

CHIEF MINISTER'S BUDGET SPEECH

3 JUNE 2008

1. INTRODUCTION & SUMMARY

Mr. Speaker, it is an honour for me to present my thirteenth budget (and the first of this fourth term) of Government Revenue and Expenditure, and to report to the House on the state of the economy and public finances, their prospects and challenges, and on the Government's very substantial capital investment programme.

The economy of Gibraltar remains strong, buoyant and growing at a high, but sustainable rate. Public finances were, once again, in healthy surplus last year. Employment levels again broke new records. Almost all the sectors of the economy had a good year and are poised to have another one. Taxation rates continued to fall significantly for all tax payers.

Each of the GSD's three terms in office have been transformational for Gibraltar, and have taken us socio- economically forward in significant steps and measure, each making Gibraltar more prosperous, increasing our standard of living and enhancing the quality of the legacy that we will leave to future generations. Our fourth term will also be transformational.

A major capital investment programme will address Gibraltar's housing, environmental, traffic and parking and economic issues and needs on a large scale. We will tackle social reform issues, increase home ownership, extend the incidence of occupational pensions and introduce pensions reforms, take measures to underpin the traditional family and protect children, engage with the trade unions in an ambitious agenda of qualitative reforms in the public service, and not least, we will continue our investment in further expanding and improving our health, social care and educational services.

Our policies will ensure that our economy continues to prosper and grow in the face of changing, and sometimes challenging global trends and dynamics, which require us to be alert and willing to change and react.

Mr. Speaker, the world faces a number of economic challenges, from some of the effects of which we cannot and will not be exempted, but which our economy is better placed than most to face and steer successfully through. These are primarily, the vertiginous rise in the price of oil, the credit crunch that originated in the US sub Prime mortgage market, but which has now affected western European banking markets, and the uncertainty as to whether the world economy will fall into a recession. All of these have an effect on the level of economic activity around the world, and thus on the willingness and ability of people to spend, invest and do deals. This affects

final demand in our economy, especially in the Real estate and financial services sectors.

In Gibraltar, we have so far noticed only the effect of the rising oil price and some reduction in the level of structured transactions executed by our international finance centre.

Given the extent and longevity of the oil price rise, it is no longer possible to avoid a rise in electricity and water tariffs. But it is the Government's intention to continue to subsidise, indeed to increase the extent of the subsidy on electricity and water, by paying for most of the effect of oil price rises on electricity and water production costs, and thus not pass all of these on to the consumer. I will give details of intended tariff rises a little later on in this address.

Mr Speaker, we expect the adverse effect of the credit crunch on the level of business in the finance centre to be temporary and short lived. Although further adjustments, caused mainly by consolidation and reorganisation, may occur, we do not expect or envisage any noteworthy job losses in any sector of the economy as a result of the current worldwide economic scenario.

The Government's economic policy will remain to pursue quality and sustainable economic growth, and thus continue to improve the standard of living of citizens of Gibraltar, through better paid jobs, and also through the Government's policy of investing and distributing the fruits of that growth in improving public services, investing in Gibraltar's physical fabric and amenities, and cutting taxation.

In my New Year Address earlier this year, I said that I was excited by the opportunity that this fourth term gave us to bring to fruition the many further ambitious projects that we have been working on in recent years. I said also that this term will see a very major capital investment programme that will take Gibraltar to a new, higher level of economic and social development, and assure Gibraltar a modern, prosperous and successful economic, social, and thus political future.

Our capital investment programme will ensure that Gibraltar becomes and remains a truly modern and successful European society, and will address many of our community's traditional problems (such as housing and parking, roads and traffic schemes). Many of these projects get under way this year, and I will be providing the House later on in this address with a situation report on these projects and when the tenders for their execution will be awarded.

PUBLIC FINANCES

Mr. Speaker, public finances remain in a healthy and robust state. As I said earlier, the Government's budget remains in strong surplus.

Public debt has remained static at £93 billion, and in the light of continued economic growth, has now fallen to less than 12% of GDP. As the House will recall from figures that I provided to it last year, this represents a very low level compared to the UK's level of around 40% and the EU's convergence maximum of 60%. This low level of public debt now enables the Government to part finance its extensive capital investment programme during these next few years through a raising of public debt, albeit to still very prudent levels.

Before starting the budgetary review, Mr Speaker, I would like to bring to the attention of the House some changes that have been made to the presentation of the Budget in the Revenue and Expenditure Schedules. Some are formalistic, others provide more and better information to the House, others are intended to enable improved coordination, oversight and control public capital expenditure:

- On the first page of each Head, where details of the establishment are provided, there is now a statement of the Minister that has political responsibility for the subject matter of the Head, and for the monies therein voted.
- In the Appendices that provide financial information about Authorities and Agencies, details are now provided of the establishment of each such body. Although the Appendices are not required by law, it has for some years now been this Government's policy to provide, as far as possible in the same manner the information that the law requires to be provided in respect of Government itself. Providing the staffing information brings the two closer still into line.
- THE Financial Secretary is now the Controlling Officer of all monies voted under the I&DF. This will enable greater control and co ordination of Government's capital spending programme.
- In Head 101 "Departmental" of the I&DF, there has been a significant degree of amalgamation into 12 sub heads, mainly by grouping together provision for works and equipment in one Head. Last year there were 42.
- Head 16 "Consolidated Fund Contributions", replaces two Heads, (previously) Contribution to Social Insurance Fund and Non Recurrent Expenditure Reserve.
- On pages 1 & 2 there is now a breakdown of the expenditure figure into consolidated fund charges, departmental expenses and contribution to Social insurance funds

- Each head of expenditure is now uniformly divided into 3 subheads-personal emoluments, industrial wages and other charges, each with sub components.
- Finally, the provision for relief cover in the education department, the social services agency and the gha, has now been made in the Supplementary funding vote in Head 15.

2007/08 BUDGET SURPLUS

The Consolidated Fund revenue and expenditure budget was in surplus last year by £ 15.1 million. This is broadly in line with the £15.8 million that we had estimated last year at the start of the year.

We had estimated that Consolidated Fund revenue would rise by £ 11.3 million to £223.4. In fact it rose by £ 19 million to £231.2 million, which is just under £8 million more than estimated.

We estimated that Consolidated Fund recurrent departmental expenditure would be £167.6 million, plus the £10 million to fund the pension increase, making an estimated total of £177.6. In fact that expenditure figure came in at £185.6 million, which is £8 million higher than estimated. The Consolidated Fund Charges came in at £30.5 million compared to the estimated £30 million.

