PROCEEDINGS OF THE GIBRALTAR PARLIAMENT

MORNING SESSION: 11 a.m. – 1.29 p.m.

Gibraltar, Thursday, 13th July 2023

Contents

The Gibraltar Parliament

The Parliament met at 11 a.m.

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

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

Appropriation Bill 2023 –
Second Reading –
Debate continued

Clerk: Meeting of Parliament, Thursday, 13th July 2023.
We continue with the Second Reading of the Appropriation Bill 2023.

Mr Speaker: The Hon. Sir Joe Bossano.

Minister for Social Security, Economic Development, Enterprise, Telecommunications and the GSB (Hon. Sir J J Bossano): Mr Speaker, last year I introduced my Budget speech by drawing attention to the state of the global economy and highlighting how many negative developments were taking place at that level from which we could not protect ourselves. I had hoped that Members would understand just how serious the prospect of a continuing decline in the fortunes of the western world was; the worst since the Second World War was the comparison I made. Mr Clinton, for example, after clearly showing that he understood the implications of the global turmoil, went on to attack the temporary 2% tax increase. He said, 'yesterday the people of Gibraltar had their collective pockets picked by this Government in order to cover the mismanagement of the 2021-22 Budget.' Obviously, this was based on the misrepresentation of the 2021-22 Budget outcome made by the Leader of the Opposition. Perhaps he will change his mind after I put the record straight this year, or maybe he won't. I assume he intended this to be a vote-catching soundbite, but it was not a particularly profound analysis of what we need to do to close the funding gap.

From what I read of the debate on the state of the nation – which unfortunately I missed through the fault of Minister Vijay, not my fault, who sent me to get COVID in his place – what I said had zero impact on the Members' opposite perception of the seriousness of the world crisis. Members of the Opposition just went on with their parochial, small-town vision of reality, repeating the arguments they have been using in almost every Budget session since 2012 as if nothing ever changed in the world in which we have to compete and adapt to if we are to survive, let alone maintain the quality of life that we have enjoyed up to now, to which successive Governments have made a contribution. In spite of this, I feel I have at least to point out what is happening in the markets in which we have to survive economically, for the record, even if it has no impact on our collective perception in this Chamber, or in the rest of our community for that matter, because I am, after all, the Minister for Economic Development and there is precious little economic development now going on in the world, compared to the destructive forces at play.

De-globalisation has gone to a further stage since last year with the BRICS countries looking to set up a rival hegemony to that created by the West and led by the US, the system we have become used to since 1945. The BRICS is shorthand for a group of countries which some years ago were developing their economies at a very fast rate compared to the West and had common ties and trading interests. They are Brazil, Russia, India, China and South Africa. In a coming summit in

August, next month, there are suggestions that there will be an expansion of the group to become BRICS Plus, with an alleged 19 other nations interested in joining. The group already accounts, with its current composition, for a bigger share of the world economy than the G7 group of richest nations. The G7 is an informal grouping of seven of the world's advanced economies, including Canada, France, Germany, Italy, Japan, the United Kingdom and the United States, as well as the participation of the European Union.

As a natural consequence of the fragmentation of the globalised economy that has been taking place, the role of the US dollar as the international trading currency of the globalised markets has come under scrutiny and is being challenged in a process labelled 'dedollarisation'. There are conflicting views as to how far and how fast it will happen, but it has already started according to a survey by the Official Monetary and Financial Institutions Forum, which found that a net 14% of central banks plan to increase their euro holdings in the next two years, marking the highest level of demand among currencies. That marks a big change compared to 2021 and 2022, when there was no net gain in demand for the euro. Also in the next 10 years, a net 9% of central banks indicated plans to increase euro reserve assets, suggesting that the currency may play a key role in future diversification.

There are other developments adding new momentum to the ongoing dedollarisation trend unfolding in the global economy. Since mid-2022, central banks worldwide have been buying gold at a historic pace, in part to diversify their reserve away from the US dollar. For many analysts, a gold-backed currency is the next evolution in this process. Many analysts have seen China's recent gold purchases as an attempt to bring international credibility to their currency. Falling demand for the US dollar will have untold consequences given that it will bring to an end the process that started post 1945 with the Bretton Woods Agreement which, though it was terminated formally by the Jamaica Accord in 1946, has continued to be upheld by the US and led to the US dollar continuing as the international currency to this day.

The US has been de facto financing its deficit by borrowing from other countries as a result of these countries' appetite for dollars for their currency reserves and to finance international trade. The global trade is dominated by the US precisely because it has been the currency of international trade, and countries buy dollars from the US to buy goods from others and in turn demand dollars as payment when they sell their exports. A case in point is the trade in commodities, and in particular oil and gas, which has been carried out for many years in dollars and is now, for the first time, being done in other currencies. We in Gibraltar, for example, have always had to pay in dollars and, in the process, incur changes in the cost of oil and gas. As well as being affected by the inflationary disruption of supply lines, we have had to contend with changes in the dollar-pound exchange.

The widespread expectation, or perhaps fear, that we were now heading for a period of stagflation in the world economy, and particularly in the more advanced economies, which I explained last year, has materialised as expected. This stagflation stage is one with no or low growth and relatively high inflation, which in theory should not be happening since low growth is incompatible with high demand, the conventional explanation for inflation. That is demand exceeds supply and in the short term leads to higher prices until extra supply is attracted to the market, which has become more profitable as a result of the excess demand. The textbook solution is higher interest rates deliberately created by central banks to cool the growth in the economy. However, with stagflation the theory fails as there is no growth.

The interest rate increases from the UK, US and EU central banks are all designed to reduce inflation by making it expensive to borrow either for consumption or investment. The problem is that the inflationary spiral we have had has been triggered by the dislocation of the supply side of the equation, not by a consumer-led boom. This means that the next stage in the process will be recession, already taking place in the EU and expected to take place in the UK before the annual inflation rate gets anywhere near the Bank of England target of 2%. This is the analysis that is currently the majority view. A week ago, most commentators were of the view that the global economy was facing a hard landing, that is from stagflation to recession, as a result of continuing with high interest rates in an attempt to reduce inflation. The EU is already in technical recession and Germany, the former engine of Europe, has been one of the main drivers of the downturn. The UK was predicted to be as bad, but has only just avoided it with Britain's quarterly growth of 0.1% in the first quarter of 2023 remaining unchanged from the previous three-month period and the last figure, which came out yesterday, which is now minus 0.1%. However, with higher inflation than the Eurozone and higher interest rates still being placed, the recession will start sooner rather than later for the UK as well, and this figure from yesterday is the beginning of that.

Mr Speaker, I am happy to inform Parliament that the results for the Gibraltar Savings Bank last year and the projected estimates for the current year are the best since 2011 and, indeed, in its history. This is the result of two factors: an increase in the rate of interest paid on the Gibraltar Savings Bank liquid assets deposited in other banks; and a higher level of funding for National Economic Plan sponsored projects, which also provide a higher return. Although the level of deposits increased in 2022-23, they have not grown as fast as in previous years.

The performance of the Savings Bank since 2011 is, of course, a reflection of the GSLP policy that the role of the Savings Bank is that of a national development bank that provides a safe home for the savings of our people and competes with attractive interest rates and reinvests this in projects that will increase the economic success of our country, as is clearly indicated by section 4 of the Gibraltar Savings Bank Act, which the GSLP Government introduced in 1988 and requires the Director to take such steps as are necessary and may be desirable for the promotion of the social and economic development of the community.

In March 1988 we inherited from the AACR Government a Savings Bank with deposits of £2,672,385 with reserves of £398,227, and eight years later we had grown it into a Savings Bank with £165,884,000, 62 times bigger than the 1988 version, and reserves of £13,549,000, compared to the original £398,227, which grew further during 1996-97 to £20,253.000. The reserves were, therefore, 51 times bigger in 1996 than in 1988. So Mr Feetham has been wrong in his assumption that the changes I have introduced in the Savings Bank have anything to do whatsoever with diverting expenditure from the Consolidated Fund, as he has been claiming since 2015. What the Savings Bank now does is the same as what the GSLP Government did in 1988, using it as Gibraltar's development bank to invest in Gibraltar and make profits which constitute a rainy day fund for future generations.

When the GSD came in, they dismantled what the GSB was doing – but not in 1996, they did it in 2009 in order to get their hands on the reserves, and that is why they stopped investing and kept deposits in cash. We have a different policy, which the performance of the Savings Bank shows is good for Gibraltar. They attacked us for delivering what we promised and last year they attacked us, suggesting we did not deliver what we promised, by saying estimates of expenditure prepared by controlling officers were political promises made by Ministers, which was complete nonsense anyway.

The forecast outturn for 2022-23 in the Savings Bank is total deposits of £1,564,200,000, just over £1½ billion, compared to an estimate in last year's Budget of £1,452,100,000, which shows an improvement of just over £112 million. The concerns expressed in some quarters during last year that depositors were withdrawing their savings was no more than fake news. However, it is true that the high interest from commercial banks, compared to recent years, have had some effect in the growth of deposits, which would have been greater but for that. Of course, the big advantage of the Savings Bank for depositors is that it has and has always had in the law an unlimited guarantee, whereas in the case of credit institutions the law provides for a maximum of some £80,000 protection for deposit repayment if a commercial bank gets into difficulties in its finances when the time comes to repay the money of depositors.

The planning of the future development of the Savings Bank, for which I am the Minister responsible, is on the assumption that we are now near the peak in interest rate levels, which are likely to start coming down towards the end of this financial year that is in the market, in nine months' time. The Savings Bank will keep its higher rates even if other commercial banks do not, and particularly for the pensioner debentures, which are our main customer base. I think we have something like £800 million pensioner debentures, some of them being the ones who were campaigning recently for the community officer allowance. It is on this premise that the estimate of profits for the current year has been made. When interest rates from other competing institutions start coming down they are unlikely to get back to the abnormally low level we have seen in the last few years, which gave barely any return to depositors and in some cases, in respect of some currencies, paid negative returns on deposits.

