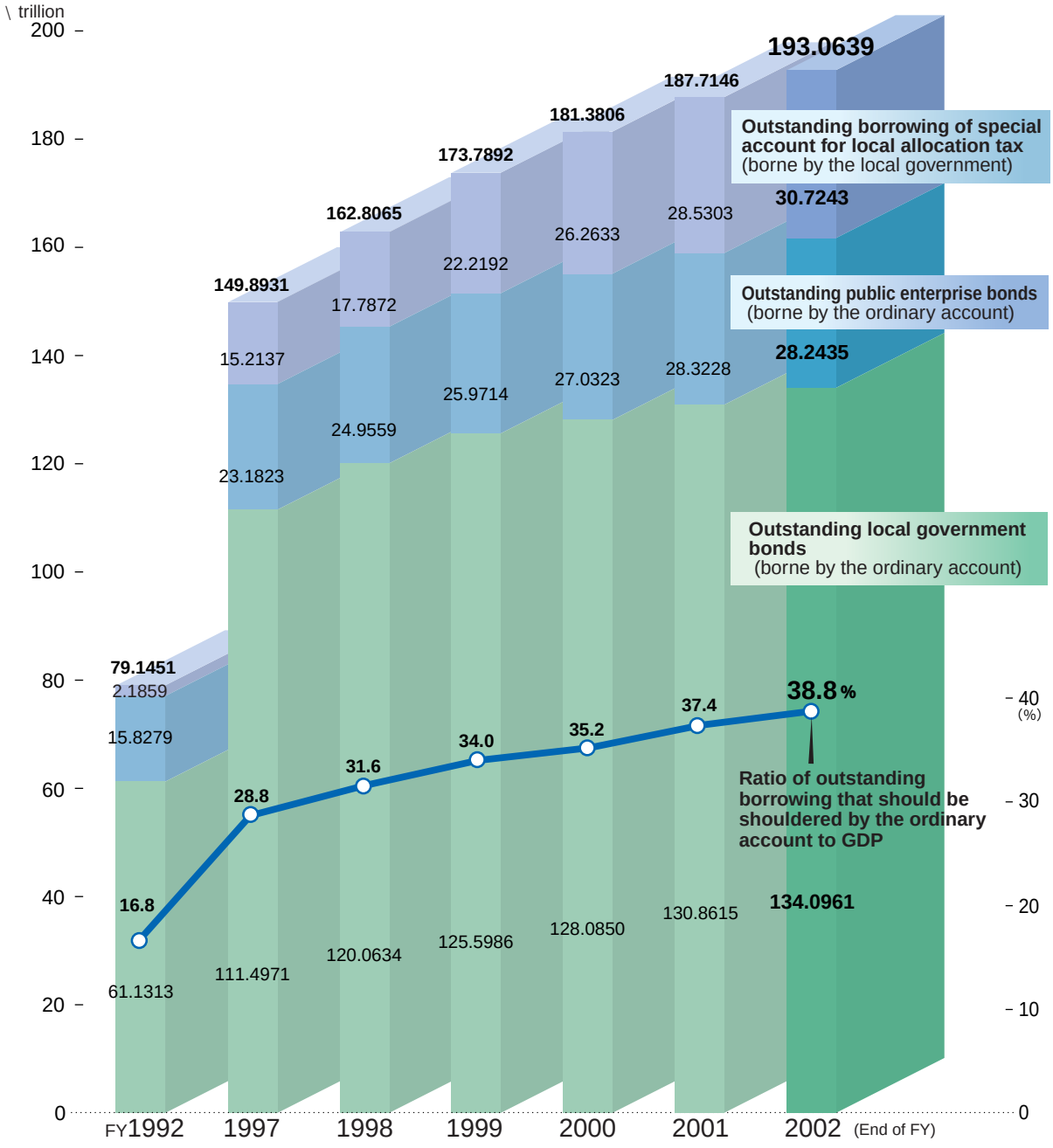


Notes:
1. Outstanding local government borrowing excludes special fund public works bonds and special fund public investment bonds.
2. Economic-stimulus figures are estimates.

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 ¥193 trillion at the end of fiscal 2002 and is expected to reach ¥204 trillion at the end of fiscal 2004.

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.

