IPART Independent Pricing and Regulatory Tribunal | NSW

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

Public Workshop, 14 October 2025

Welcome

Acknowledgement of Country

Carmel Donnelly PSM
Chair

Agenda

01	Welcome
02	Introduction
03	Session 1: Discount rate background
04	Short break
05	Session 2: Discount rate details
06	Closing remarks

Opening remarks

Review of our discount rate methodology

- We initiated the review to:
  - ensure that our discount rate is suitable
  - address stakeholder concerns
- Using an NPV approach should help councils recover sufficient revenue from contributions
- When using an NPV approach, our discount rate influences contribution amounts
- We anticipate completing our review in early 2026.

Matters we will consider in this review

Potential changes to existing methodology

Whether it is appropriate to consider the cost of equity

Whether councils are actually able to reinvest their contributions balances at the discount rate

Potential proxy firms with a known cost of capital

Whether the discount rate should be specified on a pre- or post-tax basis

Differences in risk level across all councils

Impact of the timeliness of infrastructure provision and development feasibility

Any other matter IPART considers relevant

Session 1

Background to using the discount rate for local government infrastructure contributions

What is net present value?

Councils have the option of using an NPV approach when determining contribution rates in a contributions plan.

An NPV approach involves using a discounted cash flow model. NPV takes all the costs a council expects to recover in the future and converts it into today's value.

This approach recognises that today's dollars are of greater value than dollars received in the future.

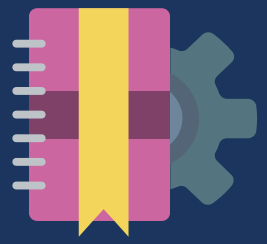
Using net present value

Main risk: not enough money is collected to pay for the infrastructure that needs to be delivered

- When an NPV approach is not used, risk and the time value of money is not fully accounted for
- This could mean that councils do not collect enough contributions to cover spending over the course of a plan
- For example, expenditure in year 10 of a plan may cost more than what was estimated in year 1 when the contribution rates were first set
- While indexation and regular plan reviews aim to reduce financial risks, using an NPV approach could help prevent the likelihood of funding shortfalls.

Call for stakeholder comment

Guidance on how to determine contribution rates using an NPV approach?

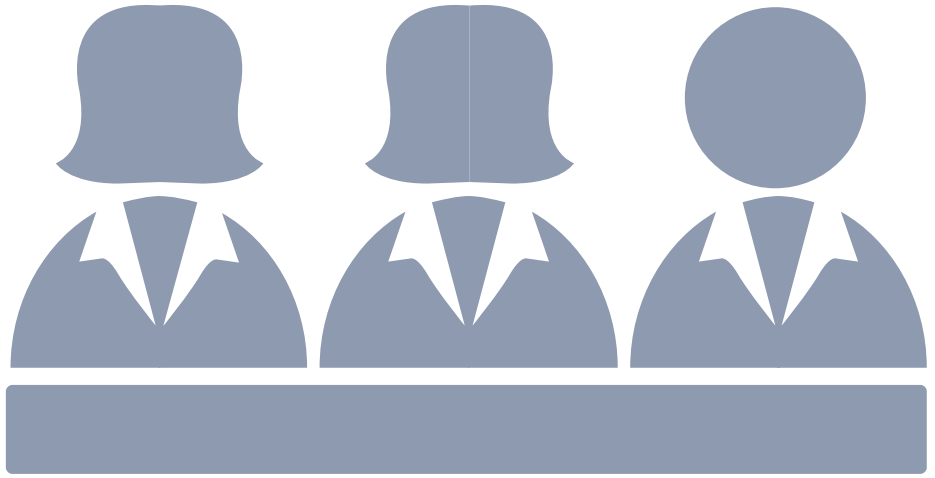


Does your council use an NPV approach in other areas?

What are the barriers to using an NPV approach for CPs?

Would your council be interested in using an NPV approach for any future or amended CPs?

Discussion



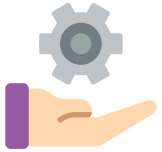
Session 2

IPART's discount rate methodology for local government infrastructure contributions

IPART's local government discount rate

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.

