IPART Independent Pricing and Regulatory Tribunal | NSW

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

Issues Paper

September 2025

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

IPART's independence is underpinned by an Act of Parliament. Further information on IPART can be obtained from IPART's website.

Tribunal Members

The Tribunal members for this review are:

Carmel Donnelly PSM, Chair
Dr Darryl Biggar
Jonathan Coppel
Sharon Henrick

Enquiries regarding this document should be directed to a staff member:

Isaac Di Matteo	(02) 9113 7719
Mike Smart	(02) 9113 7728

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, 31 October 2025

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

You can also send comments by mail to:

Review of IPART's local government discount rate methodology
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.

Late submissions may not be accepted at the discretion of the Tribunal. Our normal practice is to make submissions publicly available on our website as soon as possible after the closing date for submissions. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning one of the staff members listed above.

We may decide not to publish a submission, for example, if we consider it contains offensive or potentially defamatory information. We generally do not publish sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please let us know when you make the submission. However, it could be disclosed under the *Government Information (Public Access) Act 2009* (NSW) or the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW), or where otherwise required by law.

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

ISBN 978-1-76049-843-6

Contents

Chapter 1

Review Summary

This chapter summarises the review and asks broader questions on the net present value framework.

01

What are local infrastructure contributions?

Section 7.11 of the *Environmental Planning and Assessment Act 1979* allows councils to charge developers a contribution to provide local infrastructure for new development. Contributions are paid when development applications are approved as a condition of development consent. Contributions plans are prepared by councils and set out the local infrastructure that will support the new residents and workers moving into new developments.

What is net present value?

Councils have the option of using a net present value (NPV) approach when determining contribution rates in a contributions plan.

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 today's dollars are of greater value than dollars received in the future. Our Technical Paper contains more detail on modelling contributions in a present value framework.

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.

The Department of Planning, Housing and Infrastructure provide a worked example of infrastructure costs when using a nominal cost (the usual approach used by councils) or an NPV approach.

Seek Comment

1. In addition to our Technical Paper, *Modelling local infrastructure contributions in a present value framework*, would it be useful for IPART to provide guidance on how to determine contribution rates using an NPV approach? If so, what kind of guidance would be useful? For example, this could include practical workshops or a spreadsheet template, or both.

How would using an NPV approach benefit councils?

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 would 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 and decline in the value of contributions that occurs 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.

The example in Box 1 illustrates this scenario.

Box 1 Example of incorrect estimates if NPV method not used

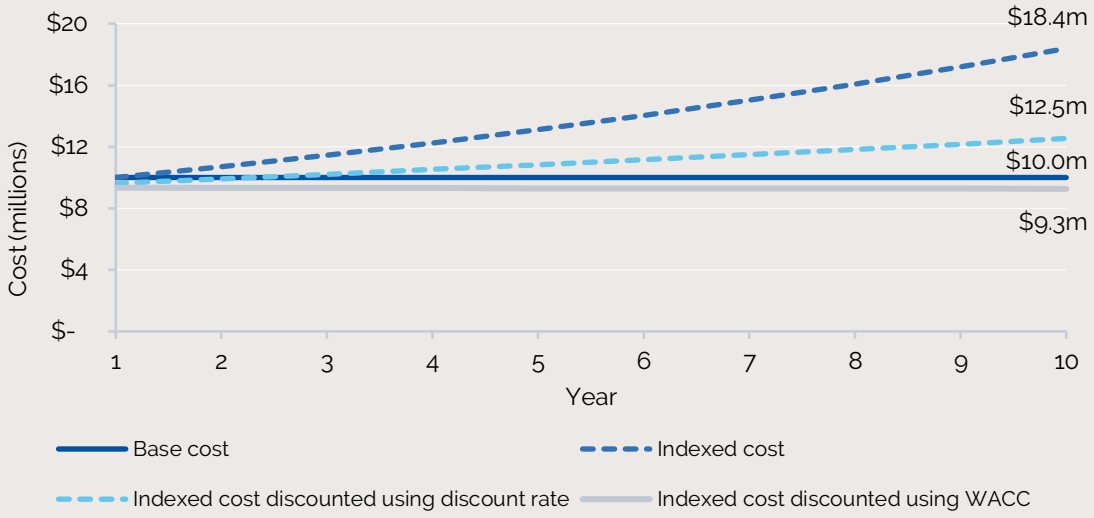
Using an NPV approach, a council would be able to better account for the time value of money over the course of the 9 years until the land acquisition is required.

