



# PROCEEDINGS OF THE GIBRALTAR PARLIAMENT

MORNING SESSION: 10.00 a.m. – 12.57 p.m.

Gibraltar, Monday, 24th June 2013

## The Gibraltar Parliament

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*The Parliament met at 10.00 a.m.*

[MR SPEAKER: Hon. A J Canepa GMH, OBE *in the Chair*]

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

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### Televising of proceedings Congratulations and thanks to all involved

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**Mr Speaker:** Hon. Members, as we sit in this House this morning, history is being made. For the first time ever, we are privileged to be able to enter into the homes of our people through the medium of television, thereby enhancing the relevance of our proceedings and deliberations. I know that we all wish to congratulate and thank all those who have worked so hard to bring about such an exciting enterprise.

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**Chief Minister (Hon. F R Picardo):** Mr Speaker, thank you for the opportunity to reflect on the fact that these proceedings are now to be aired not just on radio, as they have been certainly since time immemorial in my memory, but also on television so that people will see the proceedings of this House.

I sincerely appreciate the work that has been done to achieve this. It is one of our key manifesto commitments in respect of the opening up of our democracy, and I will have a little bit more to say about the detail of it during the course of my intervention this morning.

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**Clerk:** Sitting of Parliament, Monday, 24th June 2013.

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

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**Hon. D A Feetham:** Mr Speaker, yes, simply to associate myself with your words and also with *some* of the words of the Leader of the House, the Chief Minister.

The televising of parliamentary proceedings is something that I have personally supported since 2002. It is something that this Party has supported from its last term in office, and of course we are here on a cross-party basis because it is supported by both sides of the House.

40 Mr Speaker, I would also like, as you have done and also the Chief Minister, to congratulate everybody who has been involved in making this project a reality. It has not been easy in the timeframe that we have had available, but they have done a magnificent job.

45 **SUSPENSION OF STANDING ORDERS**

**Mr Speaker:** The Hon. the Chief Minister.

50 **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 make a Ministerial Statement to Parliament and also to proceed with Government Bills.

**Mr Speaker:** Do all Members agree that the Standing Order should be suspended? Those in favour? (**Members:** Aye.) Those against. Carried.

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**Congratulations to Hon. Sir Peter Caruana**

60 **Clerk:** The Hon. the Chief Minister.

**Chief Minister (Hon. F R Picardo):** Mr Speaker, before I start on the Ministerial Statement that I am about to make, I recognise that the Hon. Sir Peter Caruana is in the Chamber today for the first time since Her Majesty saw fit to bestow that Honour upon him, and I think it is appropriate for me to recognise, on behalf of the people and Government of Gibraltar, that that recognition is rightly deserved. I have already issued a Government Statement recognising that. He was 16 years in the Chair that I occupy today, no doubt something very worthy of recognition.

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

70 **Hon. D A Feetham:** Mr Speaker, again I associate myself entirely with the words of the Leader of the House. We too have issued a statement. It is something that I will also touch upon during the course of my own Budget speech. I think that if anybody deserves a knighthood, it is Sir Peter Caruana. It is extremely well deserved – again on behalf of the Opposition, which once more congratulates Sir Peter on a very meritorious award indeed.

75 **Mr Speaker:** I wish to associate myself with the remarks of both the Chief Minister and the Leader of the Opposition. My warmest congratulations to the Hon. Sir Peter Caruana and to Lady Cristina on the award of such a very significant Honour.

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**ECOFIN endorsement of Income Tax Act  
Statement by the Chief Minister**

85 **Chief Minister (Hon. F R Picardo):** Mr Speaker, I am delighted to be able to announce that in its meeting last Friday in Brussels, which ended in the very early hours of Saturday morning, the European Council of Economic and Finance Ministers of the 27 EU Member States, also known as the ECOFIN Group, endorsed Gibraltar's Income Tax Act, as amended earlier this month, as now being compliant with the EU Code of Conduct for Business Taxation.

90 This is the first time that Gibraltar's tax system has been fully endorsed by both the Code Group and the ECOFIN. These approvals mark a major milestone in the transformation of Gibraltar as a mainstream and compliant tax jurisdiction.

95 Although the EU Code of Conduct is not a legally binding instrument, it has strong political force. It has become the yardstick by which harmful tax measures within the EU and in the Overseas Territories of the EU Member States are assessed.

The Code was adopted in 1997. It requires Member States to refrain from introducing any new harmful tax measures, which is known as the standstill principle; and amend any laws or practices that are deemed to be harmful in respect of the principles of the Code, which is known as the rollback principle.

100 The Code covers tax measures – legislative, regulatory and administrative – which have or may have a significant impact on the location of business in the Union. The Code Group criteria for identifying potentially harmful measures include identifying an effective level of taxation which is significantly lower than the general level of taxation in the country concerned; tax benefits which may be reserved for non-residents; tax incentives for activities which are isolated from the domestic economy and therefore  
105 have no impact on the national tax base; the granting of tax advantages even in the absence of any real economic activity; the basis of profit determination for companies in a multi-national group which departs from internationally accepted rules, and in particular those approved by the OECD; or a lack of transparency.

The Code is implemented by the Code of Conduct Group, which is a group that pulls together the tax authorities of the 27 EU Member States and is chaired by the European Commission.

110 Gibraltar's Income Tax Act had been under close examination by the Code Group for several years now. In November 2012, the Code Group made its evaluation and found that the Income Tax Act, as adopted in 2010, contained harmful tax measures. It made that finding on the basis that the non-taxation of intercompany loan interest income was harmful because in practice it benefitted transactions with non-residents.

115 Since November 2012, last year, the Government has therefore been working very intensely indeed with the European Commission in finding a way to address that concern. This was including attendance at various meetings in Brussels by me and by officials. As a result, the Government has been able to devise changes to the Income Tax Act which remove the perceived harm – or rollback, in the language of the Code.

120 The Gibraltar Government was invited to make representations to the Code Group on 29th May 2013 to explain the work it had done on rollback since November 2012. At that meeting, the Code Group took a vote and found in Gibraltar's favour by what I will describe today as a crushing majority vote. It is this vote that was endorsed by the ECOFIN last Friday.

125 Mr Speaker, this is a great and important day for Gibraltar as a serious EU-compliant financial services jurisdiction. Gibraltar's listing as a harmful tax jurisdiction under EU Code of Conduct criteria has been damaging to Gibraltar's reputation for the last 15 years. Code Group approval has eluded us since its creation in 1997. I am therefore delighted that the work we have done and the meetings we have held since November 2012 and the amendment we made earlier this month have been found satisfactory and have now given Gibraltar, for the first time, a clean bill of health under this important process.

130 Mr Speaker, in the spirit of the privy council-style status that I have sought to create to move away from unnecessary partisanship on matters of national importance and allow the Opposition to be briefed on such matters, I asked the Chief Legal Adviser of the Government and the Commissioner of Income Tax to brief both the Leader of the Opposition and the previous Chief Minister of the results of the Code Group's determination some weeks ago, ahead of the ECOFIN meeting that had originally been  
135 scheduled for 20th June.

Mr Speaker, I am delighted to now have the opportunity to share this excellent and hugely positive news with the whole House and the public.

140 Mr Speaker, those who persistently try to denigrate us, those who, with compulsive blindness, seek to undermine the reputation and credibility of our country are fast running out of credible options to do so. We will continue to expose them, Mr Speaker. We will do so by showing them all that Gibraltar can and will adhere to EU and international standards and will prosper in the process of doing so. That is the economic model my Government subscribes to. That is the economic model that will take us forward and deliver the progress we deserve. *(Applause)*

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## Order of the Day

### BILLS

150

#### FIRST AND SECOND READING

##### **Appropriation Bill 2013 First Reading approved**

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**Clerk:** Bills, First and Second Reading.

A Bill for an Act to appropriate sums of money to the service of the year ending on the 31st day of March 2014: the Hon. the Chief Minister.

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**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 2014 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 2014 be read a first time.

Those in favour? (**Members:** Aye.) Those against? Carried.

**Clerk:** The Appropriation Act 2013.

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##### **Appropriation Bill 2013 For Second Reading Debate commenced**

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

This is my 10th Budget session as a Member of this Parliament and my second Budget address as Chief Minister, and I now have the honour to present the Government's revenue and expenditure estimates for the year ending 31st March 2014.

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Mr Speaker, this debate on the Second Reading of the Appropriation Bill has traditionally also been not just about economics; it is also a State of the Nation address, touching areas beyond the numbers in the schedule to the Bill. I will, nonetheless, also of course report to this House on the state of the economy and public finances and on the revenue and expenditure outturn for the previous financial year, which was the first full financial year under the Socialist Liberal Government.

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Mr Speaker, I will end my address to the House by outlining some of the more specific Budget measures that the Government will introduce this year in pursuance of manifesto commitments and new measures designed to address the social and business needs of the community.

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Mr Speaker, this debate on the Second Reading will be historic in many ways. The substance of the economic points I will make will be, of course, the highlights of this debate, but one historic innovation today, which we have touched upon already, is the fact that the debate is being transmitted not just in audio but also in video. Today, I believe these proceedings are finally being broadcast on Parliament's own website, on television by the public broadcaster, and on the websites of such other national media outlets as may request it – although I do ask viewers to bear with us if there are some glitches as we start this process.

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Mr Speaker, in my first Budget speech in 2004 I was advocating the video transmission of the proceedings. It is therefore an enormous pleasure for me to have led, with the Deputy Chief Minister, the physical reformation of this Parliament to include the installation of cameras. I am very happy that we were able to agree the basic rules with Members opposite and that you have ruled that, on that basis, the cameras should start to roll.

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It is important that I also recognise here the huge efforts of the Government's IT and Logistics Department in getting the necessary systems talking to each other and able to transmit not just on television but also to stream on websites. It has been a huge task, involving many complicated pieces of hardware and software, and even the laying of cables, and all of it done and delivered quickly and effectively.

205 It is also right, Mr Speaker, that I should recognise the work done by the Clerk and Ushers of the House, who have, in an extremely short time, made themselves experts in the management of the newly installed cameras – veritable Spielbergs of parliamentary proceedings. I want to congratulate them for their work in this particular regard.

210 Mr Speaker, all of this with a backdrop of more parliamentary meetings than ever, with a monthly Question Time 10 times a year. Already, Mr Speaker, we have had double the number of meetings we would have expected to have in whole terms under previous administrations. So a more open democracy and a more democratic process of monthly accountability has been ushered in.

215 Moving on now, Mr Speaker, as was the case with the first Budget of my Government last year, this Budget is designed to support working families. It is a Budget to support both our youth, our senior citizens and the disabled. It is a Budget that will encourage business and improve our public services. In short, Mr Speaker, this is a Budget that will further improve the quality of life and standard of living of all citizens in Gibraltar and will deliver on even more of the obligations we acquired during the last General Election campaign. A Budget, Mr Speaker, for *all* the community.

220 All of this, Mr Speaker, in the context, for yet another year, of economic problems throughout the rest of Europe and most of the rest of the world. Mr Speaker, from the time that I was in Opposition, however, I repeatedly said that I did not believe that Gibraltar should be comparing itself to the underperforming European economies. That is why this year I want to look also at how we compare to some of the *best*-performing economies in the world, and I will do that later on in this address.

225 But we certainly should not lose sight of the world that immediately surrounds us. The economic problems faced by the developed countries of Europe have not been resolved in this last year by any measure. Recent reports from Eurostat suggest that unemployment in neighbouring Spain has reached 26.8%, and youth – which means under-25 – unemployment an unprecedented 56%. In the neighbouring region of the Campo de Gibraltar, unemployment generally is running at a rate of approximately 40%.

230 Mr Speaker, national debt had spiralled out of control in each of the countries where we have seen such economic tragedy play out, reaching 88% of GDP in Spain. That is why, during the General Election campaign of 2011, we identified that the levels of gross and net debt our nation was labouring under should be reduced. At no stage did we say we were broke or bankrupt as a nation. Anyone who suggests the opposite is simply, Mr Speaker, unable to build an argument based on the truth of what we said. Anyone can check any debate or any statement we made and see that what we said, repeatedly and clearly, was that we were concerned at the levels to which our debt had risen.

235 Well, Mr Speaker, those have been the concerns that have remained at the forefront of this Government's economic agenda throughout this first full financial year of our administration of our nation's affairs, and that is reflected in this address to Parliament today. Let me therefore start this review of economic performance, Mr Speaker, by looking at the state of our GDP and levels of debt.

240 Mr Speaker, gross domestic product in 2009-10 was just short of £1 billion. I believe the figure was £998 million. In 2010-11 it was £1.05 billion. Mr Speaker, estimates last year reflected Gibraltar's gross domestic product for the financial year 2011-12 was £1.137 billion, and we expect that figure to be met or slightly exceeded. For 2012-13, GDP was forecast to be above £1.2 billion. In fact, Mr Speaker, we expect that to come in at approximately £1.226 billion on early estimates. These figures reflect a continued growth in our economy of almost 8% per annum. At that rate of GDP growth – almost 8% per annum – we would be, based on data published by the CIA Factbook, approximately 17th, in global terms of GDP growth.

245 With the steady commencement of the implementation of our manifesto commitments – in particular, the affordable housing construction projects – and the effect that this will have on our economy in the coming years, GDP growth is now expected to accelerate – and in fact comfortably surpass our original estimate of £1.65 billion by 2015-16. Our economy is therefore on target to deliver or exceed the ambitious target we set in our manifesto. And so, Mr Speaker, the good news is that Gibraltar's economy is expected to continue to grow on track, despite the continued European and global economic downturn, exactly as we predicted and despite the many suggestions from some quarters that this was impossible.