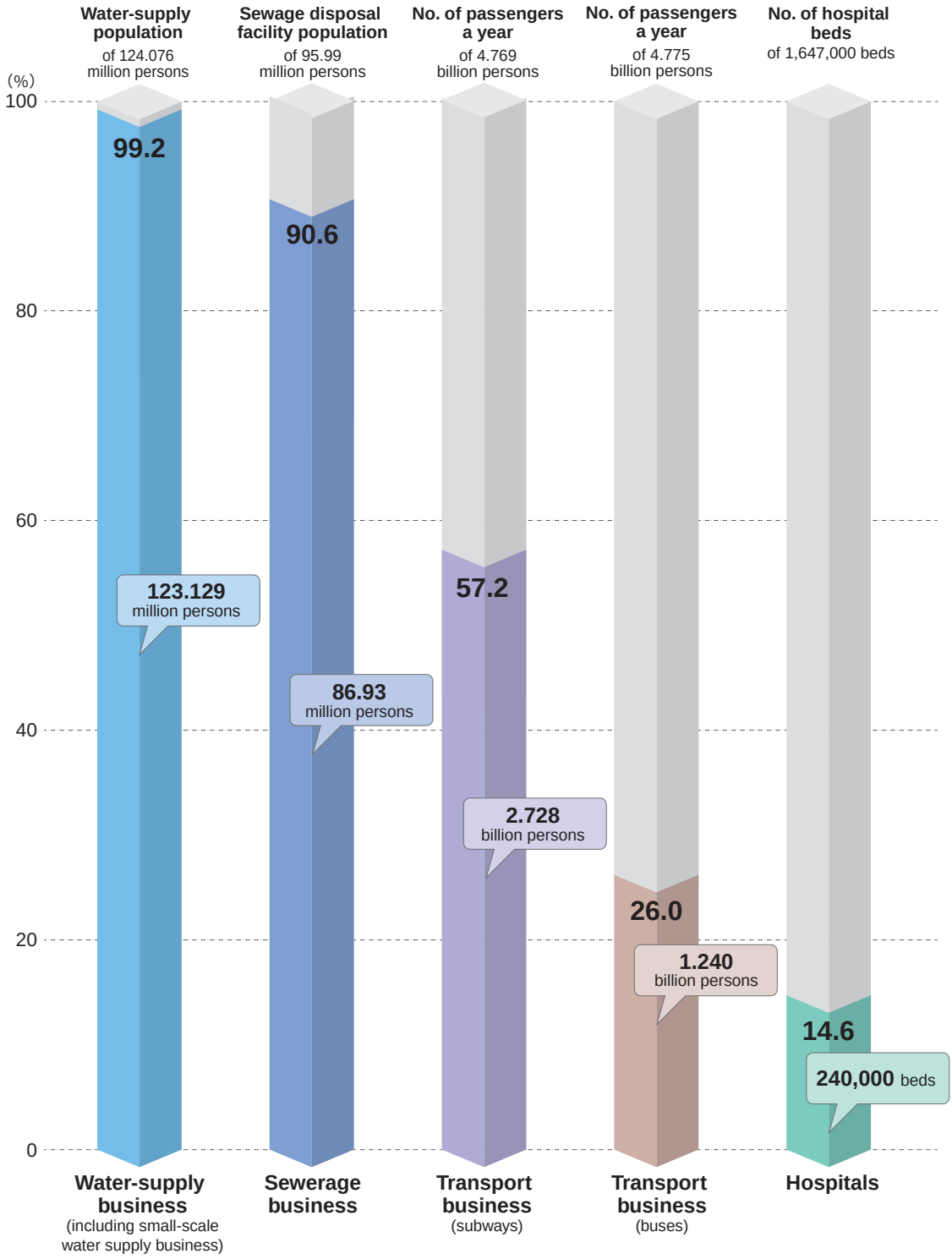
Local Public Enterprises

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

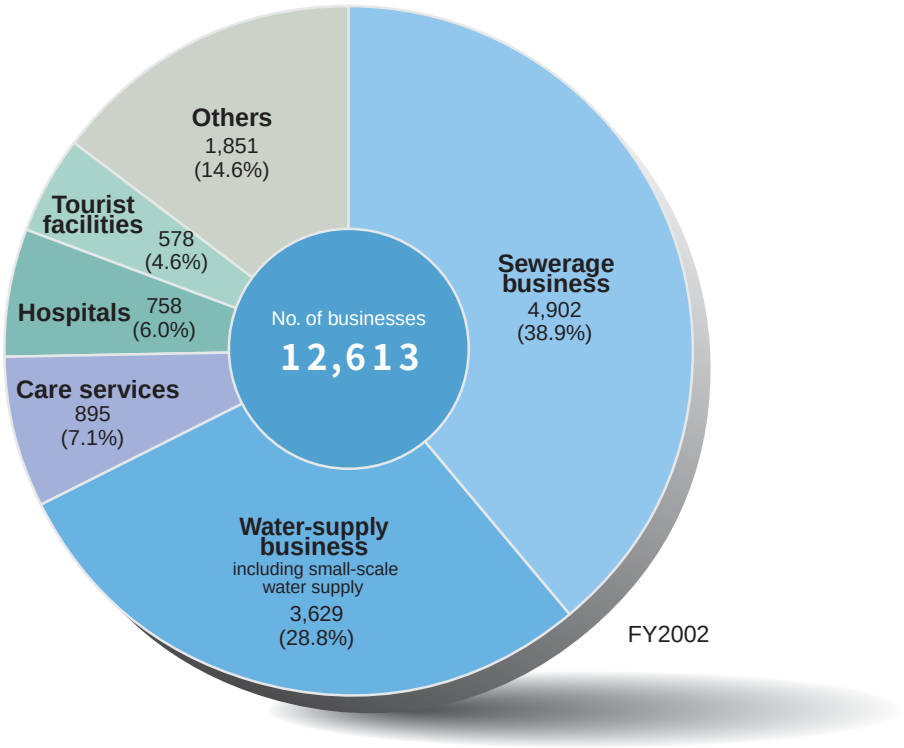
Local public enterprises play a major role in improving the standard of living of residents.



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

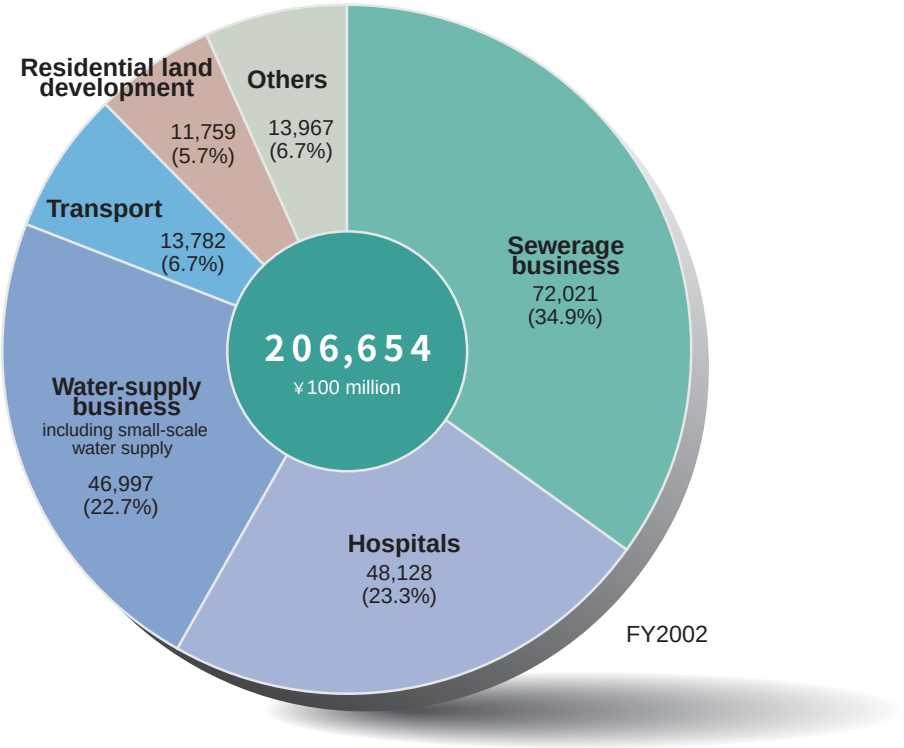
2. Number of Businesses Operated by Local Public Enterprises

The number of businesses is 12,613. By type of business, sewerage accounts for the largest ratio, followed in order by water supply, care services, and hospitals.



3. Scale of Financial Settlement

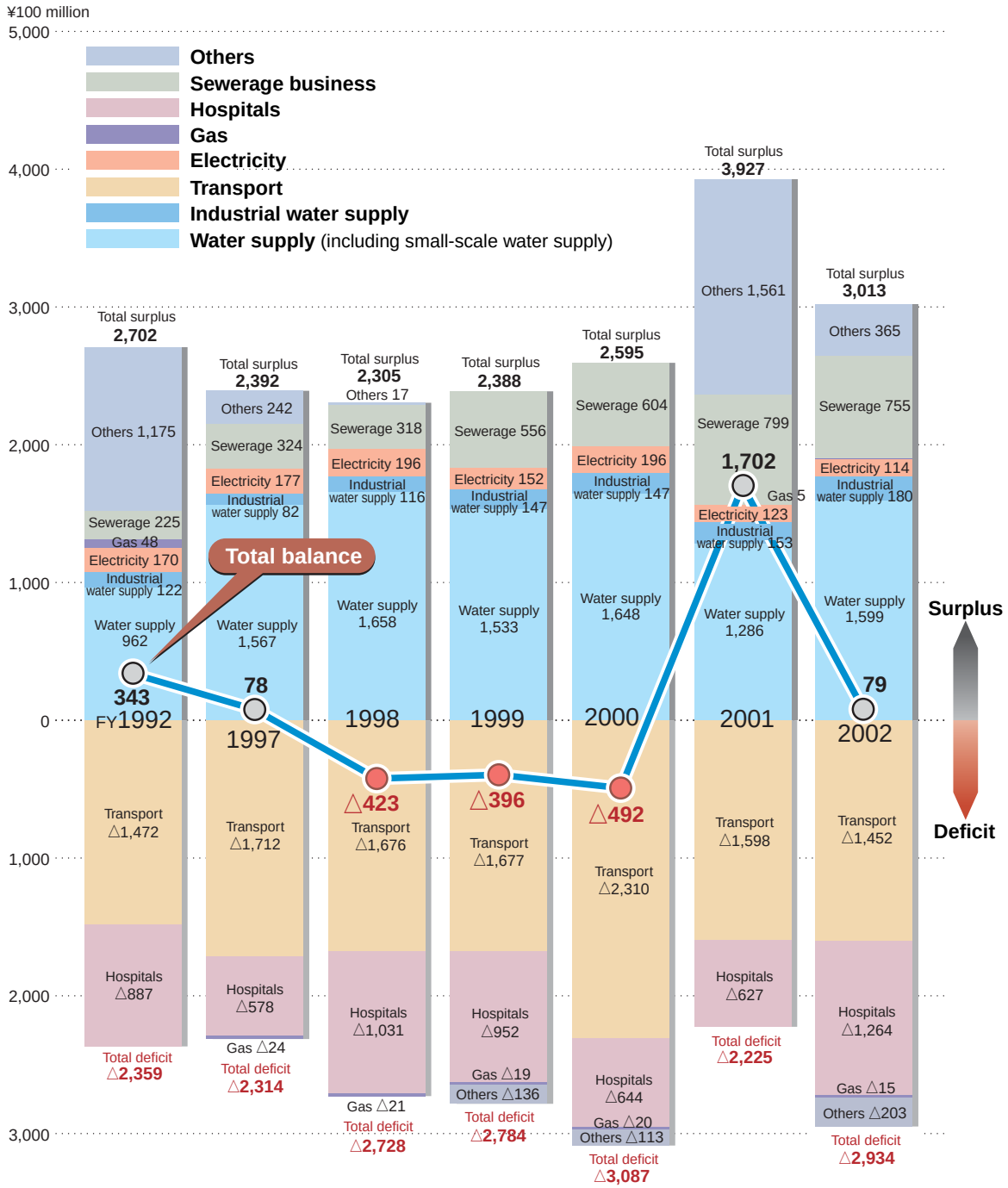
The total financial settlement scale is ¥20.6654 trillion. By type of business, sewerage accounts for the largest ratio, followed in order by hospitals, water supply, transport, and residential land development.



4. Management Conditions

Local public enterprises had a surplus of ¥7.9 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



Efforts Toward Sound Financial Conditions

What efforts are being made toward sound local finance?