In the financial year 2010-11, the last full year of the GSD administration, the Savings Bank deposits were £330,119,928, just under £331 million. However, the bulk of these deposits were the Government's money, a total of £255,193,433. Therefore, deposits from members of the public were just £74,926,495, up some £41 million in 15 years from the level before 1996-97, at which the GLSP left them at £33,962,447, and the reserves, of course, were £1,444.51 after the withdrawal from the reserves of £686,968 which was transferred to the Government, compared to the reserves in 1996-97 of £20,253,166. In the first three months, from January to March 2012, when I again took over responsibility for the Savings Bank, deposits from the public went up to £99,063,286, an increase of just over £24 million over the level we had inherited. The cash reserve shot up from £1,444 in March 2011 to £726,961 as at March 2012.

At the Budget in 2012 I was asked whether I would reintroduce the requirement that the Savings Bank used to have for reserves which meant they could not be transferred to the Government unless they exceeded 10% of deposits – that is only the amount in excess of this percentage could be taken out of the Savings Bank and spent by the Government. This used to be the rule before it was repealed by the GSD Government. When this rule was repealed, the justification given in Parliament was that as the Savings Bank was not reinvesting the money but keeping it in cash or near cash, in bank deposits at call, there was no need for reserves. As I recall, I said we would not be legislating to reintroduce the 10% rule but in practice we would operate by it, which we have done to date even when we needed funding over COVID and the Hon. Mr Clinton was urging me to use the Savings Bank reserves because he claimed the rainy day had arrived. We still have Savings Bank reserves well below 10% of the level of deposits and I am considering the possibility of bringing back the rule, as suggested by the GSD Leader of the Opposition in 2012.

Since 31st March 2012 and up to 31st March 2022 – in 10 years – the Savings Bank deposits have grown by over £1½ billion, that is £1,514,889,833. This increase at the same time reflected a reduction in government deposits – which was previously the bulk of the deposits when the GSD was there – of £94,426,182 from £189,783,101 to a level of £95,311,919 and an increase of non-government deposits of £1,320,514,625 from the £99 million that there was before to £1,4195,577,913, an average annual increase in deposits from non-government sources of over £130 million every year, a total of £1.3 billion in the 10 years. Mr Feetham, in the Budget of 2015, apparently thought it was terrible to have nearly £1 billion in Savings Bank deposits. I trust that the Hon. Mr Clinton, as a former banker, will see this record as a very creditable performance. The forecast outturn for last year has been a much smaller increase in non-government deposits of just over £31 million for the reasons I explained earlier, but I expect this to change when competing interest rates offered by other institutions start coming down.

Mr Speaker, last year I was unable to deliver my speech and Mr Clinton chose to make a remark about me in the context of the GSB which I resent, and I think it is disgraceful that he should have said what I quote:

> This is insane. Before seeking to tax workers by 2%

– clearly Mr Clinton is much closer to the workers than I am –

> at a very difficult time, shouldn't the rainy-day funds be used first? I mentioned in last year's debate that Sir Joe refuses to transfer the accumulated profits of the Gibraltar Savings Bank to the Consolidated Fund. As at 31st March 2022 the Estimates Book, on page 254, shows this has a Reserve Account with a balance of £56 million. Should this

> not be used first, before taxing workers? This money belongs to the people, not to Sir Joe Bossano. We have a rainy-day fund that we cannot touched, even today at the height of monsoon season.

That was his contribution last year. On reflection, I hope he will realise it was ungenerous of him. I do not know if the hon. Member opposite, when he was a banker, was motivated in the decisions he took by his responsibility to the shareholders and the growth of the bank, as I believe he would be, or because he thought the bank he had responsibility for belonged to him, since that is what he seems to attribute to me.

The shareholders in the GSB are the same people who trust it and place their savings there. I provide the hon. Member and the Opposition with a detailed account of all its deposits and investments every month, something no other bank does anywhere else and no other Opposition has ever requested. The information I provided monthly historically was provided once a year. Not content with that, they want to know which entity the bank is investing in by buying their loan notes, and then, if they are local, they want to know how those entities are using the proceeds of the loan notes. Is that what he used to do as a banker, provide details of the expenditure of his customers? Now Mr Clinton has gone one step further, wanting to leave the bank with no reserves, in contrast and contradiction with their policy in government when justifying their past action of removing and spending the reserves. The argument they put for doing so was on the grounds that all the deposits were kept in cash and not reinvested because reserves were not required.

In 2014, Sir Peter Caruana, as a backbencher, said:

> Mr Speaker, a bank only needs reserves against the risk of capital losses. The purpose that the reserves of a bank serve is as a pot from which to pay depositors their money should the investments of the bank go bad and the bank should suffer capital losses. That is why banks have reserves, and indeed that is why our previous Savings Bank legislation, the one that we changed, said that the bank had to have a reserve. What happened was that we changed the law so that the bank, the Gibraltar Savings Bank, could not make investments, which exposed its capital to losses. Having changed the law so that the Savings Bank could not invest depositors' money in a way that exposed those moneys to capital losses, there was no longer a need for reserves. We had removed the need and the justification for reserves.
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> The fact that there is now a reserve again is not by virtue of a phenomenal reversal of the fortunes of the Savings Bank, but rather by virtue of the fact and to reflect the fact that once again he has changed the law to once again expose the capital of depositors in the Savings Bank to losses, albeit subject to the Government guarantee, of course, of depositors' money in the Savings Bank […] I suspect that some of them will be profitable and others may be less profitable.
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> But I only make the point in the context of the point about the reserve, which is that it is now prudent to have a reserve again because the Savings Bank is once again statutorily free, which we made statutorily unfree, to invest the money in a way that exposed it to losses and therefore the need for the reserves which we had moved and therefore took the reserve into Government. It was the Government's money.

Now the Opposition policy explained by Mr Clinton on their behalf is that the Savings Bank should not have 10% or any reserves at all, even if it invests and does not hold cash. This is a dramatic shift in the policy they defended in government and which Mr Feetham continues to defend and maintain in opposition is their policy. Mr Speaker, I find myself in the extraordinary situation, which I thought would never happen, of agreeing with Sir Peter Caruana and having the Hon. Mr Clinton disagreeing with him. You never know in this world what is going to happen from one day to the next. Is it that Mr Clinton is preparing the ground for syphoning off the reserves if they ever get back to government and they do not disinvest and keep it all in cash?

Members opposite have always denied wanting to damage the Savings Bank but have not stopped attacking it since they came into opposition. They attack it for lending money and for creating assets that will support our economy. They have in the last 11 years tried to undermine the Gibraltar Savings Bank and failed, as the results that I have provided today show, which is that it continuous to grow and is bigger and stronger than ever. When they were removed from having responsibility for the Savings Bank in 2011, they left it with £1,444. The Savings Bank has grown in deposits and in reserves under us because our policy is to use the bank as it was intended to be, the economic development bank of Gibraltar, and to retain the reserves so that a rainy day fund is there for future generations and only accessed as a last resort. It is the policy of the GSLP that delivered growth from 1988 to 1996 and has done the same thing since 2011. It is clear that the GSD, if they ever get back, will once again run the GSB to the ground.

Mr Speaker, last year I introduced my analysis on financial stability by recording the text of the motion approved by the membership of the GSLP at the May annual conference, a resolution that is binding on the party, moved by the chair of the executive committee and seconded by me. This year's conference followed up last year's policy resolution by approving the following:

> This AGM notes the fact that last year's public finance motion was placed on the record in Parliament reflecting the commitment of the party in restoring financial stability, it welcomes and fully supports the ongoing efforts of the Government to deliver higher revenue and constrain recurrent costs and looks forward to the early restoration of the golden rule on public finance by delivering a recurrent revenue surplus.

In terms of practical involvement, there are regular meetings with me, other Ministers and members of the executive committee. These meetings explore potential areas of savings and what might be possible to change to achieve better value for money and consider the feasibility of introducing such changes. We consider the restoration of sound public finances, meaning specifically not borrowing for recurrent expenditure, a national endeavour which is in our collective interest to achieve. I therefore take this opportunity to invite Members opposite, if they really care about protecting the future financial stability of the public sector, to identify for me the areas of waste that they are aware of – that is, in the recurrent expenditure in which area they believe waste is taking place, for me to see if it is possible to eliminate or reduce this waste and improve the surplus we are estimating for this year.

Last year, the Leader of the Opposition criticised the level of gross debt no less than seven times, arguing by definition that this was the matrix by which debt should be measured in his further mention of debt and public finances. Perhaps the GSD can clarify whether they have now changed their interpretation of what is the correct measurement of public debt. On 19th March 2009 the GSD came with a Bill to amend the criteria for the maximum debt from gross debt to net so that henceforth the 40% of GDP limit would apply to the latter instead of the former. Since the Member opposite often praises and takes credit for the actions and views of the GSD in government, let me remind the Leader of the Opposition what the GSD thought of the 'gross debt' – which he keeps on using – replacement by the 'net debt'. In the 2009 Budget they said:

> 7.5 per cent of GDP, the size of the net public debt as measured in the economically proper way, as a proportion of GDP […] That is the economically sensible, relevant and appropriate way of measuring public debt.

As well as the issue of constant references to gross debt, which they had previously rubbished as a valid indicator, the Leader of the Opposition came up with a new definition of Budget estimates which have been provided to this Parliament, the previous House of Assembly and the original Legislative Council and, I dare say, also provided in the western world in the context of Budget approval by Parliaments everywhere, as estimates and not predictions. He told us last year.