For example, using a land value index of 7%, indexation escalates the cost of $10 million in year 1 to $18.4 million in year 10 (9 years of escalation). However, once the indexed cost is discounted back using IPART's August 2025 nominal discount rate for local government contributions plans of 3.9%, its present value in year 1 is $12.5 million. This is the discount rate using our current methodology, which is based on the cost of debt.

Comparatively, using IPART's August 2025 nominal post-tax WACC of 7.1%, the present value in year 1 is $9.3 million. This would be a discount rate that is based on both the cost of debt and equity.

If the council has not used an NPV approach the council would have set the contribution rate at the incorrect level to account for the time value of money. The practical implications of a higher or lower discount rate will depend on the expected profile of costs and revenues. A higher discount rate will increase the contribution rate if costs are incurred before revenues are received.

Figure 1 Cost of $10 million land parcel in year 10 in present value terms



Choice of discount rate	Discount rate estimate	Present value of land parcel in year 10
Discount rate for local government infrastructure contributions	3.9%	$12.5 million
WACC[a]	7.1%	$9.3 million

a. Midpoint of IPART's nominal post-tax WACC range using an equity beta of 1 and a gearing ratio of 60% as at 31 July 2025.

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.

Seek Comment

2. Does your council use an NPV approach in other areas of the organisation? For example, to calculate other infrastructure costs.

3. What are the barriers to using an NPV approach for local infrastructure contributions plans?

4. Would your council be interested in using an NPV approach for any future or amended contributions plans?

What is the discount rate for local government contributions plans?

The local government discount rate is the percentage used to shrink future cash flows down to their present value. The discount rate reflects the idea that a dollar today is worth more than a dollar tomorrow. IPART calculates and publishes an updated discount rate every 6 months that we recommend councils apply when using an NPV approach in a contributions plan.

How do councils use the discount rate for contributions plans?

In contributions plans that use an NPV approach, the discount rate is used when converting future cash flows to their present values. Generally, this would involve:

1. Escalating the costs outlined in a contributions plan using a relevant index[a] to when the cost is expected to occur (for example, escalating the cost of land to the year it is forecast to be acquired using a land value index)
2. Calculating the present value of the escalated costs using the discount rate for local government infrastructure contributions.
3. Calculating the contribution rates based on the size of the catchment or net increase in population.

Why is the discount rate important?

For contributions set using an NPV approach, the discount rate for local government contributions plans influences the amount of contributions that developers must pay to councils to fund the local infrastructure that their developments require. If the discount rate does not support sufficient contributions plan income to cover the costs of providing local infrastructure, then it may indirectly influence costs that must otherwise be borne by all ratepayers in the local government area.

A higher discount rate will likely cause a higher developer charge. The higher the discount rate, the less likely that ratepayers would have to fund local infrastructure for new development. Box 2 below provides an example showing the impact of changing the discount rate.

[a] For more information on indexation, see pages 27-34 of our Information Paper, *IPART assessment of local infrastructure contributions plans*.

Box 2 Impact of changing the discount rate

Suppose that:

- local infrastructure is required to be provided by a council up front for the development of a new catchment
- the council spends $10 million on local infrastructure per year for the first 5 years
- development consents are provided for 100 development applications per year from year 3 onwards for 20 years, to give a total of 2000 development consents
- contributions are paid as a condition of development consent

The applicable contribution rates for different discount rates are shown in the table below.

Discount rate	Contribution rate ($/dwelling)
0%	25,000
3.9%	35,148
7.1%	44,620

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

If there is uncertainty in the timing of the development or when infrastructure is provided, there could be some scenarios in which the council under-recovers or over-recovers relative to the expected value. Uncertainty could provide grounds for increasing the discount rate above the risk-free rate.

In principle, the discount rate should be based on an appropriate cost of capital for the activity of providing local infrastructure. That leads us to ask the following questions in trying to determine a suitable discount rate:

1. What is the relevant cost of capital?
2. What risks are inherent to the council's costs and expected revenue from local infrastructure charges paid by developers?
3. How should we estimate a cost of capital that properly reflects those risks?

Why are we reviewing the discount rate methodology?

