

Our reference:
Contact:
Telephone:



31 October 2025

Independent Pricing and Regulatory Tribunal NSW

Sent by email: ipart@ipart.nsw.gov.au

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

Thank you for the opportunity to provide feedback in relation to IPART's review of its discount rate methodology for local government infrastructure contributions.

Council does not currently implement an NPV approach to development contributions. As we continue to prepare and review development contributions plans (CP) across our local government area, Council officers will consider the suitability of an NPV approach for each CP.

Council has also contributed to and supports the submission made by The Parks, Sydney Parkland Councils.

Please find the following additional Penrith Council specific responses to the feedback sought as detailed in the issues paper from the review.

- 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.*

Practical support and guidance on a NPV approach, such workshops, templates and procedures are supported.

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

NPV is not used in the organisation.

Penrith City Council
PO Box 60, Penrith
NSW 2751 Australia
T 4732 7777
F 4732 7958
penrith.city

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

- Availability of technical assistance and resources.
- Staff / resource capacity to undertake frequent reviews and regularly update contribution plans to avoid funding shortfalls that could occur under an NPV approach due to costs increasing more than forecasts or indexes.
- Uncertainty in relation to development timing and infrastructure costs.

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

Council officers will explore the implementation of a NPV in the preparation of future contributions plans.

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.)?*

Yes

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)?*

Yes

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)?*

Yes

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.*

- Include a cost of equity in Councils' cost of capital instead of only using a cost of debt, when calculating a discount rate for local governments' contributions plans.
- The risk level should be above the risk level for the economy in general.

- Consideration of whether the rate applied should be a pre-tax discount rate or a post-tax discount rate.

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

The opportunity cost for a Council using retained earnings to fund local infrastructure is the lost interest or investment income that could have been earned if those funds were invested elsewhere. By committing these funds to a specific project, Council will lose the potential returns from other uses, such as holding cash in a high-yield account or using the money to pay down debt.

- **Other potential uses**

Retained earnings could be used for other purposes, such as reducing rates for residents, lowering debt, or funding different community programs or services. The decision to invest in one infrastructure project means these alternative projects or benefits are sacrificed.

- **Debt reduction vs. investment**

A council can use retained earnings to pay off existing loans, which would reduce future interest expenses and improve its creditworthiness. If the interest saved is greater than the return on a new investment, the council may be missing a better financial outcome.

- **Financial health and sustainability**

Properly managing retained earnings is crucial for a council's long-term financial health and sustainability.

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.*

No

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?*

- rate pegging
- cost Shifting
- the decline in Financial Assistance Grants (FA Grants)

- the inadequacy of Special Purpose Grants from the Federal and State Governments
- regulation and constraints on council fees and charges
- inflation
- increasing community demands and expectations
- speed of development / timing of receipt of contributions

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

Yes

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

- escalating land values and construction costs.
- development contributions cap that has not increased to respond to increasing costs. Cost escalation and misalignment between capital expenditure and revenue profiles means that the value of the cap continues to decline overtime and places financial strain on councils.
- an essential works list that limits the collection of development contributions for infrastructure types that may not be consistent with community expectations for infrastructure.
- risks in forward funding infrastructure and recoupment of costs
- the ability to resource the delivery of infrastructure and resource the review of development contributions plans.
- uncertainty of development timing.
- prioritisation of the funding and delivery of all infrastructure across the LGA, including asset renewal, grant funded works and growth related projects.
- competing community priorities and expectations.
- balancing local infrastructure priorities with financial sustainability.

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

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Listed companies that are known to provide local infrastructure to facilitate their development are listed below:

- Goodman Group
- Stockland
- The GPT Group
- Dexus
- Mirvac Group

- Charter Hall Group
- Lendlease Group
- Lifestyle Communities Limited

Council has either entered into, or currently negotiating, planning agreements (voluntary planning agreement or works in kind agreements) with a number of these companies for the delivery of local infrastructure in growth precincts.

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?

Beta values, Gearing Ratios and cost of capital for these publicly listed companies is impacted by multiple company, industry, and market specific factors, including the level of gearing utilised which will vary over time. Council does not possess sufficient expertise in these areas to be able to provide meaningful insight.

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

- Borrowing would add to Council's debt servicing costs.
- Council's ability to borrow for other needs would be impacted and it would be exposed to financial risk if development is slower than expected.
- Council's credit rating could be adversely affected thereby impacting its ability to acquire future loans.

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?

This is highly dependant on the location and type of development, fragmentation of land and current market conditions. It is our experience that greenfield residential and employment development has developed generally within the timeframes expected. Infill development, including centre based development, has progressed at a slower rate.

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?

Councils do not face tax obligations in relation to their local infrastructure activities.

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

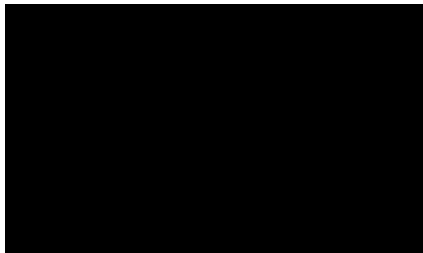
A higher discount rate reduces the present value of future development contributions, potentially making developers hesitant due to higher upfront costs, this may delay or hinder housing supply in NSW

A lower discount rate increases the present value of future contribution payments, which can make a project more attractive to developers but may lead to Council to require higher contributions to meet the cost of timely infrastructure provision.

It is therefore critical the discount rate used is carefully managed so as to not hinder timely provision of infrastructure whilst also keeping the financial risk to Councils at a minimum.

Thank you for the opportunity to provide feedback. If you have any questions on this submission, please contact [REDACTED]

Yours sincerely



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