



PROCEEDINGS OF THE GIBRALTAR PARLIAMENT

AFTERNOON SESSION: 5.03 p.m. – 8.39 p.m.

Gibraltar, Monday, 26th June 2017

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The Gibraltar Parliament

The Parliament met at 5.03 p.m.

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

[CLERK TO THE PARLIAMENT: P E Martinez Esq *in attendance*]

Appropriation Bill 2017 – For Second Reading – Debate continued

Deputy Chief Minister (Hon. Dr J J Garcia): Mr Speaker, it is a pleasure to rise once more in this House in order to review progress in a number of areas of Government policy since the last Budget a year ago. This is my 19th Budget address to this House; it is my sixth as a member of the Government. I apologise in advance to the House for my emphasis on Europe and on Brexit, but I am sure that hon. Members will understand.

Just over an hour ago, Mr Speaker, the United Kingdom government published a paper entitled 'The United Kingdom's exit from the European Union – Safeguarding the position of EU citizens living in the UK and UK nationals living in the EU'. The document contains one direct reference to Gibraltar, in paragraph 8. This says:

The reciprocal agreement on citizens' rights will apply to the entire United Kingdom, covering Scotland, Wales, Northern Ireland and all parts of England, and Gibraltar. Decisions that are currently made by the devolved administrations and the Government of Gibraltar will continue to be made by them.

Mr Speaker, this is in line with the comments made this morning by my hon. Friend, the Chief Minister.

The cut-off point for the mutual recognition of rights is given as anywhere between 20th March 2017 and 20th March 2019. The paper spells out a series of benefits, pensions, healthcare, economic and other rights, in the expectation that these will be reciprocated by EU member states.

Mr Speaker, having commenced with the latest, I will now rewind and for the sake of good order, start my review at the beginning.

Last June, the United Kingdom as a whole voted to leave the European Union. Gibraltar voted to remain, as did two of the three devolved administrations.

I assumed responsibility for work related to the UK and Gibraltar's departure from the EU after the reshuffle last year. The Government acted immediately and responsibly in order to meet the challenges posed by the referendum decision.

Two immediate action points were put in motion. The first was to produce a detailed Government impact study into the potential effects of leaving the European Union. The second was to look at all the options open to Gibraltar going forward. I should add, for the avoidance of doubt, that shared sovereignty was not one of those options.

Mr Speaker, during July and August of last year, detailed information on the impact of leaving the EU was requested from all Government departments, agencies and authorities. This data was compiled and produced through the Attorney General, Michael Llamas, and co-ordinated with my office.

35 The study looked at the impact of different variations of Brexit. The possibilities ranged from what is known as a hard Brexit, where the UK departs with no agreement, to what is known as a soft Brexit, whereby the effect of any changes would be less dramatic. So there is black and there is white and there are shades of grey in between. Nobody knows the final shade of Brexit at this stage, given that formal negotiations have only just begun. However, the people of Gibraltar can rest assured that their Government has already analysed the impact locally of different types of Brexit. This is what a responsible Government does and what our people are entitled to expect from us.

40 Mr Speaker, the Government has indicated that a number of salient points emerged from that analysis.

The first was the importance of frontier fluidity. That has never been a secret. There are around 12,000 frontier workers officially employed in Gibraltar. This constitutes over 40% of the labour force. That number includes over 7,000 Spanish frontier workers.

45 Indeed, the figures show that practically every nationality of the European Union is represented in the daily flow of workers into and out of Gibraltar. This entire area has become a microcosm of what Europe should be – that is, thousands of nationals of different member states who have chosen to live in one part of the EU and to cross an internal border to work in another. It is a reality that Europe should be proud of; a reality that should be protected and maintained.

The role of frontier workers impacts across the economy. They constitute a considerable proportion of employees in certain areas of economic activity: 80% of land-based gaming; 60% of online gaming; 72% of hotels and restaurants; 66% of the construction industry. Even in areas like health and social care, 26% of those employed are frontier workers.

55 This is a reflection of the positive impact of Gibraltar on the economy of the neighbouring region of Spain. Members will have seen the studies which indicate that Gibraltar accounts for 25% of the GDP of the Campo area and that Gibraltar plc is the second largest employer for the whole region of Andalucía. This fact is recognised by the Mayors of the neighbouring towns, the President of the *Mancomunidad*, the provincial government in Cádiz and the regional government in Seville.

60 A Brexit formula which involves a difficult border is clearly not in our interest, but it is not in Spain's interest either. This is the message that has to be understood by the Spanish central government in Madrid. It is a message of continuity that they themselves have delivered in the past. Indeed, the Spanish Foreign Minister, Mr Dastis, himself is on record as having said that one of Spain's objectives was to ensure that 'the links that have been created between the Campo and Gibraltar are maintained and that shared prosperity continues'. This is an attainable objective.

65 The second objective for Madrid is shared sovereignty over Gibraltar. This is unrealistic, unacceptable and unattainable. The truth is that Brexit and sovereignty are not connected. It is Spain that has chosen to link the two through the resurrection of the proposal for shared sovereignty. We have rejected shared sovereignty in the past and we continue to reject it. It is nonsensical to expect the people of Gibraltar to exchange one colonial master, as it were, for two.

75 Mr Speaker, Spain has to come to terms with the simple fact that they lost Gibraltar 300 years ago and they are never going to get it back. It would be wrong and irresponsible for Spain to complicate Brexit further still by bringing their obsession with Gibraltar to the fore. There are small micro-states all over Europe, Mr Speaker. No other nation state behaves towards these small territories in the bullying and aggressive manner that Spain behaves towards our country. We do not see France blockade the Channel Islands or Monaco. We do not see Italy obsessed with San Marino or the Vatican City. We do not see Switzerland or Austria plot to take over the sovereignty of Liechtenstein. Indeed, closer to home, we do not see an obsessive approach from Portugal towards Spain because of Olivença.

In this context, it is only Spain that is obsessed with redrawing the frontiers of Europe at a time when Europe needs certainty and stability. Madrid is the odd one out. Their approach to Gibraltar is out of step and out of tune with the times in which we live.

Mr Speaker, history is littered with examples all over the planet where countries have come to terms with particular situations and learnt to live with them. Spain must come to terms with that reality also.

Back to the Brexit report. Mr Speaker, the second major finding of our Brexit discussions with the private sector was that the bulk of our financial services business is with the United Kingdom and not with the European Union. This simple fact means that the possible impact of losing access to the single market in the future is already mitigated against considerably.

The UK has already assured us that there will be continued access to the UK market. We have also received assurances from the Secretary of State for International Trade, Liam Fox, in respect of the inclusion of Gibraltar in future trade deals that the UK may negotiate for itself.

I think that there is broad agreement in this House that this is the way forward: first, the border; second, access to the UK market; third, access to UK trade deals; fourth, whatever access to the EU single market the UK may negotiate for itself. It is not helpful that we should promote a climate of disagreement amongst ourselves where perhaps no such disagreement actually exists.

Mr Speaker, the Government is confident that as one door closes other doors will open. New opportunities will come our way. The engagement with the Commonwealth has already started. I am pleased to report that there is considerable interest in Gibraltar from large Commonwealth countries. We will explore trade and commercial opportunities with them. They too are looking at the new economic openings that Brexit may bring. This interest to talk to Gibraltar is very encouraging and extremely welcome.

Members will recall that at a regional level this subject formed part of the discussions here last month during the conference of the Commonwealth Parliamentary Association. The aim, where we can, will be to raise the profile of the Commonwealth in Gibraltar and of Gibraltar in the Commonwealth. This year, with the co-operation of my colleague the Minister for Education, Dr John Cortes, an essay competition on a Commonwealth theme was organised for our young people. The Government will continue to broaden and to deepen our relationship with the Commonwealth as a matter of policy.

Mr Speaker, EU funding will cease once Gibraltar has left the European Union. This is obvious. These funds are managed locally through the Ministry for Economic Development. Gibraltar has benefited from over €60 million of funding ever since the first allocation was made. These funding programmes were secured under the European Regional Development Fund – €32 million; the European Social Fund – €18 million; and the Inter Regional Transnational Programmes (INTERREG) – €9 million. The UK government has effectively underwritten the completion of the existing programmes which commenced in 2014 and which are due to end after our EU exit in 2020.

Mr Speaker, the Government's Brexit impact report was submitted to the new UK Department for Exiting the European Union in September. This has formed the basis of our formal and informal discussions with the UK ever since. The House is agreed that frontier fluidity is important and the hon. Members know that the Government has spent considerable time and effort looking at different ways forward in this area.

Gibraltar is outside the Common Customs Union and therefore outside the ambit of free movement of goods. Whereas the mechanics to provide for the future exportation of goods to the EU is a major issue for the United Kingdom, it is not an issue here in Gibraltar – first, because we have no manufacturing industry as such; and second, because we are outside the EU regime for goods already and indeed have never belonged to it.

The general view is that the system that already operates at the land frontier and other entry points in relation to goods will simply continue as it has been going forward. The examination of

135 the manner in which the border will operate in the future is therefore primarily about the movement of persons and not about the movement of goods.

We have mentioned in the past the possibility of Gibraltar joining Schengen even if the United Kingdom were no longer in the EU. The irony is that in 2013, with no Brexit on the horizon, we were encouraged to look at this option seriously as a way of eliminating the delays generated by Spanish controls on persons. We have therefore moved from a position where we were looking at more Europe to a position where we could end up with less Europe, or indeed with no Europe at all.

140 I have to say that Andorra, Monaco and San Marino are not in the European Union, nor are they part of the Schengen area, although all three are in the Customs Union. It was important to the Government to analyse the way in which the EU's small neighbours operate their borders. This is in line with the pledge we made to examine all the options open to Gibraltar going forward. These small territories have no hostile Spain next door, that is true; nonetheless, we are dealing in an area where precedent is often a valuable ally to deploy.

145 Mr Speaker, it is also well known that the Government has been looking into the possibilities provided by the framework of the Local Frontier Traffic Regulation No 1931/2006. This provides a mechanism which allows EU member states to conclude bilateral agreements with their neighbouring non-EU countries in order to facilitate the crossing of external borders. Two particular advantages of this scheme are that the Commission retains oversight of the mechanics and that it is already enshrined in EU law.

150 It is relevant to note that the crossing arrangements at the land borders of Ceuta and Melilla do not stem from this Regulation. They are the result of special border arrangements which were applied earlier. However, in practice it means that the residents of the neighbouring Moroccan provinces are allowed to cross in and out of Ceuta and Melilla on the basis of a unique regime suited to their own particular circumstances.

155 Mr Speaker, I wish to say a few words at this stage about the amendments to the Schengen Border Code which came into force just before Easter. The Government in general and our Office in Brussels in particular worked very hard behind the scenes with other interested parties on this matter.

160 The Code provides for systematic checks against databases for every person crossing any external Schengen border in either direction, whether they happen to be EU nationals or not. There were disproportionate delays in both directions at the Frontier immediately before the amended Code came into force.

165 Mr Speaker, it should be noted that the Code provides for an evaluation mechanism to regulate the manner in which it is being applied. There is also provision for a reversion to targeted checks in cases where systematic controls generate lengthy delays and for border guards to wave through persons they recognise with simple cursory checks.

170 It is relevant to point out that the Commission has already intervened in relation to the application of the Code between Slovenia, which is part of the Schengen area, and Croatia which is not. Brussels has already agreed to allow targeted checks to be introduced at that land frontier when waiting times are longer than 15 minutes. This sets a useful precedent. A number of MEPs and other interested parties have already approached the Government in order to find out more about the effects of the application of the amended Code at the border between Gibraltar and Spain. We will continue to look at this closely and share any relevant information.

175 Mr Speaker, it is obvious that in relation to Brexit the border alone is a voluminous subject in its own right. The House knows that Brexit is a multi-faceted negotiation and therefore the land borders for which the United Kingdom is responsible is only one of many areas for discussion in the months and years ahead.

180 Another area that the Government continues to follow closely is civil aviation. The Government welcomes the continued support of the United Kingdom to date in relation to the inclusion of Gibraltar Airport in EU civil aviation measures. The Government has conducted

185 vigorous lobbying in the European Union to support our position and has enjoyed the full backing of the United Kingdom government throughout this process.

Mr Speaker, hon. Members know how this story goes. Spain continues to object to the inclusion of Gibraltar Airport in EU civil aviation legislation. They take this position despite having pledged to put an end to that very objection in an agreement signed at Córdoba in 2006.

190 This means that a number of aviation dossiers are held up for the whole of the European Union by Spain. They are the Single European Sky 2+, the legislation on slots, that on air passenger rights and the aviation agreement between the European Union and Ukraine. Other aviation agreements with third countries are now joining the queue. The pressure is building up. It was there before 23rd June 2016 but is has now intensified, given the decision taken in the
195 United Kingdom to leave the European Union.

Mr Speaker, the second question on the horizon is the application to Gibraltar Airport of the new aviation agreement between the UK and the EU. The latest position, as I understand it, is that the UK will not remain in the EU common aviation area, because this will involve recognising the jurisdiction of the European Court. The logical consequence of that position
200 would be a new aviation agreement. A third additional scope of the discussion are the new aviation agreements that the UK will need to negotiate with third countries outside the European Union. I am pleased to inform the House that the Government has already been consulted on the outline preliminaries of such new agreements.

Mr Speaker, I should say that similar to other Departments, the Director of Civil Aviation and
205 the Air Terminal Director have undertaken a review of the implications of Brexit in their respective areas.

Gibraltar Air Terminal Ltd and Commercial Aviation are the responsibility of my colleague, Gilbert Licudi. I will therefore only provide a very brief outline in order to put into context what I have said already.

210 The Airport is a member of the Airport Operators Association in the UK and its European equivalent, Airports Council International Europe. The two organisations have been briefed on Gibraltar's concerns and, I am told, have been supportive in representing our position.

Even with the uncertainty brought about by Brexit and by Spain blocking the application of certain EU aviation laws to Gibraltar, the number of flights this summer remains at historically
215 high numbers. This is positive news.

Mr Speaker, the measures taken by the Government in early 2016 to employ 20 additional Border and Coastguard Agency officers and four additional operational support officers at the terminal has paid dividends. Despite a much higher throughput of passengers, queuing times at the central search area for security screening have been reduced compared to previous years.

220 Amendments have been made during the year to the Civil Aviation (Air Navigation) Regulations 2009 in order to bring into effect European Regulation (EU) No 2015/320 of the European Parliament and of the Council. This Regulation sets out the technical requirements and administrative procedures relating to the issue of air traffic controllers' licences and certificates. In addition, the Civil Aviation (Air Navigation) Regulations 2009 have been amended to regulate
225 the minimum heights at which UK military aircraft can fly in the vicinity of Gibraltar.

