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SUSTAINABLE AND MARKETABLE REAL ESTATE: ASPIRATION OF SOCIETY, REINFORCED WEALTH AND TRANSFORM ECONOMY

# POLICY BRIEF

## REFORMING THE PROPERTY RATING SYSTEM IN SRI LANKA:
## CHALLENGES, GLOBAL INSIGHTS, AND POLICY RECOMMENDATIONS FOR EQUITABLE LOCAL REVENUE GENERATION

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# Abbreviations

| | |
|---|---|
| ARV | Annual Rental Value |
| AV | Annual Value |
| CAMA | Computer-Assisted Mass Appraisal |
| CMC | Colombo Municipal Council |
| CVS | Capital Value System |
| GDP | Gross Domestic Product |
| IMF | International Monetary Fund |
| Las | Local Authorities |
| OECD | Organization for Economic Co-operation and Development |
| PB-LIS | Parcel-Based Land Information System |
| UAV | Unit Area Value |

## Executive Summary

This policy paper provides a reform framework for strengthening the property rating system in Sri Lanka. The paper was motivated by the renewed national policy discussions on property taxation that emerged during Sri Lanka's recent (year 2022 and thereabouts) economic crisis, where strengthening domestic revenue mobilisation became an important fiscal priority. In this context, initial discussions between the ICREMV 2025 policy development team and the Government Valuation Department (GVD) highlighted both the institutional interest and practical need to contribute evidence-based policy responses to the evolving property tax discourse in Sri Lanka. Accordingly, the policy paper examines the major legal, institutional, valuation, administrative, and public governance weaknesses affecting the present rating system. It proposes a phased policy direction to improve equity, efficiency, transparency, and local revenue generation.

The paper depicts that Sri Lanka's current rating system, which continues to rely mainly on the annual value basis within an outdated legal and administrative structure, is no longer adequate to meet present fiscal and governance needs. The proposed reform framework supports the strengthening of local government finance and administrative capacity. It identifies how delays in revaluation, fragmented institutional responsibilities, weak property data systems, limited use of technology, and low public understanding have reduced the effectiveness of the rating system. In response, the paper proposes policy recommendations to reform the system and improve its responsiveness to changing property market conditions and local service delivery requirements.

The policy paper is structured around four major reform themes. These are: legal and institutional reforms and administrative coordination; valuation basis and methods; property data management and technology integration; and public engagement and transparency. Together, these themes provide the basis for a phased and coordinated reform strategy rather than isolated administrative changes.

The policy recommendations are informed by literature, policy review, stakeholder consultations, and the final conference discussions conducted through the ICREMV 2025

policy development process. The paper therefore reflects both analytical review and stakeholder-informed policy direction.

In conclusion, the paper emphasises that reform of Sri Lanka's property rating system should be approached as a broader institutional and fiscal governance reform. If implemented in a phased and coordinated manner, the proposed measures would strengthen local revenue generation, improve fairness in property taxation, enhance administrative efficiency, and rebuild public confidence in the rating system.

## Table of Contents

# 1. Introduction

## 1.1 Background and Importance of Property Tax Reforms for Sri Lanka

Property Tax is one of the oldest and most stable forms of local government revenue globally. It is grounded in the principle that property owners contribute toward the maintenance and development of local infrastructure and services such as roads, drainage, solid waste management, and public amenities. Internationally, property taxes account for around 30–40% of local tax revenue and contribute 1–2% of Gross Domestic Product (GDP) in Organisation for Economic Co-operation and Development (OECD) countries, compared to less than 1% in many developing economies (Fisher, 2022; Grote et al., 2024).

In Sri Lanka, property tax (Locally known as "Rating") revenue contributes well below 0.1% of GDP, significantly lower than regional and international benchmarks (IMF, 2024). This underperformance undermines the fiscal autonomy of local authorities and constrains their capacity to deliver essential public services.

The importance of property tax reform has become particularly evident in the aftermath of Sri Lanka's unprecedented economic crisis of 2022, which exposed long-standing structural weaknesses in public finance, including a narrow tax base, inadequate revenue mobilisation, and excessive dependence on central government transfers. While the country has demonstrated a remarkable recovery, with the economy recording approximately 5% real GDP growth in 2024 following the implementation of macroeconomic stabilisation and fiscal reforms, sustaining this recovery and achieving higher levels of long-term economic growth will require deeper structural reforms and stronger domestic revenue generation. The recovery process has highlighted the need to strengthen fiscal resilience at all levels of government through stable and predictable revenue sources.

Within this context, property taxation represents one of the most underutilised yet potentially significant sources of public revenue in Sri Lanka. As an immovable and visible tax base, property taxation offers a sustainable mechanism for enhancing local government finances, improving fiscal decentralisation, promoting accountability in public expenditure, and supporting urban development. Consequently, reforming the property tax system is not merely a local government finance issue but a broader fiscal policy imperative that can contribute to strengthening public finances, supporting economic growth, and improving the quality of local service delivery.

### 1.2 Legislative background to Property Tax (Rating System) in Sri Lanka

Sri Lanka's property rating system has a long legislative history, governed primarily by the Municipal Councils Ordinance No. 29 of 1947, Urban Councils Ordinance No. 61 of 1939, and Pradeshiya Sabha Act No. 15 of 1987, together with the Rating and Valuation Ordinance No. 30 of 1946, which provides the statutory framework for the preparation of valuation lists and rating valuations in areas to which the Ordinance has been made applicable[1].

