



PROCEEDINGS OF THE GIBRALTAR PARLIAMENT

MORNING SESSION: 9.30 a.m. – 12.35 a.m.

Gibraltar, Monday, 9th July 2012

The Gibraltar Parliament

The Parliament met at 9.30 a.m.

[MR SPEAKER: Hon. H K Budhrani QC *in the Chair*]

[CLERK TO THE PARLIAMENT: M L Farrell Esq RD *in attendance*]

Order of the Day

SUSPENSION OF STANDING ORDERS

Standing Order 7(1) suspended to lay Reports on the Table

Clerk: Sitting of Parliament, Monday, 9th July 2012.
Suspension of Standing Orders, the Hon. the Chief Minister.

Chief Minister (Hon. F R Picardo): Mr Speaker, I beg to move under Standing Order 7(3) to suspend Standing Order 7(1) in order to proceed with the laying of Reports on the Table.

Mr Speaker: Those in favour; (**Members:** Aye.) Those against. Carried.

LAYING OF DOCUMENTS

Reports laid

Clerk: Papers to be laid, the Hon. the Minister for Education, Financial Services, Gaming, Telecommunications and Justice.

Minister for Education, Financial Services, Gaming, Telecommunications and Justice (Hon. G H Licudi): Mr Speaker, I have the honour to lay on the Table the Annual Report of the Gibraltar Police Authority for the year ending 31st March 2012.

40 **Mr Speaker:** Ordered to lie.

Clerk: The Hon. the Minister for Enterprise, Training and Employment.

45 **Minister for Enterprise, Training and Employment (Hon. J J Bossano):** I have the honour to lay on the Table the Employment Survey Report, October 2011.

Mr Speaker: Ordered to lie.

50 **Clerk:** The Hon. the Minister for Tourism, Public Transport and the Port.

Minister for Tourism, Transport and the Port (Hon. N F Costa): Mr Speaker I have the honour to lay on the Table the Report of the Principal Auditor on the Accounts for the Gibraltar Port Authority for the financial year ended 31st March 2010.

55 **Mr Speaker:** Ordered to lie.

ANNOUNCEMENTS

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Procedural Notice of Questions for 19th July sitting

65 **Chief Minister (Hon. F R Picardo):** Mr Speaker, if I may just pray the House's indulgence for a moment, hon. Members will know that we have a commitment to have monthly meetings of the House for Questions. The date for the notice to be issued to convene the House for the third Thursday is tomorrow, when the House will still be in this session and therefore not adjourned *sine die*.

70 So the purpose of rising now is to tell hon. Members that there will be a meeting for Questions on the third Thursday at 9.15 a.m., and I will suspend Standing Orders, so that they can ask their Questions after the debates on this Bill; and that they should consider that the seven days or the five days before which they need to put their Questions in will run backwards from 19th July as usual.

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BILLS FIRST AND SECOND READINGS

A Bill for an Act to appropriate sums of money to the service of the year ending on the 31st day of March 2013 First Reading carried

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Clerk: Bills, First And Second Readings.

85 A Bill for an Act to appropriate sums of money to the service of the year ending on the 31st day of March 2013, the Hon. the Chief Minister.

Chief Minister (Hon. F R Picardo): Mr Speaker, I have the honour to move that a Bill for an Act to appropriate sums of money to the service of the year ending on the 31st day of March 2013 be read a first time.

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Mr Speaker: I now put the question which is that a Bill for an Act to appropriate sums of money to the service of the year ending on the 31st day of March 2013 be read a first time. Those in favour; (**Members:** Aye.) Those against. Carried.

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**Appropriation Act 2012
For Second Reading
Debate commenced**

100 **Clerk:** The Appropriation Act 2012.

Chief Minister (Hon. F R Picardo): Mr Speaker, I have the honour to move that the Bill be now read a second time.

105 Mr Speaker, this is my first Budget address as Chief Minister and I have the honour to present the Government's revenue and expenditure estimates for the year ending 31st March 2013.

Mr Speaker, this debate has traditionally also been about more than just numbers; this is a State of the Nation debate. I will therefore also report to this House on the state of the economy and public finances and on the specific Budget measures and some of the projects that the Government will introduce, in
110 pursuance of our manifesto commitments.

Mr Speaker, having been in Opposition for 16 years, it is my pleasure to deliver for a Socialist Liberal Government, a Budget to support working families and the disabled; a Budget to support our youth and our senior citizens; a Budget, Mr Speaker, to encourage business and enhance our public services. In short, Mr Speaker, this is a Budget to deliver social justice and to improve the quality of life of all our
115 citizens whilst making Gibraltar a great place to do business with the world – and that, Mr Speaker, against a backdrop of continued economic turmoil in Europe.

Mr Speaker, no-one in our community can have failed to appreciate the social problems that Europe's economic woes are visiting upon ordinary citizens in economies more mature and diversified than our own. The political and economic problems we are seeing played out on our TV news screens each day manifest themselves dramatically across the continent, when school children in Athens faint because they have not eaten in days – or, without needing to go so far, civil servants not being paid in the neighbouring city of La Línea. What we certainly cannot afford to be is complacent, Mr Speaker, just because we have not seen such problems in Gibraltar. A collapse of the euro, or even the departure from the euro of one or more countries would have seismic effects well beyond any one country or the euro zone. As we have
120 seen, sterling is not immune to the problems affecting the euro or the issues that have affected the dollar. Indeed, when sterling rises against a weaker euro our exposure to exchange rate variances becomes marked. What may be good news for cross-frontier workers who exchange their sterling wages to euro is not so good for retailers who see their goods rise in cost for euro purchasers. So we are certainly not insulated from what is happening in the more troubled economies around us.

125 But neither must we be cowed. That is why in Opposition, we raised issues about the creeping growth of our nation's gross debt and why we have a clear commitment to deal with gross debt and net debt levels, as we set out in our manifesto – something on which, Mr Speaker, I will have more to say later.

Mr Speaker in doing so, I am conscious that our tenure in office began on the 9th December and that therefore the figures that I will now present to the House represent eight months of activity under the
130 previous Administration and four of ours.

Mr Speaker, Gibraltar's Gross Domestic Product for the financial year 2009-10 was £998 million and the latest figures prepared by the Government's Statistics Office indicate that GDP for 2010-11 was £1.050 billion. The forecast GDP figure for 2011-12 is £1.137 billion, representing an increase for the year of 5.1% in real terms.

135 Mr Speaker, these GDP figures are broadly in line with our published predictions in 2007, in our manifesto for that election, of economic growth for this period. The Government's comprehensive programme of changes and benefits, as outlined in our manifesto, have been designed to be delivered to our community with an economy that will grow from £1.1 billion to £1.65 billion between 2011 and 2015.

140 Mr Speaker, this continues to be our prediction of economic growth in Gibraltar, despite the continued European and global economic recession. I am therefore delighted to confirm that our manifesto programme is on track to be delivered as planned. It also shows, Mr Speaker, that once again we have been able, before the election and without access to all the data available, to predict with some accuracy where our economy would be and gives credence to the extrapolations for growth that we have predicted.

145 Mr Speaker, in terms of public finances, when this Government took office on 9th December 2011, the Government found itself with available Cash Reserves of just £20 million. This was despite the projected recurrent surplus for the year and healthy available Cash Reserves that have been reflected in the Approved Estimates Book for the year 2011-12. It was essential, Mr Speaker, that I put this information into the public domain, so that each and every citizen should understand the reality of the state of our public finances after the election.

150 It is also important, Mr Speaker, that the public should understand the difference between the economy as a whole and public finances – i.e., the Government's own financial position. An economy
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160 can be growing, as ours is, whilst public finances, if not properly managed, can be under stress. That was the position in Gibraltar on 9th December. Cash advances made to Government-owned companies, which had been projected in the Estimates Book for 2011-12 to end the financial year at zero, had actually risen to some £87 million when this Government took office. Moreover, given the capital expenditure commitments already entered into, these advances were expected to rise further by the end of the financial year, i.e., 31st March this year, to around £100 million.

165 By way of illustration, during the last two financial years of the outgoing GSD Administration, capital expenditure funded through the Improvement and Development Fund was over £211 million. An additional £139 million of capital expenditure has been funded during these two years through the Government-owned companies. That is a total, Mr Speaker, of £350 million.

170 Incredibly, Mr Speaker, that is more than the total that was spent by the same GSD Administration in the Improvement and Development Fund capital expenditure in their previous 13 years in office. Such levels of capital expenditure have, of course, as we now know, only been possible through an increasing level of borrowing by the Government. This Administration is not prepared to continue to increase the level of public debt beyond existing prescribed borrowing limits and therefore had to stop work on many capital projects, which were clearly unaffordable without recourse to further borrowing.

175 That is why, Mr Speaker, our manifesto specifically provided, in clear and unambiguous terms, our approach to the reduction of national debt. Our manifesto provides on page 27 that in respect of gross debt:

180 'Our commitment is that Gibraltar's public debt will be brought down by half of its current level, whatever the current level is after the election, so that by the time of the next election in 2015 there will have been a 50% reduction. Gibraltar's gross debt is presently stated to be at £480,000,000.00 (almost half a billion pounds).'

185 In fact, Mr Speaker, as disclosed by the now Leader of the Opposition in the course of the Leaders' Debate on the eve of the election, gross debt on the day after the election was closer to £520 million and that is the figure we are working from – actually £518 million to be precise. In respect of net debt, Mr Speaker, our manifesto also provides that:

190 'Given that the policy is to have reserves available to meet the current expenditure, the definition of "net debt" introduced in 2009 will be changed so that from the balance of the Consolidated Fund a sum equivalent to 10% of recurrent expenditure will be treated as available to Government as a general reserve and not set off as available to reduce the gross debt to arrive at the hypothetical net figure. The Net Debt on this basis would be £37.7m higher currently, that is £253.5m instead of £216.5m, which is considered a more prudential policy.'

195 Mr Speaker, that is the process we are committed to and on which we are now embarked and the definition of 'net debt' that the Treasury now work to.

200 After the 8th December, the situation is now being brought under control, Mr Speaker. Gross Public Debt is now forecast to fall by just under one eighth or by some £68 million during this financial year, from £518 million to £450 million. The Net Public Debt is also projected to fall slightly during the financial year, thereby restoring the Cash Reserves available to the Government to a more prudent level of around £60 million.

205 Mr Speaker, the budget surplus for the last financial year 2011-12 was originally estimated at around £21 million. Revenue for last year is now estimated to exceed the original budget by around £58 million. The increase in revenue during the year has, to some extent, been due to the unprecedented level of Government's own capital expenditure, some of which ends up back in Government's own pocket by way of PAYE Income Tax and Import Duties; that is to say, the more the Government spends, the more in part that it collects. A further large increase in revenue during the year has been due to the increased level of Company Tax receipts, following the reduction and incidence of our Company Tax. However, this increased revenue stream will need to be monitored closely by the Government to see if the level of such revenue during this first year of the change is indeed sustainable going forward.

210 Indeed, Mr Speaker, in respect of corporation tax, the Government fully expects that the revenue will be down next year, as the figures for the year just past include some one-off payments arising from the change in systems of corporate taxation and some overstated income by some companies. Import duties have also been higher than expected and therefore very little growth has been built into these figures, as it may not be possible to see even a repeat of those numbers, let alone growth.

215 As regards Departmental Expenditure, this is now estimated to exceed the original budget by around £16 million. Consolidated Fund Charges, mainly comprising Public Debt Charges and Government Pensions are also estimated to exceed the original budget by some £4 million. Consolidated Fund expenditure for last year now includes a contribution to the Government-owned companies of around £28 million, which was required towards meeting the accumulated *recurrent* annual cash deficits in these companies as at 31st March 2012. The detail of this £28 million is as set out in page 140 of the Estimates Book under Head 44, Mr Speaker, and includes: £6.6 million of built-up recurrent annual losses on the

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running of Kings Bastion Leisure Centre, £1.6 million last year alone; £5.9 million of built-up recurrent annual losses on the running of the Gibraltar Bus Company, £2.1 million last year alone; £7.1 million of built-up recurrent annual losses on the running of Gibraltar Car Parks Limited, £2.8m last year alone; and £1.3 million of losses on the running of Gibraltar Air Terminal Limited for a few months this year. The annual running cost may be nearer £3.5 million, although we continue to work to reduce that.

That is to say, in summary, Mr Speaker, that the budget surplus has to be adjusted for the year ended 31st March 2012 to take the above variances into account and therefore produces a real surplus of £31 million.

Mr Speaker, moving on to the Revenue and Expenditure Budget for the current financial year, hon. Members will have noted that the layout of the Estimates Book for 2012-13 has changed in order to more clearly identify the Government Departments under each of the new Ministries. There is also the new Head of Expenditure for Contributions to Government owned companies, which, in order to avoid the situation I have just highlighted, provides funding to cover the estimated net recurrent cash deficits of these companies during the year. That means, Mr Speaker, that we will not have the problems I have just referred to again.

Hon. Members will have also noted that all advances to these Government-owned companies have been cleared at the end of the previous year. This has been done by way of the £28 million contribution from the Consolidated Fund that I mentioned previously, and by way of an increase in funding of Government companies from the Improvement and Development Fund from £15 million to £72 million. Last year Mr Speaker, the sum applied in that manner by the previous Administration was £34 million.

Mr Speaker, the Estimates of Expenditure for this Government's first year in office necessarily reflect a significant increase in spending, in order to address the many areas of the Public Service where there has been under-provision in previous years and where there is a clear need for further resources and for the delivery of our manifesto commitments. In particular, *these include our Health Service*, our Social Services, Education and Employment and Training and we have, in the main, identified in the manifesto the people have chosen, where and how those investments will be made in the coming four years.

Already this year in our Health Service, the nursing staff complement is being increased by more than 20, and the Government is looking into the reform and improvement of the Sponsored Patients Scheme, which works for some but often leaves the less well-off in a precarious situation when they are at their most vulnerable and away from home. I do have pleasure, however, Mr Speaker, in announcing an immediate increase of 50% on top of present rates of all sponsored patient payments in respect of sponsored patients who are disabled. That takes effect from today.

As regards capital investment in our Health Service, the GHA budget for works and equipment is being more than doubled to £2 million and this is in addition to an investment of £1 million to replace the entire fleet of ambulances and the necessary spending already announced trying to bring KGV into a more acceptable state, whilst the new facility is readied for occupation. Mr Speaker I will not say that we have inherited a lot of problems in our Health Services – although that is true and no doubt the Minister for Health will elaborate in his contribution. What I will say is that there are many problems inherent in the provision of Health Services for a community our size or indeed any community. Medicine is not an exact science – but our role as politicians in this House is to administer systems and finance to deliver the best possible care in the best and most efficient manner possible.