In last year's Budget, I announced that the MoD Airfield Authorities and the Director of Civil Aviation have introduced revised aviation safeguarding procedures in Gibraltar, which regulate the maximum height of developments close to the Airport. To support the new procedures, in the course of this year the Director of Civil Aviation and ITLD have introduced an easy-to-use
230 layer on the Government GIS portal. This new layer enables developers and architects to investigate the maximum build height for any new development in any part of Gibraltar.

Mr Speaker, the precise shape of the UK's departure from the European Union, and indeed our very own, are both far from clear at present. There are a wide variety of possible outcomes. The way it broadly looks – and this may change – is that a number of different agreements will
235 have to be negotiated.

The first is the withdrawal agreement, also known as the exit treaty. There are two years in which this can be concluded. The outcome is open to approval by Qualified Majority Voting, which means that no single country has a veto if it is concluded within that timescale. It requires unanimity to extend the deadline if the exit deal is not concluded within two years.

240 Article 50 of the Treaty of Lisbon provides for the withdrawal agreement to take account of the framework for the future relationship between the withdrawing state and the rest of the European Union.

This phrase has been interpreted differently by the UK and the EU. The UK took it to mean that both would be negotiated simultaneously, and the EU that the two would be negotiated consecutively. We now know that the second agreement will be negotiated once the shape of the first becomes clearer.

In addition to this, there is a general view that transitional provisions may need to be agreed to straddle the gap between when the exit treaty has been concluded and the agreements to determine the future relationship come into effect.

250 Mr Speaker, I believe it is relevant to point out the infamous clause article 24 of the Council guidelines in the context of what I have just said. The clause says:

After the United Kingdom leaves the European Union, no agreement between the EU and the United Kingdom may apply to the territory of Gibraltar without the agreement between the Kingdom of Spain and the United Kingdom.

The coming into operation of that clause is limited in time to 'after the United Kingdom leaves the European Union'. The clause therefore cannot apply to the negotiations on the withdrawal treaty, because at that point the UK remains a member of the EU.

255 The logical conclusion is that the Spanish veto clause applies to the future relationship deal between the UK and the EU, which is the only point in the timeline when the UK is firmly out. I repeat the operative words, which are 'after the United Kingdom leaves the European Union'.

The EU Council guidelines therefore do not apply to the withdrawal treaty and to anything that may be agreed under its terms. However, all member states have a veto on the agreement that will regulate the future UK-EU relationship. What the guidelines do, in the view of the Government, is that they provide Spain with an additional veto, a second bite at the cherry. This is because Madrid will enjoy the same veto as all the other member states in relation to what may or may not be agreed with the UK, and then also a second veto in relation to the application to Gibraltar of any aspect of that agreement.

265 Mr Speaker, the use of such language by the Council was tactless, insensitive and wrong. It was an affront to the 96% of the voting electorate of Gibraltar who supported remaining in the European Union a year ago.

I should add that the European Parliament's own guidelines, which make no direct reference to Gibraltar, are better worded. The Parliament has itself called for the European Union's external borders to be one of the areas to be addressed first as part of the withdrawal negotiations.

275 Mr Speaker, the Chief Minister and I made it clear after the referendum that we would leave no stone unturned when it came to safeguarding the position of Gibraltar going forward. This is precisely what we have done. We have put our views to the top decision-makers in the UK government; we have successfully lobbied all the main opposition parties in the United Kingdom; we have put across Gibraltar's case in the international media; we have spoken to key figures in the devolved administrations, including the First Ministers of Scotland, Wales and Northern Ireland; we have discussed mutual challenges with the Crown Dependencies and the other UK Overseas Territories; we have welcomed politicians from London and Brussels to Gibraltar; we have met key figures in the European Parliament across all the main political groups; we have spoken to the other member states of the European Union; we have raised our concerns with the European Commission; we have taken our message to key decision makers in

the Government and the Congress of the United States of America. It is simply not humanly possible to have done more.

285 Mr Speaker, parliamentarians from other Commonwealth countries have praised our Brexit work. Last month, I was asked to deliver an address to the regional plenary of the Commonwealth Parliamentary Association on the subject. This was followed by questions. A Member of the House of Lords said that she was impressed with the statesmanlike way in which the Chief Minister had approached Brexit. Another said that the evidence given by the Chief
290 Minister before the House of Lords inspired more confidence and was better than any evidence she had heard on Brexit before that Committee. A Member from Jersey said that he was really impressed with the Chief Minister's performance on the Andrew Marr Show which showed that he was, and I quote, 'a capable and confident leader'. There was more praise from the floor from questioner after questioner after questioner. Mr Speaker, this was the considered view of
295 parliamentarians from abroad after listening to what we had to say.

The Government is very grateful in all this to the Attorney General, Michael Llamas, an expert in European law in his own right, whose sharp legal mind and down to earth advice we have been able to count upon throughout. It is not without irony that Michael Llamas, the Chief Minister and I, who started our adult lives enthused with the European project, are now dealing
300 with our very departure from it. It is a strangely painful position to be in.

Mr Speaker, the vote for work related to the United Kingdom's departure from the European Union is a new subhead which can be found under my office in head 10, subhead 2(9).

Mr Speaker, I now propose to say a few words about Spain's approach towards Gibraltar in more general terms. It is obvious that the aim of the policies of the Spanish government towards
305 Gibraltar has always been to undermine our constitutional order, our prosperity and our way of life. In this general context, the hostile objectives of Spanish policy are probably the single greatest threat to Gibraltar.

Over the past few years, Spain has developed new state structures and procedures to implement its National Security Strategy. These developments represent a qualitative change in Spanish thinking and behaviour, which impacts on Gibraltar's security.
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Mr Speaker, Spain has designed and implemented a comprehensive strategy against Gibraltar. By its nature, this strategy combines the efforts of all of Spain's ministries. Behind Garcia-Margallo's rhetoric, and Mr Dastis's outwardly softer tone, this machinery has continued to work against our interests unabated.

315 This is particularly evident, for example, in the maritime domain where Spain has now developed a National Maritime Security Strategy, with a subordinate operational plan to exercise control of the Straits for the purposes of security and safety.

There are positive and negative reasons for these operations. The constructive reasons centre on the protection of life at sea and the generation of prosperity; for these purposes Spain
320 will always find Gibraltar a willing partner. However, Spain has also shown that its intention is to dispute Gibraltar's sovereignty over our waters by using its military, law enforcement and civilian capabilities. The latter was demonstrated when the former Spanish foreign and interior ministers awarded the Captain of the Port of Algeciras a medal for his 'defence' of Spain's interests against Gibraltar. The captain is a civilian employed in the Ministry for Public Works
325 and Transport.

Beyond the medals, Mr Speaker, it is clear that Spain is serious. In its national security documents, Spain has described our country as an 'anomaly' that poses security problems both for Spain and for Europe. What those actual security problems might be is rarely elaborated upon. And the fact that Gibraltar provides human and economic security to many is conveniently
330 and completely ignored. Instead, a 2003 Defence White Paper makes it clear that Spain genuinely thinks that Gibraltar curtails its sovereignty, perhaps because it allows the UK to launch independent operations in an area that Spain thinks of as vitally important to her own interests.

335 We now fully expect that Spain will, ignoring the NATO and Five-Eyes dimensions, argue that Gibraltar poses a problem for European policies such as the European Security Strategy, European Maritime Security Strategy, Frontex, etc.

340 This House knows that there is considerable work being done in Spain – and I will not go into that, for obvious reasons. However, the Members of the Select Committee on Brexit were given a brief outline of this activity during the Brexit briefing that I gave them recently. We will remain alert to any Spanish arguments and counter them as necessary.

Mr Speaker, I will now move on to some of the assets that we have at our disposal in order to counter that strategy. I will commence with our representation in Brussels and I will provide an outline of their activities over the last financial year.

345 During my Budget speech last year, I said that the view of the Government was that the role played by the Brussels Office assumed an even greater significance in the light of the outcome of the UK referendum on continued membership of the EU.

350 Mr Speaker, their work over the last 12 months, since the referendum, has proved that the Government was not wrong in making that assessment at the time. Since 23rd June 2016, the representation's efforts have been crucial in both informing the Government of movements within EU circles concerning the Brexit process and in advancing and voicing Gibraltar's concerns and desired objectives as the negotiations ensue.

355 New and important contacts have been made and the network continues to grow. I have no doubt that as a result of the Government's work, amplified by our assets in Brussels, Gibraltar is, at this crucial time in our history, better understood amongst EU policymakers than it has ever been.

Since the referendum, the Chief Minister and I have accumulated five visits to Brussels with the representation arranging top-level meetings on each occasion. Much of this work is better done away from the public eye. However, Mr Speaker, rest assured that the representation has been kept exceptionally busy in the last year.

360 I will focus, first, on activity related to the European Parliament, whose role will be important in the context of the Article 50 process. In the 2016 calendar year, Gibraltar Government officials or Ministers formally met 93 different Members of the European Parliament. A total of 37 further private exchanges of views took place between Government officials and separate MEPs from 1st January to date. Meetings with the same MEPs have taken place more than once in the
365 time periods specified.

The Government has targeted the leaders of the more influential political groups and the chairs or political group co-ordinators of relevant European Parliament committees. Discussions have also taken place with rapporteurs of specific reports which are either relevant to Gibraltar or which might touch upon Gibraltar.

370 The work above forms part and parcel of the Office's day-to-day business insofar as the European Parliament is concerned. However, exceptionally, and again focusing only on the Parliament, the Office has also organised the following.

375 On 31st January 2017, the Chief Minister addressed the Constitutional Affairs Committee on issues concerning Gibraltar and the UK withdrawal from the EU. The Committee is one of the most influential parliamentary committees in which some of the leading minds on constitutional affairs and Brexit participate. The exchange of views, in public and before the full committee, was the first in which a Chief Minister of Gibraltar has ever appeared. This helped to focus attention on Gibraltar and the information provided by the Chief Minister was reflected in a report published more recently.

380 In April this year, the representation was commended for influencing 209 MEPs to vote in support of an amendment in a parliamentary resolution on Brexit which recognised the majority referendum vote in Gibraltar. This was not enough to carry the amendment through. However, the efforts of the team in Brussels must be seen in the context of the intense Spanish pressure pulling in the opposite direction and the fact that strict instructions had been issued to MEPs by
385 parliamentary group leaders not to support or introduce any amendments.

Moreover, whilst Gibraltar was not mentioned in the main European Parliament resolution on Brexit, Gibraltar was indeed mentioned in a favourable light elsewhere. There was a positive reference made to the need to protect border fluidity, in separate resolutions put forward by the ECR Group, the GUE/NGL Group and the EFDD Group.

390 Separate visits by a number of MEPs to Gibraltar have also been organised by the Brussels Office in the last year. On each occasion, MEPs were able to see with their own eyes the challenges that Gibraltar faces at European level, not just with Brexit but also with, for example, the Airport and border fluidity.

395 Last month, the Office supported our Finance Centre Director James Tipping, and Frank Carreras, the Government's Specialist Tax and Administration Adviser, during their intervention before the Parliament's Committee of Inquiry into Money Laundering, Tax Avoidance and Tax Evasion. The exchange of views proved to be an excellent opportunity for the Government to publicly dispel allegations made by Spanish representatives in Brussels with regard to our tax practices.

400 Five separate lobbying visits to Strasbourg during the European Parliament plenary sessions were also organised during the last financial year.

Work on influencing the European Parliament will continue, Mr Speaker. I will be leaving for a lightning visit to Brussels tomorrow, where we have this week once again set up a Gibraltar exhibition in one of the main foyers of the parliament building. This is part of the policy of the Government to continue to raise the profile of Gibraltar in the European Union, in particular in the present climate.

405 Since the referendum, the representation has also increased its work with regard to the briefing of individual member states on issues related to Gibraltar and Brexit. The details of these meetings are confidential, for obvious reasons, but today I can confirm that since 23rd June 2016 Government Ministers and officials have held high-level meetings with practically all of the EU-27 countries.

410 In the last financial year, a significant number of meetings with the Commission have also been organised. These meetings have focused on business as usual matters, bearing in mind that it is only recently that the Commission have issued their Brexit negotiating directives and that until the UK withdrawal from the EU happens Gibraltar will be obliged to observe and implement EU law in accordance with its current status inside the European Union.

415 Therefore, meetings have, for example, been organised with Commissioner Moscovici, responsible for taxation, to discuss Gibraltar's excellent record of compliance with EU and international obligations on matters related to tax; and with Commissioner King, responsible for security, to brief him on the current position with respect to the border.

420 Further meetings have also taken place at a technical level to discuss other important issues related to the application of EU civil aviation measures to Gibraltar Airport or the implementation of the modified Schengen Border Code which I referred to earlier.

425 The bulk of the work of the Brussels Office involves the above. However, there is also continued monitoring of EU legislative and non-legislative proposals. Some other activities include: organising three separate visits of MEP assistants to Gibraltar in July and December of 2016 and April 2017; assisting with a tailor-made programme, involving meetings with MEPs, Commission officials and Committee of the Region officials, for the Cross Frontier Group's visit to Brussels in September 2016; securing the Chief Minister's participation as a keynote speaker at an APCO Forum Event on 'Brexit: Beyond the Bubble' and the opportunity for him to speak in a plenary discussion at the annual Friends of Europe flagship event 'The State of Europe' in October 2016; arrangements for the September visit of Gibraltar students to Brussels; and organising a screening of the Gibraltar v Belgium World Cup qualifying game in October 2016 ahead of the 2018 World Cup.

435 All in all, in Brussels, just as in London and elsewhere, Gibraltar will continue to punch above its weight when it comes to voicing its concerns and defending its interests both in the EU and internationally.

Mr Speaker, I want to take the opportunity to thank Sir Graham Watson, Daniel D'Amato and everyone in the Brussels Office for their hard work and dedication over the last financial year.
440 The Brussels Office can be found in the Estimates of Revenue and Expenditure at head 10, subhead (2)(c).

Mr Speaker, I move on now to Gibraltar House in London. The office facilities at Gibraltar House in The Strand have proved instrumental in support of our response to the referendum last year and the challenges that lie ahead as a result.

445 Before June 23rd 2016, regular meetings with UK government officials were held both in Gibraltar House and in Whitehall. We have met Members of Parliament from all the main political parties in Westminster. Additionally, the liaison with Britain Stronger in Europe led to the formation of the associated Gibraltar Stronger In campaign.

After the result, the Government's focus in London homed in to lobby and meet all relevant parties and to explore the response to the outcome with significant affected entities. In many cases, in addition to our initiatives, we were approached directly by others interested in knowing how we might be dealing with the challenge ourselves.

450 There was a moment of change in the London office too. On 30th June 2016, Albert Poggio retired from the role of UK Representative. On 1st July 2016, Dominique Searle, then the Chief Minister's Special Representative, was appointed by the Chief Minister as UK Representative and Director of Gibraltar House.