> In the estimate for 2021-22 the Government promised it would spend, and it was authorised to spend, £768 million. In fact, the actual expenditure this last year was £859 million. In other words, this was a figure of around £91 million above the estimated Budget. They spent an additional £91 million which they had not expected to spend, which they had promised not to spend in the worst year ever. […] In fact, the basic departmental overspend in net terms alone, compared with what it should have been, is around £35 million of that figure. Not £35,000: £35 *million*.

He then drew the conclusion from this:

> This is a recipe for disaster. The public finances are out of control.

Members are no doubt aware that in respect of recurrent departmental spending, the only area in which we can exercise control, the policy to restore financial stability is reflected in trying to keep to the same budgets from one year to the next. However, they will also have noticed that revenue figures are not getting significantly better. Returning to the numbers on the expenditure side, it is worth noting the results to date as follows: in 2018-19 expenditure was £504.2 million, in each of 2019-20 and 2020-21 it was £573.9 million, in 2021-22 it was £567.9 million and in 2022-23 it was £605.4 million. The figures I have provided have now been revised from the 2021-22 figures at £567.9 million and 2022-23 at £605.4 million compared to the figures I gave last year.

I will now remind the Leader of the Opposition of what I said last year as regards the departmental estimates, which is clear evidence that it could not be construed as Members making a promise:

> Given the effect of inflation on procurement for government departments, we are likely to be facing difficulties in keeping to these Budget figures.

– 'likely to be facing difficulties', not promising that there would be no difficulties –

> Nonetheless, the policy is to continue the scrutiny of departmental budgets throughout the year in an effort to achieve further savings.

Mr Speaker this year's Book is not a list of promises by Government Ministers that they will only spend what is estimated will be needed to deliver public services; neither was it last year, nor has it ever been in the Budget estimates that were brought to Parliament from 2012 to 2020, nor the Budgets that the GSD brought for parliamentary approval for 15 … or 17 Budgets, because, as I explained last year, they brought two Budgets for one year twice, the second version at a vastly higher value of expenditure than originally approved by this Parliament. So according to the current leader of the GSD, if Budget estimates are not estimates at all but promises, assuming that it applies to them as well as us, they promised to spend a set amount and the leader of the GSD in 2009-10 promised to spend £186.344 million, and in 2010-11 promised to spend £218.306 million and then came back a year later to Parliament and retrospectively changed what he had promised to do by spending £304.9 million in 2009-10 and £351.9 million in 2010-11. Of course, if we had suggested in those years – which we did not – to the then GSD Government that their Budget estimates were not estimates at all but promises by Ministers, they would have ridiculed the suggestion on the spot. In fact, the then Chief Minister, on more than one occasion when departmental expenditure was exceeded and was higher than the Budgets, made it very clear, to use his words, that estimates are estimates and not binding commitments.

Given the criticisms last year, I can only assume that the hon. Member was never involved in the process of making Budgets in government, and given that the Hon. Mr Feetham praised him for the speech he had made, it suggests that neither was he. So I will explain to them what happens when the estimates of expenditure are being considered before the Book has been finalised and is ready for going to the printers – for their benefit and the benefit of our citizens who might have been misled by last year's criticisms of the estimate as proving that Government Ministers had made promises which they have been breaking a year later if the result anticipated differs from the promised result, which appears to be the understanding of the Leader of the Opposition and also the Hon. Mr Feetham of what the estimates are. If they were correct, then every generation of Minister of every party has been guilty of making promises which were then broken, and I say this in spite of the fact that the departments that I have responsibility for rarely report exceeding the original Budgets.

Departments are required by the Financial Secretary to submit estimates for the following financial year four months before the close of the current financial year. That is in November 2020 they had to provide the estimate for the anticipated forecast result for 2020-21 and then their requests for 2021-22. The same is true this year in respect of the forecast results for 2022-23 and the estimates for 2023-24.

The directive provided to the controlling officers of departments by the Financial Secretary's office in the Treasury is that the estimate for the forthcoming year should be as close as possible to the figure provided in the previous year. The scrutiny of the submission is what I am involved in as the Minister for restoring financial stability, along with the Minister for Finance and the Financial Secretary, in the attempt to bring the Budgets as close as possible to previously approved levels – not to the outcome, to the previously approved levels. This also includes areas where we agree it is impossible to realistically estimate demand. It would be a mistake to provide a sum which is going to be overspent anyway, and in those cases a token is provided. The relief cover of the GHA highlighted last year by the Leader of the Opposition is specifically a case in point. I can assure Members opposite that the same problems were faced by the GSD Government to the extent that the then Chief Minister in one Budget session removed the item from the GHA budget and brought it to his office, so that every request for relief cover had to be previously approved by him, and when I asked for an explanation from the Opposition at Budget time I was told that by the time they asked for the relief cover and before they got a reply the need for it might not exist anymore. An interesting strategy, an attempt by the previous administration, regrettably, to exercise control of this item, which was undone and the item restored in a later Budget to the GHA because the control failed to work, even when it was being done from the office of the Chief Minister.

In his analysis last year of the figures for 2021-22, the Leader of the Opposition claimed the following:

> In the estimate for 2021-22 the Government promised it would spend, and it was authorised to spend, £768 million. In fact, the actual expenditure this last year was £859 million. In other words, this was a figure of around £91 million above the estimated Budget. They spent an additional £91 million which they had not expected to spend, which they had promised not to spend in the worst year ever. Not just £90,000: £90 *million*. We appreciate some of that is represented by additional contributions to loss of revenue, but a big chunk of that is departmental overspend.

As as a matter of fact, in 2021-22 and in every year since 2017-18, on the initiative of Mr Feetham, who accepted a recommendation from Mr Clinton, they have not authorised us to spend any sum of money whatsoever, since they have rejected the Estimates placed before Parliament. So what he must think is that we promised ourselves to spend £768.2 million, we authorised ourselves to do it and then betrayed ourselves by spending £859 million instead – the overspend he has identified of £91 million. As regards the big chunk of the £91 million that was departmental spending, his analysis was the following:

> In fact, the basic departmental overspend in net terms alone, compared with what it should have been, is around £35 million of that figure. Not £35,000: £35 *million*.

His accusation was:

> instead of tightening its belt, the Government is still spending …

Mr Speaker, let me remind you that tightening the belt in this context means cutting back on departmental budgets, and the Members opposite condemn this as austerity and quote the views of the union on this with approval. He was telling the House that instead of introducing austerity, Mr Picardo had failed to have the discipline of sticking to his own Budget and the Government … for not sticking to their own departmental budget by £35 million. 'How could he get it so wrong?' he asked rhetorically. So let's see who got it wrong.

If Members look at page 14 of last year's Estimate Book – I think it is also the same number this year – they will note that the 2021-22 departmental estimates for the whole Government came to £550.7 million and the forecast result expected – calculated by Treasury officers, not by the Ministers – was an outcome of £569.3 million, so the overspend in departments was forecast at £18.6 million, not the £35 million he quoted four times in his speech. How could he have got it so wrong? This is serious, Mr Speaker. We have a Leader of the Opposition who does not even know where in the Estimates the figures for the total departmental expenditure are to be found, even though it is actually printed in the Book and it says 'Total Departmental Expenditure'. *(Interjection)* Maybe Mr Feetham wishes to reconsider the praise for the speech that he made last year when he said:

> Mr Speaker, I wish to start by congratulating the Hon. the Leader of the Opposition on his articulate exposure of the Government's responsibility for the state of the public finances and indeed for the austerity measures announced by the Government …

– the ones he was suggesting we should do but did not do. Mr Feetham tends to say things like that, having said in 2017 that the former Chief Minister was the greatest living Gibraltarian, but at least on that occasion it was because he was grateful to him for having given him a home and handed the party over to him. He owes no such debt to the present leader, who left the GSD because he was accepted as a member when he merged an alleged socialist party with a conservative one – an unusual development, ideologically speaking. So all the concern of the Leader of the Opposition about the overspend of departments coming to £35 million higher than what we had allegedly promised to spend was not true. The numbers that he quoted in support of his attack were incorrect and showed he did not know what he was talking about. I will now prove this by quoting the correct analysis of the forecast outturn for 2021-22.

The overspend was forecast at a total of £18.6 million and the actual figure provided this year is an overspend of £17.3 million, less than half the inaccurate figure on which the Leader of the Opposition based his criticism. Health and Social Care, head 46, at £147.3 million accounted for £15.6 million of the total overspend – one head. The balance of the departmental overspend of £1.7 million was the result of excess expenditure by the other 55 heads of departments, which spent £420.7 million instead of the £419 million in the estimate Budget, which he calls the amount we promised – an overspend of £1.7 million, constituting an excess of 0.7% net overspend spread over 55 departments. This is what the Leader of the Opposition told Parliament last year was a recipe for disaster – the public finances were out of control with Ministers not sticking to the departmental budgets for 2021-22. Not true. He did not know what he was talking about. I am sure that if I took the trouble to research it I would find plenty of occasions in the 15 years of the GSD Government when the excess overspending of 55 out of 56 departments was no higher than 0.4% collectively.

Last year the forecast Consolidated Fund balance at 31st March 2021-22 was put at £118.6 million, the starting point of the financial year just ended. The actual results for 2021-22 this year are slightly better than forecast. Revenue was £100 million higher than expected and departmental expenditure finished at £1.5 million less than forecast. Therefore, the 1st April 2022 cash position of the Consolidated Fund stood at £120.5 million instead of the forecast £118.6 million.

