

FY2016 Settlement

White Paper on Local Public Finance, 2018

– Illustrated –



Contents

The Role of Local Public Finance	01
FY2016 Settlement Overview	05
Revenues	07
1. Revenue Breakdown	07
2. Revenues in Regular Portion and Great East Japan Earthquake Portion	08
3. Revenue Trends	09
4. Ratio of National Taxes and Local Taxes	10
5. Local Taxes (Composition, Trends, Index of Per Capita Tax Revenue)	10
6. Local Allocation Tax	13
Expenditures	14
1. Expenses Classified by Purpose	14
2. Expenditures in Regular Portion and Great East Japan Earthquake Portion (Expenses Classified by Purpose) ...	15
3. Breakdown of Expenses Classified by Purpose (Public Welfare Expenses, Educational Expenses, Civil Engineering Work Expenses) ...	16
4. Expenses Classified by Type	18
5. Expenditures in Regular Portion and Great East Japan Earthquake Portion (Expenses Classified by Type) ...	19
6. Breakdown of Expenses Classified by Type (Social Assistance Expenses, Personnel Expenses, Ordinary Construction Work Expenses, Subsidizing Expenses, Transfers to Other Accounts)	20
Flexibility of the Financial Structure	24
1. Ordinary Balance Ratio (Trends and Breakdown)	24
2. Real Debt Service Ratio and Debt Service Payment Ratio (Trends)	25
Future Financial Burden	26
1. Trends in Outstanding Local Government Bonds and Debt Burden	26
2. Trends in Outstanding Borrowing Borne by the Ordinary Accounts	26
3. Trends in Balance of Funds	27
Local Public Enterprises	28
1. Presence of Local Public Enterprises	28
2. Number of Businesses Operated by Local Public Enterprises	28
3. Scale of Financial Settlement	28
4. Financial Status	29
Impact of Great East Japan Earthquake	30
1. Settlement of Disaster-Struck Organizations (revenues, expenditures classified by purpose, expenditures classified by type) ...	30
2. Financial Status of Businesses of Local Public Enterprises of Disaster-Struck Organizations ...	32
Promotion of the Soundness of Local Public Finance	33
1. Overview of the Act on Assurance of Sound Financial Status of Local Governments	33
2. Status of the Ratios for Measuring Financial Soundness and Financial Shortfall Ratio	34

- 1 “Net totals of the revenues and expenditures” are the ordinary net account totals of 3,061 organizations (47 prefectures, 1,718 municipalities, 23 special wards, 1,207 partial administrative associations and 113 wide-area local public bodies).
- 2 Figures for each item that are less than the given unit are rounded off. Therefore, they do not necessarily add up exactly to the total.
- 3 In FY2011, the revenues and expenditures of ordinary accounts were divided into the regular portion (Overall settlement figures less the Great East Japan Earthquake portion) and the Great East Japan Earthquake portion (Covering the revenues and expenditures related to recovery and reconstruction work and nationwide disaster prevention work).

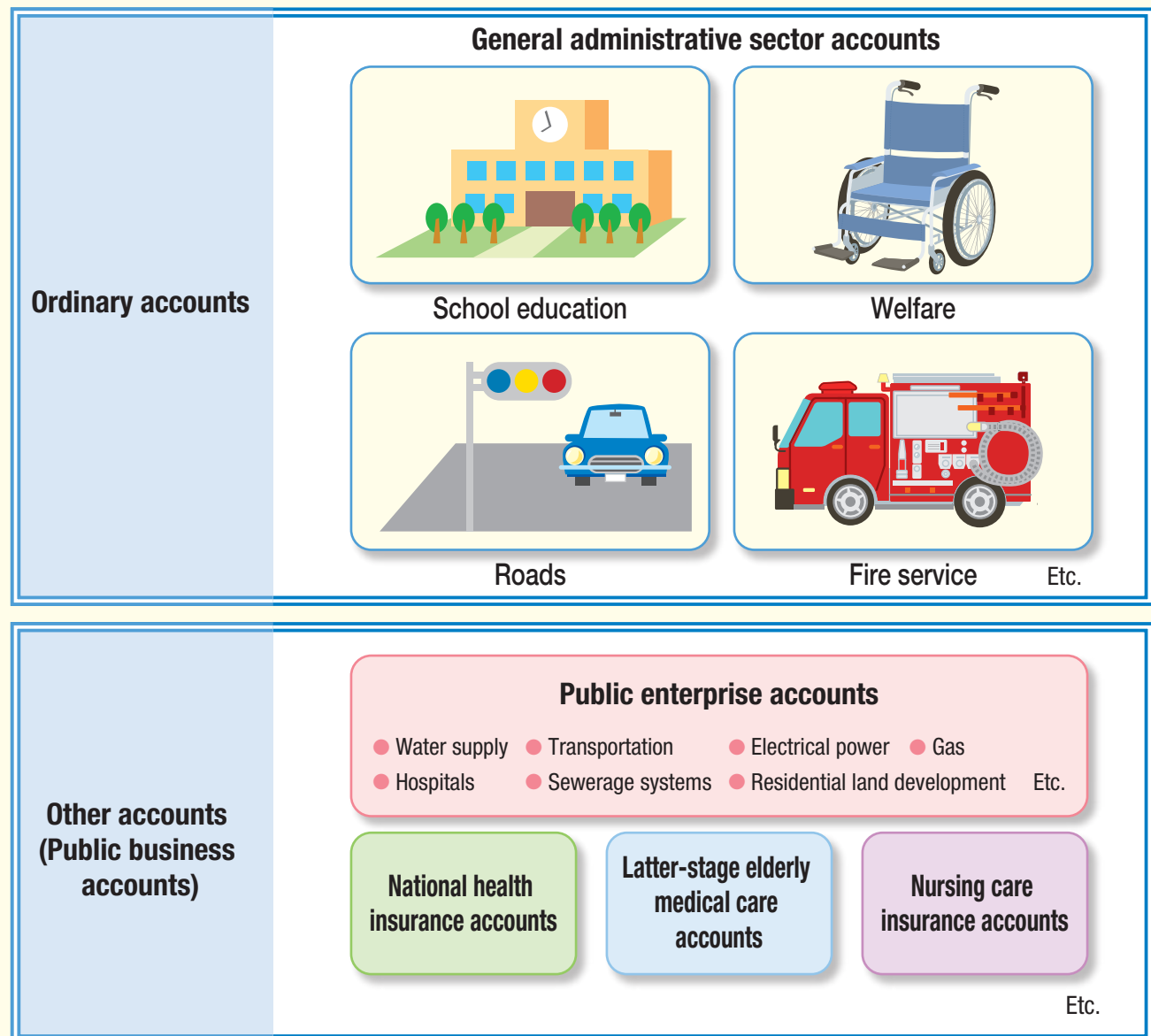
The Role of Local Public Finance

Prefectures and municipalities (cities, towns, and villages) are the central actors in various areas of public services, including school education, public welfare and health, police and fire services, and public works such as roads and sewage systems, thereby fulfilling a major role in the lives of the citizens of the nation. This brochure describes the status of local public finance (which comprises collectively the finances of individual local governments), the state of settlements for FY2016, and the initiatives of local governments towards sound public finances (mainly the status of the ratios for measuring their financial soundness), with particular attention given to ordinary accounts (Public enterprises, such as water supply, transportation, and hospitals are described in the section on Local Public Enterprises).

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

The accounts of local governments are divided into the general accounts and the special accounts, but classification of these accounts varies between local governments. Therefore, the accounts are classified in a standardized manner into ordinary accounts, which cover the general administrative sector, and other accounts (public business accounts). This makes it possible to clarify the financial condition of local governments as a whole and to make a statistical comparison between local governments.

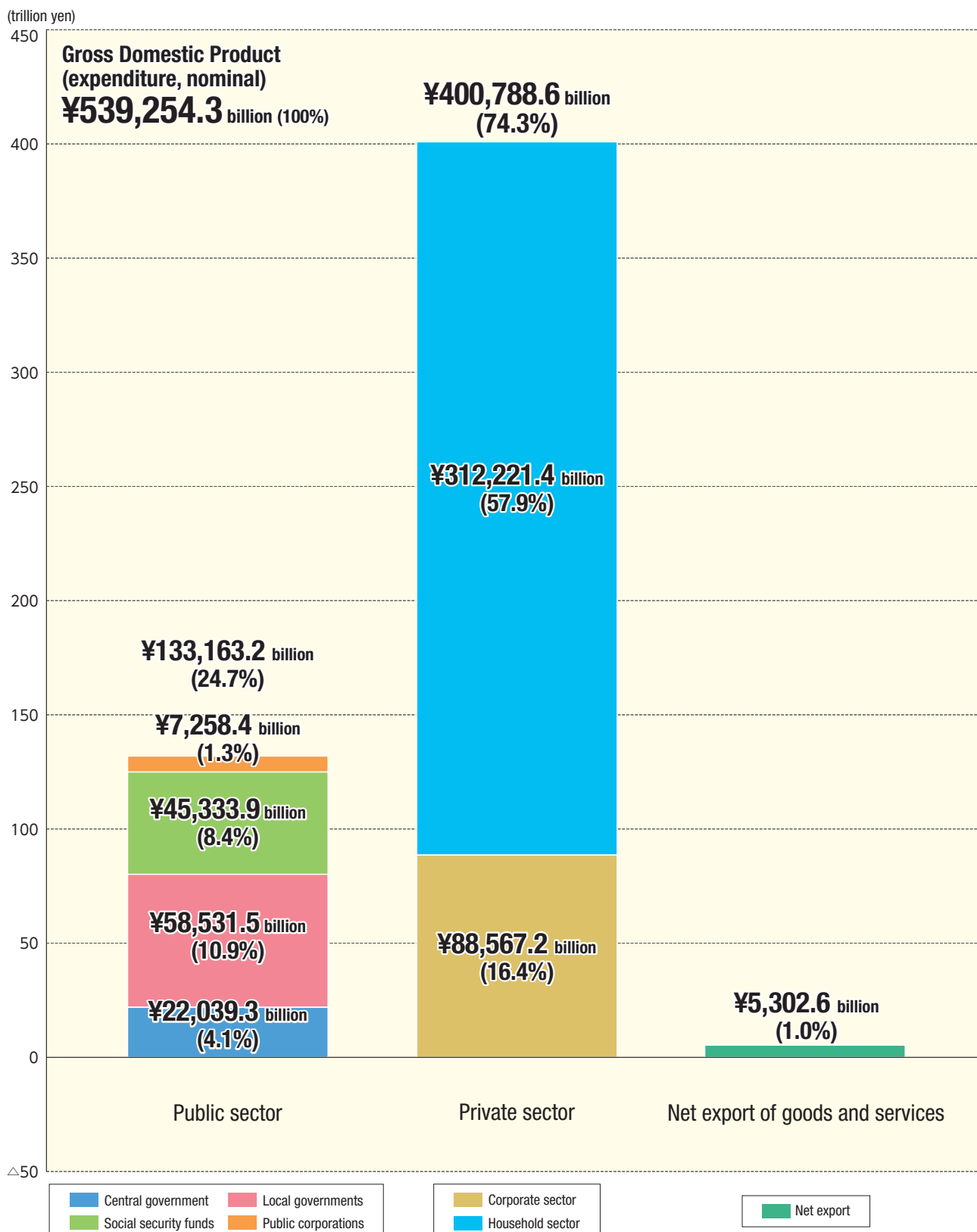
Local Government Accounts



How large is local public finance?

The ratio of expenditure by local governments in gross domestic product (nominal) is 10.9%, about 2.7 times that of the central government.

Gross Domestic Product (Expenditure, nominal) and Local Public Finance (FY2016)

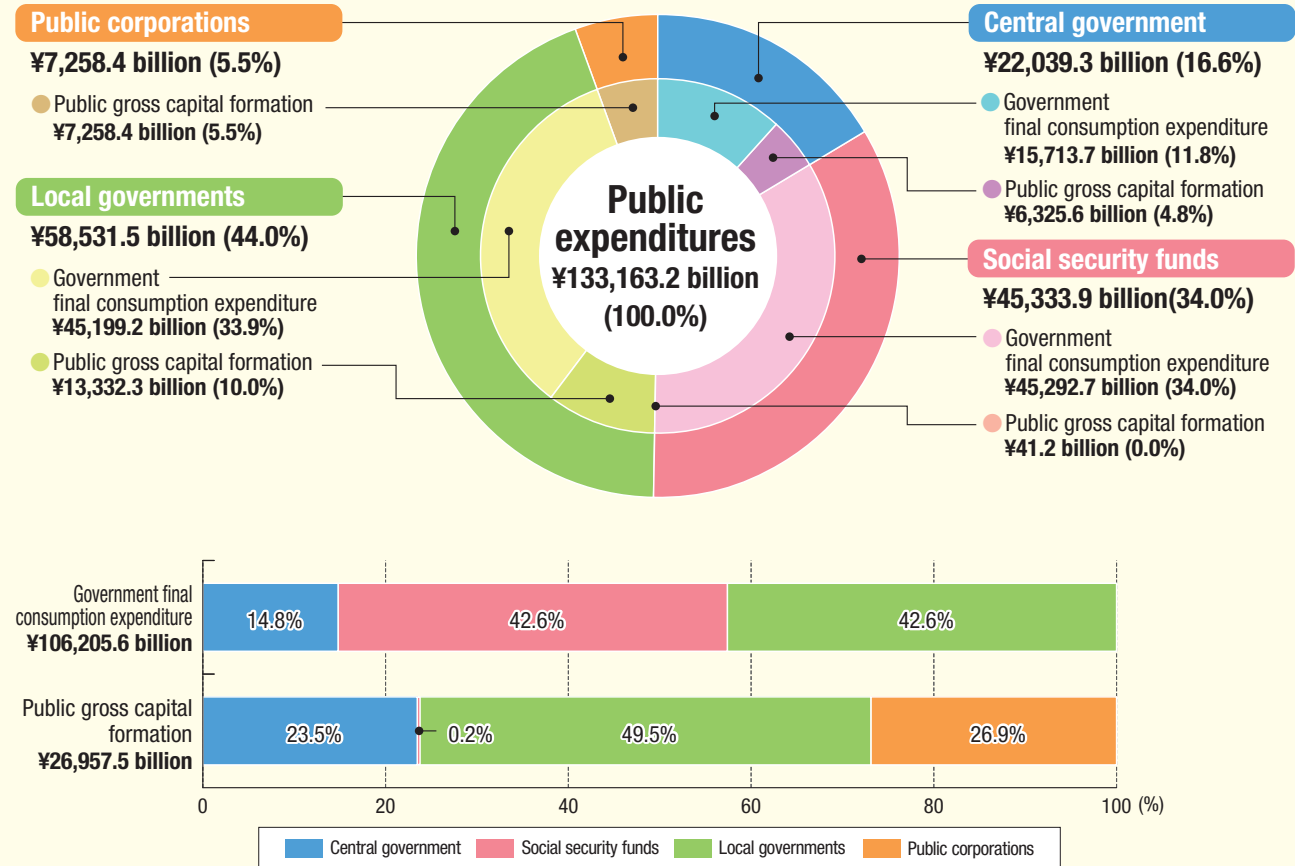


The Role of Local Public Finance

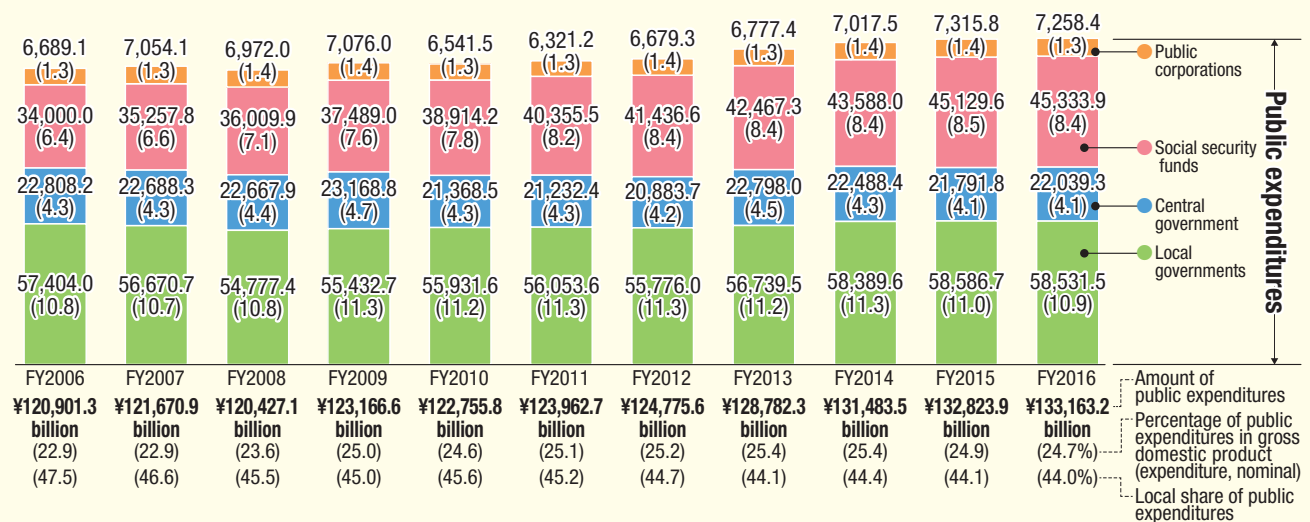
How large is local government expenditure in total public expenditure?

Looking at the breakdown of public expenditure classified by final expenditure entity, local government expenditure accounts for 42.6% of Government final consumption expenditure, and 49.5% of Public gross capital formation. As a final expenditure entity, local governments above the central government and play a major role for the national economy.

Breakdown of public expenditures



Trends in public expenditures

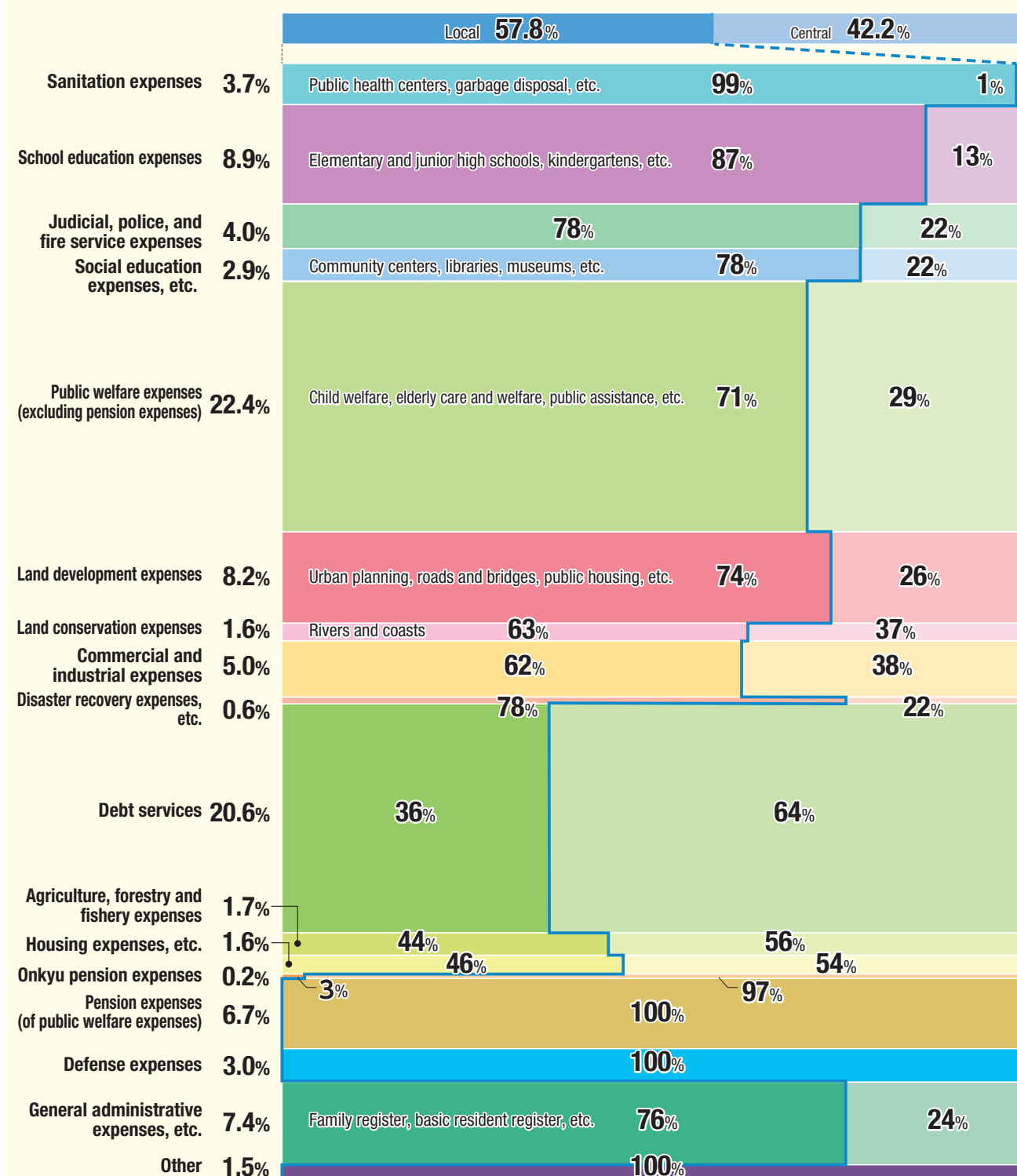


In which areas is the share of local expenditures high?

The below graph shows central and local governments' expenditures by purpose as a share of net total expenditure, classified by final expenditure entity.

The share of local governments' expenditures is higher in areas that are deeply related to daily life, such as public welfare, sanitation, and school education.

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



FY2016 Settlement Overview

1 Revenues

¥101,459.8 billion (down ¥457.6 billion, 0.4% year on year)

Regular portion: ¥97,642.2 billion (up ¥131.1 billion, 0.1% year on year)

Great East Japan Earthquake portion: ¥3,817.7 billion (down ¥588.8 billion, 13.4% year on year)

The increase of revenues in the regular portion resulted from an increase in National treasury disbursements, etc.

The decrease in revenues in the Great East Japan Earthquake portion resulted from a decrease in transfers from other accounts, etc.

2 Expenditures

¥98,141.5 billion (down ¥263.8 billion, 0.3% year on year)

Regular portion: ¥94,766.6 billion (up ¥195.8 billion, 0.2% year on year)

Great East Japan Earthquake portion: ¥3,374.9 billion (down ¥459.5 billion, 12.0% year on year)

The increases of expenditure in the regular portion resulted from an increase in social assistance expenses, etc.

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

3 Revenue and Expenditure Settlement

The real balance showed a surplus of ¥1,960.5 billion.

Category	Account Settlement		No. of local governments with a deficit	
	FY2016	FY2015	FY2016	FY2015
Real balance	¥1,960.5 billion	¥1,962.4 billion	—	—
Single year balance	¥2.8 billion	¥125.2 billion	1,702	1,133
Real single year balance	▲¥100.1 billion	¥501.8 billion	1,595	1,055

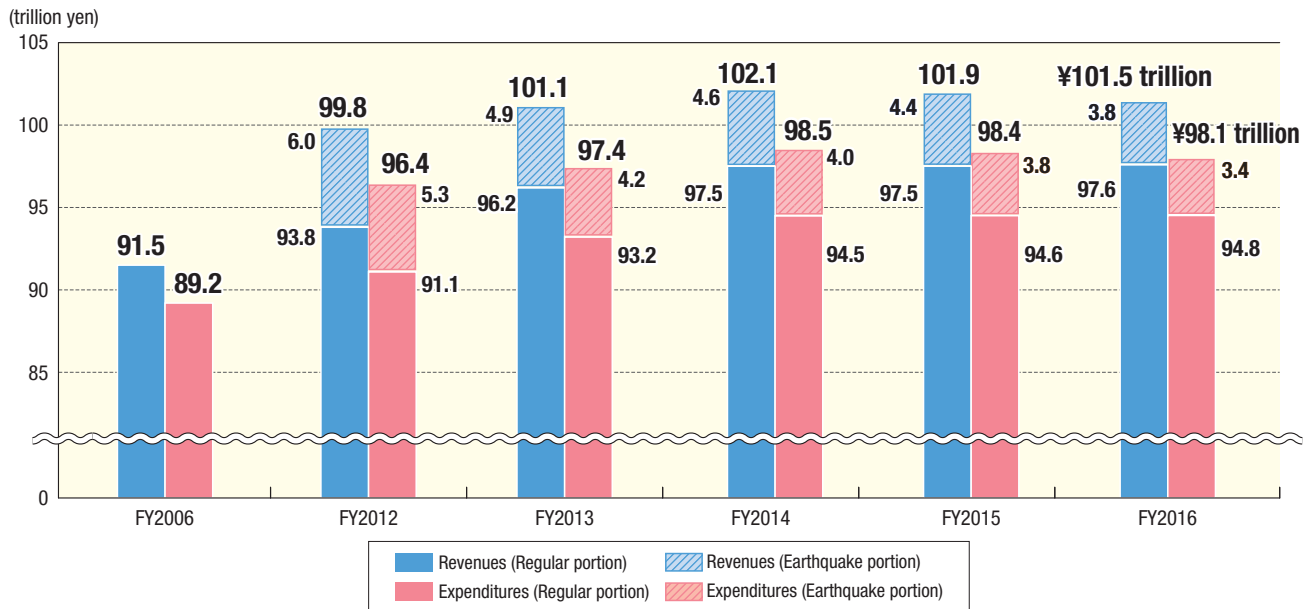
Notes : Real balance refers to the amount calculated by subtracting the revenue resources that should be carried over to the next fiscal year from the income expenditure balance.

