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Evaluation of methodologies for local government discount rate

A report for the Independent Pricing and Regulatory Tribunal of
New South Wales

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Executive summary

The Independent Pricing and Regulatory Tribunal (IPART) of New South Wales currently determines the discount rate for local government infrastructure contributions based on a benchmark cost of debt estimate with an AA credit rating and a ten-year term to maturity.

This is currently calculated using IPART's weighted average cost of capital (WACC) model, but without an equity component.

IPART is reviewing its methodology for estimating the local government discount rate. As part of this review, IPART has asked HoustonKemp to assess the suitability of five options to determine the discount rate for local government infrastructure contributions.

We have considered three frameworks for calculating the discount rate for development contributions, namely, that the discount rate should:

1. reflect the benchmark cost of capital for a local council as a whole, taking into account its compulsory taxation powers and access to low interest loans from TCorp;
2. be used to calculate contributions that will cover councils' expected costs over the full life of a contributions plan, ie, without considering councils' taxation powers and access to TCorp loans; or
3. reflect the social discount rate, recognising that capital is limited and any given public investment should be compared to the hypothetical return achievable by the next-best private sector investment.

We consider it appropriate for IPART to adopt a discount rate on developer contributions based on either of the first two discount rate frameworks, ie:

- councils' benchmark financing cost, consistent with section 7.11(4) of the New South Wales *Environmental Planning and Assessment Act 1979* (the Act) that states developer contributions should be used to recoup the council's costs; or
- the benchmark financing cost of funding local infrastructure on a standalone basis, consistent with the legislative framework requiring a clear relationship between the development being charged and the demand for the infrastructure being funded.

These two discount rate frameworks result in:

- a lower bound discount rate at the benchmark cost of debt for councils, ie, a weighted average of the interest rates on a benchmark TCorp loan product and a benchmark commercial loan with AA rating;
 - > this approach is not part of the five options we have been asked to consider, and we discuss it further in section 2.2.1 below; and
- an upper bound discount rate at the benchmark cost of debt for developers, ie, the interest rate on a benchmark commercial loan with A- rating;
 - > we explain in section 3.1 below that this corresponds to the median credit rating of the Centre for International Economics' (CIE's) proposed comparator sample, noting that we have not analysed this proposed comparator sample.

Councils are not required to adopt a net present value approach when calculating deferred payment amounts on development contributions. It follows that it would be appropriate for IPART to publish an upper bound discount rate without publishing a corresponding lower bound. Councils then retain flexibility to calculate deferred payments on development contributions based on:

- this upper bound discount rate that matches the interest rate on a benchmark commercial loan with A- rating; or

- a zero discount rate, which applies if the council decides not to adopt a net present value approach.

The upper bound discount rate derived from this proposed approach will not compensate councils fully for all the risks associated with funding local infrastructure, such as cost escalation risk and the risk that the development proceeds more slowly than expected. Instead, councils will need to build these risks into their expected costs on each contributions plan.

Our proposed discount rate as set out above is based on cost of debt estimates without a cost of equity component. This is distinct from the benchmark WACC that IPART sets for regulated infrastructure businesses in New South Wales, which includes both cost of debt and cost of equity components.

We do not include a cost of equity in the discount rate for local councils because a council is not a corporation that can raise equity from external parties. Councils also are not profit-maximising entities and do not draw on retained earnings to distribute equity in the form of dividends.

Instead, whenever a council defers its cash flows to fund infrastructure development, it will need to raise debt or reduce its spending. Its opportunity cost when deferring cash flows will then be the interest that it pays on the debt that it raises, ie, its cost of debt.

This contrasts with the regulatory framework that applies to regulated infrastructure businesses, under which both privately owned and government owned businesses:

- are treated as profit-maximising entities that raise capital through a combination of debt and equity; and
- are assumed to pay dividends to shareholders.

The discount rate on development contributions is a blunt instrument since IPART only sets a single discount rate that applies uniformly across all councils and projects.

Councils are in the best position to evaluate the risks specific to each project. It would therefore be appropriate for councils to build these risks into their expected costs on each contributions plan, instead of relying on IPART’s benchmark discount rate to compensate them for all the risks they face when funding local infrastructure.

Overall, we consider that the above approach is consistent with the aim of IPART’s review, ie, ensuring that the methodology for estimating the local government discount rate is:

- suitable for councils using a net present value approach for calculating local government infrastructure contributions; and
- consistent with the aim of providing local infrastructure in a reasonable timeframe.

We do not find support for using the social discount rate, since the relevant legislation does not refer to efficiency in terms of maximising social benefits by making sure that public investment does not occur at the expense of alternative private sector investments.

We summarise our assessment of the five options in the table below.

Option	Assessment
	The CIE submits that the discount rate on contributions plans should reflect the risks of the contributions plan instead of the council as a whole. CIE then develops a comparator sample of 13 land developers that it uses to calculate the benchmark equity beta and gearing for councils.
CIE (relevant for discount rate framework 2)	If the CIE’s comparator sample correctly includes firms that provide similar services to that of local councils, then under discount rate framework (2) above, it may be appropriate to calculate the upper bound discount rate on development contributions based on the benchmark cost of debt derived from that sample, ie, median A- credit rating.
	This discount rate will not compensate councils fully for all the risks associated with funding local infrastructure, such as cost escalation risk and the risk that the development proceeds more slowly than expected. Instead,