The current legal basis for assessment is the Annual Value (AV) method, defined under Section 264 of the *Municipal Councils Ordinance* as "the rent at which the property might reasonably be expected to let from year to year," forming the foundation of the country's property rating and taxation system.

### 1.3 Current Situation of Property Tax (Rating) in Sri Lanka

Local property taxation, referred to as rating assessments, serves as the primary revenue source for local government authorities in Sri Lanka. According to the International Monetary Fund (IMF) (2024), recurrent property taxation, which primarily includes local property rates, accounts for approximately 25% of local authorities' own-source revenue, corresponding to around 0.07% of GDP. This tax is levied on the AV of a property, defined as the annual rent a tenant might reasonably pay. The authority to impose rates is granted under ordinances such as the Municipal

[1] The Rating and Valuation Ordinance No. 30 of 1946 provides a specific statutory framework for rating valuation, including the preparation of quinquennial valuation lists. However, its application is not necessarily uniform across all local authorities

Councils Ordinance No. 29 of 1947, Urban Councils Ordinance No. 61 of 1939, Pradeshiya Sabha Act No. 15 of 1987 enabling local bodies to fund essential services.

Local authorities are expected to reassess property values every five years to maintain accurate tax bases. However, this schedule is rarely followed, with delays extending up to a decade or more (IMF, 2024, Indika & Ariyawansa, 2024; Wasantha et al., 2013). For instance, in the Colombo Municipal Council (CMC), over half of the properties had outdated assessments, some exceeding 30 years (Indika & Ariyawansa, 2024). These delays stem from labor-intensive manual data collection, insufficient staffing (e.g., CMC had only 30 assessors for 55 allocated positions), and time constraints, limiting annual revisions to a few wards (e.g., 10 out of 47 in CMC) (Indika & Ariyawansa, 2024). The complex and poorly standardized definition of Annual Value, coupled with public rejection of the hypothetical tenant concept, further complicates reassessments. Consequently, local authorities lose significant tax revenue, and assessment lists remain outdated (Wasantha et al., 2013).

Public dissatisfaction with the property tax system is evident, particularly regarding the assessment process and the hypothetical tenant concept, which ratepayers widely reject Indika & Ariyawansa (2024). The CMC incorporates a grievances management mechanism to address complaints, suggesting some acknowledgement of public concerns. However, there is no clear evidence of systematic efforts by local authorities to proactively gather public input on the tax system's design or reforms. International practices emphasise stakeholder engagement for tax acceptance, but in Sri Lanka, inadequate information and public apathy may hinder such engagement.

Table 1 shows the revenue performance of three Sri Lankan local authorities: CMC, Maharagama Urban Council, and Homagama Pradeshiya Sabha. CMC generated the highest total revenue at Rs. 7.99 billion, with 67.9% (Rs. 5.43 billion) derived from rating revenue, but faced significant collection issues, as evidenced by Rs. 4.49 billion in arrears, equivalent to 56.2% of its total revenue. Maharagama Urban Council, with a total revenue of Rs. 307 million, depended heavily on rating revenue for 86.5% of its income, yet its arrears of Rs. 99.5 million accounted for

32.4% of its revenue, indicating moderate collection difficulties. Homagama Pradeshiya Sabha, recording Rs. 1.05 billion in total revenue, relied on rating revenue for only 17.0% (Rs. 178.3 million) and had arrears of Rs. 123 million, or 11.8% of its revenue, reflecting lower dependence on rates and relatively better arrears management.

**Table 1: Details of Selected Three Local Authority Revenue and Rating Arrears**

| Type of Local Authority | Total Revenue | Rating Revenue | Rating Arrears to be Collected | Percentage as Total Revenue | Deficit Percentage as Total Revenue |
|---|---|---|---|---|---|
| **CMC** | 7,995,200,000 | 5,430,300,000 | 4,492,100,000 | 67.9% | 56.2% |
| **Maharagama Urban Council** | 307,024,000 | 265,592,000 | 99,453,000 | 86.5% | 32.4% |
| **Homagama Pradeshiya Sabha** | 1,046,095,549 | 178,254,149 | 123,023,521 | 17.0% | 11.8% |

Source: Auditor General Report, 2023

### 1.4 International and Regional Context

Globally, countries have adopted different approaches to property taxation to improve local revenue mobilisation, administrative efficiency, transparency, and equity in valuation. While no single model is universally applicable, international experience demonstrates the importance of regular valuation updates, strong institutional arrangements, digital property databases, and technology-assisted mass appraisal systems. Table 2 presents selected international and regional practices relevant to Sri Lanka's ongoing property rating reform discussion. Comparative experience suggests that successful property tax systems are generally characterised by regular reassessment cycles, digital property information systems, institutional clarity, transparent and simplified assessment/valuation methods, and increasing use of mass appraisal technologies.

