

※ This Policy differs slightly from “Important Policy of Administrative Reform”(December 24, 2005 Cabinet Decision).

Provisional Translation

Basic Policy on the Reform of the Total Amount of Personnel Costs

November 14, 2005

Council on Economic and Fiscal Policy

The Government will drastically reduce the total amount of personnel costs of government employees through significant net reduction in personnel and firm promotion of the remuneration system reform. Aiming to realize the significant reduction in size, the Government will advance reform of the total personnel costs of the national government employees (948,000 people, including employees of Japan Post), keeping in mind the long-term aim to roughly halve the ratio of the costs to GDP in the next ten years. The Government will also request local governments to make reduction efforts regarding local government employees in line with the said aim. The reform will be boldly carried forward employing all methods available to obtain the public understanding on the efforts to restructure the public sector.

Furthermore, the Government will work on the reduction of the total personnel costs in other public sectors, including public corporations and incorporated administrative agencies, under the same principle.

The following measures will be vigorously advanced over the course of the next five years

based on this basic principle.

1. Net reduction target for the personnel of government employees

(1) Net reduction target for national government employees

Under political leadership, the Government will realize a net reduction of over 5% of national government employees, excluding employees of Japan Post (687,000 people based on the personnel quota) over the course of next five years.

1) Personnel of national administrative organs

The Government will realize a net reduction of over 5% in the personnel of national administrative organs (332,000 people) over the course of the next five years.

A net reduction of over 5% will be ensured by strictly restraining the increase in new personnel, while clarifying the cases where the increase and decrease in personnel is required, to achieve a significant net reduction unheard of in the past upon implementing the personnel rationalization plan (over 10% reduction of the personnel quota). Furthermore, this net reduction target will be achieved by intently advancing the workout through drastic and structural reviews of the services in consideration of the items described in Attachment 1 in particular, and by reflecting the results in reducing the personnel. The knowledge of private sector intellectuals and others will also be utilized in the abovementioned considerations. Furthermore, the Government will advance efforts to streamline services

through the introduction of IT.

2) Personnel of the Self-defense officials and employees of special organizations

Sanctuary, or exception, will not be created even for the personnel of the self-defense officials, which currently fall below the personnel quota (252,000 people), and net reduction in accordance with the one for the administrative organizations will be considered.

The Diet, courts, the Board of Audit and the National Personnel Authority will also be requested to make efforts in accordance with the ones for administrative organs concerning the personnel quota (32,000 people) while taking into account the characteristics of each organization.

3) Shifting status of employees at incorporated administrative agencies to non-government employees

With regards to government employees of specific incorporated administrative agencies (71,000 people), the status of all employees will be shifted to non-government employees, unless a specific problem can be identified in the case that employees without a status of national government employee carry out the services of the incorporated administrative agencies.

(2) Net reduction target for local government employees

The Government will engage in efforts to ensure further extra net reductions through sincere efforts taken by each local government to achieve a net reduction of over 4.6% as requested in the Basic Policies for Economic and Fiscal Management and Structural Reform 2005 (Basic Policies 2005) and through reviews of the standard related to personnel established by the Government.

1) National standard-related area

A net reduction that exceeds the amount achieved thus far (4.2% in five years) will be ensured for employees for whom the Government broadly establishes standards on personnel (national standard-related area: 2.008 million people engaged in education, policing, firefighting and welfare) through the review of the standard by the national government in addition to the efforts made by the local governments. Consideration will be given to achieve a net reduction in the number of school personnel, of which there are a particularly large number, exceeding the natural reduction rate due to a decrease in the number of children and students.

2) Area coped by local governments

With regards to personnel, aside from those mentioned in 1) above where local governments independently determines their personnel (1.075 million people), the Government will request the local governments to make efforts to ensure a net reduction that exceeds the amount achieved thus far (5.4% in five years). In principle, the

Government will not implement new measures that will require an increase of personnel quota in the local governments, while in truly imperative cases it will review other measures so that the personnel will not increase as a whole.

3) As part of the effort mentioned in 2) above, measures will be advanced including the incorporation of public universities, a shift of status of public enterprises into local incorporated administrative agencies (non-civil servant type), and privatization.

(3) Review of the system for achieving the net reduction target, etc.

1) The Government will consider measures related to human resources management such as restraining new hiring. In doing so, consideration will also be given to the long-term employment strategy of the public sector and the development of a safety net for retirees. In addition, the Government will consider such as the structure of personnel relocation in response to the streamlining of individual services.

2) The Government will broadly consider and adopt a structure in which non-government employees will execute public duties (notary public, etc.), and a structure in which non-government employees will be further utilized in the same manner as dispatched employees in the private sector.

(4) Appropriate review of targets

The net reduction targets for national and local government employees will be reviewed

appropriately according to factors including the full-scale introduction of “Market Testing,” the progress of decentralization and mergers of cities, towns, and villages, and the actual implementation status of the measures.

