

# **THE CHIEF MINISTER'S BUDGET ADDRESS 2018**



HM Government  
of Gibraltar

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Her Majesty's Government of Gibraltar  
6 Convent Place  
Gibraltar

Mr Speaker,

I have the honour to move that the Bill now be read a second time.

### **Introduction**

1. Mr Speaker, this is my fifteenth budget address as a Member of this Parliament.
2. It is my seventh budget address as Chief Minister.
3. And in delivering it, Mr Speaker, I am already facing my fourth leader of the Opposition!
4. Mr Speaker, as part of my address on this second reading of the Appropriation Bill, I have the honour to present the **estimates** of Government's revenue and expenditure for the year ending 31st March 2019.
5. I also have the honour to present the **out-turn** for Government's revenue and expenditure for the year ended 31<sup>st</sup> March 2018, which

was the sixth full financial year of a Socialist Liberal Government since we took office in December 2011.

6. Mr Speaker, this address comes twenty four months after the decision of the British people in referendum to leave the European Union.

7. In that respect, Mr Speaker, and given that it is now increasingly likely that the United Kingdom will leave the European Union on the 29<sup>th</sup> of March next year, this is, sadly, the last Budget Address that will ever be delivered in this House by a Chief Minister whilst we are members of the EU.

8. And in the context of that international political backdrop, Mr Speaker, as is now traditional, my budget address to this House is very much a 'State of the Nation Address' and I will also report to the House on the state of our Public Finances as well as on our nation's economic outlook.

9. Indeed, Mr Speaker, it is now thirty years since Sir Joe Bossano delivered his first Budget Address as Chief Minister to this House. To quote exactly and verbatim what the then Financial and

Development Secretary said in his address on the Second Reading of the Appropriation Bill in 1988, it is, in fact, Mr Speaker, THIRTY YEARS since “el giri” as he referred to himself, gave way to “el Jefe”, as he wisely referred to the then new incumbent of No6 Convent Place.

10. Seen now through the prism of history, those words were perhaps more prescient than he might have appreciated.
11. That was the beginning of an economic revolution in Gibraltar’s political development that ushered in a period of economic self-sufficiency that was inextricably linked to the right of self-determination that is the foundational core of the GSLP.
12. Additionally, and as a direct and specifically intended consequence, a process of political emancipation commenced also as we took full control and responsibility for our finances into the hands of a Chief Minister who was better able to understand our aspirations and trajectory as a people than any person appointed by London might ever have been or would ever be.

13. Moreover, Mr Speaker, it is certainly true that the real reins of colonialism run through the control of economic levers. And therefore, by wresting control of the economics of our nation from the hands of a United Kingdom appointee in 1988, so Sir Joe Bossano advanced giant steps in the cause of self-determination, decolonisation and the cause of the maturing of the Gibraltarians in one deft move.
14. And that is why, Mr Speaker, since 1988, when we look at the economics of our nation, we know that we are looking through time also at the development of our nation and the growth of our identity as a people, not just at the year on year statistics of our finances.
15. This year, as in every other year, I will, of course, also be outlining the budget measures that this Government will introduce this year, in pursuance of its manifesto commitments, in pursuance of the approaching departure from the EU and in pursuance of the important twin tracks of the social and business needs of our community.
16. Mr Speaker, as has been the case with all my Government's previous budgets, this budget is designed to support our hard

working families, to strengthen our future, that is to say to support our youth and our students and to provide well deserved support for those in our Community who are disabled as well as provide well earned support for those who have made the sacrifices that make our prosperity a reality, our senior citizens. All of that is factored into what I will tell the House today.

17. Mr Speaker, at the same time, and as we face together as a Community the challenge of leaving the European Union, this is a budget designed to encourage established businesses to grow and to encourage new businesses to establish themselves.

18. Mr Speaker, Honourable Members have heard me say before that we consider the Private Sector to be the essential engines of our economy. Honourable Members will hear me say that again today throughout this address. Working with the organisations that represent businesses in Gibraltar, we have delivered a pro-business environment that we will continue to foster. We mean business in our support of our businesses large and small and this Budget will once again demonstrate that.

19. But to deliver a great environment in which to do business; to deliver what our Private Sector needs, we need to continue to improve our public services. That means investing in our Public Sector and investing in our Public Servants in order to deliver the Public Services that our Community needs and deserves today.

20. That combination of support to our Private Sector business community and investment in our Public Sector will be what delivers the continued and sustainable growth in our economy.

21. And so, Mr Speaker, this budget reflects my Government's ongoing commitment to use the resources of the State to continue to improve the quality of life and standard of living of all our citizens.

22. Mr Speaker, for seven straight years now my Government has been able to report GDP average growth over ten percent per year. I will report on GDP later in this address, but I want to reflect on the fact that this unprecedented run of growth has demonstrated in an objective manner our success in these past seven years in the management of our economy. **WHATEVER ANYONE ELSE MAY SAY.** We have also demonstrated that we have known how to

spread that wealth. We have known how to manage also the redistribution of that wealth in our Community. And in doing so we have provided an unprecedented level of prosperity to all sectors of our Community.

23. Indeed, Mr Speaker, it would be churlish and unconvincing of anyone to suggest that Gibraltar is not today experiencing a prosperity which our forefathers might not have imagined possible, despite the many difficulties and challenges that we have faced.

24. How could those who sailed from Gibraltar in the ships of the evacuation – and the men who saw them sail into the horizon - imagine this Gibraltar which they have bequeathed us with their hard work?

25. How could those who voted in the referendum of 67 - knowing that the choices led to sacrifice, not plenty - imagine the turn around that has led to this Gibraltar in which no real sacrifice is asked of any of us?



26. And what of the generation which almost fifty years ago saw the frontier gates shut in their faces, cut off from families, from businesses and from access to the European Continent?
27. How could they imagine this Gibraltar where economic growth reaches an average of ten percent per annum with the Ministry of Defence now contributing a minor fraction of the economic activity?
28. None of the Evacuation Generation, the Referendum Generation or the Closed Frontier Generation could have imagined that by our own hand, our people's entrepreneurial spirit, our workers hard graft and the economic guile of one man, Sir Joe Bossano, we could see a turn around in our political and economic fortunes which could lead us onto the path of prosperity that we enjoy and continue to develop and grow today.
29. And so, Mr Speaker, on this side of the House we will seek to adhere, to some of the founding principles which Joe Bossano set out 30 years ago in his address in 1988 and his fuller address in 1989.
30. I want to enumerate those principles Mr Speaker as follows:

31. **The first principle**, Mr Speaker is that the two most important pillars of our economy in Gibraltar are the land that we own and the people that we have. Those are the pillars. Those are the resources. And our whole wealth and standard of living depends on using those two natural resources efficiently. We have nothing else. And perhaps nations with larger populations and greater land masses do not recognize this as acutely as we do, but it is likely as true of Gibraltar as it is for the whole of the world. We are just much more acutely aware.

32. **The second principle** is that we do not borrow to repay recurrent expenditure. In sticking to that principle we must also understand the need to control recurrent expenditure so that it does not rise beyond what can reasonably be met from what the conservatively estimated level of recurrent income will be. You see Mr Speaker, if recurrent expenditure were ever to exceed recurrent income and we were to stick to the principle that we do not borrow to repay recurrent expenditure, then the only way to repay that recurrent expenditure would be to increase recurrent income using the levers immediately available to government, that is to say, taxation and we do not want to see taxation increased as we

consider that the best business environment is a low tax business environment both for corporations and individuals. And that is why, Mr Speaker, Honourable Members will see in these Estimates, and I will come to this later in my speech, how we have controlled and are controlling recurrent expenditure. Because, Mr Speaker that is the fundamental, inescapable logic of our situation and the situation of all economies, Mr Speaker, which, is that we cannot consume, collectively, more than we produce collectively. and that if we have one section consuming more than they produce, that can only happen at the expense of another section consuming less because at the end of the day the equation has to balance. There is no way out of that dilemma. It is a dilemma that is faced by everybody in the world. It is not unique to Gibraltar. And that is exactly how Sir Joe expressed it in 1989.

33. **The third principle** relates to borrowing generally and the need to ensure it is properly financed and invested in capital projects which are self-sustaining or required for the social needs of the community. Again, the position of the GSLP has always been that borrowing is not an evil or a problem if it is designed to result in investment which produces more income in the future and is repayable from that income or other reliable source.

34. **The fourth principle**, Mr Speaker, is that we should accumulate funds in pots where they will be accessible to Government of to discharge liabilities of the Government in event that there might be periods of lower recurrent income. These are the 'rainy day funds' that other parties have at different times eschewed and at other times eulogised. The negative consequence of the times when the eschewed the rainy day fund policy is that we found all the funds depleted to zero when we were elected in 2011. In the GSLP, and now with our colleagues in the Liberal Party, we have been constant and consistent in our view of the importance of these funds. This applies equally in respect of entities whose liabilities the Government considers as important as its own. The best example of this is Community Care, an independent charity which was created to provide additional support for resident pensioners in our community.

35. Mr Speaker, sticking closely to those principles, we have not just delivered economic growth, we have made growth sustainable. In this term we have predicted 7.5% of annual economic growth in GDP terms. I will report later on how we have exceeded that to date and expect to continue to exceed that in coming months as the

lifetime of this Parliament is extinguished. Additionally we have delivered record levels of annual recurrent budget surpluses. We have delivered and continue to deliver a significant increase in our employment levels. We have delivered and continue to deliver record low unemployment. And we have delivered and we continue to deliver an overall reduction in the cost of doing business in Gibraltar. And, again, this year will be no different despite the Brexit process on which we unfortunately and seemingly irretrievably embarked.

36. And in the time we have been in office, Mr Speaker, the Government which I lead has provided support for our working families with income tax already abolished for those with income levels below £11,150. There has been a significant reduction in income tax across the board for all taxpayers and many of our working families have benefitted from an increase in the national minimum wage to date of over 19.4% - that is to say, almost 20% - since we were first re-elected. Our public servants have also benefited with public sector pay increasing since first elected by a total of 17.5% which averages to 2.9% over the six years when inflation in the same period has averaged 1.8% per annum. These

are above average inflation pay rises every year since we were elected afforded to every single public servant.

37. And, rightly, Mr Speaker, our senior citizens have shared in our Nation's economic success. Each year there have been annual increases in old age pensions and the minimum income guarantee. Investment in the comfort, care and security of the generations to whom we own this magnificent Gibraltar. I will explain later the potentially negative consequences of not funding the Statutory Benefits Fund that supports these payments.

38. Additionally, despite rates offered by the Savings Bank having being revised to reflect the reality of continuing low interest rates, those who are pensioners continue to have available products offering above market interest rates on their savings with the Gibraltar Savings Bank. And for those that need it we have invested in the capital and recurrent expenditure required to open the new dementia residential and day facilities and homes for our elderly. This costs money, Mr Speaker. Millions. And that is why recurrent expenditure is up despite our very prudent management of our Public Finances. Because it is right and proper that we should be spending on these new services. And Mr Speaker, I should just

point out that Departmental Expenditure has increased in the past 6 years that we have been responsible for it an average of 7.6% per annum – but that it grew by an average of 17.8 per annum in the 5 years before we took over and the party of Honourable Members opposite was in power.

39. But it is right Mr Speaker for a Socialist Government to have view across the horizon of the generations. From the cradle to the grave; from birth through schooling and education to our working lives, when and how we buy our homes and build and nurture our families, to our retirements and into our dotage.

40. And we do not just provide for each one of our existing generations, Mr Speaker. We plan for future generations also. We build today in a manner that will endure for generations. That is how we lay the STRONGEST FOUNDATIONS FOR OUR FUTURE, for our nation and for our people.

41. That is why one of the limbs of those founding principles which Joe Bossano set out 30 years ago manifests itself in the privilege that our young people enjoy with University education available to them and paid for by this small country. Because when we talk

about maximising the our human resources as a people, Mr Speaker, these are resources we must invest in as much as we invest in other material things. And if you trace the decisions that we make as a Socialist Government, now in happy coalition with our Liberal partners, back to the first opportunity we had to govern, Members will be able to see how that investment has borne fruit.