The team in London was tasked to secure meetings at the highest level, working closely with No 6. The Chief Minister and I met with the Prime Minister, Theresa May, last year on her very first day in office. Shortly after this, as they took up their appointments, we had access to
460 Foreign Secretary Boris Johnson, Trade Secretary Liam Fox, Brexit Secretary David Davis, Brexit Minister Robin Walker, Europe Minister Sir Alan Duncan, and Sadiq Khan, the Mayor of London, among others. These contacts have continued since those first days of the aftermath of the referendum.

In that same period a delegation from the Scottish Executive, headed by First Minister Nicola Sturgeon, was hosted at Gibraltar House. Regular meetings have also been held there with representatives from the Channel Islands, the Isle of Man and the other UK Overseas Territories. The House knows that Gibraltar has also had contact with the First Ministers of Wales and Northern Ireland. Work was undertaken to understand how Brexit would affect the nations of the UK, in particular in areas such as borders.

470 Mr Speaker, the UK Overseas Territories Association (UKOTA) continues to make regular use of the Gibraltar House facilities as a focal point. This allows all the Overseas Territories to work together to defend our common interests and to promote areas of co-operation between ourselves and also with the UK.

Nonetheless, the UK government was prompt to accept our argument that Gibraltar's position in the process of Brexit was substantially and materially different from that of the other territories which, though affected by the departure of UK from the EU in varying degrees, are not themselves departing the EU or so deeply enveloped in its structures. As a result, Gibraltar has had its own Joint Ministerial Committee (JMC), but has also been able to attend the Overseas Territories Joint Ministerial Committee as an observer.

480 The Brexit-related activity in Gibraltar House has come in addition to the regular presence of official and commercial entities holding meetings relating to financial services, policing and commercial matters. The facilities continue to be made available to the Friends of Gibraltar.

Mr Speaker, the UK Representative and the team in London have made a point of creating a close working link to Gibraltar through my office at No 6. The aftermath of Brexit has intensified political activity and considerably increased the need for the Chief Minister and I to attend meetings in London. This is a reflection of continuous contact with the UK government and with Members of both Houses of Parliament.

490 The main administrative area of the London office has therefore been transformed into a facility more able to support the regular ministerial presence there that Brexit has brought about.

The team at Gibraltar House have, over the last year, carried out extensive lobbying in the House of Commons and the House of Lords. This is directed at ministerial level from Gibraltar, where information flows back after the meetings have taken place.

495 On the same basis, the office in London liaises with UK government departments as the impact of Brexit unfolds. It also follows relevant think tanks and events providing analysis and information which informs and supports the Government's response to the challenges on the horizon. Where relevant, both Gibraltar House in London and in Brussels provide support and share information as well.

500 Gibraltar's UK Representative is officially included in the Diplomatic List and Gibraltar has therefore been represented at Palace, Westminster and diplomatic functions, where useful contacts have been made.

Mr Speaker, regardless of the exceptional impact of Brexit upon us, the regular links with politicians, former Governors and friends of Gibraltar continue. The Government has taken the opportunity to work towards a realistic reappraisal of how we should do this. Most significantly, 505 Gibraltar Day in London has been completely refocused. The reality was that both the scale and the cost had become unwieldy. This year, as my colleague the Minister for Commerce, Albert Isola, will no doubt relate, the financial services sector and the online gaming industry covered much of the cost of their events by hosting tables for key players.

510 The Chief Minister hosted his main political event at the Gherkin. This signalled that a modern and progressive Gibraltar is open for business. The event focussed that message on a well-attended gathering of ambassadors, peers, MPs and military figures in the presence of our former Governors. This was an audience of 200 people, in contrast to the 1,000-plus who used to be invited to the Guildhall in previous years.

515 Of course, many of those who attended the Guildhall events continue to be very good friends of Gibraltar. However, the high number of attendees from here was not really justified and the size of the event meant that our message was diluted. Instead, the Sunday mass in Fulham ahead of Gibraltar Day has become the focal point of our acknowledging the support of our many friends in the UK who are not just politicians but often members of the Gibraltar diaspora or who have served in varying capacities on the Rock and taken our cause to their hearts.

520 Mr Speaker, as well as helping to organise the visit by parliamentarians on National Day, Gibraltar House continues to organise the lobbying and the presence at UK party conferences. Last year we attended the conferences of the Conservative, Labour, Liberal Democrat and Scottish National parties. These are important venues for our lobbying effort, setting the tone for much of the year, not only with MPs but also with think tanks and policy makers.

525 The House will find it relevant to learn that following the UK general election, the team in London has been focussing on targeting newly elected MPs and it is important that this process continues. I would add, however, that most MPs tell us we are knocking at an open door and that support for Gibraltar, in both Houses, remains as staunch as ever – if not more so in the wake of Brexit. Therefore, Mr Speaker, the core focus of the work of the London office is 530 political.

The London staff involved in tourism now work closely and directly to my colleague the Minister for Tourism through the Department in Gibraltar. The office continues to oversee the payment of allowances to sponsored patients.

535 IT and communications issues were identified for improvement at an early stage. It became clear that best use of the office could not be made with an 8MB ADSL line which served a building on five storeys. There were some practical issues to overcome, but the office is now served with a 1GB connection that links securely to No 6. videoconferencing via Skype is now in place for Ministers to continue to work between Gibraltar and the UK.

Mr Speaker, I take the opportunity to thank the UK Representative, Dominique Searle, and all
540 the staff. Gibraltar House in London can be found at head 10, subhead 2(2)(a).

Mr Speaker, the Gibraltar Office in Hong Kong has been bundled together with London and
Brussels under the Office of the Deputy Chief Minister. I explained last year that the bulk of its
activities are commercial in nature. The Hong Kong office, for this reason, works with my
colleagues the Minister for Commerce and the Minister for Economic Development.

545 The Government continues to lobby outside London and Brussels. At the end of March, I
travelled to Washington for a series of meetings with Republican and Democratic Members of
Congress and with the new administration. This included the Chairmen of the Foreign Affairs
Committee, the Homeland Security Committee and the Foreign Affairs Sub-Committee on
Terrorism, Non-Proliferation and Trade. I was able to update the leader of the Democrats on the
550 Foreign Affairs Committee on Gibraltar matters.

There was considerable interest in Gibraltar in the context of Brexit and of our relationship
with the UK and Spain. Direct briefings were given to the State Department Senior White House
Advisor inside the State Department itself and to a meeting of senior staffers on the Foreign
Affairs Committee of the Senate.

555 The visit led to more Congressmen signing on to the resolution supporting the right of the
people of Gibraltar to self-determination, including two chairmen. There are now 27 supporters
including the main sponsor. This resolution has to be tabled after each election and it was
sponsored once more by Congressman George Holding, who is a good friend of the United
Kingdom and of Gibraltar. I took the opportunity of the visit to Washington to present the
560 Congressman with the Gibraltar Medallion of Honour, which had earlier been unanimously
bestowed upon him by this House.

Mr Speaker, I now move on briefly to other matters.

The House knows that this year is the 50th anniversary of the 1967 Referendum. I had the
pleasure of opening an exhibition a few days ago at the John Mackintosh Hall in order to mark
565 this event. The exhibition opened 50 years to the day when the holding of the Referendum was
announced in the House of Commons by the then Minister of State for the Commonwealth,
Judith Hart. In her statement to the Westminster Parliament, she delivered the pledge that
'decolonisation cannot consist in the transfer of one population, however small, to the rule of
another country, without regard to their own opinions and interests'. This was, Mr Speaker, a
570 key moment in the history of Gibraltar and in our development and evolution as a people.

In 1967, British sovereignty came to depend not on force of arms, nor on the clauses of an
ancient treaty; it now depended on the living wishes of the people who had settled in Gibraltar
after 1704 and who were given the choice 50 years ago of remaining under British sovereignty or
transferring that sovereignty to Spain. The result, as the House knows, was an overwhelming
575 endorsement of the continuation of British sovereignty.

The Government has taken the view that this important event is worthy of commemoration
as one of the landmarks in our historical evolution as a people. The exhibition will remain open
until 7th July. There will be a memorial event and concert in the build up to National Day.

580 A set of postage stamps will be issued to mark the Referendum. I am grateful to my
colleague, the Minister for Commerce, Albert Isola, for his assistance with this. A set of
commemorative coins and coins for general circulation will also be minted to mark the
anniversary of the Referendum. I am grateful to my colleague, the Minister for Economic
Development, Joe Bossano, for his assistance with this.

585 A commemorative booklet will be published and circulated to schools in Gibraltar. It is
important that younger generations are aware of the events that have shaped our distinct
identity as a people. The House will recall that a similar booklet was also published in 2015 to
mark the 75th anniversary of the wartime evacuation and that this was also distributed to
schoolchildren in Gibraltar at the time.

I am told that National Day, the actual anniversary date of the Referendum, will be extra
590 special this year. Referenda in general will be the theme of the annual symposium that will take

place at the Garrison Library in the autumn. There are other events in the pipeline which will be announced in due course.

595 Mr Speaker, I am grateful to the archivist, Anthony Pitaluga, and his staff for their assistance and support in developing this project, and also for the general enthusiasm with which they go about their work.

Mr Speaker, I also welcome the opportunity to update the House on progress with the Northern Defences. As part of the Government's commitment to our unique heritage, the Northern Defences project will continue. The aim is to clear Hanover Battery, the Queen's Lines and the King's Lines which are located in the north face to the east of Laguna estate.

600 Hanover Battery and Hanover Gallery were named in honour of the Hanoverian regiments who helped in the defence of Gibraltar during the Great Siege. I am pleased to report that there has been interest from historical sectors in Germany in pursuing this connection further and that the Government is keen to do so.

605 Works during previous years focused in clearing up tons of debris, vegetation and asbestos within numerous tunnels and buried fortifications. This was a seemingly impossible task. The fruit of such hard work is now visible with the exposing of the Princess Lines, the Queen's Lines and associated galleries. Such an investment has exposed a series of bunkers, battlements and gun placements which range in time from the 18th century to the Second World War.

610 These works have highlighted the importance that the King's and Queen's Lines have had in the defence of Gibraltar. Their value is immeasurable from a historical perspective. The potential as a visitor site is truly remarkable as the site links Casemates Square to our Great Siege Galleries via the WWII Tunnels in the Upper Rock.

615 Mr Speaker, the option to explore Fortress Gibraltar is a vision that will soon become a reality, offering an excursion to visitors and residents which will complement the offers that already exist. Works during the summer months will address Hanover Battery whilst secondary teams will clear the King's and Queen's Lines throughout the year. The Government is very grateful to the Gibraltar Heritage Trust for the tours of the Northern Defences that they have conducted. These are set to resume in September and will provide residents with a first-hand impression of this buried jewel as we continue to uncover it.

620 I also want to take the opportunity to thank the Royal Engineers for their work on the site which continues at regular intervals throughout the year. It is very fitting that the modern-day descendants of the corps that constructed those defences are now assisting in their restoration over 200 years later. The Northern Defences can be found at head 102, Projects, subhead 4(f).

625 Mr Speaker, the ongoing work in relation to Brexit continues to consume a large proportion of the Government's time. The Chief Minister and I are both closely involved in the process. This means that there may be occasions when it may take longer than we would like to get round to a particular issue that matters to someone. The aim of the Government remains to continue to balance the Brexit work and the business as usual work so that everything gets done. In the cases where that may not happen we can only apologise in advance.

630 The hectic pace that we saw in January, February and March will probably take off again now that the general election in the United Kingdom is over. A considerable volume of work happens behind the scenes and is not reported. Nonetheless, our ultimate objective remains the delivery of our manifesto which contains the commitments that we entered into with the electorate.

635 Mr Speaker, I want to take a moment here to congratulate John Collado and Charlie Russo of Land Property Services Ltd (LPS) on their retirement this month. They have been in public service for over 30 years and in 1990 both moved from the Crown Lands Department to what became LPS. I have worked closely with them since December 2011 and wish them a happy retirement. I take the opportunity to thank them and the team at LPS for their support and assistance in that time. I also wish to thank the Lands Office in Convent Place and my personal staff at No. 6, Coral, Caine and Ernest.

640 Finally, Mr Speaker, I close by thanking you and the Clerk and the staff of the House for the assistance and support that I have received throughout the year. Thank you.

645 **Chief Minister (Hon F R Picardo):** Mr Speaker, the Minister for Economic Development is having a heated argument with a heated printer and I therefore move that the House recess for 30 minutes.

Mr Speaker: We will proceed for some refreshments; a short recess.

The House recessed at 5.55 p.m. and resumed its sitting at 6.30 p.m.

650 **Mr Speaker:** The Hon. Joseph Bossano.

Minister for Economic Development, Telecommunications and the GSB (Hon. J J Bossano): Thank you, Mr Speaker. I regret that technical problems almost prevented me from delivering what I need to deliver.

655 Mr Speaker, last year in my contribution I concentrated on how the Ministry for Economic Development assessed the impact of the UK decision to withdraw from the European Union on the global, EU and Gibraltar economies, especially in respect of our ability to achieve the target in the four-year National Economic Plan.

660 I expected to be in a position to update that assessment this year based on the developments that have taken place in the preceding 12 months. However, the goalposts have been moved, if not indeed altogether removed, by the results of the UK general election which without a doubt had both a political and an economic impact on us. I am sure Members are familiar with the saying that a week is a long time in politics. The eight weeks between April's notification and the UK general election result in June have been a millennium in terms of the changes in the context of Brexit. If it was difficult to hazard a guess a year ago, let alone make a prediction, the position
665 now is one of sheer impossibility.

As far as Gibraltar is concerned there is still the same government in the UK and the commitments made before the elections still stand. Moreover, the better performance by Labour candidates has meant that all our staunch supporters are back in Parliament, whereas at
670 the beginning it looked as if many of them were at risk. So the political effect on us from the changed composition of the Commons is not necessarily a negative one since in addition the Democratic Unionist Party, on whose support rests the survival of the Conservative government, are staunch past supporters of Gibraltar's right to remain with the UK. However, the negotiating position of the UK government is considerably weakened given the inevitable consequences of the platform on which the election was called and fought.
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In the UK the Prime Minister asked for a strong mandate and argued that unless she got one the UK would not get a good deal from the EU. Since the mandate has not been obtained, the prospects of a good deal are reduced by definition. The good deal would have been the deal that would provide economic benefits and reduce political liabilities, and even though we might be
680 excluded by the disgraceful position of the 26 member states that capitulated to the demands of Spain at our expense, it would still have been better for the UK and for Gibraltar that the UK should have a stronger economy rather than a weaker one. However, in the UK itself following the newly elected Parliament, not everyone agrees on what is best for the UK economy. The official line still is that 'no deal is better than a bad deal'. However, the bargaining chips and the positions have now changed.
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The first meeting at the start of the negotiating process has seen the EU rejecting what the UK considers a very generous offer to grant EU citizens already in UK permanent residence if they were already there on the day the Article 50 button to leave was pressed and triggered the process. The EU wants the date to be at the end of the negotiating period, which is a departure
690 date of March 2019. If the UK offer applies to three million EU nationals then a date in two years' time with no limit on movement beforehand means potentially a *much* bigger number;

and this is the first and the immediate hurdle. There are going to be many more to contend with, leaving the UK in the most disadvantaged position that it is possible to imagine with a united 27 EU states with a single policy position and on the other side of the table an internally divided UK with a precarious government in place.

