



**HM GOVERNMENT OF GIBRALTAR**  
**PRESS OFFICE**  
**No.6 Convent Place**  
**Gibraltar**  
**Tel:20070071; Fax: 20043057**

**PRESS RELEASE**

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Attached is the full text of the Chief Minister's Budget Speech at the House of Parliament on Monday 9<sup>th</sup> July 2012.

**MONDAY 9<sup>TH</sup> JULY 2012**



**Chief Minister's Budget Speech 2012**

## Introduction

Mr Speaker, this is my first budget address as Chief Minister and I have the honour to present the Government's revenue and expenditure estimates for the year ending 31<sup>st</sup> March 2013.

Mr Speaker, this debate has traditionally also been about more than just numbers; this is a State of the Nation debate.

I will therefore also report to this House on the state of the economy and public finances and on the specific budget measures and some of the projects that the Government will introduce, in pursuance of our manifesto commitments.

Mr Speaker, having been in Opposition for 16 years, it is my pleasure to deliver for a Socialist Liberal Government, a budget to support working families and the disabled; a budget to support our youth and our senior citizens. A budget, Mr Speaker, to encourage business and enhance our public services. In short, Mr Speaker, this is a budget to deliver social justice and to improve the quality of life of all our citizens whilst making Gibraltar a great place to do business with the world.

And that Mr Speaker, against a backdrop of continued economic turmoil in Europe.

Mr Speaker no one in our community can have failed to appreciate the social problems that Europe's economic woes are visiting upon ordinary citizens in economies more mature and diversified than our own. The political and economic problems we are seeing played out on our TV news screens each day manifest themselves dramatically across the continent when school children in Athens faint because they have not eaten in days – or, without needing to go so far, civil servants not being paid in the neighbouring city of La Linea.

What we certainly cannot afford to be is complacent Mr Speaker just because we have not seen such problems in Gibraltar.

A collapse of the Euro, or even the departure from the Euro of one or more countries would have seismic effects well beyond any one country or the euro zone.

As we have seen, sterling is not immune to the problems affecting the Euro or the issues that have affected the Dollar. Indeed, when Sterling rises against a weaker Euro our exposure to exchange rate variances becomes marked.

What may be good news for cross frontier workers who exchange their Sterling wages to Euro is not so good for retailers who see their goods rise in cost for Euro purchasers. So we are certainly not insulated from what is happening in the more troubled economies around us. But neither must we be cowed.

That is why in Opposition we raised issues about the creeping growth of our nation's gross debt and why we have a clear commitment to deal with gross debt and net debt levels as we set out in our manifesto – something on which I will say more later, Mr Speaker as part of the Government's analysis of the state of public finances on which I will now embark. In doing so Mr Speaker, I am conscious that our tenure in office begun on 9<sup>th</sup> December and that therefore the figures that I will now present to the House represent 8 months of activity under the previous administration and 4 of ours.

## **The Economy : Growth - Gross Domestic Product**

Mr Speaker, Gibraltar's Gross Domestic Product for the financial year 2009/10 was £998 million and the latest figures prepared by the Government's Statistics Office indicate that GDP for 2010/11 was £1.050 billion. The forecast GDP figure for 2011/12 is £1.137 billion, representing an increase for the year of 5.1% in real terms.

Mr Speaker, these GDP figures are broadly in line with our published predictions of 2007 (in our manifesto for that election) of economic growth for this period. The Government's comprehensive programme of changes and benefits, as outlined in our manifesto, have been designed to be delivered to our community with an economy that will grow from £1.1 billion to £1.65 billion between 2011 and 2015.

Mr Speaker, this continues to be our prediction of economic growth in Gibraltar, despite the continued European and global economic recession.

I am therefore delighted to confirm that our manifesto programme is on track to be delivered as planned.

It also shows, Mr Speaker, that once again we have been able, before the election and without access to all the data available, to predict with some accuracy where our economy would be and gives evidence to the extrapolations for growth that we have predicted.

## **Public Finances**

### **Public Debt and Cash Reserves**

In terms of public finances, Mr Speaker, when this Government took office on 9<sup>th</sup> December 2011, the Government found itself with available Cash Reserves of just £20 million.

This was despite the projected recurrent surplus for the year and healthy available Cash Reserves that have been reflected in the Approved Estimates Book for the year 2011/12. It was essential Mr Speaker that I put this information into the public domain so that each and every citizen should understand the reality of the state of our public finances after the election.

