



PROCEEDINGS OF THE GIBRALTAR PARLIAMENT

MORNING SESSION: 10.30 a.m. – 1.03 p.m.

Gibraltar, Tuesday, 28th June 2022

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The Gibraltar Parliament

The Parliament met at 10.30 a.m.

[MR SPEAKER: Hon. M L Farrell BEM GMD RD JP *in the Chair*]

[ACTING CLERK TO THE PARLIAMENT: S Galliano Esq *in attendance*]

Standing Order 7(1) suspended to proceed with papers laid

Clerk: Suspension of Standing Orders. The Hon. the Chief Minister.

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

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

PAPERS TO BE LAID

Clerk: (vi) Papers to be laid – the Hon. the Minister for Housing, Employment, Youth and Sport.

10 **Minister for Housing, Employment, Youth and Sport (Hon. S E Linares):** Mr Speaker, I have the honour to lay on the table the Employment Survey Report 2021.

Mr Speaker: Ordered to lie.

15 **Clerk:** The Hon. the Minister for Business, Tourism and the Port.

Minister for Business, Tourism and the Port (Hon. V Daryanani): Mr Speaker, I have the honour to lay on the table the Tourist Survey Report 2021, the Hotel Occupancy Survey Report 2021 and the Air Traffic Survey Report 2021.

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Mr Speaker: Ordered to lie.

Standing Order 7(1) suspended to proceed with Government Bills

Clerk: Suspension of Standing Orders. The Hon. the Chief Minister.

Chief Minister (Hon. F R Picardo): Mr Speaker, I beg to move, under Standing Order 7(3), to
25 suspend Standing Order 7(1) in order to proceed with Government Bills.

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

Order of the Day

BILLS

FIRST AND SECOND READING

Appropriation Bill 2022 – First Reading approved

Clerk: A Bill for an Act to appropriate sums of money to the service of the year ending on 31st March 2023. The Hon. the Chief Minister.

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Chief Minister (Hon. F R Picardo): Mr Speaker, I have the honour to move that a Bill for an Act to appropriate sums of money to the service of the year ending on the 31st day of March 2023 be read a first time.

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Mr Speaker: I now put the question, which is that a Bill for an Act to appropriate sums of money to the service of the year ending on the 31st day of March 2022 be read a first time. Those in favour? (**Members:** Aye.) Those against? Carried.

Clerk: The Appropriation Act 2022.

Appropriation Bill 2022 – Second Reading – Debate commenced

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

This is my 19th Budget address as a Member of this Parliament. It is my 11th Budget address as Chief Minister.

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In moving this Second Reading, I have the honour to present the Estimates of the Government's revenue and expenditure for the year ending 31st March 2023 – that is to say next year. I will also present the outturn for the Government's revenue and expenditure for the year ended 31st March 2022, which was the 10th full financial year of a Socialist Liberal Government since we took office.

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Given that it will lace much of what I will say, I should remind the House that this debate comes almost exactly six years after the decision of the British people in a referendum to leave the European Union. That makes obvious the reality that most of our time in government has been spent dealing with Brexit. Additionally, the challenges of the pandemic and the war in Ukraine now scar the economic performance of all nations, ours included. I will, of course, explain in greater detail, in different parts of this address, how each of these challenges affects us.

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I consider that it is, therefore, incumbent on the Government, in the face of these mammoth challenges, to continue to act, in this Budget as we have in the past, in a manner that is both responsible and prudent. Additionally, in taking the steps we will need to take today, we must act with a view to protecting the overall economic integrity of the nation's finances in the short, medium and long term. We have an obligation to act to ensure that the spending required by the COVID pandemic is repaid as efficiently as possible and in a manner that provides as little drag for future generations of Gibraltarians as possible.

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I have approached this exercise, with the Minister for Financial Stability, the Financial Secretary and the Treasury, in a spirit of prudence and responsibility, as we must each Budget. We have designed these estimates to protect the most vulnerable in our community. We have set out to ensure that our key public services can continue to be seamlessly provided. We have ensured that
65 each measure we have designed achieves the purpose of raising revenue, where possible, and avoiding any austerity or hardship in any instance.

As a result, many of the revenue-raising measures I will announce today, with a heavy heart, are going to be in place only for two years – that is to say 24 months. These will be measures that are designed to pay back what the whole House, with the express agreement of the Leader of the
70 Opposition and the Opposition spokesperson for public finances, agreed to take from the public's coffers in order to pay for the worst ravages of COVID.

What we all agreed should be paid out we all must now contribute to paying back. What we all took the benefit of in the extraordinary funding of our health and care services for this period we must all now contribute to paying back. What all sectors in our economy directly or indirectly took
75 the benefit of, we must all now contribute to putting back in. There are no free rides and Gibraltar has never had a free ride. The generations of Gibraltarians who built our nation had no free ride and our generation must recognise that the lives we lead are, in most instances, privileged and we must, therefore, all contribute to the recovery of our public finances.

But let us be crystal clear: this Budget will contain no austerity, because it contains no cuts of
80 jobs or services, but it will tap our people's personal prosperity in a way that will leave untouched the income of the worst off in our community, who will actually see their income grow as a result of the measures I am going to announce today. The most vulnerable and those on the lowest incomes, disability benefits and state pensions, as well as those on public sector occupational pensions, will see their incomes continue to grow. We will, in that way, protect the most
85 vulnerable. But if we are all genuinely committed to social justice, then we must see the most well-off pay a little more, if only for a few years, in a way that is designed to pay off the debts we have incurred to pay our way in the pandemic.

I emphasise that the spending we are talking about repaying is the spending we have all in this House agreed we should incur. This is not to pay for schools, new rental homes for the elderly or
90 affordable homes for young families, the refurbishment of housing estates, new primary care centres, sports facilities or other projects. Each of those projects is a worthy, important project for our community. None of these represent any lavish spending or any project which any Member of this House has spoken out against or suggested we should not proceed with. Nor is this to pay for the pay of public sector workers, which we have increased considerably. The spending we will
95 have to all contribute to repaying is the spending we all agreed to in this House and which relates directly to the disbursement of money by the Government to address the real hardship that the pandemic would otherwise have visited upon this community, because by spending what we spent we prevented what could have been mass unemployment and the mass closure of businesses. Indeed, we prevented many of the problems now affecting other economies where
100 the restart of some parts of their activity is impaired, not least the aviation industry.

So, Mr Speaker, in the context of the continually difficult historic moment in which we find ourselves, I must tell all hon. Members that this will no doubt be seen as a tough but necessary Budget – tough because, whilst the Government will assist and protect the most vulnerable, we will ask for more from those who can, but necessary because there comes a time in the affairs of
105 many when it cannot be all take, take, take.

We have been clear, always, that we believe that we must never be spending more than we collect. Annual expenditure must not exceed annual revenue, and because of the truly exceptional circumstances of the past two years – not for any other reason – annual expenditure presently does exceed annual revenue. That is what we have to correct or we will continue, for longer than
110 would be forgivable – and it is presently forgivable – to breach our own golden rule, as set out by Sir Joe Bossano in his first address as Chief Minister in a Budget debate after 1988.

Mr Speaker, it is worth that I should pause there to reflect for a moment, because last Thursday, 23rd June, was not just the unfortunate sixth anniversary of a very unhappy plebiscite – that is to say the anniversary of voting in the Brexit referendum; 23rd June was also the 50th anniversary of the 1972 General Election. That was the first General Election that saw Joseph John Bossano elected to the House of Assembly, this Parliament’s predecessor, with 4,383 votes. The Hon. the Father of the House, Sir Joe Bossano has, therefore, now been a Member of Parliament for more than 50 years, and on this side of the House we express our congratulations to him on this magnificent milestone and the huge benefits that his work as a parliamentarian has delivered to Gibraltar and Gibraltarians in the course of the half century that he has served our people.

Additionally, we would congratulate him for having persuaded so many of the nay-sayers on the opposite benches who now say they support his economic policies and his policies on international relations. No one, now, is against the accumulation of rainy-day funds, like the GSD used to be. Incidentally, those are now, once again, healthy, even at this time. No one, now, backs the Brussels process, like the GSD did when it was formed. No one, now, speaks out against the Future Job Strategy, like the GSD used to do – although I see Mr Phillips is not here to hear my response to his goading on that. Sir Joe Bossano has seen off all those arguments. The GSD are now converts to what they used to call Walter Mitty economics and unrealistic cherry-picking.

So, I am here to praise Bossano, not to bury him, but the fact is that many on the other side have made it their lives’ work to come to this place to bury Bossano, not to praise him, although in that sense they would be truer to the original Shakespeare. They have happily abandoned their original principles – no surprises there – and have adopted a salutary ‘if you cannot beat him, join him’ approach to Sir Joe, which we on this side of the House warmly welcome on the occasion of this auspicious anniversary. Those opposite, of course, have now found another target for their disaffections – and you are listening to him, Mr Speaker. I have absolutely no difficulty with that, and they should have the comfort that I have no intention of being here for 50 years!

But let us return to Sir Joe and his golden rule, one which Members opposite embrace and eschew, depending on whatever mood takes their fancy, but which we regard as sacrosanct. To observe the golden rule and to reap its benefits for our nation, it is immediately necessary that all of us who can take a step forward and contribute a little more, even if it is for a short period of time, must do so to get the whole community over the COVID hump.

Of course, we are also still dealing with the negotiations with the EU on a treaty on our future relationship. The reality is that the absence of that treaty has meant that there has been an unwelcome element of uncertainty in our economy. The other side of the coin of that reality is that we cannot accelerate the negotiation, if it would mean saying yes to matters which would be unacceptable, simply to hurry the process along. The GSLP Liberal parties which I represent have a very clear view of what is and is not acceptable to us in this context and what is and is not acceptable to the people of Gibraltar. So any voice which is raised to suggest that we are somehow to blame for the delay and not having a treaty cannot be a voice that is concerned to ensure that the said treaty, if it emerges, is safe and secure for Gibraltar, because we cannot rush a negotiation other than by accepting things we would not otherwise be prepared to accept, and we will not do that. I say that in anticipation of addresses from hon. Members in the House in this debate. It would be inherently contradictory to complain we have not gone fast enough and at the same time suggest we must ensure that Gibraltar’s sovereignty, jurisdiction and control must be properly and fully protected. Undoubtedly, however, leaving the European Union has created uncertainty, and that will have had economic consequences, of course. I will say more later in my address to update the House on the latest on the treaty negotiations, but these are, of course, matters which fall to be considered in a State of the Nation debate such as this debate on the Appropriation Bill.

Whilst these are tough times requiring tough but necessary measures, it is an honour to have been entrusted by our people to navigate Gibraltar through these storms. There may be many detractors of the Government and of mine outside of this House. So much criticism these days is vented on social media. It is the modern politician’s cross to bear that so many want to see the

negative in everything and not appreciate the effort that is required to actually achieve things.
165 But that cross is like water off a duck's back given the honour that it is to hold the reins at this immensely difficult time, the pleasure that it is to see things progress and proceed, the deep satisfaction as we look back and see our achievements, all of them in the teeth of criticism, and the reward that we enjoy as we see a community evolving and a nation progressing socially and economically.

170 Of course we have suffered delays on key projects. Who has not at this time? In fact, I want to acknowledge receipt of a heartfelt petition from purchasers at Chatham Counterguard and Bob Peliza Mews relating to the delays inevitably occasioned to those two projects. I look forward to meeting the organisers of the petition so that we can discuss the reasons for the delays and the cost increases that are likely on those projects. But I refuse to believe that the Gibraltarians do
175 not really understand, deep down, the difficulties we have faced and the inevitable delays to projects that have arisen, whatever the more impetuous may choose to blithely post on social media. Our fellow Gibraltarians know and understand that we did not choose Brexit and the uncertainty it has created and the work it has required, we did not bring COVID upon ourselves and the economic and social difficulties it has created around the world, and we did not invade
180 Ukraine and the inflationary pressures that it has brought. These factors are external factors and their consequences have to be dealt with and managed, and I do not think that many or any Gibraltarian would have made different choices in the circumstances we have found ourselves in than those we made ourselves.

185 However critical some may be, if they had been in my chair they would have done the same thing in nine or 10 out of 10 of the instances in which we have had to make choices. But when all is said and done, just as I told the House last year, in the end it will, of course, be my responsibility that we should get this right, and that is a responsibility that I am genuinely honoured to shoulder for our country at this time, because we – all of us on this side – and I will not cower in the face of these difficulties. We will not shake and dither or be rabbits frozen in headlights. We will continue
190 to act, we will continue to work, we will continue to trade through and out of these circumstances – and today marks an important moment in doing so, as we set out to prescribe the measures that we will all have to contribute to in order to do so.

195 Predictably, I expect some may want to argue that the state of Gibraltar's post-pandemic public finances, and consequently the measures we have to take, are somehow the fault of the GSLP Liberal Government. That is probably the oldest political trick in the book, like blaming the Labour government in the United Kingdom for the debt in 2010 without accepting that the debt arose from the worldwide economic crash and the need to put cash in to stop a total collapse of the banks and the capitalist markets. It worked a treat for the Opposition then to use the argument as the excuse for the austerity that followed and that predictably hurt working people, whilst
200 exonerating the capitalists that had been saved by the socialist government's spending. I will not stand idly by as the same cruel trick is attempted in Gibraltar to pull the wool over the eyes of Gibraltarians. Naturally, we are the guys in charge and we are responsible for the public finances, but from that to being to blame for a deficit and higher debt is quite a stretch.