Sydney's Western Parkland Councils (The Parks) and Western Sydney Planning Partnership (WSPP) wrote to IPART to raise concerns with our current methodology. They asked IPART to consider including a cost of equity in councils' cost of capital, rather than only using a cost of debt, when calculating a discount rate for local governments' contributions plans. WSPP commissioned a report from The Centre of International Economics (The CIE) that has been provided to IPART. A copy of The CIE report and The Parks letter is available on our website.

It is also good regulatory practice to periodically review our approach. We last reviewed our approach for calculating the discount rate for councils in 2016. We are reviewing the methodology to ensure that our local government discount rate is suitable for councils using an NPV approach for contributions plans. Using an NPV approach should help councils recover sufficient revenue from local infrastructure contributions to recover costs of serving the remaining development in present value terms.

The next chapter provides further information and contains more technical questions.

Chapter 2

Technical Issues Paper

This chapter discusses the review in closer detail and asks more technical questions.

IPART has initiated a review of its methodology for estimating the local government discount rate. This is to ensure that it is suitable for councils using an NPV approach and consistent with the aim of providing local infrastructure in a reasonable timeframe.

Background

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 to fund local infrastructure. Under Section 7.11 of the EP&A Act, councils may impose contributions towards the cost of new local infrastructure, 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 and $20,000 per dwelling in other areas.[a]

Councils have the option of using an NPV approach when determining contribution rates. We consider an NPV approach can help councils mitigate financial risk that is faced with contributions plans, and it is also IPART's preferred approach for calculating contribution rates. 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]

In some situations, it may be efficient for an organisation to discount its future cash flows at a rate equal to its own cost of capital. IPART uses the weighted average cost of capital (WACC) model to estimate discount rates for regulated utilities. We use this approach for both state-owned corporations and private sector companies, which employ debt and equity funding. Shareholders provide equity to corporations and corporations supplement the equity provided by shareholders with debt which they source from lenders.

[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.

We will consider if and how this approach should be applied to a council undertaking local infrastructure investments on behalf of new development. A council is not a corporation that can raise equity from external parties by, say, selling shares in their enterprise. For this reason, our historical position has been that a council's cost of capital is its cost of debt (i.e. cost of borrowing). Our estimate of the local government discount rate for contributions plans is currently based on a typical council's cost of debt, calculated as the nominal risk-free rate plus a debt margin suitable for a borrower with a credit rating of A.

However, in corporate finance theory, only the riskiness of the cashflows matters to the cost of capital, which would imply that the institutional constraints of local government are irrelevant. The cashflow stream that is most relevant for this review consists of outlays by the council on development-related infrastructure and revenue in the form of local infrastructure contributions from developers. We expect that this cashflow stream is not risk free, so the relevant cost of capital would be above the risk-free rate.

This approach might involve estimating the discount rate with reference to proxy firms that undertake similar activities to local infrastructure investment, or some other method of quantifying the cost of risk faced by local infrastructure investment activity.

Seek Comment

5. Does the cost of capital for a cashflow differ according to who receives the cashflow stream (i.e. a council, a bank, an investor, a firm, etc.)?

6. Does the cost of capital for a cashflow differ according to the way the contributions plan is financed (i.e. through debt, equity, or a mix of the two)?

7. Is the relevant cost of capital for the cashflow stream associated with the contributions plan the cost of capital for the council as a whole (however that might be estimated)?

We intend to consider these issues in the course of this review. We would welcome the views of all stakeholders on the important questions asked in this Issues Paper.

Every 6 months, IPART publishes the discount rate we recommend councils apply if they are using a net present value (NPV) approach to calculating local infrastructure contributions.

Our current approach

Our methodology is explained in the subsections below and is taken from our Technical Paper – *Modelling local infrastructure contributions in a present value framework*. This approach recognises that councils are relatively low-risk borrowers.

Estimating the cost of debt

We calculate the cost of debt as the nominal risk-free rate plus a debt margin. 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.[1]

Debt margin

The debt margin represents the level of compensation lenders require above the risk-free rate. This margin takes into account the probability of default by the borrower and the duration of the debt. For the utilities IPART regulates, we apply the benchmark debt margin to all businesses in one industry sector.

For councils, the debt margin should be the spread between its interest cost incurred on its debt (expressed as a percentage) and the risk-free rate. There is no available data to estimate the benchmark debt margin 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 both well managed and financially sustainable. We consider they would be likely to have a credit rating considerably better than BBB because, unlike a corporate entity, a council has compulsory taxation powers.[c] 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. We assume that councils would most likely bear 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.

