IPART Independent Pricing and Regulatory Tribunal | NSW

Review of IPART's discount rate methodology for local government infrastructure contributions

Draft Report

April 2026

Local Government »

Acknowledgment of Country

IPART acknowledges the Traditional Owners of the lands where we live and work. Our office is located on Gadigal land and our work touches on Aboriginal lands and waterways across NSW.

We pay respect to their Elders both past and present, and recognise Aboriginal people's unique and continuing cultural connections, rights and relationships to land, water and Country.

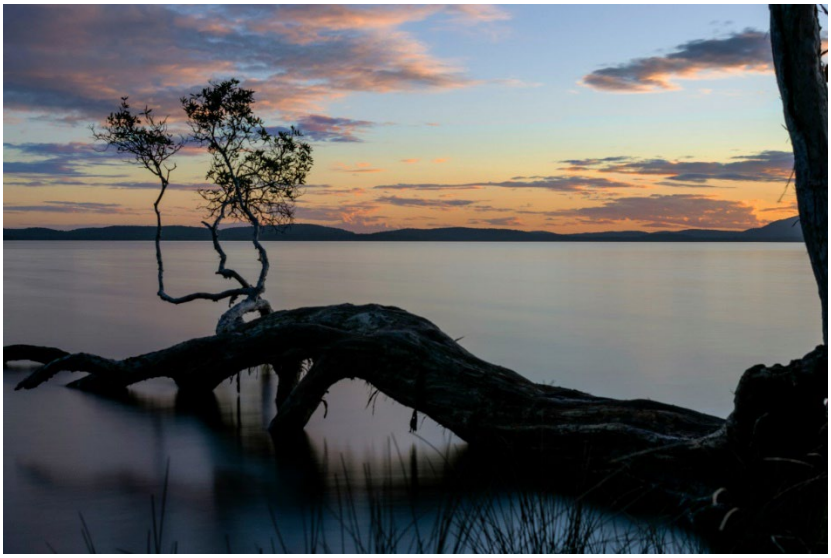

Image taken on Worimi Country (Myall Lakes)

The Independent Pricing and Regulatory Tribunal

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Tribunal Members

The Tribunal members for this review are:

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Dr Darryl Biggar
Jonathan Coppel
Sharon Henrick

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Invitation for submissions

IPART invites comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

Submissions are due by Friday, 15 May 2026

We prefer to receive them electronically via our online submission form.

You can also send comments by mail to:

Review of IPART's discount rate methodology for local government infrastructure contributions
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop, Sydney NSW 1240

If you require assistance to make a submission (for example, if you would like to make a verbal submission) please contact one of the staff members listed above.

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If you would like further information on making a submission, IPART's submission policy is available on our website.

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Contents

1 Report summary

1.1 Purpose of this review

We are reviewing the methodology we use to calculate the discount rate for local government infrastructure contributions. We recommend councils apply this discount rate if they are using a net present value (NPV) approach to calculate contributions. IPART calculates and publishes the discount rate every 6 months.

This review seeks to ensure that our discount rate methodology is fit for purpose and consistent with several aims, including cost-reflectivity and the timely provision of local infrastructure.

1.2 Our draft decision is to update our method to estimate the discount rate

Taking into account the feedback received from stakeholders, advice from independent consultant HoustonKemp, and our own analysis, we consider that there is a case to adjust our discount rate methodology to better align with the risks that councils face in providing infrastructure in the section 7.11 contributions system. For councils using an NPV approach, the discount rate should compensate councils for the types of risks that they incur.

Our draft decision is to maintain a cost of debt-based approach to calculate the discount rate, with a new risk adjustment. We propose to update our method to better estimate the benchmark debt margin for all local councils by using a benchmark credit rating of A-, which is lower than the rating of A we currently assume.

Our proposed update would continue basing the discount rate on councils' cost of debt and include a new risk adjustment for a weighted-average debt margin for A and BBB rated bonds to derive a benchmark credit rating of A-.

We consider that this update to our method would better capture the level of risk and uncertainty faced by councils providing local infrastructure in new developments. In short, the update would better estimate councils' risk premium. This will likely result in a higher discount rate than in our past biannual updates.

Table 1.1 shows an indicative calculation of the nominal and real discount rates using our draft decision method. Our indicative calculation uses the relevant market observations as at the end of January 2026.

Our draft decision results in a nominal discount rate of 4.8%, compared to 4.0% using our current methodology from our February 2026 update.

Table 1.1 Calculating nominal and real discount rates – IPART's draft decision

Relevant rates (observed at the end of January 2026)	Commonwealth 10-yr bond yield (%) [b]	Corporate A rated 10-yr yield (%) [b]	Corporate BBB rated 10-yr yield (%) [b]
Current cost of debt [a]	3.70	4.90	5.50
Historic cost of debt [a]	2.90	4.10	4.70
Midpoint	3.3	4.5	5.1
Deriving the risk adjustment (benchmark credit rating of A- risk adjustment) [c]	Risk adjustment = 2/3 A + 1/3 BBB - Rf		
Corporate A rated 10-yr yield (midpoint) with 2/3 weight	3.0		
+ corporate BBB rated 10-yr yield (midpoint) with 1/3 weight	1.7		
- Commonwealth 10-year bond yield	3.3		
= risk adjustment	1.4		
Calculating the discount rate			
Commonwealth 10-year bond yield (midpoint)	3.3		
+ risk adjustment	1.4		
+ debt raising costs	0.125		
= Nominal discount rate	4.825		
Inflation forecast [d]	2.60		
Real discount rate	2.225		
Nominal discount rate (rounded to 1 decimal place) [e]	**4.8**		
Real discount rate (rounded to 1 decimal place) [e]	**2.2**		

a. We use a trailing average to calculate the historic and current cost of debt. The historic cost of debt consists of 10 equal tranches of debt for a 10-year period and the current cost of debt consists of 5 equal tranches of debt for a 5-year period.
b. For each tranche of debt, the Commonwealth 10-year bond yield is based on 40 trading days of data, and the non-financial corporate A rated and BBB rated 10-year yield is based on 2 months of data.
c. We apply a 2/3 weight to the non-financial corporate A rated 10-year yield and a 1/3 weight to the non-financial corporate BBB rated 10-year yield to calculate a benchmark credit rating of A-.
d. The inflation forecast is based on the current 1-year forecast based on quarterly data from the RBA's Statement of Monetary Policy, and the remaining 4 years is based on midpoint of the RBA's target band of inflation of 2.5%.
e. The bond yield values are all rounded to 1 decimal place to be consistent with the corresponding inputs in the primary WACC calculation.
Note: The periods over which the trailing averages are calculated are to 31 January 2026.

Source: Reserve Bank of Australia, Statistical Tables F2 (Commonwealth 10-year bond yield), F3 (non-financial corporate A rated 10-year yield), F3 (non-financial corporate BBB rated 10-year yield) and Statement of Monetary Policy (inflation).

For more detail on our draft discount rate decision, please see Section 3.1.

Draft decision

1. To maintain a cost of debt-based approach to calculate the discount rate with a new risk adjustment for a weighted-average debt margin for A and BBB rated bonds. 14

1.3 Matters we are considering for this review

1.4 We have considered all feedback received from stakeholders

On 1 September 2025, we published an Issues Paper asking stakeholders for their input to help us consider the appropriate discount rate for local government infrastructure contributions. We received 8 submissions to our Issues Paper. We also met with 7 stakeholders directly and held a public workshop attended by 31 stakeholders. We considered all feedback from stakeholders in preparing this Draft Report.

We have identified the following key themes in the submissions we received:

- local government stakeholders find our current discount rate to be too low
- general support for using an NPV approach in principle
- there are no true proxies for councils' role in providing local infrastructure
- there are various risks that councils face when administering contributions plans
- there are mixed views on the discount rate's impact on the timely provision of infrastructure and feasibility of housing development.

We also heard that councils face a range of obstacles to providing local infrastructure in a more timely manner. Some of these obstacles are related to a perception that the current discount rate is too low to compensate a council for the risks it assumes. This can result in a council adopting other measures to manage those risks, which may involve delays to development.

For example, if borrowing to fund local infrastructure is seen as too risky, a council may instead delay the local infrastructure investment until some contributions have already been received. This strategy can lead to delayed delivery of local infrastructure to support new developments.