My view, Mr Speaker, is that there are structural problems in the provision of Health Services in Gibraltar today which are not dissimilar to those that there were in 1996, 1988 and probably in 1972 and 1969, i.e., whenever and despite the changes in Governments and Administrations. But there are problems today that were not there in 1996 and which can be resolved.

So, Mr Speaker, in that context I sincerely do believe that the Hon. Dr. John Cortes, although his doctorate is not in medicine, is exactly the right person to break the back of these perennial issues. His ability to communicate with all members of staff at the GHA is the key to delivering the patient experience that I am sure we all believe this community deserves. That is not to say that there will never be mistakes or people dealt with always perfectly – but that is what we will strive for; and whilst other countries are forced to consider new models for healthcare, we are able to remain committed to Health Services always being provided free at the point of delivery to entitled persons under the Group Practice Medical Scheme.

Our Social Services will also see an increase in staff complement, including the employment of more than 35 additional Care Workers and Social Care Workers and the Domiciliary Care programme is being extended. In that respect, Mr Speaker, I am delighted to have had the opportunity of recommending the appointment of Ms Sacramento to the Ministry for Social Services – something she has taken to immediately, as I knew she had the ability and character for, despite never having previously been a Parliamentarian.

In Education, a further 47 new teachers will be engaged by September 2012, and 29 Classroom Aides will be taken on as part of the fixed complement of the Department. The Scholarship budget will be doubled to around £10 million with all our school leavers with a place in university being fully funded, in

285 terms of tuition fees and maintenance grants. Postgraduate study will also be granted as a mandatory entitlement as is the case for first degree courses. My colleague, the Hon. Gilbert Licudi, will say more about the detail of that in his contribution later in this debate; as he will of the challenges facing us in respect of financial services and the other areas of his wide responsibilities.

290 In Employment and Training, the Government's investment in its 'Future Job Strategy' will ensure that our school leavers and university graduates, as well as all other members of our community seeking employment, are given an opportunity to get jobs and an opportunity to contribute to the growth of our economy. Who better, Mr Speaker – I have to be careful not to say too many nice things about him, otherwise he might pull me down – to look after unemployed resident workers than Mr Bossano who has given so much of his life to date to promotion of workers' rights. Already the number of residents in employment is steadily increasing – and I am sure that Mr Bossano will have more to say about all of this during the course of his contribution to this debate.

295 Despite this increased level of expenditure, Mr Speaker, the Government is projecting a surplus of around £17 million for the year. That is, Mr Speaker, targeted spending to deliver a better, fairer Gibraltar *and* a surplus at the end of it all, in the context also of a reduced gross debt and a reduced net debt based on a more prudent definition, as set out in our manifesto, and all recurrent company expenses paid. Of course, Mr Speaker, we could be less prudent and we could take recurrent company losses off balance sheet and provide for a higher surplus by borrowing more – but we will not do that. We will not fall into that trap.

300 For this year, Mr Speaker, Government revenues are expected to increase at least in line with GDP growth. However, the Government remains committed to limiting any increases in Government expenditure during our first term in office to below the growth of the economy. That is why we have calibrated expenditure and manifesto delivery as we have. Mr Speaker, the Government is in the process of re-structuring the public finances in order to reflect the many changes that are planned to take place during the lifetime of this Parliament. A few changes have already been made and have been incorporated in these Estimates. For example, the surplus in the Gibraltar Savings Bank will no longer be transferrable to the Consolidated Fund, but will be retained within the Bank to build up the Bank's Reserves. As already explained, importantly, the full effect of any deficits in the Government-owned companies are now fully reflected in the Consolidated Fund Recurrent Expenditure Estimates. Further changes include the planned reforms to the Social Insurance Funds, the expanding of role of the Gibraltar Savings Bank and further policies aimed at increasing available Cash Reserves even further. That, Mr Speaker, is the agenda for change that will be relevant in the life of this Parliament at Budget times to come.

305 Mr Speaker, in addition to the many Capital Projects which will be funded from the Improvement and Development Fund, as identified in the Estimates Book, the Government's capital expenditure programme for its first term of office includes numerous projects which will continue to be channelled through the established Government-owned asset-holding corporate structure. These include: the delivery of homes partly to be provided under a co-ownership scheme; the development of parks and car-parking facilities; new berthing facilities for locally resident boat owners; the replacement and modernisation of our bus fleet with more environmentally friendly vehicles more apt to our roads and our environment, as well as the renewal and modernisation of the Government's own fleet of vehicles for that purpose on a phased basis; and a beautification programme for all our existing housing estates, including continuing and completing refurbishments at Varyl Begg and Alameda Estate and external cladding in Glacis Estate, Laguna Estate and Moorish Castle Estate – the abandoned estates, Mr Speaker, and as more particularly provided for in our manifesto.

310 Mr Speaker, one of the biggest capital projects for the Government is the replacement of our three existing power stations. The Government did not consider that the previous Administration's plan to build a new power station at Lathbury Barracks, to run exclusively on diesel-powered engines, was the right choice for meeting Gibraltar's power requirements for the next 30 years. We were committed to any agreements that might have been signed before our election – but when we were elected, there was no binding agreement to build a new facility. The Government is currently finalising a review of a number of alternative options and locations, involving different technologies and financing models, and will shortly be making an announcement on a final decision on the way forward.

315 Pressure from environmental action groups telling us to decide sooner is understandable; but we must make the right decision not the fastest decision. The Government's choice of energy sources will reflect the Government's commitment to ensure that Gibraltar's carbon emissions are minimised, as well as minimising the noise pollution and emissions that affect many of the residential areas at present, and on both these issues, I am sure both the Minister for the Environment and the Minister for Utilities will have more to say.

320 I will add this, Mr Speaker: the power station proposed by the GSD Administration would have taken between 36 to 48 months to deliver; for that reason any power cuts in that period from 8th December are for the account of the GSD Administration that did not commission a new power station sooner – having known a decade ago that, by 2010, there would be critical failures in the existing facilities at Waterport –

345 and not, Mr Speaker, therefore, for the account of the responsible, forward-looking, environmentally
 conscious Government that is taking steps to ensure the right combination of security of supply, reduction
 of polluting emissions, noise nuisance and technological future proofing. The Government is also
 350 exploring ways of reducing energy consumption and the use of solar energy for street lighting in
 Government buildings. A number of projects are already in hand in this respect and both the Ministers for
 the Environment and Utilities will have more to say about that later.

Mr Speaker, the Government is making a significant investment in the public sector. I have said
 before and I make no apology for saying again, that the public servants I have had the benefit or working
 with since the 9th December are brilliant Gibraltarians – sometimes failing in delivery, principally not
 355 through lack of ability or motivation, but because of under-investment or because they were previously
 not allowed to do their jobs. As the engine for growth for Gibraltar and facilitators for the private sector,
 the public sector needs to be adequately resourced and systems of work in the public sector need to be
 brought up-to-date for the benefit of everyone in our community.

It is appropriate for me to say here, that despite the pay freezes in the UK public sector, and as
 foreshadowed in our manifesto, Civil Service pay will increase by 2.7% in 2012-13. We also remain
 360 committed to a further increase in Civil Service pay of 2.9% almost 3% for the year 2013-14. The Civil
 Service Review has begun and meetings are held regularly with the Chief Secretary and with me to make
 sure we get that review right and that we move fast to address the concerns of public sector employees
 and private sector clients; but Rome was not built in a day and we all prefer strong foundations for this
 review and not flimsy, quick fixes. But the process continues apace.

In this respect, I want to acknowledge the work of the GGCA, Unite and the GTA in embarking on a
 process that is fully consultative so that, from the grass roots up, we will have the input necessary to
 develop a renewed and more efficient public service for our people and our businesses. This is not
 imposition from the top; this is working together to deliver together. Good progress is being made, in
 370 consultation and partnership with the trade unions who, together with the Chamber of Commerce and the
 Federation of Small Businesses – who we will also be consulting as part of this process – we consider to
 be our partners in this endeavour.

A start has already been made in the Government’s programme of ‘e-Government’, which will
 transform the way business is done in and with many areas of the public sector. The Government is
 375 committed to promoting as much interaction as possible between the citizen and the Government ‘online’
 and enhancing the access and delivery of Government information and services to citizens and the
 business community. That, Mr Speaker, is the interface of the future – and I must say that working with
 our people in the Government’s IT Department is one of the things that I enjoy the most. I believe that the
 citizen has much to gain from the ‘e-Government’ revolution and that our IT Department has much to
 give.

In this respect also, the next few months will see the introduction of a modern computerised system at
 the Customs Department. The business community will see a transition to a modern computerised
 380 ‘paperless’ system, which will provide internet-based processing and clearance of imports and which will
 simplify Customs procedures and documentation, consistent with international standards and best
 practice. This ASYCUDA system, as it is known, has been worked on for some time – but was stalled
 385 when it was just about to be introduced last year. We have allowed Customs to work hard to ensure that
 the system was ready to be implemented this year.

It is this type of e-Government revolution that we are embarked upon throughout the public sector that
 will make it possible for the citizen to interact with Government in the same way as the trader requiring
 imports or exports will shortly be able to interact with Customs. I want to single out for special mention
 390 in respect of the ASYCUDA system the work done by Mr Constantin Ciuta, Costi, as he is known, of the
 United Nations Trade and Development Office who has been seconded to Gibraltar for two years to make
 ASYCUDA a reality, with John Rodriguez, the Collector of Customs and his team. John has championed
 this system and the benefits will reflect well on him and on his Department.

And if I may say so Mr Speaker, I would wish to say something at this point to all Customs Officers. I
 395 have many friends in Customs, as I do in other Departments, and I understand the problems that have
 been allowed to fester in that Department. We are embarked in talking to both unions that represent
 officers and to unrepresented officers. Customs is not just the collector of much of Government’s
 revenue; it is also a proud law enforcement agency with an increasingly important role to play.

When we were alerted to the dangers arising to officers in the area of the frontier fence, we have acted
 400 immediately to re-enforce the frontier and to allow use of batons for protection. Working with officers
 and listening to officers and believing in the future of Customs as a Department, this Government will
 support the men and women in that massively important work that they do. In good faith, we can resolve
 the issues that concern them all and deliver – as ever – a better service to businesses and individuals and
 405 better working practices in a modernised working environment for officers. That is the challenge for all of
 us.

Returning to the public sector more generally, work has also started in other areas of the public sector, including the establishment of a Central Government Counter Office alongside and in conjunction with the expansion of the role of the Gibraltar Savings Bank, which will take on board the needs of Gibraltar businesses and personal users. All of this is designed to make the public sector more responsive to the needs of the public it is designed to serve. The interface between the public sector and the private sector needs to work seamlessly – and that is the area where we will continue to work with unions, federation and Chamber until we get it right.

The Gibraltar Savings Bank will be opening its new main office building in Main Street in coming months. In addition to its banking services for the community, office counters will be provided within the Bank to enable the community to make use of centralised payment facilities for all Government services. More will be announced about the facilities that the Bank will make available to businesses and private citizens alike, when arrangements are finalised.

Moreover, as part of the continuing expansion of the role of the Gibraltar Savings Bank, the range of deposits offered by the Bank will be extended further. The Savings Bank already offers instant access and one month's notice deposits paying 2% interest; three-year Fixed-Term Debentures paying 3.5% interest; five-year Fixed-Term Debentures paying 5% interest; and an 'Accumulator Bond', which pays an increasing level of interest depending on how long the investment is held – from 2% in the first year to 11% in the 10th year. To complement this range of deposits which is currently available, new products and current accounts will soon be available with the Savings Bank. It is expected that these will be in place before the end of this financial year.

I move now, Mr Speaker, to my responsibilities for broadcasting and the media. Last year, Mr Speaker, the previous Administration announced £12 million of funding to move GBC to Rooke. The announcement envisaged Rooke coming into Government hands in the past financial year. That was never going to be realistic; and when it comes to GBC, Mr Speaker, we owe it to the professionals at GBC, as much as we owe it to the public, to be realistic, frank and honest. GBC is an essential part of our community. It comes into its own on important dates in the Gibraltar calendar: Miss Gibraltar; National Day; Election time. What would those occasions be like, without GBC to relay to all those not there in person what is happening 'live'? What would our community be like without a weekday 'Newswatch'?

But Mr Speaker, GBC is at the same time failing our community. Some events that are crying out to be transmitted live, or at least recorded and shown later, never make it to our screens. Yet how can they, if GBC's Outside Broadcast facilities are decrepit and no investment in them has been made in years? Quality of reception is sometimes atrocious – but that is more often than not unrelated to GBC itself and arises from the vagrancies of the various cable networks that operate in Gibraltar.

Mr Speaker, GBC is one of our national treasures, and much as we need it, much as we love it, we also love to criticise it – sometimes fairly; sometimes unfairly. I, Mr Speaker, am a fan of GBC and I make no apology for that. I appreciate the work that the people at GBC do. And I, like the rest of our community, demand more from GBC. What we certainly cannot do is expect GBC to perform without resources. But what we as a community cannot be expected to do is pump in resources without limit to get the same as we had before.

I sincerely do not believe that GBC should be transmitting old series of 'Fishing in Florida' filmed in the 1980s, or some such unwatchable material. Local programming is what GBC is there for and local programming is what the public want. Yet for the past 16 years, it seems to me that GBC has been allowed to fester in a time warp of ancient resources and very large subsidies that are never enough and amount to under-funding.

£12 million to go to Rooke, when Rooke is finally available, is not the answer. Instead, we believe a new model of professional development for staff and of funding had to be found. Perennial problems had to be resolved. Again, Mr Speaker, Rome was not built in a day, but after years in the wilderness, GBC is finally starting to move forward. As a result of additional funding from the Government, the long-standing problem of poor staffing levels has been addressed and a number of additional employees recruited. These have strengthened the radio, news and television departments in particular.

There are still deficiencies in engineering and administration that are being considered. A new Chief Executive Officer (Designate), Mr Gerard Teuma, was appointed in February, and will fully take on the reins of the Corporation next April. However, he is already working towards introducing immediate improvements in programming and internal operations, while identifying solutions to problems that have blighted Broadcasting House, in some cases, for decades.

I want to thank Mr Alan King for the work he has done as CEO. We have already published in full his report into GBC, as we were committed to do. His contract expires next April when the CEO designate takes over. But even in the manner and timing of the appointment of Mr King we believe that there were errors and failures. Appointing Mr King took too long. GBC was without a General Manager for too long and, importantly, through the 2007 General Election that caused the Corporation to be headless for longer than is, in our view, conducive to progress – despite the best efforts of the Quartet of management at the time. A specialist Human Resources firm has now been contracted by GBC, working with management

towards the introduction of internal rules and procedures, which until now have been practically non-existent and which are essential to the modern workplace.