255 Interestingly, Mr Speaker, the figures emerging from our Statistics Office demonstrate that GDP per capita has risen to an average of £41,138 – or US\$64,478, calculated on an exchange rate of US\$1.56 to the pound. By the per capita rankings of the International Monetary Fund, Gibraltar would now rank 5th in the world ranking of GDP per capita, immediately above Monaco, Singapore and Jersey, and just below Bermuda and Luxembourg. Although these measures are not scientific – neither this one nor the one of GDP growth which I gave earlier – because of differing methodologies and fluctuating exchange rates, it is worth noting that the Government Statistics Office reports that we are up from ninth place in 2011-12. And Treasury figures reflected in estimates show that continued growth in GDP has been achieved whilst also fulfilling our responsibility to reduce gross and net debt and improve cash reserves.

260 Mr Speaker, during the financial year 2012-13, the level of gross public debt has been reduced by £142 million – and that is reflected on page 2 of the Estimates, Mr Speaker – from £518 million to £376 million. That is a gross debt reduction of 27.5%.

As Members will recall, Mr Speaker, last year I predicted that gross debt would be reduced by approximately £68 million. In fact, we have reduced gross debt by over double that amount. Gross public debt is forecast to fall again during the current financial year by *at least* a further £12 million. Again, we have exceeded the estimated reduction in gross debt and we remain on target to achieve our commitment to have reduced gross debt by half by the time of the next General Election. We are now more than halfway there in less than half the lifetime of this Parliament.

The level of net public debt has also fallen, as reflected on page 3, from £303.4 million to £291.3 million, and it is anticipated that net debt will fall by a further £13.3 million at least by the end of this financial year, which will amount to a reduction of approximately 10% in net debt in two full financial years.

Moreover, Mr Speaker, cash reserves available to the Government have now been restored to more prudent levels than we found when we were elected. Cash reserves of around £85 million are now available to the Government, compared to the extraordinarily low £20 million which the GSD left and which we found when we took office on 9th December 2011. This also exceeds our estimate last year when I told the House that we expected to have tripled the figure of available cash reserves from the GSD low of £20 million to at least £60 million. In fact, Mr Speaker, we have more than quadrupled the sum of the available cash reserves from £20 million to £85 million. Gibraltar really was in a precarious position at the time we took over, in terms of available cash reserves – but no more.

Indeed, Hon. Members will recall, Mr Speaker, that I made a Ministerial Statement on finances which reflected that I had been informed by the Financial Secretary, when we won the election, that a resolution of the House was required to raise borrowing limits in order to make more cash available. Thanks to our more prudent approach, available cash reserves are now well up from the lows that might have required such a resolution, and I am happy to report, Mr Speaker, that further measures are being considered which will boost Government's available cash reserves even further.

Mr Speaker, the recurrent budget surplus for the last financial year was originally estimated at just over £17 million. The *actual* budget surplus for that year is now forecast, on page 2 of the Summary of Forecast Financial Outturn, at over £37.174 million. Mr Speaker, this is an *all-time record budget surplus*, and therefore, Mr Speaker, the picture emerging is a very positive one indeed: GDP growth unlike anywhere in Europe; a record high surplus like never before; and gross debt down already by almost a third.

Mr Speaker, everything that should go up *is* going up, and everything that should go down *is* going down. That already shows an economic record to be proud of and a Budget that our nation can celebrate.

Mr Speaker, Government revenue collected in the last financial year has exceeded the original budget by around £28 million, whilst departmental expenditure has been kept under tight control to end the financial year largely in line with the original budget, as indeed has been the case with expenditure required to meet Consolidated Fund charges. However, an increase of around £7 million over the original budget was required to meet the recurrent costs of the Government-owned companies, which remains the legacy we inherited from the previous administration of very costly corporations established by them.

Strong economic growth at rates unheard of elsewhere in Europe, together with a historic high surplus *and* departmental expenditure and Consolidated Fund charges on target and not exceeded, demonstrates an excellent record in economic management that speaks loudly and for itself in defiance of critical voices which have been amplified by the absence of these figures until now, and which will be silenced and discredited by the impact of these excellent numbers.

Mr Speaker, I am delighted to tell the House that, of the estimated record recurrent surplus for the year, a total of £35 million has been earmarked by the Government for donation to Gibraltar Community Care Trust, in line with our manifesto commitment. This will be an important first step for the charity to once again build up its reserves so that it can, as it used to, become totally independent of Government grants. Again, Mr Speaker, we are delivering on our manifesto obligations.

Mr Speaker, I now move on to the revenue and expenditure Budget for the current financial year.

Estimated recurrent revenue for the year is budgeted at £487 million. This is a conservative revenue budget which is just marginally above the forecast outturn figures for the previous financial year.

The recurrent expenditure budget for the year is £470 million, which reflects a modest increase over the previous financial year of just under 5%.

Mr Speaker, the Government is therefore again projecting a conservative recurrent budget surplus for this financial year of around £17 million. We believe it is better to be prudent in our estimate, given the prevailing economic outlook around the world and the potential effects of the reining in of the quantitative easing programmes of the US and the United Kingdom exchequers.

Mr Speaker, the Government is continuing with the process of restructuring the public finances in order to reflect the many changes that are taking place during its first term of office. As I mentioned in my Budget speech last year, a few changes have already been made and these are already reflected in the Estimates Book that Hon. Members have had for some time now.

330 For example, the surplus in the Gibraltar Saving Bank is no longer being transferred to the Consolidated Fund, but is being retained within the Bank in order to build up its reserves. The reserves in the Gibraltar Savings Bank have grown during the last financial year by over £2.6 million and the Bank's reserves are expected to grow by a further £3.2 million during this financial year. Mr Speaker, this will bring the accumulated reserves of the Gibraltar Savings Bank, at the end of this financial year, to over £6.6 million.

335 Another change in the accounting of public finances, Mr Speaker, is that the recurrent operating deficits in the Government-owned companies are now fully reflected in the Consolidated Fund recurrent expenditure estimates. This includes contributions from the Consolidated Fund towards the operating deficits in running the King's Bastion Leisure Centre, the Gibraltar Bus Company, Gibraltar Car Parks Ltd and Gibraltar Air Terminal Ltd.

340 Honourable Members will recall that such operating deficits in the Government-owned companies were not previously shown in the Estimates Book and that a contribution of over £28 million was made from the Consolidated Fund last year towards meeting the accumulated recurrent annual cash deficits in these companies for the period ended 31st March 2012.

345 Mr Speaker, the Government is also continuing to look into the reforms and the restructure required to the Social Insurance Funds. Although we had wished to make an announcement in respect of these reforms before today, this has not been possible. Work, nonetheless, continues on this project. The good news for employers and employees alike is that rates will remain static once again today.

350 Mr Speaker, the corporate tax yield for the financial year ended 31st March 2013 was £64.69 million, a significant increase of £7.39 million, compared to £57.3 million collected in the previous financial year. It should be noted that, under the previous Act, the average annual yield was £26 million. However, Income Tax receipts for the same period were £124.94 million, down by £7.15 million compared to £132.09 million collected in the previous financial year. This decrease is directly attributable to reduction in PAYE collections from a number of different sectors, particularly, of course, the construction industry. Tax receipts from self-employed individuals were also down as a result of the coming to an end of the transitional period following the introduction of the new Income tax Act.

355 The combined yield from Income Tax and Corporation Tax for the financial year was £189.63 million, an increase of £230,000 compared to collections amounting to £189.4 million during the previous financial year.

360 In terms of arrears, the Tax Office continues to make progress in tackling issues related to compliance, enforcement and debt recovery. The Commissioner is currently in the process of compiling a further list of PAYE defaulters and soon will be publishing their names in the *Gibraltar Gazette*.

365 Mr Speaker, in the last financial year, the Government invested around £92 million on capital projects funded from the Improvement and Development Fund. Around £21 million was invested on works and equipment and a further £71 million was invested in specific capital projects, including £4.5 million required to complete the new airport terminal building; £5.9 million on the roads and tunnels project; £5.6 million for the conversion and refurbishment of the Old Naval Hospital dementia facility; £2.9 million on the development of Governor's Parade. The sum of £40 million has also been provided in funding for the Government-owned asset-holding corporate structure.

370 Mr Speaker, in this financial year, provision of £54 million has been made in the expenditure budget of the Improvement and Development Fund. Apart from a further investment of £20 million on works and equipment, this provision will enable ongoing projects to be completed, including £1 million for the upgrade of the Victoria Stadium football ground to UEFA standards; £2 million for completing the development of Governor's Parade; and £5.3 million to complete the Old Naval Hospital dementia facility.

375 New projects include £3.5 million for the Sandy Bay Protection project; an almost nominal £3.5 million towards the beautification and cladding programme for all our existing housing estates, which will increase by further provision as the year progresses; and £1.2 million for the refurbishment of Parliament House. There will also be funding for the new schools recently announced.

380 Mr Speaker, capital projects funded through these Government-owned companies include the construction of a combination of approximately 1,000 affordable and rental homes, which are to be provided under a co-ownership scheme; the construction of car-parking facilities in numerous locations throughout Gibraltar; the small boats berthing facilities for locally resident boat owners; and the programme of replacement of our bus fleet with more environmentally friendly vehicles.

385 Mr Speaker, one of the biggest capital projects for the Government is the replacement of our three existing power stations with a single new power station in order to guarantee Gibraltar's power needs for the next three decades. Tenders have already been invited and the closing date for tender submissions is 1st August 2013. The new power station, which will be located in a reclaimed area off the North Mole, will be powered by natural gas-fired engines as well as dual-fired engines, which will be able to burn diesel should gas supplies not be available at any time. The project is in line with the Government's

390 manifesto commitment to investigate alternative sources of energy and eradicate the noise pollution and emissions in residential areas.

Progress in this area is already evident with the installation of the new temporary power station at the North Mole using rental turbine power. This has resulted in a significant reduction in noise and emission levels and has also enabled the three old power stations to close down some or all of their capacity during the silent hours without compromising the security of supply. I know this has been very welcome by residents of the area. Most importantly, Gibraltar now has, thanks to this Government, security of supply and no lack of generating capacity.

400 Mr Speaker, as hon. Members will know, the Government was not convinced by the previous administration's plan to build a new power station powered exclusively with diesel-powered engines. We did not consider that this was the right choice for meeting Gibraltar's power requirements for the next 30 years. When elected, we also found out that the plan required a *100% increase* to consumers in electricity costs over 20 years – 5% a year. It was therefore right for us to stop that proposal and work hard in the inter-ministerial committee to deliver a better solution to our people. Quite apart from the reduction in noise and emission levels, the decision to use natural gas-fired engines for the new power station will actually result in very significant savings in the cost of fuel, which now represents around 60% of the total recurrent costs of the Gibraltar Electricity Authority.

405 Mr Speaker, the Government continues to explore other ways of reducing energy consumption, including the use of solar energy for street lighting and in Government Buildings, and a number of projects are being developed in this respect.

410 A lot of work is also going into the upgrading of the infrastructure of the distribution network, and money has been set aside for those ongoing works this year. Indeed, it is that creaking network which requires most work to prevent future power cuts.

Mr Speaker, as part of the continuing role of the Gibraltar Savings Bank in providing for our locally resident senior citizens, the Bank will be issuing a new debenture, which is specifically available only to our locally resident senior citizens. Many of our senior citizens are making full use of the Bank as a home for their hard-earned savings and have come to depend on the monthly interest payments that they receive on their debentures. Our senior citizens deserve the assurance that they will be able to continue receiving a reasonable rate of interest on their savings in the medium to long term, especially in view of the continuing turmoil in the European and global financial markets. They also need the comfort that they will be able to draw on some of their capital at short notice, if and when required.

420 Mr Speaker, in this respect and to complement the Bank's five-year, monthly income, fixed-term debenture, which pays interest at 5% per annum, the Gibraltar Savings Bank will now issue a new 10-year, monthly income, fixed-term senior citizen's debenture, which will pay interest at 5% per annum, or base rate if higher, and will give debenture holders the right to withdraw up to 25% of their capital before the maturity date upon giving one month's notice and without any interest penalty.

425 But, Mr Speaker, the Savings Bank should also have a role in safeguarding savings for our community's children. In order to encourage parents, grandparents, relatives and friends to start saving for our community's children, the Gibraltar Savings Bank will offer a new Children's Bond Account. All children born in Gibraltar and who are under the age of 10 will be eligible to have a Children's Bond Account in the Bank. The Bond Account will pay interest on deposits at 5% per annum, with this interest being reinvested automatically. All the deposits in the Children's Bond Account will be held by the Bank in trust until the child's 18th birthday. Mr Speaker, the Government will itself be making a deposit of £500 to each of the Children's Bond Accounts opened for every child born in Gibraltar after midnight last night.

435 Mr Speaker, the Government continues to make a significant investment in the public sector, as the engine for growth for Gibraltar and facilitators of the private sector. A start has already been made in the Government's programme of e-Government, which will transform the way business is done in many areas of the public sector.

440 The Government is committed to promoting as much interaction as possible between the citizen and the Government and is committed to enhance the access and delivery of Government information and services to citizens and the business community.

445 A modern computerised system at the Customs Department, known as ASYCUDA, is now ready and the business community will have noted that the Department has already started the transition to a modern computerised paperless system, which will provide internet-based processing and clearing of imports and which will simplify Customs procedures and documentation, consistent with international standards and best practice. Clearance of exports using this paperless mechanism is presently a work in progress also. The system also provides for electronic yacht passenger clearing.

450 Work has also started in other areas of the public sector, including work on the establishment of a central Government counter office for the transaction of Government business. This will provide centralised payment facilities for all Government services, including the use of ATM-style machines and facilities for online submission and retrieval of documents to and from Government Departments.



Through the use of information and communication technology more generally, Government is promoting a more efficient and effective administration which will facilitate more accessible Government services and allow greater public access to information. This will intentionally make Government more accountable to citizens. E-Government will involve securely delivering a wide range of Government services via the internet. To achieve that, during the past year, key investment areas have been the following: enhancing the physical hardware infrastructure; bolstering backup and disaster recovery platforms and data replication technologies; work on high-performance network connectivity and high availability infrastructure; the expansion of the Government's secure intranet; data automation technologies; the setting up of secure online payment gateways; a database integration programme, where necessary, and the development of industry-standard e-Government portal services; as well as continued work on a new interactive Government website alongside the development of Government applications to shortly be made available to citizens; all of this alongside the work to develop the Gibraltar e-ID card.

