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Long Term Financial Sustainability Policy

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1. Introduction

1.1 Drakenstein Municipality is responsible for directly providing residents in its jurisdictional area, a wide range of public services, and access to essential utilities and community facilities. This requires Drakenstein to hold and maintain a significant base of infrastructure assets, which necessitates not only substantial initial investments, but also continued expenditure to maintain and renew assets over the course of their respective useful lives.

1.2 It is paramount that long-term financial and asset management planning is undertaken to ensure local governments can continue to provide the desired levels of services to residents now and into the future, within the confines of their respective financial capacities.

2. Financial Sustainability and South African Legislation

2.1 Section 26(h) of the Municipal Systems Act (MSA) determines that an Integrated Development Plan (IDP) must reflect a **financial plan**, which must include a **budget projection** for at least the **next three years**.

2.2 Regulation 2(3) of the Municipal Planning and Performance Management Regulations (MPPMR) determines that a financial plan reflected in a municipality's IDP must at least –

(a) Include the budget projection required by section 26(h) of the MSA;

(b) Indicate the financial resources that are available for capital project developments and operational expenditure; and

(c) Include a financial strategy that defines sound financial management and expenditure control, as well as ways and means of increasing revenues and external funding for the municipality and its development priorities and objectives, which strategy **may** address the following –

(i) Revenue raising strategies;

(ii) Asset management strategies;

(iii) Financial management strategies;

(iv) Capital financing strategies;

(v) Operational financing strategies; and

(vi) Strategies that would enhance cost-effectiveness.

2.3 Section 4(2)(d) of the MSA determines that the council of a municipality, within the municipality's financial and administrative capacity and having regard to practical consideration, has the duty to strive to ensure that municipal services are provided to the local community in a **financially** and environmentally **sustainable** manner.

2.4 **"Financially sustainable"** in terms of section 1 of the MSA, in relation to the provision of a municipal service, means the provision of a municipal service in a manner aimed at ensuring that the financing of that service from internal and external sources, included budgeted income, grants and subsidies for the service, is sufficient to cover the costs of –

(a) The initial capital expenditure required for the service;

(b) Operating the service; and

(c) **Maintaining**, **repairing** and **replacing** the **physical assets** used in the provision of the service.

2.5 Foot note 1 to regulation 7(1) of the Municipal Budget and Reporting Regulations determines as follows: As defined in section 1(g) of the Municipal Finance Management Act, policies that affect or are affected by the annual budget of a municipality include a policy related to the l**ong-term financial plan**.

2.6 Notable shortcomings in South African legislation are –

(a) Section 26(h) of the MSA that refers to an IDP with information for only the next five years (medium-term thinking);

(b) Section 26(h) of the MSA refers to a financial plan with budget projections for only three years (medium-term thinking);

(c) Regulation 2(3)(c) of the MPPMR refers to a financial strategy that **may** address strategies with regard to revenue raising, asset management, financial management, capital financing, operational financing and strategies that would enhance cost-effectiveness (short-term thinking);

(d) Section 4(2)(d) of the MSA refers to **financially** and environmentally **sustainable** municipal services (long-term thinking);

(e) Section 1 of the MSA defines **financially sustainable** *inter alia* as **maintaining**, **repairing** and **replacing** physical assets in the provision of municipal services (long-term thinking); and

(f) Foot note 1 to regulation 7(1) of the MBRR refers to a **long-term financial plan** (long-term thinking).

2.7 There is no long-term financial plan template / guideline available or legislated. The same applies for financial strategies that **may** be developed. The financial plans of municipalities differ substantially from one another and there is no consistency for the reader of IDP's.

3. Financial Sustainability – The Concept

3.1 The word "sustainable" has gained common usage in a variety of areas since the 1990's. It is most often used in the context of environmental management. We can easily understand, for example, that fossil fuels such as oil and coal are finite resources. Therefore, considerable effort is devoted to seeking alternative renewable energy resources, along with energy-saving practices and technologies, to try to make our energy consumption practices sustainable. In general terms we use "sustainable" to mean that we can continue our current practices.

3.2 "Financial sustainability" is a similar concept. For community members, financial sustainability is probably thought of as whether we can afford our current lifestyle: whether we can pay for rent, food and other expenses with the income we receive each year. For those of us who own homes, farms or businesses, we may think in longer terms as to whether we will be in a position to repay debts by the time we retire. This type of thinking is practical for individuals or families where long-term planning is probably in the order of 15 to 20 years. However, most of us probably plan on a shorter basis than that.

