

# National Hospital Organization (Incorporated Administrative Agency)

https://nho.hosp.go.jp/

## 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 FILP

(Unit: billion yen)

| FY2023 FILP | Estimated outstanding amount of FILP lending at the end of FY2022 |
|-------------|---|
| 28.6        | 416.4   |

## 3. Estimated policy cost analysis of the project

### (1) Policy cost (Unit: billion yen)

| Category  | FY2022      | FY2023       | Fluctuation   |
|---|-------------|--------------|---------------|
| 1. Government expenditure (subsidies, etc.)               | -           | -            | -             |
| 2. Government revenue (payments to the government, etc.)* | -           | -42.2        | -42.2         |
| 3. Opportunity cost of capital investments, etc.          | 53.8        | 301.2        | 247.5         |
| <b>Total (1+2+3=policy cost(A))</b>                       | <b>53.8</b> | <b>259.0</b> | <b>+205.3</b> |
| Analysis period (years)                                   | 43 years    | 42 years     | -1 year       |

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

| Category  | FY2022 | FY2023 | Fluctuation |
|---|--------|--------|-------------|
| (A) Policy cost (previously cited)  | 53.8   | 259.0  | +205.3      |
| 1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period | 57.2   | 105.2  | +48.0       |
| 2) Policy cost expected to be newly accrued during the analysis period                                | -3.4   | 153.9  | +157.3      |
| Government expenditure (subsidies, etc.)  | -      | -      | -           |
| Government revenue (payments to the government, etc.)*  | -      | -42.2  | -42.2       |
| Opportunity cost of surplus, etc.   | -3.4   | 196.1  | +199.5      |
| Opportunity cost of capital investments, etc.   | -      | -      | -           |

### (4) Sensitivity analysis (cases where assumptions change)

(Unit: billion yen)

| (A) Policy cost (previously cited) | Case of assumed interest rate + 1% | Fluctuation | Fluctuation                                 |   |  |
|------------------------------------|------------------------------------|-------------|---|---|--|
|                                    |                                    |             | 1. Government expenditure (subsidies, etc.) | 2. Government revenue (payments to the government, etc.)* | 3. Opportunity cost of capital investments, etc. |
| 259.0                              | 327.7                              | +68.6       | -   | +0.2  | +68.4  |

| (A) Policy cost (previously cited) | Case of a 1% decrease in medical services revenues | Fluctuation | Fluctuation                                 |   |  |
|------------------------------------|--|-------------|---|---|--|
|                                    |  |             | 1. Government expenditure (subsidies, etc.) | 2. Government revenue (payments to the government, etc.)* | 3. Opportunity cost of capital investments, etc. |
| 259.0                              | 289.1  | +30.1       | -   | -   | +30.1  |

(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.

### (3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

| Policy cost                             |  | FY2022                                | FY2023   | Simple fluctuation     |
|---|--|---------------------------------------|--|------------------------|
|   |  | Simple comparison (before adjustment) | 53.8   | 259.0                  |
| Past year comparison (after adjustment) | 1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2023 analysis) |                                       | 2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2022) | Real fluctuation (2-1) |
|   | 47.6   | 132.8                                 | +85.2  |                        |

[Real fluctuation factor analysis]

#### ○ Factors behind policy cost increase

- Increase in cost due to increase in opening balance of reserves associated with the receipt of COVID-19-related subsidies, etc. in FY2022 (+70.1 billion yen)
- Increase in cost due to increase in operating expenses, etc. associated with an increase in investment in FY2023 (+57.3 billion yen)

#### ○ Factors behind policy cost decrease

- Decrease in cost due to payment to the National Treasury brought forward in FY2023 (-42.2 billion yen)

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

[Outline of estimation]

The operation subject to the analysis is the development of hospital facilities and medical equipment for medical services of the National Hospital Organization required for providing medical treatment and other services for diseases having grave impacts on the health of the people.

The analysis period covers 42 years for repaying 40.0 billion yen in fiscal loan planned to be borrowed between FY2023 and FY2025 and existing fiscal loans for the relevant operation.

[Project prospect]

Revenues from medical services are calculated, while expecting the continuation of investment up to FY2025 at the longest and excluding investment plans for FY2026 onward (for renewal after the elapse of durable years) with regard to hospitals with renovation plans.