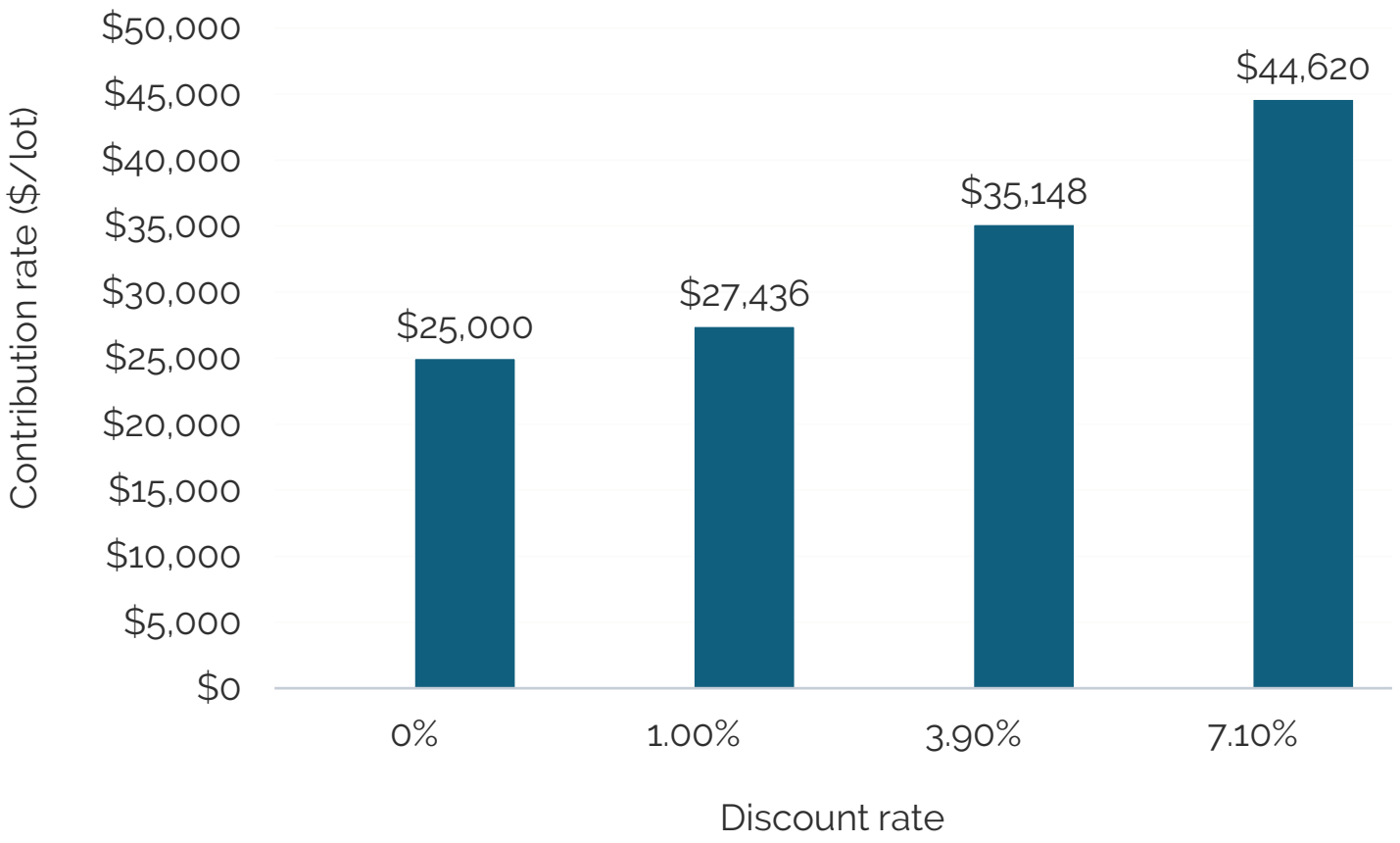
When using an NPV approach, it is the percentage used to shrink future cash flows down to their present value.



Stakeholders raised concerns about our current methodology, and it is good regulatory practice to periodically review our approach.

Impact of the discount rate

- Local infrastructure provided up front
- $10 million spend per year for the first 5 years
- Contributions paid for 20 years, starting at year 3



Current discount rate methodology

- We calculate an updated discount rate every 6 months
- Our current 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
- Our current estimate is 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.

How to approach the discount rate

- 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.)?
- 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)?
- 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)?

Call for stakeholder comment

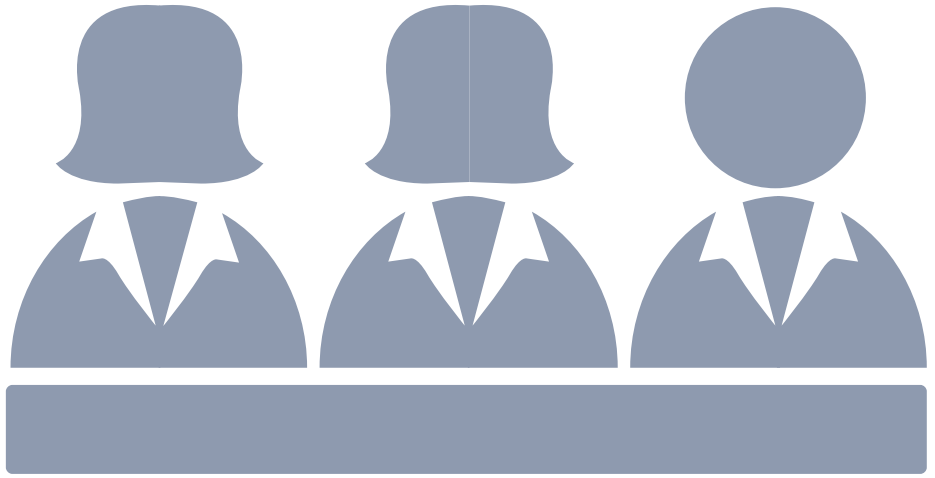
First principles – are we considering the cost of capital for CPs correctly?

Should any existing parameters be adjusted and is it appropriate to include the cost of equity?

Who are the potential proxy firms and how do councils use debt/pay tax?

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

Discussion



Closing remarks

Next steps


Issues Paper submissions due by 31 October
Draft Report submissions due by February
Scope of Review
7 July 2025
Issues Paper
1 September 2025
Have your say
Public workshop
14 October 2025
Draft Report
December 2025
Have your say
Public workshop(s)
February 2026
Final Report
April 2026

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