4. Financial Sustainability in Local Government

4.1 The concepts most people use in their personal and business lives are basically the same as those that should be applied in municipalities, but need some modification. This is because municipal councils are perpetual corporations which acquire and manage a stock of financial and physical assets (including renewing and disposing of individual items) in order to provide services for **generation after generation** of local residents and ratepayers.

4.2 Municipal councils provide the legal framework by which communities own infrastructure and other assets and by which they act as a collective. Much local government infrastructure has a useful life of 30, 50 or in some cases well over 100 years. While individuals involved may come and go, municipalities continues to render services perpetually.

4.3 This poses the question: *Can we continue the revenue and expenditure patterns of recent years while maintaining the levels of service expected by the local community?*

4.4 Drakenstein like other municipalities worldwide have large infrastructure maintenance and renewal backlogs and as a result our communities were enjoying infrastructure which would, and was beginning to, fall apart – and which would be left for our children to fix up.

4.5 Drakenstein don't want to continue with very low levels of debt, because then they would be trying to rebuild long-lasting infrastructure out of current revenue rather than recovering the cost over the useful life of the infrastructure. In some circumstances, a deferral of infrastructure renewal and replacement is a worse 'sin' than borrowing to finance such renewal / replacement of infrastructure.

4.6 Drakenstein's leaders, administrators and communities should not only think about the state of infrastructure and other assets we would leave to our children, but what we would leave to our grandchildren and great grandchildren. This is often referred to as 'intergenerational equity'.

4.7 Another way of describing this is to say that communities were, under past stewardship, living off their assets rather than paying their way. We were on a path of wearing out vital infrastructure and putting off until the next generation the challenges of renewal.

4.8 The infrastructure backlogs and challenges facing Drakenstein resulted from short-term thinking that failed to seriously address the long-term nature of infrastructure and the on-going responsibilities towards the local communities. It is noted that Drakenstein had not been referring to financial indicators which could have told leadership and others how we had been performing on long-term financial sustainability issues.

5. Defining Financial Sustainability

5.1 Three essential elements with regard to services, property taxes, service charges and the impacts thereof on future generations needs to be covered in a financial sustainability definition. They are –

(a) To ensure that the maintenance of Drakenstein's high priority expenditure programs, both operating and capital, are at the desired levels (programme sustainability);

(b) To ensure a reasonable degree of stability and predictability in the overall property rates and service charges burden (affordability sustainability); and

(c) To promote a fair sharing in the distribution of Drakenstein's resources and the attendant taxation between current and future ratepayers (intergenerational sustainability).

5.2 In another way, these elements can be seen as what Drakenstein's community expects from Council with regard to quality services; reasonable property rates and service charges; and, sound long-term financial management.

5.3 Financial sustainability could therefore be defined as follows –

Drakenstein's long-term financial operating performance and financial position is sustainable where long-term planning and budgeting as well as infrastructure levels and standards are met without any substantial unplanned increases in property rates and service charges or inconvenient disruptive cuts to services.

6. Signalling and Communicating Long-Term Financial Sustainability

6.1 One of the problems of the past was that there had been no common publication of data indicating the extent to which municipalities were financially sustainable. In the absence of such data, the media and communities tended to focus on three elements –

(a) Municipality's sizes of our revenue, expenditure or, in particular, debt levels;

(b) Whether municipality's budgets are balanced (in cash terms); and

(c) Municipality's annual percentage increases in property rates and service charges revenue.

6.2 All of these are measured with various financial ratios benchmarking municipalities with one another. However, no long-term financial sustainability ratios are used for long-term planning and budgeting and since the development status and infrastructure backlogs differs substantially from one municipality to another municipality; the focus should rather be on developing long-term financial viability ratios instead of comparing one municipality with another through short-term financial ratios.

6.3 Drakenstein communicates or signal important information to their local communities in a variety of ways. These include information provided in reports for Council meetings; issues debated at Council meetings; annual reports, annual business plans and long-term financial plans; media releases and statements by the Executive Mayor / Municipal Manager; and, community newsletters, forums, meetings and information on websites.

6.4 When engaging with a community, written analysis around an annual business plan (IDP) and a long-term financial plan is particularly important. It should facilitate community consultation on the likely changes to be made in service delivery, infrastructure spending and imposition of property rates and service charges, to provide for or maintain financial sustainability in the longer term. In addition, the analysis should make a conscious attempt to ensure a linkage with the objectives and goals of the Council. This approach also should result in a clear understanding by the community of the Council's proposed direction.

