

Scope of Review – Local government discount rate

7 July 2025

1 Current approach

Local councils in NSW can charge local infrastructure contributions (also known as developer contributions) when new development occurs.^a Councils have the option of using a net present value (NPV) approach when determining contribution rates in a contributions plan. Every 6 months, IPART publishes the discount rate we recommend councils apply if they are using the NPV approach to calculating local infrastructure contributions.^b We last updated our calculation in February 2025.

Our current estimate of the local government discount rate 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.

The method we use to determine the local government discount rate is an issue of concern to some of our stakeholders. Sydney's Western Parkland Councils (an alliance of 8 local governments) and the Western Sydney Planning Partnership (a council led initiative integrated with The Parks) have both requested IPART consider this issue. Western Sydney Planning Partnership commissioned a report from The Centre of International Economics that they provided to IPART. A copy of the report is available on our website.

The timely provision of local infrastructure is an important enabler of increasing housing supply. It is possible that the NPV approach will be adopted more widely among councils. Therefore, it is important to ensure that our discount rate methodology is soundly based in theory and consistent with the aim of timely provision of local infrastructure.

2 Matters for consideration

IPART will review its method for estimating the local government discount rate, which is the rate used for discounting future cash flows when setting contribution charges using an NPV approach. The scope of this review does not extend to potential future changes to contributions plans, the NPV framework or the IPART WACC method.

In undertaking the review, IPART will:

^a Under the *Environmental Planning and Assessment Act 1979*, there are 2 forms of local infrastructure contributions: section 7.11 contributions and section 7.12 levies. This matter is concerning section 7.11 contributions.

^b IPART, [Local Government discount rate](#).

- 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
- 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 it considers relevant.

3 Consultation and timeframe

This review will require broad consultation with the local government sector and other stakeholders to inform IPART's findings. We will consult publicly, and consultation may occur in the form of informal discussions with stakeholders, public workshops, and a publicly released issues paper and draft report.

IPART will aim to publish a final report within 9 months of self-initiating the review. Depending on the outcomes of the final report, adjustments may then subsequently be made to IPART's method for calculating the local government discount rate.