

# **THE CHIEF MINISTER'S BUDGET ADDRESS 2016**



**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 fifth budget address as Chief Minister. It is in fact my first budget address after our re-election to Government in November with great popular support, and I now have the honour to present the Government's revenue and expenditure estimates for the financial year ending 31<sup>st</sup> March 2017.
2. During the course of this address, I will also report to the House on the Government's revenue and expenditure out-turn for the financial year ended 31<sup>st</sup> March 2016, which was the fourth full year of a Socialist Liberal Administration since we took office in December 2011.
3. Mr Speaker, as has been traditional since the first GSLP administration in 1988, when Joe Bossano was the first Chief Minister to get up and deliver a Budget, this budget address will of course be NOT JUST my report to the House on the Public Finances of our nation and the state of the economy generally, but also a review of the myriad issues affecting our economic and political outlook.
4. In fact, I have no doubt, Mr Speaker, that this is the most important Budget sessions of this House for a generation.
5. Mr Speaker, as has been the case with all my Government's previous budgets, this budget is designed with prudence in mind, to support our working families above all else, to support our youth and our students and to provide support to our senior citizens and our disabled, as well as a budget to stimulate new business and to continue to make Gibraltar the most attractive commercial environment in the Mediterranean. At this time it is also of course a Budget of caution, a Budget infected by necessary pause and reflection.

6. And the fact is Mr Speaker that my Government has been hugely successful in the past four years in the management of our economy and in providing a continued level of prosperity to all sectors of our community. During our last term of office Gibraltar has experienced average economic growth of over 10% per annum. The Government has had record levels of annual recurrent budget surpluses. There has also been a significant increase in our employment levels and the Government has delivered an overall reduction in the cost of doing business in Gibraltar.
  
7. The Government has provided support for our working families with income tax levels already being abolished for those with income levels below £11,000. We have given back to the lowest paid in our community by not taxing them at all.
  
8. 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 of over 15% during our first term of office. A GSLP government introduced the minimum wage in 1988. And now a GSLP/Liberal administration has continued the work of raising the minimum remuneration payable in our society in order to spread the wealth towards the most deserving.
  
9. Our public servants have also benefited with public sector pay increasing annually by well over inflation in the whole of the first four years we have been in Government although in the United Kingdom, with whom our public sector enjoy “parity”, salaries have been frozen or subject to increases of just 1%. That means that public sector salaries have increased by 14.3% over the past four years whilst at the same time inflation has risen by 5.65%. That is a record of investment in the human capital of the public sector which this GSLP/Liberal administration is proud, despite the criticisms we have received from inside and outside this House.
  
10. Our senior citizens have shared in our nation’s economic success with annual increases in old age pensions and in respect of the minimum income guarantee. Also, in order to provide our pensioners with the peace of mind that their dependents are well catered for, the Government took the decision to reintroduce the Widows and Orphans

Pensions Scheme. The relevant Bill is pending reading in this House later in this session. Pensioners have also been able to continue to enjoy above market interest rates on their savings with the continued availability of high interest monthly income Government guaranteed pensioner debentures, issued by the Gibraltar Savings Bank. Mr Speaker it is no minor boast to say that Gibraltar's pensioners, even the worst off, are undoubtedly better off than pensioners in most of the rest of Europe, and this should be something that people here should not take for granted. Even in respect of the Household Cost Allowance paid not by the Government but by the independent charity Community Care, the Government's donation of the recurrent surpluses to the them in the past four years has insulated them from any concern they might have had of their ability to pay the allowance in leaner years. We have backed our pensioners by insulating them from market forces and thereby eliminating the worry of diminishing returns on their savings. In this respect, the spread in respect of the interest rate offered by the Savings Bank has got wider as the Bank of England interest rate has gone down further and further.

11. Mr Speaker, support for our youth has included increased levels of scholarship grants for all our university students, an increase in the number of teachers in our schools, and increased levels of investment in school infrastructure. We have also invested in our hugely successful Future Job Strategy which has taken so many out of unemployment and given them worthwhile, meaningful jobs. We have worked to give more to our youth today, for they will be the custodians of our tomorrow.
  
12. And we have invested in our community and nation as a whole in infrastructure and in the fabric of our tangible assets. Mr Speaker we have developed new leisure areas which have been designed to also tangentially deliver huge potential business benefits. One such area is the Small Boats Marina which is also a fantastic Superyacht Berth in the centre of our city and which is already attracting new business to Gibraltar which produces berthing fees as well as increased bunkering and other spending from these luxury vessels. The fact that this new National Infrastructure Asset also produces a magnificent leisure facility for 700 long abandoned small boat owners is the whole Community's gain. As is the investment we have made in the refurbishment and cladding of our ageing housing stock and which has made the value of those previously depreciating assets grow magnificently and for reasons I will explore later, to the benefit of the whole of our nation, not just the people living in these estates.

13. There have also been significant increases in income tax allowances for our disabled as well as reductions in import duties on goods used by our disabled community. Because we believe in helping the disabled, not just with handouts but also with incentives and we have grown “in work” allowances which had been frozen for years.
  
14. We have been criticised for spending money Mr Speaker. But I am proud to have spent on our Civil Servants and public servants. And it is right to tax the lowest paid less. I am proud to have spent to help our pensioners and our disabled. And it is right to have raised the minimum wage as we have. And I am proud to have invested in our youth. Those who criticise our spending must also conversely and perversely be saying that they would not have spent on our civil servants or reduced taxation for the less well paid, that they would not have raised the minimum wage or helped our pensioners and our disabled as we have and that they would not have invested in our youth as we have.
  
15. But as has been the case since we arrived in Government, this is a budget first and foremost for workers and entrepreneurs, for those who put out their hands to work and not to take, for they are the engines on which our economy prospers and thrives and they are the ones we will most fuel now.
  
16. In corporate terms this will be a budget designed to encourage business, in particular those who might set up or establish themselves in Gibraltar after today. And it is a budget also, of course, to continue to improve our public services and to deliver sustainable growth in our economy.
  
17. Mr Speaker, in short, this budget reflects my Government’s ongoing commitment and mission to improve the quality of life and standard of living of all our citizens whilst carefully calibrating our response to the seismic events of the last ten days.
  
18. This year, in particular, I will have a chance today to update the House on the continuing developments arising in the aftermath of the decision of British people in the referendum on continued membership of the European Union.

19. In fact, this year, perhaps more than ever, this will be very much more than just an speech on the second reading of an Appropriation Bill, but a wholesale review of the 'State of the Nation'.

20. Indeed, Mr Speaker, I sincerely believe this is probably the most challenging Budget Address at least since the financial crisis of 2008. As Mr Bossano said himself at the recent question time in this House, the BREXIT decision could unleash economic effects not seen since the 1930s. This is clearly a material and adverse change to the circumstance that we face as a nation and presents a situation that we will broach with caution, prudence and continued investment in the right areas.

21. With that in mind, I will also, of course, during the closing aspects of my address, also outline the Budget Measures that the Government will introduce further to our manifesto commitments, in response to the recent turmoil we have witnessed in the financial markets, in preparation for the potential for a withdrawal of the United Kingdom from the European Union and in order to continue to address the social and business needs of our community.

## **RECOGNISING THE WORK OF PARLIAMENT'S STAFF**

22. Mr Speaker, before I launch into the substance of my address, I want to thank the Clerk of the House and his staff for the huge amount of work they have undertaken since the last Budget debate.

23. In that time we have held a General Election which of course meant that the House was engaged in finalising the new Register of Electors and the organisation of the Election. Shortly after that process was over, without time to pause for breath, we embarked on the work for Gibraltar's inclusion in the European Union Referendum, which has required a new register to be compiled by the House based on different eligibility rules. If I may say so, one silver lining of the past weeks has been to see how the Clerk has done Gibraltar proud in the organisation and delivery of the Referendum. We have flawlessly formed part of the vote in the United Kingdom. By being the first to declare our resounding verdict of 96% in favour of remaining in the European Union, we were able to highlight the strength of feeling in Gibraltar to the whole of the United Kingdom, to Europe and the world.

24. I extend my hearty congratulations, and no doubt those of all members, to all the staff of the House and those who were seconded to it to assist the Clerk in his capacity as the Counting or Returning Officer for Gibraltar.

## **THE CURRENT POLITICAL SITUATION**

25. Mr Speaker, my congratulations, however, do not extend to the rest of the British people who I believe have made a historic error of judgement in voting to leave the European Union, although I sincerely hope that, if BREXIT proceeds, they will prove me wrong.

26. Pathology, Mr Speaker, is not my strong suit, and I do not think that there is any great value in carrying out a post-mortem of the result. In fact, political commentators are doing that already round the clock in narrating to us the soap opera that the Westminster Village has descended into in the past two weeks.

27. But it is important to make an assessment of the current situation and to try to make sense of what has come to pass and why.

28. Mr Speaker, the result of the vote in England and Wales seems to have been driven not by an understanding of the European Union and a desire to leave it. More likely, Mr Speaker, it was driven by ignorance of the truth about the European Union, by a desire to vote against the UK's establishment and government for reasons unrelated to the European Union and, perhaps more importantly, based on claims which were exaggerations of the truth coupled with absolute untruths.

29. As I told those gathered for the Annual Dinner of the Federation of Small Businesses, I believe that the United Kingdom was sold "Brexit" on a false prospectus. I believe that many of those who argued to leave lied to the British public. And I believe that their exaggerations and hyperbole are now coming back to haunt them as they stare into the vacuum that are their plans for the future.

30. Mr Speaker, perhaps there was also exaggeration in some parts of the campaign in the United Kingdom on the side of Remain. I do not accept for one minute that this was the case in Gibraltar. But it is clear to me that the false BREXIT prospectus, if it were the prospectus for a financial product regulated by the Financial Services Commission in Gibraltar or the Financial Conduct Authority in the United Kingdom, would have led to prosecutions.
31. It is not an exaggeration to say that the United Kingdom has never faced such an absence of leadership as it faces today and that, of course, can have repercussions for us in Gibraltar. The Dutch Prime Minister, Mark Rutte, said last week that Britain is in chaos after the Brexit vote. In words which will sting all of us who have long seen the United Kingdom as a bastion of stability in an unstable world, he said that "England has collapsed politically, monetarily, constitutionally and economically." Mr Speaker, who could have imagined those words uttered about our beloved United Kingdom, or at least England, two weeks ago.
32. The Governor of the Bank of England, Mark Carney, has warned that the UK is suffering "economic post traumatic stress" and has said that the Bank of England will take "whatever action is needed to support growth." Headlines in the Financial Times include a piece by Philip Stephens titled, "Britain is starting to imitate Greece". This was unthinkable two weeks ago.
33. And this is a contagion which will not be limited to the UK. The European Central Bank Chief Mario Draghi told the leaders that the impact of Brexit could shave a cumulative 0.3 to 0.5 percentage points of growth off the euro zone economy over three years.
34. Honourable Members, like all the public in Gibraltar, will be closely following developments in the United Kingdom. In both the main parties at Westminster, developments seem to be proceeding at a faster pace than even social media and the twenty four hour news cycle can manage. Could it be, Mr Speaker, that human action has, for once, even overtaken the speed at which electronic communications can stay abreast of developments?

