



GOVERNMENT OF GIBRALTAR
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MINISTERIAL STATEMENT

THE CHIEF MINISTER

Wednesday 18th January, 2012

Good evening.

As I told you in my New Year's message, the state of the public finances of Gibraltar is not as positive as the previous Government would have had you believe.

In fact, my ministerial colleagues and I considered that the seriousness of the position is such that I should address you tonight from No 6 Convent Place in a Ministerial Statement.

I want you to know that all the figures I am going to quote to you tonight have been independently calculated and provided to me by the Treasury through the Financial Secretary as official figures of Her Majesty's Government of Gibraltar.

The Leader of the Opposition, Mr Caruana, repeated, in his address at the Ceremonial Opening of the Parliament, his pre-election claim that there would be a healthy surplus this year.

However, that prediction was made without taking into account the losses that have been incurred by Government companies in respect of recurrent expenses.

For example, the bus company loses some *two million pounds a year*. *The Car Parks company loses some three million pounds a year*. *And the operation of the Kings Bastion Leisure Centre loses £1.5m a year*.

But the figures presented by Mr Caruana to the Parliament in the estimates did not reflect this as part of the Government's own recurrent public spending.

Neither does this take into account the reduction in the reserves of the Statutory Benefits Fund – from which we pay old age pensions – in respect of which we will have to increase the provision from £7.5m by a further £2.5m required to keep the fund at the same level at which it was at the beginning of the year.

That will further reduce the surplus.

The surplus for the current year will therefore be re-calculated to give you a true and fully accurate picture by including the recurrent losses of Government companies and by reflecting the additional funding required by the Statutory Benefits Fund.

In order to provide an accurate picture for the past years where a similar recalculation is required, the Treasury will provide for an item in this years Budget as an "Exceptional Adjustment" to the accounts, to reflect the net losses in previous years since these companies started to make losses.

There has also been massive expenditure in some Government companies on their on-going projects since last April; and that is where the biggest problems arise.

As the Government companies which were developing these projects had no money to pay for this additional expenditure, the money had to be advanced from the Government consolidated fund.

The previous administration presented to Parliament estimates which showed estimates that the companies owed the Government £59m, which they had already spent and that

the whole of this fifty nine million pounds would be repaid by the end of this financial year, the 31st March 2012.

The Government companies would therefore have owed zero at the end of the financial year, leaving the estimated reserves, as reflected in the Budget book, at two hundred and fifty eight million pounds in cash AFTER the repayment of the £59m due by the companies.

This is actually not the current position and therefore the estimates presented to Parliament and approved at the time of the Budget are completely inaccurate in this respect.

Even if Mr Caruana believed in March 2011 or at Budget time that the companies could repay the fifty nine million pounds they owed, I have now seen evidence that it would have been clear to him by July that this was not realistic or possible.

On the day on which we were elected, not only had the £59m not been repaid but the debt had actually risen to £87m and growing.

In fact, when Mr Caruana presented the estimates of expenditure to Parliament, they reflected that the estimated Gross Debt as 31st March 2011 was four hundred and eighty million pounds and that the forecast was that this amount would stay the same by 31st March 2012.

The Budget Book actually reflected this on page 3 of both the draft and approved estimates.

In fact, that figure is already at five hundred and twenty million pounds.

Certainly by November and December, before the election, it must have been clear to the previous Government that the fifty nine million pounds owed could not and would not be repaid by the companies to the Government by the year end.

Even worse, the advances to the companies to finance their spending before the date of the election had increased from £59m to £87m.

As a result of all of the above, it is my duty to report to you tonight, that the total amount that these wholly owned Companies would have owed the Government at the end of this financial year would have been well in excess of *one hundred million pounds*.

This is after the twenty million pounds borrowed through one company as a mortgage on Government buildings.

This money has also been used to finance spending by other Government companies.

The effect of this is that cash reserves available for use by the Government are £100m less than anticipated.

The current legal maximum borrowing that the net debt can increase to – based on the formula set out in the Public Finance (Borrowing Powers) Act - is currently three hundred and six million pounds this financial year.

To make the position as clear as possible, tonight, I can tell you that *as at the 9th December 2011, your Government only had twenty million pounds available to spend*, despite the projected surplus for this year.

I am sorry to say that the story does not end there.

There could be as much as an *additional sixty million pounds worth of anticipated expenditure* in the pipe line to pay for committed capital spending in this financial year to March and a further thirty two million pounds in the next financial year.

This capital expenditure cannot be paid from the cash reserves as this would increase *the net debt and* breach the maximum permitted borrowing limit which is fixed at *eighty percent of Government revenue in this financial year, the net borrowing ceiling of three hundred and six million pounds*.

That does not include the fifty five million pounds estimated by GJBS as being required to finish the works on the airport tunnel or the estimated one hundred and forty million pounds required for the new power station.

This latter issue will be addressed by us to ensure that we have the generating capacity necessary to provide secure continuity of supply of electricity for our country.

This position would have been as clear to the previous administration, before the change of government, as it was to us in the days immediately after we arrived in office.

A change in the law to allow further borrowing was therefore clearly going to be required in order to fund capital expenditure already committed to projects – let alone any new projects announced as part of the general election campaign.

That is why we have had to stop work on many projects as they were unaffordable without further borrowing and a change in the law to allow it.

The Leader of the Opposition must have clearly known that was the position – although he said nothing about further borrowing during the election campaign - because in his speech at the Ceremonial Opening of Parliament he said that would support our Government if we sought to borrow more for some capital projects and he then referred to a new debt figure of £280m – having spent the previous 6 months saying it was £221m.

He repeated this call for more borrowing in his New Year Message where he said he would support us if we sought a temporary raising of the legal debt limits.

This is not surprising.

It is clearly what the Opposition planned to do had they won the election.

We however, are committed to reducing the Gross Debt and to keeping the Net Debt within existing legal limits and eventually providing an even lower limit for the debt in relation to the reserves.

We believe that is the only prudent way to manage your money.

We will not, therefore, break our electoral commitment to you by bringing measures to Parliament to increase debt.

We shall find alternative ways of addressing this problem.

We are not prepared to run up your debt to much higher levels to deliver the projects of the administration that you have rejected.

Full details of our policies in respect of each of these pending projects will be given in the near future as each of them is assessed on a value for money basis.

I hope that this helps you all to understand why it has been necessary to stop works on many projects as we recalibrate what we spend on.

Finally, let me assure you that, despite the problems I have highlighted, we can pay our way in the world.

We will be able to maintain recurrent spending – although capital spending by the Government will have to be reduced.

The problem we have uncovered in Government finances is serious but we have identified it and we will solve it.

We can pay our way but we must now target spending where it matters.

On health, with spending on KGV, new wards at St Bernards, finishing the Alzheimer's and Dementia facility and providing even more beds than planned by the previous administration.

On education which will also continue to be a priority and with more teachers being recruited and a commitment to continue to fund scholarships.

On housing we will spend to ensure that we provide homes for all those who need them.

And on employment we will work to match skills to jobs and in that way guarantee a future for young people and the unemployed.

These are things that must come first and they will.

We will also spend money to attract more external investment to Gibraltar.

We can pay our way.

But we must now spend our money wisely.

Finally, I must reiterate to you that all figures I have quoted to you tonight have been independently calculated and provided to me by the Treasury through the Financial Secretary as official figures of Her Majesty's Government of Gibraltar.

Thank you for listening

Good night to you all.