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Ms Carmel Donnelly PSM
Chair
Independent Pricing and Regulatory Tribunal (IPART)
Level 15, 2-24 Rawson Place
Sydney NSW 2000

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Lodged via IPART submissions portal

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

Dear Ms Donnelly,

Thank you for the opportunity to provide a submission to the Review of IPART's discount rate methodology for local government infrastructure contributions under Section 7.11 of the *Environmental Planning and Assessment Act 1979* (the EP&A Act). The Property Council of Australia welcomes IPART's commitment to ensuring that contribution frameworks remain fair, transparent, and economically sound.

We write to express our concern regarding the potential impacts of steep increases to the cost of local contributions associated with changes to the discount rate, the tenuous link between a change in the rate and infrastructure delivery pipelines, and the existence of other revenue pathways to enable the timely delivery of growth infrastructure, including changes to the rate peg and developer led works-in-kind.

The Property Council of Australia does not support the changes canvassed in IPART's Issues Paper on the discount rate used for Section 7.11 contributions plans, particularly the approach proposed in the draft CIE Report.

Impact on development contributions

IPART's Issues Paper acknowledges that changing the discount rate methodology could significantly affect the contribution rates developers are required to pay. Specifically, IPART's modelling shows that changing the discount rate from the current level (based on the cost of debt) will increase developer contributions.

While The Hills Shire Council is the only council in that currently uses the NPV approach, the correspondence from The Parks: Sydney's Parkland Councils included with the exhibition material seeks to have more councils adopt the NPV model, subject to the changes to the discount rate progressing.

While IPART's separate modelling in Box 2 of the Issues Paper shows increases of 27% to 78.5% depending on the discount rate applied (e.g. from 3.9% to 7.1%), the CIE Report explores more complex scenarios involving upfront infrastructure delivery and delayed revenue collection under a Net Present Value (NPV) framework.

In these scenarios, the mismatch between when councils incur infrastructure costs and when they receive contributions revenue can result in significantly higher contribution rates. The CIE's analysis suggests that under certain assumptions, developer contributions could increase by up to 90%—a worst-case outcome that underscores the need for careful scrutiny of any proposed changes to the discount rate methodology.

To illustrate the real-world impact of a revised discount rate, the following table compares current contribution rates for selected IPART-reviewed Section 7.11 plans in Western Sydney against three discounting scenarios:

Council	Plan Area	Current Rate	Discount Rate (3.9%)	WACC Rate (7.1%)	CIE Model
Wollondilly	Appin	\$75,000	\$95,250	\$133,875	\$142,500
Penrith	Orchard Hills North	\$68,473	\$86,961	\$122,224	\$130,099
Penrith	Orchard Hills North	\$136,946	\$173,921	\$244,449	\$260,197
Penrith	Glenmore Park Stage 3 (low range)	\$49,549	\$62,927	\$88,445	\$94,143
Penrith	Glenmore Park Stage 3 (high range)	\$105,705	\$134,245	\$188,683	\$200,839
Liverpool	East Leppington	\$66,365	\$84,284	\$118,462	\$126,093

These figures demonstrate the scale of potential increases under different discounting methodologies and reinforce the need for IPART to carefully consider the implications for housing affordability and development feasibility.

Rate peg reforms to support timely infrastructure delivery

Councils experiencing population growth are already supported through commensurate increases in their rate peg, helping to address the concerns raised in the CIE paper regarding potential gaps between when contributions are collected, compared to when infrastructure costs are incurred.

Since the 2022–23 financial year, IPART has applied population-based adjustments to the rate peg, allowing councils to grow their general income in line with community expansion. This reform was introduced to address a long-standing issue: that councils serving rapidly growing communities were constrained by a rate peg that did not reflect population growth. The reform ensures that

councils are financially supported as their communities expand, providing a recurrent increase to their revenue base.

The increase in recurrent funding already increases the capacity of councils to fund and borrow to bring forward the delivery of local infrastructure. The following table illustrates the 2024–25 population factor and final rate peg for eleven councils in the Western Parkland City and Central River City.

Council	Population Factor (%)	Final Rate Peg (%)
Blacktown	2.2	7.1
Blue Mountains	0.0	4.6
Camden	2.7	8.2
Campbelltown	0.5	5.3
Fairfield	0.0	4.9
Hawkesbury	0.0	4.5
Liverpool	0.1	5.0
Penrith	0.0	4.8
Wollondilly	0.9	5.4
Parramatta	0.2	5.1
The Hills	2.2	7.1

Works In Kind Agreements alleviates funding gaps

In greenfield areas, Works In Kind (WIK) agreements are often struck between local councils and developers to bring forward growth infrastructure commensurate with the delivery of new residential subdivisions. The rationale for revising the discount rate to reflect council borrowing costs must be carefully considered having regard to the role of WIK agreements in funding infrastructure. In the frequent cases where WIK is deployed, it is the developer—not the council—who bears the financial risk of forward funding infrastructure.

These arrangements also unlock efficiency and productivity benefits: developers are often able to deliver infrastructure more cost-effectively than the public sector, and where costs escalate, it is the developer—not the ratepayer—who absorbs the increase.

Issues paper assumptions

Our members have provided feedback regarding the difference in the borrowing and risk patterns of developers and local councils. Some key considerations for IPART to take into account include:

- Councils generate revenue primarily non-volatile and low risk sources such as rates. Developers, on the other hand, receive revenue through settlements which can be volatile and subject to the impacts of macro-economic activity.
- Councils do not have strong patterns of using debt to fund infrastructure projects (see comments on WIK). IPART's model assumes 40% gearing as a conservative approach that is more representative of the general economy.
- Firms with higher risk activities and operations are contributing to assumptions that are not translatable to the activities of local councils.

It is also worth noting the risk of changing the discount rate could apply both positively and negatively with respect to the contribution value, with the level of contributions rising subject to the purported timeline for their delivery.

Recommendations

The Property Council of Australia does not support the changes canvassed in IPART's Issues Paper on the discount rate used for Section 7.11 contributions plans, particularly the approach proposed in the draft CIE Report.

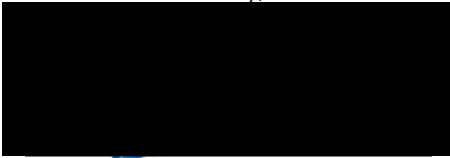
A higher discount rate—such as the post-tax real rate of 6.5% or pre-tax real rate of 8.5% suggested by the CIE—would significantly increase developer contributions, with modelling indicating potential rises of up to 90% in some scenarios. Such increases would have serious implications for housing affordability and development feasibility, especially in greenfield growth areas.

If IPART determines that a change to the discount rate methodology is warranted, the Property Council requests that:

- Any proposed change be exhibited separately, with a clear explanation of the rationale and methodology.
- IPART provide detailed modelling showing how the revised discount rate would apply to existing Section 7.11 plans, particularly those with approval to exceed the existing cap on contributions.
- The reform be limited to growth areas with demonstrably higher infrastructure needs and not applied universally across all councils.
- The current contribution caps (\$30,000 in greenfield areas and \$20,000 elsewhere) be retained to protect housing affordability.

We thank IPART for considering this submission and welcome further engagement on this important matter. Should you need any further information please feel free to contact me on [REDACTED]

Yours sincerely,


Ross Grove

Western Sydney Regional Director
Property Council of Australia