Let me go into a little more detail of what that means, Mr Speaker. Earlier this year, we introduced a system to produce the new photo-card driving licence as part of EU directives. This was followed by the implementation of the electronic driving theory test for cars and motorcycles. These were the first public applications in line with Government's manifesto commitment on e-Government. Other departmental e-Government projects and applications will be announced in this financial year.

As a step towards implementing e-Government, we have replicated and moved our data centres to secure locations to protect against hardware or software failures, telecommunications breakdown, power failures, environmental concerns such as floods or fire, and sabotage or even terrorism. This set-up provides increased security, minimises risk, guarantees reliability of systems, minimises the chance of data loss and improves overall performance.

Measures have been implemented to further develop and enhance internal Government applications, allowing automated communication between systems and Departments. This ongoing process has also involved uniquely identifying citizens and businesses across Government systems and interlinking secure Government databases. The e-Government initiative will see the implementation of a newly designed Government website that is characterised by the publishing of fillable forms that can be fully completed electronically and submitted to relevant Departments.

With the overall improved hardware set-up and in addition to the above, an interactive e-Government portal is being developed. The e-Government portal has been designed with a view to host a variety of Government services focusing towards centralised citizen services – Government to citizen, also known as G2C services – and centralised business services – Government to business, also known as G2B services. It has been designed primarily with scalability, usability and security in mind. The Driver and Vehicle Licensing Department, Gibraltar Maritime Administration and Trade Licensing will be amongst the first Departments to see their services online. The portal will continue to expand to see the inclusion of a wide range of online services for all Government Departments.

Parallel to the above, work has already begun on the implementation of a new state-of-the-art e-ID card. The e-ID card, besides being a physical identification document, will have advanced electronic functions that will facilitate secure authentication and legally binding digital signatures using public key infrastructure (PKI) technology, which will work as a key to securely identifying citizens on the e-Government online platform. Already employers are able to take advantage of an electronic filing scheme for the ETB, which I take this opportunity to remind them of.

This Government aims to make Gibraltar the leader in e-Government services by making the best possible use of information and communication technologies to bring interactive Government counters to the doorsteps of citizens and businesses, providing services anytime and anywhere.

Mr Speaker, I turn now to the work of the Civil Service review. The extensive work of the review team is progressing on various fronts. With representation from the three union bodies, surveys have been carried out among public servants to obtain their often diverse views on a broad range of areas related to the Service. Among these are their perception of the structure of their workplace; relationships with line managers and senior management; colleagues; resources; professional development; change and future plans; general orders; experiences of discrimination, bullying or harassment; reporting; appraisal and selection procedures. Preferences have also been sought on a possible change of working hours to accommodate more family-friendly arrangements.

The collation of data is being processed with the aim of taking account of views expressed when Government finally considers adopting changes. This is something we are working closely on with both GGCA and Unite, and which will require work also with the Teachers' Union and on which I will also very shortly be commencing with the Chamber of Commerce and the Federation of Small Businesses a consultation process so that we can actually deliver the new working hours that will make us a better employer and provide better services to the private sector and the public.

In the meantime, parallel work is ongoing on a number of fronts with respective subgroups focussing on amendments to General Orders; a review of procedures to deal with absenteeism; as well as recruitment, reporting and selection procedures.

515 The original General Orders, which still constitute the basis for current procedures, are being reviewed in conjunction with a draft Public Service Code which was initiated a few years ago. Already, work has been completed on all areas related to leave – annual, sick, maternity, adoption, paternity and paternal – except for special leave. Preparatory work has also commenced on areas related to conduct and discipline and the third key block, on staff management, will be subsequently tackled.

Substantial work has also been completed on absenteeism and measures and procedures to deal with that, taking into account of changing circumstances and the need for modern practices.

520 As regards recruitment, reporting and selection procedures, work is quite advanced on the review of a document based on guidance from well-established institutions with a view to recommending the adoption of agreed procedures.

Mr Speaker, I will now address my responsibilities as Chairman of the Borders and Coastguard Agency and as Minister with responsibility for Civil Status.

525 The BCA has been very successful in its first 18 months of operations, making a good start, despite having to manage considerable change. Soon after it was set up, the Agency carried out a review of its operations at the airport, frontier and port and it now manages a far more engaged and focused operation.

530 In addition to being regulated locally, it is now inspected quarterly by HMG's Department for Transport in the UK, which ensures compliance with EU legislation. To meet these and the demands of a much larger and busier airport and new developments at the frontier and the port, it has recruited 30 additional officers, all of which have been trained locally to the required EU standards. In addition, earlier this year it moved into ex-MOD premises, extensively renovated to meet requirements and from where it manages all of its deployments and operations. All of this has allowed the Agency to optimise its deployments to meet the demand and has seen a significant improvement in its operations. At our borders, the Agency is now processing over 12 million people a year.

535 Following the amendments introduced to the Immigration, Asylum and Refugee Act, allowing Moroccan nationals in possession of Schengen visas to enter Gibraltar, the Agency has to date processed 1,549 Moroccan nationals as part of the Government's Tourist Visa Waiver initiative. Given the success of that initiative, I am delighted to be able to tell the House today that work is now very advanced indeed in formalising arrangements for visa waivers in respect of Schengen multiple-entry visa holders who are nationals of Brazil, Russia, India, China and Japan.

540 The Agency continues to operate a fine balance between risk and the need to maintain fluidity, and to mitigate this risk balance the Agency has introduced, in the past months, biometric data passport and ID card scanners at all of our entry points, as well as other security measures, thus allowing them to interrogate documents and share information with international agencies, including Interpol, HMG's Home Office and the UK Border Force. It has established and continues to develop a close working relationship with these agencies, and in particular is in regular contact with the UK Border Force, studying how best to share information, develop specific points of contact, and identify work-placement attachments. The Agency is fortunate to have very professional and flexible staff that strive to provide a professional and operationally focussed output and remain committed to improving the service they provide for Gibraltar.

545 More particularly, at the Civil Status Department, at the request of the Senior Citizens' Association, arrangements have been made to introduce a one-stop shop at a central location in Gibraltar, which will not only enable the registration of births and deaths, but will also assist those who require it to transact changes to other benefits or services to which they may be entitled at the same location.

550 The process of naturalisation as British citizens has also been unjammed. A total of seven citizenship ceremonies have been held since April 2012, at which 494 individuals have been made British citizens – 363 of whom are Moroccans and 131 of other nationalities. I think I should have said *were* Moroccans, Mr Speaker.

560 Mr Speaker, during the course of the last year, the Government's decision to consolidate the European and International Department, known as the EUID, and the LSU has continued to bear fruit. The department recruited five new law drafters last year. I am glad to confirm that, after completion of their year of probation, all five have been confirmed in their positions. The department now employs 10 lawyers, double the number when we were elected, largely devoted to the drafting of legislation, both domestic legislation and the transposition of EU and international obligations.

565 The addition of the LSU to the EUID has ensured a seamless process whereby the drafting of all legislation and its publication in the *Gazette* are carried out by a team working closely together and under the same roof. The administrative side of the department now counts 12 officials, ranging from SEOs to word processor clerks. The department, as Members will know, is ably headed by the Government's Chief Legal Adviser, Michael Llamas QC.

570 As the House will recall, in February of this year I was able to announce that the Gibraltar Government was finally fully up to date with the transposition of all EU Directives pending. This was a truly defining moment for Gibraltar and it has served the Government well in numerous contexts, not least in my visit to the EU institutions in March of this year, including those meetings with the Code

575 Group technicians that I referred to during the course of my Ministerial Statement earlier, and the recent private meeting I attended with the Prime Minister and the leaders of Crown Dependencies and Overseas Territories, where as a result of this investment I was able to boast of Gibraltar's culture of compliance. I am glad to be able to say that Gibraltar can hold its head up high and be proud of a transposition record that many Member States can envy.

580 It is with an equal measure of satisfaction that I can also announce today that we have maintained the rhythm of compliance since then and that the drafters at the EUID are now regularly drafting the transposition of EU Directives whose transposition deadline is several months ahead. This is truly remarkable and positive progress, considering where we stood only a couple of years ago.

585 In addition, the department continues to advise all Government Departments and Ministries on a regular basis and over the full spectrum of Government business. The EUID also remains the main contact point with FCO officials in London on EU and international legal matters, with whom it works on a daily basis. The working relationship is excellent.

590 Mr Speaker, the House will be aware, from the advertisement of posts recently published, that I have given authorisation for the recruitment of three further legal assistants at junior level with a view to developing the advisory work provided by the EUID. All of this is consistent with my continued aim to expand and develop the role of the EUID and LSU to encompass all of the Government's legal service with the exception of public prosecutions, which will remain with the Attorney General's Chambers. I can only see the role of the consolidated EUID-LSU department going from strength to strength, providing a streamlined and professional legal service of the highest quality to the Government.

595 I turn now, Mr Speaker, to my responsibility for broadcasting and the media – a portfolio that I have been involved with since I was first elected to this House a decade ago.

600 Mr Speaker, one of the issues that I always think it is important to review in this debate is the health of the print media in Gibraltar. The world of news is changing, Mr Speaker, at a vertiginous pace. The most established newspapers in the world are having to face these changes: *The Times* has disappeared behind what is known as a 'pay wall' on the internet and the popular weekly *Newsweek* has abandoned print and is now only available as an online publication. And this challenge is also, no doubt, facing local print media in equal measure: *Vox* is now exclusively an online publication; the two dailies, *Panorama* and the *Chronicle*, both have printed editions and lead articles provided online also; the *New People* boasts a printed edition and not much by way of an online presence; whilst *Gibsport* remains a print-only publication.

605 Mr Speaker, these commercial issues are clearly challenges which we must ensure do not deprive our community of the journalism which is as essential a part of our democratic process as the work that we all do in this House. In terms of advertising revenues, the financial year to date has seen the sum of £32,882 paid to newspapers, of which £32,402 has been paid to the *Chronicle* to date. As I indicated in the course of the debate on parliamentary reform, this information is now uploaded to the Government website monthly so that the public has unimpeded access to it and they will be able to see that different newspapers invoice Government at different times, and that is why the sums may seem disproportionate at times.

615 In terms of broadcasting – in particular, public broadcasting, Mr Speaker – the past year has been significant for GBC, where a major investment has at last been made in upgrading obsolete analogue technology with the latest digital systems capable of broadcasting in HD – high definition. As viewers will be aware, this has not come without its problems. These have been mainly due to the urgency with which the installation was required in order for Gibraltar to meet the digital switchover deadline of 1st January 2013. When we were elected in December 2011, no work had been done to meet this essential target, beyond which GBC would be off air, Mr Speaker. Although moving to HD was a separate project, it would have been impossible for GBCTV to continue broadcasting after that date in digital with its 35-year-old analogue technical infrastructure, and there was no point in investing in already obsolete SD, or standard definition, digital technology. The problems have been and continue to be addressed by investment in equipment, employing the additional staff required, and retraining existing employees in a process that is still ongoing.

620 We have also completed a basic refurbishment of Broadcasting House in order to allow the very hardworking GBC staff to work in improved surroundings, although not yet ideal, ahead of GBC's move to new premises in the not-too-distant future.

630 The additional resources made available to GBC have allowed the now obvious improvements to television and radio programming as well as news coverage across all platforms, including online and social media. I am delighted to say that this is starting to make an impact on the public view of GBC, with viewers enjoying more and more local programmes of increasing quality. This year will also see a rebranding of GBC, allowing further improvements to its on-air appearance. GBC promises further new TV formats by way of in-house productions and commissioned shows from independent production companies. It is also planned for Radio Gibraltar to increase the level of programme choice in the next few months.

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640 Mr Speaker, GBC, under its new CEO, Gerard Teuma, and its new board, chaired by Albert Mena, intend to maximise the use of funds it has available to ensure it provides the best possible national TV, radio and online product within the improved, though still necessarily limited, budget it has at its disposal. I pay tribute to the staff at Broadcasting House for having endured very difficult circumstances over many years, and those who are making a huge effort to assist in turning things around for the benefit of Gibraltar's loyal viewers and listeners.

645 Mr Speaker, as announced last year, the new Broadcasting Act has provided GBC with the opportunity to enter into a commercial partnership with influential individuals from the film, music, television, new media and publishing worlds. The company, Gibraltar Entertainment Network (GEN), has been formed, 50% of which is owned by the Corporation. The intention, as I told the House last year, is to build a new industry on the Rock, and I am told, Mr Speaker, that initial reaction internationally to the possibility of using Gibraltar for this purpose has been very favourable indeed.

650 GEN is proposing to build a state-of-the-art studio complex at Europa Point, comprising a large film sound stage, TV production studios, and a high-end audio recording studio among other significant features. The studio complex will likely form part of the area which is earmarked to include the new UEFA-standard National Football Stadium building for the GFA. Most of GBC's operations will also be housed in this new studio facility, thereby exposing our Gibraltarian media professionals daily to international standards – something that can only be of benefit to local broadcasting.

655 The new home for GBC News will be the Cool Blues building within the Ince's Hall complex, providing the flexibility to record and transmit events staged in the John Mackintosh and Ince's theatres – not least elections, Mr Speaker – in addition to GBC's regular productions at Europa Point. This releases the rest of the Ince's Hall area for drama and for a much needed sprucing up. GEN itself also intends to stage significant events in Gibraltar, placing the Rock firmly on the world map for entertainment.

660 The Corporation is confident that, in time, the profits generated by GEN will go a long way towards covering the cost of running GBC, with the consequent benefit to the taxpayer and therefore GBC complying with Government's requirement that it should withdraw entirely from the commercial advertising market where it presently competes with other media.