42. In the Gibraltar of 1988 there were not remotely the numbers of home grown graduates that we have now.

43. There are now over 1,000 ***Gibraltarian students on government scholarships studying away from Gibraltar at any one time.***

44. I would be tempted to say that this policy implemented by the first GSLP administration in 1988 is what has most transformed Gibraltar. But as a policy, it has to compete for that prize with the land reclamation programme, the affordable 50/50 scheme, the creation Community Care and the joint ventures on telecommunications for that title. Each so relevant to the prosperity of Gibraltar today. Although I do want to hasten to add that this

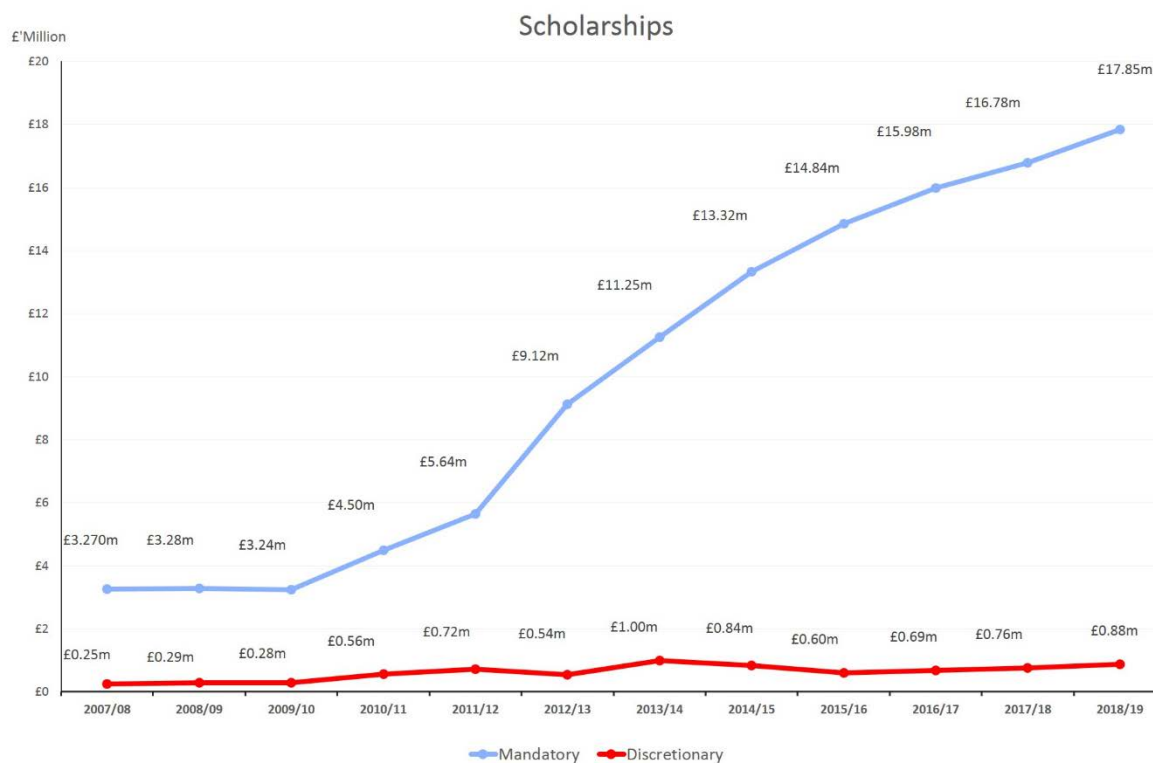


transformational policy was at the time attacked as a move that would potentially 'bankrupt' Gibraltar.

45. Well, Mr Speaker, there is a deep political satisfaction in hearing one's opponents play the same scratched record, decade after decade even when they have been proved wrong!

46. The fact is that our children represent our future which is why we have invested record numbers year on year in higher education. Investment in future generations. And since our re-election in 2011 our spend on scholarships has increased 4 fold from £ 4.4m to a projected spend next year of £ 18.7m. That is the best possible investment we make. We reinvest our recurrent income in our people and in those who in the main will return to produce more for our economy. We have extended the scheme to postgraduate studies now also. We have weathered the storm of increased fees in the UK and, in the face of Brexit, we have successfully also agreed with the British Government to retain the tuition fee structure offered to our students as if they were home students. Our agreement also extends already to Welsh institutions of higher education. Discussions continue with Scotland and Northern

Ireland on a similar reciprocal arrangements to the ones we have completed with England and Wales.



47. But our investment must not just be in relation to tertiary education. That is why, already, we have invested in two new schools at St Bernard's in the also refurbished areas of the Upper Town. We had opened the last two new schools at St Joseph's between 88 and 96. Now we are doing more and some cannot decide if we are doing too much too quickly or too little too slowly and so they accuse us interchangeably of both Mr Speaker! I do wonder, of which of the two we will allegedly be guilty today.

Anyway, we are now investing in the fabric of our schools with new schools being built. The first of the new schools expected in the lifetime of this Parliament, Notre Dame, is set to be open in time for this September. And for September 2019 completion is expected of a new St Martin's, a new St Anne's and TWO new Comprehensive Schools – on the site of which there has not been an unexpected leak of anything as a result of any rushing, incidentally! But is clear that this investment is long overdue, Mr Speaker, and we will be announcing in coming months how we intend to tackle the other schools that require investment that is also long overdue. Investing our wealth, Mr Speaker, in our children's generation is investment in our nation's future wealth.

48. And Mr Speaker, we are doing everything we can in this space. We are working to deliver as many of the new schools as quickly as possible because this is an investment that is required. Honourable Members opposite too often say we are doing too much. They say we are spending too much. They would not commit themselves to this programme to build new schools. Well, Mr Speaker, their failure to commit to this programme would also have had consequences. The consequences would have been for our young people in the new Comprehensives to come, who would not

have had their new schools. The consequences would have been for our children who would not have had their new first and middle schools. The consequences for the children of St Martin's who would not have a new school in the planning to be delivered in time for next September. The consequences of not spending are real and have real people at the end of the decision who will suffer those consequences.

49. And yes there is a lot going on at the same time Mr Speaker, but the Island Games are next July, the schools need to be ready for the starts of each relevant term and this is not just construction required for each of those areas. This is also the economic activity that delivers the prosperity on which all families in our economy rely. And, Mr Speaker, if there is dust arising from construction, it is the dust which delivers the benefits some unfortunately take for granted!

50. And as we take the opposite route to Members opposite, and we make the decision to carefully calibrate our investment in every generation, Mr Speaker, we make investments that will last for generations. Not least, Mr Speaker in relation to the generation of electricity, if Honourable Members will allow me the indulgence of that bridge.

51. This weekend, Mr Speaker, Gibraltar's new power station at North Mole has already started testing and commissioning. Testing and commissioning of the new LNG facility is also about to get underway. That is the consequence of our positive decision to progress an ambitious plan to invest in a new fuel and in a location for power generation in Gibraltar that would not compromise the Upper Rock Nature Reserve and does not require us to put up the cost of electricity to each business and household by 5% per annum for 20 years to pay for it as Members opposite were going to do if re-elected in 2011. No 100% increases in utilities from us, Mr Speaker!

52. The new power station will transform Gibraltar's power generating capability from both a stability and an emissions perspective. We will provide a surer source of power, in a better location and in a manner which will improve air quality dramatically. Not only will the new plant not emit dangerous nox particulates, it will also enable us to shut down four other generating facilities, the generating technology of which is now far from optimum. Indeed, the new facility provides the Best Available Technology, which is

what the Government committed itself to do. And the investment has also included the distribution system as well as the fuel facility developed with Shell and which will provide a future LNG bunkering facility also. And also with the value of bringing back to Gibraltar a world player like Shell. Positive consequences of our careful and considered decision to our Nation's money invest wisely and create a new aspect for our bunkering industry as we invested in safe and secure power generation.

53. I am reminded, Mr Speaker, of how unnecessarily acrimonious this subject matter was made in the run up to the last election and in the manner in which this debate was pursued by some even during the course of this debate on the Appropriation Bill in recent past years. It's once again another example, Mr Speaker, of Members Opposite not appreciating the potential consequences of their actions. But that is now the past, Mr Speaker. Commissioning and testing is commencing and we are progressing as a community as a consequences of our focus on delivering this much needed project for our nation.

54. Plans are also moving apace on the new Waste Water Treatment Plant, another much needed project we have been

pursuing since we were elected. Mr Speaker, I am very pleased that the work on this is now sufficiently advanced that we can expect to see ground broken during the course of this calendar year. Progress indeed, at last, Mr Speaker, on a project which I know all Members on this side of the House are very keen to see completed. The Honourable Member for the Utilities and the Environment, Mr Cortes, will say more in respect of the new power station and the Waste Water Treatment plant.

55. Another important area of investment is that represented by the works for the tunnel under the runway. These works are progressing with the necessary care and attention to detail. Progress with the contractor is good despite past difficulties but we remain vigilant and cannot realistically expect to be tied to any deadline given the problems we have seen previously experienced, which makes commitment to any date to open the tunnel a hostage to fortune, something which we will not countenance. But work is progressing and what is important to us is that the tunnel should be completed to the highest quality so that the taxpayer is not shortchanged again and that it is built to last. Again, on this as in every other area, we must deliver a project that lasts and endures for generations. Unlike our other capital projects that have an

inescapable deadline - such as the schools and the sport facilities - we will not accept pressure on this project to complete by a particular date as that might allow the contractor unnecessary leverage for us not to get the best deal for the taxpayer.

56. And, Mr Speaker, the same Minister for Environment will be able to also report to this House on the massive increase in the investment we are making into the Upper Rock also. And it is not unfair Mr Speaker to here point out that in the time between 1996 and 2011 there was almost zero investment in the Upper Rock. The lack of investment was quite dramatic and was showing. John Cortes has reversed that with the support of the whole Cabinet. Now Honourable Members can see the investment bearing fruit. Look at the new tourist facilities, like the Windsor Suspension Bridge and the Skywalker Skywalk – all of which are beautifully and properly sign posted. Look even at the new railings and defences which in the case of one particular vehicle appear to have been installed just in time to prevent a tragedy.

57. So we spend money, Mr Speaker, but we spend it wisely and we spend it on things that matter to all generation of our people, on



our environment and which make sense for our economy and our public finances.

58. And that means, of course, spending on our health services too Mr Speaker. A new and independent Pediatric Centre for our children which will be ready early next year. A new bespoke Primary Care Centre. Continued investment in new hospital services provided in Gibraltar. What better way to celebrate the 70<sup>th</sup> Anniversary of the NHS in the United Kingdom than with more and better investment in our own health service, the Gibraltar Health Authority – everyone’s Florence Nightingale!

59. And investment also in the support of the new Calpe House in London which we have supported and which will be inaugurated tomorrow. All of that is investment in the health of our nation. How can we not pursue such an investment.

60. If I may, Mr Speaker, I would like to simply pause there to wish the Trustees of Calpe House all the best for the future as they prepare to open their magnificent new facility. I will unfortunately not be able to attend the opening as I need to remain here to listen to all Honourable Member’s contributions. The Honourable the

Father of the House, Sir Joe Bossano, will rightly be the one attend to represent the Government. I am sure I speak for the whole House when I wish the new Calpe House all the very best and I express the hope that it will be as much of a haven in London for those who need it in time of illness.

61. Mr Speaker, part of living longer is also about living healthier and that is why it is such a pleasure to see more and more of our young people involved in sport. And that is why we must also invest in sport as an investment in community and an investment in the overall health of our community. Mr Speaker there are mornings when I rue the day that I allowed Steven Linares to persuade the Cabinet that we should host the 2019 Island Games in Gibraltar! But it was the right thing to do.

62. That is also now also a target that is almost upon us and one which has required the acceleration of projects like student accommodation, which will be used as accommodation for athletes. The sporting facilities will all have to be ready by then, which is an ambitious timetable that we are sure we will be able to meet. And we are developing facilities here – as we are developing homes for the MOD - where our financial outlay is in a number of financial

years, but the return will come in the following financial year. That means we see the cost in this financial year but the benefit and income is not seen until later.

63. It is right that, in this respect, I should also reflect here the gratitude of the whole community to the Gibraltar Football Association. It is in great measure thanks to them that we will be able to develop the new sporting facilities that will provide for all sports. They unlocked with UEFA the funding for a new national football stadium at Victoria which is providing £16.5m to Her Majesty's Government of Gibraltar and which is in turn allowing us to invest that amount and more in the other facilities. That is why it would not have made sense, as Members opposite were prepared to do, for the Government to have invested itself in Victoria, which is principally a football facility today. We would then have invested tax payers money predominantly for one sport, ironically the richest of all sports.

64. Yet, that was the plan of Members opposite. Again, their policies, their statements and their decisions would have had the negative consequence of delivering a worse deal for the taxpayer and a worse deal for sportsmen and women. Our nation would have

suffered from the negative consequences of these policy errors for generations, and the negative consequences would have affected all generations – from spectators to participants.

65. Instead, we are now able to see the use of the Victoria Stadium being fully dedicated to football and with the investment coming exclusively from football and the spread around all the other sports of funding for new facilities which will also include football.

66. That was the right thing to do and we are doing it in partnership with the GFA and all the other sporting associations. Because working together, pulling together and seeking partnership is what delivers great results. And that is how we have approached our work with the United Kingdom in the negotiations to leave the European Union.

67. If Honourable Members care to think back twenty four months, the mood music was not positive. Before 9am on the morning of the result of the referendum, the then Foreign Minister of the Kingdom of Spain said that he hoped, and I quote, that ‘the formula of co-sovereignty, to be clear, the Spanish flag on the Rock, is much closer than before.’ Mr Speaker, the ink was not dry on Returning

Officer's return on the result of the referendum, and already these matters were leading the Spanish news.

68. And yet, today, no one is talking about flags or sovereignties and it is Snr Margallo who is the past.

69. We held our nerve. We held our red lines. We held to our reasonable positions. And we worked and we are working with the United Kingdom in partnership to deliver a Brexit that works for Gibraltar without compromise of any of our fundamentals. The Honourable the Deputy Chief Minister will report more fully to the House in the course of his address in this debate, on the work we have done with the United Kingdom and on our contact with other European partners, given his portfolio responsibilities for Europe and for leaving the European Union.

70. Mr Speaker, our work with Her Majesty's Government in securing post Brexit access for our financial services has been critical in first stabilizing our traditional business lines and then enabling our sustainable growth to continue. Of course there will be some loss of existing business, there will be some new business also. But the sector today is buoyant and confident of the future.

We are already seeing new firms coming in and new sectors being developed. This is also testament to the non stop work and travel of Albert Isola who has become the 'Champion' of Gibraltar as **THE** jurisdiction from which to do international business. He in his field deserves deep recognition for the work he is doing in this sector as all ministers genuinely deserve in the sectors to which they are indefatigably dedicated.

71. Of course my Government is working hard to deliver a successful new line of business for Gibraltar in the DLT/Blockchain space where as world leaders we continue to welcome new businesses to Gibraltar on an almost weekly basis.

