

Law on the Fiscal Consolidation of Local Governments

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Chapter I General Provisions

(Purpose)

Article 1

The purpose of this Law shall be to contribute to the fiscal consolidation of local governments, by establishing a system of publicly announcing ratios concerning the fiscal consolidation of local governments, and by specifying a system for local governments to formulate plans for the early fiscal consolidation, fiscal reconstruction and consolidation of the management of public enterprises in accordance with said ratios, as well as by devising fiscal measures to promote the implementation of said plans.

(Definitions)

Article 2

In this Law, the meaning of the terms set forth in the following items shall be as specified in each of said items.

(1) Real deficit ratio: A figure obtained by dividing the sum of the amount of revenues (meaning, of the General Account and Special Accounts, revenues pertaining to accounts other than those set forth below (hereinafter “the General Account, etc.”), calculated simply by deducting amounts duplicated among the General Account, etc.; the same shall apply hereafter in this item) of local governments (limited to prefectures, municipalities and special districts; the same shall apply hereinafter from this Chapter until Chapter III) in a given fiscal year, brought forward to fill a deficit because revenues in the previous fiscal year were not sufficient to meet disbursements (meaning disbursements pertaining to the General Account, etc., calculated simply by deducting amounts duplicated among the General Account, etc.; the same shall apply hereafter in this item), together with the amount of debt repayments to be paid in the previous fiscal year but deferred to the current fiscal year because revenues in the previous fiscal year were not sufficient to meet disbursements in real terms, and the amount of the budget pertaining to disbursements for works due to be executed in the previous fiscal year but carried over to the current fiscal year (hereinafter “real deficit”), by an amount calculated in the manner to be specified by Cabinet Order as the

standard financial scale provided for in Article 5–4 paragraph 1 (2) of the Local Allocation Tax Law (Law No. 109 of 1948) (hereinafter “standard financial scale”) for the previous fiscal year.

- (i) Special Accounts pertaining to companies to which all or some of the provisions of the Public Enterprise Law (Law No. 292 of 1952) apply under the provisions of Article 2 of said Law (hereinafter “enterprises governed by the Law”).
 - (ii) Special Accounts pertaining to public enterprises to be specified by Cabinet Order under the provisions of Article 6 of the Local Allocation Tax Law that are not enterprises governed by the Law (“enterprises not governed by the Law” in the next item).
 - (iii) Besides those set forth in (i) and (ii) above, other Special Accounts to be specified by Cabinet Order.
- (2) Consolidated real deficit ratio: A figure obtained by dividing consolidated real deficit of local governments (meaning the excess amount when the aggregated amounts set forth in (i) and (ii) below exceed the aggregated amounts set forth in (iii) and (iv) below; the same shall also apply in (4) below) by the standard financial scale for the previous fiscal year.
- (i) If, in the individual settlements of the General Account or Special Accounts other than those pertaining to public enterprises (meaning both enterprises governed by the Law and enterprises not governed by the Law; the same shall apply hereinafter) for the previous fiscal year, there are aggregated amounts for the amount of revenues in the current fiscal year brought forward to fill a deficit because revenues in the previous fiscal year were not sufficient to meet disbursements, together with the amount of debt repayments due to be paid in the previous fiscal year but deferred to the current fiscal year because revenues in the previous fiscal year were not sufficient to meet disbursements in real terms, and the amount of the budget pertaining to disbursements for works due to be executed in the previous fiscal year but carried over to the current fiscal year: The total amount of said aggregated amounts.
 - (ii) If, in the individual settlements of Special Accounts pertaining to public enterprises in the previous fiscal year, there is a shortfall in funds calculated in the manner specified by Cabinet Order: The total amount of said shortfall in funds.
 - (iii) If, in the individual settlements of the General Account or Special Accounts other than those pertaining to public enterprises in the previous fiscal year, the amount of revenues (excluding amounts to be carried over to fund disbursements pertaining to expenses carried over and used in the current fiscal year) exceeds the amount of disbursements: The total amount of said excess amount.
 - (iv) If, in the individual settlements of Special Accounts pertaining to public enterprises in the previous fiscal year, there is a surplus calculated in the manner specified by Cabinet Order: The total amount of said surplus.
- (3) Real debt payment ratio: A figure obtained by dividing an amount calculated by deducting aggregated amounts equivalent to specific revenues that can be allocated to fund the redemption of local government debts by local governments as provided for in Article 5–4 paragraph 1 (2) of the Local Allocation Tax Law (hereafter in this item “redemption of local government debts”) or the quasi redemption of local government debts as provided for in (2) of the same paragraph (hereafter in this item “quasi redemption of local government debts”), and an amount calculated in the manner

specified in ordinances of the Ministry of Internal Affairs and Communications as the amount computed in standard financial need used to calculate amounts of ordinary local allocation tax as expenses pertaining to the redemption of local government debts and the quasi redemption of local government debts as specified by the Local Allocation Tax Law (Law No. 211 of 1950) (or, in the case of special districts, an amount specified by the Minister for Internal Affairs and Communications as being equivalent to this; hereafter referred to as “debt payment taken into calculation” in this and the following item) from the aggregated amounts of the redemption of local government debts and the quasi redemption of local government debts, by an amount calculated by deducting debt payment taken into calculation from the standard financial scale, this figure being the average of the amount aggregated from those pertaining to each of the three (3) previous fiscal years divided by three.

(4) Future burden ratio: A figure obtained by dividing the excess amount when the aggregated amounts of local governments set forth in (i) to (viii) below exceed the aggregated amounts set forth in (ix) to (xi) below, by an amount calculated by deducting debt payment taken into calculation from the standard financial scale for the previous fiscal year.