665 Much has been done over the past 12 months, but the problems at GBC were such that further work is required. In particular, issues such as professional development need to be addressed, so that our young people can confidently choose broadcasting, or the wider media and entertainment industry, as a worthwhile and rewarding career. There needs to be further investment in this area in this year in resources and technology, as well as on the resilience of television transmissions, to ensure that, despite the vagrancies of the various cable networks that operate in Gibraltar, the public is able to enjoy GBC's programming in the best possible quality.

670 Mr Speaker, the Government continues to invest in Her Majesty's Customs, another area of my specific ministerial responsibility. The Department, very ably led by John Rodriguez, is presently awaiting responses from a pre-qualifying questionnaire in respect of the tender for the purchase of four new vessels. Tenders have already been awarded for the purchase of seven vehicles for Customs – five patrol cars and two work vans – and new accommodation is being developed for shift workers and custody suites at Waterport Wharf to enable compliance with the new requirements of our criminal law. Ongoing works to relocate the entry processing unit to the new airport are progressing, as are the ongoing works to redevelop the Four Corners entry point. In this respect, I have been delighted to lead the work for the reform and growth of HM Customs, which is one of the biggest revenue-raising departments of the Government and which has not seen any serious investment made in it for many years.

680 The Government is in advanced discussion with the unions about proposals that it will shortly be putting to members of the department regarding all areas of operation and structure in a manner designed to produce a stronger law enforcement agency in this crucial area of Government revenue. I know many officers are very excited about these potential developments. We are working through issues that some have highlighted through their unions, but we are making good progress.

685 This is an appropriate time, Mr Speaker, for me to reflect more generally on my responsibilities for industrial relations. I am delighted to say that I am working closely with all representative bodies in Gibraltar in a manner designed to ensure that reasonableness and responsibility is the order of the day in dealing with union claims. This is manifesting itself in very useful regular monthly meetings with Unite, which ensures that matters are dealt with quickly and not allowed to fester. I had a similar timetable of meetings with the GGCA, which I am very happy to say has been taken over by the Chief Secretary as part of the public sector review. I now meet with the GTA also, when the Minister for Education or they need me to become involved. We have recently settled a number of their longstanding claims, Mr Speaker.

695 Speaking of these important public sector areas, Mr Speaker, as promised in our manifesto, Civil Service pay will increase this year by 2.9% with effect from 1st August 2013, despite the pay freezes in the UK public sector.

In terms of retired civil servants, Mr Speaker, it was a manifesto commitment to reactivate the Widows and Orphans Pension Scheme on a voluntary basis for serving civil servants. We also committed to introduce a new Widows and Orphans Pension Scheme for retired civil servants as an alternative to the Spouses and Children Scheme announced by the previous administration.

Mr Speaker, hon. Members will recall that, shortly after coming into office, the Government amended the Pensions Regulations to give all civil servants who are covered under the Pensions Act the option to commute up to 100% of their pension entitlement. As a consequence of this, a civil servant who dies in service is also eligible for full commutation of his accrued pension on death, as opposed to a 25% commuted pension gratuity, as was previously the case.

To explain that more clearly, Mr Speaker, all public sector employees are currently covered under a group life insurance policy which pays dependants a lump-sum payment equivalent to two years' salary in the event of an employee's death in service. That is *all* public sector employees. In addition to the above, public officers who are covered under the Pensions Act are entitled to a commuted pension gratuity on death in service. Prior to February 2012, such commuted pension gratuity ranged from one year's salary to just over two years' salary, depending on the officer's length of service at the time of death.

Mr Speaker, hon. Members will be aware that the relevant change to the law was made on 9th February 2012 by this Government, when the Pensions Regulations were amended in order to enable officers to opt to receive up to 100% commutation of their pension entitlement under the Pensions Act. The amendment also provided for the commuted pension gratuity payable on death in service to be based on 100% of the pension entitlement, rather than this being restricted to 25%, as was previously the case. The effect of this, Mr Speaker, is that the dependants of public officers who are covered under the Pensions Act and who die in service are now entitled to receive a commuted pension gratuity of between 2.5 years' salary to just over 8 years' salary, depending on the length of service of the officer who dies. This is in addition to the two years' salary payable under the group life policy: a potential maximum 10 years' salary payable to next of kin as a result of the changes that we made to the Pensions Act.

As regards public sector employees who are not covered under the Pensions Act but who have a defined contribution pension scheme, the entitlement on death in service is currently a lump-sum payment of two years' salary payable under the group life policy, plus a lump-sum payment of 100% of the accumulated fund paid into the defined contribution pension scheme.

Mr Speaker, for those public sector employees who are not covered under the Pensions Act, the Government will be increasing the death in service cover payable from two years' salary to three years' salary.

This has meant, Mr Speaker, that the families of serving civil servants are now, therefore, for all the reasons I have said, adequately protected in case of early death in service, making the reactivation of Widows and Orphans Pension Scheme no longer necessary for serving officers.

In respect of retired civil servants, the Government has already confirmed, and I restate here today, that those who opted out of WOPS in the late 1980s will have the choice to opt back in. Let me clarify, Mr Speaker, that the formula for re-entry will require applicants to pay the sum they received when they opted out plus RPI on that sum since then and the contributions that would have been due since then. Government will make a concession that the sum of the WOPS contribution due since the individual opted out will be payable without the application of RPI increases. Only a handful of people have got in touch with the Treasury to seek to be included in this option. To make opting back in easier, a specific e-mail address has been set up, active from tomorrow for enquiries – the address is [wops@gibraltar.gov.gi](mailto:wops@gibraltar.gov.gi). Those wishing to write in to the Treasury to seek to opt back into WOPS by normal mail should address their correspondence to WOPS OPT IN at No.6 Convent Place.

Mr Speaker, I now turn to more specific Budget measures. In line with the Government's manifesto commitment, the following measures are designed to encourage and reduce the cost of doing business in Gibraltar.

Electricity and water charges will not be increased this year, despite the increasing costs of providing these public utilities.

In order to further stimulate the retail sector, in Main Street in particular, and to make Gibraltar a more attractive destination for shopping, and in addition to the Import Duty reductions I made last year, I now make the following announcements of further reductions. To encourage the development of the jewellery industry in Gibraltar, including the finishing off of the jewellery manufacturing process in Gibraltar, Import Duty on jewellery is reduced by 25%, from 6% to 4.5%, and Import Duty on loose gemstones is reduced to zero. Import Duty on mobile phones is reduced by half, from 6% to 3%. Import Duty on sunglasses is reduced by half, from 6% to 3%. Import Duty on all sports equipment and spares and all articles for outdoor games is reduced from 12% to zero. Import Duty on all educational items, including pens, pencils, crayons and students' paints, is reduced from 12% to zero. Import Duty on bicycle spares is reduced from 12% to zero;. Import Duty on artists', students' or signboard paints is also

760 reduced from 12% to zero. Import Duty on fishing rods, fish hooks and other line tackle is reduced from 12% to zero. Import Duty on binoculars and camera cases is reduced from 12% to zero.

765 With effect from 1st July 2013, the discount scheme for early payment of general rates, which was introduced last year for all new companies starting up business in Gibraltar, will be extended to include a 25% discount in the second year of trading. All new companies will therefore be given a discount in their general rates bill of 50% in their first year of trading and 25% in the second year of trading. Those new companies that have already received a 50% general rates discount in their first year of trading since the scheme was introduced last year will also be given a 25% discount in their second year of trading.

770 Mr Speaker, in order to assist working families with the purchase of their homes, as well as those families who may need to move to larger or indeed smaller accommodation as their family composition changes, the threshold of zero Stamp Duty, which currently stands at £250,000 for first-time buyers, will be extended to cover second-time buyers. Mr Speaker, Stamp Duty on transfers of properties between spouses, most often an issue in cases of matrimonial breakdown, is abolished.

775 The Government will also arrange, Mr Speaker, to provide soft loans to residential estates for funding projects that use solar panels within their estates to provide electricity for communal lighting, water heating and the powering of lifts. Approved projects will receive funding which would be repayable in a period of up to 10 years at an effective interest rate of 1% interest per annum, with the Government funding the difference in the cost of finance by way of a grant.

780 In order to assist our community to train for competitive sports, both nationally and internationally, all children in our community who belong to Gibraltar sporting clubs and associations will be given free access to all public sporting facilities, including the King's Bastion ice-skating rink. Such free access will be given to all children under the age of 18 on presentation of their Gibraltar identity card.

The annual pensioners' utility grant, applicable to persons aged 60 and over, will be increased from £75 per annum to £90 per annum with effect from 2013.

785 Mr Speaker, maternity grants and death grants have remained unchanged at £400 since July 2006. With immediate effect, the maternity grant is increased by 50% to £600 and the death grant is also increased by 50% to £600.

790 I turn now to import duties, Mr Speaker. It has recently come to the Government's attention that importers and suppliers of diesel in Gibraltar have been increasing the selling price of this fuel in the market to reflect not only the general increase in the cost of this fuel, but also to reflect the increases in the increased price of diesel in Spain as a result of increases in VAT. However, Import Duty on diesel has not been increased in line with VAT in Spain, and therefore it has been the profit margin of the importers which may have increased as a result. Mr Speaker, in order to restore the importers' and suppliers' profit margins based on current price levels, Import Duty on diesel is increased, with immediate effect, by 6.5 pence per litre to 22 pence per litre. But, in order to encourage the use of Gibraltar by yachts, pleasure craft and all other sea-going vessels, and for local vessels, Mr Speaker, Import Duty on marine fuel is reduced to zero with immediate effect. The system will work as a refund for importers in respect of fuels demonstrably supplied to vessels.

800 Mr Speaker, the Government would like to encourage more online business in the export of goods from Gibraltar. The Government, together with the Collector of Customs, is therefore currently looking into introducing measures whereby Import Duty that has been paid on goods that are re-exported by way of such online business, and where the retailer does not enjoy a bond, can be refunded to such businesses.

805 Mr Speaker, in support of this Government's continuing efforts to discourage smoking generally among our community, and despite the sensitivities in raising the price of this commodity, of which hon. Members are fully aware, Import Duty on cigarettes will increase by 10 pence per packet with immediate effect. Hon. Members will note that Import Duty on cigarettes was raised last year by 10p per packet and was raised again earlier this year by 5p per packet, making a total increase in the year of 25p per packet.

810 Hon. Members will also have noted the Government's decision to ban the retailing of tobacco in residential estates. This is something we had received many representations on from tenants' associations before the Election. We had demarcated Laguna and Glacis as special zones, but the activity has become too ingrained to control other than by this ban, but I want to thank, Mr Speaker, the RGP and Customs for the work they have done and are doing in curtailing activity in these estates and generally throughout Gibraltar.

815 Mr Speaker, in pursuance of the Government's commitment to reduce the level of personal tax for every taxpayer in Gibraltar and the statements I made last year, the following reductions in Income Tax will apply with effect from 1st July 2013.

For those taxpayers who have elected to pay Income Tax under the allowance-based system, the tax rate for the taxable income bracket ranging from £4,000 to £16,000 will be reduced from 30% to 24%, as set out in our manifesto. This measure will benefit approximately 3,800 taxpayers.

All taxpayers under the allowance-based system with earnings of £10,000 or less will not be required to pay *any Income Tax at all*. This will be achieved by extending the Low Income Tax Earners

820 Allowance. This measure will benefit approximately over 2,100 of the lowest-paid taxpayers in our community and I am proud and honoured to be leading the Government that introduces this measure.

Additionally, taxpayers under the allowance-based system will benefit from the following increases in allowance.

825 The Medical Insurance Allowance is increased from £1,500 to £2,000. The purpose of this is to reward taxpayers who seek private healthcare and in doing so relieve the burden on the Health Service.

The Nursery School Allowance is increased from £2,000 to £3,000 per child. This measure is intended to assist working parents with young families.

830 The Blind Persons Allowance is increased from £627 to £3,000. This very significant increase demonstrates my Government's commitment to assist the most vulnerable members of our society.

The Disabled Individuals Allowance is increased from £2,724 to £5,000. Once again, this very significant increase continues to show our support for parents who bear the responsibility of caring for disabled individuals.

The Single Parent Family Allowance is increased from £2,632 to £3,000.

835 The Personal Allowance is increased from £2,812 to £3,000.

The Spouse Allowance is increased from £2,632 to £3,000 also.

For taxpayers currently under the gross income based system, the following measures will be introduced.

840 In order to assist further working families with the purchase of their first-time home, a deduction from assessable income of £5,000 will be made to taxpayers under the gross income based system in respect of approved expenditure incurred towards the purchase of their home during the tax year commencing 1st July 2013. Taxpayers will want to check for themselves whether they should stick to their current choice of GIBS or ABS systems of taxation.

845 In order to encourage saving for retirement by way of employee contributions to approved pension schemes, a deduction from assessable income of £1,000 per annum will be made to taxpayers under the gross income based system in respect of contributions made with effect from the tax year also commencing 1st July 2013.

850 And there are other measures too, Mr Speaker. Taxpayers who were taxed on their commuted pensions due to the enactment of section 6(1)(g) of the previous Income Tax Act, which has since been repealed, will now be refunded the full amount of tax deducted. The Income Tax Office will refund these amounts, on application, by way of an extra-statutory concession.

855 Pensions received by retired members, aged 55 or over, of the Royal Gibraltar Regiment shall be exempt from Income Tax. This measure will apply from the tax year commencing 1st July 2012. Employment income received by instructors of Royal Gibraltar Regiment Cadets shall also be exempt from Income Tax in order to bring them in line with members of the Royal Gibraltar Regiment and the Territorial Army.

860 Following representations made by the Gibraltar Society of Accountants regarding the audit exception level within the Income Tax Act 2010, as already announced during the annual dinner on 6th June 2013, I am happy to formally announce that this level will be increased from £½ million to £1 million, and this will be effective for accounting periods ending on or after 1st July 2013.