(Unit: billion yen)

| FY                        | Result |       |         |         | Estimated<br>2022 | Planned<br>2023 | Assumptions for calculation<br>2024-2064 |
|---------------------------|--------|-------|---------|---------|-------------------|-----------------|--|
|                           | 2018   | 2019  | 2020    | 2021    |                   |                 |  |
| Medical services revenues | 996.1  | 990.4 | 1,034.4 | 1,124.4 | 1,080.0           | 1,052.3         | -0.3% from the previous year             |
| Medical services expenses | 879.7  | 898.9 | 898.4   | 923.3   | 946.2             | 958.5           | -0.3% from the previous year             |

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

[Reasons for granting of subsidies]

The NHO contributes to improving and promoting public health by providing medical services and conducting surveys and research on medical services and training of technicians to improve its medical services for diseases having grave impacts on the health of the people under national healthcare policies.

(Underlying laws and regulations)

Act on General Rules for Incorporated Administrative Agencies (Act No.103, 1999)

Article 46

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 140 as of April 1, 2023.)
- 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 machines. 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 NonNational Hospital organizations due to historical and social reasons

(As of October 2022)

|   | Institutions | Beds  |
|---|--------------|-------|
| Institutions engaging in the treatment of tuberculosis                                      | 41           | 1,019 |
| Institutions engaging in the treatment of severe motor and intellectual disabilities        | 75           | 8,112 |
| Institutions engaging in the treatment of progressive muscular dystrophy                    | 26           | 2,347 |
| Legally-designated inpatient settings engaging in the treatment of mental unsoundness, etc. | 14           | 433   |

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

○ 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 to disaster-hit areas for the initial rescue of disasteraffected people.

○ In response to the COVID-19 outbreak, the NHO sent a disaster medical assistance team (DMAT) and other personnel to National Tax College and other locations and pharmacists to the Yokohama Quarantine Station to deal with people returning home from Wuhan, China, and dispatched DMAT doctors for medical services on the Diamond Princess cruise ship.

○ In FY2022, responses to emerging infectious diseases were added to the operations of the DMAT secretariat. Such responses include support for local governments amid the spread of emerging infectious diseases.

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

- Hospitals designated for clinical training
  - 54 institutions (FY2022)
- Hospitals designated for cooperation-type clinical training
  - 70 institutions (FY2022)
- Hospitals designated as centers for allergic disorders
  - 1 institution
- Hospitals designated as AIDS Block Centers
  - 4 institutions

5) Contribution to the reinforcement of local medical services

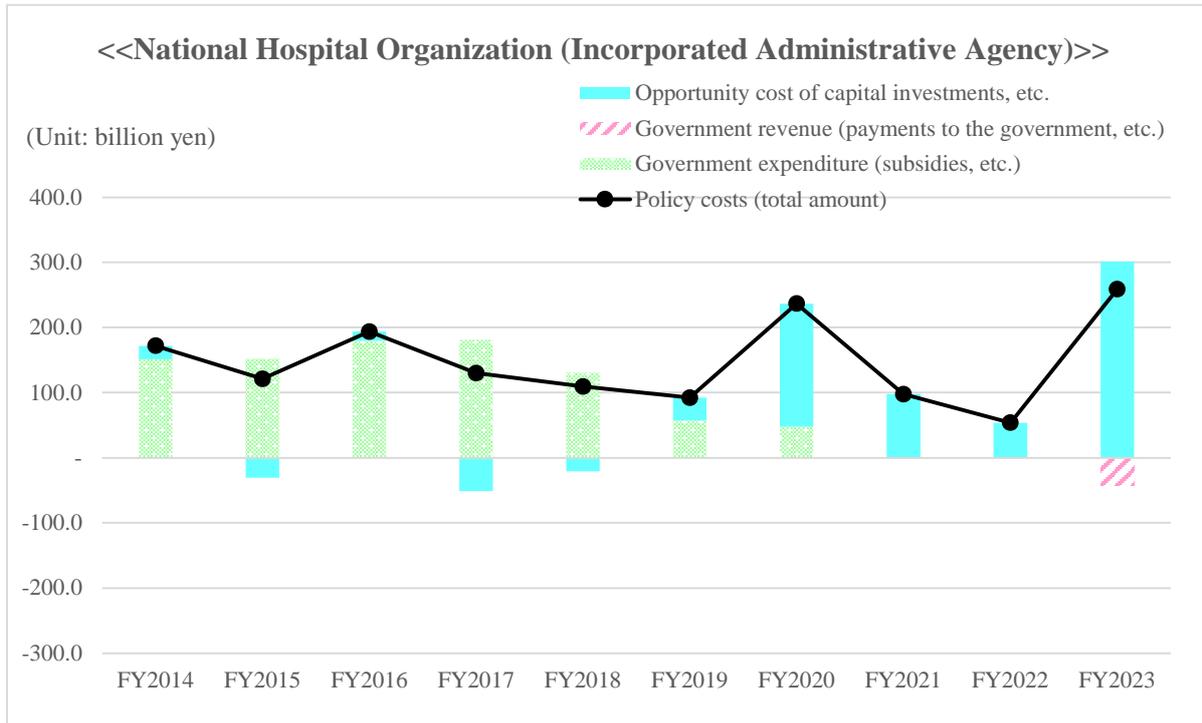
| Share of nationwide total number of base hospitals, etc.                                   | NHO | Nationwide total | Share (%) |
|--|-----|------------------|-----------|
| Number of the base hospitals etc. of emergency medical care for children (as of July 2022) | 21  | 300              | 7.0%      |
| General Perinatal Center (as of April 2021)  | 5   | 112              | 4.5%      |
| Regional Perinatal Center (as of April 2021)   | 20  | 296              | 6.8%      |
| Core disaster base hospitals (as of April 2022)  | 5   | 64               | 7.8%      |
| Regional disaster base hospitals (as of April 2022)  | 32  | 701              | 4.6%      |
| Cancer Care Coordination Core Hospital [total] (as of April 2023)                          | 35  | 456              | 7.7%      |
| Prefectural Cancer Care Coordination Core Hospital (as of April 2023)                      | 3   | 51               | 5.9%      |
| Regional Cancer Care Coordination Core Hospital (as of April 2023)                         | 30  | 357              | 8.5%      |
| Remote base hospitals (as of April 2021)   | 10  | 341              | 2.9%      |

