

# Financing and Provision of Social Infrastructure - Insights from Japan



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## **Introduction**

In recent years, social infrastructure has been emerging as a key concept in understanding urban life and development. Defined by sociologist Eric Klinenberg as “the physical places and organizations that shape the way people interact” (Klinenberg, 2019, p.5), it includes public institutions such as libraries, schools and parks, community organizations such as churches and civic associations, and other services and facilities, including regularly scheduled markets and commercial establishments.

This move towards understanding social infrastructure within the framework of the facilities and services that it encompasses has been primarily active in the

Global North. With the focus on finance and the provision of social infrastructure, private think tanks are attempting to calculate the financial benefits and losses generated by social infrastructure (or lack thereof), and there is also a move towards analysing the mechanisms and means by which social infrastructure is provided (Tomaney et al, 2024). Meanwhile, economic geographers are analysing the situation from the perspective of local government, the financialisation of public administration (Pike et al, 2020) or urban and regional development (MacKinnon et al, 2022), especially in left-behind places.

However, most current research on social infrastructure and its provision is based on very Anglocentric local administrative structures, systems, and policies, and its application outside such a specific context is limited.

Hence, this article seeks to exam social infrastructure financing and provision in a relatively overlooked geographical area, Japan, focusing on that nation's progressive Public-Private Partnerships (PPP) scheme "Designated Administrator System" (*shitei-kanrisha seido* 指定管理者制度) (DAS) and how that is applied to social infrastructure, based on analysis of management in stadiums and civic halls, as well as a case study in the city of Hakodate, Hokkaido. It aims to consider the value of DAS as an alternative to current top-down national schemes or to the numerous disparate independent contracts seen by local governments in countries such as the UK.

## **Overview of Japan's Designated Administrator System**

In Japan, social infrastructure provision is typically managed by local governments. However, neoliberal policies in line with privatisation have led to increased outsourcing of facilities management and the seeking of private sector investments. With the decline of the rural population and facilities from the 1970s to the 80s, the economic boom is now aging. The government has promoted private sector participation through DAS and Private Finance Initiative (PFI) methods. These frameworks now form a cornerstone of Japan's public-private partnerships (PPP).

Japan's PPP systems draw on UK and European frameworks, with DAS introduced in 2003 as a more flexible, government-controlled version of PFI. Similar to Operations and Maintenance (O&M) contracts but broader in scope, DAS replaced older laws restricting outsourcing to statutory corporations and publicly

funded entities. It opened the door for private and voluntary sectors to manage public facilities. The Japanese government defines such facilities as those aimed at promoting residents' welfare, which generally aligns with Klinenberg's social infrastructure concept.

Uniquely, DAS allows local governments to create their own rules for employing the system. While national regulations set basic guidelines, local governments are delegated to decide on specific details. National regulations require:

- Local ordinances outlining processes for selecting subcontractors, defining their duties, and establishing operational standards.
- Council resolutions for appointing subcontractors.
- Annual business reports submitted by administrators.
- Equal access guarantees, prohibiting discrimination in resident access.
- The right to dissolve contracts for non-compliance with local government directives.

This flexibility enables local governments to tailor DAS applications to their specific needs. However, as creating individual selection processes and operational standards for every individual facility is not a viable approach, most local governments have adopted city-wide uniform rules for designation procedures, irrespective of facility size or the number of designated management projects.

### **The Designated Administrator System in Practice**

Focusing on stadiums and civic halls built after 2000, my analysis of DAS applications categorized administrators into multiple types: public-run, trusts, public foundations (including NPOs), private (facility operators), private (local businesses), private (groups), and private (others).

For civic halls, DAS was used in 83% of cases. Management by for-profit companies accounted for 40%, with a high proportion of private firm groups. However, the largest share was operated by public foundations and trusts, often municipal cultural associations (*bunka-zaidan* 文化財団).

In stadiums, DAS was applied in 94% of cases. Private companies managed 63%. Unique to stadiums, 11% were operated by private entities categorized as "others," including professional sports teams or owners, indicating integration

into sports events.

In comparison, civic halls, being smaller, focus more on facility maintenance and rentals (to community clubs, etc.), resulting in more management by trusts, public foundations, and NPOs. In stadiums, though less frequent, about 30% were similarly managed, highlighting the significance of these organizations.

Geographically, DAS trends reveal that public management and outsourcing to NPOs or public foundations dominate in smaller councils, while outsourcing to private firms increases with population size. Core cities (200,000–500,000 population) show a divide between public foundation and private firm outsourcing, with large municipalities favouring private companies, particularly for stadiums.

This differentiation reflects the resources required for facility management. Private companies, needing financial stability and employment capacity, are less involved in small-population municipalities, where NPOs manage smaller facilities. Foundation-based organizations, often linked to local authorities, manage both facility types across population sizes. Smaller municipalities rely on such foundations for private management, while larger municipalities, with better resources and staffing, manage large facilities effectively.