Option	Assessment
<p>The Hills Shire Council (relevant for discount rate framework 2)</p>	<p>councils will need to build these risks into their expected costs on each contributions plan.</p> <p>The Hills shire council supports retaining a cost of debt methodology, rather than adopting a cost of equity or WACC approach, on the basis that councils cannot raise equity or realise and trade infrastructure assets in the manner of private firms.</p> <p>Notwithstanding, The Hills shire council submits that contributions planning involves risks that are higher than those faced in councils' day-to-day operations. It follows that The Hills shire council proposes to calculate developer contributions by referring to the midpoint of A rated and BBB rated costs of debt.</p> <p>The Hills shire council does not explain how it identifies this midpoint cost of debt as its point estimate. Nevertheless, we observe that The Hills shire council's assumed credit rating range is broadly consistent with the A- median credit rating of land developers in the CIE's proposed comparator sample.</p>
<p>IPART (relevant for discount rate framework 1)</p>	<p>IPART has conducted an empirical analysis of the equity beta for local infrastructure by collecting data from ten local councils and regressing:</p> <ul style="list-style-type: none"> • monthly council returns, defined as developer contributions divided by the value of local infrastructure investments made by a council; against • monthly market returns, defined as the return on the ASX 200. <p>IPART finds that the beta estimates for the ten local councils tend to be small and are not statistically significant. This observation applies to the individual councils and to a pooled set of observations across all ten councils. IPART also finds that its observations do not change materially under an alternative regression specification that uses the growth in the gross domestic product as an alternative proxy for the market index.</p> <p>These results suggest that adopting the benchmark cost of debt as the discount rate for contributions plans may be appropriate for discount rate framework (1), albeit potentially with a slight overestimate since an equity beta of zero results in a WACC that is lower than the cost of debt.</p>
<p>TCorp (relevant for discount rate framework 1 and 2)</p>	<p>TCorp suggests using New South Wales Treasury bonds instead of Commonwealth bonds to determine the risk free rate. This reflects the pricing of TCorp's loans to councils, [Confidential] which refers to the TCorp bond curve and adds a standardised loan margin of 55 basis points to all councils that meet TCorp's credit approval criteria.</p> <p>The relevance of TCorp's loans to councils varies with the framework that is used for calculating the discount rate on contributions plans, ie:</p> <ul style="list-style-type: none"> • under discount rate framework (1), it is appropriate to include the interest rate on a benchmark TCorp loan product since councils have access to such loans and can minimise the cost of financing local infrastructure by drawing on these loans where possible; and • under discount rate framework (2), it would not be appropriate to include the interest rate on a benchmark TCorp loan products since: <ul style="list-style-type: none"> > the low rates on TCorp loans would not be available to a standalone developer of local infrastructure and so should not be considered when calculating benchmark standalone costs; and > the risk free rate is a market wide WACC parameter that should be applicable across all firms, such that it would not be appropriate for IPART to use New South Wales Treasury bonds to calculate the benchmark risk free rate for councils while using Commonwealth bonds to calculate the benchmark risk free rate for other regulated businesses.
<p>New South Wales Treasury (relevant for discount rate framework 3)</p>	<p>The New South Wales Treasury's guide to cost-benefit analysis mandates a social discount rate of 5 per cent in real terms with sensitivities at 3 per cent and 7 per cent per annum in real terms.</p> <p>We explain above that the relevant legislation on developer contributions does not refer to efficiency in terms of maximising social benefits by making sure that public investment does not occur at the expense of alternative private sector investments.</p> <p>It follows that a social cost of capital that calculates a state-wide opportunity cost on forgone private investment will be inconsistent with the objective of developer contributions, which seek to ensure cost recovery and/or attribute costs efficiently under an impactor-pays approach, instead of filtering projects based on social welfare.</p>

1. Introduction

The Independent Pricing and Regulatory Tribunal (IPART) of New South Wales currently determines the discount rate for local government infrastructure contributions based on a benchmark cost of debt estimate with an AA credit rating and a ten-year term to maturity.¹

This is calculated using IPART's weighted average cost of capital (WACC) model, but without an equity component.²

IPART is reviewing its methodology for estimating the local government discount rate. The aim of this review is to ensure that the methodology is:³

- suitable for councils using a net present value approach for calculating local government infrastructure contributions; and
- consistent with the aim of providing local infrastructure in a reasonable timeframe.

As part of this review, IPART has asked HoustonKemp to assess the suitability of five options for the methodology used to determine the discount rate for local government infrastructure contributions. These five methods are:

- The Hills shire council's suggestion on the cost of debt methodology;
- Treasury Corporation's (TCorp's) suggestion on the cost of debt methodology;
- the Centre of International Economics' (CIE's) suggested weighted average cost of capital (WACC) approach that uses proxy companies to determine beta and gearing;
- IPART's WACC approach with a beta derived using financial data obtained from local councils; and
- the New South Wales Treasury's recommended discount rates for cost benefit analysis in project appraisal.

IPART has asked that our assessment should address the relevant economic and finance theory, as well as the aims of its review.

We set out our assessment in the remainder of this report, which has been structured as follows:

- section 2 describes our analytical framework for assessing the discount rate for local government infrastructure contributions; and
- section 3 assesses each of the five methods separately.

¹ IPART, *Review of IPART's discount rate for local government infrastructure contributions*, Issues paper, September 2025, p 15.

² IPART, *Modelling local infrastructure contributions in a present value framework*, Technical paper, July 2025, p 8.

³ IPART, *Review of IPART's discount rate for local government infrastructure contributions*, Issues paper, September 2025, p 13.

2. Analytical framework

In sections 2.1 to 2.3 below we:

- describe the risks associated with local government infrastructure contributions;
- describe three frameworks for calculating the discount rate on development contributions; and
- assess the three discount rate frameworks for calculating the discount rate on development contributions.

2.1 Risks associated with funding local infrastructure

Local councils in New South Wales can charge developers a development contributions levy to fund local infrastructure, as a condition of development consent. This includes contributions under section 7.11 of the New South Wales *Environmental Planning and Assessment Act 1979* (the Act), which refers to monetary contributions and other in-kind contributions.⁴

There is often a mismatch between the timing of council expenditures and the receipt of contributions revenue. For example, in the context of Greenfield areas, councils must provide some local infrastructure before development can occur.⁵

In such circumstances, using a net present value approach with an appropriate discount rate will allow councils to calculate the contribution rates required to recover the best estimate of net infrastructure expenditures needed to service the development through to completion.⁶

A higher discount rate will increase the contribution rate if costs are incurred before revenues are received, and vice-versa.⁷ Depending on how it is set, the discount rate can compensate for:⁸

- the time value of money, whereby:
 - > a dollar today is worth more than a dollar tomorrow; and
 - > councils face opportunity costs when using retained earnings to fund local infrastructure; and/or
- the council's risks when funding local infrastructure, given uncertainty about both the timing and quantity of development.

To that end, the discount rate on an entity's cashflows is commonly estimated as the sum of:

- a risk free rate that compensates for time value of money; and
- an additional risk premium that compensates for cashflow risks.

This can involve calculating a weighted average of the entity's cost of debt and cost of equity, with the weights corresponding to the proportion of the entity's capital that is financed by debt and by equity respectively.

⁴ IPART, *Modelling local infrastructure contributions in a present value framework*, Technical paper, July 2025, p 2.

⁵ IPART, *Modelling local infrastructure contributions in a present value framework*, Technical paper, July 2025, pp 2-3.

⁶ IPART, *Modelling local infrastructure contributions in a present value framework*, Technical paper, July 2025, p 4.

⁷ IPART, *Review of IPART's discount rate for local government infrastructure contributions*, Issues paper, September 2025, p 7.

⁸ IPART, *Review of IPART's discount rate for local government infrastructure contributions*, Issues paper, September 2025, pp 13-14, 18-21.