It is also important, Mr Speaker, that the public should understand the difference between the economy as a whole and public finances – i.e., the Government's own financial position. An economy can be growing as ours is whilst public finances, if not properly managed, can be under stress.

That was the position in Gibraltar on the 9<sup>th</sup> December.

Cash advances made to Government-owned companies, which had been projected in the Estimates Book for 2011/12 to end the financial year at zero, had actually risen to some £87 million when this Government took office. Moreover, given the capital expenditure commitments already entered into, these advances were expected to rise further by the end of the financial year, i.e., 31<sup>st</sup> March this year, to around £100 million.

By way of illustration, during the last two financial years of the out-going GSD Administration, Capital Expenditure funded through the Improvement and Development Fund was over £211 million. An additional £139 million of Capital Expenditure has been

funded during these two years through Government-owned companies. This is a total of £350 million.

Incredibly, Mr Speaker, that is more than the total that was spent by the same GSD Administration in Improvement and Development Fund Capital expenditure in their previous 13 years in office.

Such levels of capital expenditure have, of course as we now know, only been possible through an increasing level of borrowing by the Government.

This Administration is not prepared to continue to increase the level of Public Debt beyond existing prescribed borrowing limits and therefore had to stop work on many capital projects, which were clearly unaffordable without recourse to further borrowing.

That is why, Mr Speaker, our manifesto specifically provided, in clear and unambiguous terms, our approach to the reduction of national debt.

Our manifesto provides on page 27 that in respect of Gross Debt:

*“Our commitment is that Gibraltar’s public debt will be brought down by half of its current level, whatever that current level is after the election, so that by the time of the next election in 2015 there will have been a 50% reduction. Gibraltar’s gross debt is presently stated to be at £480,000,000.00 (almost half a billion pounds).”*

In fact, Mr Speaker, as disclosed by the now Leader of the Opposition in the course of the Leaders’ Debate on the eve of the election, Gross Debt on the day after the election was closer to £520m and that is the figure we are working from.

In respect of Net Debt, Mr Speaker, our manifesto also provides that:

*“Given that the policy is to have reserves available to meet the current expenditure, the definition of “net debt” introduced in 2009 will be changed so that from the balance of the Consolidated Fund a sum equivalent to 10% of recurrent expenditure will be treated as available to Government as a general reserve and not set off as available to reduce the gross debt to arrive at the hypothetical net figure. The Net Debt on this basis would be £37.7m higher currently, that is £253.5m instead of £216.5m, which is considered a more prudential policy.”*

That is the process we are committed to and on which we are now embarked and the definition of Net Debt that the Treasury now work to.

After the 8<sup>th</sup> December the situation is now being brought under control, Mr Speaker. Gross Public Debt is now forecast to fall by just under 1/8<sup>th</sup> or by some £68 million during this financial year from £518 million to £450 million. The Net Public Debt is also projected to fall slightly during the financial year thereby restoring the level of Cash Reserves available to the Government to a more prudent level of around £60 million.

## **Revenue and Expenditure Budget for Financial Yr 2011/12**

Mr Speaker, the budget surplus for the last financial year 2011/12 was originally estimated at around £21 million.

Revenue for last year is now estimated to exceed the original budget by around £58 million. The increase in revenue during the year has, to some extent, been due to the unprecedented level of Government's own capital expenditure, some of which ends up back in Government's own pocket by way of PAYE Income Tax and Import Duties; that is to say, the more the Government spends, the more it collects in part.

A further large increase in revenue during the year has been due to the increased level of Company Tax receipts following the reduction and incidence of our Company Tax. However, this increased revenue stream will need to be monitored closely by the Government to see if the level of such revenue during this first year of the change is indeed sustainable going forward.

Indeed, in respect of corporation tax Mr Speaker, the Government fully expects the revenue will be down next year as the figures for the year just past include some one off payments arising from the change in systems of corporate taxation and some overstated income by some companies.

Import duties have also been higher than expected and therefore very little growth has been built into these figures as it may not be possible to see even a repeat of those numbers, let alone growth.

As regards Departmental Expenditure, this is now estimated to exceed the original budget by around £16 million. Consolidated Fund Charges, mainly comprising Public Debt Charges and Government Pensions are also estimated to exceed the original budget by some £4 million.

Consolidated Fund expenditure for last year now includes a contribution to the Government-owned companies of around £28 million, which was required towards meeting the accumulated recurrent annual cash deficits in these companies as at 31 March 2012.