And thus, Mr. Speaker, although we struck a Consolidated Fund Recurrent Budget Surplus of £15.1 million, more or less in line with the estimated budget surplus figure, it was brought home with higher revenue and higher expenditure levels than had been estimated.

The Consolidated Fund Budget Surplus came in at 8.5% of recurrent Consolidated Fund expenditure.

Also, Mr Speaker, the Consolidated Fund Reserve's contribution to the Improvement & Development Fund was much higher than estimated because the receipts of that fund from property sales did not materialise at the levels estimated.

In terms of the OVERALL Government Revenue and Expenditure (which takes into account the total picture including Authorities and Agencies, and not just the Consolidated Fund) we had estimated revenue of £ 273.4 million, expenditure of £ 257.1 million and thus a surplus of £ 16.3 million. The actual figures came in at revenue of £ 280.7 million (£7.3 higher than estimated) , expenditure of £ 265.2 million (£ 8.1 million higher than estimated), producing

a surplus of £ 15.5 million (equivalent to 6% of Overall expenditure), that is £800,000 less than the £16.3 million that we had estimated.

Comparing the overall revenue and expenditure position year on year, that is the forecast outturn for last year (to 31 march 08) with the actual position for the year before that (ending 31 March 07) , that is comparing actual year on year expenditure growth, the position is as follows. Overall Revenue increased by £19.5 million from £261.2 million in 06/07 to £ 280.7 million in 07/08. This represents a rise of 7.5%, derived mainly from higher income tax receipts produced from higher employment levels (despite last year's budget tax cuts) and also from higher import duty receipts.

The summary of the overall revenue position is as follows:

	07/08	06/07
	£ 'MILLION	£' MILLION
Consolidated Fund	231.2	212.2
Gibraltar Health Authority	28.4	27.1
Gibraltar Electricity Authority	17.1	18.2
Elderly Care Agency	0.7	0.6
Gibraltar Development Corporation	<u>3.3</u>	<u>3.1</u>
	280.7	261.2

The main sources of the increase in overall revenue were:

- Income tax, up £5.4 million
- Import duty, up £7.3 million
- Stamp duty, up £1.5 million
- Gaming tax, up £1.3 million
- Airport landing fees, up £1.9 million (from zero)
- GHA receipts from GPMS scheme, up £1.3 million

The main reductions in overall revenue came from:

- Tax exempt company receipts, down £ 0.46
- Motor vehicle licensing, down £ 1.3 million

Overall Expenditure increased by £ 31.2 million from £234million in 06/07 to £265.2million in 07/08. This represents an increase of 13.3%. The main contributors to the year on year overall expenditure increase were as follows:

- Consolidated fund charges(pensions and public debt charges)	+ £ 1.5
- Departmental payroll costs	+ £ 4.6
- Contracted out services	+ £ 1.5
- Departmental other charges	+ £ 4.1
- Contribution to Social Insurance Fund	+ £ 10.0
- GHA	+£ 4.6
- GEA	+£ 2.4
- ECA	+£ 0.6
- GDC	+£ 0.4
- Social Services Agency	+£ 0.7
- Gibraltar Sports and Leisure Authority	<u>+£ 0.8</u>
	£ 31.2

Mr. Speaker, accordingly, excluding the £10 million first incurred last year to fund the 65.2% increase in old age pensions, overall expenditure grew in 2007/8 by £21.2 million or 9.1%, compared to revenue which increased by 7.5%. Hence the reduction in the budget surplus. This demonstrates what I said earlier, that part of the fruits of our economic growth is spent by the Government in improving and expanding public services, especially the caring services. The health budget increased by 8%, Social services expenditure by 16% and elderly care expenditure by 8%.

2008/9 RECURRENT REVENUE & EXPENDITURE BUDGET

Mr Speaker, for the current year just commenced we are estimating a Consolidated Fund surplus of £11.3 Million. This is struck on the basis of revenue remaining broadly static at £ 232 million. The estimated increases in revenue from income tax (£4 million), import duty (£0.5 million), rates (£0.4 million) and gaming & licenses (£0.4million) are largely offset by estimated reductions in revenue from airport landing fees (£1.3 million), Stamp Duties (£1.2 million) and Tax Exempt Company receipts (£0.8 million).

Once again, these estimates of revenue may turn out to be on the conservative side, but obviously we cannot expect growth in employment levels to continue indefinitely at current rates, nor increases in import duty receipts. Also, we do not believe that the full effect of the impact on annual income tax receipts from last year's budget measures are yet fully reflected in last year's figures for income tax receipts.

On the expenditure side, we are estimating departmental expenditure to increase by £3million from £175.6m to £178.6m, an increase of 1.7%. Consolidated fund charges are estimated to rise by £1.5 million, or 4.7%. Together with the £10 million contribution to the Pensions fund, this brings Recurrent Consolidated Fund estimated expenditure to £220.5 million, compared to £216.1 last year, an increase of 2%. This is ambitious, indeed optimistic. There is, however a Supplementary Funding provision of 8.5 million, compared to the £6 million provision that we made last year.

Mr Speaker, at the 'Overall' level, expenditure is estimated to rise by £13.5 million, or 5.1%, from £265.2 million to £278.7 million. Overall revenue is estimated to increase by £24.7 million, or 8.7%, from £280.7 million to £ 305.4 million. This includes an estimated one off exceptional revenue item to the Consolidated Fund this year of £17 million from the Savings Bank, the basis of which I shall explain in a few moments, and which is taken below the line in the Consolidated Fund. It is thus not included in the Consolidated Fund revenue and surplus estimates for the year, which I gave earlier. After account is taken of a £1.7 million net reduction in the non – Consolidated Fund Reserve balances, the overall surplus for the year is thus estimated at £ 26.7 million. Without the exceptional, non recurring revenue item of £17 million, the Overall surplus is estimated to be £ 9.7 million. This compares to the £15.5 millions achieved last year.

The main increases in estimated overall recurrent revenue are income tax (£4 million), GPMS contributions, which will be raised (£ 3 million), Electricity Authority tariff, which will be raised (£3 million). The main overall recurrent revenue falls are estimated to be the ones I cited in the Consolidated Fund, and , in addition the GDC's revenue from the training levy, which will be partly diverted as I will explain later (£ 2 million).

On the expenditure side, the main estimated increases are in the Consolidated Fund items which I have already explained. This is on the basis that expenditure in the GHA, GEA, GDC, SSA and ECA can be contained (subject to payroll cost increases) at broadly last year's levels. This may be ambitious and unrealistic, hence the higher provision of Supplementary funding. In the GEA, the expenditure on fuel, which is a major item, depends on the oil price. It is impossible to gauge the level at which this will settle.