Several submissions identify that the risks councils face when funding local infrastructure include:⁹

- costs escalating faster than estimated, eg, construction costs and land acquisition costs;
- mismatches in the timing of contributions and infrastructure delivery;
- the timing and level of development being different from forecast;
- changes in state government policy;
- market risks due to movements in interest rates, indexation rates and house market demands;
- resourcing risk; and
- competing community priorities and expectations.

Councils also face some counterparty risks, where they may be unable to recover costs that have been sunk on local infrastructure if a developer becomes insolvent and cannot pay their development contributions.

However, we note that the net present value approach is only one of several tools that councils can use to mitigate the risk of funding local infrastructure. Councils can also mitigate these risks through other means such as cost indexation and regular plan reviews.¹⁰

Consistent with this, IPART observes that the net present value approach does not eliminate all risks of funding shortfalls:¹¹

While indexation and regular plan reviews aim to reduce financial risks, using an NPV approach could help prevent the likelihood of funding shortfalls. However, funding shortfalls could still occur when using an NPV approach due to costs increasing more than forecasts or indexes, which is why regular updates to a contributions plan are required.

Consequently, it may not be appropriate to set the discount rate on development contributions at a level that compensates for all the risks that councils face when funding local infrastructure. This is because the discount rate on development contributions is a blunt instrument since IPART only sets a single discount rate that applies uniformly across all councils and projects.

Instead, some of the risks that we list above may be more effectively compensated and mitigated through channels that are more bespoke to each council and project, such as adjusting for risks in the quantification of expected costs.

We discuss these issues further in section 2.3 below, where we assess the framework that should be applied when setting the discount rate on development contributions.

2.2 Discount rate frameworks for development contributions

There are three potential frameworks for calculating the discount rate on development contributions, namely that it should be:

- a discount rate that matches the benchmark cost of capital for councils, taking into account their compulsory taxation powers and access to low interest loans from TCorp;

⁹ Blacktown City Council, *Review of IPART's discount rate methodology for local government infrastructure contribution*, Letter, 17 October 2025, p 2. The Hills Shire Council, *Review of IPART's local government discount rate methodology*, Letter, 30 October 2025, p 2. Penrith City Council, *Review of IPART's discount rate methodology for local government infrastructure contributions*, Letter, 31 October 2025, p 4. The Centre for International Economics, *Submission to IPART's review of the discount rate for local infrastructure contributions*, Final report, 28 October 2025, p 17.

¹⁰ IPART, *Review of IPART's discount rate for local government infrastructure contributions*, Issues paper, September 2025, pp 6-8.

¹¹ IPART, *Review of IPART's discount rate for local government infrastructure contributions*, Issues paper, September 2025, p 8.

- the discount rate that will allow councils to recover their benchmark costs as a developer of local infrastructure as set out in contributions plans, calculated as a standalone activity instead of for the council as a whole; or
- the social cost of capital that reflects the hypothetical return achievable by the next-best private sector investment.

We discuss these three interpretations in sections 2.2.1 to 2.2.3 below.

2.2.1 Benchmark financing cost for councils

One interpretation of the discount rate on development contributions is that it should reflect the benchmark cost of capital for a council as a whole.

This benchmark cost of capital is lower than that applicable to privately owned commercial firms because:

- councils have compulsory taxation powers and so their cashflows have lower risk compared to that of corporate entities that do not have such powers;¹² and
- **[Confidential]** councils have access to loans from TCorp at a standardised loan margin of 55 basis points above the TCorp bond curve, without requiring assessments of credit quality or rating.¹³

The second point above suggests that councils can minimise the cost of financing local infrastructure by drawing on TCorp loans where possible instead of raising debt commercially. However, IPART has informed us that TCorp loan products are quite restricted and that many councils continue to borrow from commercial banks.

Consequently, the cost of capital for a benchmark efficient council in New South Wales arguably should incorporate the lower interest rates on TCorp loans.

One potential approach is to calculate the benchmark financing cost for councils as the weighted average of:

- the interest rate on a benchmark TCorp loan product, with a weight equal to the proportion of the benchmark council's debt that is made up TCorp loans; and
- the interest rate on a benchmark commercial loan, which IPART assumes as having an AA credit rating and a ten-year term to maturity,¹⁴ with a weight equal to the proportion of the benchmark council's debt that is made up of commercial loans.

While this approach focuses on councils' benchmark cost of debt without calculating a separate cost of equity, we note that IPART's analysis suggests that the equity beta for councils is close to zero,¹⁵ in which case the benchmark cost of equity will be lower than the benchmark cost of debt. The financing cost calculated using the above approach thus may be conservatively high relative to an alternative approach that includes a benchmark cost of equity for councils.¹⁶

We discuss IPART's analysis further in section 3.3 below.

The above approach also results in a discount rate that is lower than IPART's current approach, which assigns full weight to the second point above.¹⁷

¹² IPART, *Review of IPART's discount rate for local government infrastructure contributions*, Issues paper, September 2025, p 15.

¹³ **[Confidential]** We understand that TCorp provided IPART with this information during consultations. Also see: TCorp, <https://tcorp.nsw.gov.au/localcouncils/>, accessed 13 January 2026.

¹⁴ IPART, *Review of IPART's discount rate for local government infrastructure contributions*, Issues paper, September 2025, p 15.

¹⁵ IPART, *Revised empirical estimation of equity beta for LG discount rate*, 13 January 2026.

¹⁶ We note that if a pre-tax WACC is used, then the direction of this impact will depend on the magnitude of the debt risk premium relative to the risk free rate.

¹⁷ IPART, *Review of IPART's discount rate for local government infrastructure contributions*, Issues paper, September 2025, p 15.

However, this approach may not promote socially efficient expenditure in local infrastructure since the relatively low cost of capital enjoyed by councils arises because:

- in the case of TCorp loans, taxpayers in New South Wales take on the risk that councils may not recover their expected costs fully from development contributions; and
- in the case of commercial loans with an assumed AA credit rating, ratepayers in the council's local area take on the risk that the council may not recover its expected costs fully from development contributions.

Consequently, setting the discount rate for calculating contribution rates to match the benchmark cost of capital for a council as a whole means that taxpayers and ratepayers are not being compensated for the risks associated with both the timing and number of developments, and so the recovery of expenditure under contributions plans.

Harrison (2010) makes a similar observation in the context of government spending:¹⁸

The liquidity of government bonds ultimately comes from the government's sovereign power to tax. That is, it can draw on the resources of taxpayers to ensure the debt is repaid. That does not reduce the risk and illiquidity costs of committing funds to any particular government project. Those risks arise because funds are put into that project, rather than alternative uses. How the funds are raised is immaterial. **The cost of those risks are borne by taxpayers and programme beneficiaries, who are essentially equity holders in the government project: 'the taxpayers will have assumed a contingent liability for which they are not remunerated, that is, there is no risk premium in the sovereign borrowing rate. In fact, the taxpayers play the role of investors bearing the risk of failure'.** (emphasis added)

Depending on the extent of cost pass-through by developers, such financing benefits may be passed on to customers downstream. This may include customers who are also ratepayers, such as households purchasing property in a council's local area.

