

4 November, 2025

Mr Isaac Di Matteo

Review of IPART's local government discount rate methodology

Independent Pricing and Regulatory Tribunal

PO Box K35 Haymarket Post Shop

SYDNEY NSW 1240

Sent to: isaac.dimatteo@ipart.nsw.gov.au

Dear Mr Di Matteo

IPART Discount Rate Discussion Paper

I write in response to IPART's discussion paper on net present value discount rates for council infrastructure.

Urban Taskforce supports the Tribunal's current methodology for calculating the net present value of developer contributions and is not convinced that there has been sufficient evidence provided to support any change.

We believe that considering the cost of debt for a council's infrastructure calculation is more appropriate than attempting to redefine any council revenue stream as "equity".

The argument by Sydney's Parklands Councils

The letter and supporting report from Sydney's Parklands Councils do not sufficiently justify moving from the current model.

The report by the Centre for International Economics effectively equates taxing ratepayers with issuing shares:

*"Council assets are largely funded by equity, although not through issuing shares but through accruing revenue from other sources such as ratepayers."*¹

This is a false equivalence.

A company raising capital from shareholders usually provides incentives such as equity capital, debt capital, or convertible securities.

It is a relatively voluntary process in that if a shareholder wishes not to participate, they can choose not to and can ultimately sell their shares if they disagree with the strategy.

Ratepayers do not have that option.

Increasing revenue from ratepayers is taxation, usually capped by IPART unless a special rate variation is granted. Ratepayers have very little say about the rate increases proposed by councils, and even less ability to refuse to participate.

While rate rises are a way of generating additional revenue, it is not "equity" in the commercial sense of the term, it is purely taxation. If councils raised money through attracting investors, the way businesses have to, then the proponents could perhaps claim that equity is involved. But taxing residents to raise funds should not be seen as equivalent.

¹ The Centre for International Economics (2025) "Discount rate for developer contributions", p.6

IPART appears to agree with this, when it states:

*"... a debt-based discount rate is appropriate for local government because it best represents the council's opportunity cost of capital."*²

Urban Taskforce agrees with the current methodology that considers a council's cost of debt, rather than any claimed equity.

Taxing the developer

Developer contribution schemes often push at the edges to increase the amount a developer must pay to the council so that it can deliver infrastructure.

Sometimes this is done by seeking a change to a s.7.11 contribution, such as in St Leonards South, sometimes it is through an increased percentage of construction costs, as with Strathfield's proposed levy for the Homebush TOD area.

In each case, there appears to be no detailed analysis of predicted expenses to determine whether they are appropriate, often no project timeline given for the delivery of each project, and no independent review to ensure that proposals themselves are realistic.

The result is higher and higher costs for developers, which tend to be passed on to homebuyers, increasing the price of housing further and reducing affordability.

At times proposals might be reasonable, such as the delivery of road or stormwater upgrades, at other times they appear to be part of a council wish list – for example, new parks or new community centres.

IPART appears to provide little guidance as to whether this infrastructure is reasonable, focusing only on whether the costings seem to add up.

Infrastructure levies of \$50,000 to \$60,000 on the price of an apartment, plus an extra \$12,000 for the HPC all add to the cost of housing and reduce supply. The negative impact of these inflationary taxes are contributing to the current housing supply and affordability crisis.

Urban Taskforce asserts that IPART needs to apply a handbrake to the voracious appetite that many councils have for adding to the cost of housing supply so they can fund projects which, while often worthy, simply add to the burden of the home buyers and renters.

New residents shouldn't be left to carry the whole burden for enhancements to an existing community, but developer contribution schemes do just this.

When are fees collected and when is infrastructure delivered?

The biggest concern about changes to the NPV rate is the significant lag time between when contributions are collected and when the money is expended upon new infrastructure.

If developer contributions were spent on new infrastructure as soon as they were collected, bringing forward capital expenditure to align with the collection of revenue, there may be an argument for discount rate changes.

² IPART (2025): "Review of IPART's discount rate for local government infrastructure contributions", p.20

However, there is usually a significant lag between when contributions are collected and when the infrastructure to support a project is actually delivered. These delays result in the developer having to cover holding costs.

While planning reforms currently before the NSW Parliament will reduce some of these hurdles to development, the proposed change the discount rate would work in the opposite direction.

Councils will often specify early in the master planning process the infrastructure that they seek to create but then delay making the purchases or investments needed to deliver it.

In Riverstone, for example, Blacktown City Council specified a certain area as urban RE1 public space and quarantined the affected land.

Had the Council purchased that land from the landholders at the time of the quarantine, it would have been required to pay around \$100m for the prescribed land. However, when it eventually ended up proceeding with the purchase, the land was worth only \$5m.

Developers tend to find it very difficult to prove hardship unless they go into receivership, so the Council was able to save significantly on purchases at the expense of the landholders.

Acquisitions should be carried out as soon as a council receives the infrastructure funding, not at a time that is most advantageous to the council and its coffers. This advantage comes at a disadvantage to other parties (in this case, the landowners, developers and ultimately, new home buyers).

In most cases, developers have to pay local and state infrastructure contributions at the construction certificate stage, before construction can commence. This impacts feasibility.

For the infrastructure that the contributions will be funding subsequently to be delayed creates frustration for the organisations that had to source the up-front funding. A higher discount rate effectively bakes in council's tardiness in the delivery of infrastructure.

The paper does not explain what happens when "not enough" revenue is raised – if a council is unable to get the sufficient funds to create the infrastructure, what will happen to it? All too often payments are made to councils for local infrastructure, only to see those funds diverted to other council imperatives or the covering of other under-funded projects. Lowering the discount rate would encourage councils to deliver projects faster. That should be the objective of IPART.