Single year balance refers to the amount calculated by subtracting the real balance of the previous fiscal year from the real balance of the relevant fiscal year.

Real single year balance refers to the amount calculated by adding reserves and advanced redemption of local loans for the public finance adjustment fund to the single year balance and subtracting public finance adjustment fund reversals.

4 Trend in Scale of Account Settlement

Both revenues and expenditures of the regular portion have increased for four consecutive years.



5 Major Financial Indices

Ordinary balance ratio rose 1.7 percentage points year on year, to 93.4%.

Real debt service ratio declined 0.6 percentage points, to 9.3%.

Category	FY2016	FY2015	Change
Ordinary balance ratio	93.4%	91.7%	1.7
Real debt service ratio	9.3%	9.9%	▲0.6

6 Outstanding Borrowing Borne by Ordinary Accounts

Outstanding borrowing, which includes outstanding local government borrowing as well as borrowing from the special accounts for Local allocation tax and Outstanding public enterprise bonds (borne by ordinary accounts), amounted to ¥197,318.9 billion (down ¥1,778.1 billion, 0.9% year on year).

Category	FY2016	FY2015	Change amount	Change rate
Outstanding local government bonds	¥144,908.7 billion	¥145,526.4 billion	▲¥617.8 billion	▲0.4%
Outstanding local government bonds (excluding Bonds for the extraordinary financial measures)	¥93,013.7 billion	¥94,864.7 billion	▲¥1,851.0 billion	▲2.0%
Outstanding borrowing from the special accounts for Local allocation tax	¥32,417.3 billion	¥32,817.3 billion	▲¥400.0 billion	▲1.2%
Outstanding public enterprise bonds (borne by ordinary accounts)	¥19,992.9 billion	¥20,753.3 billion	▲¥760.4 billion	▲3.7%
Total	¥197,318.9 billion	¥199,097.0 billion	▲¥1,778.1 billion	▲0.9%

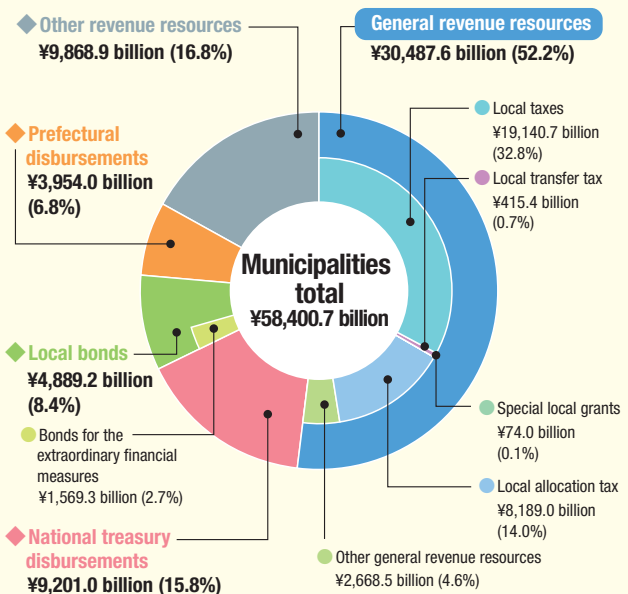
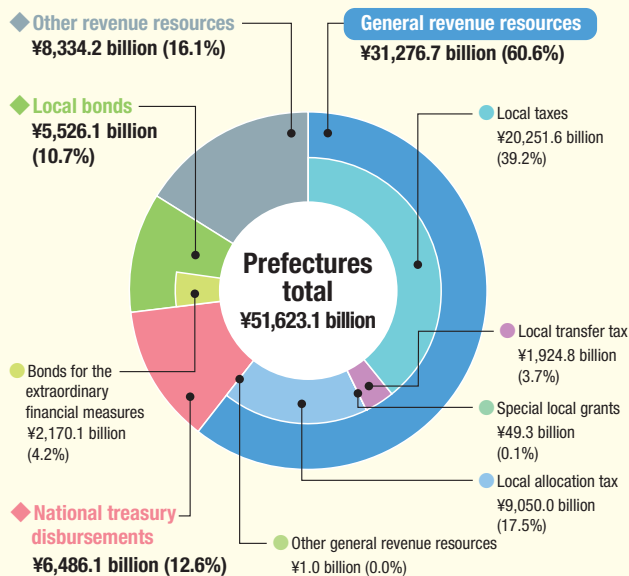
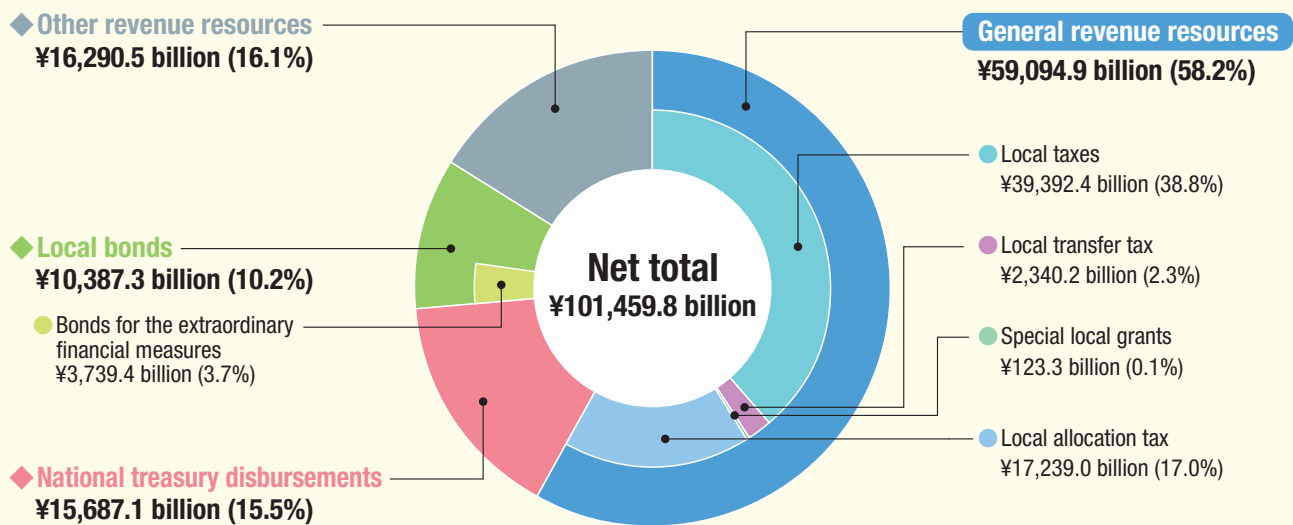
Note : Outstanding public enterprise bonds (borne by ordinary accounts) are estimates based on the settlement account statistics.

What are the revenue sources for local governments' activities?

1 Revenue Breakdown

The revenue of local governments consists mainly of Local taxes, Local allocation tax, National treasury disbursements, and Local bonds, in order of share size. Among them, revenue resources which can be spent for any purpose, such as Local taxes and Local allocation tax, are called General revenue resources. It is important for local governments to ensure sufficient General revenue resources in order to handle various administrative needs properly. In FY2016, General revenue resources accounted for 58.2%.

Composition of Revenues (FY2016 settlement)

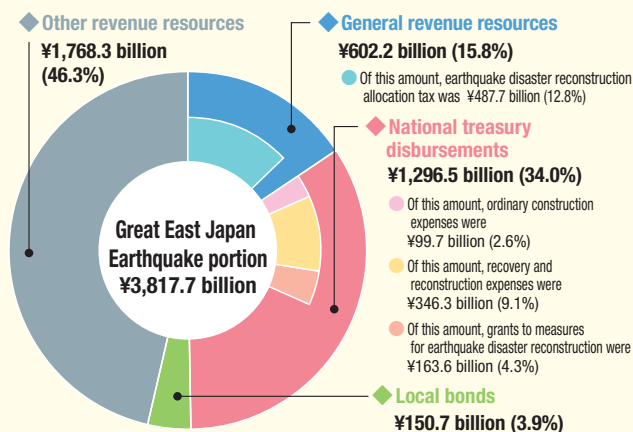
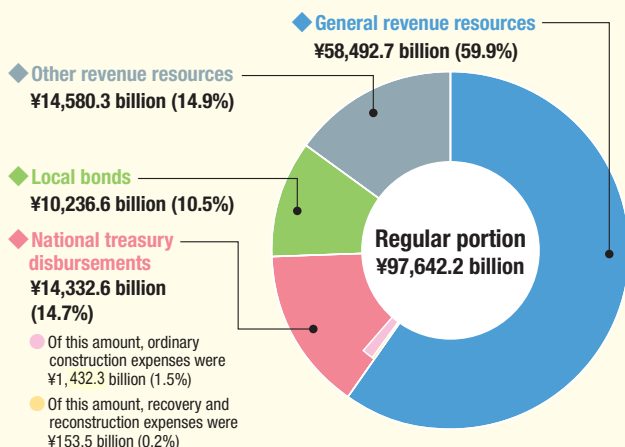


- Local transfer tax : Collected as a national tax and transferred to local governments. Includes Local gasoline transfer tax, etc.
- Special local grants : Special local grants in FY2016 include special grants for covering decreases in local tax revenues issued to cover decreases in revenues of local governments in association with the implementation of special tax deductions for housing loans in the individual inhabitant tax.
- Local allocation tax : An intrinsic revenue source of local governments in order to adjust imbalances in tax revenue among local governments and to guarantee revenue sources so that all the local governments across the country can provide a consistent level of public services. (See page.13, "6. Local Allocation Tax.")
- National treasury disbursements : A collective term for the national obligatory share, commissioning expenses, incentives for specific policies, or financial assistance, disbursed from the central government to local governments.
- Local bonds : The debts of local governments to be repaid over a period of time in excess of one fiscal year for which redemption continues for more than one fiscal year.
- Bonds for the extraordinary financial measures : Local bonds issued as an exception to Article 5 of the Local Finance Law to address shortages of General revenue resources of local governments. Proceeds from these bonds can be used for expenses other than investment expenses.

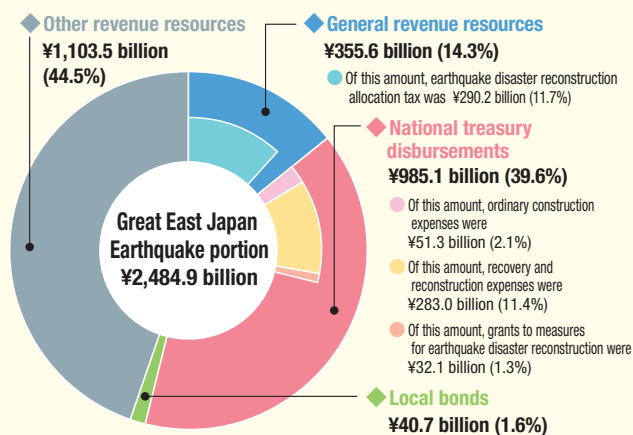
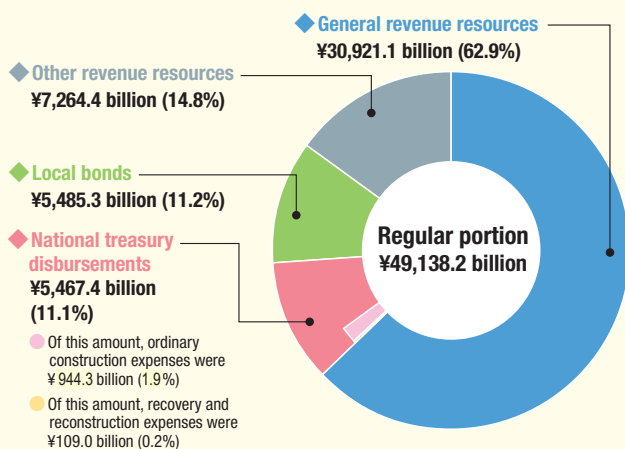
Note : "National treasury disbursements" includes "special grants to measures for traffic safety" and "grants to cities, towns and villages where national institutions are located."

2 Revenues in Regular Portion and Great East Japan Earthquake Portion

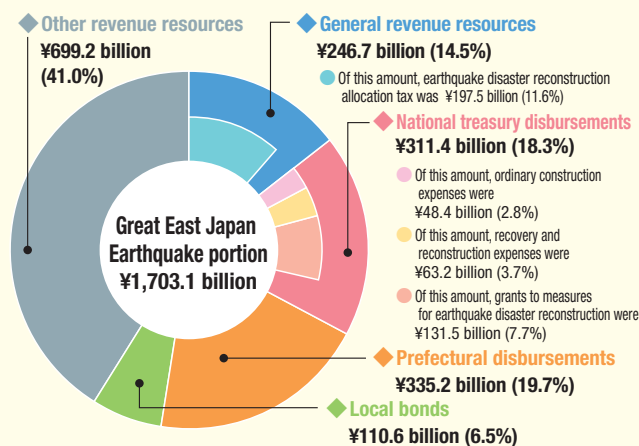
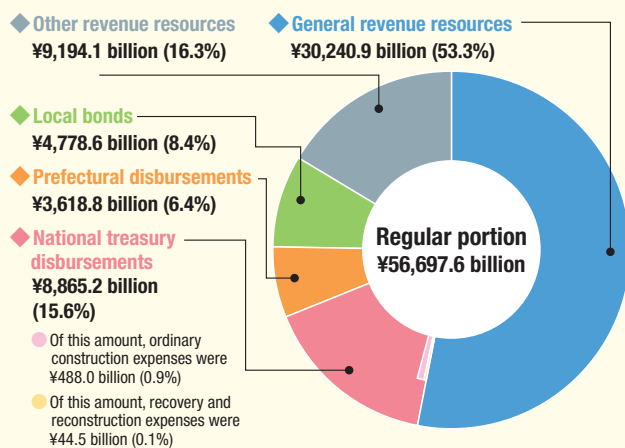
Net Total



Prefectures



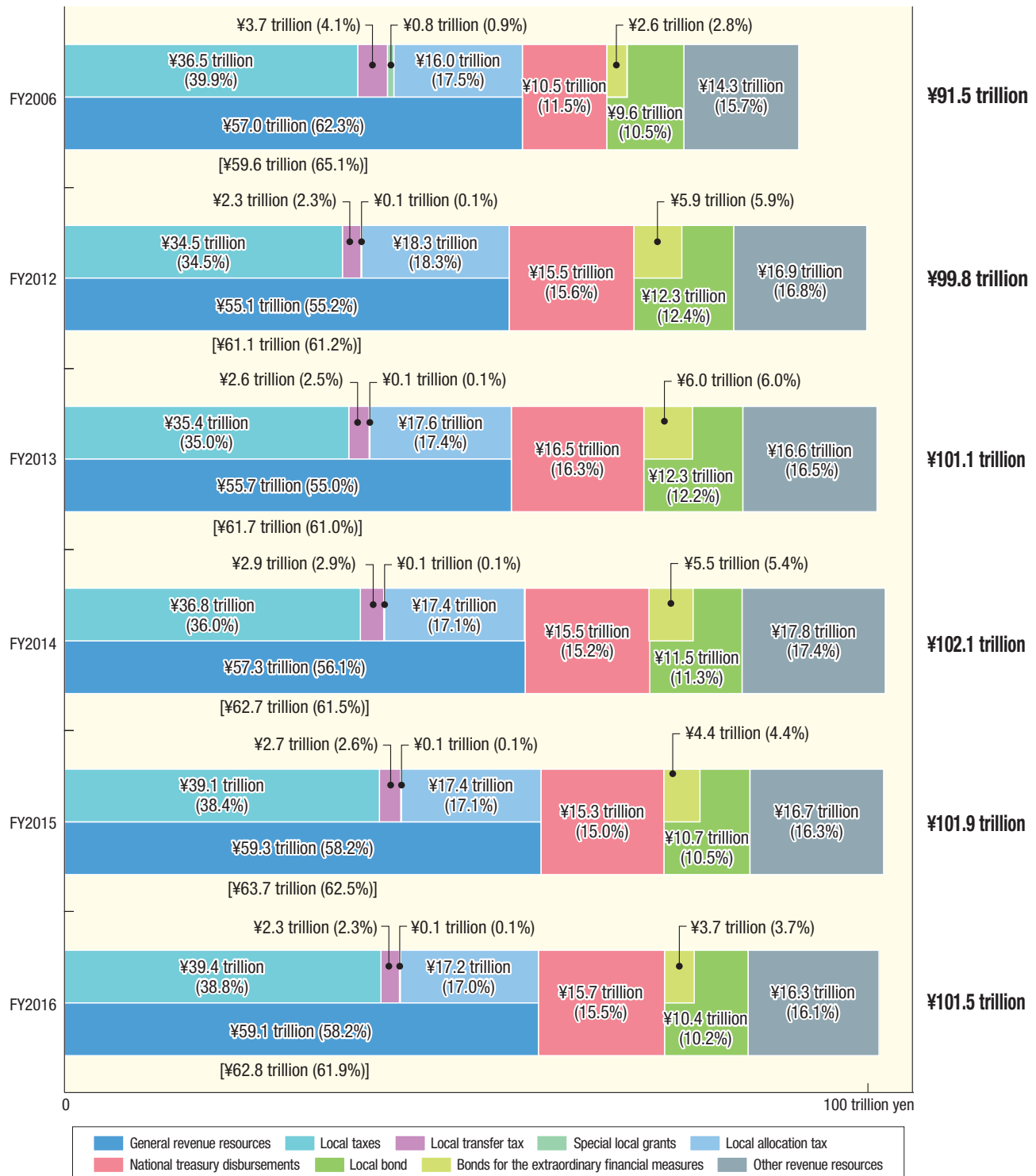
Municipalities



3 Revenue Trends

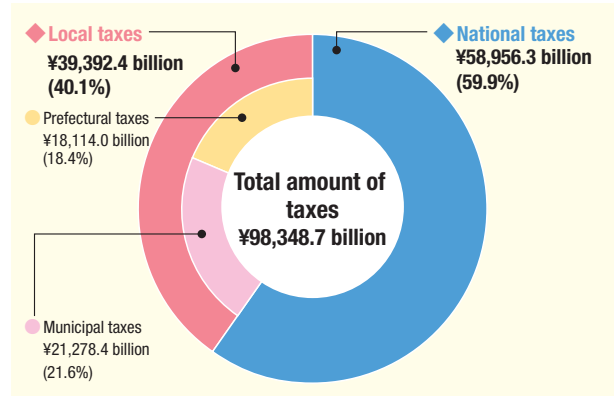
The ratio of general revenue resources turned downward in FY2011, but have been rising since FY2014.

Net Total



4 Ratio of National Taxes and Local Taxes

The total of taxes collected as national and local taxes amounted to ¥98,348.7 billion. Of this amount, national and local taxes accounted for 59.9% and 40.1% respectively.

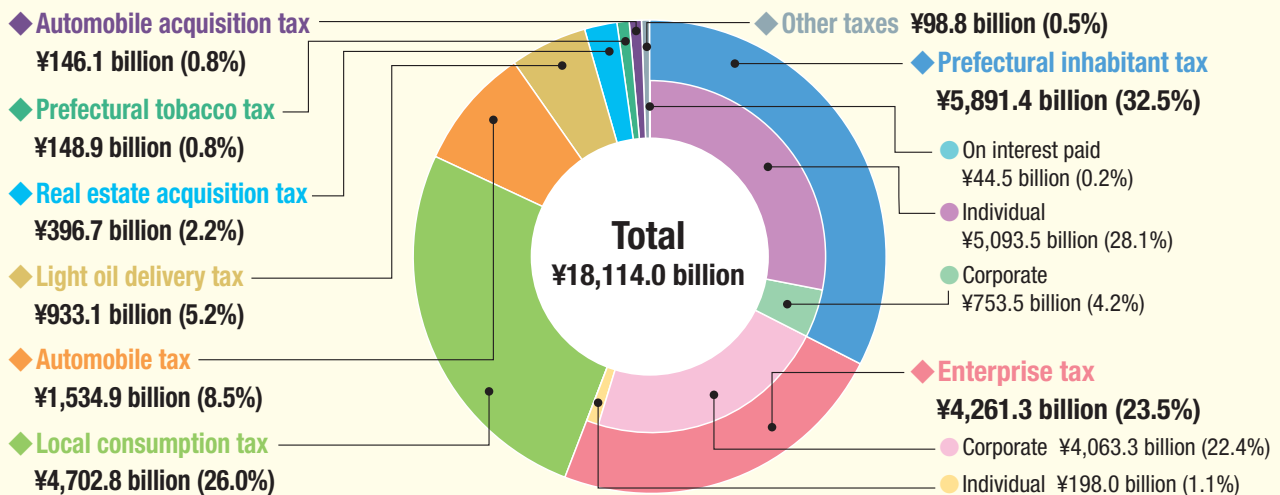


Note : Municipal taxes collected by the Tokyo Metropolitan Government are included in municipal tax revenue figures, but not included in prefectural tax revenue figures.

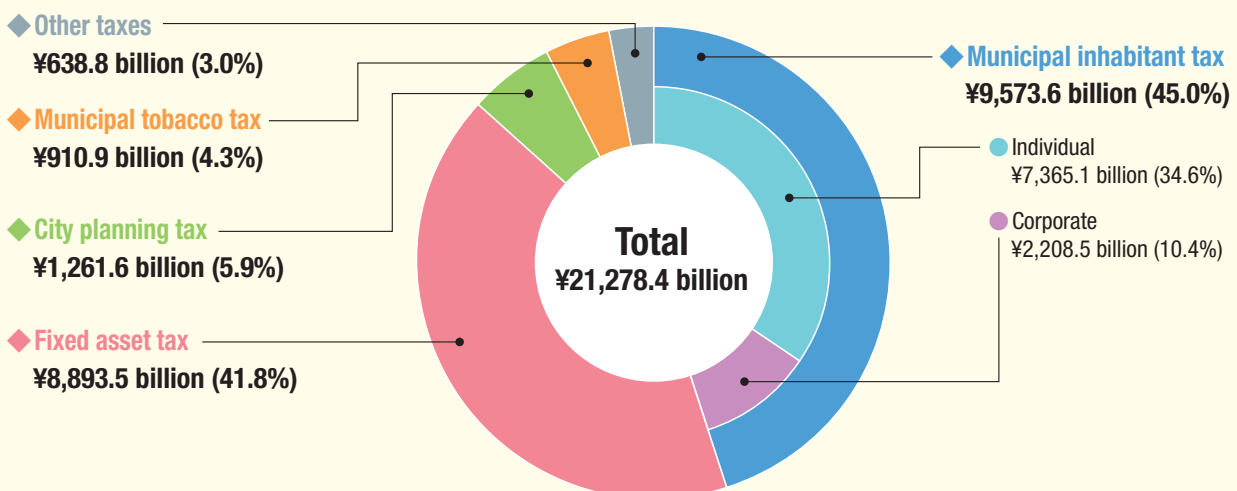
5 Local Taxes

Local taxes consist of prefectural taxes and municipal taxes.