6.5 Councils using these communication mechanisms had rarely highlighted key financial sustainability measures. As a result, current needs and demands of communities often were given priority over the Council's long-term sustainability.

6.6. Drakenstein's long-term financial sustainability needs to be assessed using a standard set of key financial indicators. The following three key financial indicators should be communicated with Drakenstein's local communities –

(a) An ***Operating Surplus Ratio*** (the percentage by which the major controllable revenue source varies from operating expenses) that speaks to the Statement of Financial Performance;

(b) A ***Net Financial Liabilities Ratio*** (the significance of the net amount owed compared with operating revenue) that speaks to the Statement of Financial Position; and

(c) An ***Asset Sustainability Ratio*** (the extent to which assets are being replaced, compared with what is needed to cost-effectively maintain service levels) that speaks to the condition of infrastructure assets within the Fixed Assets Register.

6.7 Of the three, the most important is the ***operating surplus ratio*** which indicates whether Drakenstein Municipality is living within its means. It indicates the extent to which Drakenstein major revenue sources is more, or less than its operating expenses, including non-cash items such as depreciation of assets. A Council which has an operating deficit in one year **should have a plan** to achieve a breakeven position in future years.

6.8 Notwithstanding the usefulness of financial indicators when communicating with ratepayers, the most critical measure of the financial sustainability of a municipality is its annual operating result (i.e. the extent to which operating revenue is sufficient or insufficient to fund the cost of services). Any municipality that incurs on-going operating deficits should be quite clear about the strategic implications of this on its future capabilities to sustain current service levels. It means that –

(a) The rates and service charges that the community are paying are insufficient to cover the costs of providing existing levels of service;

(b) The municipality effectively is running down its existing net assets; and

(c) In future, the Municipal Council must inevitably reduce service levels, improve efficiency and / or increase operating revenue with higher property rates and service charges – and the longer it delays remedial action, the more severe the consequences are likely to be.

6.9 Drakenstein needs to ensure that the range and standard of services to their communities is determined having regard to Drakenstein's long-term financial sustainability. This requires a particular focus on cost-effective service provision and the maintenance and renewal of assets that Drakenstein are responsible for. Drakenstein need to give much greater profile in their mainstream communications to their targets for, and performance against, sustainability indicators. This information needs to feature more prominently in our primary communication tools – including information provided formally to Council meetings, in annual business plans and in work with the media.

6.10 Drakenstein needs to remind ourselves that in local government the Municipal Council and senior management are making decisions as a perpetual organisation for current and future generations; that the majority of our business, financial and management revolves around community infrastructure; that we have significant infrastructure backlog issues which demand greater property rates and service charges contributions and / or borrowings and possible reductions in **"lower priority"** service areas if we are to get on top of them; and, this may mean we need to say **"no"** to other governments (unfunded mandates) or our communities in response to demands for involvement in issues beyond our current resources and constitutional responsibilities.

6.11 The above should be readily apparent to our communities and should be highlighted regularly, along with our plan to deal with these issues and how we are progressing.

6.12 Drakenstein acknowledges that municipalities are all different so the appropriate property rates and service charges revenue, the appropriate expenditure on infrastructure and the appropriate level of indebtedness will look different in an urban developed municipality, compared with a rural municipality, compared with a district municipality and compared with a fringe metropolitan high growth and economies of scale that cannot be competed with.

7. Long-Term Financial Sustainability Ratios

7.1 Indicator 1: Operating Surplus Ratio

7.1.1 An operating surplus (or deficit) arises when operating revenue exceeds (or is less than) operating expenses for a period (usually a year). Just like any household or other organisation, Drakenstein's long-term financial sustainability is dependent upon ensuring that, on average over time, its expenses are less than associated revenues. In essence this requires current day citizens to fully meet the cost of services provided for them by Drakenstein Municipality.

7.1.2 If Drakenstein is not generating an operating surplus in most periods, then it is unlikely to be operating in a financial sustainable way. It means that the cost of services provided to the community exceeds the revenue generated. The change of an operating deficit into an operating surplus can occur only by ensuring in future that revenues are increased and / or that expenses are reduced (at least relative to revenue increases, either by reducing service levels or improving productivity).