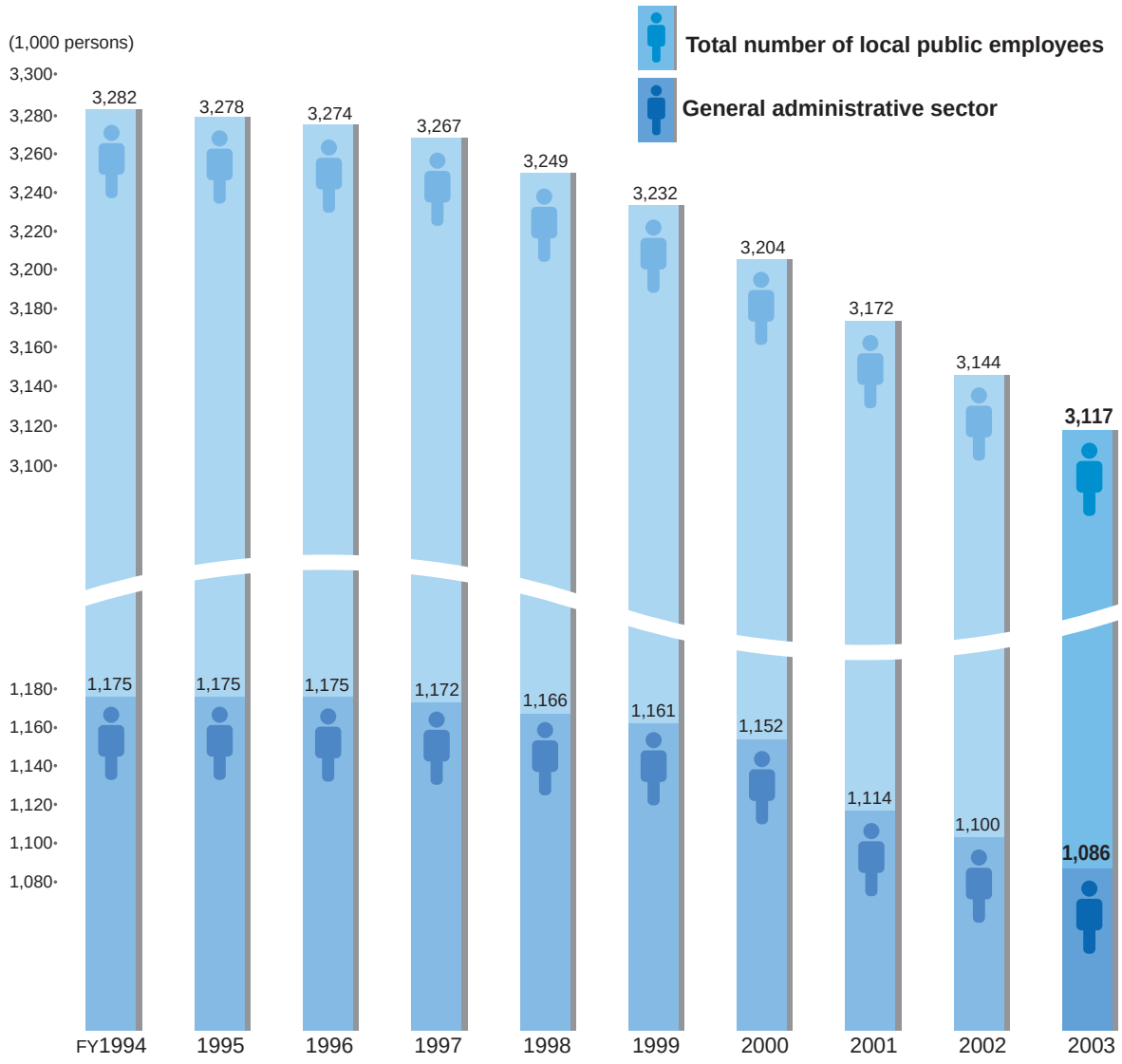
While local public finance is certainly in an extremely severe situation, the role of the local government, which is clarified as the comprehensive administrative entity of the region, is becoming increasingly important. For this reason, various efforts for administrative reform are being made with the 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 nine consecutive years since 1995. The number of employees has fallen for eight consecutive years in the general administrative sector and 12 consecutive years in the special administrative sector and has also dropped for two consecutive years in the public enterprise sector.

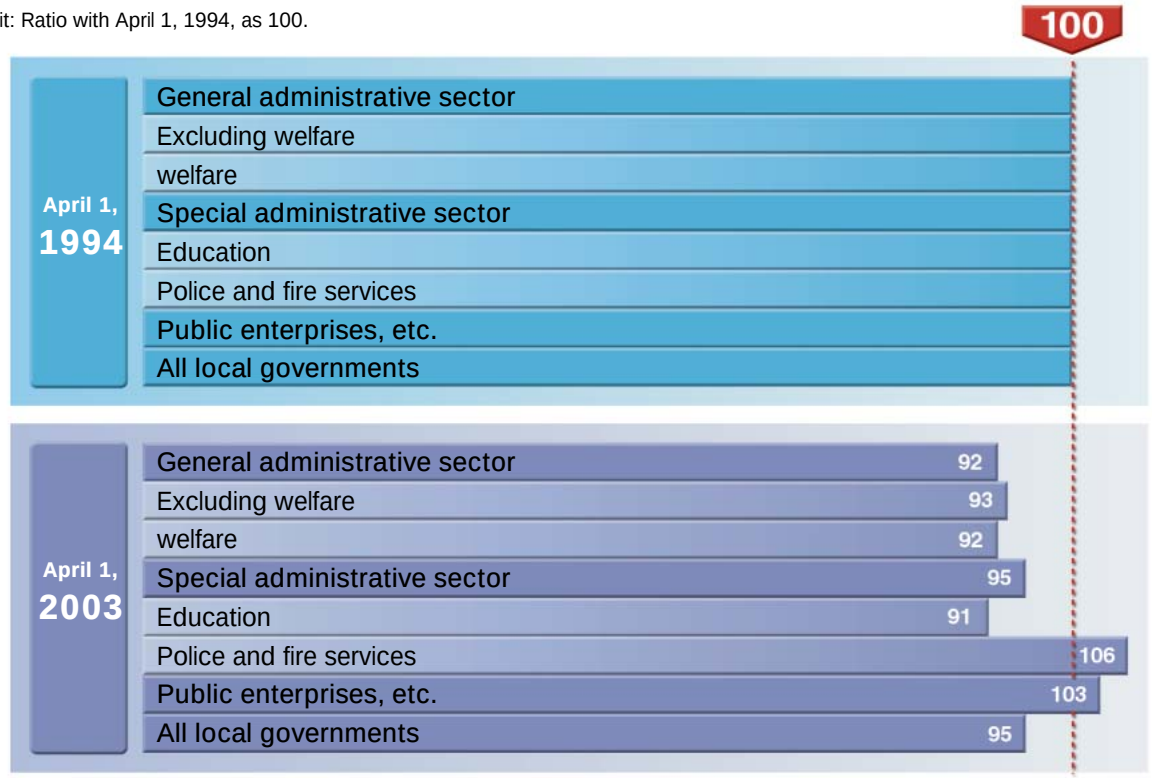
The reason for these trends is that although the number of employees has increased in some sectors because of such factors as the expansion of welfare and medical care, as well as the enhancement of public-security and disaster-prevention measures, efforts have been made to restrain the increase of the total number of employees through the setting of numerical targets and a scrap-and-build policy.

Number of Local Public Employees



Trends in the Number of Staff in Local Governments by Sector

Unit: Ratio with April 1, 1994, as 100.