Composition of Revenue from Prefectural Taxes (FY2016 settlement)

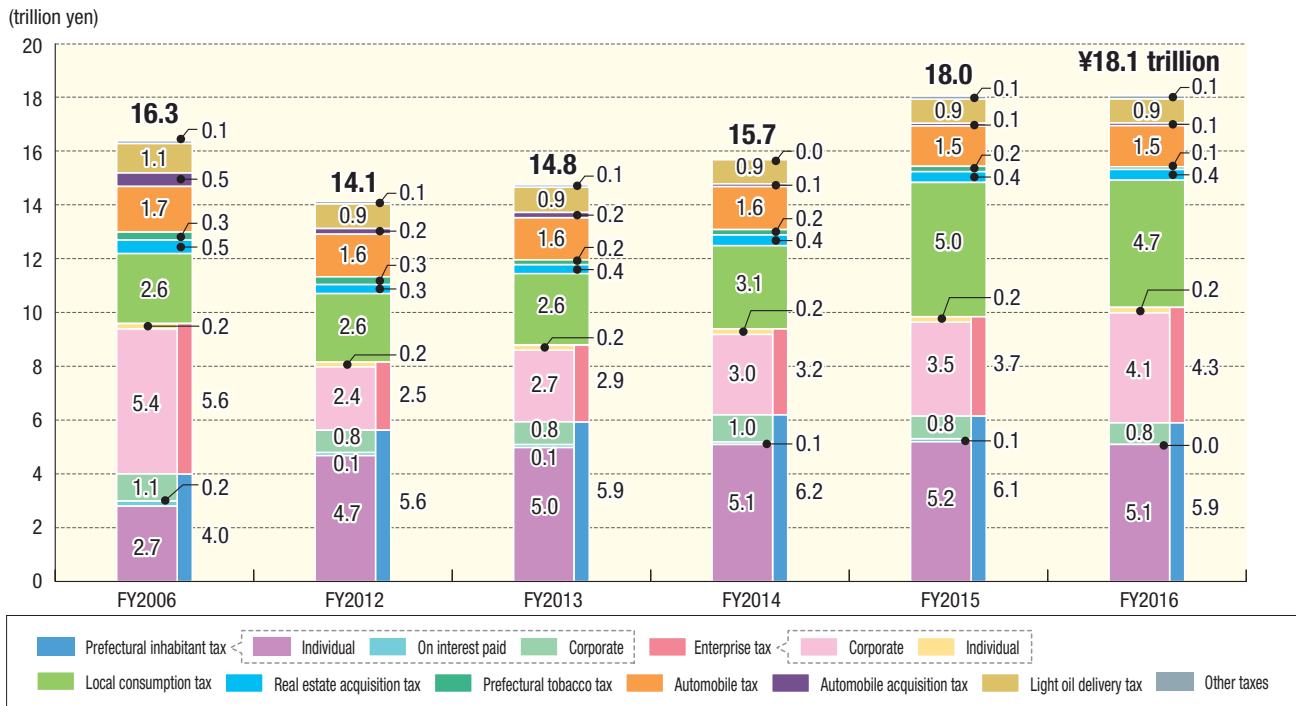


Composition of Revenue from Municipal Taxes (FY2016 settlement)



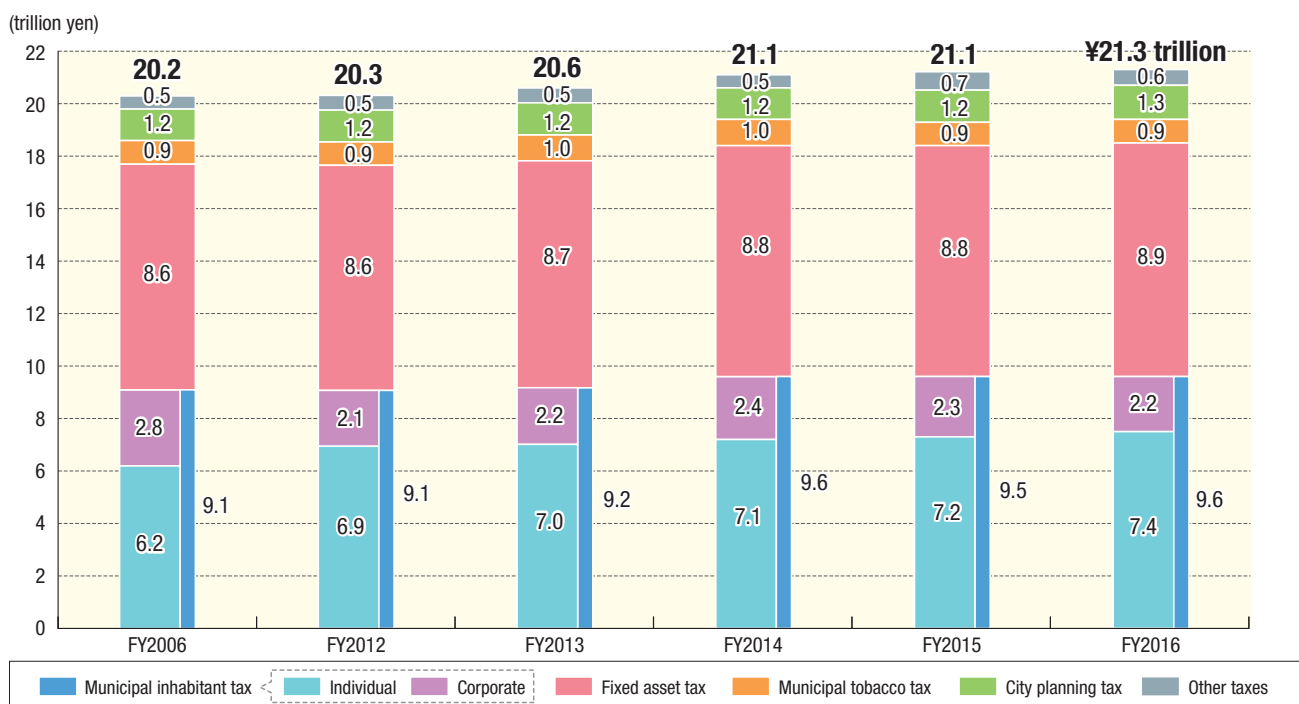
Prefectural tax revenues have increased for five consecutive years since FY2012.

Trends in Prefectural Tax Revenues



Municipal tax revenues remained at almost the same level for the past five years.

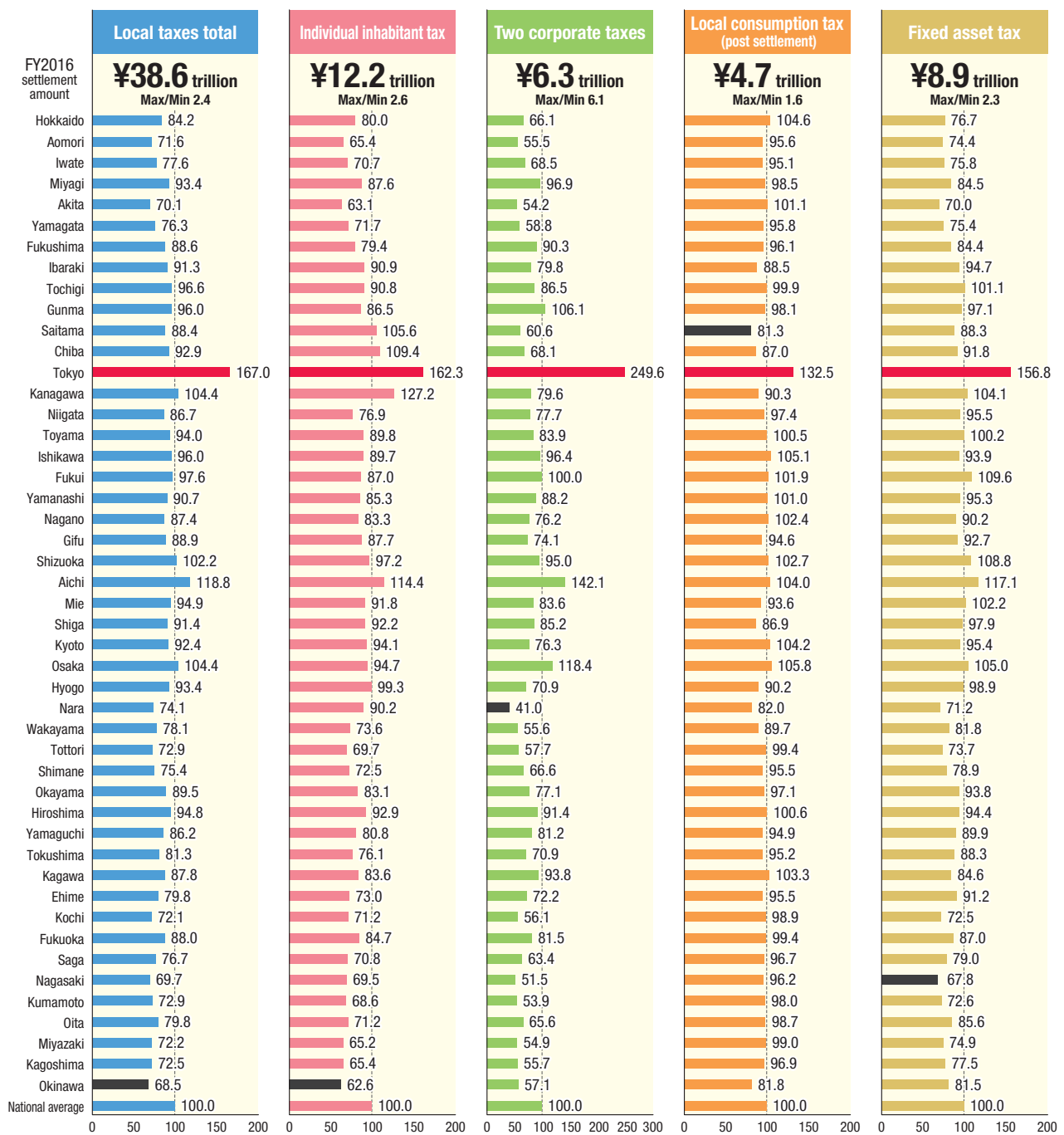
Trends in Municipal Tax Revenues



Note : Municipal tax revenue figures include municipal taxes collected by the Tokyo Metropolitan Government.

In order for local governments to provide public services in response to local needs on their own responsibility and at their own discretion, it is necessary to build a less imbalanced and stable local tax system. Comparing local tax revenue amounts, with the national average set at 100, Tokyo, the highest, was approximately 2.4 times the amount for Okinawa Prefecture, which was the lowest.

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



- Notes : 1. "Max/Min" indicates the value obtained by dividing the maximum value of per-capita tax revenue for each prefecture by the minimum value.
 2. Local tax revenue amounts exclude overassessment and discretionary taxes, etc.
 3. Individual inhabitant tax revenue is the total of the prefectural individual inhabitant tax (on a per-capita basis and on an income basis) and the municipal individual inhabitant tax (on a per-capita basis and on an income basis), and excludes overassessment.
 4. Revenue from the two corporate taxes is the total of the corporate prefectural inhabitant tax, the corporate municipal inhabitant tax, and the corporate business tax (excluding local corporation special transfer tax) and excludes overassessment, etc.
 5. Fixed asset tax revenues include prefectural amounts, and exclude overassessment.
 6. Calculations were made in accordance with the basic resident register population as of January 1, 2017.

6 Local Allocation Tax

From the perspective of local autonomy, it would be the ideal for each local government to ensure the revenue sources necessary for their activities through Local tax revenue collected from their residents. However, there are regional imbalances in tax sources, and many local governments are unable to acquire the necessary tax revenue. Accordingly, the central government collects revenue resources that would essentially be attributable to Local tax revenue and reallocates them as Local allocation tax to local governments that have weaker financial capabilities.

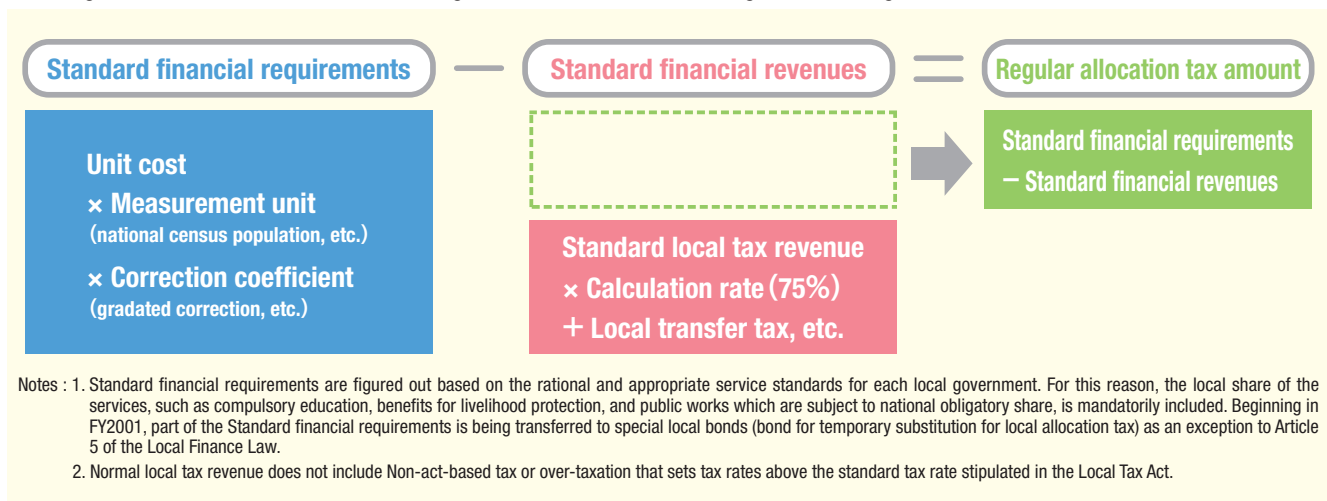
1. Determining the total amount of Local allocation tax

The total amount of the Local allocation tax is determined in accordance with estimates of standard revenue and expenditures in local public finance as a whole, based on a fixed percentage for national taxes (in FY2016 33.1% for Income tax and Corporate tax, 50% for Liquor tax, 22.3% for Consumption tax, and the total amount of Local corporate tax).

The total amount of the Local allocation tax in FY2016 was ¥17,239.0 billion, down 0.9% year on year.

2. How regular Local allocation taxes are calculated for each local government

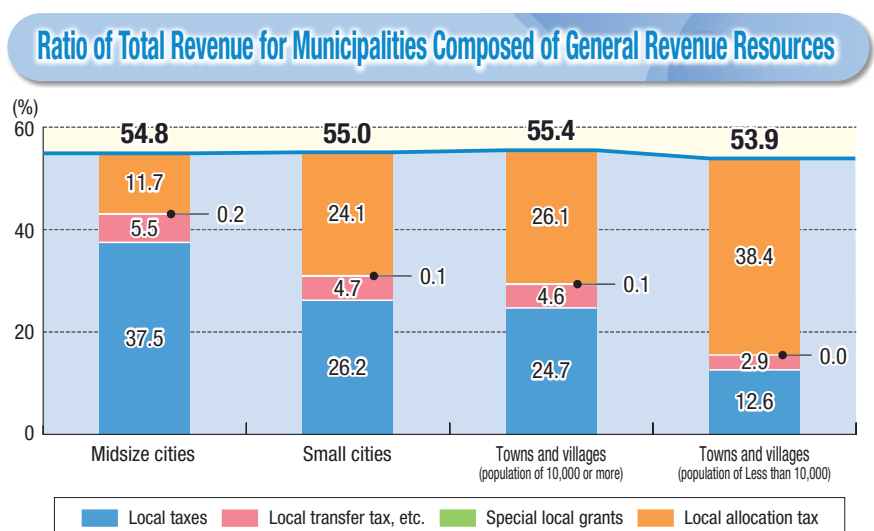
The Regular local allocation tax for each local government is calculated through the following mechanism.



3. Function of the Local allocation tax

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

The adjustment of revenue resources through Local allocation tax makes the ratios of General revenue resources to the total revenues between local governments practically flat regardless of the size of population.



Note: A "Midsize city" refers to a city with a population of 100,000 or more excluding Government-ordinance-designated cities, Core cities, and Special cities at the time of the effective date, and a "Small city" refers to a city with a population of less than 100,000.

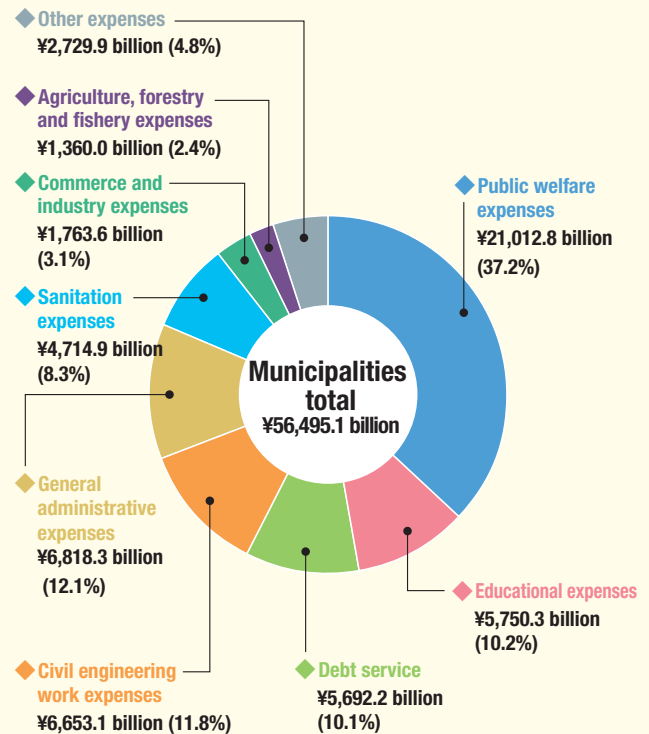
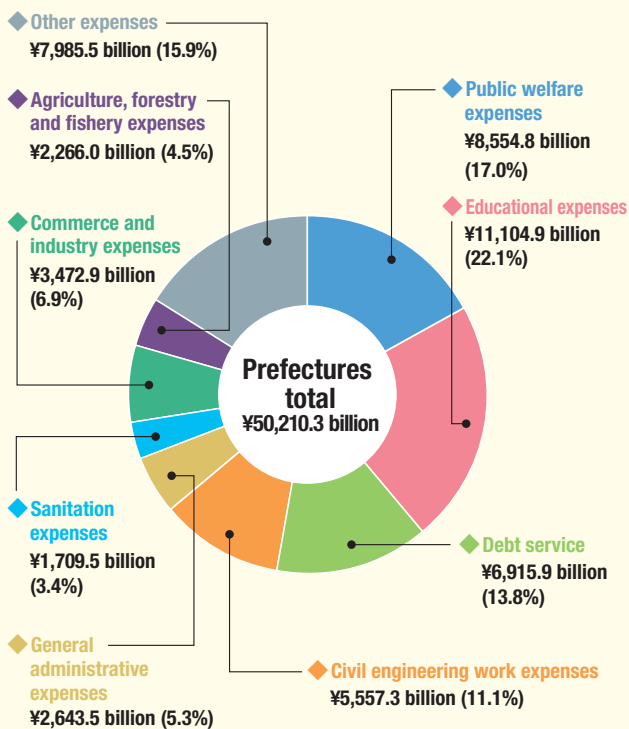
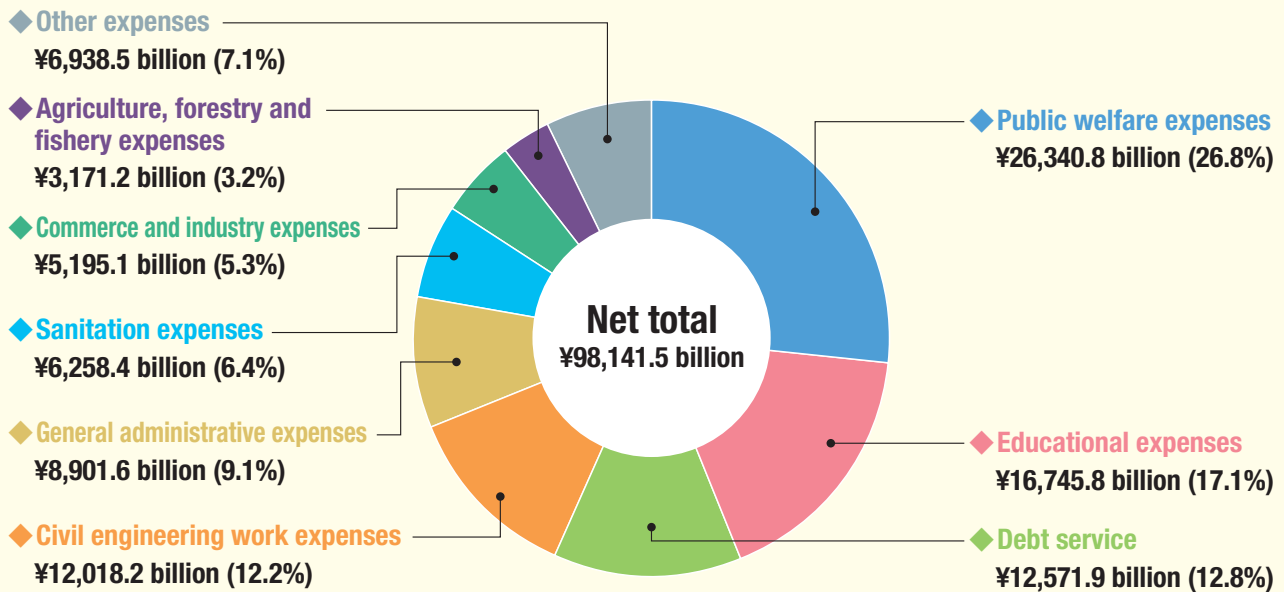
Expenditures

What are expenses spent on?

1 Expenses Classified by Purpose

Classifying the expenses by purpose demonstrates that much of public money is appropriated for Public welfare expenses, Education expenses, and Debt service. In prefectures, Education expenses, Public welfare expenses, and Debt service have the highest shares in that order. In municipalities, Public welfare expenses, General administrative expenses, and Civil engineering work expenses account for the largest amounts in that order.

Composition of Expenditure Classified by Purpose (FY2016 settlement)

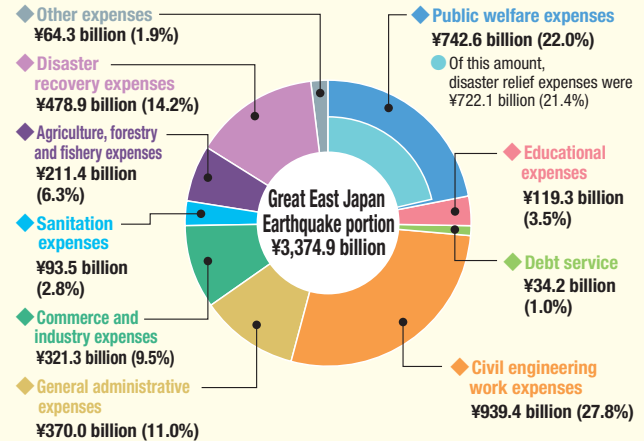
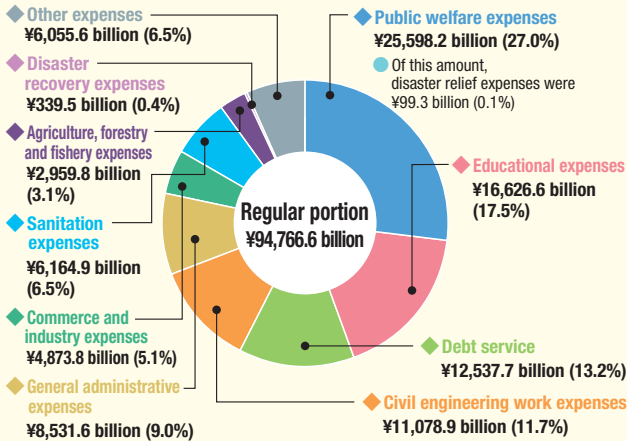


General administrative expenses : Expenses for general administration, financial management, accounting administration, etc.
 Public welfare expenses : Expenses for the construction and operation of welfare facilities for children, the elderly, the mentally and physically disabled, etc., and for the implementation of public assistance, etc.
 Educational expenses : Expenses for school education, social education, etc.
 Civil engineering work expenses : Expenses for the construction and maintenance of public facilities, such as roads, rivers, housing, and parks.
 Debt service : Expenses for the payment of principal, interest, etc., on debts.