- (i) The current balance of outstanding local government debts pertaining to the General Account, etc., at the end of the previous fiscal year.
- (ii) The scheduled amount of disbursements (limited to an amount calculated in the manner specified in ordinances of the Ministry of Internal Affairs and Communications as pertaining to the disbursement of costs provided for in the various items of Article 5 of the Local Allocation Tax Law and other costs specified by Cabinet Order) at the end of the previous fiscal year based on acts of assuming debt liability provided for in Article 214 of the Local Autonomy Law (Law No. 67 of 1947) (excluding acts of assuming debt liability for entities other than the established corporations provided for in (vi) below).
- (iii) An amount calculated in the manner specified in ordinances of the Ministry of Internal Affairs and Communications as the total of amounts expected to require transfer from the General Account, etc., in order to fund the redemption of principal on local government debts pertaining to Special Accounts other than the General Account, etc., that have arisen up to the end of the previous fiscal year.
- (iv) An amount calculated in the manner specified in ordinances of the Ministry of Internal Affairs and Communications as the total of amounts expected to require assumption of liability or support by subsidy from a local government in order to fund the redemption of principal on local government debts incurred by associations of local governments to which said local government belongs, or local development enterprise associations of which said local public body is the founding body, by the end of the previous fiscal year.
- (v) Of the hypothetical amount of retirement allowances to be paid on the assumption that all personnel of a local government (meaning the personnel specified in Article 204 paragraph 1 of the Local Autonomy Law, and, in the case of prefectures, including personnel provided for in Articles 1 and 2 of the Law for Burdens of Salaries of Municipal School Employees (Law No. 135 of 1948), but excluding said personnel in the case of municipalities and special districts) as of the final day of the previous fiscal year retire for personal reasons on

that day, an amount calculated in the manner specified in ordinances of the Ministry of Internal Affairs and Communications as expected to be borne in the General Account, etc., of said local government in real terms.

- (vi) Of the amount of debts of a corporation established by a local government individually or jointly with other local governments and specified by Cabinet Order (hereafter in this item “established corporation”) and the amount of debts borne by said local government on behalf of entities other than established corporations at the end of the previous fiscal year, an amount calculated in the manner specified in ordinances of the Ministry of Internal Affairs and Communications as being expected to be borne in the General Account, etc., of said local public body in real terms, taking account of the financial content and other business management situation of these entities.
 - (vii) Consolidated real deficit.
 - (viii) Of an amount equivalent to consolidated real deficit of associations of local governments to which said local government belongs or local development enterprise associations of which said local government is the founding body at the end of the previous fiscal year, an amount calculated in the manner specified in ordinances of the Ministry of Internal Affairs and Communications as being expected to be borne in the General Account, etc., of said local government in real terms.
 - (ix) The total balances of amounts specified in ordinances of the Ministry of Internal Affairs and Communications as funds in Article 241 of the Local Autonomy Law that may be used to fund the redemption of local government debts provided for in (i) above or the amounts set forth in (ii) to (vi) above at the end of the previous fiscal year.
 - (x) An amount calculated in the manner specified in ordinances of the Ministry of Internal Affairs and Communications as being equivalent to the expected amount of specific revenues that may be used to fund the amount of redemption of local government debts provided for in (i) above or the amounts set forth in (ii) to (iv) above.
 - (xi) An amount calculated in the manner specified in ordinances of the Ministry of Internal Affairs and Communications as the amount expected to be computed in standard financial need used to calculate amounts of ordinary local allocation tax as expenses required for the redemption of local government debts provided for in (i) above, disbursements based on acts of assuming debt liability provided for in (ii) above, transfers from the General Account, etc., provided for in (iii) above, or the assumption of liability or support by subsidy by a local government provided for in (iv) above, as specified in the Local Allocation Tax Law (or, in the case of special districts, an amount specified by the Minister of Internal Affairs and Communications as being equivalent to this).
- (5) Early consolidation standards: Figures specified by Cabinet Order for real deficit ratio, consolidated real deficit ratio, real debt payment ratio and future burden ratio, respectively, as standards whereby to aim for the early fiscal consolidation (meaning attempts by local governments to independently and systematically strengthen their finances, in a situation in which fiscal revenues and disbursements are imbalanced or other fiscal situations have deteriorated; the same shall apply hereinafter).

(6) Fiscal reconstruction standards: Figures specified by Cabinet Order for real deficit ratio, consolidated real deficit ratio and real debt payment ratio, respectively, exceeding those of the early consolidation standards, as standards whereby to aim for the fiscal reconstruction (meaning attempts by local governments to systematically strengthen their finances, in situations when it is difficult to aim for independent fiscal consolidation because fiscal revenues and disbursements are markedly imbalanced, or because other fiscal situations have deteriorated markedly; the same shall apply hereinafter).

(Public Announcement, etc., of Ratios to judge fiscal)

Article 3

The heads of local governments must, each fiscal year, after receiving settled accounts for the previous fiscal year, promptly have their auditing commissioners examine real deficit ratio, consolidated real deficit ratio, real debt payment ratio and future burden ratio (hereinafter “ratios to judge fiscal”), as well as documents stating matters that provide the basis for calculating the same, report said ratios to judge fiscal to their assemblies along with the opinion of said auditing commissioners, and publicly announce said ratios to judge fiscal.

2. The opinion under the provisions of the preceding paragraph shall be decided through collective discussion among the auditing commissioners.

3. The heads of local governments must report the ratios to judge fiscal publicly announced under the provisions of paragraph 1 promptly to the Minister of Internal Affairs and Communications, in the case of heads of prefectures and designated cities under Article 252–19 paragraph 1 of the Local Autonomy Law (hereinafter “designated cities”), and to the prefectural governor, in the case of heads of municipalities other than designated cities (excluding Article 29, hereinafter “municipalities”) and special districts. In the latter case, prefectural governors must, on receiving said report, promptly report said ratios to judge fiscal to the Minister of Internal Affairs and Communications.

4. Prefectural governors shall, each fiscal year, collate reports made under the provisions of the first clause of the preceding paragraph, and publicly announce an outline thereof.

5. The Minister of Internal Affairs and Communications shall, each fiscal year, collate reports made under the provisions of paragraph 3, and public announce an outline thereof.

6. Local governments must file documents in their offices stating matters that provide the basis for calculating ratios to judge fiscal.

7. In local governments required for comprehensive external audit (meaning local governments required for comprehensive external audit as provided for in Article 252–36 paragraph 1 of the Local Autonomy Law; the same shall apply hereinafter), a comprehensive external auditor (meaning a comprehensive external auditor as provided for in Article 252–29 of said Law; the same shall apply hereinafter) may, when deeming it necessary for auditing under the provisions of Article 252–37 paragraph 1 of said Law, investigate the ratios to judge fiscal publicly announced under the provisions of paragraph 1, as well as documents stating matters that provide the basis for calculating the same.