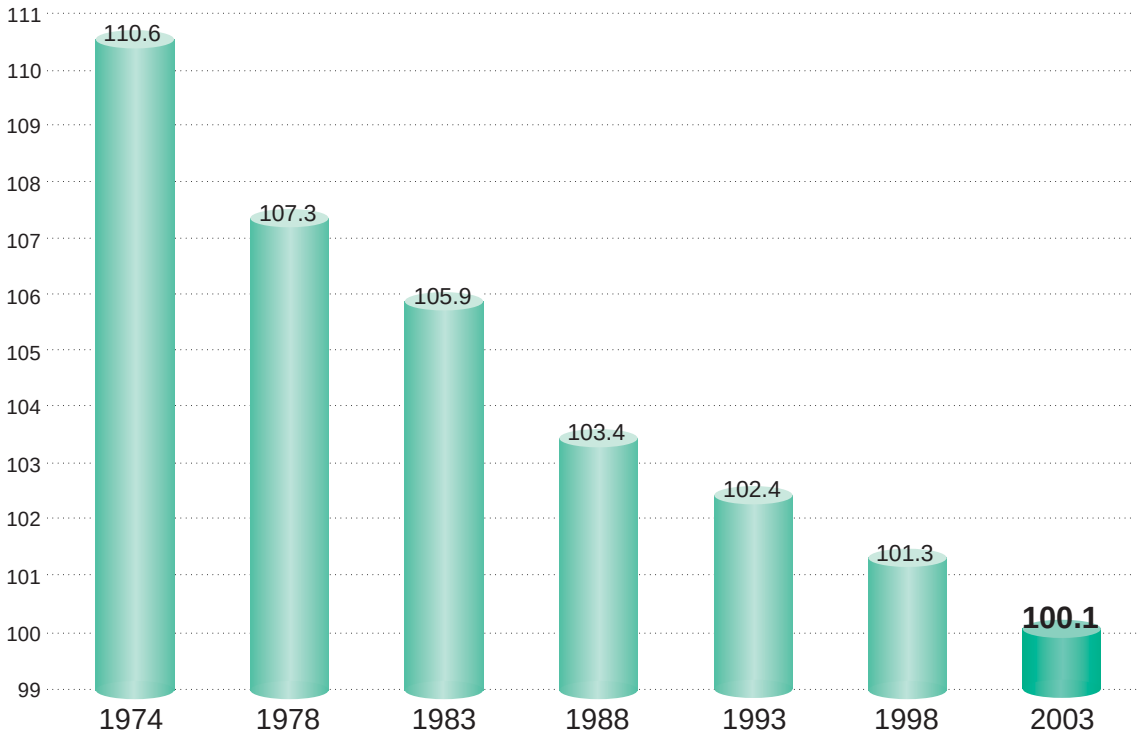
2. Salary Level

When the salary level of local public employees is shown on the Laspeyres Index, the average for all local governments is 100.1.

In order to steadily promote fiscal reconstruction, local governments have set about adopting their own salary-reduction measures, including the salaries of general staff. In fiscal 2002, 1,177 local governments implemented a total reduction of ¥100.7 billion.

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.

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)

FY 2002 Ordinary Account Balance Sheet

(As of March 31, 2003; unit: ¥1,000)

Debit

(Assets)

1. Tangible fixed assets		
(1) General administration expenses		11,366,427
(2) Welfare expenses		2,990,437
(3) Sanitation expenses		4,830.845
(4) Labor expenses		388,678
(5) Agriculture, forestry and fishery expenses		5,156,505
(6) Commerce and industry expenses		2,285,653
(7) Civil engineering work expenses		54,474,162
(8) Fire service expenses		558,078
(9) Education expenses		51,639,744
(10) Others		274,113
	Total	133,964,642
(of which, land		44,913,825)
Total		133,964,642
2. Investment, etc.		
(1) Investment and equity funds		4,353,805
(2) Loan		255,080
(3) Funds		
[1] Special purpose funds		6,764,488
[2] Land development funds		2,045,417
[3] Fixed-in investment		4,000
	Total	8,813,905
Total		13,422,790
3. Liquid assets		
(1) Cash, deposits		
[1] Adjustment fund for finance		1,941,007
[2] Sinking funds		1,726,829
[3] Cash in yearly account		1,166,651
	Total	4,834,487
(2) Receivables		
[1] Local taxes		2,072,424
[2] Others		723,825
	Total	2,796,249
Total		7,630,736
Total assets		155,018,168

Credit

(Liabilities)

1. Fixed liabilities		
(1) Local government bonds		59,649,702
(2) Contract authorization		
[1] Purchase of property, etc.		0
[2] Guarantee of obligation or loss compensation		0
	Total	0
(3) Retirement allowance reserve		6,443,975
Total		66,093,677
2. Liquid liabilities		
(1) Scheduled redemption in next fiscal year		4,401,630
(2) Appropriation mode in advance		0
Total		4,401,630
Total liabilities		70,495,307

(Net assets)

1. National treasury disbursements	19,305,858
2. Prefectural disbursements	5,655,927
3. General revenue sources, etc.	59,561,076
Total net assets	84,522,861
Total of liabilities and net assets	155,018,168

Information relating to contract authorization

(1) Matters relating to the purchase of property, etc.	1,023,704
(2) Matters relating to guarantee of obligation and loss compensation	5,451,112
(3) Matters relating to compensation for paid interest, etc.	1,482,506

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

Prefecture A

- **Greater efficiency in the payment of travel expenses and salaries through establishment of the General Affairs Administration Center**
  In fiscal 2002 established, for the first time in the country, a General Affairs Administration Center for the comprehensive processing of administrative work relating to the payment of travel expenses, salaries, etc. of main office staff and commenced the consignment of administrative work to the private sector. The number of staff was reduced by 10 persons in fiscal 2002—03. The move has the effect of cutting expenses by about ¥50 million a year.
- **Implementation of administration evaluation utilizing administrative inventory sheets**
  Since fiscal 1997 has compiled administrative inventory sheets to fully clarify the work of the prefecture and uses them in administration evaluation. In fiscal 2003 the inventory sheets, with additional information for evaluation, were submitted to the special committee on settlement of the prefectural assembly and also reflected in the budget and business. Is building a purpose-oriented administrative management system that can be called the Japanese version of New Public Management (NPM).
- **Building of a speedy and flexible administrative work processing setup through the streamlining of the organization**
  In fiscal 1998, for the first time in the country, abolished sections and established purpose-oriented offices. Abolished middle management posts and trimmed ranking classes. This contributed to reducing the time take for the standard processing of license applications to an average of about 5.2 days and a reduction in the number of staff by 100 persons.

Prefecture B

- **Reduction of number of staff by about 20% (about 3,000 persons) in the 10 years from fiscal 1999—2008** (reduction of 2,456 persons in the five years from fiscal 1999—2003)
- **Reduction of managerial allowances** (10% reduction from fiscal 2001–04)
- **Reduction of number of prefecture-related organization staff by about 20% (about 600 persons) in the nine years from fiscal 2000—08 through a review of prefecture-related organizations** (reduction of 389 persons in the four years from fiscal 2000—03)
- **A review of public facilities to abolish, privatize, etc. more than 26 facilities (about 20%) in the seven years from fiscal 2002—08**

City C

- **Reduction of number of staff by 1,000 persons (about 5.5%) in the five years from fiscal 2001—05.** (Reduction of 1,100 persons in the three years from fiscal 2001—03.)
- **Reduction of salaries for special posts.** (15% reduction for mayor and 10% reduction for deputy mayor, etc. in fiscal 2002—03.)
- **Reduction of salaries for general staff.** (In fiscal 2002—03, 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—05.**
- **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—05.** (Achieved the planned target of 88 tasks in the three years from fiscal 2001—03.)

Issues of Local Finance

1. Establishing 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 encourage local independence under the principle of "entrusting to local governments what local governments can do."

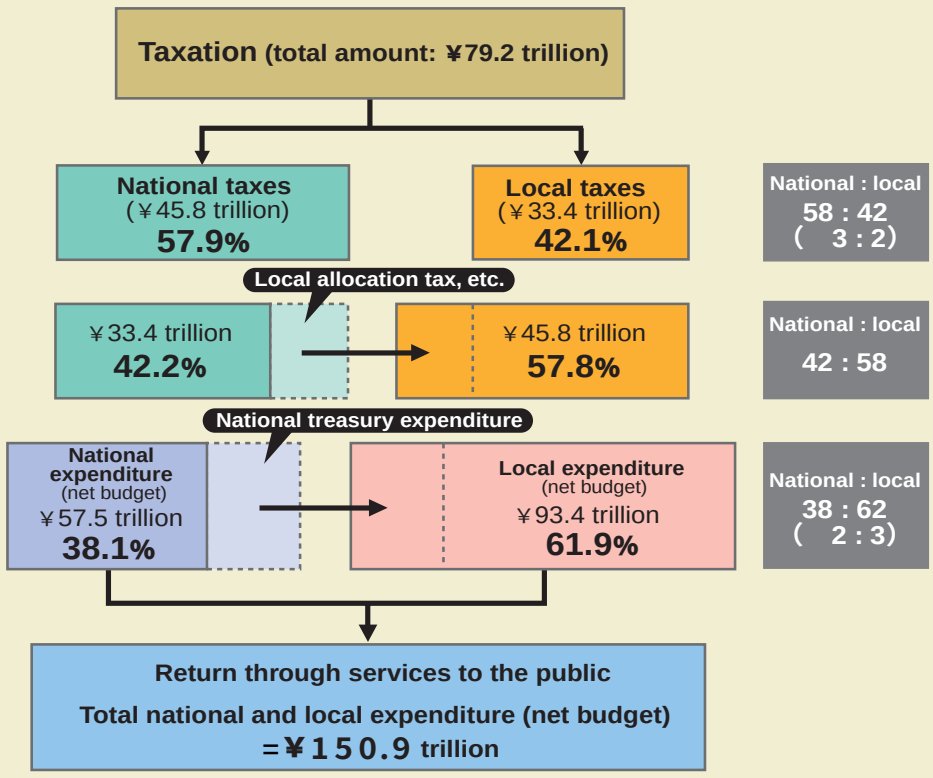
- Realization of an income structure based mainly on local taxes
  - Gap between expenditure scale and tax revenue of local governments
    - Expenditure state : local = 2 : 3
    - Tax revenue state : local = 3 : 2
  - Reduce the gap as much as possible
- Revision of involvement of the central government through national treasury subsidies, legislation, etc.