The detail of this £28 million is as set out in p.140 of the estimates book under Head 44 Mr Speaker and includes:

- £6.6m of built up recurrent annual losses on the running of Kings Bastion Leisure Centre, 1.6m last year alone;
- £5.9m of built up recurrent annual losses on the running of the Gibraltar Bus Company, 2.1m last year alone; and
- £7.1m of built up recurrent annual losses on the running of Gibraltar Car Parks Limited, £2.8m last year alone; and
- £1.3m of losses on the running of Gibraltar Air Terminal Limited for a few months this year. The annual running cost may be nearer £3.5m although we continue to work to reduce that.

That is to say, in summary, Mr Speaker, that the budget surplus has to be adjusted for the year ended 31<sup>st</sup> March 2012 to take the above variances into account and therefore produces a real surplus of £31 million.

## **Revenue and Expenditure Budget for the Financial Year 2012/13**

Mr Speaker, moving on to the Revenue and Expenditure Budget for the current financial year, Honourable Members will have noted that the layout of the Estimates Book for 2012/13 has changed in order to more clearly identify the Government departments under each of the new Ministries. There is also the new Head of Expenditure for Contributions to Government-Owned companies, which in order to avoid the situation I have just highlighted provides funding to cover the estimated net recurrent cash deficits of these companies during the year. That means, Mr Speaker, that we will not have the problems I have just referred to again. Honourable Members will have also noted that all advances to these Government-owned companies have been cleared at the end of the previous year.

This has been done by way of the £28 million contribution from the Consolidated Fund, that I mentioned previously, and by way of an increased in funding of Government companies from the Improvement and Development Fund from £15m to £72m. Last year, Mr Speaker, the sum applied in that manner by the previous Administration was £34m.

Mr Speaker, the Estimates of Expenditure for this Government's first year in office necessarily reflect a significant increase in spending in order to address the many areas of the Public Service where there has been under-provision in previous years and where there is a clear need for further resources and for the delivery of our manifesto commitments. In particular, these include our Health Service, our Social Services, Education and Employment and Training and we have, in the main, identified in the manifesto the people have chosen, where and how those investments will be made in the coming four years.

Already this year in our Health Service, the nursing staff complement is being increased by more than 20, and the Government is looking into the reform and improvement of the Sponsored Patients Scheme which works for some but often leaves the less well off in a precarious situation when they are at their most vulnerable and away from home.

I do have pleasure however in announcing an immediate increase of 50% on top of present rates of all sponsored patient payments in respect of sponsored patients who are disabled. That takes effect from today!

As regards capital investment in our Health Service, the GHA budget for works and equipment is being more than doubled to £2 million and this is in addition to an investment of £1 million to replace the entire fleet of ambulances and the necessary spending already announced trying to bring KGV into a more acceptable state whilst the new facility is readied for occupation.

Mr Speaker I will not say that we have inherited a lot of problems in our health services – although that is true and no doubt the Minister for Health will elaborate in his contribution. What I will say is that there are many problems inherent in the provisions of health services for a community our size or indeed any community.

Medicine is not an exact science – but our role as politicians in the House is to administer systems and finance to deliver the best possible care in the best and most efficient manner possible. My view Mr Speaker is that there are structural problems in the provision of health services in Gibraltar today which are not dissimilar to those there were in 1996, 1988 and probably in 1972 and 1969, i.e., whenever and despite the changes in Governments and Administrations. But there are problems today that were not there in 1996 and which can be resolved.

So Mr Speaker in that context I sincerely do believe that Hon Dr John Cortes, although his doctorate is not in medicine, is exactly the right person to break the back of these perennial issues.

His ability to communicate with all members of staff at the GHA is the key to delivering the patient experience that I am sure we all believe this community deserves.

That is not to say there will never be mistakes or people dealt with always perfectly – but that is what we will strive for; and whilst other countries are forced to consider new models for healthcare, we are able to remain committed to health services always being provided free at the point of delivery to entitled persons under the Group Practice Medical Scheme.

Our Social Services will also see an increase in staff complement, including the employment of more than 35 additional Care Workers and Social Care Workers and the Domiciliary Care programme is being extended.

In that respect Mr Speaker, I am delighted to have had the opportunity of recommending the appointment of Ms Sacramento to the Ministry for Social Services – something she has taken to immediately, as I knew she had the ability and character for, despite never previously having been a Parliamentarian.