IMPROVEMENT & DEVELOPMENT FUND 07/08

For the year just ended we had estimated expenditure of £39.8 million and actually spent £ 31.3 million. The year before that, we had spent £ 27.5 million. £31.3 million

is the second highest annual spend through the Improvement & Development Fund since 1996.

The outturn figure of £31.3 million includes two one off items. These are a final payment on the new hospital of £5.25 million and a payment of £3million made to Shell and Cepsa in connection with the provision of strategic fuel reserve facilities at the now defunct Williams Way depot.

Mr. Speaker, last week, during the debate on the Supplementary Appropriation Bill, the Honourable the Leader of the Opposition asked me to provide some further explanation of this last item of expenditure. I will now do so. The Williams Way fuel depot, which constituted Gibraltar's strategic fuels reserve capacity, was operated by Shell and Cepsa Gibraltar, in joint venture. In 1997, both companies approached the Government and informed it that they had no further commercial use for or interest in operating the depot, and intended to close it.

The Government was not at that time content to leave Gibraltar without a strategic fuel reserve, and therefore asked Shell/Cepsa to keep the depot open. Negotiations then started in relation to the basis of funding for an alternative strategic fuel reserve facility, and in the meantime, the Government's contribution to the cost of keeping Williams Way open, entirely at its request and need. Those negotiations concluded in the summer of 2007. In fact, Williams Way had closed in 2003 as it was not possible to keep it open any longer on environmental safety grounds, or health and safety grounds due to rock falls affecting its entrance and access. During the 7 year period between 1997 and 2003 Shell/Cepsa defrayed all the cost of operating Williams Way. These amounted to £4.4 million. In 2007 the Government agreed to pay £3m of that.

Mr. Speaker, during the debate last week on the Supplementary Appropriation Bill, the issue crossed my mind whether this item of expenditure was appropriately booked to the Improvement and Development Fund, as opposed to treated below the line in the Consolidated Fund as an exceptional item. I have asked the Financial Secretary to consider this issue again. It is, of course a purely technical issue because the Improvement and development Fund was itself funded from that same Consolidated Fund source, so it would not affect the Consolidated Fund outlay. The question is simply whether the item is properly booked to the Consolidated Fund Reserve directly, or through the I&DF. I will inform the House of the outcome in due course.

The remainder of the £31.3 million was spent mainly on the continuing government housing refurbishment programme (£ 4.3 million), roads and environmental works, beautification schemes, the new prison, and departmental capital expenditure. The main projects covered are the new prison, Varyl Begg estate, Alameda Estate, Orange Bastion and Chatham Counterguard, Fish Market Road, and the area of the public market, the new Upper Town Road and the refurbishment of Camp Bay, and the replacement of the Europa Road pavements and balustrades.

On the revenue side, only £2.5 millions materialised from property sales, compared to the estimated £23 millions. Accordingly the shortfall was met from higher Consolidated Fund contribution than had been estimated.

Mr Speaker, in addition to the capital expended through the Improvement and Development Fund, a total of £48.2 Millions have been expended through the Government companies. The House is aware of the general order of this figure from the reductions in the levels of reserves held in the companies, as provided in answers to questions. However, the House is not aware of what it has been spent on, and I will now provide that information to the House. A total of £18.7 millions has been spent on the construction of Waterport Terraces, Nelson's View, Cumberland Terraces and Bayview Terraces. There has been, and will be further receipts from purchasers in respect of the purchase price of apartments, but the Government's co ownership share of flats will ultimately remain as a capital outlay once sales are completed.

£7.9 million has been spent in relation to the project and works relating to the new air terminal and associated road and tunnel works and related MOD airfield relocation/reprovision works, £7 millions has been spent on the Mid Harbour Reclamation and the Government's rental housing project, £4.3 millions has been spent on the construction of Willis' Road, New Harbours and Sandpits carparks, £2.9 millions on the King's Bastian Leisure centre, £1.8 millions on repair works to Harbour Views, Brympton, Montagu Gardens and Montagu Crescent Estates, and the remainder on the Retrenchment Block project, Government Offices relocations, and Upper Town Refurbishment and other more minor capital works. Also , £3 million has been loaned to AquaGib to finance the introduction of new desalination technology.

IMPROVEMENT & DEVELOPMENT FUND 2008/9

Mr. Speaker, subject to what I say later, this year we are estimating I&DF expenditure of £25 million. This breaks down into £12.2 millions of Departmental capital expenditure, which includes most of the usual "recurring" capital expenditure head items. These are all included in Head 101 – Departmental. Head 102, which now contains only central public administration capital expenditure and equipment for the essential services, estimates expenditure of £1.7 million.

Head 103 sets out all the I& DF funded government projects. Full provision of £11.1 million is made for the intended expenditure this year on specific projects, and (where the project is not intended to complete this year) the balances to complete are shown. These include the following major projects:

- Oesco station sound insulation
- Elements of the Upper Town regeneration Scheme
- Europa Road pavements and balustrades
- Beautification of Main Street South
- Beautification of the public market and environs
- Access to Dudley Ward Tunnel
- The new prison

However, Mr. Speaker, token or very rough estimate provision is made (for a variety of reasons) for projects which will get under way this financial year and upon which the Government envisages incurring substantial expenditure. I will now provide as much information as I can do at this time on these projects:

- 1) Under Head 103.3(c), a token provision is made for “road improvements and new roads”. This sub-head will almost certainly incur significant expenditure in respect of

the new frontier access roads and tunnel (tender about to be awarded)

the new Trafalgar junction roundabout and traffic scheme(cost not yet estimated)

and possibly also the new road linking Europort to Queensway at Coaling Island (cost not estimated)

- 2) Under head 103.6(g) , “ new airport terminal building”, a token sum is provided even though the Government envisages that the contract will be awarded shortly , so that there will almost certainly be some considerable expenditure this financial year under this sub head.
- 3) Much the same applies to Head 103.6(h) “New Government rental housing estate”
- 4) Under Head 103.5 “Relocations” it seems likely that more than £1Million will be spent this year on MOD relocations and the £10,000 for “other relocations” is also a token provisions. It is certainly possible that the sub head will attract expenditure. The same applies to Head 103.6(f) in respect of the rubbish tip relocation.

Mr. Speaker, from the viewpoint of timing in relation to the tender processes and post tender negotiations phase, this budget session could not come at a worse time. Tenders for these very substantial projects are at a critical phase, some about to be adjudicated, some under the process of adjudication and others under consideration. It is not commercially desirable or advisable to make public statements now about contract prices. The Government will make full public disclosures just as soon as it is appropriate to do so, including a statement in this House about each project, its contract award and funding proposal, at the very earliest opportunity.