205 In this respect, I note the statement last year from the Opposition that the effect of the pandemic was that whatever had happened before, and whether or not we had followed the Opposition's advice or not, we would have ended up in the same place. It has been suggested by some now that those remarks relate only to the deficit and not the debt. That is to say it is suggested that the Opposition accept that we would have ended up in a deficit situation, but not that the debt would have increased as it has as a result.

210 Sterile though I think such a debate is, I think it is important to highlight that the deficit is being plugged by borrowing. That is to say the debt is going up because we are plugging the deficit by borrowing. So, given that we will no doubt face this continued sterility in the approach we face in this debate, I provide the obvious answer to the argument we expect to hear in coming days, because anyone who thinks they can sustain the argument that the economic and public finance
215 issues that Gibraltar is facing today is the fault of the Government of Gibraltar is not being

objective in their analysis. I can understand that those who are just perennially opposed to the Government might think that, but any fair-minded, objective, independent observer will appreciate that the point of arrival at the pandemic was a point of reducing direct government debt, surpluses and increased revenue over expenditure. That is why, despite the many attempts
220 to try to get that argument to stick, it has stuck only in the quarters that want it to stick.

What has driven us to deficit is the three-fold aspect of the deployment of public money to pay those forced out of work by the closure of businesses, the closing of our economy and other economies that deprived us of revenue at the same time, to a position from which recovery will take some time, and the additional myriad expenses of COVID. It's that simple. We have a deficit
225 because we spent money to keep food on people's tables and to keep our companies going. We spent money to fund the GHA and public sector to trade through COVID. We spent money to plug the revenue gap from our falling or disappearing revenue. That gap is still there, as Government revenue has not yet fully recovered.

We are not in this situation because we built a school, built a primary care centre or built new, affordable homes, and the measures we will take today, tough and painful though some may be, have a clear purpose and signify a clear direction out of these difficulties – to get back on track, to get back to growth and to get back to surpluses: balancing the books, which is what our right-thinking citizens want us to do.

Mr Speaker, before we get into the economic detail, it is also important to remind ourselves
235 that this debate has always been wider than just an economic debate or a debate just about the public finances. That is the right approach, as the economic well-being of a nation comes from the social and political well-being of a nation, so it equally falls to us to consider the wider vicissitudes of life in Gibraltar when we consider this Bill. In that respect, I think we are well placed to reflect positively on a decade of social investment, social progress and social reform which has landed
240 well and established itself deeply now.

We have refurbished old and tired estates and we will refurbish more of them as our public finances recover. We have added massive new green areas in the centre of our city. Commonwealth Park and Campion Park serve as everybody's back garden in Gibraltar. Just that shows commitment to improving our common environment and our people's quality of life.

We have built and are building new schools, so that by the time our programme is finished
245 every school in Gibraltar will have been built by the GSLP, including a new Jewish school. Additionally, we will have employed 172 more teachers in 10 years. That is where your money is going, not on lavish spending, as some allege. We have employed 170 more learning support assistants in 10 years. That is not lavish spending. That is investment in education.

We have employed 137 more nurses in the GHA in the last 10 years and we have employed
250 almost double the number more GPs in 10 years, although we still have to get right how to organise appointments with them. That is where your money is going.

In fact, the total complement in Head 16, Education, is up from 607 when we took over, to
255 1,123 now. The total complement of the GHA, which can be seen in Appendix G, has gone up from 869.5 when we took over, to 1,185. That is where your money is going. Austerity is about cutting people in such roles. We have done no such thing. We have invested in quality jobs with the best terms and conditions of employment, exceeding even those on which we used to match parity.

We have built brilliant new facilities for our elderly at Hillside and Bella Vista, as well as refurbishing Mount Alvernia and the Jewish Home and opening the John Mac Wing for the elderly.

We have provided two new primary care facilities for our people, one of them for children. In
260 fact, the Government believes that these are not yet operating as they should and they need to be reviewed, and we are in the process of doing so.

We have built and are building more affordable homes than we have ever seen built by any
265 administration in our history. Delays have arisen from the pandemic, of course – nothing we can do about that, although Members opposite will, no doubt, try to pin the delays on us; not surprising, as I fully expect them to try to pin the Black Death, the Plague and the Vietnam War on

us during the course this debate if they think it will help them gain one or two more political points. But we continue doing.

270 We have built car parks that provide facilities for those of our people who wanted to buy car parking spaces.

We have provided a new facility for our broadcasting corporation so that they have the modern studios and equipment that they need.

275 We developed a 700-berth marina for small boats and will soon provide a hard, once we settle the outstanding aspects with the Yacht Club which come from the time in government of Members opposite.

We held great concerts, the cost of which we subsidised for whole families to enjoy when we could.

280 We built and established a University of Gibraltar as a centre of learning, which had long been an ambition of successive Governments that we have made a reality, as is the Gibraltar International Bank a reality that other Governments spoke of and we banked, literally.

285 We have built, and in one case just finished, the best sporting facilities our athletes have ever enjoyed. The delays have been impossible to manage for reasons already repeatedly explained in this House, but again I have no doubt that the delays will also be said by the Opposition to be our fault, just like the Cuban Missile Crisis and the Korean War. Nothing will be too remote in time or geography for the GSD not to say it was Picardo's fault, the Government's fault or the GSLP Liberals' fault.

290 All these things can be said very quickly – *se dice muy pronto* – but what a legacy in the past 10 years. Whilst many have spoken of these things and promised them, we have made them happen, and not without great effort, very late nights and a massive amount of work involving ministerial colleagues and great public servants. That is how we work.

295 That is not mismanagement by any definition. It is the legacy of a golden socialist liberal decade for Gibraltar, stopped in its tracks, like the whole world was, by a pandemic that took no prisoners around the world and has taken 104 of our most beloved people, so far. Indeed, the best way to demonstrate that the issues afflicting our economy today are not related to our actions, our alleged mismanagement or any spending which we may have undertaken which is lavish by any stretch of the collective imagination, is best set out by a quote from Members opposite. This is a direct quote:

Of course, no one on this side of the House is saying that if they had been prudent with the people's money over the last 10 years we could have avoided a £157 million deficit which is, of course, COVID-related. No one could have predicted the pandemic ...

300 That is correct, of course. It is the actual statement, a direct quote, from the Member for Devil's Gap North, Mr Feetham, speaking, as he told us, on behalf of the Opposition because the Leader of the Opposition had asked him to address these issues. That very realistic assessment, which accords with our own understanding, estops the Members opposite from now seeking to suggest the opposite with any credibility. The political estoppel created will, nonetheless, no doubt be ignored at the altar of political convenience, but that fleeting moment of lucid honesty which Mr Feetham brought to last year's debate will forever be recorded in the *Hansard* of this House and in the political history of this community. For that, I thank him.

310 In fact, what we delivered before that was a boost to Gibraltar as a society and for our nation, a massive step forward in a decade of hard work and hyperactive government, a generational step change that we have delivered for our people. Some say we have not done enough. I acknowledge we still have things to do and we have basic things that have gone awry in the pandemic that we have to fix. Some say we have done too much. You can never please everyone. Sometimes, it feels like we can never please anyone – certainly no one on the opposite benches, at least – but we have satisfied ourselves that we have done what we said we would, insofar as we reasonably could until the pandemic struck. We have not been idle one day since we were entrusted by the people

315 to govern our nation's affairs, we have not been complacent one moment since we took over in
December 2011, and we have been humble always in the discharge of our functions and true to
the principles of natural justice and the seven principles of public life set out by Lord Nolan and
our draft Ministerial Code. I trust we will now be able to do the work of the Select Committee to
finalise adoption of it formally, and to further tighten that, we will very soon be publishing a Bill
320 to provide additional protection to prevent any semblance of corruption in our society. Having
blown hot and cold on it, and having insisted that we should not proceed with it, I hope all
Members opposite will support the Bill when it is published in coming weeks.

Gibraltar is now also freer and more open than ever before. Freedom and equality is
established in respect of the sexual orientations. It was a pleasure, therefore, to have attended
this year's Pride event on Saturday, to represent all of Gibraltar there. When people ask why
325 should we have a Gay Pride event: for a simple reason, because the opposite is no longer true in
Gibraltar. There is no gay shame. That is why we celebrate equality with Pride.

We are also making much better but as yet imperfect provision for the disabled in our
community. We have started the work on the extension of the UN Convention on the Rights of
Persons With Disabilities. The process has already commenced and is being led by the Minister for
330 Equality, working within the Ministry of Equality and other Departments. This is a long process
with various stages, some of which are not under our direct control. The extension has always
been our ambition, as we have set out on a number of occasions in this House since we were in
opposition. This is, of course, linked to the Disability Act which we passed in this Parliament and
which is modelled on the Convention.

335 Mr Speaker, you will recall that there are two sections of that Act that have not yet
commenced, and this was in order to give time to plan for premises to be accessible. In the 2019
Budget I announced an initiative to enable businesses to claim a tax deduction equal to the
expenditure of works to improve their property up to a maximum of £15,000. This was to
encourage businesses to facilitate access for people with disabilities in their existing premises.
340 That measure was made available for 36 months. Regrettably, the COVID pandemic got in the way
of that initiative, as with so many other things, and as the very first Budget measure today I
announce that I am pleased to reinstate this provision for another 24 months.

Every community is a work in progress, but it is churlish of our opponents not to congratulate
us on the progress achieved so far. I will not dwell further on the subject of social progress and
345 inclusion and equality, but I will repeat my warning. Whilst I have breath in my body I will continue
to ensure that we move only in one direction in this respect: forward. Gibraltar has no reverse
gear on rights and progress. The progressive road to equality is a one-way road. Any attempt to
reverse the laws to prevent discrimination will have ferocious opposition from the majority,
because Gibraltar is a socially liberal European democracy and we have taken our place at the
350 table of nations with modern, progressive laws, very often opposed from the majority of those on
the opposite benches. And how apposite that on the one-year anniversary of the Crimes Act, or
abortion referendum, in Gibraltar, the United States Supreme Court should have ruled to undo
50 years of federal protection to women's reproductive rights. Whilst others move backwards, we
move forward, *only* forward.

355 Speaking of matters European, I will now update the House on the progress of the EU
negotiations. At this time last year, we had not even seen the publication of the mandate of the
European Commission for this negotiation. When we saw the EU mandate, we all agreed that it
presented many unacceptable aspects which the Government and people of Gibraltar would
never be able to agree. Now we have engaged directly with the European Commission on nine
360 rounds of negotiation. Technical discussions are ongoing today. We have made huge progress in
understanding each other's positions. I think it is fair to say that there are areas where we have
found agreement. It is also fair to say that there are areas where, whether we agree in principle
or not, we are not yet able to agree the mechanics of how to give effect to our agreement. Yes,
this is taking longer than any of us wished or expected, but it is a negotiation that is on foot and

365 which we have to get right. This really is a process where the adage 'more haste, less speed' is going to be what gets us to the right conclusion.

At the moment, the talks are processing through a deeply technical stage where some of the detail of the parts of the Schengen *aquis* and the relevant parts of the *aquis* on movement of goods are being considered. We have to ensure that these have been fully and properly analysed between the parties in order to ensure beyond peradventure that if we do reach agreement, or when we find that agreement, we find no nasty surprises and we have addressed all of those issues in the course of the negotiation.

The technical teams for the Government of Gibraltar are being led today by Michael Llamas QC, the Attorney General, who is immersed in highly complex work. The Deputy Chief Minister and I are equally involved in all policy aspects which the technical work throws up.

The meetings have been innumerable and the meetings to come will likely be innumerable, yet it is worth remembering that this is not a process that we are embarked upon by choice. We have not decided that we wish to recast our relationship with the European Union because we woke up one morning and decided to do so. It may sound trite to say it, but it is important to remember we are embarked on this process because we must, as a result of the Brexit referendum, work to fashion the recasting of our relationship with the EU into the best possible form, and if the best form we can negotiate is not safe and secure, then so be it. But we must pursue this course and I am confident that we will reach agreement and that the agreement will recast our relationship with Europe going forward.

It is also presenting us with an opportunity to recast our relationship with Spain and leave behind the confrontations of the past. Whether that opportunity is taken is more for them than for us, but our hand has been stretched out in friendship for generations and under successive governments. Too often it has been cheaper for successive governments of Spain to play to historic prejudices than to move forward to dialogue and co-operation. We may be seeing a change, and every Gibraltarian will want to welcome that if it takes root and is not lost to the rise of far-right extremism in Spanish politics. But the opportunity may be there, and that is why we remain committed to seeking to resolve the nature of our future relationship with the EU through a UK-EU treaty which is safe and secure on all our fundamental concerns and which is, essentially, with the EU, which has no sovereignty claim on Gibraltar. We do believe we can deliver such a treaty in a manner which creates that mythical shared prosperity of which we all talk and which must, perforce, lead to enhanced prosperity in Gibraltar, which is where prosperity spreads from. I remain deeply optimistic that such a safe and secure treaty is possible and now increasingly probable. The latest technical negotiations are very tough and very tricky and they are dealing with difficult areas of policy. They require deep maturity in understanding the European rules as they are between member states and how they would apply to us in the context of non-membership of the EU or of Schengen, but of adherence through international treaty and the application of public international law.