In Education, a further 47 new teachers will be engaged by September 2012, and 29 Classroom Aides will be taken on as part of the fixed complement of the Department. The Scholarship budget will be doubled to around £10 million with all our school leavers with a place in university being fully funded, in terms of tuition fees and maintenance grants. Postgraduate study will also be granted as a mandatory entitlement as is the case for first degree courses. My colleague, Hon Mr Gilbert Licudi, will say more about the detail of that in his contribution later in this debate; as he will of the challenges facing us in respect of financial services and the other areas of his wide responsibilities.

In Employment and Training, the Government's investment in its 'Future Job Strategy' will ensure that our school leavers and university graduates, as well as all other members of our community seeking employment, are given an opportunity to get jobs and an opportunity to contribute to the growth of our economy.

Who better, Mr Speaker, to look after unemployed resident workers than Mr Bossano who has given so much of his life to date to promotion of workers' rights. Already the number of residents in employment is steadily increasing – and I am sure Mr Bossano will have much more to say about all of this during the course of his contribution to this debate.

Despite this increased level of expenditure, Mr Speaker, the Government is projecting a surplus of around £17 million for the year. That is Mr Speaker – targeted spending to deliver a better, fairer Gibraltar AND a surplus at the end of it all in the context also of a reduced Gross Debt and a reduced Net Debt based on a more prudent definition as set out in our manifesto and all recurrent company expenses paid. Of course Mr Speaker, we could be less prudent and we could take recurrent company losses off balance sheet and provide for a higher surplus by borrowing more – but we will not do that! We will not fall into that trap!

For this year, Government revenues are expected to increase at least in line with GDP growth. However, the Government remains committed to limiting any increases in Government expenditure during our first term in office to below the growth in the economy. That is why we have calibrated expenditure and manifesto delivery as we have.



Mr Speaker, the Government is in the process of re-structuring the public finances in order to reflect the many changes that are planned to take place during the lifetime of this Parliament. A few changes have already been made and have been incorporated in these Estimates.

For example, the surplus in the Gibraltar Saving Bank will no longer be transferrable to the Consolidated Fund but will be retained within the Bank to build up the Bank's Reserves. And, as already explained, importantly, the full effect of any deficits in the Government-Owned companies are now fully reflected in the Consolidated Fund Recurrent Expenditure Estimates.

Further changes include the planned reforms to the Social Insurance Funds, the expanding of role of the Gibraltar Savings Bank and further policies aimed at increasing available Cash Reserves even further. That, Mr Speaker, is the agenda for change that will be relevant in the life of this Parliament at Budget times to come.

### **Capital Investment Programme**

Mr Speaker, in addition to the many Capital Projects which will be funded from the Improvement and Development Fund, as identified in the Estimates Book, the Government's capital expenditure programme for its first term of office includes numerous projects which will continue to be channelled through the established Government-owned asset holding corporate structure.

These include the delivery of homes partly to be provided under a co-ownership scheme; the development of parks and car parking facilities; new berthing facilities for locally resident boat owners; the replacement and modernisation of our bus fleet with more environmentally friendly vehicles more apt to our roads and our environment as well as the renewal and modernisation of the Government's own fleet of vehicles for that purpose on a phased basis; and a beautification programme for all our existing housing estates, including continuing and completing refurbishments at Varyl Begg and Alameda Estate and external cladding in Glacis Estate, Laguna Estate and Moorish Castle Estate – the abandoned estates – and as more particularly provided for in our manifesto.

### **Power Station**

Mr Speaker, one of the biggest capital projects for the Government is the replacement of our three existing power stations.

The Government did not consider that the previous administration's plan to build a new Power Station, at Lathbury Barracks to run exclusively on diesel-powered engines, was the right choice for meeting Gibraltar's power requirements for the next 30 years. We were committed to any agreements that might have been signed before our election – but when we were elected there was no binding agreement to build a new facility.

The Government is currently finalising a review of a number of alternative options and locations, involving different technologies and financing models, and will shortly be making and announcing a final decision on the way forward.

Pressure from environmental action groups telling us to decide soon is understandable; but we must make the right decision not the fastest decision.

The Government's choice of energy sources will reflect the Government's commitment to ensure that Gibraltar's carbon emissions are minimised as well as minimising the noise

pollution and emissions that affect many of the residential areas at present, and on both these issues I am sure both the Minister for the Environment and the Minister for Utilities will have more to say.