Chapter II Early Fiscal Consolidation

(Fiscal consolidation plan)

Article 4

Local governments must, when any one of their ratios to judge fiscal exceeds the early consolidation standards (except when any one of said ratios to judge fiscal exceeds the fiscal reconstruction standards), specify plans for the early fiscal consolidation (hereinafter “fiscal consolidation plan”), taking the fiscal year in which said ratios to judge fiscal were publicly announced as the initial year of said plan, by the last day of said fiscal year, provided, however, that this shall not apply when fiscal consolidation plan have already been specified under the provisions of this paragraph, when the fiscal reconstruction plan in Article 8 paragraph 1 have been specified under the provisions of said paragraph, or in other cases specified by Cabinet Order.

2. Fiscal consolidation plan shall specify the matters set forth below, with the target of restoring the balance between revenues and disbursements in the General Account, etc., in real terms, when there is a real deficit, and bringing consolidated real deficit ratio, real debt payment ratio or future burden ratio within the early consolidation standards, when these respective ratios exceed the early consolidation standards, within the minimum period of time necessary to achieve early fiscal consolidation, based on analysis of the reason for the deterioration in the fiscal situation.

(1) Analysis of the reason why ratios to judge fiscal have risen above the early consolidation standards.

(2) The period covered by the plan.

(3) The basic principles behind early fiscal consolidation.

(4) When there is a real deficit, measures to restore the balance between revenues and disbursements in the General Account, etc., in real terms.

(5) When consolidated real deficit ratio, real debt payment ratio or future burden ratio exceeds the early consolidation standards, measures to bring the respective ratios within the early consolidation standards.

(6) Plans for revenues and disbursements pertaining to measures in the preceding two items for each fiscal year.

(7) Outlook for ratios to judge fiscal for each fiscal year.

(8) Besides those set forth in each of the preceding items, other matters necessary for early fiscal consolidation.

3. Fiscal consolidation plan must be specified such that efforts for each account necessary to attain the targets of the plans are clearly stated.

(Procedure for Formulating Fiscal consolidation plan, etc.)

Article 5

Fiscal consolidation plan must be prepared by the heads of local governments and approved by a resolution of their assemblies. The same shall also apply when fiscal consolidation plan are to be changed.

2. Local governments must, when they have specified fiscal consolidation plan, promptly make public announcement to this effect, and must also report to the Minister of Internal Affairs and Communications, in the case of prefectures and designated cities, and to the prefectural governor, in the case of municipalities and special districts. In the latter case, prefectural governors must, on receiving said report, promptly report an outline of said fiscal consolidation plan to the Minister of Internal Affairs and Communications.
3. The provisions of the preceding paragraph shall apply mutatis mutandis when fiscal consolidation plan have been changed (excluding cases of minor changes specified by Cabinet Order).
4. Prefectural governors shall, each fiscal year, collate reports made under the provisions of the first clause of paragraph 2 (including cases applicable mutatis mutandis under the preceding paragraph), and publicly announce an outline thereof.
5. The Minister of Internal Affairs and Communications shall, each fiscal year, collate reports made under the provisions of paragraph 2 (including cases applicable mutatis mutandis under paragraph 3), and publicly announce an outline thereof.

(Reports on the Implementation Status of Fiscal consolidation plan, etc.)

Article 6

The heads of local governments that have specified fiscal consolidation plan (hereinafter “fiscal consolidation bodies”) must, by September 30th every year, report the implementation status of fiscal consolidation plan that clarify the relationship with the settlement of accounts in the previous fiscal year to their assemblies, and must also, as well as publicly announcing the same, report the implementation status of said fiscal consolidation plan to the Minister of Internal Affairs and Communications, in the case of heads of prefectures and designated cities, and to the prefectural governor, in the case of heads of municipalities and special districts. In the latter case, prefectural governors must, on receiving said report, promptly report a summary thereof to the Minister of Internal Affairs and Communications.

2. Prefectural governors shall, each fiscal year, collate reports made under the provisions of the first clause of the preceding paragraph, and publicly announce an outline thereof.
3. The Minister of Internal Affairs and Communications shall, each fiscal year, collate reports made under the provisions of paragraph 1, and publicly announce an outline thereof.

(Recommendations, etc., by the Government or Prefectural Governors)

Article 7

The Minister of Internal Affairs and Communications or prefectural governors may, when the early fiscal consolidation by a fiscal consolidation local government is deemed markedly difficult based on the implementation status of fiscal consolidation plan by said fiscal consolidation local government as reported under the provisions of the first clause of Article 6 paragraph 1, make necessary recommendations to the head of said fiscal consolidation local government.

2. The Minister of Internal Affairs and Communications shall, on making the recommendation in the preceding paragraph, promptly make public announcement of the content of said recommendation.

3. Prefectural governors must, on making the recommendation in paragraph 1, promptly, promptly make public announcement of the content of said recommendation, and must also report the same to the Minister of Internal Affairs and Communications.

4. The head of a fiscal consolidation local government must, on receiving the recommendation in paragraph 1, promptly report the content of said recommendation to the assembly of said fiscal consolidation local government, and must also notify the same to the auditing commissioners (or, in the case of a fiscal consolidation local government that is also a body targeted for comprehensive external audit, auditing commissioners and comprehensive external auditors).

Chapter III Revitalization of Finances

(Fiscal Reconstruction Plan)

Article 8

Local governments must, when any one of real deficit ratio, consolidated real deficit ratio and the real debt payment ratio (hereinafter “ratios to judge fiscal reconstruction”) exceeds the fiscal reconstruction standards, specify plans for the fiscal reconstruction (hereinafter “fiscal reconstruction plan”), taking the fiscal year in which said ratios to judge fiscal reconstruction were publicly announced as the initial year of said plan, by the last day of said fiscal year, provided, however, that this shall not apply when fiscal reconstruction plan have already been specified under the provisions of this paragraph.

2. When fiscal consolidation local governments have specified fiscal reconstruction plan under the provisions of the preceding paragraph, the fiscal consolidation plan of said fiscal consolidation local governments shall cease to have effect.