We further discuss TCorp's suggested methodology in section 3.4 below.

2.2.2 Recovering expected costs on contributions plans on a standalone basis

Another interpretation of the discount rate on development contributions is that it should be used to calculate contributions that will cover councils' expected costs over the full life of a contributions plan, as distinct from the cost of capital for the council as a whole.

This is consistent with IPART's framework in its issues paper:¹⁹

For contributions plans, NPV takes all the costs a council expects to recover in the future and converts it into today's value. This helps to manage any differences in when councils expect expenditure to take place and contributions to be paid throughout the course of the plan. A council can then determine contribution rates based on the NPV costs. **This helps to ensure that councils collect enough contributions to cover the expected costs over the full life of the plan.** (emphasis added)

Such an approach focuses on the cashflow risks associated with contributions plans, and ignores council's ability to:

- recover any cashflow shortfalls by taxing ratepayers; and
- borrow from TCorp at rates below those accessible by commercial firms engaged in similar activities.

¹⁸ Harrison, M, *Valuing the future: the social discount rate in cost-benefit analysis*, Visiting researcher paper, Productivity Commission, April 2010, p 48.

¹⁹ IPART, *Review of IPART's discount rate for local government infrastructure contributions*, Issues paper, September 2025, p 6.

The New South Wales Productivity Commission proposes a similar approach as part of its review of infrastructure contributions in New South Wales. In that review, the New South Wales Productivity Commission states that development contributions are intended to reflect an ‘impactor pays’ principle:²⁰

The development contributions system is founded in the ‘user pays’ principle, which is a pricing approach based on the idea that those who use the goods should pay the cost of those goods – in this case, infrastructure. While the planning system refers to ‘user pays’, the term ‘impactor pays’ is used in this Paper and is perhaps more accurate. In a nutshell, this principle is: those that generate the need for the infrastructure should pay for it.

The New South Wales Productivity Commission subsequently suggests that charges for local infrastructure costs should be cost-reflective on impactors:²¹

Local infrastructure costs largely reflect development contingent costs and are therefore justified on an impactor pays basis. Contributions support timely and efficient service provision, provide market signals to developers, and are an efficient funding mechanism. Items within section 7.11 plans or local planning agreements that are not development contingent should be removed. They should not be funded through section 7.12 levies...

Recommendation 2.1: Enhance efficiency of the infrastructure contributions system

Implement reform to deliver an efficient infrastructure contributions system so:

- **local contributions are cost-reflective charges on impactors, applied through a consistent framework but with flexibility for adaptation to local circumstances**
- state contributions are simple and certain charges on impactors and beneficiaries of State service delivery. (emphasis added)

We explain in section 3.1 below that the Centre for International Economics (CIE):²²

- considers the appropriate cost of capital is that associated with the contributions plan instead of for the council as a whole;
- considers there are unlikely to be any proxy firms that provide the same set of services as local councils, but the closest type of business is a land developer focused on large greenfield sites; and
- proposes calculating the discount rate on development contributions based on a WACC with benchmark equity beta and gearing derived from a comparator sample of 13 land developers.

However, councils may be in a different position from an investor that finances a land developer. In particular, the New South Wales Productivity Commission states that councils usually obtain financial security on development contributions and wait to receive funds before building infrastructure:²³

Section 7.11 contributions are imposed as a condition of consent and payments are typically required prior to obtaining a construction or subdivision certificate. **Councils have the discretion to allow payments to be deferred to a later stage but typically require a financial security for the full contribution amount.** This security requirement effectively neutralises the potential financing benefits for a developer of deferring the payment.

Timing is a financing issue for developers as the risk profile for the project changes pre and post construction. Developers want to delay the payment of contributions to the occupation certificate

²⁰ New South Wales Productivity Commission, *Review of Infrastructure Contributions in New South Wales*, Issues paper, July 2020, p 58.

²¹ New South Wales Productivity Commission, *Review of Infrastructure Contributions in New South Wales*, Final report, November 2020, p 38.

²² The Centre for International Economics, *Submission to IPART’s review of the discount rate for local infrastructure contributions*, Final report, 28 October 2025, pp 15, 22-24.

²³ New South Wales Productivity Commission, *Review of Infrastructure Contributions in New South Wales*, Final report, November 2020, p 67.

stage to support project financing arrangements. This would delay receipt of funds to councils and, in the absence of borrowing funds, may delay infrastructure delivery. Timing of contributions payments is a cash flow issue for councils, who claim early payments are needed to deliver 'enabling infrastructure'.

Generally, councils wait to receive funds prior to building infrastructure. Waiting for contributions to be collected often means roads and drainage are prioritised over open space and community facilities, as the former are considered 'essential' to unlock development. An alternative is for councils to finance infrastructure, which could be repaid as contributions are collected. This would increase capacity to deliver infrastructure, facilitate improved sequencing and support growing communities. (emphasis added)

If the benchmark efficient council is assumed to require financial security on development contributions, then its risk exposure is likely to be lower than that of an investor financing a land developer. In particular, the benchmark efficient council's risk exposure is likely to be more similar to that of a secured creditor for the counterparty developer on the contributions plan.

Councils remain exposed to the risks set out in section 2.1 above, such as cost escalation risks. However, we also explain in section 2.1 above that it may not be appropriate to set the discount rate on development contributions at a level that compensates for all the risks that councils face when funding local infrastructure.

For example, cost escalation risks may be better addressed in the quantification of expected costs instead of being addressed in the discount rate, with these expected costs potentially being subject to indexation.

The New South Wales government's local infrastructure contributions practice note also indicates that councils can index contribution rates in a section 7.11 plan quarterly or annually, whereby:²⁴

- cost of infrastructure yet to be provided can be indexed by applying any readily accessible index; and
- cost of infrastructure already provided and being recouped by the council must be adjusted by applying the consumer price index.

If the benchmark efficient council indexes its contribution rates appropriately, then this will mitigate some of these cost escalation risks.

Councils can also conduct regular updates to contributions plans where required for cases where costs increase by more than forecasts or indexes.²⁵

As such, if the CIE's comparator sample correctly includes firms that provide similar services to that of local councils, then it may be appropriate to calculate the discount rate on development contributions based on the benchmark cost of debt derived from that sample.

This involves setting the discount rate at the cost of debt that matches the benchmark credit rating derived from the comparator sample, without including a cost of equity based on the equity beta and gearing of the comparator sample.