Table 2 – Property Tax Systems in selected countries

| Country | Property Tax / Rating Basis | Assessment Approach | Use of CAMA / GIS / Technology | Institutional Arrangement | Key Relevance for Sri Lanka |
|---|---|---|---|---|---|
| India | Mixed systems: Annual Rental Value (ARV), Unit Area Value (UAV) and Capital Value System (CVS) depending on state/municipality | Area-based and market-informed assessment | Increasing use of Geographic Information System (GIS) mapping, digital tax records, and emerging CAMA-supported mass assessments in urban municipalities | Municipal governments administer property tax with state-level legal frameworks | Demonstrates transition from rental value systems to simplified and technology-enabled valuation approaches |
| Nepal | Capital/Property Value-Based Tax under local government authority | Percentage of assessed property value (typically around 0.1%–2%) | Limited but increasing digitisation and municipal databases; GIS adoption emerging in urban areas | Local governments empowered through the Local Government Operation Act (2017) to levy property taxes | Illustrates fiscal decentralisation and local authority empowerment in a South Asian context |

| | | | | | |
|---|---|---|---|---|---|
| Netherlands | Capital Value (Market Value) Basis through the WOZ valuation system | Annual mass appraisal using market evidence | Strong integration of computer-assisted mass appraisal (CAMA), digital cadaster, interoperable property databases and online tax systems | Municipal governments implement valuation under national legal oversight | Example of highly standardized, transparent, regularly updated property valuation system |
| Australia | Predominantly Capital Improved Value (CIV), Site Value, or AV depending on state | Mass valuation and market-based assessment | Extensive use of GIS, digital cadaster, and CAMA systems | State valuation authorities undertake assessments; local governments collect rates | Demonstrates coordinated valuation with strong digital integration |
| Rwanda | Market/Capital Value-Based Property Tax | Simplified market valuation and mass assessment | Strong digital integration, land registration databases, and electronic billing systems | Central-local institutional coordination | Illustrates successful modernization in a developing country context |

Source: Government of India municipal property taxation reforms and Unit Area/Capital Value approaches; Local Government Operation Act, Nepal (2017); Dutch **Waardering Onroerende Zaken (WOZ)** valuation framework; Australian state valuation authorities and municipal rating systems; Rwanda land and property taxation modernization frameworks. Key references include Government of Nepal (2017), *Local Government Operation Act*; Government of the Netherlands, *Valuation of Immovable Property (WOZ)*; and municipal/state property taxation guidelines in India and Australia.

## 2. Key Challenges in Sri Lanka's Property Tax (Rating) System

Based on the findings of the policy paper development process, stakeholder consultations, and the thematic structure adopted in the briefing note, the key challenges can be organised into four major themes: (1) Legal and Institutional Reforms and Administrative Coordination, (2) Valuation Basis and Methods, (3) Property Data Management and Technology Integration, and (4) Public Engagement and Transparency.

### 2.1 Legal and Institutional Reforms and Administrative Coordination

#### 2.1.1 Outdated Legal Framework

One of the most significant challenges in Sri Lanka's property rating system is the continued reliance on an outdated legal and institutional framework. The system is still governed primarily by colonial-era and post-colonial statutes, including the Municipal Councils Ordinance No. 29 of 1947, the Urban Councils Ordinance No. 61 of 1939, and the Pradeshiya Sabha Act No. 15 of 1987. Although these laws established the basic administrative structure for local taxation, they have not been sufficiently valid to address current urban growth patterns, fiscal decentralization needs, institutional complexities, or technological developments.

#### 2.1.2 Unclear Institutional Responsibilities and Fragmented Coordination

A major institutional weakness is the absence of a clear statutory division of responsibilities between the Government Valuation Department (GVD) and Local Authorities (LAs). In practice, valuation functions, property register maintenance, reassessment requests, and revenue administration are split across institutions without an adequately defined boundary. This has resulted in fragmented coordination, duplication of effort, delayed action, and weak accountability in the implementation of rating assessments. Workshop findings also indicate that Local Authorities and the GVD often operate with limited communication, poor procedural clarity, and inconsistent information flows.

#### 2.1.3 Weak Enforcement of Periodic Revaluation

Another key challenge is the absence of a legally enforceable mechanism to ensure revaluations are carried out at regular intervals. Although reassessments are expected every five years, this requirement is not effectively backed by statutory enforcement, sanctions for delay, or a formal monitoring mechanism. As a result, revaluation cycles are frequently postponed for long periods, weakening the credibility, fairness, and fiscal responsiveness of the system.

#### 2.1.4 Weak Intergovernmental Coordination and Resource Constraints

The problem is further aggravated by weak coordination among the GVD, Local Government, Provincial Councils, and Local Authorities. There is no strong national policy framework or centralized oversight mechanism to guide implementation, monitor compliance, or ensure consistency across councils. In addition, inadequate budget allocations for revaluation exercises, enforcement activities, and institutional coordination continue to constrain the operational capacity of the system.

### 2.2 Assessment/Valuation Basis and Methods

#### 2.2.1 Outdated Reliance on the AV System

A second major challenge lies in the valuation basis and assessment methods currently used in Sri Lanka's rating system. The present system continues to rely on the AV method, which is based on the hypothetical rent a property might reasonably fetch from year to year. While this method has historical and administrative roots, it is now widely seen as outdated, difficult to communicate with taxpayers, and increasingly inadequate in reflecting present market realities. Continued dependence on this basis has created dissatisfaction among stakeholders and has limited the responsiveness of the rating system to changes in property markets.

### 2.2.2 Delays and Irregularity in Property Revaluations

One of the most serious weaknesses is the infrequency and delay of property revaluations. These delays have produced major disparities between assessed values and actual market conditions, resulting in inequitable tax burdens, weak revenue performance, and outdated valuation rolls. Properties with similar location, utility, or income potential are often taxed differently simply because valuations have not been updated in a timely and uniform manner.