72. Mr Speaker in just the first wave, we have some 35 new DLT businesses coming to Gibraltar. Quality firms that will have office space and people employed here in Gibraltar, and coming here because they want to be regulated within the pioneering framework that we have created for them. Indeed, I understand that our law firms are receiving literally hundreds of inquiries a week in this innovative area. We have led in this space and it shows. We are creating Crypto Rock with an excellent reputation around the world.

73. And the impact of this ripples across our entire community. It affects professionals and service providers. We look forward to welcoming more businesses like these who are choosing Gibraltar for their business to serve the future.
74. Mr Speaker in gaming, despite the challenges of Brexit, our numbers are holding strong. Every indicator is up. Whether it is in employment, PAYE or Corporation tax in this sector, **we are up on last year**. And this Mr Speaker, despite the huge consolidation there has been in the sector, and of course Brexit for them.
75. We are working with all Operators to ensure that their Brexit contingency plans can work for them as well as for us and we are pleased with the progress we are making. With over 3,500 jobs in this industry, we are alert and alive to its needs and consistently working to improve the Gibraltar experience.
76. As we speak, our regulators are processing a number of new licence applications both in the B2B and B2C spaces and also working in considering the impact of Blockchain on our gaming community.

77. We have also completed an exercise on gaming licencing and duty reform which my colleague the Minister for Commence will explain in more detail.

78. If I may say so, Mr Speaker, that is a million miles from the place where our detractors and our competitors expected or wanted us to be. We were expected to be floundering by now. We were expected to be losing business now. We were expected to be on our knees. But I never for one moment believed that we would fail. Never. And I was right to trust the Gibraltarians' instinct would be to rally. To fight. To never surrender in the face of a challenge. And instead we are growing. Tapping new areas of business and working with the United Kingdom to preserve and enhance our access to the UK market after our departure from the EU and in that way guarantee the key factors that make us attractive to so many of the businesses that are established here and that want to establish themselves here.

79. And that is the direct consequence of the hard work of the team I have had the privilege to lead on Brexit, with the Deputy Chief Minister, involving every Minister in their own field and including the Attorney General and the Financial Secretary in the fashioning of



the agreements we have been able to finalise with the United Kingdom government in all relevant sectors that require continued access to the UK market on EU Single Market terms after we have left the European Union. It has not been easy, but it has been the fruit of hard Gibraltarian resolve, grit, graft and genuine British friendship, partnership and support.

80. All of this, Mr Speaker, preserves our economic activity. Economic activity which goes to the calculation of economic activity in our Gross Domestic Product calculations.

81. As does economic activity in the Port and Airport, in tourism generally, in employment as a whole and of all that against the relevant measure of inflation.

82. And so, Mr Speaker, I move on to an analysis of the key economic indicators of the performance of our economy. In doing so, I want to point out that these are the metrics that have been applied to our economy by successive Governments and that they are provided to the Government by the Treasury and the Statistics Office. They are based on the figures which are audited by the

Principal Auditor. Again, I should point out, to ensure no one is confused, that the Principal Auditor of Her Majesty's Government of Gibraltar is the only auditor under our laws that enjoys Constitutional independence in the exercise of his functions.

## **THE PORT**

83. I turn first to a sector that will only grow in importance as we leave the European Union, namely, the Port. Activity at the port increased by 7.6% in 2017 compared to 2016.

84. In gross tonnage terms, activity increased by 15.5% over the year. The number of ships calling at Gibraltar for bunkers increased by 10.1% in 2017 compared to 2016.

85. Growth. Growth. Growth. Mr Speaker in ALL key areas of Port activity.

## **TOURISM & TOURIST EXPENDITURE**

86. In tourism, Mr Speaker, a similar picture emerges. The total number of visitor arrivals, excluding non-Gibraltarian frontier workers, increased year on year by 3% in 2017. The figure for total arrivals including non-Gibraltarian frontier workers increased by 4.2% over the year.
87. Visitor arrivals by air hit a record high for the second year in a row last year, increasing by 5.3% despite the demise of Monarch Airlines in October 2017.
88. The strongest growth, however, came from visitors staying in Gibraltar that grew to a record high up by 12.8% year on year.
89. The percentage of total visitors arriving by air staying in Gibraltar continues to rise where it stood at 43% compared to 40% in 2016 and 39% in 2011.
90. The Air Traffic Survey Report shows a record number of seats used for both arrivals and departures in 2017.
91. Despite the demise of Monarch Airlines in October 2017, the number of seats actually used for scheduled arrivals increased.

That is to say that the numbers of actual ‘bums on seats’ grew, Mr Speaker, even though the number of seats available dropped.

92. Passenger load factors also, therefore, increased.

93. The number of seats used for scheduled departures in 2017 increased.

94. Passenger load factor increased from 80.2% in 2016 to 86.9% up just shy of 7%. Mr Speaker I think all Honourable Members will recognise the work that the Honourable Mr Licudi and his team have done in the face of the collapse of Monarch Airlines to very quickly ensure that the other existing airlines were persuaded to step into the breach and add capacity on the Gibraltar route. I know it is work that continues and I am sure will bear even more fruit.

95. The number of cruise calls and passengers also hit a record high in 2017 and the number of cruise calls increased by 5% in 2017.

96. Hotel arrivals also hit a record high for the second year in a row last year. The overall number of arrivals increased year on

year by almost 1%. The largest gains came from Tourist arrivals that grew by almost 3%. Room Nights Sold grew. Room occupancy increased. Guest Nights Sold grew. Sleeper Occupancy increased. Average length of stay increased. The length of stay of Tourist arrivals increased.

97. As a result, Mr Speaker, tourist expenditure for 2017 has been estimated at over a quarter of a billion pounds, namely £252.02 million, a very creditable year on year increase of 19%. That is to say, almost a 20% increase in tourist expenditure.

98. Again, Mr Speaker, despite the challenges of Brexit and of the Monarch Airlines collapse, DESPITE THAT: Growth, Growth, Growth in all key areas! But growth, Mr Speaker which is a clear consequence also of our decisions to invest in Gibraltar's tourist product and promote investment in our hotels. As ever in life, you reap what you sow. Sow nothing and reap nothing.

## **EMPLOYMENT**

99. And this growth that we are reaping as a consequence of our investment is delivering jobs to our people Mr Speaker and beyond

our frontiers.

100. As is reflected in the last Employment Survey, Mr Speaker, the number of employee jobs in our economy in October 2017 has gone up to 28,029. That represents an increase of 3.5%, or nine hundred and fifty six (956) jobs in our economy. Mr Speaker, that is almost one thousand extra jobs when compared with October 2016, the date of the previous Employment Survey.

101. The majority of the job gains came from the Private Sector, where jobs grew by 1,052 or almost 5.0% over the period.

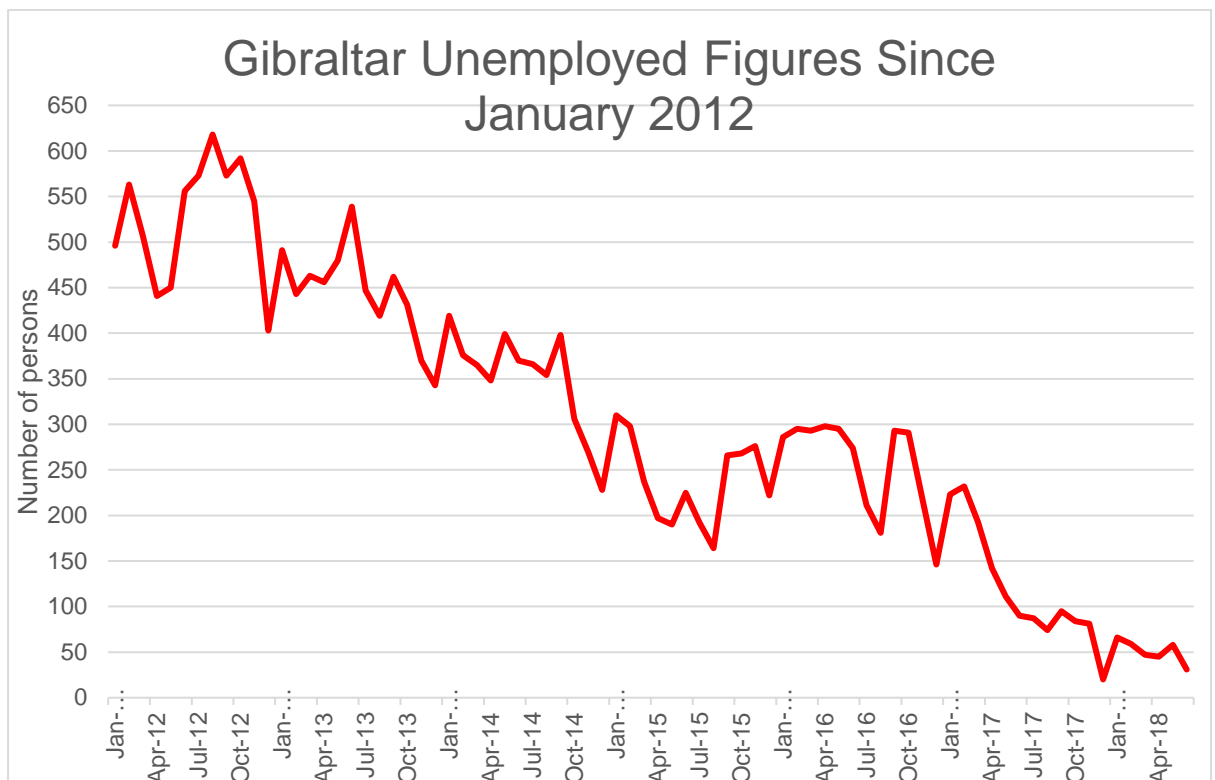
102. Public Sector jobs decreased by 54 or 1% over the same period.

103. The engine of our economy is the Private Sector Mr Speaker, and this growth in jobs demonstrates that. And the engine continues to fire on all cylinders.

104. Employee jobs in respect of Gibraltarians increased to a record 11,130 over the year, representing just short of 40% of all employee jobs. The growth in full-time Gibraltarians was mainly in

the Private Sector with a net increase of 71 employee jobs up about 1.5%.

105. In these circumstances, Mr Speaker, the House will be pleased to hear that the number of Gibraltarians unemployed for the quarter that ended on Friday is a new RECORD LOW of 45. In fact, for the month of June, the number of Gibraltarians unemployed has hit a monthly low of 31, although the only figure that we report and rely on is the quarterly figure.



106. Mr Speaker, when we were first elected the number of

unemployed reported by the Department was 522 for the first quarter. Given the calculations done by the Honourable Mr Feetham, of the cost of our Future Job Strategy, the numbers would have been higher. But using just the figure which the Department was reporting, we had a situation where over five hundred Gibraltarians were actively looking for jobs. At that time, Mr Feetham also suggested that a figure of three hundred would represent 'full employment' in our community. With the numbers reported by the department now reduced to 45, and the monthly figure as low as 31, we are reporting - on the quarterly figures - a reduction of 91.4% in unemployment.

107. Mr Speaker, all credit to the successive Minister for Employment of the Government that I lead. The Honourable Sir Joe Bossano, The Honourable Neil Costa, The Honourable Gilbert Licudi. All of them have been responsible jointly for these magnificent results. And all credit to the men and women of the Employment & Training Board, so ably led these days by Debbie Garcia. These are incredible results that we will work hard to maintain but are unlikely to be repeated.

108. But today, for these purposes, I think Gibraltar is entitled to



look at these results and say : unemployment has been tamed in Gibraltar through the policies of a Socialist and Liberal administration that has considered no one 'unemployable' and has worked to ensure that our people come first in our labour market.

109. But, Mr Speaker, the Gibraltar economy is not an engine of benefit just for Gibraltar. There is capacity here for others. Our economy also creates job, as all Members are aware, far beyond its frontiers. That is why we have people working in Gibraltar from each member state of the European Union and indeed, from even further afield.

110. Importantly, in particular for the education of those who might think that we are anything other than a force for good in our whole region, it is important also to record the following in respect of the period from October 2016 to 2017: the number of Frontier Workers increased by 868, or almost 8% October 2016 to a record in October 2017.

111. And what are all those jobs producing for employees, Mr Speaker? Average gross annual earnings in respect of all employee

jobs increased by 2.9%, from October 2016 to October 2017. Average gross annual earnings for monthly-paid full-time male employees increased by 2.3% in the same period.

## **INFLATION**

112. Mr Speaker, to set those wage increases in context, in the relevant period for which I am reporting to the House, inflation in Gibraltar averaged at 2.6% in 2017 compared to 0.6% in 2016.

113. Rates from 2015 to 2016 were unusually low following the low inflation trend in Europe, largely as a consequence of cheaper energy and import prices. The average rate of inflation for the previous 10 years to 2014 was 2.8% which is slightly higher than the current average rate for 2018 that stands at 2.6%. Inflation in the Euro Area ran below the European Central Bank's target rate of 2% during 2017, averaging at an annual rate of 1.5%. The UK CPI inflation averaged at 2.7% in 2017, marginally higher than Gibraltar's IRP that averaged at 2.6%.

114. Since the Brexit vote the value of the pound has fallen in

comparison with most other currencies, dropping by 10% from June 2016 to January 2018. The continuing uncertainty surrounding Brexit continues to apply pressure on sterling and some UK analysts are predicting that it could fall below €1 once the UK officially leaves the EU in 2019. The effect of sterling's depreciation on import prices and the recent increase in fuel prices will continue to pass through to consumer prices.