Some submissions we received indicated that other obstacles may be the result of council attitudes to debt finance, constraints placed on council financing decisions by regulations, and other practical constraints faced by councils.

More details on the issues raised in the submissions we received can be found in Chapter 5 of this Draft Report.

We welcome stakeholder feedback on this Draft Report before finalising our Final Report and decision on our discount rate methodology.

1.5 Our process for this review

In April 2025, Sydney's Western Parkland Councils (The Parks) and Western Sydney Planning Partnership (WSPP) wrote to IPART to request a review of our current discount rate methodology.

The Parks and WSPP asked IPART to consider including a cost of equity in councils' cost of capital, rather than only using a cost of debt, when calculating the discount rate. WSPP commissioned a report from The Centre of International Economics (The CIE) that they provided to IPART. A copy of The CIE report and The Parks letter is available on our website.

In response to this correspondence, we decided to review our approach. We are mindful of the concerns raised by The Parks and WSPP, and recognise that periodic review is good regulatory practice. We last reviewed our approach for calculating the discount rate in 2016.

We published a Scope of Review in July 2025, which outlined the matters for consideration, consultation to be undertaken, and timeframe for the review.

We published an Issues Paper in September 2025 which sought stakeholder input to the review, with submissions due by the end of October 2025. We received 8 submissions which are now published on our website. We also held a public workshop in October 2025 attended by 31 stakeholders across councils, industry associations, consultants and other organisations. The presentation and a recording of the workshop are available here. We also met with 7 stakeholders directly to discuss the review's issues and gather in-depth information.

We would like to thank everyone who has participated in providing feedback to this review so far.

Before publication of this Draft Report, we engaged HoustonKemp to provide expert independent advice. HoustonKemp's report is available on our website here. We have considered HoustonKemp's advice in the development of our draft discount rate decision.

We welcome submissions for this Draft Report, due by 15 May 2026. We invite each stakeholder who provided a written submission to our Issues Paper to contact us to arrange a meeting with us should they wish to provide feedback on our Draft Report in person. Stakeholders are welcome to contact us if they would like to meet to discuss the Draft Report. We do not intend to hold another public workshop on this review.

We expect to publish our Final Report in June, once we have completed consulting on our Draft Report. Our Final Report will set out our final decision on the discount rate methodology we recommend Councils apply when using an NPV approach for calculating the contributions to be paid by developers for local infrastructure..

1.6 Alternative methodologies for calculating the discount rate

As part of our consultation, stakeholders suggested several other approaches to estimate the discount rate. We investigated these other approaches to updating our discount rate methodology and sought advice from HoustonKemp on these alternatives. We consider that the alternative options have some merits and limitations. We welcome stakeholder feedback on the alternative options for setting future discount rates. These are:

1. A cost of debt approach proposed by The Hills Shire Council.
2. A weighted average cost of capital (WACC)-style approach that was suggested by The Parks and WSPP, as detailed in The CIE's report. This would include an equity beta using property development firms as proxy for a benchmark firm.
3. A cost of debt approach in which NSW Government bond rates are used as the starting rate instead of yields on Commonwealth Government Securities.
4. A WACC-style approach that uses IPART's own empirical estimates of equity beta for the local government infrastructure activity as a stand-alone business.
5. The discount rate used by NSW Treasury for investment appraisal across the public sector.

For more detail on these other options, please see Chapter 3.

Seek Comment

1.	Do you consider our draft discount rate decision, based on a modified cost of debt with an added risk adjustment, to be appropriate? Please explain your reasons why or why not.	14
2.	Do you consider any or any portion of the alternative options for a revised discount rate methodology to be appropriate? Please explain your reasons.	20
3.	Are there issues raised in this Draft Report, or other relevant issues that we may not have considered, that you would like to comment on?	30

We will consider all stakeholder feedback, input from our independent experts and our own analysis before publishing our Final Report with our final decision. Figure 1.1 shows our timeline for the review.

Have your say

Your input is critical to our review process.

You can get involved by submitting feedback to this review.

Submit feedback »

Figure 1.1 Review timeline

2 Contributions in a net present value framework

Councils are responsible for providing local infrastructure to facilitate new development. The *Environmental Planning and Assessment Act 1979* (EP&A Act) enables councils to charge development contributions if the council is satisfied the development will or is likely to require the provision of or increase the demand for public amenities and public services within the area. Under Section 7.11 of the EP&A Act, councils may impose contributions towards the cost of new local infrastructure to meet that increased demand, as a condition of development consent. IPART reviews Section 7.11 contributions plans that propose contributions above a threshold of $30,000 per lot or dwelling in identified greenfield areas or $20,000 per lot or dwelling in other areas.[a]

Councils have the option of using an NPV approach when determining contribution rates. An NPV approach is IPART's preferred approach for calculating contribution rates, as it can help councils better manage the financial risks associated with contributions plans. An NPV framework involves:

- projecting the costs for required local infrastructure over time
- projecting the timing of development
- setting contribution rates so that the discounted value of costs today (the present value) is equal to the discounted value of revenues today, given the expected timing of development.

The NPV approach involves the use of a discounted cash flow model. In a discounted cash flow model, contribution rates are calculated so that the present value of anticipated revenue from future development is equal to the present value of anticipated costs of the infrastructure needed to service future development. This approach recognises that a dollar today is of greater value than a dollar received in the future.[b]

To set contribution rates using an NPV approach, a discount rate is required. This is the rate that is used to convert future cashflows into present value. We use our methodology to calculate the discount rate that we recommend councils apply if they are using an NPV approach to calculate contributions. IPART calculates and publishes this discount rate every 6 months.

2.1 Our current discount rate methodology

An important component in the application of an NPV method is the discount rate. The discount rate needs to take into account both the risk-free time value of money and the risks that councils face in providing infrastructure in the section 7.11 contributions system.

Our current methodology for estimating the discount rate involves:

- calculating the midpoint of the historic and current cost of debt for the 10-year Commonwealth bond yield and non-financial corporate A rated debt

[a] In accordance with the Ministerial direction for local contributions.

[b] Because current consumption is preferred to future consumption, lenders demand compensation for postponing their consumption. The opportunity cost of current consumption then becomes the interest that borrowers are prepared to pay. In numerical terms, if you want to have $100 in one year's time with interest rates at 5% p.a., you only need to invest $95.24 today. The corollary being that the present value of $100 in one year's time is $95.24.

- halving the spread between the 10-year Commonwealth bond yields and non-financial corporate A rated debt and adding that to the risk-free rate
- adding IPART's standard allowance for debt-raising costs of 12.5 basis points.

Councils have the flexibility to model contributions rates using either nominal or real values. If councils use real values, they should use a real discount rate. We adjust the nominal discount rate for inflation to derive a real discount rate. Our inflation estimate is the geometric average of the Reserve Bank of Australia's (RBA) inflation forecast for the next year, and 4 years of the midpoint of its target inflation range.

Our current approach is based on the cost of debt for councils and recognises that councils are relatively low-risk borrowers. Further detail on our current approach is outlined in our Technical Paper, *Modelling local infrastructure contributions in a net present value framework*. Table 2.1 shows the nominal and real discount rates and the various components that make up the rates in our February 2026 update.[1]

We are proposing an adjusted version of our current methodology as our draft decision for this review. Section 3.1 outlines our draft decision and how it differs from our current methodology.

Table 2.1 Calculating nominal and real discount rates – current IPART method

Relevant rates (observed at the end of January 2026)	Commonwealth 10-yr bond yield (%) [b]	Corporate A-rated 10-yr yield (%) [b]	Spread (%)
Current cost of debt [a]	3.70	4.90	
Historic cost of debt [a]	2.90	4.10	
Midpoint	3.3	4.5	1.2
Calculating the discount rate			
Commonwealth 10-year bond yield (midpoint)	3.3		
+ half of the spread	0.600		
+ debt raising costs	0.125		
= **Nominal discount rate**	4.025		
Inflation forecast [c]	2.60		
Real discount rate	1.39		
Nominal discount rate (rounded to 1 decimal place)	**4.0**		
Real discount rate (rounded to 1 decimal place)	**1.4**		

a. We use a trailing average to calculate the historic and current cost of debt. The historic cost of debt consists of 10 equal tranches of debt for a 10-year period and the current cost of debt consists of 5 equal tranches of debt for a 5-year period.
b. For each tranche of debt, the Commonwealth 10-year bond yield is based on 40 trading days of data and the non-financial corporate A rated 10-year yield is based on 2 months of data.
c. The inflation forecast is based on the current 1-year forecast based on quarterly data from the RBA's Statement of Monetary Policy, and the remaining 4 years is based on midpoint of the RBA's target band of inflation of 2.5%.
d. The bond yield values are all rounded to 1 decimal place to be consistent with the corresponding inputs in the primary WACC calculation.