We explain in section 3.1 below that the median credit rating of the CIE's sample is A-, which is a lower quality credit rating compared to the AA benchmark credit rating that IPART currently assumes for councils.²⁶

²⁴ New South Wales Government, <https://www.planningportal.nsw.gov.au/indexing-contribution-rates-and-conditions-consent>, accessed 13 January 2026.

²⁵ IPART, *Review of IPART's discount rate for local government infrastructure contributions*, Issues paper, September 2025, p 8.

²⁶ IPART, *Review of IPART's discount rate for local government infrastructure contributions*, Issues paper, September 2025, p 15.

Notwithstanding, we note that the CIE's report contains some contradictions against the New South Wales Productivity Commission's statements that we quote above. According to the CIE:²⁷

- one council noted that any loans for infrastructure covered by local contributions plans were secured against rate revenue, and that if the loans were instead only secured by local contribution revenue then financing rates would be much higher or may not be available at all;
 - > it is unclear to the CIE whether this refers to a formal security to the loan or an implicit security; and
- many councils noted that a key reason they would not debt finance upfront infrastructure was because of the risks this imposes on their rate paying base when local infrastructure contributions revenue varies.

2.2.3 Social discount rate

An alternative interpretation of the discount rate for calculating contribution rates is that it should reflect the social discount rate.

This is the approach set out in the New South Wales government guide to cost-benefit analysis, which recognises that:²⁸

- capital is limited; and
- any given public investment occurs at the expense of some alternative public or private investment.

This reasoning implies that the return on public investment should be compared to the hypothetical return achievable by the next-best private sector investment, ie, the marginal opportunity cost of capital.²⁹

Consistent with this, Harrison (2010) explains that if government investment comes at the expense of private investment, then society could get a higher return by investing in the private sector instead of investing in a government project with a return lower than the social opportunity cost of capital.³⁰

The New South Wales government guide to cost-benefit analysis states that a consistent social discount rate should be applied for all initiatives in all sectors, in which case:³¹

- differences in the estimated stream of costs and benefits across initiatives should be reflected in the expected values of cost and benefit flows instead of the discount rate;
 - > for example, differences in project specific risks should be reflected in the quantification of expected values of costs and benefits instead of through adjustments to the social discount rate; and
- costs and benefits across the full range of New South Wales government initiatives can be evaluated and compared consistently on a like-for-like basis.

Further, the New South Wales government guide to cost-benefit analysis also assumes for simplicity that the social discount rate is a long-term opportunity cost of capital and remains stable over the analysis period.³²

²⁷ The Centre for International Economics, *Submission to IPART's review of the discount rate for local infrastructure contributions*, Final report, 28 October 2025, p 13.

²⁸ New South Wales Treasury, *NSW government guide to cost-benefit analysis*, February 2023, incorporating revisions as at April 2025, pp 87-88.

²⁹ New South Wales Treasury, *NSW government guide to cost-benefit analysis*, February 2023, incorporating revisions as at April 2025, pp 87-88.

³⁰ Harrison, M, *Valuing the future: the social discount rate in cost-benefit analysis*, Visiting researcher paper, Productivity Commission, April 2010, pp 27-28.

³¹ New South Wales Treasury, *NSW government guide to cost-benefit analysis*, February 2023, incorporating revisions as at April 2025, p 88.

³² New South Wales Treasury, *NSW government guide to cost-benefit analysis*, February 2023, incorporating revisions as at April 2025, p 89.

To that end, the New South Wales government guide to cost-benefit analysis uses:³³

- a central real social discount rate of 5 per cent; and
- sensitivities at 3 per cent and 7 per cent.

2.3 Assessment of discount rate frameworks

In sections 2.3.1 to 2.3.3 below we:

- discuss how the three interpretations of the discount rate relate to the objectives of IPART's review;
- discuss the lower and upper bounds that we have identified for the discount rate for development contributions, given IPART's objectives; and
- distinguish the discount rate for development contributions from the WACC that applies to other infrastructure businesses that IPART regulates.

2.3.1 Discount rate frameworks in the context of IPART's objectives

Out of the three frameworks that we describe in section 2.2 above, we consider it appropriate for the discount rate on development contributions to reflect either:

- councils' benchmark financing cost, as described in section 2.2.1 above; or
- the benchmark financing cost of funding local infrastructure on a standalone basis, as described in section 2.2.2 above.

Regarding the first point above, we observe that section 7.11(4) of the Act states that development contributions should be used to recoup the council's costs:

(4) A condition referred to in subsection (3) may be imposed only to require a reasonable contribution towards recoupment of the cost concerned.

This supports adopting a discount rate on development contributions that matches the benchmark financing cost of the council. As we describe in section 2.2.1 above, this discount rate can be calculated based on the interest rates of a benchmark TCorp loan product and a benchmark commercial loan.

However, this approach has a disadvantage in that it involves ratepayers and taxpayers not being compensated for the risks associated with investing in local infrastructure under contributions plans. This may distort price signals for developers and encourage inefficient development with higher cost infrastructure.³⁴

Regarding the second point above, the legislative framework also requires a clear relationship or 'nexus' between the development being charged and the demand for the infrastructure being funded. The local infrastructure contributions practice notes describe these demand and nexus requirements as:³⁵

- councils can only charge a contribution under section 7.11 if they are satisfied that the development will or is likely to increase demand for infrastructure, or in the case of recoupment will benefit from infrastructure already provided; and

³³ New South Wales Treasury, *NSW government guide to cost-benefit analysis*, February 2023, incorporating revisions as at April 2025, p 34.

³⁴ The New South Wales Productivity Commission makes a similar observation in the context of state government subsidies towards local infrastructure. See: New South Wales Productivity Commission, *Review of Infrastructure Contributions in New South Wales*, Final report, November 2020, pp 59-60.

³⁵ New South Wales Government, <https://www.planningportal.nsw.gov.au/local-infrastructure-contributions/demand-nexus>, accessed 14 January 2026.

- contributions plans must identify the relationship between the expected types of development and the demand for additional public amenities and services to meet that development.

This supports adopting a discount rate on development contributions that allows councils to recover the benchmark costs of funding local infrastructure on a standalone basis. We explain in section 2.2.2 above that this discount rate can be set equal to the cost of debt that matches the benchmark credit rating derived from a sample of comparator firms.

While we are not experts in legal interpretation, we observe that the relevant legislation does not refer to efficiency in terms of maximising social benefits by making sure that public investment does not occur at the expense of alternative private sector investments. As such, we do not find support for using the social cost of capital approach described in section 2.2.3 above for deriving the discount rate on development contributions.