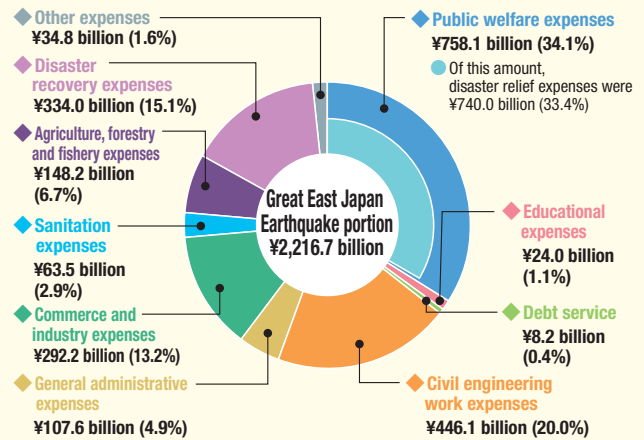
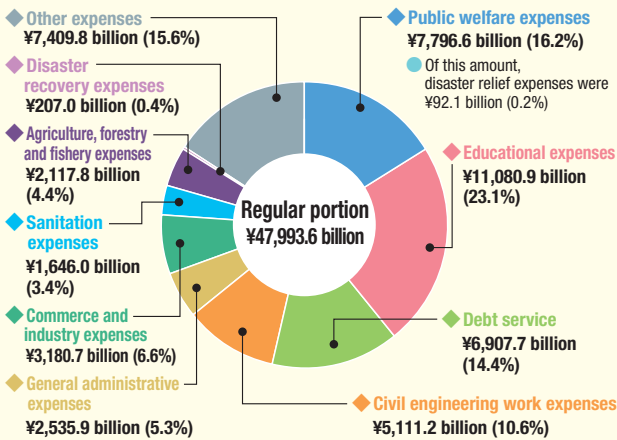
Expenditures

2 Expenditures in Regular Portion and Great East Japan Earthquake Portion (Expenses Classified by Purpose)

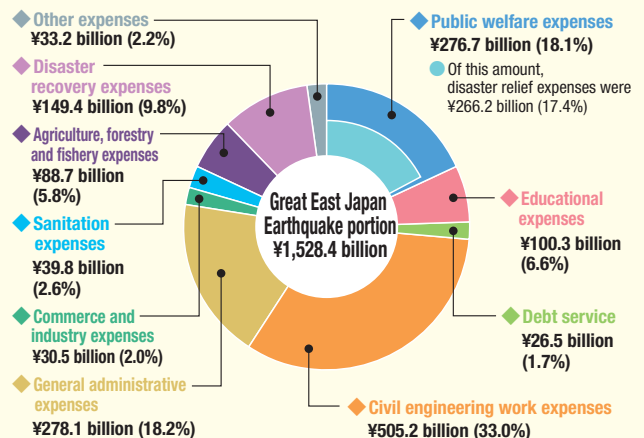
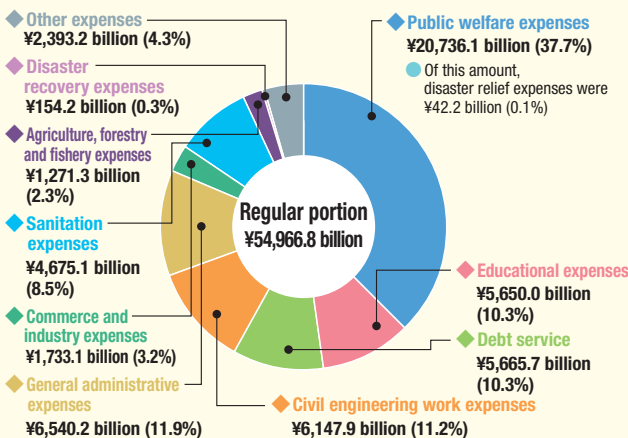
Net total



Prefectures



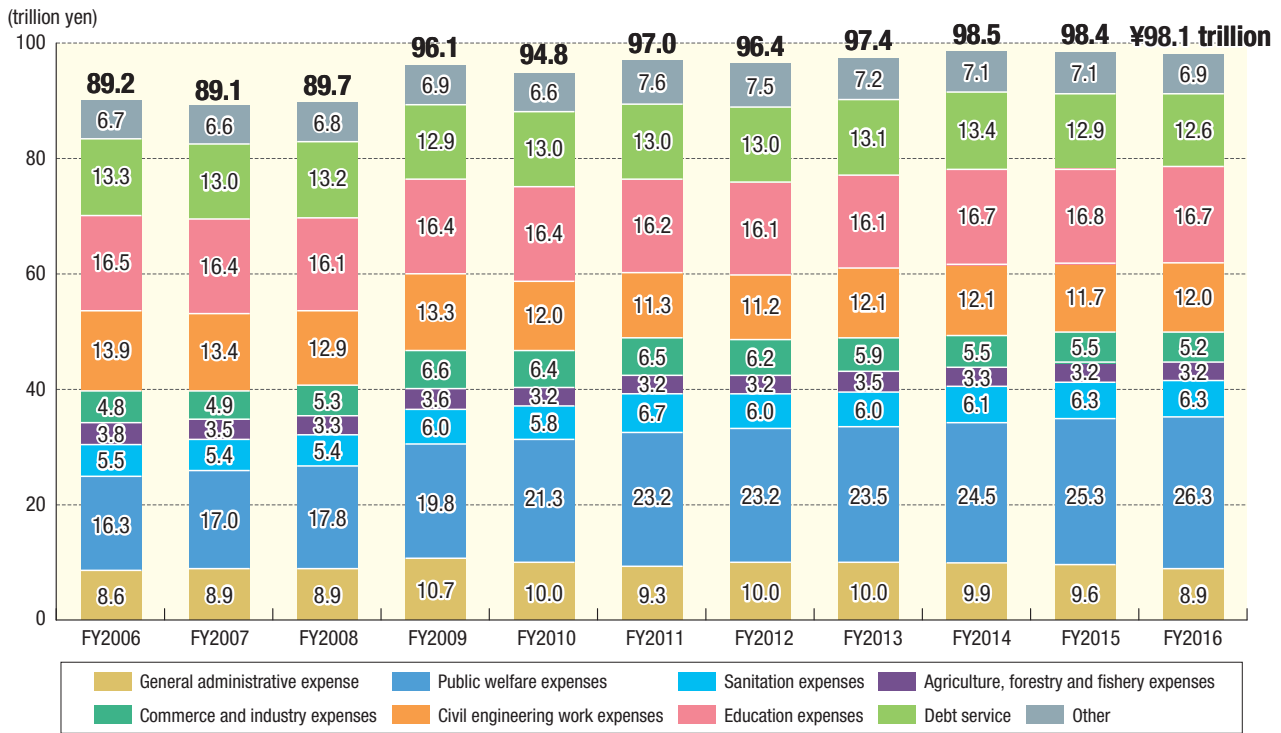
Municipalities



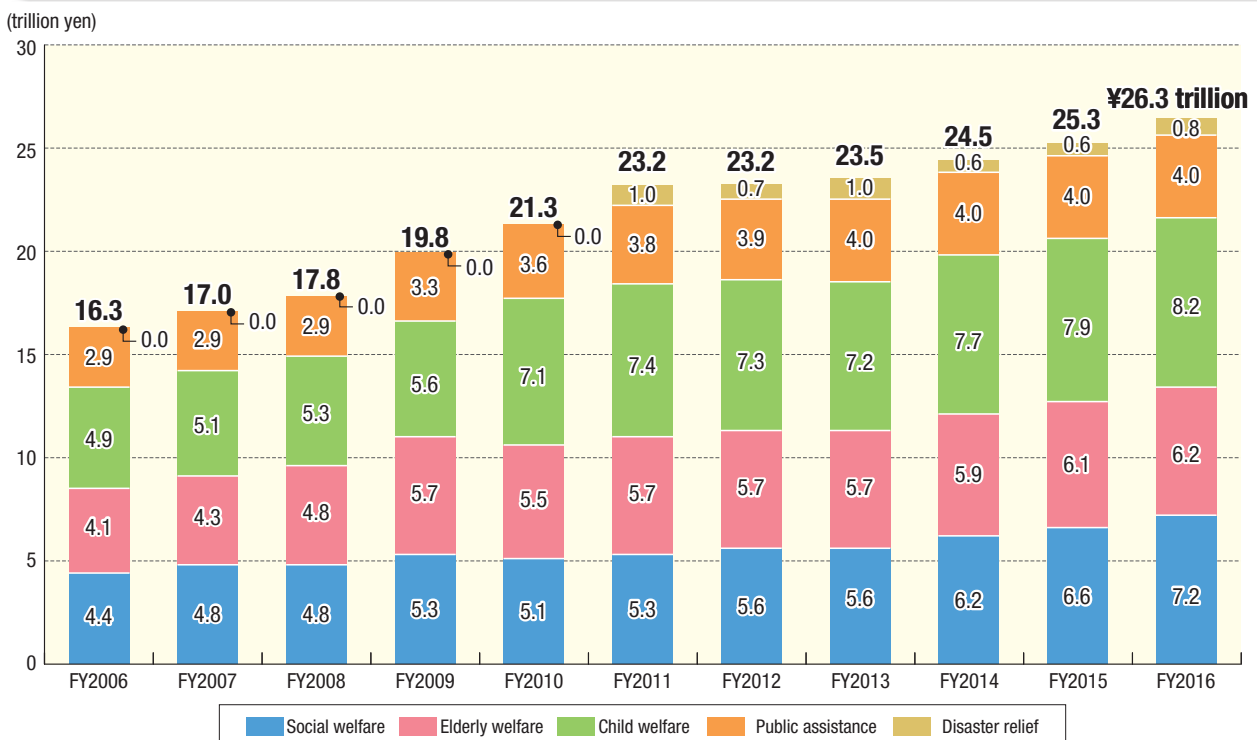
3 Breakdown of Expenses Classified by Purpose

Public welfare expenses for FY2016 rose significantly when compared to those for FY2006.

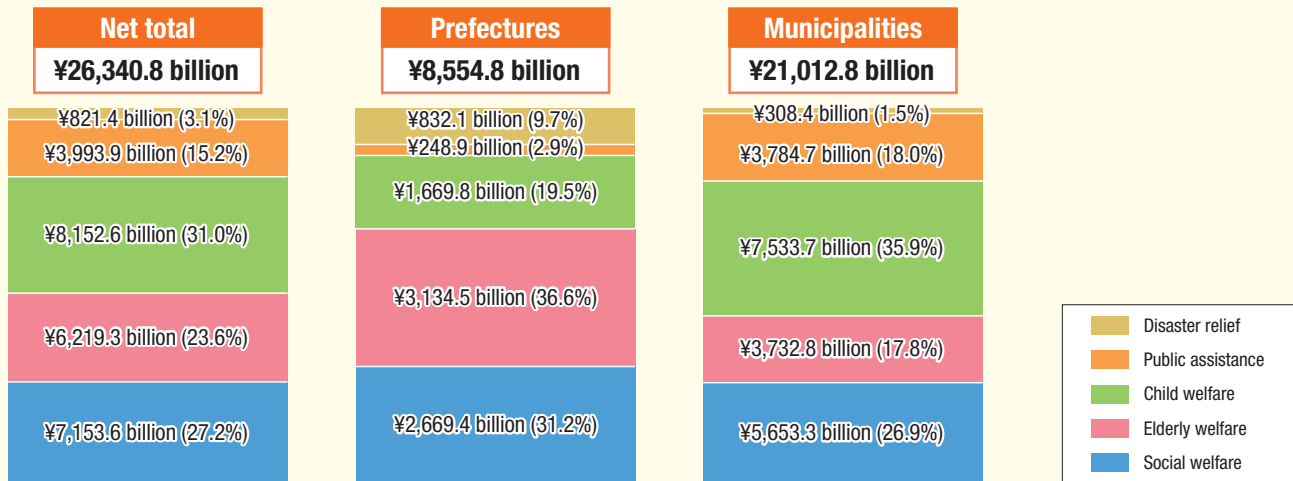
Trends in Expenditures Classified by Purpose



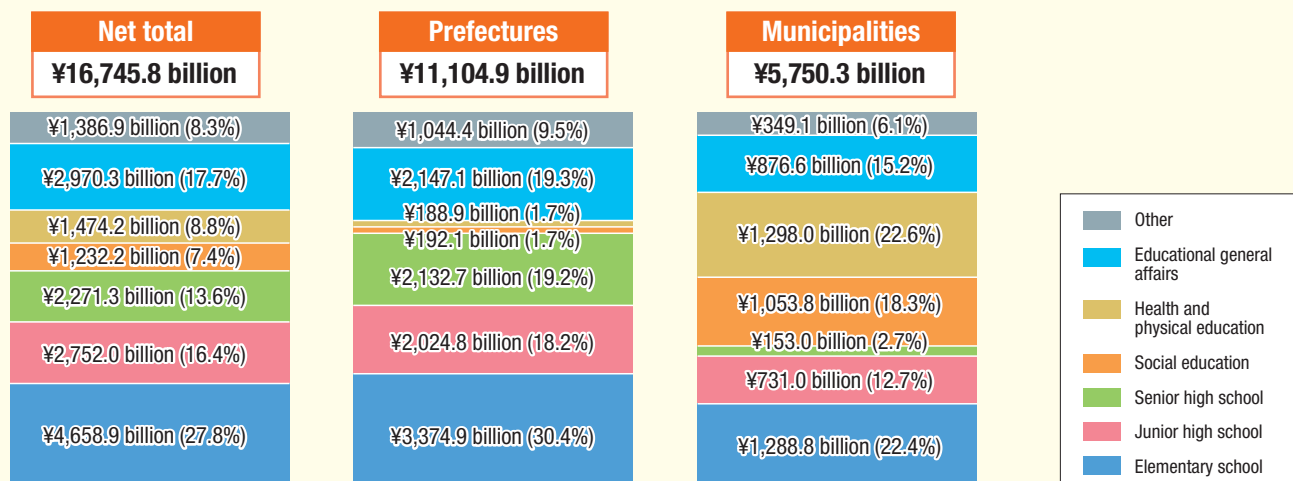
Trends in Breakdown of Public Welfare Expenses by Purpose



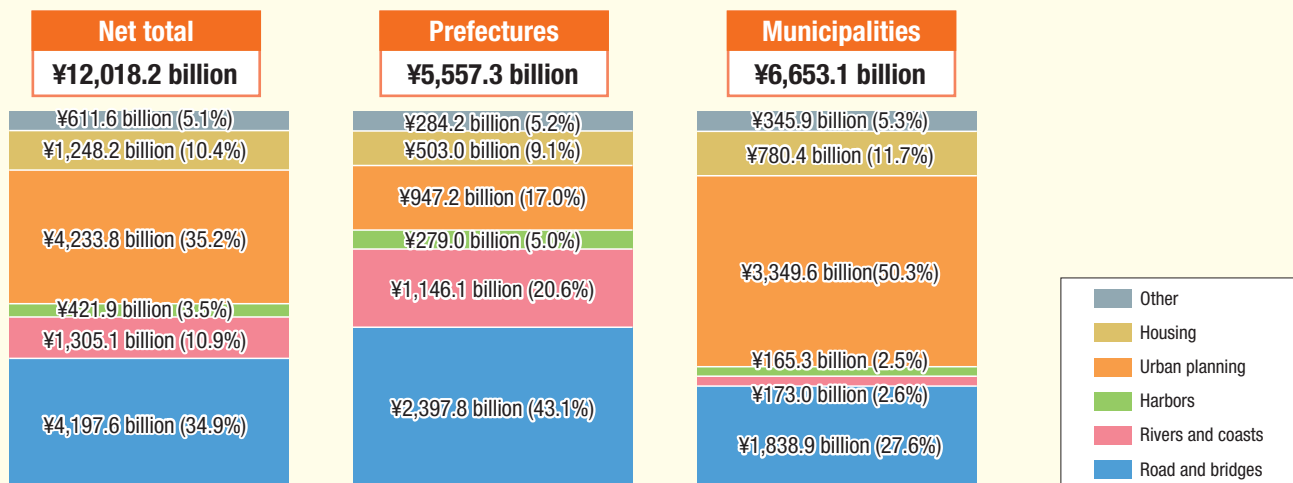
Breakdown of Public Welfare Expenses by Purpose



Breakdown of Educational Expenses by Purpose



Breakdown of Civil Engineering Work Expenses by Purpose

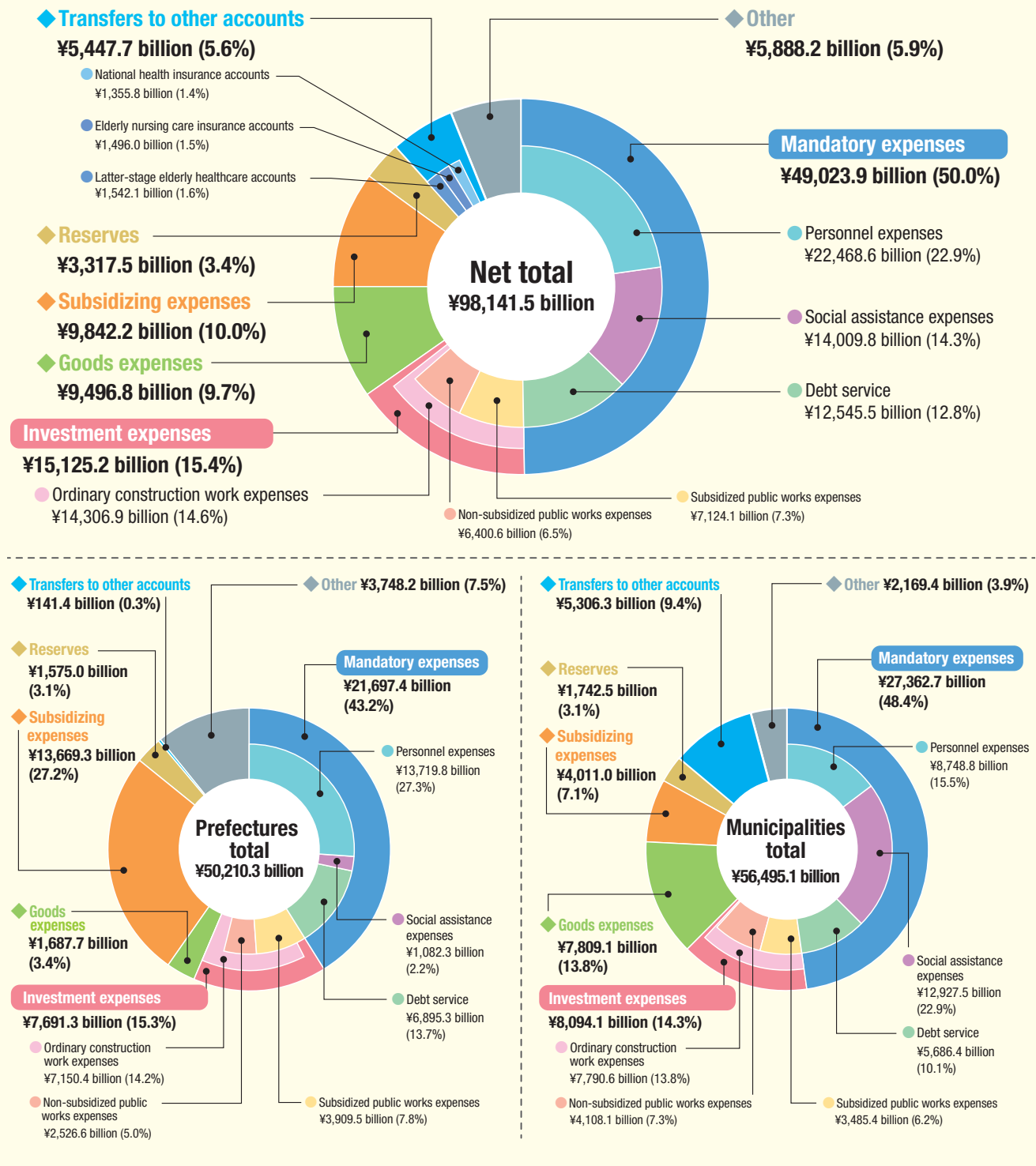


What are expenses used for?

4 Expenses Classified by Type

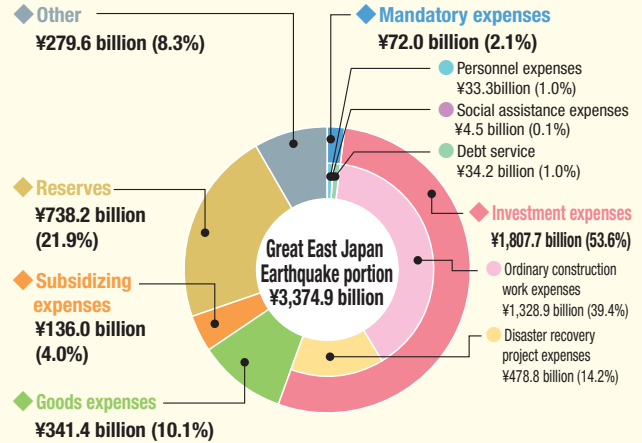
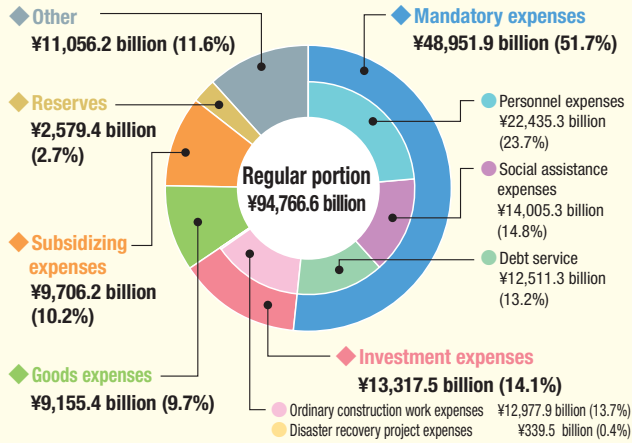
Expenses are also classified, according to their economic nature, into “Mandatory expenses” (consisting of Personnel expenses, Social assistance expenses, and Debt service), the payment of which is mandatory and the amount of which is difficult to reduce at the discretion of individual local governments, “Investment expenses” including Ordinary construction work expenses, and “Other expenses,” (such as Goods expenses, Subsidizing expenses, Reserves, Transfers to other accounts).

Composition of Expenditures Classified by Type (FY2016 settlement)

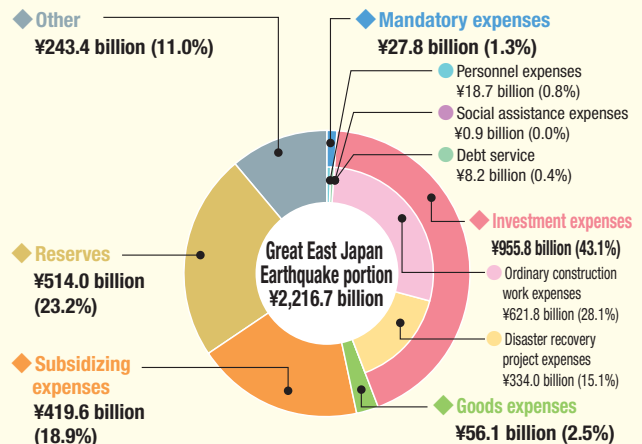
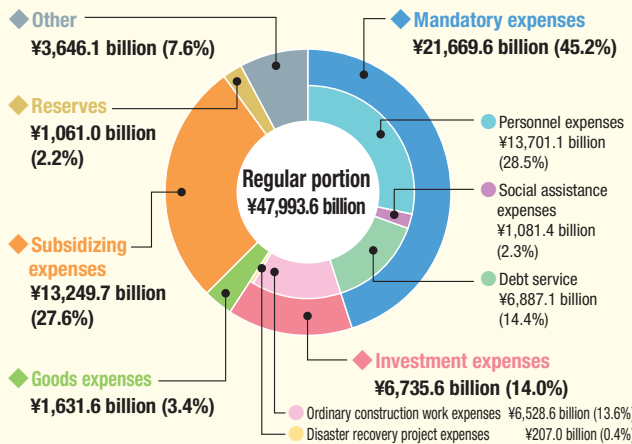


5 Expenditures in Regular Portion and Great East Japan Earthquake Portion (Expenses Classified by Type)

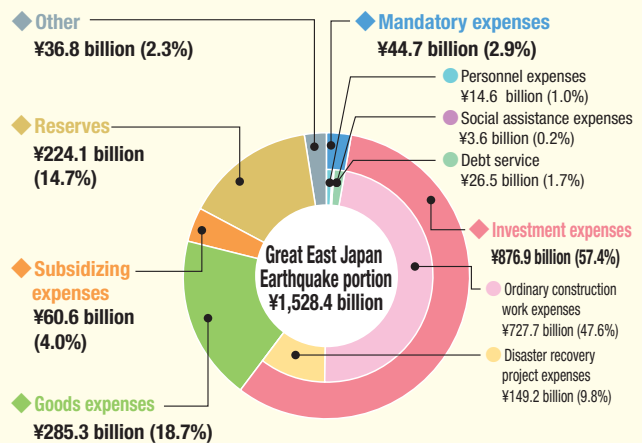
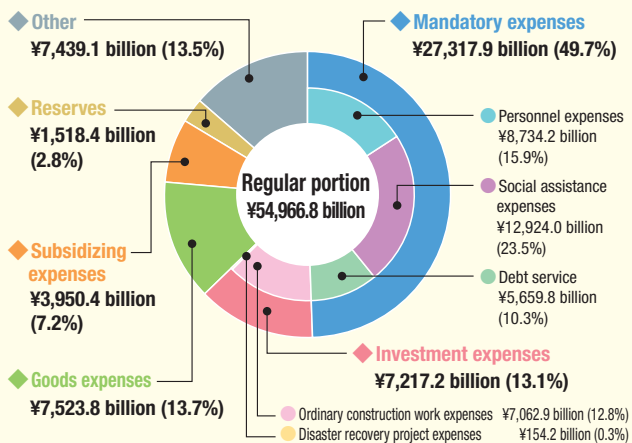
Net total