Further clarification of correspondence between benefit and burden of administrative services

Promotion of administrative reform and fiscal structure reform in the national and local governments

Reference

Distribution of Financial Resources Between the National and Local Governments (FY 2002)



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

(Compiled from the Basic Policy on Economic and Fiscal Management and Structural Reform, 2003 and other materials.)

Three-Pronged Reform

On the basis of the ideas of "from public to private" and "from the center to the regions":

- Local governments shall decide policies with their own creativity and responsibility.
- Local governments shall increase the revenue resources that they can freely use.
- Local governments shall become self-reliant.

The following three-pronged reforms shall be promoted during the period of "reform and outlook" (until fiscal 2006):

Reform of national treasury subsidies

On the basis of the Policy for the Reorganization and Rationalization of National Treasury Subsidies, Etc., reforms shall be carried out to abolish or reduce subsidies to the amount of about ¥4 trillion.

- In principle, national treasury subsidies shall be abolished or reduced.
- National treasury subsidies shall be limited to fields in which the state really does have an obligation to should a burden.
- Reform of priority items (11 items)

Revision of tax source distribution, including the transfer of tax resources

Transfer of tax resources in the case of projects for which national treasury subsidies are abolished but which need to be continued mainly by local governments

- The transfer of tax resources shall take place with particular focus on core taxes.
- The transfer shall cover the whole amount in the case of obligatory projects and around 80% in the case of other projects.

Allocation tax reform

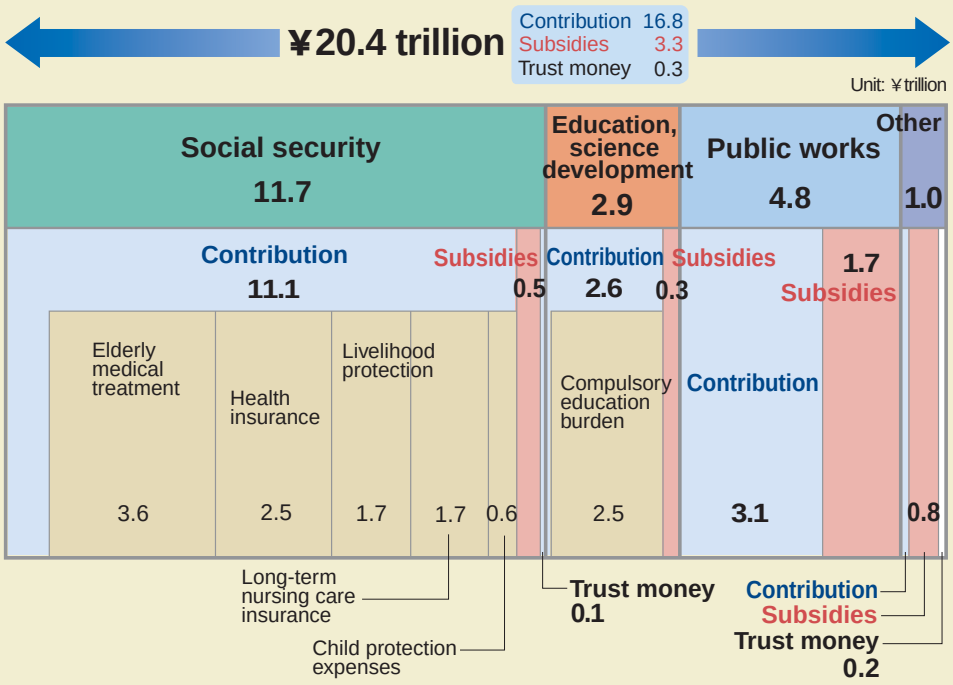
Review of the whole revenue resource guarantee function of the allocation tax and reduction

- Extensive review of expenditures in local public finance plans and restraint on the total amount of allocation tax of its scale
- Review of calculation method(gradual supplement, project expense supplement, etc.)
- Considerable increase in the population ratio of local governments not receiving the allocation tax

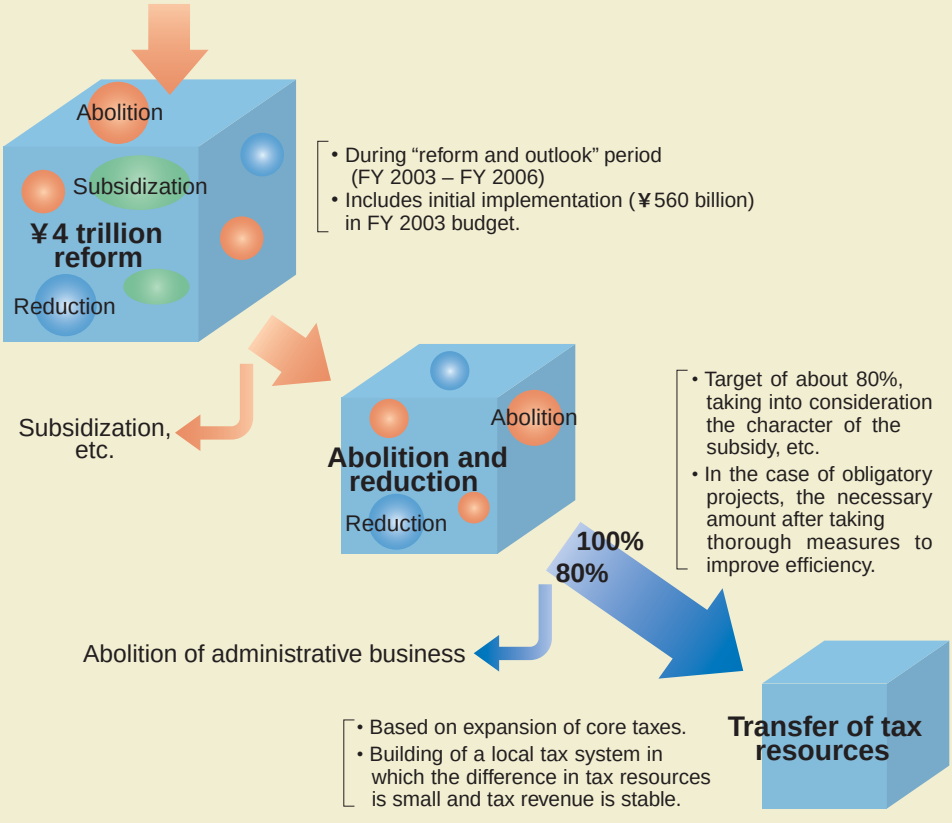
Reference

National Treasury Subsidies, Etc. to Local Governments Bodies

(General account and special account; FY 2004 budget base)