115. These external pressures are likely to keep inflation above the 2% target throughout 2018.

## **ECONOMIC GROWTH & THE GDP**

116. Mr Speaker, this year I report on the second full year's result following the decision by the United Kingdom to leave the EU. The year I am reporting on, Mr Speaker, is probably also the year of maximum uncertainty, as it is the year in which we have been engaged in discrete discussions with European counterparts, but it is a year in which we were not able to see a final agreed position as to the status or nature of the United Kingdom's future relationship with the EU. The year has therefore given rise to more than the usual set of challenges surrounding those issues.

117. Mr Speaker, it is against this challenging and less than settled backdrop that our economic performance must be measured.

118. Mr Speaker, the latest figures available from the Government's Statistics Office show that final Gibraltar's Gross Domestic Product estimate for the financial year 2015/16 was £1.79 Billion representing a growth of £180.64m, namely 11.2%.

119. The GDP figure for 2016/17 is estimated at £2.01 Billion, increasing by £212.69m or 11.9%.

120. And Mr Speaker, the important new figure that I today report to the House is that the GDP forecast from the Government Statistics Office for the Financial Year we have just ended, namely 2017/18 is **£2.18 Billion**. That shows our GDP increasing by £173.44m or an increase of **8.6%** compared to 2016/17.

121. Mr Speaker, these figures reflect the continued strong growth of our economy despite the many challenges that we have faced in the year for which I have the honour to report to this House.

122. The Government's manifesto target of reaching an increased GDP of at least £2.4 Billion by the end of March 2020 is therefore likely to be achieved a year ahead of schedule. That is to say, Mr Speaker, we now expect to reach very close to the target that we had set for March 2020 by March 2019.

123. Mr Speaker, if I may say so, this proves a point that Honourable Members opposite have, on some occasions, had cause to make. Indeed, I think it was the Honourable Mr Hammond or Mr Clinton who made the point during one or other of the last two election campaigns that at election time we – that is to say the GSLP / Liberals or, more precisely, Sir Joe Bossano - predict the likely outcome of the growth of the Gibraltar economy and in particular of the GDP and that we risk getting it wrong. Honourable Members therefore mused that if all our plans were based on those predictions, there was an inherent risk in that.

124. Well, Mr Speaker, they were right and I do not mind admitting to them. They were right and we were wrong about GDP growth.

You see, in 2011 we predicted that we would reach a GDP of £1.65 Billion by 2015/16. We got it wrong Mr Speaker. We reached that target, under the GSLP Liberals stewardship of our economy by 2014/15. That is to say, Mr Speaker, a whole year earlier than anticipated. In this election cycle we once again appear to have got it wrong. We are likely to reach the target or near it, once again, a year early. £2.4 Billion or very close to that by 2018/19. One whole year ahead of March 2020.

125. The one thing they would not wish me to remind the public of, of course Mr Speaker, is that the gist of what members opposite were telling the electorate was that we would not make those targets at all. Their position was that we were being over ambitious. They were certainly wrong about that! We were conservative and prudent in our predictions and they were achieved!

126. Indeed, based on the latest estimate of GDP our £2.4Billion target would now be met in 2020 with growth of just 5% a year, when our manifesto estimated a a continued average annual growth rate of around 7.5% to reach the target over the period to March 2020.

The growth over the last three financial years has exceeded that, averaging over 10.5%. A remarkable rate of GDP growth, in particular given the political circumstances with which we have been required to deal.

## **THE GDP PER CAPITA CALCULATION**

127. Mr Speaker, as a result, Gibraltar continues to rank among the fastest growing economies in the world, and economic growth is of course often seen as indicating an increase in the average standard of living. As a result, I have therefore continued the tradition, started by my predecessor, Sir Peter Caruana, of reporting to the House on the GDP per capita in our economy as this was used by Members opposite when they were in Government as an indicator of the average standard of living of individuals in Gibraltar. It is used in this way in analysis around the world. It is not a strictly scientific measure, but it has been referred to every year since before we took over as the Government. It is therefore an established metric, of

however doubtful value, which I shall once again provide to the House.

128. In this respect, as I have told the House, the latest forecast for 2017/18 estimates a GDP per capita growth of 8.6% from the previous year to £2.18 Billion. On the IMF GDP per capita rankings, the UK features in 34<sup>th</sup> position with a GDP per capita of \$45,566 and Spain in 40<sup>th</sup> position with GDP per capita of \$40,290.

129. Gibraltar's GDP per capita for 2017/18 is forecast at \$111,051.74<sup>1</sup> placing Gibraltar in 3rd position, closely ahead of Luxembourg which enjoys a GDP per capita of \$110,870 and behind Macao SAR with a GDP per capita of \$122,490. Qatar heads the list with a GDP per capita of \$128,703.

130. As I have said before, and must ensure the record of the House reflects, my own view is that these measures are not entirely scientific because of the differing methodologies and fluctuating

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<sup>1</sup> Using the latest published Census figure of population of 32,194 people. Given recent currency fluctuations, the exchange rate is based on a 20 year £Pound/\$Dollar average the same figure used the year before.



exchange rates on which they are based. In our case, with such a large part of our working population not being relevant in the “per capita” aspect of the calculation, the numbers are in my view distorted. Nonetheless, they are the measures that the rest of the world relies on.

131. The important aspect of this exercise, however, is really only to appreciate that the Gibraltar's economy is estimated to have grown by 8.6% in 2016/17 – 2017/18 with average earnings going up by 3%. This growth continues to place us ahead of other the small countries in the world, except Macao, but including Malta, Luxembourg Singapore and Hong Kong.

## THE PUBLIC FINANCES

### Public Debt and Cash Reserves

132. Mr Speaker, I turn now to an analysis of the Public Finances of Gibraltar.

133. Mr Speaker, the level of Aggregate Public Debt as at 31<sup>st</sup> March 2018 was marginally lower than last year at £439 million. This represents an Aggregate Debt to GDP ratio of 20% in 2017/18, down 2%, from 22.1%, in 2016/17.

134. The level of Cash Reserves ended the financial year at around £115 million.

135. Mr Speaker, as a result, this reflects Net Public Debt at £324 million or 14.86% of GDP in 2017/18. This is a decrease of just shy of 1% from the 15.7% at which it stood the year before in 2016/17.

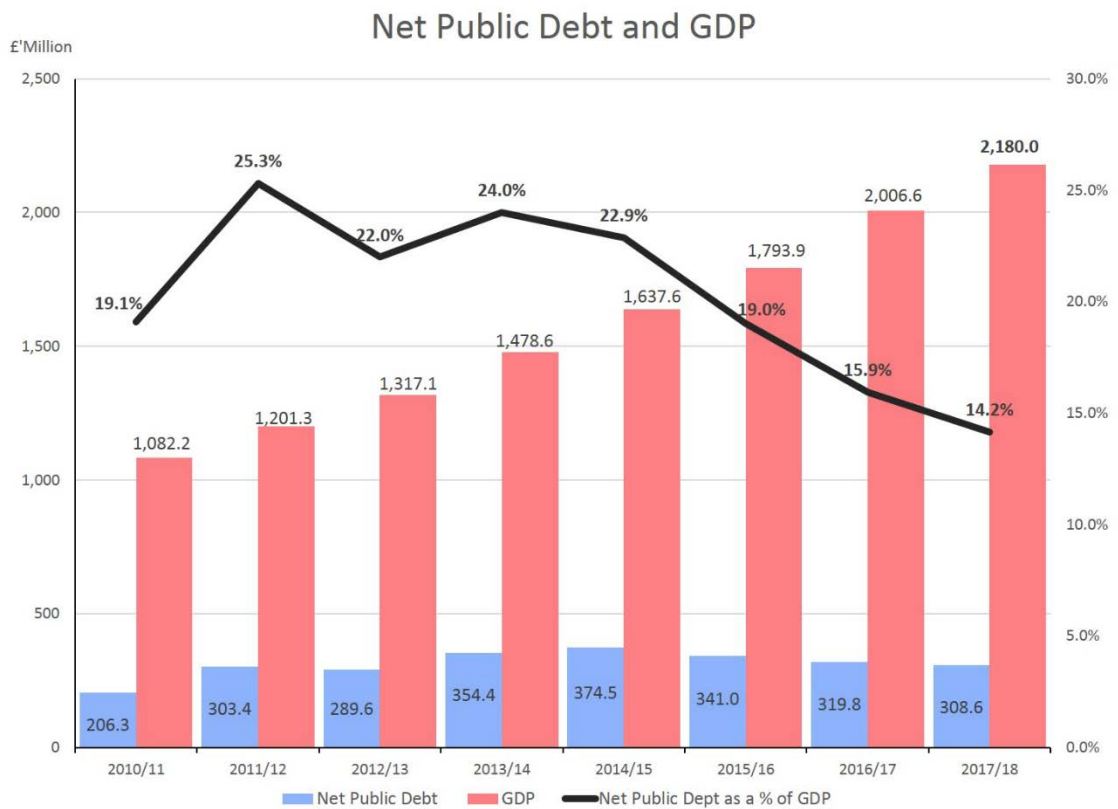
136. Mr Speaker, these ratios continue at a lower rate than that of the UK and most other European nations.

137. Gross Public Debt remained unchanged at £447.7 million and the reduced level of Aggregate Public Debt reflects the balance held in the General Sinking Fund.

138. Mr Speaker, Liquid Reserves held by the Government ended the year marginally higher than the Cash Reserves. As is the established practice, a full breakdown of these Liquid Reserves and details of where these reserves are invested will be provided as part of the Annual Accounts of the Government, once these have audited by the Principal Auditor.

139. Mr Speaker, it is important for Honourable Members and the General Public to note that our Nation's Public Debt continues to be low in relation to the growing size of our economy. As a percentage of GDP, our Net Public Debt is currently among the lowest of the countries in the European Union. Indeed, overall borrowing is relatively low even if we were to include the borrowing by Government-owned companies, a practice which was commenced and established by the former administration, and which has never, as Honourable Members know, been deemed to be part of the

Public Debt by any reckoning. It is important also to remind ourselves, Mr Speaker, that the former administration established company borrowing in this way because borrowing by Government-owned companies is serviced directly from the income accruing to these companies and is secured against income generating assets held by these companies and not against the Consolidated Fund or the general revenues of the Government.



140. Mr Speaker, the Government continues, however, to be committed to reducing debt servicing costs and it is fully engaged in

restructuring its borrowing in order to take advantage of the historically low levels of market interest rates. In this respect and as part of ongoing management of the Public Debt, opportunities to extend the maturity profile of the Public Debt are also being actively looked into. Indeed, just at the most recent Question Time in this House, I was able to advise Honourable Members that a Barclays facility via the government company structure, in the sum of £16m, entered into by the party of Members opposite, the previous administration, at 6.8% has been refinanced by us at 2.5%. And yes, Mr Speaker, they heard right, that was a loan via the government company structure that they had entered into and which mortgaged some seventeen properties, a large majority of which were released as a result of our refinancing. Incidentally, Mr Speaker, I expect to soon be filing the accounts of all the Government companies, starting shortly after the summer – accounts that you will recall the former administration stopped filing.

### **Revenue and Expenditure Out-turn for the Financial Year 2017/8**

141. Mr Speaker, for all the reasons that I have set out before, the past year has been politically challenging. Despite that, I am delighted to announce to this Parliament that during the last financial

year 2017/18, we have once again achieved a recurrent budget surplus which stands at £36.1 million. This is just about double the originally estimated surplus for the year. A demonstration, once again, Mr Speaker, that our estimates are conservative and can be relied upon by Honourable Members. This also marks the prudent stewardship of this economy and shows that we continue to build on the good foundations of our first term in office.

142. Mr Speaker, for those who have spent seven financial years criticising everything we do and predicting that our actions would not be successful, this further surplus demonstrates once again that we can be trusted with the safe and successful administration of our public finances. Once again this year, we are able to point to results to show that the naysayers are the ones who should not be believed. That those who have been crying wolf each year since December 2011 are the ones who are not credible.

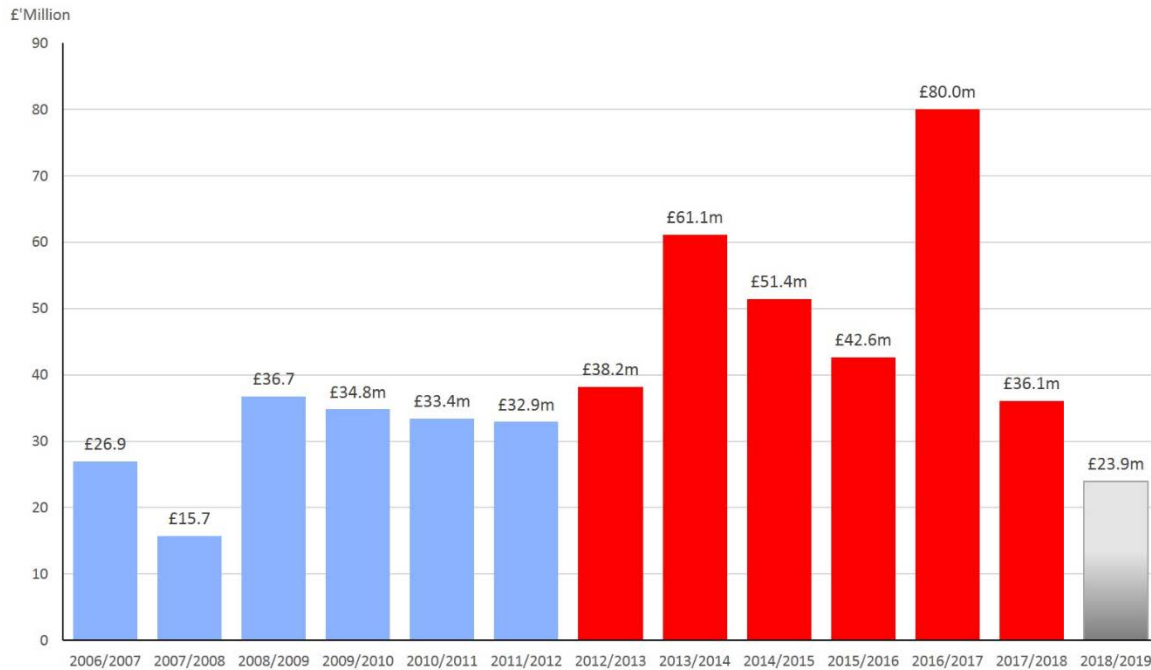
143. Indeed, Mr Speaker, if we compare our economic performances, by reference to the surplus, our average surplus for the six years after 2011 is larger than their average surpluses for the six years before our election. Indeed, our surplus this year is as large as their largest surplus ever. But we do not want to compare

averages, because we do not want discredit that period for which they were responsible and neither are the parameters exactly comparable anyway, given the growth in our economy that we have delivered since then. Yet, given these results, Honourable Members opposite should now find an elegant way to move away from their ridiculous annual mantra that we are somehow massaging figures. What we are doing is demonstrating consistency in the successful management of our public finance. Consistent growth. Consistent surpluses.