Prefectures



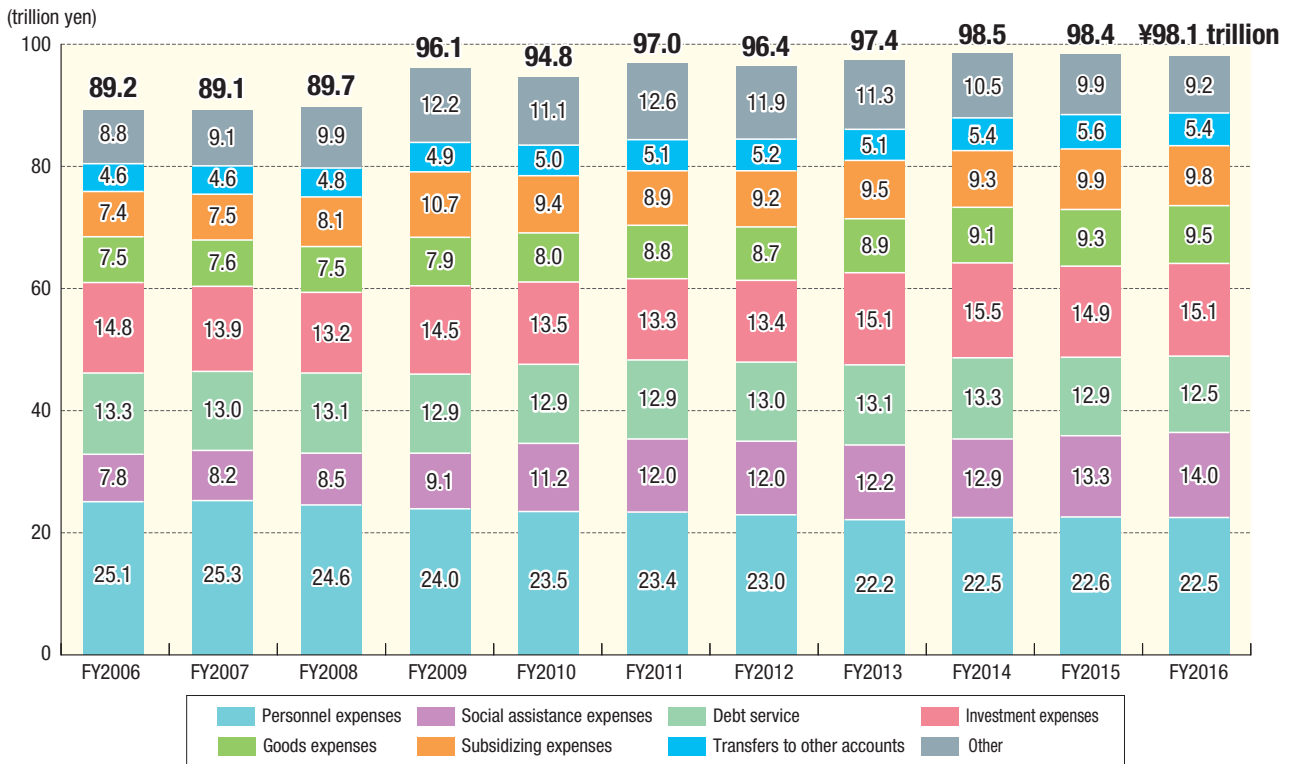
Municipalities



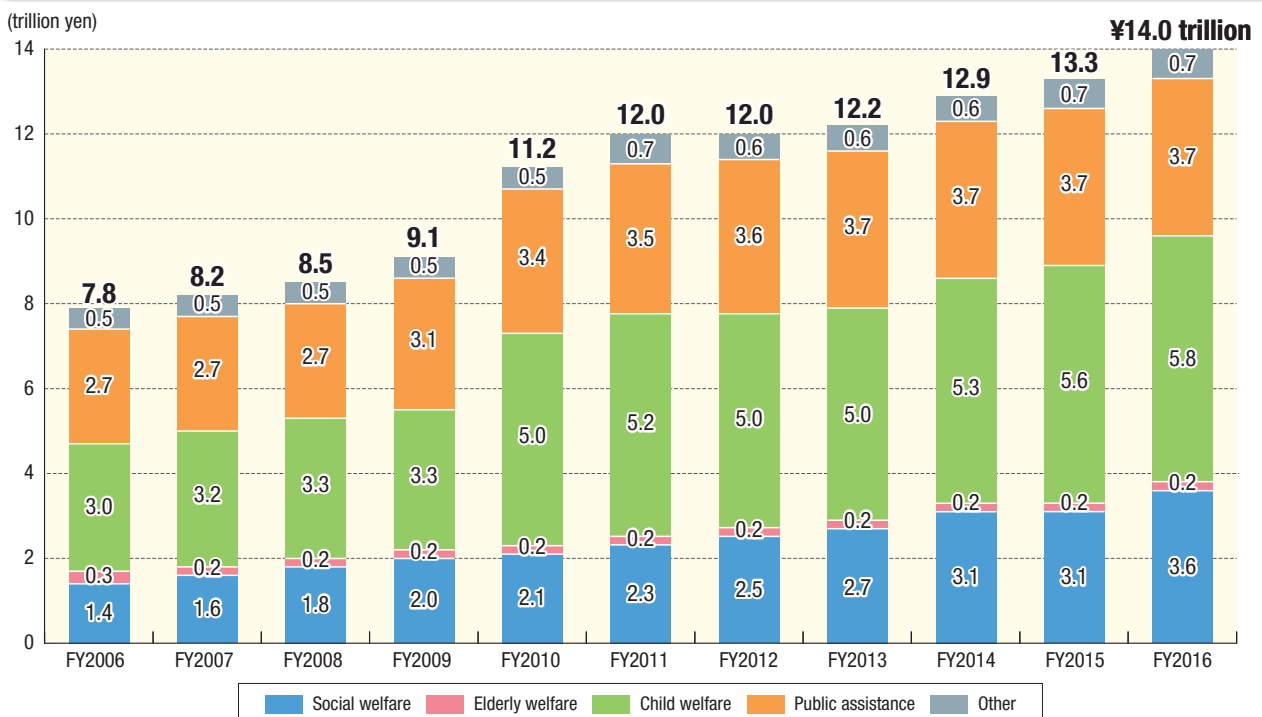
6 Breakdown of Expenses Classified by Type

Social assistance expenses, Subsidizing expenses, Transfers to other accounts, and Goods expenses have been rising.

Trends in Expenditures Classified by Type



Trends in Breakdown of Social Assistance Expenses by Purpose

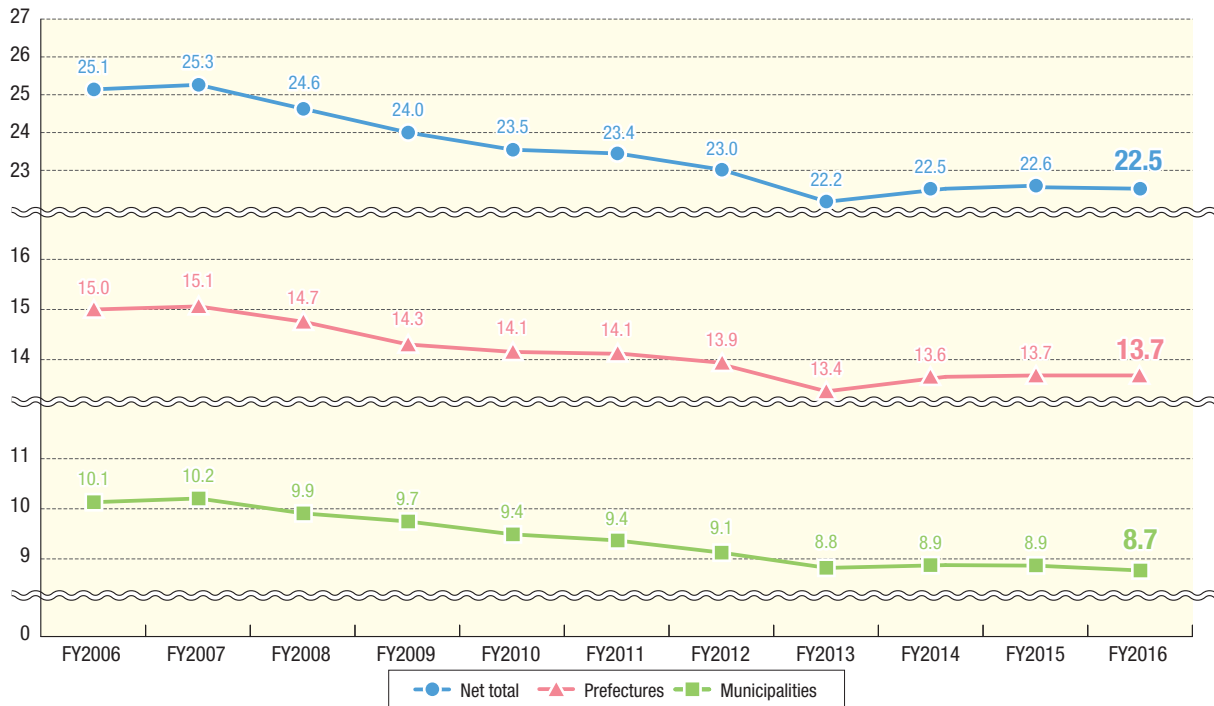


Expenditures

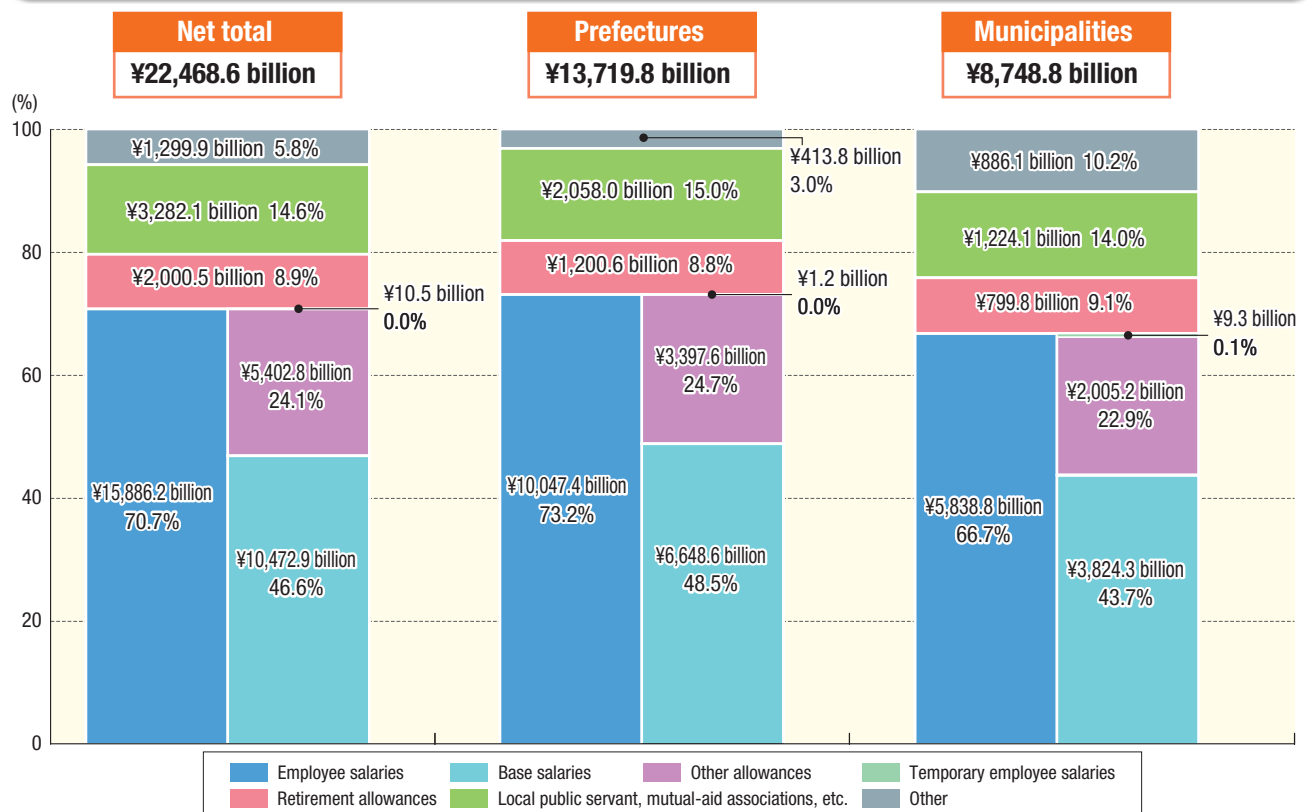
Personnel expenses for FY2016 decreased year on year due mainly to a decrease in Retirement allowances associated with the retirement of personnel.

Trends in Personnel Expenses

(trillion yen)

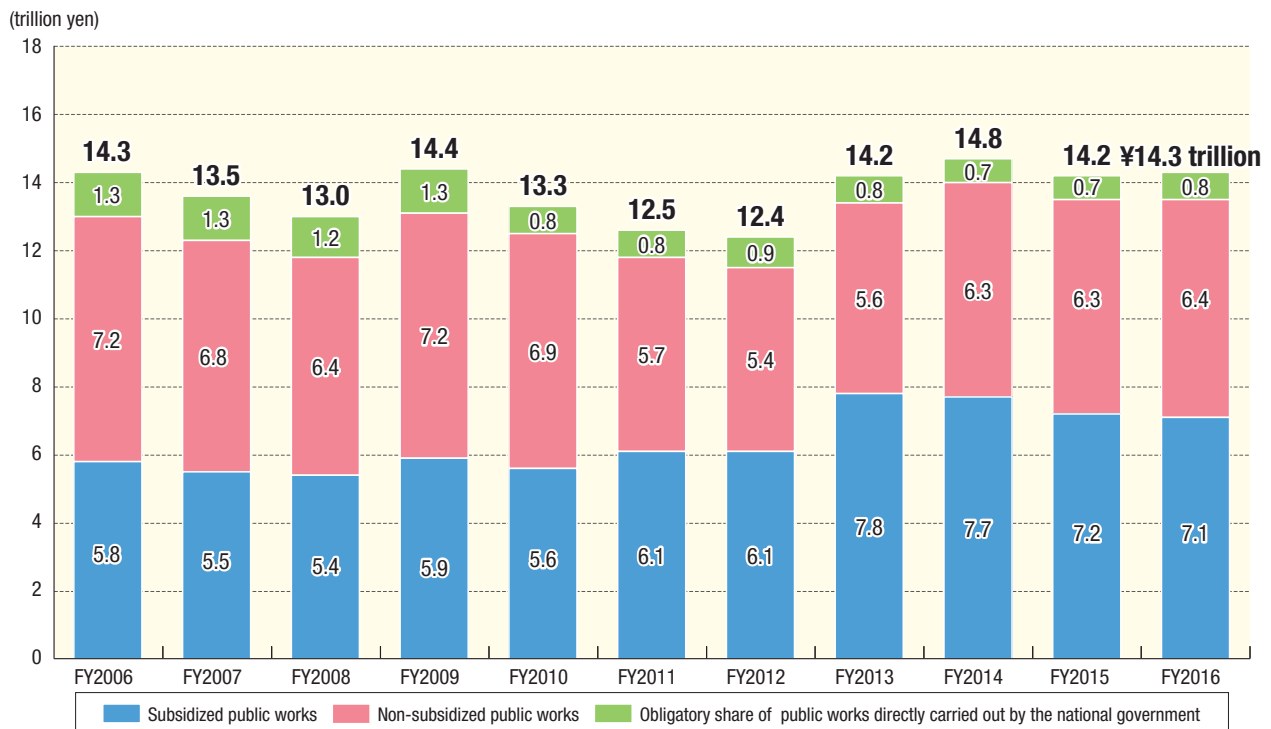


Breakdown of Personnel Expenses by Item

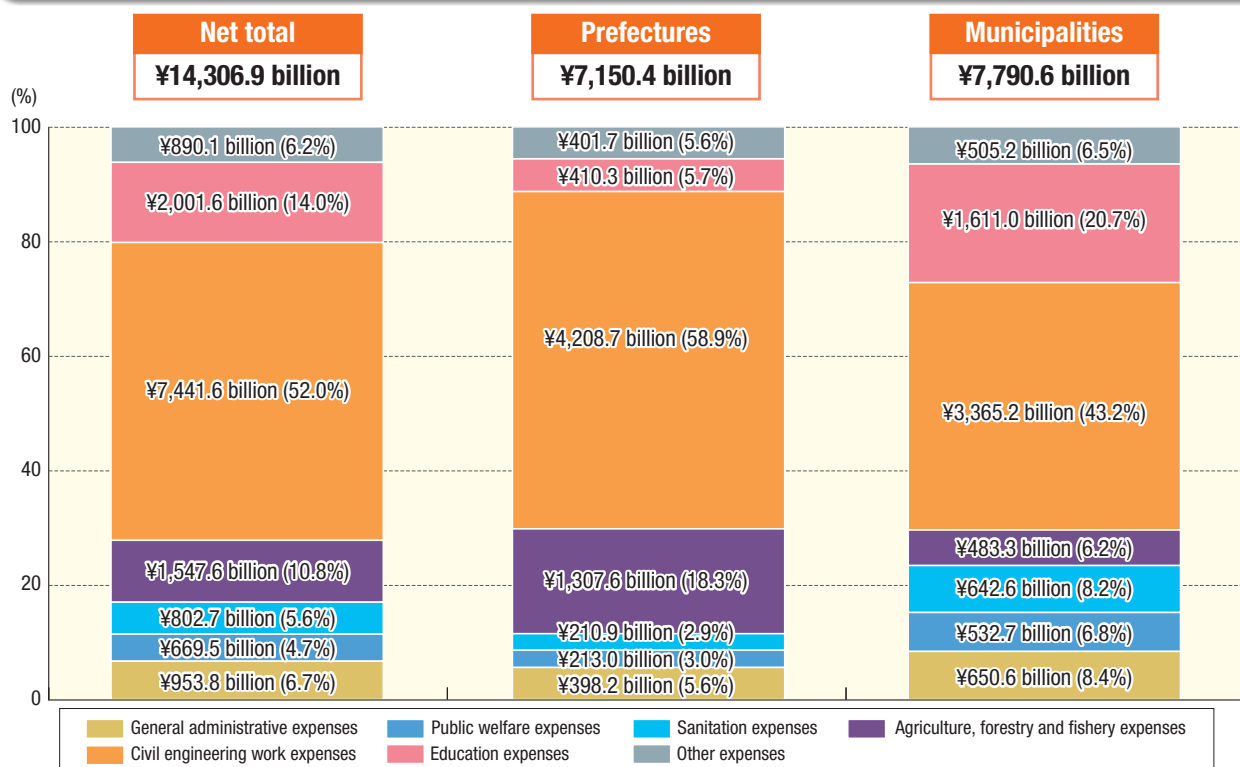


Ordinary construction work expenses increased year on year due mainly to an increase in Non-subsidized public works. In addition, Civil Engineering Work Expenses account for the largest ratio in the breakdown of Ordinary construction work expenses by purpose.

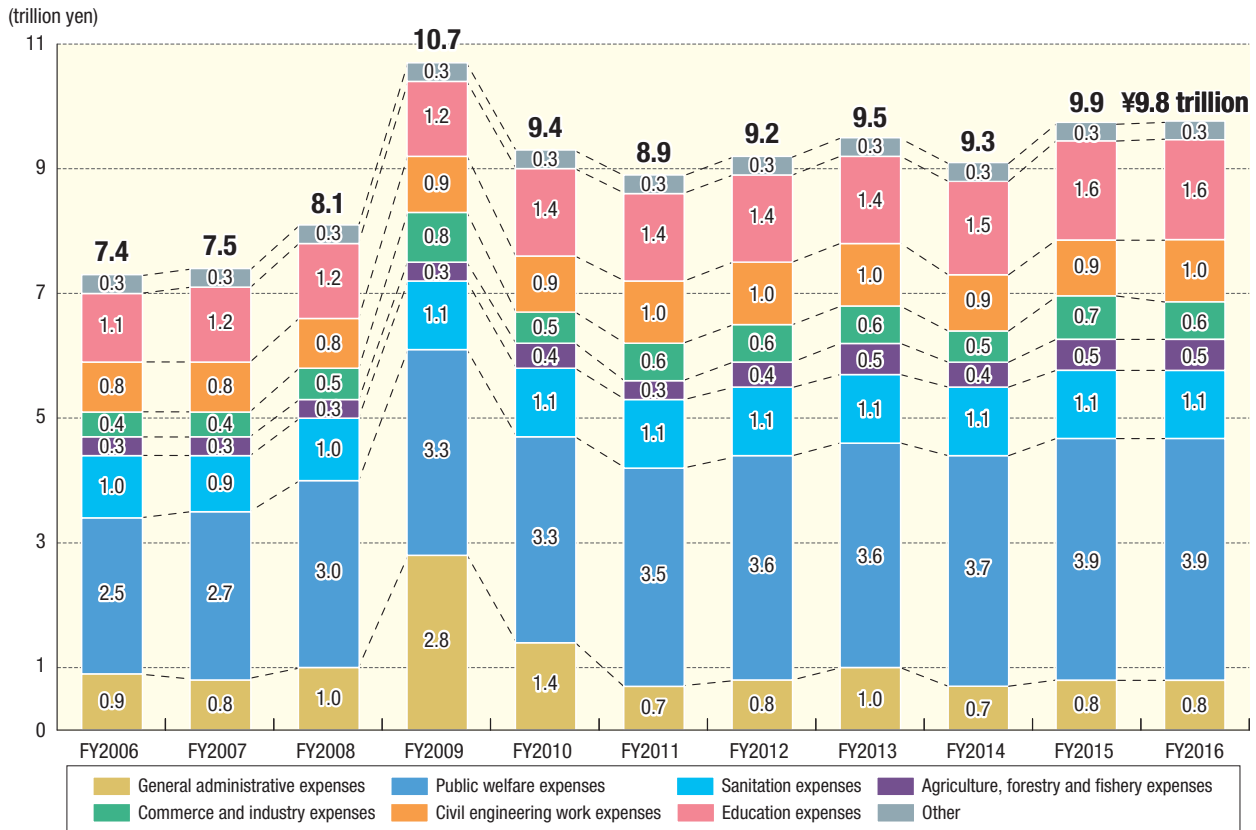
Trends in Breakdown of Ordinary Construction Work Expenses Classified by Type



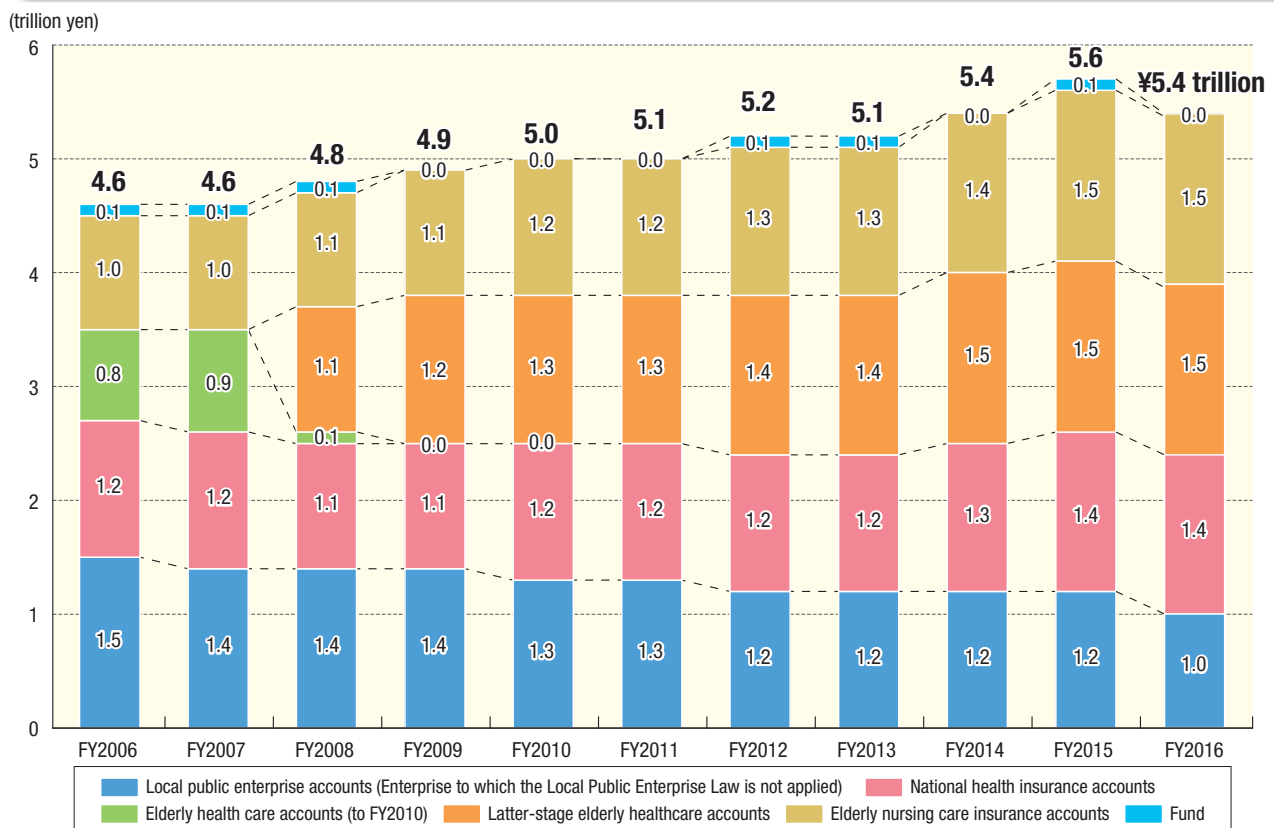
Breakdown of Ordinary Construction Work Expenses by Purpose



Trends in Breakdown of Subsidizing Expenses by Purpose



Trends in Breakdown of Transfers to Other Accounts



Flexibility of the Financial Structure

How financially capable are local governments to respond to local demands?