Note: The periods over which the trailing averages are calculated are to 31 January 2026.

Source: Reserve Bank of Australia, Statistical Tables F2 (Commonwealth 10-year bond yield), F3 (non-financial corporate A rated 10-year yield) and Statement of Monetary Policy (inflation).

2.2 Benefits of using a net present value approach

The main risk that councils face with contributions plans is that not enough money is collected to pay for the infrastructure that needs to be delivered. We have heard from stakeholders, and seen in our assessments of contributions plans, that councils may face funding shortfalls due to insufficient contributions income.

Using an NPV approach for contributions plans could help councils mitigate some of the financial risks associated with funding shortfalls. When a council does not use an NPV approach for its contributions plan, it is not fully accounting for the risks or the decline in the value of contributions over time.

This could mean that councils do not collect enough contributions to cover what they spend on land and works over the duration of a plan. This is due to the mismatch between the timing of expenditure and receipt of contributions revenue. For example, a parcel of land acquired in year 10 of a plan may cost more than what was estimated in year 1 when the contribution rates were first set.

While indexation and regular plan reviews aim to reduce financial risks, using an NPV approach could help decrease the likelihood of funding shortfalls. However, even under an NPV approach, funding shortfalls could occur due to costs increasing more than forecast, which is why regular updates to a contributions plan are recommended.

3 Draft decision and options for a revised discount rate methodology

Taking into account the feedback received from stakeholders, advice from HoustonKemp and our own analysis, we consider that there is a case to adjust our discount rate methodology to better align with the risks that councils face in providing infrastructure in the section 7.11 contributions system. For councils using an NPV approach, the discount rate should compensate councils for the types of risks that they may encounter.

For the reasons discussed in this section, our draft discount rate decision is to maintain a cost of debt approach to calculate the discount rate, with a new risk adjustment.

3.1 Our draft decision for the discount rate is to maintain a cost of debt-based approach with a new risk adjustment

We consider that maintaining a cost of debt-based approach to calculate the discount rate is appropriate.

Most local government and industry stakeholders broadly support maintaining a cost of debt-based approach, rather than moving to a cost of capital that includes an equity component. Additionally, based on our analysis in Section 3.2.4 on whether it would be appropriate to include the cost of equity in the discount rate methodology, we find that if an equity component were to be included in the discount rate for local government contributions, it would be minimal and result in a WACC that may be less than the discount rate calculated using the methodology set out in our draft decision. HoustonKemp also consider that maintaining a cost of debt-based approach to calculate the discount rate with a modification to the assumed credit rating of councils is appropriate, rather than adopting a WACC approach.[2]

However, the components of our current discount rate method do not fully capture the level of risk faced by councils or ratepayers. We consider that the discount rate can be set equal to the cost of debt that matches the benchmark credit rating derived from a sample of comparator firms. This would be based on the benchmark financing cost of funding local infrastructure on a standalone basis, as opposed to councils' overall benchmark financing cost.

If a discount rate based on councils' overall benchmark financing cost were adopted – using the interest rates of a TCorp loan product and benchmark commercial loan, for example – it would not compensate ratepayers for the risks associated with council investment in local infrastructure under contributions plans. This is because the calculation would exclude the cashflow risks exclusive to contributions plans.

Given there is no available data to directly estimate the benchmark debt margin for all local councils, we currently use a proxy based on a benchmark credit rating of A. We consider that an appropriate adjustment to our existing methodology would be to use a benchmark credit rating of A-, which is the median credit rating of The CIE's sample of proxy firms[3] and slightly lower than the rating of A we currently assume for councils. This is supported by HoustonKemp's advice.[4]

The subsections below explain the components of our draft decision for the discount rate methodology in more detail.

3.1.1 Estimating the cost of debt

We propose to calculate the cost of debt as the nominal risk-free rate plus a risk adjustment mechanism. This differs from our current method, which adds a lesser debt margin to the risk-free rate.

We determine the cost of debt as the midpoint between our estimates of the historic and the current cost of debt, and only consider moving away from this midpoint rule when market conditions are highly volatile, indicating there is significant economic uncertainty.

Risk-free rate

The risk-free rate is the rate of return of an investment with no risk or loss. We calculate the risk-free rate using the 10-year Commonwealth bond yield data, consistent with IPART's WACC method.[5] This remains unchanged from our current discount rate method.

Historic and current cost of debt

IPART's current WACC method, finalised in February 2018, uses a trailing average to calculate the cost of debt.[6] We apply the trailing average method to calculate the local government cost of debt, to maintain consistency between this and the WACC calculations which we update biannually on our website. This remains unchanged from our current discount rate method.

In simple terms, we assume that the debt is split into a historic portion and a current portion. The trailing average approach for calculating the historic portion consists of ten equal tranches of debt each of which has a ten-year term, and the maturity dates are staggered so that one tranche matures each year. This reflects an efficient debt strategy designed to minimise refinancing risk. The trailing average approach for calculating the current portion of debt consists of a smaller number of equal tranches. Applying the trailing average is consistent with the Section 7.11 contributions practice note, which requires a contributions plan to be reviewed to ensure growth assumptions, infrastructure requirements and cost estimates of the plan remain current.[7] We consider that plans should be reviewed at least every five years. This would enable a council to capture any changes to expected timing of expenditures. For plans with significant changes, it is likely that a review will have already occurred within a five-year period.

For each annual tranche, we will obtain the average interest rate estimated over a consistent observation period (i.e. a 40-day period for the Commonwealth 10-year bond yield and a 2-month period for the non-financial corporate A rated bond).

This approach means that the interest rate on the historic debt portion is an average of the interest rates over the observation period for the past ten years and the interest rate on the current debt portion is an average of interest rates over the observation period for the past five years.

Risk adjustment

Similar to the debt margin component of our current method, the proposed risk adjustment represents the level of compensation lenders require above the risk-free rate. This proposed adjustment takes into account the probability of default by the borrower, the duration of the debt, and the riskiness of the borrower's security.

There is no available data to estimate a benchmark risk adjustment for all local councils. Since we cannot directly estimate this benchmark, we use a proxy based on a benchmark credit rating.

We consider the yields on credit-rated non-financial corporate 10-year debt (ranging from A+, A, A- to BBB). It is highly likely that the councils that would want to issue debt would be financially sustainable. Our current method considers they would be likely to have a credit rating considerably better than BBB.[c] Unlike a corporate entity, a council has some compulsory taxation powers however councils are subject to regulation on raising taxes, as IPART sets the rate peg and other fees and charges are set by state government regulation.

In our current method, we assume that councils would most likely reflect a AA credit rating, for which no specific data exist. In the absence of this data, we consider the appropriate benchmark credit rating for the cost of borrowing by local governments to be the non-financial corporate A rated debt.

However, councils face constraints when administering contributions plans, such as being unable to use contributions plan assets (the expected revenue from developer charges) as security for loans and being subject to various risks that impact the certainty of contributions plan cashflows, including cost volatility, payment timing, and development pace (see Section 5.2 for further detail).

Given these constraints, we consider that the level of compensation that a lender would require above the risk-free rate is greater than assumed in our current method. Our draft decision considers the appropriate benchmark credit rating for the cost of borrowing by local governments to be A-, as opposed to a rating of A.

To proxy a benchmark credit rating of A-, we calculate by applying a 2/3 weight to the non-financial corporate A rated 10-year yield midpoint and a 1/3 weight to the non-financial corporate BBB rated 10-year yield midpoint. The Australian Energy Regulator uses a similar weighting approach to derive a benchmark credit rating of BBB+.[8]

The risk adjustment is then derived by the spread between the interest cost incurred by a council on its implied debt (expressed as a percentage) and the risk-free rate:

$$Risk\ adjustment = \frac{2}{3}A + \frac{1}{3}BBB - R_f$$

3.1.2 Calculating the discount rate

Our draft decision for estimating the discount rate involves:

[c] Our current approach is guided by the descriptions of credit ratings used by Standard & Poor's. Standard and Poor's Global, *Guide to Credit Rating Essentials*, 2024.