865 The aggregate sum donated under the Gift Aid Scheme, previously limited to £1,000, is increased to £5,000. In addition the Government is considering the introduction of a payroll giving scheme locally, which will allow tax-free charitable donations to be made regularly and automatically through employment earnings.

870 Finally, in order to encourage the construction of office accommodation in Gibraltar, such developments on which construction commences on or before 31st March 2015 shall be allowed a capital allowance deduction in the first year following completion of construction equal to 30% of construction costs and the remaining 70% written down over the following seven years. This allowance can be claimed in part or in full, either by the developer or the occupant, up to a maximum claim of the full construction costs. Construction costs are those costs wholly and exclusively laid out or expended in the construction of the office accommodation – including all preliminary planning, design and associated costs, but excluding the cost of the land – in respect of this measure.

875 Mr Speaker, as I reminded the House last year, and will not tire of reminding the House *each* year, the minimum wage was first introduced by the GSLP after we were first elected into Government in 1988, even before the United Kingdom, where the concept of minimum earnings per hour was not provided for in legislation until the first Queen's Speech of the New Labour Government of 1998 – a whole decade later.

880 Mr Speaker, in our manifesto we committed to keep the minimum wage under constant review. The statutory minimum wage was last increased by 30 pence, with effect from 1st August 2012, from £5.40 to £5.70. So, this year, Mr Speaker, the national minimum wage is increased again by 30 pence, from £5.70 to £6.00, with effect from 1st September 2013.

I have no doubt, Mr Speaker, that this measure will be very welcome indeed by workers and their respective representative groups as we bring up the standard of living of the lowest paid in our economy with this measure and the exclusion of many such individuals from the tax net – a double whammy, Mr Speaker, of benefits for those who need it most.

885 As I also said last year, it should not be lost on anyone, Mr Speaker, that the hugely successful Future Job Strategy makes the Government itself the largest single employer of persons now, at last, on the minimum wage. This increase will again therefore also further benefit those on the Future Job Strategy.

890 Finally, Mr Speaker, before I sit down, I want to thank the staff of the Treasury and the Ministry of Finance, including the Commissioner of Income Tax and his staff and the Financial Secretary, as well as the Collector of Customs, John Rodriguez, and his officers, and the Head of Social Security, Tony Sacramento, and his team for their work on this Budget. A few words uttered by a politician in this place as a budget measure, like the ones I have just announced, require many calculations in those Departments to work out cost and affordability; a careful calibration that really engages the teams at the Treasury, Social Security, Income Tax and Customs. I want, in particular, to thank Mr Dilip Dayaram and Mr Frank Carreras for their work with me and my team of Ministers on this Budget.

895 It is also right, of course, that I should thank all public servants of Gibraltar, without whom Government cannot operate. In particular, Mr Speaker, our thanks to you, the Clerk and staff of the House for bearing with us in the process of physical reformation of the Parliament.

900 Again, this year, this is a useful moment to extend a very special acknowledgment also to all the staff of No. 6 Convent Place, especially the team that works on my corridor of the building. For the first full financial year we have worked together they have kept me working, smiling and resolute in the face of any challenge that may cross our nation's path.

905 Today, I want to continue also the tradition I established last year, which I think is fitting in a system of real Cabinet government, of thanking all other members of the ministerial team for their sterling endeavours in the course of this past financial year. It is that work and the work of the civil servants who work alongside us that delivers these excellent results for Gibraltar.

Mr Speaker, I told the House last year that from the moment that the General Election was announced and our candidates declared the team of ten of us then sitting in this House last year had been a real team. We worked as a team and we supported each other as a team.

910 We lost a member of our team this year, and although we hope the people of Gibraltar will fill the vacant seat with another one of my party colleagues, we will never be able to replace Charles Bruzon. Mr Speaker, this has been a very sad year for those of us who sit on this side of the House. Last year, our dear friend and colleague, Mr Bruzon, delivered his first and last Budget address as a Minister. I recall his excitement at being able, after eight long years of Opposition, to get up and deliver a Budget speech about the things he and his team were planning on doing to deliver on our electoral commitments. Sadly, this year, he is not with us, and I would simply ask all members and those watching or listening in our community to remember, during this important debate, the contribution that Charles made to the Parliament.

920 He was not the longest-serving Member of this House, nor the most aggressive, but he was certainly among the very best of us and, Mr Speaker, he would certainly be proud to hear me intone that this is a Budget for working families, a Budget that once again provides support for the lowest paid in our economy by increasing the threshold to remain out of taxation and increasing the minimum wage. It provides incentives for greener living in the community and further provides for families of persons with disability by increasing the Disability Allowance. A Budget that delivers tax advantages to a large number of taxpayers and continues to deliver on our manifesto commitment to reduce tax on the allowance-based system, whilst allowing additional targeted deductions for those on the gross income based system.

925 Mr Speaker, this is a Budget that delivers for business too. It keeps the social insurance burden static, which means it is a burden once again, in effect, reduced in real terms by the rate of inflation since it was last raised. Once again, we deliver meaningful Import Duty reductions for the retail industry in Main Street and further reductions for new businesses to encourage entrepreneurs and start-up businesses, whilst at the same time freezing rises in electricity costs, thereby delivering a significant discount in respect of that particular overhead.

930 Mr Speaker, this Budget provides further for pensioners by the exemption of some pensions from tax computations and the creation of a new debenture for senior citizens, and for working families by the creation of the Children's Bond, the increase in the Nursery Allowance and the creation of a Second Time Homebuyers Allowance for those on the allowance-based system and a First Time Homebuyers Credit for those on the GIBS system.

935 And to finally make this a Budget to celebrate and remember: more available cash reserves than predicted – quadrupled from the sum when we took over, without having to raise borrowing limits; a record high reduction in gross debt of 27.5%; a record high increase of Gibraltarians in employment; and a record high surplus. Mr Speaker, a record-breaking Budget of less debt in the context of more



democracy; a record-breaking Socialist Liberal Government. Mr Speaker, a Socialist Liberal Budget delivering social justice for our nation.

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The numbers speak for themselves and I commend the Bill to the House. (*Applause*)

**Mr Speaker:** Before I put the question, does any hon. Member wish to speak on the general principles and merits of the Bill?

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**Hon. D A Feetham:** Mr Speaker, it is an honour for me to rise to deliver my first Budget speech as Leader of the Opposition.

As we have said in the past, the Opposition will never make political capital against the Government at the expense of this community or without clear foundation in truth or fact. That has been our policy ever since the people of Gibraltar had their say and decided that we could best serve them, at least for the next four years, from the Opposition benches.

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During the short four months that I have been Leader of the Opposition, I have also said that where my party can work closely with the Government for the benefit of the community as a whole, we will do so.

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Within a couple of weeks of my becoming Leader of the Opposition, I moved a motion at this House calling for the Hon. the Leader of the House and I to work closely on the attempts by the Prime Minister of the United Kingdom, David Cameron, to renegotiate UK membership of the European Union. That motion was, of course, approved with amendments and I remain at the disposal of the hon. Gentleman.

Five weeks ago, I made statements that, without resiling from my Party's longstanding position that the new Constitution granted this community the maximum level of self-government short of independence and compatible with British sovereignty, I would be prepared to go to the United Nations as part of a Gibraltar delegation if we could agree a position in substance beforehand.

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On the fishing dispute, over a year now we have been saying that we will support any reasonable solution that the Government brings by way of legislative changes to this House.

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On tobacco nuisance in Government estates, the Government has just done what I suggested that they should do in September of last year, and I have no hesitation in welcoming the policy. Should the Government decide to move forward with its plans in its manifesto – which is *their* manifesto commitment, not ours – of constructing a berth on the east side in order to curb tobacco smuggling on that side of the Rock, they will also find that the Opposition will support that too.

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Mr Speaker, in all this, of course, I am going much further than they did when they were in Opposition – on the United Nations, on the Dr Giraldi Home, for example. They never hesitated to plough their own furrow or to take different or adverse positions in international fora or in the international press when we were in Government.

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That said, Mr Speaker, the Government cannot equate its own interest with the interest of this community, and whilst we will welcome Government policy if it deserves to be welcomed, and we will support the Government if it is in the interests of this community, our job is to hold the Government to account, and that is what we intend to do during the currency of this Parliament.

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Thus, whilst we welcome, Mr Speaker, some of the measures that he has announced today – for example, the reduction in Import Duty in relation to jewellers, or the reduction in Import Duty on educational items; and indeed the continuation of the policy that we had introduced in our 16 years of Government of increasing the minimum wage and also reducing taxes – we continue to have very real concerns indeed about the ability of the Government to deliver on its manifesto commitments and their own economic targets over the next four years, for reasons that I will develop during the course of this intervention.

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He has said, Mr Speaker, that these figures will silence his critics. I am afraid that he could not be further from the truth. Nothing that he has said today dissuades me from the very justified criticisms that we have levelled against him and his Party in relation to the inherently flawed and contradictory economic discourse which they pursued at the last Election in relation to public debt and public finances; a discourse, Mr Speaker, that the Chef Minister has made personally his own and which he has repeated on numerous occasions over the past year.

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Mr Speaker, during the last year's Budget session, my Hon. and Learned Friend, Sir Peter Caruana, then Leader of the Opposition, described the 2011 Election as the 'big lie Election', involving not one but two big lies: a big lie about the state of public finances; and a big lie concerning undeliverable electoral promises. It is a theme that was eminently justifiable. It is a theme in which we partly fight this By-election and it is a theme that will loom very large indeed at the time of the next General Election.

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I have to say, Mr Speaker, that the hon. Gentleman captured my interest, and indeed the interest of many others, when he said recently in an interview with GBC's Christine Vasquez that he had, quote, 'cured' any public finance problems he had inherited. The interviewer had asked him what many in Gibraltar are asking themselves, and that is how can he sustain his arguments on public debt and public finance... his criticisms of the previous administration, when the Government is spending money at

1005 current levels. Nothing that I have heard today will lead me to the conclusion, or anybody else, that public  
finances that he inherited from the GSD Government needed curing; still less, Mr Speaker, that he has  
found some miraculous cure for the illness that he himself invented.

1010 The reality, Mr Speaker, is that the hon. Gentleman's position was and remains riddled with  
substantive and presentational contradictions that will catch up with him sooner rather than later – if it has  
not done so already.

1015 Not least, Mr Speaker that public finances were in a ruinous state and that public debt was  
dangerously too high. Today he has said that at no stage, Mr Speaker, did we say that Gibraltar was  
bankrupt. Well, in his first TV appearance to address the nation on 18th January of last year, putting on  
his most solemn face, Mr Speaker, he spoke of – and I quote... direct quotes from the hon. Gentleman in  
that address: 'a serious public debt problem'; 'a serious public finance problem'; 'an impenetrable  
curtain'. He then went on, Mr Speaker, to create the impression – an impression that he reinforced last  
year during his Budget speech – that the Government had found a £100 million black hole. During the  
course of his speech today he has also said that he inherited a precarious cash position of only  
£20 million, which I will proceed, Mr Speaker, during the course of this speech, to disprove.

1020 And yet, Mr Speaker, this was a Chief Minister leading a Party that, at the same time that it painted  
that very bleak economic picture, both before and after the last General Election, also promised  
absolutely everything to everyone. Make no mistake, Mr Speaker, never in the history of General  
Elections has so much been promised to so many, to the extent that throwing all political responsibility  
out of the window, unconcerned about the dangerous and undeliverable expectations that he was creating  
for this community in the long run, the Hon. the Chief Minister must have written to every single interest  
group in Gibraltar, promising to deliver on anything and everything that they wanted at the time.

1025 Mr Speaker, the Party opposite promised approximately £750 million of capital projects, including a  
new power station; over 1,000 new homes, leading to the reduction of the housing waiting list and the  
pre-list; a reduction of the effective rate of Income Tax to 15%; a freeze in rates, rents, electricity; and  
much, much more. Indeed, during the course of today he has announced measures cutting Income Tax.  
He has said that the Government, over the last year, has spent £92 million in capital projects. Over the last  
year, Mr Speaker, he has renewed some of the promises that he made at the last Election; some of them in  
the weeks leading up to this By-election.

1035 Today, under two weeks before the By-election and only 18 months – only 18 months, Mr Speaker –  
after the last General Election, public finances are well enough to allow the hon. Member opposite to  
announce the measures that he has announced today. That comes off the back of announcements in  
relation, Mr Speaker, to a power station that will cost, in anyone's estimate, over £120 million; millions  
on a football pitch, the bulk of which will have to be funded by the Government; millions on the new –  
and by the looks of it, very very unpopular – berths and promenade in the port; the Queens Cinema  
purchase; the Commonwealth Parade, the cost of which the Government has refused to disclose; and  
more importantly, Mr Speaker, for the purposes of this intervention, huge increases in recurrent  
expenditure – £48 million over four years on the Future Job Strategy at £12 million recurrent expenditure  
every single year, a figure that in fact is likely to go up because I had not factored in the increases in the  
minimum wage.

1045 Over £40 million, Mr Speaker, in four years is our very conservative estimate on the expansion of the  
public service since they came to office at over £10 million recurrent expenditure every year. Indeed,  
Mr Speaker, there has been and there is predicted to be next year a significant increase in recurrent  
expenditure – in other words, not capital projects, but year-on-year money that the Government spends.

1050 Mr Speaker, recurrent departmental expenditure for the year ending 31st March 2012 was  
£333 million. Recurrent departmental expenditure, in accordance with the forecast outturn for the year  
ending 31st March 2013 is £372 million, an increase of £39 million per annum from last year to this year.  
The predicted departmental expenditure for the year ending 31st March 2014 is £392 million, an increase  
of £20 million per annum from the end of this year. This means, Mr Speaker, that from the year 2011-12  
to the year 2013-14, next year, recurrent departmental expenditure would have risen by £59 million per  
annum, or £4.9 million per month, and we have not even had the Civil Service review completed yet.

