

1. Sewerage (Amendment) Bill 2014 – First Reading approved

Mr Coleman to move:

That the Sewerage (Amendment) Bill 2014 be read a first time.

The President: We turn now to our first Item on the Order Paper, the Sewerage (Amendment) Bill 2014. I call on the Hon. Member, Mr Coleman, to take the First Reading.

Mr Coleman: Thank you, Madam President.

As indicated on the Order Paper, if Hon. Members are with me following the First Reading, I will be inviting Members to suspend Standing Orders to permit me to take the remaining stages today.

Madam President, in moving the First Reading, I propose to outline the reasons for the Bill and why it is being moved with such urgency today.

The Manx Utilities Authority faces a number of financial challenges as part of the Government rebalancing programme. In summary, the Authority needs to raise additional income to offset a progressive reduction in its grant from Treasury in respect of sewerage, fund the additional operational costs of the Regional Sewage Treatment Strategy and meet historical capital loan payments with interest on capital loan debt.

The contribution the Manx Utilities Authority has historically received from Treasury to fund the revenue costs for its sewerage operations has been, and will be, progressively reduced by £1 million per financial year – from the 2012-13 contribution of £5.8 million to... in 2018-19, the contribution from Treasury will be nil.

In 2013-14, the then Water and Sewerage Authority handled the £1 million shortfall internally. In order to avoid going into deficit, Tynwald approved the introduction of sewerage charges from 1st April 2014. As Hon. Members are aware, the charge is £50 per property for the current financial year, and it was proposed in another place that it would be increased to £100 per property for the 2015-16 financial year in order to meet the increasing shortfall in Treasury contributions.

The Authority recognises that the sewerage charge has been controversial and is perceived by many as inequitable and unfair. Given the level of public concern, there is a risk that Tynwald may not support any increase in the sewerage charge, which would in turn place the Authority's financial plan at risk. The Manx Utilities Authority board has been working with Treasury to identify a fairer charging mechanism to take effect from 1st April 2015. The practical option is to introduce a sewerage rate, for which there is at present no statutory provision in the Sewerage Act 1999. The aim of this Bill is therefore to amend the Sewerage Act, enabling the Authority to levy a rate on properties served by the public sewerage system, replacing the sewerage charge with a more equitable and fair charging regime.

Madam President, I must emphasise that the only alternative to a sewerage rate for the next financial year will be to levy a sewerage charge at £100 per property, which would require an Order to be made by the end of January 2015.

If Hon. Members support this Bill, the sewerage rate will have to be added to the rating mechanism so that rates demands can be issued for the 2015-16 year at the appropriate time. This would involve scrutiny of 38,000 database records.

Madam President, the sooner this Bill is passed, the more notice there will be for ratepayers, the greater likelihood there will be that the sewerage rate element can be incorporated into the rate demands for 2015-16, and the risk of having to raise a sewerage charge order can be avoided.

In its passage through the Keys, three amendments to clause 3 of the Bill, proposed by the Hon. Member for Rushen, Mr Watterson, were accepted. The first amendment introduced an enabling provision to afford the Authority greater flexibility in the levying of the sewerage rate. If this Bill is

supported, the board have agreed that the sewerage rate for commercial premises will be calculated on 50% of the rateable value, which is broadly consistent with the application of water rates.

The second amendment is a practical measure, which prescribes an earlier time limit for Tynwald approval of the sewerage rate, thus ensuring reasonable notice for the preparation of rates demands.

Mr Watterson's third amendment provides a safeguard for the Authority's income stream, in that once Tynwald has approved a charge order, that order remains in place until another order is approved.

A further amendment from the Keys adds to clause 2 a new section (4), proposed by the Hon. Member for Malew and Santon, Mr Cregeen. The amendment was accepted on the basis that no charge using the rateable value of a property could be levied until a review of rating applicable to the Island has been commenced.

Madam President, as Hon. Members will be aware, the Chief Minister announced on Friday that Tynwald Members will be asked to support a Treasury motion in January 2015 to fund the revaluation of the Island's domestic housing stock with a view to implementing a new rating system by April 2016.

Madam President, I beg to move that the Sewerage (Amendment) Bill 2014 be read the first time.

Mr Downie: I beg to second, Madam President, and reserve my remarks.

The President: Hon. Member, Mr Braidwood.

Mr Braidwood: Thank you, Madam President.

In his presentation, the Hon. Member of Council, Mr Coleman, said this was a more equitable and fairer charging regime. I am sorry – I feel completely the opposite to that. (**Mr Turner:** Absolutely.) I honestly feel that the sewerage charge is the fair and equitable regime.