2.3.2 Lower and upper bounds on the discount rate for development contributions

The discussion in section 2.3.1 above suggests that two of the three discount rate frameworks set out in section 2.2 above are appropriate for setting the discount rate on development contributions.

These two discount rate frameworks result in:

- a lower bound discount rate at the benchmark cost of debt for councils, ie, a weighted average of the interest rates on a benchmark TCorp loan product and a benchmark commercial loan with AA rating, as discussed in section 2.2.1 above;
 - > we note that this approach is not part of the five options we have been asked to consider; and
- an upper bound discount rate at the benchmark cost of debt for developers, ie, the interest rate on a benchmark commercial loan with A- rating, as discussed in section 2.2.2 above;
 - > we explain in section 3.1 below that this corresponds to the median credit rating of the Centre for International Economics' (CIE's) proposed comparator sample, noting that we have not analysed this proposed comparator sample.

Councils are not required to adopt a net present value approach when calculating deferred payment amounts on development contributions. If a council does not apply a net present value approach to a project, then the resulting deferred payment amounts are equivalent to adopting a zero discount rate.

It follows that it would be appropriate for IPART to publish an upper bound discount rate without publishing a corresponding lower bound. Councils then retain flexibility to calculate deferred payments on development contributions based on:

- this upper bound discount rate that matches the interest rate on a benchmark commercial loan with A-rating; or
- a zero discount rate, which applies if the council decides not to adopt a net present value approach.

2.3.3 Comparison against regulated infrastructure firms

The approach that we have proposed in section 2.3.2 above differs from IPART's approach for setting the benchmark WACC for regulated infrastructure businesses in New South Wales. In particular, our proposed discount rate is based on cost of debt estimates without a cost of equity component.

We agree with the reasoning that IPART adopts for its current discount rate methodology, namely that a council is not a corporation that can raise equity from external parties and so its cost of capital is its cost of debt.³⁶

³⁶ IPART, *Review of IPART's discount rate for local government infrastructure contributions*, Issues paper, September 2025, p 14.

Councils also are not profit-maximising entities and do not draw on retained earnings to distribute equity in the form of dividends.

Since councils do not raise or distribute equity, whenever a council defers its cash flows to fund infrastructure development, it will need to raise debt or reduce its spending. Its opportunity cost when deferring cash flows will then be the interest that it pays on the debt that it raises, ie, its cost of debt.

This contrasts with the regulatory framework that applies to regulated infrastructure businesses, under which both privately owned and government owned businesses:

- are treated as profit-maximising entities that raise capital through a combination of debt and equity; and
- are assumed to pay dividends to shareholders.³⁷

Further, as we explain in section 2.1 above, the discount rate on development contributions is a blunt instrument since IPART only sets a single discount rate that applies uniformly across all councils and projects.

It is therefore appropriate for councils to adjust for risks when quantifying the expected costs associated with a contributions plan.

For example, IPART explains that councils can mitigate the risks associated with funding local infrastructure through:³⁸

- cost indexation and regular plan reviews;
- delaying provision of infrastructure to minimise the council's financial risk;
- setting developer contribution amounts on a more realistic forecast of development timing;
- funding part of the council's investment cost through retained earnings instead of debt; and
- pooling risks across different development precincts within the council area.

Councils are in the best position to evaluate the risks specific to each project. It would therefore be appropriate for councils to build these risks into their expected costs on each contributions plan, instead of relying on IPART's benchmark discount rate to compensate them for all the risks they face when funding local infrastructure.

Overall, we consider that the approach we have proposed in section 2.3.2 above is consistent with the aim of IPART's review, ie, ensuring that the methodology for estimating the local government discount rate is:³⁹

- suitable for councils using a net present value approach for calculating local government infrastructure contributions; and
- consistent with the aim of providing local infrastructure in a reasonable timeframe.

³⁷ For example, section 15(c) of the *Independent Pricing and Regulatory Tribunal Act 1992* requires IPART to make price determinations by considering the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales.

³⁸ IPART, *Review of IPART's discount rate for local government infrastructure contributions*, Issues paper, September 2025, pp 6-8, 22.

³⁹ IPART, *Review of IPART's discount rate for local government infrastructure contributions*, Issues paper, September 2025, p 13.

3. Assessment of methodology

In sections 3.1 to 3.5 below we discuss the suitability of the five methods that IPART has asked us to review, namely:

- the CIE's suggested WACC approach that uses proxy companies to determine beta and gearing;
- The Hills shire council's suggested cost of debt methodology;
- IPART's method for estimating beta;
- TCorp's suggestion on the risk free rate; and
- New South Wales Treasury's social discount rate.

3.1 The CIE's suggested WACC approach

The CIE submits that the discount rate on development contributions should reflect the risks of the contributions plan instead of the council as a whole:⁴⁰

In our view, the appropriate cost of capital is that associated with the contribution plan, rather than for the council as a whole. Other council activities will have very different characteristics to providing local infrastructure to support development. Whether this makes any practical difference to the chosen discount rate will depend on whether the risks to council as a whole versus the types of activities within a contributions plan can be differentiated. Councils do not tend to have a discount rate for council activities as a whole used in other aspects of council financial policies, based on discussions with The Parks councils. (emphasis added)

This is consistent with the framework that we set out in section 2.2.2 above, whereby the discount rate on development contributions is calculated to allow councils to recover their benchmark standalone costs as developers of local infrastructure.

The CIE further submits that IPART should calculate the discount rate on development contributions with reference to IPART's standard definition of a 'benchmark efficient entity',⁴¹ ie, a firm operating in a competitive market and facing similar risks to the regulated business.

The CIE proposes a comparator sample of 13 land developers for calculating the benchmark equity beta and gearing. According to the CIE:⁴²

- there are unlikely to be any proxy firms that provide the same set of services as local councils, but the closest type of business is a land developer focused on large Greenfield sites;
- land developers have risks similar to that of a council undertaking to construct public infrastructure in advance of receiving contributions revenue; and
- land developers have some risk mitigations that are not available to councils, such as:⁴³
 - > securing pre-sales prior to construction;
 - > being in control of the release of development; and

⁴⁰ The Centre for International Economics, *Submission to IPART's review of the discount rate for local infrastructure contributions*, Final report, 28 October 2025, p 15.

⁴¹ The Centre for International Economics, *Submission to IPART's review of the discount rate for local infrastructure contributions*, Final report, 28 October 2025, p 13.

⁴² The Centre for International Economics, *Submission to IPART's review of the discount rate for local infrastructure contributions*, Final report, 28 October 2025, pp 22-24.

⁴³ The Centre for International Economics, *Submission to IPART's review of the discount rate for local infrastructure contributions*, Final report, 28 October 2025, p 23.

- > adjusting prices with demand.