Having started slightly better off, the forecast levels of revenue and expenditure for 2022-23, the year that has finished, have improved on the estimated results provided last year. Departmental expenditure estimated at £552.8 million is now forecast to have reached £605.4 million and an overspend of £52.6 million, in spite of our attempt at controlling expenditure. This overspend is almost entirely due to increases in two departments: head 46, health and care expenditure at £149 million instead of the estimated £125.3 million, an increase of £23.7 million; and head 50, utilities, with expenditure of £84 million instead of £57 million, an increase of £27 million. These two heads of expenditure account for £50.7 million of the £52.6 million. The rest of the 54 heads of expenditure had an estimated expenditure budget of £370.5 million and a forecast outturn of £372.4 million, an increase of £1.9 million, an overspend of 0.5%, which I would suggest to the hon. Members opposite reflects quite effective budgetary discipline.

Fortunately, the forecast revenue exceeded the estimate with an outturn of £731 million compared to last year's estimate of £637 million, an improvement in revenue of £94 million compared to the additional expenditure of £52.6 million. The recurrent revenue for 2022-23 has exceeded the previous record of 2018-19, which was £708 million, which I said last year I did not expect to see happening this side of the General Election – and I am glad to say I was wrong, it has happened. The principal sources of revenue in the forecast outturn are income tax estimated at £182 million and now forecast £69 million higher at £251 million, and company tax estimated at £125 million and now forecast £35 million higher at £160 million. These two heads delivered improved cashflow of £104 million offset by lower than expected import duties at £93 million instead of £120 million, a drop of £27 million.

To put those numbers in context when comparing them with the financial year 2018-19, we need to note that inflation in the period January 2019 to January 2023 has been 15.5%. By comparison, the current revenue forecast of £731 million is 3.2% up on the figure for 2018-19 and the expenditure, which is forecast at £605 million compared to £504 million in 2018-19, is a 20% increase. So we have a 15.5% increase in inflation and we have had a 3.2% increase in revenue, and we are facing a 20% increase in expenditure. So although there is an improved situation, we have some way to go to get right the balance between government revenue and expenditure that we have to achieve to restore the position of the financial year 2018-19, which has to be the minimum target since at the time and with those figures I was already expressing concern about the rate of increase of recurrent expenditure.

As a result of this improved outturn, the more recent estimates are that 2022-23 started at £120.5 million instead of £118.6 million and is forecast to have ended in March at £176.3 million instead of the estimated £122.3 million. For the current year, we are estimating to maintain the position rather than improve it, with the Consolidated Fund estimate for March 2024 at £177.3 million compared to this year's £176.3 million, a £1 million improvement resulting from a slightly lower revenue estimate at £723.9 million compared to the forecast for last year of £730.4 million.

On the expenditure side, the estimate of funding we are providing is to come back closer to what was provided last year rather than where we ended – that is to say to the £552.8 million rather than the £605.4 million. Needless to say, the uncertainties of the global economic scenario, which I have referred to earlier, and our own uncertainties as to whether there will be any new Schengen access treaty, and, if so, when it will come into effect and exactly how it will impact on our economic performance and subsequently on Government's recurrent revenues, all indicate how the number of variables means that any estimate at this stage is more intuitive than scientific.

Hon. Members know I am targeting the restoration of financial stability by comparing subsequent years to the results for 2018-19. This was, until last year, the best year in terms of revenue and the year when I advised we should introduce measures to control the rising cost of public sector payrolls based on the estimated level of expenditure at the start of the financial year, which we subsequently greatly exceeded, delivering the highest revenue in our history at £708 million until this has been surpassed by this year's forecast outturn for last year at £731 million, net of COVID contributions, a figure that has not been estimated as likely to be repeated in the current year, for which £723.9 million has been estimated. This is mainly because it has been public practice since 1988 to estimate potential income from different sources of revenue conservatively to avoid nasty surprises halfway through the year, a practice introduced by the GSLP in 1988, continued by the GSD in their term of office and by us since 2012.

In some financial years since 2012 Members opposite have challenged the higher outturn in revenue that has been achieved as if it were not normal practice to have the initial revenue estimated conservatively and therefore normally achieve a higher forecast after, and sometimes an even higher actual figure as a result of the policy adopted in doing these calculations. The legitimacy of the subsequent calculations has resulted in the Members opposite challenging the results of the changes as fictitious. I remind Members opposite of the following statement in the 2009 GSD Budget by the Hon. Chief Minister of the time, which confirms the established revenue estimating practice. He said:

> As I said last year, we estimate revenue conservatively because we cannot continue to assume exponential increases in jobs, in the economy, year in, year out.

That anyone who has been in government for some years should think it is possible to provide fictitious estimates and that Treasury officials would go along with it makes one wonder what went on in the years of the GSD administration that we never knew about. I say this because nobody else, other than the Members of the current Opposition, have ever questioned the legitimacy of what is in the Book. What they have normally done is question the wisdom of some of the policies and the explanations given in this House, examples of which I provided last year in my Budget contribution.

In 2019-20, shortly after the election and at the start of the 2020 calendar year, in February and March the COVID pandemic started having an impact on the government revenue and on the performance of the economy. That is also why I have chosen 2018-19 as the year estimates that we have to get back to. In spite of the very welcome improved revenue levels, which are higher than the 2018-19 previous record, the expenditure side of the equation is where the problem is. It is a problem that has no easy or quick solution. It is not a question of waste or avoidable expenditure, as Members will appreciate when I explain.

When we are talking about controlling the expenditure of departments, we need to bear in mind that a substantial part of the cost of the public sector is the payroll, which is a combination of the rate of pay and the number of employees. Since 2012 and until very recently, the Opposition was very critical of the growing size of the public sector, something which has also worried me because of the difficulty in funding an ever-increasing level of public sector employees. The practice that has been adopted to date is not to automatically fill vacancies as they occur, with a view to seeing whether it is really needed or the funding could be put to better use elsewhere. This, of course, is subject to our manifesto commitment that the Civil Service will not be allowed to fall below the level we inherited in 2011, so I want to remind the Opposition Members of their policy in government.

The GSD Budget of 2009 set the criteria for what should be the measurement to determine if the current government spending was too high. This was using the same concept that I explained last year for employees when the then Chief Minister had rubbished the idea that the public sector manning level was too high and that there should be a notion of a bloated public sector, a description that had only been used by the Chamber of Commerce in 2009 when the Hon. Mr Feetham was in government, and then by Mr Feetham in opposition in 2012 when the present administration increased public sector workers. But as far as the then Chief Minister was concerned, increases in the size of the public sector were a good thing, not a bad thing, and the size could not be assessed in absolute terms but only as a percentage of the whole workforce. He said in 2009:

> Therefore, commentators please note, the public sector as measured in one of the ways that it is measured by economists, in terms of the proportion of overall jobs in the economy, is not getting bigger, it is getting smaller. It is not getting bloated, it is debloating.

Little did he know that the person he chose as the heir to the GSD crown would be the only commentator that required to be given this message, the Hon. Mr Feetham. He said the following:

> Public sector jobs accounted for 22% of all jobs in the economy. Government recurrent expenditure as a percentage of estimated GDP in the year to March 2010 was 33.5%. This compares with over 40% in the UK.

Since then, the ratio has been 22% of the workforce in 2010, 21% in 2011, 23% in 2012, and in 2021, 21%. So according to the GSD policy in government, the size of the public sector should be calculated as a share of the whole employment market, and on that basis there has been no growth in the public sector since 2011; it is still at the same level of 21%, or lower. So all the criticism of the last 11 years from the GSD Opposition has been in conflict with the criteria they applied to themselves in government.

Let me be clear that I did not agree with their theory in 2009 when I was in opposition and I still do not agree with it in government. It is pseudoscience because the reality is that the size of the labour market as regards the private sector can contract or expand, depending on the demand for short-term workers who happen to be in employment in the private sector in the month of October, and these fluctuations have no effect whatsoever on the public services requirement for manpower. Nor does the size of the private sector manpower mean that there is necessarily much more revenue to pay more public sector workers given the discrepancy between the two sectors in respect of average earnings.

So as I said last year, I am not in a position to say whether the public sector is too big or too small for the services that they have to deliver, because there is no methodology available to measure this. What I do know is that we have a serious problem in meeting the payroll with the present levels of revenue. This is in spite of the fact that the public sector employment level in October 2022 was lower than in 2011 at 20% of the workforce compared to 21% in 2011, and that revenue is the highest in our history at the forecast level of £731 million for 2022-23 compared with the forecast level of £452.3 million in 2011-12, even if we take into account the need to add some £120 million to that figure as a result of the double-booking of income retrospectively for the year 2009-10 and 2010-11, which has been kept in place in terms of how the calculations are done to date. This is the challenge that still faces us in restoring financial stability to the public finances.

Mr Speaker, I will now try to explain what is happening with the economy. It appears that there are many people who naturally assume that the growth of the economy, as measured by its GDP, is the same as the revenue of the Government, as if these were two sides of the same coin. This is not so, here or anywhere else, and it is less so here than in many other countries because of the characteristics of our economy, the fact that half our workforce lives in Spain and contributes to the GDP of the Campo area with their expenditure and that in addition to sourcing labour from outside our economy we import everything we consume and everything we sell to others. That said, there is a link between the output of the economy and the income of the Government, but it is not one to one.