But what I would, therefore, warn against is the idea, put out by some siren voices, that we could have done this quicker in some way or that we are failing by not bringing it in quicker. It is worth every member of the community remembering that in Greek mythology the sirens were dangerous creatures who lured sailors, with their enchanting music and singing voices, to shipwreck on the rocky coast of their island. In the past, some such sirens have said we should have done like Northern Ireland. Of course, when we pointed out the differences, those who made that argument scoffed. In fact, now, those who argued we should be like Northern Ireland will have seen that there would have been little merit in that. They have come full circle and are now arguing, like us, that the Gibraltar negotiation is very different to the Northern Ireland negotiation. The same sirens have even called for a deal in which Gibraltar's external relations become the responsibility of the President of the European Commission. That is not something we would consider would be safe and secure.

I do appreciate that they have come round to our position, although they do not say so. It is also true that they urge us to do things quicker, but also urge us not to concede anything

fundamental – not that we would or that we might need them to remind us. But of course the only way to go faster is to concede things we are not prepared to concede. We are never going to compromise our British sovereignty, jurisdiction or control, so anyone who thinks we have gone
420 soft on the fundamentals, or who thinks they will be able to argue that in order to somehow lure our supporters away with siren calls to the rocks ... is in for a shock because we will not compromise on the fundamentals and neither are we being asked to do so. But we have been right to be cautious and to be careful in our negotiation. There is too much at stake for Gibraltar, and for those around us, to get things wrong. If we are put under pressure in the process of
425 negotiation, we have to ignore that pressure in order to negotiate successfully, however much the pressure may produce negative effects in the interim.

I acknowledge the difficulties being experienced by blue and other colour ID card holders, but in assessing our actions and reactions to things that may be happening, our opponents, our supporters and the general public need to think about what the alternatives are to the steps we
430 are taking – and any such thinking must be deep thinking. That is to say people should not blithely think that it would be proper to react in this complex and important negotiation as one does in a brawl. This negotiation is no brawl. It is as much a game of chess as it is of poker, where we all have to win and none of us can lose. Not easy, but nothing worth doing in politics ever is easy. And neither will this Budget be easy, or the numbers that I will now report to the House arising
435 from the social background that I have described.

Mr Speaker, the last time I delivered a full Budget address – last year – was July 2021. Over the last few years, in economic terms, the entire world has changed, but as I highlighted last year and every year, my focus has to remain on this small part of the world that we call home. This is our paradise and we must preserve it as much as possible.

440 First, we were hit by the unexpected departure of the United Kingdom from the European Union. The exchange rate ructions and the uncertainty created by that vote, and the subsequent negotiations on our departure, caused huge turbulence to a previously settled economic environment – and to think that Brexit seemed so seismic at the time that we called those politically instigated problems ‘turbulent’ and ‘challenging’. Little did we know what earthquake
445 was to come next, because next it was the impact of COVID. The continuing economic effect of that pandemic is the subject of much of my address. Then came its after-effects, as the world started opening up. We all saw the tensions between supply and demand played out in news reports daily. These tensions translated immediately to increased prices and worldwide pressures on labour forces, as these had been displaced during the lockdowns. This has resulted in further
450 shortages, such as delays on deliveries of motor vehicles, parts – you name it – and daily pressures such as those we can all relate to, such as long queues at security checks at airports etc. Additionally, all of this turbulence has unfortunately been severely compounded by the war in Ukraine, which really has thrown global markets into crisis. The importance of self-sufficiency in energy and other factors has been brought to the fore as we see larger countries in Europe grapple
455 with their conscience in the face of possible sanctions and what is truly deliverable, despite the tough rhetoric, given their dependence on fuel from Russia. This is the main factor moving inflation as high as it is, the effects of which I will analyse later in my address. These are all salutary lessons for us in Gibraltar as we continue to carefully calibrate the arrangements we might be able to negotiate as part of our own agreement arising from Brexit.

460 In this context it is perhaps useful for me to update the recent history of GDP growth to provide a sense of how Gibraltar has performed in the face of all these external factors. I really need to emphasise here that all of these factors – be they COVID, shortages, price inflation, Brexit and now the effects of the war in Ukraine – are external forces which we, as a small nation, are at the mercy of. We are buffeted by these forces but we have no way to arrest them or manage these
465 international issues. We can only ensure the integrity of *HMS Gibraltar* and work to make sure she is a watertight ship that will withstand any storm. It really is quite remarkable how a small place like Gibraltar has found its own way of adapting and dealing with them. As with everything, this is

a continuing journey, not a destination, so it is important to reflect on the journey so far to ensure also the comfort and longevity of the traveller as we continue to navigate the course.

470 Pressures from relocations of public officers to the COVID helpline and related duties have meant stresses in Government departments such as the Statistics Office. The Government Statistic Office has, nonetheless, provided their Budget brief, which forecasts GDP and revises historic forecast in light of actual information. I will walk the House through some of these figures, pausing only to thank the Chief Statistician and her team for the work that they do in delivering these
475 annual metrics for our economy.

Mr Speaker, you may recall that last year I provided a preliminary estimate for the figures for 2019-20. The preliminary estimate I quoted last year, based on the information provided by the Government Statistic Office, was for a GDP of £2.57 billion. I am delighted to confirm that the final estimate for 2019, the final year before the pandemic, which really started at the end of March
480 2019, has not varied materially from that preliminary estimate. There has been a small positive increase in the final estimate of around £2.1 million, which will not move the needle on the rounded figure of £2.57 billion. I explained last year that this represented an increase, now of £112 million, namely 4.6%, as adjusted, over the figure for 2018-19. I explained that this growth was below the average growth rate during my Government's term in office and has arisen from
485 relocations in the gaming sector caused by Brexit. And here, once again, is that first external factor impacting on the economy.

I now turn to the preliminary estimate for 2020-21. Last year, I provided a forecast for that figure of £2.44 billion. The preliminary estimate is slightly below that, at £2.41 billion, a reduction of some £25 million, one that is, again, not material in the context of those figures. As I explained
490 last year, this reduction should not come as a surprise to anyone, given the lockdowns and the other factors affecting this economy. It is consistent with the direction of travel of the growth charted in other mature economies. Once again, factors which were not a direct result of anything we have any control over.

Mr Speaker, I therefore believe the Gibraltar economy has performed remarkably well. The lockdown and restrictions on non-essential travel as a result of the COVID-19 pandemic had a
495 significant negative effect on Gibraltar's economy in 2020-21, which is estimated to have contracted by 5.9% in nominal terms to £2.42 billion and decreased by 7.2% in real terms. To correct the forecast I gave last year and bring this up to date, the preliminary GDP forecast for 2019-20 is £2.41 billion – that is a reduction of £152 million, or that decline of 5.9% over the
500 2019-20 final estimate. Income from employment and gross trading profits of companies are estimated to have dropped by 5.2% and 7.6% respectively over the year, due to the effect of the pandemic. This confirms my statement last year that we have reverted to GDP levels of 2018-19, more or less, pre COVID.

Rolling things forward to the last financial year – that is to say 2021-22 – we opened up the
505 economy in the faltering way that we were best able to achieve and against continuing restrictions elsewhere, not least in our principal markets of the UK and Spain. Our reopening involved a series of different measures, but I am sure that everyone is now delighted to see Main Street beginning to fill up with tourists visiting on land-based tours or cruise ships. This has always been an important part of our economic activity. We have been blessed that we took the right decisions
510 in semi-mothballing these functions and the associated staff by keeping full employment, albeit not fully functional. The result is that we have been able to ramp up our airport, cruise liner terminal and coach park without the disruptions that many other places have experienced. As lockdowns and travel restrictions ended during 2021, the result is that our forecast GDP for 2021-22 is £2.59 million, surpassing the pre-pandemic GDP level.

The good news is that this GDP bounce-back reflects that economic activity is coming back and shows that our economy is strong. It is our public finances that will now need to be nurtured back to health. The GDP bounce-back represents an increase of £173 million or 7.2% in nominal terms over the final estimate for 2020-21. This is a solid performance for a year where the economy opened up as early as possible, perhaps in jumps and starts but as early as we could. Real growth,

520 however, decreased marginally by 0.4% as inflation grew at a faster rate, rising by 7.6% over the year to April 2022.

The gross trading profits of companies grew by 10.5% over the year and income from employment increased more slowly by 3.6% as the number of employee jobs rose by 3% over the year, but real average annual earnings fell by 4.6% compared with 2020. Although there was significant growth in 2021, the total number of employee jobs remained just below pre-pandemic levels, with a small shortfall of 200, or 0.7%, compared with October 2019. The numbers show we went from 30,603 jobs at the peak in 2019 to 30,403 jobs in October 2021, growing from a figure of all employee jobs of 29,516 in October 2020 when we were at peak pandemic. Hopefully, we can also see that the growth in jobs is coming in the private sector, where, in the period from October 2020 to October 2021, the growth in private sector jobs was 851, or 3.7%, up to 23,638, and only a growth of 47 in the public sector.

In the financial services sector, we have seen jobs reduced only by 25 out of 4,027 in the past year, up 29% over a quarter and almost a third from when we took over in 2011. In that respect, the FATF decision is one which will impact this sector, but we do not believe it will impact jobs. We respect the FATF decision and will be working to resolve the matters identified. We do not believe that Gibraltar deserves to be anything other than white listed and we will work with industry and law enforcement, as well as with FATF itself, to ensure our view is shared by them in time for the next review date.

Employment generally has remained stable and Gibraltar continues to benefit from admirably low unemployment levels, even during such difficult times. We also continue to see record low unemployment. In 2021, whilst the pandemic critically affected unemployment throughout the globe, the yearly average for Gibraltarians registered unemployed was 27. The comparable figure for 2011 was 442. That represents a drop of 415 unemployed from the time when we took over; a staggering 94% reduction in unemployment since our election in 2011, something of which we are rightly proud. That is not mismanagement, Mr Speaker, far from it.

In 2022 we have continued to maintain low unemployment levels with first-quarter average for 2022 of registered unemployment at 41. The comparable figure for the first quarter of 2012, when we took over from them, was 522. There is a drop of 481 there, a 92% reduction in unemployment since the first quarter of 2012. The House will be pleased to note that as at May 2022, unemployment stands at 35. The fact is that we all agree that daily life has hardly been normal throughout the year, given other places opened up in differing ways with different requirements and the other challenges we have faced.

If we take the average year-on-year economic growth between 2014 and 2018 – the five years pre pandemic – this averages out to 10.7%, despite the lower than average increase in 2018-19 for the reasons I explained, which were associated with Brexit and the losses within the gaming sector of one company, to our economy.

Taking these figures absolutely, the forecast figure now is £21 million higher than in the final estimate of the 2019-20 GDP figure. That year was only marginally affected by COVID, so what I would surmise is that we are back on track, having lost two years of economic growth. This, in my view, would be consistent with what the man in the street may feel, that somehow about two years of all of our lives have been lost to the pandemic.

Mr Speaker, interestingly, the ratio of personal taxation to GDP has been consistently coming down in Gibraltar. The ratio was 13.5% when we took over, with a GDP of £1.082 billion and £146 million in total collected in Social Insurance at £24.1 million and personal tax at £122.5 million. Today the ratio, after 10 years of Socialist Liberal Government, is 5% lower – over one third lower – at 8.7%, with a total of £225.6 million collected in Social Insurance at £45.6 million and personal tax at £180 million.

The GDP to tax ratio in the United Kingdom in March 2022 is 32.7%. That is 73.4% higher than in Gibraltar. The GDP to tax ratio in Spain at the end of 2021 is 36.6%. That is 76% higher than in Gibraltar. These figures show that the remarkable increases in government revenue in our time in office have not been driven by taxation, as we have relied on external arrivals and our external

market to raise revenues. That is the market in which the pandemic caused havoc: arrivals from outside. It is returning, albeit more slowly than we would all have wished.

575 I will now seek to explain how the GDP impacts on the rest of the Government finances. I will also seek to explain the steps I feel we must take to somehow bridge the gap and bring the state of Government finances back on track, after ensuring this extended period afflicted by external forces. Given all the usual caveats, I will also, this year, not have to do the GDP per capita calculation for Gibraltar, as the figures would be the same as for the year 2019-20.

580 As I mentioned in last year's speech, the Estimates Book format took on a much more complex nature to be able to track COVID-related expenditure separately from other annually recurring expenditure. This year, the Estimates Book has necessarily had to conform to that format, but now I will now try to distil at a high level the contents of those close to 300 pages which set out in great detail how Government finances have matched up to expectation and where I think we are heading over the next 12 months.

585 To add transparency and to provide the most complete accountability to our people, we have taken the previously unprecedented step of publishing the Estimates Book online as I rose to start this debate. It will make this exercise easier for the public to follow as they listen to the deliberations of this House. The link to the Draft Estimates Book – which is this one – which was confidential until I have got up to speak this morning, is on the Government Press Office page, on
590 our Twitter feed and on our Facebook page. I have shared the links on my Facebook page also. I would therefore refer all those watching or listening, who want to follow the economic parts of this debate, to please look at the Estimates Book as we go through the next sections. Additionally, earlier Estimates Books will all soon be made available online, also to enable all citizens to track the economic evolution of our community over the past 50 years.

595 To make my references easier to follow – and at the risk of sounding like Disney's Tinkerbell, but without the assistance of a ringtone – I will refer to relevant page numbers of the Book during the speech, so that those following can find the relevant information. In doing so, I would sound a cautionary warning. If COVID and lockdown had an impact on the economy and created uncertainty, inflation and world events continue to cause pressures and uncertainties that make
600 charting the next 12 months as fraught as it was to predict them some 12 months ago. Never has the word 'estimate' been more apposite than in the title page of this Book.