Some observers see this situation as a possible opportunity for a new referendum and a different result. Nothing can of course be ruled out, but I would not put my money on this option materialising.

Already there is a clear move by Germany and France on further integration of the EU in areas which the UK would have objected to before the referendum. The recent early recovery of the EU and Eurozone economies with unexpected signs of growth, although at a very low level, has encouraged EU member states collectively to start thinking that maybe they would be better off without the UK after all. The comparative economic performance of the EU 27 on the one hand and the UK on the other will have a considerable impact on the negotiating process.

For the UK the danger is the difficulty in being a minority government having wanted to take a strong line. At present these issues are being reflected in the weakness of the exchange rate which looks set to continue. This is helping the UK manufacturing sector with record exports being achieved and very high order books, but manufacturing is no longer the dominant sector of the economy. The weak pound has an effect on our own economy as well and may be of benefit in terms of our prices for visitors from countries other than the UK. The strong performance of the private sector in the last financial year, however, may not be repeatable in the current year with so many imponderables that it is impossible to make any kind of sound judgement. In terms of the existing economic model, we need to continue developing the initiatives and the areas of the economy that are showing growth until we are better placed to be able to assess what is the likely outcome in two years' time.

Dealing with training for employment, I would remind Members that the number of persons in employment is one of the indicators of the direction in which our economy is heading, as is the level of earnings. It is also an important factor that reflects the success we are having in filling job vacancies from the available local workforce as a result of the apprenticeships and the other initiatives under the Future Job Strategy.

Last year I made clear that although EU funding will be lost if the predicted 2019 exit takes place, this will not affect the available resources since the Government is committed to ensuring that we continue to provide the financial resources to back up the Training for Employment initiatives. As was clear in answer to a question in the earlier part of this meeting, these initiatives since 2012 have provided an average success rate of over 66% to date based on unemployed persons being taken on by the placement providers following training, skills enhancement or apprenticeships.

The vocational training scheme under the GSD Government claimed a 28% success rate in jobs take-up after leaving the VTS system. In 2012, the Leader of the Opposition argued that the results of the new system were no better than theirs on the basis that 28% of those who had started in February of that year had obtained employment by the end of December, 11 months later. This, however, as I explained at the time and in answer to questions at this meeting, was because the new condition of a commitment to employ could not be required of the private sector employers who prior to January 2012 had no obligation to employ trainees for whom they had provided placements. This meant that in 2012 many of those who had transferred to the new system had no offer of employment and no prospect of such an offer from their placements coming forward from 2011; they therefore had to be redeployed to public sector placements until a new position in the private sector, suitable for them and their skills, was identified, which is what happened in the years that followed.

As I also made clear – repeatedly, in answer to questions – trainees placed in the public sector did not have a priority for vacancies but had to compete with other applicants from outside the public sector when such vacancies were opened. The exception to this rule was, and

continues to be, the apprenticeships that were commenced for carers whose training enabled them to take up employment in the Care Agency.

745 I remind Members, Mr Speaker, of why it was so important to introduce these apprenticeships. Before 2011 the criteria for employment in the Care Agency was a requirement for care-specific qualifications or evidence of having worked in a care environment, for example in an elderly persons' home. Although the GSD Government professed to be committed to prioritising job opportunities for the local unemployed it was impossible for the local
750 unemployed to meet these criteria, but relatively easy for somebody from outside Gibraltar to appear with a letter showing a record of employment in the sector. This led to a situation of increasing dependence on outside labour as local people were replaced on retirement from the only source that met the criteria. By introducing the training programme for carers for people previously unemployed and with no previous experience, we have been able since 2011 to
755 reduce our dependence on frontier workers in an area where it is particularly important in the light of not knowing how the fluidity across the Frontier will operate after 2019. (A Member: Hear, hear.)

This year a similar facility for apprenticeships for nursing assistants was introduced by the training company, and those completing their training are automatically assured of a position as
760 nursing assistant. The present group will in fact be taken on next month, in July. (A Member: Hear, hear.) By 2013-14 the average ratio of persons completing their period of training and then being taken on had risen to around 60% and the latest ratio of those obtaining employment on leaving the training programmes up to April is now 66%. We expect this to improve with the passage of time.

765 I am not sure, Mr Speaker, whether the divide between the two sides of the House in the area of training is real or simply the consequence of the difficulty that Members of the Opposition may have in accepting that they were wrong in predicting in 2011 that we would fail in our Employment Strategy. I am prepared to give them the benefit of the doubt that when they first took that position in 2011 they were genuine. After all, if they had failed to achieve
770 results in their 15 years under the leadership of the greatest living Gibraltarian, why should they believe we would do better? However, later in 2012, in the debates on television in which the Leader of the Opposition participated with me, then as spokesman for employment, he was honest enough to say that although he still believed I would fail to deliver the employment and economic growth targets that I had set myself, he would be happy if I proved him wrong for the
775 good of Gibraltar.

Well, Mr Speaker, I have proved him wrong. So why are they still saying after the General Election of 2015 that the strategy has been a failure? Last year the Hon. Mr Phillips told us: 'It is no secret that we are fundamentally opposed to the Future Job Strategy, it fails to deliver what it says on the tin. It is reactive, inflexible and inspires us with little confidence that the
780 Government is committed to the delivery of skills for a modern workforce'. Another Member said, 'Hear, hear' – but I do not remember which Member it was. (Laughter) It was not on this side.

Well, Mr Speaker, the strategy *does* deliver what it says on the tin, that is what I wrote on the tin, not what they chose to reinterpret to use against us. The first reading of the label on the tin
785 by Members opposite was that I had promised unemployed persons not just a job in a Government-owned company at the national minimum wage whilst training, but a job for life in Government, after which of course, was never true and has not happened.

The next rendering of the tin label was by the greatest living Gibraltarian himself when he asked me to acknowledge in Parliament that when I failed to get the trainees employed in the
790 private sector, as he expected, I would have to keep the trainees in Government permanently because I should know that those were the political realities. Well, we might have faced this dilemma if the private sector had not co-operated by entering into legally binding partnership agreements and if the agreements had not provided for full reimbursement for failure to employ. Of course it is possible that their scepticism was the result of the experience of the GSD

795 in Government when they only managed to get 28% of their trainees into employment and considered this a great achievement and success, anticipating that we would do no better.

The next objection of Mr Phillips was that in their view what we needed was 'real training'. Well, Mr Speaker, we have been training nurses and carers, mechanics and electricians, welders and maintenance craftsmen skilled in masonry, tiling, plastering, painting, carpentry and plumbing. We trained bus, coach and truck drivers. All unreal. We have a Gib Doc facility and a Construction Training Centre which we created in 1996 and the GSD operated them between 1997 and 2011 and we took over again in 2012. So these entities and these training programmes the Opposition believes provided unreal training up to 1996, switched to real training in 1997, switched back to unreal training in December 2011 and all the professionals employed in the various stages of the training programmes are now impatiently waiting for Mr Phillips and the GSD to get elected into Government so that they can then switch back again to real training. (Laughter) It is difficult to describe something more detached from reality than the above. The Hon. Member also said commentators had called the training 'Soviet-style'.

Alongside the training provision where my Department is investing in skills creation for the benefit of the private sector and the economy, we have the requirement in the approved contractor list, also operated by the Ministry for Economic Development in support of the Procurement Department. If public funds are being spent in procurement of goods and services, it seems reasonable that we should require the providers of such goods and services to be approved and require them to give priority of employment to the local unemployed, given that this employment in the final analysis is the result of the publicly funded demand for goods and services. It is fair and it makes economic sense.

This is something that has, on one occasion to my knowledge, been described as Soviet-style – and I understand why. The 'approved contractor' concept, as I have explained in the past, required the employer to accept candidates selected by the employment service and requires the private company that employs the candidate to seek the permission of the Government to terminate such employment during the life of the contract. I accept that this sounds quite draconian, even though I welcomed it when it was introduced by the GSD, on paper at least, in 2010 when it was done by the greatest living Gibraltarian – who, whatever other characteristics he might have had, could not have been described as an admirer of the Soviet system (Laughter) unless, that is, one thinks that the Soviet system operated in a dictatorial style.

So I am sorry to say that in my assessment the Member opposite just strings a set of slogans together because he thinks they are good soundbites without rhyme or reason. He downgrades our strategy in his thinking by saying that we are determined to pursue a policy of 'plugging the skills gap' as if this were a bad thing. In the last election he was saying that the problem was that there was a skills deficit which we needed to meet.

So is that the difference between us? We fill a gap in skills and he wants us to meet a deficit in skills! He says I do not understand the message: he is right, I do not think anybody understands the message, Mr Speaker. (Laughter)

He tells me we need to focus on sowing the seeds of growth, even though the green shoots may not be visible for some time. Is the hon. Member talking about the Gibraltar economy or the Greek one? Green shoots, Mr Speaker, is terminology used about an economy in the recession, expecting to show barely visible signs of recovery. The Gibraltar economy is not barely showing visible green shoots; the Gibraltar economy is showing an expanding rainforest. (Banging on desks) The economic growth in private sector employment in 2016, when he was talking about barely visible green shoots, has been greater than in any one of the 15 years that the GSD was in Government.

Mr Speaker, the Hon Mr Phillips is wrong when he says I am not prepared to engage with him. My failure is not because I have tax-free rose-tinted spectacles as he claimed last year, my spectacles continue to be plain vanilla NHS high street Boots, typical of the working classes. In fact, I do not even know what rose-tinted ones look like.

My failure to engage is much more simple. There is nothing to engage with him on, because he is not able to substantiate what he says and I do not believe him. He said in 2015 that employers were crying out for apprenticeships. Since the General Election he has been incapable of delivering these employers. I said, 'They do not need to be to crying, they just need to contact me'. I am available seven days a week and no employer has asked to see me to take on apprentices and been refused a meeting. He says this is not true, but will not give me one name of one employer. I have said to him to get in touch with them and ask them to contact me – but no result. I invited interested employers in my last Budget speech a year ago to do so – no one has taken the invitation up.

He says there are companies that have approached him, having previously approached me or my Department with nothing less than 'impressive plans for creating opportunities for young people', but that they tell him my Department is not interested. I can assure him that if this had happened – which I do not believe to be true – the person that showed no interest without making me aware of it would have to answer for it. He says these companies care about providing opportunities for young people and getting Gibraltarians into the IT world. Who are they? No one other than Mr Phillips knows. It is the best-kept secret in Gibraltar. I challenge him to ask permission from the companies to let me have copies of their impressive plans, which in any event, he says, they claim I already have but I am not interested in. Why should I not be interested, Mr Speaker? No, there is not one word of truth in any of this. My Director for Economic Development has written to over 800 employers asking them if they are interested in taking on apprentices. These are employers registered with the Employment Service as having more than five employees. They have been selected because they do not include those already working with us and because below a level of five employees it is difficult for an employer to have the resources to take on apprentices.

He says if I follow his advice – which I cannot because it is not specific enough – we can make 'Gibraltar an even better proposition, just as Tel Aviv and Budapest have done'. Well, what is it that they have done in training people for employment, Mr Speaker? I can tell hon. Members that the only thing I have been able to find is an entity that claims to be the biggest training provider in both places. It is the same entity, the Knowledge Academy of Hungary and the Knowledge Academy of Israel. It claims it is the largest training provider in Hungary and its counterpart in Israel claims the same. They claim to provide motivational training. I do not know if this is what the Member thinks is required to 'unlock and harness the opportunities that young people present'. But if he sends me what he says is happening in Tel Aviv and Budapest that we need to imitate here I will certainly have it investigated.

I am not sure whether these initiatives are the ones that will rid the community of the culture of entitlement and expectation that has become so endemic in our society, as he pointed out. Certainly if it has become endemic, it was not endemic in 1996; but I can give him chapter and verse, if he wants, of the more incredibly irresponsible initiatives introduced by the GSD in the last 15 years which helped to cultivate the culture, are extremely difficult to reverse and have created severe existential risks for the future success of our economy.

I do not know where Gibraltar will be in 20 years, Mr Speaker, like he suggested I should. I do not even know where it will be in three years, in 2020; but if the hon. Member thinks he does, again I am happy to assess where the growth of our economy will come from in 20 years if he has the ability to carry out such an exercise.

I would like also to comment on some of the issues raised by the Hon. Mr Clinton last year in relation to accounts and the use of companies. I welcome the fact that on the need for a rainy day fund, he describes himself as my soulmate – I am happy to have him as a soulmate. (*Interjection*) and I also welcome the support of the concept (*Interjection*) from the Leader of the Opposition last year. This acceptance of an initiative that is in the long-term interest and for the protection of our country is essential, and regrettably did not exist under the previous leadership of the GSD, who shortly after coming into office rubbished the idea, said I was hiding money in piggy banks and the leader of the party promptly emptied all the piggy banks, as he

called them, so that he could start spending the money. He then engaged in a continuous use of public funds to deliver things which he thought would get him votes, in spite of the fact that
900 what he was doing was emptying the war chest that had been built up from nothing over a period of eight years.

The rainy day fund was a relatively new idea then, in 1988. The closest parallel was the sovereign wealth funds that a number of countries build up by putting aside a part of their revenue streams either because of their small size or because of the narrowness of their
905 revenue streams. We suffer from both of these limitations and when public revenues are high public expenditure needs to be kept under control so that if a sudden unexpected change affects revenues essential services can be kept going. The classic contrast is what Norway and the UK have done with their supply of hydrocarbons from the North Sea. The first has built one of the strongest sovereign funds in the world and the latter spend the money on meeting recurrent
910 public expenditure and have nothing now to show for it.

The rainy day fund policy does not serve the short-term prospects of the politician of the day who is only interested in vote-catching and the chances of re-election, but it is vital for the long-term survival of the country and therefore I am very glad that the policy should be subscribed now by Members on both sides and that both should support and defend this concept and not
915 allow an incoming government to simply spend in one go what has taken years to build up – unless of course it is used for what it is intended, namely to preserve essential services that are at risk from an unexpected drop in revenue. With Brexit looming in 2019 there is no better time than now to understand the importance of the concept.

I will not go into the differences between the Members on opposite sides as to where the funds should be kept, but I need to remind Members of what happened to the Community Care war chest. The GSD toyed with the idea of taking the accumulated funds from the charity back into the Government in 1996, but then settled for a more surreptitious strategy, revealed publicly in 2010 for the first time, which was running it down by withholding first the recurrent cost payments and later the capital protection payments. Both actions involved breaking
925 electoral promises and breaking commitments given in this Parliament.