[Reference]

NHO hospitals' share of nationwide total number of hospitals (8,156 hospitals as of October 2022) stood at about 1.7%.

# Overview of policy cost analysis results

## [Changes in policy costs]



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

(Unit: billion yen)

|   | FY2014 | FY2015 | FY2016 | FY2017 | FY2018 | FY2019 | FY2020 | FY2021 | FY2022 | FY2023 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Policy costs (total amount)                           | 171.9  | 121.2  | 193.5  | 129.8  | 109.3  | 92.3   | 236.6  | 97.5   | 53.8   | 259.0  |
| Government expenditure (subsidies, etc.)              | 151.1  | 152.0  | 179.6  | 181.1  | 130.3  | 57.1   | 47.9   | -      | -      | -      |
| Government revenue (payments to the government, etc.) | -      | -      | -      | -      | -      | -      | -      | -      | -      | -42.2  |
| Opportunity cost of capital investments, etc.         | 20.8   | -30.8  | 13.9   | -51.3  | -21.0  | 35.1   | 188.8  | 97.5   | 53.8   | 301.2  |

### **【Explanation of policy cost trends】**

- Until FY2020, policy costs related to subsidies, etc. decreased as operating expense subsidies for retirement allowances for the period before the organization's conversion into the incorporated administrative agency status were decreasing. As all operating expense subsidies were reduced in FY2021, policy costs related to subsidies, etc. became zero thereafter.
- From FY2019 to FY2020, "opportunity cost of capital investments, etc." increased due to an increase in personnel costs, etc. (fixed costs) associated with the impact of work style reforms.
- From FY2021 to FY2022, "opportunity cost of capital investments, etc." increased as year-end reserves increased due to the impact of the receipt of COVID-19-related subsidies, etc..
- In FY2023, "opportunity cost of capital investments, etc." increased due to an increase in depreciation expense, associated with the increase in investment, and an increase in personnel and utilities costs, etc. (on the cost side), and a decrease in revenue from medical services after COVID-19 (on the income side).

### **【FILP agency's self-assessment of policy cost analysis results (FY2023)】**

- Policy costs increased in FY2023 compared to FY2022. With the impact of COVID-19 remaining unclear even from FY2023, despite the potential for an upswing in the situation, it is expected to remain challenging without returning to pre-COVID levels. Therefore, it is necessary to continue working toward efficient hospital management.
- The results of the sensitivity analysis (case of assumed interest rate + 1%) showed that policy costs increased 68.6 billion yen. This is due to an increase in opportunity cost arising from a fall in discount rate brought about by the difference in interest rate, in addition to an increase in interests paid. Therefore, it is necessary to continue working toward efficient hospital management.
- The results of the sensitivity analysis (Case of a 1% decrease in medical services revenues) showed that policy costs increased 30.1 billion yen. This is due to the decrease in revenue from medical services exceeding the decrease in expenditures from medical services. Therefore, it is necessary to continue working toward efficient hospital management.