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

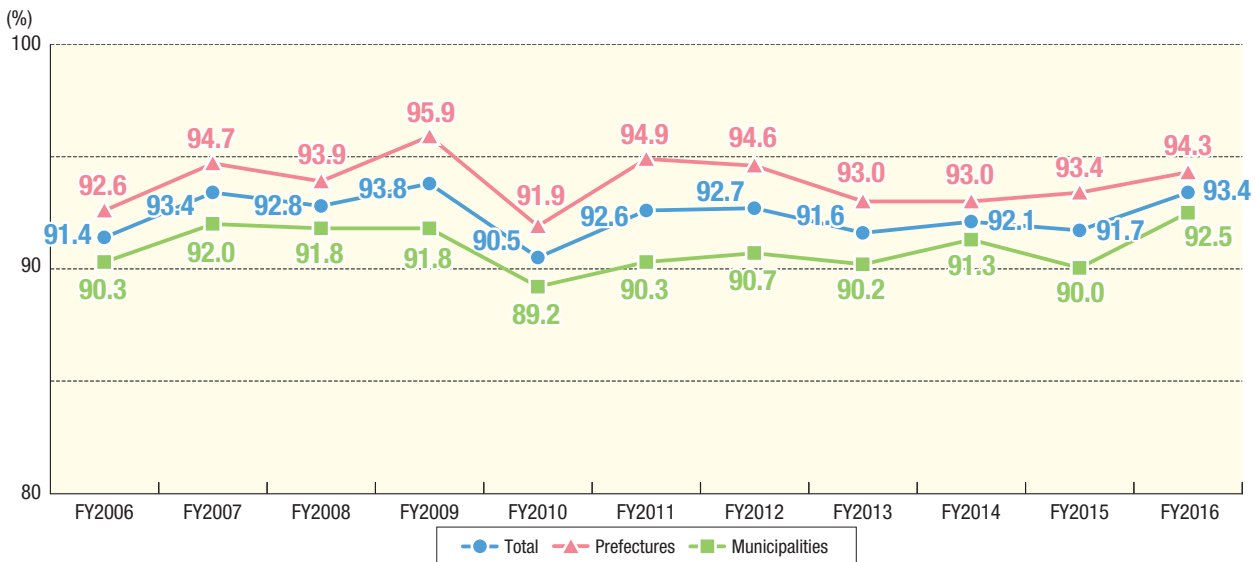
1 Ordinary Balance Ratio

The FY2016 Ordinary balance ratio rose 1.7 percentage points year on year to 93.4%, staying above 90% for 13 consecutive years.

$$\text{Ordinary balance ratio} = \frac{\text{General revenue resources allotted to personnel expenses, Social assistance expenses, Debt service, etc.}}{\text{Ordinary general revenue resources, etc. (Local tax + Regular local allocation tax, etc.) + Special exception portion of loans for covering decreases in Local tax revenues + Bonds for temporary substitution of local allocation tax}} \times 100$$

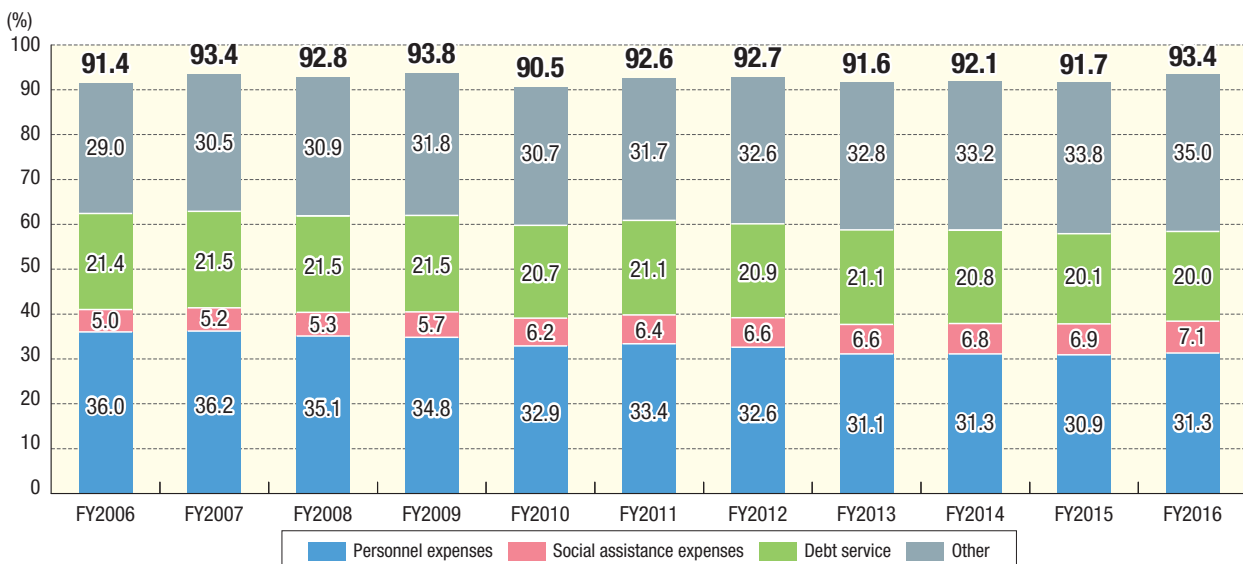
The Ordinary balance ratio is the proportion of General revenue resources allotted to Ordinary expenses such as Personnel expenses, Social assistance expenses, Debt service and other annually disbursed expenses with regularity to a total amount of Ordinary general revenue resources primarily consisting of Local tax and Regular local allocation tax, Special exception portion of loans for covering decreases in Local tax revenues and Bonds for temporary substitution of Local allocation tax.

Trends in the Ordinary Balance Ratio



* Special wards and partial administrative associations, etc., are not included in total and municipalities.

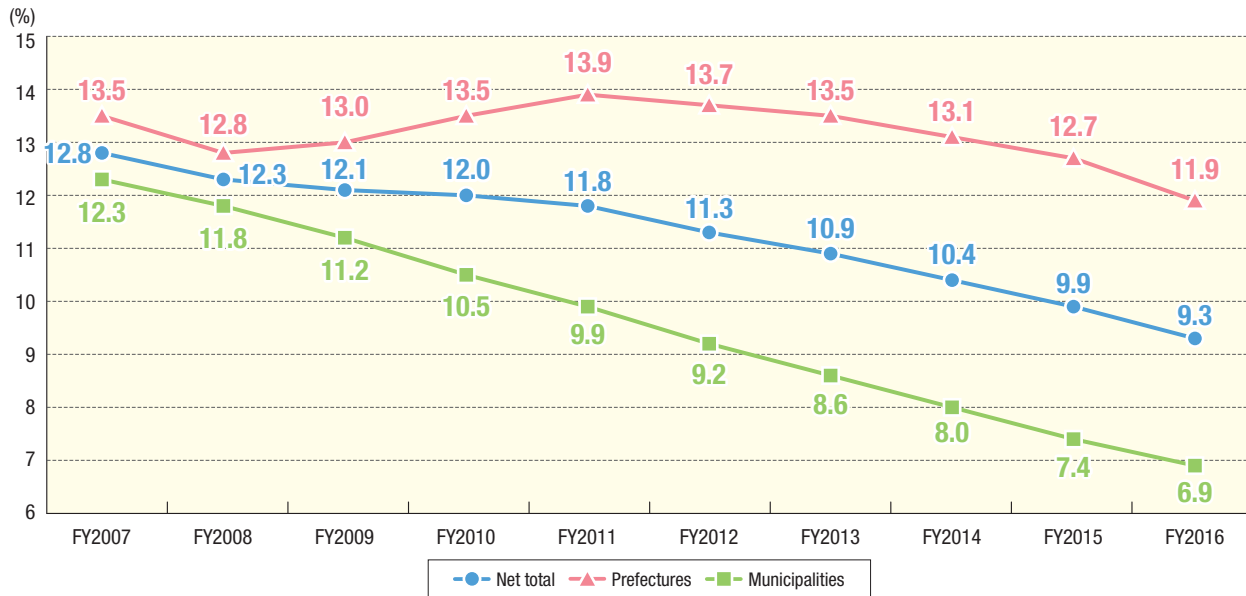
Breakdown of Ordinary Balance Ratio (Total)



2 Real Debt Service Ratio and Debt Service Payment Ratio

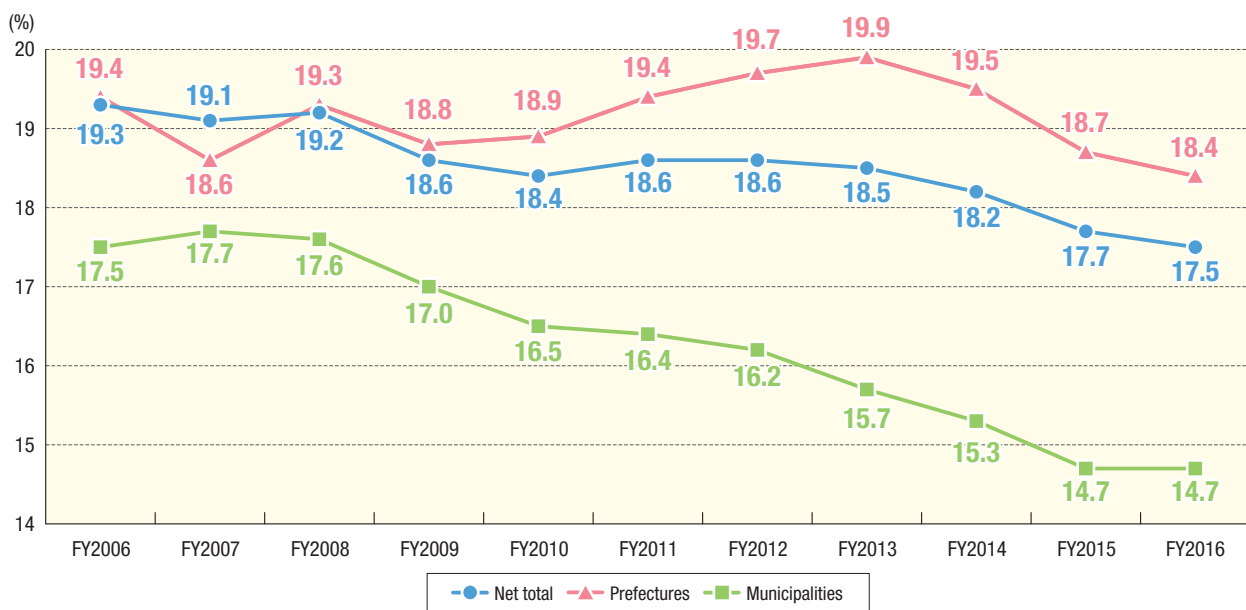
Close attention should be paid to the trend of the Debt service, which is the expense required to repay the principal and interest of the debts of local governments and has an especially negative impact on financial flexibility. The Real debt service ratio and the Debt service payment ratio are indices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

Trends in the Real Debt Service Ratio



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

Trends in the Debt Service Payment Ratio



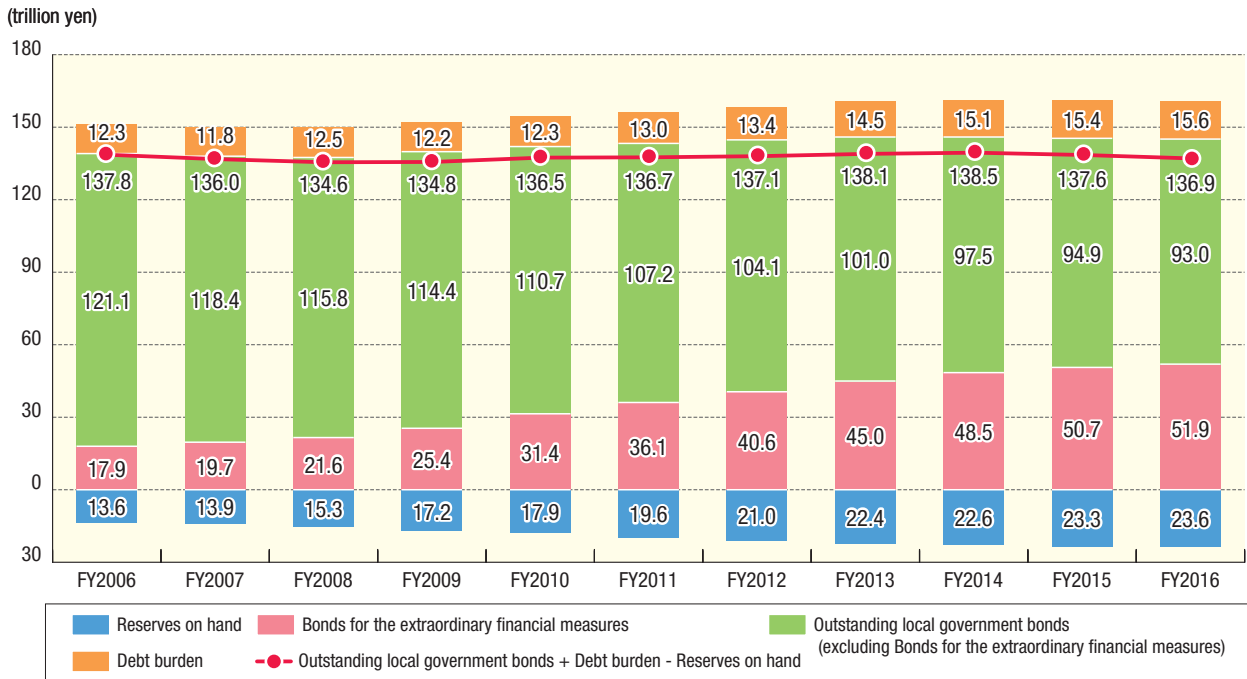
* Debt service payment ratio : The Debt service payment ratio indicates the ratio of general revenue resources allocated for debt service (amount of repayment of the principal and interest on local bonds) in the total amount of General revenue resources. This index is used to measure the flexibility of the financial structure by assessing the degree to which Debt service restricts the freedom of use of General revenue resources.

Future Financial Burden

What is the status of debt in local public finance?

1 Trends in Outstanding Local Government Bonds and Debt Burden

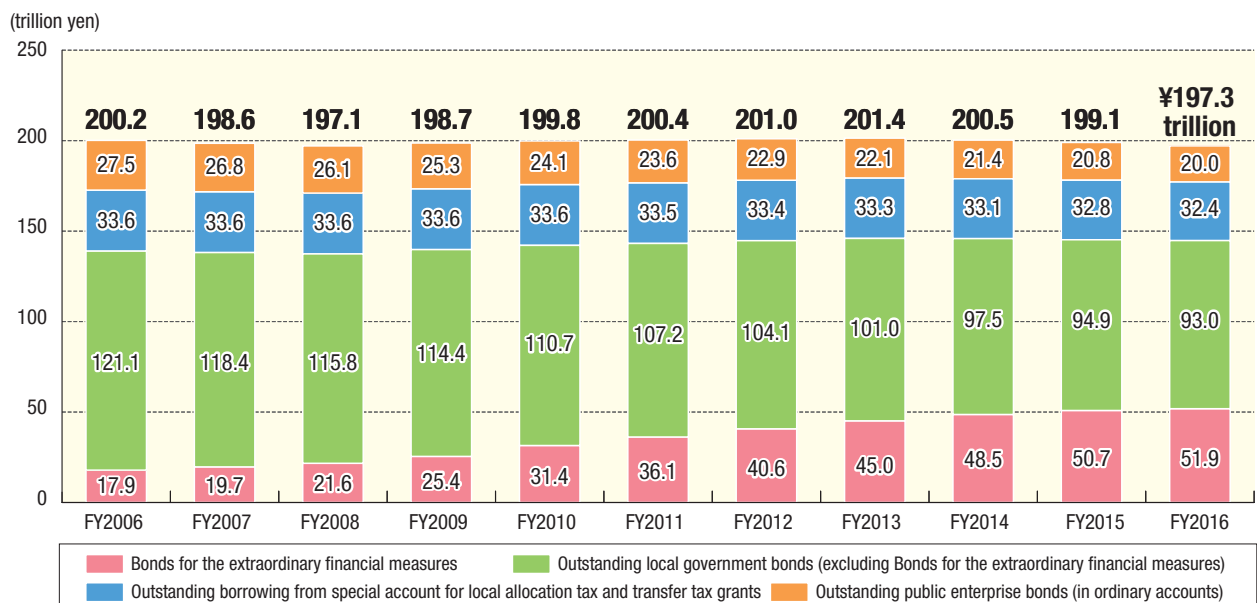
Real future financial burden resulting from Outstanding local government bonds and Debt burden amounted to ¥136,903.8 billion at the end of FY2016, down 0.5% year on year.



Notes : 1. Outstanding local government bonds excludes special fund public investment bonds.
2. Debt burden is the amount scheduled to be expended in the following fiscal years.

2 Trends in Outstanding Borrowing Borne by the Ordinary Accounts

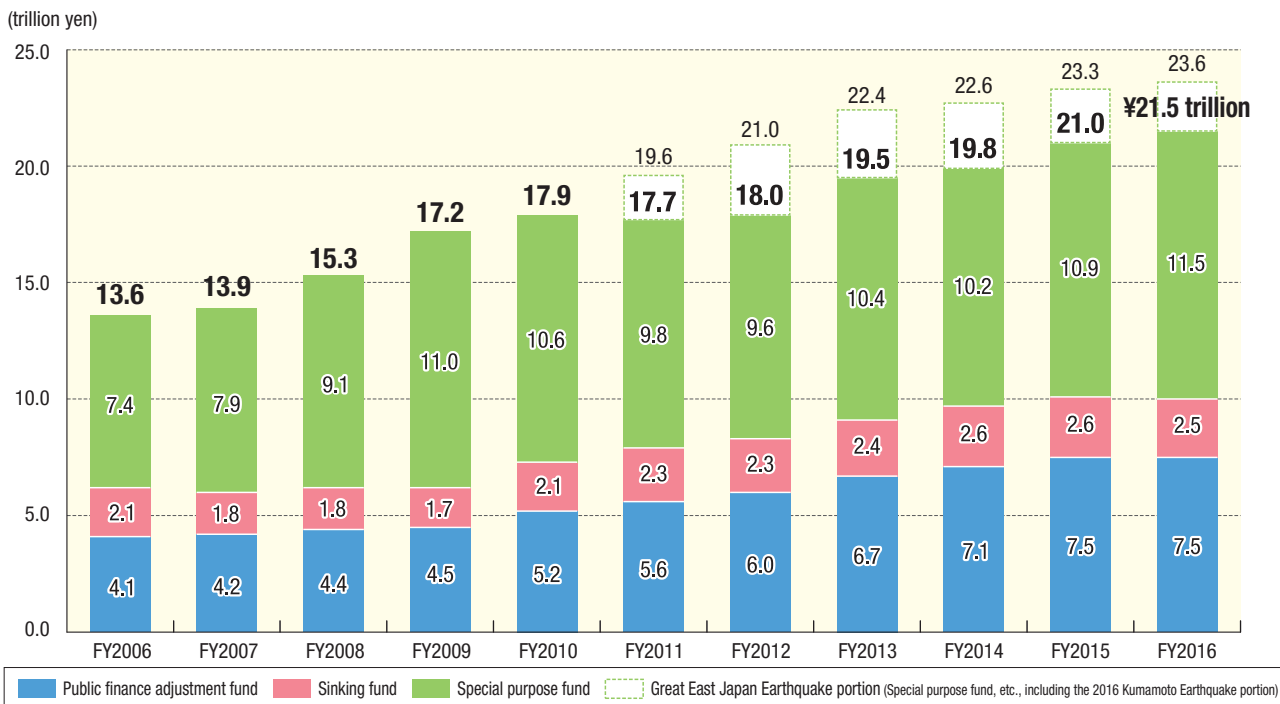
Outstanding local public finance borrowing, which includes borrowing in the special account for Local allocation tax and Transfer tax for addressing revenue resource shortages, as well as the redemption of Public enterprise bonds borne by the Ordinary accounts, remains at a high level, amounting to ¥197 trillion at the end of FY2016.



Notes : 1. Outstanding local government bonds excludes special fund public investment bonds.
2. Outstanding public enterprise bonds (in ordinary accounts) are estimates based on the settlement account statistics

3 Trends in Balance of Funds

Reserves on hand (excluding the Great East Japan Earthquake portion) at the end of FY2016 was ¥21.5 trillion, an increase of ¥7.9 trillion from the end of FY2006.



Notes : 1. The Great East Japan Earthquake portion includes the 2016 Kumamoto Earthquake portion (FY2016: ¥51.8 billion).

2. Reserves on hand do not include the amount of reserves for Sinking fund to be appropriated for principal and interest for local government bonds to be redeemed in full on maturity.

Why has the balance of funds increased?

The balance of funds increased over the 10 years mainly due to systemic factors such as the central government's policies and municipal mergers, measures for the aging of public facilities as well as preparations for disaster and various other future events. The funds increased as many organizations set aside reserves while striving to carry out administrative reform and reduce expenses.

(Unit: trillion yen)

Factors in increase		Increase amount	Receiving organization	Non-receiving organization
(1) Systemic factors		2.3	2.1	0.1
1. Increase in Special purpose fund based on the central government's policies *1		0.6	0.5	0.1
2. Increase in funds to prepare for completion of special measures associated with mergers, etc. *2		1.7	1.7	0.0
(2) Other preparations for future decrease in revenues and future increase in expenditures *3		5.7	3.1	2.5
Revenues	1. Fluctuations in corporate taxes, etc. resulting from economic trends	0.8	0.5	0.3
	2. Decrease in tax revenues due to population decrease	0.3	0.3	0.0
Expenditures	3. Measures for the aging of public and other facilities, etc.	2.0	1.0	1.1
	4. Preparations for Disaster	0.9	0.6	0.3
	5. Increase in social security-related expenses	0.7	0.3	0.4
6. Other		0.8	0.4	0.4
Total		7.9	5.3	2.7

Note : In some cases, figures in the table do not add up exactly to the total as values less than the given unit are rounded off.

*1. Funds established based on the central government's policies such as the Fund for comprehensively securing regional health and long-term care and the Fund for stabilizing medical care finance for the latter-stage elderly.

*2. Estimated based on survey results and the difference in balance of funds between merged organizations and non-merged organizations.

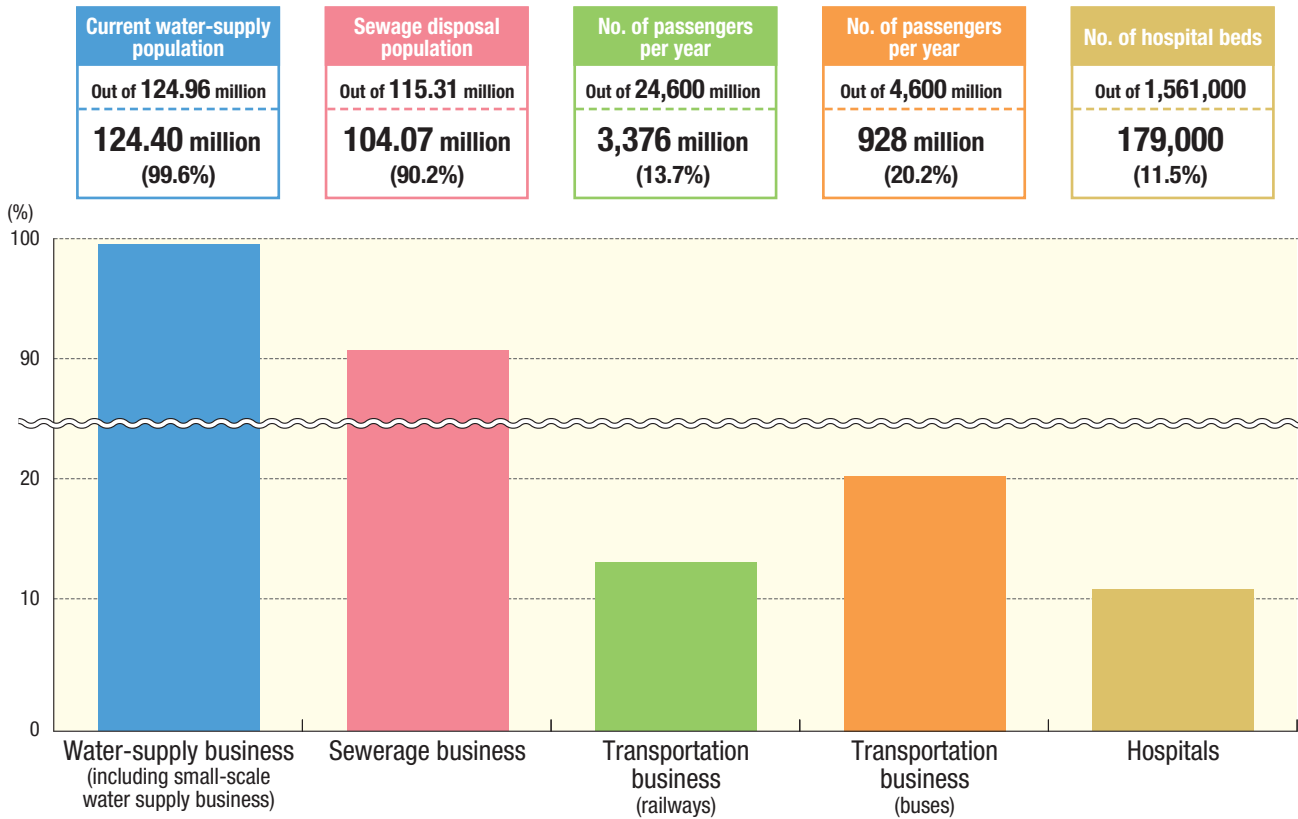
*3. Public finance adjustment fund has been estimated based on the order of reasons for setting aside reserves indicated by survey results, while the Special purpose fund has been estimated based on the classification of uses indicated by survey results.

Local Public Enterprises

What is the status of local public enterprises?