Mr Speaker, let me turn first to the year that has just closed. The background and context to financial year 2021-22 was that whilst we lifted restrictions fairly quickly, many countries, including the United Kingdom and Spain, continued with restrictions for longer than we expected
605 when we compiled the Estimates Book during the first few months of 2021. These restrictions were not in the form of a complete lockdown, but they nonetheless discouraged international travel generally – although we received visitors from the UK – and impacted on visitors, all of which has an impact for many of Government's revenue sources.

610 At a high level we were projecting a loss for 2021-22 of £50.72 million. As I already have made public on first becoming aware of the figure, the forecast outturn deficit for the year was slightly higher than that, at £55.291 million, by some £4.6 million, and people can see that on page 2 of the Estimates Book. Although the figures in the Book are kept confidential until the start of this debate, it would not have been fair for me not to have shared that figure with the public as soon as we became aware of it in the Ministry of Finance and the Treasury. That is our commitment to
615 being fully accountable to our people.

Let me see if I can break this down into more relevant analysis, for those listening to understand. The good news in all of that is that our true third party revenue came in at £650 million, some £16 million above our projected revenue of £634 million. This shows the Government revenue stream by and large held up, despite the after-effects of the prolonged
620 restrictions, and people can see that on page 5, which is a blue page.

Personal tax and corporate tax came in some £22 million overall in excess of our projections. That is on page 6.

625 Import duties, on the other hand, came in at a disappointing £111 million, when our conservative estimate, also on page 6, was for £150 million. This can be explained given the lack of tourists and the measures we issued to make local shopping more attractive. When we have been used to collecting close to £170 million in duty, a hit of around £60 million, or around 10% of our COVID income, is very noticeable indeed and the reason the COVID Response Fund had to step in to make up the difference, but I will say more about that shortly.

630 Stamp Duty, which you can also see on page 6, Mr Speaker, came in at £14.9 million, almost double the predicted estimate of £8.5 million, signifying the continued strength and resilience of the property market.

Aviation revenue was actually down, and to an extent this was in part compensated for by higher fees earned on our Upper Rock tourist sites.

635 The GHA Group Practice Medical Scheme revenue came in some £10 million ahead of our estimate of £56 million, and that is on page 9. This is directly in line with the result of the increases in Social Insurance which were announced after the publication of the Estimates Book and therefore had not been factored into the Estimates.

The revenue from increasing the electricity tariff was also reflected, as this came in some £2.75 million higher than we expected.

640 Remarkably, the Port produced revenue almost in line with expectation, some £650,000 down only on the Estimate, despite the reduction in cruise line activity, which can be seen on page 10.

645 With minor exceptions, income is therefore broadly in line with our estimate, and that can be seen on pages 6-10, which I have just taken the House through. The positive takeaway from this analysis is that where we introduced measures that were not projected at the time of preparation of the Estimates Book, such as increases in Social Insurance or electricity, they actually gave rise to increases in that particular head of revenue. These were not offset by other losses within that same revenue head, as might have been expected, for example, had a spate of redundancies followed the release from restrictions.

650 Mr Speaker, on the expenditure side I believe we managed reasonably well, also. We projected for Consolidated Fund charges of £103.4 million and the forecast outturn figure came in at £105.7 million. That is on page 13. Most of this difference is made up of £300,000 of additional legal aid paid, circa £800,000 of Social Insurance contributions arising from the increase and an additional repayment of tax of £800,000, and that can be seen from page 16 of the detailed Estimates Book for the recurrent fund charges.

655 Similarly, we projected £551 million of departmental expenditure and the forecast outturn came in at £569 million, which is a difference of £18 million or some 3%, and that is visible in the summary on page 14 of the Book, which is a summary of all the heads of expenditure. The main cause of this is not unexpected, with a £20 million overspend between the GHA, the ERS and the Care Agency, all areas of expenditure which have had a significant and unpredictable overspend as they grapple to return to business as usual and emerge from COVID.

660 The Department of Education came in over budget at £61.4 million when compared with £58.8 million estimated. The main reason for this overspend has been the large issue with temporary cover which has been addressed recently by the formalisation of posts that needed to be filled, which results in the increase in posts from 869 to 1,123, or a whopping 30% increase in posts. This is not increased expenditure, though, as we are simply regularising posts that were previously funded through the 'Temporary Assistance' heads of charge. It is on pages 13-61 that people can see the detail of that spending in respect of education. That is not increased expenditure, as I said, though.

670 The GEA is another authority that has come in at higher than expected costs – £67.9 million, as compared with an estimate of £55 million. That can be seen on page 14. The reason for this overspend is the inability to do away with the temporary generators within the timeline we had hoped for as commissioning continues on the new plant, coupled with the inflationary impact on fuel costs. The good news on the former, though, is that we are working to take these offline and save costs. On the latter, however, the recent increase in fuel prices will no doubt impact on the

675 year ahead well beyond what was possible to project earlier this year when the Estimates Book was prepared. In that respect, because the GEA is an Authority, hon. Members will need to go to page 248 to see the detail of the payments I have just referred to. I will say more about the GEA later, Mr Speaker. For now I will say that we expect an overspend in this head by the end of the year, given the unprecedented and unexpected increases in the cost of fuel.

680 Again, by and large, all other Departments fell within the boundaries of their estimates, with the usual swings and roundabouts between Departments as one Department's overspend was compensated for by another Department's savings. That is best seen in those summary pages, the summary of Consolidated Fund expenditure, which are pages 13 and 14 of the Book.

685 Finally, turning to other expenditure within the COVID Fund, this is perhaps the area of expenditure that was most prone to errors in projecting, given the huge uncertainties at the time of preparation of the Estimates last year. It was not just a question of determining how long COVID would persist but also the implications of elements such as how other countries were to react, what tests were required and what attitude would be taken for employees of key facilities, such as the Hospital, that had daily testing of all staff with all the associated impact on cost. What we
690 saw here was expenditure far in excess of the amounts we projected.

Our estimate last year was for a COVID Response Fund expenditure of £67.5 million, whereas the forecast outturn turned out slightly in excess of double this amount at £135.1 million. The detail is on page 292, which is near the back of the Book where we have Appendix S, 'The COVID Response Fund'. It is worth doing an analysis of this because the main reasons for that overspend
695 can be broken down – and those who are trying to follow the Book need to be on page 292 whilst I do this analysis.

There was a large underestimation of how actual revenue would hold up when compared with the average revenue collected by Government for each of the seven key heads of revenue, compared with the equivalent revenue for the same heads for the two years pre pandemic. By
700 and large, our estimates were broadly in line with expectation save for, first, the head of Rates, which is easily explained, as we provided an exemption of rates for a quarter beyond what we had originally projected; and, most importantly, import duties, which, for the reasons explained – when there were no tourists coming to Gibraltar the visitor numbers were low, and import duties are driven by the arrivals in Gibraltar, who buy things in Gibraltar – came in at £45.7 million below
705 the adjustment we expected we would need to make. In addition, our COVID costs for the GHA and other public undertakings came in at £22.8 million, which was £15.8 million, or three times more than what was originally projected.

Mr Speaker, as you know, the COVID Response Fund is entirely funded by Government borrowing – deficit plugged by borrowing. The effect of this additional £68 million of expenditure
710 was that the Government needed to borrow further. Whilst we have expected borrowing to increase for this year by £50 million, it has actually been required to increase by £100 million, and that can be seen on page 11 of the Estimates Book, which sets out how the borrowing comes in at the bottom, the public debt.

I trust this explains the position and also serves to interconnect the different items and threads
715 in the Estimates Book for all Members and for everyone in the community who may be listening to or watching this debate.

Over the last few months there has been an attempt to suggest a division between comments made by the Father of the House in an interview on GBC, where he projected a loss of in excess of £90 million, and some of the statements I have made. The Hon. the Father of the House was
720 guiding his projections for the overall loss based on the level of borrowing, without classifying the distinction between business-as-usual losses of £55.3 million and the additional over-expenditure incurred within the COVID Response Fund. I trust the explanation I have provided seeks to reconcile any perceived differences, as in fact there were, and are, none. Indeed, I would strongly recommend a thorough read and analysis of the Estimates Book, which provides all relevant
725 information in this respect.

Mr Speaker, I will now seek to set out where I think public finances are heading over the next 12 months. As I have said previously, there continue to be very strong external headwinds that make projecting this extremely difficult, but we must, of course, try to produce as accurate an estimate as is possible with the information available. In many ways, these headwinds are different to the effects of COVID, which created uncertainty in economic activity through lockdown and lack of tourists and visitors. The headwinds caused by the impact from the war in Ukraine, the global turmoil and realignment and the impact on availability and prices have resulted in all governments reversing years of low interest to introduce repeated increases in interest rates that many of the young in our community will find unprecedented. They impact on costs and we simply cannot avoid such as the cost of fuel to power our community or to desalinate our water supply or to fill the truck that delivers produce to our supermarkets.

Where all this will eventually settle and what it means is difficult to project. All I can say is that day by day the prognosis is for increasing costs. Our projection of these possible increases back in March 2022 seems modest now, as we have seen the rapid rate of change and increases in inflation. They impact on all of us in similar ways, devaluing the pound in our pocket and making us feel grateful that there is availability of the product we may seek to acquire. This highlights some of the challenges in delivering a programme of work when it is not just price one is grappling with, but availability and impacted timelines.

Once again, Mr Speaker, I remind the House of my earlier comments that these issues are not of our making. The only difference on the effect of this is that most of us do not have to seek to project where we are heading in a way that is so challenging that it was most likely wrong from the moment the ink dried on this Estimates Book. These external forces are affecting all countries in different ways; we are no different. Nonetheless, this is what we think will happen over the next 12 months in terms of public finances.

Mr Speaker, if those who want to follow the debate in the Book go back to page 1, we are estimating revenue for the year 2022-23 of around £637 million. That is some £12 million below the forecast outturn for the year 2021-22. The reason for this is as follows, and if people now go to page 6 they can see the breakdown. We have kept corporate and personal tax more or less in line with the estimate for the year that has closed and we have not increased these figures in line with the forecast outturn, as we expect corporate tax returns coming in this year might be somewhat impacted by the effects of the lockdown. Remember, those corporate tax returns are sometimes 18 months in arrears. It must be noted that corporate tax returns and assessments trail about a year and a half behind general activity.

We have significantly reduced our estimate for Import Duty, from the £150 million we estimated last year to £120 million. We are hopeful, now that visitors and tourists are on the up, that the forecast outturn for this year will be higher than this, but we think we should remain prudent and conservative in our predictions. I would comment that, from the information I presently have, that has been wise because, so far, we are on target for the lower estimate of revenue ... than we would have been for the higher.

In terms of expenditure, we are projecting Consolidated Fund charges at £99.4 million and departmental expenditure at £552.8 million – and that also is on page 1. The reasons for this are as follows. The Consolidated Fund charges factor in increases in our cost of borrowing, assuming an average base rate during this financial year of 1.5%. It is possible that the average may well exceed this given recent announcements by the Bank of England that a more forceful approach may be taken to future rises to curb inflation. This recent change only serves to reinforce my comment on the possible accuracy of the assumptions we have made. The effect of increased borrowing costs is somewhat mitigated by channelling some of the excess cost through the Sinking Fund. Nonetheless, given the overall impact on liquidity, it is important to highlight this.

On departmental expenditure, this figure of £552.8 million is, of course, ambitious. It is £16.5 million down on the forecast outturn for the year just closed, and this occurred during a period where inflationary increases were quite confined. That said, if we are going to seek to

rebalance our books as soon as possible and return to the fiscal discipline of meeting expenditure from revenue, we must be controlled, and ambitious in that control.

780 A quick review of the information on the Estimates Summary page – going back to page 1 – shows that we are expecting COVID Response Fund expenditure to tail off this year, hopefully finally. The budget for the fund is £40.12 million. The vast majority of expenditure relates to making contributions to foregone revenue; once again, the majority of this being to cover shortage in import duties.

785 We have not budgeted for any departmental COVID-related expenditure, with the exception of the £120,000 for Elderly Residential Services. The reality on this approach is already proving a challenge, as there are invoices that are being received during the early months of this year that will inevitably relate to the COVID Response Fund for goods and services relating to last year. Nonetheless, this prudent and controlled approach seeks to bring to an end expenditure under the COVID Response Fund, with controlling officers knowing they cannot incur any further
790 spending under the excuse that it is for COVID.

Given the GHA was the Authority with the highest COVID-related expenditure, we have explained that were a resurgence to occur, we expect the cost of the necessary preparations and tests to be between £8 million and £10 million. That is actually provided for specifically on page 227. If such expenditure were necessary – should there be, for example, a resurgence of
795 COVID-related cases – it will be available as money that can be tapped into, but it should not be incurred otherwise. In this way, any such expenditure is instantly highlighted and we can seek to understand why it has been incurred. It will not disappear with the run and flow of all of the rest of the recurrent expenditure.

The effect of all of the above results in a projected deficit for the current year of £45.3 million and an overall additional net borrowing of £50 million. If we come in or around these figures, it
800 will mean we are back on track and have reset spending within acceptable levels without resorting to cuts in services or austerity.