1055 In addition to this, the recurrent contribution to Government-owned companies rose from  
£10.4 million in the year ending 31st March 2012 to £17.7 million in 2012-13, and for those purposes I  
have taken only £10.4 million of the £28 million related to recurrent expenditure because, as we said last  
year, the surplus had been wrongly reduced by setting it off against expenditure that was not recurrent.  
1060 That £17.7 million level is predicted to be maintained in the year 31st March 2014 and represents an  
annual increase of £7.3 million, or a monthly increase of £608,000. Indeed, Mr Speaker, in comparison to  
the financial year ending 31st March 2012, the projected overall recurrent expenditure for the year ending  
31st March 2014 will have risen by £66.6 million per annum, or £5.525 million a month: not figures of an  
economy with a serious public finance problem.

1065 Now, as I do not wish to cover every single Department, this significant rise in Government's  
expenditure is seen almost across the board, and I will just give some very few examples.

The projected figure for travel and entertainment for the year ending 31st March 2013 was £390,000; whereas it has come in at £880,000 – more than double the projected figure.

Private sector legal advice is up from £666,000 in 2011-12 to £1.4 million 2012-13.

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Appendix K gives details of the Gibraltar Culture and Heritage Agency. The culture activities, including National Week events, cost £720,000 plus £500,000 – which is the net cost of the Mega Concert – giving a total of £1.2 million, compared to the 2011-12 cost of £547,841. That is a £650,000 increase over the levels at 2011-12. Mr Speaker, there is nothing wrong with a good party at all, but £1.2 million is an awful lot to spend on parties, and it is certainly an awful lot to spend for a country that had a serious public debt and serious public finance problem only 18 months ago.

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The reality is, of course, Mr Speaker, that either public finances were in a woeful state in 2011 and the Government should have cut its suit to match the cloth that it had at its disposal, which is what most countries in Europe have done with reductions in public expenditure and public services; or it simply accepts that it inherited an excellent economic legacy which enables it to increase public expenditure in this way. *(Applause)*

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Even with, Mr Speaker, that excellent legacy, as I will attempt to demonstrate during the course of this speech by reference to this year's Estimates of Revenue and Expenditure and to statements made by the Hon. the Chief Minister during the Budget last year on how he would fund his manifesto commitments, his economic strategy remains, at best, riddled with inconsistency. What we are not going to do is allow this big lie on public finance to become, in the next two years, his mantra or excuse for not complying with his many individually targeted election promises when it all catches up with him.

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Mr Speaker I now turn to consider economic growth and the funding of Government projects.

Last year's latest figures prepared by the Government Statistics Office indicated that GDP for 2010-11 was £1.05 billion, and the forecast GDP figure for 2011 was £1.137 billion, representing an increase in the economy of 5.1%. Today, the Chief Minister has said that economic growth for the year ending 31st March 2013 was just under 8%.

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Of course, Mr Speaker, Gibraltar is bucking global trends, as it has done since the financial crisis broke in 2007. These figures are therefore good figures and I congratulate the Government, and indeed every professional, employer, employee and business in Gibraltar, for helping Gibraltar buck that international trend. But, good as these figures are in comparative global terms, they are nowhere near the levels of projected economic growth in the GSLP Liberal manifesto of 50% by 2015. It is likely that there will only be, at most, two more budgets prior to the next election.

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I have said it before, Mr Speaker, and I will repeat it today: for the Government to make good on the projected economic growth figures, it needs to get the construction industry moving. Whenever there has been significant economic growth in Gibraltar we have had a vibrant construction industry. My concern, and I know it is shared by many within the industry, is that by the time the Government starts to inject some much-needed activity in the sector through capital projects, some established companies and suppliers dependent on the sector may disappear. Jobs in the construction industry are down, from October 2011 to October 2012, by 1,400 jobs.

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I also urge the Government to consider carefully the terms of some of their tenders for their projects where the Government pays a small percentage of the project costs at the outset and the remainder at the end with no stage payments. What the Government is trying to do, and I understand it, is to make some of these projects as self-financing as possible by making the bulk of their payments at the end, when the properties are sold and the Government itself is paid, but this makes it very unattractive for smaller local companies and ignores the economic realities that banks are unwilling to lend to developers to enable them to fund the cashflow difficulties that they may experience.

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I also, Mr Speaker, remind the Chief Minister that when he was Leader of the Opposition and he was interviewed by Gerard Teuma in May 2011, he said that just as the GSLP had international investors lined up before they won the 1988 General Election, so too did he have international investors lined up if he became Chief Minister. Of course, he never gave details, and that is understandable at the time, but there has been an election, they won it, and I have asked him now on three separate occasions in this House to identify those international investors, and he has declined. He cannot suggest that the *Sunborn* was what he had in mind in 2011, because we know that was a recent development.

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In any event, during his Budget speech last year, the Hon. Chief Minister said this, and I quote:

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'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.'

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Mr Speaker, economic growth, even at the rate of 50% over four years, will not provide the Government with the levels of revenue necessary to fund many of its manifesto commitments. There is no direct correlation between economic growth and the funding of capital projects. The latter may be a causal agent of the former in that capital projects contribute to economic growth. Economic growth, of course, may be a manifestation of increased Government revenue – and roughly £½ billion of the

1130 £1.1 billion GDP was revenue related – but simply because your economy grows by 50% does not mean that you will be able to fund all of your capital projects. It is not rocket science. There are limited ways in which a Government can fund its projects. I accept that some may be self-financing, and to some extent the Government is trying to do that in some of its construction projects, but the reality is that most governments in the world fund projects either from cash reserves or by borrowing or by spending Government surpluses.

1135 Mr Speaker, in their manifesto, at page 27, Members opposite said this:

1140 ‘In the same period Government revenue is projected to grow from £400 million to £600 million and Government expenditure projected to grow from £375 million to £525 million. On this basis the surplus for the current year would be £25 million growing to a level of £75 million at the time of the next General Election. In effect, Government revenue is being kept at a constant ratio to GDP and it will grow at the same rate as the economy. Government expenditure growth will be kept below the growth in the economy and limited to an increase of 40% over a 4 year period.’

1145 Effectively, what the GSLP / Liberals were saying at the time of the General Election was that revenue would grow by 50%, at the same level as economic growth, but expenditure would grow only by 40%, leaving a differentiation of 10%.

It is a point, in fact, that the Chief Minister also made during his Budget speech last year, when he said, and I quote:

1150 ‘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.’

1155 Mr Speaker, the forecast outturn for revenue for 2012-13 was £486 million. The estimated forecast revenue for 2013-14 is £487 million, a difference of around £1 million in forecast revenue increase. It will not be lost, Mr Speaker, to hon. Members who have read the Estimate Book, that out of that increase there has been an increase in Import Duty, by the end of March 2013, of some £29 million. Import Duty has gone up from £117 million to £146 million. During that same period, however, the forecast outturn for expenditure for 2012-13 was £449 million and the estimated forecast for expenditure 2013-14 is £470 million, a difference of around £21 million. Growth in expenditure clearly and significantly is projected to outstrip growth in revenue, despite substantial increases in Import Duty, and in terms of future projections it is nowhere near, Mr Speaker, to the projected ratio of 50% growth in revenue and 40% growth in expenditure. That Mr Speaker is a reflection of the high levels of Government expenditure; but worryingly, also a reflection of increases in recurrent Government expenditure, which I have already spoken about.

1165 Mr Speaker, even if the Government grew revenue by 50% and maintained that 10% difference with expenditure – which, as I have stated, it is not... the projections are not in line with that increase – at page 27 of their manifesto, the Parties opposite state:

1170 ‘The annual surplus will be gifted to Gibraltar Community Care in each of the 4 years to allow the charity to meet its current and future costs and build up its reserves so that in the future it will be once again totally independent of Government grants.’

1175 In other words, every last penny of projected Government surplus would be donated to Community Care; and indeed, last year, £35 million was ploughed into Community Care, more than the entire declared surplus of last year.

Mr Speaker, in today’s *Chronicle* – and indeed, the hon. Gentleman has made the point during the course of his speech – he said that we had moved from a position of having very low cash reserves to a position of having high cash reserves; that he had, as I understood it... that the Government only had £20 million in cash reserves in December 2011 and now they have £84 million in cash reserves.

1180 Mr Speaker, as this House will see when I deal with the reduction in gross public debt, the reserves brought forward of £265 million as at December 2011, have actually been reduced to £84.4 million as at 31st March 2013, a reduction of £181 million. There has not been an increase in reserve; there has actually been a reduction in reserves from the position in December 2011. Much has gone to pay off £142 million of the debentures owed by the Government. In fact, it is a net repayment, Mr Speaker, of £104 million, because the Government initially borrowed £38 million when they came into office. But the effect of reducing gross public debt by redeeming Government debentures is that the cash reserves available to the Government have obviously decreased and have decreased substantially.

1185 Mr Speaker, if your cash reserves are down, you will not borrow because you do not want to increase net public debt. If your own budget figures show the projected ratios for increasing Government revenue over expenditure are not being adhered to, because it is obvious that proportionately growth and expenditure is projected to outstrip growth in revenue considerably, but in any event you also promise to donate every single last penny to Community Care, how on earth do they expect to fund £750 million in Government projects without leaving an awful lot of people unhappy, Mr Speaker? Or does the

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Government intend to use, for example, deposits in the Gibraltar Savings Bank – which have shot up spectacularly and on which I will say something in due course – to fund those projects?

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Mr Speaker, I now turn to analyse the public debt position. Our position as a Party has been and continues to be that, by all known credible measurement systems, public debt is, and indeed was at the time of the last Election, low. Mr Speaker, as my Hon. and Learned Friend, Sir Peter Caruana, said on numerous occasions, every credible measurement of public debt is based on a correlation between the size of that debt as a proportion of the economy. The UK regards a net public debt of 40% of gross domestic product as a prudent level of public debt. Even the Hon. the Father of the House, Mr Bossano, when he was Chief Minister of Gibraltar in the late 1980s and early 1990s, made statements, recorded in *Hansard*, where he regarded 35% to 40% ratio in relation to the size of the economy as conservative.

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Mr Speaker, net public debt at the time of the last Election was 28% of GDP. If 35% to 40% was conservative in the early 1990s, 28% remains conservative today in an economy that is much more robust and well diversified. The structural weaknesses present in our economy then are not present today. That was an economy in transformation from MOD dependence with a nascent finance centre, no gaming industry to speak of, an undeveloped port and large parts of our land owned by the MOD. Make no mistake: whatever my criticisms of the Hon. the Father of the House, I do credit him with a positive transformation of our economy which will always remain to his political credit. But the point is that if a public debt ratio of 35% to 40% of the size of the economy was conservative then, then 28% remains conservative today.

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At the time of the last Election we also said that you could virtually halve gross public debt by effectively transferring Government debentures which rank as public debt to the Gibraltar Savings Bank where they do not rank as public debt. In other words, invite redemptions of Government debentures, paying for them by using your cash reserves, and then inviting applications to re-issue all or part of them by using the Gibraltar Savings Bank. That is precisely what the Government, in large measure, have been doing.

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Mr Speaker, at the last Budget, as the Hon. the Chief Minister said, the Government estimated that it would reduce gross public debt for the year ending 31st March 2013 by some £67 million. The actual forecast is £142 million. The Government has achieved that, Mr Speaker, that repayment, not by some economic miracle but in the manner that I have just described.

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Indeed, Mr Speaker, from answers to Questions 374/2013 to 384/2013 and the Estimates of Expenditure, we see the pattern very clearly indeed. On 11th December 2011, the total value of Government debentures was £321 million, which with bank loans of £200 million gave a gross debt figure of £521 million. As at 31st March 2013, the total value of Government debentures was £175.7 million, which with the bank loan of £200 million gave a gross debt figure of £375.7 million. This has led to an overall reduction in gross debt of some £144.9 million from 11th December 2011 to 31st March 2013.

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Indeed, from 11th December 2011 to 1st May this year – just over a month later – the total value of Government debentures had been reduced by £151 million. During that same period, the total value of debt security issued by the Gibraltar Savings Bank rose spectacularly from £24 million to £272 million, an increase of £248 million from the position when they came into office. Of that amount, Mr Bossano told me that £123.8 million was transferred from Government debentures – after, of course, they had been redeemed from cash reserves.

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We are therefore, Mr Speaker, unable to congratulate the Government on reducing the country's gross debt when they have done it in precisely the way that we said they could do it at the last Election when they systematically sought to scare the people of Gibraltar into believing that our debt was too high. *(Applause)*

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Mr Speaker, I wonder – whether if the combined debt of the Government of Gibraltar and the Gibraltar Savings Bank, which are separate entities but one is owned by the other, were ever to exceed, in notional terms, the legal borrowing limit set if it had all been Government debt – whether the Hon. the Chief Minister would rush to GSLP headquarters to record a podcast condemning the levels of public debt.

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Of course, Mr Speaker, the Gibraltar Savings Bank debt securities do not appear in the Estimates as public debt because it is strictly a debt of the bank, not the Government; but it illustrates the absurdity of simply considering gross public debt as a yardstick, and the ease of manipulation of statistics. The reality is that the only true reflection of a reduction of public debt is a reduction of net public debt.

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Mr Speaker, my Hon. Friend, Sir Peter Caruana, last year described it in this way: he said if you have a bank loan of £1,000 but you also have cash deposits with that bank of £750, although your gross debt – the money that you owe the bank – is £1,000, the net debt is £250 because you have already got cash deposits of £750 to pay off part of that debt.

Mr Speaker, although the Estimates of Revenue and Expenditure show a forecast reduction in net debt of £12.1 million, net debt has actually risen from the position in December 2013. When the Government

1255 first came into Office in December 2011, they inherited a gross debt figure of £480 million, brought-forward reserves of £264 million and a net debt of £216 million.