- calculating the midpoint of the historic and current cost of debt for the 10-year Commonwealth bond yield, non-financial corporate A rated debt, and non-financial corporate BBB rated debt
- deriving the risk adjustment by adding the weighted A and BBB rated debt midpoints and subtracting the risk-free rate
- summing the risk-free rate, risk adjustment, and IPART's standard allowance for debt-raising costs of 12.5 basis points.

Our draft decision allows councils the flexibility to model contributions rates using either nominal or real values. If councils use real values, they should use a real discount rate. We continue to adjust the nominal discount rate for inflation to derive a real discount rate. Our inflation estimate remains as the average of the RBA's inflation forecast for the next year, and 4 years of the midpoint of its target inflation range.

Table 3.1 shows an indicative calculation of the nominal and real discount rates using our draft decision method. Our indicative calculation uses the relevant market observations as at end of January 2026.

Our draft decision results in a nominal discount rate of 4.8%, compared to 4.0% using our current methodology from our February 2026 update.

Table 3.1 Calculating nominal and real discount rates – IPART draft decision

Relevant rates (observed at the end of January 2026)	**Commonwealth 10-yr bond yield (%) [b]**	**Corporate A rated 10-yr yield (%) [b]**	**Corporate BBB rated 10-yr yield (%) [b]**
Current cost of debt [a]	3.70	4.90	5.50
Historic cost of debt [a]	2.90	4.10	4.70
Midpoint	3.3	4.5	5.1
Deriving the risk adjustment (benchmark credit rating of A- risk adjustment) [c]	Risk adjustment = 2/3 A + 1/3 BBB - Rf		
Corporate A rated 10-yr yield (midpoint) with 2/3 weight	3.0		
+ corporate BBB rated 10-yr yield (midpoint) with 1/3 weight	1.7		
- Commonwealth 10-year bond yield	3.3		
= risk adjustment	1.4		
Calculating the discount rate			
Commonwealth 10-year bond yield (midpoint)	3.3		
+ risk adjustment	1.4		
+ debt raising costs	0.125		
= Nominal discount rate	4.825		
Inflation forecast [d]	2.60		
Real discount rate	2.225		
Nominal discount rate (rounded to 1 decimal place) [e]	**4.8**		
Real discount rate	**2.2**		

Relevant rates (observed at the end of January 2026)	Commonwealth 10-yr bond yield (%) [b]	Corporate A rated 10-yr yield (%) [b]	Corporate BBB rated 10-yr yield (%) [b]
(rounded to 1 decimal place) [e]			

a. We use a trailing average to calculate the historic and current cost of debt. The historic cost of debt consists of 10 equal tranches of debt for a 10-year period and the current cost of debt consists of 5 equal tranches of debt for a 5-year period.
b. For each tranche of debt, the Commonwealth 10-year bond yield is based on 40 trading days of data, and the non-financial corporate A rated and BBB rated 10-year yield is based on 2 months of data.
c. We apply a 2/3 weight to the non-financial corporate A rated 10-year yield and a 1/3 weight to the non-financial corporate BBB rated 10-year yield to calculate a benchmark credit rating of A-.
d. The inflation forecast is based on the current 1-year forecast based on quarterly data from the RBA's Statement of Monetary Policy, and the remaining 4 years is based on midpoint of the RBA's target band of inflation of 2.5%.
e. The bond yield values are all rounded to 1 decimal place to be consistent with the corresponding inputs in the primary WACC calculation.
Note: The periods over which the trailing averages are calculated are to 31 January 2026.

Source: Reserve Bank of Australia, Statistical Tables F2 (Commonwealth 10-year bond yield), F3 (non-financial corporate A rated 10-year yield), F3 (non-financial corporate BBB rated 10-year yield) and Statement of Monetary Policy (inflation).

Draft decision

1. To maintain a cost of debt-based approach to calculate the discount rate with a new risk adjustment for a weighted-average debt margin for A and BBB rated bonds.

Seek Comment

1. Do you consider our draft discount rate decision, based on a modified cost of debt with an added risk adjustment, to be appropriate? Please explain your reasons why or why not.

3.2 Alternative options for a revised discount rate methodology

As part of our consultation, stakeholders suggested several other approaches to estimate the discount rate. These different approaches have strengths and limitations. In this section, we provide an overview of the 5 other options for setting future discount rates proposed by stakeholders. These are:

1. A cost of debt approach proposed by The Hills Shire Council.
2. A WACC-style approach that was suggested by The Parks and WSPP, as detailed in The CIE's report. This includes an equity beta established through proxy company analysis on property development firms.
3. A cost of debt approach in which NSW Government bond rates are used as the starting rate instead of yields on Commonwealth Government Securities.
4. A WACC-style approach that uses IPART's own empirical estimates of equity beta for the local government infrastructure activity as a stand-alone business.
5. The discount rate used by NSW Treasury for investment appraisal across the public sector.

3.2.1 The Hills Shire Council's alternative cost of debt methodology

The Hills Shire Council proposes an alternative methodology, which maintains the current cost of debt approach but includes an adjustment to the credit rating assumptions to reflect the risk of contributions planning from its perspective.[9] This involves:

- using the risk-free rate as a base
- 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
- including 12.5 basis point allowance for debt raising costs.

The Hills Shire Council's submission to our Issues Paper provides an example calculation of this alternative methodology based on our August 2025 update, shown in Table 3.2 below.

Table 3.2 The Hills Shire Council's alternative cost of debt methodology

Discount rate component (observed at the end of July 2025)	IPART current methodology (%)	The Hills Shire Council proposed methodology (%)
Commonwealth 10-year bond yield (risk-free rate)		
Risk-free rate (current)	3.5	3.5
Risk-free rate (long-term)	2.7	2.7
Mid-point	3.1	3.1
Corporate A rated 10-year bond debt margins		
Debt margin (current)	1.3	1.3
Debt margin (long-term)	1.3	1.3
Mid-point	1.3	1.3
Corporate A rated 10-year bond yield		
Current	4.8	4.8
Long-term	4.0	4.0
Mid-point	4.4	4.4
Corporate BBB rated 10-year bond yield		
Debt margin (current)	N/A	1.9
Debt margin (long term)	N/A	2.0
Mid-point	N/A	1.95
Corporate BBB rated 10-year bond yield		
Current	N/A	5.4
Long-term	N/A	4.7
Mid-point	N/A	5.05
Risk premium (excluding debt-raising costs)	**0.65** = 1.3/2	**1.625** = 1.3 + (1.95 – 1.3)/2
Debt-raising costs	0.125	0.125
Nominal discount rate	**3.875** = 3.1 + 0.65 + 0.125	**4.85** = 3.1 + 1.625 + 0.125

Source: The Hills Shire Council, submission to Issues Paper, 30 October 2025, pp 5-7.

The Hills Shire Council suggest this alternative method with a more conservative risk premium because of the level of risk faced when administering contributions plans, which includes risk factors such as:

- costings not being based on detailed designs in the early stages of a plan
- extreme difficulty to accurately forecast land acquisition timing
- pace of subdivision and housing delivery is affected by market conditions, planning approvals, and broader economic factors.

Councils have advised that it can be challenging for them to forecast timing to proceed with land acquisition, and this challenge is compounded by not being able to develop concept or detailed designs until land attributes can be assessed after acquisition.

The Hills Shire Council considers that all these risks are directly linked to the time value of money, and therefore the discount rate should incorporate a risk adjustment that reflects these real-world uncertainties. It also considers that an A credit rating is generally reflective of councils' day-to-day financial activities, but not an accurate reflection of risk for the purpose of providing a discount rate methodology solely for contributions plans. It considers that the risks involved in the delivery of contributions plan infrastructure are much larger than its regular day-to-day operations.

The Hills Shire Council considers a solution halfway between A and BBB credit ratings would be a more reasonable measure of risk, as proposed in this alternative methodology. We observe that the credit range is broadly consistent with the benchmark credit rating of A- that we propose in our draft decision.

Adopting The Hills Shire Council's alternative methodology would result in a discount rate of 4.9% (rounded to 1 decimal place). It is also compared to 4.8% from our indicative calculation using our draft decision's methodology based on market observations as at end of January 2026, as shown in Section 3.1 of this Draft Report.