### 2.2.3 Operational Constraints in Physical Property Inspections

A practical challenge that contributes to these delays is the time required to complete physical inspections as part of the reassessment process. Given the volume of properties to be assessed and the resource constraints faced by valuation divisions, the inspection process naturally extends over considerable periods. This is a recognized operational reality rather than an administrative shortcoming, and reflects the need for greater institutional support, staffing, and technological tools to assist assessors in managing their workload more effectively.

### 2.2.4 Weak Availability of Formal Rental Market Evidence

A related challenge concerns the availability of rental evidence to support AV assessments. The AV method relies on open market rental data as its basis, and in many parts of Sri Lanka, such information is not always readily accessible through formal channels. Rental transactions in the local market are often conducted informally, which means that assessors may have limited comparable data to draw upon during the valuation process. Establishing more structured mechanisms for capturing rental market information would assist in strengthening the evidence base available to valuation officers.

### 2.2.5 Absence of Uniform Valuation Standards and Property Classification Systems

The absence of uniform assessment standards across local authorities has also contributed to inconsistency and unfairness. Existing property classification practices remain heavily dependent on traditional physical indicators such as roof type, material, and structural condition, rather than modern criteria based on land use, building function, location, and economic potential. This is particularly problematic for mixed-use buildings, condominiums, and high-rise developments, which do not fit neatly within older classification frameworks. As a result, inequities arise in both rate application and valuation procedures across different jurisdictions.

### 2.2.6 Limited Public Understanding of Valuation Practices

Stakeholder consultations further revealed resistance to reform arising from both legal rigidity and public misunderstanding. Some local authorities noted that even when there is recognition that the current basis requires change, councils often lack the legal authority to revise rates periodically in line with inflation, market changes, or evolving property characteristics. At the same time, ratepayers frequently do not understand the basis of valuation, especially where the AV approach is perceived as hypothetical rather than transparent or market linked.

### 2.2.7 Exemptions, Informal Properties, and Gaps in the Tax Base

A further structural challenge in Sri Lanka's property rating system relates to statutory exemptions and the presence of properties that fall outside the effective tax base. Under the Municipal Councils Ordinance No. 29 of 1947, the Urban Councils Ordinance No. 61 of 1939, and the Pradeshiya Sabha Act No. 15 of 1987, certain categories of property are exempt from property taxation or are not practically subject to rating. These typically include properties used for public purposes such as government institutions, municipal service facilities, public amenities, and places of religious worship, subject to the specific provisions, by-laws, and exemption powers available to local authorities under the respective legal frameworks.

While these exemptions are intended to support public service delivery, social welfare functions, and institutional mandates, they also contribute to a reduction in the effective rating base. In addition, properties located in areas where local authority services are limited or not provided are not always systematically excluded or treated uniformly through statutory exemption clauses; rather, rating applicability is generally determined by jurisdictional boundaries and the scope of the respective local authority's rating provisions. This creates practical complexities in linking taxation directly to service provision, particularly in peri-urban and transitional areas.

Beyond formal exemptions, a more significant challenge arises from informal settlements and unregistered properties that remain outside official valuation and taxation systems. These properties are often absent from valuation rolls due to incomplete cadastral coverage, delays in regularisation processes, and limitations in property registration systems. In some cases, incomplete declarations or non-registration of property characteristics further contribute to their exclusion from the tax base (Grover et al., 2019; Mikesell, 2003).

Administrative constraints, including manual record-keeping practices, staff shortages, and limited field verification capacity, further exacerbate this issue. Even where informal properties receive basic utilities such as water or electricity through separate administrative systems, they are not always integrated into valuation databases due to weak inter-agency data linkages. Additional challenges such as unclear boundaries, shared ownership structures, and low taxpayer awareness further contribute to non-compliance and under-coverage.

### 2.3 Property Data Management and Technology Integration

#### 2.3.1 Fragmented and Inconsistent Property Databases

At present, the property rating system is constrained by fragmented databases, incomplete records, duplication of information, and poor synchronisation between institutions. The GVD and Local Authorities often maintain separate records, which creates inconsistencies in property identification, mismatches in assessment numbers, duplication of entries, and delays in updating changes to ownership, development, or use.

#### 2.3.2 Weak Integration with National Land and Planning Systems

A particularly serious issue is the lack of digital integration between the property rating system and other related public databases, such as the Land Registry, Urban Development Authority (UDA), permit issuing institutions, and Certificate of Conformity systems. Because property alterations, new developments, and ownership changes are not systematically synchronized across institutions, many changes are not captured in time within the valuation register. This weakens the completeness and reliability of the tax base and contributes to under-valuation, omissions, and revenue loss.

#### 2.3.3 Incomplete and Outdated Property Inventories at Local Level

In many local authorities, especially in Pradeshiya Sabha areas, property lists remain incomplete, outdated, or insufficiently verified. The lack of a comprehensive and regularly updated property inventory affects inspection efficiency, reassessment accuracy, and tax coverage.

#### 2.3.4 Continued Dependence on Manual Record-Keeping Systems

The challenges are further compounded by the continued reliance on the manual "card system," which, although historically useful, is no longer adequate as the principal medium for managing a large and dynamic property database.

