

Rating Valuation Procedure in Sri Lanka: Issue of timely reassessment of Properties.

With Special Reference to Kurunagala District.

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The work described in this dissertation was carried out under the supervision of Senior Lecturer Mrs. Janaki Edirisinghe and any report on this has not been submitted in whole or in part to any university or any other institute for another degree/ examination or any other purpose.

I hereby declare that this dissertation has been completed according to the regulations of the institution and is the work of the student.

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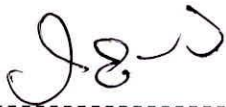
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Hereby, I certify that Ms A. C. Jayasinghe, GS/M.SC/REMV 3760/09 duly completed the due corrections of dissertation "Rating Valuation Procedure in Sri Lanka: Issue of timely reassessment of Properties, With Special Reference to Kurunagala District" under my supervision and recommended for the final submission. Also it is declared that, this final report has been completed according to the instructions and suggestions made by the board of examiners.



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Abstract

As the revenue on rates is a main income source of local authorities the efficiency and effectiveness of rating assessment system make a significant impact on the performance of local authorities. The local authorities to perform satisfactorily, they should at least carryout the duties and responsibilities entrusted to them through the respective legal enactment. Thus the duration of rating assessment has become a crucial factor which requires to search in order to identify the issues and their cause prevailed in the system. Generally the rating reassessment in Sri Lanka is revised after five year period. When fulfill the events and activities of series of stages and of the relevant rating reassessment, the duration of the assessment process varies. The time taken for the rating assessment process is affected to determine the next revision date of the assessment and it is affected to the income of that particular local authority. This research focuses to determine the factors affecting the delay of rating assessment procedure in local authorities in Sri Lanka.

The general objective of the research is to study the factors affecting the delay in rating reassessment procedure. The Kurunagala District was selected as the case study area of the research. To achieve the general objective three specific objectives were developed. The first objective of the research is to calculate the length of time taken for reassessment of rating valuation. This objective is to prove the research problem. The second specific objective is to identify the factors affecting the delay in rating reassessment of the local authorities selected as the sample. And the third objective is focus to calculate the minimum time period for rating reassessment through critical path method. By successfully achieving these three specific objectives the general objective of the research was covered.

To achieve the objectives of the research Microsoft Project and SPSS were used. Using Microsoft project calculated the time length of the relevant rating reassessments in the sample where found in fifteen local authorities in the Kurunagala District. Then using the Delphi Questionnaire Survey method the nineteen factors affected to delay of the rating reassessment procedure have been determined. Finally using average time consumed by the sample, a critical path for rating assessment procedure has been calculated.

This study can be further analyzed for other valuation procedures like land acquisition and the development projects which can observe delay in the procedure. Further this research will be useful to analyze the effect of delay for the revenue and the functions of the local authorities. As well as the research is useful to study the newly methods which can apply for rating assessment procedure to reduce the delay in processing.

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List of Abbreviations.

GVD –Government Valuation Department

LA – Local Authority

MC- Municipal Council

UC- Urban Council

PS- Pradeshiya Sabha

ADV- Assistant District Valuer

DV- District Valuer

RO – Revenue Officer

CHAPTER ONE

Introduction

1.1. Background of the Study.

When preparing a policy agenda in the countries around the world, the property tax gets major place. In developing countries property tax acts a potential role as a source of local revenue. The appropriate role of property taxes, design, and implementation differ in countries. The property tax is not a significant revenue producer in developing countries. But it is an important source of local revenue in those countries. The property tax gets lower percentage from the Gross Development Products in those countries. But that revenue gets higher amount from the national total expenditure than other developed countries. According to the year 2008 data, property tax as percentage of Gross Development Product in developing countries is 0.6% and other countries are getting 2.1%. As a percentage of a sub national expenditure it is 18.4% in developing countries and 12.4% in other countries. (Institute of Municipal Finance & Governance,2013). (Property tax revenue in some cities of Asian countries as a percentage of total revenue of those cities in the year 2009-2010 is given in the table 1.1.)