35. I will not be commenting at all on the party political activity at Westminster, riveting though it may be for those of us with an unhealthy interest in politics. But I will say this: I do wish for the United Kingdom as soon as possible strong and determined leadership in both principle parties. This is a time for leadership in a determined direction.
36. In Gibraltar, Mr Speaker, there is strong leadership and we are united as a community and as a political class. We have spoken as clearly as ever in the result of the referendum. The people of Gibraltar have expressed their desire to remain part of the European Union and the Single Market with the same fervent desire as we have previously and repeatedly expressed our desire to remain British.
37. There are many permutations that may eventually provide the mechanisms for us to enjoy the type of relationship which the people of Gibraltar wish to have with the EU. I have no doubt that the United Kingdom will seek to be a facilitator of any such arrangements as we may wish and which we may be able to negotiate. I also believe that we have strong allies in the UK in both the Remain and Leave camps who will wish to help Gibraltar through this period.
38. The fact is that we also have a common purpose with those of other nations and regions in the United Kingdom who have voted to Remain in the EU. Honourable Members are aware of the progress of those discussions. I expect to be in a position to confidentially brief them again shortly on developments and will of course make such timely public statements in this House and outside it as may be appropriate.
39. There are other developments in hand of course. What I want to stress to the whole Nation, Mr Speaker, is that the final shape of what will be our membership or association with the European Union is not yet clear. The future shape of Government in Westminster, the spontaneous and huge demonstrations in favour of remaining in the EU and the demographic analysis of the vote suggest that each day the majority moves more and more in favour of Remain, means it would be foolish to think that the future is discernable in any analytically reliable way. It cannot be clear until many legal and political issues have been determined. One issue which is becoming prominent is whether a notice under Article 50 of the Lisbon Treaty can be given by a Prime Minister in exercise of the Royal Prerogative or if a vote of the House of Commons

is required to trigger such a notice. A legal action appears to have commenced already in this respect.

40. Mr Speaker, we cannot therefore at this stage commit to any recast post Brexit political or economic model until there is greater clarity. The leadership election in the Conservative Party presents so many permutations on its own that there are many options and alternatives to play for. Already we can see the beginning of economic policy for post Brexit Britain taking shape. The Chancellor, George Osborne says that the United Kingdom is Open for Business in his FT piece yesterday, targeting a low rate of 15% for UK corporation tax. One might be forgiven for seeing in that approach much of what we have already been positioning: i.e. low tax, best practice, agility in the context of a very competitive business environment guaranteed by the rule of law and the flexibility of the common law. We are well placed on that road map and can adapt well to it if it progresses. The Sunday Times is not far off in its proposed Blue Print for Britain. That analysis of the “profound implications for Britain's political and business establishment” suggests that the UK has “entered a different world, with new challenges, but also new opportunities” where it is essential to respond robustly to the challenges and seize the opportunities. That proposal suggests a 10% corporate rate of tax should be fixed as part of an “Enterprise Agenda” for Britain with a scheme to reward private firms for getting young people into work which is not too dissimilar to our Future Job Strategy. These proposed models are interesting in being so close to our own current economic model and we must watch to ensure we remain competitive as against the United Kingdom itself.

41. What is absolutely certain is that in order to emerge politically stronger and economically more competitive out of this process. We need to keep both united and very alert to all possible permutations facing us. We need to consider, plan and act in a way that ensures that we are not mere travellers in the process that is under way. We must be able to influence and shape our future now as a proud nation that has come of age and not as a colony or overseas territory of a metropolis that is told what is good for it and has to lump it.

42. After meeting the Minister for Europe last week I have now received the British Government’s assurances in writing that we will be “fully involved” in the process that is getting underway in the UK and I have no doubt that we will be working in partnership with colleagues in London, leveraging of the relationship we have already invested in and built, in finding the best possible way forward for Gibraltar.

43. I also have no doubt that the European Union will welcome the fact that the people of Gibraltar voted so overwhelmingly to Remain in the EU and the Single Market. I have no doubt either that the most magnificent weapon in my arsenal today is that huge show of support for the pro-EU option on the ballot paper.
44. The fact is Mr Speaker that Gibraltar has spoken clearly and with one voice that we are not ready to say goodbye to Europe. We are not ready to leave Europe behind and we are not ready to turn our backs on the Single Market. We remain a cosmopolitan Mediterranean business hub that is happily multi-faceted, multi-cultural and multi-ethnic. We are a people who are not only open to immigration, we are positively open and reliant upon it given that almost half of the working population of our nation commutes in each day. All of those EU workers amongst who were welcome before the 23<sup>rd</sup> of June, remain welcome today and they will remain welcome tomorrow. They are a huge and tremendously valued part of our success.
45. And Mr Speaker we are definitely not ready to see Gibraltar lose the benefits it can leverage as an efficient and commercially attractive gateway to Europe.
46. And this is not just an issue for us, but also, of course, for those who surround us and who support us with their labour and are part of our success.
47. As the recent report by the Chamber of Commerce reflected, direct, registered cross frontier workers can amount to over 12,000 of which 7,000 are Spaniards. Gibraltar imports almost £350m (around €420m Euros) a year from the Campo securing thousands of additional jobs in the region. And we contribute almost 25% of the Campo's GDP, amounting to almost £847 million or more than €1bn.
48. I have met already with the Mayor of La Linea, Juan Franco and with the Spanish Unions Comisiones Obreras, and UGT as they are concerned about the effect that the BREXIT decision could potentially have on their members who are employed in Gibraltar or in industries in the region that are reliant on Gibraltar. I have been happy to confirm to

them that the Government of Gibraltar will not create any obstacles to the free movement of workers coming across the frontier. We are entirely clear about that.

49. But what I have also told them Mr Speaker is that if the price of continued access to the EU or the Single Market or the price of free movement is Joint Sovereignty with Spain or indeed any other Spanish Sovereignty price, then the people of Gibraltar will not pay it. It must therefore be clear to the world that the threat to the cross frontier Spanish workforce is not being made by Gibraltar, by the United Kingdom or by the European Union. The only threat to cross frontier workers comes from the current Spanish administration. It must be clear to everyone it is in this way that the current Spanish administration are the only ones who are creating uncertainty for frontier workers.

50. As ever with our Spanish counterparts, we must hope for the best and prepare for the worst. The Government's view is that EU nationals are entitled to expect from Spain and hold Spain to a practical, workable and 21<sup>st</sup> century approach. We cannot make it easy for Spain to act in an unconscionable manner on the basis that only EU treaty rights create or indeed demand a civilized and sensible arrangement between neighbours. It will not be lost on Honourable Members that we enjoyed the free passage of people, including workers, and free trade for many years before a now long deceased and not missed dictator first imposed conditions and then closed the frontier in 1969. We must surely not be expected to accept as Spain's default position the regime suffered under Western Europe's last post war dictator.

51. And I therefore call on all in our community to meet this challenge with our usual resolve and also with a renewed commitment to promoting, serving and working for Gibraltar.

52. More than ever before this is a time to believe in ourselves. A time to trust the political leadership of this Community which will reach out to work with the whole Nation. A time not to fear the unknown, but to seize the opportunity to shape our future in our own fashion.

53. For many years Gibraltar Plc has given and all have taken. It is now also a time for us to give back more than we take. It is time to build on the

solid foundations we have laid by our prudent investment in our nation. It is time to further solidify our already strong foundations even more.

54. Unity in the months (perhaps years) ahead does not only mean trying to align and agree our political priorities. It also means all of us working together to develop and grow our economy. We provide services to an international clientele. Every interaction with our clients, investors and visitors is an opportunity and a responsibility. We can and must all make a difference. In that respect, the public service will be hugely important. Every Civil Servant, every public servant must be alive to the need to ensure that Gibraltar is now seen as more efficient than other places, an easy jurisdiction in which to do business. No one can say or think it is acceptable to simply take the “computer says no” attitude to the public again. We have no easy ride from here on. We have to be ready to do more, go further, work harder, be more efficient and wield greater influence than ever in building our common future in order to ensure we stay relevant, competitive and growing.

55. The Civil Service has never let Gibraltar down before, I am sure it will not do so now and will be ready to meet the challenge that will come as we send out the message that we are open for business as usual, we are open for business with Europe and we are open for business with the World.

56. Mr Speaker, in this respect, Honourable Members will be pleased to hear that the state of private sector projects in Gibraltar remains healthy despite the BREXIT result. We are about to see the finalization of negotiations for the commencement of major new reclamation project in the area of Coaling Island. Land reclamation needs to continue now perhaps more than ever so that we can ensure that businesses can have their workers based here and not dependant on the ability to commute easily into Gibraltar. A number of projects to allow for gaming and financial services workers to be housed in Gibraltar on new ‘key worker housing’ terms have been proposed to the Government and are under active consideration. Our community needs to understand that we need to build more and build higher in order to house those that we need to have in Gibraltar if we are going to maintain our standard of living for future generations.

57. And in the context, Mr Speaker, we are continuing our negotiations in respect of the plot at Rooke which we expect will be handed over very

shortly to the Government by the MoD. I expect to hold meetings with the preferred bidder in respect of that exciting potential development in September. Negotiations in respect of the Eastside project also continue, unaffected by the BREXIT result but hampered by complex discussion and engineering concerns. And new projects are being considered and proposed on which I would expect to make announcements soon and which will bolster economic activity in coming financial years. World Trade Centre, Ocean Spa Plaza, Midtown One & Two are all already under way. The new Kings Wharf development of £60m and Eurocity are about to get underway and are also confirmed, despite BREXIT, amongst others soon to be announced.

58. The Government has already done considerable work to attract businesses to Gibraltar that are not dependent on our access to the EU. More details of these businesses will emerge as further progress is made on the relevant projects being undertaken. In this respect, the work we have done in the United States and in the Far East, in particular via Jason Cruz in Hong Kong, is now expected to become even more relevant. The Gibraltar/US AmCham and the Gibraltar/Israel Chamber of Commerce are clearly even more welcome than they ever were before.

59. In order to make Gibraltar even more attractive for private sector investment, I have asked the Minister for Financial Services to reconvene the Working Group that reported on the proposed new mechanisms for Category 2 status and to also urgently progress the work being undertaken on HEPPS 2. Mr Speaker, it is worth noting that Monaco, to which we are so often compared, and is such a success, is not in the EU.

60. The competitive tender process for onshore storage of bunkers will continue unaffected by the BREXIT result, as the parties that have tendered have expressed their desire to continue in the process despite the referendum. This will be hugely beneficial for the future of our bunkering industry and will be alongside the potential for expanding LNG bunkering in the Bay.

61. In the insurance industry, a leading practitioner in the sector has written that "Brexit does not represent doom and gloom for the Gibraltar insurance industry. Far from it. It simply means that the sector needs to partially reposition itself."

62. In respect of online gaming, a number of companies have already confirmed continued support and commitment to the jurisdiction for the long term and are voting with their leases to demonstrate it. William Hill, Lottoland and others have already made clear statements of continued commitment to the jurisdiction. The Minister with responsibility for this sector will no doubt say more in his address.

63. One example was the statement from Ed Ware, the CEO of 32Red Plc who said this week that “32Red was born and bred in Gibraltar and it is very much business as usual. We have a strong relationship with Gibraltar on many fronts and we are heartened that the jurisdiction shows every sign of continuing to progress and develop despite the surprise result in the UK. Gibraltar is a centre of excellence for gaming and we remain committed to working towards another 14 years of great success here.” Mr Speaker this is language that the whole House will be happy to hear and I thank Mr Ware for those heartfelt words.

## **ECONOMIC GROWTH, INFLATION & THE GROSS DOMESTIC PRODUCT**

64. Mr Speaker, our economic performance is an important part of what makes us attractive to international businesses. It is therefore important that we should now undertake a substantive analysis of our economy and public finances by carrying out a detailed understanding of Gibraltar’s economic performance in the past financial year ending on the 31<sup>st</sup> March 2016.

65. Indeed, without anyone being in any way triumphalist, I am sure that all Honourable Members and the whole Community will be pleased, reassured and heartened by the excellent performance of the Gibraltar economy in the past 12 months of the financial year 2015/6, although this positive performance does not ameliorate the potential challenges that Europe and the World will no doubt face in the coming 24 months and for which we will have to prepare.