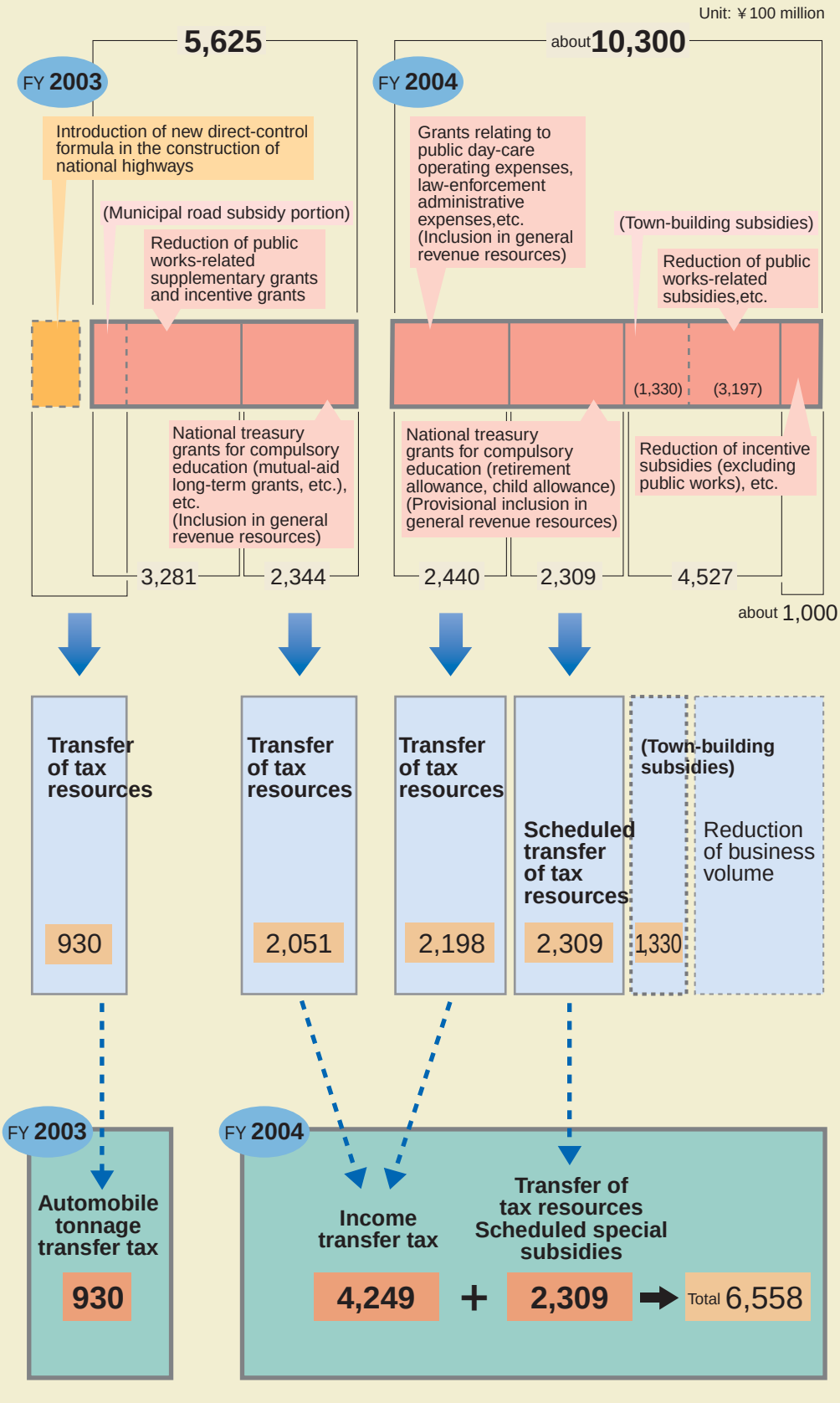


Policy of Reorganization and Rationalization of National Treasury Subsidies, Etc. in Attachment 2 of the Basic Policy 2003



Reference

Image of National Treasury Subsidy Reform (Estimates)



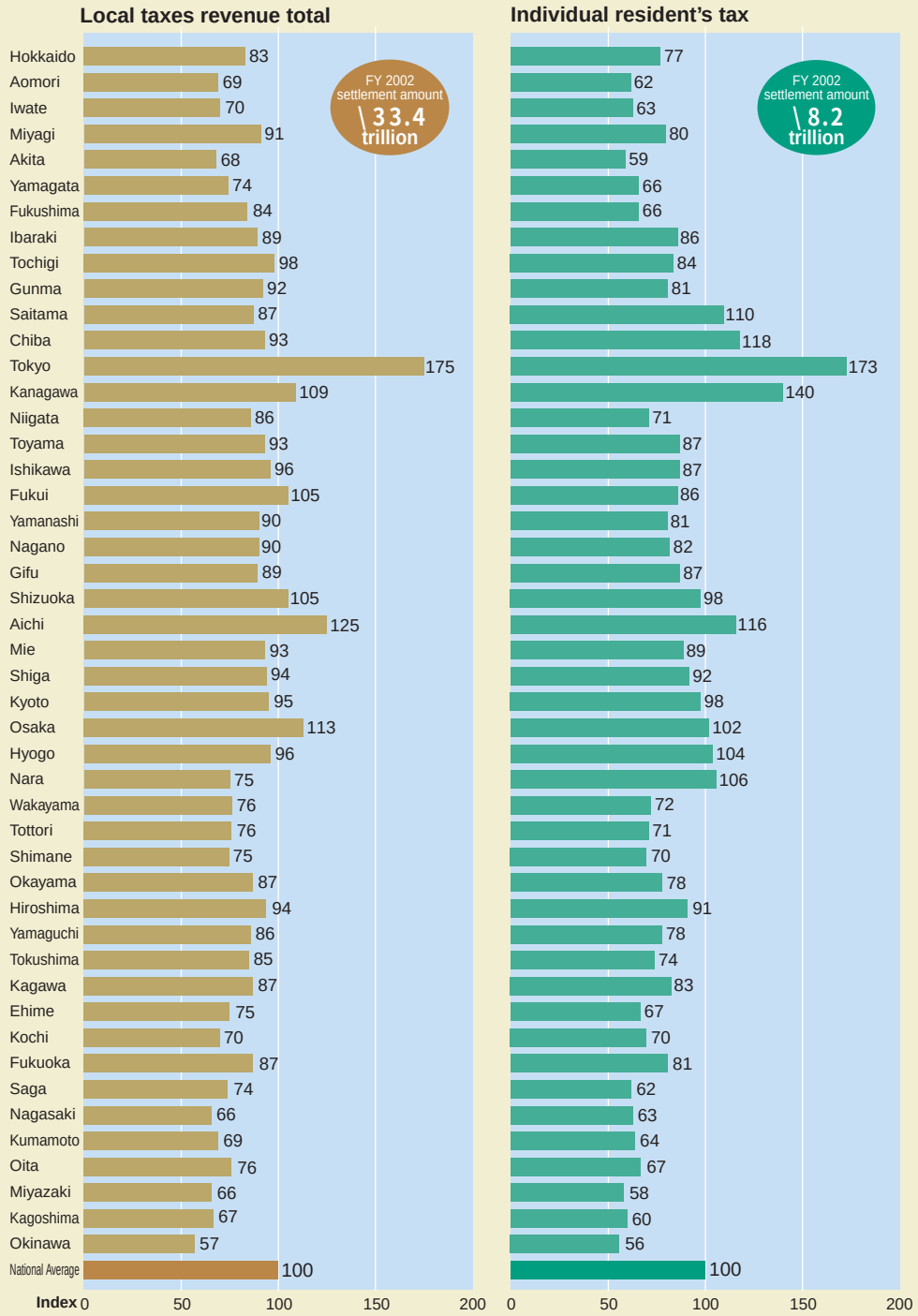
Local Taxes

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

Index of Per Capita Revenue from the Local Tax Revenue Total and the Individual Resident's Tax

(with national average as 100; FY 2002)