470 The Government understands that it is the intention of management to complete phase one of this process within this financial year. The Government is also assisting GBC in a temporary refurbishment programme at Broadcasting House, which at present, can best be described as ‘not fit for purpose’. But that is an interim solution. If there is one thing on which we agree with members opposite, it is that South Barrack Road should not be the home of GBC for much longer. Rooke will be, when handed over, an
475 asset of enormous financial significance and for potential economic growth. In the very centre of the western reclamations, we do not believe it should be the new home for GBC. But GBC does need a new home and closer to the city centre.

As a result, GBC and the Government have identified and are presently exploring adapting the Ince’s Hall to be a new media centre for Gibraltar. This will allow for much more modern facilities to be developed in an area much more accessible to the public. Design work is presently being undertaken. This will, of course, require that the Ministry of Culture be found a new home, which will be at City Hall; and the relocation of some of the drama groups that presently occupy parts of Ince’s Hall. The location is perfect to allow GBC greater flexibility in recording and transmitting events from Ince’s Hall and John Mackintosh Hall – not least elections, plays, meetings – exactly what local programming is made of.

480 The additional funding made available this year, ahead of the proposed move to Ince’s Hall, and the new CEO’s appointment have already allowed a revamp of Radio Gibraltar’s programming, including an improved local news service. Today, *coinciding with this Budget*, GBC Online has also launched an upgraded and greatly expanded local news page, as well as a new Community zone on the GBC website. Dedicated station Apps are also in development. Since March, GBC Television has introduced new
485 programmes and has provided enhanced coverage of local events.

It must be pointed out that television, in particular, is expensive, but I am assured that GBC TV is deploying all resources to ensure the best possible local television can be provided, within the resources available. I am informed, Mr Speaker, that several new series will be screened during the summer, ahead of the autumn schedule being rolled out in late September, which will comprise circa 70% of local
490 programming. GBC management is confident that with additional resources and opportunities, GBC Television, Radio and Online will continue to improve as work now starts in earnest to transfer all services from South Barrack Road to the proposed new media centre in the city centre, which is already in design. This will be for the benefit of Gibraltar’s very patient viewing and listening public, as well as for GBC’s very hard-working and at times unfairly criticised staff.

500 But that is not enough to really shake up and change the present model of public broadcasting in Gibraltar Mr Speaker. The future funding for the Corporation should not, however, be forever from the public purse if possible. Neither should GBC be funded from advertising given its privileged position as currently the only local broadcaster; although we note the emergence of one internet TV station, Your Gibraltar TV.

505 That is why, Mr Speaker, we have been in discussions with an international media group and with GBC to develop a new business model for the future. Given Gibraltar’s competitive corporation tax and our tax treatment of royalties, as well as ‘soft’ issues, such as our climate and bilingual population, the Government and the management of GBC believe that Gibraltar could be a very attractive proposition for international media companies to locate the production of music, television series and feature films within the jurisdiction. Hon. Members will know that many other jurisdictions have promoted themselves very
510 successfully for this purpose without having a low rate of tax, beneficial treatment of royalties, the sun and a bilingual pool of labour. The staff of GBC would greatly benefit professionally and I am sure would be very excited at the prospect of being involved in international productions, alongside their continued local output. Local viewers will no doubt also benefit, if our GBC professionals are exposed on a regular basis to international productions.

For that reason, the Government has worked with GBC management to develop a proposed Joint Venture with established professionals in the media industry who would be able to attract the businesses needed to make the venture a success. The process to be followed will require an amendment to the GBC Act in order to allow the Corporation the ability to form part of the Joint Venture. The Government
515 exposure, should the venture proceed, will be to assign to GBC land – initially at no cost, but with a commercial rent to follow later. That property would be contributed by GBC to the Joint Venture, which will then develop a studio to international standards, backed by a full order book for the first year of productions.

520 The aim is threefold: not just to give GBC staff greater opportunities in the international media exposure and development; but also, secondly, that the revenue from the Joint Venture should become GBC’s sole source of funding, thereby no longer being a draw from the Government’s revenues or, equally importantly, competing in the advertising market with other media and being totally financially independent; and thirdly that the international standard studio facilities should also be available for GBC
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530 productions where necessary. There are draft Heads of Terms proposed and being finalised, although some aspects of these are still subject to negotiation.

For example, amongst other things which are presently being discussed, Mr Speaker, GBC will insist in having a Golden Share or ultimate control or veto over the material produced at the studios on the grounds of public morality, public policy or public interest; and the value of the contribution of the land for the development must be valued and provided for in the balance sheet of the Joint Venture. The CEO and the CEO Designate of GBC and I will soon be starting a process of addressing and briefing the staff of GBC of what the proposal entails and why we believe it is a potential ‘win/win’ for all parties – in particular the professionals at GBC, the viewer and of course, the taxpayer.

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540 Finally, in respect of GBC, last year we heard all about the investment that the previous Administration was going to make in taking GBC ‘digital’. In fact, when we have been elected, we have found out that nothing had been done to fund or progress the change over to digital. The change over to digital is no longer a matter of choice, Mr Speaker. At an EU and international level, we have been parties, via the Gibraltar Regulatory Authority, as the previous Administration was aware, to negotiations which require GBC to shut down its analogue signal by 31st December 2012. On 1st January 2013, these frequencies will be taken over by broadcasters from the Kingdom of Morocco. So the position we have inherited, when we have been elected, is that nothing had been done to change over to digital and if we do not achieve it by 31st December this year, there will be no broadcasting at all from GBC, neither analogue nor digital.

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550 We have had to move fast to rectify this and the Gibraltar Regulatory Authority, as the network regulator, has begun the unenviable task of providing a digital network in record time. We are confident that the mechanisms are now in place to – by the skin of our teeth – manage change over by the required time.

In respect of other media, Mr Speaker, where the Government is not involved in direct subsidy funding as with GBC, the position is going to be clear for this Government. Every media organisation will be treated equally and fairly. There will be no favourites and no subsidised funding of free party political propaganda organs by the Government. Government advertising will be spread equally and fairly.

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560 Mr Speaker, taking my cue from the references I have just made to Rooke in respect of GBC, I am happy to report that we are engaged with the MOD in continued discussions in respect of the lands deal already agreed with the previous Administration. But the most important aspect of those discussions for us is not land, Mr Speaker; it is the people who make up the locally employed civilian workforce of the Ministry of Defence in Gibraltar and their security of employment. Those are our main concerns and we will work hard to protect all posts of employment beyond 2017.

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570 The reductions being visited on the MOD throughout its establishment are brutal. In Gibraltar, we will all no doubt have been heartened to read those parts of the Overseas Territories White Paper which set out the UK’s commitment to the defence of all Overseas Territories. That cannot, Mr Speaker, just mean a Forward Mounting Base for operations beyond Gibraltar. The MOD cannot, and I believe does not, believe it can mothball its operations in Forward Mounting Bases and have a caretaker employed to open up when they are needed; nor do I think that any military man needs to be persuaded of that or of the strategic importance of Gibraltar going forward, as threats change and become less certain. That is why we are engaged with the unions, both GGCA and Unite, in working together in our approach to preserve as many MOD jobs as possible, something on which I am sure the whole House will be united and will want to be seen to be united.

575
Indeed Mr Speaker, in respect of my responsibilities for Industrial Relations, I am delighted to be able to report that my Government enjoys a positive relationship with all unions. With Unite, of which I am a member, I have only recently returned from addressing their policy conference in Brighton where I had a chance of meeting General Secretary Len McCluskey and inviting him to Gibraltar. The Regional Committee – what used to be the District Committee of Unite – meet regularly in my office and we have *ad hoc* meetings when necessary.

580 Dialogue is the key. We may not always agree on everything – but we always agree to talk about everything to try to avoid disagreement, if possible.

585 With the GGCA, I maintain also an excellent and close working relationship. The Civil Service Review in many respects engages more aspects of what the GGCA and GTA memberships do than in respect of Unite, which has a wider reach across employers in our economy. For that reason, the GGCA committee and I have resolved to meet regularly – weekly, in fact – to deal with any issues that are being thrown up by the review and to remove any barriers to progressing the review.

590 The GTA meet more often with the Minister for Education than they do with me – but I, as much as the Minister for Education, are engaged in the ‘social partnership’ model of industrial relations with this important representative body of teachers’ opinions and views. Without imposing our views on anyone, in discussion and consideration we therefore extend the collegiality of inter-ministerial relations to our positive industrial relations with all those representative bodies. And all were encouraging and supportive

of our returning the Workers' Day holiday to 1st May and the grant of the closest long weekend to the end of April to commemorate Workers' Memorial Day: a measure of which we are justly proud.

Mr Speaker, I now turn to the specific Budget Measures.

595 Mr Speaker, in line with the Government's manifesto commitment to encourage and reduce the cost of doing business in Gibraltar, the discount for early repayment of Rates for Offices, Workshops, Construction and Manufacturing Industries, and Transport and Distribution Industries, will be *increased from 5% to 10% with effect from 1st July 2012* – a discount, Mr Speaker, for responsible businesses who pay on time.

600 For new companies starting up business in Gibraltar, there will be *a discount for early repayment of Rates of 50%* for their first year of trading – Rates halved to encourage start-ups; the best incentive for entrepreneurs.

605 In addition to this, the Government has already announced that for bars and restaurants, the discount for the early payment of Rates will be increased by a further 20% to 40% between 1st October 2012 and 30th September 2013 and to 30% between 1st October 2013 and 30th September 2014, in order to assist in the introduction of the smoking ban. This will extend to casinos.

Mr Speaker, Salt Water Charges which currently form part of the General Rates, will be abolished with effect from 1st October 2012. As regards Domestic Rates, Mr Speaker, the discount for early payment will be maintained at 10%. However, domestic rate-payers will also benefit from the abolition of Salt Water Charges, with effect from 1st October 2012.

610 As a consequence of the abolition of Salt Water Charges, there will also be a corresponding reduction in Government House Rents. This is because Salt Water Charges are currently included and collected as part of Government House Rents which are and will remain frozen.

615 In this respect, this Budget will not just deliver this advantage to Government housing tenants, but it will also be good for homeowners, as all homeowners with a mortgage over property in Gibraltar will be eligible for relief. Those who pay mortgage interest over property in Gibraltar, whether they are on the Allowance Based System or on the Gross Income Based System, all will benefit. In order to further assist home owners with the purchase of their homes, therefore, with effect from 1st July 2012, Mortgage Interest Relief under the Allowance Based System will be increased by £50,000 from a maximum today of £300,000 to £350,000 in respect of property in Gibraltar. Tax-payers under the Gross Income Based System will also benefit from a deduction from their assessable income of their Mortgage Interest payments, up to a maximum of £1,000 in respect of property in Gibraltar.

620 As a further measure to reduce the cost of doing business in Gibraltar, electricity and water charges will not be increased. The 3% increase in electricity charges announced by the previous Administration in the last Budget, which was due to have been introduced sometime during last year, will also not be proceeded with. Electricity and water charges will not be increased for domestic consumers either and the Annual Pensioners' Utility Grant, applicable to persons aged 60 years and over, will be increased from £60 per annum to £75 per annum, with effect from 2012.

625 In order to stimulate the retail sector in Main Street and Gibraltar generally and in order to make Gibraltar a more attractive destination for shopping, the following Import Duties will be reduced, with immediate effect as from midnight last night:

- Portable Computers, including Laptops, Net books, and Tablet PC's and Memory Cards will go down from 6% to 0%;
- Perfumes, Beauty and Make-up preparations from 6% to 3%;
- 635 • Televisions from 6% to 0%;
- Hi-Fi and other electronic or electrical audio or visual equipment from 6% to 0%;
- Clothing and Footwear from 6% to 3%;
- Watches from 6% to 3%;
- Jewellery from 12% to 6%;
- 640 • Mobile Phones from 12% to 6%;
- DVD's and CD's from 12% to 0%.

645 These measures are designed to keep Main Street competitive, to maintain and enhance Gibraltar's attraction as a shopping destination and to promote locals buying from local establishments instead of online retailers. We will therefore be keeping a close eye on how prices are affected by these decreases, to monitor whether reductions are being passed on to consumers or pocketed by retailers.

650 Further, Mr Speaker, in order to continue to promote Gibraltar as a place to do high tech business, with immediate effect, import duty on computer software is reduced from 6% to 0% as from midnight last night. Moreover, in order to promote the use of Gibraltar as a jurisdiction for the creation and ownership of intellectual property, the import duty on equipment for production of sound or video recordings in the music, television or cinema industry which may not already be covered by the reduction of rates in respect of hi-fi and electronic goods is also reduced to zero with immediate effect.

In order to promote the use of renewable energy sources and reduce our dependence on fossil fuels in Gibraltar, the import duty on biofuels will be 0%, with immediate effect. Further, in order to promote the

655 acquisition of hybrid vehicles, the import duty on these when imported via licensed motor vehicle dealers in Gibraltar will go down from 8.25% to 6.25% which is the present rate, depending on cubic capacity, to a flat 2% across the board. *Moreover*, upon registration of a hybrid vehicle, the purchaser will receive £500 cash back – a tax cut and cash-back incentive to purchase hybrids.

I have said already, Mr Speaker, that the Government is looking at such vehicles for its fleet and we hope that this measure will encourage consumers to consider hybrids also; not just because of the saving on fuels, but also because of the savings on import duty and the cash back on registration.

660 That is not the only measure designed to promote a more environmentally friendly society. Despite the increased use of computers, offices still use very large amounts of paper in this paperless age. Therefore, as from midnight last night, import duty on recycled or approved environmentally friendly or eco-paper – that is, paper from renewable forests – will be reduced from 12% to 0%. Any stationery made predominantly from recycled materials will also not attract any import duties. By taking these items out
665 of the general tariff of import duties, the reduction in the rate is of 12%.

At present, Mr Speaker, vessels with a gross tonnage of less than 80 tons are subject to import duty at 12% and there is no import duty on vessels with a gross tonnage of 80 tons. In order to stimulate the use of Gibraltar by vessels of this ‘superyacht’ category, with immediate effect these vessels will be reclassified into ‘seagoing vessels of over 18 metres in length’ which will not be subject to any import
670 duty. Vessels under 18 metres in length will be subject to an import duty reduction of 50% from 12% to a reduced rate of 6%.

Mr Speaker, in order to simplify the administration of the collection of import duty on cigarettes, the current import duty of £2.48 per kilo is abolished with immediate effect. This is replaced by a
675 corresponding increase in import duty of 45 pence per carton of 200 cigarettes. A further increase of £1.00 per carton will also be effective immediately, bringing the total duty per carton to £9.45. This represents an overall increase in import duty on cigarettes of 10p per packet. Mr Speaker, it is no secret that raising the price of this commodity is as all Members will know, sensitive; but it is the right thing to do in support of our agenda to stop smoking in enclosed public places.