## INFLATION

66. Mr Speaker, inflation in Gibraltar averaged at 0.3 % in 2015 compared to 1.8% in 2014. Annual inflation stood at 0.4% in April 2016, up from 0.1% in January, an average of 0.3% for the first two quarters.
67. The largest contribution to the slowdown in the rate of inflation in April 2015 came from static or falling prices in respect of food, alcoholic drinks, tobacco, fuel prices and slower price rises in clothing and footwear. The Government's statistics office reports that these were partially offset by upward contributions from other travel and transport, services and housing.
68. Gibraltar's rate of inflation has averaged at 0.25% in 2016, lower than the same period in 2015 that averaged at 0.5%. Weak inflation has been caused by low fuel prices and downward inflationary pressures in the UK and Spain from which we import most of our non-fuel commercial goods.
69. The rate of inflation was predicted by our Statistics Office to rise during the second half of 2016 following the increase in global oil prices that have nearly doubled since hitting 13-year lows earlier in 2016. This may however now not materialize as a result of the impact of the result of the EU referendum which may produce effects that stifle growth generally and in particular in the areas which I have outlined had already slowed and may now not pick up as expected. The falling value of the pound may nonetheless compensate if wholesale imports sourced in Euros or Dollars, or other foreign currency, makes them more expensive to consumers at retail.

## THE GROSS DOMESTIC PRODUCT & NATIONAL INCOME

70. Mr Speaker, I turn now to an analysis of the Gross Domestic Product and of average National Incomes.
71. The final GDP estimate for 2013/14 is now confirmed at £1.48 billion.

That represents a growth in nominal terms of 12.3% (£161.56m) and in real terms of 10.3% over the previous year's final GDP estimate of £1.32 billion.

72. The GDP preliminary estimate for 2014/15 is confirmed at £1.64 billion. This provides an increase of 10.7% in nominal terms (or £158.93m) and by 10.6% in real terms over the previous financial year.

73. Honourable members will recall that, happily, this exceeded our own initial estimates of where Gibraltar's GDP would be in 2104/15, as we had anticipated that the GDP of Gibraltar would have reached £1.65 billion only a year later in financial year 2015/16.

74. Mr Speaker that means that in the four financial years from 2011/12 to 2014/15 the Gross Domestic Product of our nation rose by 49% from £1.1 billion to £1.64 billion.

75. I think Mr Speaker that everyone in our Community and our cross frontier workers should be congratulated for having achieved that remarkable growth.

76. Yet it is important to now factor in also the growth that we have seen in the financial year since then as the preliminary GDP forecast for 2015/16 is now estimated to be £1.77 billion.

77. This Mr Speaker is an increase of 8.0% in nominal terms (£130.85m) and 7.5% in real terms compared to the previous year. If I may say so, Mr Speaker, it is exactly in keeping with the estimates we made at the time of the General Election as we once again predicted the growth we anticipated was possible.

78. In terms of the period since 2011/12, Mr Speaker, the cumulative growth achieved from a final GDP estimate then of £1.1 billion to the preliminary GDP forecast now in 2015/16, is of an absolutely remarkable 61% for those five financial years.

79. Mr Speaker, the Nation deserves to congratulate itself for having achieved this really quite unprecedented growth in the period. The average increase in GDP in the period is 12.2% per year, which really demonstrates just how effectively we have been able to channel the energy, enthusiasm and the work of this community in this five year period.

80. Government is now working to a target that would see increases in GDP to at least £2.4 Billion by the end of March 2020. This represents a continued average annual growth of around 7.5% and is the basis of the program on which we have been elected.

81. Mr Speaker, despite the Brexit vote in the referendum, we are confident that this rate of GDP growth continues to be, today, entirely achievable and we will work to deliver that level of growth in the coming months and years.

## **THE GDP PER CAPITA CALCULATION**

82. Whilst analyzing GDP, Mr Speaker, the division of GDP on a per capita basis of an economy is often used as an indicator of the average standard of living of individuals in that country. As a result the growth in the overall size of the economy is therefore often seen as indicating an increase in the average standard of living. As I have said before in earlier speeches, my own view is that these measures are not entirely scientific because of the differing methodologies and fluctuating exchange rates on which they are based. Nonetheless, they are the measures that the rest of the world relies on.

83. Nominal GDP per capita in 2014/15 was £50,941<sup>1</sup>.

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<sup>1</sup> £50,941 per person using the latest published Census figure of population of 32,194 people. In US Dollar terms, taking the monthly average US Dollar rate for the calendar year 2014 of \$1.64 dollars to the pound sterling, the GDP per capita stood at US\$83,544

84. The latest forecast for 2015/16 estimates a nominal GDP per capita growth of 7.9% to £54,979
85. On the IMF GDP per capita rankings, the UK features in 28th position with a GDP per capita of \$41,159 and Spain in 36th position with GDP per capita of \$34,819.
86. Gibraltar's GDP per capita for 2015/16 is forecast at \$90,165<sup>2</sup> placing Gibraltar in 4th position, down one, in the table. Third place has been taken by a new entrant, the Macao Special Administrative Region of China, which was new on the list at 3rd position with a GDP per capita of \$98,135. That places us in 4<sup>th</sup> position, ahead of Singapore on \$85,253, Switzerland, Hong Kong, the UK and Spain.
87. As if to demonstrate how fluctuating and thereby potentially meaningless a calculation this is, the figures would of course have varied wildly depending on what day of the last two weeks one might have carried out the calculation because of the steep fluctuations in the value of sterling against the dollar.
88. The important aspect of this exercise is really only to appreciate that the Gibraltar's economy is estimated to have grown in real terms by 7.5% in 2015/16 with average earnings going up by 7.9%. This growth places us ahead of other small countries including Malta, Luxembourg Singapore and Hong Kong.

## **PUBLIC DEBT & CASH RESERVES**

89. Mr Speaker, the level of Aggregate Public Debt as at 31<sup>st</sup> March 2016 was marginally lower than last year at £446 million and the level of Cash Reserves ended the financial year at around £100 million. This reflects Net Public Debt at £345 million or 19% of GDP.

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<sup>2</sup> £54,979 per person 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 which provides a US Dollar exchange rate of US\$1.64 to the pound sterling, the same as the year average the year before.

90. Mr Speaker we had expected that the Net Public Debt would be down already to 19% of GDP at £314m. The delay in finalising the negotiations in respect of the sales of land which would produce large premia have meant that the net debt has not been reduced by these sums. We are nonetheless confident both that the negotiations for the relevant development projects will be finalised – and I will be saying more in that respect later. We are also very confident indeed that we will be able to hit the debt targets set out in our manifesto so that Net Debt will be £300m by 2019/20 which will by then be 12.5% of GDP, at £2.4 billion.

91. 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.

92. 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 been audited by the Principal Auditor.

## **THE GDP / PUBLIC DEBT RATIO**

93. Mr Speaker, given that at the same time as GDP has grown, the public debt has fallen the Gibraltar public debt to GDP ratio has fallen in aggregate terms by 2.1% from 27.3% in 2014/15 to 25.2% in 2015/16 according to the GDP forecast.

94. In net terms, public debt represents 19.5% of GDP in 2015/16, a decrease of 3.4 percentage points compared to 2014/15 when it stood at 22.9%.

95. These ratios continue at considerably lower rate than those of the UK and most other European countries. According to figures provided by Eurostat, the United Kingdom has a debt to GDP ratio of 89.2%. The lowest figure for the UK was 31% in the early 90s. Germany has a rate of 71.2% with its lowest figure of 54% coming from the days when the process of German reunification was starting. For the Euro area as a

whole the ratio is 90% and for our neighbor, Spain, the rate is 99.2%, well below the Greek 175% and the Japanese hellish 292%.

96. But Mr Speaker, although we are doing remarkably well in respect of the ratio of GDP to debt, we are not complacent in this respect and we are aiming to ensure that we hit our own target of £300m of net debt on a GDP of £2.4 billion (a ratio of 12.5%) by the end of the financial year 2019/20.

97. As we are faced by the uncertainty of the Brexit decision in the EU referendum we must be more cautious in spending, more prudent in saving and more astute in achieving this reduced ratio, something which we are committed to doing as we were when we fought the General Election in September 2015.

98. Our overall borrowing is relatively low even if we were to include the borrowing by Government-owned companies, which, as Honourable Members know, is not and has never been deemed to be part of the Public Debt. This is so 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 and has been the case under successive Governments.

99. Mr Speaker, the Government nonetheless remains committed to reducing its 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 by the Ministry of Finance.

## **REVENUE AND EXPENDITURE OUT-TURN - FINANCIAL YEAR 2015/16**

100. Mr Speaker, Honourable Members will see that the estimated surplus for this financial year, as was set out in the estimates book, was £18m.

That estimate was of course a conservative assessment of what we believed was achievable.

101. I am delighted to announce to this House and to the nation that during the last financial year 2015/16, we have once again exceeded our estimate for the fourth consecutive year achieved a recurrent budget surplus which is among the highest ever on record, at £38.8 million.

102. This is more than double the originally estimated surplus for the year and produces the **THIRD HIGHEST SURPLUS** in our nation's history.

103. In addition, Mr Speaker, it is worth noting that the surplus of £38.8m is declared **AFTER** the deduction of £25m to fund the Government companies, something which was not done by the previous administration which preferred to accumulate losses in the companies. We moved away from that way of doing things in our first financial year in office and have consistently deducted £25m to fund company losses in each year since our first election **AND** declared record surpluses nonetheless. In this instance, for the sake of comparison, I should clarify that if we were declaring the surplus in the same manner as the former administration which members in the party opposite represent, we would be declaring a surplus of £63.8 million, which would be the highest on record for our nation. We continue to believe it is more prudent and appropriate however to make the deduction in order to fund company losses as I have stated.

104. Mr Speaker, the surplus arises from Government revenue during the last financial year exceeding the original budget by around £22 million.

105. As a reflection of the continuing growth in our economy, Income Tax receipts were up by around £5 million and Company Tax receipts were up by over £20 million.

106. The House will be pleased to note that despite suggestions to the contrary in some quarters, departmental expenditure during the year, on the other hand, has been contained by the Government and ended this financial year broadly in line with the original budget.

107. Mr Speaker, I want to congratulate all controlling officers for their financial management in respect of these returns, although some departments where cost is demand led have exceeded their budgets for that reason.

108. Indeed, this result was no doubt greatly aided by the measures introduced by the Government to control unnecessary expenditure being incurred in the final quarter of the financial year.

## **DONATION TO COMMUNITY CARE**

109. 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 become totally independent of Government grants, I am delighted to inform the House that a further sum of £20 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. Community Care no longer needs the whole of the Government surplus and for that reason we are fixing the amount to be donated to the charity to half of this year's record breaking amount.

110. By the donation of this amount, Community Care will remain on track to have reserves of £230m by 2019/20, as we are committed it should have.

## **REVENUE AND EXPENDITURE BUDGET - FINANCIAL YEAR 2016/17**

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

112. Estimated recurrent revenue for the year is budgeted at £590 million. This represents an increase in revenue of over £30 million or 5.5% over

the previous year's Estimate but is nevertheless a conservative budget going forward.

113. The overall recurrent expenditure budget for the year is £570 million, which reflects a modest increase of around 5% over the 2015/16 Budget Estimate.

114. Mr Speaker this would represent expenditure at 32% of GDP. The similar comparator for the United Kingdom, Spain and Germany would be in the region of 43/4%, France is at 57% and the Euro area as a whole at 48%.

