

National Hospital Organization (Incorporated Administrative Agency)

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1. Summary of operations implemented using FILP funds

The National Hospital Organization builds and improves medical facilities such as hospital wards and introduces medical equipment and other devices in order to provide proper medical services for diseases that have great effects on the health of Japanese people and for other medical problems.

Note: Major projects that are outside the scope of the FILP projects are research on medical treatment and the training of the technicians.

2. Amount of lending under FY2019 FILP

(Unit: billion yen)

FY2019 FILP	Estimated outstanding amount of FILP lending at the end of FY2018
85.5	492.8

3. Estimated policy cost analysis of the project

(1) Policy cost (Unit: billion yen)

Category	FY2018	FY2019	Fluctuation
1. Government expenditure (subsidies, etc.)	130.3	57.1	-73.2
2. Government revenue (payments to the government, etc.)*	-	-	-
3. Opportunity cost of capital investments, etc.	-21.0	35.1	+56.2
Total (1+2+3=policy cost(A))	109.3	92.3	-17.0
Analysis period (years)	29 years	35 years	+6 years

(2) Breakdown of policy cost by the time of the provision of funds (Unit: billion yen)

Category	FY2018	FY2019	Fluctuation
(A) Policy cost (previously cited)	109.3	92.3	-17.0
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	42.6	51.6	+9.0
2) Policy cost expected to be newly accrued during the analysis period	66.7	40.7	-26.0
Government expenditure (subsidies, etc.)	130.3	57.1	-73.2
Government revenue (payments to the government, etc.)*	-	-	-
Opportunity cost of surplus, etc.	-63.6	-16.4	+47.2
Opportunity cost of capital investments, etc.	-	-	-

(4) Sensitivity analysis (cases where assumptions change) (Unit: billion yen)

(A) Policy cost (previously cited)	A case in which a fundraising interest rate is raised by 1 %	Fluctuation	Fluctuation		
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*	3. Opportunity cost of capital investments, etc.
92.3	212.8	+120.6	-2.7	-	+123.3

(A) Policy cost (previously cited)	A case in which medical care service revenues are cut by 1%	Fluctuation	Fluctuation		
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*	3. Opportunity cost of capital investments, etc.
92.3	179.6	+87.4	-	-	+87.4

(3) Year-to-Year comparison analysis (Unit: billion yen)

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost		FY2018	FY2019	Simple fluctuation
		Simple comparison (before adjustment)	109.3	92.3
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2019 analysis)		2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2018)	Real fluctuation (2-1)
		98.7	104.2	+5.6

[Real fluctuation factor analysis]

○Factors behind policy cost increase

- Increase in opportunity cost due to decrease in retained earnings accompanying analysis period extension, etc. (+68.5 billion yen)

○Factors behind policy cost decrease

- Decrease in subsidies, etc. regarding retirement allowances (-62.9 billion yen)

(Note) Components in each column may not add up to the total because of rounding.

* Government revenue (payments to the government, etc.) is booked as a negative amount. Example: -10 b. yen for 10 b. yen in payments to government, etc.

4. Outline of estimation and project prospect employed in the analysis

- 1) The estimation covers the National Hospital Organization's projects of enhancing the facilities and medical equipment.
- 2) The scale of projects is estimated to be ¥139.9 billion from FY2019 to FY2023. The length of analysis period is 35 years, during which the redemption of debts related to the projects will be completed.
- 3) Revenues from medical services, which serve as major preconditions, are estimated, while expecting the continuation of investment up to FY2023 at the longest and excluding investment plans for FY2024 onward (for renewal after the elapse of durable years) with regard to hospitals with renovation plans.

(Unit: million yen)

FY	Result				Estimated 2018	Planned 2019	Assumptions for calculation			
	2014	2015	2016	2017			2020	2021	2022	2023
Medical services revenues	900,696	918,344	941,247	951,409	974,561	997,174	994,499	991,830	989,169	986,515
Medical services expenses	780,005	819,195	844,273	856,853	880,901	897,732	897,732	897,732	897,732	897,732

* Components in each column may not add up to the total because of rounding.