3. Fiscal reconstruction plan shall specify the matters set forth below, with the target of restoring the balance between revenues and disbursements in the General Account, etc., in real terms, when there is a real deficit, bringing consolidated real deficit ratio, real debt payment ratio or future burden ratio within the early consolidation standards, when these respective ratios exceed the early consolidation standards, or completing the redemption of the special debts for reconstruction transfer in Article 12 paragraph 2, when said special debts for reconstruction transfer have been issued, within the minimum period of time necessary to reconstruct finances, based on analysis of the reason for a marked deterioration in the fiscal situation, provided, however, that the matters set forth in (4) (v) below shall be limited to local governments in which they are deemed particularly necessary for the fiscal reconstruction.

(1) Analysis of the reason why ratios to judge fiscal reconstruction have risen above fiscal reconstruction standards.

(2) The period covered by the plan.

(3) The basic principles behind fiscal construction.

- (4) The plans set forth below (including an outline of implementation, in the case of the plans set forth in (ii) and (iii) below; the same shall also apply in the following item) and the amount of increase or decrease in revenues or disbursements accompanying the same.
- (i) Plans concerning revisions of administration and works, rationalization of organization and other measures designed to reduce disbursements.
 - (ii) Plans designed to raise the performance of local tax collection and other income for fiscal years from the current fiscal year onwards above the normal level of performance.
 - (iii) Plans for collection of defaulted local tax and other income for fiscal years up to the previous fiscal year.
 - (iv) Plans concerning changes in amounts of rents and fees, the disposal of assets and other measures designed to increase revenues.
 - (v) Plans to increase local tax revenues by imposing a rate of taxation that exceeds the standard tax rates for normal taxes as set forth in Article 4 paragraph 2 or Article 5 paragraph 2 of the Local Tax Law (Law No. 226 of 1950), or to impose normal taxes under the provisions of Article 4 paragraph 3 or Article 5 paragraph 3 of said Law.
- (5) Overall plans concerning revenues and disbursements for each fiscal year, including the plans in the preceding item and the amount of increase or decrease in revenues or disbursements accompanying the same.
- (6) When the special debts for reconstruction transfer provided for in Article 12 paragraph 2 are raised, the amount of redemption of said special debts for reconstruction transfer for each fiscal year.
- (7) Estimated ratios to judge fiscal for each fiscal year.
- (8) Besides those set forth in each of the preceding items, other matters necessary for the fiscal reconstruction.
4. Fiscal consolidation plan must be specified such that efforts for each account necessary to attain the targets of the plans are clearly stated.

(Procedure for Formulating Fiscal Reconstruction Plan, etc.)

Article 9

Fiscal consolidation plan must be prepared by the heads of local governments and approved by a resolution of their assemblies. The same shall also apply when fiscal reconstruction plan are to be changed.

- 2. Local governments must, when they have specified fiscal reconstruction plan, promptly make public announcement to this effect, and must also report to the Minister of Internal Affairs and Communications (or, in the case of municipalities and special districts, to the Minister of Internal Affairs and Communications via the prefectural governor).
- 3. The provisions of the preceding paragraph shall apply *mutatis mutandis* when fiscal reconstruction plan have been changed (excluding cases of minor changes specified by Cabinet Order).

4. The heads of local governments that specify fiscal reconstruction plan (hereinafter “local governments required for fiscal consolidation”) must modify budgets based on said fiscal reconstruction plan.

(Consent to Fiscal Reconstruction Plan)

Article 10

Local governments may consult the Minister of Internal Affairs and Communications (or, in the case of municipalities and special districts, the Minister of Internal Affairs and Communications via the prefectural governor) concerning their fiscal reconstruction plan, subject to a resolution of their assemblies, and seek the consent thereof.

2. The Minister of Internal Affairs and Communications shall specify standards for judging whether or not to give consent for fiscal reconstruction plan, and shall make public announcement thereof.

3. The Minister of Internal Affairs and Communications shall consent to fiscal reconstruction plan on which consultation has been made under the provisions of paragraph 1, when deeming them to be appropriate in light of the standards in the preceding paragraph.

4. The Minister of Internal Affairs and Communications must seek the opinion of the Local Finance Council concerning the creation of standards in paragraph 2 and the consent in the preceding paragraph.

5. Local governments must, on obtaining the consent in paragraph 3, promptly make public announcement to that effect.

6. Local governments must, when planning to change fiscal reconstruction plan that have obtained the consent in paragraph 3, consult the Minister of Internal Affairs and Communications in advance and obtain the consent thereof, provided, however, that when, owing to disasters or other unavoidable reasons demanding urgency, there is not enough time to consult the Minister of Internal Affairs and Communications in advance and obtain the consent thereof, they must consult the Minister of Internal Affairs and Communications without delay and obtain the consent thereof concerning said change ex post facto.

7. The provisions of paragraph 2 to paragraph 5 shall apply mutatis mutandis to consent for changes under the preceding paragraph.

(Limits to Raising Local government debts)

Article 11

Local governments may not use local government debts to fund their disbursements when any one of the ratios to judge fiscal reconstruction exceeds the fiscal reconstruction standards and the consent in paragraph 3 of the preceding Article (including cases applicable mutatis mutandis under paragraph 7 of said Article; the same shall apply hereinafter) has not been obtained, irrespective of the provisions of the Local Allocation Tax Law and other laws, provided, however, that this shall not apply when furnishing the cost of disaster restoration works and other cases specified by Cabinet Order.

(Special Debts for Revitalization Transfer)

Article 12

On condition that they have obtained the consent in Article 10 paragraph 3 concerning fiscal reconstruction plan, local governments required for fiscal consolidation may, irrespective of the provisions of Article 5 of the Local Allocation Tax Law, issue local government debts within the scope of the shortfall between revenue and expenditure (meaning an amount specified in ordinances of the Ministry of Internal Affairs and Communications based on an amount obtained by multiplying the standard financial scale by whichever figure is larger out of real deficit ratio and a figure obtained by subtracting a figure specified as an early consolidation standard concerning consolidated real deficit ratio) in order to systematically eliminate said shortfall within the period of said fiscal reconstruction plan, by transferring the amount of said shortfall from consolidated real deficit ratio to local government debts.