115. Mr Speaker, the Government is therefore conservatively projecting a recurrent budget surplus for this financial year of around £20 million. This year we continue to think it is right to project conservatively for such a surplus rather than over estimate and find we are unable to meet the target. In these times, prudence will prevail in making this estimate, as it has in every other year since our election.

## **GOVERNMENT'S CAPITAL INVESTMENT PROGRAMME**

116. Mr Speaker, during the last financial year 2015/16, the Government invested around £99 million on capital projects funded from the Improvement and Development Fund. Around £18 million was invested on 'Works and Equipment' and a further £81 million was invested in specific capital projects. This includes an investment of £12.2 million to complete the new '700 Berth Small Boats Marina; the provision of equity funding of £15.9 million for the Gibraltar International Bank and £6.7 million of equity funding for the University of Gibraltar. All of these are excellent projects that have added greatly to our growth as a Nation.

117. Mr Speaker, there were also further capital projects funded through the Government-owned companies. These include the construction of over 1,000 new affordable and rental homes and the construction of car parking facilities in numerous locations around Gibraltar.

118. Mr Speaker, the expenditure budget of the Improvement and Development Fund for the current financial year 2016/17 is reduced by a third to a more modest £61 million approximately in this year's Estimate book.

119. The capital investment in Works and Equipment is estimated at around £20 million and the provision for investments in other Government projects amounts to £41 million.

120. This sum includes further equity funding of £3.2 million for the University of Gibraltar; an investment of £4.9 million in our Roads and Parking Projects; over £11 million for the relocation of a larger number of MoD estates as agreed by the former administration in order to enable the continued release by the MoD of further land and properties for use by our community; £3.1 million for completion of the conversion and refurbishment works of the Old Naval Hospital; £1.3 million for infrastructure works required for the New Power Station; £1.9 million for infrastructure works for new Housing Projects; £1.2 million to complete the St Bernard's Catering Facility; £1.2 million for general improvements to Housing Estates; and further provision to complete other ongoing capital projects. Nominal amounts are provided in respect of some of the more exciting projects and developments we would like to see materialize but which are still undergoing the detailed planning stages.

121. All of these, Mr Speaker, are important investments in our future.

122. The Government will nonetheless be keeping a close watch on expenditure and on political developments and will, if necessary, have to make the decision to rein expenditure in further and not incur costs on new projects, if the circumstances so require.

## **GIBRALTAR SAVINGS BANK**

123. Mr Speaker, I am delighted to report to the House that the reserves of the Gibraltar Savings Bank have continued to grow and that these reserves stood at £25.8 million at the close of the last financial year. The

reserves of the bank are estimated to grow further to reach over £30 million by end of the current financial year.

124. This is one of the “kitties” available to the Government at any time and is a fund that has grown consistently since we were elected from zero just over four years ago. It remains on track to reach £70m by 2019/20

125. Indeed, this is one of the rainy day funds that have accumulated and which the Government has access to and which we can pay ourselves as a dividend should we require it.

126. Mr Speaker, as we set out extensively in our programme for Government at the time of the General Election, we are well on track to have rebuilt the “rainy day funds” which had been reduced to zero by 2011, to £300m by 2019/20. This is a process on which we did not start today. It is a process on which we embarked the minute after we were elected in 2011 and it was absolutely right that we should have done so. We are being proved right for having followed that course.

127. The current political circumstances entirely vindicate the view we have taken since we were elected, that we should build up these reserves. Already with a total of almost £150m have been put in rainy day funds in four years, Gibraltar now has the largest rainy day fund in its history at its disposal.

128. Given the circumstances in which we find ourselves, I am sure, Mr Speaker, that the House and the whole of the Community will be very happy indeed that our repeated prudence and our consistent caution in how we have calibrated our spending – despite criticisms to the contrary – has produced this magnificent rainy day or sovereign wealth fund in the sum of £150m and well on target to reach the £300m envisaged in our programme for Government in November.

129. 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 Deposit Base of the Savings Bank has now grown to over £1 Billion and keeps growing by a considerable amount each month. In fact, despite some attempts to discredit our

administration of the affairs of the Bank, we have seen it grow consistently and in defiance of the attempts to tarnish it. The Savings Bank is now more robust than ever, stronger than ever and with greater reserves than ever.

130. This is really to the credit of the work of Joe Bossano who has demonstrated that he is by far the safest pair of hands for the growth of this institution, having built it up in the late 80's and having now done so again in magnificent fashion. Mr Speaker to have an grown an institution like the Savings Bank as Joe has, and having laid such extraordinarily strong foundations for it, stands us in good stead in these times of uncertainty and vindicates manner in which the Savings Bank has been managed in the time since our election five years ago. The strength of the Savings Bank today is a huge asset for Gibraltar and I want to specifically single out the way in which Joe Bossano has doggedly and despite repeated criticism stuck to his plan to strengthen the Bank.

131. 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 under the expert stewardship not just of the Minister with responsibility of the Savings Bank, the Honourable Joe Bossano and the Financial Secretary. In this respect, Mr Speaker, Honourable Members will have heard the Governor of the Bank of England, Mr Mark Carney, say last week that he anticipates that interest rates will be cut again, probably in July and probably also again in August, which will be very bad news indeed for savers everywhere else. We have maintained the product for pensioners which will maintain their standard of living.

132. The Savings Bank is also working on improving the other services it offers to savers by making use of the latest available developments in banking technologies.

133. The Savings Bank complements the services that are now being provided to the community by the Gibraltar International Bank which includes a full range of retail banking services, in mortgage finance to prospective home-owners and commercial lending to our local businesses.

## GIBRALTAR INTERNATIONAL BANK

134. In its first advertorial slogan to the community the bank quoted **'Working to deliver your banking needs'**. Honourable Members will agree with me that thanks to the hard work of the people who set the bank up in the most adverse circumstances, the whole community can now see that this is in fact true and the community is availing itself of the services and products delivered by the Gibraltar International Bank.

135. The Bank opened for business in May 2015. In the short period of a year and two months since then the bank has successfully managed the transition left by the departure of Barclays Bank from the marketplace with little or no fuss. It has already been dealing daily with account openings, online banking services, loans and of course mortgages. Indeed, I am informed that since the bank opened it has increased its deposit base on a month on month basis, also at the same time as the Savings Bank has also continued to do so. As at the 30<sup>th</sup> June the deposit base of the bank, in just over one year, stood at £244 million, just shy of a quarter of a billion pounds sterling and way above the expected figure. This really is, Mr Speaker, a true reflection on how the community has vested its confidence in the bank and is actively supporting it. The Bank's lending book has also been growing steadily over the months and now stands at £43 million. Overall, the bank has in excess of 7,000 accounts already opened in its books.

136. In summary, Mr Speaker, the Bank today stands firmly as an established retail bank which is servicing the banking needs of our community and is becoming one of the important banks to go to in Gibraltar. And all of it run, as we insisted it would be, on an entirely independent and commercial basis by experienced and highly committed professionals at all levels and with an independent Board of Directors also. Exactly as we promised.

137. Mr Speaker, regardless of what side of the House Honourable Members sit on, they will no doubt want to welcome the success that Gibraltar International Bank has become. Can I ask that everyone here reflect now on the very hard work indeed that has been done by the independent board, by the executive directors and by each and every member of the staff of the Bank in the process of setting it up and establishing it as they have and making the success that it is.

## **DEPARTMENTAL REVIEW**

138. Mr Speaker, I will commence now the process of dealing with the different departments that I have the honour of continuing to have responsibility for after the General Election.

## **PUBLIC SECTOR HUMAN RESOURCES**

139. Mr Speaker, as Honourable Members are aware, a Public Sector HR business support unit has been formed to assist all government agencies, authorities and government owned companies.

140. The new department has brought a commercial approach to non-Civil Service Human Resources, looking at efficiencies and new working practices to improve delivery of service.

141. It has also introduced a best practice approach to the disciplinary process focusing on restoring efficiency. The core of all industrial relations now emanates from this department which works directly to me in respect of my responsibility for industrial relations. We have been able to form an experienced team which is well respected by all our stakeholders and works well with all of them.

142. The department is still in a developmental stage and once fully functional I expect it will bring a high end service to employees and our customers.

143. I am also delighted to be able to inform that House that this new service has been welcomed by all three trade unions.

**GBC**

144. Mr Speaker, I now turn to my responsibilities for broadcasting.

145. I am pleased to report that GBC's progress continues, with the feedback received suggesting that Radio Gibraltar remains a firm favourite with listeners, viewers are increasingly enjoying programmes on TV, and the national broadcaster's online and social media platforms are followed in their thousands.

146. This is evidently due to the sheer hard work and commitment by the 80 or so broadcasting professionals now employed by GBC, who thanks to this government's investment over the past four years, are able to deliver the programming and services that Gibraltar wants.

147. It is a necessary investment, so that our small nation can pride itself in having its own independent radio and television services with the highest editorial integrity, and that is able to reflect our unique character, in the face of hundreds of radio stations and television channels that are available locally.

148. The past four years have been all about improving the services that GBC provides. Programming now is a far cry from what GBC TV, in particular, offered viewers before then. GBC's CEO informs me that the road has been tough, but this has now pretty much leveled out, with the efforts now dedicated to maintaining, and wherever possible improving further, the quality of local productions and imported programmes. Mr Speaker, television is an expensive business, but GBC's management is ensuring that all available resources are maximized to deliver the best value for money possible.

149. TV shows such as the recent "Our Neanderthals" on the research being carried out at Gorham's Cave, and 'Inspired by Genoa' that is currently in production to air in the autumn, and which will trace Gibraltar's Italian ancestry, are just two of the many local programmes that would only be produced by a local channel. This is GBC's remit, and they are delivering.

150. The number of local series and specials produced this past year are simply too many to mention, but have been largely well received by viewers, not least the coverage of the election referendum.

151. Mr Speaker I am also glad to report that GBC has acquired 'affordable' rights to screen all of the FIFA World Cup Qualifier 'Gibraltar' matches as an official host broadcaster. The live broadcast of these matches begins in early September. I am proud that our national broadcaster is able to cover the matches featuring our national football team. Evidence with these two elements Mr Speaker, for anyone who may suggest otherwise, that the Rock is very much a nation in its own right.

152. I must also mention the GBC Open Day, which last Christmas raised a record-busting £146,000! I pay tribute to the trustees and the Corporation's employees who are involved in the charity, not only for the special programming, but also for bringing the community together for such a worthy cause, which is The Rock's largest collective fund-raising effort.

153. Mr Speaker, broadcasting is a sizeable area of employment locally, with 80 persons employed directly by GBC, that also provides opportunities to independent media companies. Careers in the media are exciting and rewarding, and I am pleased that the government's funding of GBC allows people to fulfill their ambitions in this sector, whilst providing valued services to our community. Increasingly, our own media professionals are also broadening their horizons by working closely with international broadcasters, such was the partnership between GBC and the BBC for coverage of the referendum. This resulted in both broadcasters benefitting from each other's locations and areas of expertise in what was a complicated results programme for all media involved – and in allowing Gibraltar's declaration to be carried not just by Sky and ITV who were here, but also by the BBC which is the main broadcaster in the United Kingdom. I was very proud to see that the Newswatch 'results' special of Friday evening was subsequently shown on BBC Parliament, providing exposure nationwide in the United Kingdom for the Gibraltar point of view.

154. Investment in technology needs to continue, and this year the Corporation has replaced its studio and field production cameras, which will allow the HD high picture quality to be maintained. Radio studios

were also refurbished with some equipment upgraded. The focus in the new financial year is on the replacement of the current and ageing TV studio lighting grid with much more environmentally-friendly LED lights, as well as the upgrading of the station's satellite transmission facilities.