Historic and current cost of debt

In our 2016 Technical Paper, we used the average rate for the previous 10-years to calculate the historic cost of debt and the average rate for the previous 2 months for the current cost of debt. This was consistent with IPART's WACC method at that time. Since the publication of our 2016 Technical Paper, IPART has updated our method of calculating the WACC.

IPART's current WACC method, finalised in February 2018, uses a trailing average to calculate the cost of debt. We have applied 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.

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

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. We rely on the Section 7.11 contributions practice note,[2] which states that it is best practice to review contributions plans 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.

Calculating the discount rate

Our method 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
- 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 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.

Table 1 shows the nominal and real discount rates and the various components that make up the rates in our latest August 2025 update.[3]

Table 1 Calculating nominal and real discount rates – IPART method

Relevant rates	Commonwealth 10-yr bond yield (%) [b]	Corporate A-rated 10-yr yield (%) [b]	Spread (%)
Current cost of debt [a]	3.50	4.80	
Historic cost of debt [a]	2.70	4.00	
Midpoint	3.1	4.4	1.3
Calculating the discount rate			
Commonwealth 10-year bond yield (midpoint)	3.1		
+ half of the spread	0.650		
+ debt raising costs	0.125		
= **Nominal discount rate**	3.875		
Inflation forecast [c]	2.60		
Real discount rate	1.24		
Nominal discount rate (rounded to 1 decimal place)	**3.9**		
Real discount rate (rounded to 1 decimal place)	**1.2**		

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 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 2025.

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).

Seek Comment

8. Are there any existing parameters of our methodology that you think should be adjusted? This could include credit rating assumptions, sampling dates and periods, market observations, etc.

Why are we reviewing the discount rate methodology?

Our methodology for calculating the local government discount rate has not changed since 2016. We are reviewing the methodology to ensure that our local government discount rate is fit for purpose and supports councils' timely provision of local infrastructure.

Sydney's Western Parkland Councils (The Parks) and Western Sydney Planning Partnership (WSPP) wrote to IPART to raise concerns with our current methodology. They asked IPART to consider including a cost of equity in councils' cost of capital, rather than only using a cost of debt, when calculating a discount rate for local governments' contributions plans. WSPP commissioned a report from The Centre of International Economics (The CIE) that has been provided to IPART. A copy of The CIE report and The Parks letter is available on our website.

What we plan to do

IPART will review the methodology for calculating the recommended local government discount rate for contributions plans. This is the rate we recommend councils use to discount future cash flows when setting contribution charges using an NPV approach.

Matters we will consider when reviewing the discount rate methodology

In undertaking the review, IPART will:

- consider potential changes to its existing methodology for calculating the local government discount rate (which we recommend councils apply when setting contributions using an NPV approach)
- in particular, consider whether it is appropriate to refer to the cost of equity in determining a local government discount rate, including
  - the nature of the risks faced by a council in providing local infrastructure
  - a council's opportunity cost of using retained earnings to fund local infrastructure
  - constraints on a council's ability to directly raise equity funding
- consider whether councils are actually able to reinvest their contributions balances at the discount rate specified by the methodology

- consider potential proxy firms with a known cost of capital undertaking similar activities to council provision of local infrastructure
- consider whether the discount rate should be specified on a pre-tax or post-tax basis, and whether it should be specified on a real or nominal basis
- have regard to any differences in risk level faced by councils outside of Western Sydney growth areas in providing local infrastructure
- have regard to any impact of the discount rate on the timeliness of local infrastructure provision and the feasibility of housing development
- have regard to any other matters we consider relevant.

We will also consider investment risks, the characteristics of cash flows, and how this may be linked to the identity of the investor or customers.

The Scope of Review does not extend to potential future changes to contributions plans, the NPV framework or the IPART WACC method.

Key issues for consideration

Is it appropriate to include the cost of equity in our methodology?

IPART determines the WACC as a key input for calculating the revenue requirements and setting prices for the business we regulate. The WACC is a weighted average of the cost of debt and the cost of equity, with the weights reflecting the relative amounts of debt and equity funds appropriate for the investment.

The difference between the WACC and our current A-rated borrower approach to calculating the local government discount rate for contributions plans, is that the former includes an allowance for a market rate of return on equity investment, which would lead to a higher discount rate.