The reason I base my assumption on this stems from the last valuation of properties, which was in 1971, which was based on rental values. When Treasury initially came through, a few years ago, with a banding regime – and it must have been round about the year 2007 – there was a comparison between Onchan and Kirk Michael, and in that paper it was quite clearly set out that there was quite a difference between rateable values in urban areas and rural areas because, at the time of valuation in 1971, rental values in rural areas were lower than those in urban areas. I think everything in the last 40-odd years has changed quite significantly. Therefore, I think imposing a sewerage rate will impact more on those in the urban areas than it will in the rural.

I do not mind the introduction of a sewerage rate if the valuations of properties... and we know what the Chief Minister said last Friday – that, hopefully, we are to commence a revaluation based on capital values of all the properties, well in excess of 30,000-odd properties... and hopes to come forward by February 2016. So my view is that it would be fairer to have a sewerage charge, because it impacts equitably on everybody across the Isle of Man and also on businesses as well.

The Hon. Member of Council, Mr Coleman, has already said that there is going to be a 50% reduction for business if the sewerage rate is brought in, but my view, when I look at the explanatory notes and it says... replacing the sewerage charge with a more equitable and fairer charging regime, with a sewerage rate... it seems that it is funny that the Chairman of the Manx Utilities Authority stems from Kirk Michael, and I know the previous Member for Michael was vociferous in his opposition to the introduction of a banding regime.

My view, Madam President, would be to go forward with a sewerage charge rather than a sewerage rate, but I will listen to all other Members of Council and their views on a sewerage rate, because as the Hon. Member has said, he does not feel that Tynwald at the present time has the appetite for introducing a sewerage charge, which would be £100.

I know that the rate they are talking about levying is 61 pence, and that would be based, basically, on a rateable value of around about £166 – so those below that will be better off and

those properties above will be worse off. I would say that the majority would be in an urban area, Madam President.

But I will listen. I am quite open and flexible on this and I will make my decision when I hear other Members and how the Hon. Member of Council responds.

The President: The Hon. Member, Mr Corkish.

Mr Corkish: Thank you, Madam President.

I can agree with my hon. friend, Mr Braidwood, on most of what he said there, and accept from the hon. mover that the Authority indeed needs to raise income for a raft of reasons. But can I, just for the record and clarification, seek reassurance that Treasury are restructuring the rating system by 2016, which was agreed to by amendment in another place?

The President: The Hon. Member, Mr Downie.

Mr Downie: Madam President, following on from the last speaker, my hon. colleague, Mr Corkish, I can give the Council this morning the reassurance that the necessary Order has been signed and is coming to Tynwald with the view to revising the entire rates situation, incorporating the banding and also looking at single persons as well.

I actually see this as a way forward for those of us who have represented the urban areas for a number of years. The inequality and unfairness that has been allowed to continue since 1971 really is unacceptable in this day and age, and I think if we are going to introduce a charging regime for sewerage we have to have it done in as fair and equitable a manner as possible.

I have some sympathy with my colleague, Mr Braidwood, who says he prefers the charge, but I think we owe it to ourselves really to bring in a system of all-Island rates, which do incorporate an element of fairness.

I think also within the proposals that Treasury are looking at they are looking to revisit the commercial rates, because there are winners and losers, as has been said, and we have got to have something that works and is seen to be fair. If Members are still concerned about that, I would ask them to visit Manx Radio over the weekend and listen to what the Chief Minister was saying when he confirmed a complete revision of the domestic and business rating systems. He said himself it was totally unfair and we have to move forward.

My worry is that if the Bill is not supported today and we go back to the straightforward charge, that might not be approved by Tynwald and we are going to be finishing up with a right mess, where money will have to be top-sliced off Government Departments because we have allowed ourselves to get into this position.

I would urge Hon. Members to support the Bill as it stands at the present time, and also have the confidence to move on... that the rates issue is finally going to be grasped and somebody is going to deal with it. I think when you see the Order Paper for January you will see that the whole thing has to be finished so that the new process can be introduced before April 2015 and put us onto schedule.

As a person who has represented a Douglas constituency in the past, this has always been one of the main bones of contention for me. If you look at what has happened in the last few years, the demographics of this Island have changed. It used to be more advantageous for people to live in the town, but as the rural environment has been developed, we have seen farmhouses that have been bought and been converted, probably worth £2 million, £2½ million now, with a rateable value of £40. This is absolutely ridiculous! And then, as we have seen, the old redundant guesthouses and boarding houses converted into flats and so on, people are living in them, single people, and they are paying £700, £800 and £900 a year. Where is the equality in all that?