I will add this Mr Speaker; the power station proposed by the GSD administration would have taken between 36 to 48 months to deliver; for that reason any power cuts in that period from 8<sup>th</sup> December are for the account of the GSD administration that did not commission a new station sooner – having known a decade ago that by 2010 there would be critical failures and not for the responsible, forward looking, environmentally conscious government that is taking steps to ensure the right combination of security of supply, reduction of polluting emissions, noise nuisance and technological future proofing.

The Government is also exploring ways of reducing energy consumption and the use of solar energy for street lighting and in Government Buildings. A number of projects are already in hand in this respect and both the Ministers for the Environment and Utilities will have more to say about that later.

### **The Public Sector**

Mr Speaker, the Government is making a significant investment in the Public Sector.

I have said before and I make no apology for saying again, that the public servants I have had the benefit or working with since the 9<sup>th</sup> December are brilliant Gibraltarians – sometimes failing in delivery principally not through lack of ability or motivation but because of under investment or because they were previously not allowed to do their jobs.

As the engine for growth for Gibraltar and facilitators of the private sector, the public sector needs to be adequately resourced and systems of work in the public sector need to be brought up-to-date for the benefit of everyone in our community.

### **Civil Service Pay**

It is appropriate for me to say here despite the pay freezes in the UK public sector, and as foreshadowed in our manifesto, Civil Service pay will increase by 2.7% in 2012/13. We also remain committed to a further increase in Civil Service pay of 2.9% for the year 2013/14.

The Civil Service Review has begun and meetings are held regularly with the Chief Secretary and with me to make sure we get that review right and that we move fast to address the concerns of public sector employees and private sector clients; but Rome was not built in a day and we all prefer strong foundations for this review and not flimsy, quick fixes. But the process continues apace.

In this respect I want to acknowledge the work of the GGCA, Unite and the GTA in embarking on a process that is fully consultative so that, from the grass roots up, we will have the input necessary to develop a renewed and more efficient public service for our people and our businesses. This is not imposition from the top – this is working together to deliver together. Good progress is being made, in consultation and partnership with the trade unions who together with the Chamber of Commerce and the Federation of Small Businesses (who will also be consulting as part of this process) we consider to be our partners in this endeavour.

A start has already been made in the Government's programme of 'E-Government', which will transform the way business is done in and with many areas of the public sector. The Government is committed to promoting as much interaction as possible between the

citizen and the Government “online” and enhancing the access and delivery of Government information and services to citizens and the business community. That, Mr Speaker, is the interface of the future.

And I must say that working with our people in the Government’s IT Department is one of the things I enjoy the most. I believe that the citizen has much to gain from the “E-Government” revolution and that our IT Department have much to give.

In this respect also, the next few months will see the introduction of a modern computerised system at the Customs Department. The business community will see a transition to a modern computerised ‘paperless’ system, which will provide internet-based processing and clearance of imports and which will simplify customs procedures and documentation, consistent with international standards and best practice. This ASYCUDA system has been worked on for some time – but was stalled when it was just about to be introduced last year. We have allowed Customs to work hard to ensure that the system was ready to be implemented this year. It is this type of e-government revolution that we are embarked upon throughout the public sector that will make it possible for the citizen to interact with government in the same way as the trader requiring imports or exports will shortly be able to interact with Customs.

I want to single out for special mention in respect of the ASYCUDA system the work done by Mr Constantin Ciuta of the United Nations Trade and Development Office who has been seconded to Gibraltar for 2 years to make ASYCUDA a reality with John Rodriguez the Collector of Customs and his team. John has championed this system and the benefits will reflect well on him and his department.

And if I may say Mr Speaker, I would wish to say something at this point to all Customs Officers.

I have many friends in Customs as I do in other departments and I understand the problems that have been allowed to fester in that department. We are embarked in talking to both Unions that represent Officers and to unrepresented Officers.

Customs is not just the collector of much of Government’s revenue – it is also a proud law enforcement agency with a increasingly important role to play.

When we were alerted to the dangers arising to officers in the area of the frontier fence, we have acted immediately to re-enforce the frontier and to allow use of batons for protection.

Working with officers and listening to officers and believing in the future of Customs as a department, this Government will support the men and women in the massively important work they do.

In good faith we can resolve the issues that concern them all and deliver – as ever – a better service to businesses and individuals and better working practices in a modernised working environment for Officers. That is the challenge for all of us.