2. Reform of remuneration systems, etc.

With regard to the remuneration system, the Government will review items described in Attachment 2 in the direction described below.

(1) Remuneration for national government employees

The Government will drastically reform the remuneration system for government employees, which are horizontally-structured and practices promotion by seniority, and shift to a remuneration system which truly reflects work assignment and responsibility by comparing the public and private sectors closely and in detail by each work assignment category, and by considerably expanding the difference between job positions, and will review further the method used in comparing the public and private sectors. By these measures, the Government will strive to thoroughly reflect the private sector standard in the public sector and reduce personnel costs flexibly.

Regarding Item 1 in Attachment 2, the Government will request that the National Personnel Agency (NPA) immediately make necessary considerations and sequentially start reflecting them in the NPA Remuneration Recommendation beginning next year. Moreover, the

Government will also make its utmost effort for the reform of the remuneration system in light of the severe financial situation it faces.

(2) Remuneration for local government employees

The Government will thoroughly implement reform in line with the structural reform of the remuneration for national government employees so that it accurately reflects the standard of private sector remuneration in the region, and will also engage in efforts to enhance the function of personnel committees. Furthermore, inappropriate provision of allowances and others will be corrected thoroughly with the resident self-governance serving as its driving force through such measures as disclosure of information on remuneration.

(3) Consideration of the government employees system, etc.

Consideration will be made from a wide range of perspectives on the government employees system including basic labor rights of the government employees, the system of the NPA, treatments based on ability-based promotion and performance evaluation, which will be based on the national consciousness, promotion status of the remuneration system reform, and other factors.

(4) Government employees other than those engaged in regular service

Remuneration of government employees out of those employed at the national administrative sectors to whom the Law concerning the Remuneration of Regular Service

Employees is not applied, such as the self-defense officials, Secretaries, and personnel engaged in other special services, personnel actually operating the national forest service, and personnel engaged in special service in the local governments, will be reviewed in line with the review of the remuneration for regular service employees.

(5) Public employees at the Diet, courts, etc.

The Government will request that appropriate measures be taken for Diet members, Diet staff members, local assembly members, local assembly staff members, judges, and court staff members in light of the measures taken in the administrative sector.

3. Review of other public sectors

(1) The Government will request that measures be taken to cut the costs of personnel in other public sectors in accordance with government employees, such as public corporations and incorporated administrative agencies (including national university corporations). In light of this, review will be made to restrain the amount of subsidies and grants for operational costs provided to public corporations, incorporated administrative agencies, and other organizations.

(2) The Government will request public corporations, incorporated administrative agencies, local incorporated administrative agencies, local public corporations, quasi-public corporations, and others to disclose information on personnel and remuneration to the public in an easy-to-understand manner and facilitate the measures for

reform.

4. System of measures, etc.

(1) Under this Basic Policy, with the Minister of State for Administrative Reform serving as the mediating minister, and under the cooperation of all related ministers including the Minister for Internal Affairs and Communications and the Minister of Finance, the Government will formulate an action plan by the end of the year, and will reflect it in the budget and local financial plans of FY2006 and thereafter. For those items that require further consideration of individual measures to be taken out of the priority items on the drastic and structural review of the services handled by the Government included in the abovementioned action plan, the final draft will be compiled as the Government policy by around June 2006 at the latest. The Council on Economic and Fiscal Policy (CEFP) will follow-up on the formulation status of this action plan and the implementation status of the reform of the total amount of personnel costs.

(2) The Government will consider a structure in which it can grasp the total amount of personnel cost as a whole and adjust the amount comprehensively. It will also thoroughly implement the disclosure of information on personnel and remuneration to the public in an easy-to-understand manner, and will enhance the transparency of its reasoning and decision-making process.

(3) The Government will work to develop a competitive environment through

implementation of events such as the “Administrative Reform Competition,” where good examples of both the national and local governments are openly discussed and compete in terms of the effects brought about by the cases, with the aim to spread the advanced measures on restraining personnel expenses across the country.

(Attachment 1)

[Priority Items upon Considering Drastic and Structural Reviews of the Services]