What we have got to do, I think, is to have a bit of confidence in the system. You have heard from the Chief Minister that it is one of his main aims. You will see on your Tynwald agenda for January

that Treasury is coming to Tynwald to get the funding to be able to deliver this rates package, and I think really we should be moving forward on that basis and introducing the legislation that deals with the sewerage, but also a proper and fair system of paying for it all for the future.

Thank you, Madam President.

The President: Mr Turner, you have spoken, but do you wish to speak again?

Mr Turner: I have not spoken yet.

The President: Oh, I had ticked you off – I am sorry.

Mr Turner: It was Mr Braidwood who spoke.

The President: Mr Turner.

Mr Turner: Thank you, Madam President.

Fair and equitable I just do not think this is. There was much debate when the £50 charge came in about how unfair it was that certain properties which were larger properties were paying the £50 and smaller properties were paying the £50. I think what we have seen the Government do is actually say, 'Okay, we will make it fair, so we will hike everybody's charges up,' and I do not think that really is what the working man meant when he said it was unfair. He was not looking to say, 'Well, okay, we'll all pay more.'

I think the stem of this is that they have built a sewerage system that, back in the days of plenty, was a Rolls Royce scheme. There has been much criticism... having served on the Department of Transport when the Sewerage Division was there... all the problems that came with it – the bad design in places, the high running costs. Nobody at the time seemed to take this into account, and now it is the man in the street who is being asked to pay for this atrocious system. There has been no accountability as to who has been responsible for putting in a system they now cannot afford to run.

When it was built, it was funded from revenue – it was funded from revenue for many years through the Department of Transport – and now it has been transferred to the Utilities Authority. We were told, when we were given the case for merging the MEA and the Water Authority, it would make it more efficient and there would be all these great reasons as to why this Authority should be merged, and yet the public, yet again, are being charged more and more.

I think what we are seeing is a number of policies that are anti-families, anti-working class. They are unfair and they are anti-homeowner, because the homeowners – who through decades were encouraged that what you should be doing is buying your own property, getting on the property ladder, investing in your property – may have bought properties in the 1970s, lived in them, moved up the property ladder as they could afford to, and now they are going to be in properties that will be valued at higher... They are going to be paying even more again. They have been punished time and time again for investing in themselves and bettering themselves, and they are being punished by having to pay for bad mistakes, for bad schemes that have gone in during the time when there was plenty of money about.

I know we have not got to the supporting of Standing Orders yet, but I will have something to say about that when it comes. This is rushed legislation: rushing through to plug a financial problem that the executive is faced with. We are all aware of that problem, but nevertheless I do not like the idea of legislation... This has appeared out of nowhere. I know it has been talked about for years, but it has come out of nowhere in appearing when it has, and I just do not think it is the way we should be dealing with these matters.

The mover mentioned that Treasury is reducing... Apart from them saying they are short of money, we have not really had any inkling as to why this particular item has been chosen when we

are still seeing them, in other Departments, providing services that are non-statutory – they are wholly discretionary by the various Departments. Why hasn't the question been asked by the Authority as to why Treasury is not looking at some of the non-statutory services and making a list of what can and cannot be reduced?

I feel that we are getting to... we are probably past the stage now... certainly talking to people in the accountancy world, who are saying there is no doubt that citizens on the Isle of Man are now far worse off than their UK counterparts, and one has to question still the size of the administration serving the public of the Isle of Man and whether its current format is the best to look after the people.

I think all of these charges are making us uncompetitive. I know we talk about the differences in the Income Tax regime here, but with all the other hidden charges that people are now being faced with I really doubt – or I really *believe*, I should say, that our citizens are worse off than their UK counterparts, and that is something which is quite concerning. I think this is the latest... because this is effectively enabling legislation which will enable the Authority to come back, amend the rates as they go, and they could skyrocket. Every time they have inefficiencies in the sewerage system or want to build new schemes, then it will be going back onto the user.

I have got no problem with the principle of 'the user pays', but I think it is the process by which this has come about. I go back to the fact that the scheme itself, which was originally going to be an all-Island strategy... It then, during its dying days at the DoT, has gone regional. The whole system of sewerage has been way in excess of what it should have cost for a small Island like this, and the public are now being asked to pay for it.

What are people going to notice in the New Year? They paid £50 last year. The proposal was that it was to go to £100 next year, which people quite rightly were grumbling about because originally it was funded through their taxes. We talk about an unfair system, and what we are doing is we are replacing an unfair system with an extremely unfair and inequitable system, and that I do not think is the right way to deal with this matter. I think that the vast majority of people, particularly homeowners, are going to be paying more than the £100.