#### 2.3.5 Limited ICT Infrastructure and Digital Capacity in Local Authorities

Weak ICT infrastructure and low digital literacy, particularly in smaller councils, also present major implementation barriers. Many local authorities lack computers, stable internet access, trained staff, and technical resources to shift toward modern digital workflows. Even where online submission systems have been introduced by the GVD, their effective use has been slowed by limited institutional readiness and insufficient training support.

#### 2.3.6 Absence of an Integrated Spatial Land Information System

In addition, Sri Lanka still lacks an integrated land information system to support valuation and taxation functions. The absence of spatially integrated property mapping reduces the accuracy of property identification, complicates boundary verification, and limits the possibility of implementing large-scale, technology-driven assessment reforms.

#### 2.3.7 Limited Adoption of Advanced Valuation Technologies

Finally, the adoption of modern valuation tools such as Computer-Assisted Mass Appraisal (CAMA) and Automated Valuation Models (AVM) remains absent in Sri Lanka. Although these tools are increasingly recognized as necessary for improving efficiency, consistency, and scale in valuation administration, Sri Lanka's current institutional and technical readiness remains insufficient for their widespread application.

### 2.4 Public Engagement and Transparency

The fourth major challenge relates to limited public engagement and weak transparency in the operation of the property rating system.

#### 2.4.1 Limited Public Understanding of Valuation and Rating Processes

Many property owners do not clearly understand how their assessments are determined, what valuation methods are used, or how rates are calculated. This lack of public understanding has contributed to confusion, objections, payment resistance, and mistrust toward both the valuation process and local tax administration more broadly.

#### 2.4.2 Absence of a Standardised National Communication Framework

At present, there is no standardised national communication framework to explain valuation methodologies, notify taxpayers of reassessment changes in a transparent manner, or guide property owners through objection and grievance procedures. As a result, dispute handling is often inconsistent and reactive rather than structured, reducing public confidence in the fairness of the system.

Another major concern is the lack of online access for property owners to verify assessment details, review valuation reports, or track payment history. The absence of user-accessible digital interfaces limits transparency and prevents taxpayers from engaging meaningfully with the system. Workshop discussions highlighted the importance of allowing property owners to access their revaluation information online in a clear and structured form so that assessment calculations can be better understood and contested where necessary.

#### 2.4.3 Low Transparency in Valuation Decisions and Tax Calculations

Low taxpayer trust is closely linked to poor transparency, limited consultation, and weak public awareness efforts. Despite the central importance of property taxation to local government finance, public education on purpose, fairness, and methodology of the rating system remains minimal. Without sustained awareness programs and participatory communication mechanisms, efforts to reform valuation methods or strengthen enforcement are likely to face resistance from the public.

## 3. Recommendations

The findings of this policy paper and the final conference consultations confirm that Sri Lanka's property rating system requires a phased and coordinated reform strategy rather than isolated administrative improvements.

### 3.1 Legal and Institutional Reforms and Administrative Coordination

3.1.1. The existing statutory requirement for quinquennial property valuation should be strengthened through effective implementation, monitoring and enforcement mechanisms to ensure that property revaluations are undertaken at the legally prescribed five-year intervals. The framework should provide for interim updating of valuations in response to significant changes in property characteristics or use, supplementary valuations for new buildings, subdivisions and improvements, and monitoring by central and local authorities to ensure that revaluations are undertaken on schedule.

3.1.2 A clear statutory division of functions should also be established between the Government Valuation Department, Local Authorities, the Department of Local Government, and Provincial Councils. The final conference findings indicate that ambiguity in institutional roles has contributed to duplication, delayed reassessment requests, inconsistent communication, and weak accountability. A formal accountability framework is therefore necessary to define who is responsible for valuation, property register maintenance, data reporting, inspection coordination, and revenue administration.

3.1.3 Undertake a comprehensive review of the existing legislation governing property rating and valuation, in consultation with relevant central and local government authorities, valuation professionals, local authorities, property owners and other stakeholders, to identify provisions that are outdated, unclear or no longer aligned with current property markets and valuation practices. Based on this review, amend or consolidate the relevant legislation to establish a modern, coherent and transparent framework for rating, including appropriate valuation methods and standards, periodic revaluation and updating mechanisms, exemptions, treatment of new and improved properties, data and information requirements, public consultation and engagement, appeals and dispute-resolution mechanisms, institutional roles and responsibilities, and effective monitoring and enforcement arrangements.

3.1.4 To support implementation, a dedicated national coordination mechanism, such as a Change Management Unit or National Rating Reform Unit, should be established to oversee the reform process. In addition, periodic coordination meetings between the Chief Valuer's Office and local councils should be institutionalised, while each local authority should designate a valuation liaison team to ensure regular communication of property changes and reassessment needs.

3.1.5 The successful implementation of legal and institutional reforms will depend on the provision of adequate financial and administrative support. Accordingly, targeted budgetary allocations from the national government should be made available to local authorities to support revaluation exercises, field inspections, staff strengthening, digital transformation initiatives, and capacity-building programmes, particularly during the initial reform phase to enable the clearance of valuation backlogs and arrears.

### 3.2 Valuation Basis and Methods

3.2.1. The evidence shows that the continued reliance on the traditional AV method, in its current form, is no longer sufficient to meet the objectives of equity, clarity, and fiscal responsiveness. At the same time, the final conference findings suggest that reform should be tailored to the realities of different categories of local authorities rather than imposed uniformly.