5. Reasons for granting of subsidies, mechanism and underlying laws

Reasons for granting of subsidies and mechanism

(Reasons)

In order to offer policy-based medical services for such medical field as the treatment of tuberculosis that cannot be dealt with properly by other institutions

(Underlying laws and regulations)

Article 46 of the Act on General Rules for Incorporated Administrative Agencies (Act No.103, 1999)

"The national government may give incorporated administrative agencies grants equivalent to all or any part of the funds necessary for their operations."

(Underlying law for payments to the national treasury)

National Hospital Organization Act (Act No. 191 of 2002)

Paragraph 2 of Article 17

The Organization may deduct from the amount equal to the reserve specified in the preceding paragraph the amount approved under the said Paragraph.

After the deduction, the remaining amount, if any, shall be paid to the national treasury.

6. Special remarks

- 1) Under the National Hospital Organization Act (Act No.191 of 2002) established based on the Basic Act on Reforming Government Ministries, the National Hospital Organization was created on April 1, 2004 by transforming into a single incorporated administrative agency from 154 national hospitals and sanatoriums (excluding the national centers) throughout Japan that were originally included in the National Hospital Special Account.
- 2) From 1986, 87 national hospitals and sanatoriums were realigned through "abolition/consolidation" and "business transfers." The realignment was completed in May 2013 when the last hospital was subjected to abolition/consolidation. (The number of national hospitals stood at 142 as of January 1, 2019.)
- 3) As a result of working on management improvement after the transition to an incorporated administrative agency, many hospitals made improvements in financing to the extent that they were able to make future investment for buildings and medical equipment. However, hospitals that still fail to secure earnings equivalent to operating costs or whose ratio of current expense to current income is less than 100% require drastic hospital reform or management improvement. Therefore, the Organization implemented a 3-year administrative improvement plan (reorganization plan) to be completed by FY2014 for each hospital. Since FY2015, the Organization has continued an attempt to improve management at individual hospitals through close cooperation between its headquarters and group offices.

(Reference) Outcome and social and economic benefits of operations

The National Hospital Organization contributes to the enhancement of Japanese medical services by providing safe and high-quality medical treatment to patients from patients' viewpoint, conducting surveys and researches about high-quality medical services to prepare evidential materials through the effective use of its extensive network, and providing training programs for medical technicians aiming to foster competent medical personnel.

1) Initiatives in pioneering medical research activities

○ The National Hospital Organization conducts multi-institutional studies and clinical trials.

These activities are supported by consolidation of a database on medical cases through the effective use of the policy-based medical services network. Clinical research centers (departments) are mostly in charge of these collaborative activities.

2) Initiatives in the medical fields that cannot be dealt with properly by Non-National Hospital organizations due to historical and social reasons

	Institutions	Beds
Institutions engaging in the treatment of tuberculosis	48	1,585
Institutions engaging in the treatment of severe motor and intellectual disabilities	73	7,977
Institutions engaging in the treatment of progressive muscular dystrophy	28	2,392
Legally-designated inpatient settings engaging in the treatment of mental unsoundness, etc.	14	421

3) Provision of medical services required for the government's crisis management

○ Response to disaster due to the torrential rains in the Kanto and Tohoku regions

In order to offer assistance to victims of the wind and flood damage in Ibaraki prefecture in September 2015, the National Hospital Organization dispatched DMATs from the Mito Medical Center, Saitama National Hospital, Chiba Medical Center, Disaster Medical Center, and Yokohama Medical Center. Furthermore, the Organization dispatched doctors, nurses, and pharmacists, etc. from the Mito Medical Center, Disaster Medical Center, Kasumigaura Medical Center, and Shimofusa Psychiatric Medical Center for relief activities at shelters after DMATs finished their missions.