Mr Speaker, the Government is committed to reducing the level of personal tax down to no more than
680 15% for *every taxpayer* in Gibraltar on the Allowance Based System by 2015-16. As a first step in this direction, the following reductions in income tax will apply, with effect from 1st July 2012. For those taxpayers who have chosen to pay income tax under the *Allowance Based System*, the income tax rate on the first £4,000 of taxable income will be reduced from 17% to 15%. This measure will benefit approximately 4,500 taxpayers. Any taxpayer under the Allowance Based System with earnings of £9,000
685 or less will not have to pay any income tax at all; a measure, Mr Speaker, that takes even more people out of the tax net than ever before.

This will be done by extending the Low Income Earners’ Allowance. This will affect over 500 of the lowest paid in our economy and will, I know, be widely welcomed by workers’ representatives. Next
690 year, that figure will increase again to £10,000, so that we will take even more of the lower paid out of taxation. Mr Speaker, that will affect an additional 600, based on today’s computations. And further Mr Speaker, as from this year, over 2,600 taxpayers with taxable earnings between the zero income tax threshold of £9,000 and £19,500 will benefit from ‘taper relief’ in order to smooth out their tax liability between income tax bands.

Mr Speaker, since we have been elected, young people who were on what was known as ‘the scheme’
695 have, as you will know, been put on the minimum wage as part of the Future Job Strategy. That includes disabled people who were on ‘the scheme’ and some who are now in the Future Job Strategy. Mr Bossano will say more about the success of the Future Job Strategy today.

One particular aspect to refer to at this stage is that since we were elected, a disabled person who
700 secures employment no longer has their Disability Allowance removed from them completely – as was the case before. Instead, the Disability Allowance is removed on a staggered basis *and 25%* of it remains payable indefinitely and is not withdrawn. That is progress in the right direction for disabled people and goes beyond even what we set out to do in our manifesto and said that we would do.

And we are going to go even further still, Mr Speaker. As from this year of assessment, the Disabled
705 Individuals’ Tax Allowance under the Allowance Based System will be *extended* to provide an allowance against the earned income of a disabled individual. This additional Earned Income Allowance will be on top of all existing tax allowances on the Allowance Based System and is designed to bring any disabled individual who is in receipt of whole or part of Disability Allowance paid by the Department of Social Security, as provided for in section 7A of the Income Tax (Deductions and Exemptions) Rules 1992 and is in employment *entirely out of taxation*.

710 All disabled individuals who are in employment will therefore be substantially better off than they were before. And both for those who are in employment and those who retain part of the Disability Allowance despite being in employment, I am delighted to be able to announce adherence to another one of our manifesto commitments, namely, to increase the Disability Allowance by the rate of inflation.

715 The Disability Allowance was last increased on 1st July 2007 and stands presently at a rate of £304.50 per month. Using the April figure for the Index of Retail Prices since that date, that sum has gone down in money terms by 16%. Applying those figures Mr Speaker, the Disability Allowance will *increase* to £353.22 as from the next payment after 1st August this year.

720 In addition, Mr Speaker, the import duty on any vehicle which is adapted for the use of a disabled person is hereby abolished. All disabled people in Gibraltar will therefore be better off after this Budget – a real commitment to deliver real change for our disabled people reflected already in our first Budget.

725 Mr Speaker, it is important to also stimulate the continued refurbishment of our city by property owners, many of whom presently pay tax under the Gross Income Based System. Under the Allowance Based System, a taxpayer who has an interest in a building situated in Gibraltar may claim a deduction from his/her assessable income in respect of approved expenditure incurred on painting, decorating, repair or enhancement of the frontage. Once approved by the Town Planner, this deduction is in the full amount of the spending incurred.

730 In order to encourage the beautification of buildings in Gibraltar owned by taxpayers who are taxed under the Gross Income Based System and who are therefore unable to benefit from the deduction that is available under the Allowance Based System, I now introduce a deduction from their assessable income up to a maximum of £5,000 in respect of approved expenditure incurred on painting, decorating, repair or enhancement of the frontage or façade approved by the Town Planner. This new tax benefit will be introduced for expenditure incurred with effect from 1st July 2012.

735 In order to encourage the use of medical insurance, which in some ways relieves pressure on the GHA, with effect from 1st July, the maximum annual tax relief on Medical Insurance contributions, under the Allowance Based System, is increased from £1,120 to £1,500.

This will also be a good Budget for parents of children of nursery school age. The Nursery School Allowance currently stands at £1,023. Taxpayers can claim this allowance in respect of any of their children who are at least three years of age and who attend private nurseries in Gibraltar.

740 With effect from 1st July 2012, the Nursery School Allowance on the Allowance Based System will be doubled to £2,000 and will be extended for all children of pre-school age who attend private nurseries in Gibraltar.

745 This Budget will also deliver to pensioners over the age of 60 with non-pension income. An occupational pension approved by the Commissioner of Income Tax payable to a person aged 60 or over is currently taxed at 0%. The pension is nevertheless taken into account for the purpose of establishing the taxpayer's total assessable income, resulting in any income earned in addition to their pension being taxed at a higher marginal rate. All such occupational pensions will now be exempt from income tax altogether. This will mean that pensioners who have to get a job in order to supplement their pensions will benefit from a significant reduction in income tax on such earned income. This measure will be backdated to 1st July 2011.

750 Under the Allowance Based System, the contributions to Approved Personal Pension Schemes and Retirement Annuity Contracts, as well as the tax relief on such contributions, is limited to the lesser of 20% of earned income or £35,000. With effect from 1st July 2012, although the tax relief on such contributions will remain at current levels, the annual limit or 'cap' on the contributions into such pension schemes will be removed.

755 Where contributions in any one year are below the maximum tax relief that can be claimed for that year, a 'one-year carry back' facility will be introduced enabling members of such pension schemes to top up any unused tax relief for the year, based on contributions made to the pension scheme during the preceding tax year, provided that no tax relief has previously been claimed in the previous year on those contributions.

760 On that front, one other issue that featured prominently during the General Election campaign was the future of Community Care. The GSD denied that they had any intention during that campaign of replacing Community Care by making payments through the Government Social Security system. In his New Year Message for 2010, the Hon. the Leader of the Opposition said that Community Care represented:

765 'a financial time bomb ticking under our children and grandchildren in the future, for which they cannot have recourse to the UK.'

770 He added that he was:

'not willing to bequeath this potentially lethal legacy of a massive and unaffordable backdated claim to our future generations'.

He said that therefore, in the 2010 Budget, he would:

775 'introduce significant reforms to protect Gibraltar from this possibility,'

adding that the

‘reform will not result in financial loss to our pensioners or recipients of Community Care.’

780 In fact, in his 2010 Budget Speech, the Hon. the Leader of the Opposition, then the Chief Minister, did not say a word about those significant proposed reforms.

In his 2011 Budget Speech, he said only that as from this year:

785 ‘Community Care payments would become a statutory right and will be paid in conjunction with old age pensions.’

I therefore now call on the Leader of the Opposition to make public in his reply to my speech in support of this Bill in Parliament today, the proposals that he said he was going to introduce in 2010 and which he again referred to in 2011 and the reasoning behind them. If he feels these should not be aired in this Chamber, I invite him to write to me privately and set them out as soon as possible.

790 If these are, as he claimed, capable of protecting all existing and future resident pensioners and giving us better protection from the claims of outsiders, we shall be glad to support them as we have always said we would. That is our style of Government – to seek what is best for Gibraltar and not just insist that we are right. What would be unforgivable is to have such an alternative, if it does indeed exist, and not bring it forward because the GSD lost the General Election.

795 We are committed to renewing the funding to Community Care to make it independent and self-sufficient as it was in 1996 and is not now, but we are prepared to consider the hon. Member’s alternative – if there is one – before we proceed with ours.

Mr Speaker, back to Budget measures. No increases in Social Insurance Contributions will be made this year.

800 But Mr Speaker, the minimum wage was first introduced by the GSLP after we were first elected into Government in 1988. That made Gibraltar an early adopter of the principle of a salary floor, an even earlier adopter of that principle than the United Kingdom, where the concept of minimum earnings per hour was not provided for in legislation until 1998 – a whole decade later.

805 Mr Speaker, in our manifesto we committed to keep the minimum wage under constant review. The statutory minimum wage was last increased on 1st January 2011 from £5.00 per hour to £5.40 per hour. This was announced as part of the 2010 Budget.

The Index of Retail Prices increased during the period 1st January 2011 to 31st July 2012 – 19 months – by around 5.8%. This means that the value of the pay packet of a worker on the minimum wage has decreased in real money terms by an equivalent percentage.

810 With effect from 1st August 2012, the statutory minimum wage will be increased in line with inflation, from £5.40 to £5.70. To businesses, Mr Speaker, this is not a cost in real terms. To working people on the minimum wage, this will be a real increase in real terms! And I know that this measure will be welcomed by workers’ representative groups as we bring the standard of living of the lowest paid in our economy up, in line with inflation.

815 It should not be lost on anyone, Mr Speaker, that the Future Job Strategy makes the Government itself the largest single employer of persons now on the minimum wage, since our election. This increase will therefore also further benefit those on the Future Job Strategy. Those who were previously on the ‘Scheme’, run by the previous Administration, will therefore benefit from their second pay rise this year.

820 Finally, Mr Speaker, before I sit down, I want to thank the staff of the Treasury and the Ministry of Finance and including the Commissioner of Income Tax and his staff and the Financial Secretary for their work on this Budget. As the Hon. the Leader of the Opposition will know, a few words uttered by a politician in this place as a ‘budget measure’ require many calculations in those Departments to work out cost and affordability.

825 I want to thank Mr Dilip Dayaram and Mr Frank Carreras for their work with me and my team of Ministers on this Budget. I should also like to thank all Public Servants of Gibraltar, without whom the machinery of Government cannot operate.

In particular Mr Speaker, thanks to you and to the Clerk and staff of the House for the work you have done in implementing our reform agenda to date, including the monthly meetings and the quicker delivery of *Hansard*.

830 Very special thanks also to all the staff of No. 6 Convent Place; especially the team that works on my floor of the building and keeps me working, smiling and sure that nothing that anyone can throw at Gibraltar will ever get the better of us.

835 Mr Speaker, from the moment that the General Election was announced and our candidates declared, the 10 of us sitting on this side of the House have been a team. We work as a team and we support each other as a team. I do not pretend to be anything other than the equal to all the other Ministers on these benches, even though we all have differing responsibilities.

840 So I want to thank my ministerial team, all of them: the novice Parliamentarians, the more experienced hands and the most experienced hand, the Father of the House, for their support in the past seven months to the day since, at first light on 9th December last year, we became the Government of Gibraltar. In particular, I want to thank the Deputy Chief Minister for his support at No. 6, where we work together in ensuring delivery of our manifesto commitments.

I should also say, Mr Speaker, that it is one year to the day since I married. Last year, I might not have expected to rise today, on the date of our first anniversary, to move the Appropriation Bill, as a father and as Chief Minister. What a year it has been and what a pleasure it is to move this Bill!

845 Because, Mr Speaker, this is a Budget that balances the books by filling a £100 million hole in borrowing from some Government companies and settling the outstanding recurrent expenditure of other Government companies. It provides support for the lowest paid in our economy by taking them out of taxation and increasing the minimum wage. It provides incentives for greener living, and promotes and protects disabled people by exempting their earned income from taxation and raising the Disability Allowance.

850 It delivers tax advantages to a large number of taxpayers and complies with our manifesto commitment to reduce tax on the Allowance Based System, whilst going beyond our commitment to maintain the Gross Income Based System by allowing deductions against income to taxpayers on that method of assessment.

855 Mr Speaker, this Budget delivers for businesses too. It keeps the Social Insurance burden static – which means it is, in effect, reduced in real terms by the rate of inflation, since it was last raised. It delivers important import duty reductions for the retail industry and it provides for discounts on rates and eliminates the previous Administration’s 3% rise in electricity costs.

860 Mr Speaker, this Budget provides for pensioners by the exemption of pensions from tax computations and for working families by the increase in the nursery allowance and raising the cap on mortgage interest relief.

Mr Speaker, a Socialist Liberal Budget, delivering social justice for our nation. I commend the Bill to the House.

865 *(Applause)*

Mr Speaker: The Hon. the Leader of the Opposition.

870 **Leader of the Opposition (Hon. P R Caruana):** Mr Speaker, it is an honour for me to rise to deliver my 22nd Budget Speech, of which 16 have been as Chief Minister and, with this one, six from the Opposition benches, all but one as Leader of the Opposition.

875 May I start, Mr Speaker, by thanking the Chief Minister for postponing this debate, and also all other Members of this House who have extended their condolences, following the death of my father-in-law, J E Triay, last week. In paying my own tribute to him, I would highlight three of his many qualities which stand as a monument to the fine man that he was: he headed a very large extended family and kept it, and every one in it, as one very close family; he was universally respected by his colleagues in the legal profession as a lawyer of huge intellect, integrity, skill and comradeship; and thirdly, he earned and kept the respect of all whom he dealt with in all walks of life – even, perhaps especially, those who disagreed with his views, and with whose views he disagreed.

880 I have to admit, Mr Speaker, that I had forgotten how easy and different life looks from this seat! When one does not have the responsibility of governing, critical comment is absolutely free of charge. Hon. Members on the Government benches who were in Parliament before, will I am sure already have discovered the difference.

885 This Opposition will never make political capital against the Government, nor indulge in ‘free of charge’ critical comment at Gibraltar’s expense or without a clear foundation in truth. That said, nor will we allow the Government to equate its own political interests with Gibraltar’s interests, so that criticism of the Government is equated with damage to Gibraltar’s interests. We can and will get this balance right and this, too, is an important contribution to a new way of doing politics in Gibraltar.

890 Mr Speaker, although clearly I disagree with a lot of the things that he has said in it, I nevertheless congratulate the Hon. the Chief Minister for finding himself in a position to give a Budget Speech from that side of the House. I regret that nothing, particularly the more critical comments, of the previous Government that he has said is new and simply amounts to a regurgitation of the stuff that he has said repeatedly during the election campaign and some of it after the election campaign too.

895 Mr Speaker, older Members and listeners will recall the so-called ‘Big Lie’ Elections of the 1970s – so-called because it was fought on the apparently false accusation by his opponents that Sir Joshua Hassan was in favour of a leaseback arrangement for our Sovereignty.

Well, Mr Speaker, I think we have just had another 'Big Lie' Election. But this one involved not one but two Big Lies: a Big Lie about the state of public finances; and a Big Lie of undeliverable electoral promises.

900 The reality is that the GSD left Gibraltar and the new Government a 'Golden Political and Economic Legacy' which the new Government will struggle to match, but which at the very least they must not squander. Gibraltar will never forgive them.

905 Nor will systematically to taint and talk down that GSD legacy, as the new Government tries to do obsessively, suffice as justification for their predictable and predicted failure to deliver the undeliverable promises with which they won – without an overall majority – this Big Lie Election.