It may be relevant to consider a council's opportunity cost of capital. That is, what it could earn with its savings if it did not use them to fund local infrastructure investments. Councils are constrained in the investments that they are permitted to undertake, and these constraints may impact their opportunity cost of capital. For example, under section 625 of the *Local Government Act 1993* (LG Act), councils may only invest money where:

- the money is not, for the time being, required by the council for any other purpose (i.e. unrestricted cash), and
- the money is invested in a form of investment notified by order of the Minister published in the Gazette.

The current 2011 order[d] provides that, for the purposes of section 625 of the LG Act,[4] a council may only invest money (on the basis that all investments must be denominated in Australian Dollars) in the following forms of investment:

[d] The most recent order, published in Gazette No. 14 on 11 February 2011 (the 2011 order), superseded previous versions and made changes to council investment abilities.

- any public funds or securities issued by or guaranteed by the Commonwealth, any State of the Commonwealth or a Territory
- any debentures or securities issued by a council (within the meaning of the LG Act)
- interest bearing deposits with, or any debentures or bonds issued by, an authorised deposit-taking institution (as defined in the *Banking Act 1959* (Cth)), but excluding subordinated debt obligations
- any bill of exchange which has a maturity date of not more than 200 days; and if purchased for value confers on the holder in due course a right of recourse against a bank which has been designated as an authorised deposit-taking institution by the Australian Prudential Regulation Authority
- a deposit with the New South Wales Treasury Corporation or investments in an Hour-Glass investment facility of the New South Wales Treasury Corporation.[5,6]

A council must also ensure that the proposed investment complies with any investment policy adopted by resolution of the council (the investment policy should be consistent with the 2011 order and any guidelines issued by the Office of Local Government (OLG), i.e. OLG's *Investment Policy Guidelines*).

Based on this understanding of councils' capacity for investment, our position has been that a debt-based discount rate is appropriate for local government because it best represents the council's opportunity cost of capital. Under this view, a council's opportunity cost would not be as high as a cost of capital that factors for equity.

However, it is possible that the opportunity cost of retained earnings could be higher in some circumstances.

For example, under section 186 of the LG Act, councils may acquire land for the purpose of exercising any of its functions.[7] This may include the provision of goods, services and facilities, and councils could profit from these functions. We understand that some councils have also profited from their investment in property and business.

Additionally, under section 358(1) of the LG Act, councils may also form or participate in the formation of a corporation or other entity, or acquire a controlling interest in a corporation or other entity, with the consent of the Minister.[8] Acquiring a controlling interest in a corporation would necessarily involve acquiring and holding shares in that corporation, and this seems to provide a mechanism for councils to invest in shares, albeit only with the consent of the Minister and subject to any conditions.[e]

As noted earlier, including a cost of equity in our discount rate calculation would result in a higher discount rate. Arguably, uncertainty over development timing (which is, in turn, uncertainty over the present value of future revenues) creates risks of a type that is normally managed through equity funding of an enterprise. Following that line of argument, pure debt funding may not adequately reflect that risk because it assumes certainty of revenues.

[e] Under section 625(4) of the LG Act, the acquisition of a controlling interest in a corporation in accordance with section 358 is not taken to be as an investment for the purposes of section 625.

The practical implications of a higher or lower discount rate will depend on the expected profile of a contributions plan's costs and revenues. A higher discount rate will increase the contribution rate if costs are incurred before revenues are received, On the other hand, a higher discount rate will decrease the contribution rate if revenues are received before costs are incurred.

Seek Comment

9. What is a council's opportunity cost of using retained earnings to fund local infrastructure?

10. Are councils able to reinvest their contributions balances at the discount rate specified by the methodology? For example, a 3.6% rate of return based on our February 2025 update.

11. What are the constraints on a council's ability to directly raise funding for local infrastructure covered in contributions plans from sources other than debt?

12. Would it be appropriate to include the cost of equity in our discount rate methodology?

What are the potential proxy firms?

IPART uses a benchmark entity approach for calculating the WACC for other industries (such as water and transport), which requires proxies to determine equity parameters (beta and gearing). Using a benchmark entity approach would mean applying a cost of capital consistent with the level of systematic risk that councils face as part of their local infrastructure contributions plans. We define an efficient benchmark entity as a firm operating in a competitive market and facing similar risks to the regulated business.[9]

For our WACC calculation, we use the broadest possible selection of proxy companies. This is because it is more objective and likely to yield statistically reliable estimates, and more resistant to problems caused by companies dropping out of the sample over time (for example, because they become de-listed).[10]

We are open to considering a sample of potential proxy companies for councils' activities of providing local infrastructure through contributions plans. To do so, we need to consider the risks that councils faced when providing local infrastructure through a contributions plan.