If the money had not been in the hands of the charity and had been easier to get at, it would have disappeared at the beginning of the 15 years instead of at the end. So it is a very healthy development for the long-term future of our nation that the competition between the two sides of the House becomes one over who will *save* more instead of over who *spends* more, as it has
930 tended to be when the greatest-spending living Gibraltarian was running the show. (*Laughter*)

When the Leader of the Opposition has been praising my cautious approach to spending and accusing the Chief Minister of not listening to me, he sometimes gives me the impression that he is trying to get us to quarrel. He does not need to do this; he should remember that quarrelling amongst ourselves has always been the way we do things in the GSLP. (*Laughter*) In the
935 Government, as I am the Father of the House, like a good father I always urge my colleagues to be careful with how they spend people's money.

I also want the Leader of the Opposition to understand what is wrong about what in his assessment is happening with the commutation of Civil Service pensions, since this is something which I am responsible for, as I devised the system, and I am glad that last year he said it was a
940 jolly good idea. I am not sure if he is still of that view because he seemed surprised when I said it, and I was in fact quoting him.

I will just give him a figure to take note of, because he says we are replacing the cost to the Government. The cost to the Government in the budget for Civil Service pensions in 2010-11, the last year before Credit Finance came in with the new system, was £27 million. The estimate
945 for the current financial year for the Government is £38 million.

Another issue raised by Mr Clinton has been the use of companies. He said last year:

Normally, all capital expenditure is reflected in the Improvement and Development Fund, and yet low-cost housing never appears in the estimates ...

– he says, because we are doing it with companies. Well, perhaps what he meant to say was, ‘Normally, prior to 1996, approved capital expenditure used to be reflected in the Improvement and Development Fund, but when my party came into government they started using
950 Government companies instead.’ Maybe that is what he meant.

Perhaps he did not know this and did not intend to hide it. But if he did not know it, he could have asked the current leader of the GSD because it was happening in 2010 and in 2011. However, what he must surely know is the even bigger picture, because that has featured in previous debates and in the election campaign. This is that there was a programme of capital
955 works of the order of £1.5 billion which was not going to feature in the Improvement and Development Fund. This was going to be managed by a private company which had a commission on the whole value of all the contracts put together. This was going to be financed by raising money through Government companies, thereby not being recorded as public debt.

All this was being done by the GSD when the present Leader of the Opposition was a Member
960 of the Government, which means that although we knew nothing of the details of this until after December 2011, he must have known it. Presumably the greatest-spending living Gibraltarian trusted him sufficiently, having anointed him as his successor, to have shared the information with him; and if he did not, then maybe the present leader of the GSD may wish to revise his assessment of his predecessor and decide that he was not the greatest living Gibraltarian after
965 all, just the biggest spender of all time. (*Interjection*) If the hon. Member opposite does not know the details of this £1.5 billion package then he should ask the leader of the party because I seem to remember recalling that during the debates on GBC the GSLP leader gave him a copy of the document that we had found in 2011.

In 2009, for example, Government companies were spending £47 million, which did not
970 feature in the Improvement and Development Fund, the bulk of the money being spent on housing projects. In 2010, £31 million was programmed to be spent by the companies and outside the Improvement and Development Fund. In some instances – for example, car parks – this was started in the Improvement and Development Fund, then moved out and put under a company that raised money from a bank, not public debt, on the strength of the expected
975 revenue yield from parking cars. However, at a later stage the banks decided that the revenue yield for the car parks did not meet the criteria for providing the finance, so the project was switched back into the Improvement and Development Fund.

I can tell Members opposite that when this was happening by the Government, we in the
Opposition at no stage imputed improper motives to them, accuse them of breaking any
980 constitutional obligations, saying they were hiding money to keep the Opposition uninformed – none of those accusations were made when they were doing it, and they were the first ones to do it.

The hon. Member therefore needs to understand what we inherited from his party in
Government in recurrent commitments and in capital commitments, things that we have had to
985 honour and meet vastly inflated costs compared to the original estimates, things that I would have strongly opposed if they had formed part of our manifesto. It is also true that in many instances we have carried on using the same private sector consultants to manage new projects, and they have proved as incapable of containing costs for us as they were for the GSD administration. My additional responsibility for procurement and public sector efficiency will this
990 term, I hope, deliver better results. (**A Member:** Really?)

I welcome also the fact that Mr Clinton agreed with me that debt itself is not evil, last year – I
am not sure what is happening this year. My position in the 45 years that I have been here on
either side of the House has been the same. We may need to have a debt ratio because that is
995 the norm that exists and it is established for country-to-country comparisons of the level of indebtedness. The EU standard was 60% of GDP and it continues to be the theoretical level that EU members should go back to – they are all way above the 60% now. Ours is 40% of GDP which is considered in today’s world a very low figure to have to keep to, when in practice we are already well below this level, as the Chief Minister demonstrated in his opening statement.

1000 What matters has nothing to do about exposure. This year the UK has a borrowing
requirement of £65 billion to cover its deficits. Nearly every country in Europe uses debt to meet
recurrent expenditure. We in Gibraltar, since the GSLP Government introduced the concept in
1988, have limited borrowing, irrespective of the level, to the financing of capital projects only,
and that is still the case. So therefore, anything that is spent on capital projects cannot be having
an effect on recurrent revenue or recurrent expenditure.

1005 I would also like to address the issue raised by the Member in respect of public accounts
estimates, etc. His position when we compare his criticisms with the performance of his party in
Government is that we must not go back to the past. Other new Members tend to say the same.
Can I therefore remind him, and them, that the GSD spent most of their 15 years comparing
everything with the past? It claimed to be doing better than the GSLP between 1988 and 1996
1010 on everything they did. The Member's response would be because the GSD did this, it does not
mean that we have to do it. He is right of course, but we are not doing it because they did it, and
we do not do it as often as they did, but we are certainly not doing it when it is not true.

On the public debt, for example, the GSD claimed that their net debt was at a lower level
than what we had left it at in 1996. This, even though we left it when calculated using their
1015 methodology at zero, so how could they have it at lower than zero, Mr Speaker? And even that
was claimed. We will certainly not wish to make any comparisons as stupid as that one!
(*Laughter*) But if in government the GSD spent 15 years running down Community Care and
promised in an election campaign to close it down, then it is legitimate to mention this
whenever Members criticise what we are doing in relation to the independent charity. The
1020 Leader of the Opposition has said that this is no longer the policy of the GSD, but he needs to
remember that he was part of the Government when allowing Community Care to continue was
described as a ticking time bomb that would blow up our economy.

Let us take the Hon. Member's comments last year that we have to change our public
accounts system because he thinks that it should be so. If the Hon. Member questions whether
1025 we put enough money into the General Sinking Fund, he needs to remember that we set up the
General Sinking Fund before 1996 and that his party got rid of it after 1996. So the GSD in
15 years never had a General Sinking Fund, so never mind how little we put in it – they just did
not have it.

We have a manifesto which says to the electorate the things we will do if we are elected into
1030 Government. This is how the political system of western democracy works. This is not just what
we are entitled to do in Government; this is what we are required to do even if the hon.
Members opposite that lose the election do not agree with us. We have not sought a mandate
to implement the things that are in the manifesto of the party that loses the election and goes
into opposition. Even less do we have a mandate to change the public accounts system that had
1035 been there for 45 years, which is a major change in the management of public finances which
features in no one's manifesto.

Most countries have cash accounts for government revenue and expenditure and
parliaments approve spending on a 12-month cycle. This has nothing to do with a hangover from
the colonial days, or the fact that the economy is now more complex and sophisticated than in
1040 the 1950s, as the hon. Member suggested last year. The revenue and expenditure of the
Government has nothing to do with the sophistication or complexity of the economy, other than
that the expenditure could then be an item to deal with areas of the economy that are new and
were not there before.

The methodology of the annual budget applies to most other countries irrespective of
1045 whether they have had a colonial past, whether they are large or small or whether they have
complex or simple economies. If we were covering three years of expenditure as a minimum, as
he suggested, then this year would be his last Budget speech and we would now be looking at
the expenditure projection for 2019-20 in the middle of Brexit. Does he not realise that it is
difficult enough in a small open economy like ours to be able to come up with realistic estimates
1050 of revenue, and that we cannot always keep the expenditure under control as we should and

would want to? Trying to do it for three years or longer is a crystal-ball-gazing exercise, not a matter of sensible accounting practice.

As to why the Government only forecasts the four-year GDP and not anything else, of Government revenue and expenditure, the answer is simple: first of all, it has been me in
1055 Government or in Opposition that had been making the predictions, and in order to be able to do this with any degree of accuracy one needs to develop many, many man hours devoted all the year round in order to identify the correlation of the indicators that provide an indication to the economy's performance. The figures in the estimates are the results on the revenue side of the Treasury's expectations based on recent income flows as to what the revenue is likely to be
1060 over 12 months. And the actual expenditure in the Budget, unlike the GDP, is a matter that is the area of the controlling officers of those budgets who then come up with the expectation that they have of how they will be able to deliver the services that are required with the expenditure that is available. The methodology of the public accounts and the GDP are two totally different things. Only the economic growth impact is where it is more likely that Government revenues will benefit if there is higher growth, but even in this area there is no guarantee as there are many variables involved.
1065

Mr Speaker, I am responsible for the Gibraltar Savings Bank, and I am happy to report that the Gibraltar Savings Bank – the people's bank – continues to prosper and grow. Mr Clinton says that their attacks on the integrity of the operation of the Savings Bank should not be castigated
1070 by me as if it were an act of treason – that is what he said last year. Well, it is not an act of treason, simply because it is failing to achieve its aim.

During the General Election they came up with propaganda that painted a picture of the Savings Bank operations being raided, as if somebody was making off with the deposits from the public. He has been a banker and he knows exactly what he is doing by suggesting that the
1075 money in the GSB is not safer than in any privately owned bank. I have explained the rationale and I have explained that it is a key element of our economic strategy and a key constituent of our economic growth. I have explained why and how we do not have liquidity problems, all to no avail.

In other areas of debate on the economy, the labour market or the structure of Government
1080 accounts, I might be willing to make allowances for the fact that they deal with issues which the hon. Member was not familiar with before coming here, but on the Savings Bank there is no excuse – he knows full well that his criticism is baseless and that if it were believed it would be very damaging, damaging for the Savings Bank and damaging for all of us. Therefore, as I say, if he had been successful with the scaremongering the public would have been taking their money
1085 out and Gibraltar would have been the poorer for it. However, I am happy to say that nobody has paid attention to it and that we continue to attract increasing investments from existing and new customers.

This year, £220 million-worth of debentures reach their maturity date and we have
1090 £220 million in ready cash to pay our customers if they need or want their money back. Not many banks can say that. All the indications we have are that the vast majority of our customers will reinvest all or nearly all of their cash with the Savings Bank, which is a vote of confidence in the institution for which I, as Minister responsible, want to thank the investing public and to reassure them that they will not find a safer home for their savings, and that it is important for them to know that we are putting their money to work for the betterment of Gibraltar.

The Leader of the Opposition thinks there is something wrong in doing this because the GSD
1095 kept public deposits in cash – and he has repeated that this year. Well, we have a mandate from the people, who elected us in the knowledge that, as we did between 1988 and 1996, we would run the Savings Bank at a profit and leave those profits accruing year after year, to be used only in case of a national emergency – one of the key constituents of the rainy day fund, as was the
1100 case up to 1996, a rainy day fund which incidentally the GSD did not support in 1996 and in 2011 but now does, I think.

1105 Mr Clinton also asked that I should include not just the profit and loss and balance sheet of the Savings Bank in the report I send to all our investors, but also the two pages of individual investments. He says I am not being transparent by not doing this. I do not agree, Mr Speaker. I provide the list of investments every time he asks, which is almost every month, and this information provided in Parliament is in the public domain and available to everyone, not just to the investors in the bank. I know of no bank that produces a list of all their investments every month – or once a year, or at all; they produce their balance sheets and a profit and loss account. He wants not just the investments, but when he gets the investments he wants to know what the entity that we invested in is doing with the money that we invested. There is no end to it.

1115 It is standard to supply customers of deposit-taking institutions with a copy of the profit and loss account and the balance sheet, which is what we do and something they never did in 15 years – at the same time as they ask us to do more. They say they would not run the Savings Bank as we are doing, so presumably the Savings Bank will only survive while we are in Government, because the last time they had the responsibility for it, it finished with £70 million in deposits, although the Leader of the Opposition said it was £27 million, from the public and £1,442 in reserves. Now the public has nearly £1 billion deposited with us and the GSB forecast cash reserves for this year are almost £32 million. Both figures are to be found on page 224 of the Estimates Book.

1120 Mr Speaker, if we now look at the size of the labour market as a whole, the Employment Survey Report for October 2016 shows continued growth for the financial year just ended. Last year I analysed, for the benefit of Members, the statistical information in the report to demonstrate that Opposition Members were wrong in attributing the growth in the economy to the growth in the size of the construction industry labour force. I showed that it was not the case that a publicly funded construction boom had been engineered in order to achieve the growth targets of the Government. I also demonstrated that what the figures indicated was that such an analysis could be applied, but that is to the situation under the previous GSD Government up to 2011 – that is 2010 and 2011.

1130 Mr Speaker, I do not know whether there is any point in repeating those statistics for the benefit of the hon. Member, because clearly everything the Leader of the Opposition has said today was still insisting on that myth. I do not know whether it is that he does not understand the explanation and he genuinely believes it, or that it suits him to ignore the explanation and carry on saying the same thing. But there is no escaping it. I have been able to demonstrate last year and I can demonstrate with this year's Employment Survey that the growth is not in the construction workforce. This year we have had economic growth; this year the workforce in construction has gone down and the non-construction sector has gone up. So how can he tell us this year that it is obvious to him that there is construction going on employing fewer workers and that is responsible for the growth in the economy? And moreover that it is being financed by Credit Finance or the Savings Bank or whatever else he thinks is appropriate.

1135 The figures for this year confirm the trend that I predicted for the construction industry. I said last year the construction industry was likely to shrink and it has happened – it shrank between 2015 and 2016. I estimated that the size of the workforce as a whole would probably remain static, that is that the growth in employment levels in other sectors of the economy would just about make up for the loss produced by a smaller construction sector – that was my prediction last year. I am happy to say that my estimate was too cautious – I was wrong – and that the increase in non-construction jobs has been substantially greater than the number of jobs lost in the construction sector.

1145 The figures are as follows. In 2015 the private sector grew by 1,629 jobs from 18,441 to 20,070. Over a quarter of the growth took place in the construction industry, where the number of jobs went up from 2,586 to 3,106, which was an increase of 520 – that was the previous year. This was a level only slightly higher than October 2011 under the GSD who had engineered the construction boom when it hit 2,922, an increase of 755 jobs in construction in one year

1155 compared to October 2010. So they say they were not having a construction boom in order to
create economic growth, but they actually employed 754 people between 2010 and 2011 in the
non-existent construction boom. We say we do not have a construction boom, but they insist
that we have one but we are employing fewer people in construction.