910 Mr Speaker, the new Government's position was, before and during this latest Big Lies Election, has been since and remains now riven by contradictions which betray the manner in which they have sneaked their victory. Indeed, this Budget has had to resort to presentational trickery to enable the Government to try and reconcile some of those political contradictions. (*Interjection*) All will be revealed, you should not worry! (*Laughter*)

Mr Speaker, properly presented, this year's recurring annual expenditure budget surplus is around £55 million, that is to say, precisely the huge record surplus which we predicted, and *not* the still excellent £31 million disclosed in the Budget book, as drawn up by the hon. Members.

915 Mr Speaker, during the next few minutes – an hour or so – I shall consider further and illustrate these opening remarks and others that I shall make in a similar vein.

So what is the first Big Election Lie? That public debt is too high and unsustainable, and Government finances are not as healthy as the GSD Government pretended.

920 Mr Speaker, there is no known system for the economically literate measurement of public debt under which Gibraltar's public debt can honestly and intelligently be said to be too high. You can prefer to have a lower debt, if you want. You can prefer to have no debt at all, if you want. You may be the sort of person that worries about owing money to anybody and never have any debt, and that is fine too. But none of that equates to the current level of debt being too high.

925 By all known measurement systems of public debt, it is in fact *low*. As this House will recall, City of London financial experts interviewed by GBC confirmed publicly, after last year's Budget debate, when the Hon. then the Chief Minister, then the Leader of the Opposition made similar remarks.

Let's review the matter by reference to appropriate, truthful and economically informed criteria.

930 Firstly, the law of Gibraltar *limits* the amount that the Government can borrow – that is to say, it establishes a maximum permissible public debt, *precisely* so that the public debt does *not* get too high and unsustainable. Since Gibraltar's public debt has never been higher than permissible by its laws – despite inaccurate statements to the contrary by the previous Leader of the Opposition, now the Chief Minister to that effect, at last year's Budget – since Gibraltar's public debt has *never* been higher than permissible by its laws, which exist in order to make sure that the public debt should not become too high or unsustainable, it is therefore necessarily nonsense to say that Gibraltar's public debt is too high. Unless
935 what the hon. Member is saying, is that the law sets the target too high because the limit is too high. Because if the law sets the limit at this level, in order that the public debt should not get too high or too unsustainable, and the public debt never reaches that limit, then ergo it cannot be too high or unsustainable.

940 Secondly, the Foreign and Commonwealth Office produces public borrowing guidelines for Overseas Territory governments to limit their public debts by strict and very conservative criteria, precisely to ensure that their public debts do not get too high and unsustainable. Although these guidelines do not apply to Gibraltar, our law reflects most of their underlying parameters, which Gibraltar's public debt has not exceeded.

945 Thirdly, the EU – Maastricht Treaty – sets a limit of 60% on the ratio of government debt to Gross Domestic Product – that is to say, the ratio of how much the Government owes, as a proportion of the size of our economy. Unlike every other country in the European Union, Gibraltar has *never* exceeded that measure of public debt.

Fourthly, the UK regards a net public debt of 40% of GDP as a prudent level of public debt. Gibraltar's net public debt has never got even close to this 'prudent' level of 40%. In fact, it has never reached 30%.

950 Fifthly, the net public debt now, after a decade of unprecedented Government investment, in part funded by borrowing, stands at around 28% of GDP. This is low by international and European standards and is in fact, amongst the lowest of all European countries.

955 Sixthly, these levels of public debt have always been considered in Gibraltar to be sustainable and not too high. In 1988, within weeks of coming into office, the then GSLP Government took new borrowing powers legislation to Parliament: the Borrowing Powers (1988-1992) Ordinance 1988. The remarks of the then Financial and Development Secretary in Mr Bossano's first Government – a Mr Brian Traynor, that some Members of the House are long enough in the tooth to remember – when presenting this Bill to the

House in May 1988, his remarks on that occasion illustrate precisely what I am saying now and have been saying throughout, on this debate about the size of the public debt. I quote him from *Hansard*:

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‘Whereas in 1985 when Public Debt peaked at £29m one was talking about a ratio of Public Debt to national income of 30% or 40%, the present outstanding Public Debt represents something like 25% of national income which is very low by comparison with the debt ratios of most modern states and, of course, considerably less than Third World countries.’

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So, Mr Speaker, that demonstrates what I have been saying: that the relevant measure of public debt, and its prudence and sustainability is not the absolute level, a number that looks and sounds very high, but its ratio to GDP – in other words, its relationship to the size of our economy. And further it demonstrates that current levels are low, prudent and consistent with what they have been historically.

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Mr Traynor went on to say, and I quote him again:

‘With the rapid expansion of the economy and with National Income heading for a figure of perhaps £150m, if not more, during the next three or four years, I think...’

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GSLP have always had these predictions of large increases in GDP when they have arrived in office! This was their prediction the last time they arrived in office.

‘... if not more, during the next three or four years, I think that a figure of £50m in terms of the actual amount of Public Debt outstanding raises no questions as far as prudential limits and sound financial policies.’

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In fact, Mr Speaker, shortly after that, and I think after Mr Traynor had left Gibraltar, the GSLP Government amended that Ordinance to further increase the borrowing limit, by doubling it to £100 million. In speaking to that amended Bill, the then Chief Minister and now Employment Minister, Joe Bossano, expressed similar views when stating that £100 million was prudential, in relation to the then size of our economy.

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I quote him from *Hansard*:

‘The view of the Government and in fact, last year and this year, was that rather than this somewhat antiquated system of having to establish a ceiling, we should use a ratio and say “The level of national debt we consider to be, say 35% or 40%” and therefore that would give us a rolling ceiling in the sense that the bigger the economy the bigger the borrowing we could support.’

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After Mr Bossano had explained that the legislation in fact specified a figure, rather than this percentage of GDP, because the Attorney General and the Financial Secretary had advised that our method of calculating National Income was not up to the job, Mr Bossano went on to say – and now I quote him again:

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‘Therefore we had to make a professional assessment and taking advice on where it was reasonable to target the National Debt in relation to the current estimate of GNP...’

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– which is another of the measures of the size of the economy –

‘...and the projected growth of GNP and this figure is considered to be a figure that is compatible with the sort of conservative criteria that I have mentioned of 35% to 40%’.

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So, Mr Speaker, if 40% public debt is accepted as prudent by our law, by the Foreign and Commonwealth Office guidelines, by the European Union, by the UK, by the Government of Gibraltar in the late 1980s, and now by me, what is the credible basis for Mr Picardo’s assertion that a figure lower than all of those is – quote – ‘too high and unsustainable’, except his own political opportunism in the run up to a General Election?

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It was the Big Lie of the Election, propagated by him to wrongly and unnecessarily frighten voters, which he did in enough numbers – albeit *only just* enough numbers – but a Big Lie nevertheless. (*Interjection and laughter*)

Mr Speaker, so what was the second Big Lie of the Election? Promises that he knows cannot be kept.

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Mr Speaker of course the Hon. Mr Picardo was determined that arguing that the Government’s financial situation was dire and borrowing too high and unsustainable should not, at the same time, prevent him from bribing the electorate, sector by sector, interest group by interest group. So, in a classical forked-tongue manoeuvre, he did both. You do not need to be an economist to know, Mr Speaker, that it *cannot* be both.

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If Mr Picardo really believed what he was telling the electorate about the Government’s finances in his manifesto and during the campaign, how could he possibly have also promised £750 million of Government projects over four years, plus massive tax cuts and big increases in annual recurring expenses?

1025 Remember, Mr Speaker, that as far back as July last year – in this debate last year – that is, before he issued his manifesto, Mr Picardo was telling Gibraltar in his now infamous podcast that the public debt was then already £500 million! So he cannot have thought that that was too high to prevent him, nevertheless, going on to commit himself to many hundreds of millions more pounds in electoral commitments. The answer, Mr Speaker, was that both were Big Lies.

1030 Neither the Government’s financial position was as Mr Picardo had pretended, or continues to pretend now, nor did he intend ever to deliver on all his electoral promises, which as I told him throughout the campaign were simply unaffordable and undeliverable.

1035 So, Mr Speaker, he wasted no time in doing what all Opposition parties do that promise too much and then have to justify not delivering. He set about pretending that he inherited a dreadful financial black hole, in the hope that people would thus understand and forgive his inevitable non-delivery on his vote buying and irresponsible electoral promises. His problem, Mr Speaker, is that people in Gibraltar do not fall for such tricks. People in Gibraltar are just not as gullible as he thinks – they are not that easily tricked.

And so, this brings us to the first Post-Election Big Lie.

1040 The First Post Election Big Lie, Mr Speaker, was ‘We found a financial black hole of £100 million missing pounds.’ In fact, Mr Speaker he has repeated it here today, this morning.

You have all heard it, repeatedly said by the new Chief Minister, in Gibraltar, on Spanish TV and radio and in the Spanish newspapers, in the UK and elsewhere, regardless of the damage that it did to Gibraltar’s reputation, investor confidence, and as future job opportunities for our children, economic prospects and political interests. And it is *not true*, Mr Speaker.

1045 The so-called ‘missing £100 million’ is a *complete fiction* – a complete distortion and abuse of the not unusual fact that the Government’s net public debt ended the year higher than the Government had estimated at the start of the year. This, Mr Speaker, has happened to some degree or other every year.

1050 For example, in 2008-09, the net public debt at the start of the year was estimated that it would end the year at £28.2 million, and in fact it finished at £67.7 million, an 140% margin. In 2009-10, it was estimated that it would finish the year at £116 million and it ended at £148 million. In 2010-11, £180 million estimated and it finished at £216 million. In 2011-12, the year about which he complains, it was estimated that it would finish at £221 million and it finished at £305 million. But the year about which he complains as if had fallen into an unlit black hole as he was walking innocently down the street, was no more than a further example of what had happened in the three previous years.

1055 These figures show that what the new Chief Minister paints in financially and politically sinister shades and describes as a black hole of a missing £100 million, as if a £100 million had been taken, sort of, by somebody, is a perfectly normal event upon which he has never before chosen to comment in previous years, when he has had it in front of him in the Budget book! Perhaps this is because, Mr Speaker, in previous years, he did not need to find a scapegoat or excuse for not honouring undeliverable electoral promises! (**Several Members:** Hear, hear.)

1060 And this phenomenon, Mr Speaker, that public debt ends the year higher, and cash reserves end the year lower, than had been estimated is not only not unusual, but is the result of quite innocent circumstances. All it takes is for capital expenditure to proceed more quickly than budgeted for, or for capital receipts from asset sales not to come in as fast as envisaged or – as in last year’s case – a combination of both. But the delayed assets receipts – in last year’s case the proceeds of sale of Government flats – remain on stream to come in now or in future years.

1065 The Chief Minister claims to have been misled by the fact that the Budget book estimated cash reserves, and thus net public debt, on the basis that £59 million which then, during the course of the year, accumulated with the companies’ further expenditure during the year to £80-something million of loans made by the Government to its companies, to build houses and other projects, would have been repaid from these asset sales in the year, which in fact did not happen. That is correct, but the Budget book has been presented in this way every year since the Government companies’ cash reserves were exhausted and they relied on Government loans to fund their projects.

1075 Again, the Hon. Mr Picardo has never chosen to comment on this before. If he has been misled by it, it is his fault and not the result of any accounting sleight of hand by the previous Government. The new Government is not entitled to complain that the Government’s estimates at the start of the year did not materialise. They are *only estimates*. This does not constitute a ‘black hole’ – still less ‘a missing £100 million’, nor even, as he also has put it, that cash reserves are £100 million less than had been anticipated.

1080 In any case, the shortfall between the start of the year estimate and the end of year reality figure for cash reserves is less, much less than the £100 million he cites. And these are his much vaunted financial black holes about which he so solemnly addressed the nation on 18th January in his Chief Ministerial broadcast.

So what, Mr Speaker, is the second Post-Election Big Lie? ‘We had only £20 million to spend without changing the law to increase the maximum permitted public debt.’

1085 In his very solemn address to the nation on 18th January this year, the new Chief Minister told Gibraltar:

‘to make the position as clear as possible’

1090 – not to say, as clear as mud –

‘tonight, I can tell you that as at 9th December 2011, your Government only had twenty million pounds available to spend despite the projected surplus for the year.’

1095 He said that because of the legal debt limit, the Government could not spend more without raising the legal borrowing limit and that this was why work had had to stop on many projects. In fact, I think he has made the same point this morning.

He repeated this in this House in answer to Question No 89/2012, when he said – speaking of me, as always – that:

1100 ‘he put Gibraltar in a position, that without changing the law and without borrowing more, its Government had not a penny more than £20 million to spend’.

1105 Mr Speaker, this is simply not true. The Government did not have to change the law to allow higher borrowing limits, in order to have more than £20 million to spend on ongoing projects. Under the Public Finance (Borrowing Powers) Act 2008, the Government needs only the permission of this House by a simple resolution, and not a change in the law and more borrowing, to draw from existing cash reserves, even if the effect is to exceed the legal limit for net public debt.

1110 So his statements and actions and his solemn statement to the people of Gibraltar were based on complete ignorance of the legislation. We, Mr Speaker, would certainly have had recourse to this method, had we won the elections, thereby tiding Government over until 1st April 2012, when the legal net debt limit rose automatically by about £50 million as a result of increased public revenue, thus allowing the Government to continue the projects without interruption.

1115 Of course, Mr Speaker, he has said that it is the Government policy not to increase the legal debt limit, but of course he knows that that increases every year, because it is 80% of the last year’s revenue. Well, the last year’s revenue in December was 80% of the revenue to the year ended March 2011. But, as of 1st April this year, the legal debt limit is 80% of last year’s revenue, which is now the year to 31st March 2012, the increase of which will give him at least another £50 million of ability to borrow without raising the legal debt limit – a fact that he has not mentioned, I think, this morning, unless I am mistaken.

1120 Mr Speaker, none of this detracts from the fact that we would have increased the legal debt limit, if necessary, to proceed with certain key projects, including the power station and the tunnel. Given that our economy continues to grow this is affordable and would not have taken net public debt outside prudent or sustainable levels.

So, Mr Speaker, what are these contradictions and presentational tricks that I have alluded to?

1125 Here, Mr Speaker, is a new Government with a big political problem of presentation and contradictions, and indeed, we have seen those contradictions here this morning. On the one hand, and in order to rubbish and taint the outgoing Government, and to dumb down voters’ expectations about its ability to deliver all its undeliverable electoral promises, it has painted the false gloomy picture of the state of public finances. On the other hand, it has to present to this Parliament the Government budget figures for last year, eight months of which were ours and four minus a few days were his.

1130 So he has to present to Parliament the Government Budget figures for the last year that show a huge all-time budget surplus of recurrent annual revenue and expenditure, and that is recurrent annual for the last 12 months, not for the last six years.