Mr. Speaker, by way of justification of this stance, I would inform the House as follows.

- The tender for the new air terminal has closed, and is under pre adjudication consideration and discussion. It is scheduled to be awarded in mid June. Construction works begin in September.

- The tender for the Government rental housing scheme is scheduled to be awarded in the last week of June or the first week of July. Construction will begin shortly thereafter.
- The tender for the new road to the frontier and the tunnel under the runway will be awarded in August, and construction works will start in October or November.
- The tender for the new power station will be awarded in October or November.

Mr Speaker, there can be no doubt that the Government and Gibraltar stand on the threshold of an unprecedented phase of public investment in our city, its infrastructure and amenities. The scale and breadth of this investment programme will truly transform Gibraltar and ensure that it will be a modern, prosperous European city well into the foreseeable future.

Some of this investment is required to ensure that our basic infrastructure remains EU compliant, that we meet our environmental responsibilities and are able to satisfy our basic infrastructure needs. In some cases existing facilities having reached the end of their working life. Into these broad categories fall the new electricity generating station, the new sewage treatment plant, the new refuse incinerator and the upgrading, renewal and extension of our sewers and electricity and water distribution systems.

Some of the investments address our social, quality of life and transport needs , such as the affordable housing schemes, the new rental housing estate, new schools, the new mental hospital, the new roads and tunnel scheme, new car parks, and the new air terminal.

Together with the three major private sector developments, Ocean Village, Eastside and Midtown, which are all underpinned by the Government's investment programme , this capital investment programme will propel Gibraltar into a new phase, a new level, of socio economic prosperity.

The funding of this ambitious and exciting programme of investment in Gibraltar's future will require recourse to the full range and extent of the Government's financial resources, including, in combination, the use of reserves, the re-investment of the proceeds of the sale of Government property and assets, the use of private finance initiative funding models and an increase in Government borrowing within well established and accepted prudent borrowing limits.

ARREARS DUE TO GOVERNMENT

Mr Speaker, in his Report on the Accounts of the Government of Gibraltar for the financial year ended 31 March 2007, the Principal Auditor has, once again, highlighted the growing issue of non payment of taxes and other monies due to the

Government on a timely basis, or worse still in some instances, at all. The Government is now firmly resolved to tackle this issue head on. It is right and fair to all taxpayers to do so. In the area of personal and company tax we will dedicate resources, take measures and introduce legislation to more aggressively and effectively penalise and pursue arrears due, non compliance with filings and submission deadlines, and those who under declare income. In taking these initiatives, we will have due regard to the detailed recommendations of the Principal Auditor. We will similarly focus and take action in other areas of public revenue such as housing rents, rates, utility charges.

SOCIAL SECURITY REFORMS

We have already introduced some reform to the administrative, collection and financial system relating to Social Insurance contributions.

We have amalgamated the payments of social insurance contributions with the income tax collection system, and we have transferred responsibility for its administration to the Income Tax Office, thus eliminating some of the administrative burden on businesses and creating a one stop shop.

In 2007, we introduced a new social insurance contributions system to ensure that low paid, part time and casual workers pay significantly less in social insurance contribution. The system imposes contributions at a minimum and maximum rate, the latter being a percentage of salary subject to a cap at the then weekly adult rate.

We are now introducing two linked reforms to the Government's financial administration of the contributions. Part of the contribution goes towards three different types of statutory benefits. These are, long term benefits (old age pensions), short term benefits (mainly unemployed benefit, maternity and death grants) and Employment Injuries benefits. Each of these three types of statutory benefits currently has its own Special Fund. The Government intends to merge these different special funds into one combined Statutory Benefits Fund.

A Bill for an Act to amalgamate these Funds is being published this week. This is a financial administrative arrangement only. Entitlement to benefits, which are based on statutory right and not on the availability of monies in the Fund, remain totally unchanged. There is now no point in having different funds for each type of statutory benefit. The combined Statutory Benefit Fund will remain intact, and the Government will not access its monies for any purpose except the purposes of the statutory benefits. The new Statutory Benefits Fund will be a special fund for the purposes of Part 111 of the Public Finance (Control and Audit) Act.

In consequence of this, the contribution will be allocated to three purpose, namely, Group Practice Medical Scheme (initially, 70%), Statutory Benefits Fund (initially, 30%) and Training Levy (initially 0%).

REFORM OF GIBRALTAR SAVINGS BANK ACT

Mr. Speaker, the Government is also publishing this week a Bill for an Act to amend the Gibraltar Savings Bank Act, principally to modernise and bring it up to date with the New Constitution, but also to release £17 million of government money which is presently, and unnecessarily locked up in the bank, and which the Government wishes to invest in the building of the new Government rental housing estate.

The House will be aware that, even though the deposits of the Savings Bank are, by law, guaranteed by the Government, the current Act also requires the Government not to remove reserves from the Bank unless assets will continue to exceed liabilities by at least 10%. In other words the Government must maintain a 10% solvency margin, in addition to the Government's guarantee of deposits. This has, arguably, always been unnecessary, but in any event, the idea was to protect the public purse against the first 10% of fall in value of any of the Bank's investments, such as fixed interest securities, the value of which can fluctuate in the market.

In future, the Government intends to achieve this same objective by the alternative method of requiring the assets of the Bank to match its liabilities at all times, and by restricting the investment of the assets of the savings bank to cash deposits, or equivalent in terms of protection of the capital value of the funds. In other words, to ensure that the assets of the Bank are not exposed to investments whose capital value may fall. This will be provided for in the Act. This will mean that Government will not need to keep £10 of its own money in the Bank, for every £100 placed in the Bank by depositors or bondholders. But the whole of the depositors' £100, will be kept in cash or equivalent.

In addition, Mr Speaker, the new legislation will remove the ability of the Financial Secretary to lend Savings Bank monies to the Government, thereby also removing that, albeit theoretical risk to the Bank's assets.

GOVERNMENT BORROWING POWERS

Mr. Speaker, as the House knows, the maximum amount that the Government can owe on borrowings at any given time has been fixed, by statute, at £100 million since 1988, that is twenty years ago, when GDP stood at £208 millions. In 1995, Government borrowing stood at £99.3 millions and net public debt (that is borrowing minus reserves or sinking funds) stood at £83.1 million. At that time (in 1995) GDP stood at £339 million, and Government borrowing (gross public debt) therefore stood at 29% of GDP, and net public debt at 24.5% of GDP.

Today, in 2008, Government borrowing stands at £ 93 million, and net public debt at £43 millions. Government Borrowing therefore stands at less than 12% of forecast 2008 GDP, and net public debt stands at just 5.5% of GDP.