Returning to the public sector more generally, work has also started in other areas of the Public Sector, including the establishment of a Central Government Counter Office alongside and in conjunction with the expansion of the role of the Gibraltar Savings Bank, which will take on board the needs of Gibraltar businesses and personal users. All of this is designed to make the public sector more responsive to the needs of the public it is designed to serve. The interface between the public sector and the private sector needs to

work seamlessly – and that is an area where we will continue to work with Unions, Federations and Chamber until we get it right.

### **Gibraltar Savings Bank Deposits**

The Gibraltar Savings Bank will be opening its new main office building in Main Street in coming months. In addition to its banking services for the community, office counters will be provided within the Bank to enable the community to make use of centralised payment facilities for all Government services. More will be announced about the facilities that the bank will make available to businesses and private citizens alike when arrangements are finalised.

Moreover, as part of the continuing expansion of the role of the Gibraltar Savings Bank, the range of deposits offered by the Bank will be extended further.

The Savings Bank already offers instant access and one month's notice deposits paying 2% interest; 3-year Fixed-Term Debentures paying 3.5% interest; 5-year Fixed-Term Debentures paying 5% interest an 'Accumulator Bond', which pays an increasing level of interest depending on how long the investment is held - from 2% in the 1<sup>st</sup> year to 11% in the 10<sup>th</sup> year.

To complement this range of deposits which is currently available, new products and current accounts will soon be available with the Savings Bank. It is expected that these will be in place before the end of this financial year.

### **Broadcasting & the Media**

I move now Mr Speaker to my responsibilities for broadcasting and the media.

Last year, Mr speaker, the previous Administration announced £12m of funding to move GBC to Rooke.

The announcement envisaged Rooke coming into Government hands in the past financial year. That was never going to be realistic; and when it comes to GBC, Mr Speaker, we owe it to the professionals at GBC as much as we owe it to the public to be realistic, frank and honest.

GBC is an essential part of our community. It comes into its own on important dates in the Gibraltar calendar. Miss Gibraltar, National Day, election time. What would those occasions be like without GBC to relay to all those not there in person what is happening "live"?

What would our community be like without a weekday "Newswatch"?

But Mr Speaker GBC is at the same time failing our community.

Some events that are crying out to be transmitted live or at least recorded and shown later never make it to our screens. Yet how can they if GBC's Outside Broadcast facilities are decrepit and no investment in them has been made in years?

Quality of reception is sometimes atrocious – but that is more often than not unrelated to GBC itself and arises from the vagrancies of the various cable networks that operate in Gibraltar.

GBC is one of our national treasures – and much as we need it, much as we love it we also love to criticise it – sometimes fairly; sometimes unfairly.

I, Mr Speaker, am a fan of GBC and I make no apology for that.

I appreciate the work that the people at GBC do.

And I, like the rest of our community, demand more from GBC.  
What we certainly cannot do is expect GBC to perform without resources.

But what we as a community cannot be expected to do is pump in resources without limit to get the same as we had before.

I sincerely do not believe that GBC should be transmitting old series of fishing in Florida filmed in the 80's or some such unwatchable material.

Local programming is what GBC is there for and local programming is what the public want.

Yet for the past 16 years it seems to me that GBC has been allowed to fester in a time warp of ancient resources and very large subsidies are that never enough and amount to under-funding.

£12m to go to Rooke when Rooke is finally available is not the answer.

Instead, we believe a new model of professional development for staff and of funding had to be found.

Perennial problems had to be resolved.

Again, Rome was not built in a day but after years in the wilderness, GBC is finally starting to move forward. As a result of additional funding from the Government, the long-standing problem of poor staffing levels has been addressed and a number of additional employees recruited. These have strengthened the radio, news and television departments in particular. There are still deficiencies in engineering and administration that are being considered.

A new Chief Executive Officer (Designate), Mr Gerard Teuma, was appointed in February, and will fully take on the reigns of the Corporation next April. However, he is already working towards introducing immediate improvements in programming and internal operations, while identifying solutions to problems that have blighted Broadcasting House, in some cases, for decades.

I want to thank Mr Alan King for the work he has done as CEO.

We have already published in full his report into GBC as were committee to do. His contract expires next April when the CEO designate takes over.

But even in the manner and timing of the appointment of Mr King we believe that there were errors and failures.