7.1.3 Drakenstein was operating with a significant deficit over several years and its strategic management and long-term financial plans did not provide clear proposals for this to be turned around and it would be inevitable that Drakenstein would face major financial shocks in future. The Municipality effectively would be in the same position as an individual or family living beyond their means. Sooner or later they would be caught by the consequences. For Drakenstein the problem would likely come to a head when existing major assets failed. Drakenstein would then need to choose between large property rates and service charges increases or not replacing assets thereby effectively lowering its standards of service to its community.

7.1.4 The **operating surplus ratio** is the operating surplus / (deficit) expressed as a percentage of operating revenue (capital grants excluded). A positive ratio indicates the percentage of total accumulated reserves available to help fund future capital expenditure. If the relevant amount is not required for this purpose in a particular year, it can be held for future capital expenditure needs by either increasing financial assets or preferably, where possible, reducing debt (external borrowings) in the meantime. A negative ratio indicates the percentage increase in property rates and service charges that are required to achieve a break-even operating result.

7.1.5 This indicator is by far the most important financial indicator for Drakenstein or any municipality. If a municipality consistently achieves a modest positive operating surplus ratio, and has soundly based projections showing that it can continue to do so in future, having regard to asset management and its community’s service level needs, then it is financially sustainable. Favourable trend results measured against the other financial indicators described below will assist, but not in themselves ensure, that Drakenstein operates sustainably.

7.1.6 The suggested long-term target range for Indicator 1 **(Operating Surplus Ratio)** is to achieve, on average, an operating surplus ratio of between 0% and 5%. The setting of a lower target would be hard to justify. A negative operating surplus target (i.e. a deficit) might be appropriate in the short-term if a municipality’s community was widely and significantly adversely affected by economic conditions. Similarly an annually diminishing negative operating surplus ratio target might be an appropriate “roadmap” to progressively achieve financial sustainability for a municipality that had previously incurred large operating deficits. This was the case with Drakenstein Municipality.

7.1.7 As a long-term target, however, a negative operating surplus ratio could be justified only if Drakenstein and its community had worked out, and accepted, where this course would lead them. That is, that Drakenstein's stock of assets, net of liabilities, would progressively decline in value and that Drakenstein Municipality would be unable to fund required rehabilitation or replacement of assets, in future, without substantial rises in property rates and service charges. This would not normally be acceptable but may be, for example, in cases where there has been very significant demographic or service preference change over time and assets are not intended to be replaced at the end of their economic useful life.

7.1.8 Should Drakenstein wish to target a very large operating surplus ratio it needs to be equally clear about, and articulate, its reasons for doing so. This course of action would mean that the Municipal Council would be setting property rates and service charges at levels well in excess of its operating expenses. This would have negative implications for its community in terms of intergenerational equity. There may nevertheless be compelling reasons for such a strategy. For example Drakenstein may have run significant operating deficits in the past and have impending major asset replacement needs in excess of a prudent borrowing level. Drakenstein might wish to build up financial assets or reduce existing liabilities to help it, in the future, finance this impending need.

7.1.9 The setting of an appropriate target range for the operating surplus ratio is the most important financial decision that a Municipal Council must make. It is essential that the elected councillors and senior management involved in making this decision are provided with sufficient information and training to fully understand all relevant issues and implications.