3.2.2 WACC approach consistent with other regulated businesses

In WSPP's submission to our Issues Paper, The CIE suggests moving to a cost of capital that is consistent with the approach IPART uses for other regulated businesses, which would be the WACC.[10] It considers that this would be reflective of the underlying risks of cashflows used for providing local infrastructure through contributions plans.

This refers to IPART's general approach in its pricing reviews, where we use a commercial model to compensate regulated entities for their risk and estimate a rate of return for the industry. In doing so, we disregard government ownership of, for example, State-Owned Corporations. This ensures competitive neutrality between potential commercial competitors attempting to compete in this market.

Historically, we have not used a commercial, risk-adjusted rate of return for the local government discount rate, largely because local infrastructure provision is not contestable like market-based services. In addition, local governments generally cannot realise or sell their infrastructure assets, as these assets are almost entirely provided for public use and access, unlike private organisations. Most stakeholders agree with this position.

However, if we were to adopt this approach, we would need a sample of proxy firms that undertake similar activities to local infrastructure investment. Based on our consultation and analysis, we consider that there are no real comparator firms appropriate for this benchmarking exercise.

The CIE notes that it is unlikely to find any exact matches to the cash flow profile of local councils undertaking infrastructure for contribution plans. It considers that the closest match in private business is a land developer. Where data is available for such companies, their systematic risk is typically higher than the assumptions used for IPART's overall economy cost of capital estimate. The CIE also considers that these are imperfect proxies. HoustonKemp considers The CIE's sample of land developers are generally higher risk than councils.[11]

In lieu of quantifying the cost of risk faced by local infrastructure investment activity by councils, CIE considers that using IPART's economy cost of capital estimate could be a simple and conservative (lower end) estimate of the cost of capital for councils in undertaking local infrastructure contributions. Given that there is minimal use of an NPV approach now and likely only modest uptake, The CIE considers that this is also a cost-effective option for IPART to implement.

If we were to use IPART's cost of capital estimate, the discount rate would be 7.1% based on our February 2026 nominal post-tax WACC update. This is compared to 4.0% in our February 2026 update to our local government discount rate and 4.8% in our indicative calculation using our draft decision's methodology as shown in Section 3.1 of this Draft Report.

3.2.3 Risk-free rate based on NSW Treasury bonds

This method would use NSW Treasury bonds instead of Commonwealth bonds as the starting rate for our methodology, which would then be used to calculate the margin assumptions and risk factor to determine the discount rate. This starting rate would be articulated as the mid-point of the current and long-term 10-year bond yields. This method was discussed with TCorp during our informal consultation, where it was suggested that using NSW Treasury bonds in our methodology may better reflect the actual cost of debt for councils rather than Commonwealth bonds.[12]

We consider that if an approach that used councils' overall benchmark financing cost were adopted, then it would be appropriate to include the interest rate on a TCorp loan product. 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.

However, if the discount rate is calculated with reference to councils' benchmark financing cost of funding local infrastructure, then it would not be appropriate to incorporate TCorp loan products.

Additionally, 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 NSW 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.

We consider using Commonwealth bonds to determine the risk-free rate remains appropriate.

3.2.4 WACC approach with IPART method of estimating beta

To explore whether it would be appropriate to include the cost of equity in the discount rate methodology, we used the Capital Asset Pricing Model (CAPM). According to the CAPM, the return on equity (the cost of equity) would be the risk-free rate plus asset beta for the activity multiplied by the market risk premium:

$$R_e = R_f + \beta MRP$$

The risk-free rate and market risk premium are known. However, the asset beta for a firm which constructs local infrastructure is not.

The purpose of this exercise is to estimate a WACC for a hypothetical equity-only firm that undertakes the local infrastructure investments of a council and receives the developer contributions in return (i.e. not a council, but a firm that has the characteristics of a council and is funded purely by equity). In doing so, we can estimate the appropriateness of basing the discount rate on the cost of equity and debt (WACC), instead of just the cost of debt.

We can estimate beta for such a hypothetical firm by measuring the correlation between the accounting rate of return for this hypothetical firm and returns on the Australian stock market. The accounting rate of return is the contributions plan income divided by cumulative infrastructure investment cost, which, by definition, is equal to equity contributions.

This is a novel method to derive a WACC for a council's contributions plan activity and we are not aware of any precedent for this procedure. We had our beta estimation procedure peer reviewed by HoustonKemp and we reviewed academic literature that compares accounting and stock market betas. Our literature review found that there is a somewhat mixed picture on the strength of correlation between accounting-type beta estimates, like our method, and market betas. Generally, academic research finds that there is a correlation, but the strength of the correlation is greater over the longer term.

The dataset we used has 3 elements:

- monthly percent returns to the ASX 200
- information on contributions receipts (date, contribution type, etc.) for 10 NSW councils (collected from publicly available contributions registers)
- actual local infrastructure expenditure for each of the 10 NSW councils (supplied by the Department of Planning, Housing and Infrastructure)[13]

We find that each of the betas estimated in this way are between around -0.06 and 0.05 and none of them are statistically different from zero at the 5% significance level. We also find that the beta estimated from the pooled set of all 10 LGAs is about -0.005, which is also not statistically significant. We also tested the correlation between returns and gross domestic product, and the results are very similar.

Given the betas are virtually zero, the results suggest a general lack of correlation between normalised contributions plan returns and returns on the stock market (and the broader economy). Therefore, we consider that if a CAPM-based WACC is used, the discount rate for local government contributions plans would be based almost entirely on the cost of debt, because the cost of equity component would be minimal.

Variations in the contributions plan returns are shown to be firm-specific and not systematic. From a market point of view, this observation suggests that a strategy of holding a diversified portfolio could manage this risk without requiring additional equity-like rates of return. This view is affirmed by the qualitative data collected from our Issues Paper consultation, where stakeholders considered that the pace of development varies from site to site – contributions revenue is more dependent on local conditions than broader, macroeconomic market conditions.

This would result in a discount rate that could be even less than a cost of debt-based method, given the nature of the WACC calculation. The general feedback we received during our consultation so far is that our discount rate is too low and does not fully reflect the risks faced by councils when administering contributions plans, so we consider that this would be an adverse outcome for stakeholders.

3.2.5 NSW Treasury discount rates for project appraisal

The NSW Government Guide to Cost-Benefit Analysis is a Treasury Policy and Guidelines paper that sets out how to undertake cost-benefit analysis for NSW Government initiatives.

The guide uses opportunity cost of capital as the theoretical basis for determining the social discount rate. This approach recognises that capital is limited, and that any given public investment occurs at the expense of some alternative public or private investment. In this context, the return on the public investment should be compared to the hypothetical return achievable by the next-best private sector investment (the marginal opportunity cost of capital).

We observe that the relevant legislation, regulation, and guidance 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. Rather, we consider that the social cost of capital approach used in the guide is not consistent with the contributions framework, which seeks to ensure councils recover and/or attribute costs under an impactor-pays approach, instead of filtering projects based on net social welfare. HoustonKemp also does not find support for using the social cost of capital approach for deriving the discount rate based on this reasoning.[14]

3.2.6 Including a longer window of bond returns

While this is not a separate option by itself, Blacktown City Council's submission to our Issues Paper suggests changing the bond yield periods to a range that is longer than 10-year, to reflect that councils' contributions plans have a typical lifespan of at least 20 years.[15] This change, if accepted, could be applied to any of the options based on a cost of debt.

In our current methodology, we use Commonwealth 10-year bond yield and Corporate A rated 10-year bond yield data from the Reserve Bank of Australia. The Reserve Bank of Australia does not issue data on bond yields longer than 10-years, and if we were to rely on other, unofficial data sources, it could make the trailing average calculation misleading or inconsistent.

If the data were available, the practical implication of this change would likely result in a higher risk-free rate and higher corporate yields, increasing the cost of debt estimation.

We consider that using our current trailing average method to calculate the historic and current cost of debt remains appropriate and is consistent with our WACC methodology. The historic cost of debt consists of ten equal tranches of debt for a 10-year period, and the current cost of debt consists of five equal tranches of debt for a five-year period 10-year bond yield.

Seek Comment

2. Do you consider any or any portion of the alternative options for a revised discount rate methodology to be appropriate? Please explain your reasons.