○ Responses to 2016 Kumamoto Earthquake

In response to the large earthquake in Kumamoto Prefecture in April 2016, hospitals of the National Hospital Organization dispatched many disaster medical assistance (DMAT) and disaster psychiatric assistance (DPAT) teams (a total of 75 teams comprising about 375 members) to disaster-hit areas for the initial rescue of disaster-affected people. They also sent a total of 25 medical assistance teams (comprising 125 doctors, nurses and pharmaceutical chemists) to evacuation centers for medical support after the DMAT operations.

4) Initiatives in the implementation of important medical policies from the national standpoint of Japan

○ Hospitals designated for clinical training
54 institutions (FY2017)

○ Hospitals designated for cooperation-type clinical training
124 institutions (FY2017)

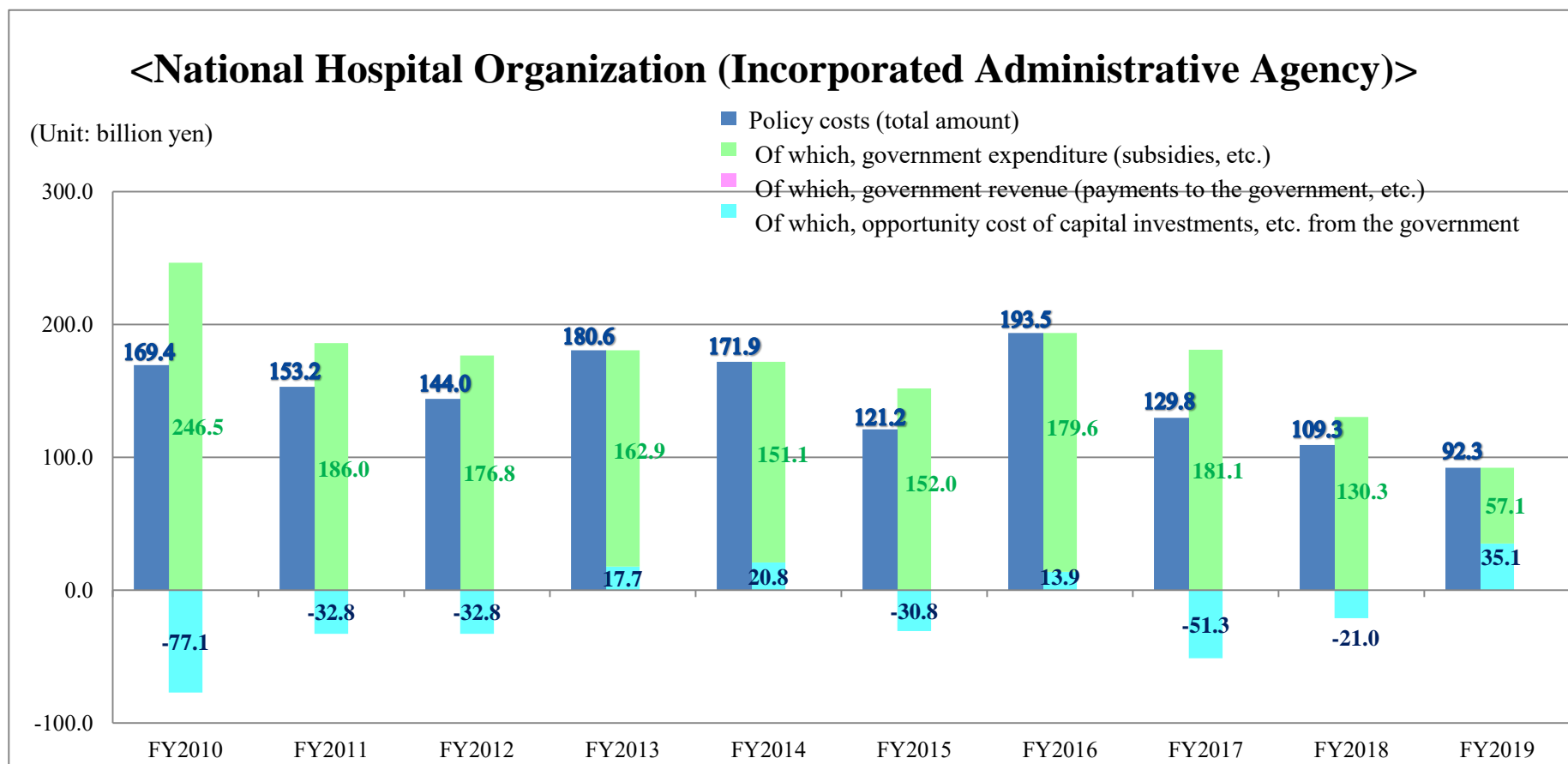
5) Contribution to the reinforcement of local medical services