2. The local government debts in the preceding paragraph (including local government debts for refunding refinancing said local government debts; referred to in the following paragraph as “special debts for reconstruction transfer”) must be redeemed within the period of the fiscal reconstruction plan.

3. The government shall give all due consideration to special debts for reconstruction transfer, as far as financial circumstances will allow, within the framework of laws and ordinances.

(Approval for Local government debt issue)

Article 13

Financial revitalization bodies and local governments that have not specified fiscal reconstruction plan must, when any one of their ratios to judge fiscal reconstruction exceeds the fiscal reconstruction standards and when wishing to raise local government debts or change the method of issuing debts, the interest rate, or the method of redemption, obtain the permission of the Minister of Internal Affairs and Communications as specified by Cabinet Order. In such cases, they shall not be required to make consultation under the provisions of Article 5-3 paragraph 1 of the Local Allocation Tax Law or obtain the permission provided for under Article 5-4 paragraph 1 and paragraphs 3 to 5 of said Law.

2. The permission in the preceding paragraph shall, when relating to local government required for fiscal consolidation that have obtained the consent for fiscal reconstruction plan in Article 10 paragraph 3 above, be given in consideration of plans concerning revenues for each fiscal year specified in said fiscal reconstruction plan and other matters connected with local government debts, as well as the implementation status of said fiscal reconstruction plan.

3. The provisions of Article 5-3 paragraph 3 of the Local Allocation Tax Law shall apply mutatis mutandis to local government debts that have obtained the permission provided for in paragraph 1 above, and the provisions of paragraph 4 of said Article to the expenses needed for redemption of capital and interest pertaining to local government debts that have obtained the permission provided for in paragraph 1 above.

4. The Minister of Internal Affairs and Communications must seek the opinion of the Local Finance Council concerning the permission of the Minister of Internal Affairs and Communications in paragraph 1 above.

(Notifications, etc., Concerning Local Government Required for Fiscal Consolidation)

Article 14

The Minister of Internal Affairs and Communications must, on receiving a report of fiscal reconstruction plan under the provisions of Article 9 paragraph 2 above, promptly notify the name of the local government that has specified said fiscal reconstruction plan to the head of each Ministry or Agency (meaning the head of each Ministry or Agency as provided for in Article 20 paragraph 2 of the Public Finance Law (Law No. 34 of 1947); the same shall apply hereafter in this Article).

2. The head of each Ministry or Agency must, when wishing to undertake civil engineering works and other works specified by Cabinet Order under the direct jurisdiction of the government by levying contributions on fiscal reconstruction local governments, notify the Minister of Internal Affairs and Communications of the total amount of expenses pertaining to said works and the contributions of said fiscal reconstruction local governments in advance, before commencing the implementation of said works (or, when implementing over more than one (1) fiscal year, before commencing the implementation of works for each fiscal year). The same shall also apply when significant changes arise in the contributions of financial revitalization bodies due to changes in the plans of said works.

3. The Minister of Internal Affairs and Communications may, on receiving notification under the provisions of the preceding paragraph and when deeming it necessary in view of the impact of matters pertaining to said notification on fiscal reconstruction plan, state opinions to the head of each Ministry or Agency.

(Public Announcement of Fiscal Reconstruction Plan)

Article 15

The Minister of Internal Affairs and Communications shall, each fiscal year, publicly announce the content of fiscal reconstruction plan reported under the provisions of Article 9 paragraph 2 (including cases applicable *mutatis mutandis* under paragraph 3 of said Article) and the result of consultation under the provisions of Article 10 paragraphs 1 and 6.

(Simplified Organization of Secretariats, etc.)

Article 16

Fiscal reconstruction local governments may, as specified in their fiscal reconstruction plan, combine personnel whose function is to assist the heads of said fiscal reconstruction local governments with personnel who assist the work of the assemblies of said financial revitalization bodies, or committees and committee members created as executive local government of said fiscal reconstruction local governments as well as bodies that come under the management of said committees (hereinafter in this Article “committees, etc.”), or else appoint them as personnel to

assist said assemblies or committees, etc., or engage them in the work of said assemblies or committees, etc.

(Relationship Between Heads and Assemblies)

Article 17

When a resolution made by the assembly of a local government falls under any of the cases set forth below, besides those under the provisions of Articles 176 and 177 of the Local Autonomy Law, the head of said local government may return said resolution for reconsideration, indicating the reason therefor, within ten (10) days from the date on which said resolution was made.

- (1) When a proposal concerning the formulation or amendment of fiscal reconstruction plan has been rejected.
- (2) When a proposal concerning consultation under the provisions of Article 10 paragraph 1 has been rejected.
- (3) When a resolution that is thought to impede the attainment of fiscal reconstruction plan has been made.

(Reports on the Implementation Status of Fiscal Reconstruction Plan)

Article 18

The heads of fiscal reconstruction local governments must, by September 30th every year, report on the implementation status of fiscal reconstruction plan that clarify the relationship with accounts settlement in the previous fiscal year to their assemblies, and must also, as well as publicly announcing this, report on the implementation status of said fiscal reconstruction plan the Minister of Internal Affairs and Communications (or, in the case of heads of municipalities and special districts, to the Minister of Internal Affairs and Communications via the prefectural governor).

2. The Minister of Internal Affairs and Communications shall, each fiscal year, collate the reports in the preceding paragraph and publicly announce an outline thereof.

(Investigation, etc., Concerning the Implementation Status of Fiscal Reconstruction Plan)

Article 19

The Minister of Internal Affairs and Communications may, whenever necessary, investigate the implementation status of fiscal reconstruction plan, or demand reports on the same.

(Governmental Recommendation, etc.)

Article 20

The Minister of Internal Affairs and Communications may, when the management of fiscal affairs by a fiscal reconstruction local government is deemed inconsistent with its fiscal reconstruction plan or the fiscal reconstruction by fiscal reconstruction local governments is otherwise deemed difficult, recommend that the head of said financial revitalization body amends its budget, changes said fiscal reconstruction plan or takes other necessary measures.

2. The head of a fiscal reconstruction local government must, on receiving a recommendation under the provisions of the preceding paragraph, promptly report the content of said

recommendation to the assembly of said financial revitalization body, and must also notify the same to the auditing commissioners (or, in the case of a financial revitalization body that is also a body targeted for comprehensive external audit, auditing commissioners and comprehensive external auditors).