The Hon. the Chief Minister, during the course of his Budget speech last year, increased the net debt figure by £37.7 million, in accordance with his Party's policy at the last Election to treat a sum equivalent to 10% of recurrent expenditure as available to the Government as a general reserve, giving a gross debt of £518 million, reserves of £265 million and a net debt of £253 million. The net debt figure at 1260 31st March 2013 was £291.3 million. That is a rise of £38 million from the position in December 2011 of £253 million.

Mr Speaker, I do not criticise them for that. Indeed, my predecessor, Sir Peter Caruana, has already said that net debt would have probably increased, had we been elected into office, in order for us to be able to finish off some of the projects that we had embarked upon; but the Government cannot take any comfort, Mr Speaker, in the reduction of gross public debt and there has been no real reduction in net debt since they came into office. 1265

Mr Speaker, turning to the Gibraltar Savings Bank – which I predict will become absolutely pivotal in any debate on public finances and Government expenditure over the next few years – we have been highly critical of the Government in its decision to announce the expansion of services of the Gibraltar Savings Bank in the face of concerns from the local industry, and particularly at a time when bank head offices are conducting reviews of their international operations. All it does is add to the uncertainty locally. I know that he will say to me that nothing has changed at the Gibraltar Savings Bank, but even if that were true – and it is not – bank head offices plan their global operations three or four years in advance. The Hon. the Father of the House, Mr Bossano, has already set out his road map for the Gibraltar Savings Bank in a number of interviews with the media locally. 1270

But, Mr Speaker, for the purpose of this Budget, my point is a different one. I have already sought to show how the Government has shifted Government debentures to the Gibraltar Savings Bank, where they do not rank as public debt. I now want to deal with the use to which the proceeds of the Gibraltar Savings Bank issued debt security may be put. Hon. Members will understand that every time the Government issues a Government debenture – for illustrative purposes I am talking about Government debenture, for example – it is effectively borrowing money at a pre-determined rate of interest which it pays pensioners or savers. It also loses money in the process, because invariably the Government is borrowing at a higher rate of interest than it would receive if it reinvested that money in safe investments with low returns in the money markets. 1275

So, for example, we may have a situation where the Government is borrowing at a rate of 4.5% from pensioners when it issues a debenture and it is then reinvesting the money in Treasury gilts which have a rate of return of less than 1%. The Government is therefore funding the difference, which is effectively a loss to the Government and also a loss to the taxpayer. The GSD Government justified it on the basis that we were helping local savers and pensioners; and indeed, in 2011-12, £480,000 had to be paid from the Consolidated Fund to meet guaranteed interest. 1280

Of course, just as the Government pays an interest cost difference on Government debentures, so too would the Gibraltar Savings Bank, unless the Government intends a different policy in terms of the Bank's investment strategy, or it has made a decision it is willing to take that loss because it is willing to use some of the proceeds to fund some of their projects, or indeed Government companies. 1285

Mr Speaker, when we were in Government, money deposited with the Gibraltar Savings Bank had to be invested, according to section 13.(3) of the Gibraltar Savings Bank Act, in cash deposits or cash deposit equivalent in terms of protection of their capital value. That was the amendment that we introduced in 2008 when we did away with the requirement that the Bank keep a buffer or capital reserve of 10% of all deposits. Indeed, Mr Speaker, hon. Gentlemen opposite may recall that we were highly criticised for that at the time, but we justified it on the basis that, if we amended the Act in order to introduce a requirement that the investments of the Act be in cash deposits or their equivalent, because those deposits were very safe indeed there was minimal risk of capital loss for investors. 1290

In March of this year, the Chief Minister moved a Bill to amend the Gibraltar Savings Bank Act and took out the requirement that the investments of the Gibraltar Savings Bank be limited to cash deposits or their equivalent, but remarkably, given their criticisms in 2008, did not restore the 10% buffer. That is why we voted against the Bill. The importance, for present purposes, is that as a consequence of those amendments we now have a situation where, legally, there is no longer the requirement for the Government to invest Gibraltar Savings Bank deposits, or for the Bank to invest Gibraltar Savings Bank deposits, in very safe forms of investments with low returns. 1295

Mr Speaker I have been observing the Hon. the Minister responsible for the Gibraltar Savings Bank for a very long time indeed. I may not always agree with him, but he has never done anything without a reason. I hope, Mr Speaker, that I am wrong and that the Government is not contemplating using that money to fund its capital projects or Government-owned company expenditure simply because it is committed not to borrow or to donate Government surpluses to Community Care or because its projections of rising revenue and expenditure are out of kilter. The consequences for these annual debates 1300

1315

and the transparency of Government finances would be considerable because it would blow a massive hole in the Government's duty to account to this House at Budget time for expenditure, because as we all know, the Gibraltar Savings Bank expenditure is not reflected in the Estimates.

1320 Alternatively, I also hope that the Government is not going to try and recoup any interest rate loss that I have described by allowing the Gibraltar Savings Bank to risk local savers' money by lending that money out to risky borrowers or potential investors, or to underpin small business guarantees.

Mr Speaker, I have asked about this. At the May session of Parliament, in Question 384/2013, I asked this:

1325 'Will the Chief Minister please provide a break down showing how the proceeds from Gibraltar Savings Bank Debentures or other debt security outstanding as at 1<sup>st</sup> May 2013 is invested or has been used by the Gibraltar Savings Bank?'

1330 The Hon. Mr Bossano then proceeded to provide me with a schedule entitled 'Savings Bank Fund Statement of Investments on 31<sup>st</sup> March 2012 showing market value on that date'. In other words, he provided me with the position over a year earlier when I had asked him for the position up to 1st May this year. Therefore, Mr Speaker, we do not have details of how the Gibraltar Savings Bank is reinvesting its debt security, i.e. the money that it is taking from depositors, and how it is funding the return of those investments and any loss that it may make in terms of the interest rate differentiation, if indeed it is making a loss.

1335 Mr Speaker, on a number of occasions, the Hon. the Chief Minister has made the allegation that the Government found a financial black hole of £100 million when it got elected. Those allegations have been made repeatedly by the Hon. the Chief Minister, both in Gibraltar and abroad – including Spanish TV, radio, newspapers – regardless, Mr Speaker, of Gibraltar's reputation and the damage to investor confidence. It is, of course, complete and utter nonsense. As my Hon. and Learned Friend,  
1340 Sir Peter Caruana explained last year, this so-called missing £100 million is attributable entirely to the fact that the public debt ended the year higher and cash receipts ended up lower than the Government had estimated at the start of the year.

1345 It has happened before: in 2009-10, it was estimated it would finish the year at £116 million and it ended at £148 million; in 2010-11, £180 million was estimated, when it finished at £216 million. All it takes, Mr Speaker, is for capital expenditure to proceed more quickly than budgeted for, or for capital receipts from the sale of assets to be delayed, or a combination of both to produce this effect. The GSLP Opposition, Mr Speaker, has never criticised that position before in any of the statements that it made during the course of this debate in the past.

1350 Last year, Mr Caruana said, and I quote:

'Delayed asset receipts for the year remain on stream to come in now or in the future.'

1355 Well, Mr Speaker, he was absolutely right. If the hon. Members look at page 143 of the Estimates, actual receipts for last year from the sale of Government properties and other premia amounted to £1.4 million, whereas the forecast outturn for this year is £102 million – an increase of just over £100 million.

1360 The reality is that the GSD, Mr Speaker, left a legacy to the new Government that was a golden economic legacy, which this Government will struggle to match, and indeed are spending. That is why so much effort is spent by the Chief Minister personally, trying to – despite his words on election night at the John Mackintosh Hall not to denigrate that legacy – systematically taint and talk that legacy down. A legacy that has included, Mr Speaker, a repositioning and improvement of Gibraltar's image and repositioning of its reputation abroad, which has provided the foundations for Gibraltar, over 16 years, to grow the economy by 300%; to produce over £200 million in Government surpluses; to increase the labour force jobs in Gibraltar by over 8,000; to decrease taxes, cut taxes across the board, and increase the  
1365 standard of living for all new Gibraltarians across the board.

But perhaps the most eloquent tribute to that legacy are the words of Her Majesty in the citation to my hon. and learned friend's knighthood, and I quote:

1370 '... following a long career in public service including election of four terms as Chief Minister totalling 15 years. He has made an immense and outstanding contribution to the reputation and prosperity of Gibraltar having driven the Territory forward politically and economically during his tenure through a period of transformational change with diversification of the economy and significant advances and achievements in political and community life for the benefit of Gibraltar.'

1375 Mr Speaker, I am grateful to hon. Members for listening to my maiden speech at this Budget speech. (*Applause*).

**Mr Speaker:** The Hon. Sir Peter Caruana.

1380 **Hon. P R Caruana:** Mr Speaker, first of all, before I begin my own short address, can I just thank the  
House for the congratulations and tributes that it paid me at the beginning – the Chief Minister and the  
Leader of the Opposition, and indeed Mr Speaker himself – on Her Majesty’s bestowal on me of a  
knighthood. Frankly, although I am absolutely delighted by that recognition from Buckingham Palace,  
and indeed from the UK Government more widely, personally I had believed and thought that to be  
1385 entrusted with the privilege by my own community to lead them politically for 16 years was honour  
enough. That said, I am delighted with this more outward and more conventional and traditional form of  
recognition.

Mr Speaker, it is apparently tradition – I fear that I may have started it when I was over there – for  
Members to introduce their Budget speeches by marking what number it is in their current office. So I  
used to say it was my 15th, my 16th Budget speech; the Hon. the Chief Minister has now said it is his  
1390 second; and indeed the Leader of the Opposition has boasted that it is his first. So I suppose, in the same  
vein... I am not sure it is an accolade as such, but I think this is the first Budget speech by a backbench  
Member of Parliament (*Laughter*) in this Parliament. (**A Member:** Hear, hear.)

I was delighted to hear parts of the Hon. the Chief Minister’s speech. I have to say, for a moment I  
1395 thought there had been some problem with the construction of this wonderful new room and that there  
was some form of echo built in to it. I have to say that it sounded remarkably like some of my own  
Budget speeches and I am delighted that he is able to continue delivering such speeches.

I want also to congratulate the Leader of the Opposition for, I think, an extraordinarily articulate and  
accurate exposure of the Government’s deception, in political terms, of the state of the economy and the  
use to which it put it for electoral effect.

1400 Mr Speaker, if I could just start by making observations on one or two matters which have been  
mentioned, I think the Hon. the Chief Minister is right when he says that it is a good day for Gibraltar  
when the European Union, in the form of its Finance Ministers, meeting as ECOFIN, endorse our tax  
regime. He did not, of course, mention that it was the culmination, which happens to have happened on  
1405 his watch, of nearly 10 years of hard work by the GSD Government in putting in place this new  
legislation, (*Applause*) and that in this transformational new Income Tax regime, which had to be  
carefully designed not to stabilise the impact of it on our financial services centre, all the eagles that have  
looked at it in the European Union have found one clause of it, in relation to one relatively minor matter,  
to object to it. I think that is a huge monument to the care, imagination and diligence with which the GSD  
Government devised and then deployed the new tax legislation.

1410 Of course, it has to be said that, in extolling the virtues, which I share with him, of the importance for  
Gibraltar of the fact that this has been endorsed by the European Union – because it has been notified of  
the measure and it has approved of it – I recall how he used to criticise me back then for having notified  
the predecessor of this measure to the European Commission. I used to say to him it has to be notified  
1415 because only with notification comes endorsement that gives economic stability, the predecessor. And  
when extolling today the virtue of endorsement, he is recognising the virtue of the reason which he then  
used to criticise of why I notified the predecessor measure.

I should just say this to him. Mr Speaker, now that this step has been taken, albeit that the culmination  
of it has come on his watch, I think it is now even more incumbent on the United Kingdom and on the  
European Union to make sure that we are removed from lists on which we do not belong and to make  
1420 sure that we are not denied any European Union benefit, facility or amenity of value to us economically  
because some countries choose not to remove us from lists on which we now plainly do not belong. There  
is now even less excuse, because there was none before... there is now even less than none, assuming you  
can assume for a moment that that is possible... excuse for not doing that.

1425 The same, Mr Speaker, I have to say applies to the question of catching up with EU Directives. I do  
not blame him entirely for this. I remember, when we arrived in office in 1996, the same thing happened.  
There were then things in the pipeline which finished on our watch, and the Government of the day  
invariably tries to take some credit for it. The hon. Member might more generously have recognised the  
fact that the previous Government did 95% of the catch-up work in respect of catching up with EU  
1430 Directives, and that the fact that the last one of the backlog takes place on his watch entitles him to  
announce it, but not to try and claim credit for the whole of it. But, again, I recognise that it too makes a  
very positive contribution to the regard in which Gibraltar is held.

1435 Mr Speaker, I would like to say something about the possibility of establishing a locally owned bank.  
I have to say that I speak entirely for myself as a backbencher. I am not a spokesman for the Party and I  
do not have a front bench ministerial responsibility. I am not, in principle, opposed to that, the  
establishment of such a bank. Indeed, it has been in some of our previous manifestos and I did quite a lot  
of work, of an embryonic sort, to explore the possibility of bringing it about. I think that such a bank has  
advantages: it is capable of protecting Gibraltar from the sudden non-Gibraltar-related or caused reasons  
by which some banks might withdraw, international reorganisation; it enables Gibraltar to have a bank  
1440 whose policies are more tailor-made to the needs of local businesses and local... There are a number of  
reasons why, Mr Speaker, it is sound policy to have such a bank.



Mr Speaker, but I would make all of that subject to two absolutely, in my view, essential conditions, which were certainly conditions in my mind when I explored the possibility of doing so.