Additionally, we will finalise, this year, our strategy for the repayment of the COVID debt, which will be long-term, war bond style debt. Our current discussions with HM Treasury sees us repaying
805 the bulk of the outstanding over 25 to 26 years, with the benefit of the sovereign guarantee from the United Kingdom extending over that period for that ring-fenced, crystallised debt. We will be able to set that into legal-agreement stone only once the full extent of our COVID drawdown is, itself, crystallised.

Mr Speaker, I turn now to the relevant areas of ministerial responsibility on which I lead. I am
810 going to start with the Central Arrears Unit (CAU). It is clear that the local economy is still adversely affected by the cumulative impact of the pandemic. The CAU has, therefore, been asked to continue to take a more conservative and prudent approach towards debtors, as many are still just surviving in the current economic climate. Although businesses are now up and running and the tourist industry is now starting to recover, our economy is still recuperating from the
815 aftermath of the pandemic. But whilst we do not want to push anyone over the edge at this time, it is also true that it would be unfair to take steps to increase revenue from everyone who pays and allow those who do not want to pay to continue not paying. Leniency in chasing government debt is therefore being shown only in respect of those who genuinely cannot pay.

The CAU, in fact, focuses mainly on the arrears recovery for the Commissioner of Income Tax,
820 who is the principal Receiver of Revenue. They focus on compliance with arrears agreements and the recovery of arrears on a daily basis using different methodologies, and also actively ensure that current payments are received in a timely manner. This is hugely important in delivering social justice also, as it is totally socially unjust for most to pay their dues and for some not to bother paying.

825 Although the CAU managed to control and reduce the debts for individual tax, PAYE and Social Insurance, unfortunately the corporate tax debt increased by £2.67 million from last year as a result of the economic difficulties being experienced by some businesses. Without the CAU, that increase in debt would undoubtedly have been even greater. £1.8 million of this increase can be

830 attributed to tax penalties that need to be recovered or written off, as the case may be. These
arise from a number of non-chargeable and, on occasions, single-purpose companies that are not
trading but remain 'active' at Companies House and are therefore required to file annual returns.
Mr Speaker, as you know, the Registrar has the discretion to strike off the register the name of
any company in respect of which no annual return has been filed for the previous three years.
Should he do so, the prospect of recovering these accrued penalties becomes remote and they
835 then need to be written off.

Mr Speaker, as you can imagine, the increase in corporate tax debts is largely to be expected
given the very difficult trading conditions arising from the lockdown and the wider COVID
restrictions. The CAU continues to retain payments due to companies and businesses from
HM Government and retained a total of £2.5 million during this year for both current payments
840 and arrears recovery. This is an incredibly effective tool, whereby tax and other debts due to
Government are settled by offsetting payments due by the Government for goods and services
provided by the companies or businesses.

The raising of objections for new business licences and/or extension of licences with regard to
directors or companies continues to be a very effective tool that has seen the recovery of almost
845 half a million pounds – £456,000 – during this last financial year. The CAU has also successfully
recovered over £108,000 with regard to arrears for PAYE, electricity and gambling licence fees as
a direct result of dividends received from liquidations. They have also raised objections to
Companies House with regard to re-domiciled companies and liquidations reducing corporate tax
by nearly £379,000.

850 In addition, the CAU undertakes full arrears checks for the Environment Department before
the granting even of beach tent licences, as individuals are required to settle all outstanding debts
before the use of the seasonal beach tent is approved. It is important to use every lever at the
disposal of the Government to recover debts due to Government and I am sure that the whole
House will agree with this strategy, as we cannot allow some to simply ignore their liabilities whilst
855 the majority dutifully pay. Remember, this is about those who will not pay, not those who cannot
pay. In fact, we have seen a measure of agreement in the House in this respect in the past.
Additionally, we do protect those who genuinely cannot pay, as opposed to those who simply will
not or do not want to pay. Furthermore, the CAU carry out full arrears checks for LPS on the
assigning of units, and effectively recovered over £120,000 in respect of taxes and Social Insurance
860 prior to the assignment of just one unit by using this strategy.

However, the CAU's most important role during these two challenging years has been to
maintain and control the overall arrears of revenue in the midst of a pandemic, where companies
and individuals have been struggling to survive from one day to another. As hon. Members will
understand, as years go by it becomes more challenging to recover historical debts, especially
865 since the main bulk of arrears had already been addressed by the CAU during their first four
operational years under our time in office.

The CAU works closely with all Government departments, agencies and authorities to actively
pursue and guide them with their debt recovery and assist them with the preparation of write-
offs for historical bad debts. During the last year, the CAU undertook thorough exercises to
870 identify those bad debts where there was no prospect of recovery, as individuals and sole directors
had passed away, left Gibraltar and were deemed uncontactable, or companies had been struck
off the register or liquidated. This exercise was presented to the Financial Secretary, who
approved write-offs amounting to over £4.85 million, of which £2.8 million pertained to taxes and
Social Insurance and £0.7 million pertained to general rates and sundry rents. The balance of
875 £1.35 million related to house rents, airport landing and departure taxes, hostel fees, import
duties, services performed by public officers, port arrival and departure taxes and port operators
and harbour craft licences. The benefit of this exercise results in not just reducing the debt but
also thoroughly cleansing both the Tax Office and LPS databases.

Even though the pandemic has, unfortunately, cast long shadows on our economy, it is evident
880 that the CAU has been creative in their approach and has effectively and successfully managed to

reduce the overall arrears of revenue by over £2.3 million in a pandemic period. Finally, let there be no doubt in anyone's mind that the CAU will continue to work diligently to restore fairness to our system of chasing debt and defaulters.

885 Mr Speaker, I now want to deal with the Civil Status and Registration Office and Customs. In order to do so, but not delay the consideration by the House of the economic issues which concern us today, I will lay on the table an extract containing the relevant part of my address today which deals with the hugely important work of both these departments. In that way, the House will now have before it all relevant information about the running and progress of those departments, as well as the important statistical information which may be helpful to Members. I am going to
890 distribute that to all hon. Members now, so that they all have it. I will then be able to continue with the parts of my speech which relate directly to the budgetary matters that the House is concerned with primarily today and at paragraph 609 of my prepared text.

Mr Speaker, it is only fitting that I now turn to taxation, given that the collection of corporate and personal income tax consistently accounts for approximately between 40% and 50% of
895 recurring Government revenue. As is now customary, I comment on this very vital part of our economy, highlighting developments and important areas in this field that are relevant to our community.

The total amount of tax collected in the 2021-22 financial year is £324.6 million, representing £202.5 million in personal taxes and £122.1 million in corporate taxes. Those who are following
900 the Book can see those numbers on page 6. That is £22.5 million more in personal income tax and £2.1 million more in corporate tax than in the previous financial year 2020-21. Despite this immediate net increase in revenue, the general expectation is that trends will start to decline as the eventual effect of the COVID pandemic is realised in the years to come.

It is now more important than ever that we continue to exercise prudent financial
905 management, ensuring that we successfully drive through these challenging times. That is the focus of this Government. We are fully committed to ensuring a speedy return to the prosperity Gibraltar has always enjoyed, to the life every Gibraltarian deserves and to continuing to make Gibraltar the wonderful place it is. This is the path that we have embarked upon. It is by no means an easy path, but I am confident that this Government has the necessary expertise and maturity
910 to navigate these challenges which, together with the public service, achieve the desired and deserving outcome for all. Our prudent financial management is evident in the way that we have forecast future tax receipts. Our financial estimate for the 2022-23 financial year is projecting a receipt of £307.6 million, ensuring that any potential impact from external factors such as Brexit or the lasting effect of the COVID-19 pandemic is suitably hedged against.

915 Mr Speaker, I have in past Budget sessions highlighted the enormous investment made by my Government in addressing the historic backlog of tax refunds owed to the public. In the extended financial year 2019-21 an unprecedented investment amounting to £26 million was allocated to tax refunds, ensuring that as many taxpayers as possible were repaid moneys due to them. Notwithstanding the careful and responsible approach that we have adopted regarding public
920 spending, we have continued to allocate significant funds towards tax refunds, with an amount of £18.8 million allocated in the financial year 2021-22. Despite the difficulties we are experiencing, it is right to give money back to taxpayers that is due to taxpayers as soon as possible. It is also a measure that puts money back in people's pockets at a difficult time. That is not just the right thing to do, it is in line with the recommendations of the OECD on helpful measures to the public,
925 helping them to cope with the pandemic.

I am advised by the Commissioner of Income Tax that whilst the COVID-19 pandemic impacted anticipated progress in their refunds programme, the Income Tax Office is now continuing to update its refund position successfully. Presently, over half of the assessment refunds for
930 2019-20 and over one third of those for 2020-21 have now been completed. Completion in relation to these years will continue, and refunds will continue to be released in line with the funding of £10 million made available this financial year.

I know that some criticism may have been levied against the Income Tax Office by some who have experienced delays in receiving refunds. I am also aware that some have had to wait longer than we would have liked in order to receive refunds. Unfortunately, cash counters had to be closed due to the COVID-19 pandemic and, as a result, the payment of tax refunds is now carried out via direct bank transfer. I believe that most people are content to receive their tax refunds in this manner; it is more streamlined, there is no requirement to physically queue up at a counter and no delay due to clearing of cheques. It also allows for a shorter processing time and for HM Treasury to effect payment sooner. It is important to understand the extraordinary number of applications received by the Income Tax Office, however. Most people in Gibraltar had not supplied these details and therefore this continues to be a tremendous task, but one we are committed to, in order to ensure that taxpayers receive their refunds directly and quickly. This investment in information and data will pay dividends in the future and will help to smooth out the efficiency of future refund payments by the Income Tax Office. The team at the Income Tax Office is working hard to give each citizen what they are owed; they do not want to keep it.

The Government continues also with its commitment to Tax Transparency and Prevention of Base Erosion and Profit Shifting (BEPS). As a Member of the OECD's Inclusive Framework, Gibraltar has engaged in these initiatives, including the implementation of Pillars 1 and 2 relating to the taxation of the digital economy, the allocation of taxing rights and the harmonisation of a minimum global tax rate – probably the most drastic change to modern taxation in recent times. The Commissioner of Income Tax, in his capacity as Competent Authority for Gibraltar, has continued to ensure that Gibraltar meets all international obligations under its various international exchange mechanisms in respect of both the automatic exchange of information and that exchanged on request, including both the International Tax Agreement with Spain and the Double Taxation Agreement with the UK. Gibraltar also continues to undergo numerous assessments as part of its membership with the Inclusive Framework on BEPS across various of its actions.

Returning to a national focus, the Income Tax Office continues with its digital transformation in conjunction with HM Government's Digital Services team. Last year saw the rollout of a preliminary tax e-service. I was sorry to see that the adoption of this service was not as expected, with most taxpayers continuing to opt to file their returns either by email or even in paper form. We have listened to criticisms and complaints about the system. We have listened to what citizens want and need and we have worked hard to deliver what they deserve – a system for which you can easily register, one which is not cumbersome and is set out in a familiar format, one which is not time-consuming and which is dynamically responsive to requirements. As a result, both components of the tax return that need to be completed online are now much simpler.

Finally, I would like to express my sincerest thanks to all the team at the Income Tax Office for all their hard work, dedication and commitment. In doing so, I turn now to the measures that the Government will implement in order to redress the imbalance in our public finances and secure our nation's future.

Mr Speaker, last year I announced an incentive intended to promote investment in marketing by awarding businesses that invest in marketing an additional deduction amounting to 50% of their marketing costs. When we discussed this incentive internally, before the announcement, it was always intended to refer to marketing of Gibraltar as a destination and jurisdiction to visit or in which to set up business, and not a deduction for all marketing expenses generally. The idea of the incentive was that as we emerged from the pandemic we wanted to encourage travellers to visit Gibraltar and businesses to consider relocating here, particularly now the case has been made and proved for remote working. This was a way of adding to the Government's own efforts and promotion of Gibraltar by allowing and incentivising businesses to join us in these efforts. We recognise that businesses sometimes have a different and, at times, perhaps more effective way of delivering these objectives. That was the intention; however, it was not how it came across from the speech, or the legislation that followed.

985 This incentive was intended for a period of two years. Following this announcement, we have realised that this incentive is uncapped and capable of being overused by certain sectors of the economy, as presently drafted. With this in mind, I am terminating this incentive with immediate effect. To date, very little use has been made of this incentive, in large part because those businesses that might have used it heavily to market to their customers are considerably delayed on their filings, something which, in itself, needs to be corrected and I will deal with this shortly. It should also be noted that some businesses within these sectors have brought the possibility of excessive charges to our attention and told us they will not be making use of this enhanced deduction. In order to treat everyone fairly, the incentive will, therefore, apply for its first and only year as set out in the legislation, but only in the way it was originally intended – that is to say the marketing must be of Gibraltar as a destination and jurisdiction, with the aim of attracting conventions, events, visitors and tourists or new businesses to set up here. Generic marketing to customers of one’s own product is not what we had in mind and will not be allowed. The Income Tax Office will set out guidance to define ‘marketing’ in the context of the legislation. An amendment to the legislation will shortly be passed to address these issues.

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1000 Mr Speaker, there has been much discussion and debate in other parliaments of the introduction of a windfall tax. I must admit I find the principle of retrospective taxation challenging. However, I also recognise that these are difficult times which call for difficult measures. Many key and long-held principles have been set aside as countries chase ways of balancing their books. Indeed, as every day passes it seems some announcement is made whereby the entire rule book is being rewritten on public finances beyond our shores.