144. Indeed, Mr Speaker, in respect of the politics of real consequences, one of the consequences of the constant suggestion that things are somehow not going as well as the figures show, of crying wolf every year, is that people will no longer give any credence to such posturing.

145. Additionally, we are able to show that the flip side of that is that we are reliable and credible in our predictions in these estimates, as much as to revenue as we are as to expenditure.

## Overall Consolidated Fund Surpluses



146. In that respect, Mr Speaker, Government revenue during the last financial year exceeded the original budget by nearly £21 million. As a reflection of the continuing growth in our economy, Income Tax receipts were up by around £11 million and Company Tax receipts were down by around £9 million arising from an overpayment in the earlier year. Departmental expenditure during the year, on the other hand, has been very effectively contained by the Government and this ended the year slightly under budget at £3.3 million or 0.7% under budget. And as I said earlier, Mr



Speaker, our average growth in departmental expenditure is half of their average increase per year in the same regard.

147. That, Mr Speaker, is a very creditable landing point which the Government is pleased indeed to be able to report to the House.

148. Mr Speaker, as in previous budgets and in line with our manifesto commitment to help Gibraltar Community Care Trust build up its reserves so that it can be totally independent of Government grants, I am delighted to inform the House that a further sum of £15 million has been earmarked by the Government this year as a contribution to the Charity. This contribution will be paid out from the Government's recurrent surplus for the year.

149. Mr Speaker also in line with my Government's commitment to transparency we have prepared a presentation of the budget to assist the viewers to follow these essential numbers. The presentation is will be available online at [www.gibraltar.gov.gi](http://www.gibraltar.gov.gi).

150. This presentation is not a substitute for reviewing the estimates book but rather an attempt to connect taxpayers with where the money this Government raises from their taxes, duties etc comes from and where and how it is spent

### **Revenue and Expenditure Budget for the Financial Year 2018/19**

151. Mr Speaker, I now move on to the Revenue and Expenditure Budget for the current financial year.

152. Estimated recurrent revenue for the year is budgeted at around £652 million. This represents an increase in revenue of over £37 million or 6% over the previous year's Estimate. Nonetheless, as Honourable Members will see when I get to the Budget measures that I will announce, this will be a prudent and conservative budget.

#### **A Brexit Budget!**

153. The overall recurrent expenditure budget for the year is £628 million, which reflects an increase of around 5.2% over the 2017/18

Estimate. Mr Speaker, the Government is therefore prudently and conservatively projecting a recurrent budget surplus for this financial year of around £24 million.

### **The Government's Capital Investment Programme**

154. Mr Speaker, during the last financial year 2017/18, the Government invested around £63 million on capital projects funded from the Improvement and Development Fund. Over £18 million was invested on 'Works and Equipment' and over £44 million was invested in specific capital projects. This includes £5.75 million on the access road to the frontier including the resumption of works on the tunnel, and £18 million for the relocation of a number of MOD estates. This has resulted in one of the largest tenders for property going on the market and being awarded. Over 100 ex MOD properties have been tendered for by aspirational Gibraltarians looking to progress up the property ladder. We are therefore continuing to spend money building new homes for MOD personnel, and that spending will release the ex MOD properties which have already been tendered for by Gibraltarians in some of the most desirable locations in our geography. The income side of this equation will not, however, be visible in this year's estimates.

Completion of the sale of the ex-MOD housing will occur in the following financial year, 19/20.

155. Mr Speaker, there were also further capital projects funded through the Government-owned companies. These include a number of projects that have now been enjoyed by the community and have been taken to as part of daily life as if they had been there for years such as the Midtown Car and Coach Park, Charles Bruzon House and Sea Master Lodge that have recently been handed to tenants.

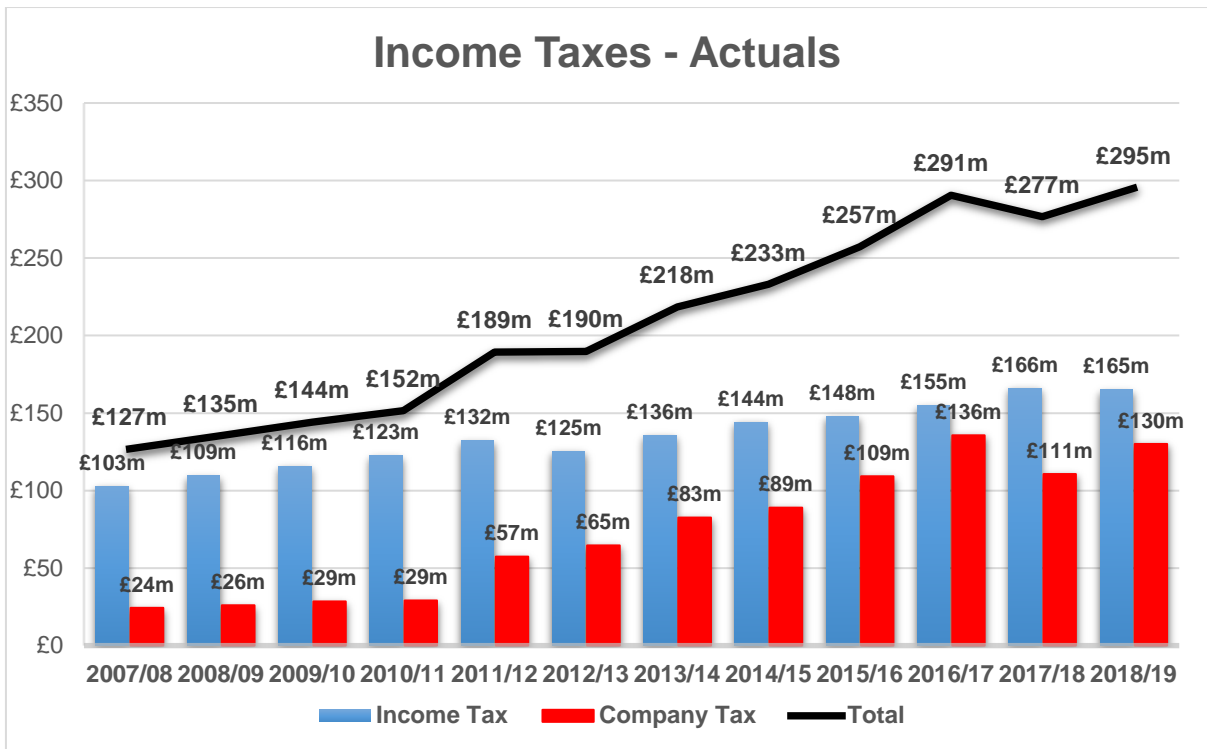
156. Mr Speaker, the expenditure budget of the Improvement and Development Fund for the current financial year 2018/19 is around £72 million. The capital investment in Works and Equipment is estimated at over £18 million and the provision for investments in other Government projects amounts to over £53 million. This includes an investment of £7.5 million in our Roads and Parking Projects with the ongoing cost of the Tunnel across the runway being a key feature; nearly £16 million more for the continued relocation of the MoD estate; £1million for infrastructure works for new developments, including the new Affordable Housing Projects; a further £14 million for our ambitious programme of facilities to be

ready for the Island Games that will leave an important legacy in sport and accommodation for many years to come, and further provision to complete other ongoing capital projects.

## **THE INCOME TAX OFFICE**

157. Mr Speaker an important part of the revenue aspect of the year I am reporting on, and the year we are estimating for, comes from the collection of corporate and personal taxes from economic operators in our economy. In that respect, I think most taxpayers will agree and will have appreciated how in the financial year 2017/18 the Income Tax Office has continued to improve the processes for the assessment and collection of taxes in Gibraltar.

158. The total figure of taxes collected amounts to £277m, broken down as £166m in personal taxes and £111m in corporate taxes for the year 17/18 I am reporting to the House on. This figure is anticipated to rise to £295m in the current financial year 18/19. This breaks down to £165m in personal taxation and £130m in corporate taxation.



159. And the more efficient assessment and collection of taxes also has an immediate plus side for individual taxpayers also. The Income Tax Office has in the past financial year paid out a historic and unprecedented amount of £15.3M in refunds to individual taxpayers.

160. I am pleased to inform the house that the Income Tax Office is well on course in achieving the paramount objective of addressing the hugely important issue of cutting delays in issuing taxpayer final assessments and the payment of refunds which arise as a result.

161. This is a significant accomplishment by the Income Tax Office, and one that I am proud to report on. Mr Speaker, for the first time in over 20 years, a Chief Minister is able to announce that taxpayer assessments are being brought right up to date. In fact, as I am making this speech some taxpayers will have already received assessments in relation to the 2016/17 tax year. That is to say, we are now – in cases where there are no disputes – up to date in repayment within two financial years.

162. In the context of the revenue and expenditure estimates, it is particularly important to highlight this and to report to the House that since the Refunds Program was implemented the government has already spent £25M in addressing arrears 'catch up'. This year we have committed a further £15.5M for financial year 18/19 in order take this project further to completion. Honourable Members can see that at Head 7, Sub Head 1 of of Recurrent Consolidated Fund Charges as required under Section 14 of the Public Finance (Control & Audit) Act. It's on page 16 of the book, at the bottom. Indeed, such has been the impetus given to this exercise by the Income Tax Office that in order not to hold up what is after all a catch up process that had moved quicker than we expected we would be able to progress it, the Government spent an additional £5.5m over

the allocated amount in rebates in the last financial year 17/18. That is, Mr Speaker, an extra 55% over the allocated amount for the last financial year which we additionally allocated to this Sub Head in order to repay to tax payers what is due to them.

163. Never has any Government ever allocated so much to this Sub Head and to this purpose. This I think will demonstrate to taxpayer that this is not about holding onto their money but returning it in a structured and organised fashion to ensure the right and fair balance is maintained between repayment and carrying out the correct and proper assessments.

164. And in this respect, Mr Speaker we continue the e-government initiative also in the Income Tax Office. By the end of this year we expect to see the implementation of online facilities for registration by PAYE and Self-Employed Individuals, submission of tax returns and payments of tax and social insurance. The completion of these initiatives will importantly finally result in a Digital Tax Office offering a seamless and streamlined interface to the general public.

165. Mr Speaker, it is right that I should there pause to thank Tina Pitaluga for the work that she has done as acting Commissioner for



Income Taxes. The post of a new Commissioner has already been interviewed for by the Public Services Commission and the results of that interview process will no doubt soon be announced.

166. And also very important and as a key principle of basic fairness, the level of Tax and Social Insurance arrears continue on a downward trend. This is a direct result of the effective strategy, co-ordination and significant efforts between the Central Arrears Unit and the Income Tax Office.

## **CENTRAL ARREARS UNIT**

167. Mr. Speaker, the Central Arrears Unit was set up and commenced its operations in August 2016 in order to recover debts owed to Government.

168. It is important to note that an earlier incarnation of a Central Arrears Unit had been created by the first GSLP administration and had been in place until 1996, but that it was dismantled by the party of Honourable Members opposite when they were last in Government. Again, their actions in this respect had the obvious and immediate

consequence that very considerable arrears built up. Their actions had the consequence also of creating the huge unfairness for those in business who paid their dues, that many of their competitors were not paying their legal liabilities. When that happens, businesses that pay their dues are in effect subsidising businesses that do not pay their dues. The actions of the party of Members opposite therefore had the direct and negative consequence of un-levelling the playing field in favour of those who failed to pay their dues.

169. The direct and positive consequence of our actions in once again creating the Central Arrears Unit – which is not popular, of course with debtors – is to once again level the playing field. In that way we act fairly to all tax payers and to all businesses and do not allow those who do not pay to have their businesses subsidised by those who do.

170. And the Central Arrears Unit does not just chase bad debt. In order to do a better job and also to assist business, it also aims to ensure that current payments are received on time. This also curbs escalation of debt and ensures that an across the board fair debt recovery policy is applied to all Individuals and Companies who owe monies to Government.

171. I am pleased to be able to state that arrears of Taxes in Gibraltar have been reduced by £13.3M in the past 18 months of operation of the Central Arrears Unit.

172. Social Insurance has been reduced by £3.4M in the same period.

173. Mr Speaker that is a total reduction of £16.7M, all of which has been achieved in just a year and a half. Just in 18 months.

174. The overall reduction in debts owed to Government, when comparing figures from 30 September 2016 to 31 March 2018, is actually £21M.

