Summary of Fiscal Year 2014 "Tokyo Metropolitan Government Annual Financial Report"

September 16, 2015
Bureau of Finance

Summary of Fiscal Year 2014 Ordinary Account

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○ The actual balance of revenues and expenses was nearly balanced for seven consecutive years.
○ The ordinary balance ratio stood at 84.8%.
○ Sustaining a strong financial foundation remains pivotal to tackle various urgent challenges of Tokyo Metropolitan Government (TMG) quickly and aptly, accelerating Tokyo to become a further evolved and matured city by evaluating all measures from various angles and making necessary revisions and redesign.

<Settlement Results> (in billion yen, %)

Item	FY2014	FY2013	Change in amount	Percentage of change
Total annual revenues (A)	6,853.4	6,455.2	398.3	6.2
Total annual expenses (B)	6,554.0	6,202.2	351.8	5.7
Proforma balance (C = A - B)	299.4	252.9	46.5	-
Fiscal revenues to be carried forward (D)	298.9	252.3	46.6	-
Actual balance (C - D)	0.5	0.6	(0.1)	-
Ordinary balance ratio	84.8	86.2	-	-
Ratio of expenses for public bonds	9.6	9.6	-	-
Current TMG bonds balance	5,185.8	5,510.5	(324.7)	(5.9)

○ Actual balance of revenues and expenses: **nearly balanced**

○ Ordinary balance ratio: **84.8%**

○ Current TMG bonds balance: year-on-year: **a decrease of 5.9% or 324.7 billion yen**

<Annual Revenues> (in billion yen, %)

Item	FY2014	FY2013	Change in amount	Percentage of change
Metropolitan taxes	4,734.9	4,534.2	200.7	4.4
Two corporate taxes	1,644.2	1,523.0	121.2	8.0
Local transfer taxes	364.8	304.6	60.2	19.8
National treasury disbursements	386.1	410.1	(24.0)	(5.9)
Miscellaneous revenues	632.2	459.9	172.4	37.5
TMG bonds	167.0	237.6	(70.6)	(29.7)
Other	568.3	508.8	59.5	11.7
Total revenues	6,853.4	6,455.2	398.3	6.2

○ Metropolitan tax revenues: increased by 4.4% or 200.7 billion yen compared to the previous fiscal year mainly due to increases in two corporate taxes resulting from corporate earnings remaining strong, and larger local consumption tax revenues driven by a rise in tax rates.

○TMG bonds: decreased by 29.7% or 70.6 billion yen compared to the previous fiscal year as a result of their appropriate use in light of the financial condition and future financial burdens.

<Annual Expenses> (in billion yen, %)

Item	FY2014	FY2013	Change in amount	Percentage of change
General expenses	4,380.5	4,342.3	38.2	0.9
Personnel expenses	1,458.2	1,445.4	12.8	0.9
Investment expenses	757.9	758.9	(1.0)	(0.1)
Others	2,164.5	2,138.0	26.4	1.2
Expenses for public bonds	590.4	547.5	42.9	7.8
Tax-related expenses, etc.	1,583.1	1,312.5	270.6	20.6
Total expenses	6,554.0	6,202.2	351.8	5.7

○ General expenses: increase by 0.9% or 38.2 billion yen compared to the previous fiscal year mainly due to increases in subsidizing expenses and personnel expenses.

○ Expenses for public bonds: increased by 7.8% or 42.9 billion yen mainly due to an increase in principal redemption proceeds.

○ Tax-related expenses: increased by 20.6% or 270.6 billion yen from the previous fiscal year largely due to increases in fiscal adjustment grants for special wards and reserves for the fiscal adjustment funds.