Share of nationwide total number of base hospitals, etc.	NHO	Nationwide total	Share (%)
Number of the base hospitals etc. of emergency medical care for children (as of March 2017)	20	284	7.0%
General Perinatal Center (as of April 2017)	5	107	4.7%
Regional Perinatal Center (as of April 2017)	20	300	6.7%
Core disaster base hospitals (as of April 2017)	5	62	8.1%
Regional disaster base hospitals (as of April 2017)	31	662	4.7%
Cancer Care Coordination Core Hospital [total] (as of April 2017)	36	431	8.4%
Prefectural Cancer Care Coordination Core Hospital	3	49	6.1%
Regional Cancer Care Coordination Core Hospital	32	348	9.2%
Remote base hospitals (as of January 2016)	9	312	2.9%

[Reference] NHO hospitals' share of nationwide total number of hospitals (8,439 hospitals as of March 2017)

The share for 143 NHO hospitals as of March 2017 stood at about 1.7%.

(Reference) Changes in Policy Costs by Component



Note: Policy costs for each fiscal year differ in assumptions including interest rates applied to estimates.

(Points)

- The policy cost regarding subsidies, etc. from the government have decreased significantly due to a large scale reduction in grants for operation cost on medical works in FY2011.
- Since FY2010, policy costs pertaining to government subsidies, etc. have continued a downward trend due mainly to a decrease in retirement allowances for retirees with government employment periods.

(Reference) Financial Statements

Balance Sheet

(Unit: million yen)