175. Additionally, Mr. Speaker, not only do arrears show that significant reduction, but I must also highlight that the Central Arrears Unit are actively ensuring that current payments are received in a timely manner.

176. This success is due to the excellent work of the men and women of the Central Arrears Unit. They work closely with all government departments, all of whom now understand that we must strive to reduce arrears and ensure the timely collections of current payments due. All now understand that the 'laisse faire' attitude of the party of Honourable Members opposite was bad for Gibraltar, it was bad for those who pay their due and it was not fair.

177. The men and women of the Central Arrears Unit are sometimes insulted. They are sometimes threatened. They are on the receiving end of unpleasantness from those who have failed to pay their dues.

178. But under the effective and UNAFRAID leadership of Lizanne Dalli, they ensure that those who owe pay because that is the fairness that we owe those who do pay. I extend to the people of the Central Arrears Unit the sincere thanks and respect of the Cabinet that I lead and of the whole of the community.

## **HOUSING RENT ARREARS**

179. I express the same sentiments for the work being done by the Minister for Housing and all the people of her Housing Ministry, Mr Speaker, in respect of arrears of housing rents.

180. The Housing Department has also very successfully implemented the arrears recovery strategy which it commenced in 2015. The balance of the rent arrears at its highest in 2016 was just in excess of £6million. In the relatively short period of 36 months since recovery of arrears commenced the balance due is now £4,812,223. That figure, Mr Speaker, reflects not just recovery of arrears but also a reduction of accrual of arrears.

181. Mr Speaker, recovering arrears of rent is not popular and it is not straightforward. In some instances, discretion has to be applied because of the circumstances of individuals who have fallen into arrears. In some cases, calculations may be wrong and relief's which are available have not been factored in and have to be deducted from the headline liability. In all cases, it takes a politician with courage to do the right thing to pursue unmeritorious cases of non payment of rent. Samantha Sacramento has shown she has the gumption and the ability to pursue such a policy and she does

so with the full support of the Cabinet, the Government, I hope the whole of this House, and indeed, the whole of the Community.

## **GIBRALTAR SAVINGS BANK**

182. Mr Speaker, I am also delighted to report to the House that, under the leadership of Sir Joe Bossano, the Gibraltar Savings Bank continues to flourish.

183. The reserves of the Gibraltar Savings Bank have continued to grow and that these reserves stood at £37 million at the close of the last financial year. The reserves of the bank are estimated to grow further to reach over £41 million by end of the current financial year.

184. The Deposit Base of the Savings Bank remains at over £1.3 Billion.

185. Mr Speaker, the Savings Bank continues to provide an excellent range of savings products for our community as indeed it

has done since it was established over 130 years ago. The Gibraltar Savings Bank will continue to provide savings products to serve our community and will continue to offer special rates of interest to our pensioners.

186. The bank is also working on improving the services it offers to savers by making use of the latest available developments in banking technologies. This complements the services that are now being provided to the community by the Gibraltar International Bank Ltd, which include a full range of retail banking services, including mortgage finance to prospective home-owners and commercial lending to our local businesses.

## **GIBRALTAR INTERNATIONAL BANK**

187. In fact, Mr Speaker I am delighted to be able to report to the House on the growing success of the Gibraltar International Bank.

188. Operating at arm's length from Government the GIB has grown beyond our expectations and I would like to congratulate AND THANK the Chairman, the Board, its CEO and all those that

work there for shaping an institution that has become an integral part of Gibraltar society and the Gibraltar proposition.

189. It is because of this growth that the Government took the view to invest a further amount of £30m in the capital of the bank over the last 12 month via the Gibraltar Development Corporation. Given the objects of the GDC it is quite an appropriate investment and the money was sourced from the £300m we raised through the institutional investment in Gibraltar. The Bank needed this capital to meet the stipulated regulatory financial ratios which arose given its expanding portfolio of business.

190. In other words, Mr Speaker, the Bank needed an extra £30m because of the success of its business model, not because it lost money that we had to replace.

191. Mr Speaker I am very happy to be able to tell the House that in a snapshot as of the end of last week the Bank had attained:



- 20,897 accounts;
- Year to date deposits on average of £ 725m; and
- Their loan book now stands at £ 204m.

192. And most importantly of all the Bank has turned its first monthly profits and is projected that it will turn a profit for the full year that will close in December 2018.

193. Mr Speaker I trust you will agree that this is quite remarkable for a relatively small bank that was no more than a manifesto commitment when we were first elected and which we created also to deal with some of the retail banking challenges our community faced. And it is already spreading its wings beyond our shores and helping provide Banking Support to some businesses in the Falkland Islands that are struggling to obtain banking services and have approached GIB to assist.

194. The accounts for the year ended 31 December 2017 will shortly be made public. Those who want to can then obtain a copy to study their accounting hearts content.

## **BUDGET MEASURES 2018**

195. Mr Speaker, I now turn to the specific Budget Measures for 2018:

### **Import Duties**

196. Mr Speaker before I start announcing some of the changes to import duties I want to inform the House that this year, in carrying out this exercise with the Collector of Customs and the Financial Secretary, we have realised that there remain a number of anomalies and inconsistencies within the structure of the present tariff. This has also been noted by the boards of the GFSB and the Chamber of Commerce who have both raised the same issue with the Government.

197. In the circumstances, Mr Speaker, I am asking for an exercise to be carried out with a view to seeing if the system can be rationalised. This may lead to there being a smaller number of tariffs that would apply. Products would then be aligned to those tariffs in a more consistent manner. My expectation would be that the outcome of this review can be announced during next year's Budget.

198. In the meantime, Mr Speaker, the following changes in import duty will be introduced, with immediate effect or as otherwise indicated.

### **Tobacco Fees & Duties**

199. Mr Speaker, in support of this Government's continuing efforts to address the problems arising from tobacco and smoking generally, to further curb anti-social behaviour and TO BETTER COLLECT, MONITOR AND SHARE INFORMATION and to better prevent the possibility of illicit tobacco activity arising, and in consultation with the Collector of Customs, I will be introducing further amendments to the Tobacco Act. These will be designed to ensure that the licencing, importation and exportation, storage and transportation of cigarettes, as well as penalties in connection with these activities, apply to all tobacco products generally rather than only or mainly to cigarettes as at present. These will assist also in controlling the public order issues that can arise if the trade in this commodity is not properly regulated.

200. Tobacco Licence Fees were last partly increased some considerable years ago in 2005. These will now be increased with

immediate effect as follows:

- The fees for a New Wholesale licence will increase, from £1,000 to £20,000;
- The fees for a Renewal of a wholesale licence will increase from £300 to £10,000;
- The fees for a New Retail Licence will increase from £150 to £5,000;
- The fees for a Renewal of Retail Licence will increase from £50 to £200;
- The fees for a New Retail Stores Licence will increase from £50 to £5,000;
- The fees for a Renewal of Retail Stores Licence will increase from £15 to £5,000;
- The fees for a New Transportation Licence will increase from £50 to £250;

- The fees for a Renewal of Transportation Licence will increase from £20 to £250; and
- The fees for a Tobacco Import Permit will increase from £150 to £1,000.

201. The last time duty on tobacco was raised was in April 2014. At that date we increased duty per carton of 200 cigarettes from £12 per carton to £13 per carton. That change had followed a series of changes starting in July 2011 when we increased duty from around £ 8.55 per carton. I say “around” Mr Speaker because at that time duty was assessed on a hybrid basis which included a calculation based on weight. Since that date, currency fluctuations have made duty increases in respect of cigarette harder, as the effect of such increases on the market price of cigarettes has been harder to quantify with certainty because of the currency’s volatility.

202. Today, Mr Speaker, I want to signal a deeper and wholesale change in our attitude to tobacco duty. The Health of our nation requires that we should ensure that we are taking measures to dissuade people from smoking. Not only are we extending our

Tobacco Act provisions beyond cigarettes to all tobacco products, we are considering implementation in Gibraltar of international conventions on the use of tobacco and we are looking at an escalator of duty which will make high street retail tobacco prices, cigarette prices in particular, less and less attractive.

203. For that reason, Mr Speaker, as from **midnight last night**, duty on cigarettes will go up by one pound from £13 per carton to £14 per carton.

204. Additionally, Mr Speaker, the duty on rolling tobacco will also be increased from **midnight last night** by a third again by £15 from £45 per kilo to £60 per kilo.

205. Also from **midnight last night**, Mr Speaker, I will **TRIPLE AGAIN** the import duty on Waterpipe Tobacco from the current £15 per kilo to £45 per kilo. This represents another consecutive increase in import duty on this particular tobacco based commodity. Duty was based on an *ad volorem* formula until two years ago. I introduced duty at £3 per kilo in the 2016 Budget measures. Last year we upped that duty to £15 per kilo. This year it is tripled again to prevent Gibraltar being used as a place to create an illegitimate

market in this commodity. Given the size of the increase, to avoid traders finding themselves with unsaleable quantities of the product, the Collector of Customs will have a discretion, if he is satisfied that merchandise has already been ordered and is in the delivery stage or there is a quantity already in Gibraltar in bond as at today's date, to levy duty at £15 per kg for that particular quantity only.

### **Fuel duty**

206. Mr Speaker data shows diesel can emit more toxic pollution than other fuels. That is the main reason why we decided to pursue an LNG fuelled power station. That will considerably improve air quality in Gibraltar as we shut down our existing diesel fired stations and temporary facilities. Diesel will in coming months become a fuel we will use in the generation of electricity in our dual-fired engines only *in extremis* in the un-anticipated event of a failure of LNG supply.

207. Additionally, and in line with our policies to protect our environment and to improve our air quality, we have exempted duty on electric cars to promote their importation. The other side of the



equation must be to increase duty on the most polluting diesel and petrol vehicles and their fuel. Mr Speaker we increased duty for diesel, the highest pollutants last year. The increases we implemented did not, however, affect the quantities sold. Additionally, we have not increased duty for unleaded fuels since 2010.

208. Accordingly, Mr Speaker, from midnight tonight:

- Duties on the importation of Diesel will be increased by 12p per litre from 25p per litre to 37p per litre
- Duties on the importation of Diesel premium will be increased by 11p per litre from 23p per litre to 34 per litre
- Duties on the importation of Unleaded 95 will be increased by 6p per litre from 29p per litre to 35p per litre
- Duties on the importation of Unleaded 98 will be increased by 5p per litre from 29p per litre to 34p per litre

## **Electric vehicle incentive**

209. Mr Speaker as the whole market of both hybrid and electric vehicles has evolved, I have over the years provided several direct incentives, unrelated to fuel duty, to encourage people to move away from vehicles that rely solely on the internal combustion engine into those that provide cleaner alternatives. The Government has led by example and for over four years now, the official G1 vehicle is the full electric TESLA Model S, which even Jimmy definitely approves of! I will do more of that today as follows.

210. Mr Speaker, the government will seek to improve on the UK's ambition of seeking to phase out registration of new vehicles with internal combustion engines by 2040. Mr Speaker some groups internationally have called for that deadline to be brought forward to 2030. Already the Scandinavian car producer Volvo has announced that as from 2019, next year, it will stop producing vehicles that have only an internal combustion engine. Between 2019 and 2021, the firm will introduce five 100% electric models, and ensure the rest of its conventional petrol and diesel range has a hybrid engine of some form. It was the first major manufacturer to make such a bold move. The same announcement has now been made by Jaguar Land

Rover which will manufacture only electric or hybrid vehicles from 2020. Toyota and Lexus will offer every single model it produces as an electric option from 2025. Mr Speaker, what emerges is that every manufacturer is following suit and the electric technology will soon be the mainstream. The internal combustion engine is not dead yet but it is dying as the propulsion mechanism for private vehicles. In the circumstances, the Government will implement the following measures.

211. Vehicle registrations for private vehicles powered solely by internal combustion engines will be prohibited by the 1<sup>st</sup> July 2030. In other words, Mr Speaker, as from that date, every vehicle registered in Gibraltar will have to be a hybrid at least.

212. Additionally, vehicle registrations for private vehicles powered in any measure by internal combustion engines fuelled by diesel will be prohibited by the same date, the 1<sup>st</sup> July 2030. That means that diesel hybrids will not be registrable in Gibraltar as from that date in 2030. Only hybrids where the internal combustion engine element is not fuelled by diesel will be registrable in Gibraltar as from that date.

213. Both of these measures apply as much to new vehicles as to second hand vehicles being registered for the first time in Gibraltar as from the 1<sup>st</sup> July 2030.

214. As from 1<sup>st</sup> July 2035, Gibraltar will only allow the registration of fully electric vehicles where the propulsion of the vehicle does not in any way rely on the internal combustion engine, whether fuelled by diesel or unleaded petrol.

215. None of these measures will apply to 'classic vehicles' as already defined in our laws.

216. Mr Speaker, although these dates are far in the future, it is important that we legislate now so people understand the effect of the choices that they are making now for the future.

217. Additionally, for the next 36 months, any individual tax payer who installs a mechanism for the electric charging of a vehicle in their home or in a parking space or garage owned by them will be able to deduct the first £2,000 of cost approved by the

Commissioner of Income Tax of the installation of such mechanism against their tax liabilities.

218. Mr Speaker, with immediate effect duty on diesel engines under 1495cc will be an additional 10% on top of the duty that would otherwise have been payable on importation. The Collector will ensure that any vehicles already bought or on order are not covered by this application of this provision.