<Ratios set forth by the Fiscal Consolidation Law> (Unit: %)

Real deficit ratio	Consolidated real deficit ratio	Real debt payment ratio	Future burden ratio	Capital shortage ratios
—	—	0.7	49.7	—
(5.67)	(10.67)	(25.0)	(400.0)	(20.0)

*1 Without deficit, the real deficit ratio and the consolidated real deficit ratio is not shown.
*2 Without capital shortage, the capital shortage ratios are not shown for every public enterprise account.
*3 Figures in ( ) are figures set forth by the early consolidation standard, etc.

○ Real debt payment ratio was **0.7%**.
○ Future burden ratio, which represents expected future burdens including those of local public corporations and third-sector public/private enterprises, was **49.7%**.

Analysis Based on New Public Accounting Procedures

<Balance Sheet> (in billion yen, %)

Item	FY2014	FY2013	Change in amount
Total assets	33,065.1	32,828.2	236.8
Cash and deposits	3,422.0	3,197.6	224.3
Infrastructure assets	14,217.6	14,094.8	122.7
Total liabilities	7,691.8	8,107.8	(416.0)
TMG bonds	6,548.2	6,955.2	(407.0)
Total net assets	25,373.2	24,720.3	652.8
Total liabilities and net assets	33,065.1	32,828.2	236.8
Ratio of liabilities to assets	23.3%	24.7%	-

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Assets and net assets increased but liabilities decreased.
The ratio of liabilities to assets was 23.3% (24.7% in the previous fiscal year).
○ Assets: 33.0651 trillion yen (+236.8 billion yen)
○ Liabilities: 7.6918 trillion yen (-416.0 billion yen)
○ Net assets: 25.3732 trillion yen (+652.8 billion yen)

○ Assets increased mainly due to an increase in the reserves of the funds.
○ Liabilities decreased mainly due to a decrease in TMG bonds.

<Administrative Cost Statement> (in billion yen)

Item	FY2014	FY2013	Change in amount
Ordinary balance			
Ordinary revenues	5,741.6	5,510.3	231.3
Local taxes	4,739.9	4,533.5	206.3
Ordinary expenses	5,220.5	5,037.2	183.2
Tax-related expenses	1,290.5	1,197.6	92.9
Payroll-related expenses	1,292.4	1,273.4	18.9
Ordinary balance	521.1	473.0	48.0
Special balance	(7.1)	0.2	(7.3)
Balance for the current period	513.9	473.3	40.6

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The administrative cost statement indicates that the balance for the current period stood at 513.9 billion yen (+40.6 billion yen), and revenues continued to exceed expenses.
○ Ordinary revenues increased (+231.3 billion yen) mainly due to an increase in metropolitan tax revenues (+206.3 billion yen).
○ Ordinary expenses increased (+183.2 billion yen) mainly due to an increase in tax-related expenses (+92.9 billion yen).

<Cash Flow Statement> (in billion yen)

Item	Amount
Balance of administrative service activities	676.2
Balance of social capital improvement activities	(307.2)
Balance of administrative activities cash flow	369.0
Balance of financing activities	(322.5)
Balance brought forward from the previous year	252.9
Proforma balance (brought forward to the next year)	299.4

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○ The balance of administrative service activities cash flow stood at 369.0 billion yen in net revenues.
○ The balance of financing activities was 322.5 billion yen in net expenses because the redemption expenses of TMG bonds exceeded the revenues raised through their issuance.
○ The proforma balance, found by the balance of administrative activities cash flow, the balance of financing activities, and the balance brought forward from the previous year exceeded expenses by 299.4 billion yen.