What can I do to persuade him that he is barking up the wrong tree?

1160 **Chief Minister (Hon. F R Picardo):** He is just barking – up the wrong construction.

Hon. J J Bossano: From October 2015 to October 2016 the construction industry shrunk, as
predicted, by 303 individuals, dropping from 3,106 in October 2015 to 2,803 in October 2016. By
contrast, in the same period the rest of the private sector, excluding the construction group,
1165 went up by no less than 1,210 jobs – a better result than the increase between 2014 and 2015,
which was 1,109 jobs *outside* construction, but still a very respectable rate of growth when
compared to previous years.

The growth in private sector jobs excluding construction from 2011 to 2015 was 2,928, in
four years; and from 2011 to 2016 it has been 4,138. So in the time that we have been here,
1170 since December 2011, the non-construction private sector has employed 4,138 more people. By
comparison, under the GSD, that falsely claimed to be creating an expanding private sector, the
four-year non-construction record of 2007 to 2011 was a mere 698.

So they do not have a construction boom, the private sector is growing but it is not a
construction boom and they only employ 698. We have a construction boom but we employ
1175 2,928. In their five years they produce 1,400 non-construction jobs and in our five years we
produce 4,138, and we are the ones with the construction boom. Maybe clearly this time I have
succeeded.

I have to say that though my estimate on the size of the private sector erred on the side of
caution, as I think estimates should, nonetheless the growth that took place in 2016 is quite
1180 remarkable in the context of the uncertainty created by the Brexit referendum result in the
earlier part of the year. Looking forward it is difficult to assess the probability of the historically
very high rate of growth in private sector non-construction jobs continuing at the same pace in
the current financial year. However, the construction sector will probably start recovering from
the level of last October and is likely to be higher at the time of the next October survey – that is
1185 October 2017.

However, in the longer term it is the non-construction sector that has to provide the main
area of job creation to maintain a growing economy which is sustainable in the context of the
present economic model. This implies that our final GDP for the year just ended will probably be
higher than the level required to meet our target of £2.4 billion in 2019-20. In simple terms, we
1190 are looking at economic growth of around £150 million a year over the four-year term – about
£3 million a week. We believe that the final figures for this year will come in at a higher level
than the £150 million, and without taking account of any new developments that means that we
are likely to finish in 2019-20 with an economy that is bigger than £2.4 billion.

Regarding departmental expenditure, in answer to a question on the role of the efficiency
unit in my Department, I have previously told Parliament that I would expect the results to be
1195 reflected in the levels of spending in the estimates of expenditure. As I have explained
previously, the public sector efficiency policy is not a one-off exercise – it is not a grading of
manning levels. It is a permanent feature as one of the instruments we need to employ to
ensure we are delivering value for money in the provision of public services, and in particular in
1200 the context of the unknown parameters that could be facing our economy post 2019. This
requires that we do not take on recurrent expenditure commitments that are not sustainable
within the existing budget, based on existing revenues that may not be so strong in the future.
That is to say today we should not be taking on, in any Department, initiatives that will increase
recurrent expenditure unless we have identified a source with a compensating reduction in
1205 expenditure or we have a new revenue stream to meet what the new expenditure requires. The

expenditure in the book is a simple cash accounting exercise, as the Hon. Mr Clinton pointed out. It is how it has always been done and how most governments do it.

1210 The bulk of the expenditure is the cost of the payroll and procurement. Procurement is therefore tasked to play an important role in the efficiency policy by ensuring that the prices we pay for goods and services that we buy are the best available. I am not convinced that this is currently the case or that it has been the case in the past, before we were there, in spite of the fact that the Procurement Department follows all the established guidelines and requirements in obtaining quotes and tenders.

1215 Under the GSD administration, the greatest-spending living Gibraltar on more than one occasion excused procurement costs escalating by arguing that contractors always charge the Government more, as if this was normal and nothing could be done about it. This is on public record in the *Hansard* saying that more than once. There is a serious problem in the escalation of prices once contracts are awarded because of variations that take place later. It has been the case since 2011 and it was there before 2011. When challenged on this issue the other thing that
1220 the greatest-spending living Gibraltar used to do was compare himself to the over-budget results in the UK procurement of public contracts, which invariably finished costing vastly more than the original tender price, and argued that Gibraltar's escalation was not as bad as that of the UK.

1225 I do not believe our role in Government should be to justify the excesses over budget by pointing out that the UK has got an even worse record. Our job is to find out how and why it happens and put a stop to it. I believe that the new initiatives on procurement currently being introduced will, if they work as expected, produce results in the current financial year. If that is the case, it may well mean that even though we expect higher inflation we may be able to supply our requirements at little extra cost. But we shall have to wait and see.

1230 At present most of the efforts on efficiency savings are being concentrated on the GHA budget where I am working closely with my colleague, the Minister for Health. Mr Clinton pointed out last year that the biggest elements in the increased recurrent expenditure have been healthcare and education. This was also mentioned by the Leader of the Opposition and the Hon. Mr Phillips. Because these are the two areas, it follows logically that these are the two
1235 we need to concentrate on to make sure that recurrent expenditure is kept at a sustainable level in the light of the present juncture facing our economy, and as a consequence of the potential effect on the reliability in future of present recurrent revenue sources.

Taking the example of the GHA, the Leader of the Opposition said last year that the cost had gone up from £75 million in 2011 to over £100 million in 2015. In fact, in 2011 it was closer to
1240 £80 million. The GHA managed to stay within the approved budget in 2012-13 and therefore there is no reason why it should not be able to do so in the future. Both I and the Minister for Health are determined to make it happen again this year.

1245 In 1996, the Health budget was £20 million, having risen since 1988, under the GSLP, from £8 million, which is what we inherited from the AACR. The GSD then increased it from £20 million to £80 million between 1996 and 2011 – a four-fold increase which was paraded as a very good thing. In fact, the GSD in Government, and especially on the eve of the 2011 election, their last Budget ... the greatest-spending living Gibraltar reeled off a long list of statistics detailing how much he had increased recurrent expenditure in almost every corner of his empire. In those days spending money was a virtue – the more you spent the more you boasted
1250 about it. Now the GSD sees this as a vice from the Opposition – and I welcome their conversion to the real world. They claimed at one stage to be in a position to identify the elimination of waste of the order of £50 million – that is once they were in opposition – but so far they have not been able to put to me any ideas that may indicate where such waste can be avoided and savings made, and I would welcome that they should do that and help me to be able to achieve
1255 it, since we are both interested in keeping public spending under control so that we spend the money that we need to spend and not money that we do not need to.

As Members know, I am having regular meetings with the three principal unions – the GTA, Unite and the GGCA. We are working well together and I believe most public sector workers understand that the objective of efficiency measures is to make sure that we can maintain the services going into the future at a sustainable level – services which public sector workers and their families access and benefit from as consumers. In fact, such is the commitment to work with me on this, the chairperson of the GGCA recently publicly lamented that too much time had elapsed in between meetings. She was right, of course, and we have met since then and I hope to be able to keep meeting them regularly every month without missing one, including July and August since I never take any holidays.

The GHA budget for the next 12 months is being contained at £110 million. This is close to 37.5% higher than the level reached in 2011-12. In previous years we have seen bids reduced only to find that the approved amount has later been exceeded, for example in 2014-15 the expenditure was £105 million and the approved budget £100.9 million. In 2016-17 the budget provided £103 million, which was £7 million below the previous year overspend. We have now forecast an outturn for the year of £118 million, no less than £15.3 million above the budget. Hence the £110 million that is being provided this year, which is £8.3 million less than they spent but £7 million more than they were supposed to spend.

The Education budget has grown in fact much more in percentage terms, although not in cash. In 2011-12 the estimate for the year was £28.4 million and it is now almost £50 million – £49.3 million, a 75% increase. This is of course a reflection of the GSLP's commitment to education, which has been there since we first introduced universal scholarships in 1988. It has been driven also both by very substantial increase in staffing levels – in previous years, not in this year – and by greater numbers of students in tertiary education in the UK. In addition there have been the much higher university fees that have been introduced in the period. However, what is clear is that the rate of increase in expenditure would be difficult to sustain into the future indefinitely. Therefore when we have done what we need, and will be done in the GHA, we will be looking to see what efficiency measures we can produce for the benefit of the Education Department.

As well as being competitive in terms of the fiscal environment, Mr Speaker, I believe we must be competitive in terms of customer service and speed of response. International investors do not have to come here; there are plenty of alternative locations. We have only two resources that we can use to create wealth: our people and the land. The efficient use of both of these resources is the only way we can provide the necessary competitive environment. We cannot grow our economy indefinitely by increasing the size of the workforce with ever-greater numbers in employment. And regrettably we cannot do that either with the land because it gets deeper and more difficult. Under the existing pool of labour and using that more efficiently means working better, not necessarily working harder. It is an important aspect that we have to consider for the future development of our country's sustainability economically at the kind of level we want it to be.

This is the analysis that has been at the heart of the economic policies of the Socialist Party since the first socialist government of 1988. It continues to be my view that it is not one of the options open to us, but in fact the only option. We can only face whatever difficulties may lie ahead if the framework for our policymaking is what I have suggested. The decision is founded on the analysis that I have spelt out above, which will be the guiding framework for the work on efficiency in the use of public sector resources and public sector procurement.

Finally, Mr Speaker, in respect of the three Departments in the Estimates of Expenditure that I am responsible for in the last financial year and this year – which are the Ministry for Economic Development, the Statistics Office and the Procurement Department – I am pleased to inform Parliament that all kept within their respective budgets and are expected to remain so in the current financial year with no increase in manning levels. *(Interjections)*

Thank you, Mr Speaker. *(Banging on desks)*

Mr Speaker: The Hon. Roy Clinton.

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Hon. R M Clinton: Thank you, Mr Speaker.

It is said that the numbers never lie, and indeed they of themselves are quite incapable of doing so. We are here today to debate the Appropriation Bill for 2017-18 in respect of expenditure of the Consolidated Fund for recurrent expenditure and also that for the Improvement and Development for Projects and Equipment. The process as envisaged by our Constitution and the Public Finance (Audit & Control) Act is simple enough: the Government presents its entire estimates of income, expenditure and borrowing and Parliament then decides if that is prudent or not. This of course assumes that Parliament is in possession of all the correct numbers and all the necessary facts to arrive at an informed decision.

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The ideal position is quite simply a breakeven budget or one that delivers a surplus of income over expenditure. Prudence is the overall objective so that we do not overextend ourselves as a nation as regards debt levels and maintain a buffer for the future, which Mr Bossano is so fond of – no more and no less than we would all responsibly do at an individual level and expect that we would all want to do collectively as a community.

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I have said before that the rules in respect of public finance may be either incorrectly implemented, outdated or simply being cheated in their interpretation, and I stand by that assertion. I summarised that view in the *Gibraltar Chronicle* in an opinion piece as follows:

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I have found that the Public Finance (Control and Audit) Act together with the Public Finance (Borrowing Powers) Act are being neatly side stepped by the wholesale use of companies owned by the Government and outside the remit of the Principal Auditor. Our public finances can now be likened to an iceberg whereby what you see above the surface and reported in the Annual Estimates of Revenue and Expenditure is but a fraction of that which is concealed beneath in a multitude of companies and devices.

I have to echo the sentiment expressed by my learned Friend, the Leader of the Opposition, and state now that I cannot and will not support this or indeed any future Appropriation Bill presented by this Government where Parliament does not have all the necessary facts and figures required to arrive at an informed decision. It is disrespectful to this Parliament and disrespectful to the people of Gibraltar not to have all the necessary information required.

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Mr Speaker, I have four areas which I wish to address in respect of public finances, namely: artificial income; direct and indirect debt; scrutiny and management of public finances and Government-owned companies; and advance Budget measures, forecast outturn and the cost of living. I will also touch upon other areas of my portfolio, including the Gibraltar Savings Bank, inwards investment, heritage, small businesses and financial services.

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So, looking at our public finances and artificial income, having now had the benefit of sitting in this House for over a year, I have found methods whereby the Government can flatter its income by the use of transactions with its own companies and other entities it controls, such as the Gibraltar Savings Bank. I have identified the following three types of what we would call related party transactions that generate or save cash for the Government account with no underlying private sector economic activity, and those are in the areas of stamp duty, property sales and the Savings Bank purchase or funding of public assets.

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The Government is today reporting a forecast Consolidated Fund surplus of £17.8 million for the financial year ended 2016-17 and a cash balance of £122.8 million. Let me show how easily that surplus can be undone by reversing some of these types of transactions.

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Take stamp duty as an example. Under the Stamp Duty Act, all conveyances of property in Gibraltar by companies, including Government-owned companies, are subject to the payment of stamp duty at the prescribed rate. Through searches conducted at the Land Registry I have identified various large, or certainly at least four large transactions between Government-owned companies which merely switch direct ownership but nevertheless generate substantial stamp duty revenue.

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1355 The first one, GCP Investments, a Government-owned company, on 1st July 2014 sold 14 Government properties – including No. 6 Convent Place and the Main Street Post Office – to GAR Ltd, another Government company, for a combined value of £40,292,975.59. The total stamp duty paid was £1.4 million. The Government’s explanation for this transaction was given simply as rationalisation.

1360 In the second transaction Gibraltar Land (Holdings) Ltd sold – yes, sold – the Eastside Reclamation again to GAR Ltd, another Government-owned company, on 22nd May 2014 for the grand total sum of £75,469,680 and this generated £2.6 million in stamp duty for the Government.

1365 The third transaction, Mr Speaker, was between Gibraltar Air Terminal Ltd and Gibraltar Land Holdings Ltd and the Crown on 20th May 2013, whereby Gibraltar Air Terminal Ltd surrendered its existing lease to the Crown, and then Gibraltar Land Holdings purchased the Air Terminal for £90 million and then gave a leaseback to Gibraltar Air Terminal Ltd for 20 years at an annual rental of £5.4 million. This then miraculously generated stamp duty of £3.3 million and revenue to the Government on the sale of property, of £90 million.

1370 Mr Speaker, in answer to questions the Government has stated that the amount of stamp duty receipts in respect of such related party transactions for the financial year 2014-15 was £7.1 million.

1375 In the financial year 2016-17 we know that the Government earned an exceptional amount of approximately £14 million from the sale of the six housing estates, which were sold for a consideration of £397 million from Gibraltar Residential Properties Ltd to Gibraltar Capital Assets Ltd. That, Mr Speaker, is usually ungenerously called, in accounting terms, manufactured income, since it arose from the Government’s own financing transaction between two Government-owned companies, i.e. with itself.