The level of public debt, its prudence and affordability are measured in real economic terms by a variety of indicators. The first being public debt as a proportion of the size of the economy, that is, the ratio of government debt to GDP. As I have

said, the EU convergence maximum permissible is that public debt should not exceed 60% of GDP. The UK, which believes that it is very prudent and conservative in this respect has a policy ceiling of 40% of NET public debt. Gibraltar's GROSS ratio is currently below 13% of 06/07 GDP. Indeed, if you assume just 7% GDP growth in the year 07/08, the current debt level is just 11.6% of GDP.

Accordingly, as Gibraltar's economy has grown during the last 12 years, without the Government materially increasing public debt, there is now scope for an increase in the debt ceiling without effectively increasing the economic measure of public debt beyond where it effectively was in 1995 and before that, and without violating principles of prudence, conservatism or affordability. In addition, the Government consistently runs substantial annual budget surpluses.

There is therefore plenty of scope for an increase in public debt to assist the Government in partly funding Gibraltar's important capital investments programme. The Government is accordingly, this week, publishing a Bill for a Public Finance (Borrowing Powers) Act, which will replace the existing Borrowing Powers Act of 1988. In addition to modernising the legislation in the context of the new Constitution, the new Act will impose a statutory new borrowing limit of the higher of (i) £200 million (effectively around 25% of current GDP) or (ii) the lower of 40% of GDP

(currently £ 320 million) or 80% of Consolidated Fund Recurrent Annual Revenue (currently around £ 256 million). Furthermore, regardless of the sum produced by the above formula, there is an over reaching cap at such sum as the annual interest servicing cost of which does not exceed 8% of Consolidated Fund Recurrent Annual Revenue (currently around £18.5 million). In addition, Public debt will be defined as GROSS government borrowing, whereas elsewhere the ratios are in relation to NET public Debt.

PUBLIC SECTOR REFORMS

Mr. Speaker, as the House knows the Government is already constructively engaged with Customs staff and union representatives in a review of that will make the Customs Department as effective, efficient and user friendly as possible, especially to the business community. The process has been proceeding with officials, and has now reached the state where I shall myself be meeting with staff representatives during the next few days.

It is also the intention to review and streamline the Employment Service process in relation to the registration of employment contracts.

Mr. Speaker, during the last year we successfully implemented the MOD/ISP secondment model agreement, which enabled the contractorisation by MOD of ISP to Serco to take place in a consensual manner that saved Gibraltar, and MOD staff a very considerable amount of dispute, disruption, anxiety and uncertainty that could only have destabilised our socio economic landscape. It is the Government's hope and expectation that the negotiations to transfer certain services from MOD to the

Gibraltar Government's control will similarly result in a socially and economically painless transition into the inevitable new era ahead.

During this year, we expect to engage with the trade unions in a broad ranging dialogue to modernise, reform and improve the public service, for the benefit both of tax payers and employees. The agenda will include such issues as family friendly employment models and practices, reform of the public sector occupational pension scheme, addressing the very high, unacceptable levels of absenteeism in some parts of the public sector (to which the Principal Auditor also has drawn attention), a review of the antiquated General Orders, and the status and terms of long standing supply workers ,among other strategic issues.

THE ECONOMY IN THE PRIVATE SECTOR

THE 2007 MODEL

The last model of the Gibraltar economy was constructed by Professor Fletcher in the year 2000. Following the further changes in the economy after that year, particularly the rapid growth of the online Gaming industry, Professor Fletcher has produced a 2007 Model Update, upon which he reported to the Government in November 2007. That model update is very informative, and confirms the great stability enjoyed, and impressive growth secured by Gibraltar in a number of important areas of its economy, against a backdrop of global economic volatility. Professor Fletcher observes the Gibraltar economy's continuing ability to demonstrate its flexibility and dynamism, reacting to external pressures and opportunities to secure relatively high levels of income and employment opportunities. This is at the very core of Government economic policy.

The 2007 updated model is based on updated data, and has undergone a re-aggregation of sectors to better reflect the financial services and on line gaming sectors (which is included in the "Other Services "sector). The model shows that as at 2006, percentage of GDP (£721.3 million) by sector was as follows:

	Per cent %
- MANUFACTURING	1.76
- ELEC & WATER	2.08
- CONSTRUCTION	7.71
- WHOLESALE,RETAIL&IMPORTERS	14.53
- HOTELS, RESTAURANTS&BARS	2.64
- TRANSPORT & COMMUNICATIONS	6.67
- ONSHORE FINANCIAL	5.66
- OFFSHORE FINANCIAL	13.89
- ONSHORE BUSINESS, REAL ESTATE &	

PROFESSIONAL SERVICES	3.82
- OFFSHORE BUS, RE & PRO SERVICES	5.38
- GOVERNMENT	17.10
- OTHER SERVICES(inc online gaming)	15.59
- MOD	3.10

The total percentages above do not add up to 100 due to rounding.

The updated 2007 model also shows that Financial services, Business & Real Estate, Government and Other Services sectors have by far the largest income, and employment multipliers, meaning that for the same amount of increase in final demand, they generate more income and jobs in the economy than other sectors. This demonstrates the value and quality of these sectors to our socio economic growth and prosperity. The Government will very shortly be publishing and circulating this Model Update 2007 Report.

Mr. Speaker, once again all last year's macro economic and sector specific indicators show the robustness, stability, resilience and strength of the economy. These are also reflected in continuing sector growth and in continuing international investor confidence in Gibraltar despite the challenging international economic environment.

(1) Economic Growth

The economy grew in 2005/6 by 9.5% to £656 million, and by a further 12.7% to £740 million in 2006/7. Assuming a growth rate of just 8% in the year just ended to March 2008, the Government forecasts that GDP now stands at £ 800 million.

In fact, Government forecasts that economic growth last year will come in at around the 10% mark and that this will be maintained during the current year, thus continuing the strong growth trend seen in recent years.

(2) Inflation

The official inflation rate in Gibraltar during 2007 was 2.6%. Our inflation rate is mainly imported, through price inflation in UK and Spain, from which between them we import 80% of our non petroleum imports. There are clear price inflation pressures in things such as petroleum products, food, the cost of money and other commodities. These are working themselves into our local inflation rate. During the first quarter of 2008, the annualised inflation rate

(April 07 to April 2008) was 3.1%. We expect the annual rate to remain above 3% for much of 2008. A drop in interest rates, a weakening of the Euro, or a fall in the price of oil, all of which are distinct possibilities later in the year, would result in a reduction in inflationary pressures.