The drop in revenue that has taken place since 2018-19 has been principally from the receipts from import duty. In 2018-19 the actual result for head 2.1 was £173.7 million. In 2021-22 it was estimated to come in at £150 million and the actual result has been £111.4 million. This is a tax on consumption and therefore not one of the components for the calculation of the value of the output of the economy, which is the GDP. Income tax and company tax, heads 1.1 and 1.2, are taxes on income derived from the creation of economic activity, the output side. By contrast to what happened with import duty, the figures here went up in 2018-19. The actual result was income tax £181.9 million and company tax £163.8 million. For 2021-22 the Treasury estimate was income tax £180 million and company tax £120 million. The actual results, as Members know, have been income tax £202.5 million, £22.5 million higher than estimated, and company tax £122.1 million, £2.1 million higher than estimated. This pattern has been repeated for 2022-23. Import duty was estimated to come in at £120 million and the forecast outcome is £92.9 million, a drop of £27.1 million. On the other hand, income tax for 2022-23 was estimated at £182.4 million and the forecast outturn is £251.4 million, an improvement in revenue of £69 million, and company tax was estimated at £125.2 million and is now forecast to come in at £159.5 million, an improvement in revenue of £34.7 million; an improvement of over £100 million in those two heads of revenue. So the implications of the differences in direction of our different revenue streams reveal and explain how the economy has continued growing and the Government's revenue has been falling. The explanation is demonstrated by these figures. Hence the importance of not assuming that growth of GDP is necessarily accompanied by equivalent growth in government revenue.

In recent years, a study carried out by the OECD calculated the ratio of GDP to man hours worked in a number of countries for the years 2022 and 2015 to test the change, the approach we adopted in 2019. In this calculation, GDP in Ireland had increased 41%, the UK's increase was 2%, with Spain, France, Holland and Greece below the UK and negative in Luxembourg, which happens to be the country with the highest per capita income in the world calculated in the traditional way. The result for Ireland has a simple explanation. The relocation of multinational companies has contributed to the profit element of the GDP computation on a much larger scale than it has led to an increased demand for labour. The result for other European countries shows little is being achieved in productivity gains. Although no other country has adopted this metric, I believe that in our case it produces a more reliable indicator of the performance of the economy.

In the traditional GDP per capita that has been used in the past the result is produced, as it is everywhere else, by dividing the economic output by the population. In the new approach we divide the output by the number of employees, including frontier workers, therefore showing whether output per worker is increasing or not. The GDP per capita is misleading, in that it suggests that the output from the frontier workers is retained in Gibraltar as income and is available to us, the resident population. It is not true. This is true of any economy that makes use of frontier workers, but in most cases the percentage of the working population that is provided by frontier workers is too small to make a difference. In the EU, only one country has a similar high frontier worker percentage. It is Luxembourg, whose GDP per capita is $127,580, the highest in the world, and yet we saw that its productivity was going down instead of coming up. According to Luxembourg's National Institute of Statistics and Economic Studies, 44.9% of Luxembourg's workforce is made up of cross-border workers, almost the same ratio as us. The majority are from France, followed by Germany and Belgium, who are EU nationals and therefore free to travel with no restrictions.

Mr Speaker, the Leader of the Opposition gave us his reason for not voting in favour of the Estimates of Expenditure last year as follows:

> Mr Speaker, this is the State of the Nation debate, and after the damning indictment people will hear from the Members on these benches about his economic record and the lack of leadership, it would be wrong and perverse to send the signal that we are aiding and abetting his attempts by voting for his lack of controls and unwillingness to grapple with the hard choices necessary to steady our economy and to leave a legacy of sustainability.

I am not sure what the Leader of the Opposition meant by the 'damning indictment' that was to be provided by the other Opposition Members on the Chief Minister's economic record, or what was or is the evidence that our economy needs to be steadied, or how you steady an economy for that matter. Indeed, I am not sure what sort of record an 'economic record' is. Nor do I understand his terminology on the current state of the economy. So I am assuming that what it was all intended to convey was a criticism of the performance of the economy, which is the record we have of our economy and for which I am responsible, and not the Chief Minister, as Minister for Economic Development. So what was this damning indictment of our economic development in the last four years, or indeed since 2011?

I have already explained our policy objective in GDP growth has changed post Brexit as regards the growth in the size of the economy. I am not sure if this change is something that Members opposite are against, because I am not aware that there has been any reaction to this from any of their Members. Perhaps if I give them one particular statistic they will understand that the performance of the economy has been real and that the change of direction is also real.

In the seven years between 2011-12 and 2018-19, the workforce went up by 7,748, from 22,247 to 29,995, and the payroll went up by £321,564.60 million to £885.6 million – the payroll of the whole of Gibraltar. In the next four years, from 2018-19 to 2022-23, we have had an increase in the workforce of 1,155 and the payroll has now gone up by £146 million, from £885.6 million to £1.32.40 billion. This is in the economy that is in a very bad way. Before the Brexit-driven policy change – that is up to 2018-19 – the economy grew from £1.12.60 billion in 2011-12. That is to say when the GSD left government that is the figure they left it at, which they considered a very high figure, and it went up between the time that they were in government and the last normal year, 2018-19, to £2,456,000,000, almost £2½ billion in size, an increase of £1.443.4 billion in seven years. Is the damning indictment that this is a poor record of growth because it is too little?

So what, then, was it in the previous seven GSD years? What did they do? In their time, in seven years, it went from £559.7 million in 2004-05 to £1.012.80 billion in 2011-12, an increase of £413.4 million in seven years. So they grow the economy by £413.4 million in seven years, hand it over to us and we grow it by £1.443.40 billion. That is to say we grow it by three and a half times the figure they did. So what is the damning indictment? That we grew it too much, not that we grew it too little?

Chief Minister (Hon. F R Picardo): The numbers don't lie.

Hon. Sir J J Bossano: He seems to think we currently have an unsteady economy, whatever that may mean, that hard choices are needed to steady it and that we are unwilling to grapple with those hard choices. I have to tell him as Minister for Economic Development that there is no unwillingness on my part to grapple with hard choices to steady our economy.

Since I can make no sense of what he said about the economy last year, which continues to perform very well by comparison with the performance of the UK and the EU – which are in recession, they are shrinking – measured by all the normal indicators, I would welcome it if he writes to me and explains what is this unsteadiness that he has detected and which he knows how to correct, but which he thinks we also know but do not want to correct. I can only conclude that no such indictment, damning or otherwise, was delivered last year on the economy, nor any evidence of unsteadiness provided.

So maybe the answer to the absence of indictment on the performance of the economy is quite simple. The Leader of the Opposition belongs to the group of people I mentioned earlier who confuse the performance of the economy with the performance of the public finances, and of course in that case there was certainly plenty of indictment last year on the public finances – the mysterious two books invented by Mr Clinton some years ago, the level of debt, the ratio of debt, Credit Finance and so on. It is strange that Mr Clinton should refer to these criticisms about the public finances last year as a reason for not voting in favour of the Estimates of Expenditure.

There was absolutely nothing new said in this area last year, or this year for that matter. The arguments have been repeated every year for 11 years, irrespective of what was in the Book. In 2012, 2013, 2014, 2015 and 2016 they made the same accusations but voted in favour of the expenditure. In 2017, Mr Feetham as Leader of the Opposition was misled by Mr Clinton, who advised him to vote against the expenditure estimate for the first time in the history of Gibraltar, so they voted against providing funding for the public expenditure of 2017-18, not that there was anything different in the Book that year from what had been in our first Budget in 2012-13 or in their last Budget in 2011-12. The recent explanation by Mr Azopardi argues that if they voted for the expenditure people would think they were approving our management of the finances, which they criticise so much. That does not make sense. With all due respect to the Leader of the Opposition, I have been in his position myself longer than anybody else in this House. I criticised from that office the policies of the AACR Government, but I voted to give permission for the funds to be provided to perform the public services. I did the same thing for 14 years with the GSD Government. No one ever thought I approved of the AACR or the GSD because of it. Neither has anybody thought that of any other Opposition in the history of this House, who have always voted to provide money to run the public services. But if that is what they want to do, it is a matter for them. They do not need to justify themselves to us or anyone else. However, I would just point out to him that the excuse for voting against keeps changing. In fact, I think this year there were two different excuses.

The GSD is obsessed with the question of public debt. Even in government they went to great lengths to justify in Parliament the need to borrow, when we were in fact supporting the increase in the levels proposed. I have said before that the level of debt is not the relevant issue. What is relevant is how you are using the money that you borrow. This applies whether you are a government, an individual or a business. The rule is quite simple: you borrow to invest in and create or gain ownership of assets, either because you need the asset or because it will generate a return to service the loan. So the limits of government borrowing, whether by the EU at 60% of GDP in relation to being able to join the Eurozone, or 40% in other cases, are arbitrarily arrived at by the UK for the Overseas Territories, other than Gibraltar, for example. In the EU case it was about monetary policy, not economic policy, and has long since been abandoned with most countries in the advanced economies being well above this ratio of GDP. The UK, for example, is now over 100% of GDP, as are, in the EU, Austria, Belgium, Portugal, France, Spain, Italy and Greece, with Japan, the third economy in the world, over 250% of GDP. No country has ever had a limit on debt linked to the size of government revenue. So this limit was a policy decision of the GSD Government taken in 2008. The reasons for it were never explained, so we have no reason why we should continue with it because it was never our policy. So the reason given by Mr Clinton last year was not correct.

Mr Speaker, I will now deal with two other examples of criticism from the Opposition repeated almost every year. Mr Feetham has argued that the reason for the huge increase is that the Government embarked on a process, when they got elected, of shifting debentures issued by the Government directly, which legally count as public debt, to the GSB, where it does not count as debt of the Government because it is a debt of the Gibraltar Savings Bank. He was in the GSD Government that did the opposite, shifted the debentures issued by the GSB and replaced them with government debentures, which increased the gross debt, but they said it did not matter how large the gross debt was, as the economic correct measure was net debt, which every country used in its ratio to GDP. His much admired mentor, the then Chief Minister, explained to me, when I questioned the move of taking the debentures out of the GSB, that he was going to pay above market rates of interest to debenture holders and keep the proceeds in cash, which would be a loss of £9 million, and that if he did that with the Savings Bank perhaps people might lose confidence in it. They did not want confidence to be lost when they were in government, but they want it to be lost now that they are in opposition. So I accepted the explanation.

