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Hiroshi Kawamata,	President, National Association of Chairmen of Town and Village Assemblies

Junichiro Koizumi, Prime Minister

Reply to Opinions Offered in Accordance with the Provision of Article 263.3 Paragraph 2 of the Local Autonomy Law

In accordance with the provision of Article 263.3 Paragraph 3 of the Local Autonomy Law, I furnish a reply to the opinions as attached.

Reply to “Opinions about Promotion of Decentralization of Power” submitted by the National Governors’ Association, National Association of Chairpersons of Prefectural Assemblies, Japan Association of City Mayors, National Association of Chairpersons of City Councils, National Association of Towns and Villages and National Association of Chairmen of Town and Village Assemblies

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Decentralization of power is an important issue to be addressed in advancing structural reforms in the area of administration at the national and local level. Up to now, the government has actively promoted decentralization under the policy of “leave what local governments can do to them.”

The government received “Opinions about promotion of decentralization of power” on June 7, 2006. With respect to “1. Measures for promoting decentralization reforms and participation by local governments in the reforms,” Basic Policies for Economic and Fiscal Management and Structural Reform 2006 (Basic Policies 2006), adopted at a Cabinet meeting on July 7, 2006, state that in order to facilitate decentralization, the government will reconsider the division of roles between the national and local governments mainly through comprehensive review of related laws and ordinances and that it will strive to discontinue or scale down its involvement in local finances, including treasury grants, and take other measures. These Policies also state that the government will reform various systems related to local government. In the future, in promoting decentralization, the government will provide opportunities to exchange views with local governments as necessary.

With respect to “2. Specific measures for decentralization reforms in term of taxation and public finance,” Basic Policies 2006 state that the government will review local taxes in an integrated manner taking into consideration the financial condition of the national and local governments. Review covers local allocation taxes, treasury grants, distribution of tax revenue (including transfer of tax revenue) and other areas of local finances. In order to increase the number of local governments that do not receive local allocation taxes, Basic Policies 2006 aim at increasing the number of local governments that do not rely on local allocation taxes by setting a goal of increasing the number to, for example, half of the number of cities with a population of 200,000 or more. Based on its efforts to reduce annual expenditure in accordance with Basic Policies 2006, the government will maintain the current statutory rates for local allocation taxes. At the same time, it will take appropriate measures for local allocation taxes and so forth on a general-account basis taking into consideration the current level of taxes allocated to local governments, the status of income and expenditure for local governments and that of general account budgets for the national government, measures the national government has taken to cope with shortages of local financial resources over the past decade. Review by the government also includes making calculations based on new simple standards while taking necessary steps not to hinder the financial management of local governments. Treasury grants and the relationships between the national and local governments are as mentioned above. With respect to financial reconstruction and other reforms, the government will strive to put its and local governments’ finances on a healthier footing while maintaining its relationship of trust with local governments. Local government should make efforts to curtail its annual expenditure in concert with the national government’s initiatives from the viewpoint of local residents in order to ensure that they understand and are satisfied with its annual expenditure. The national government will also review legal and other

systems for financial reconstruction and develop new guidelines for local administrative reforms, including those for thorough information disclosure and facilitation of tests for determining whether public services can be left to the private sector.

In the years to come, based on the results of its reforms that have been obtained during the period up to fiscal 2006 and from the viewpoint of further promoting decentralization and advancing administrative and fiscal reforms at the national and local level, the government will make continued efforts to establish truly independent and responsible local governments while exchanging views with local governments.