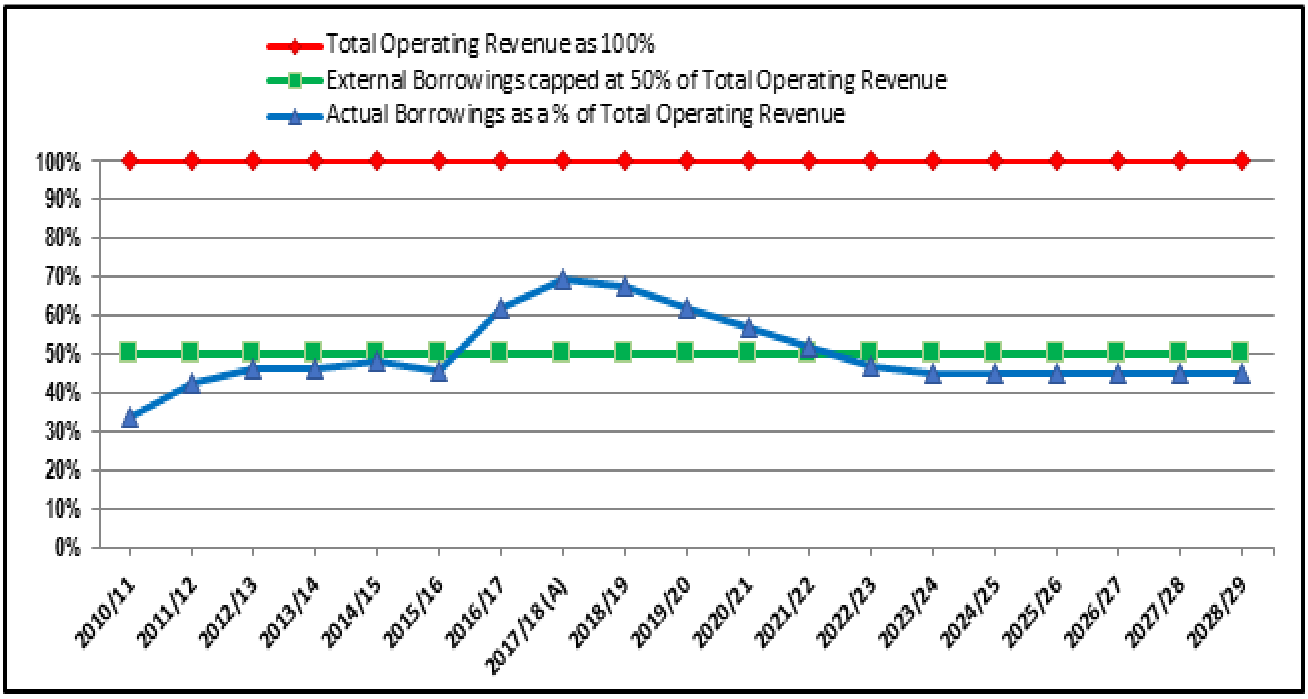
7.1.10 The Operational Surplus Ratio to be used by Drakenstein is set out in the table below. The contents are self-explanatory.

OPERATING SURPLUS RATIO
Operating Surplus Ratio (expressed as a percentage) is an indicator of the extent to which revenues raised cover operational expenses only or are available for capital funding purposes or other purposes.

Formula	Operating Result or Net Result (excluding Capital Items) Total Operating Revenue (excluding Capital Items)
Target	Between 0% and 5% per annum (on average over the long-term)

Targets		**What does this mean?**
Higher than target	> 5% on average over the long-term	Whilst expecting to generate substantial revenues can assist in off-setting past or future operating deficits, and fund proposed capital expenditure and/or debt repayments, the low level of operating expenses compared to operating revenues could also indicate that a local government is providing levels of service below that expected by rate payers
Within target range	> 0% and < 5% on average over the long-term	A local government is expecting to generate healthy levels of revenues that can be used to offset past or future operating deficits or to fund proposed capital expenditure and/or debt repayments, and is less likely to compromise the levels of service expected by ratepayers.
Below target range (negative ratio)	< 0% on average over the long-term	A local government is expecting to not be able to generate sufficient revenues that can cover operating expenses and offset past or future operating deficits or act as a funding source for proposed capital expenditure and/or debt repayments. The percentage indicates the percentage increase in operating revenues needed to achieve a break-even position.

7.1.11 The current status of Drakenstein's ***Operating Surplus Ratio*** as reflected in the Long-Term Financial Plan in Chapter **4** of the Integrated Development Plan (IDP) currently under review are depicted below. The picture indicates that Drakenstein is moving to long-term financial sustainability.



7.2 Indicator 2: Net Financial Liabilities Ratio

7.2.1 Net financial liabilities equals total liabilities less financial assets (excluding equity accounted investments in Council businesses).

7.2.2 Often too much focus is placed on the level of a municipality’s borrowings. This number has little meaning without also considering the municipality’s available financial assets and other liabilities. It would make no sense for individuals, in assessing their financial positions, to look at one pile of bills and ignore others and disregard how much money they have in the bank. The same holds true for municipalities.

7.2.3 Net financial liabilities is a broader and more appropriate measure of indebtedness than the level of borrowings, because it includes items such as employee long-service leave entitlements and other amounts payable as well as taking account a municipality’s cash and investments.

7.2.4 Before considering an increase in its indebtedness, a municipal Council needs to recognise that interest associated with borrowings will impact negatively on its operating result. However municipalities with significant asset rehabilitation and replacement backlogs may find that their financial sustainability is improved if they raise borrowings to finance the works needed to address these backlogs i.e. if the operational savings achieved from addressing these backlogs exceed the additional interest costs resulting from the borrowings raised, financial sustainability would be improved.

7.2.5 The **net financial liabilities ratio** is calculated by expressing net financial liabilities at the end of a financial year as a percentage of operating revenue for the year. If the ratio falls, over time, this indicates that the Municipality’s capacity to meet its financial obligations from operating revenue is strengthening.