1135 Mr Speaker, so, having to reconcile the picture of doom and gloom that he paints with the fact that he has to bring to this House a Budget that shows, effectively, a record budget surplus for the same period in which he is criticising his predecessor – exactly the same record budget surplus that I predicted in the election campaign in my New Year Address and in my Address upon the opening of this Parliament in December. Since the new Government knows, Mr Speaker, that this contradiction would be obvious, even to the most economically uninitiated, a solution had to be found. What was it? Answer: fiddle with the way the figures are presented, so that the true extent of the real record budget surplus is concealed!

1140 Let us be clear, Mr Speaker. If this year’s Budget book, which has been prepared by the new Government, had been done properly and as in all previous years, it would show a budget surplus of recurrent annual revenue and expenditure in excess of £55 million, and not the £31.3 million that it actually shows. The previous budget surplus record was achieved in 2009 and amounted to £37 million, so the scale of this year’s record surplus achieved, of around £55 million, will be obvious to everyone.

1145 This is in sharp contradiction of the new Government's doom and gloom messages about public finances and the shortage of money that all their bloggers had a field day with, shortly after the election on the social media websites.

1150 So, Mr Speaker, how did the Chief Minister manage to reduce the figure in the Budget book from £55 million to £31.3 million – presumably to make untrue my prediction that this year there would be a record budget surplus? Given that the previous record was £37 million, how to get it down below £37 million, from the huge record that £55 million would have represented. Answer, Mr Speaker, very simple: by treating capital expenditure and also previous year's recurrent expenditure in companies as if they were annual recurrent expenditure and thus deducting it from last year's annual recurrent income to reduce the budget surplus of annual recurrent income and expenditure.

1155 In layman's terms, by mixing apples with pears. In accountancy terms, by taking 'above the line', expenditure that should always be, has always been, and elsewhere in this Budget book, is taken 'below the line'. In short, he has cooked the books to wrongly present a reduced budget surplus of annual recurrent revenue and expenditure of £31.3 million, when it actually is around £55 million.

1160 Let me explain to the House how this has been done. The Government has taken the contribution to Government-owned companies of £28.3 million above the line and thus treated it all as annual recurrent expenditure. But the great majority of this £28.3 million was spent by the companies on capital expenditure, and not on annual recurrent expenditure. For this reason, most of that contribution should have been accounted for 'below the line', as all other capital expenditure is treated, as has always been done, and as the Budget book does elsewhere.

1165 And even, Mr Speaker, to the extent that the £28.3 million contains some, as it will indeed contain some, that is recurrent company expenditure, as opposed to company capital expenditure – even to that extent – then Mr Speaker, it is simply not legitimate to roll up previous years' so-called deficits, because those previous years' deficits are not recurrent, as against last year's annual. These are a statement of 12 months' worth of annual recurrent expenditure. What the hon. Member has done is entirely illegitimate.

1170 So, Mr Speaker, by this inappropriate means, the Government has reduced the recurrent revenue and expenditure budget surplus of last year's annual recurrent revenue and expenditure surplus of £55 million achieved by the GSD Government last year.

1175 Mr Speaker, the other elements of capital expenditure carried out through the Improvement and Development Fund are indeed, as always, shown below the line. That is, it does not reduce the recurrent surplus. Even elsewhere in this same Budget book, on page 14, that summarises the Consolidated Fund expenditure, the contribution to Government companies of £28.3 million is shown 'below the line', together with the contribution to the Improvement and Development Fund which deals with the other capital expenditure not carried through the companies.

1180 Yet, when it comes to page 2, that shows the recurrent surplus calculation, it is suddenly slipped above the line and treated as annual recurrent expenditure, which most certainly it is not. This is novel, wrong and misleading, and distorts the integrity of the Government's Budget accounting to this House, in terms of the difference between recurrent annual expenditure and capital expenditure.

1185 Still, Mr Speaker, both £31 million and £55 million are excellent surplus figures and provide a very eloquent answer to silly suggestions that the Government's finances are in a poor state.

In further contradiction, Mr Speaker, of the Hon. Mr Picardo's assessment of the state of public finances is the fact that, since coming into office the new Government, has already increased annual public expenditure by more than £15 million per annum. Hardly the action of a Government that believes that it has been left a financial 'pup' and a very serious cash-flow problem by the previous Government.

1190 Indeed, Mr Speaker, the Budget measures that he has announced today, increasing further as they do expenditure and reducing Government revenues, itself belies any suggestion that the Government has inherited a bad financial situation. The hon. Member is able to cut taxes, to increase expenditure and give away all the things that he has given away, not because he has performed economic miracles in the last four months, but Mr Speaker because he has inherited a golden economic legacy from 16 years of sound financial management. **(Several Members: Hear, hear!)** *(Applause)* If not, Mr Speaker, he would have to be doing what all the other new incoming governments in Europe are doing: *slashing* expenditure, sacking people, increasing taxes and lowering expenditure!

1195 Why does he think that he is not in a position of having to do that? Because the previous Government gave him a terrible economic legacy – or because the GSD Government left him with a Gibraltar which, contrasted with the rest of Europe, precisely in the strength of our economy and the strength of the Government *[inaudible]* ...? Indeed, he has inherited one of only three government budgets in the whole of Europe that remain in surplus!

1200 So, Mr Speaker, none of all of this that I have just said, Mr Speaker, should be confused with the quite separate question – and this is what he does, confuse it precisely with that separate question – of whether funding the ongoing capital investment programme could or could not have been achieved without further borrowing. My view, and the plans that we had, is that it could not and that some further borrowing would very probably have been required. As this House knows, there is a disagreement across the floor of

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1210 this House, as to the desirability and sustainability of that. Our view is that, given the continuing buoyancy of Government revenue, indeed, Mr Speaker, the hon. Members opposite have an even *more* optimistic assessment of what that increase in Government revenue is going to be than the one I had before the Election. They think that Government revenue is going to increase by 50% in the next four years, and the expected continuing growth in our economy, which the new Government says will grow by 62% in the next four years, the required temporary increase in borrowing is easily affordable and sustainable, even if those very optimistic, in our view, predictions do not come true.

1215 People can understand this for themselves, Mr Speaker. If a borrowing limit of 80% of one year's revenue is prudent, or 40% of the size of your economy is prudent, and you are predicting that your economy is going to grow by 65%, then you stay prudent if the borrowing does not exceed 40% of an economy that has grown by 65%; and you stay prudent – and legal, by the way – if the size of your debt does not increase above 80% of one year's revenue, which they say is going to increase by 50%. They cannot, at one and the same time, predict these huge economic growth and Government revenue growths, upon which they base their expenditure plans and then argue that debts at current levels, or even current levels plus a bit more, which would be needed to finish off the Government's projects, would be too high. It is a contradiction in terms, it is an oxymoron.

1220 Mr Speaker, I know that it is difficult to sound non-partisan in a Budget debate, but I am going to try now and mean it. I accept that it is entirely reasonable for the new Government to focus and even to refocus capital expenditure on its own policy projects. I do not, therefore, aim any criticism at them for doing that; but two projects of the previous Government were in response to the very real short, medium and long-term needs of Gibraltar and our ability to sustain a growing economy and a population that enjoys a high standard of living and quality of life. The hon. Member has mentioned at least one of them this morning.

1225 They are: the tunnel under the runway – without which we are condemned to permanent traffic gridlock, due to frontier and airport issues – ironically, made worse the more successful we are at developing new air services for our new air terminal; and the new power station – without which we are condemned to unreliable power supply and a high level of ambient pollution, to the detriment of our health. I would urge the Government to proceed with both, with all expedition and I take note of what he has said this morning about the power station. At least, I will do a deal with him – since he has sought to blame me for the power cuts until a date which I did not actually take note of – I will happily accept political responsibility for any power cuts that occurred during that period, if he will proceed expeditiously with a new power station, which, above all party political confrontation in this House, is hugely, hugely in Gibraltar's interest and a serious need of Gibraltar for the next 20, 30 or 40 years.

1230 Mr Speaker, the Government is stuck in Opposition mode and is obsessed with criticising the previous Government. There is a palpable feeling on the street that the Government needs to realise that it *won* – albeit just, and without a majority – but it won the election, and that it must get on with the business of governing without spending so much time politicking backwards against what is now the Opposition.

1235 Clearly, the new Government feels a need to taint and tarnish the previous Government's reputation and record of achievements, probably for the justified fear that, otherwise, comparisons between the two will not look good for the new Government, come the next elections. My complaint, Mr Speaker, is the lack of political honesty with which the Government indulges its obsession to criticise the previous Government. The Government has reeled out a series of press releases on the basis of half truths or incomplete facts or carefully omitting important aspects, but all designed to create an impression of recklessness, impropriety, favouritism and even corruption on the part of the previous Government. This is wholly untrue.

1240 So, such statements have been issued on many subjects, including most recently, the bus maintenance contract, without saying that the bus procurement contract went out to EU tender and the local maintenance provider was selected by the bus manufacturer who won the tender, as part of his tender obligations.

1245 Other such Government statements have related to: temporary interim cleaning arrangements for the new air terminal, pending completion of construction; the distortion of a good agreement with Ocean Village; suggestions of improper payments to Haymills or OEM in relation to the affordable housing schemes; suggestions of improper payments to the family of Edwin Reyes; alleging irregularities in the new Culture Agency; suggesting the placing of party activists in 'cushy Government jobs'; (*Interjection by Hon. Chief Minister*) suggesting impropriety in the timing and content of the airport ground handler contract; suggesting impropriety in the allocation and content of the Leisure Centre bowling alley contract; and commenting on the operating costs and maintenance arrangements for the new air terminal.

1250 In all of these statements, the Government has sought to create an erroneous impression by sleight of the hand of the draughtsman. They need to get on and govern. They – or perhaps one of them in particular – need to change their chips from Opposition press release scribblers to Government Ministers.

1255 Mr Speaker, speaking of the new air terminal, the new air terminal is now being unnecessarily delayed. The Government need to get on and open it for departures and stop delaying that. The terminal

1270 has been ready for many months. If there is still an impediment to opening it fully, it is not essential works that need to be completed, but the new Government's failure to get on with staff recruitment and training, and concluding maintenance arrangements. This is now becoming very silly, and a matter of stubbornness on the part of the new Government to Gibraltar's detriment.

1275 Turning, Mr Speaker, to the proposals in the Budget book to reduce the public debt, Mr Speaker, the Budget book reveals that the Government plans to reduce gross public debt by £68 million this financial year, and that it is doing so by the very means that I told him during and after the election campaign was easily available to him, namely having Government debentures – which are taken out by local savers, issued by the Gibraltar Savings Bank, where they do not rank as public debt – instead of by the Government, as they are presently issued, where they do rank as public debt. This will reduce the amount of the gross public debt, but in an economically pretty meaningless sort of way.

1280 Just as the Government is now paying the interest costs on the Government debentures, so too will it have to pay the very considerable difference between the interest rates paid by the Savings Bank to savers, and those that the Savings Bank can earn by putting those very same monies on deposit in the money markets.

1285 I hope, Mr Speaker, that the Government is not contemplating alleviating this gap by allowing the Savings Bank to risk local savers' money invested in Savings Bank debentures, by being lent out to borrowers, or underpinning small business guarantees, in the context of the Government's planned expanded role of the Savings Bank into that sort of activity.

1290 Mr Speaker, as I told this House in my Address on the occasion of its Ceremonial Opening on 21st December 2011, if the Chief Minister is really concerned about the level of Government debt – which I am not – then he has to cut net public debt, not gross public debt, as he is proposing to do in this Budget and this he can easily do. There is no economically meaningful reduction in public debt, unless you reduce net public debt.

1295 Mr Speaker, most people will easily understand this. If a person owes a bank £1,000 on a bank loan, this is the gross debt. But, if that same person has £800 in a bank savings deposit account, this is cash reserves. His cash reserves. So his gross debt is £1,000; he has £800 of cash reserves; the difference between the two is the net debt. That is £200. He owes the bank £1,000, but he has £800 on deposit in a savings account in the bank. The £1,000 is the gross debt, the £800 is his cash reserves and the difference between the two is the £200 that is not covered by money that he can pull out of pocket at any time and use to repay his loan.

1300 So his real worry, this imaginary person, is will he be able to afford, if things go badly, to pay the £200 from the £1,000? Because he knows that the other £800 from the £1,000, he can just say to his bank, 'Take it from my savings account', so he has no problems with paying that. So until he reduces the £200 gap, he is making no real progress in providing for repayment of that part of the bank loan that he does not already have ready cash in his savings account to pay back, if things go badly or if he needs to repay. That is why it is net debt – that is to say, the £200 – that is of economic importance, not the gross debt of £1,000 because of that, £800 is not a problem at all, because he has got the money in the bank to pay it.

1310 So Mr Speaker, this is exactly the same for the Government. The Hon. Chief Minister is proposing to use £68 million; I am just saying 'pounds' for the sake of my example. The hon. Member is proposing to use £68 from the Government's £800 savings deposit account to reduce the £1,000 bank loan. But that will still leave the sum that the Government does not have the ready cash to pay at £200 – that is to say, it still leaves the net public debt at the same £200 as it was before. So nothing has really changed.

1315 Mr Speaker, this demonstrates that only reductions of this sum of £200, the uncovered portion, the part of the gross debt, the £1,000 to the bank, that is not covered by the £800 sitting in the savings account. Only by reducing that portion, the uncovered £200 portion, that is to say, net public debt, is the Chief Minister capable of relieving the debt level concerns that he claims and professes to have, but which most economists would not share with him.

1320 Mr Speaker, the new Government has inherited, as I have said, a golden legacy from the outgoing GSD Government. As all of Gibraltar knows, and most of Gibraltar acknowledges, the 16 years of GSD Government have resulted in unprecedented prosperity and progress for Gibraltar, and that is the legacy that the new Government has inherited: a Gibraltar with a restored international image and reputation, without which none of the progress would have been possible. An economy that has more than tripled in size – 8,000 more jobs – in fact, having seen this morning's employment survey, 9,200 extra jobs. I think we inherited 12,000-and-something and it is now 22,000. I just skimmed at this morning's report, which had been left on my table.

1325 A Gibraltar that has become a global leader in online gaming and ship bunkering; record numbers of Gibraltarians in jobs; the lowest unemployment rate in Europe; huge improvements in take-home pay and standards of living; record levels of Government budget surpluses; personal income tax cut by over 60% and many other taxes abolished; company income tax cut by three quarters; despite the huge Government investment programme, a low public debt. We have the fourth lowest public debt in the whole of Europe.