TMG Comprehensive Financial Statements

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<Balance Sheet> (in billion yen) (reference)

Item	FY2014	FY2013
Total assets	46,439.6	47,524.3
I Current assets	3,076.9	3,120.3
II Fixed assets	43,362.5	44,398.0
III Deferred assets	0.1	5.9
Total liabilities	15,600.3	14,153.0
I Current liabilities	1,486.1	1,943.6
II Fixed liabilities	11,860.3	12,209.3
III Deferred revenues	2,253.8	-
Total net assets	30,839.2	33,371.3
Total liabilities and net assets	46,439.6	47,524.3

○ Accounting standards have been revised based on an extensive review of an accounting system for local public enterprises, leading to significant changes in the figures for assets and liabilities on the comprehensive financial statements as well.
○ Nine of eleven public enterprise accounts were in surplus in the ordinary balance. Seven of them were in surplus in net profit/loss for the current period.
○ 10 joint-stock companies among administrative bodies were in surplus in the current balance and net profit/loss for the current period.
○ It is important to gain an accurate picture of financial conditions of the entire TMG and maintain a manageable financial burden for TMG into the future.

- Analysis of TMG's Finances -

Looking back on the history of TMG's finances since the early part of 1970s, we examine the future financial management for realizing "the World's Best City, Tokyo" by analyzing financial needs going forward.

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The History of TMG's Finances

○ TMG's finances, largely affected by economic fluctuations, have repeatedly faced financial crises up to now.

1. From the Early Part of 1970s to mid-1980s

・While **tax revenues remained low**, triggered by the oil crisis in 1973, expenses increased mainly due to a rise in ordinary expenses owing to inflation. Although the gap between administrative activity expenses and metropolitan tax revenues was covered by **issuing a large amount of TMG bonds, the actual balance loss of 101.1 billion yen was posted** in fiscal 1978 due to lack of the financial ability resulting **from the insufficient reserves of the funds.** Resultantly, TMG almost became a body subject to limitations in bond issuing.

・Streamlining the size of expenses by reforming administration for three times, **TMG enhanced financial ability** by taking measures such as **control of bond issuance** and refinancing and **mandatory reserves of the fiscal adjustment funds** according to regulations.

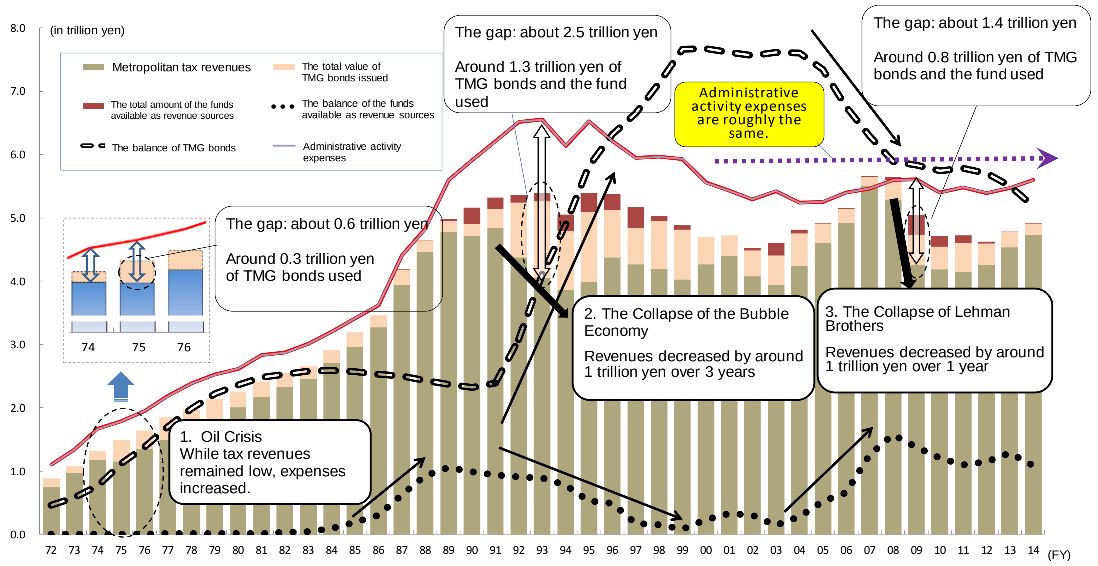
2. Since 1989, the Collapse of the Bubble Economy and Fiscal Consolidation