4 Impact of changing the discount rate

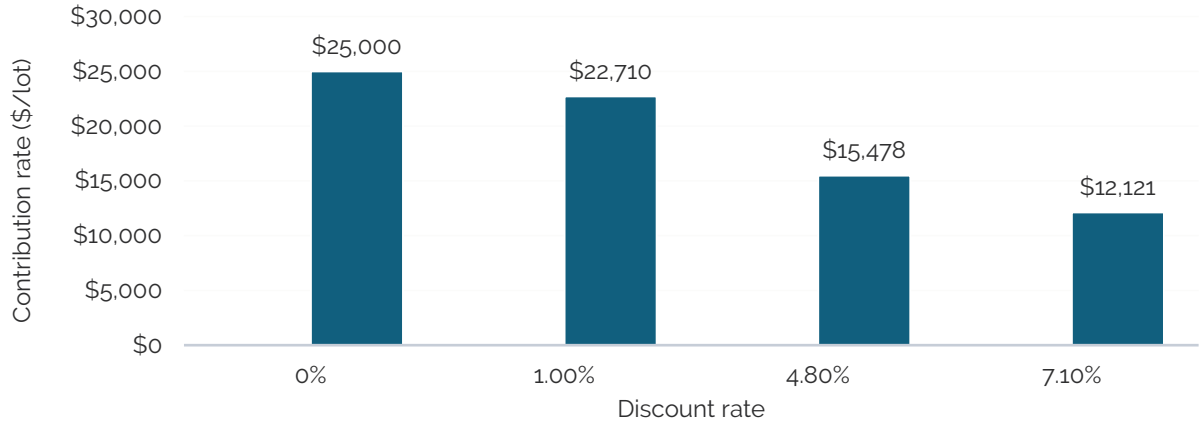
The financial impacts of a change in the discount rate depend on the timing of councils' contributions plan cashflows. For example, Figure 4.1 shows the impact of different discount rates on a scenario where a council front-runs $50 million of expenditure and receives gradual revenue over the course of the plan, starting with a lag. Figure 4.2 shows the inverse of this scenario, where a council spends $50 million in the final years of the plan, and receives gradual revenue from the beginning of the plan until shortly before the end of the plan's lifespan.

Figure 4.1 Impact of changing the discount rate – expenditure up front, revenue later

Note: The council spends $10 million on local infrastructure per year for the first 5 years and 100 contributions are charged per year from year 3 onwards for 20 years, to give a total of 2,000 contribution charges.

Source: IPART analysis based on an example provided by The Centre for International Economics, *Discount rate for developer contributions*, 18 March 2025, p 16.

Figure 4.2 Impact of changing the discount rate – revenue up front, expenditure later



Note: The council charges 100 contributions per year from 1 onwards for 20 years, to give a total of 2,000 contribution charges, and spends $10 million on local infrastructure per year for the last 5 of 22 years.

Source: IPART analysis based on an example provided by The Centre for International Economics, *Discount rate for developer contributions*, 18 March 2025, p 16.

4.1 Financial impacts on developers and their customers

Some stakeholders consider that a change to the discount rate could impact development feasibility. Property developer industry associations oppose changes to the discount rate that could increase contributions paid by developers, citing reduced feasibility of development projects.[16]

We consider that contributions plans (in combination with other developer charges, including water and wastewater charges) can act as an efficient price signal of where to prioritise development. It provides information on the cost of providing infrastructure and where this cost to service or provide infrastructure is higher or lower.

Some stakeholders also consider that a change to the discount rate could impact housing affordability for prospective property buyers. This perspective, which assumes that developers will pass on the additional contribution costs, is not supported by research done by IPART. IPART's research into the effect of water developer charges on prices for completed dwellings and vacant land found that a drop in water developer charges in 2008 caused an equal increase in vacant land prices but tended to have negligible effect on the price of dwellings.[17]

4.2 Financial impacts on councils and ratepayers

Some local government stakeholders support a higher discount rate, considering that it would enable higher contribution rates to be charged to developers. We consider the outcome of a higher discount rate could be an increased incentive for earlier expenditure by councils that adopt an NPV approach, either through land acquisition or timely provision of local infrastructure.

WSPP's submission to our Issues Paper notes that some member councils consider that certain circumstances would have to apply for a higher discount rate to incentivise councils to provide infrastructure in a timelier manner (where the cashflow profile would lead to higher charges), including:

- where the contributions plan area has fragmented ownership, so voluntary planning agreements and works-in-kind agreements cannot be used
- where upfront infrastructure delivery would help to unlock the development
- if councils could access development contingent loans from the NSW Government (not currently available to local government).[18]

The first 2 conditions are the most realistic, given development contingent loans are not currently available to local government. Most contributions plans that exceed the monetary threshold under the Ministerial directions tend to cover greenfield areas, which may have fragmented land ownership and require upfront local infrastructure provision to enable development.

Appropriately accounting for the uncertainty and opportunity cost of capital in such a way could mean that financial risks are lessened, and that ratepayers may be less likely to be required to subsidise any funding shortfalls through special rate variations or otherwise.

5 Stakeholder feedback

5.1 What we heard from stakeholders

On 1 September 2025, we published an Issues Paper asking stakeholders for their input to help us consider the appropriate discount rate for local government infrastructure contributions. We received 8 submissions to our Issues Paper. We also met with 7 stakeholders directly and held a public workshop attended by 31 stakeholders. We considered all feedback from stakeholders in preparing this Draft Report.

What we heard from local government stakeholders:

- Local government stakeholders generally consider that our current methodology results in a discount rate that is too low.
- Local government stakeholders welcome guidance from IPART that would assist with the adoption of an NPV approach to set contribution rates.
- Some local government stakeholders consider it appropriate to include the cost of equity in our methodology and that it would increase the calculated discount rate, while others did not and suggested alternative ways to calculate a higher discount rate.
- Most local government stakeholders consider that contributions plans' level of risk and uncertainty is greater than what is currently assumed in our discount rate methodology.
- Local government stakeholders broadly consider that while some firms undertake similar activities to council contributions plans, there are no direct comparisons.
- Local government stakeholders outline various reasons as to why councils generally do not use debt to fund infrastructure.
- Some local government stakeholders asked us to consider specific proposed or suggested adjustments to existing parameters of our methodology.
- A small number of local government stakeholders provided information on the opportunity cost of using retained earnings to fund infrastructure and reinvestment returns of contributions balances.

What we heard from property development stakeholders:

- Property development stakeholders are broadly unsupportive of any changes to our methodology that results in a higher discount rate.
- Property development stakeholders expressed concerns about the level of charges that development proponents are subject to, referring to local infrastructure contributions, Housing and Productivity Contributions, and water and wastewater infrastructure contributions.
- Most property development stakeholders consider that council uptake of an NPV approach would be a positive step to adequate funding collection and timelier infrastructure delivery.
- One property development stakeholder told us that they do not think a cost of equity is relevant for councils' cost of capital.

- Property development stakeholders are concerned about the impact that higher developer charges could have on development feasibility and housing affordability.

5.1.1 We received submissions from 3 councils and 5 industry associations

We received 8 submissions from:

- 3 councils (The Hills Shire Council, Blacktown City Council, and Penrith City Council)
- Western Sydney Planning Partnership (associated with The Parks and works on behalf of local government, NSW Government, and State-Owned Corporation partner organisations)
- Local Government NSW
- Urban Development Institute of Australia NSW
- Property Council of Australia
- Urban Taskforce Australia.

Local government stakeholders generally consider our current discount rate to be too low

In their initial letter, The Parks and WSPP's request for a review of our discount rate methodology was supported by the view that our discount rate should be higher.[19] Similarly, local government stakeholders that made a submission consider or suggest that our current methodology results in a discount rate that is too low.

The Hills Shire Council expresses concern that our discount rate is too low and does not adequately reflect the risks associated with contributions planning.[20]

WSPP considers that a higher discount rate would support the adoption of an NPV approach to set contribution charges for Western Sydney Councils, as it would enable earlier provision of infrastructure.[21]

Given that our current methodology is based on a typical council's cost of debt, some local government stakeholders consider that our discount rate methodology could be adjusted to include the cost of equity, which, in their view, would increase the calculated discount rate. Other local government stakeholders did not consider that including the cost of equity is appropriate, given that councils cannot raise equity capital, and suggested alternative approaches to result in a higher discount rate.

Most stakeholders support using an NPV approach in principle

Local government stakeholders that do not currently use an NPV approach for contributions plans are supportive of the idea of doing so, however only some are interested in adoption or intending to adopt. Local government stakeholders cite a range of barriers to using to an NPV for their contributions plans.