155. Mr Speaker, there is generally a good story to tell about GBC, but the truth is that our national broadcaster continues to operate from a location that is simply not fit for purpose. For this reason, and in-keeping with our electoral pledge, GBC relocation needs to happen soon and in a manner that will finally provide GBC with a decent working environment that includes the necessary infrastructure and allows our national broadcaster to deliver the best possible television and radio for our citizens. This should also provide the vehicle for GBC to diversify and capitalize on commercial opportunities that should in turn reduce its reliance on a public subsidy.

156. Mr Speaker, I am sure that with their proven determination GBC's professionals will make the most of any new opportunities that come their way, to the mutual benefit to its employees and Gibraltar as a whole.

## **CUSTOMS**

157. I turn now, Mr Speaker, to my responsibilities for Customs.

158. The complement of HM Customs following the review is now complete with the final recruit training class concluding in December 2015.

159. We have now employed sixty five additional officers over the last two years, and, taking into consideration retirements during this period, a total of seventy nine new officers have joined the department since 2015. This has led to the creation of a new 'Controls' section at the Commercial Gate, four self contained operational shifts deployed subject to operational requirements, a 24/7 Marine Unit, a revamped Flexible Anti Smuggling Team and increases in training, administration and IT officers.

160. Mr Speaker, Honourable Members will be pleased to note that these increases in human resources have led to additional detections across all sections in both the traffic of illicit goods and evasion of duty.

161. During the last year we have relocated or provided temporary office and working facilities for the Controls Section and Outfield and are working closely with the Collector on other relocations including that of Custom House, Training, EPU and the Drug Detector Dog Section.

162. As members of this house are aware, I am in the process of taking direct responsibility for drugs policy to ensure Gibraltar's 'drug problem' is dealt with directly from the heart of Government. To this end, resources have been developed within Customs to have a dedicated team working primarily on tackling drug imports. During this year, marine and shift crews have detected and seized almost half a tonne of cannabis and a number of RHIBS have also been seized. Mr Speaker, I expect to say more about my Ministerial work in relation to this area of responsibility in the near future.

163. One of the other areas tackled by HM Customs is the illicit trade in tobacco products. In October 2015, HM Customs signed a Memorandum of Understanding with Philip Morris International, the world's leading international tobacco company which establishes a framework of cooperation to combat illicit trade in tobacco. A result of that collaboration with PMI is the testing of its 'Codentify' system, which is an electronic application to combine authentication, verification and track and trace of cigarettes. Customs is presently working closely with the United Nations Conference on Trade and Development to develop systems to test the effectiveness of 'Codentify' to identify counterfeits and the supply chain of the cigarettes.

164. A Portacabin has now been sited at Eastern Beach Road as a staging point for officers on high visibility patrols in the area of the frontier fence and beach.

165. The Collector of Customs also signed a Memorandum of Understanding to open an UNCTAD Gibraltar Centre of Excellence which will be housed within the University of Gibraltar and which will

provide specialist training programmes for high level international governmental and private sector officials on Customs related matters. The Centre is expected to be fully operational in August and a number of high level workshops have already been arranged for the autumn.

166. A stopover by UK Border Force cutters in September on their return from operations in the Mediterranean presented an opportunity for the UK Border Force Officers to undertake training exercises, share experiences and best practice, and to meet informally with their counterparts in HM Customs Gibraltar. This has resulted in further training and secondment opportunities with Border Force both in UK and in Gibraltar.

167. In May of this year the Collector of Customs John Rodriguez was elected into the European Association of Airport and Seaport Police's Executive Committee a forum where international experts sharing their experiences and best practice with regards the challenges of international collaboration in a changing world of border and port security.

168. The event, attended by over 60 law enforcement and security professionals from across Europe, focused on aviation and maritime security, with sessions that discussed current threats and opportunities to disrupt criminal and terrorist activity.

169. During the course of the past year I have attended three passing out parades (the first in many years) and was impressed with the level of professionalism and knowledge of the new recruits and all ranks present and it was an honour to share such an occasion with their friends and family.

170. Our Customs Officers, like the officers of all our law enforcement agencies, are a credit to our community. They demonstrate that we invest and are committed to tackling the trade in drugs and other illicit goods in a real and meaningful manner. They are excellent Ambassadors for Gibraltar and I am indeed proud to have ministerial responsibility for their sterling work.

## **BORDERS & COASTGUARDS AGENCY CHECK**

171. Mr Speaker I now turn to my responsibilities as Chairman of the board of the Borders and Coastguard Agency, where we have made major improvements since we came to office in 2011. More recently, as promised in our 2015 election manifesto, we have now fully integrated the Highway Enforcement Officers into the Agency, providing additional manpower required to meet the challenges of the increased workload, and have also employed a large number of additional female officers to ensure the Agency is suitably balanced to carry out the gender specific work it does, and to remain compliant with Civil Aviation Authority and Department for Transport standards and requirements. Mr Speaker the officers at the Borders and Coastguard Agency go through extensive training in a range of disciplines and responsibilities, they are multifunctional and can react according to the risk and requirement.

172. This last year has been a very successful year for the Agency whose efforts have been recognised internationally by BORDERPOL, the international border security, migration and traveller management organisation, for its outstanding vision, dedication and commitment to progressive border security, traveller and migration management. The Gibraltar Agency was presented with the Excellence in Border Management award at the BORDERPOL World Congress in The Hague in December 2015. This award not only recognises the Agency's efforts, but more importantly provides us with international exposure placing us amongst countries such as Singapore, whose Immigration and Checkpoints Authority were the recipients in 2014.

173. In addition to this accolade Mr Speaker, the Chief Executive has been elected to form part of BORDERPOL's Common Council, which is set up to oversee strategic operational programs, and provide a platform to inspect global border security, migration and traveller management issues.

174. Mr Speaker with over 12 million people coming into Gibraltar every year, and the increase in flights and cruise liner visits, the Agency continues, particularly at the land frontier, to face the ever increasing challenge of maintaining a fluid but secure border. This government is pleased to have invested not only in additional human resources, but also in the latest available technology in passport scanners, advanced

passenger information systems, and CCTV and facial recognition cameras; all of which have enabled the Agency to work closely with UK Borderforce, HMG's Home Office and INTERPOL in developing a very successful Border targeting operation.

175. Together with the magnificent men and women of the RGP and the other emergency and essential services, the Agency is very much at the forefront of our fight against terrorism, working hard to ensure that those who we would rather not see in Gibraltar, because of fear they could carry out criminal acts and do harm, are indeed kept out, and has unsurprisingly refused entry over the last year to over 35,000 people.

176. Mr Speaker, it is impossible to ignore the migration crisis in south east Europe and Greece in particular. We are lucky enough to enjoy relative safety here in Gibraltar, but as the EU tightens its borders in the eastern Mediterranean we cannot overlook the fact that migration routes may well shift along the North West African coast towards Morocco and thus closer to us; and indeed the challenges that may bring.

177. The increased security posture has placed considerable strain on all of our security services, and the Agency's men and women continue to work tirelessly to ensure Gibraltar can combat the increased numbers of organised criminals attempting to travel illegally, particularly to UK via Gibraltar. The Agency works on the premise of "an open but secure border", and works with colleagues at the RGP, UK Borderforce, Spain's Policia Nacional and indeed INTERPOL to achieve this. It also works particularly closely with Her Majesty's Government Home Office Risk and Liaison Overseas Network which coordinates immigration intelligence work overseas and shares intelligence, to provide that 'outer cordon' which aims to stop illegal immigration and those we would rather not see in Gibraltar, get to our borders. Working with this Home Office overseas network has led to the successful disruption of organised immigration crime and trafficking operations with the interception of a number of organised criminal human trafficking rings trying to get Albanian, Chinese and Iraqi nationals illegally into the UK. Mr Speaker, the Agency strives to ensure Gibraltar is not seen as a soft underbelly for illegal access to UK, and in addition to its entry checks at the border, regularly carries out random exit checks at the airport. But faces, as does the wider law enforcement community around the world, ever increasing challenges as criminals improve their resources counterfeiting and adapting stolen original travel documents in their attempts to travel undetected.

178. Mr Speaker the Agency has worked very hard to become the focal point for a more centralised immigration service in Gibraltar, and the Immigration, Asylum and Refugee Act, currently under review, will reflect this. It aspires and is working hard to ensure its operation is very much intelligence-led, and continues to set for itself increasingly demanding and challenging objectives. It remains focused to working in partnership with other Government departments and Law Enforcement Agencies, both locally and abroad, and to exchanging information and intelligence of mutual interest, to provide solutions and improve the overall level of immigration service Gibraltar provides. One of their objectives this year is to focus on working closely with shipping agents to facilitate and improve the migration process of the 20,000 or so ship's crew that transit through Gibraltar every year.

179. The Government continues to be proud of our very successful initiative to grant Tourist Visa Waivers to Moroccan, Russian, Chinese, Indian and Mongolian nationals in possession of Schengen visas, which saw over 16,400 visitors, whom would otherwise not have been able to visit Gibraltar, do so last year.

180. Mr Speaker, in addition to its immigration duties, the Agency is responsible for the carrying out of important aviation and maritime security duties at the airport and port. They form the bedrock of the success of our operations at the airport and have been subjected recently to thorough and exhaustive inspections by the Civil Aviation Authority at the airport, and the Department for Transport at the port. These inspections Mr Speaker, ensure compliance with HMG's and EU legislation, and provide us with the necessary credentials we require to market Gibraltar's airport and port internationally. Mr Speaker in today's security climate more than ever, these industries are highly regulated, and the Agency's continued performance, operational focus and effectiveness has enabled it to measure up to the high standards set and receive their just reward.

181. The Agency is committed to professionalism, and as such is always looking at ways in which to improve itself and the service it provides; whether it be seeking changes to policy or legislation; the professional development of individuals; collective training or indeed its social media presence. The management team together with my office have worked hard to establish a solid administrative structure, and continue working closely with the unions to explore ways in which we can best develop

the Agency's future; I am happy to say that we are in the final stages of ratifying the changes requested by the unions which will see further improvements to the Collective Agreement.

182. Finally, Mr Speaker I want to publicly thank the men and women of the Borders and Coastguard Agency for the invaluable work they do, as despite making gains for Gibraltar, because their work is often difficult to measure and communicate, it all too often goes unnoticed.

## **CSRO**

183. As regards the Civil Status & Registration Office, I can report that it has been a challenging but productive year, a year which has seen the retirement of the Head of the Department and the resultant staffing adjustments which are still ongoing. On this note, I should like to thank officers from other departments, including the HRD, No 6 and the Borders & Coastguards Agency, for their support and assistance to the CSRO.

184. In line with the practice established since the Gibraltar GSLP/Liberal Alliance came into office four and a half years ago, we are proud to have continued the granting of British Overseas Territories Citizenship. At long last we have been able to do justice to past sacrifices made by long-term non-EEA nationals to the benefit of our community.

185. However, by far the greatest challenge this year has been the complete overhaul of our local Identity and Civilian Registration Cards. A decision was taken early in our first term of office to work towards the replacement of our former ID cards, as had already been done with our driving licences, in order to enhance security features while at the same time pave the way for greater e-government transaction. A massive logistical exercise was embarked upon, not without its teething problems, but thanks to the efforts and contribution from our staff at the CSRO as well as other officers and summer students, the inevitable technical difficulties encountered are being addressed with support from our internal IT&LD and the specialist consultants engaged to design and produce the cards. Already, approximately 39,000 cards have been issued. In the year ahead, the exercise will be seen to completion.