7.2.6 An increase in the net financial liabilities ratio will sometimes mean that a municipality is incurring higher operating expenses (e.g. as a result of additional maintenance and depreciation costs associated with acquiring new assets). This will detract from the Municipality’s overall operating result. Nevertheless a municipality with a healthy operating surplus could quite appropriately decide to allow its net financial liabilities ratio to increase in order to provide additional services to its community through acquisition of additional assets without detracting from its financial sustainability.

7.2.7 There is no optimal single number or even narrow range for this indicator. What is important is that a Municipal Council understands and is comfortable with its ratio and that it has been determined based on future community needs and long-term financial sustainability.

7.2.8 There is no right or wrong target range for the net financial liabilities ratio. Different Municipality's (or the same Municipality at different points of time in its long-term financial plan) could appropriately have very different target ranges and each could be equally responsible and financially sustainable, depending upon their circumstances. A target range should be set by a Municipal Council having regard to the target for its operating surplus ratio and the needs that are identified in its long-term financial plan and its infrastructure and asset management plan.

7.2.9 The target ratio should normally be (especially over the medium to longer–term) greater than zero. If not, that is likely to imply that a Municipal Council places a higher priority on accumulating financial assets than applying funds generated from ratepayers to the provision of services including infrastructure renewal.

7.2.10 It is suggested that in normal circumstances the target ceiling for a net financial liabilities ratio be generally no more than 100% of operating revenue to ensure the ratio remains within conventionally prudent limits. However, a well-managed municipality's committed to sound financial strategies (particularly during a time of significant development) could comfortably allow a higher net financial liabilities ratio. Also, while any target ratio should effectively provide a guide to influence revenue and expenditure decisions and to constrain borrowing, it would make sense to borrow to fund the replacement of an asset at the end of its "economic useful life" if funds were not available from other sources (and assuming that existing service levels were considered affordable).

7.2.11 If a municipality has not yet fully researched its likely medium to longer-term asset rehabilitation and replacement needs, it may be appropriate to set a more modest ceiling until this information is available and its funding implications assessed.

7.2.12 The breadth of the suggested range highlights the considerable discretion associated with sound management of net financial liabilities. What is important is that a Municipal Council understands and is comfortable with its ratio and that it has been determined based on future community needs and long-term financial sustainability.

7.2.13 In practice, it is recommended that a Municipal Council establish a much tighter range for this indicator than the very broad range of 0% to 100% suggested above. For example, in any one year of its long-term financial plan or in its annual budget, a Council might establish a target range of say 50% to 60%.

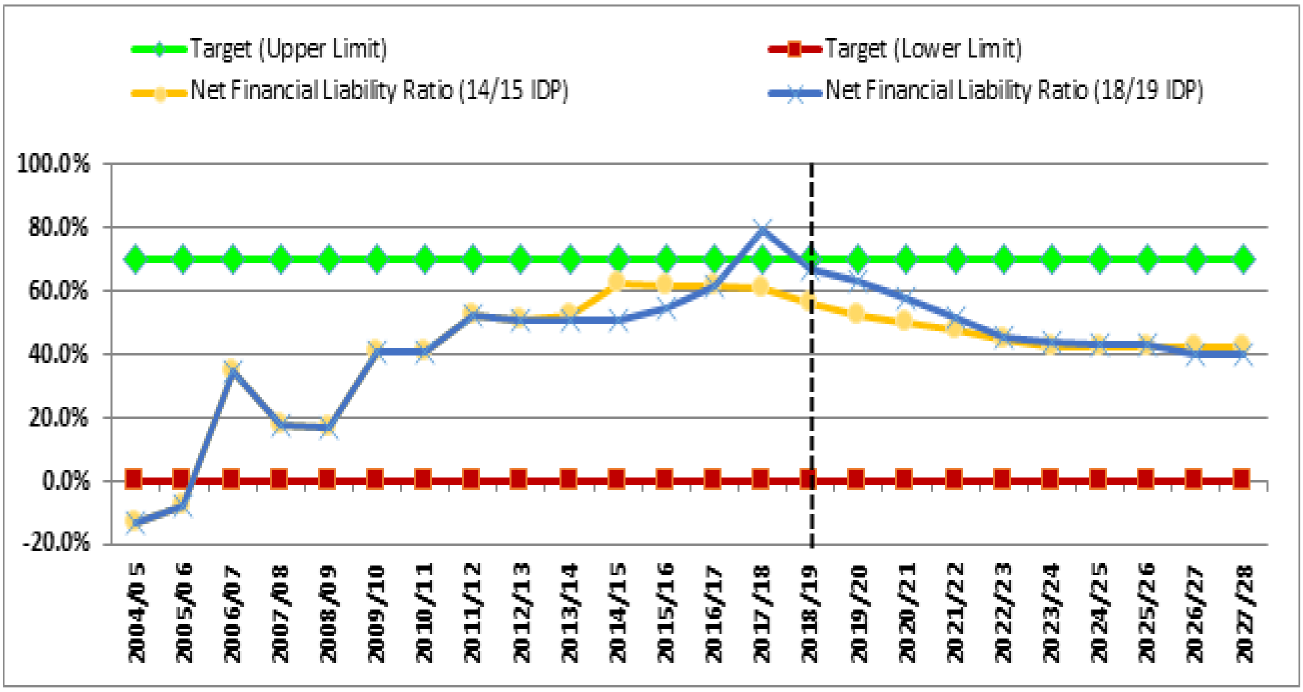
7.2.14 The Net Financial Liability Ratio to be used by Drakenstein is set out in the table below. The contents are self-explanatory.