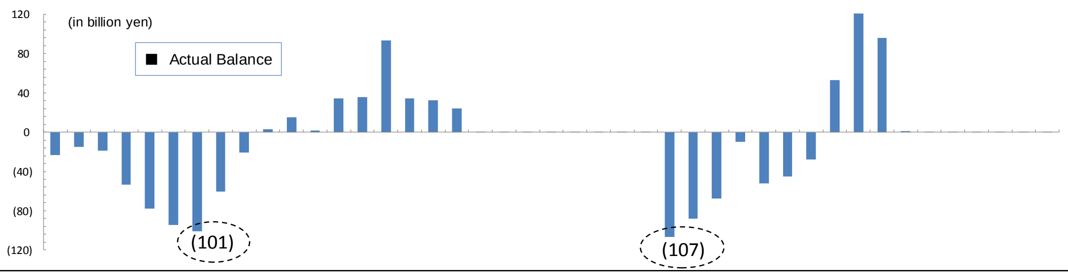
・While **metropolitan tax revenues were declining rapidly due to the collapse of the bubble economy** since 1989, the level of expenses was maintained in line with the sequential economic measures taken by the national government. The resultant gap was offset by **issuing a large amount of TMG bonds and the withdrawals of the funds,** leading to a surge in the balance of TMG bonds and a drain in the balance of the funds. In fiscal 1998, **the actual balance of a record loss of 106.8 billion yen** was posted.

・Amid such a situation, TMG had embarked on a control of expenses ahead of the national government and other prefectures and implemented fiscal consolidation promotion plans for the first and second phase since fiscal 2000. TMG strived **for focusing on efforts such as ensuring intra-organizational initiatives and reviewing/redesigning of measures**, and in fiscal 2005, TMG achieved the fiscal consolidation. After the accomplishment of the fiscal consolidation, **TMG had continued scrutinizing each action rigorously and kept a certain level of administrative activity expenses and also, secured its fiscal ability by controlling the TMG 's bond issuance and reserving the funds.**

3. From the Collapse of Lehman Brothers up to Now

・The TMG has **maintained the necessary administrative services** even when it **faced a decrease of as much as one trillion yen in revenues over one year due to the collapse of Lehman Brothers by minimizing the amount of money used** while **utilizing extra capacity to issue TMG bonds and the funds**, developed by TMG so far.





Financial Management for the Future

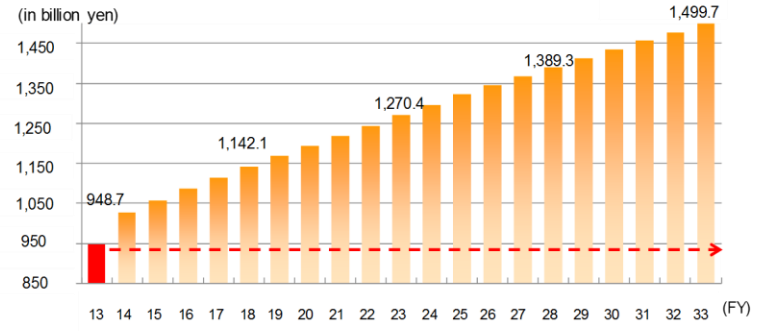
Increase in Social Security Costs

○ In 2035, one Tokyo resident in three will become elderly, with a rapid aging of society. **The elderly in Tokyo** are expected **to increase by around one million within the next 25 years.**

○ According to an independent research on future, social security costs will **increase by an average 30 billion yen each year.**

○ Meanwhile, there is **an unreasonable tax allocation system where municipalities not entitled to regionally subsidized tax need to finance the necessary expenses by themselves in full** for the enhancement of social security as a result of the rise of the consumption tax rate.

○ Based on the expectation of an increase in financial needs, TMG needs **to encourage the national government strongly** to prevent the unreasonable tax system. It is necessary to aggressively pursue prioritized initiatives for key challenges with strategic plans.