## THE INCOME TAX OFFICE

186. During the last 12 months, the Government Income Tax Office has continued its programme aimed at improving the assessment and collection of taxes in Gibraltar and which is such an important part of our revenue. In this regard, the amendments to the Income Tax Act 2010 introduced in the last financial year have made the legislation clearer and more robust. In relation to all aspects of taxpayer assessments, the Income Tax Office is carrying on with the implementation of measures addressing delay issues in a positive manner.

187. The corporate tax yield in the financial year 2015/16 has reached a record high of £109,374,117. This represents a significant increase of approximately 23% over the Government's corporate tax yield in the 2014/15 financial year.

188. In respect of tax arrears, the Income Tax Office continues its very effective strategy of close, dynamic and direct communication with employers to ensure compliance with our tax laws. A culture of compliance is being nurtured and encouraged amongst the general body of taxpayers by this strategy. The fruits of these efforts are evident from the improved yield in the arrears recovered by the Government. In particular, the Income Tax Office takes a very stringent approach on employers that do not comply with their tax paying obligations.

189. As part of the next stages in this strategy, the Commissioner's objective is to publish a "Name and Shame" list in the Gibraltar Gazette setting out the names of those employers that have defaulted on their PAYE payments. Furthermore, new provisions have been introduced in the Income Tax Act 2010 in the last financial year empowering the Commissioner, by also extending his legal authority, to publish details of self-employed individuals and companies in the Gibraltar Gazette who fail to meet their obligations.

190. The programme of improvements continues steadily and is an evolutionary process without losing sight of the clear objectives to achieve a streamlined, accessible and user friendly service to all taxpayers in Gibraltar. The changes to Counter hours providing a

continuous uninterrupted service from 8.30 am to 3.00 pm has been a resounding and unqualified success as much in the Income Tax Office as in the wider Civil Service. I want to congratulate all public servants for this.

191. In tandem, the implementation of the Income Tax Office's new webpage including user friendly portals forming part of the wider eGovernment platform has seen very positive and favourable feedback from users. The ongoing modernisation of systems within the Income Tax Office has upgraded the administrative efficiency of the back office resulting in significant reduction in the time spent re-filing and accessing files. The ultimate objective for the Income Tax Office is to phase in the scanning and digitisation of all taxpayers' files and records. The improved systems on the payment of tax via debit cards has proved a popular choice with taxpayers and the banking facility through which refunds are directly credited to taxpayers bank accounts avoids the hassle and inconvenience associated with cashing cheques.

192. The multi-faceted approach to make taxation easier to understand and the awareness of taxpayers' obligations has seen various successful initiatives. Presentations and attendance at seminars aimed at the business sector have contributed to the success of the outreach programme. In particular, the advertising of important tax reminders in the local press has contributed to the success in achieving greater compliance across the entire spectrum of taxpayers.

193. The Income Tax Office has also maintained a dedicated approach in the discharge of its duties and functions for the purposes of exchange of information. In compliance with the obligations required by the EU, under EU directives and the OECD, they have ensured that these obligations are met competently and consistently. The Income Tax Office has deployed its resources in relation to the ever increasing demands placed on it by international tax compliance and major inroads are being made.

194. The amendments to the Income Tax Act 2010 introduced in the last financial year include the obligation for all companies registered in Gibraltar to file a full and complete return of their income. In order to facilitate the registration of such a significant number of companies, the Income Tax Office has introduced a 'fast-track' system which allows for the bulk registration of all Gibraltar registered companies that were not

previously registered with the Income Tax Office.

195. The Income Tax Office has embarked on this process and in doing so has maintained close liaison with the finance centre industry. Forming part of the Government's package of information technology initiatives, the Income Tax Office is working closely with the Information Technology & Logistics Department to enable companies to submit their returns on-line. It is intended to extend this facility to all taxpayers.

## **TAX REFUNDS**

196. Mr Speaker, there has always been an amount of tax refunds due to be processed in the system however a significant increase in tax refunds due on personal assessments first arose with the introduction of the Gross Income Based system of taxation in 2007/2008. Honourable Members may recall that this effectively created a dual system of personal taxation in Gibraltar.

197. Under this dual taxation system, the Income Tax Office calculates the amount payable by the taxpayer under both systems and then issues an assessment on the more favourable of the two taxation systems for the benefit of the taxpayer. The practical effect of this is that a significant number of taxpayers have in effect been migrated from the Allowance Based System to the Gross Income Based System after having been assessed. The initial years of this system resulted in a sharp increase in the numbers and amounts of tax refunds due and this backlog of refunds has been trailing since then.

198. The problem has been further compounded with the introduction of the system of 'payments on accounts' in 2010 for both companies and self-employed individuals which has also resulted in a further increase in tax refunds due. Under this system, payments on account are made based on the previous year's results. Although the system allows for the timely collection of tax on account, where any such companies or self-employed individuals have subsequently reported a lower profit or income level, the tax overpaid is refunded accordingly. In the initial years following the introduction of this system the focus has been in ensuring it worked correctly and resources were deployed accordingly.

199. My Government has responded to the consequences of these tax system changes by increasing the annual provision for tax refunds so that they are now higher than they ever were. Honourable Members will note that there is a provision of £10 million in this year's Estimates (under Consolidated Fund Charges Head 07 - 1) for the payment of refunds during 2016/17. This compares with a provision of £7 million in 2015/16 and actual refunds of £6.6 million in 2014/15; £10.6 million in 2013/14; £6.6 million in 2012/13; £5.7 million in 2011/12; and only £4.7 million in 2010/11.

200. With the provision of £10 million in this year's budget, which is the highest amount ever provided for refunds, the Income Tax Office will be able to continue with its ongoing Refunds Programme to catch up on the backlog of refunds resulting from the introduction of the Gross Income Based system in 2007/08. The Income Tax Office has now finalised all tax assessments for the years 2009/2010 and 2010/11 and the tax assessments for the years 2011/2012 and 2012/13 should be finalised this year. Their Refunds Programme is presently being worked on with a view to making significant inroads into processing the refunds due over the next few years. The Government does not want to keep people's money.

## **RETIREMENT OF FRANK CARRERAS**

201. Finally, and more sadly in relation to this important department, Frank Carreras, the Commissioner of Income Tax, is retiring from his post this year. He will be sorely missed not just in this department but throughout the Government service. Frank has been a close adviser and a pillar of sound judgment in all the time I have been in office and I have no doubt that all those of my predecessors who have worked with him will feel the same way. I know he has also been an important servant of this House at election time and has been a great asset to Her Majesty's Government of Gibraltar. In his time he has overseen a huge growth in income tax receipts and has been instrumental in guiding the work our legal teams have done on the EU State Aid matters. Indeed, I am sure that the only persons who will be happy to see him go are those that he has quite properly "named and shamed" for their failure to comply with their obligations.

202. Frank has agreed to continue to stay involved in helping to deal with general government arrears and I have no doubt he will still be available to advise a friendly Chief Minister once in a while.

## **A NEW POWER STATION FOR GIBRALTAR & A NEW FUEL: “SHELL LNG GIBRALTAR LIMITED”**

203. Mr Speaker, last year the talk of the town was of power cuts and the greatest challenge facing our economy then was the provision of a reliable source of power and the installation of the necessary generating capacity for our community for a generation.

204. One of the most important aspects of that process was the choice of location for the new power station and the choice of fuel for the future.

205. Anyone who now cares to cast an eye towards the North Mole will not fail to see the significant progress that has been made by Bouygues on the construction of that facility. The engine bays that will house the new workhorses that will provide Gibraltar's power needs are now virtually complete. Delivery of the CATERPILLAR engines is expected by around November of this year as they have passed pre delivery testing processes.

206. As the same time as this is ongoing over the last 6 months senior Government officials have been engaged with Shell representatives to seek to finalise the arrangements for the LNG facility that will supply LNG to the new power station.

207. These negotiations are highly technical as they need to cover eventualities over a contract spanning some 20 years.

208. Careful consideration has of course been given to ensure LNG is supplied to Gibraltar safely and reliably to keep the power station constantly working under this new fuel that will dramatically reduce emissions and produce cleaner and more efficient power. Gone will be the days of grimy, smelly, dirty diesel pollution. In addition, the cost formula agreed with Shell for LNG supply will make the use of gas cheaper than powering our engines with diesel.

209. Discussions on the safety case have been fully aired in the Parliament, the election campaign and in the press. I can assure this Parliament that no stone has been left unturned in this respect. As I have said repeatedly before, neither I, nor any other minister or any other member of my professional staff, would tolerate an installation which introduced an intolerable risk to our Community.

210. Shell has proved to be the right choice for this nation as we have experienced their attention to detail and vigilant eye on the safety case. The teams that have repeatedly visited Gibraltar have comprised specialists in all aspects of this process. For our part teams from the Port have visited Shell's Rotterdam GATE facility which will supply LNG to the Gibraltar plant once this is operational.

211. In October teams from the Environmental Agency, the Gibraltar Fire and Rescue Service, the Port Authority and the Gibraltar Electricity Authority will visit Shell Gasnor's offices in Bergen, their LNG terminal and production site just outside Bergen and to their LNG safety training facility in Rotterdam to see these first hand and attend training sessions as appropriate.

212. It is expected that negotiations will be finalised in the next month or so in respect of the final agreement with Shell. Interim arrangements have been entered into with Shell which have allowed them to progress with ordering the construction of the tanks being specifically designed for Gibraltar's needs.

213. In addition, Mr Speaker, the House will be pleased to hear that it is expected that Shell commissioned works will also commence on site shortly after the agreements are signed and the final planning conditions are met.

214. I cannot begin to explain to Honourable Members how complex this process is and how proud I am of the team at the Gibraltar Electricity Authority responsible for supervising the wider power station project. Particular mention has to be made of Michael Caetano the CEO of the GEA and Hector Montado, Government's Chief Technical Officer. I also need to recognize the dedication of Manolo Alecio who has been instrumental in the design of the power station working on this up to his retirement and who continues to assist in an advisory capacity with this

project. Manolo was part of the team who worked with me together with Michael Gil as the then Chief Technical Officer to consider the options for Gibraltar from a blank canvas. I cannot thank Manolo enough for his friendship, support and advice in the period of analysis, consideration and procurement that led to the choices we have made and are now implementing.

215. Trying to co-ordinate both processes, power station and an LNG facility is not easy with everyone needing to be coordinated to ensure that the tanks are in place and the LNG plant is functional by the time the new power station engines are ready for testing. I am delighted to inform Parliament that we are well on track with both of these challenging and inextricably linked projects.

216. The LNG plant will be operated by Shell whose presence in Gibraltar will be through a 51% subsidiary aptly named “**Shell LNG Gibraltar Limited**”. In order to reduce the overall cost of this contract over its 20 year life to the Gibraltar taxpayer, the Government will own the remaining 49% of the shares ensuring Government shares in the economic benefit of this arrangement.

217. The total cost of the facility is circa US\$ 44m over a period of two years and at the end of the 20 year contract period the plant will revert to full Government ownership for a nominal payment.

218. The details of these LNG arrangements are not yet finalized but this outlines the anticipated outcome of negotiations.

219. Mr Speaker, my administration, just like the former administration, has also taken the view that infrastructure facilities such as the power station which are for the long term benefit of this community should be funded on a long term basis. With this in mind I can confirm that we have secured financing for the power station through a financing agreement that was entered into just before 31 March 2016 between Lombard Plc (part of the Royal Bank of Scotland Group) and ES Limited which is the company that will own the power station facility.

220. This facility is an asset finance arrangement for £55m being the part of the construction contract represented by the assets in ES Limited. The facility is being drawn down against staged payments. The facility is repayable over 10 years post construction by making equal annual payments which will can easily be met from the saving of fuel alone. The remaining balance of money due on this contract is at present anticipated to be financed directly from government company resources.