1 Presence of Local Public Enterprises

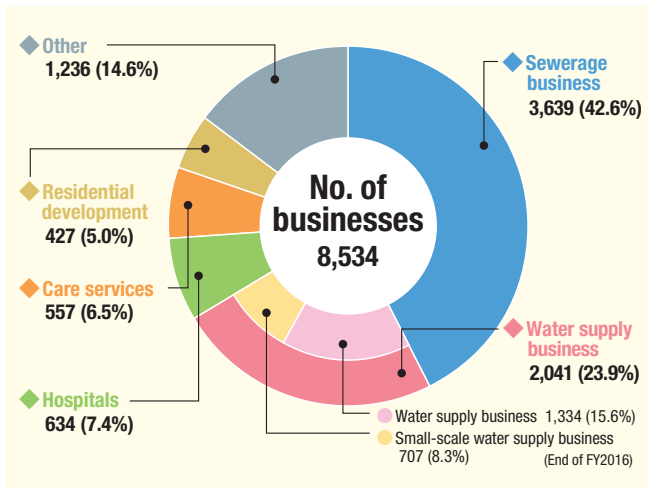
Local public enterprises play a major role in improving the standard of living of residents.



Notes : 1. The graph shows the ratio of local public enterprises when the total number of business entities nationwide is set at 100.
2. Figures for the total number of enterprises nationwide have been compiled from statistical materials of related organizations.

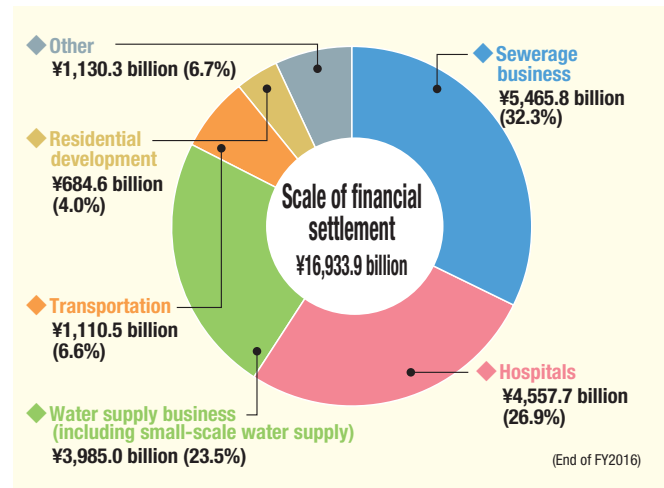
2 Number of Businesses Operated by Local Public Enterprises

8,534 businesses are operated by local public enterprises. By type of business, sewerage accounts for the largest ratio, followed, in order, by water supply, hospitals, care services, and residential development.



3 Scale of Financial Settlement

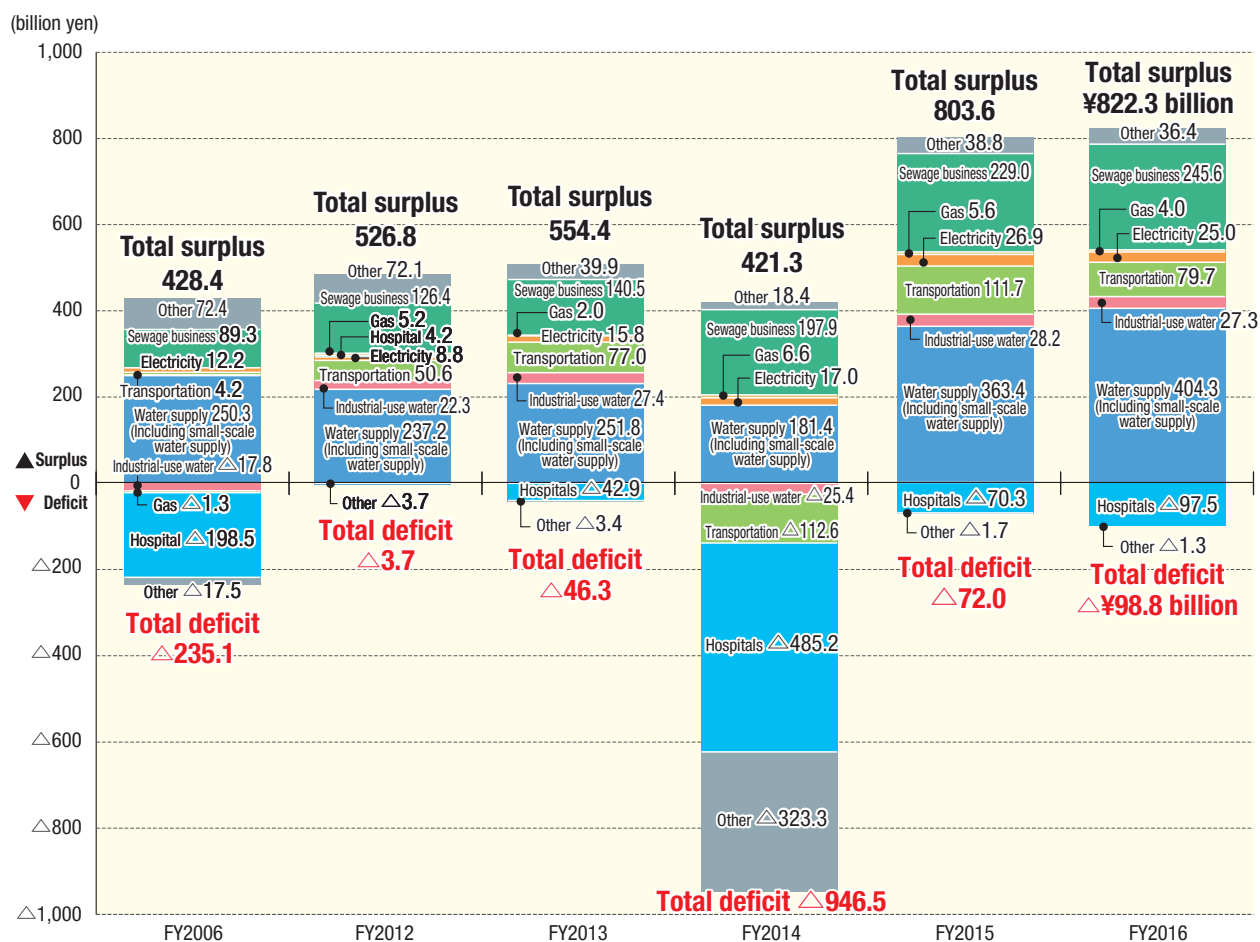
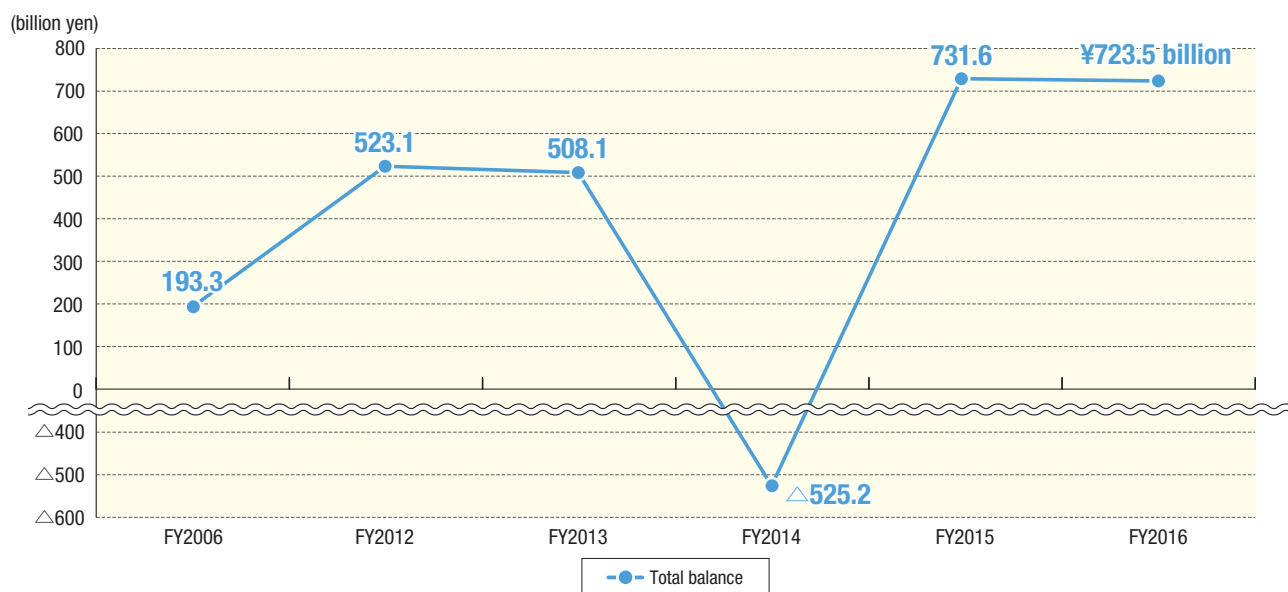
The scale of total financial settlement is ¥16,933.9 billion. By type of business, sewerage accounts for the largest ratio, followed, in order, by hospitals, total water supply, transportation, and residential development.



4 Financial Status

Local public enterprises had a surplus of ¥723.5 billion. By type of business, water supply, electricity, gas and sewages showed a surplus.

Trends in the Financial Status of Local Public Enterprises



Impact of Great East Japan Earthquake

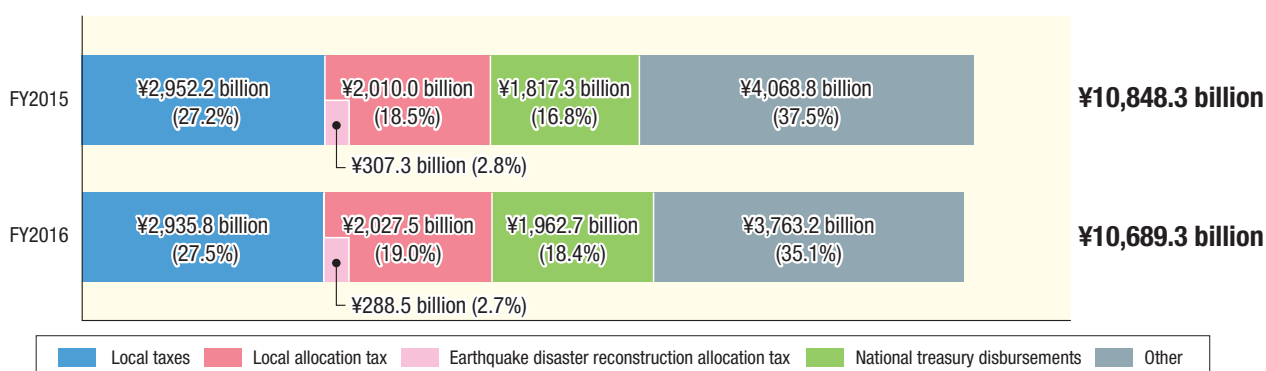
1 Settlement of Disaster-Struck Organizations

1. Specified Disaster-Struck Prefectures

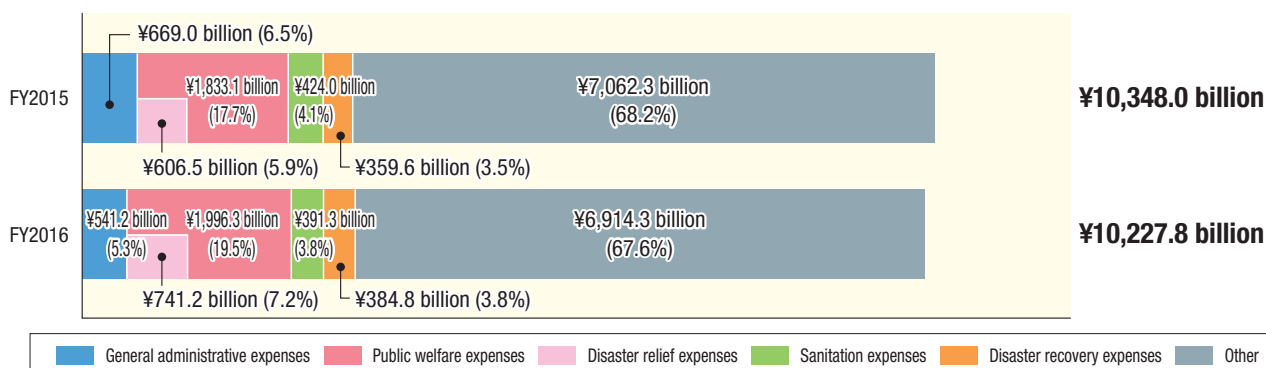
In FY2016, the total revenues of the nine specified disaster-struck prefectures amounted to ¥10,689.3 billion, decreasing by ¥159.1 billion year on year, or 1.5% (0.8% national decrease). Total expenditures of the entities amounted to ¥10,227.8 billion, decreasing by ¥120.2 billion year on year, or 1.2% (1.0% national decrease).

* Specified disaster-struck prefectures : Prefectures stipulated in Article 2, Paragraph 2 of the Act on Special Public Finance Support and Assistance to Deal with the Great East Japan Earthquake (Act No. 40 of 2011). These prefectures are Aomori, Iwate, Miyagi, Fukushima, Ibaraki, Tochigi, Chiba, Niigata, and Nagano prefectures.

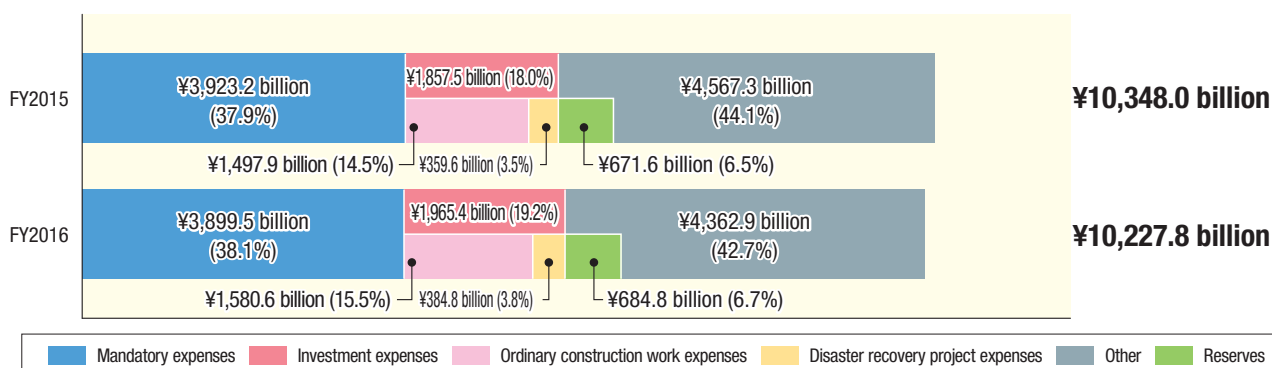
Revenues



Expenditures Classified by Purpose



Expenditures Classified by Type



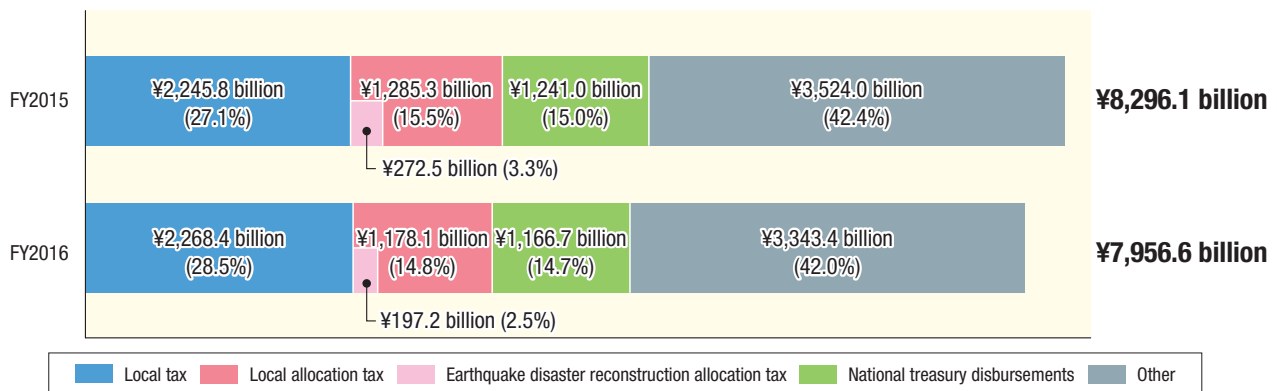
Impact of Great East Japan Earthquake

2. Specified Disaster-Struck Municipalities

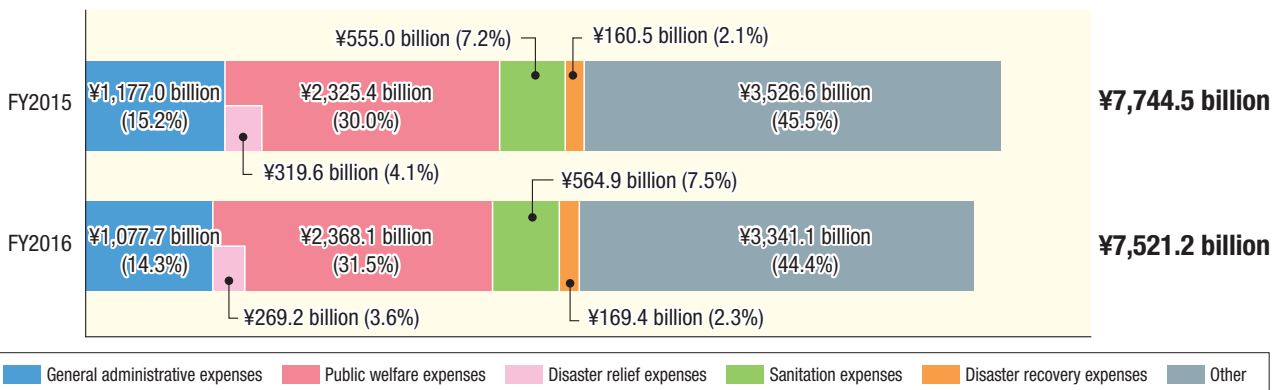
In FY2016, the total revenues of the 227 municipalities designated as specified disaster-struck municipalities amounted to ¥7,956.6 billion, decreasing by ¥33.9 billion year on year, or 4.1% (0.6% national decrease). Total expenditures of the entities amounted to ¥7,521.2 billion, decreasing by ¥223.3 billion year on year, or 2.9% (0.1% national decrease).

* Specified disaster-struck municipalities : Municipalities designated in Appended Table 1 and those designated in Appended Tables 2 and 3 that are other than specified disaster-struck local public bodies of the Japanese government ordinance (No. 127, 2011) concerning Article 2, Paragraphs 2 and 3 of the Act on Special Public Finance Support and Assistance to Deal with the Great East Japan Earthquake. (A total of 227 organizations in 11 prefectures, including, 33 organizations within Iwate Prefecture, 35 organizations within Miyagi prefecture, and 59 organizations within Fukushima prefecture.)

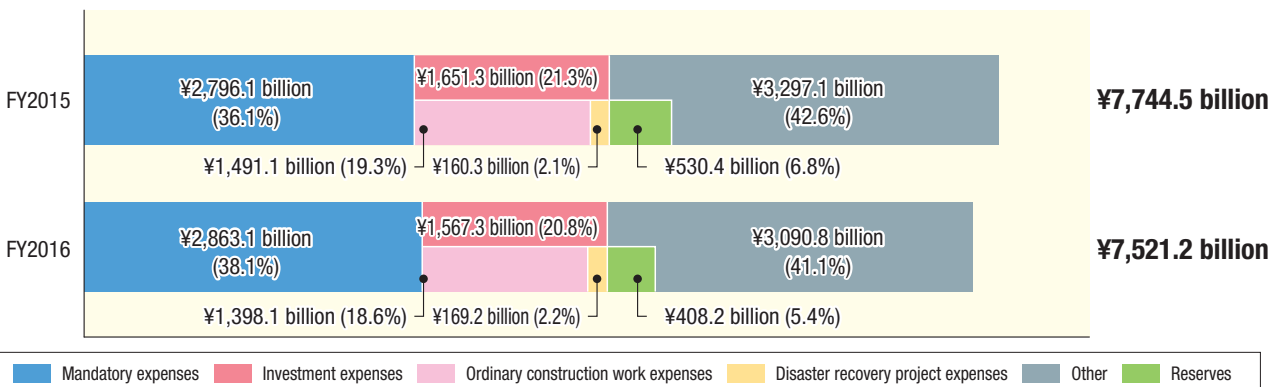
Revenues



Expenditures Classified by Purpose



Expenditures Classified by Type

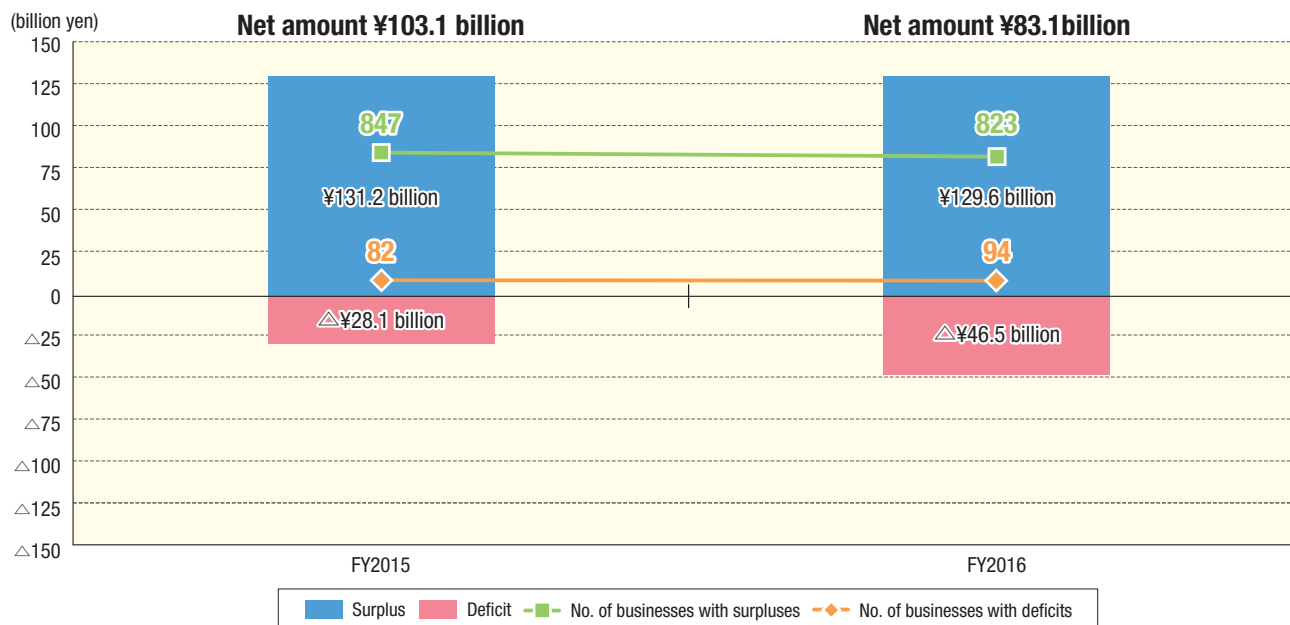


2 Financial Status of Businesses of Local Public Enterprises of Disaster-Struck Organizations

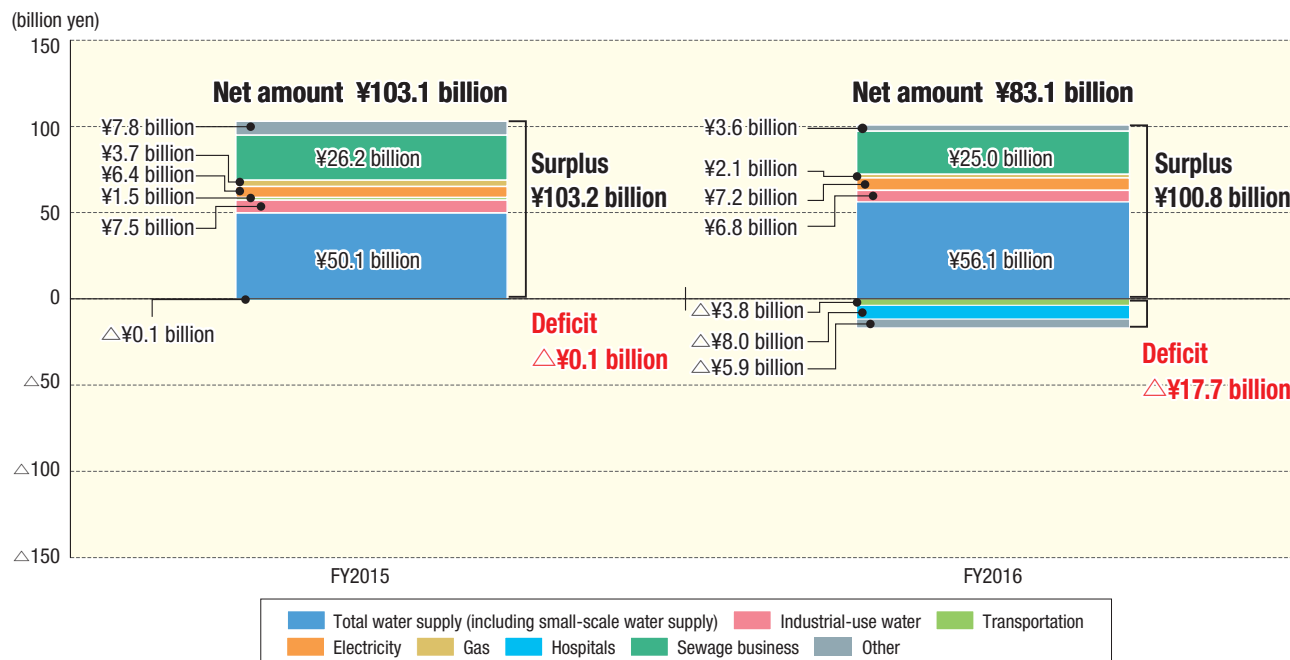
Total revenues and expenditures of local enterprises of disaster-struck organizations amounted to a surplus of ¥83.1 billion, a decrease of ¥20 billion year on year, or 19.4%. There were 823 businesses with surpluses, or 89.7% of all businesses, while 94 businesses had deficits, or 10.3%.