## (Reference) Financial Statements

## Balance Sheet

(Unit: million yen)

| Item                                      | End of FY2021<br>(Result) | End of FY2022<br>(Estimated) | End of FY2023<br>(Planned) | Item   | End of FY2021<br>(Result) | End of FY2022<br>(Estimated) | End of FY2023<br>(Planned) |
|---|---------------------------|------------------------------|----------------------------|--|---------------------------|------------------------------|----------------------------|
| (Assets)                                  |                           |                              |                            | (Liabilities and net assets)   |                           |                              |                            |
| Current assets                            | 453,200                   | 496,741                      | 404,500                    | Current liabilities  | 204,961                   | 200,025                      | 210,837                    |
| Cash and bank deposits                    | 163,259                   | 196,409                      | 101,554                    | Debt from grants for operation cost                                      | 5,042                     | -                            | -                          |
| Securities                                | 70,000                    | 70,000                       | 70,000                     | Subsidy received, etc.   | 904                       | 862                          | -                          |
| Accounts due for medical operations       | 170,953                   | 179,927                      | 178,859                    | Deposited donations  | 2,029                     | -                            | -                          |
| Accounts receivable                       | 40,012                    | 41,424                       | 45,107                     | Current portion of long-term borrowings                                  | 45,425                    | 39,834                       | 39,631                     |
| Inventory assets                          | 8,038                     | 8,038                        | 8,038                      | Accounts payable   | 43,609                    | 47,127                       | 54,019                     |
| Prepaid expenses                          | 182                       | 140                          | 140                        | Money unpaid   | 70,865                    | 74,636                       | 79,898                     |
| Accrued income                            | 4                         | 4                            | -                          | Current portion of lease obligation                                      | 141                       | 105                          | 129                        |
| Other current assets                      | 751                       | 799                          | 803                        | Accrued expenses   | 35                        | 35                           | 35                         |
| Fixed assets                              | 1,059,900                 | 1,026,582                    | 1,054,309                  | Unpaid consumption tax, etc.   | 853                       | 853                          | 853                        |
| Tangible fixed assets                     | 1,043,519                 | 1,014,805                    | 1,028,292                  | Deposit received   | 4,094                     | 4,094                        | 4,094                      |
| Buildings                                 | 479,599                   | 467,346                      | 450,313                    | Advance revenues   | 18                        | -                            | -                          |
| Structures                                | 16,017                    | 15,062                       | 14,312                     | Provisions   | 31,618                    | 32,196                       | 31,897                     |
| Medical instruments and equipment         | 63,376                    | 51,943                       | 65,948                     | Provision for bonuses  | 30,364                    | 30,943                       | 30,644                     |
| Other instruments and equipment           | 14,473                    | 10,388                       | 24,701                     | Provision for loss from compensation of damage                           | 1,253                     | 1,253                        | 1,253                      |
| Vehicles                                  | 212                       | 228                          | 232                        | Current portion of asset retirement obligation                           | 1                         | 1                            | 1                          |
| Land                                      | 468,237                   | 468,237                      | 468,237                    | Other current liabilities  | 329                       | 283                          | 282                        |
| Construction in progress                  | 1,527                     | 1,522                        | 4,470                      | Fixed liabilities  | 799,582                   | 772,725                      | 748,578                    |
| Other tangible fixed assets               | 79                        | 79                           | 79                         | Contra-accounts for assets   | 55,223                    | 52,670                       | 50,328                     |
| Intangible fixed assets                   | 14,310                    | 9,607                        | 23,721                     | Contra-accounts for assets funded by operational grants                  | 1,248                     | 817                          | 817                        |
| Software                                  | 14,046                    | 9,343                        | 23,458                     | Contra-accounts for assets funded by subsidies, etc.                     | 52,300                    | 50,420                       | 48,594                     |
| Telephone subscription right              | 195                       | 195                          | 195                        | Contra-accounts for assets funded by contributions                       | 1,403                     | 1,235                        | 917                        |
| Other intangible fixed assets             | 69                        | 69                           | 69                         | Contra-accounts for donation of non-current assets                       | 271                       | 198                          | -                          |
| Investment and other assets               | 2,071                     | 2,170                        | 2,296                      | Long-term deposited donations  | 53                        | 53                           | 53                         |
| Long-term loan receivable                 | 1,235                     | 1,347                        | 1,485                      | Long-term borrowings   | 405,323                   | 376,589                      | 365,558                    |
| Bankruptcy or rehabilitation claims, etc. | 1,706                     | 1,804                        | 1,806                      | Long-term debts  | 411                       | 378                          | 344                        |
| Allowance for loan losses                 | -1,706                    | -1,804                       | -1,806                     | Lease liabilities  | 217                       | 177                          | 137                        |
| Long-term prepaid expenses                | 37                        | 25                           | 12                         | Provisions   |                           |                              |                            |
| Stock for disasters                       | 782                       | 782                          | 782                        | Provision for retirement benefits  | 296,954                   | 302,202                      | 292,290                    |
| Other investment assets                   | 17                        | 17                           | 16                         | Asset retirement obligation  | 41,256                    | 40,513                       | 39,769                     |
|   |                           |                              |                            | Other fixed liabilities  | 144                       | 144                          | 98                         |
|   |                           |                              |                            | (Total liabilities)  | 1,004,543                 | 972,749                      | 959,415                    |
|   |                           |                              |                            | Capital  |                           |                              |                            |
|   |                           |                              |                            | Government investment  | 202,906                   | 202,906                      | 202,906                    |
|   |                           |                              |                            | Capital surplus  | 223,711                   | 223,310                      | 222,933                    |
|   |                           |                              |                            | Capital surplus  | 234,371                   | 234,371                      | 234,371                    |
|   |                           |                              |                            | Other administrative costs accumulated                                   | -10,660                   | -11,061                      | -11,438                    |
|   |                           |                              |                            | Amount equivalent to accumulated depreciation cost                       | -6,630                    | -7,031                       | -7,408                     |
|   |                           |                              |                            | Amount equivalent to accumulated impairment loss                         | -8                        | -8                           | -8                         |
|   |                           |                              |                            | Amount equivalent to accumulated net gains or losses on sale or disposal | -4,022                    | -4,022                       | -4,022                     |
|   |                           |                              |                            | Retained earnings  | 81,940                    | 124,358                      | 73,555                     |
|   |                           |                              |                            | Reserve fund   | -                         | 81,940                       | 82,158                     |
|   |                           |                              |                            | Unappropriated retained earnings or loss for the period                  | 81,940                    | 42,418                       | -8,603                     |
|   |                           |                              |                            | (of this, gross profit or loss)  | 85,915                    | 42,418                       | -8,603                     |
|   |                           |                              |                            | (Total net assets)   | 508,557                   | 550,574                      | 499,394                    |
| Total assets                              | 1,513,100                 | 1,523,323                    | 1,458,809                  | Total liabilities and net assets   | 1,513,100                 | 1,523,323                    | 1,458,809                  |