1445 The first is that it could not unfairly compete with established banks in the private sector. Mr Speaker, banks in the private sector are entitled to have a level playing field to the greatest possible extent. They are good employers of many people in Gibraltar. Gibraltar's finance centre and economy could not survive just with one Government or other locally owned bank, and therefore it is important that a locally owned bank, whether or not it is wholly Government owned and regardless of the extent of the shareholding in such a bank – and I was always a proponent of the Government having the smallest possible shareholding in such a bank... but even if it were wholly Government owned, which would not be of itself illegitimate, it has to play in the market place on a level playing field, otherwise other commercial banks, whose decisions to remain in Gibraltar might otherwise come up for consideration, for reasons unrelated to Gibraltar and unrelated to any Government action, might regard it as the last straw.

1450 Secondly, Mr Speaker – and this is crucial to the economic peace of mind of our people and our children and our grandchildren – any Gibraltar-owned bank – which in principle I would hugely welcome, whatever the extent of Government shareholding in it, provided it operates on a level playing field – cannot be under actual direct or indirect political control, either visibly or invisibly. The moment the perception arises that, by the front door, by the side door or by the back door, Ministers have *anything* to do with the affairs of this bank, it is not rocket science to know what will happen over a period of time. Not immediately, but it will become another instrument of political gratification by governments of all colours and of all shapes. And you do not need to look very far: there are models of successful government-owned banks in Europe where this has not happened *because* there has been political arm's length. France is a great example. Many of France's most successful banks have, until very recently, been state owned.

1460 There are also, and much closer to us, examples of the opposite of what happens when banks come under political control and become political footballs and instruments of the exercise of political power. We all know, and the consequences of that is that the taxpayer ultimately has to bail out Government-owned banks, therefore putting in jeopardy the financial interests of our children and our grandchildren. So, it is common knowledge that the difficulty into which Spanish *cajas de ahorros* have fallen into is principally due to the fact that they have had a level of political control at a local level, through their boards and directors, that have led them to make politically motivated, financially unsound, imprudently structured loans, which have ultimately led to them having to be bailed out by the taxpayers of those countries.

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1470 And so I want to be as potentially supportive of any Government initiative in this field, as I wish to reserve the right to be critical of any such initiative that the Government takes that does not actually – and I do not mean on a fig-leaf basis, I mean *actually* – protect this community from the consequences of both conditions that I have outlined.

1475 Mr Speaker, I would like to say something too – although the Hon. the Leader of the Opposition, I think, has said everything that needs to be said – about debentures and borrowings.

1480 Mr Speaker, I do not know whether the hon. Member, the Chief Minister, wanted to give the impression, when he said that he had reduced the gross public debt... It is really a question of... we have almost changed roles. Before, he used to argue... an economic debate about gross public debt is not meaningful, and he used to ensure that the conversation stayed on gross public debt. Now the roles are reversed. So when he said in his address – and I can think of no other purpose for him to have given it such prominent highlighting – that they have reduced gross public debt by £142 million, I hope that he was not trying to give listeners, who are perhaps less economically well read than Members of this House... I *hope* he was not trying to give people the impression that, as a result, the Government and the taxpayer are £142 million better off.

1485 Mr Speaker, as if to demonstrate the correctness of the stance that I was taking in the political discourse at election time, in fact, if the Government is better off at all, it is about £12 million better off – namely, the amount by which he claims to have reduced the net public debt. The other £42 million, as has been eloquently exposed by the Leader of the Opposition, has simply been brought about by the redemption, using Government cash reserves, of Government debentures, which have then been reissued in the Savings Bank. A perfectly valid reorganisation of Government Treasury arrangements – I do not criticise it – but not one that enjoys the characteristics and therefore the political use to which he has sought to put it.

1490 And then, of course, Mr Speaker, there is the wider point of whether Government debt is being used or may be used – and I want to say something both positive and something negative about this – to pay Government investment expenditure.

1500 Mr Speaker, dealing first with the Government's own borrowings, I think, unless the meaning of the figures, which... I do not think there has been any statement to the House, unless this page 3 now means something wholly different to what it has meant from time immemorial. The position is this: that as we speak, the Government has very significantly greater sums of debentures issued still by the Government –

1505 £175 million; in other words, the ones that have not been transferred to the Savings Bank. It now has a considerably larger amount in debenture debt. Let's recall that the Government raises debt in two different ways: it borrows from the bank – we have got £200 million of that; or it issues debentures. That is Government borrowing too. Somebody walks into the Treasury, says, 'I want to buy a Government debenture of £100,000,' the paperwork is done, and the effect of that is that the Government has borrowed £100,000 from that investor.

1510 The Government now has £175 million of debentures and only £84 million of cash reserves. Therefore, if every debenture holder – which the Government has no reason to fear should happen, and I am about to reassure people they should not be concerned about, but the reality of it is that if all debenture holders now came in cashing their debentures, the Government would not have the cash reserves to do it.

1515 That happened for the first time, actually, albeit to a very small level, on my watch. In my last year in office, I think we were about £10 million... And you can do the same calculation. The debenture holders were about £10 million higher than the cash reserves. But the matter is getting more serious rather than less serious.

1520 Mr Speaker, even when we are talking about this, I do not say that it is illegitimate. Governments all over the world borrow money from their citizens through debentures – in the UK they call them gilts, Treasury paper – and then use it for government expenditure. Indeed, that is the reason why they do it. And if the Government wanted to do that in Gibraltar, it could point to almost every other government in Europe as an example of the fact that there is nothing wrong with it, but he would have to explain to the people of Gibraltar that that change in our cultural history of Government's handling of savers' money was taking place, so that people understand that, for the first time, their savings and the ability of the Government to repay their savings depends on the solvency of the Government, which never used to before when the savings were backed by cash sitting, pound-for-pound, in equivalent value to the value of debentures – an issue which is no longer the case.

1530 I have no doubt that the Government of Gibraltar will remain solvent and that the Government of Gibraltar will be able to pay its debentures, but I would urge the Government, if they have the intention of continuing the present position, that they should at least explain to the people of Gibraltar that these changes are taking place; and if they do, I for one will recognise the normality and the normalcy of that in the context of other governments in Europe and it is just a change that people need to assimilate in their minds when they decide to invest in Government debentures.

1535 A different issue arises on the question of the Gibraltar Savings Bank, because these debentures may be reducing. I suppose the Government will continue to reduce these Government debentures as it can or wants to and will continue to encourage people to buy debentures instead, issued by the Gibraltar Savings Bank. There, the same issue that I have just been speaking to would only arise in the context described by my learned friend, the Leader of the Opposition. Again, historically, when people bought Savings Bank debentures, they were matched by cash or near cash investments held by the Savings Bank, so there was no risk. Somebody was owed money by the Savings Bank, a debenture holder, and the Savings Bank had an equivalent amount of cash sitting somewhere, or a UK Treasury gilt or some other form of readily cashable investment backing that liability.

1545 I have not yet seen anything in any of the published data that suggests that that does not continue to be the case. If it were to be the Government's intention that it should cease to be the case – in other words, and that the Gibraltar Savings Bank, as it could lawfully do, was going to lend money to the Government – the Gibraltar Savings Bank takes money in in debentures and could, if it wants, invest the money in buying debentures issued by the Government or debentures issued by a Government company, or any other way that puts the money spendably, into the hands of the Government. The Gibraltar Savings Bank is a special fund, not subject to any particular rules in that respect or different. If it were the Government's intention to do that, then I think it would be incumbent on the Government to... and I do not say that it is or that it has, because I cannot see it from the figures published, but I think it would be incumbent on the Government to explain to people that that is what it was doing.

1555 I would also like to say something about the growth in recurrent expenditure. Mr Speaker, we have all in Government – me included – presided over annual increases in recurrent expenditure. It is really just a matter of degree and it is a matter of the circumstances in which you do it. It is true that the hon. Member's increase in recurrent expenditure in the last couple of years and that which they threaten in this next one, has really been unusually and extraordinarily high; which, if everything carries on going well and revenue continues to pour in and the economy continues to grow and the Government continues to get much more tax, we might get away with. But there is a risk of increasing recurrent Government expenditure, and that is that if something happens to your revenue you suddenly find yourself with an inability to meet what you have adopted as annual commitment to expenditure, as opposed to spending the money on capital projects, which you carry on doing whilst the surpluses last.

1560 I just want to flag up, Mr Speaker, two issues that I think represent circumstances that we all face collectively, neither of which are the Government's fault, but which I think would indicate the need for a

1565 degree of caution when growing recurrent expenditure in the context that I have just described. Of course  
 I do not mention the third one, which is any interference with existing high sources of revenue, and the  
 hon. Members know what that is shorthand for. But the two that I wanted to mention were threats to the  
 architecture of our gaming industry, which contributes a significant amount of recurrent revenue to the  
 1570 Government through gaming duties, the number of people it employs and therefore the amount of PAYE  
 that it contributes and other means of contributing to Government revenue, and that we simply do not  
 know – although I hope it will be minimal, but we simply do not know – what impact the UK’s changes  
 to its own gambling and gambling taxation regime will have on the extent of the presence of these  
 companies in Gibraltar in terms of... Some of them may go, a lot of them will not, but there may be  
 1575 reduction of this sort of activities they host in Gibraltar, and certainly there may be a reduction in revenue  
 to the Government through taxation.

The other element of uncertainty – which again we do not know how it is going to contribute to our  
 economy negatively, if at all, and therefore financially on the Government revenue – is the momentum,  
 reflected by the rush of Gibraltar Government statements that have recently been made on the subject, the  
 political momentum that has gathered behind tax transparency, international finance centres and things of  
 1580 that sort which will challenge parts of our finance centre and therefore may result in a decrease in  
 economic activity in that regard, even though I subscribe to the underlying thought of the Government  
 that a levelling of the playing field is likely to be net positive for us than net negative for us.

Within that netting there are winners and losers, as with all nettings, and the idea that all sectors of our  
 finance centre will be economically unchallenged in terms of revenue levels and business volumes by the  
 1585 fact that overall we are net better off, is a question mark. It is true that, over time, the levelling of the  
 playing field may give us pole position to exploit new opportunities which will replace any lost activity,  
 but that may take time, and in the meantime there may be an economic impact which may be felt directly  
 by the Government in its revenue, and indeed indirectly by us all in terms of its effect on the economy of  
 Gibraltar.

1590 Mr Speaker, I would like to say something about the floating hotel. I personally am not, in principle,  
 opposed to the idea of a floating hotel, although I think it has two main drawbacks. I think if it is the  
 Government policy that there is an urgent need for a hotel, for additional hotel capacity more quickly than  
 it can be built, then there may be different views across the floor of the House but a floating hotel is  
 certainly one way of dealing with it. Personally, I think the location is wrong. I think that, as someone  
 1595 who has always been an admirer of the extent to which Ocean Village has improved the leisure amenities  
 in Gibraltar, I think it threatens... Although I reserve final judgement until I see it in place, I fear that it  
 threatens to overwhelm physically the locality and spoil the amenity experience of the rest of the Ocean  
 Village facility, but that remains to be seen. So I certainly am not a supporter of the location for that  
 reason, but time will tell whether I am right or wrong.

The other point, which is perhaps more significant, is the extent to which it competes unfairly with  
 existing hotels. In other words, this is a non-long-term commitment. This is somebody who comes to  
 exploit our hotel market and conference market potential, without having to permanently sink money into  
 our community or our economy; because when things go wrong, if things go wrong – I hope they do not,  
 1600 but if things go wrong – they just up anchor and take their investment away somewhere else. To be  
 contrasted with anybody who owns a hotel in Gibraltar, who cannot cart it away the moment that it goes  
 wrong and has to stick to his investment through thick and thin, good times and bad times; and that those  
 who make brick-and-mortar investment in our community, are taking a long-term view and they are  
 making a long-term commitment to our community by investing in things that they cannot take away  
 1605 ever. This does not represent such an investment. It may serve a temporary purpose that the Government  
 has identified, but it risks destabilising people’s willingness to sink proper, real, long-term investment of  
 the unmovable kind into our community if they think that they can be competed with by somebody on a  
 disposable basis – brings the investment in and then takes it out when the going gets tough.

1610 Mr Speaker, I think that with all of these things the Opposition performs two roles. The first is to hold  
 the Government to account for what we know that they have done; but also to hold the Government to  
 account for things that they may not yet have done and to caution on what might be the circumstances or  
 1615 the consequences of the Government doing it or getting it wrong.

My final point is this, Mr Speaker: since I do not think that the Hon. the Chief Minister is  
 disingenuous to the point where he pretends that the great economic wonder that he has spoken to this  
 morning has been created by him in his short 18 months’ reign as Chief Minister, I therefore gratefully  
 1620 acknowledge and accept his extraordinarily positive and complimentary and bullish assessment of the  
 current state of the economy as a very gratifying eulogy of the state in which he *really* found the economy  
 when we left it, and indeed a eulogy to the last GSD Government’s stewardship of it. (*Applause*)

1625 If the hon. Members will permit me, Mr Speaker, one thing I meant to say... I regret that it will not be  
 possible... and I hope Members will forgive me for what might otherwise seem like a discourtesy... that  
 unavoidable commitments prevent me from staying in the House to listen to the speakers that may follow  
 me, and that is normally not an elegant thing to do – them all having heard me – and that my attendances

in the House will be at best sporadic during the next few days due to a commitment that I simply cannot get out of and which was in place before the hon. Member fixed this meeting for Parliament.

1630 **Chief Minister (Hon. F R Picardo):** May I?

**Hon. P R Caruana:** Yes, of course.

1635 **Hon. Chief Minister:** Mr Speaker, I rise because the hon. Gentleman has given way, just before he sat down, to say that we acknowledge that, it is no difficulty. I will send him the parts of my reply that deal with issues that he has raised with me so that he can see exactly why – what he said at the last minute – it was meant as no eulogy or compliment to him, and what we have to fix.

1640 **Mr Speaker:** May I ask the Chief Minister – it is past ten to one; shall we recess for lunch now and come back at three?

**Hon. Chief Minister:** Mr Speaker, I am happy to move the recess for 3 p.m.

1645 **Mr Speaker:** The House will now recess until 3 p.m.

*The House recessed at 12.57 p.m. and resumed its sitting at 3.00 p.m.*