Property Tax Reform - Lessons from Freetown

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Background

Cities are responsible for about 80% of global GDP[1] and rapid urbanisation represents one of the biggest growth opportunity in Low and Middle Income Countries (LMICs). Therefore, comprehensive urban development is now being considered as a critical component to national growth and development strategies.

However, for cities to contribute to economic growth and transformation, deliberate and coordinated policies are required not only to enhance and accelerate the positive interaction between firms and individuals in cities, but also to confront the potential threats of density.

In recognition of the above potential, many LMICs reintroduced decentralisation policies with a view to encouraging growth and development to be owned and led at the local level. In Sierra Leone, extreme centralisation was sighted among others as one of the causes of the civil war[2]. In view of this, decentralisation was recommended as a policy option to mitigate the recurrence of the war. Accordingly, though without a comprehensive policy, in 2004, the Government of Sierra Leone enacted the Local Government Act which reintroduced the decentralised system of government that has been obliterated for over three decades. With the Local Government Act (2004), local councils are now responsible for the delivery of basic services (basic education, primary health, etc) to their respective localities.

While central government and development partners continue to provide support to local councils including cities to finance the provision of basic services, to ensure sustainability, the Local Government Act also mandated local councils to collect own-source revenue largely from property taxes among others to finance their development strategies. At the moment, the revenue being collected and support received are

[1] World Bank, Urban development
[2] Sierra Leone Truth and Reconciliation report, 2004

grossly inadequate to finance the required investments in public infrastructure, services and well targeted policies that can deliver long term growth and rising living standards for Freetown. In some cases, the low levels of revenue collection mean that a large percentage of revenues are spent on recurrent expenditures with very little left for development related investments. Hence most development projects are largely financed either by central government or development partners.

Relevance of Increase Municipal Revenue and efforts made to reform and strengthen property tax collection efforts

Freetown City Council is constrained to deliver on its mandate as enshrined in the 2004 Local Government Act. This is largely due to inadequate resources to finance council's development priorities.

Over the past 10 years, Sierra Leone's population has increased by over 40% and with the current population growth rate of about 3%, it is expected that the population will continue to grow thereby resulting in increased demand for basic services. Additionally, consistent with global predictions, there is increased urbanisation as a significant proportion of citizens (particularly the youths) are migrating to the cities, especially Freetown. The recent census showed that the population of Freetown increased by about 37% between 2004 and 2015[3]. There is therefore greater pressure on the municipal government to provide basic services with budgetary repercussions.

While on an annual basis the Freetown City Council prepare its budget where the city's development needs are identified, prioritised and costed for implementation, the Council is constrained in fully implementing its plan largely due to inadequate resources. Consequently, a greater percentage of the plan is financed by central government and development partners.

Recognising the resource constraints despite the huge potential to generate own source revenue particularly from property taxes, the current administration embarked on a major reform to enhance Freetown City Council's own source revenue with a view to increasing it by about fivefold. To achieve this, on assumption of office in 2018, the

[3] final-results_-2015_population_and_housing_census.pdf (statistics.sl)

Mayor, Her Worship Yvonne Aki-Sawyer, commissioned a number of planning meetings which culminated into the preparation of a development agenda dubbed Transform Freetown[4]. As part of the plan, increased own source revenue using a simple and automated collection method was identified as a critical pillar. Accordingly, with technical support from the International Center for Tax and Development (ICTD) and the International Growth Centre (IGC) – and funding from the UK Department for International Development (DfID) now Foreign Commonwealth and Development Office (FCDO), the Freetown City Council (FCC) decided to pursue the implementation of a simplified "points based" system of assessing properties for tax purposes.

Freetown City Council's Property Tax Reform Programme and Outcome

Even though Freetown City Council's revenue potential from property taxes is high, collection has been very low. This is not only as a result of low compliance but also the relatively obsolete and subjective approach to property assessment for tax purposes as well as the lack of a comprehensive and up to date database.

The primary objective of the reform programme was to increase property tax revenues by about five-fold (from Le7billion in 2018 to Le35billion in 2020), in order to finance Council's development agenda. The valuation method adopted was to ensure that the tax system is relatively fair and progressive. This implies that every property in the city was subjected to an identical valuation process, and that the relative values assigned to properties approximate their market values.

The reform started with a pilot in late 2018 with over 11,000 properties. As a result of the successful implementation of the pilot, it was scaled-up to the rest of the city in 2019. It had the following key steps: discovery, valuation/assessment, taxation/billing, collection and enforcement components:

- **Discovery**: In order to capture all properties within Freetown, satellite imagery was used to identify and measure all properties while teams of enumerators and supervisors were deployed to collect data on a standard list of easily observable external characteristics of each property.

[4] Transform Freetown – Freetown City Council (fcc.gov.sl)

- **Valuation/Assessment**: this was aided with expert information about market rental value for a subset of over 2,000 randomly selected properties. This was obtained from a rental survey conducted by the experts. The rental value data was used to calibrate a simple model for translating property characteristics into an assessed taxable value for each property.
- **Taxation/billing**: The assessed taxable values were added and multiplied by the Mill rate[5] to determine the tax for each property. The production of rate demand notice was automated with unique identifiers for each property (e.g. address, location, and photo) and an explanation of the content of the rate demand notice.
- **Payment and Collection**: Once taxes have been determined for each property, the rate demand notices (RDNs) are printed and distributed. The printing and distribution of RDNs was outsourced to a private firm with a clear process for tracking deliveries. Payments were required to be made to designated banks with clear identifier to match payment to taxpayer.
- **Enforcement**: Consistent with the Local Government Act, an enforcement guide was prepared.

The main outcomes of the reform include the following among others:

1. At the end of the discovery/data collection phase in early 2020, Freetown City Council's property tax register increased by over 100% (from about 57,000 to over 120,000). The new database reflects the current status of the properties which was useful for tax valuation/assessment purpose.
2. Council now have a fair idea of its property tax potential which could be useful for planning purposes. Based on the reform, the top 25% of the properties would now contribute 70% of the revenue potential.
3. A relatively simplified, automated, fair and progressive system largely driven by data have been developed and adopted.

Political Commitment

[5] Mill rate is a policy rate adopted as a result of a Council Resolution.