1330 Thousands of new affordable and rental homes: homes for the elderly and refurbished housing estates; a new hospital; a new health centre; a new air terminal; several multi-storey car parks and more under construction; new roads and roundabouts; the beautification of many of our roads, squares and much of our city – Casemates Square and John Mackintosh Square; the King’s Bastion Leisure Centre; a new
1335 small boat marina for local boats; the Westside Promenade and Park; enhanced beaches; new Millenium Sports Hall and many enhanced sports facilities; new Law Courts and court facilities; a new prison; a new crematorium; new industrial parks and premises; a new bus service and bus shelters; a cancer hospice and a home for battered women; a swimming pool and terraces for the elderly; playgrounds; a beautified Europa Point and its park; a magnificent Gibraltar House in London, of which this community is justifiably proud; a new Constitution which maximizes our self-government; stable relations with Spain;
1340 an end to bilateral talks and new strengthened Sovereignty commitments from the United Kingdom – not even talks without our consent; many social facilities under construction, and many, many more achievements.

A stable, secure and prosperous Gibraltar: *this*, Mr Speaker, is the reality of the GSD’s legacy – much as the new Government may try to tarnish it and try and create for its own selfish purposes, a different
1345 impression. The responsibility to ensure that they do not squander this legacy, that they build upon it and that Gibraltar continues to prosper and improve in this way is now the new Government’s.

The new Government has promised much to everyone, and to deliver it all within four years: 65% economic growth, hundreds of millions of pounds of projects and commitments, huge increases in annual Government expenditure, freezing utilities, cutting taxes to 15% for everyone, halving public debt and
1350 much more. Enough people were persuaded by these promises to give the Government a slender, minority election win. Voters now expect the Government to deliver on all its promises or they will feel that it has cheated them out of their vote and cheated its way into office.

I think, Mr Speaker, as many who voted for the Government have now come to realise in just six months, I think that Gibraltar would be much safer and much better off with a GSD Government, but for
1355 the sake of Gibraltar, sincerely, I wish the Government every success in the governance of our affairs.

(Applause)

Hon. Chief Minister: Mr Speaker, I will of course reply at the end of the debate, but I wonder
1360 whether this might be a convenient moment to recess for 10 minutes, before we come back for the next speech.

Mr Speaker: This House will recess for 10 minutes.

1365 *The House adjourned at 11.45 p.m.
and resumed its sitting at 12.00 p.m.*

1370 **Procedural**

Mr Speaker: Before we resume with the Budget Debate, just a couple of announcements.

First, I have been advised by the Chief Executive of the Courts Service that the Judiciary and the Bar
1375 will be paying a tribute to my predecessor, Sir Alfred Vasquez and to J E Triay tomorrow in Court at 12.00 noon. I have been informed by the Chief Minister that the House will adjourn at a quarter to 12, to enable those of us who are lawyers – in fact, the vast majority of us here are lawyers – to attend, if they wish to do so. So that is what will happen tomorrow. It is at 12.00 noon in Court.

Another point if I may, the members of the public who are in the Public Gallery are reminded that you
1380 are invited to these Chambers to observe the proceedings of the House, and not to participate in them. Therefore no reactions are permitted to any of the speeches in this House.

1385 **Appropriation Act 2012
Debate continued**

Mr Speaker: The Hon. Deputy Chief Minister.

Deputy Chief Minister (Hon. J J Garcia): Mr Speaker, this is the 14th time that I make a
1390 contribution to the Appropriation Bill in this House – the first time in Government.

1395 Before I start, I would like to take the opportunity to pay tribute to my friend and colleague, the Hon. Joe Bossano, for his 40-year contribution to the political life of Gibraltar from this House. Mr Bossano was first elected in 1972. However, his documented contribution outside this House started many years earlier, when he became the Secretary of the Pro-Integration Movement in the 1960s. This political trajectory is an achievement that this House, representing as we do the people of Gibraltar, should now recognise. I have to say at a personal level that it has been a privilege for me to have worked with him for the last 14 years in Opposition, and it is now a pleasure to do so in Government.

1400 Mr Speaker, this is because nearly seven months ago, the electorate, as is their right in a democratic society, decided that it was time to change their Government. They decided it was time for change. We offered people a change for the better and the electorate chose that change. The result was the election of a new team of Ministers to the benches on this side of the House, with a commitment to deliver a whole range of exciting and positive policies.

1405 It is well known, Mr Speaker, that in a number of areas we have had to tackle a fair number of problems that we have inherited from the party opposite, when they were in Government. Indeed, hardly a day goes by without an unpleasant surprise rearing its head.

1410 It is clear to me that after seven months in office, Mr Speaker, that in the dying days of the GSD administration, they went into overdrive, making all sorts of promises to all sorts of people, in a desperate effort to cling on to power. There are still people coming to see my colleagues and I, seeking to have these honoured. To paraphrase what somebody once said, Mr Speaker, never was so much promised to so many by so few. In the face of this situation, the fact that we won the election at all is nothing short of a miracle.

1415 Mr Speaker, the new Government made clear from the very outset that those projects or policy areas with which we agreed, where commitments needed to be honoured or which were too advanced, would continue. Those with which we did not agree would be stopped and those in-between would be studied in order to determine their viability. There are, therefore, projects which have carried on, projects which have been stopped and projects that are being assessed.

1420 My Office, Mr Speaker, is tasked with the oversight and co-ordination of manifesto commitments. We are also directly responsible for planning, lands and civil aviation. The new Government, Mr Speaker, has started the process of delivery of the manifesto enthusiastically. There are some electoral pledges that include a target date. However, most of them have no such dates and the intention of the Government is that these will be implemented over the full term of office.

1425 The Government, Mr Speaker, had, by 8th February, implemented over 40 commitments in what were the first two months in office. Some of these were simply a case of honouring promises made by the party opposite when they were the Government. Others involved a change of policy or direction. Others still involved taking action through the use of resources. For example, a bus to Both Worlds was in place before Christmas and more beds for the elderly were actioned at St Bernard's through Calpe Ward.

1430 Mr Speaker, over 70 electoral commitments were delivered or actioned in the first 100 days of the new Government. We have already said that the focus in those 100 days was to change the way in which Gibraltar did business. We have achieved this, Mr Speaker.

1435 This transformation has been both internal and external. The internal change is reflected in the way in which Gibraltar itself operates. Gibraltar now has Cabinet Government, a system by which decisions are taken collectively by all the Ministers, as opposed to all decisions being taken by one person. The Cabinet generally meets every Monday and when the Chief Minister is away from Gibraltar, the meetings continue and are chaired by myself as the Deputy Chief Minister.

1440 The external changes reflect the way in which the Government deals with the public. Mr Speaker, within its first month in office, the Government announced and implemented its Citizen's Charter for Responsive Government. This has ensured that members of the public, businesses or associations no longer have to wait an inordinately long time for replies when corresponding with the Government. Those delays, or the absence of a reply altogether, were a constant source of complaints from the general public when the hon. Members opposite were in Government.

The Government also gave instructions within 30 days of being elected for the disclosure of certain Government documents under a 20-year rule. This places Gibraltar ahead of the UK, in relation to openness and transparency in this field.

1445 The new Government, Mr Speaker, now publishes a raft of official statistics on its website as a matter of course. This includes most of the data requested by the GSLP/Liberals when we were in Opposition. This makes it available instantly to the members opposite, to the media and to the general public. There is now more Government information on-line than ever before.

1450 Mr Speaker, the new Government immediately gave effect to our commitment to paperless Government. All Ministers are in touch all the time, using the latest technology, and can participate in any discussion or decision-making instantly. Indeed, through the use of new technology and using the internet and Skype, the Chief Minister has participated in Cabinet discussions when on paternity leave without being physically present.

The first Budget of this new Government today, Mr Speaker, will serve as a trigger for the start of the delivery of a number of manifesto commitments for which specific funding is required.

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Mr Speaker, in the first six months, we have ticked off over 100 electoral commitments. I would like, once again, to thank the professional civil servants and members of the public administration who have assisted the new Government in this task.

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Mr Speaker, It is perhaps in the changes we have made to the way in which our Parliament operates that our commitment to accountable and transparent Government can be best appreciated. The problem with some of the hon. Members opposite is that they were not in this House before, in order to properly understand what used to happen then and compare that with what happens now. It is obvious that some of the new Opposition Members almost take for granted the reforms that have been introduced.

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This year, there have already been five meetings for Questions in six months. There will be 10 meetings a year for Questions. We have already had more Question Times in six months than used to happen in a whole year when the GSD were in office. Mr Speaker, the Opposition have never had it so good. Moreover, in some years, they called two or three meetings and in 2003, there was only one meeting for Questions.

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The Opposition can now ask Questions on issues at a time when the issue is topical. I remember asking Questions in September or October about things that may have happened in April or May, because there was no Question Time in between. Indeed, there will be another meeting for Questions later this month, when the Budget debate is over.

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The irony is that the changes that this Government has introduced have not cost any money and have required no legislative action. It was in the power of the GSD when they were in Government to have delivered more meetings of the House in the same way as we have done. They did not do this. This means that the parliamentary role of the Opposition then was curtailed by the hon. Members when they were the Government. That they should now complain at the answers that they are given in this House, in respect of two or three Questions, is nothing more than a smokescreen which is designed to hide their poor record in this regard when they were in office.

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Mr Speaker, the new Parliament website – www.parliament.gi – is already up and running. This provides a very useful service to members of the press, to the general public and obviously to the Members of this House. This initiative should have been taken long before we came into office.

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The website includes the agenda for meetings, the audio of the proceedings of the House, Bills, Notice of Questions, the timetable for Parliamentary business and the *Hansard*. The House knows that this Parliament has reached an agreement with the Isle of Man to transcribe our *Hansard* into audio files which are sent to them by e-mail. This means that *Hansard* is now available in record time.

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Mr Speaker, when I was first elected, *Hansard* used to take months to be made available to the Members of this House. In one case, it took nearly a year. There was clearly a lack of investment and of resources, which in turn hampered the work of the Opposition. The new system we have put in place means that *Hansard* is now generally available within weeks. The *Hansard* for the morning session of 21st June, for example, was available on 29th June. This is a complete transformation in the availability and the supply of information. This is why I said earlier that it is very easy for new Members on the opposite side to take these improvements for granted. They cannot possibly imagine what we had to endure when we used to sit where they sit now.

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Mr Speaker, in line with our manifesto commitments, in February, the Government announced the setting up of the Commission on Democratic and Political Reform. The Commission has kept to a strict timetable. A consultation paper was issued three months after the Commission was formed. Twelve months after that, in the spring of next year, the Commission will report to Parliament its recommendations after an extensive period of public consultation. The intention of the Government is that Parliament will debate the report within three months and then decide which proposals should be approved by the House or if a referendum should be held to approve any or all of them.

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The measures accepted by Parliament will be implemented within six months and any changes to the electoral system will apply for the next general election. The Government welcomes, Mr Speaker, the involvement of the *Hansard* Society in this process and the outside expertise that they have provided to the deliberations of the Commission.

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Mr Speaker, the Government is very grateful to Mr Adolfo Canepa, George Mascarenhas, Fabian Vinet, Robert Vasquez and Charles Gomez for giving of their time in order to serve as members of the Commission. We are also grateful to its Secretary, Mr Dennis Figueras.

1510

The Government intend to continue to move this House into the 21st century. The purchase of a new digital sound recording and audio system for the Parliament has already gone out to tender. This system will have the capability for the connection of cameras to provide a feed on-line which the media can then pick up. The actual introduction of cameras will, of course, only follow the approval of Parliament itself.

Mr Speaker, I take this opportunity to thank the Clerk and the staff of the House for their assistance and support in this project and indeed for their help first in Opposition and now in Government. I would

1515 also like to thank the IT Department for their professional input and involvement in order to make the project a success.

1520 Mr Speaker, the impact of the arrival of the new Government and the changes that we have implemented can clearly be seen in the planning process. Under the previous Administration, planning decisions were taken in secret, behind closed doors. There was little or no public participation. Objectors were not heard and the press and the public were not entitled to be present at meetings of the Development and Planning Commission (DPC). The town planners ended up being excluded from Government projects and the DPC was not provided with information about them.

1525 Mr Speaker, this closed and secretive system was transformed within weeks of the GSLP/Liberal Government taking office. In line with our manifesto commitments, on 22nd December, the formal decision was taken to make the Town Planner the Chairman of the DPC. It was also decided that the meetings would take place in public and that the Environmental Safety Group (ESG) would form part of that body.

1530 Mr Speaker, there have now been seven public meetings of the DPC. These take place at the John Mackintosh Hall and anyone is able to attend. The Commission has, since we were elected, considered 235 applications, all of them in public. There have been presentations by applicants and presentations by objectors. The fact that architects and others are present at the meeting has meant that Commission members can question them on any aspect of an application on the spot. The result is that simple queries can be addressed immediately and that applications are not held up for weeks, while there is correspondence to and fro in order to clear up a point.

1535 The reality Mr Speaker, is that the new system is working very well. I would like to take this opportunity to thank and congratulate the town planners and the staff of the Town Planning and Building Control Department for their professionalism, their assistance and their enthusiasm in assisting the Government in the delivery of our manifesto commitment in this field.

1540 Mr Speaker, there have been a number of Government applications submitted to the DPC for information and guidance since the new Government came into office. This followed a gap of many years under the previous Administration, where no Government projects were submitted at all. One of the first such projects was a children's playground at Moorish Castle Estate. The playground was opened by Prince Edward and the Countess of Wessex during their visit last month.

1545 The intention of the Government remains to subject all Government projects to the full planning process during this term of office. Indeed, it is encouraging to see that many Government Departments are now automatically factoring in the time that it takes to go to planning in the timetable of official projects. This is obviously something the system has to get used to.

1550 Mr Speaker, the planning process has undergone visible and real improvements. It is regrettable that the hon. Members opposite have adopted such a negative approach to these changes. They take the opportunity to distort and exaggerate any particular matter for their own political gain. The Opposition have the political audacity to suggest that we are somehow not being transparent or open enough, yet at the same time their own policy remains to a return to the closed and secretive planning system that we inherited from them. They have accused the Government of failing to follow a course of action that they themselves do not believe in. This is not a credible position.

1555 I understand Mr Speaker, that nearly half of the Opposition Members have not been in Parliament before. They are therefore not in a position to appreciate the nature and the extent of the transformation that has taken place. Indeed, at one point, when the GSD were in Government, I was even told point blank that they would not answer questions in this House on the DPC because the DPC was not the Government and they were not accountable for it.

1560 All this information and more, Mr Speaker, is now available to the public and it is now available to them. It was not readily available to me when I sat on those benches and I asked the questions. In order to be critical with a degree of credibility, Mr Speaker, they must understand the extent of what used to happen when they were in office. I fully accept that they are entitled to a different policy. If they prefer the closed and secretive methods of the past, that is their prerogative. However, they must equally accept that the new Government was elected on a manifesto which promised to open up the planning process and that this is what we have done.