219. At present hybrid vehicles do not pay duty unless they are imported privately where they attract 5% duty. Hybrids and are presently eligible for a cash back of £ 1,000. Full electric vehicles pay no duty irrespective on how they are imported and are eligible for a cashback of £ 1,750. This also applies to electric forklifts. Mr Speaker in order to further encourage the purchase and use of full electric vehicles:

- the cashback on Hybrids is now reduced to £250 per vehicle, although the import duty will remain at zero;
- the cashback on full electric vehicles is increased to £2,500 and the import duty will remain at zero;

- a new cashback incentive of £150 is introduced for full electric motorbikes; and
- a new cashback incentive of £200 is introduced for electrically assisted bicycles without a throttle where the electric engine cuts off at a speed of 25 kph.

220. And finally in relation to motor vehicles, Mr Speaker, the importation of non classic used cars into Gibraltar does not assist the object of seeking that the fleet of vehicles in Gibraltar should be the most modern and environmentally friendly possible. As a result, the importation of a used vehicle will attract the same duty, whether it is imported by an individual or a dealer and will remain as it is today for individual importations, not dealer importations.

221. I want to thank the Honourable Paul Balban and former Member of the House Mr Selwyn Figueras for their diligent work in the development of the measure relating to electrically power bicycles, which is designed to make cycling attractive even for those in our community who have to negotiate hills in their use. Mr

Speaker, a demonstration that by-gone political differences need not prevent us from working together in future in the common interest of our community.

### **Paper v Plastic**

222. Mr Speaker the debate on paper versus plastic, or at least the legacy problems caused by recklessly using single use plastics, is something that has rightly be brought to the fore by programmes like the BBC's excellent 'Blue Planet' and Sky's 'Ocean Rescue' campaign. This government has always advocated renewables and concern for how our actions affect the planet that we will bequeath future generations. In that context, Mr Speaker, I note that disposable paper products are presently being charged a higher duty of 12% than plastic disposal products which are presently charged at 6%. Given what we now know about the effect of single use plastics on our oceans and our planet generally, this cannot be right.

223. Mr Speaker, as a result, the government will eliminate import duty on disposable paper products such as paper straws, plates, cups, disposable paper bags and sacks. We will with immediately

effect also increase duty on their plastic disposable equivalents to 200%. The duty on biodegradable plastic bags will be halved.

## **Alcohol**

224. Mr Speaker, there have been no major revisions to duty on spirits, cider and other alcoholic beverages since 2010, some 8 years ago. Indeed, in respect of some of these the last review has not occurred since 1997. In inflation terms alone this means that duty on these is out of pace with price rises.

225. Accordingly **from midnight tonight** duty changes will apply in respect of different alcohols in different ways.

226. Duty on cider, shandy and fermented beverages has not been increased since 1997. The duty rates are somewhat confused with cider attracting 7p duty per litre whilst other drinks with less than 5% alcohol such as shandy attracting duty at 14p per litre. Mr Speaker I propose to rationalize all at one rate and catch up with inflation such that duty on these products increases to 21p per litre. This duty increase equates to a 53% increase in keeping with inflation since the last increase.



227. Duty on bottled mixtures of beverages of an alcoholic strength by volume not exceeding 15% will be increased by 17p per litre from 33p per litre to 50p per litre.

228. Duty on American Whiskey and Bourbon is increased to £2 per litre.

229. And finally, no doubt to the disappointment of Champagne Socialist everywhere, Mr Speaker, the duty on sparkling wines and Champagne will be increased by 31p per litre from 69p per litre to £1 per litre.

230. These latter two increases which bring duty to @1 per litre have the effect of equalizing the duty on these alcoholic beverages and making them double the duty on wine of 50p per litre, which duty will remain static.

### **Educational electronic equipment**

231. Mr Speaker, continuing on the theme of our commitment to education and to deliver advances for every generation in our small

Nation, it strikes me as inconsistent that electronic equipment such as ipads, gaming equipment's such as playstations do not pay duty whereas products for our very youngest such as educational electronic equipment pay duty at 3%.

232. Mr Speaker, as from today, duty on such products is eliminated.

### **Medical Equipment**

233. Mr Speaker, the Government considers that it is in the wider public interest to promote investment in private sector medical practices that serve many in our community. As a result, all instruments and appliances used in the medical, surgical, dental and veterinary sciences, including sight testing equipment will no longer attract import duty.

### **Further High Street Reductions**

234. Mr Speaker it is important for the continuing development of Gibraltar as an attractive retail centre for us to promote the sale from Gibraltar of high-end products that can be alluring to tourists and residents alike. We have done a lot of that work already in the import duty reductions we have implemented to date.

235. In the circumstances, and upon the representations of some highly reputable and established traders, the duty on hand bags is eliminated.

### **Fees and other charges**

236. Mr Speaker, the Collector of customs and his team carry out a large number of functions for this community and their volume of work has increased exponentially. There are quite a number of areas where this work is visible and other where it is less visible. Mr Speaker I therefore propose allowing the Collector and his team to charge a fee for this work.

237. Vehicle valuations are quite laborious and at present no fee is charged by Customs for this work. I therefore now impose a fee of £50 per valuation which will apply as from tomorrow.

238. Landing certificates are presently charged for at the rate established some 30 years ago of £10 per certificate. Despite inflation for the period, I propose to only increase the fee to £ 20 per certificate. That increase does not even catch up with the inflation

for the period but makes the fee a more relevant one in today's money.

### **Bingo duty**

239. Mr Speaker I have received a number of representations to consider doing something about the duty we levy on bingos that are organized on behalf of a charity to help raise funds for the charity. These charities are exempt from most taxes and therefore feel the imposition of a duty on bingo hampers their ability to raise funds for these worthy causes in this way. I therefore propose to eliminate duty in respect of bingos where they are organised by a registered charity and the proceeds are to be used for the purposes of that charity. Duty on bingos is also abolished if organised for and by the residents, on a not for profit basis, in the common areas of Bishop Canilla House, Charles Bruzon House, Albert Risso House and Seamaster Lodge or at the Senior Citizens Club in Town Range or the South District Senior Citizens Club at Naval Hospital Road.

### **Utilities and Business Rates**

240. Mr Speaker, in order to assist with the cost of doing business in Gibraltar, and in keeping with our manifesto commitment,

electricity and water charges will not be increased this year. General Rates payable by businesses will also remain unchanged and discounts for the early payment of rates will continue to apply.

- 241.** In the retail and distributive trades and in respect of catering establishments the discount granted for early payment is increased from 30% presently to 50%.

## **THE MINIMUM WAGE**

242. The statutory minimum wage was increased to £6.45 with effect from 1 August 2017.

243. The statutory minimum wage would increase only marginally by 16p to £6.61 in line with the latest annual rate of inflation that stood at 2.5% in April 2018. This increase would do little to promote economic growth and would unfairly keep the minimum wage below where we believe it should have settled given the GDP growth that is being experienced in this community. In the United Kingdom this year the minimum wage for over 25's has gone up by 4.4%.

244. In the circumstances, in Gibraltar, the National Minimum Wage will be increased by 4.5% or 30p an hour to £6.75.

245. As a result, the minimum wage will have increase by just shy of 25% in our seven years in office.

246. Mr Speaker, I can remember when I was a boy and the money sometimes was not as long as the week and I therefore commend this increase in the minimum wage to the House and to the whole of our community. We must walk in the shoes of those on the minimum wage as much as we must factor other matters into our calculation of what this fundamental parameter of our economy should be.

## **PUBLIC SECTOR PAY RISES**

247. Mr Speaker each of the measures I have announced to date have been prepared with Brexit in mind. These are measures which open us up for more business or new business or which have another reason I have explained behind a decrease or an increase which is being applied. We have to be ready for things to go well and for our position to continue

to be one of growth and improved economic date. Additionally, we have to be prepared also in the event that Brexit does not go well – not because we think it will not, but because we have to be ready for that eventuality.

248. Mr Speaker, as a result, the Government has to take certain steps to rebalance the economy in the light of the imponderable aspects of what we could face from next financial year on. For us, the most important aspect of that rebalancing is the protection of the public sector, a sector in which the Gibraltarians are the dominant nationality, and which is dependent on the revenue yield from private sector activity and employment levels.

249. The sustainability aspect requires that to protect our public sector workers we contain the cost of the public sector payroll and start reducing the gap between the higher and lower paid in the public sector and between the public and private sectors generally.

250. In order to do so, Mr Speaker, public sector pay will go up this year by the lower of 2.5% of the individual's pay rate or 60p an hour. In effect, Mr Speaker, this 60p per hour cap on the pay rise will kick in on basic salaries over £46,000 per annum. Even at those levels, the increase will considerably exceed average inflation.

251. Under the former administration, Mr Speaker, we also saw the expansion of the Public Sector with the creation of many companies, agencies and authorities outside of the pay structure of the Civil Service and we saw many relativities between grades altered without any reasonable logic.

252. To that effect, the Government will engage external reviewers to undertake an exercise to review senior public sector salaries and relativities in Gibraltar. The last such review was carried out by Bunkle and Roberts in 1983. All of the structural changes that have occurred since then created myriad distortions and altered differentials and a review is now once again required.

253. For the avoidance of doubt, Mr Speaker, whatever the recommendations of that review may be, no existing officers' salaries will be affected. All will continue to receive at least their existing salaries until retirement, whatever the recommendations of the review are.



## **Social Insurance Contributions**

254. As I reminded the House last year, Mr Speaker the Government is committed to reform of the Social Insurance funds. However, amending these funds is not advisable at this point given the options available to Government may be greater once the UK and Gibraltar have left the EU.

255. It is nonetheless important and responsible to recognize the reality that the system needs to be balanced. It is presently being balanced by relying on an annual advance from Government. It is neither right nor prudent for the Government to absorb this ever expanding gap between the contributions received by the fund and payments made. We therefore cannot ignore this problem until the eventual reform.

256. Mr Speaker with your indulgence, and in the interests of transparency that others keep encouraging of me, I will take a moment to explain to the House how the Statutory Benefits Fund works because it is a fund that sits in the background with few understanding it fully, save for my Honourable colleague, the father of the House who keeps a very watchful and keen eye over it. The

fund, however, impacts on all of us - from those working to those in our community who have contributed to it over their working lives and are now retired, to those who unfortunately, because of their circumstances, need to rely on it.

257. During the last year after increasing contributions by 10%, the share of Contributions collected (based on draft figures) was around £30m and Government provided a further £7m from the Consolidated Fund which, combined with other revenue received, took the total contribution to the fund to £ 38.2m.

258. In the same period old age pensions paid were £34.1m with the balance of other payments of circa £4.1m taking the total to £38.2m. These £4m represent payments of costs and the other key benefits provided to those most vulnerable in our society such as disability benefit, unemployment benefit, widows parents allowance etc.

259. Honourable Members will therefore see, Mr Speaker, that despite that increase in contributions last year, the expense has kept increasing, despite Government's best endeavours. Just going back briefly to 2008/2009, only 9 years ago, the old age pensions

paid amounted to £15.5m, or half of what they are this year. Total benefits and costs paid were £ 19.1m. That is literally exactly half of the £38.2m we are dealing with this year when we have paid 100% more. And yet in that period in the increases in Social Insurance payments have not been more than 10%.

260. Whilst this increase is staggering, it is to be expected. It is not of anyone's doing but reflects the care we provide for our elderly through the GHA and the other social services and the fact that people are living longer.

261. As an example of this, in 2009 there were 8,213 persons eligible to draw a pension and a widows' pension, whereas by March 2018 this figure has increased to 11,693 persons and of course the amount of the pension payment has increased in line with inflation. It is a positive fact of life people are living longer and successive Governments have tried to help those most vulnerable who really need this assistance. Who in a civilized society would argue otherwise? The responsible thing to do is therefore to ensure this fund is properly funded. The irresponsible thing to do is to suggest we somehow cut payments or benefits to pensioners or the

vulnerable or to ask that we should not increase the contributions and that the wider taxpayer should meet this expense.

262. Mr Speaker, in order to pre-empt the proposition that Government or the wider taxpayer is not shouldering enough of the costs, we are already doing so. Whilst it is clear the Government's direct contribution from the Consolidated fund has remained static at £7m over the last few years, it would not be true to say the Government has not put its shoulder to the wheel to meet the cost. In order to understand this one needs to understand what happens to Social Insurance payments.

263. When paid these are split two ways, part going to fund health care (the GHA) with the balance to the Statutory Benefits Fund.

264. Last year when we increased contributions in Social Insurance payments we also moved the allocation from 70% to fund health care to 65% to fund health care. This means that the decrease arising from this shift, of some £5m, has been met by Government as it needs to find this shortfall in the additional contribution to the

GHA. We therefore think it is equitable for employers and employees to also meet their share of funding this cost.

265. It is therefore of course with some reluctance, but also with the burden of understanding that this is the right and responsible thing to do if we believe in universal health care and the welfare state, that I have to today announce an increase of 10% to Social Insurance contributions.

266. I also announce a shift in contributions from 65% being ultimately directed to the GHA to 60% being directed to GHA thereby having Government contributing further to the fund and absorbing some of the costs of the increase directly.

267. Mr Speaker as you know the Government continues to engage with the Chamber of Commerce and Federation of Small Business (GFBS) to appraise them of these matters and welcomes their understanding of the need for no doubt unwelcome but necessary increase in Social Insurance. In future, under the system that we expect to be able to implement in future, contributions would be expected to increase only by inflation each year.

268. The effect of these changes is that:

- Employee contributions will increase at a maximum by £2.75 per week from £27.50 to £30.25;
- Married women's contributions will increase by £1.45 per week from £14.50 to £15.95;
- Employer's contributions will increase at a maximum by £3.65 per week from £36.5 to £40.15; and
- Self Employed contributions will increase at a maximum by £3.35 per week from £33.5 to £36.85.