1005 It will come as no surprise that we are looking at our corporate tax take and how this is being split between the various pillars and sectors of this economy. What we have found is that certain sectors pay their way in a balanced manner, whereas others are not meeting their end of the bargain. They are using all the creative tricks that are available to them and, in some cases, pushing the extent of limits that were not expected to be pushed and which they should know better than to push. I will not point these sectors out, as it would be unfair, but rather I will tell them how I suggest we address this without resorting to a windfall tax, which punishes everyone across the board. We are going to open an amnesty period between now and 31st December 2022. All companies that have filed accounts during the COVID period – that is to say the last two financial years – and should have filed accounts up to December 2022 will be invited to voluntarily review their returns. If they consider they have under-declared or pushed deductions in a way that might be considered over-creative, they will be allowed to resubmit these returns and pay the corresponding taxation without penalty, interest or further question. At the same time, we are conducting a review of those companies that we consider are being over-creative and under-declaring. Listeners should note that in doing this we have reached out to our contacts at HM Treasury to secure a secondment who will assist us with this process. After the end of the amnesty window, on 1st January 2023 – still within this financial year – the Commissioner of Income Tax will then issue estimated assessments on those companies where we believe there has been an under-declaration for the years in question. The tax in this case will be a multiple, to be determined, of the taxation they would otherwise have paid. There will also be penalties and interest charges.

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1025 In Gibraltar we have generally taken a friendly and open view to operators in respect of their corporate tax, always seeking to incentivise and prioritise business and make the jurisdiction attractive and fair. In this regard, our officials are approachable and tend to take a balanced view when applying our tax legislation. I do not intend that to change, but ask operators to reciprocate and treat the jurisdiction correctly and fairly, too. The last two years have been exceedingly tough. We believe that as a Government we have enabled business to continue to thrive despite the unprecedented challenges. It is therefore a little too much when there is a feeling that that generosity of spirit is being somewhat taken for granted and abused. The world is changing. Going forward, international businesses that set up here and do not pay tax here will be paying the correct amount of tax elsewhere anyway, so these operators are depriving this jurisdiction of tax

1035 for no net benefit. We must, therefore, instil in them correct tax behaviour at this early stage.
Their under-declaring here needs to stop and we intend to tackle it in the next 12 months, going
back through earlier financial years. We will need to enact legislation to deal with this, and this
will follow after this session.

1040 Mr Speaker, over 30 years ago the Government entered into a series of agreements to privatise
the production of water, the maintenance and operation of our water network and waste-water
network. As part of a joint-venture arrangement with the Lyonnaise Group, a number of contracts
were entered into between the joint-venture entity, Lyonnaise des Eaux (Gibraltar) Ltd, and the
Government of Gibraltar whereby HMGoG contributed our network and desalination plant. This
1045 model was similar to the model adopted in the creation of GibNynex in the telecommunications
space. Lyonnaise Group, as shareholder of joint-venture entity Lyonnaise des Eaux (Gibraltar) Ltd,
brought in their expertise. In this way, the joint venture we now know as Aquagib Ltd was
established. The operation and maintenance contracts were originally for a period of 30 years,
with the possibility of extending it further for 10 years. Those contracts expired on 30th June 2021,
and given the other pressures facing Government at the time it was agreed to extend it for a short
1050 period such that discussions could take place between the Government and NWG Commercial
Solutions Ltd, known as Northumbrian Water, the successor to the Lyonnaise Group. The nature
of the agreement was that if the contract were not renewed, the respective assets held in Aquagib
would be returned to Government.

1055 Clearly it is not practical to unwind Aquagib, given the implications of that approach. The
Government has, therefore, agreed to take Aquagib back into public ownership. Thirty years ago
it was right to find a partner to push our water production forward and benefit from external
expertise; today, it is right that we should renationalise our water supply and buy in expertise
when and where we need it. But the benefit of our water production company can now return to
the taxpayer entirely. We will, therefore, purchase the shares in Aquagib for the proportionate
1060 net asset value of these, based around the latest financial statement and calculations, subject to
any adjustments that may be required. By transferring the shares, as opposed to allowing the
contracts to reach their natural conclusion, it is possible to avoid numerous problems, such as
having to set up a new entity with all the implications for novation of agreements, customers,
creditors, banks and, most importantly, the employees of the company. The approach of acquiring
1065 the shares in the way proposed means nothing changes. The accounts are being audited and
completed and it is, therefore, not possible to provide the exact cost of the acquisition at this
stage. These will be subject to negotiation, of course, before finalising the purchase price.
Although discussions and documentation are advanced, the agreement has, as yet, to be finalised
between the parties. I am pleased to say that the Government would expect to finalise this
1070 transaction within the next six months, such that ownership will return fully to the Gibraltar
Government and our control in the course of this financial year.

1075 Mr Speaker, as all hon. Members will know, the GSD, when in government, entered into a
structured finance agreement to purchase and fund the set-up costs of St Bernard's Hospital. We,
on this side of the House, have been vocal critics of that agreement. Indeed, the former leader of
the GSD, Mr Feetham, has been consistently critical of this arrangement entered into by the
Government of the former, former leader of the GSD and the current leader of the GSD,
Mr Azopardi. To put it in perspective, an arrangement entered into by the GSD in 2003 for a total
value of £54 million will, by the end of this year, have cost the taxpayer a total sum of £91.3 million,
leaving an additional amount of around £17.8 million – that is to say going well into over
1080 £100 million of costs for £54 million. The total amount is £109.1 million, assuming we paid it off
now. It would be even more if we continued the GSD arrangements.

1085 That agreement offered a break clause given interest-free swaps maturities, so long as certain
filings are completed by 11th July 2022. These filings would allow the Government to act as agent
in the sale of the hospital building. The arrangement provides for a reduction of around £825,000
by way of rebate if this approach is taken. I can confirm that the Government is in discussions with
Royal Bank of Scotland International to take advantage of this ability to terminate that sale and

1090 leaseback agreement and, instead of brokering a sale with a third party, confirm we, the Government, will be purchasing the hospital ourselves. This will substitute the present sale and leaseback arrangement with a short-term financing that vests title of the hospital away from NatWest Bank, back to the Government or the GHA. Remember that, at the moment, the structure is that NatWest owns the hospital, Mr Speaker.

1095 Whilst terms have not yet been finalised, to put this in perspective, we are currently paying a rent to the bank of almost £5 million per annum as a result of the arrangements entered into by Members opposite. That is best seen on page 226 of the Estimates Book, which sets out the detail. The new arrangement we propose would allow us to repay fully the hospital loan over 10 years for an annual payment, instead, of £1.9 million. That would represent a saving of an additional £3.1 million per year – £3.1 million per year less than the arrangements they entered into – that can be spent on healthcare by taking advantage of this opportunity. There are, of course, numerous alternatives for that final repayment which we are considering. If we decide to repay this facility more promptly, an alternative would be to increase repayments to say £3 million per annum in rent – again, less than the £5 million that they lumbered us with – which again frees up £2 million for further healthcare and will allow us to repay the loan in under seven years. These interest figures have been projected, of course, with the current rates of interest in mind. Whilst we expect interest rates to rise, we do, nonetheless, feel we can structure a deal which will be more beneficial to the taxpayer and those patients who use the GHA than the current deal done by the GSD, which we have been locked into and which Mr Feetham and we have been rightly critical of for so long.

1100 Mr Speaker, in order to ensure that we do social justice, one of the things that this Budget must also do is insulate the most vulnerable from the effects of rampant inflation and the increased cost of living. So who are the most vulnerable and how will they be protected by this Budget? First of all, we must agree that vulnerability, for the purposes of this discussion, is economic vulnerability. Secondly, the key factors in economic vulnerability are earnings and dependence on state benefits and payments. In this respect, we will be ensuring that those on the Minimum Wage, those on disability benefit and the recipients of the state or old age pension will all enjoy the benefit of increases in line with inflation to the payments that they will receive. I will take each of those in turn to announce the relevant increases that this Budget will provide for as follows.

1105 The Minimum Wage will increase, in line with our estimate of inflation, at the rate of 8%. The Minimum Wage will therefore increase by 60 pence, to £8.10 per hour. The Government considers that this is the best way to ensure that the minimum sum of money that people earn in our economy keeps pace directly with the cost of living in our economy. Based on a 37.5-hour week, the Minimum Wage will go up from £14,681.25 to £15,855.75, an increase of £1,174.50. Based on a 39-hour week, the Minimum Wage will go up from £15,268.50 to £16,489.98, an increase of £1,221.48. Those worst off in work will, therefore, enjoy the benefit of salary increases in the region of £1,200.

1120 It will not just be the Minimum Wage that will go up by inflation. The state pension and disability benefit will also go up by inflation, which, as I said, we expect to be in the region of 8%. It is right that the old age pension and disability benefit should go up by the rate of inflation, in order to ensure that those who depend on those amounts are not affected adversely by the increase in the cost of living.

1130 There will also be an increase for occupational pensions from the Government, which will increase by 2% in line with the provisions of section 6(2) and (2A) of the Pensions (Increase) Act. Those pensions have been increasing by 2% each year for the last 20 years, even in the years when inflation has been lower than 2%. They will also rise by that rate this year.

1135 Our public sector salaries have grown in Gibraltar, even when in successive years they have not grown in the United Kingdom. Where, once, parity was an aspiration for our community, in the past 12 years we have exceeded parity in many areas. In most areas, public sector salaries in Gibraltar are now in the region of 40% above parity with equivalent grades in the UK. That is not true of all areas, however. We will not tolerate, even in these difficult moments, that any public

1140 servant should fall below parity with a UK equivalent officer, because we remain committed to
parity with the UK public sector. We are, therefore, prepared to borrow more, if necessary, to
fund public sector pay rises for any grades that might fall below UK parity analogues. In addition,
and in any event, we will resume the annual pay rises for the public sector as our revenue recovers
or the overall cost of the public sector payroll comes down as a result of efficiency measures taking
effect. Our public sector deserves nothing less and we restate our commitment to it and to the
1145 complement of the Civil Service at the time of our election in December 2011.

In terms of the services provided by the public service, as from 1st July all fees charged by any
Government Department and payable to Government, including licence fees and forms, will
increase in line with inflation, rounded off to the nearest half point and to the nearest 50 pence.

1150 Mr Speaker, over the years we have noticed a number of issues with the operation of the
Category 2 regime and we will seek to correct these as we now progress the development of that
hugely successful regime. A point that is concerning us is that the scheme works well when
individuals join and stay in Gibraltar. One of the things that we have noticed, however, is that as
individuals decide to leave they sometimes fail to adequately settle their final tax position prior to
departure. This means that their final period in Gibraltar can, in some instances, go untaxed. This
1155 arises when the authorities seek to raise the amount but the individual is no longer in Gibraltar,
and it is very difficult to locate them, let alone get them to settle the amount of taxation due or
enforce an order in that respect. I said a little about that when I was talking about the Central
Arrears Unit not being able to reach some people who had not paid their taxes and who had left
Gibraltar. In order to resolve this concern, we are going to require existing Category 2 individuals,
1160 as from this year, to pay the year's tax in advance. This will be effective for the tax year
commencing on 1st July 2022 and the amount will be based on the maximum amount of tax
payable under this regime. This should be settled by 30th November this year, which is the date
by when they are obliged to file their return together with their annual balancing payment of
taxation for the year just passed, as is normal. This payment in advance will be returned to them
1165 if or when they finally decide to leave, and any overpayments will be credited or rebated as
appropriate. In this way, the final amount due on the year of departure can be settled correctly
and we do not end up having to chase individuals outside Gibraltar, with varying degrees of
success. This rule will also apply to new applicants, who will be asked to pay a year up front on
confirmation of the status.

1170 We believe that all individuals were cared for very well during the COVID pandemic in Gibraltar
and it is, therefore, necessary for us to look to all our taxpayers, amongst others, for ways to
recover the amounts spent. Category 2 individuals are perhaps the wealthiest in our community.
In this regard, we propose to increase the bandings such that the maximum assessable income
increases to £118,000, up from £105,000. This results in an additional amount of tax of £5,000
1175 being payable at the maximum income level. The minimum amount of taxation will also increase
by £5,000, from £32,000 to £37,000. This, we believe, is a small increase to balance the benefit of
the safety and relative freedom of living in Gibraltar which has been granted them during the most
difficult times of this pandemic, as it has to all of us.

1180 We have also noticed another trend recently, whereby certain individuals have given up their
Category 2 status and others are coming to Gibraltar without any such status and nonetheless
residing here. This follows advice from certain quarters to assist such individuals to remain
resident of Gibraltar, with all the benefits that that accrues, but pay not tax or make any other
direct contribution to the Government's coffers. The reason for this is that we do not tax many
forms of income, and therefore some individuals have chosen to make Gibraltar their home
1185 without necessarily paying their way. I am sure that all Members of the House will agree that this
is neither fair nor equitable. To deal with this, we propose to introduce a tax whereby any non-
Gibraltar national who claims residency in Gibraltar or is resident in Gibraltar, is not in possession
of a CAT2 or HEPSS certificate and is not in true third party employment – that is to say somebody
who is here but is not making any contribution – will be taxed on their full savings income,
1190 including pension income, interest income, dividend income and income from other passive

sources. This approach is clearly intended as a penalty. We will use the register of occupation as a means to assist us to identify these individuals and grant the Commissioner of Income Tax powers to address this issue. There will also be a simple way to address this, and that is for such individuals to rationalise their status by enabling them to apply for their CAT2 status retrospectively, so long as they meet the eligibility criteria and pay any outstanding amount of tax. That means that they will be able to attain the protection afforded to them and those sources of taxation by CAT2 status. In order to address the unfairness of them not having paid over what may possibly be a number of years, they will need to pay the taxation at the maximum rate with no adjustment for lower rates of income for the years when they have not done so.