This is the exchange that we had when an amendment was introduced, on the spot, without notice, to change from gross to net. The Chief Minister said:

> Now, I am sure the hon. Member

– meaning me –

> will wish to make the point, well why then not issue the debentures to the Gibraltar Savings Bank, where it does not count as public debt? The answer is that it cannot be done through the Gibraltar Savings Bank whilst the Government is offering interest rates which are so much higher than the Savings Bank can attract on its deposits later, without plunging the Savings Bank into a loss.

So the reason for the debentures in the Government was to stop the Savings Bank making a loss, according to the then Chief Minister, and he was in the Government. My reply was:

> the hon Member went to enormous lengths in the debate in April

– when he was arguing in favour of gross debt –

> As I pointed out to him then, he did not require to convince me that there were merits in raising the level of the public debt. I am in favour of it, but he went to enormous lengths to show how prudent we were being by not using the net public debt, by using the gross public debt.

– as the ratio of GDP –

> So, therefore, all that he has done today is to say, well look, we want to keep on linking the money we borrow to spend to the gross public debt, which is the argument of the last time, and the only reason why we are changing it to the net public debt is because we want to keep on borrowing more money than we want to spend, and we want to do it through the Government Consolidated Fund, as opposed to the Savings Bank. Well, we think it should be done through the Savings Bank and that the effect on the Government finances would be the same.

So why were they entitled to move the debenture issue from the GSB, where it had been since 1996 and they did it in 2009, and we were not entitled to bring them back in 2012 when we were in government, because it has always been GSLP policy? The arrogance in the position adopted by the Members opposite as regards the issue of debentures in the Savings Bank is incredible. They changed the system in government, we do not agree but we cannot change it back to what it was. The contrast between our positions could not be greater. Having said we did not agree, we abstained instead of voting against, because we did not want to be an obstacle to their borrowing.

It is specifically identified in our manifesto as the vehicle to promote economic growth. The Corporation has the power to make loans, and Credit Finance, as a moneylending vehicle, was created for that purpose. They are against Credit Finance. Credit Finance provides reverse annuities. That is to say it buys the revenue stream from a Civil Service pensioner and provides a lump sum of 12½ times the pension. This is the equivalent of making a loan to a pensioner which gets repaid and serviced from the pensions received. So the pensions go to Credit Finance, not to the individual. This, however, is part of the Opposition's computation of the national debt. Credit Finance has a moneylending licence. Logically its business is to make loans, from the profit of which it services the bonds that it issues to the Gibraltar Savings Bank. It issues bonds to the Savings Bank and lends the proceeds at a profit to public and private commercial entities. So when it lends money to the Sunborn, it is making money for the Savings Bank and improving our tourist product. The Opposition generally and Mr Feetham particularly have raised this in Budgets as if a moneylending company owned by the Gibraltar Development Corporation was doing something, in lending to create economic activity, that is wrong, when that is what it was created for. So all the money that it raises from the sale of bonds, irrespective of the entities or individuals that it lends to, becomes part of the Opposition's definition of public debt. No one else, anywhere else, calculates public debt like that.

The GSB investment in Credit Finance is considered a terrible thing by the GSD. However, in 2016 Mr Feetham actually said he thought it was a jolly good thing and that he was not against it, even though he still criticises it to date. What is so bad about funding reverse annuities for civil servants to cash their pensions? When the GSD was in government, they proposed using the Savings Bank directly to provide pensioner annuities. They announced in their Budget there was a shortage of annuity providers and said:

> Government propose to remedy that problem by converting the Gibraltar Savings Bank into an approved annuity pension provider. In other words, the Gibraltar Savings Bank will issue Monthly Retirement Income Annuity Debentures which will be fully compliant with the Income Tax Ordinance Rules relating to the investment and the purchase of annuities and the details of that scheme will be announced by the Treasury in the next few weeks as legislation is published. The results of it will be that there will be a locally available Gibraltar Savings Bank provided source of annuities for people who retire with lump sum private pensions obviously this does not affect people who retire from the private sector on pension schemes that continue to pay them a reduced salary so to speak. That sort of scheme does not require the purchase of an annuity but for those schemes that pay out a lump sum they require the annuity.

Shortly after the 2003 Budget, the Government set up a working group under the Accountant General comprising retired bank managers from Hambros, Barclays and NatWest. Following meetings in September and October 2003, a report was prepared for possible implementation in 2004. Let me say that they did not implement the promise. This was a promise that was not kept. At the time, the savings vehicles consisted of monthly debentures which paid ½% below non-pensioner holders level and ½% above base for pensioners; ordinary accounts were kept at 1% below base rate and investment accounts that operated as current accounts were paid at 2% below base rate. This was, of course, at the time that base rates were much higher, something that ceased to be tenable with the level of base rates prevailing shortly afterwards in the following years, which became very low. The GSD saw nothing wrong with offering this alternative.

The Leader of the Opposition quotes me as saying that the crisis facing the economy, and by definition the public finances, is the worst one since I joined this House in 1972, 51 years ago, to justify their blaming the Government for creating the situation. He conveniently forgets that I have also said that the global economic background that we faced last year and continues to worsen this year is the worst since the Second World War and the cause of the crisis every single country is facing. This is having an effect throughout the western economies, of which we form a part. So what I have said and I am still saying is that the idea that Gibraltar can somehow happily go on managing its affairs as if we live on a different planet and the challenges facing us will disappear by a simple change of government in the coming elections is something that I doubt anyone in Gibraltar is going to swallow, and that not even the Members opposite really believe that this is so.

It is true that we would have been in a better place to face this problem since 2019-20 if we had increased recurrent expenditure less than we did between 2011-12 and 2018-19, but of course it is also true that we would also be now in a much better place if the GSD had not run down the various reserves created by the GSLP between 1988 and 1996, and instead of running them all down to zero and saying the rainy day is today, they should have gone on to continue the prudential policy of providing for the future and kept topping up what they used to call the GSLP piggybank. Of course, they were perfectly entitled to do as they did as the elected Government, but the main thing is that what we inherited from them in 2011 was a bare cupboard compared to what we left them with in 1996, which they quickly spent, the last bit being what they spent from the Savings Bank. In the process, they generated a negative reaction amongst some of our Members that the view that we had taken in having a prudential approach to public spending and building up rainy day funds only served for somebody else to then come in, say the funds were not needed and spend the money in areas which were not the ones where we would have done before 1996, thereby devaluing the effort we had made to put money aside for future contingencies. It has made the task of persuading people that this is the correct thing to do, the right thing to do a second time, more difficult.

Mr Speaker, the development of our economy is clearly affected by the level of access to the hinterland. Last year, the Leader of the Opposition made a reference to the possible agreement between the EU and the UK that would result in Schengen access. The Leader of the Opposition seems to believe, or has convinced himself, that there was an earlier occasion when a better deal for Gibraltar could have been done if he had been the one negotiating it. That can only mean that he believes, or wants others to believe, that something better was available and that the incompetence of the Chief Minister resulted in a lost opportunity. I have never had any doubt since the referendum result was announced in 2016 that we could expect to end with a no-deal situation, even if the UK achieved a deal, because Spain had a veto and would use it to block our inclusion in anything that was agreed with the EU by the UK. I said so publicly in 2016 and I also said it in the election in 2019. I said that Gibraltar had to change its economy to end or reduce its dependency on Spain.

The EU betrayed our people, who voted to remain, by granting Spain and the socialist government an additional veto to block our inclusion in the UK transitional agreement. Spain insisted on this and threatened to block the UK transition period if it was not accepted by the EU.

So we risked being left out of the transition period and had to do separate negotiations, because had we not done a transition deal the UK would have continued to enjoy EU rights and only Gibraltar would have lost them. That was the betrayal by the EU at Spain's insistence, which the UK was not able to stop because the only way of stopping it would have been to say to the EU either Gibraltar is included in the UK's deal or the UK will go for a no-deal hard Brexit. None of us on this side of the House had any illusions that this was a realistic proposition for the UK. It was not and it would not have happened, whoever was there. Obviously, the Member opposite appears to believe that he possesses a level of negotiating skills such that he would have persuaded the UK to go down that road and that he possesses skills that could have delivered a transition period deal from Spain, with Spain seeking nothing in return. If he has such skills he is wasted here and should be deploying them on a much bigger canvas than the La Linea frontier.

So he wants a deal that allows freedom of movement for our people and safeguards our economic future, which is what he told us last year. Does he not know that such a deal does not exist? He says we need to be politically and economically sustainable and that a good deal would ensure those prospects, if it can be achieved. The reality is that it cannot be achieved. The only deal that can be achieved, as has been obvious and publicly stated on many occasions since December 2020, is a deal that has a maximum period of four years, because none of us are willing to accept a Spanish presence in Gibraltar as the price for a deal. Spain has agreed to request from the EU that Spain's Schengen obligations under any deal would be carried out on Spain's behalf by Frontex for an implementation period of four years, at the end of which Frontex would be replaced by Spanish officials or the deal would be terminated. So the deal will be terminated. As I told the UN seminar in Indonesia in May, that is the only option as far as Gibraltarians are concerned: the deal is terminated in year 4.

In his analysis, the Leader of the Opposition last year said:

> We cannot turn the clock back and we are not in the EU. Unless a future UK government were to take the presently unforeseeable course of applying to join the EU, the best we can do is negotiate an acceptable arrangement for ourselves with Europe, because we are European and that is where our future lies as an inevitable geographic reality that nowhere else in the UK has.