* Local enterprises of disaster-struck organizations : Nine prefectures stipulated in Article 2, Paragraph 2 of the Act on Special Public Finance Support and Assistance to Deal with the Great East Japan Earthquake, and 178 municipalities stipulated in Appended Table 1 of the Japanese government ordinance concerning Article 2, Paragraphs 2 and 3 of the Act on Special Public Finance Support and Assistance to Deal with the Great East Japan Earthquake (including some labor unions joined by the above bodies).

Financial Status of Businesses of Local Enterprises of Disaster-Struck Organizations



Settlements by Businesses of Local Enterprises of Disaster-Struck Organizations

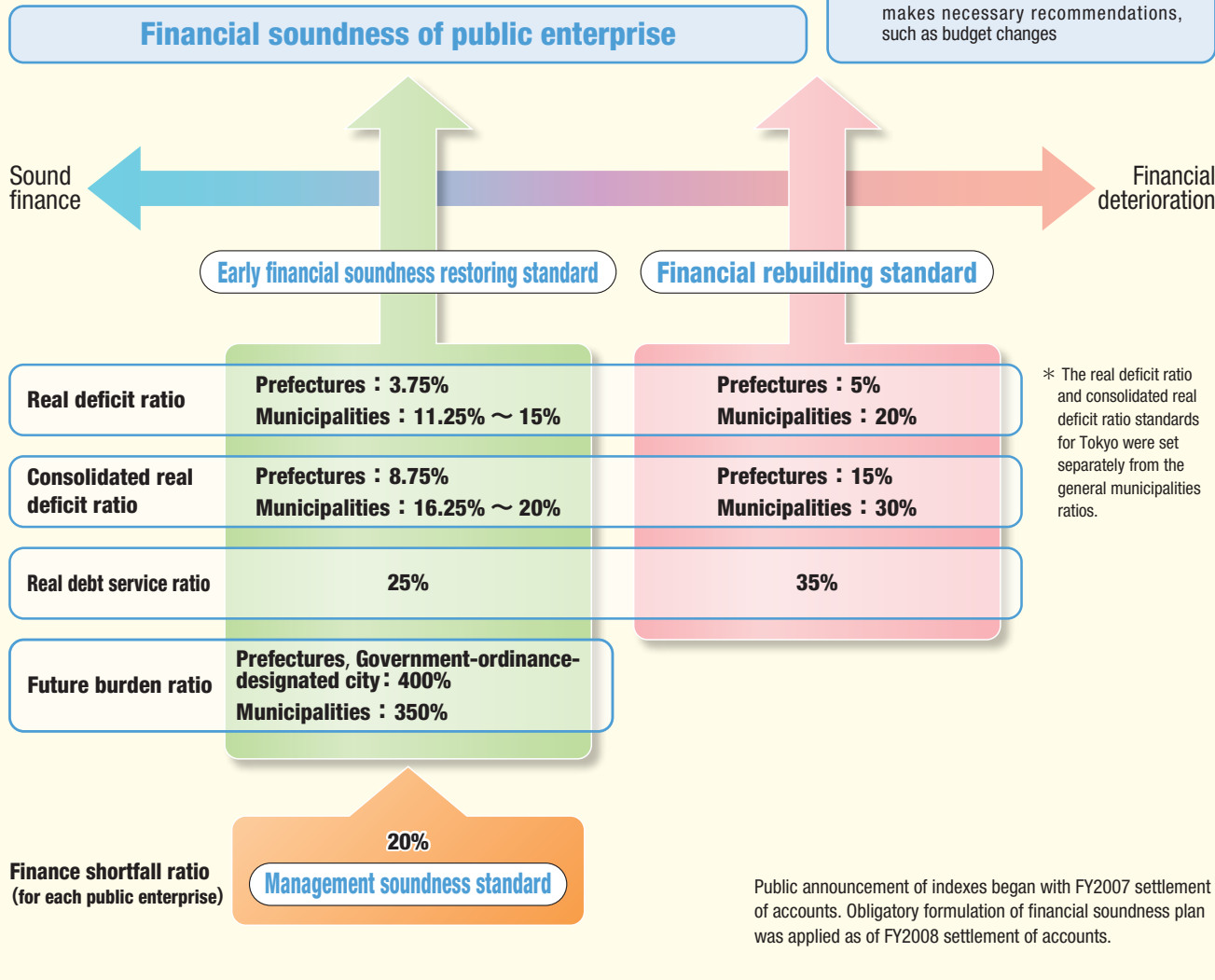
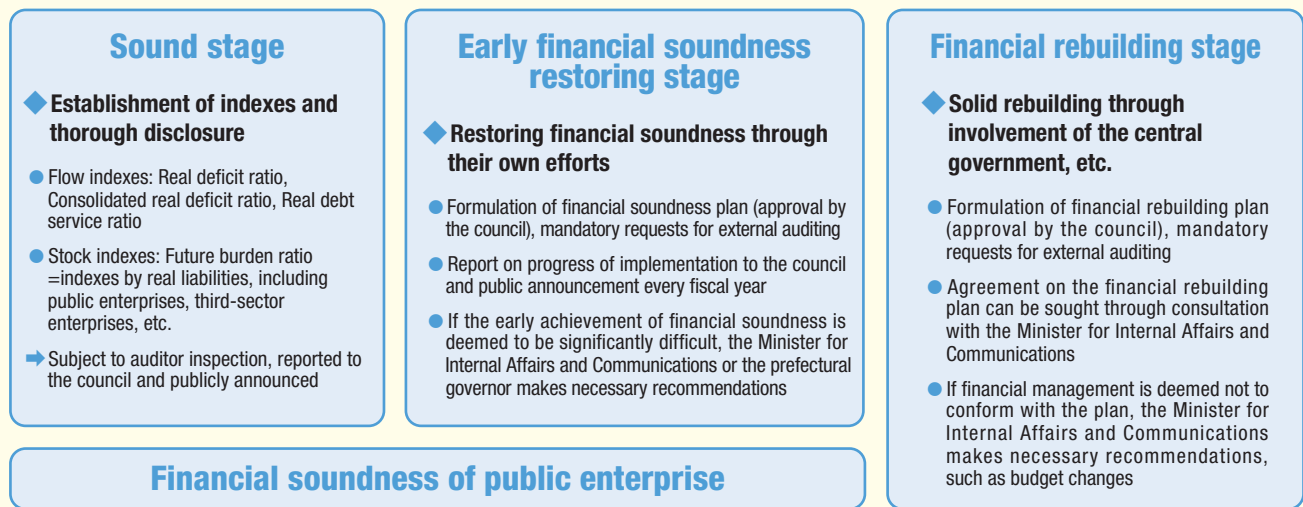


Promotion of the Soundness of Local Public Finance

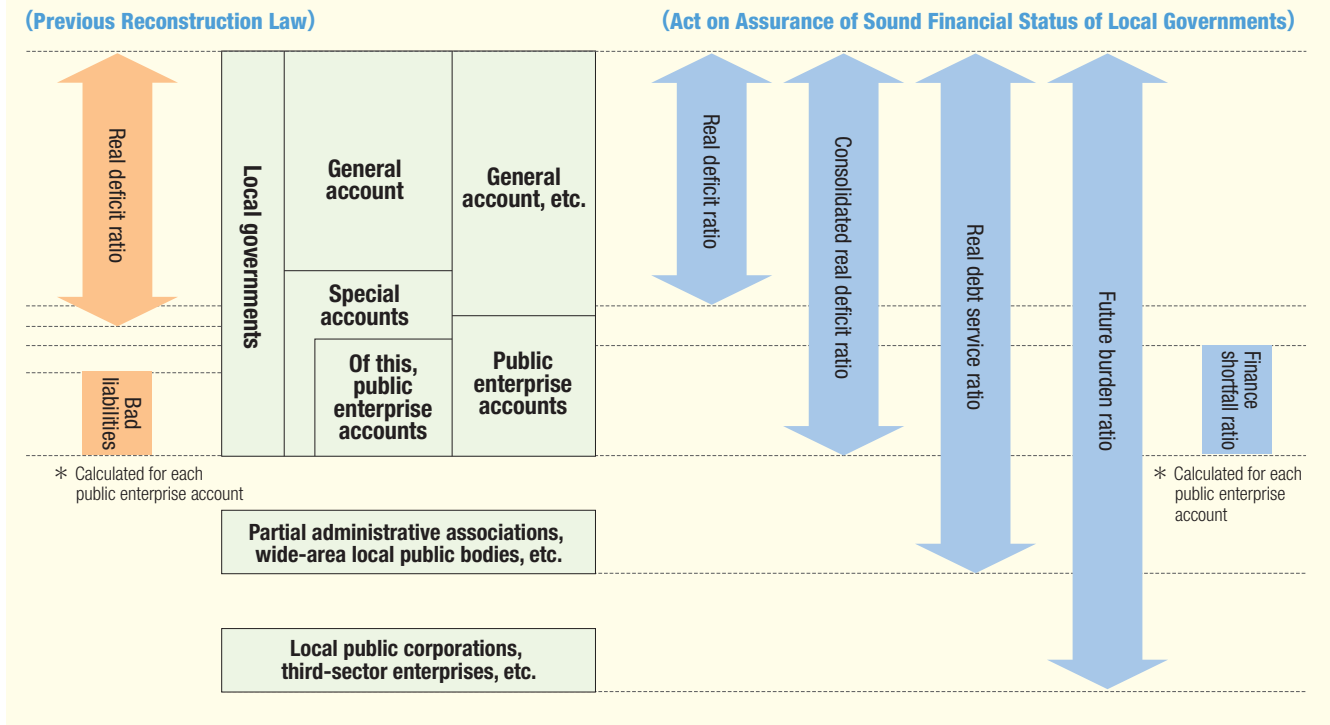
1 Overview of the Act on Assurance of Sound Financial Status of Local Governments

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

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



Targets of the Ratio for Measuring Financial Soundness



2 Status of the Ratios for Measuring Financial Soundness and Financial Shortfall Ratio

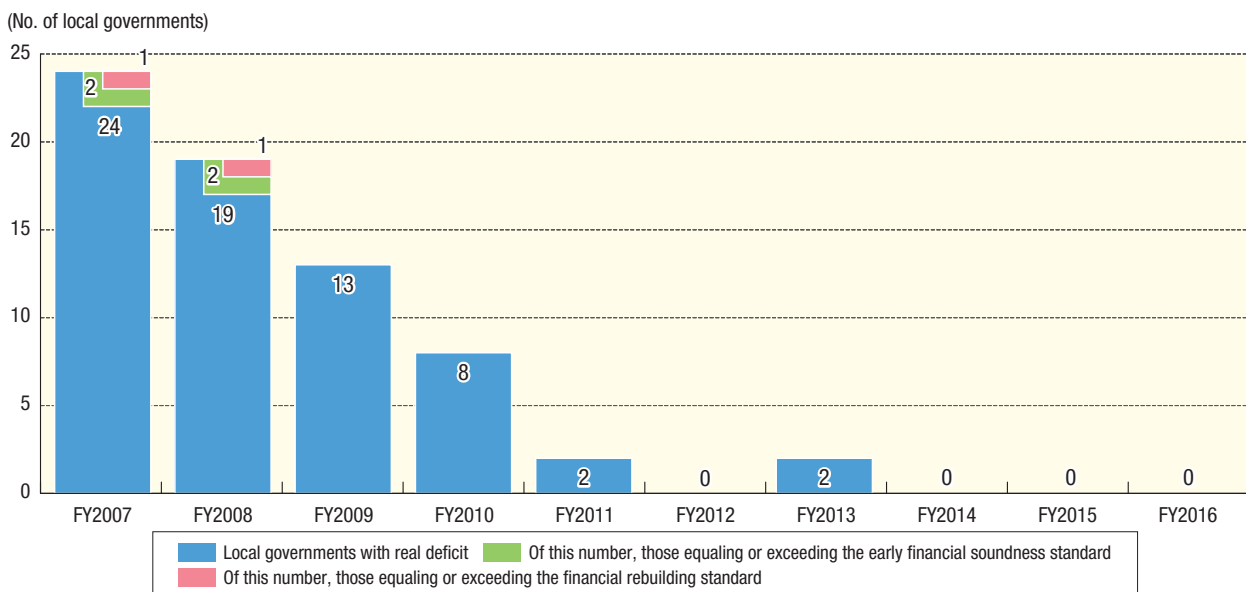
Real Deficit Ratio

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

Based on FY2016 account settlements, there were no local governments with a real deficit (i.e., a Real deficit ratio that exceeds 0%), and none had a Real deficit ratio that equals or exceeds the Early financial soundness restoring standards.

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

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



Consolidated Real Deficit Ratio

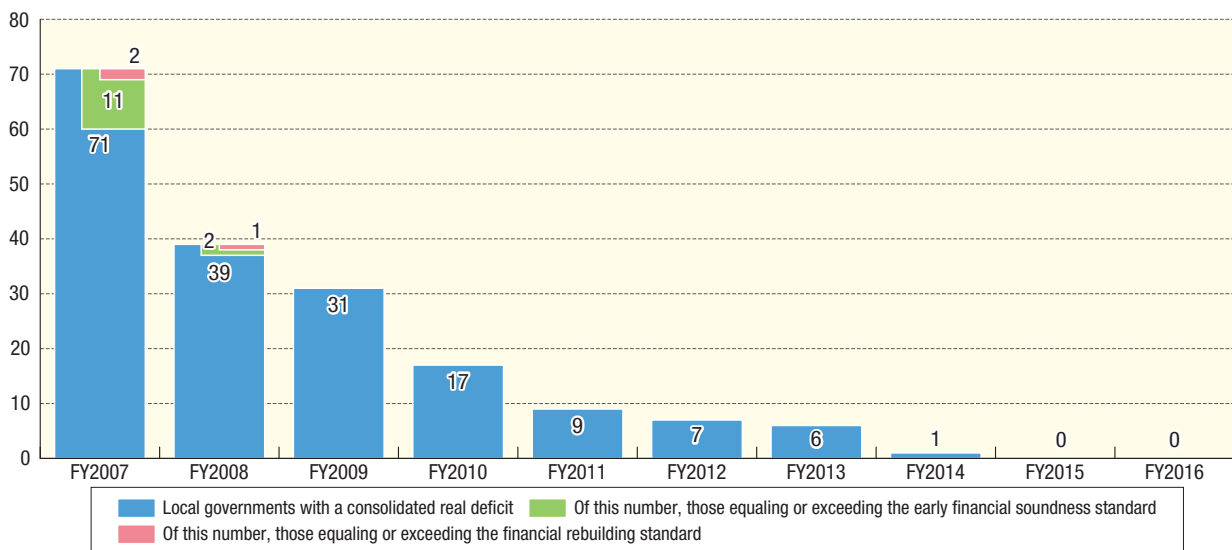
The following graph shows the trend in the number of local governments with a consolidated real deficit.

Based on FY2016 account settlements, there were no local municipal governments with a consolidated real deficit (i.e., with a consolidated Real deficit ratio that exceeds 0%), and no local municipal governments had a Consolidated real deficit ratio that equals or exceeds the Early financial soundness restoring standard.

$$\text{Consolidated real deficit ratio} = \frac{\text{Consolidated real deficit}}{\text{Standard financial scale}}$$

The consolidated real deficit ratio is an index of the deficit level for a local governments as a whole by taking the sum of the deficits and surpluses of all accounts, and represents the extent to which financial administration has worsened for a local government as a whole.

(No. of local governments)



Real Debt Service Ratio

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

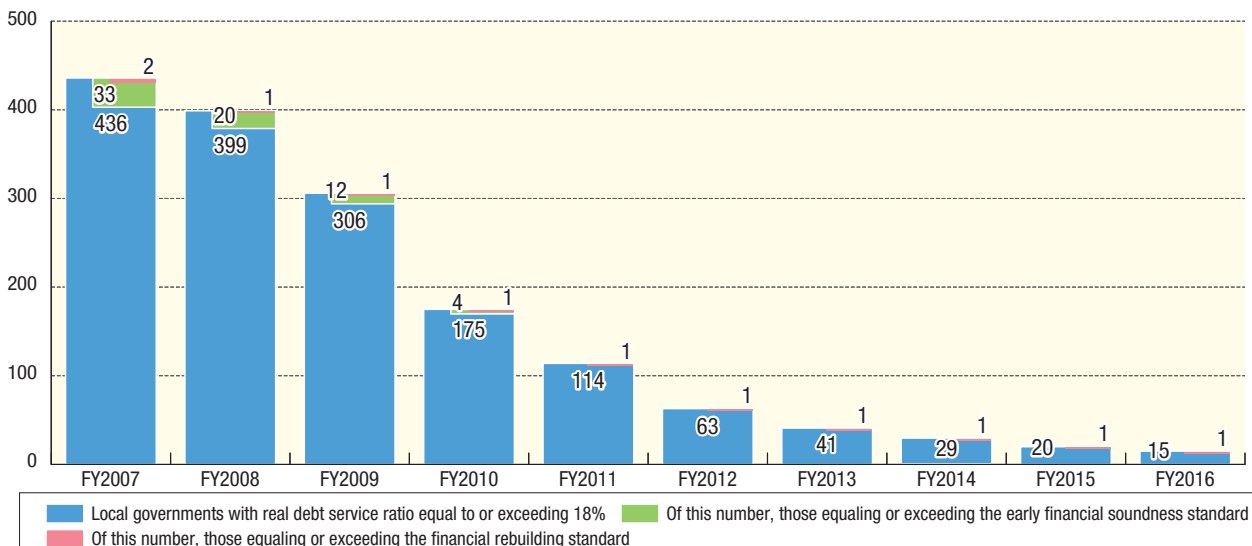
Based on FY2016 account settlements, there was one local municipal government with a Real debt service ratio equal to or exceeding the financial rebuilding standard.

$$\text{Real debt service ratio (3-year average)} = \frac{\begin{aligned} &(\text{Redemption of principal and interest of local bonds} + \text{quasi-redemption of principal and interest}) \\ &- (\text{special revenue resources} + \text{amount included in standard financial requirements pertaining to} \\ &\text{redemption and quasi-redemption of principal and interest}) \end{aligned}}{\text{Standard financial scale} - (\text{amount included in standard financial requirements pertaining to} \\ \text{redemption and quasi-redemption of principal and payments})}$$

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

* Local governments with a Real debt service ratio equal to or exceeding 18% require the approval of the Minister of Internal Affairs and Communications, etc., to issue local government bonds.

(No. of local governments)



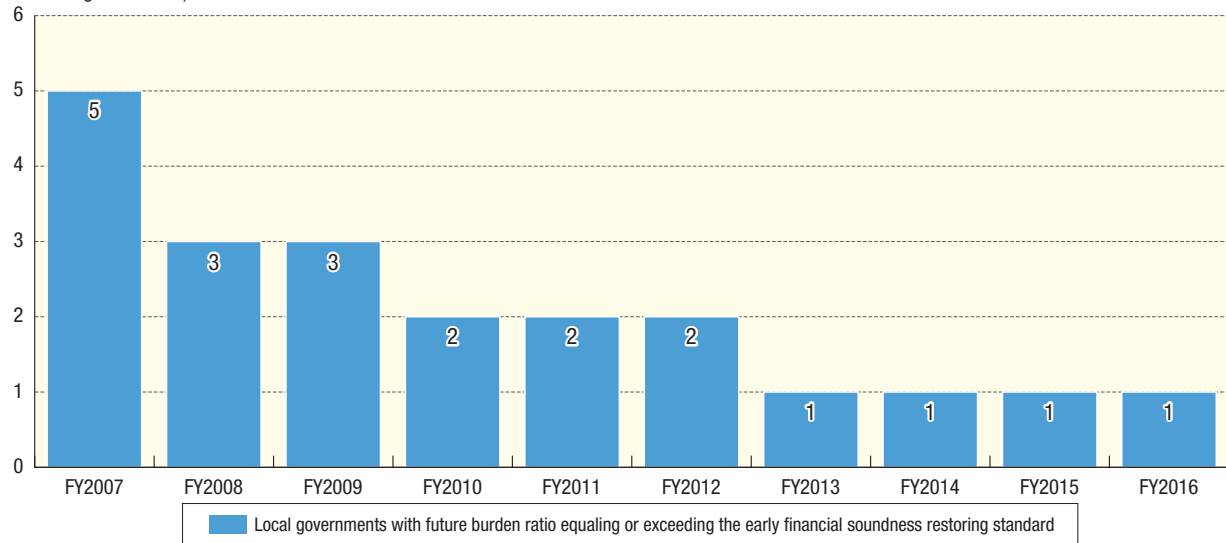
Future Burden Ratio

The following graph shows the trend in the number of local governments with a Future burden ratio equal to or exceeding the Early financial soundness restoring standard. Based on FY2016 account settlements, there was one local municipal government with a Future burden ratio equal to or exceeding the Early financial soundness restoring standard.

Future burden ratio = $\frac{\text{Future burden amount} - (\text{amount of appropriate funds} + \text{estimated amount of special revenue source} + \text{amount expected to be included in standard financial requirements pertaining to outstanding local government bonds, etc.})}{\text{Standard financial scale} - (\text{amount included in standard financial requirements pertaining to redemption of principal and interest and quasi-redemption of principal and interest})}$

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

(No. of local governments)



Financial Shortfall Ratio

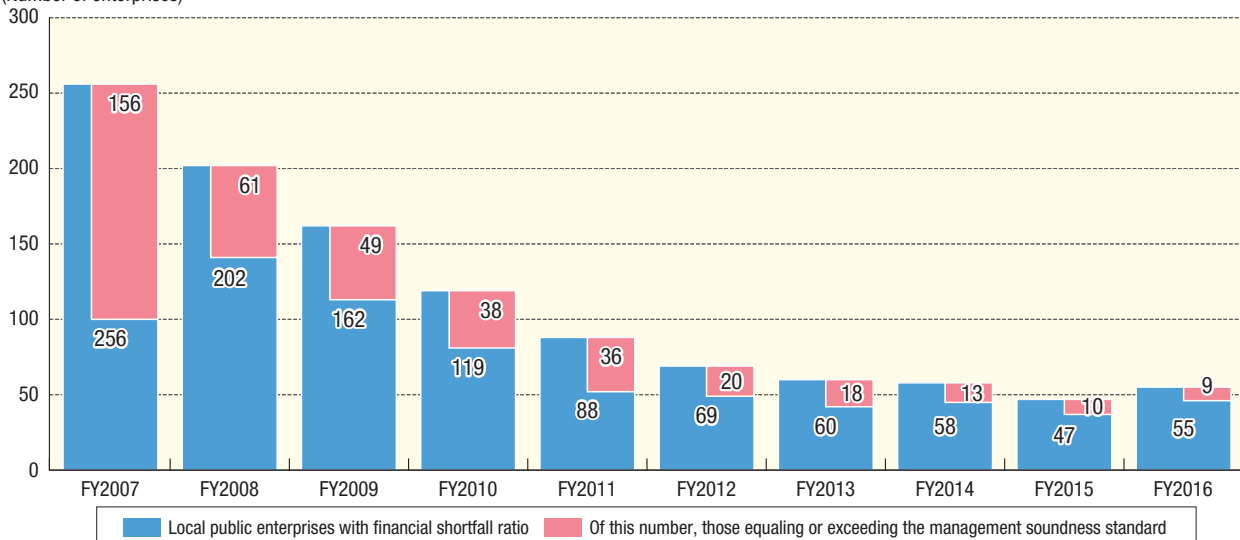
The following graph shows the trend in the number of local public enterprises with a financial shortfall.

Based on FY2016 account settlements, there were 55 local public enterprises with a financial shortfall (i.e., with a Financial shortfall ratio that exceeds 0%). Of these, 9 local public enterprises had a Financial shortfall ratio that equals or exceeds the Management soundness standard.

Financial shortfall ratio = $\frac{\text{Deficit of funds}}{\text{Size of business}}$

The Financial shortfall ratio is an index of the deficit of funds of public enterprises compared to the size of their income, which shows the size of business of local public enterprises, and represents the extent to which financial health has worsened.

(Number of enterprises)



FY2016 Settlement

**White Paper on
Local Public Finance, 2018**

– Illustrated –



**Financial Management Division,
Local Public Finance Bureau,
Ministry of Internal Affairs and
Communications**

Address: 2-1-2 Kasumigaseki, Chiyoda-ku,
Tokyo 100-8926, Japan
Tel.: +81-(0)3-5253-5111 (ext. 5649)
Fax: +81-(0)3-5253-5650
<http://www.soumu.go.jp>
All Rights Reserved



<http://www.soumu.go.jp/>