Penrith City Council told us that they will explore the implementation of an NPV approach in preparation for future contributions plans[22], while Blacktown City Council said that they are not currently planning to adopt an NPV approach.[23] Some of WSPP's member councils are interested in moving to a model where infrastructure was provided in advance and contributions were set using an NPV approach.[24]

Property development stakeholders also support councils using an NPV approach. Urban Development Institute of Australia NSW (UDIA) told us that it represents a step forward for the local contributions system[25], and Urban Taskforce Australia considers that it would allow contributions to be staged more appropriately to ensure that the money available to council is raised at the time it is needed.[26]

All local government stakeholders support additional guidance provided by IPART that will assist in the uptake of an NPV approach.

Most stakeholders consider that there are no true proxies for councils' role in providing local infrastructure

If a benchmark entity approach was used to calculate the cost of capital for councils' contributions plans, we would require a sample of proxy firms that face similar risks. Local government and property development stakeholders told us that there are no directly comparable firms to use for this analysis.

WSPP considers that it is difficult to find exact matches to the cash flow profile of councils' contributions plans, and that only imperfect proxies exist.[27] The Hills Shire Council and Blacktown City Council consider that there are no listed companies that provide a proxy and councils differ fundamentally.[28]

Property Council of Australia told us that firms with higher risk activities and operations are not translatable to the activities of local councils.[29] Urban Taskforce Australia considers identifying proxy firms to not be a pragmatic approach given that councils do not have competitors in the traditional sense when it comes to infrastructure.[30]

Local government stakeholders outline the various risks relating to contributions plans

Blacktown City Council considers some of the main risks relate to rising or volatile costs, cashflow timing, development pace, and change in rules or policies.[31] Local Government NSW considers that the allowance of deferred contribution payments exposes councils to greater risk.[32]

The Hills Shire Council and WSPP also outline a range of risks relating to cashflow timing, land acquisition, cost escalation, policy changes and borrowing rates.[33]

Stakeholders have mixed views on the discount rate's impact on the timely provision of infrastructure and feasibility of housing development

Property development stakeholders express a lack of support for a methodology that results in a higher discount rate, with the impact on the feasibility of housing development being the main reason given.

Urban Taskforce Australia considers that the discount rate 'should be set as low as possible' to avoid higher charges for developers which would be passed onto homebuyers and result in projects no longer being feasible.[34]

Property Council of Australia considers that a higher discount rate would significantly increase developer contributions and have implications on housing affordability and development feasibility.[35]

UDIA considers that the cumulative cost of development charges continues to rise and is pushing marginal projects into unviability which further impacts housing supply.[36]

On the other hand, local government stakeholders consider that the discount rate can impact the timeliness of infrastructure delivery positively. The Hills Shire Council considers that a discount rate more commensurate with contributions plan risks will have a positive impact on the timely provision of infrastructure and help avoid cost shifting to ratepayers.[37]

Blacktown City Council considers that if infrastructure is provided before most development occurs, which is typical in growth areas, a higher discount rate could place pressure on development feasibility. For this same cashflow profile, it also considers that a lower discount rate may risk underfunding local infrastructure.[38]

When we met with one local government stakeholder, they indicated that their experiences suggest that a change in the discount rate would have a minimal impact on developers' feasibility tests.

5.2 Other issues and observations

Councils are subject to the NSW local infrastructure contributions framework and broader statutory framework that governs local government when administering contributions plans. These various legislative requirements have implications on how councils finance local infrastructure and the timeliness of infrastructure provision. In this section, we note issues and observations relating to councils' experiences administering contributions plans which have been raised throughout our consultation.

The NSW Auditor-General finds that councils held $5.4 billion in local infrastructure contributions at 30 June 2025. Over half of the contributions were held by 14 councils covering large growth areas, and 10 of these councils spent less than 20% of their contributions balance in 2024-25. The NSW Auditor-General considers that delays between the collection of contributions and subsequent expenditure could indicate that infrastructure planning and delivery processes are not operating effectively to deliver the intended outcomes. As costs escalate and land becomes scarce, lagging expenditure on infrastructure risks a reduction in community amenities and less ability to fund the intended level and standards of infrastructure.[39]

The disparity in the timing of councils' contribution cashflows could be reduced by using debt to bridge the gap, but councils generally do not use debt to fund local infrastructure. In their response to our Issues Paper, councils advised that this is due to their inability to secure borrowings against their local infrastructure assets.[d] Councils explained that this means they would generally need to secure any borrowing against income from ordinary rates. This would mean the repayment risk is borne by the council's rate base, not developers. This constrains borrowing capacity, which is also usually fully subscribed for other council activities.

As a result, councils may delay local infrastructure spending on projects until section 7.11 contributions are received. This may mean that infrastructure is constructed later than the community would like, and construction, particularly residential, is not timely.

5.2.1 How councils finance local infrastructure

In its Review of Infrastructure Contributions in New South Wales, the NSW Productivity Commission found that the lags between collection of contributions and land acquisition in particular can create funding shortfalls.[40]

In their submission to our Issues Paper, WSPP submitted that councils use different approaches to finance local infrastructure ahead of receiving contributions income:

- As a first option, councils would pool contributions from other plans and bring pooled funds across to plan(s) that have not yet collected sufficient revenue to facilitate forward funding. This practice amounts to an internal loan agreement to pay interest between plans.
- As a second option, councils would use retained earnings from outside of pooled contributions plan income. This also requires a loan agreement where councils would pay a borrowing rate equivalent to the rate of return on a mature term deposit or a commercial lending rate. Borrowing from other restricted reserves is not permitted without Ministerial approval.
- As a last resort, some councils would use debt but are generally averse to doing so because of the cashflow and security risks.[41]

Most councils note that they can reinvest their contributions balances at or above the discount rate specified by our current methodology, such as February 2026's update of 4.0%. For example, Blacktown City Council, The Hills Shire Council, and WSPP on behalf of its member councils, all note that balances are invested in safe assets, such as term deposits with commercial banks, with a rate of return of above 4% or closer to 5% (5.14% for Blacktown City Council in February 2025[42] and between 4-5% for WSPP's member councils[43]).

As noted earlier, councils have advised that they cannot secure lending from TCorp or commercial banks against contributions plan assets (the expected revenue from developer charges). Councils have advised that they can generally only secure lending against income from ordinary rates, which would crowd out the capacity for other borrowings not associated with contributions plans.

[d] *Local Government Act 1993*, s 623; *Local Government (General) Regulation 2021*, s 229.

Stakeholders tell us that their actual cost of debt generally exceeds what is set by our current methodology. Staff from TCorp told us that their offers to approved councils tend to be 50-100 basis points cheaper than commercial banks for fully amortising fixed rate loans. This difference is attributable to different pricing structures and TCorp's lower loan margin.[44]

Additionally, councils have indicated that they can and do borrow from revenue pooled across multiple contributions plans using retained (contributions) earnings to fund local infrastructure. Councils advise us this requires the council to enter an internal loan agreement, which charges the borrowing contributions plan an interest rate that is paid to the lending contributions plan(s). Typically, the interest rate charged would be equivalent to the rate of return on a mature term deposit or commercial lending rate. This option is only available to councils that have multiple contributions plans, where one or more plans are in surplus at the time.

When we met with The Hills Shire Council, they noted that their interest rate charged to plans that have borrowed from other plans has been 4.9%, which exceeds our current and historical discount rates.[45]

While we do not propose to tie our discount rate methodology to councils' short-term reinvestment returns, this information gives us another reference point.

5.2.2 Barriers to using a net present value approach

Councils are accountable for delivering local infrastructure in a reasonable timeframe, which acts as an enabler to new development and a support to the new population or employment growth in a given area.

A risk that councils face with contributions plans is that not enough money is collected to pay for the infrastructure when it needs to be delivered. Using an NPV approach would help councils mitigate some of the financial risks that cause funding deficits, as it better accounts for the risks and decline in the value of contributions that occurs over time.

In their submissions to this review, stakeholders considered the main barriers to uptake of the NPV method for contributions plans to be:

- a lack of resources or capability to manage the financial and modelling complexity
- uncertainty in the forecasting of development activity, expenditure, and revenue
- complications with how it would interact with or transitioning existing plans.[46]

Almost all councils' contributions plans use a nominal cost approach to estimate infrastructure costs and determine contribution rates, even though the Department of Planning, Housing and Infrastructure's practice note considers that a net present value technique can be more accurate.[47] At this point in time, only The Hills Shire Council uses an NPV approach for its contributions plans.