3.2.2. For Municipal Councils, where property markets are relatively active and transactional data is more readily available, a gradual transition from the current AV system toward a more market-responsive valuation basis is recommended, followed by a legislative reform. This may include introducing a Capital Value-based approach where appropriate, supported by systematic market evidence and strengthened valuation data systems. This transition is justified by the comparatively higher volume of property transactions, better availability of rental and sales comparables, and stronger institutional capacity within Municipal Councils. A market-linked valuation system would improve fairness, reduce reliance on hypothetical rental estimations, and enhance the responsiveness of the rating system to actual market conditions.

In addition, the suitability of a Capital Value approach in Municipal Councils is reinforced by its compatibility with broader property-related fiscal and planning frameworks in Sri Lanka. A more market-aligned valuation basis would enhance consistency across valuation, taxation, and development control systems, thereby reducing fragmentation in property-related decision-making across institutions. Municipal areas, which are largely urban or rapidly urbanizing, also exhibit more dynamic property markets, mixed land use patterns, and higher levels of real estate investment activity. In such contexts, Capital Value-based assessment provides a more realistic reflection of property wealth and taxable capacity than the current AV system.

Considerations of relative affordability and administrative feasibility further support this transition. Municipal Councils generally possess stronger institutional capacity compared to other local authority categories, including better staffing levels, higher technical competence, and improved access to market information. This makes them more suitable for piloting and progressively implementing a market-based valuation system without causing excessive administrative burden. A phased transition would therefore ensure that reforms remain both technically feasible and institutionally sustainable while improving equity, transparency, and revenue productivity in urban property taxation.

For Urban Councils, where property market data is more limited and institutional capacity is moderate, a hybrid approach combining simplified valuation models with basic market indicators is recommended, followed by a legislative reform. This may include standardised valuation formulas incorporating location factors, property type classifications, and limited market benchmarks. The justification for this approach is the uneven availability of reliable transaction data and the need to balance technical accuracy with administrative practicality. A simplified but structured system would ensure greater consistency in assessments while remaining implementable under existing resource constraints.

For Pradeshiya Sabha areas, where property markets are often thin, informal, or poorly documented, a simplified formula-based valuation system supported by very basic ICT facilities (few computers and spreadsheets) is recommended, followed by a legislative reform. These areas typically face constraints such as limited staff capacity, incomplete property inventories, and weak access to market evidence. A formula-based approach using clearly defined physical and locational parameters such as land extent, building type, and usage category would ensure that property taxation remains administratively feasible while still expanding coverage and improving equity. The introduction of basic digital tools at this level would further strengthen record-keeping, reduce manual errors, and gradually improve data quality over time.

Overall, this differentiated valuation model is justified by the significant variation in property market maturity, institutional capacity, and data availability across Sri Lanka's local authority system. A uniform national approach would risk either overburdening weaker authorities or underutilizing data-rich urban contexts. A phased and context-sensitive framework therefore provides a more balanced pathway for modernizing the valuation system while ensuring administrative feasibility, fiscal efficiency, and improved equity across all levels of local government.

3.2.3. A national framework for property classification and rate application should also be introduced so that similar properties are assessed according to more uniform and transparent criteria across all local authorities. This is particularly important for mixed-use developments, condominiums, and high-rise properties that are not adequately captured under older classification systems.

3.2.4 To improve efficiency and consistency, Sri Lanka should pilot possibilities of introducing CAMA and other mass appraisal tools in selected urban authorities before wider rollout. Such systems should be introduced gradually, supported by training and adapted to local data conditions rather than adopted abruptly.

### 3.3 Property Data Management and Technology Integration

3.3.1 Establish and strengthen a parcel-based, technology-enabled land information system to support valuation, assessment, and local tax administration. Sri Lanka already has an ongoing initiative under the Survey Department to develop a Parcel-Based Land Information System (PB-LIS), which provides a foundational spatial framework for land parcels across the country. This initiative should be expedited and fully integrated with valuation and local government systems to ensure its effective operational use. Once operationally strengthened, the PB-LIS should be systematically linked with key institutions such as the Government Valuation Department, Local Authorities, Land Registry, Urban Development Authority, and permit-issuing agencies. Such integration would enable more accurate identification of properties, timely updating of ownership and development changes, and improved consistency between spatial, legal, and valuation records. This would significantly enhance the accuracy, transparency, and efficiency of property rating administration in Sri Lanka.

3.3.2 Digitisation of all valuation and assessment records should be prioritised, with a phased plan to reduce reliance on the manual card system and replace it with standardised digital workflows. GIS-based mapping, digital cadastral integration, and property identification tools should also be introduced to improve spatial accuracy, reduce duplication, and strengthen the analytical capacity of the valuation system.

3.3.3 Because institutional capacity varies widely across councils, digital reform should be implemented in phases. Larger urban authorities may be used as pilot locations, while smaller councils should receive targeted infrastructure support, internet access, software, and technical training. GVD's online reporting system should be further developed and expanded as the foundation for a national digital valuation registry.

### 3.4 Public Engagement and Transparency

3.4.1 A Public Valuation Information Portal should be developed to allow property owners to view their assessment details, payment history, and revaluation information in a clear and user-friendly format. The basis of assessment and calculation procedures should be explained in simplified language and made available in multiple languages so that taxpayers can better understand the fairness and purpose of the system.

3.4.2 Standardised grievance redress and appeal mechanisms should be introduced across all local authorities. These should include clear procedures for lodging objections, reviewing assessment records, and correcting errors. Such mechanisms would improve procedural fairness, reduce conflict, and enhance public legitimacy.