### **Income Tax Allowances**

269. Mr Speaker, at the same time and in pursuance of the Government's continued commitment to reduce the level of personal taxation, especially for the lower paid members of our community, with effect from 1st July 2018, taxpayers with

assessable income of £11,200 or less will be brought out of the taxation system altogether and **will pay no income tax.**

270. This measure, Mr Speaker, applies as much to taxpayers in both the Allowance Based System as it does to the Gross Income Based System and represents a further increase in this threshold which we have steadily increased since we were first elected when it stood at £8,000. We have delivered increases in this respect of £3,200 or 40% to bring more and more of the low paid out of the tax burden.

271. Also in accordance with our manifesto commitment, taxpayers under the Allowance Based System will benefit from an increase in their Personal Allowances, which is at least in line with inflation. As a result, with effect from 1<sup>st</sup> July 2018, the following allowances will increase as follows:

- The Personal Allowance will increase from 3,300 to £3,385;
- The Spouse and Civil Partners Allowance will increase from £3,300 to £3,385;

- The One Parent Family Allowance will increase from £5,435 to £5,575;
- The Nursery Allowance will increase from £5,160 to £5,290;
- The Child Allowance will increase from £1,135 to £1,165;
- The Child Studying Abroad Allowance will increase from £1,290 to £1,325;
- The Dependant Relatives Allowance:
  - where the relative is resident in Gibraltar, will increase from £301 to £325; and
  - where the relative is resident outside Gibraltar, will increase from £210 to £215;
- Blind Allowance will increase from £5,155 to £5,285;



- Medical Insurance Allowance will increase from £5,155 to £5,285.

272. Mr Speaker, last year as a result of a confusion between the disability allowance and the disability benefit, which both ended up being called the same thing, an 'allowance', the disability benefit was not increased. This year, to address that, the disability benefit reverts to its old nomenclature. A lump sum representing the annualised amount for last year's inflationary rise will be paid immediately to all who were in receipt of it last year, pro-rata'd for whatever portion of the year they were entitled to the payment. This year, the benefit will increase by the rate of inflation also.

273. The Old Age pension will also increase in line with inflation.

### **Changes to the transfer of losses**

274. Mr Speaker, at present, companies with tax losses are only able to use these losses against future profits. At present these losses can be used within the business so long as there is no

change of ownership and a change of business within a period of three years. The problems that some large groups are experiencing is that they cannot carry out restructures of their business as once they transfer the business out to another group company the tax loss is effectively lost. Mr Speaker in order to facilitate group restructures, which are increasingly common with some of the consolidations we are seeing across various sectors, I propose that the Finance Bill will include changes to allow the transfer of such losses on restructures so long as there is no change of ultimate ownership and a change of business within a period of three years. The changes will therefore allow losses to be carried forward against a business even if the business is transferred to another company under the same ultimate ownership. The legislation will include a series of anti-abuse provisions so that such transfer is only allowed in the case of legitimate group restructures. It should specifically not allow for the use of accumulated losses of one type of business to be offset against future profits of a different type of business.

## **Changes to The Damages Act**

275. Comments have been made erroneously suggesting that changes to the Damages Act may be unfair on the basis that awardees of damages may not be able to plan or provide for their long term care. We do not consider these to be correct. In order, nonetheless, to provide support to those in these very difficult and sometime tragic situations the Government will direct the Gibraltar Savings Bank to create a product or bond to allow awardees of sums paid from personal injury claims or death (including death in service payment and insurance payments arising from the death of a spouse) the same interest rates as if they were retired persons and therefore eligible to invest any such sum received in such a product, thereby availing themselves of the higher rates that are offered by the Gibraltar Savings Bank. This will be a special bond for such purposes only.

276. The conditions to be satisfied before monies can be accepted by the Savings Bank for such accounts to attract pensioner rates, are as follows:

- The investment is to be limited to the amount of the award from personal injury or death and interest thereon;
- The Applicant for the account opening must be the awardee or next of kin in case of death;

- In both cases the individuals must be, including the deceased in cases of death who must have been, Gibraltar residents to be eligible for the treatment;
- Payments must be made by an insurance company or the employer or must be amounts paid by a defendant in settlement of a claim awarded by the Supreme Court of Gibraltar; and
- Payments must be certified as complying with this criteria by the Commissioner of Income Tax.

## **MEASURES IN RESPECT OF AFFORDABLE HOUSING**

277. Mr Speaker, the Government I lead developed affordable housing in keeping with the principles set out by the first GSLP administration. The lease used, however, was modelled on the lease created by the party of Members opposite whilst they were in power. That allows an element of speculation which is not in our view in keeping with the objective of providing homes for our people which are not designed to be used for speculation but for owner occupation.

278. These affordable housing properties, at Beach View Terraces and Mons Calpe Mews, have been sold to original purchasers at cost price (i.e., the cost to build the property based on the area of each individual property without factoring in the value of land or the cost of relevant infrastructure). However, the cost has been well below the increase in the market values of these properties due to the rising values generally in residential property in Gibraltar. This, amongst other factors, has enabled some original purchasers to market the sale of these affordable homes for very large profits whilst the taxpayer would see almost no profit from the resale of properties in these developments. That is not fair on the taxpayers at large, on those on the waiting list for new homes or those who have not been able to buy affordable properties, Mr Speaker.

279. Government is therefore considering all options available to it under the terms of the underleases for these estates in order to curtail the levels of profits which will be made on resales in the early years of ownership of the properties.

280. As a result, to catch those who may be seeking to 'flip' these properties, as from today, the sale of any property sold as an affordable home for and on behalf of the Government in the last four

years, that is to say properties at Beach View Terraces and Mons Calpe Mews, will attract a new Special Stamp Duty – for the period until ten years have expired from the original purchase of the property by the original purchaser – of 7.5% of the total sale price, calculated with regard to the property sale price and any other payment passing from the Purchaser to the Vendor whether in respect of fixtures, fittings or any other payments whatsoever connected with the transfer of the property. This new Special Stamp Duty is not deductible in arriving at the calculation of ‘profit’ under the Trust Deed.

281. The Special Stamp Duty will NOT apply in circumstances of a forced sale, including in cases of marriage or relationship breakdown, which circumstances will be certified by the Government’s Land Management Committee and administered by Land Property Services for the Government.

282. The Special Stamp Duty will also NOT apply if a family moves to a larger property as a meritorious upgrader to another, newer, Government affordable housing estate.

283. The Special Stamp Duty will not apply to the sale of any part of the Government's equity sold where the Government has retained a share of the equity in the property.

### **Housing Rents**

284. Mr Speaker, housing rents have gone up by 3% this year also. That is about 0.5% above inflation and only the second time in 35 years that rents have gone up. The increase will provide an additional about £90,000.

285. As a result, Mr Speaker, anyone who might have been foolish enough to suggest that this increase will in some way go to pay the £300m financing package we secured for Gibraltar would not be very good at mathematics. Indeed, they would have egg all over their face if they had been foolish enough to tweet such nonsense!

286. In fact, when we made provision for these increases, members opposite said nothing in this House other than for the

remarks of the current Leader of the Opposition. He remarked that the rent increases proposed were too small to have any real effect. And Action for Housing welcomed the increases last time and the Ombudsman had called for them.

287. So it would be utter populism for Members opposite to now somehow try to create a bandwagon to ride on which sought to roll against modest, “small” or “little” increases which are out paced by the hourly increase in the minimum wage. That is to say the increases are on average in the region of the increase in one hour of the minimum wage. More than proportionate and modest.

### **The Christmas Lottery Draw**

288. Finally, Mr Speaker, I am happy to announce that after considerable public consternation about the availability of tickets last year, this year’s Christmas Lottery first Prize is going to be £1 Million pounds. Double the number of tickets available last year will go on general sale on Wednesday.



## CONCLUDING REMARKS

289. Mr Speaker I want to take this opportunity on behalf of myself and all members of the Government and I am sure the whole House to thank you, the Clerk and all members of your staff for your assistance this year in the discharge of my functions as Leader of the House. You have all been your usual patient and kind selves! Thank you.

290. I also want to take this moment to thank my Cabinet colleagues for their support throughout the year and in addition to record my thanks also to the Chief Secretary, the Attorney General, the Financial Secretary and the Chief Technical Officer for their indefatigable hard work in support of the Government's policy objectives. They are all truly, truly indefatigable. These are extraordinary times and they are the extraordinary people that I have been able to count on every minute of every day to deliver for Gibraltar in each of their areas when it has mattered most. Team Gibraltar!

291. Mr Speaker, behind this debate and the presentation of the numbers in a graphic and more intelligible format are Ernest

Tomsett, Susie Gonzalez, Nancy Reyes, Karl Lima and Charles Santos as well as many others who make it possible for us to account with such complete transparency and clarity to this House and to taxpayers generally. I do not think people realise how much care and diligence they put into ensuring that the numbers we report are entirely accurate. I must also extend similar thanks to all others at the Ministry of Finance and Her Majesty's Treasury. I thank them on behalf of the whole nation for their precise and careful work.

292. And of course, Mr Speaker, my team and the Press Office, the A Team at No6, who serve the Chief Minister of the day and ensure that, whatever happens, I have a smile on my face every day and we get Gibraltar's message out to the world. Whether we are leaving the EU or joining it, whoever is in power in Spain and whatever other challenges the world may throw in our political direction, nothing phases them! Thanks to all of them for their genuine human support to me in these Brexit days.

293. Mr Speaker, I have political responsibility for other departments which I have not gone through today. I have been required, because of the juncture in which we find ourselves, to analyse some areas in greater depth than in other years. I do not

want to keep the House for longer than I have to. It is also unfair for me not to report on the excellent work which is being done in Customs, in the Drug and Alcohol Services, in the Civil Status and Registration Office, in Industrial Relations and Public Sector HR and in the BCA and to explain more deeply which is happening in the Income Tax Office and the Central Arrears Unit. I will therefore lay a detailed paper before the House when I sit down that will set out the progress in these departmental areas also. I would highlight one thing though Mr Speaker and that is the sad loss in service in the year I am reporting on of a young Customs Office, Neil Piñero, who passed away on active duty at the age of 30. The Government is considering with the Collector of Customs how best to ensure that he is adequately remembered.

294. Well, Mr Speaker, as I said when I rose to speak some hours ago, this is a Brexit Budget. And there are two ways of doing a Brexit Budget.

295. One is sheer austerity. The other is the socialist way. Our way is investment to stimulate continued growth. Investment in Public Services to ensure that the public services that our citizens

and business require is there to be provided. In health and care. In education. In provision of welfare for the most vulnerable in our community. In sport and in housing.

296. This is a Brexit Budget which will not rely on austerity measures. There are no cuts here. It will rely instead on investment as the necessary stimulus for our economy. And it will also rely on responsibility. Personal responsibility to provide for ourselves and others by contributing more to social insurance.

297. Because Brexit is not a walk in the park although thanks to the hard work of the Brexit team and the Government as a whole there have been no Brexit shocks for our economy.

298. And because, Mr Speaker, when it was our time, our responsibility, our opportunity, we took charge. We worked harder than ever. We took calm control and delivered an excellent result for generations to come. We were not found wanting and we did not fail. We did not put our personal interests or egos first. We have had no regard for our political interests at all. We have ceded nothing

of our red lines. We will give nothing away on our sovereignty but we will continue to deliver the prosperous future that we must ensure is there for our children.

299. And to do that, to guarantee that and to have the peace of mind that we will not falter, we must take some measures to fine tune and rebalance.

300. In doing so, we demonstrate that we were ready for the challenge and up to the demands of this historic moment in the affairs of our nation. Whilst keyboard warriors criticised from the comfort of their keyboard we were out in the real world fighting Gibraltar's corner.

301. Mr Speaker, for Gibraltar, Brexit may be almost over. In nine months, we will have left the European Union. But in partnership with Britain, we have navigated these stormy waters carefully and successfully. We have trimmed our sails when we have had to and we have run engines, full steam ahead when we had deemed that we had to.

302. This was the moment of our date with Brexit destiny and it was the moment when we looked Destiny in the eye and were equal to her task and challenge.

303. Our time of reckoning came; but few reckon with the Gibraltarian!

304. This is a Brexit budget. But a Budget for Brexit success. A careful four way balance between caution and optimism; between prudence and investment.

305. But a Brexit Budget that requires no cuts and no austerity thanks to the way we have delivered success and growth in the past seven years. Just prudent measures to ensure that we are match fit for our departure from the European Union. Prudent measures because despite our surpluses we have to ensure we remain able to discharge all our responsibilities with surpluses to come in future too.

306. Because that is what is required of the modern, mature, post-colonial Gibraltar. Building on work of all the others who have come before us and thirty years after a Gibraltarian first took the financial reins. Thirty years after we moved from an economy of dependence we move to an age of self awareness that sees us with the self confidence to succeed in new markets in the digital economy.

307. And our view, Mr Speaker, is that greater success awaits. But it must be worked for. Because there will be no free ride. No space for free loaders. Nowhere to hide for those who want to skive their way out of pulling their weight. Because the challenge of Brexit is there for all of us, not just for some of us. And now we leave the European Union, that is the challenge for the future.

308. And so, Mr Speaker, today, I want to end my remarks exactly as another Socialist Chief Minister did in 1989, when we faced other challenges, by telling the house that ‘the Budget I am presenting to this House today, the Estimates of Expenditure ... the commitment on infrastructure, is an indication that we are meeting that challenge

head on, with determination, with commitment, with hard work and  
with confidence of success. Thank you Mr Speaker'.

I commend the Bill to the House.