Notes 1. The balance sheet includes amounts 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                                       | FY2021<br>(Result) | FY2022<br>(Estimated) | FY2023<br>(Planned) |
|--|--------------------|-----------------------|---------------------|
| Ordinary income                            | 1,148,596          | 1,110,394             | 1,077,188           |
| Income from grants for operation cost      | 671                | 5,449                 | -                   |
| Medical care operations income             | 1,129,247          | 1,088,507             | 1,062,143           |
| Education and research operations income   | 4,973              | 4,937                 | 4,817               |
| Clinical research operations income        | 8,280              | 8,260                 | 7,237               |
| Other ordinary income                      | 5,425              | 3,241                 | 2,991               |
| Ordinary expenses                          | 1,057,833          | 1,067,611             | 1,085,582           |
| Medical care operations expenses           | 1,024,980          | 1,036,210             | 1,054,908           |
| Education and research operations expenses | 7,354              | 7,354                 | 7,186               |
| Clinical research operations expenses      | 11,708             | 11,305                | 10,780              |
| General and administrative expenses        | 4,014              | 4,002                 | 4,033               |
| Other ordinary expenses                    | 9,778              | 8,739                 | 8,676               |
| Ordinary profit or loss                    | 90,763             | 42,783                | -8,394              |
| Temporary profits                          | 522                | 143                   | -                   |
| Gain on sales of fixed assets              | 40                 | -                     | -                   |
| Other temporary profits                    | 482                | 143                   | -                   |
| Temporary losses                           | 5,371              | 508                   | 208                 |
| Loss on sale of fixed assets               | 0                  | 0                     | -                   |
| Loss on retirement of fixed assets         | 1,566              | 200                   | 200                 |
| Impairment loss on fixed assets            | 2,812              | 8                     | 8                   |
| Other temporary losses                     | 993                | 300                   | -                   |
| Net profit or loss                         | 85,915             | 42,418                | -8,603              |
| Gross profit or loss                       | 85,915             | 42,418                | -8,603              |

Notes 1. The income statement includes amounts for projects other than those subject to the policy cost analysis.

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