3.4.3. Public awareness campaigns should also be undertaken continuously rather than only during times of dispute or reform rollout. These programs should explain the role of property taxation in funding local public services, the reasons for reassessment, and the rights and responsibilities of taxpayers. Community consultation forums and feedback mechanisms should be incorporated into the revaluation cycle to ensure that reform is not only technically sound but also publicly acceptable.

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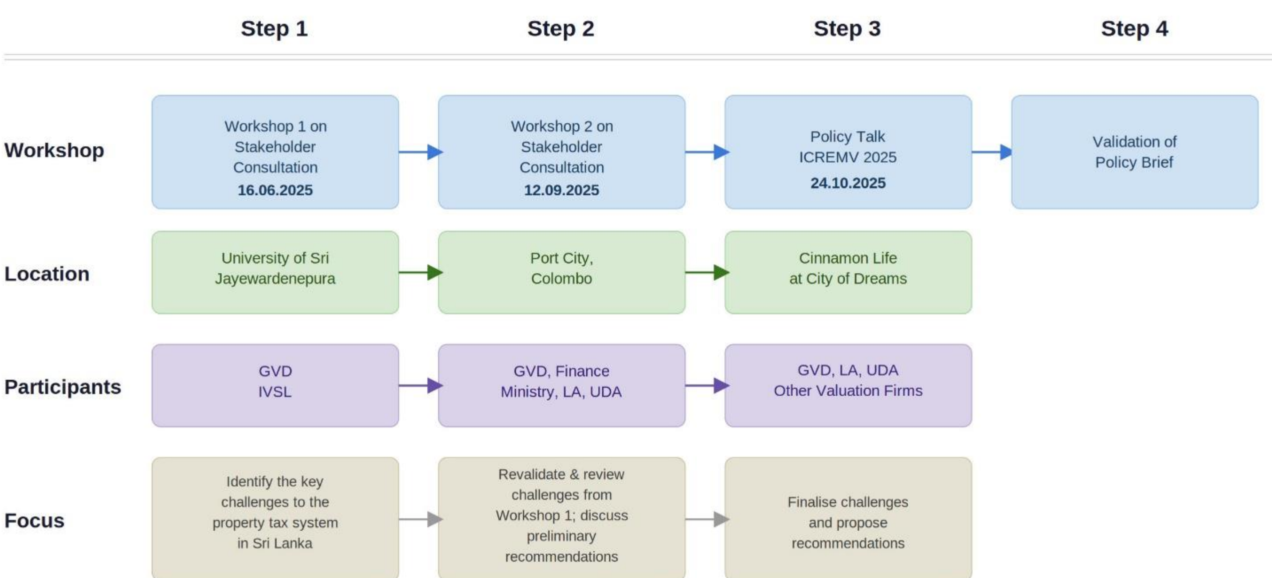
# Annexures

## Annexure 1: Policy Paper Development Process



## Annexure 2: Resource Persons to the Policy Development Process

### Pre Conference Workshop 01

| | | |
|---|---|---|
| Snr Prof KGPK Weerakoon | Centre for Real Estate Studies (CRES) | Conceptualising and Objectives of the policy paper |
| Prof. NC Wickramaarachchi | Centre for Real Estate Studies (CRES) | Conceptualisation and Synthesis of the findings |
| Mr. Nimasha Sugathadasa | Centre for Real Estate Studies (CRES) | Presentation on the current rating Valuation system in Sri Lanka |
| Prof Upuli Perera | Centre for Real Estate Studies (CRES) | Moderator |
| Prof Prathap Kaluthanthri | Centre for Real Estate Studies (CRES) | Moderator |
| Snr Prof (Chair) R.G Ariyawansa | Centre for Real Estate Studies | Resource Person |
| Ret. Prof J Edirisinghe | Centre for Real Estate Studies | Resource Person |
| Mr. A.S.W.K. Nanayakkara | Government Valuation Department | Resource Person |
| Mr. P.W Senarathne | Institute of Valuers Sri Lanka | Resource Person |
| Vlr. Mr.R.W.M.S.B. Rajapaksha | Institute of Valuers Sri Lanka | Resource Person |
| Mr. S. Sivaskantha | Institute of Valuers Sri Lanka | Resource Person |
| Vlr. Mr. W.D.P. Rupananda | Institute of Valuers Sri Lanka | Resource Person |
| Mr. S.I.P. Indika | Colombo Municipal Council | Resource Person |
| Ms. Divya Kalansuriya | Centre for Real Estate Studies (CRES) | Compering |
| Ms. Githmi Abesooriya | Centre for Real Estate Studies (CRES) | Summary of Deliberations |
| Ms. Amanda Indumini | Centre for Real Estate Studies (CRES) | Summary of Deliberations |
| Ms. Ranjana Basnayaka | Centre for Real Estate Studies (CRES) | Summary of Deliberations |
| Mr. Nuwanpriya Mendis | Centre for Real Estate Studies (CRES) | Summary of Deliberations |