NET FINANCIAL LIABILITIES RATIO
Net Financial Liabilities Ratio (expressed as a percentage) is an indicator of the extent to which the net financial liabilities of a local government can be serviced by its operating revenues.

Formula	Total liabilities - Current Assets / Total Operating Revenue (excluding Capital Items)
Target	> 0% but not more than 100% of total operating revenue

Targets		**What does this mean?**
Higher than target	> 70% on average over the long-term	A local government has total financial liabilities that exceed current assets above recommended levels. This means that the local government likely has limited capacity to increase its loan borrowings and may become over-burdened with debt.
Within target range	> 0% and < 70% on average over the long-term	Whilst this means net financial liabilities exceed current assets and must be serviced using available operating revenues, the local government remains within recommended levels for sustainability.
Below target range (negative ratio)	< 0% on average over the long-term	A local government has current assets that exceed total liabilities and appears to have the capacity to increase its loan borrowings if required.

7.2.15 The current status of Drakenstein's ***Net Financial Sustainability Ratio*** as reflected in the Long-Term Financial Plan in Chapter **4** of the Integrated Development Plan (IDP) currently under review are depicted below. The picture indicates that Drakenstein is operating within long-term financial sustainability targets.



7.3 Indicator 3: Asset Sustainability Ratio

7.3.1 This ratio indicates the extent to which existing non-financial assets are being renewed and replaced, compared with what is needed to cost-effectively maintain service levels. It is calculated by measuring capital expenditure on renewal or replacement of assets, relative to the optimal level of such expenditure proposed in a Municipality's infrastructure and asset management plan (IAMP).

7.3.2 If capital expenditure on renewing or replacing existing assets is at least equal to the level proposed in the IAMP, then a municipality is ensuring the value of its existing stock of physical assets is maintained. Any material under spending on renewal and replacement over the medium term is likely to adversely impact on the achievement of preferred, affordable service levels and could potentially progressively undermine a municipality's financial sustainability. For example, additional maintenance costs associated with assets that have exceeded their economic useful life might be higher than costs that would be associated with renewal or replacement. Eventually a Municipal Council will be confronted with failed assets, and potentially significant renewal and replacement expenditure needs that cannot be accommodated without sudden large property rates and service charges increases.

7.3.3 Achievement of the suggested target would mean that a Municipal Council was reasonably optimising the timing of capital outlays on the renewal / replacement of assets. Failure to achieve the target would most likely mean that a Municipal Council was not optimising its financial sustainability unless it had determined its asset renewal / replacement outlays for the period on more accurate and up-to-date technical data than on which the IAMP was based.