In many cases the benefits of the property tax in developing countries are harder to see. In those countries the property markets are not well developed. This influences to limit the property transactions. And so the evidences of transaction values are limited. There are widely spread uses of exempted properties. The tax rates of many developing countries are low. The administrative capacity of the tax assessment, billing and collection of tax revenue and enforcement are limited in the developing countries. These reasons affect to reduce the benefits of the property tax of those countries.

**Table 1:1 Property tax on total revenue at some Asian cities
2009-2010.**

City	Property tax % of city revenue
Hong Kong (SAR)	3.8
Kuala Lumpur	44.9
Makati City (Metro Manila)	34.0
Manila (Metro Manila)	28.0
Quezon City (Metro Manila)	21.0
Singapore	5.8
Ulaanbaatar	5.0

Source: Institute of Municipal Finance & Governance, University of Toronto, 2013.

1.1.1. Assessment tax in Sri Lanka - Background.

As per the decentralization of administrative functions in Sri Lanka, there are three levels of administrative institutions called central, provincial and local. Provincial Councils are enshrined in the 13th amendment to the Constitution and they are governed by the Provincial Councils Act No 42 of 1987. The main Acts relating to these third-layer local authorities are the Urban Councils Ordinance No. 61 of 1939, the Municipal Councils Ordinance No. 29 of 1947 and the Pradeshiya Sabhas Act No.15 1987. The Ministry of Provincial Councils and Local Government is responsible for policy and legislation at the national level, while the provincial ministers of local government are responsible for the implementation at the local level. There are nine second-tier provinces and 335 third-tier local authorities: 23 Municipal Councils, 41 Urban Councils and 271 Pradeshiya Sabhas. (See Annexure 1). Central government and local authorities are responsible for collection of taxes and user fees as well as property rates, rents and grants. Local authorities have similarly responsible for health, utility services and roads. Pradeshiya Sabhas have some additional developmental responsibilities as well.

To persuade above responsibilities of the Local Authority, they should earn income. For that purpose, the third layer government which the Municipal Councils, Urban

Councils and the Pradeshiya Sabhas are empowered by their Acts to levy the tax from the residents of the area of authority. These three Acts together with the amendments made from time to time lay down the code, legal principles and generally matters incidental to the imposition of rates and taxes by local authorities.

All properties within Municipal and Urban Council areas are subject to a rating levy. In Pradeshiya Sabha areas, only properties within 'built up' areas are subject to tax. 'Built-up' areas are declared by the Minister of Local Government from time to time. The Pradeshiya Sabha is an amalgamation of now obsolete, earlier Town Council areas and Village Council areas.

Local authority revenue consists mainly of the local government rates collected in built-up areas which is calculated based on the annual value of property, the acreage tax in rural areas, number of minor license fees, which include licenses on public performances, laundries, bicycles etc, as well as entertainment tax, trade/business taxes, rents, warrant costs, other income and government grants.

The sources of income vary from council to council. According to the data at Ministry of Local Government in year 2012, the rates and taxes are the highest source of own funds for Municipal Councils and Urban Councils. In the case of Pradesha Sabhas revenue from other sources and rents are the highest sources of own revenue. Rates and taxes provide over 32.1% of own revenue for Municipal Councils, 18.2% for Urban Councils and 10.1% for Pradesha Sabhas. This situation is shown in the table 1:2. (Ministry of Local Government, 2012).

Therefore, an important revenue-generating method in Municipal Councils and Urban Councils has been the regular revision of rates. Generally, rates are revised every five years. Complaints have been made that some local authorities do not revise the rates within the given time periods. Another observation is that some politicians influence the rate revision process for their political gain, irrespective of the effects on local authorities' finance. As well as the Local authorities are also faced with problems in trying to collect rates, and recovery of rates varies incredibly.