Seek Comment

13. What are the risks faced by a council in providing local infrastructure?

14. What listed companies with a known cost of capital undertake similar activities to councils' provision of local infrastructure?

15. For these listed companies, what range of values or point estimate would you recommend for beta values, gearing ratios, or overall cost of capital?

How do councils use debt for contributions plan infrastructure?

Councils have different approaches to preparing and administering their contributions plans, as well as delivering local infrastructure. This includes differing approaches to the use of debt. IPART understands that, as a general rule, councils tend to not use very much debt when funding contributions plans' infrastructure. For example, in 2023/24, NSW local councils had loans of $3.47 billion on $246.73 billion of assets.[11]

Councils can recoup the cost of forward funding infrastructure identified in a contributions plan, including the cost of borrowing. Interest costs associated with borrowing for infrastructure in a contributions plan can be collected through the plan.[12]

In the current IPART NPV method, the discount rate is set with regard to the interest faced by a borrower with an A credit rating. If councils do use debt-financing and an NPV approach to determine contribution rates, the main risk faced by councils providing infrastructure is that the development will proceed more slowly than expected. This causes the contributions to be received later than expected, so their present value will fall below the present value of their outlays (if these are discounted at the council's interest rate).

To manage this risk, councils could:

- delay provision of infrastructure to minimise the council's financial risk
- set developer contribution amounts on a more realistic forecast of development timing
- fund part of the council's investment cost through retained earnings instead of debt[f]
- pool risks across different development precincts within the council area.[g]

We have heard from stakeholders, and seen in our assessments of contributions plans, that councils may face funding deficits due to insufficient contributions income. A primary reason for this is that costs have escalated above what is being collected as contributions, compounded by slower than expected development.

Use of an NPV approach to determine contribution rates with mixed gearing and a discount rate that is fit for the purpose of contributions plans could help mitigate the risks associated with funding shortfalls.

[f] As noted earlier, councils face constraints in attempting to use alternative funding sources, such as rates revenue, revenue from fees and charges, and grant revenue. Councils also have capacity for internal debt, such as borrowing internally from restricted funds for other purposes. Typically, this requires a council resolution and repayment plan to do so.

[g] It is likely that macroeconomic factors causing delays to one precinct will be common across all precincts. Such factors might include shortages in supply of building materials or skilled labour, high interest costs, changes to taxation policy or land price movements. If the delays are correlated between precincts, then pooling will not help to reduce the cost of financing.

Seek Comment

16. Why do councils generally not use debt to fund infrastructure development ahead of receipt of contributions revenue?

17. For your contributions plan(s), how fast have lots been developed compared to council's expectation at the time the contribution rates were set?

What is the tax specification for the discount rate?

Currently, our published guidance does not clarify whether the discount rate used for NPV modelled contributions should be a pre- or post-tax discount rate.

The choice between a pre- or post-tax discount rate depends on the nature of the cashflows being discounted. If pre-tax cash flows are being discounted, a pre-tax discount rate should be used. If a post-tax cash flows are being discounted, a post-tax discount rate should be used.

To ensure that there is consistency between the cashflow stream and the discount rate used, we will consider the tax profile of cashflows in contributions plans to determine the tax specification for the discount rate.

This differs from the use of nominal or real values. If a council is using nominal costs and revenues, the nominal discount rate should be used. If a council is using real costs and revenues (which are adjusted for inflation), the real discount rate should be used.

Seek Comment

18. Are the revenues earned by councils, and the expenditures incurred by councils, in relation to developer contributions subject to taxation or a tax equivalent regime? How are any such tax effects accounted for in setting contribution rates?

Should the discount rate be specified in real or nominal terms?

Currently, our published guidance does not clarify whether the discount rate used for NPV modelled contributions should be expressed in real or nominal terms.

The choice between a real or nominal discount rate could potentially introduce inflation forecasting risk (if a real discount rate is chosen).

We will consider the best way to minimise the effect of this inflation forecasting risk.

How does the discount rate impact the timely provision of local infrastructure and the feasibility of housing development?