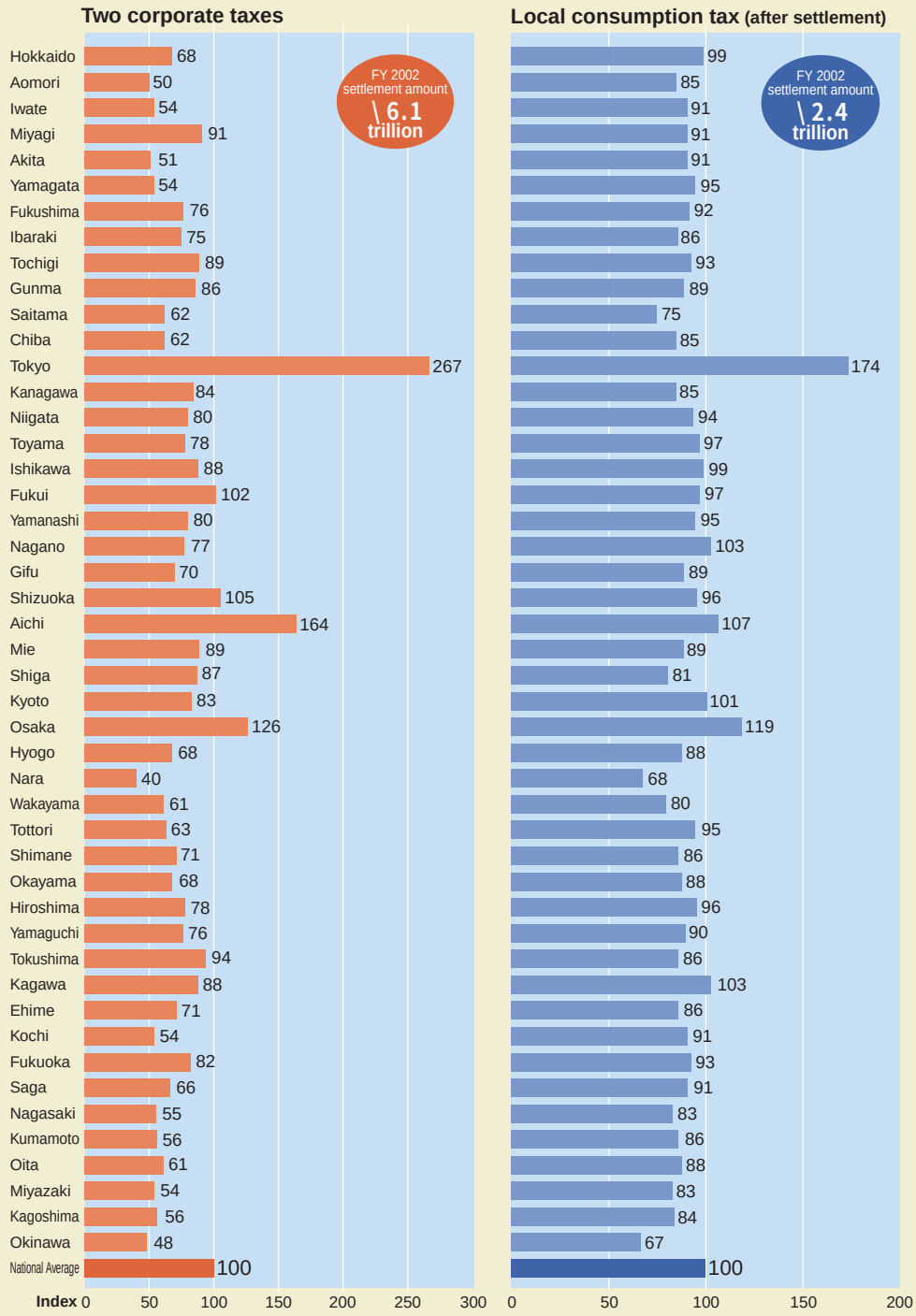


Notes:
The tax revenue from the individual resident's tax is the total of the individual prefectural resident's tax and the individual municipal resident's tax.

Reference

Index of Per Capita Revenue from Two Corporate Taxes and the Local Consumption Tax (After Settlement)

(with national average as 100; FY 2002)



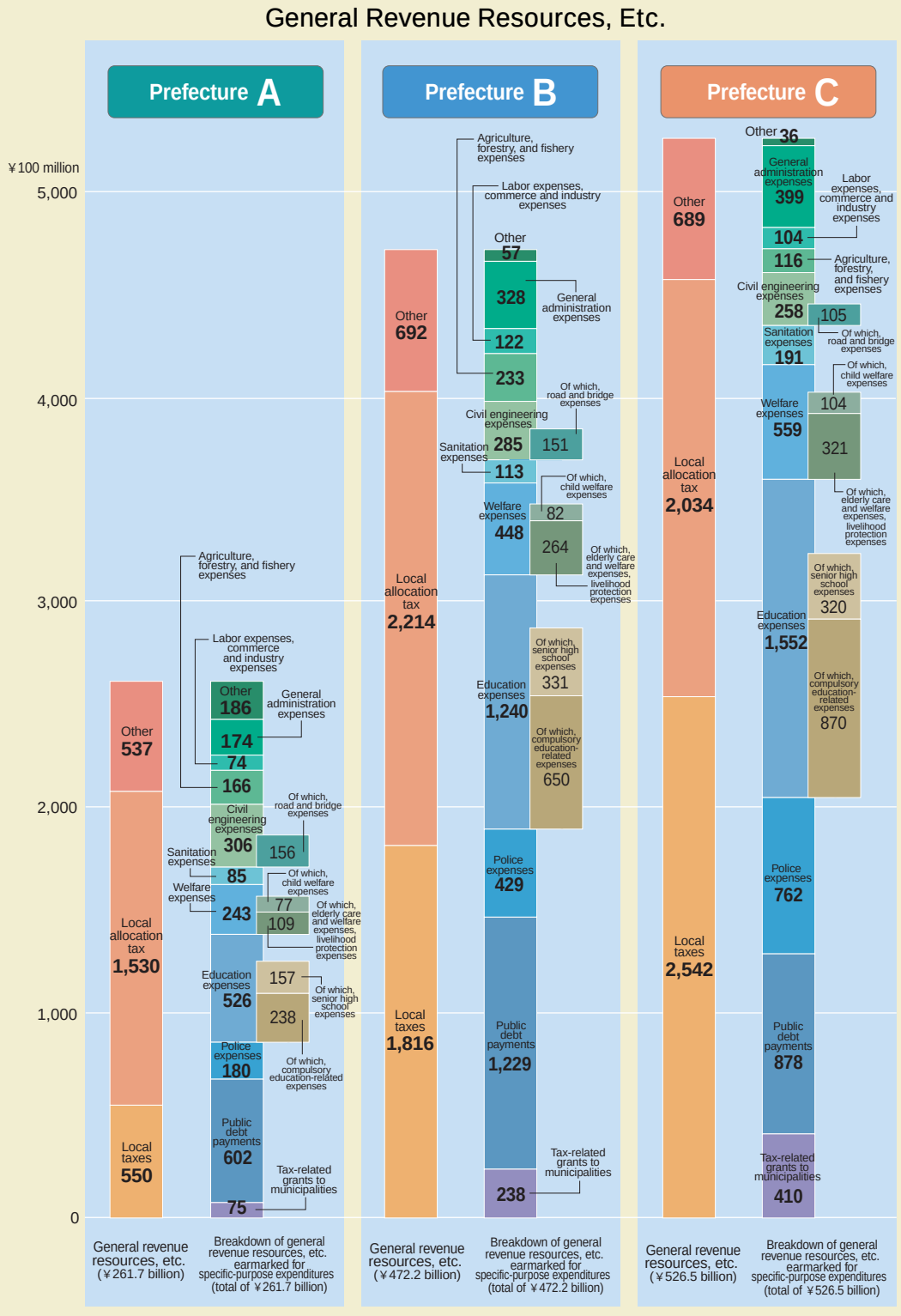
Notes:
The tax revenue from the two corporate taxes is the total of the corporate prefectural resident's tax, the corporate municipal resident's tax, and the corporate business tax.

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.