In our public workshop, we heard from stakeholders that an NPV approach is used for local water utilities that are part of some councils. Blacktown City Council's submission to our Issues Paper notes that an NPV approach is used for a small number of short-term projects where future income is easier to estimate and not used in other areas due to the inapplicability of the approach to the council's circumstances.[48]

We have heard that some councils may be willing to adopt an NPV in the future. To help address any barriers to uptake, stakeholders unanimously support IPART providing additional guidance, potentially in the form of:

- spreadsheet templates and examples
- practical training workshops or one-on-one training
- written practice guidance.

We propose that these types of guidance can be provided to stakeholders following the completion of this review.

5.2.3 Risks to the timely provision of local infrastructure

We have heard that there are risks to councils' timely provision of local infrastructure that may not be mitigated by the way a council approaches a contributions plan, such as by using an NPV approach or forward funding instead of waiting for revenue. This includes:

- holding costs on land acquired before income has been collected
- unforeseen market conditions that influence the pace of development
- delays in other parties' provision of enabling infrastructure (e.g. by water utilities)
- prevailing population or housing densities that differ from growth projections.

In addition, we heard that some risks experienced by councils relate to construction cost volatility and increases in land prices. These price shocks and cost related risks cannot be perfectly forecast and are usually not fully captured by the relevant indices. Where they are captured, there may be time lags.

Some councils submitted that there are also statutory and policy risks, such as changes in State government rules or positions taken in legislation or policy. This could include changes to infrastructure requirement guidelines or development patterns that may have an impact on contributions revenue and expenditure.[49]

Councils' contributions plans are also required to have policies on payment timing and allowance of deferred or periodic payments. If a council's contributions plan allows for deferred payments, for example, this exposes the council to additional risk if a developer were to default before making payment, which may result in costly debt recovery proceedings, as noted in Local Government NSW's submission to our Issues Paper.[50]

To manage some of these risks, councils often aim to secure agreements with developers (via voluntary planning agreements or works-in-kind agreements) where the circumstances permit as a mechanism to share the risk of land acquisition and infrastructure provision. As noted by WSPP in its submission to our Issues Paper, this is particularly the case in larger greenfield developments where there is one or a few main developers or landowners.[51] Agreements are less common for infill or fragmented greenfield development.

We have heard that the individual risk and uncertainty for a council can often lead to contributions plan infrastructure being constructed later than desired, which may impede the timeliness of residential dwelling construction as well.

Seek Comment

3. Are there issues raised in this Draft Report, or other relevant issues that we may not have considered, that you would like to comment on?

[1] IPART, *Local government discount rate*, Fact Sheet, 21 August 2025, p 2.
[2] HoustonKemp, *Evaluation of methodologies for local government discount rate*, 2 February 2026, p 11.
[3] Western Sydney Planning Partnership, submission to Issues Paper, 31 October 2025, p 24.
[4] HoustonKemp, *Evaluation of methodologies for local government discount rate*, 18 March 2026, p 14.
[5] IPART, *Review of our WACC method*, Final Report, February 2018, p 89.
[6] IPART, *Review of our WACC method*, Final Report, February 2018, pp 24-25.
[7] NSW Department of Planning, Housing and Infrastructure, Section 7.11 contributions practice note – Reviewing, amending and repealing contributions plans, accessed January 2026.
[8] Australian Energy Regulator, *Rate of Return Instrument*, Explanatory Statement, February 2023, Table 0.1.
[9] The Hills Shire Council, submission to Issues Paper, 30 October 2025, pp 5-7.
[10] Western Sydney Planning Partnership, submission to Issues Paper, 31 October 2025.
[11] HoustonKemp, *Evaluation of methodologies for local government discount rate*, 18 March 2026, p 13.
[12] Meeting with TCorp, 20 October 2025.
[13] Email from the Department of Planning, Housing and Infrastructure, 18 December 2025.
[14] HoustonKemp, *Evaluation of methodologies for local government discount rate*, 18 March 2026, p 17.
[15] Blacktown City Council, submission to Issues Paper, 27 October 2025, p 4.
[16] Urban Development Institute of Australia, submission to Issues Paper, 29 October 2025, p 2; Property Council of Australia, submission to Issues Paper, 29 October 2025, pp 1-2; Urban Taskforce Australia, submission to Issues Paper, 4 November 2025, pp 2-3, 8.
[17] IPART, *The effect of water developer charges on vacant land and housing prices in NSW*, Research Paper, February 2024.
[18] Western Sydney Planning Partnership, submission to Issues Paper, 31 October 2025, pp 11-12.
[19] Sydney's Parkland Councils, letter to IPART – Discount rate for local infrastructure contributions, 15 April 2025, p 2.
[20] The Hills Shire Council, submission to Issues Paper, 30 October 2025, p 2.
[21] Western Sydney Planning Partnership, submission to Issues Paper, 31 October 2025, p 1.
[22] Penrith City Council, submission to Issues Paper, 31 October 2025, p 2.
[23] Blacktown City Council, submission to Issues Paper, 27 October 2025, p 2.
[24] Western Sydney Planning Partnership, submission to Issues Paper, 31 October 2025, p 1.
[25] Urban Development Institute of Australia NSW, submission to Issues Paper, 29 October 2025, p 1.
[26] Urban Taskforce Australia, submission to Issues Paper, 4 November 2025, p 6.
[27] Western Sydney Planning Partnership, submission to Issues Paper, 31 October 2025, p 2.
[28] The Hills Shire Council, submission to Issues Paper, 30 October 2025, pp 9-10; Blacktown City Council, submission to Issues Paper, 27 October 2025, p 6.
[29] Property Council of Australia, submission to Issues Paper, 29 October 2025, p 4.
[30] Urban Taskforce Australia, submission to Issues Paper, 4 November 2025, p 7.
[31] Blacktown City Council, submission to Issues Paper, 27 October 2025, p 5.
[32] Local Government NSW, submission to Issues Paper, 22 October 2025, p 3.
[33] The Hills Shire Council, submission to Issues Paper, 30 October 2025, p 2; Western Sydney Planning Partnership, submission to Issues Paper, 31 October 2025, pp 17-19.
[34] Urban Taskforce Australia, submission to Issues Paper, 4 November 2025, p 4.
[35] Property Council of Australia, submission to Issues Paper, 29 October 2025, p 4.
[36] Urban Taskforce Australia, submission to Issues Paper, 4 November 2025, p 2.
[37] The Hills Shire Council, submission to Issues Paper, 30 October 2025, pp 4-5.
[38] Blacktown City Council, submission to Issues Paper, 27 October 2025, pp 1-2.
[39] NSW Auditor-General, *Local government 2025 – Report to Parliament*, 28 January 2026, pp 27-30.
[40] NSW Productivity Commission, *Review of Infrastructure Contributions in New South Wales*, Final Report, November 2020, p 7.
[41] Western Sydney Planning Partnership, submission to Issues Paper, 31 October 2025, p 10.
[42] Blacktown City Council, submission to Issues Paper, 27 October 2025, p 5.
[43] Western Sydney Planning Partnership, submission to Issues Paper, 31 October 2025, p 10.
[44] Meeting with TCorp, 20 October 2025.
[45] Meeting with The Hills Shire Council, 19 September 2025.
[46] Local Government NSW, submission to Issues Paper, 22 October 2025, p 1; Blacktown City Council, submission to Issues Paper, 27 October 2025, p 3; The Hills Shire Council, submission to Issues Paper, 30 October 2025, p 8; Western Sydney Planning Partnership, submission to Issues Paper, 31 October 2025, pp 11-12; Penrith City Council, submission to Issues Paper, 31 October 2025, p 2.
[47] NSW Department of Planning, Housing and Infrastructure, Section 7.11 contributions practice note – Estimating infrastructure costs, accessed January 2026.
[48] Blacktown City Council, submission to Issues Paper, 27 October 2025, p 3.
[49] Blacktown City Council, submission to Issues Paper, 27 October 2025, p 5; The Hills Shire Council, submission to Issues Paper, 30 October 2025, pp 2, 10.
[50] Local Government NSW, submission to Issues Paper, 22 October 2025, p 3.
[51] Western Sydney Planning Partnership, submission to Issues Paper, 31 October 2025, pp 8-9.