The role of infrastructure charges is to signal the cost of development and for developers to contribute to the local infrastructure needed for their new developments. If our discount rate is not reflective of market conditions, it may have adverse effects for councils or developers when an NPV approach is used to determine contribution rates.

This may include reduced development feasibility due to higher developer charges, which could impact housing provision in NSW. On the other hand, it may not adequately capture the risks faced by councils for infrastructure provision. This may result in insufficient developer charges, causing cost shortfalls and out of sequence public infrastructure delivery.

Seek Comment

19. How does the discount rate used for modelled contributions impact the timely provision of local infrastructure and the feasibility of housing development?

20. Are there any other issues related to this review that you would like to tell us about?

We want to hear from you

We will conduct a thorough consultation process to consider potential changes to our existing methodology for calculating the local government discount rate. Your input will be valuable to us as we undertake the review.

We are seeking your feedback on the following:

Seek Comment

1.	In addition to our Technical Paper, *Modelling local infrastructure contributions in a present value framework*, would it be useful for IPART to provide guidance on how to determine contribution rates using an NPV approach? If so, what kind of guidance would be useful? For example, this could include practical workshops or a spreadsheet template, or both.	6
2.	Does your council use an NPV approach in other areas of the organisation? For example, to calculate other infrastructure costs.	8
3.	What are the barriers to using an NPV approach for local infrastructure contributions plans?	8
4.	Would your council be interested in using an NPV approach for any future or amended contributions plans?	8
5.	Does the cost of capital for a cashflow differ according to who receives the cashflow stream (i.e. a council, a bank, an investor, a firm, etc.)?	14
6.	Does the cost of capital for a cashflow differ according to the way the contributions plan is financed (i.e. through debt, equity, or a mix of the two)?	14
7.	Is the relevant cost of capital for the cashflow stream associated with the contributions plan the cost of capital for the council as a whole (however that might be estimated)?	14

You can get involved by making a submission on the issues raised in this Issues Paper or any other matters relating to this review that you would like to tell us about. We are open to meeting with stakeholders throughout this process to discuss feedback and views.

We will also be holding a public workshop during the exhibition window for this Issues Paper, and you can register your interest in attending to discuss these topics in more detail.

Have your say

We are interested in hearing from a broad range of stakeholders to ensure we consider a comprehensive mix of perspectives on our discount rate methodology.

You can get involved by making a submission or attending the public workshop.

Submit feedback »

Register for the workshop »

Our review timeline and process

We are seeking your input to this review. Submissions to this Issues Paper are due on **Friday 31 October 2025**.

On 14 October 2025, we will hold our first public workshop for this review. This public workshop will allow stakeholders to express their views in an open forum, and directly to IPART. We will consider all stakeholder feedback, as well as input from any external consultants and our own analysis, before publishing a Draft Report with our draft decisions in December 2025.

We will seek written submissions on the Draft Report and hold another public workshop in February 2026. The public workshop will be an opportunity to provide your feedback on our draft decisions directly to IPART. The submissions period for our Draft Report will be longer than usual to account for the holiday period.

Following our consideration of submissions and public workshop output, we expect to deliver our Final Report by the end of April 2026.

Stakeholders who would like to be notified when relevant material is released can subscribe to receive updates from IPART.

[1] IPART, *Review of our WACC method*, Final Report, February 2018, p 89.
[2] NSW Department of Planning, Housing and Infrastructure, Section 7.11 contributions practice note – Reviewing, amending and repealing contributions plans, accessed July 2025.
[3] IPART, *Local government discount rate*, Fact Sheet, 21 August 2025, p 2.
[4] *Local Government Act 1993*, s 625.
[5] Office of Local Government NSW, 11-01 – Revised Ministerial Investment Order, accessed July 2025.
[6] Office of Local Government NSW, *Gazette No. 14, Local Government Act 1993 – Investment Order*, 11 February 2011, pp 597-598.
[7] *Local Government Act 1993*, s 186.
[8] *Local Government Act 1993*, s 358.
[9] IPART, *Review of our WACC method*, Final Report, February 2018, p 21.
[10] IPART, *Review of our WACC method*, Final Report, February 2018, p 7.
[11] Australian Bureau of Statistics, Government Finance Statistics, Annual, 2023-24, Table 331. General government – local – New South Wales.
[12] NSW Department of Planning, Housing and Infrastructure, Administering contributions practice note – Borrowing, pooling contributions and forward funding infrastructure, accessed July 2025.