Is it that he is not conscious of the reality that if the UK were to take the unforeseen course of applying to re-join, they would not be able to obtain for us the terms we negotiated in 1972, even if Spain did not use its veto to stop us joining, and that it is inevitable that Spain would try to use their veto to extract a price for re-entry and the EU would support them on this, as they have done on everything else up to now? We are Europeans but we are never going to be EU citizens for as long as Spain claims the sovereignty of our country. So that option is not just improbable, it is totally impossible.

What happens in the four-year period must be beneficial in terms of frontier fluidity, but there is no way of knowing scientifically whether it will result in greater economic activity or higher government revenues because we have no way of projecting or predicting how businesses and individuals will respond on either side of the Frontier to the new situation. The most probable result of a free-flowing frontier with no controls is that sections of our economy would gain customers and others would lose them as a result of frontier competition. This does not appear to be a matter of concern to the Chamber of Commerce, to judge from the recent remarks its president made about the impact of a no-deal situation.

Mr Speaker, moving forward, a new savings product will be launched by the Gibraltar Savings Bank, which will be an Economic Development Debenture with a 5% rate of interest, which is the current rate paid on debentures that are available only for the savings of pensioners. The new debenture will be open for investment by any person or company. It will have to be held until the redemption date and the interest will be paid monthly. However, they will be transferable for the balance of the fixed period and it will be possible to cash out savings by private arrangement, or it may be possible to create a vehicle to provide trading, at a small fee. This is still under consideration.

The domestic aspect of the National Economic Plan involves co-operating with the private sector so that facilities are created that serve to enhance the potential of Gibraltar and meet some of its important needs in a manner that will be self-financing by including commercial aspects that will enable the investment to pay for itself. This is particularly important in the context of the requirement for restoring financial stability, which requires us to reduce the need for borrowing to finance recurrent expenditure in the provision of government services. Once the position is reached that the recurrent revenue covers or exceeds recurrent expenditure, the reduction of the net government debt to bring it down to the level provided in the manifesto will be the next challenge. In this context the opportunities for borrowing to finance capital projects which meet social or other needs but fail to provide revenue to be self-financing are going to be very limited.

In terms of inward investment, the new owners of Gibdock are doing an excellent job of increasing the volume of repairs and there has been an important level of works included for ships from the Royal Navy, which is very important to us in terms of the diversification of our economy, and, of course, because of the special relationship we have with the Navy, since but for them our nation would not exist. I am working very closely with the owners to relocate and upgrade their training centre, on which work will be starting soon.

The new direction for the economy needs to be given an impetus to compensate for the two years we have lost. This is something that can only come about by working in partnership with the private sector. The Ministry for Economic Development will, therefore, invite expression of interest for projects that would lead to greater self-sufficiency and increase our economic resilience. Such projects would become sponsored projects under the National Economic Plan, and the Gibraltar Savings Bank will be providing support, where needed, at rates of interest that are competitive but will still contribute to the profits and reserves of the Savings Bank. The invitations of expression of interest will be for projects in the areas of transport, logistics, storage and cold storage, recreation and leisure, and accommodation. These are the broad areas which would cover a multitude of individual projects all geared to futureproof our economy against difficulties with frontier fluidity. Needless to say, it will not necessarily protect us from the global threats that I have identified. The new Economic Development Debenture will ensure availability of funding. Also needless to say, wearing my other hat as Minister responsible for restoring financial stability, none of these initiatives will entail recurrent or capital costs to the Government and the initial investment and subsequent use of the facilities created will at some point start generating recurrent revenue for the Government, which at this stage it is not possible to quantify.

Mr Speaker, Members are aware that in October 2011 the labour market reflected in the Employment Survey Report consisted of 2,121 employers, of which 1,386 completed the questionnaire and reported providing 22,247 jobs, and 735 registered a nil return – that is they had no employees. In October 2018 the labour market reflected in the Employment Survey Report consisted of 2,711 employers, of which 824 made a nil return and 1,887 completed the questionnaire and reported providing 29,995 jobs. So from 2011 to 2018, on the basis of the Employment Survey returns from employers, there was a growth in active employers of 501 and in workers of 7,748. So at the start of the period the average size per employer was 16 workers, and seven years later it was still 16. The labour market figures up to 2018-19 therefore reflect the relationship of the workforce to the growth in the economy and the targets we set in those years.

In the 2019 election manifesto we clearly set out to obtain growth in output per worker rather than an ever-increasing expansion of the size of the labour market. To try to measure the impact of the new approach on economic policy, I am comparing the years since 2018-19 with the years before and up to 2018-19. That means in 2021-22 we look at changes from 2018-19 and compare them to changes from 2015-16 to 2018-19, two three-year periods, the second of which has not been very good in indicative data because of the COVID impact. This means we might need a longer period to assess the effect.

From 2015 to 2018 there was an increase in the number of employers of 240, from 1,647 to 1,887, and the workforce grew by 3,851 from 26,144 to 29,995. From 2018 to 2021, the post-2019 three years, there was an increase in the number of employers of 122 – fewer employers – from 1,887 to 2,009, and the workforce grew by 408, from 29,995 to 30,403. So what we see by looking at the three years before and the three years after is that there is a lower growth of employers and a lower growth of employees.

From 2014 to 2018 there was an increase in the number of employers of 263, from 1,624 to 1,887, and the workforce grew by 5,573 from 24,422 to 29,995. In the same period, the frontier worker share of the labour market went up from 9,070 jobs to 13,654, an increase of 4,584. So, of the 5,573 jobs, 4,584 were frontier workers and 989 were resident workers. That is to say 82.3% of the increase was frontier workers and 17.7% of the increase was resident workers.

If we now look at the new policy and the more recent period, the post-2018 period, the four years from 2018 to 2022, there was an increase in the number of employers of 155, from 1,887 to 2,042, and the workforce grew by 1,155 – considerably less, one fifth of the previous figure – from 29,995 to 31,150. In the same period the frontier worker share of the labour market went up from 13,654 jobs to 14,150, an increase of 496. So, of the 1,155 increase, 496 were frontier workers and 659 were resident workers. That is 42.9% of the increase this time were frontier workers and 57.1% were resident workers. This is giving us the direction that we wanted in terms of an increase in resident workers and a lesser dependence. The maximum size of the working population that we targeted in the 2019 manifesto was 32,000. We do not want to grow beyond that, so at 31,150 for October 2022 we are within our target. This is in line with my expectations last year when I said, 'The October 2021 Employment Survey records the number of jobs up by 887 to 30,403, which we do not expect to be breached even if there is further growth in 2022.' Moreover, as the above analysis shows, although there has been an increase in frontier workers the ratio is substantially lower than was the case before and up to 2018. In the earlier period the increase was, as I have said, 5,573 with the majority being frontier workers, 82.3%, whereas in the four-year period to October 2022 the increase was 1,155 and the majority are resident workers, 57.1%, in line with our policy of sustainability and increase in per capita output. This is what we set out to do in the 2019 manifesto, to limit our dependency and increase our self-sufficiently to provide resilience to our economy. More needs to be done in terms of providing addition resilience.

The number of frontier workers did not increase in the first month of this financial year, based on the records of open contracts with the Employment Service. It was 15,388 at the close of the financial year 2022-23 – that is at the end of March – and at the same level at the close of April. However, the number of Spanish nationals out of this unchanged total went up by seven, from 10,344 to 10,351. This is a continuation of the trend that has been reflected in the nationality of the cross-border workforce since the financial year 2019-20, when the last General Election took place. In March 2019 the frontier workforce was 14,894. This is on employment records, not survey records, which produce different results. By March this year it had grown to 15,388, 484 more over the four-year period. However, in the same period the number of Spanish frontier workers went up from 9,296 to 10,340, an increase of 1,048. This means that the share of the frontier workforce of Spanish nationality went up at the expense of other nationalities, mainly EU, of which the biggest drop was in British frontier workers, whose number went down from 2,378 to 1,984, a drop of 394 British frontier workers.

Although the records of the Employment Service are likely to overstate the size of the workforce at any one time because of the delay and in some cases the failure of employers in registering terminations, they are nonetheless a useful indicator as to whether the workforce is shrinking or growing. Comparing March 2023 with March 2020, the start of COVID, the figure shows an increase in employers of 181, from 4,472 to 4,653, and of employees of 840, from 34,876 to 35,716.

In 2006 the GSD Government was defending the need for frontier workers by arguing that we had run out of Gibraltarians. In the Budget speech they provided the following incorrect information to support their case and, as was normal, viciously attacked those who disagreed. I quote:

> In 2005 the Gibraltarian population aged 15 and over totalled 18,500 of which 55 per cent were economically active. This stood at 61 per cent in October 2005. This is supported by the 2005 Employment Survey which shows that the number of jobs held by Gibraltarians increased from 9,154 in October 2001 to 9,870 in October 2005 – a rise of 7.8 per cent. Thus, employment within the economically active Gibraltarian population is estimated at 97 per cent, which is almost full and effective full employment. This makes it inevitable that the bulk of new jobs resulting from further economic growth will be taken by outsiders. Indeed, without importing labour, our economy simply cannot grow and could indeed stagnate over time. The Government therefore reject the economically misconceived, and I suspect and fear sometimes pseudo nationalistically and politically motivated used remarks that one hears from time to time, to the effect that there are 'too many Spaniards employed in Gibraltar'. The Gibraltarian labour supply is effectively fully deployed already at around 9,900 people. The Gibraltarian labour supply is effectively fully deployed already at around 9,900 people.

It now stands, in October 2022, at 11,254 Gibraltarians. I hope that their time in opposition [inaudible] to discuss this nonsense.