1570 Mr Speaker, the agenda and the minutes of the DPC are now available on-line. When I was in Opposition, I was privy to neither the agenda nor the minutes, and neither were the general public. The hon. Members have made use of this increased information, in order to find details with which to try and discredit the Government. I repeat that they should bear in mind that when I sat on those benches this information was simply not available.

In short, Mr Speaker, my advice is that they should be more generous with the new Government, because we have made their life much easier than they ever made it for us when the roles were reversed. In this area also, Mr Speaker, the Opposition have never had it so good.

1575 This House knows that the Government's reform of the planning process has not yet finished. The ultimate objective of the Government is to make the whole planning process of any application available

on-line. In March, the Town Planner and the Deputy Town Planner visited two local planning authorities in the United Kingdom. These were in the London Boroughs of Redbridge and Richmond upon Thames. In both these authorities they were shown the respective on-line services and had an opportunity to learn more about them. The Government will assess the different options available in order to fulfil its pledge which is to make the whole planning process of any application available on-line.

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Mr Speaker, the Town Planning and Building Control Department is at Head 12 and the total amount of expenditure for this year is £787,000.

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Mr Speaker, In relation to lands, this House is aware that the Government has put out to tender a number of ex-MoD properties which have been transferred under the Lands Deal of July 2011 that was concluded by the previous Administration. This deal was described at the time as being self-financing because under it the Gibraltar Government is required to relocate and re-provide MoD requirements from the funds raised by the sale of these properties. The expenditure of the Government in relation to MoD re-provisioning works is set at a maximum of £66 million.

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The expectation, therefore, is that the Government will obtain £66 million or more from the sale of MoD assets. However, what this means is that, whereas the expenditure for the Government is fixed and capped, the income on the other hand, is variable and subject to a number of external fluctuations, like the state of the property market and the availability of mortgage finance. In other words, there is always a possibility that instead of receiving £66 million in income, the Government could actually receive less. It is to guard against this that these tenders have been awarded on a highest bidder basis.

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The first such tender was for two large houses at Europa Point, which were put on sale with a closing date of 9th March. There were no bids for these properties. The Government is now considering its options in respect of these houses.

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A further eight properties were put out to tender at St Christopher's Court. There were 73 bids for these properties and the Government has obtained about £2 million in revenue.

The 13 terraced houses at Buena Vista went out to tender with a closing date of 4th May. There were 91 tenderers interested in these properties and about £4.8 million in revenue is expected to be raised.

Three units at Cheshire House were then put out to tender. There were 44 bids for these properties and about £1.5 million is expected to be raised.

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The total projected revenue, based on the current 24 sales to the current successful applicants, is in the order of £8.3 million. This does not include sales to MoD sitting tenants.

Mr Speaker, the sales figures which have been given could vary. There are successful tenderers who have to sell their existing home and others who are dependent on bank finance. In the event that any allocation falls through for this reason, or indeed for any other, the residential unit in question will be allocated to the next highest bidder on the list for that particular property.

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The House will see that I&DF Head 102 in respect of revenue from the sale of Government Properties and Other Premia, shows an estimate of £10 million for the financial year 2011-12, with a forecast outturn of £1,432,000 million. The estimate for this financial year is £20 million of revenue including ex-MoD sales.

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Mr Speaker, In respect of expenditure, in I&DF Head 102, Sub-Head 3, a nominal £1 million has been entered in respect of each (a) MoD Lands; b) MoD Project Euston; and (c) Other Relocations.

Mr Speaker, the Government has also put out to tender 16 flats which it owns, some of which have been vacant for a considerable period of time. Nine of them in Harbour Views, Sir William Jackson Grove, Portland House and Carltree House were put on the market on an open tender basis to the highest bidder. There were 44 applicants for these properties and just over £1.1 million is expected to be raised. Seven other flats in Merlot House were also put out to tender on a fixed price basis. This means that, in the latter cases, prospective tenderers were not be able to outbid each other and that a list of published criteria, other than price, was used to determine the selection.

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There were 22 applicants for these properties and just over £900,000 is expected to be raised. The Government has, in addition, put out to tender eight commercial units. We have continued the practice established by the hon. Members when they were in Government, of putting all of them out on a fixed price basis. Five of the units are in Waterport Terraces, where a projected income of about £1.2 million is expected to be raised. The others are small units at Governor's Cottage and Casemates Arcade that have been put out on a rental basis.

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The Government is aware that there is considerable demand for storage space, industrial and commercial units and hope to be able to go some way to meeting the demand during our term in office. Given this situation, it made no sense to keep these properties off the market, when they could be generating income for the Government and economic activity for the benefit of Gibraltar as a whole.

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I want to take this opportunity, Mr Speaker, to thank the staff in the Lands Office in Convent Place and the management and staff of Land Property Services Ltd for their assistance and co-operation over the last six months.

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Mr Speaker, I now move on to aviation and the air terminal. The Director of Civil Aviation reports to me in my capacity as the Minister responsible for aviation matters. The Department can be found at Head

11 of the Estimates of Revenue and Expenditure. The estimate for the last financial year was £4.1 million. The outturn was £3.8 million. The estimate for this year, which this House is being asked to approve, is

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Mr Speaker, in order to cover the existing requirements for security in the old air terminal caused by the requirements of European Aviation Security legislation, the Government recently recruited 14 new Borders Agency officers. These officers, who are all Gibraltarian, have undergone initial training packages and are now undertaking on-the-job training, prior to being declared fully operational in August. The recruitment of the new personnel has allowed the recruitment of a dedicated Training Officer from within the BCA. The new post will be responsible for implementing and teaching the extensive training programme required by the EU legislation for aviation security officers.

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Similarly, it is planned to recruit a dedicated quality control officer. This officer will be responsible for undertaking audits, inspections and tests of all the security related operations at the Airport.

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Mr Speaker, during the past 12 months only two bird strikes have been reported. This demonstrates the importance of the culling programme and the bird management procedures employed by the Airfield Bird Management Team, who spend long hours patrolling the airfield.

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An Aerodrome Manual has been produced which formalises the safety procedures that are in place at the airport. The document details the safety accountabilities and responsibilities of the various agencies. It also lays down the terms of reference for the various safety committees at the airport and sets out the standing instructions employed at the Airport. This document ensures that all units at the airport, both civil and military, have a common safety reference book, which will improve the interoperability of the various organisations. This Manual has already proved very useful.

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While on aviation matters, I would like to spend a few moments on the air terminal. Gibraltar Air Terminal Ltd took possession of five operational aircraft aprons in August 2011. Operations from the new air terminal for arriving aircraft started in November 2011, although, as the House knows, operations for departing flights have not yet commenced. I will say more on this later on.

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Practical completion of the new air terminal was accepted by GATL in April 2012. The House knows that, in Opposition, we did not support the new air terminal. We did not support the expenditure; we did not support its relocation next to the frontier fence; and we did not support the scale of the construction. The arguments are well known and well rehearsed. In our view, the motivation behind this project was not economic, in the sense of planning for the future, but purely and simply in order to give effect to a political agreement with Spain.

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Mr Speaker, it is obvious to us now, with the benefit of hindsight and of having access to all the relevant information, that we were correct in the analysis that we made at the time. The air terminal project has been carried out with poor planning and with little consideration for the public purse. It was not driven by the public need of Gibraltar, but by the need to make a statement of pharaonic proportions, paid for with somebody else's money. It is very easy, Mr Speaker, to have visions of this kind when somebody else foots the bill. It is obvious that the hon. Members got their priorities wrong, in relation to this project.

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Moreover, it was a serious error of judgement to operate two terminals at the same time, one for arrivals and one for departures. This has created all sorts of logistical problems for the staff who work in the buildings and for the commercial entities who operate from there. There is no doubt that the rush to open for arrivals at the end of November, and the public viewings that preceded it, were nothing more than transparent electoral stunts.

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It will be recalled that workers were withdrawn from other Government projects all over Gibraltar in order to ready the terminal on time. There was an obvious resulting increase in cost as well as a delay to other projects. The figures made available to the new Government soon after coming into office showed that the cleaning of the terminal for the initial period of arrivals from 25th November to 10th December was over £88,000. Clearly, money was no object.

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Mr Speaker, the Government expects that the cost of the new air terminal will be in the region of 84 million euros. This project was originally trumpeted as costing £24 million. The costs then went up to 50 million euros at the time of the tender, to 70 million euros at the time of the General Election and to about 84 million euros today. The waste of public funds is unforgiveable. It is clear that the party opposite has a lot to answer for.

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One of the reasons for increased costs is because the now Hon. Leader of the Opposition, who once proudly boasted that he was the Clerk of Works of the Casemates project, clearly also considered himself to be the Clerk of Works of the air terminal. The Government has received detailed information which shows that at least 6 million euros of increased costs was due directly to the personal intervention of the then Chief Minister.

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Mr Speaker, this included: enlarging toilets at the cost of nearly 140,000 euros; increasing the size of the monitors at the cost of over 100,000 euros; altering the purpose of the airside facilities building, which cost 817,000 euros. It also included changing some walls leading to and from the frontier from solid with glass top panel to full height glass walls. This cost a further 312,000 euros. Then the

1700 Government also agreed to contribute 55,000 euros to the cost of demolishing and reconstructing stairs, because they did not line up with the angle of the adjacent escalator.

1705 Mr Speaker, it was already bad enough that the costs of the air terminal have increased to over three times the original figure that was given. It is totally unacceptable that the now Leader of the Opposition should have been personally responsible for the changes that contributed significantly to such an increase in costs.

1710 It is also particularly scandalous that the ground handling contract with Bland Ltd was signed on 7th December 2011, which was the day before polling day. It is beyond belief that the signing of this contract could not have waited 24 or 48 hours, so that a different Government could have taken a view on it. This is all the more relevant since it is meant to run for a seven-year term, until November 2018.

1715 The signature of this document the day before the people of Gibraltar went to vote for a new Government has raised a serious constitutional point. Save in the case of public emergency, the Constitution of Gibraltar prohibits any caretaker Government from committing or binding its successor to public funding or liability, except in the ordinary course of the day-to-day affairs of Gibraltar. Mr Speaker, it is clear to me that the GSD Government, through GATL, has committed its successor Government to public funding and that this could be seen as unconstitutional. The new Government has sought a legal opinion on this point.

1720 Having said all this, Mr Speaker, the air terminal is there and the new Government now has the responsibility to make it work. The Government were given practical completion at the end of April, about eight weeks ago. The decision has been taken to operate the air terminal through a series of service level agreements with a number of contractors who are already in place, until local people can be trained for the jobs that are available.

1725 The Government set about reducing the costs at the air terminal soon after we took office. The House will recall the cancellation of the infamous cleaning contract that I referred to earlier. The Government has authorised one-year contracts with five contractors in respect of a number of functions at the new air terminal, after negotiating price reductions. This will nonetheless still cost over £1 million a year.

1730 There are still other SLAs that remain to be agreed. The new air terminal building is being prepared for departures as well as arrivals, since practical completion was given at the end of April. Work now continues to resolve the long list of snagging problems that have been identified, once possession of the building was achieved.

1735 Additionally, work continues to fully integrate and configure the extensive IT systems. The next phase will see staff being trained on the new systems and then full operations will be able to commence from the new air terminal. It will, therefore, open for this purpose as soon as it is ready.

1740 Mr Speaker, by way of example, the Government has been told that the CUTE check-in system was expected to be ready by mid-July and that following this, the handler's staff needs to be trained on it.

1745 Mr Speaker, I would like to take this opportunity to thank the Director of Civil Aviation, Chris Purkiss; the Air Terminal Director, Terrence Lopez; and all the staff at the two air terminals for their support.

I now move on to a short report in relation to Gibtelecom.

1750 Since my appointment as Gibtelecom's Chairman in December 2011, I have been struck by the company's investment in its people and their commitment to deliver quality services. Therefore, at the outset, I take this opportunity to express my appreciation to Gibtelecom's staff, including those who have retired or moved on, who have contributed to the company's success.

1755 I have now had the pleasure of attending two board meetings of the company, together with the Government's partners from Slovenia Telecom. I have also toured different sections of the company and had the opportunity to chat to management and staff.

1760 Mr Speaker, investment in technology continues to be the cornerstone of Gibtelecom's strategy and 2012 will see the culmination of a number of important projects. These include the Next Generation Network (NGN). This will have the capacity to deliver faster broadband speeds in the shorter term and eventually lead to closer integration of fixed line, internet and mobile technologies.

1765 Another key project getting underway later this year is the replacement and upgrading of the computerised system for network records, customer services and billing, which plays a crucial part behind the scenes role in all Gibtelecom's operations. The company is also enhancing its mobile coverage around Gibraltar, to meet the challenges of topography and the growing demand for mobile internet and data services.

1770 The activation of the Europe India Gateway (EIG) cable, together with the setting up of a Gibtelecom Point of Presence (PoP) in London, provides the Company with significantly enhanced route diversity and resilience, to complement its land and other sea routes. The company has begun marketing and selling its substantial EIG capacity beyond that required for Gibraltar, by seeking to partner with other international carriers to extend its global reach. Gibtelecom's first agreement, announced in June this year, is with a leading South African company called Vodacom – part of the Vodafone Group.

1765 With regard to business enterprise services, the company was able to make some headway at the turn of the year in reducing bandwidth prices for the emerging e-commerce industry, which was a much needed move in the right direction, if Gibraltar is to be an attractive jurisdiction for e-commerce. Also, this spring, the company took the first steps in enhancing its broadband offerings for both business and residential customers, with further speed increases due later in the year.

Mr Speaker, there is a growing demand for computer data hosting services, which the company is also developing at present with the construction this year of further data centres.

1770 Mr Speaker, the Government will deploy its shareholding in Gibtelecom to encourage the company to continue to invest in infrastructure, technology and people to ensure Gibraltar's needs in the critically important area of communications continue to be met.

Mr Speaker, a new Government brings new ideas and a new way of doing things. We have made fundamental changes to the way in which Gibraltar is governed in a very short period of time. People voted to change and Gibraltar has changed, for the better.

1775 In concluding my contribution, I want to thank you, Mr Speaker, because this will be the last time that you preside over a Budget session in this House. I was one of those who voted against your appointment the first time round and then supported it the next time. Mr Speaker, everything you have done from that Chair has justified this.

1780 I also want to take the opportunity to thank all the civil servants and public servants who have made us so welcome and with whom it has been a pleasure to work over the last six months, in order to ensure the delivery of our manifesto – in particular, Coral and Caine, the staff in my personal office in No. 6 Convent Place.

Thank you.

1785 *(Applause)*

Hon. Chief Minister: Mr Speaker, I beg to move that the House do now adjourn until this afternoon at 3.00 p.m.

1790 **Mr Speaker:** This House will now adjourn until 3.00 pm this afternoon.

*The House adjourned at 12.35 p.m.
and resumed its sitting at 3.00 p.m.*