Regarding the last point above, we consider that a high price elasticity of demand is likely to increase a land developer's risks instead of decreasing it, since it requires the land developer to take on additional demand risks.

Notwithstanding, we consider that councils also have some characteristics that make them lower risk compared to the firms in the CIE's sample of land developers, namely that:⁴⁴

- councils have a monopoly within their local areas;
- development contributions tend to have low price elasticity of demand since they make up a relatively small proportion of development costs, ie, one per cent to four per cent on average;⁴⁵ and
- councils can mitigate some of their risks by:
 - > restricting the issuing of certificates as a form of non-monetary security by requiring the developer to pay their contribution or deliver on their obligation before council releases the certificate;⁴⁶
 - > obtaining financial security on development contributions and waiting to receive funds before building infrastructure;⁴⁷ and
 - > index their contribution rates quarterly or annually.⁴⁸

We have not analysed the CIE's comparator sample and have not verified their WACC parameter estimates, although we note that:

- the CIE acknowledges some limitations of its comparator sample, including that most land developers undertake many other activities, such as owning and leasing and civil construction;⁴⁹ and
- the CIE has used the Hamada formula for de-levering and re-levering the equity beta, which differs from IPART's preferred Brealey-Myers formula.⁵⁰

It follows that if the CIE's comparator sample correctly includes firms that provide similar services to that of local councils, then as we explain in section 2.2.2 and 2.3.2 above, it may be appropriate to calculate the upper bound discount rate on development contributions based on the benchmark cost of debt derived from that sample.

This discount rate will not compensate councils fully for all the risks associated with funding local infrastructure, such as cost escalation risk and the risk that the development proceeds more slowly than expected. Instead, councils will need to build these risks into their expected costs on each contributions plan.

⁴⁴ The Australian Energy Regulator states these factors reduce systematic risk. See: Australian Energy Regulator, *Equity beta*, Discussion paper, March 2018, p 21.

⁴⁵ New South Wales Productivity Commission, *Review of Infrastructure Contributions in New South Wales*, Issues paper, July 2020, p 31.

⁴⁶ New South Wales Government, <https://www.planningportal.nsw.gov.au/security-contributions-and-planning-agreements>, accessed 13 January 2026.

⁴⁷ New South Wales Productivity Commission, *Review of Infrastructure Contributions in New South Wales*, Final report, November 2020, p 67.

⁴⁸ New South Wales Government, <https://www.planningportal.nsw.gov.au/indexing-contribution-rates-and-conditions-consent>, accessed 13 January 2026.

⁴⁹ The Centre for International Economics, *Submission to IPART's review of the discount rate for local infrastructure contributions*, Final report, 28 October 2025, p 23.

⁵⁰ The Centre for International Economics, *Submission to IPART's review of the discount rate for local infrastructure contributions*, Final report, 28 October 2025, footnote 14. IPART, *Estimating equity beta for the weighted average cost of capital*, Final report, August 2020, p 1.

We show in table 3.1 below the credit ratings of the land developers in the CIE's proposed comparator sample. The median credit rating of the sample is A-, which is a lower quality credit rating compared to the AA credit rating that IPART currently assumes for councils.⁵¹

We note the Reserve Bank of Australia currently publishes cost of debt estimates for the BBB and A credit ratings only. If IPART adopts a benchmark credit rating of A-, then the benchmark cost of debt estimate will need to be estimated using some average of the BBB and A cost of debt. For example, the Australian Energy Regulator derives a BBB+ credit rating by assigning 2/3 weight to the BBB cost of debt and 1/3 weight to the A cost of debt.⁵²

Table 3.1: Credit ratings of land developers in the CIE's proposed comparator sample

Comparator company	Ticker	Moody's long-term rating	S&P issuer credit rating	Fitch issuer rating
Goodman Group	GMG AU Equity	Baa1	BBB+	-
Stockland	SGP AU Equity	A3	A-	-
GPT Group	GPT AU Equity	A2	A-	-
Dexus	DXS AU Equity	A3	A-	-
Mirvac Group	MGR AU Equity	A3	-	A-
Charter Hall Group	CHC AU Equity	Baa1	-	-
Lendlease Group	LLC AU Equity	Baa3	-	BBB-
Vicinity Centres	VCX AU Equity	A2	A	-

Source: *The Centre for International Economics, Submission to IPART's review of the discount rate for local infrastructure contributions, Final report, 28 October 2025, p 24; Bloomberg; HoustonKemp analysis.*

3.2 The Hills shire council's suggested cost of debt methodology

The Hills shire council supports retaining a cost of debt methodology, rather than adopting a cost of equity or WACC approach, on the basis that councils cannot raise equity or realise and trade infrastructure assets in the manner of private firms.⁵³

Notwithstanding, The Hills shire council submits that contributions planning involves risks that are higher than those faced in councils' day-to-day operations, including some of the risks that we set out in section 2.1 above.⁵⁴

As such, The Hills shire council submits that these risks justify a higher discount rate within a debt-based framework. It proposes to calculate the discount rate on development contributions by:⁵⁵

- using the risk-free rate as a base (no change to existing method);
- add the full spread between the risk-free rate and A rated corporate bonds;
- add half the spread between A rated and BBB rated corporate bonds; and
- including the standard 12.5 basis point allowance for debt raising costs.

⁵¹ IPART, *Review of IPART's discount rate for local government infrastructure contributions*, Issues paper, September 2025, p 15.

⁵² Australian Energy Regulator, *Rate of return instrument*, Explanatory statement, February 2023, table 0.1.

⁵³ The Hills Shire Council, *Review of IPART's Local Government Discount Rate Methodology*, Letter, 30 October 2025, p 2.

⁵⁴ The Hills Shire Council, *Review of IPART's Local Government Discount Rate Methodology*, Letter, 30 October 2025, p 2.

⁵⁵ The Hills Shire Council, *Review of IPART's Local Government Discount Rate Methodology*, Letter, 30 October 2025, p 5.

The second and third points above differ from IPART's current approach, which assumes an AA benchmark credit rating and takes half the spread between the risk-free rate and A rated corporate bonds.⁵⁶

The Hills shire council's proposed approach generates a discount rate of 4.85 per cent compared to the 3.875 per cent rate derived from IPART's current approach.⁵⁷

The Hills shire council does not explain why the discount rate for development contributions should use a debt risk premium that corresponds to the midpoint of that observed for A rated and BBB rated corporate bonds.

Nevertheless, we observe that The Hills shire council's assumed credit rating range is broadly consistent with the A- median credit rating of land developers in the CIE's proposed comparator sample as set out in table 3.1 above.

However, precedent from the Australian Energy Regulator suggests that the cost of debt for an A-benchmark should be calculated by assigning 1/3 weight to the BBB cost of debt and 2/3 weight to the A cost of debt,⁵⁸ instead of taking the midpoint.