### Pre-Conference Workshop 02

| | | |
|---|---|---|
| Snr. Prof. RG (Chair) Ariyawansa | Centre for Real Estate Studies (CRES) | Synthesis of the findings |
| Snr Prof KGPK Weerakoon | Centre for Real Estate Studies (CRES) | Objectives of the policy paper and questionnaire designing |
| Prof. NC Wickramaarachchi | Centre for Real Estate Studies (CRES) | Synthesis of preliminary discussion and questionnaire design |
| Prof Upuli Perera | Centre for Real Estate Studies (CRES) | Moderator |
| Prof Prathap Kaluthanthri | Centre for Real Estate Studies (CRES) | Moderator |

| | | |
|---|---|---|
| Ms. Shanjeeda Shibly | Undergraduate, Department of Estate Management and Valuation | Presentation on Potential for Area-Based Assessment for Property Tax in Sri Lanka |
| Dr. Chameera Udawatta | Centre for Real Estate Studies (CRES) | Summary of Deliberations |
| Ms. Yasheema Kumuduni | Centre for Real Estate Studies (CRES) | Coordinate the Workshop |
| Ms. Githmi Abesooriya | Centre for Real Estate Studies (CRES) | Summary of Deliberations |
| Ms. Amanda Indumini | Centre for Real Estate Studies (CRES) | Summary of Deliberations |
| Mr. Nuwanpriya Mendis | Centre for Real Estate Studies (CRES) | Summary of Deliberations |
| Mr. Madhushan Perera | Centre for Real Estate Studies (CRES) | Summary of Deliberations |
| Mr. Chamod Chandika | Centre for Real Estate Studies (CRES) | Summary of Deliberations |
| Mr. Nimasha Sugathadasa | Centre for Real Estate Studies (CRES) | Summary of Deliberations |

| | | |
|---|---|---|
| Mrs. Christeen Perera | Government Valuation Department | Resource Person |
| Ms. M.L.S. Tharanga | Government Valuation Department | Resource Person |
| Mr. B. Jayasiri | Government Valuation Department | Resource Person |
| Mr. L.J.D.K. Silva | Government Valuation Department | Resource Person |
| Mr. A.A.M. Fathihu | Institute of Valuers Sri Lanka | Resource Person |
| Mr. P.S. Hathurusinghe | Government Valuation Department | Resource Person |
| Mrs. B.M.C.P. Gunasinghe | Institute of Valuers Sri Lanka | Resource Person |
| Mr. H.M.N. Herath | Institute of Valuers Sri Lanka | Resource Person |
| Mr. M.A.K. Marasinghe | Institute of Valuers Sri Lanka | Resource Person |
| Mr. L.A.N. Jayawardhena | Institute of Valuers Sri Lanka | Resource Person |
| Mrs. W.P.S. Amarasekara | Government Valuation Department | Resource Person |
| Mr. M.C.N. Perera | Institute of Valuers Sri Lanka | Resource Person |
| Ms. N.D.T.Pradbodini | Moratuwa Municipal Council | Resource Person |
| Ms H.A.C.Priyangani | Moratuwa Municipal Council | Resource Person |
| Mr. S.C.S. Fernando | Dehiwala Municipal Council | Resource Person |
| Mrs. M.A.P. Jayasekara | Dehiwala Municipal Council | Resource Person |
| Ms. D.I. Niluka Priyadarshani | Dehiwala Municipal Council | Resource Person |
| Mr. K.M.R.P. Kumara | Kotte Municipal Council | Resource Person |
| Mr D.M.S.M. Dissanayake | Kaduwela Municipal Council | Resource Person |
| Mr. Palitha Nanaykkara | Commissioner | Resource Person |
| Mr.Nimal Senervirathne | Municipal Accessor | Resource Person |
| Mrs. S.S. Roshini | Ministry of Finance | Resource Person |
| Mrs. Thanuja Perera | Ministry of Finance | Resource Person |
| Mrs. Chandima Lalani | Ministry of Finance | Resource Person |
| Mrs Indu Weerasoori | Institute of Town Planners Sri Lanka | Resource Person |
| Mr. W.N.R. Tissera | Colombo Municipal Council | Resource Person |
| Mrs. R.D.C. Harshani Sirisena | Institute of Valuers Sri Lanka | Resource Person |

| | | |
|---|---|---|
| Mr. H.A.K.T. Madusanka | Institute of Valuers Sri Lanka | Resource Person |
| Ms. A.K.D. Chandrakanthi | Institute of Valuers Sri Lanka | Resource Person |
| Mr. Darshana Keerthi Abeysekara | Institute of Valuers Sri Lanka | Resource Person |
| Mr. A.P.W.Manamperi | Institute of Valuers Sri Lanka | Resource Person |
| Mr. Tharaka Shaveen | Urban Development Authority | Resource Person |
| Mr. Vlr.W.A.T.I.P. Jayathilake | IJVR Associates Pvt Ltd | Resource Person |
| Ms. Divya Kalansuriya | KPMG Sri Lanka | Resource Person |

**Policy Talk 2025**

| | | |
|---|---|---|
| Prof. NC Wickramaarachchi | Centre for Real Estate Studies (CRES) | Conceptualization and debriefing of the previous conference workshop findings |
| Prof. Upuli Perera | Centre for Real Estate Studies (CRES) | Moderator, Preparation of workshop tools and workshop facilitator |
| Prof Prathap Kaluthanthri | Centre for Real Estate Studies (CRES) | Panelist |
| Mr. A.S.W.K. Nanayakkara | Government Valuation Department | Panelist |
| Professor(I) Sr Mohd Khairudin Abd Halim | Universiti Malaya | Panelist |
| Mr. P.W Senarathne | Institute of Valuers Sri Lanka | Panelist |