<p>1. Drastic realignment of services responding to changes in administrative needs</p> <ul style="list-style-type: none">a. Those related to statistics on agriculture and forestryb. Those related to food controlc. Those related to development of Hokkaido (reduction and decentralization of projects under direct jurisdiction, promotion of consignment to the private sector, and more) <p style="text-align: right;">etc.</p>
<p>2. Drastic and intensive review of local branch offices</p> <ul style="list-style-type: none">a. With regard to the services in general conducted by local branch offices and other entities, a drastic review will be carried out by assessing the need for the Government to directly conduct the administrative works and projects from the perspective of the policies, “leave to the private sector what it can do” and “leave to the localities what they can do.”b. Integration, abolishment or streamlining will be advanced for each local branch office established by the classifications of ministries, services and prefectures, depending on the nature of the administrative works conducted at each of these.c. The amount of services will be drastically reduced through realignment of the works to allocate subsidies for the local governments and transfer of authority to the local governments (in particular, the works related to regional development).d. The organization and services regarding acceptance of application from and monitoring of private companies will be drastically reviewed, and services will be consigned to the corresponding prefecture or other entities as necessary.e. Services related to public projects will be streamlined in response to the decrease in the number of projects and the cost reduction.f. Services related to research and statistics will be consigned to external organizations or rationalized.
<p>3. Comprehensive and drastic consignment to the private sector, etc.</p> <ul style="list-style-type: none">a. Services that are provided under model cases for “Market Testing,” such as job placement and training at Hello Work, a job-placement office, collection of pension premiums as well as information and consultation service on pension funds at the Social Insurance Agency, services related to prison and other related facilities.b. Services such as administrative work on registration, patent, vehicle registration, facility management and operation, and employment insurance, which have been under consideration for the opening up to the private sector at the Council for the Promotion of Regulatory Reform and Privatization.c. Internal and stereotyped works such as remuneration calculation.d. Non-government employees will be further utilized, and “Market Testing” will be fully implemented.
<p>4. Streamlining of services through introduction of IT</p> <ul style="list-style-type: none">a. The efficiency of services of both the national and local governments will be promoted through the promotion of E-government on the national and local government, and development of a versatile

system for communication and adjustments between the national and local governments.
b. With regard to works including personnel and remuneration, mutual aid, and goods procurement, the Government will promote the unification of the information system and proactively consign these works to external organizations.

5. Shifting to non-government employees-type incorporated administrative agencies, etc.
a. Services related to forest management
b. National Center for Advanced and Specialized Medical Care
c. Areas considered for shifting to incorporated administrative agencies at the meeting of the Administrative Reform Council.

etc.

(Attachment 2)

[Direction of the Remuneration System Reform]

1. Remuneration for national government employees

(1) Implementation of remuneration structural reform based on the 2005 NPA Remuneration Recommendation

The Government will steadily promote remuneration structural reform based on 2005 NPA Remuneration Recommendation, appropriately reflecting the wage of the private sector in the region, restricting promotion of remuneration based on seniority, and increasing the level of work performance reflected into remuneration. Furthermore, the Government will review evaluation structure and the modality of treatment, and promote the development of a human resources system based on skills and performance.

(2) Comparing the public and private sectors closely and in detail by each work assignment category

In order to abolish the horizontally-structured remuneration system and revise it into a structure that may secure necessary human resources, the Government will consider a method to compare the work assignment of those engaged in regular service with the respective private sector businesses that are deemed appropriate for such comparison by the type of work assignment. For example, the Government may classify the work assignment into those for stereotyped works, such as implementation of administrative services

stipulated in the laws and regulations, and those for policy planning, etc.

(3) Considerable expansion in the difference between job positions

In order to shift to a remuneration system which truly reflects the work assignment and responsibility, and to restrain promotion of remuneration by seniority as much as possible, the Government will clearly classify job positions such as manager, assistant manager, chief, and staff. Furthermore, the Government will ensure that the maximum and minimum amount of remuneration for each job position do not significantly overlap with one other and consider expanding the rate of increase in remuneration in cases where personnel are promoted to the next level in the job position.

(4) Review the scale of comparable business establishments, etc.

The Government will consider reviewing the scale of comparable businesses and the requirements on the number of subordinates (full-time employees) of executive members at comparable private companies in the direction to expand the range in light of changes in the employment patterns and organizational forms at private companies.

2. Remuneration for local government employees

(1) Thorough implementation of the remuneration structural reform

With regard to the remuneration for local government employees, the Government will thoroughly implement reform in accordance with the remuneration structural reform for national government employees as mentioned in (1) of 1. above in order for it to accurately

reflect the standard remuneration of the private sector in the region.

(2) Review of the comparison between public and private sectors

The Government will request reviews on local government employees to be conducted in accordance with (2) through (4) of 1. above. The Government will also engage in measures which will allow for the actual remuneration of the private sector in the region to be more accurately reflected through such as enhancing the function of personnel committees.

(3) Improving appropriateness through information disclosure

The Government will increase the pace for the construction of a disclosure system for information provided by the Ministry of Internal Affairs and Communications on remuneration comparable by local body. Furthermore, inappropriate provision of allowances and others will be corrected thoroughly with the self-governance serving as its driving force, thereby advancing the efforts to further improve the appropriateness of the remuneration.

(4) Remuneration for school personnel

The Government will consider reviewing the Special Measures Law Concerning the Securing of Capable Educational Personnel in Various Compulsory Education Schools for Maintenance and Enhancement of School Education Standards, including the possibility of its abolishment. This law stipulates the superiority in remuneration of personnel in compulsory education school from the perspective of securing human resources.