3. The head of a fiscal reconstruction local government that has received recommendation under the provisions of paragraph 1 must report measures taken on the basis of said recommendation to the Minister of Internal Affairs and Communications.

4. The Minister of Internal Affairs and Communications shall, on receiving a report under the provisions of the preceding paragraph, promptly make public announcement of the content of said report.

(Consideration by the Government and Other Local Governments)

Article 21

The government and other local governments shall give consideration so that fiscal reconstruction local governments can implement fiscal reconstruction plan smoothly.

Chapter IV Consolidation of the Management of Public Enterprises

(Public Announcement, etc., of Capital Shortage Ratios)

Article 22

The heads of local governments that operate public enterprises must, each fiscal year, after receiving the submission of the previous fiscal year's settled accounts of said public enterprises, promptly have their auditing commissioners examine the capital shortage ratio as well as documents stating matters that provide the basis for calculating the same, report said capital shortage ratio to their assemblies along with the opinion of said auditing commissioners, and publicly announce said capital shortage ratio.

2. The "capital shortage ratio" provided for in the preceding paragraph shall mean a figure obtained by dividing the previous fiscal year's shortfall in funds for each public enterprise, calculated in the manner specified by Cabinet Order, by the previous fiscal year's business scale calculated in the manner specified by Cabinet Order.

3. The provisions of Article 3 paragraph 2 to paragraph 7 shall apply mutatis mutandis to the capital shortage ratio.

(Management Consolidation Plans)

Article 23

Local governments must, when the capital shortage ratio of a public enterprise (excluding public enterprises that have yet to commence business; in the case of enterprises governed by the Law, limited to those that have losses carried forward) exceeds a figure specified by Cabinet Order as the standard for consolidation of the management of public enterprises (hereinafter "management consolidation standard"), specify plans for strengthening the management of said public enterprise (hereinafter "management consolidation plans"), taking the fiscal year in which said capital

shortage ratio was publicly announced as the initial year of said plan, by the last day of said fiscal year, provided, however, that this shall not apply when management strengthening plans for said public enterprise have already been specified under the provisions of this paragraph, or in other cases specified by Cabinet Order.

2. Management consolidation plans shall specify the matters set forth below, with the target of bringing the capital shortage ratio within the management consolidation standard within the minimum period of time necessary to strengthen the management of said public enterprise, based on analysis of the reason for the deterioration in the management situation of said public enterprise.

(1) Analysis of the reason why the capital shortage ratio has risen above the management consolidation standard.

(2) The period covered by the plan.

(3) The basic principles behind consolidation of management.

(4) Measures to bring the capital shortage ratio within the management consolidation standard.

(5) Plans for revenues and disbursements pertaining to the measures in the preceding item for each fiscal year.

(6) Outlook for the capital shortage ratio for each fiscal year.

(7) Besides those set forth in each of the preceding items, other matters necessary for consolidation management.

(Applicability of Provisions)

Article 24

The provisions of Article 5 to Article 7 shall apply *mutatis mutandis* to management consolidation plans. In this case, “fiscal consolidation local governments” in Article 6 paragraph 1 and Article 7 paragraphs 1 and 4 shall be read as “management consolidation local governments”, and “early fiscal consolidation” in Article 7 paragraph 1 shall be read as “consolidation of the management of public enterprises”.

Chapter V Miscellaneous Provisions

(Coordination Between Fiscal consolidation plan or Fiscal Reconstruction Plan and Management consolidation Plans)

Article 25

Local governments that are fiscal consolidation local governments or fiscal reconstruction local governments must, when specifying management consolidation plans, take steps to ensure consistency between said management consolidation plans and said fiscal consolidation plan or fiscal reconstruction plan.

2. Local governments that have specified management consolidation plans (referred in the following Article as “management consolidation bodies”) must, when specifying fiscal consolidation plan or fiscal reconstruction plan, take steps to ensure consistency between said fiscal consolidation plan or fiscal reconstruction plan and said management consolidation plans.

(Special Cases of Audits under the Local Autonomy Law)

Article 26

The heads of local governments that are obliged to specify fiscal consolidation plan, fiscal reconstruction plan or management consolidation plans must, when specifying these plans, request in advance that their auditing commissioners conduct the audit in Article 199 paragraph 6 of the Local Autonomy Law, concerning the execution of work for which improvement is deemed necessary in order to fiscal consolidation of said local governments. In this case, 252–41 paragraph 1 of said Law shall be read as “In the case of an audit relating to a demand under paragraph 6 of Article 199 based on the provisions of Article 26 paragraph 1 of the Law on the Fiscal Consolidation of Local Governments (Law No. 94 of 2007), if a local government is obliged to specify fiscal consolidation plan, fiscal reconstruction plan or management consolidation plans under the provisions of said Law, the chief executive of the said ordinary local public body must, together with the demand under the same paragraph, demand audit based on an individual external audit contract instead of audit by the audit commissioners, attaching the reasons therefor.” and the provisions of Part II Chapter XIII of said Law shall be applied.

2. When fiscal consolidation local governments, local governments required for fiscal consolidation or management consolidation local governments (referred to hereafter in this paragraph as “fiscal consolidation local governments, etc.”) are local governments required for comprehensive external audit, the comprehensive external auditors of said fiscal consolidation local governments, etc., must, when conducting audit under the provisions of Article 252–37 paragraph 1 of the Local Autonomy Law, besides the provisions of paragraph 2 of said Article, pay particular attention to ascertaining whether the execution of work concerning the financial affairs of said fiscal consolidation local governments, etc., and the management of business pertaining to the operation of said fiscal consolidation local governments, etc., is appropriate from the perspective of aiming for fiscal consolidation, fiscal reconstruction nor consolidation of the management of public enterprises.

(Reports by Local governments that have Completed Early Fiscal Consolidation, etc.)