This established the model for our economy based on ever-increasing reliance on frontier workers, which was continued after 2011 by us, although at the same time we took action to increase the number of Gibraltarians in employment by the initiation of the Future Job Strategy model, which in 2011 had been estimated by Mr Feetham would require an annual expenditure of £11 million, calculated by him in the 2011 election campaign, as he acknowledged was the case in his contribution in 2012 when he said:

> Yes. The reason why I referred to the £11 million – and it is true it was my figure; I am glad that the hon. Gentleman

– meaning me –

> recognises that it was an accurate figure, at the very least – […] – was because, in the hon. Gentleman's manifesto, he committed himself to employing 450 people who were on existing training schemes,

– which did not do much training –

> those on sheltered employment, plus those on the unemployment list, which was 421. That is where the figure of 1,100 came from.
> In other words, I was taking my cue from the promises that he made to the people of Gibraltar, which was to employ 1,100 people in a Government-owned company; hence, my arguments that you were on the road to ruining Gibraltar. But, look, what is it? Is it ruining Gibraltar to employ all these 1,100 people, or is it not ruining Gibraltar employing 1,100 people? Does he plan to allow these people onto the Future Job Strategy Scheme, or is he going to continue to break promises to the unemployed of Gibraltar because he is the socialist Minister for Employment?

The parent company EDEC and the subsidiary training companies introduced in 2012 continue to this day to provide this service and are doing a good job of it.

Post 2019 the new economic model, as far as our policy is concerned, can no longer be the ever-increasing reliance of cross border workers because the certainty of access that existed when we were part of the EU disappeared with Brexit and is not going to come back. I will remind Members that last year I pointed out that the direction of the global economy was changing in increasing localisation of resources and that in our case the labour force was the only resource to which this could be applied.

Mr Speaker, last year Mr Azopardi apparently chose to criticise me for the increase in Social Insurance contributions that had taken place the previous year, but failed to mention that last year the increase was 1% and that this year again it will be 1%, provision for which I made previously over the two years at the same time, repeating the same inaccurate accusation this year. This shows that he is selective in his treatment of issues because his contribution was not about the state of the nation. In fact, it was about the state of the GSD and the political reality that if he does not form government this year after the General Election he never will and the GSD will get rid of him. Hence his attempted vote-catching attack on the Social Insurance 2021 rate increase delivered by him in 2022 and repeated again this year when he said:

> The Social Insurance price hikes last year were penal. They hit business and eroded wages so that there were employees actually worse off, even after receiving a wage rise. That is how profound the Social Insurance hikes last year were. He will remember that the Chamber condemned those increases because they were done without consultation and highlighted, to quote from their press release at the time, 'the precarious state of the Government's finances in the wake of not only the COVID pandemic but also years of rampant recurrent and capital expenditure'. We agree. Those increases were against a backdrop of much lower inflation, and even then there were concerns on jobs, wages and business viability. The Social Insurance increases last year were from 20% to 107% at one brutal stroke. Voluntary contributions were increased by 142%. This meant around £1,100 to those taxpayers.

Well, Mr Speaker, I believe it is wrong to have a contributory system where workers subsidise the benefits of the self-employed and the voluntary contributors who get the same but pay less. I believe it is wrong. So he is against the Social Insurance increase, which he falsely claims mean that some individuals suffered a pay cut because the new insurance rate was more than their pay rise and therefore left them with a lower take-home pay than before. This is not true, but I do not suggest for one moment that the Member opposite was lying last year or again this year when he repeated the statement, because he probably believes it given his evident incomprehension in dealing with numbers. *(Interjection)* That is why he keeps on saying it is true, because he does not understand numbers.

Hon. Chief Minister: He does not understand numbers, that is the problem.

Hon. Sir J J Bossano: That is a problem.

Hon. Chief Minister: He does not understand.

Hon. Sir J J Bossano: I will try to give him evening classes in numbers to bring him up to date. *(Interjections)*

There used to be a policy, when there were serious politicians on the opposite benches *(Laughter)* who believed the correct and prudential approach to Social Security should be to make it self-sufficient and self-financed, and that has been the case since the AACR set the system up in 1955 and it has been the policy of every Government since, but clearly would not be his. So if statutory benefits are increased then we have to increase contributions, which he is against, or we have to subsidise the funds from the surplus of recurrent revenue, which is barely there at an estimated £2.5 million for the current year up to next March and which they do not believe exists anyway. Or we have to incur additional recurrent borrowing to pay recurrent statutory benefits, which breaks the golden rule, which he says they support.

Let me also remind him that the statutory benefits also entail sending money out of the economy, which will therefore have a lower secondary impact, the so-called multiplier effect, because of the increasing element of former workers now living abroad, as the percentage of the total increase in numbers, which, as I told him last year, was, since 2011, 53% for overseas pensioners, compared to an increase in the same period of 34% in respect of resident pensioners, and the updated figures for this year since 2011 are 56% for non-resident and 39% for resident pensioners. In total numbers it has gone up from 8,794 pensioners in 2011 compared to a working population of 22,247, to 12,739 pensioners compared to 31,150 jobs in 2022.

The increases in Social Security contributions are not a matter for negotiation with the Chamber of Commerce or anyone else. They are what is required to meet the evaluation of statutory pensions and the increase in number of pensioners as a result of improvements in life expectancy, the effect that most countries now face with a longer life expectancy and that we expect will also be the case in Gibraltar when the results of last year's census becomes available.

In addition, the policy of the Government to introduce changes that will lead to both male and female pensioners being able to receive a statutory pension from 60 will have an impact. Equalisation of entitlement has not yet been introduced in the whole of Europe, but in all the countries that have done it, it has been brought in at the expense of the female contributors by increasing their the age of entitlement from their current age of 60. The UK, for example, is now paying pensions at 66 to both men and women, due to go up to 67 shortly, and already planning for, eventually, pensions being deferred until the age of 71 as population ageing and financial constraints affect the needs for funding.

The change of policy in Gibraltar cannot be put into effect without knowing the full cost implications. This depends on whether there is a deal with the EU on Schengen access and then seeing whether it contains elements that limit how we deliver the changes to the statutory benefits. Meanwhile, preparatory action is being taken in the Department of Social Security, which I am Minister for, to be able to move quickly at a later stage when it becomes possible. We need to be clear as and when it happens that the only way it can be funded is by increasing contributions payable by employed and self-employed persons, who in effect are giving up current taxable earnings to receive a future tax-free pension.

So, instead of accepting the reality that you cannot pay higher pensions to more people without raising the money from employers and employees, we can choose to make it a political football and pretend it is possible to deliver what employees expect at no cost. The position of the GSD in government was that there was no point in consulting business on charges that had to be increased because the reply was inevitably that they would be against it, and that is our position. As I pointed out two years ago, the increases in our rates still left us well below the maximum payments in the UK and other parts of Europe. The reforms that I am planning should mitigate part of this effect if we are able to do it this year, instead of in four years' time when the Schengen access would end, if it happens.

If the Chamber of Commerce in 2021 thought there was a link in the Social Insurance increase to the precarious state of government finances, then, by definition, not increasing the rate would have meant having to subsidise the fund and make the finances even more precarious. The cost of labour in Gibraltar is higher than in the hinterland and the cost of paying statutory benefit is part of that cost. The idea that the cost can be shifted away from the cost of the product that the labour produces and in which the labour is engaged is, by definition, asking for the state to provide a subsidy as if it had a source of money which would have no impact on economic activity. No such source exists, Mr Speaker.

Finally, I come to the environment. In the last two Budgets I have placed some emphasis on the progress, or lack of it, in dealing with climate change, on which nothing that we do in Gibraltar will have any impact; it is up to the big players to bring about the needed changes. Regrettably, this appears not to be happening, according to the most recent report last month. The latest and probably not the last word of warning from experts on climate change was delivered at the beginning of this month, following a meeting in June to prepare for this year's climate talks in November. The experts' consensus was that the target of keeping global warming to within 1.2°C is moving out of reach. Indeed, this week the global average temperature set new records on successive days. Monday was the highest ever and then that record was surpassed on Tuesday. The UN Secretary General has said that climate change is out of control, as an unofficial analysis of data showed that average world temperatures in the seven days to Wednesday were the hottest week on record. 'If we persist in delaying key measures that are needed, I think we are moving into a catastrophic situation, as the last two records in temperature demonstrate,' António Guterres said.

Therefore, I do not mention it to suggest that our Budget experience can be pointed in a direction that will address the problem, because we cannot make a difference other than to show our commitment in acting to reduce the negative impact. However, I have also indicated that the answer lies, in my view, in changing our lifestyles from excessive consumption to necessary consumption. The roots of this malaise were created in the US consumer economy as early as the late 1950s to 1960, as I mentioned last year, and spread to Europe subsequently, eventually becoming a global phenomenon and now totally out of control, as predicted. There are small groups in different countries promoting reduced consumption but not enough to impact on the wasteful lifestyle of the so-called advanced economies which continue to be the model that the developing countries aspire to.

The current state of the world economies still facing deglobalisation, stagflation and now recession will mean that for as long as this lasts the pace of climate change and pollution will be reduced, even if what is happening in Ukraine is adding to it. Nevertheless, it is clear that what the people want here and elsewhere is a continuation of the status quo, and therefore conventional wisdom will dictate that there are more votes to be had in promoting increased consumption than in persuading people to change their lifestyles and consume less. Our policy of moving from higher GDP per capita to higher GDP per worker is the only painless way to move in the right direction. It means we monitor and promote the output of the producers and not the consumption of the community.

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

Hon. Chief Minister: Mr Speaker, after that tour de force analysis, I move that the House should now adjourn to 5.30 this afternoon.

Mr Speaker: The House will now recess to 5.30 p.m.

The House recessed at 1.29 p.m.