When we talk about rates in urban areas, yes, it has been a bone of contention for a number of years, but there again, when you are putting infrastructure in an urban area there are economies of scale, as opposed to when you go into rural areas. Many rural areas will not be on the sewerage system. Some, because of the isolated location, will be on septic tanks, but some of the villages and areas outside the main towns and larger villages will be on much smaller schemes. Is it right that... if you take, for example, a small scheme that is going to serve... The Hon. Member, Mr Braidwood, has mentioned Kirk Michael. There was a small scheme going in down there. When we were on the DoT, we took a party of people to go and see a similar system in Northern Ireland. It is a smaller scheme, and those people are only connected to that small scheme. Is it right that they should subsidise a vastly expensive system at Meary Veg? I know there are factors to consider, such as the management and operation of the Authority, but what we are talking about is asking people to pay for the services they are provided with, and that is not what is happening with this. What we are going to see is people paying vastly over the odds for something which they should not have been in the first place.

I know it is there now so we have to deal with that, but I think a lot of people are going to be very angry, a lot of people are going to be worse off. We talk about protecting the vulnerable. What we are doing is we are protecting the vulnerable as best we can with good social services and social housing and renewal of social housing, but we are putting in a whole new category of people who have worked hard, have purchased their own homes, and they are the ones being hammered time and time again – and that is what we are going to see with this legislation that is before us and the Orders that no doubt will flow out from this when they come to setting the rates and putting the rates through.

I am not supportive of what is being done here.

The President: The Hon. Member, Mr Butt.

Mr Butt: Thank you, Madam President.

I agree with some of the comments made by my previous colleague. I think maybe he has missed the point. I believe that over the years sewerage and water have been profitable and successful in their operation and have not incurred great debts. I think the real reason for this might well be... *[Inaudible]* is the fact that this is a merger with the MEA and they are probably helping to pay off the MEA debts. That is probably the reason for some of the financial problems they have now.

Before we vote any further on this, Madam President, I have got a couple of questions for the mover, particularly on the definition of 'commenced'. The mover said that... I think it was Mr Cregeen who put an amendment in, saying that rates could not be levied until there had been a commencement of the rating system in the Island. Does the fact that the Chief Minister announced this is going to happen and the fact that there may be an Order before Tynwald in January mean it has commenced? To me, 'commenced' does not mean it has commenced until somebody actually starts doing the work and does the actual operation of that. I would like some clarification on that as well.

I think, like Mr Downie said, the rating system is long overdue for a revision, and that may be the fairer way to actually levy a charge in the end. But my memory is of 2006-07, which Mr Braidwood mentioned, when they looked at rebanding the whole of the rating system and reviewing it all. The reason it did not go ahead was because it was discovered it would cost over £1 million to do that revaluation. If that is the case, where is that £1 million coming from to do this new revaluation, if that is the cost?

Mr Braidwood: It's going to be more than that.

Mr Butt: That would be 2016.

Mr Braidwood: It is going to be £2 million.

Mr Butt: Is that going to fall on the Water Authority and the Sewerage Authority, or is that going to fall on general revenue, or the Treasury? Are we going to spend £1 million, which we do not need to in these difficult times, just to bring in a sewerage rate? It seems like that is a cost that is well above what would actually be raised by this change in circumstances.

So if this amendment is part of the Bill now, which I believe it is, that £1 million or more to do a revaluation of the rating system is going to fall on somebody or some organisation and I would like to know where that is going to fall.

Thank you, Madam President.

The President: The Lord Bishop.

The Lord Bishop: Thank you, Madam President.

It is clear that happy hour on the Isle of Man has ended and we are looking for a fair system. We are looking for a system that will not punish those who are poor, through no fault of their own, and that leads me to be like most people, I think, on the Island, and that is confused by the number of different calculations of the alternative ways of paying for the sewerage on the Island. You get an e-mail from one person who says that this way is unfair, and another one from someone else who says that the alternative way is unfair, and it is very difficult to be able to decide which one, in balance, is the fairest.

So I suppose I have to take the word of the proposer and believe that they have done enough homework to know that their method ultimately, after the proper revaluation of rateable values, will be the fairest. So I am very pleased to hear from Mr Downie the assurance that the Order for

reevaluation has been signed and I hope that that will be an even greater priority than passing this Bill.

The President: Hon. Member, Mr Crowe.

Mr Crowe: Thank you, Madam President.

Just to say I support the Bill. I think a flexible rating system is better than a flat-rate charge, and I believe that the Bill should go ahead.