1380 So, Mr Speaker, from this we can determine that the Government was, in 2014-15 and 2016-17, able to create artificial stamp duty income of at least £21 million into the Consolidated Fund, and these are purely from transactions originated and directed by itself and not from independent economic activity in the private property sector. Indeed, only last week the Hon. Mr Bossano confirmed that these transactions had no economic effect other than to create revenue in the Governments books while creating an opposite expense in the books of Government companies. These should, of course, cancel each other out, but they do not. It flatters the revenue of the Government and extracts cash from Government companies.

1385 I move on now to the question of property sales. Within the Improvement and Development Fund there is always a head 102 in respect of Government property sales. I, as indeed any ordinary citizen, would reasonably expect that these are to third parties.

1390 I have already identified one transaction in respect of the Airport that moved £90 million from Government-owned companies in 2014 on to the Government’s books. In fact, in answer to questions in this House we have been told by the Government that receipts from property sales to Government-owned companies have been £90 million in 2012-13, £37.1 million in 2013-14, and £26.4 million in 2015-16. That is a total of £153.5 million of related party property sales prior to this financial year. And, in addition, the Principal Auditor revealed in his report for 2014-15 that the mysterious GAR Ltd had purchased the Mount, of all things, from the Government for a consideration of £8.2 million in 2014-15 and the proceeds were paid into the General Sinking Fund, of which I am so fond.

1400 Mr Speaker, unless all this property has been sold on to the private sector by those Government-owned companies, all that has happened is that the Government has extracted cash from its own companies and replaced it with property in the books of those companies while recording a sale in its books.

Let me move on to the other type of transaction: the Savings Bank purchasing or funding of public assets.

1405 This Government is in the habit of making announcements in which it is taking a financial interest only for us later to find out that it is being structured differently so that the Government actually does not bear the direct financial burden.

1410 Take, for example, the announcement in November 2014 that HM Government of Gibraltar was going to buy back Telekom Slovenije's 50% shareholding in GibTelecom for a consideration of €47.7 million, or effectively £37.8 million. Subsequent to the event it was found that the 50% shareholding representing the B shares was in fact bought by the Savings Bank and not the Government. We now know that the remaining 50%, representing the A shares, were also bought, this time from the Government, directly by the Gibraltar Savings Bank prior to the General Election for a further £37.8 million, making a total purchase value by the Savings Bank of £75.6 million, which benefited the Government's financial position. In addition, the Savings Bank, via its subsidiary GSBA Ltd, purchased the North and South District Post Offices as well as the Treasury building in Main Street.

1415 By way of example, in last year's Budget speech the Chief Minister proudly announced, in respect of the LNG plant:

The LNG plant will be operated by Shell whose presence in Gibraltar will be through a 51% subsidiary aptly named Shell LNG Gibraltar Limited. In order to reduce the overall cost of this contract over its 20-year life to the Gibraltar taxpayer, the Government

– 'the Government', note –

will own the remaining 49% of the shares ensuring Government shares in the economic benefit of this arrangement.

The total cost of the facility is circa US\$ 144 million over a period of two years, and at the end of the 20-year contract period the plant will revert to full Government ownership for a nominal payment.

– 'the Government', mark you.

1420 A Companies House search conducted on Shell LNG Gibraltar Ltd revealed that it is not in fact owned 49% by the Government but by Credit Finance Company Ltd instead. So of the £35 million total cost, its share, the £17 million, will not be funded by the Government but de facto the Gibraltar Savings Bank via Credit Finance. And so the Government has thus, from the examples I have listed, benefited by £92.6 million due to the Savings Bank's largesse in purchasing Government assets or taking on its obligations.

1425 Mr Speaker, this, together with the other types of transactions I have identified, brings the running total to £246.1 million, which if reversed would wipe out not just this year's projected surplus of £75.8 million but also the entire combined cash balances of the Consolidated and Improvement and Development Funds of £122.9 million and theoretically leave us in a loss-making position.

1430 Of course the Government could borrow to replace the money it has used. This is where the financial alchemy of turning deficits into surpluses comes into being, by the use of the £400 million in Credit Finance Company Ltd, and now of course we have the £300 million in Gibraltar Capital Assets Ltd. It is here, Mr Speaker, where the Government's interpretation of the rules on public finance and borrowing by Government-owned companies utterly failed the smell test.

1435 Let me move on to discuss the Government's direct and indirect debt. The official gross direct debt of the Government is £447.7 million, or £319.8 million net, which is made up of £247.7 million of debentures – held by the Savings Bank, by the way, with no fixed maturity – and £200 million of bank borrowing. The bank borrowing is provided £50 million by NatWest maturing in March 2020, and £150 million by Barclays maturing in two tranches, one of £100 million in January 2019 and the remaining £50 million in June 2020.

1440 I heard the Chief Minister remark this morning that the Financial Secretary would be looking to extend the maturity dates of direct Government debt and I assume he means the bank debt,

1445 and of course we can only welcome the Financial Secretary's efforts in ensuring these facilities are rolled over.

But, Mr Speaker, of course this was pretty much the gross debt position in December 2011, which stood at £519.8 million gross, or £234 million net, with the exception that debentures in issue were £319 million held by pensioners and the general public. It is well known that the Government asked pensioners to swap their Government debentures for Savings Bank debentures and we have already in this place debated whether the Savings Bank's liabilities are a contingent liability should or should not be accounted for in the Government's books, as occurs in the UK for National Savings and Investments; but for now that is not the point I wish to make.

1455 In the creation of Credit Finance and the Savings Bank then making a £400 million investment into it via preference shares, it effectively created a backdoor funding method for Government companies that could borrow for projects or buy assets from the Government, as described earlier.

1460 Gibraltar Investment Holdings has borrowed at least £330 million from Credit Finance at a cost of 6½ % per annum or £21 million a year. Incidentally, Mr Speaker, I cannot find any recent financial information in respect of Credit Finance on the Government's website. The last information I have seen was updated in July 2016 and certainly there is nothing in respect of 2017.

1465 This is where the catch-all of pooling of the cash of the Government and its companies comes into play. The Government now, via Treasury, effectively acts as banker to its companies, taking deposits and giving loans but none of it considered an official debt of the Government.

We have seen how in the past projects were funded by the Government via the Improvement and Development Fund, and that is the amount that the Consolidated Fund has to give to projects and has dropped dramatically since 2011. Projects, we hear, are now funded directly by the companies using cash from this now famous pool, provided of course in the main by Credit Finance.

1470 Mr Speaker, we can be absolutely sure that without the creation of Credit Finance and the use of this £400 million from the Savings Bank the Government would have had to borrow that amount for itself to fund its many capital projects since 2011.

1475 So, Mr Speaker, we know what the direct debt is – it is in the book – so let's start a tally of what we shall call indirect debt.

We will start with Credit Finance: £400 million effectively borrowed from the Savings Bank. Call it preference shares, call it what you want.

1480 GCP Investments Ltd: £17.1 million borrowed from Barclays Bank, secured on Government property including the City Hall.

ES Ltd: £55 million from Lombard plc secured for the construction of a new power station.

And now, of course, Mr Speaker, Gibraltar Capital Assets Ltd: £300 million loan notes, secured on six public housing estates.

1485 That adds up to £772 million in addition to the official gross debt of £447.7 million, and that would take us to a gross debt level of £1.2 billion or a net debt, if you wish, of at least £1,092 million at 31st March 2017.

Total liquid reserves, which included the cash held by Government companies, fell by £160 million from £294 million as at 31st March 2014 to £134 million as at 31st March 2015. That is an enormous drop in cash in one year.

1490 Mr Speaker, it is now evident to me that prior to the last General Election the Government's available cash position was in fact much worse than we could possibly have imagined. It is no wonder that the Government thought it would be a good idea to change our net debt legal borrowing limit in early 2016 from 80% of recurrent revenue to 40% of GDP. It is also evident that the Government must have known it needed to borrow more money and it was dishonest to suggest in its manifesto that it would actually reduce debt levels.

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We have heard a lot in this House about Gibraltar Capital Assets Ltd. I do not think that anyone can be in any doubt – other than, of course, the Chief Minister himself – that this £300 million borrowed by mortgaging six housing estates is a debt of Gibraltar, all of us, and repayable by Gibraltar, all of us. This is not an investment; it is a borrowing.

1500 We still do not know the terms of the option agreement by which the loan note holders may sell their interest to the Government, and the Government refuses to provide the Opposition with a copy of the private placement memorandum setting out the terms of those loan notes. But we do know that the notes mature in five tranches over 31 years with a composite rate of 3.85%: tranche A of £35 million at a rate of 3.31%, the first 15 years mature in 2031; tranche B, 1505 another £30 million at a rate of 3.67%, a 20-year note matures in 2036; tranche C, £38 million at a rate of 3.81%, a 25-year loan note maturing in 2041; tranche D, £105 million at 3.98%, a 30-year note matures in again 2046; and finally, Mr Speaker, tranche E, £92 million at a rate of 3.98%, a 31-year note matures in 2047.

1510 In that period we will need to pay interest – and this is just the interest – of £341 million, in addition to the repayment of the loan amount. The Chief Minister likes to refer to this money now as his war chest, and yet since the Budget last year we have not heard of a single project that will generate an economic return, despite it costing us, just this year, £11 million in interest payments. We have only heard today of some idea of an involvement in a Coaling Island 1515 reclamation to generate some economic return. The rental income of the housing estates mortgaged will only come, at the most, to £3 million. It does not cover the interest cost. This has had to be made up by the Government by an £8 million housing allowance, which is paid by another Government-owned company which we were told only last week is in fact the company that sold the estates in the first place. If this makes sense to anybody listening, please explain it to me.

1520 So when the Chief Minister claims that the Government's direct debt is falling let's not forget that he has loaded up on indirect debt at almost twice the amount. What worries me is that we do not seem to have any plan as to how we will repay all of this. The General Sinking Fund, which Mr Bossano correctly points out was created in November 2012, only has a balance of 1525 £5 million in it as at 31st March 2017, and from what I gather there is no set formula to set money aside into it to provide for repayment of even the £447 million of direct gross debt, let alone indirect debt. Mr Speaker, we really do need a debt management plan.

Looking at the scrutiny and management of public finance and Government-owned companies, the Chief Minister is only too fond of boasting that his Government is the most transparent and we are now having 10 meetings a year. We in the Opposition can ask as many 1530 questions as we like and there is no need for any further scrutiny of our public finances. Mr Speaker, you will be delighted to hear that I will not attempt to replay the debate on the need for a Public Accounts Committee – other than, of course, to reject the Chief Minister's counterarguments, if you can call them that. In fact, I find his new role as self-proclaimed defender of heads of department somewhat at odds with the ticking-off he gave them on 1535 9th December 2015 as to overspending in the fourth quarter. Mr Speaker, let me demonstrate that although we may have had more meetings of this House, we are simply not getting answers to our questions in the way the public might expect.

Let me start by way of example with this famous Government-owned company called GAR Ltd. GAR Ltd, from the transactions I have identified, has purchased somewhere in the order of 1540 at least £124 million of property from either Government-owned companies or the Government with absolutely no explanation as to where it got the money from or why it is doing this. GAR Ltd has, as far as I can tell, no mortgages charged against it – at least from the last search I conducted – from any leading bank that we know of, and so we can only assume it has borrowed the money from another Government-owned company such as Gibraltar Investment Holdings or 1545 indeed the infamous pool.

In relation to one specific transaction, the £40 million purchase of property, including No. 6 and the Main Street Post Office, and the question as to where the money for this came from, this is the answer the Chief Minister actually gave – and I quote from *Hansard*:

Mr Speaker, I do not have the detail of where GAR obtained the money from. The hon. Gentleman is right in that it is one of the constituent elements of the question but I do not have the detail in the answer of where GAR obtained the money from. I assume it has either been dealt with by way of inter-company loans or it has been dealt with from own funds of GAR.

How is that a useful answer to a direct question?

1550 The audited accounts of Credit Finance are not yet available, despite its creation over five years ago, but even if the accounts were available, audited and filed at Companies House, the Government will not provide the Opposition with full information. This is the answer to a recent written question I tabled, and I quote:

Can the Government please provide a full copy of the accounts and associated notes of Gibraltar Strand Property Company Limited as at 31 March 2014 given that its balance sheet has been filed at Companies House on 23 May 2016?

1555 The answer, Mr Speaker, from the Government:

No, Government only provides the information that the Company is legally required to publish.

1560 So, Mr Speaker, what is the Opposition here to do? The Opposition's ability to scrutinise Government companies is in fact no better than the general public's. How then can we hold the Government to account when so much of its activity is deliberately structured and financed through Government-owned companies? And these are outside the remit even of the Principal Auditor. How can we in fact know the true level of this community's indebtedness or otherwise at all? This is not transparency, it is simply obstruction and it is contrary to the way our Public Finances should be conducted.

Mr Speaker, let me turn now to advance Budget measures, the forecast outturn and the cost of living.

1565 Traditionally, increases in taxation, whether direct or indirect, are announced as part of the Budget session. This Government has seen fit to increase social insurance by 10% outside the Budget and there have been increases in the level of fees across the board from car park rentals to MOT fees and other licences and new fees introduced such as the approved contractor annual fee. These are all borne by all and sundry, effectively a form of taxation and conveniently sidestepped in the Chief Minister's Budget speech: we did not hear of one taxation in terms of the individual consumer, other than import duties.

1575 The Government's larger than expected surplus is entirely due to revenue being £63 million greater than expected. This can be broken down as £35 million more in taxes, especially corporation tax, and £14 million more in duty, namely import duty. In a post-Brexit environment I truly hesitate to suggest that this growth in income is sustainable and note that the estimate of revenue in 2018 is more conservative but still higher than estimated in 2016. I note that the Chief Minister this morning referred to a reduction in tax arrears and having collected one fifth of tax arrears. From the information I can see in the Principal Auditor's report, that should equate to at least £6 million, so that, the corporation tax of £5 million and general taxes, at least £6 million of that is in respect of arrears. But I will not be ungenerous. We again have to congratulate the Financial Secretary for having kept net – and I say 'net' – departmental expenditure within 1% of the 2016 estimate, albeit there was still an overspend of £6.6 million.

1580 In regard to the Estimate Book for 2017-18, I would ask for an explanation as to why the brought-forward Consolidated Fund balance as at 1st April 2016 is £84.7 million versus last year's closing balance of £ 80.9 million at 31st March 2016, a difference of some £3.8 million.

I would also like to know why, for the actual public debt charge in 2015-16, there is no Sinking Fund contribution, whereas as late as last year's outturn we expected a £4.5 million contribution.

1590 Why was it that the interest on Government debentures was so incorrectly estimated in 2015-16 as £7 million when the actual turned out to be £11.6 million? Surely the Government knows how much interest it is charging itself, since it holds them through the Savings Bank.