Appointing Mr King took too long. GBC was without a General Manager for too long and, importantly, through the 2007 General Election that caused the Corporation to be headless

for longer than is in our view conducive to progress – despite the best efforts of the Quartet of management at the time.

A specialist Human Resources firm has now been contracted by GBC, working with management towards the introduction of internal rules and procedures, which until now have been practically non-existent and which are essential to the modern workplace. The Government understands that it is the intention of management to complete phase one of this process within this financial year.

The Government is also assisting GBC in a temporary refurbishment programme at Broadcasting House, which at present, can best be described as “not fit for purpose”.

But that is an interim solution.

If there is one thing on which we agree with members opposite it is that South Barrack road should not be the home of GBC for much longer.

Rooke will be, when handed over, an asset of enormous financial significance and for potential economic growth. In the very centre of the western reclamations, we do not believe it should be the new home for GBC. But GBC does need a new home and closer to the city centre.

As a result GBC and the Government have identified and are presently exploring adapting the Ince’s Hall to be a new media centre for GBC. This will allow for much more modern facilities to be developed in an area much more accessible to the public.

Design work is presently being undertaken.

This will also, of course, require that the Ministry of Culture be found a new home, which will be at City Hall; and the relocation of some of the drama groups that presently occupy parts of Ince’s Hall.

The location is perfect to allow GBC greater flexibility in recording and transmitting events from Ince’s Hall and John Mackintosh Hall – not least elections, plays, meetings etc. Exactly what local programming is made of.

The additional funding made available this year, ahead of the proposed move to Ince’s Hall, and the new CEO’s appointment have already allowed a revamp of Radio Gibraltar’s programming, including an improved local news service.

Today, coinciding with this Budget, GBC Online has also launched an upgraded and greatly expanded local news page, as well as a new Community zone on the GBC website. Dedicated station Apps are also in development.

Since March, GBC Television has introduced new programmes and has provided enhanced coverage of local events. It must be pointed out that television, in particular, is expensive, but I am assured that GBC TV is deploying all resources to ensure the best possible local television can be provided within the resources available.

I am informed, Mr Speaker, that several new series will be screened during the summer, ahead of the autumn schedule being rolled out in late September, which will comprise circa 70% local programming.

GBC Management is confident that with additional resources and opportunities, GBC Television, Radio and Online will continue to improve as work now starts in earnest to transfer all services from South Barrack Road to the proposed new media centre in the city centre, which is already in design. This will be for the benefit of Gibraltar's very patient viewing and listening public, as well as for GBC's very hard-working and at times unfairly criticised staff.

But that is not enough to really shake up and change the present model of public broadcasting in Gibraltar, Mr Speaker.

The future funding for the corporation should not, however, be forever from the public purse if possible. Neither should GBC be funded from advertising given its privileged position as currently the only local broadcaster; although we note the emergence of one internet TV station, Your Gibraltar TV.

That is why Mr Speaker we have been in discussions with an international media group and with GBC to develop a new business model for the future.

Given Gibraltar's competitive corporation tax and our tax treatment of royalties, as well as "soft" issues such as our climate and bilingual population, the Government and the management of GBC believe that Gibraltar could be a very attractive proposition for international media companies to locate the production of music, television series and feature films within the jurisdiction.

Honourable members will know that many other jurisdictions have promoted themselves very successfully for this purpose without having a low rate of tax, beneficial treatment of royalties, the sun and a bilingual pool of labour.

The staff of GBC would greatly benefit professionally and I am sure would be very excited at the prospect of being involved in international productions alongside their continued local output.

Local viewers will no doubt also benefit if our GBC professionals are exposed on a regular basis to international productions.

For that reason, the Government has worked with GBC management to develop a proposed Joint Venture with established professionals in the media industry who would be able to attract the business needed to make the venture a success.

The process to be followed will require an amendment to the GBC Act in order to allow the Corporation the ability to form part of the Joint Venture.

The Government exposure, should the venture proceed, will be to assign to GBC land – initially at no cost, but with a commercial rent to follow later.

That property would be contributed by GBC to the Joint Venture, which will then develop a studio to international standards backed by a full order book for the first year of productions.

The aim is threefold.

Not just to give GBC staff greater opportunities in the international media exposure and development;

But also, secondly, that the revenue from the Joint Venture should become GBC's sole source of funding (thereby no longer being a draw from the Government's revenues or, equally importantly, competing in the advertising market with other media);

And thirdly that the international standard studio facilities should also be available for GBC productions where necessary.