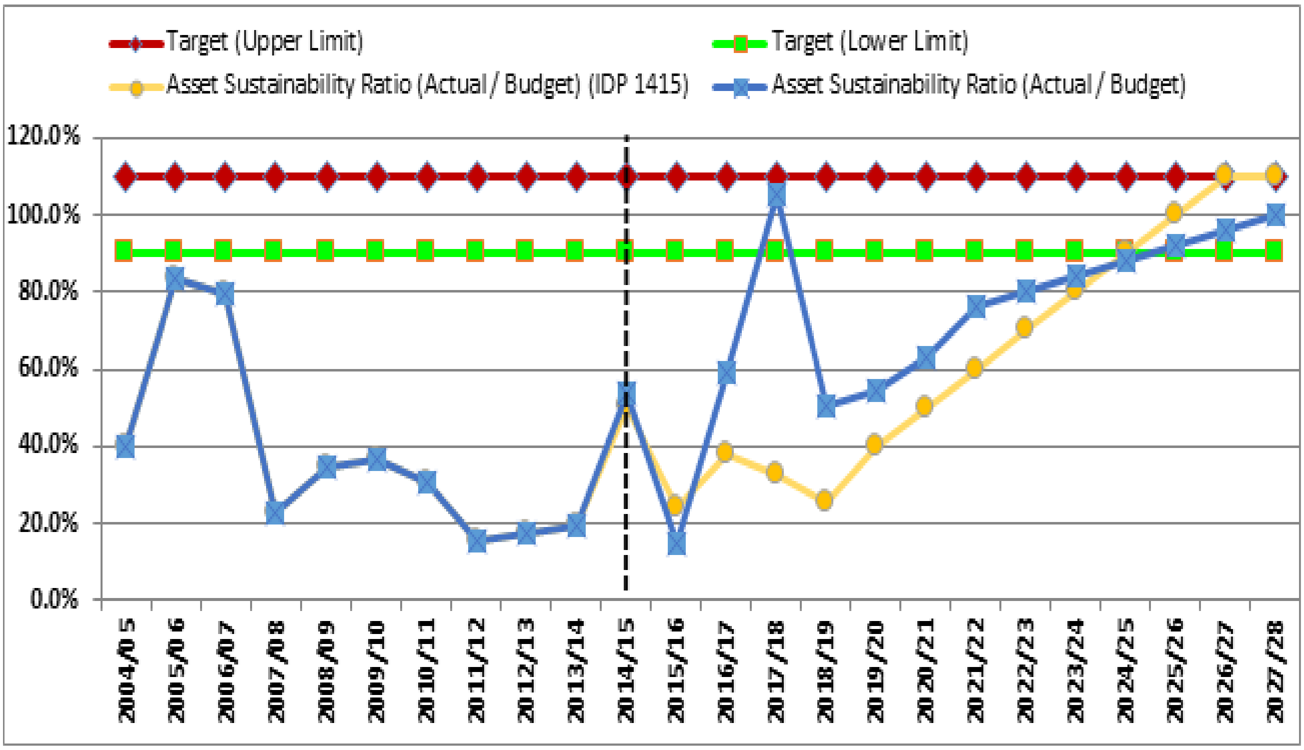
7.3.4 The Net Financial Liability Ratio to be used by Drakenstein is set out in the table below. The contents are self-explanatory.

ASSET SUSTAINABILITY RATIO
Asset Sustainability Ratio (expressed as a percentage) is an indicator of the extent to which the infrastructure assets managed by a local government are being replaced as they reach the end of their useful lives.

Formula	Capital Expenditure on Replacement of Assets (Renewals) / Depreciation Expenditure
Target	> 90% but less than 110% of the level proposed in the Infrastructure and Asset Management Plan (I&AMP)

Targets		**What does this mean?**
Higher than target	> 110% on average over the long-term	A local government is likely to be over-sufficiently maintaining, replacing or renewing existing infrastructure assets before they reach the end of their useful life.
Within target range	> 90% and < 110% on average over the long-term	A local government is likely to be sufficiently maintaining, replacing or renewing existing infrastructure assets as they reach the end of their useful life.
Below target range (negative ratio)	< 90% on average over the long-term	A local government is likely to not be sufficiently maintaining, replacing or renewing existing infrastructure assets as they are being depreciated, which may create "renewals backlogs", resulting in a reduction in service levels and/or useful lives previously expected. This will likely create a burden on future ratepayers, who will either incur financial costs to restore the asset or a convenience cost from not being able to utilise the asset (e.g. road closures due to excessive pot holes).

7.3.5 The current status of Drakenstein's ***Asset Sustainability Ratio*** as reflected in the Long-Term Financial Plan in Chapter **4** of the Integrated Development Plan (IDP) currently under review are depicted below. The picture indicates that Drakenstein is operating below long-term financial sustainability target but is projecting to move in the right direction.



8. Acknowledgements

8.1 Drakenstein Municipality acknowledges the work done by the South Australia Local Government Association and the contents of Information Paper 1: Financial Sustainability (Revised January **2015**) and Information Paper 9: Financial Indicators (Revised February **2015**).