1595 Mr Speaker, it really would be truly remiss of me not to congratulate the hon. Lady the Minister for Housing for her Department's hard work in recovering £1 million in rent arrears. However, that regretfully only partially offsets the sins of the Minister for Culture, who again overspent on the Music Festival, this time by £1.6 million. In fact, the Minister for Culture's Department, at 40%, had the largest overspend rate of all Government Departments. Let's see if MTV can do better, and I would encourage Mr Bossano to have a look at the Ministry of Culture as well.

1600 In respect of the Improvement and Development Fund I can only see £45 million as being allocated for capital projects in 2017-18 and the bulk of this, being £28.6 million, is in respect of MoD relocation costs and the tunnel project. I do not see the cost for building new schools. I do not see the cost for building the sewage treatment plant. I do not see the cost of building a national theatre. But then I guess there is still life left in this Parliament for the Government still to build these and meet its manifesto commitments. My colleagues will speak more about these projects.

1605 The Budget session for most people is about how it will affect their pocket directly; it is not about GDP or national debt levels or who did what when and how. At the last measure, inflation is running at 2.7%. This was confirmed by the Chief Minister this morning and also, in addition, by the Hon. Mr Bossano. The public sector pay rise this year of 2.75% will deliver a real pay rise of only 0.05% as opposed to last year's real increase of 2.25% with inflation at 0.5%. Workers in Government rental accommodation are also facing a 3% rise in rent and across-the-board increases in fees for licences and other Government services. With the increase in social insurance of 10% already having been implemented, workers will be feeling the pinch very soon, and in the absence of any real tax breaks – we did not hear anything this morning which translated to anything substantial – which they might expect to be entitled to if the Government is reporting such huge surpluses. Trickle-down economics: give the workers their refunds. With such a large surplus, workers are also entitled to expect their tax rebates to be paid on time and not when the Government feels like it. It is only fair. **(Hon. D A Feetham: Hear, hear.)** *(Banging on desk) (Interjections)*

1620 If I may move on, Mr Speaker, to the Gibraltar Savings Bank and the issue of rainy day funds, the Government and the Hon. Mr Bossano boast of the great success of the Gibraltar Savings Bank in attracting deposits and generating profits and accumulating rainy day reserves, but let me dispel part of that as being another piece of financial alchemy.

1625 First of all, let me explain how the Savings Bank has been able to generate surpluses. Close to 70% of all its assets – the things the Savings Bank holds – are either invested in Government debt, companies or other entities. As at 31st March the entire £247 million gross debt of Government debentures is held by the Savings Bank and it pays on average 6%, and Credit Finance's £400 million of preference shares yielded an average of 5.6%. Credit Finance in turn is receiving 6.5% for the money it lent to Gibraltar Investment Holdings. On-call bank accounts, including a £69.5 million deposit at the Gibraltar International Bank, yielded a paltry 0.2% and listed bonds 0.8%. So the majority of the income of the Savings Bank is de facto controlled and determined by the Government.

1630 The Government pays at the most 5% on debentures and recently has dropped the rates on new debenture issues and ordinary accounts, and it pays itself hardly anything on Government moneys held in on-call accounts, and thus it can make as much or as little surplus in the Savings Bank as it wishes. It is not rocket science, or even financial genius worthy of the Nobel Prize in Economics: it is simple accounting and sleight of hand.

1640 What I will not dispute, Mr Speaker, is that as at 31st March 2017 the Savings Bank is expected to report a surplus of £5.9 million for that year, which is lower than the £6.8 million in 2016, and record an accumulated surplus of £32 million, that although a reserve is of course available for use by the Government in future – and that is, in fact, a true rainy day fund.

1645 The Government may boast that the Savings Bank deposit base has grown from £987 million in 2016 to £1.3 billion in 2017, which is – I am surprised they have not used the statistic – a 33% increase, but what the Government has not said is that Government deposits in the Savings Bank in that period grew by £241.6 million from £77.6 million to £319.2 million held in the on-call investment accounts at the Savings Bank – in fact through the famous cash pool. If you strip that out, non-Government deposits have grown from £909 million to £995 million, or 9.5%, which perhaps is not a disrespectful growth in deposits, though certainly not 33%.

1650 Mr Speaker, where did the Government find £241 million in 2016-17, in one year? Could it be that the net proceeds of the £300 million mortgage of the six housing estates, which we understand was concluded in May 2016, has been added to the Treasury cash pool at the Savings Bank? Well, that would be my guess, and so the growth in deposits in the Savings Bank is nothing to boast about, given that the origin of the money is simply more indirect borrowing. *(Interjections)*

1655 I again urge the Government to release the audited accounts of the Savings Bank on a timely basis. The Hon. Mr Bossano has the audited accounts for 2016 and yet inexplicably refuses to publish them in the Gazette. Mr Speaker, I tried to amend the legislation to ensure a more reasonable timetable for publication but the Government, following its policy of transparency, voted against this. And when Mr Bossano sends out his glossy publication – albeit for outdated
1660 accounts – to his account holders, he, as he has admitted today, fails to include the statement of investments showing how their money is used. He tells us in this House that he provides it to me: well, why doesn't he provide it to them too? I do not see what the issue is. This is not transparency in any shape or form. It is the control of information by a Government whose dogma is strict financial secrecy, Mr Speaker. **(Hon. D A Feetham: Hear, hear.)** This is not
1665 transparency. **(A Member: Hear, hear.)** *(Interjection by Hon. Chief Minister)* Has the Chief Minister quite finished?

Chief Minister (Hon. F R Picardo): No. I was saying that here is a couple of fools who are answering an argument that has not been put to them. Shall I say it again?
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Hon. R M Clinton: Please, yes, say it for the public to hear.

Mr Speaker: Order! Order!

1675 **Hon. R M Clinton:** Mr Speaker, he is calling us fools.

Mr Speaker: Order!

1680 **Hon. R M Clinton:** Mr Speaker, let me turn to the other favourite rainy day fund of the Hon. Mr Bossano, namely Community Care.

I have in the past disputed whether this can actually be called a rainy day fund as it is not technically in the control of the Government. According to the GSLP/Liberal manifesto at the last election, the reserves of Community Care stood at £100 million at March 2015. In the five years to 2020 they claimed that would reach £230 million, which I think has been repeated today. For
1685 the past two years a total of £40 million has been given by the Consolidated Fund to Community Care and for this coming year another £20 million is projected. From the Estimates Book in prior years the annual cost of Community Care is around £16 million a year – and I am happy to be corrected by the Hon. Mr Bossano – so on a best guess, with a surplus of maybe £4 million a year on this level of contribution, I can only see Community Care achieving a reserve of maybe £120

1690 million to £130 million by 2020. To achieve £230 million, either the Government will have to gift £100 million of the Consolidated Fund's reserves just before the General Election, or perhaps the trustees can turn £100 million into £200 million in five years by judicious investment.

I sincerely hope that this large amount of money is not also being directed to support Government capital projects or companies, because if it is and Gibraltar suddenly needs the money it may not be readily available. I would welcome – I am sure the Chief Minister will respond – the Government's thoughts on the future funding of Community Care and indeed any information on how that money is invested and managed for the people of Gibraltar.

Mr Speaker, inwards investment. We have yet to see any major projects come to fruition.

We were told about the Eastside Bluewater project to much fanfare in June 2015 only for it to have gone very quiet, and no sign of the promised £83 million premium from the developer. I repeat: £83 million, Chief Minister. Nothing happened, Mr Speaker. Nothing happened.

Last year the Chief Minister teased us with an exciting reclamation project at Coaling Island. Mr Speaker, nothing happened.

And now we hear this morning that we, the people of Gibraltar, using the money from mortgaging the housing estates, are in fact going to be partly financing that development: inwards investment from our own money. And of course that famous word we all so love in this House: the Government will make an announcement 'shortly'. I wouldn't hold your breath, Mr Speaker.

We heard at the Finance Centre lunch in London in October 2015 that London and Regional were the preferred bidder to develop the Rooke site, and nothing happened.

In his New Year's address this year the Chief Minister said:

Many other young people will be very happy to hear that you will soon be receiving

– 'soon' I guess is the same as 'shortly' –

letters to start the process of purchasing new affordable homes at Bob Peliza Mews and Hassan Centenary Terraces.

Yes, Mr Speaker, nothing happened – *nothing* happened.

And talking about nothing, I was surprised not to hear of a boast from the Chief Minister in his Budget address about Bob Peliza Mews or Hassan Centenary Terraces – or is it that nothing is going to happen on those either? I truly appreciate that attracting inwards investment is difficult, especially in this post-Brexit environment, and I will of course support all efforts in that regard. However, I would ask that we as politicians, albeit myself a novice in the eyes of that side of the House, refrain from making announcements until the ink is dry on the agreement and the money is in the bank. (**Hon. D A Feetham:** Absolutely right.) In an uncertain age, our people want to hear about certainty and not imaginary projects. We do not want to hear 'shortly'; people want to hear what is going to happen. And so, Mr Speaker, I would encourage the Chief Minister in his response to explain to the people of Gibraltar what is happening with Bob Peliza Mews and Hassan Centenary Terraces.

Turning to small businesses, I have heard the Hon. Dr John Cortes, the Minister for Education, on two recent occasions encourage our students to look to the private sector and not the public sector for future employment. (**A Member:** Hear, hear.) Mr Speaker, the Government is quite rightly identifying the private sector as the true driver of employment and wealth creation and for that I congratulate the Minister. But in this regard, in order to encourage innovation and the entrepreneurs of the future, we need to make starting a business as easy as possible. I know that the Hon. Mr Costa tried his best to reform business licensing but this needs simplification, especially as regards the business premises requirement. I know the Gibraltar Federation of Small Businesses and the Chamber are working closely with the Government on this matter and I hope progress will be made soon. The cost of renting premises and stores I am told is

1735 understandably a huge business cost for start-ups and again I would welcome any plans by the Government in this regard.

Mr Speaker, turning to financial services, during the year we have seen new legislation brought to this House in respect of foundations, which I welcomed at the time and I still do, but we need to continue to evolve our product offering so as to keep pace with our clients' needs and indeed competitors in other jurisdictions.

1740 I have noted the Government's support for the development of Gibraltar as a Fintech hub and the joint Government and Financial Services Commission consultation paper entitled 'Proposals for a Distributed Ledger Technology (DLT) Regulatory Framework' – a bit of a mouthful and nobody actually understands what it means but it sounds good! This also I am happy to support but with the proviso that the risk is correctly identified and managed so there can be no reputational damage to the jurisdiction, and I am sure the Minister understands that point.

1750 I, along with, I am sure, all the Members of this House, lament the departure of the Newcastle Building Society and indeed other job losses in the banking sector, but speaking from experience I can say that this is in fact a worldwide problem and not a Gibraltar-specific issue as banks continue to retrench and preserve capital after the 2008 financial crisis. But this is not to say that we should resign ourselves to the risk of being unbanked. We need to encourage existing retail banking operators not just to stay but to expand their offering where possible.

1755 The Gibraltar International Bank continues to fill the gap left by the loss of Barclays and I look forward to seeing their full financial statements for 31st March 2016 and not just the highlights picked out by the Minister. This bank needs to be a success, not just for the sake of the business community but for the community as a whole. It has to be a safe place for our savings and a source of financing for mortgages and loans, which are the lifeblood of any thriving economy.

1760 I would ask the Minister, who I know will be speaking shortly, if he could explain why the bank has undergone a recent capital restructuring such that it has converted its ordinary shares into two different classes of shares, namely A shares and B shares with the B shares having no voting rights. It would seem to indicate to me there might be some intention to place the B shares ... I am asking the Minister because the shareholders' resolution was in fact signed by the Chief Secretary on 25th April this year and I would welcome any thoughts from the Minister as to what it is that the Government intends as regards the shareholding of the International Bank, seeing as it is the sole shareholder.

1765 I again thank the board and the staff of the bank for their efforts and I of course wish them well.

1770 As regards the financial services regulation, I still await news as to the rewrite of our financial services legislation, especially in the light of Brexit. It will no doubt be an interesting debate when Gibraltar considers its own Great Repeal Bill and what should be kept and what should be discarded while of course preserving the highest possible standard of regulation and remaining best in class.

1775 Mr Speaker, also pending is the appointment of a Financial Services Ombudsman and I look forward to hearing more on this matter from the Minister.

Financial services is an important pillar of our economy and we need not only to protect it in the post-Brexit environment but also to grow it in a way that encourages new players to set up in Gibraltar, and in this regard the Government has my full support.

1780 Turning now to heritage, Mr Speaker, the achievement of World Heritage Status for Gorham's Cave was a truly remarkable achievement and a credit to all those who promoted the project, not least Prof. Clive Finlayson. We should not underestimate the importance of both our natural and historical heritage for our people and visitors alike.

1785 I have long felt our social history has been somewhat neglected, all too often in favour of military history. I am pleased to see the Deputy Chief Minister's initiative in that the 50th anniversary of the 1967 Referendum is being remembered and celebrated – unfortunately, Mr Speaker, I missed it by five days. It is important that future generations are taught the

importance of that day, and not just once a year but in classrooms as part of their education. To this end I would like to see the Government encouraging more young people to take an interest in our rich heritage, whether in schools or in partnership with the Heritage Trust.

1790 There are still many heritage projects to be completed, such as the Northern Defences, which I know the Deputy Chief Minister has spoken on already, and others to be started, such as the Moorish Castle complex. Thankfully, the importance of these sites is well understood and I am sure will be well protected.

1795 Last but not least, Mr Speaker, I would welcome the long overdue Heritage and Antiquities Act, especially with regard to a revised listing of protected buildings, and I would be grateful if the Minister, in his address, could give an indication as to when he proposed to bring the Bill to this House.

1800 And so, Mr Speaker, in conclusion, as I said in my opening, the numbers never lie, but it is much too easy for this Government to distort and hide the real numbers. I regret that I have grave reservations as to what reliance can be placed on the completeness of the information in the Estimates Book and thus the Appropriation Bill for 2017-18, and for the reasons of lack of transparency as to the financial state, activities and accounting for debt of Government-owned companies, I simply cannot support this Bill.

1805 I again call for the Chief Minister to give up the portfolio of Finance Minister and allocate this to another Minister perhaps to his left. It is not healthy for the CEO to also wear the hat of finance director; there always needs to be a tension between the two to guarantee financial prudence.

1810 We as a community need to be prepared for the unexpected, as much as we can, in this post-Brexit world. I am confident that we as a people will find a way to succeed no matter what the odds, but we must keep a close eye on the public purse and indeed those who control the purse strings.

1815 That being as it may, the watch word – and we have heard this word many times today – the watch word is prudence, not austerity as the Government would have the people believe the Opposition advocate, which we do not: prudence in planning for the future in this uncertain world and prudence and transparency in our public finances at all times.

Thank you, Mr Speaker.

Chief Minister (Hon. F R Picardo): Mr Speaker, if there is anyone left awake, I entreat them to come back tomorrow, at 9.30 in the morning.

1820 **Mr Speaker:** The House will now adjourn to tomorrow morning at 9.30am.

The House adjourned at 8.39 p.m.