221. Mr Speaker, the new power station financing is more than affordable when one factors in the savings that will be made when Government also ends its contract with Energyst for the temporary rental facility and even more so when the Government is released from the fuel hedge arrangement put in place when diesel prices were in excess of US\$100 a barrel.

222. The cost of this facility is at a margin of 2.98%, [yes Mr Speaker just under 3% over UK LIBOR] making this an exceptionally attractive facility that has not required the Government's balance sheet as security.

223. The facility also provides a drop lock option allowing ES Limited to fix the interest rate. This choice will be allowed once during the lifetime of the facility with the decision available at each anniversary of the facility.

224. Mr Speaker, it is right that I should take this opportunity to thank David Bruce from Natwest, Ian Victor, Robin Clayton and Lance Coppock from Lombards for working with us to make this innovative financing arrangement possible which does NOT require us to raise electricity prices to consumers by 5% per year as was anticipated in the financing arrangements which were entered into by the former administration.

225. Mr Speaker, the new power station project and the new LNG storage facility for it are amongst the most exciting, essential and critical projects for this Community and it is a pleasure to have been able to see both of them well on the way to being delivered for the benefit of all.

## AIRPORT TUNNEL

226. Mr Speaker, another of the exciting, essential and critical projects for the future of this Community is the completion of the tunnel under the runway. In this respect, the Government was pleased to be able to announce that it had successfully negotiated a settlement with Obrascon Huarte Lain SA (OHL) to complete the runway tunnel. Not only will this settlement avoid further delays by requiring the contractor to complete the tunnel by 30th November 2018, it will do so at a price close to the original 2008 budget. The completion contract explicitly specifies that any delay to the contracted completion date would immediately incur financial penalties to be paid to Government by OHL.

227. This settlement therefore provides Government and the taxpayer with the certainty of a completion date and also with certainty of cost.

228. Having originally contracted to pay OHL £30m for the tunnel in 2008, OHL will now receive a total sum of no more than £24m. This amount includes sums already paid. The reduction in price will contribute towards the costs and expenses incurred by HMGoG since termination. These include the cost of certain works undertaken directly by the Government's wholly owned Gibraltar Joinery and Building Services Limited.

229. The risk involved in completing the tunnel project will now be assumed by OHL rather than by the Government and our current position is further increased in our having obtained bank guarantees in the total sum of £37.1m in favour to ensure OHL's performance of the works.

230. Government will also be able to pursue OHL for further sums if they fail to deliver.

231. A completely fresh OHL team from their international division is being brought in to ensure the delivery of the project in accordance with the new completion obligations.

232. OHL will be mobilising on site during the early part of July although formal commencement under the completion contract will be 1st August 2016.

233. Mr Speaker, as the Government has already stated publically, this settlement with OHL ensures that the final cost of the tunnel will be as close as we could hope for, to achieve to that which was originally budgeted for. The result also de-risks the process for Gibraltar quite considerably.

234. I want to place on the record of Hansard the Government's thanks to the team at TSN comprising Guy Stagnetto and Nick Culatto, the team at Corbett & Co led by Edward Corbett, and also to Mr Nigel Pardo and also Stephen Orciel and John Joe de la Paz who have been involved throughout. Additionally I am also very grateful to the team in-house within HMGoG in particular Michael Gil, Hector Montado, Dilip Dayaram, Albert Mena, former Chief Minister Sir Peter Caruana who have been of great assistance in the litigation leading up to this result.

235. I also want to thank GJBS who have – as usual – stepped into the breach when they were needed by the Gibraltar taxpayer and they could have done a great job of finishing the tunnel we had asked them to. The work they have done and completed is of the very highest standard, as usual. I want to thank them also for that work.

236. Mr Speaker, I think everyone will now look forward to seeing this important infrastructure project completed as soon as possible and by the date agreed.

## **BUDGET MEASURES 2016**

237. Mr Speaker, I now turn to the specific Budget Measures for the financial year 2016:

### **SECURING & PROTECTING PUBLIC HOUSING**

238. As honourable members are aware, the Government's policy is to enhance, protect and secure our Housing Estates. We have invested very considerable amounts of almost £100m in upgrading many of our housing blocks and we remain committed to this ongoing programme of modernisation and improvement.

239. At the same time, Mr Speaker, the Government has noted the remarks in the Ombudman's report this year in relation to the need to review housing rents.

240. First of all I want to congratulate the Honourable and learned lady, the Minister for Housing for her fantastic work in collecting arrears of housing rents. She will be telling the House more in her intervention no doubt about how much she has already collected in arrears and what she plans to continue to do.

241. Going forward, the position of all parties at the last election was that housing rents should be reviewed given that they had not been increased since 1984. Average earnings in Gibraltar in 1984, which was before the full opening of the frontier, were £126 per week whilst average earnings in 2015 were at £555 per week a rise of 340.5%. Inflation in that time has risen by 153.5%.

242. As a first Budget Measure this year, Mr Speaker, I announce that government residential rents will therefore be increased this year for the first time in thirty two years by only 3% which will amount to an average of 60p per week. The increase will amount to 39p for a two bedroom property at Alameda Estate or 46p per week for a 2 bedroom property at the Mid Harbour Estate, that is to say, less than half the

price of one edition of the Gibraltar Chronicle a week! I trust that all Honourable Members will agree with me that means-testing these increases would cost more than the increases and makes no sense. These very modest increases must now continue on an annual basis in a manner that will nonetheless remain considerably below where they would have been if they had increased consistently in line with inflation.

243. Whilst the former administration put in place a scheme to sell off our housing stock assets by extending the Right to Buy scheme to post-war accommodation, we instead have decided to retain the Housing Estates as long term public housing and to maintain them to a higher standard than ever before. Although, the Right to Buy scheme in respect of pre-war or free standing property will continue, our priority will be to implement this in a way that keeps the bulk of post-war Housing Estates within the public sector.

244. Indeed, Mr Speaker, instead of selling off these prized assets to raise money, as was previously proposed, we are delighted to have secured £300 million of new institutional investment in Gibraltar on the strength of our enhanced and refurbished public housing stock.

245. This significant investment represents an important vote of confidence in Gibraltar's economy.

246. The £300 million investment has varying maturities of between 15 to 30 years at fixed interest rates.

247. Indeed, securing this investment at this time has been critical in order to benefit from current very low interest rates. Accordingly, the composite rate for the overall investment has come in at 3.85%. The securities have been placed with funds managed by M&G, MetLife and Babson, each of which are major institutional wealth managers. Royal Bank of Canada Capital Markets has acted as the private placement agent.

248. The investment has been structured through Government's company structure, via Gibraltar Capital Assets Limited a newly incorporated subsidiary of the Gibraltar Development Corporation. GCA has the

benefit of long leasehold interests in 6 of Gibraltar's public Housing Estates. The Freehold title to all Housing Estates remains with the Crown and the security of all tenants is completely unaffected.

249. GCA has a strong local Board of Directors consisting of James Levy QC as Chairman, John Collado the current and soon to be retiring Managing Director of LPS and Charles Serruya a senior and highly respected Chartered Accountant.

250. The Government and the Housing Authority will remain fully responsible for the allocation, repair and maintenance of the Housing Estates.

251. Mr Speaker, this massive investment in Gibraltar has involved considerable planning and effort and I want to thank all the investors, financial institutions and advisers for having brought about this successful outcome. Indeed, this is all the more remarkable given the transaction was structured and completed in advance and notwithstanding the potential impact of a Brexit vote on 23<sup>rd</sup> June, not easily anticipated when the process was initiated.

252. In fact, Mr Speaker, this transaction has served to highlight the very positive view of international investors in the strength and resilience of investment in Gibraltar.

253. I want to specifically thank the Financial Secretary Albert Mena, who originated, recommended and has seen through the concept of structuring this investment in Gibraltar in this innovative manner. My thanks also to Albert Mena's team for their work on this transaction and all of the work they do on these estimates, as well as Peter Montegriffo QC and his legal team for their invaluable work and advice in respect of this matter as well as to the Minister for Housing, Samantha Sacramento and Gerry Reading and her hardworking team at the Ministry of Housing.

254. Mr Speaker, Albert Mena has been an important part of the delivery of this economic performance, extraordinary talent, extraordinary commitment and extraordinary skill. At this difficult time, it is clear that

Gibraltar needs his abilities and skills set at its disposal and I am honoured that he accepted the challenge I put to him to become a part of the team at No 6 Convent Place, in the heart of Government although I must say I was dismayed at some of the attacks to which he was subjected in November and which all now regret.

255. It is appropriate I should also thank all my team at No6 – they know who they are – for their fantastic work and support this very difficult election and referendum year.

## **IMPORT DUTIES**

256. The following changes in import duty will be introduced, with immediate effect:

257. In order to assist the community with the purchase of vision correction aids and accessories:

258. Import Duty on Spectacles is reduced from 6% to 0%

259. Import Duty on Spectacle lenses is reduced from 12% to 0%

260. Import Duty on Contact Lenses is reduced from 12% to 0%

261. In order to contribute to a healthier diet among our children and at the same time promote physical education and sports in both our primary and secondary schools:

262. Import Duty at 10% will be payable on fizzy and other soft drinks (other than fruit juices or milk-based drinks) with a sugar content of above 5 grams per 100 millilitres.

263. The same level of import duty will be levied on sugar, sweeteners or other derivatives used for the sweetening of drinks produced in Gibraltar.

264. As a further measure for the benefit of our school-children:

265. Import Duty on School Satchels is reduced from 6% to 0%

266. Mr Speaker, in order to assist our community with the purchase of everyday essential items:

267. Import Duty on –

268. Sanitary Towels and Tampons is reduced from 12% to 0%

269. Nappies and Nappy Liners for Babies is reduced from 12% to 0%

270. Pre-shave, Shaving and After-Shave preparations is reduced from 3% to 0%

271. Personal Deodorants and Antiperspirants is reduced from 3% to 0%

272. Perfumed Bath Salts and Other Bath Preparations is reduced from 3% to 0%

273. Mr Speaker, in order to assist local businesses in the marine sector:

274. Duty on electronic equipment and spare parts for use exclusively in boats, including fish finders, marine radios, radar and GPS plotters is reduced from 12% to 0%

275. Duty on Sails is reduced from 3% to 0%

276. Duty on propellers and related spare parts is reduced from 12% to 0%

277. Mr Speaker, in support of this Government's continuing efforts to address the problems arising from tobacco and smoking generally, we will raise the import duty on Waterpipe Tobacco from the current 12% ad-valorem duty to £3 per kilo. This represents a three-fold increase in Import duty on this commodity.

## **UTILITIES AND BUSINESS RATES**

278. Mr Speaker, in order to assist with the cost of doing business in Gibraltar, electricity and water charges will not be increased this year, despite the increasing costs of providing these public utilities. Given that inflation since January 2012, the month after we were elected, has amounted to 5.65%. That is the discount in real terms that businesses have had already since our election against the amounts at which water and electricity are charged. That is of course, Mr Speaker, a huge discount already against the amount that it costs to generate electricity and water, both of which costs are heavily subsidized by the Government. General Rates payable by businesses will also remain unchanged and discounts for the early payment of rates will continue to apply.

## **NEW START-UP INCENTIVE SCHEME**

279. As I have mentioned the Brexit vote has created uncertain times and my Government is determined to ensure that whilst in Gibraltar business continues as usual, Gibraltar remains competitive and we continue to attract top quality business to Gibraltar.

280. In order to encourage any business giving setting up in Gibraltar due consideration the Government will implement a startup incentive. An

incentive of this sort, although not quite in the form that has been advocated by the Gibraltar Society of Accountants, nonetheless the impact they were suggesting. In simple terms the incentive is as follows:

281. Any company that sets up in Gibraltar over the next 12 months and meets the following conditions will be eligible for this incentive.