Reference

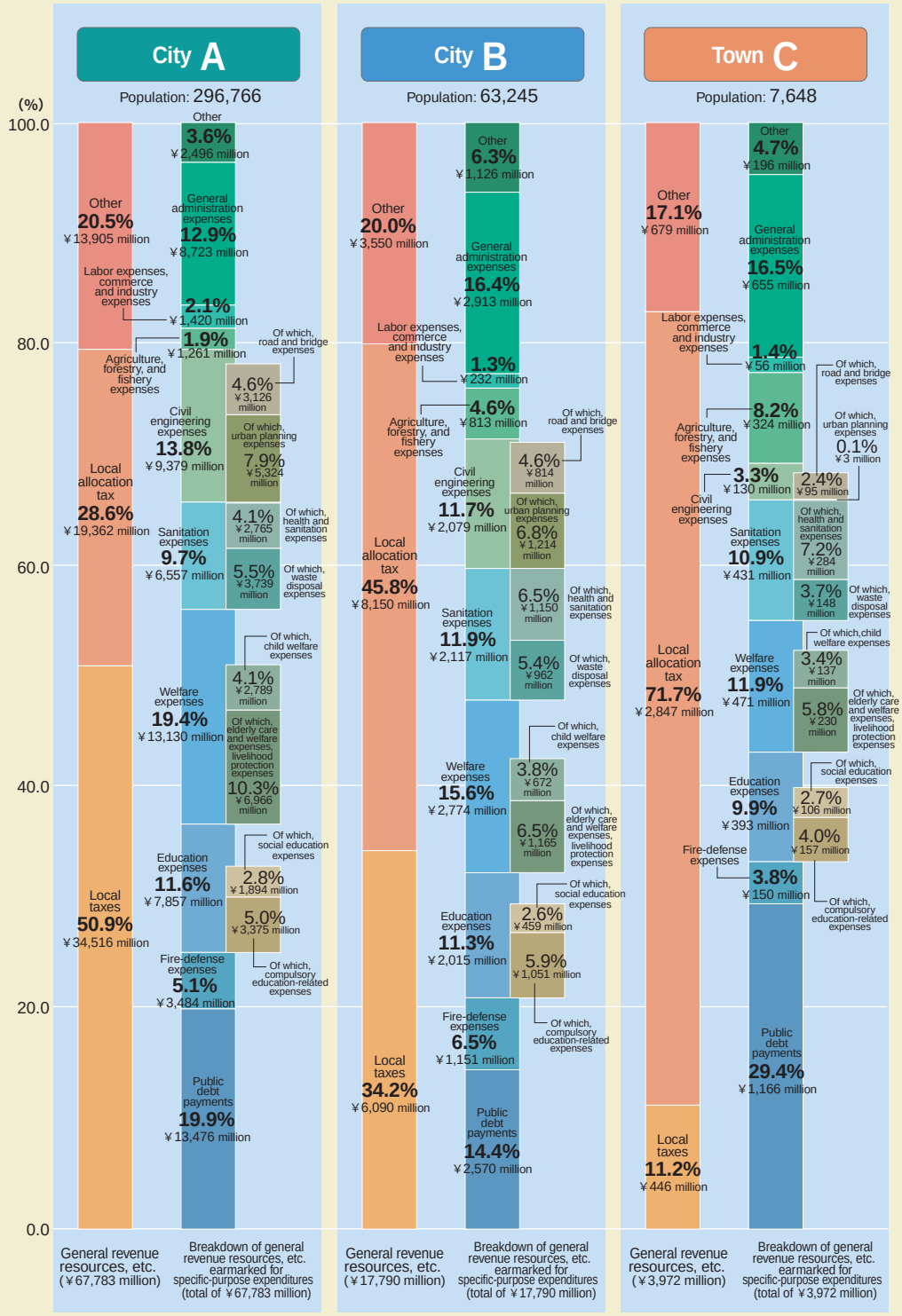
State of Financial Resource Guarantees (Micro) through the Local Allocation Tax (Prefectural Examples) FY 2002 settlement



Reference

State of Financial Resource Guarantees (Micro) through the Local Allocation Tax (Municipal Examples) FY 2002 settlement

General Revenue Resources, Etc.



2 Promotion of Municipal Mergers

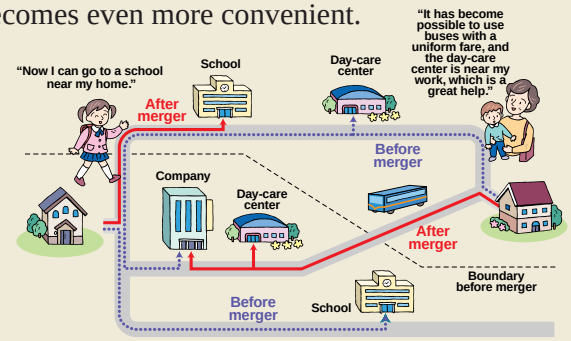
In order to promote autonomical municipal mergers by March 2005, which is the expiration date of the Special Municipal Merger Law (Law No. 6, 1965), it is necessary to strengthen further efforts toward merger.

What are the advantages of

1. Improvement in the convenience of residents

If a merger is implemented, it becomes possible for residents to use public facilities and services beyond the borders of the former municipalities, making life becomes even more convenient.

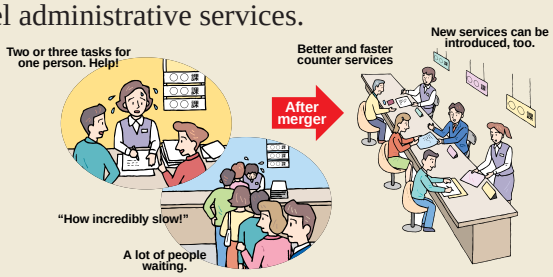
Ex.
The new municipality was able to review the elementary school zones of the former municipalities and make them better suited to the realities of residents' lives. (Tsukuba City in Ibaraki Prefecture, 1987 merger; Nishitokyo City in Tokyo, 2001 merger)



2. Diversification and upgrading of administrative services

Through the establishment of specialized organizations and staff, which had been difficult to implement before, it becomes possible to provide more specialized and high-level administrative services.

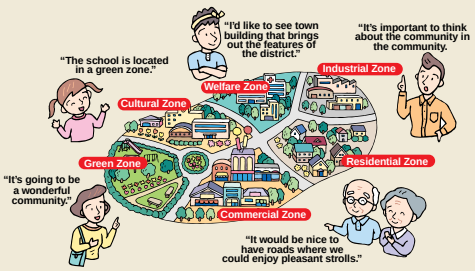
Ex.
After the merger, it became possible to newly appoint social welfare officers, physiotherapists, urban planning and construction engineers, etc. (Tsukuba City in Ibaraki Prefecture, 1987 merger)



3. Wide-area community development

It becomes possible to implement more effective community development from a wide-area perspective, including the construction of roads and public facilities, land use, and zoning that takes advantage of local characteristics.

Ex.
After the merger, it became possible to implement unified land use from a broad perspective in terms of housing estates, land readjustment projects, industrial estate construction, etc. (Mito City in Ibaraki Prefecture, 1992 merger)



a municipal merger?

4. Greater administrative and financial efficiency

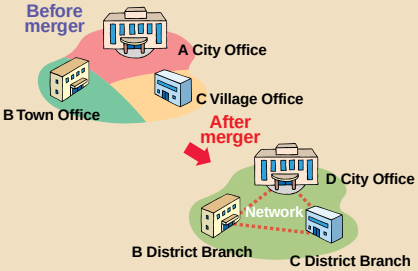
Greater administrative and financial efficiency becomes possible after a merger by bringing together the work and business that was previously carried out by the separate municipalities and constructing and operating public facilities in a more efficient manner.

Ex.
A large reduction of expenses is expected through the rationalization of personnel expenses, including a decrease in the number of special staff and restraints on the number of ordinary staff; the more efficient implementation of public works, etc. (Sasayama City, 1999 merger: ¥2.6 billion in five years; Nishitokyo City, 2001 merger: ¥19 billion in 10 years)

Q&A Are there any disadvantages?

Q Won't the municipal office be farther away for some people?

A After a merger, the old city, town, or village offices can still be used as branches or outposts of the new municipal office. In addition, a law has been enacted to ensure that certain specific administrative business for which there is much local need, such as the issue of residence certificates, can be handled by post offices, which have deep roots in the local community.
Furthermore, with the development of information communication technology, the government plans to make it possible for people to submit online applications and so on without even leaving them home, so in the not too distant future we are going to have a society in which distance is no longer a problem.



Q Won't it become more difficult for residents to make their voices heard?

A As well as things like local public meetings and local administration monitors that have existed before the merger, district councils will be established in the former municipal localities after the merger so that the wishes of residents can be taken into consideration. Also, the government is providing support for community-development efforts with the independent participation of residents, for example in elementary school zones.
In addition, arrangements for information disclosure and accountability will be strengthened, and new forms of participation by residents will become possible through, for example, utilization of the Internet, which has interactive functions.


C District Council


B District Council

Q Won't there be a deterioration in service?

A Before a merger, there might have been differences between the municipalities concerned in terms of the level of services to residents, rates for using facilities, fees, and so on. The settlement of such problems will be decided through consultations between the municipalities concerned before the merger. The usual approach is to coordinate such things as the level of services and the burden in a manner that is acceptable to residents by increasing the efficiency of administrative processing and so on.
In addition, legislation has been implemented so that the burden on residents does not increase suddenly as the result of a merger.

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, etc.; utilization of public-built private-run method; promotion of outsourcing of various business; utilization of the designated manager system for the management of public facilities; 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
  Regional revitalization countermeasures, promotion of tourism, etc.
- Promotion of informatization
  Promotion of e-local government, deployment of regional telecommunications infrastructure, promotion of efforts to realize a society in which everyone can use information technology
- Protection and creation of high-quality environment
- Promotion of general and efficient local welfare measures

White Paper on Local Public Finance 2004

(FY 2002 Settlement)

Illustrated

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