Although taking a NPV approach enables a council to stagger funding, this should be tied to more accurate project timelines that deliver cashflow in a more timely fashion.

Obviously, any support that IPART can provide to help councils to plan more effectively for their infrastructure funding and delivery – whether guideline documents, workshops, templates, etc. – would make a positive difference.

Realistic discount rates

The paper discusses two discount rates:

- The local government infrastructure contributions rate of 3.9%; and
- The WACC rate of 7.1%

However, the letter from Sydney's Parklands Councils appears to be more ambitious, putting post- and pre-tax discount rates of 6.5 percent and 8.5 percent respectively.

Urban Taskforce conversely believes that discount rates for infrastructure being delivered by a council **should be set as low as possible**.

High rates mean higher charges for developers which are then passed onto home buyers. Given that taxes, fees, and charges are already a significant hurdle for development, in many cases, they will result in projects ceasing to be feasible.

Purported risks to infrastructure, such as mismatches in development timings, uncertainty about market take-up, and cost escalations from inflation and increases in standards, are no different than the challenges faced by developers.

A net present value discount rate as high as the councils recommend would prevent construction going ahead, meaning that neither housing, nor the infrastructure to support it, will be delivered.

Higher rates mean windfall gains

Unlike developers, councils can borrow money at a risk-free rate, in the form of TCorp bonds, which gives them access to inexpensive debt-funding.

If they are able to charge much higher NPV rates, however, this will deliver them a significant windfall gain.

If the TCorp rate is around 4% but IPART were to allow councils to take a 7% NPV rate, this delivers councils an extra 3% revenue windfall margin.

This comes at a cost to new home buyers.

Again, this is made worse by a lag between the contribution and the expenditure on infrastructure – if councils do not use the funding on capex earlier, it will result in communities missing out on vital infrastructure and landholders losing value on their investments.

What is equity?

IPART's paper questions the ability of a council to invest in ways other than prescribed vehicles³, which undermines Sydney's Parklands Councils' argument for equity to be considered.

Councils' largest source of revenue is through rates on landholders, which is a tax intended to cover costs, not to create an investment nest-egg for the council.

Treating rate revenue in the same way that the private sector treats equity would simply artificially inflate council income, yet it operates in a very different way.

Council assets – ratepayer funds or council properties – cannot be sold or leveraged as easily or in the same way as the equity holdings of private companies.

Underfunding for councils tends to be addressed through special rates variations or through efficiency savings, not generally by returns on investments, and it should not be augmented by playing the margins between the bond market and NPV rates.

³ Ibid. pp.19-20

Conclusion

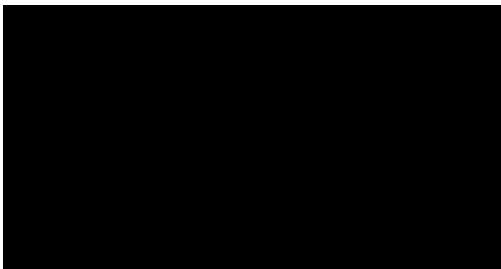
Urban Taskforce recognises that the current review has been carried out in response to requests by councils for changes in how developer contributions are calculated.

We believe that the proposed inclusion of equity in calculating discount rates could simply increase the amount that industry might be charged, shifting more costs onto the private sector.

IPART should continue using its current methodology for calculating NPV and focus on debt-based discount rates for local council infrastructure charges.

Should you wish to discuss any aspect of this submission further, please call our Policy, Planning, and Research Analyst, Paul Waterhouse, on [REDACTED]

Yours sincerely



Tom Forrest
Chief Executive Officer

IPART Local Government Contributions Questions

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.

Yes, particularly for contributions plans that will ultimately be decided by IPART. Any form of guidance – guideline document, workshops, templates – would be helpful.

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

N/A

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

There should be no barriers to using this methodology. It allows contributions to be staged more appropriately to ensure that the money available to council is raised at the time it is needed.

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

N/A

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. A council is an arm of the State Government and therefore has the ability to raise fees, taxes, and charges when its obligations result in capital expenditure and operational expenses exceeding revenue.

This taxation power ensures that council cashflow is secure and bankable, particularly given councils' access to low-cost borrowing through TCorp bonds.

It differs from the costs faced by the private sector and gives councils a distinct advantage over corporate borrowers.

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. The recipient of any return differs depending on whether a project is financed through debt or equity.

Payments to either group are treated differently depending on whether a project delivers a return or not, which affects feasibility.

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)?

No 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.

Credit rating assumptions appear to be misguided, in that they suggest that the ability to levy taxes (rates) will cover any debt liability.

It is not clear that this is always the case.

NPV calculations should account for costs sufficiently that contributions plans do not need to be revisited and raised during the collection period.

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

N/A

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.

N/A

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?

N/A

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

No.

This would add significantly to the costs borne by the homebuyer and, given that these contributions are due up front and not when the dwellings have been sold, put a considerable dent in project feasibility.

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

Councils don't have competitors in the traditional sense when it comes to infrastructure, so identifying proxy companies does not appear to be a pragmatic approach to the issue.

While councils are liable for the delivery of infrastructure, they are also responsible for specifying what is needed and for levying the developer to deliver it.

The risk, or at least the cost for it, is generally placed on the developer.

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

None come to mind. Councils are a form of government, so there is no private sector equivalent.

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?

N/A

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

N/A

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?

N/A

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?

N/A

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

Higher discount rates put a much higher cost onto developments, which can significantly impact the feasibility of projects.

If, as usually occurs, a council delays expenditure on infrastructure following the collection of developer contributions, any additional cost tends to be borne by the developer, landholders, and the community.

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

No