Mr. Speaker, the Retail Price Index Advisory Committee was reconstituted earlier this year with a view to preparing the groundwork for the new Family Expenditure Survey. The Survey will commence in October this year, and will be carried out during a twelve month period. As the House will know, the main purpose of the Survey is to obtain information that will define the basket of goods and services that will form the basis for calculating the “weights” in respect of the Index of Retail Prices.

(3) Employment

Mr. Speaker, consistently with the strong growth in the economy last year, the number of jobs in Gibraltar grew between October 2006 and October 2007 by 1211 jobs, or 6.6%, from 18,485 to 19,696, the highest level ever recorded. 16,688 are full time jobs, and 3,008 are part time jobs. An additional 195 Gibraltarians were in employment, taking the total to 10,541 (also an all time record), although this figure is probably even higher since some of the 390 growth in the “UK/British” category probably conceals some Gibraltarians.

Employment by sector as at October 2007 stood as follows:

- Shipbuilding	203
- Other manufacturing	208
- Electricity & Water supply	295
- Construction	2,486
- Wholesale/retail	2,816
- Hotels/restaurants	1,071
- Transport & telecoms	1,123
- Financial intermediation	1,889
- Real estate & business	2,453
- Public admin. & defence	2,252
- Education	858
- Health & Social work	1,561
- Other services(inc Gaming)	<u>2,481</u>
	19,696

These figures represent yet another spectacular performance. They speak to effective full employment among Gibraltarians actively and constructively seeking employment. They also speak to the extent to which the economy of Gibraltar provides socio economic opportunity to many, very welcome, guest workers from other countries

Last year there were 3000 registered workers of Spanish nationality. This figure is probably much higher in practice. Put another way, Gibraltar now

generates jobs for Spanish Nationals equivalent to more than 4% of the total number of jobs (around 76,000) in the whole Campo area of Spain.

To give an idea of the importance and size of the economy of Gibraltar in a regional context, Gibraltar, with a population of around 30,000 accounts for over 20% of all jobs in the combined economies of Gibraltar and the Campo, despite the latter having a population in excess of around 250,000.

The full breakdown of registered jobs in Gibraltar by nationality is as follows:

Gibraltarians	10,541
UK British	3,673 (this figure very probably also includes some Gibraltarians)
Moroccan	799
Spanish	2998
Other EU	1221
Others	474

The number of jobs in the private sector increased by 1049, or 7.2%, from 14,512 to 15,561. The number of jobs in the Official sector (which includes GOG and MOD) rose by 162, or 4.1%, from 3973 to 4135. This continues the recent trend of the public sector becoming a proportionately smaller part of the labour market, as the number of jobs in the private sector grows much more than in the public sector. The highest jobs increases were found in the construction and financial services sector.

There are 5,438 “frontier workers”, that is workers who, regardless of nationality, commute to work in Gibraltar from Spain on a daily basis.

(4) The size of Government

The size and impact of Government in the economy continues to decline as the economy grows. This is evident in various indicators.

As I have just said, the proportion of jobs in the public sector is falling sharply in relation to the number of jobs in the economy as a whole. In terms of ratio of Public sector jobs to GDP, the size of the public sector is reducing.

The reduction of the public sector is evident in financial indicators as well. The ratio of Government expenditure to GDP continues to fall significantly. It has

fallen from 31.5% in 2003, to 26.9% in 2008. In the UK it is much higher, at 37.2%.

Similarly, the ratio of Government revenue to GDP is also falling. In 2003 it was 31.4%, and by 2008 it had fallen to 27.2%. This reflects the very substantial reductions in taxation rates that the Government has introduced over the last 10 years. In the UK this ratio is also much higher, at 36.7%.

These figures show that the Government is spending less, and taxing less as a proportion of the size of the economy.

(5) World ranking

Gibraltar's very high socio economic prosperity is also clear by reference to international yard sticks. The House will be aware of a recent survey which ranked Gibraltar fourth in the world in terms of combined political stability and economic prosperity. In terms of GDP per capita, which is the usual measure of a country's prosperity, we would rank 9th in the IMF world rankings of National economies, and in 10th position in the World Bank's list, in respect of 2007 and 2006 figures, respectively.

SECTOR REVIEW

Mr. Speaker, TOURISM had another good year. Arrivals across the land frontier increased by 14.9% to 8,977,761; those arriving by sea by 29.8% to 292,675, and those arriving by air by 10.9% to 159,666. The overall visitor numbers increased by 15.2% to 9,430,102. Cruise liner calls rose by 12% , or 25, to 227. Cruise liner passengers by 63,000 or 30%. Hotel nights sold increased by 4%. Expenditure by tourists in Gibraltar increased by £20 million, or 9.5% to £230 million.

The tourism ministerial portfolio has now passed to Ernest Britto, to link it up to the environment portfolio and also to free up Joe Holliday to focus on the government's huge capital investment programme. I want to take this opportunity to thank and congratulate Joe Holliday, who has been Gibraltar's best ever Tourism Minister, for the remarkable growth in tourism over which he has presided during the last 12 years.

The PORT continued to grow its business robustly during 2007. Bunkers supplied increased by 13% to 4,473,376 tonnes. The number of ships calling at Gibraltar increased by 7% to 9,618, and they are getting bigger, since the gross tonnage of ships calling increased by 26% to 282 million gross Registered Tons. The Ship registry also continued its growth, increasing the number of ships registered by 32, or 15%, from 217 to 249.

Mr. Speaker, although the macro economic indicators relating to the GENERAL TRADE sector remain firm, the Government is aware that by product type, it is patchy. The wholesale, retail and importers sector of the economy constitutes 14.5% of our GDP, that is to say, of our economy. It provides 2816 jobs, an increase during 2007 of 69, or 2.5%. The value of imports (excluding petroleum products) increased in 2007 by £59 million, or 16% to £426 million. Exports increased by £21 million, or around 16% to £151 million.

We imported goods to the value of £ 116.5 million from the UK and £111.2 from Spain. The third biggest exporter to Gibraltar, Germany, was a long way back at £7 million. Gibraltar's total imports, including petroleum products were £ 1.32 billion. We exported £854 millions worth of petroleum products.

Mr. Speaker, the Government acknowledges the cross border competitive environment in which parts of this general trade sector operates. The government is thus mindful of the effect of its decisions on the operating cost base, and thus competitiveness of this sector, to the greatest possible degree consistent with the needs of public finances and the right of workers in all parts of the economy to share, through pay and conditions improvements, in Gibraltar's growing economic prosperity.

The Government has agreed to engage with the Chamber of Commerce this year in a dialogue to see what the Government might be able to do in this regard. This may include a further review of the import duties system.