Article 27

The heads of local governments that have completed early fiscal consolidation based on fiscal consolidation plan must, by September 30th of the fiscal year following the fiscal year in which they completed early fiscal consolidation based on fiscal consolidation plan, report to their assemblies to the effect that they have completed early fiscal consolidation, attaching documents detailing the implementation status of fiscal consolidation plan that clarify the relationship with settled accounts in the previous fiscal year and the principles of management of the fiscal administration of said local governments after they have completed early fiscal consolidation (hereafter in this paragraph “completion reports for management consolidation plan”), and must also, as well as publicly announcing said completion reports for management consolidation plan, report to the effect that they have completed early fiscal consolidation, attaching said completion reports for management consolidation plan, to the Minister of Internal Affairs and Communications, in the case of heads of prefectures and designated cities, and to the prefectural governor, in the case

of heads of municipalities and special districts. In the latter case, prefectural governors must, on receiving said report, promptly report to that effect to the Minister of Internal Affairs and Communications.

2. Prefectural governors shall, each fiscal year, collate reports made under the provisions of the first clause of the preceding paragraph, and publicly announce an outline thereof.

3. The Minister of Internal Affairs and Communications shall, each fiscal year, collate reports made under the provisions of paragraph 1, and publicly announce an outline thereof.

4. The heads of local governments that have completed fiscal reconstruction based on fiscal reconstruction plan must, by September 30th of the fiscal year following the fiscal year in which they completed fiscal reconstruction based on fiscal reconstruction plan, report to their assemblies to the effect that they have completed fiscal reconstruction, attaching documents detailing the implementation status of fiscal reconstruction plan that clarify the relationship with settled accounts in the previous fiscal year and the principles of management of the fiscal administration of said local governments after they have completed r fiscal reconstruction (hereafter in this paragraph “completion reports for management consolidation plan”), and must also, as well as publicly announcing said completion reports for management consolidation plan, report to the effect that they have completed fiscal reconstruction, attaching said completion reports for management consolidation plan, to the Minister of Internal Affairs and Communications (or, in the case of heads of municipalities and special districts, to the Minister of Internal Affairs and Communications via the prefectural governor).

5. The Minister of Internal Affairs and Communications shall, each fiscal year, collate reports made under the provisions of the preceding paragraph, and publicly announce an outline thereof.

6. The provisions of paragraph 1 to paragraph 3 shall apply mutatis mutandis to management consolidation plans. In this case, “early fiscal consolidation” in paragraph 1 shall be read as “consolidation of the management of public enterprises”, “management of the fiscal administration of said local governments” shall be read as “management of public enterprises” , and “fiscal consolidation plan completion reports” shall be read as “completion reports for management consolidation plan”.

(Administrative Work Processed by Prefectures)

Article 28

Of the administrative work under the authority of the Minister of Internal Affairs and Communications as provided for in this Law, some of that work pertaining to municipalities and special districts may be undertaken by prefectural governors, as specified by Cabinet Order.

(Delegation to Cabinet Order)

Article 29

Besides those specified in the Law, the application of the provisions of this Law when municipalities have been dissolved, established, divided or merged, or their borders changed, and other necessary matters concerning the enforcement of this Law shall be specified by Cabinet Order.

Supplementary Provisions

(Date of Enforcement)

Article 1

This Law shall come into force on April 1st, 2009, provided, however, that the provisions of Article 2, Article 3 and Article 22 shall be enforced from a date specified by Cabinet Order within a range of no more than one (1) year counting from the date of promulgation.

(Divisions of Application)

Article 2

The provisions of Article 4, Article 8 and Article 23 shall be applied when real deficit ratio, consolidated real deficit ratio, real debt payment ratio, future burden ratio or capital shortage ratio, calculated on the basis of settled accounts for fiscal years from fiscal year 2008 onwards, exceeds the early consolidation standards, fiscal reconstruction standards or management consolidation standard.

(Abolition of the Law for Special Measures to Promote the Reconstruction of Local public finances)

Article 3

The Law for Special Measures to Promote the Reconstruction of Local public finances (Law No. 195 of 1955) shall be abolished.

(Interim Measures Accompanying the Abolition of the Law for Special Measures to Promote the Reconstruction of Local public finances)

Article 4

Financial reconstruction plans provided for in Article 2 paragraph 1 of the Law for Special Measures to Promote the Reconstruction of Local public finances (hereinafter “the former Reconstruction Law”) before its abolition under the provisions of the preceding Article that are to be governed under the provisions of Article 22 paragraph 2 of the former Reconstruction Law and that actually exist upon the enforcement of this Law shall be governed by existing precedent during the period until the local governments pertaining to said fiscal reconstruction plans have specified fiscal consolidation plan or fiscal reconstruction plan under the provisions of Article 4 or Article 8 above. In this case, the provisions of Article 11 shall not apply to said local governments when one of their ratios to judge fiscal reconstruction exceeds fiscal reconstruction standards, during the period until said fiscal reconstruction plan are specified.

(Donations, etc., to the Government or Other Local Governments)

Article 5

Local governments may not, for the time being, disburse donations, payments of contributions not based on the provisions of laws or Cabinet Orders, or anything similar to these (including goods or other objects equivalent to these; hereafter in this Article “donations, etc.”) to the government,

independent administrative institutions (limited to independent administrative institutions provided for in Article 2 paragraph 1 of the Independent Administrative Institutions General Law (Law No. 103 of 1999) that are specified by Cabinet Order as being appropriate to apply the provisions of this Article in consideration of the state of government capitalization of and involvement in said independent administrative institutions, the business content of said independent administrative institutions, and other circumstances; the same shall apply hereafter in this Article) or national university corporations, etc. (meaning national university corporations provided for in Article 2 paragraph 1 of the Law of National University Corporations (Law No. 112 of 2003) and inter-university research institute corporations provided for in paragraph 3 of said Article; the same shall apply hereafter in this Article) or Japan Post Holdings Company Limited, Japan Post Service Company Limited, Japan Post Network Company Limited, East Nippon Expressway Company Limited, Central Nippon Expressway Company Limited, West Nippon Expressway Company Limited, Honshu-Shikoku Bridge Expressway Company Limited, Japan Policy Finance Corporation Limited, or the Okinawa Development Finance Corporation (hereafter in this Article “companies, etc.”), provided, however, that this shall not apply to donations, etc., disbursed on the basis of an agreement between local governments and the government, independent administrative institutions or national university corporations, etc., or companies, etc., in cases when said local governments intend to transfer their facilities to the government, independent administrative institutions or national university corporations, etc., or companies, etc., or in other cases that are specified by Cabinet Order and deemed to be unavoidable, provided that the Minister of Internal Affairs and Communications has been consulted and the consent thereof obtained in advance.