3.3 IPART's method for estimating beta

IPART has conducted an empirical analysis of the equity beta for local infrastructure by collecting data from ten local councils and regressing:⁵⁹

- monthly council returns, defined as development contributions divided by the value of local infrastructure investments made by a council; against
- monthly market returns, defined as the return on the ASX 200.

Regarding the first point above, IPART likens a local council to a firm that is funded entirely by equity injections from shareholders and collects income from developer charges paid to the firm. This implies that:⁶⁰

- developer charges are a pure pre-tax profit for local councils; and
- council returns can be calculated as developer charge income divided by the value of equity, ie, the accumulated capital cost of local infrastructure.

IPART finds that:⁶¹

- the resulting beta estimates for the ten local councils range from -0.06 to 0.053 and are not statistically significant;
- the beta estimated from the pooled set of all ten local councils is -0.005 and is not statistically significant; and
- using the percentage change in gross domestic product as an alternative proxy for the market index results in:
 - > betas that range from -0.006 to 0.09 and are not statistically significant; and
 - > a pooled beta of 0.002 that is not statistically significant.

⁵⁶ IPART, *Modelling local infrastructure contributions in a present value framework*, Technical paper, July 2025, p 10.

⁵⁷ The Hills Shire Council, *Review of IPART's Local Government Discount Rate Methodology*, Letter, 30 October 2025, pp 5-6.

⁵⁸ Australian Energy Regulator, *Rate of return instrument*, Explanatory statement, February 2023, table 0.1.

⁵⁹ IPART, *Revised empirical estimation of equity beta for LG discount rate*, 13 January 2026, p 1.

⁶⁰ IPART, *Revised empirical estimation of equity beta for LG discount rate*, 13 January 2026, p 1.

⁶¹ IPART, *Revised empirical estimation of equity beta for LG discount rate*, 13 January 2026, pp 1-2.

IPART's empirical analysis corresponds to the framework that we set out in section 2.2.1 above, in which the discount rate on development contributions reflects the benchmark cost of capital for a council as a whole. This is because IPART's analysis assumes that developer charges are pure pre-tax profits, such that any shortfalls on developer charges are ultimately paid by the council's ratepayers.

IPART's results suggest that adopting the benchmark cost of debt as the discount rate on development contributions may be appropriate, albeit potentially with a slight overestimate since an equity beta of zero implies that the WACC should be lower than the cost of debt.⁶²

3.4 TCorp's suggestion on the risk free rate

[Confidential] IPART has informed us that TCorp suggests using New South Wales Treasury bonds instead of Commonwealth bonds to determine the risk free rate.⁶³

TCorp states that it prices its loans to councils by:⁶⁴

- **[Confidential]** referring to the TCorp bond curve for a tenor that approximates the weighted average life of the amortising loan; and
- **[Confidential]** adding a standardised loan margin of 55 basis points to all council loans, provided the council meets TCorp's credit approval criteria.

The appropriateness of TCorp's suggestion varies with the framework that is used for calculating the discount rate on development contributions.

If the discount rate is calculated to allow councils to reflect the benchmark cost of capital for a council as a whole, then it is appropriate to include the interest rate on a benchmark TCorp loan product when calculating the benchmark financing cost for councils. This is because councils have access to loans from TCorp, and they can minimise the cost of financing local infrastructure by drawing on these loans where possible.

For example, we suggest in section 2.2.1 above that the benchmark financing cost for councils can be calculated as the weighted average of:

- the interest rate on a benchmark TCorp loan product, with a weight equal to the proportion of council debt that is made up TCorp loans; and
- the interest rate on a benchmark commercial loan, which IPART assumes as having an AA credit rating and a ten-year term to maturity,⁶⁵ with a weight equal to the proportion of council debt that is made up of commercial loans.

Conversely, if the discount rate is calculated to cover their benchmark standalone costs as developers of local infrastructure, as distinct from the cost of capital for the council as a whole, then it would not be appropriate to incorporate TCorp loan products for calculating the discount rate on development contributions.

This is because the low rates on TCorp loans include implicit cross subsidies from taxpayers, which should not be incorporated when calculating the benchmark standalone costs of developers of local infrastructure.

In addition, the risk free rate is a market wide WACC parameter that should be applicable across firms in all industries. As such, it would not be appropriate for IPART to use New South Wales Treasury bonds to

⁶² This arises because an equity beta of zero results in a cost of equity that is lower than the cost of debt. We note that if a pre-tax WACC is used, then the direction of this impact will depend on the magnitude of the debt risk premium relative to the risk free rate.

⁶³ **[Confidential]** Informed by IPART.

⁶⁴ **[Confidential]** Informed by IPART.

⁶⁵ IPART, *Review of IPART's discount rate for local government infrastructure contributions*, Issues paper, September 2025, p 15.

calculate the benchmark risk free rate for councils while using Commonwealth bonds to calculate the benchmark risk free rate for other regulated businesses.

3.5 New South Wales Treasury's social discount rate

The New South Wales Treasury published its guide to cost-benefit analysis in February 2023. As set out in section 2.2.3 above, the guide mandates:⁶⁶

- a real social discount rate of 5 per cent per annum; and
- sensitivity testing at real social discount rates of 3 per cent and 7 per cent per annum.

We explain in section 2.3.1 above that the relevant legislation on development contributions does not refer to efficiency in terms of maximising social benefits by making sure that public investment does not occur at the expense of alternative private sector investments.

Instead, the legislative framework:

- states that development contributions should be used to recoup the council's costs;⁶⁷ and
- requires a clear relationship between the development being charged and the demand for the infrastructure being funded.⁶⁸

It follows that a social cost of capital that calculates a state-wide opportunity cost on forgone private investment is unlikely to be consistent with the objective of development contributions, which seeks to ensure cost recovery and/or attribute costs efficiently under an impactor-pays approach, instead of filtering projects based on net social welfare.

We note that the Australian government adopts a social discount rate that differs from that used by the New South Wales government, namely:⁶⁹

- central real discount rate of 7 per cent; and
- sensitivities using 3 per cent and 10 per cent real discount rates.

⁶⁶ New South Wales Treasury, *NSW government guide to cost-benefit analysis*, February 2023, incorporating revisions as at April 2025, p 7.

⁶⁷ *Environmental Planning and Assessment Act 1979* (NSW), section 7.11.

⁶⁸ New South Wales Government, <https://www.planningportal.nsw.gov.au/local-infrastructure-contributions/demand-nexus>, accessed 14 January 2026.

⁶⁹ Office of Best Practice Regulation, *Cost-benefit analysis*, Guidance note, March 2020, p 7.



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