Item	End of FY2017 (Result)	End of FY2018 (Estimated)	End of FY2019 (Planned)	Item	End of FY2017 (Result)	End of FY2018 (Estimated)	End of FY2019 (Planned)
(Assets)				(Liabilities and equity)			
Current assets	282,062	271,254	274,763	Current liabilities	210,029	204,993	209,693
Cash and bank deposits	110,176	98,745	98,178	Debt from grants for operation cost	7,029	-	-
Accounts due for medical operations	159,503	164,172	168,224	Subsidy received, etc.	123	-	-
Accounts receivable	4,934	1,029	1,053	Deposited donations	894	-	-
Inventory assets	6,519	6,519	6,519	Long-term loans to be repaid within a year	53,968	55,768	59,034
Prepaid expenses	152	116	116	Accounts payable	39,715	39,452	40,409
Accrued income	0	-	-	Money unpaid	71,536	73,577	74,354
Other current assets	776	673	673	Lease obligation to be paid within a year	974	554	95
Fixed assets	1,043,306	1,075,982	1,151,587	Accrued expenses	280	150	75
Tangible fixed assets	1,022,157	1,054,160	1,081,295	Unpaid consumption tax, etc.	415	415	415
Buildings	450,001	486,455	521,125	Deposit received	4,045	4,045	4,045
Structures	17,481	19,197	20,838	Advance revenues	18	-	-
Medical instruments and equipment	53,363	38,199	31,901	Reserves	30,687	30,687	30,921
Other instruments and equipment	19,201	21,852	21,474	Reserve for bonuses	29,551	29,551	29,785
Vehicles	222	224	222	Reserve for loss from compensation of damage	1,136	1,136	1,136
Radioactive isotope	22	19	17	Asset retirement obligation to be performed within a year	77	77	77
Land	469,225	469,225	469,225	Other current liabilities	270	269	268
Construction in progress	12,565	18,911	16,416	Fixed liabilities	697,572	725,480	795,378
Other tangible fixed assets	76	76	76	Asset collateral liabilities	21,221	20,341	18,319
Intangible fixed assets	18,472	19,055	18,298	Grants for asset collateral operation cost	670	1,861	1,430
Software	18,251	18,834	18,076	Asset collateral subsidies	19,000	17,055	15,485
Telephone subscription right	197	197	197	Asset collateral contributions	1,541	1,415	1,395
Other intangible fixed assets	24	24	24	Amount of items received for asset collateral	11	10	9
Investment and other assets	2,677	2,767	51,994	Long-term loans payable	408,214	437,047	460,247
Long-term loan receivable	2,371	2,483	2,621	Long-term debts	546	512	479
Bankruptcy or rehabilitation claims, etc.	1,834	2,050	2,251	Lease liabilities	979	425	330
Loan loss provisions	- 1,834	- 2,050	- 2,251	Reserves			
Long-term prepaid expenses	65	43	22	Reserve for retirement pensions	263,680	264,321	313,270
Stock for disasters	221	221	221	Asset retirement obligation	2,599	2,547	2,493
Return for provision for retirement benefits	-	-	49,112	Other fixed liabilities	333	287	241
Other investment assets	19	19	18	(Total liabilities)	907,601	930,473	1,005,071
Total assets	1,325,368	1,347,236	1,426,350	Capital			
				Financing by the Government	202,906	202,906	202,906
				Capital surplus	225,982	226,362	226,528
				Capital surplus	233,965	234,764	235,356
				Other administrative costs accumulated	- 7,983	- 8,402	- 8,828
				Accumulated depreciation outside of profit and loss (-)	- 4,953	- 5,372	- 5,798
				Accumulated impaired loss outside of profit and loss (-)	- 8	- 8	- 8
				Amount equivalent to accumulated net gains or losses on sale or disposal (-)	- 3,023	- 3,023	- 3,023
				Loss carried forward (-)	- 11,120	- 12,505	- 8,155
				Reserve fund	-	-	-
				Unappropriated loss for the period (-)	- 11,120	- 12,505	- 8,155
				(of this, gross profit or loss (-))	- 7,987	- 1,384	4,350
				(Total equity)	417,767	416,763	421,279
				Total liabilities and equity	1,325,368	1,347,236	1,426,350

Notes 1. The balance sheet includes costs for projects other than those subject to the policy cost analysis.

2. Components may not add up to the total because of rounding.

Income Statement

(Unit: million yen)

Item	End of FY2017 (Result)	End of FY2018 (Estimated)	End of FY2019 (Planned)
Ordinary expenses	987,442	1,007,524	1,016,400
Medical care operations expenses	944,552	964,073	982,349
Education and research operations expenses	8,012	8,012	7,993
Clinical research operations expenses	13,989	13,988	14,036
General and administrative expenses	13,105	12,715	3,659
Other ordinary expenses	7,783	8,736	8,364
Ordinary income	985,280	1,013,462	1,025,092
Income from grants for operation cost	12,837	17,322	6,063
Medical care operations income	955,210	979,636	1,002,890
Education and research operations income	5,178	5,187	5,206
Clinical research operations income	8,368	7,907	7,511
Other ordinary income	3,687	3,411	3,422
Temporary losses	6,307	10,806	63,349
Loss on sale of fixed assets	7	0	-
Loss on retirement of fixed assets	2,644	2,352	2,352
Impairment loss on fixed assets	329	1,989	1,989
Other temporary losses	3,327	6,464	59,007
Temporary profits	482	3,484	59,007
Gain on sales of fixed assets	35	-	-
Other temporary profits	447	3,484	59,007
Net profit or loss (-)	- 7,987	- 1,384	4,350
Gross profit or loss (-)	- 7,987	- 1,384	4,350

(Note) Components may not add up to the total because of rounding.