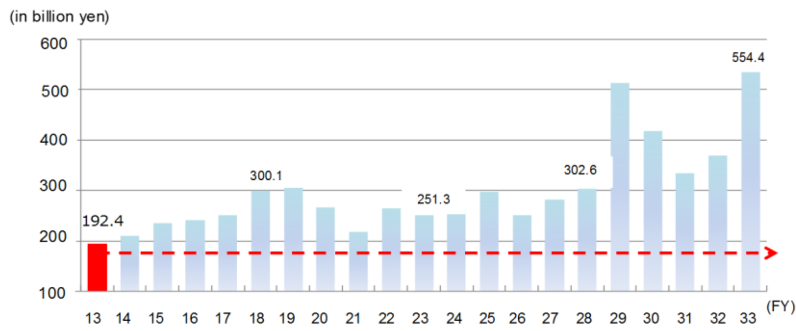
* The estimates of future costs were calculated by EY ShinNihon LLC.
* The FY 2013 figure is the amount of fiscal results in the breakdown of expenditures by purpose "Welfare and Public Health."

Increase in Costs for Maintaining and Renewing Social Infrastructure

○ **Public assets (buildings) of TMG include buildings of 30 years old or older (about 40%** of the entire assets) and of **buildings of 20 years old or older (about 70%** of the entire assets**), spurring a deterioration of those assets**.

○ According to an independent research on future, incremental costs for maintaining and renewing social infrastructure will be about 2.3 trillion yen cumulatively for the next 20 years.

○ It is necessary to verify the maintenance needs of all sorts of social infrastructure in consideration of its appropriate service. It is also necessary to attempt to level/reduce its costs over the mid- and long term period through measures including the extension of its operational life.



* The estimates of future costs were calculated by EY ShinNihon LLC.
* The FY 2013 figure is the amount of fiscal results, extracted from costs of maintaining and renewing social infrastructure.

Utilization of TMG Bonds and the Funds in Medium-to-long

TMG Bonds—Proper Utilization for Burdens in the Future Fiscal Years

○ As a result of efforts in controlling the issue of TMG bonds, **the balance of the bonds per capita in the population has decreased from 610,000 yen in fiscal 2000 to 440,000 yen in fiscal 2015, down around 30%.**

○ Meanwhile, **if the newly issued TMG bonds continue its issue pace at 450 billion yen,** which is the same level as an initial budget of fiscal 2015, **the balance of the bonds will increase to about 1.5 times** of the current balance over 25 years. **The balance of the bonds will increase to about 1.9 times of the current balance per capita in the working-age population.**

○ **In the future,** TMG will continue to examine the demographic change and the maintenance/renewal needs of social capital stock based on various standpoints and **utilize TMG bonds appropriately**.

Funds—Securing of the Funds Balance Available for Strategic Use

○ **Metropolitan tax revenues** are **originally based on an unstable structure** where not only **a large decrease of roughly one trillion yen over one year in the past** but also **a continuous decrease over several years are taking place**.

○ To realize the Long-Term Vision for Tokyo and a grand design being developed in the future, **medium-to-long-term stable and aggressive measures need to be promoted.**

○ To achieve this goal, **it is absolutely vital to secure the balance of the funds available as revenue sources.**

○ TMG will **strategically utilize the funds for expanding concentrated and prioritized measures.**

Sustaining of Robust Fiscal Foundation

○ In the future, actions will be necessary for responding to increase in expenses related to social security and social capital stock maintenance and renewal. Since TMG's finances are fundamentally based on an unstable structure, TMG's revenue sources may decrease more owing to a further unreasonable revision of local corporate taxation.

○ Having taken more thorough actions for self-reform such as business evaluations, TMG will utilize the bonds and the funds systematically and strategically. <u>Going forward, TMG will sustain a stable financial ability and ensure accomplishment of its mission.</u>