For example, the city of Hakodate, in Japan's northern Hokkaido Prefecture, is one of the cities that have incorporated DAS from its early days. With a population of just over 200,000, it is considered a mid-sized city and hub of the local region. The city set its guidelines for public facility management under DAS just one year after its nationwide introduction, with the system formally being introduced in 2006. 58% of the council-owned public facilities were run by DAS in 2006, while this ratio has increased over the years, with more than 77% now being managed through DAS.

With the council eager to utilise the system from its early stages, a series of trial-and-error processes have "improved" their version of DAS over the years, with non-council experts (lawyers, economists, consultancies) more involved in the selection process, and more facilities that require expert knowledge (i.e. childcare centre) becoming open access after private firms gained experience through DAS of facilities that require more general know-how, enabling their resources to be focused on utilising their expertise. Facilities currently managed by DAS include

larger facilities such as the city's arena, public football ground, and museum, as well as smaller community centres, care homes, and tourist information boxes.

### **Benefits and Potential of the Designated Administrator System**

The main advantage for local governments adopting DAS is cost reduction. In Hakodate, officials reported that labour costs, which form the largest share of facility and service expenses, can be cut by nearly 40% through outsourcing to the private sector. Overall, DAS enables facilities to operate with about one-third of the financial resources of full public management.

DAS also benefits citizens by improving management and services through private-sector expertise. For example, Hakodate's football ground, managed by the local football association via DAS, operates for longer seasons despite harsh winters due to high-quality maintenance performed by skilled personnel.

DAS provides flexibility for local governments to encourage local investment and employment. While not explicitly stated in Hakodate's rules, the city prioritizes locally based firms and those committed to local hiring. Some municipalities, especially those distant from major cities like Tokyo or Osaka, establish legally binding rules to ensure local firms can manage facilities.

The system's simplicity and adaptability make DAS easier to implement than other PPP frameworks. It suits various types of facilities, as it offers flexibility in system design and low costs for existing facilities. For new facilities and services, local governments usually handle the initial financing, reducing the private sector's initial investment costs and expanding management outsourcing to include not just private firms, but also nonprofits.

In contrast, Hakodate has not adopted the PFI system, which entrusts facility creation to the private sector. According to Hakodate's PPP guidelines, projects with facility development costs exceeding 1 billion JPY (approx. 6.5 million USD) and annual running costs over 100 million JPY are considered for PFI. However, such projects are rare in cities of this size, limiting PFI's applicability.

### **Possible issues and disadvantages of DAS**

On the other hand, interviews with operators in Hakodate all pointed out issues related to the 'budget' for operation. In some cases, it is simply not enough; in

others, it is a systemic problem in that it is decided on a five-year basis and cannot be adjusted for inflation/cost of living, and, even if the city's governing approach has room for improvement in terms of budget and management, contractors may be forced to accept the conditions proposed to provide services and maintain employment. In addition, it became clear that the COVID-19 crisis exposed the local councils to further risks and challenges in terms of costs, as the council had to provide temporary compensation for many facilities and services that faced temporary closure or significant decrease in usage, which in turn affected the annual budgets of the local government.

Bureaucracy in local government was also highlighted as a potential issue. Private firms and trusts claimed that the process for any change in contract or approval for significant investment in maintenance takes much longer than internal operations, due to complex systems within the local government, while government officials claimed that the private sector did not have a clear understanding of how planning, budgeting and policy making works in the public sector.

In Hakodate, the designation period is set at five years for designated administrators appointed through public bid, and three years for internally designated administrators. Some firms consider it a problem that the employment of (often part-time) staff is contractually bound by these periods, making it difficult to leverage the 'accumulation of private-sector know-how' - the original proposed merit of the DAS.

In terms of internal governance, Hakodate City has established a 'Designated Administrator System Operation Manual', and the designation period, the public application process, et cetera, are standardised regardless of the department in charge. However, this is where the 'flexibility' becomes a disadvantage: as there are no clear guidelines on how much of the work, specifications and actual content of contracts decided for each facility should be written into formal contracts, the actual operation of the system varies from facility to facility and department to department within the city. Furthermore, since different local governments implement DAS in different ways, it is difficult to share know-how and experience between different local governments.

## **Conclusion**

The potential for policy transfer across regions generally requires carefully understanding local nuances, legal frameworks, and specific regional development needs. Hence, it is not realistic to fully transfer the DAS system to other countries like the UK, and DAS itself is not a perfect solution within Japan either. However, there are a few distinct characteristics and approaches of DAS that could be useful for future PPP frameworks in the Global North, such as the idea of a specific framework for social infrastructure management distinct from public services and operation, more flexible public-private partnership frameworks based on the needs of local regions, and scale-appropriate management approaches for individual facilities.

Reflecting on the issues identified in the Hakodate case study, the operation of DAS should allow a certain degree of freedom depending on the nature of the designated manager and the nature of the facility while at the same time offering possible patterns for the general operation of the system as a whole.

However, more importantly, conclusions drawn from examining the current state of DAS also give significant insight into other PPP forms as well. The need for more adaptive forms of funding to tackle social changes and the need to strengthen understanding and allow for a more fluid exchange of information and opinion between public and private sectors is a lesson to any other forms of PPP, such as PFI systems applied in many local governments throughout the world.

## **References**

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