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Mr Speaker, similar to the position of CAT2 individuals, when seeking to square our public finances we have looked at other relative unfairness in our tax system. One that has existed but has remained unaddressed is the way the personal tax rate, introduced by Members opposite when they were in Government, dips for income in excess of £500,000 – half a million pounds – under the gross income based system (GIBS). At present, under the GIBS system the average tax rate for income up to £500,000 works out at 25%. The rates become, in our view, socially unjust when you get beyond that point. This is not something that we have alighted upon before, given that there are very few of us on those levels of income. Beyond that, the rate drops to 18%, and beyond £700,000 of income the income is taxed at 5%. This means that the higher the overall income, the lower the overall average rate of taxation. That GSD measure is not progressive and it is not socially just. For illustrative purposes, someone declaring £1 million of income pays tax at 17.6%, whereas someone with an income of £30,000 pays an effective rate of 18.3%. That cannot be right. This creates an anomaly whereby business owners and others are able to delay or defer payments such as dividends, or even consultancy fees, to a point whereby they are able to distribute accumulations in one go and avail themselves of a lower marginal rate of taxation. In order to address this anomaly, the rate beyond £105,000 of income will, from now on, be a flat rate of tax and, subject to what I am going to say in a few moments about tax rates generally, it will be 25%. This is a fair approach whereby everyone will pay tax at the same rate, save those at the very lowest levels of income – that is to say less than £25,000 – who pay at an average rate of just under 17% and those on very low incomes, below the tax threshold, who pay zero.

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Mr Speaker, like every country in the world, we are going through tough times that have impacted on our public finances and our levels of necessary borrowing. This borrowing has not been on anything other than the public spending on COVID and the maintenance of our public sector salaries – nothing lavish, nothing extravagant, whatever some may now say to try to spare their blushes in having agreed our COVID spending. It is, nonetheless, incumbent on me and this Government to seek to find a way to lead this community out of the deficit period, with the certainty that we can address the debt that has built up during the COVID period and its aftermath. In order to do so, I therefore propose a number of temporary measures. This measure is for two years only, and tax rates will restore after those two years for these taxation measures that follow.

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For the next two years only, all tax rates in all bands under the allowance based system and the gross income based system will increase by two pence in the pound for those two years. That is a two-year 2% increase in taxation. That is to say under these new bandings an individual paying tax under GIBS on income above £25,000 will be taxed at an average rate of 27%, not 25%, and below that level the average rate will be just shy of 19%, not the aforementioned 17%. As I said, the measure will apply only for two years, 24 months.

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As we did last year, the Government has decided not to levy tax on pensions. We gave careful consideration to the option but, on balance, we have determined it is possible to avoid doing so. I do believe this measure was largely to be expected in this community and will catch few right-thinking members of the community by surprise.

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The additional income recovered by this measure will allow us to fill in the revenue shortfall in the coming two years and make repayments of the amounts borrowed easier for the taxpayer. It will also assist us to crystallise our COVID-related borrowing in a structured way over a longer period and allow us to repay this in a managed way. We have all lost two years of our lives to

1245 COVID. The Government has been paying out for two years, but we have lost two years of revenue
whilst paying out more than ever and more than we received, so now, for the next two years, we
must get whole again. We must use the next 24 months to strengthen our public finances. We
may likely get a UK-EU treaty, but it may only last four years, so we will have to be strong, at the
latest, in four years. So this is a Budget measure we impose not out of desire but out of necessity,
to get our public finances back on their feet in two years. That does not change that we want tax
1250 to remain as low as possible. That is why we are fixing this measure for a short and defined period,
so that people will have the certainty of how long they will pay this extra amount. Given the GDP
to tax ratios we see in other countries and increases being seen in direct and indirect taxation in
other economies, this is a modest measure which will be much less painful than it will be useful in
the rebuilding of our public finances post COVID.

1255 Mr Speaker, taxation is the lifeblood of any modern government and is vital to the continued
prosperity and growth of any economy. In order to ensure that taxes are duly paid, it is vital to
enforce tax compliance. 'Compliance' is not an ugly word. It simply means that each of us should
contribute what is owed in a fair and timely manner, so that this can be invested for the benefit
of all. It is, therefore, imperative that tax systems have robust and practical tax compliance
measures. Unfortunately, the current sanctions we have in place in Gibraltar are outdated and, in
1260 some cases, simply not fit for purpose. Tax penalties should penalise those who flagrantly flaunt
their obligations, whilst simultaneously acting as a deterrent to others from doing the same. In
seeking to improve this, I have already asked the Commissioner of Income Tax to carry out a
review of existing penalty regimes and seek alternatives that implement stricter but fairer
sanctions, ones that are commensurate with the size of the defaulter as well as the level and
1265 frequency of the default itself. These revised sanctions will be introduced shortly and will seek to
create a noticeable improvement in general tax compliance and behaviour.

Mr Speaker, presently the Income Tax Office receives numerous applications for certificates
and other information requests, ranging from ordinarily resident and sub-contractor certificates
to payment transaction printouts, as well as copies of previous filings and associated
1270 documentation. Whilst the team at the Tax Office are proficient in expediting these service
requests to the best of their ability, the large volume of requests at particularly critical times of
the fiscal year impose a notable administrative burden and corresponding cost on the department,
which, up until now, has been absorbed as part of continuing operations. Certificates confirming
'ordinarily resident' are sought to satisfy requirements from offshore financial institutions as part
1275 of the due diligence and self-certification process governed by obligations imposed by regulations
for the exchange of financial account information between jurisdictions or to provide additional
evidence of tax residency in Gibraltar in response to a tax residency challenge or enquiry from a
foreign jurisdiction. Sub-contractor certificates are sought by those seeking to avoid the
imposition of a 25% withholding tax being applied on payments received from their main
1280 contractor, in accordance with the Income Tax (Construction Sub-Contractors) Regulations 1994.
In order to alleviate the administrative burden referred to above, with effect from 1st September
2022 the Income Tax Office will impose administrative fees for the provision of these services. A
tariff sheet will be made publicly available by the Income Tax Office.

1285 Following the change in corporate tax rate from 10% to 12.5% on 1st August 2021, the Income
Tax Office has received representations from industry practitioners that the legislation is not
sufficiently prescriptive in providing a basis for how the transitional year containing the change in
tax rate is to be computed. Although we believe this was clear, in order to accommodate industry
requests an amendment to the Rates of Tax Rules 1989 is being published. In addition to this, the
Income Tax Office is also issuing explanatory notes supplementing this legislative amendment.

1290 Section 30 of the Income Tax Act 2010 provides for a threshold of assessable income above
which corporate tax returns must be accompanied by audited accounts. This threshold presently
stands at £1.25 million. In order to assist our audit practitioners, and particularly those smaller
firms, this threshold is being increased from £1.25 million to £1.5 million. We understand this
increase will expand the net of companies in scope of this audit exemption, with approximately

1295 85% of companies filing chargeable returns with the Income Tax Office now benefitting from the exemption. This increased threshold will apply to accounting periods ending on or after 1st July 2022. We will be introducing a regulation-making power in section 30 of the Income Tax Act 2010 which will allow us to make the necessary changes to this threshold expeditiously and responsively without the need to seek the amendment of primary legislation in Parliament in the future. I
1300 nevertheless urge practitioners and company directors themselves to ensure that the quality of accounting records and accounts is maintained and that the increase in this threshold we have announced today is not used as an excuse to disclose improper or incorrect returns to the Income Tax Office. Should we find that the quality of non-audited accounts is lacking, we will reverse this measure.

1305 Mr Speaker, by and large, most companies in Gibraltar somehow benefited from the approach we took during COVID. If the company was operational with a large workforce, they received support for their staff and reduced elements of rates and other charges. If they are passive holding companies, their service providers, directors and secretaries were put in a position where they were able to operate and keep those companies compliant with the rules. If is, therefore, right
1310 and fair that as we seek to balance the Government's finances we should also ask every company to make a small contribution, just as we are seeking, for a time limited basis, from personal tax payers. As with individuals, we are seeking a COVID recovery charge for a period of two years only. We propose that every company pay a COVID recovery charge of £25 per week over the next two years. This charge will be levied as part of the company annual return collected by Companies House as from 1st August, to allow Companies House the time to set their systems up to deal with this. Companies House will then pass this COVID recovery charge straight on to Government with
1315 no deduction whatsoever.

I turn now to import duties, Mr Speaker. In July 2020, in the first throes of the pandemic, we announced a series of measures designed to provide financial support to our businesses as they
1320 returned to work during that difficult period, and secondly to stimulate and accelerate economic activity. These measures included an Import Duty waiver which was introduced for all commercial imports, other than for certain commodities such as excise goods. In addition to this, we later introduced a 10% flat rate of Import Duty to be levied on all personal imports over £25 in value, with this measure again not applying to key commodities. Both of these measures will be revoked
1325 with effect from zero hours on 29th June. Private importations will now be charged at the Import Duty rates in place prior to the introduction of these measures in 2020, subject to the £25 de minimis rule remaining. The waiver on commercial importations ceases to be in effect also at zero hours on 29th June – tomorrow. This means that duty will be charged as per the Integrated Tariff Regulations 2017. The relevant Gazette will be published during the course of today.

1330 Mr Speaker, you may recall that HMGOG introduced a change to the tariff for petroleum products at the roadside petrol pump, for motor vehicles only. This measure was aimed at helping our petrol stations locally, as an equivalent measure had been introduced in Spain. This does not apply to fuel for vessels or other pleasure craft. This measure was there to partly address the ever-increasing price of fuel suffered at the petrol pump by the motorist and haulier. The equivalent
1335 measure has recently been extended in Spain. In order to ensure that our citizens do not feel the economic need to drive to Spain to fill up, I propose to extend the original measure here, too, from its expiry date of 30th June 2022 to 30th September 2022. We will keep fuel prices under review for the next quarter and make such announcements as may be necessary in coming months about this measure. Absent a further announcement, fuel duty will revert to its original non-
1340 discounted rate on 1st October 2022.

Any individual taxpayer who installs a mechanism for the electric charging of a vehicle in their home, or private parking space or garage owned by them, will be able to continue to deduct the first £2,000 of costs approved by the Commissioner of Income Tax against their tax liabilities.

1345 In tandem with measures to encourage the uptake of electric alternatives, we will be actively disincentivising the purchase of conventionally fuelled vehicles. Mopeds fully fuelled by diesel or

petrol will become prohibited imports as of 1st July 2023. These vehicles are polluting, they cause a noise nuisance and contribute to overall levels of traffic.

1350 Nearly 50% of currently active registered vehicles in Gibraltar are more than 10 years old. The market sees approximately five or six hundred imports of used vehicles every year that do not meet the latest emissions standards. In order to prevent the market from continuing to be filled with older, more polluting vehicles, used passenger cars – other than classic cars – light commercial vehicles and buses over five years old will become prohibited imports from 1st January 2023.

1355 Tourism is one of the main areas of our economy where we expect to see growth. We are excited to see it slowly but surely returning to pre-pandemic levels. The influx of visitors, however, places increased demands on our infrastructure and on our tourist products, such as our beaches and the Nature Reserve. As such, Government will be introducing a Sustainable Tourism Tax, similar to that already payable in many destinations. Research has shown that well-designed tourism taxes can be both practical and meaningful tools in the sustainable management of a destination's resources. As from 1st August this year, hotel and Airbnb visitors will, therefore, pay £3 per person per night for a stay in Gibraltar. All revenue from this hotel levy will be paid into the Climate Action Fund and will be invested into relevant projects such as promoting sustainable mobility and protecting and preserving our biodiversity. It will be the responsibility of each hotelier or property owner to pass that cost on, monthly, to the Department of the Environment
1360 as the receiver of revenue. Additionally, as from 1st April next year, cruise ship passengers will pay £1 per passenger environmental levy, based on the number of passengers on the vessel calling. This sum will be paid to the Port Authority.

1370 We have seen the recent inflationary increases apply across the board. Nonetheless, the item that will be most noticeable to individuals will be the increase in the cost of fuel at the petrol pump, despite the deduction of duty we have granted and now extended to seek to mitigate the impact. These increases are really quite significant by any measure and are being felt across the globe, even in the US, which is an oil producer. This is, in fact, the principal driver of inflation across the world. You know the situation is severe when even citizens of the United States are complaining of the cost of filling up a tank of petrol. Mr Speaker, as you know, we have opted to produce the electricity that powers our homes and businesses through the use of natural gas. The cost of gas is linked to the price of oil and this has also increased with inflation. Not only that, but to keep self-sufficient we desalinate our water supply and this process is powered by electricity, which is ultimately powered by natural gas.