282. The conditions are:

283. It must be a new business setting up in the period from the date of this speech to 30 June 2017;

284. The business must employ at least 5 employees in the first year;

285. The business must not represent a transfer of a business previously existing in Gibraltar or one that is used as a transfer pricing mechanism to allocate profits from a business previously existing in Gibraltar;

286. Anti avoidance provisions will be applied to ensure this represent a new business setting up in Gibraltar;

287. The incentive will be available for companies or limited partnerships but not for individuals trading in their own name.

288. The incentive is :

289. Over the first three financial years of trading of the start up business the Company will be eligible for a tax credit equal to the tax due up to a maximum of £50,000 over each of the first three years;

290. The tax credit does not carry forward from one year to the next, therefore if the company does not make a profit and is unable to make use of it, it is lost. It is not eligible for repayment by the tax office;

291. The incentive simply acts as a mechanism to shelter a liability to tax up to a maximum of tax equivalent to £50,000 per annum, thereby effectively sheltering £500,000 of profits per annum.

292. My Government believes this mechanism will provide an incentive to those businesses presently considering Gibraltar as a place to set up their new business.

## **INCREASE IN SOCIAL INSURANCE CONTRIBUTION**

293. Mr Speaker, as Members of the House may be aware, the former administration introduced rates of social insurance contributions of 20% for employers and 10% for employees on 1 April 2007 in a bid to make the fund self-funding.

294. These increases were initially capped at £26.20 for the employer and £20.75 for the employee as from 1 April 2007. These rates were payable up to 30 June 2008.

295. During their last term of office, on 1 July 2010, the party opposite increased the cap to £32.97 for employers and £25.16 for employees. There have been no increases since July 2010.

296. The Government is committed to a total reform of the entire structure of the Social Insurance Fund in order to place it on a viable footing.

297. Given the BREXIT vote, announcing the reformed system now would not allow us to benefit from the potential flexibility which might be possible in the context of current EU rules no longer being applicable.

An announcement will be made in due course once the Government receives legal advice that the new system is fully compliant with EU law.

298. For now, given the seismic effect that the BREXIT decision has had on financial markets and on business, after very careful consideration and after detailed consultation with Unite the Union, the Federation of Small Businesses and the Chamber of Commerce, the Government will NOT increase social insurance contributions. We will observe the effects of the decision on business in Gibraltar and will if necessary make the necessary increases at the beginning of the calendar year 2017.

## INCOME TAX

299. Mr Speaker, 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 2016, taxpayers with assessable income of £11,050 or less will be brought out of the taxation system altogether and **will pay no income tax**. This applies to taxpayers in both the Allowance Based System and the Gross Income Based System.

300. 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. This means that people most in need in our Community and who benefit from these allowances will not see them frozen. With effect from 1<sup>st</sup> July 2016 the following allowances will increase as follows:

301. The Personal Allowance is increased from 3,200 to £3,215

302. The Spouse and Civil Partners Allowance is increased from £3,200 to £3,215

303. The One Parent Family Allowance is increased from £5,264 to £5,290

304. The Nursery Allowance is increased from £5,000 to £5,025
305. The Child Allowance is increased from £1,100 to £1,105
306. The Child Studying Abroad Allowance is increased from £1,250 to £1,255
307. The Dependant Relatives Allowance is increased
- a. where the relative is resident in Gibraltar from £300 to £305
  - b. where the relative is resident outside Gibraltar from £200 to £205
308. The Disabled Individual Allowance is increased from £9,000 to £9,040
309. The Blind Allowance is increased from £5,000 to £5,020
310. The Medical Insurance Allowance is increased from £5,000 to £5,020

## **COMPANY TAX FOR TELECOMMS COMPANIES**

311. Mr Speaker, telecommunication companies are currently liable to pay company tax at the higher rate of 20% on all their taxable income. This applies not only to the taxable income on the business generated from the provision of telecommunication services, but also to the taxable income on the business generated from non-telecommunication services, such as Data Centres.
312. In order to ensure a 'level playing field', company tax at the higher rate tax of 20% shall apply only to the profits and gains arising from the telecommunication activities which are specifically mentioned in the Income Tax Act and the lower 10% rate of tax shall apply to the gains

and profits arising from their non-telecommunication business activities.

## **TAX AMNESTY**

313. In my last Budget, I announced a Tax Amnesty for six months to allow people who have failed to declare their taxable income in past years to rationalize their tax affairs before being caught out, bearing in mind the transparency and information sharing international initiatives that Gibraltar has signed up to with other states.

314. Individuals were given an option to repatriate monies held abroad which were the product of income accrued and derived in Gibraltar, or which on remittance to Gibraltar would have otherwise attracted taxation, to wipe the slate clean on payment of a 5% tax on the total amount remitted to Gibraltar and deposited here.

315. Any individual who failed to avail themselves of this Tax Amnesty and in respect of whom the Commissioner of Income Tax subsequently finds any such undeclared monies will be subject to a penalty charge of 100% of the tax that would have been due if the income accrued and derived in Gibraltar had been properly declared at the time.

316. The total taxable income declared and repatriated as a result of the Amnesty was £27.78M.

317. In terms of benefit to Government coffers, the total tax collected was £1.39M.

318. The Government has now decided to extend the Tax Amnesty for a further period of 6 months effective from midnight tonight but the rates which will be applied to will not be as advantageous.

319. The Tax Amnesty will apply upon the payment to the Commissioner of Income Tax of:

320. 7.5% of the total amount remitted to Gibraltar and deposited here; or

321. 7.5% of the value of any assets purchased abroad from the proceeds of the income accrued and derived in Gibraltar on which tax should have been paid.

## **THE OLD AGE PENSION & MINIMUM INCOME GUARANTEE**

322. Old Age Pensions will increase this year in line with the rate of inflation so that the single rate for Old Age Pension would increase from £438.78 to £440.54 and the couple rate would increase from £658.22 to £660.85. At the same time the cash differential will be maintained with the Minimum Income Guarantee.

## **INCREASE IN PUBLIC SECTOR PAY**

323. In line with our manifesto commitment, the general level of Public Sector pay will rise by 2.75% with effect from 1<sup>st</sup> August 2016. An additional 0.25% will be payable to officers of the Royal Gibraltar Police, Customs, the Prison Service, the Gibraltar Fire Service, the Airport Fire Service, the Borders and Coastguard Agency, and the Ambulance Service.

## **INCREASE IN NATIONAL MINIMUM WAGE**

324. In line with this Government's commitment to keep the National Minimum Wage under constant review and to increase this at least by the rate of inflation over our term in office, the statutory minimum wage will increase from £6.25 to £6.28 per hour with effect from 1<sup>st</sup> August

2016. This represents an increase of around 0.5%, which is above the rate of inflation.

## **PENSIONS IN THE PRIVATE SECTOR**

325. Mr Speaker, we have commenced the process of consultation with Unite the Union and the Federation of Small Businesses and the Chamber of Commerce in respect of the potential introduction in Gibraltar of pensions in the private sector. Given the BREXIT decision, we will not be progressing this process in this financial year whilst we observe the effects on the economy of the result of the vote of the British people.

## **HOUSEKEEPING**

326. Having finished the list of Budget Measures for this year, Mr Speaker, on a point of simple housekeeping, Hon Members will know that it is customary, as a matter of courtesy, for the Chief Minister to stay in the Chamber throughout the Budget Debate to hear all contributions. In parliamentary terms, we are debating a Bill that I am moving in my capacity as Minister for Public Finance. For that reason, I hear all contributions as I am the one with the right to reply at the end for the Government. This year, unusually, I may not be able to remain throughout the debate as I need to make pressing calls at times which are fixed. As a result, I would ask members, all of whom tend to have written speeches, to please excuse me if I am unable to remain in the Chamber to hear their contributions. I will endeavor to do so in order to reply to their speeches as directly as possible, but it may just be impossible. If they could send me a copy of their written speeches as they send them to the media, I would be grateful.

327. Mr Speaker, as we go forward this year, it is clear that now is the time to make the most of Gibraltar's two greatest assets: its land and its people.

328. It is also a time of course to pause and reflect, but it is not a time to stop all government spending or stop all government investment, as to

do so would undoubtedly just halt all growth and plunge us into recession.

329. We must continue investing in efficient and socially essential public services and we must continue to strive to make Gibraltar a more attractive place to live in and to do business in.

330. But we must also be alive to the need to cut spending further if the effects of the BREXIT vote become markedly more negative in months to come.

331. We will constantly review all of the indicators to ensure that our economy continues to perform in a manner that enables us to deliver the growth that we believe is achievable and the spending that is affordable.

332. And the fact is that Gibraltar, despite the jolt of the 23<sup>rd</sup> June remains a hugely attractive and affordable place to do business.

333. The rule of law and the common law combined make us attractive. As does our fiscal competitiveness and – after today – our very attractive regime for start-ups.

334. The reservoir of resilience and skills which is evident in Gibraltar today is also a huge asset in establishing the eco system for business success.

335. But our near term challenges cannot just be wished away.

336. The fact is that we have as many reasons to be happy about last year as we have to be cautious about the coming 24 to 36 months.

337. The absence of clear political direction in London is not insignificant for us, as it is not for the rest of Europe either.

338. It is our medium term challenges that we can influence with hard work and determinations.

339. And our long term challenges are also the opportunities for us to shape and fashion the future into the form we wish by the work we do now, by how persuasive our case is and by how unified our approach remains

340. We owe it to our grandparents and parents who fought so hard to achieve what we had secured in the European Union until the 23<sup>rd</sup> June.

341. And we will fight to retain it in as great a measure as possible for our children and grandchildren.

342. Mr Speaker, I am not one to rely on the quotes of others in speeches, but these are times to think of and take inspiration from the things said before by those facing adversity.

343. Kennedy's famous "think not of what your country can do for you, but of what you can do for your country," is I am sure on the minds of many, especially those who have spontaneously got in touch with me and other ministerial colleagues and with the Government generally to reach out to help.

344. I would however, wish to share with you the quote from Henry Ford, which reminds us that "when everything seems to be going against you, remember that the airplane takes off **against the wind**, not with it."

345. As the dawn of the 23<sup>rd</sup> June becomes a more and more distant memory, we can see that there is a lot that we can achieve going forward.

346. What is clear Mr Speaker is that this is not a time for egos.
347. It is not a time for grandstanding or for talking Gibraltar down.
348. It is not a time for electioneering or for the spin of party politics.
349. This is a time for substance.
350. For hard thinking and hard work.
351. For prudence and for preparation.
352. That is what this government is about.
353. That is what we have been preparing for.
354. That is what this budget does.
355. Our prudence to date has paid off.
356. Our public finances are strong and resilient.
357. We have the liquidity necessary to deal with the issues that do confront us and we have the liquidity necessary to deal with the issues that could confront us.
358. We have the sovereign wealth or rainy day funds that we need in the funds that we have established and grown.

359. This is a time to pause and reflect.

360. But also a time to remain committed to deliver on our public commitments but to be tempered by the prudence that the moment requires.

361. The fundamentals of the Gibraltar economy are strong.

362. In fact, they are stronger than ever.

363. And undermining confidence in the Gibraltar, in our national financial institutions and in the fundamentals of our economy would be unhelpful and wrong and I am sure that there will not be anyone in Gibraltar who would today seek to do that given the situation in which we find ourselves.

364. Mr Speaker, this is the time in our history for extraordinary people in our community to do extraordinary things for our nation.

365. Let us have the confidence to work together in this House and beyond it to fulfill the ambitions of our nation and to use the community's talents to the full.

366. Mr Speaker, for all of those reasons, I commend the Bill to the House.