However, the Government is not convinced that one off, unrepeatable measures, at considerable public expense, and the beneficial competitive effect of which can, in any case be quickly eliminated again by other markets factors, is the way forward.

It is not the Government's function, nor is it economically desirable, for the Government to keep outdated, unviable and unprofitable business models afloat by public subsidies. Quite another thing, is to pursue policies that protect the international competitiveness of otherwise viable businesses. Such businesses will benefit in a deep and meaningful way from the move soon to very considerably lower the rate of corporation tax.

Mr. Speaker, the ONLINE GAMING industry has also had another good year. This is an industry in which the Government not only does not seek growth in the number of operators, but actually curtails it through a very selective and restrictive licensing process. Employment levels have held steady at around 1800. In April 2008 there were 19 licensees compared to 16 in April 2007. But Government revenue from remote gaming tax has increased from £6.8 million to £8.2 million last year.

And lastly, but by no means least, the FINANCIAL SERVICES sector, which continues to develop and grow in terms of all of activity levels, product and activity range, employment levels and international standing and reputation.

As Professor Fletcher observes in the 2007 Model Update, the finance centre is a major activity and a vital segment of our economy. It is a major employer, has high employment and income multiplier values and drives up the skills set in our economy.

Mr. Speaker the number of jobs in the whole of the finance centre stood in 2007 at 2378, up by 162, or 7% from 2006. I say “the whole of the finance centre” because in the Employment statistics the “Financial Intermediation” sector only includes banks, building societies, consumer credit grantors, insurers, and related activities. Law firms and Accountancy firms, which are in essence an important part of the finance centre are subsumed in the “Real Estate and Business Activities” sector. Legal activities accounted for 224 jobs and accountancy for 265 jobs in 2007.

There are now 100 licensed insurance operations. 60 in licensed companies and 40 in 6 licensed protected cell insurance companies. The sector continues to grow. The critical mass that has been achieved in this sector now makes Gibraltar a mainstream insurance domicile within the European Union. There are 33 investment firms, 32 Experienced Investor funds, 12 protected cell funds companies, 86 trust and company managers, and 18 banks with total assets of £ 11 billion, and funds under management of £ 10.3 billion.

Mr. Speaker, given this robust performance in the current climate of tax uncertainty, the prospects for our finance centre are huge when the new tax system can be introduced.

BUDGET MEASURES

Mr Speaker, last year the Government introduced some very substantial cuts in personal taxation, both via the conventional tax system and through the newly introduced Dual Tax system. Government also took on board an increase in annual expenditure of £10 million for the 65.2% pension increase, in addition to the normal annual spending rise. The Government remains firmly committed to continue its tax cutting agenda during this fourth term. And so, in this first year of the term I shall be implementing tax cuts on a more modest scale, and particularly targeted at the lower paid , working pensioners and businesses.

Personal Taxation measures:

- (1) One of the ways in which the Government has ensured that the benefit of economic success reaches all parts of the community has been to target extra tax cuts at the lower paid. The extent to which we have cut taxes for the lower paid can be illustrated by the following analysis:

£7500 is 35% of today's average annual pay. Someone who earns that pays no tax today. 35% of the average annual pay in 1996 was £ 4563. A person earning that sum in 1996 paid £784, or 17.2% of his salary in tax. 17.2% of today's equivalent salary (£7500, ie 35% of the average annual pay) would be £1290. Yet a person who earns that pays no tax today. Accordingly, our tax cuts since 1996 have made such lower income earners better off by £ 1290 a year by reducing their tax burden from 17.2% of their pay in 1996 to zero per cent of their pay now.

Tax payable by low income earners will now be further reduced by increasing Low Income Earners' Allowance with effect from 1st July 2008 as follows:

- By £880 for taxpayers with incomes below £8000. This means that people with income less than £ 7500 will pay no tax at all.
- By £300 for taxpayers with incomes between £8000 and £17,500
- By £250 for taxpayers with incomes between £17,500 and £18,500
- By £150 for taxpayers with incomes between £18,500 and £19,500

This reduction will benefit 12,300 taxpayers, and will cost the Government £1.5 million a year.

- (2) In implementation of one of our manifesto commitments to help those elderly persons who have worked in the private sector, and so may have no occupational pension and feel the financial need to carry on working, all old age pensioners who work will receive a tax credit of £4,000 in respect of their earned income with effect from 1st July 2008. This means that no person of pensionable age who works will pay tax on the first £20,000 of earned income.

To further assist such persons, and in implementation of another manifesto commitment, we shall engage the trustees of Community Care in a dialogue to seek to persuade them to treat all gainful employment as eligible for Community Care payments.

- (3) The top rate of tax for tax payers on the Gross Income Based System will be reduced with effect from 1 July 2008 from 40% to 38%.

Mr. Speaker, over the last 10 years, we have introduced very considerable reform and restructuring of the personal tax system, culminating last year in the successful introduction of the Dual Tax System. We are continuing this process this year with the following measures:

- (4) Mortgage Interest Relief Allowance (Miras).

Miras is intended to provide a degree of public subsidy, through tax reductions of income used to pay mortgage interest, for the purchase of a home. The Government does not believe that this public subsidy should, in the future, be available to very high income earners, in respect to very large mortgages, to purchase very expensive, luxury properties.

To achieve this, from 1st July 2008, Miras on new mortgages will be limited to loans of up to a maximum of £300,000. Existing mortgage borrowers with loans in excess of this amount (around 40 tax payers) will be grandfathered, and will continue to enjoy Miras on the loan in excess of £300,000 while that loan continues to be secured on the current property, and in the name of the current borrower. However, there will be a 1/10th reduction per year from the sum of the loan (over and above £300,000) that is eligible for Miras, until the eligible loan is reduced to £300,000. The annual 1/10th reduction is made as against the sum of the loan over and above £300,000 on 1st June 2008. The first such reduction is effective on 1st July 2008.

- (5) Life Insurance Premiums Allowance.

The allowance in respect of Life Insurance premiums will continue to be available, but on a maximum sum of 1/7th of assessable income, instead of 1/6th as at present. In respect of existing policies and their existing values and terms, the allowance will continue to be enjoyed at the taxpayer's marginal rate of tax. However, in respect of new policies, or in respect of any existing policy the value, term or premium of which is increased with effect from today, the allowance will be limited to the basic rate of tax at 17%.

(6) Occupational Pensions

Mr. Speaker, as I have already said, the Government wants to focus this term on the whole area of occupational pensions, their extension and reform, in both the public and private sectors, and that we have agreed with both the trade unions and the Chamber of Commerce to engage in dialogue with them on this issue. That dialogue will commence after the summer. The Government is most interested in facilitating occupational pensions, where they do not already exist. This is an important piece of social engineering for the future.