1380 We have recorded increases in IRP here in Gibraltar, between July last year, the time of our Budget announcement, and April this year, of 5.8%. I have no doubt – based on recent CPI increases announced for May, in the UK, of over 9% – that by the time the end of the year comes, our own IRP will be closer to that figure. We consider that increases are likely to be in the order of 8%. As I have already said, we will apply that figure to the Minimum Wage, state pension and disability benefit. In light of this, we really need to pass on some of the cost of the increases we are suffering on the cost of producing electricity – which I referred to earlier when I pointed out the increases that we could see in the cost in the book – which, in turn, is also used to produce water. As a result, we propose to increase electricity and water charges, but contain that increase to 8% also. We are not applying the full increase in the cost of fuel to the consumer, far from it; we are greatly amortising the increase to ensure it is less harsh than the reality of the market in
1390 which we are operating. We are going to provide more support, in doing so, than any other government is providing anywhere else in Europe, and we are doing this from a historic position of giving full amortisation in a much, much more generous manner than is the case in the UK or in Spain, or in any other economy.

1395 Gibraltar electricity prices are very significantly cheaper than the UK and Spain, our two most relevant comparators. Compared against the prices paid by consumers in the UK, Gibraltar's average annual household electricity bill is approximately 30% lower. Spain has an average annual household electricity bill that is almost 40% more expensive than our own. Gibraltar's average

household consumption is 4,038 kWh, which is quite high. This consumption is notably higher than the average consumption in the UK, where it is 2,900kWh, and Spain, where it is 3,240kWh. The reason for this is likely two-fold. The first is that heating of households and, in some instances, cooking in the UK and Spain is generally delivered via other means, normally gas heaters and boilers, and those are billed separately but have also seen costs increase significantly, and they have not been incorporated in the price differentials that I have just provided, so, in fact, it is higher. Additionally, the higher cost also makes people more conscious of consumption of electricity, something we all used to be in earlier times, I recall. But notwithstanding our higher household consumption, our electricity bills are still lower. If we calculated the annual household bills according to annual consumption by flexing volumes to equate things like for like, our bills would be approximately 50% lower than in the UK and Spain, and that is even with the discounts we have seen announced in Spain and the financial support being provided to some in the UK. Take away the discounts which have recently been announced in Spain and the UK and the difference will be more than 50%. Indeed, that is why discounts and financial support for some are necessary in those jurisdictions.

Consumers in Gibraltar have not needed price caps or electricity tax cuts, as we have seen in Spain and the UK. Indeed, electricity charges have been stagnant in Gibraltar since 1984 until 2010 under the GSD, who started to put them up. Our consumers are not exposed to regular price fluctuations based on fuel prices, as most, if not all, European consumers are. Here, the unit price has remained constant for the past 12 months and before then it had been constant for 11 years. I think people cannot have missed that in Spain and in the United Kingdom, in the news bulletins that most people will be seeing, there have been constant references this year to how the price of electricity has changed almost on a weekly basis as the price of fuel has changed. That has not been the case in Gibraltar, where the price is fixed for a year. And the 8% tariff increase that we are announcing today will be fixed for at least the next 12 months and represents an increase to the average monthly bill of £4.37, or £1.09 a week. Thankfully, for most people in our economy that will be an imperceptible amount – *dos crónicas*, some might say, Mr Speaker. This is approximately just over one third of the total increase suffered by our neighbours over the last three months alone, where they have seen an increase of €162.01 in quarter 1 of 2022. To put all of this in context, the price we are paying for diesel to run the temporary generators whilst we snag out the new power station has increased from £467.31 per metric tonne on the supply date of April 2021 to £1,022 per metric tonne on the supply date of May 2022 – in other words, an increase of 120% of cost to the taxpayer in diesel alone. For LNG this has increased from £9.24 per MMBTu (metric million British thermal unit) on a supply date of May 2021 to £15.79 per MMBTu in May 2022, or an increase of some 71% in the period of one year alone.

The increase in water and electricity which I have announced will apply as from the August 2022 bills. Again, that will allow the GEA and Aquagib to deal with billing issues and will be accompanied by a weekly levy of £1 against each Aquagib and GEA meter to support infrastructure maintenance costs as we prepare to make greater investments in the distribution and management network of our basic utilities. Going forward, and building upon this continuing subsidy against the fuel price, hereafter electricity and water tariffs will increase annually on 1st April by the cost of living percentage, rounded down to the closest whole number. That will be a considerable, continuing discount against the fluctuation of the cost of fuel, whilst being a more manageable subsidy for future generations to sustain.

In the event that there are people who find themselves in genuine difficulty and for whom this increase might be meaningful, the Government will introduce a means-tested utilities credit which will provide relief for genuine cases of hardship arising from these increases. No one will have their water or their electricity cut off if they genuinely cannot afford to pay. I will discuss the detail of this with relevant unions and representative organisations, including Action on Poverty, to ensure that we are able to protect the most vulnerable and that no one falls between the cracks.

Mr Speaker, raising the cost of utilities, even if it is by just over £1 a week, will obviously be unpopular. Most will not even feel this increase, but it will be unpopular with everyone. I just want

1450 to say this about that. I think that sitting in my chair at No. 6 Convent Place, having my
responsibilities and seeing what I see from the bridge of *HMS Gibraltar*, everyone in this House
and every Gibraltarian and resident of Gibraltar would do the same thing. These are the right steps
to steady the ship, by spreading the load amongst all who have taken the benefit of the measures
1455 we are now paying back, whilst protecting the most vulnerable, because this is the right thing to
do, even though it may not be the most popular thing to do.

I want to recognise the representations from employer and business representative
organisations seeking no increases in respect of the costs of utilities. It is their job to make the
case for their members and I recognise that too, but if any of the member of the Chamber or the
Federation were in my chair, if our captains of industry were doing my job, they would be making
1460 the same decisions, too. Yes, they might also take the knife to the public sector and to public
sector terms and conditions – something that I will never do, because I believe in and I defend the
Gibraltar public sector and the role it plays in keeping the community working, as it did in sterling
fashion during the COVID pandemic. And our unions might think that they might borrow more to
pay out more, until they saw that in the medium and long term that would mean fewer jobs, less
1465 quality employment and more years without surpluses and pay rises, as well as even higher
inflation. On reflection, union leaders and business leaders would reach the same conclusions I
am setting out to the nation today – I am absolutely sure of that. They, too, would do what I am
doing now because I am doing these things to make Gibraltar strong for my children, I am doing
this to make Gibraltar strong for their children, I am doing this to make Gibraltar stronger for all
1470 our children and our children’s children, not because we choose to do so but because we need to
do so; actions taken out of necessity not ideological choice or desire.

When we are done, Gibraltar will be stronger than it has ever been before. Gibraltar will need
to be stronger going forward with a future outside the EU, although hopefully with a treaty
relationship with it; with all commentators predicting a recession for next year; with a war in
1475 Eastern Europe that shows no signs of abating and with its attendant worldwide consequences. I
may be an optimist, I may believe Gibraltar has a bright future – although this year will present
high inflation and rising interest rate charges outside our control also – but I know that our strong
and bright future comes only as a result of robust, tough measures now. When the going gets
tough, the tough get going – but always protecting the vulnerable, taking a little more from those
1480 who can, because, as Sir Joe has also repeatedly taught us, the road to self-determination is paved
by self-sufficiency, and, in the end, we are the ones elected to manage problems and to fix
problems, not to exacerbate them. That is why we have to do what is right to treat the patient
and not fail to do so.

Mr Speaker, it is incumbent on me now to thank the whole of the public service for the
1485 magnificent work they do for Gibraltar. I say that genuinely and knowing that they are often the
butt of criticism, but the Gibraltar we know and love cannot operate without our public sector’s
continued commitment. In particular, I thank the officers of the Departments that I have reported
on and who work directly under my ministerial responsibility.

Mr Speaker, I take a moment to thank you and your staff, in particular the Clerk and the ushers,
1490 for all of the support given to all Members of the House, myself in particular.

I single out, of course, for specific mention those who work daily with me at No. 6 Convent
Place, assisting me in the discharge of my obligations in the post of Chief Minister. They are a very
special bunch of people who are like knives through the butter of the daily challenges we face. My
success, such as it may be, is down to them. The failures of my Office are entirely my own.

1495 Of course, in this debate so much of the preparatory work is done by the team from the
Financial Secretary’s Office, the Finance Ministry and the Treasury. I thank all those who have
helped us to prepare the Estimates Book. I single out Bethany, Ernest and Susie, who, together
with the Financial Secretary himself, spend most of the late winter and early spring in a permanent
wrestling match with figures and spreadsheets to produce the Estimates. These Estimates are,
1500 therefore, as much my work as the work of the Financial Secretary, Albert Mena, whom I recognise
in the House today, Mr Speaker. I genuinely believe he has been an essential part of how we have

1505 successfully negotiated the very challenging past 28 months since that dreadful first moment of March 2020. I cannot be fulsome enough in my gratitude, on behalf of the people of Gibraltar, for his work alongside me in the Finance Ministry in the dark days of the dawning of the pandemic. History will judge his contribution as essential for the economic survival of this community.

1510 Mr Speaker, this is not a giveaway Budget, because there is nothing to give away, but neither is this an austerity Budget, which would be a Budget of cuts and wholesale tax increases that affect everyone in our economy in the same way. No. We will target support for those most in need. We will use this Budget to deliver measures that will ensure that those worst off in our economy will not suffer in this period. No one in our economy will be left without enough money to buy the goods they need in their home.

1515 Our opponents, Mr Speaker, should not treat our people like children, pretending they do not understand the severity of the worldwide economic downturn, the complexity of the situation and the reality of the arguments about our public finances, because, contrary to suggestions, there is no pay freeze in Gibraltar as we continue to invest in the areas which require and are worthy of our investment, not least our people, who will continue to progress through spine points etc.

1520 The fact is that our people gave me this job this past decade not because it was easy but because it was hard, and we are taking these measures today not because they are easy but because they are right. That is why this will not be a Budget for those who have more than enough to have even more, because today we must rebuild our public finances, not plunder them.

1525 The fact is that if we had not had the COVID pandemic to deal with, we would today probably be announcing a £100 million surplus. If that were the case, we would not be announcing a tax rise. We have raised salaries and allowances for the past 10 years, so people know our instinct is not to tax more. We are not taking these steps to court unpopularity; we are doing so because we have to, and we will do so only for a limited time.

1530 The pandemic has affected many things, of course, not just our finances, and as a result, the Government accepts that there are issues affecting services to citizens that we have to resolve. Is everyone happy? No. Do we need to do more in some areas? Yes. But let us be clear that where we are failing to act, there is a good and problematic reason, not negligence, laziness or dereliction. And there is, of course, the effect of the pandemic and the effect of the Brexit negotiation. Both those are slowly resolving themselves and we expect to be able to do more to resolve outstanding issues in coming months.

1535 I know that this Budget will be difficult for people to hear. The tough part of this job is not being able to do everything that people would like you to do, but we are already borrowing quite a large amount of money. Borrowing more for recurrent expenditure would not make sense and would further breach our golden rule. We have to get back to observing the golden rule as soon as possible.

1540 So, yes, some of these things are difficult, they are certainly – probably – going to be unpopular, but these are the responsible and prudent measures we have to take. They are measures that will help us in the long term, and I am not going to deviate from the long-term good just for some short-term popularity gain. That is not what people elected me to do, it is not what people entrusted me to do; indeed, it is not why people trust us on this side of the House, because we are on the side of parents, pupils, pensioners and patients in improving public services, and of course we are also on the side of our public servants. We have shown that by prioritising them for 10 years, but the efficient delivery of the public services themselves to those who need them is also the priority for my Government.

1550 So, to every young person, to every older person, to every pensioner, to every vulnerable person I say we on your side. Your ambitions are our ambitions. Your concerns are our concerns. Your aspirations are our aspirations. As we remove the low rate of tax for those earning over half a million pounds, we are building also a new model of Gibraltar based on equality, fairness and opportunity which is not based on class, wealth or who you know; a nation of fairness for the many, not the privilege of the few, concerned about those who use services as much as we care for those who provide services.

1555 We are the people's Government, delivering the people's priorities in the people's toughest Budget yet, but seeking to do the people's bidding as we do so. This is a Budget to ensure that we strengthen our common treasure chest again, a Budget to protect us in the long term with very little pain in the short term, with no giveaways but no austerity either, with none of the benefits we enjoy and value in Gibraltar being negatively affected.

1560 Mr Speaker, we respect our people. We believe in the Gibraltarian, in Gibraltar and in the Gibraltarian spirit. We trust our people. We trust them to understand the logic and reasons behind this Budget, this people's Budget, a fair Budget and a renaissance Budget to lead to a rebirth of our public finances, to leave COVID behind, to make Brexit history and to propel our nation forward.

1565 This really is a Budget in which I am telling our people to ask not what more they can take from our country, I am telling our people to accept that now it is time for our country to take a little bit more from each of us. These increases are preparing us to be in a position to give public sector pay rises again in the future, setting direction to resolve the economic issues we face today, to repay the debt, to get back to surplus, to protect our way of life and to insulate our prosperity for future generations.

1570 I am raising taxes and I am raising utilities. These things may be unpopular but they are the right thing to do in these circumstances, in this time and in this moment, to turn the corner and to get back to growth, and every Gibraltarian and resident of Gibraltar who cares about Gibraltar and our people will want nothing less. That is why, even though it contains tough measures, even though it contains measures to increase taxation in small way for a short period, even though it may feel like hard medicine, it is the right appropriation for this nation at this time and I therefore
1575 unhesitatingly commend the Bill to the House. *(Banging on desks)*

Before I sit down, Mr Speaker, and given the length of my address, I would propose that the House should now recess before we return to hear other speeches at three o'clock this afternoon.

1580 **Mr Speaker:** The House will now recess to three o'clock this afternoon.

The House recessed at 1.03 p.m.