Local government discount rate

26 August 2026

1 August 2026 update

As at the end of July 2026, the nominal local government discount rate is **5.1%** and the real discount rate is **2.6%**.

We recommend councils apply the local government discount rate when calculating local infrastructure contributions using a net present value (NPV) approach.

We calculate an updated discount rate every 6 months. Our approach to calculating the discount rate is:

- consistent with IPART's WACC method (in determining the cost of debt for utilities)
- market based (based on an assumed credit rating for the sector)
- relatively simple to administer
- based on historical data on the relevant debt margin.

IPART has recently completed a review of its methodology for determining the local government discount rate, and published its Final Report in June 2026.

As part of this review, we have decided to change our methodology for calculating the local government discount rate (see section 2).

This approach is explained in more detail in our Final Report.

We have also included the calculation of the local government discount rate in the WACC model spreadsheet, available on our website here.

2 IPART has updated its discount rate method

As part of our recently completed review, we have changed how we calculate the cost of debt for our discount rate for local government infrastructure contributions. This August 2026 update is the first to reflect our updated methodology.

To estimate the cost of debt for all local councils, our updated methodology now considers the appropriate benchmark credit rating to be A- rated corporate debt. We proxy a benchmark credit rating of A-, 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.

We calculate the discount rate by taking the risk-free rate (10-year Commonwealth bond yield), adding a risk adjustment based on the weighted-average debt margin for A and BBB rated bonds minus the risk-free rate, and debt-raising costs of 12.5 basis points.

Under our previous discount rate for local government infrastructure contributions methodology, we had considered the appropriate benchmark credit rating to be the non-financial corporate A rated debt. If this August 2026 update were to be calculated using the previous methodology, the resulting nominal discount rate would be 4.3% and the real discount rate would be 1.8%.

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 average of the RBA's inflation forecast for the next year, and 4 years of the midpoint of its target inflation range.

IPART will next publish the local government discount rate in February 2027.

3 August 2026 update calculations

Since the publication of our last Fact Sheet in February 2026, the nominal discount rate has increased from 4% to 5.1%. The real discount rate has increased from 1.4% to 2.6%.

Some of this increase stems from the change in methodology between February and August updates. Had the February update been calculated under our updated methodology, the nominal discount rate would have been 4.8% and the real discount rate would have been 2.2%, reducing the step change.

Table 1 shows the nominal and real discount rates and the various components that make up the rates.

Table 1 Calculating nominal and real discount rates – updated IPART method

Relevant rates	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]	4.20	5.40	6.00
Historic cost of debt [a]	3.00	4.20	4.80
Midpoint	3.6	4.8	5.4
Deriving the risk adjustment (benchmark credit rating of A- risk adjustment)	Risk adjustment = 2/3 A + 1/3 BBB - Rf		
Corporate A rated 10-yr yield (midpoint) with 2/3 weight	3.2		
+ corporate BBB rated 10-yr yield (midpoint) with 1/3 weight	1.8		
- Commonwealth 10-year bond yield	3.6		
= risk adjustment (A- rated 10-year bond yield)	5.0		
Calculating the discount rate			
Commonwealth 10-year bond yield (midpoint)	3.6		
+ risk adjustment	5.0		
+ debt raising costs	0.125		
= **Nominal discount rate**	5.125		
Inflation forecast [c]	2.50		
Real discount rate	2.56		
Nominal discount rate (rounded to 1 decimal place) [d]	5.1		
Real discount rate (rounded to 1 decimal place) [d]	2.6		

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 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 July 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).