To advance this important social agenda, we are introducing two important changes to the tax treatment of occupational pensions.

Firstly, proprietary directors and shareholders of companies will, with effect from 1 July 2008, be permitted to participate in approved company occupational pension schemes. Overall employer and employee contributions eligible for tax relief will be subject to a limit of 25% of earned income.

Secondly, Approved Personal Pension Schemes will be added to the two pension products currently eligible for income tax relief – ie Occupational pension Schemes and retirement annuity contracts. This will be available through approved pension providers, and will provide both employers and employees with a more flexible and portable pension product. Overall employer and employee contributions eligible for tax relief will be subject to a limit of 25% of earned income. Premiums on new Retirement Annuity Contracts will also be limited to 25% of earned income.

(7) Sex Discrimination in the tax system

Several years ago we began, and committed to complete, the process of ridding our income tax legislation of all discrimination between taxpayers based on their sex. To complete this process, with effect from 1 July 2008, the following allowances which are currently only available to men will be available to women as well:

- Child Allowance
- Child studying abroad allowance
- Disabled individual allowance
- Nursery School allowance
- Dependent Relative allowance

Social Insurance Contributions

- (8) Social Insurance contributions were last increased in January 2005, that is 3 ½ years ago. It is the policy of the Government that the funding of the Social Insurance Scheme should at least keep up its inflation adjusted value. Accordingly, with effect from 1 July 2008, the maximum cap from both employer and employee contributions will increase by 10% as follows:

Employer, by £2.62 per week, from £26.20 to £28.82

Employee, by £2.08 per week, from £20.75 to £22.83

Self Employed by £2.40 per week, from £23.98 to £26.38

There is no change to the minimum contribution rates. Accordingly, following last year's reforms to benefit the lower paid, and casual and part time workers, workers who earn less than £11,900 a year will pay reduced contributions linked to level of pay. Those who earn less than £10,800 a year will not experience any increase in contribution. Historically, Social Insurance Contributions have been increased with effect from 1 January. However, since contributions are now collected with income tax, 1 July is the most appropriate date.

Statutory Minimum Wage

- (9) The statutory minimum wage was last increased in 2005, from £4 an hour to £4.50. At this level it represents a wage of £175 for a 39 hour week. It is Government's objective that the least paid members of our society should not miss out on the benefits of Gibraltar's economic success. They have benefitted, of course from tax cuts focussed by the Government on the lower paid, and from reductions in social insurance contributions, as well as from Government's investments in improved and expanded public services and amenities. However it is important that progress also be reflected in increasing minimum wages. Accordingly, the statutory

Minimum wage will be increased by 10% to £5.00 an hour, with effect from 1 January 2009.

Corporation Tax

- (10) Last year, and in order to signal the Government's seriousness of purpose in reducing corporate tax rates, I reduced corporate tax rates to 33%, and said that I would reduce it further this year to 30%, with a signalled reduction to 27% next year. In order to further signal the Government's commitment I am advancing that timetable by one year, and therefore the corporate tax rate is now reduced by 6% from 33% to 27% with effect from this year that is the year of assessment 2008/09.

I envisage a further cut in the rate next year, before moving to the rate of between 10% and 12% from 2010, to which the Government remains firmly committed. My strong preference will favour the bottom end of that range.

Import Duty

- (11) Import Duty will increase as follows:

- On cigarettes by 5p per pack of 20
- On petrol by 3p per litre
- On diesel by 2p per litre

The Government has an outstanding commitment to use the import duty regime on motor vehicles to support the environmental agenda. We will

make a start this year, by restructuring the import duty regime on motor cars to reflect fuel type and the amount of their carbon emission.

- (12) The customs process will be made less burdensome for the business community by reducing the number of commodity codes into which imports have to be analysed, from the current 5000 to just 200 commodity codes.

Education

- (13) The amount of money available to each school per pupil to spend on books and equipment, the so called "capitation allowance" will be increased this year by 50%.

Electricity and Water Tariffs

- (14) During the last 10 years, the Government has shielded, and will in the future continue to shield consumers in Gibraltar from the full extent of increases in the cost of producing electricity and water. Indeed, whereas in Gibraltar there has been only one increase in 17 years, in the UK and elsewhere tariff increases have been almost annual, especially to reflect rising oil prices.

To give an idea of the extent of the government's subsidy of consumer tariffs since 1996, if the Flexible Cost Adjustment element of electricity bills had been increased as it should have been just to reflect fuel cost increases, it would now stand at 11 pence, compared to where it actually stands, namely 3.26 pence. Electricity prices would be 70% higher than they actually are today. This is the extent of the current price subsidy being absorbed by the Government.

However, the extreme rise in the price of oil, which now represents about half of the cost of generating electricity, means that it is both desirable and necessary from a prudence of public finances point of view, to pass on

to consumers at least some of the cost increases arising from the rise in oil prices.

The price of oil has doubled in the last 12 months alone. They have nearly trebled in the last 5 years. Accordingly, electricity and water tariffs will rise by 15% with effect from 1 July. The average monthly electricity bill is expected to rise from around £38 to around £44 per month, or by around £72 per year.

Even after these rises, the Government will continue to subsidise the lion's share of these cost increases. In the UK, for example, consumers have seen their bills rise by 85% over the last 5 years, and by around 40% during the last 3 years. In contrast, in Gibraltar there has been only one rise of 12% during all that period, even though we have faced the same oil price rises.

Minimum Income Guarantee

- (15) Mr. Speaker, the Minimum Income Guarantee, which we have introduced, is regarded by the Government as one of the principal instruments of social policy in relation to the elderly. It is the instrument by which the Government has ensured that, in modern Gibraltar, no elderly person is without a minimum amount of income on which to live at a level which the Government fixes and guarantees. It is therefore an important safety net for those without a full or any pension, and those who do not receive Community care payments. The Government intends to use the Minimum income Guarantee mechanism as an instrument of reform.

With retrospective effect to 1st April 2007, the Minimum Income Guarantee level will be increased by 6%, as follows:

Single Person - from £448.10 to £475 per month

Married Couple - from £598.10 to £634 per month

The 65.2 per cent increase in old age pensions which came into effect on 1 April 2007 will continue to be disregarded for the purposes of entitlement to payments under the minimum income guarantee scheme. Subsequent annual pension increases will not be disregarded, but they will be compensated by increases in the MIG level. Recipients of MIG payments who are not in receipt of an old age pension will continue to receive a

supplement at the rate of £26.10 per month for a single person and £34.80 per month for a married couple.

Mr. Speaker, I commend the Appropriation Bill to the House.