(Interim Measures Concerning Donations, etc., to the Government or Other Bodies)

Article 6

Applications for consent or consultation made under the provisions of Article 24 of the former Reconstruction Law before the date of enforcement of this Law shall be regarded as applications for consent or consultation made under the provisions of the preceding Article.

(Special Cases of Permission to Raise Local government debts)

Article 7

Concerning the application of the provisions of Article 13 paragraph 1 in the period between fiscal year 2009 and fiscal year 2015, “ paragraphs 3 to 5” in said paragraph shall be read as “ paragraphs 3 to 5 and Article 33–8 paragraph 1”.

(Partial Amendment of the Local Allocation Tax Law)

Article 8

Part of the Local Allocation Tax Law shall be amended as follows. In Article 5–3 paragraph 6, “and permission provided by paragraph 1, 3, 4 and 5 of the next Article” shall be amended to “and permission provided by paragraph 1, 3, 4 and 5 of the next Article and Article 13 paragraph 1 of the Law on the Fiscal Consolidation of Local Governments (Law No. 94 of 2007)”, and “including permission provided by paragraph 1, 3, 4 and 5 of the next Article” shall be amended to

“including permission provided by paragraph 1, 3, 4 and 5 of the next Article and Article 13 paragraph 1 of said Law”.

(Partial Amendment of the Public Enterprise Law)

Article 9

Part of the Public Enterprise Law shall be amended as follows. In the Contents, “Chapter VI: Miscellaneous Provisions (Article 40 - Article 42)

Chapter VII: Reconstruction of Finances (Article 43 - Article 51)”

shall be amended to

“Chapter VI: Miscellaneous Provisions (Article 40 - Article 42)”. In Article 1 “, management of companies” shall be amended to “and management of companies”, and “and measures related to the reconstruction of company finances” shall be deleted. Chapter VII shall be deleted.

(Interim Measures Accompanying the Partial Amendment of the Public Enterprise Law)

Article 10

Financial reconstruction plans provided for in Article 43 paragraph 1 of the Public Enterprise Law before its amendment under the provisions of the preceding Article that are to be governed under the provisions of Article 49 paragraph 1 of said Law and that actually exist upon the enforcement of this Law shall be governed by existing precedent during the period until the local governments pertaining to said financial reconstruction plans have specified management consolidation plans for public enterprises pertaining to said fiscal reconstruction plans under the provisions of Article 23 above.

(Partial Amendment of the Law for Special Measures Concerning the Prevention of Disasters in Regions Particularly Prone to Typhoons)

Article 11

Part of the Law for Special Measures Concerning the Prevention of Disasters in Regions Particularly Prone to Typhoons (Law No. 72 of 1958) shall be amended as follows.

Article 12 shall be amended as follows.

(Relationship with the Law on the Fiscal Consolidation of Local Governments)

Article 12

When local governments intend to change fiscal reconstruction plan for which they have obtained consent under Article 10 paragraph 3 of the Law on the Fiscal Consolidation of Local Governments (Law No. 94 of 2007) in order to implement disaster prevention works, the Minister of Internal Affairs and Communications shall, only if deeming that the fiscal reconstruction (meaning the fiscal reconstruction as provided for in Article 2 (6) of said Law) can be rationally achieved, pay particular attention to ensure that the implementation of said disaster prevention works is secured when giving consent to changes in fiscal reconstruction plan under the provisions of Article 10 paragraph 6 of said Law.

(Partial Amendment of the Law Concerning the Development of Suburban Development Zones and Urban Development Areas in the Metropolitan Region)

Article 12

Part of the Law Concerning the Development of Suburban Development Zones and Urban Development Areas in the Metropolitan Region (Law No. 98 of 1958) shall be amended as follows.

Article 33 shall be amended as follows.

Article 33

When local governments intend to change fiscal reconstruction plan for which they have obtained consent under Article 10 paragraph 3 of the Law on the Fiscal Consolidation of Local Governments (Law No. 94 of 2007) in order to implement works based on suburban development zone development plans or urban development area development plans, the Minister of Internal Affairs and Communications shall, only if deeming that their fiscal reconstruction (meaning the fiscal reconstruction as provided for in Article 2 (6) of said Law) can be rationally achieved, pay particular attention to ensure that the implementation of those works is secured when giving consent to changes in fiscal reconstruction plan under the provisions of Article 10 paragraph 6 of said Law.

(Partial Amendment of the Law to Establish the Ministry of Internal Affairs and Communications)

Article 13

Part of the Law to Establish the Ministry of Internal Affairs and Communications (Law No. 91 of 1999) shall be amended as follows. In Article 4 (56), “fiscal reconstruction of local governments whose fiscal revenues and disbursements are in a marked state of imbalance” shall be amended to “fiscal consolidation of local governments”. In Article 9 paragraph 1, “the Public Enterprise Law (Law No. 292 of 1952), the Law for Special Measures to Promote the Reconstruction of Local public finances (Law No. 195 of 1955)” shall be amended to “the Law on the Fiscal Consolidation of Local Governments (Law No. 94 of 2007)”. The following paragraph shall be added to Article 5 of the Supplementary Provisions.

2. The Local Finance Council shall, for the time being, as well as managing the administrative work specified in Article 9 and the preceding paragraph, process matters entrusted to its authority under the provisions of the Public Enterprise Law (Law No. 292 of 1952) before its amendment under Article 9 of the Supplementary Provisions of the Law on the Fiscal Consolidation of Local Governments, insofar as said provisions are to be governed by existing precedent under Article 10 of the Supplementary Provisions of said Law, and the Law for Special Measures to Promote the Reconstruction of Local public finances (Law No. 195 of 1955) before its abolition under Article 3 of the Supplementary Provisions of the Law on the Fiscal Consolidation of Local Governments, insofar as said provisions are to be governed by existing precedent under Article 4 of the Supplementary Provisions said Law. In this case, the provisions of Article 9 paragraphs 2 and 3 shall be applied *mutatis mutandis*.