The President: The mover to reply.

Mr Coleman: Thank you, Madam President, and I thank the Hon. Members of Council for their contribution to this issue.

I will go to Mr Braidwood first about the discussion of 'fair and equitable'. There are approximately 38,000 rateable properties on the Island. The rate of 62 pence, if the rateable value of a property is £162 a year, then equates to £100 of charge.

Mr Braidwood: That is what I said.

Mr Coleman: Right. But you did not say that there are 27,800 properties that will actually pay less using the rating system. Okay? Seventy per cent will pay less using the rates than by using the £100 charge. I accept all of the things that everybody has said with reference to the inequity of the rural and urban rateable values, and fortunately the Chief Minister has announced that perhaps some of those inequities will be disappearing by 2016.

Mr Corkish, I think, has been reassured by Mr Downie with reference to whether this rating exercise is actually going to continue, and I will answer one of Mr Butt's questions here, that that amount of money has been put aside within Treasury for payment of it. (**A Member:** £2 million.) I am not privy to what goes on in Treasury. (*Laughter*) I would have thought the Treasury Members are far more qualified to tell me what has been going on in Treasury behind the back doors.

I thank Mr Downie for his support, it was measured, and I think that we have to move forward from a base. This Bill actually, in many ways, provides options. It provides options for being able in the future, if it was applicable, based upon the changes that Mr Watterson put through... the amendment Mr Watterson put through, and you have the option of having a charge, you have the option of having a rate poundage, you also have the option of being able to set minima and maxima depending upon the class of properties so that we will be able to model a lot more finally than we have been able to in the past and set those rates accordingly.

You could get to the situation – and this is a 'could' – as we have with the electricity, where you have a standing charge which pays for the infrastructure and the water or the sewerage part of that is quite negligible as part of the charge. So you have got a standing charge at a much lower rate, but it gives us options.

Going on to Mr Turner, I think I have answered the issue of fair and equitable, in that 70% of people will find this fairer. With reference to going on about the property owners, I think Mr Turner is forgetting that for people in social housing this is going to be applied to them as well. So it is everybody. I think we cannot really be elitist in this. Everyone is going to come up with additional money to find and part of the problem and one of the urgencies is that of course all the rents need to be adjusted by 1st April to cope with these issues. So it is not just unfair to homeowners; it is unfair to just about everybody.

Mr Turner: Oh, that's alright, then!

Mr Coleman: No, it is not alright. You were talking about equity. Okay? That is the definition of equity. You were also going on about the rather poor facilities that IRIS has offered and how the new stuff, which is just a discrete set of people pumping into an IRBC – an integrated rotating biological compactor... What do you think happens to the sewage from that compactor?

Mr Turner: It goes into the river.

Mr Coleman: No, it does not. It does not go into the river. It is picked up by a lorry and taken to Meary Veg.

Mr Turner: Well, the sludge is, yes.

Mr Coleman: The sludge. So therefore people who are paying for sewerage in the areas with an integrated rotating biological compactor are paying for transport of the sludge to Meary Veg, and Meary Veg has expenses in processing that.

The fact is – and I was not around at that time – that when IRIS was put together, technologies such as these package integrated IRBCs were not available, but we built the technology based upon what was available at the time and they were basically settling tank sewerage farms.

Mr Braidwood: I introduced the regional strategy.

Mr Coleman: And I was the one who gave it its name.

The President: Hon. Members, could we just concede, please.

Mr Coleman: Okay.

Going on a bit further, there was some implication that the Water and Sewerage Authority was okay and that Treasury started reducing the annual subvention only when it became the MUA. I can tell you that we were advised that that subvention was going to be reduced when I was still on the board of the Water and Sewerage Authority. So this has been going on a long time and negotiation, as the Treasury Members here of Council will agree, has been discussed over a long period of time, even before the MUA was announced. So it had nothing to do with the MUA. It was coming.

As far as the Bishop, again, I think the Bishop has taken a (**A Member:** Pragmatic.) very pragmatic view on this, and I know a lot of this may seem to be like jam tomorrow. I really do hope that it will go forward.

I support Mr Crowe.

Madam President, I beg to move that the Bill is read for the first time.

The President: The motion is that the Bill be read a first time. Those in favour, please say aye; against, no. The ayes have it.

A division was called for and voting resulted as follows:

FOR

The Lord Bishop
Mr Butt
Mr Braidwood
Mr Coleman
Mr Downie
Mr Crowe
Mr Corkish

AGAINST

Mr Turner

The President: With 7 votes and 1 vote against, the motion therefore carries.