There are draft heads of terms proposed and being finalised although some aspects of these are still subject to negotiation.

For example, amongst other things which are presently being discussed, Mr Speaker, GBC will insist in having a Golden Share or ultimate control or veto over the material produced at the studios on the grounds of public morality, public policy or public interest; and the value of the contribution of the land for the development must be valued and provided for in the balance sheet of the Joint Venture.

The CEO and the CEO Designate of GBC and I will soon be starting a process of addressing and briefing the staff of GBC of what the proposal entails and why we believe it is a potential "win / win" for all parties – in particular the professionals at GBC, the viewer and the taxpayer!

Finally, in respect of GBC, last year we heard all about the investment that the previous Administration was going to make in making GBC "digital".

In fact, when we have been elected we have found out that nothing had been done to fund or progress the change over to digital.

This change over to digital is no longer a matter of choice Mr Speaker. At an EU and international level we have been parties, via the Gibraltar Regulatory Authority, as the previous Administration was aware, to negotiations which require GBC to shut down its analogue signal by 31<sup>st</sup> December 2012.

On the 1<sup>st</sup> January 2013 these frequencies will be taken over by broadcasters from the Kingdom of Morocco.

So the position we have inherited when we have been elected is that nothing had been done to change over to digital and if we do not achieve it by the 31<sup>st</sup> December this year there will be no broadcasting from GBC.

We have had to move fast to rectify this and the Gibraltar Regulatory Authority as the network regulator has begun the unenviable task of providing a digital network in record time.

We are confident that the mechanisms are now in place to – by the skin of our teeth – manage change over by the required time.

In respect of other media Mr Speaker, where the Government is not involved in direct subsidy funding as with GBC, the position is going to be clear for this Government.

Every media organisation will be treated equally and fairly.

There will be no favourites and no subsidised funding of free party political propaganda organs by the Government.



Government advertising will be spread equally and fairly.

## **MOD**

Mr Speaker, taking my cue from the references I have just made to Rooke, I am happy to report that we are engaged with the MOD in continued discussions in respect of the lands deals already agreed with the previous Administration.

But the most important aspect of those discussions for us is not land, Mr Speaker, it is the people who make up the locally employed civilian workforce of the Ministry of Defence in Gibraltar and their security of employment.

Those are our main concerns and we will work hard to protect all posts of employment beyond 2017.

The reductions being visited on the MOD throughout its establishment are brutal.

In Gibraltar we will all no doubt have been heartened to read those parts of the Overseas Territories White Paper which sets out the UK's commitment to the defence of all Overseas Territories.

That cannot, Mr Speaker, just mean a Forward Mounting Base for operations beyond Gibraltar.

The MOD cannot, and I believe does not, believe it can mothball its operations in Forward Mounting Bases and have a caretaker employed to open up when they are needed. Nor do I think that any military man needs to be persuaded of that or of the strategic importance of Gibraltar for going forward as threats change and become less certain.

That is why we are engaged with the Unions, both GGCA and Unite, in working together in our approach to preserve as many MOD jobs as possible, something on which I am sure the whole House will be united and will want to be seen to be united.

## **INDUSTRIAL RELATIONS**

Indeed Mr Speaker, in respect of my responsibilities for Industrial Relations, I am delighted to be able to report that my Government enjoys a positive relationship with all Unions.

With Unite, of which I am a member, I have only recently returned from addressing their policy conference in Brighton where I had a chance of meeting General Secretary Len McCluskey and inviting him to Gibraltar.

The Regional Committee – what used to be the District Committee – of Unite meet regularly in my office and we have ad hoc meetings when necessary.

Dialogue is the key.

We may not always agree on everything – but we always agree to talk about everything to try to avoid disagreement if possible.

With the GGCA I maintain also an excellent and close working relationship.

The Civil Service Review in many respects engages more aspects of what the GGCA and GTA membership do than in respect of Unite which has a wide reach across employers in our economy.

For that reason the GGCA committee and I have resolved to meet regularly to deal with any issues that are being thrown up by the review and to remove any barriers to progressing the review.

The GTA meet more often with the Minister for Education than they do with me – but I as much as the Minister for Education are engaged in the “social partnership” model of industrial relations with this important representative body of teachers’ opinions and views.

Without imposing our views on anyone – in discussion and co-operation we therefore extend the collegiality of inter ministerial relations to our positive industrial relations with all these representative bodies.

And all were encouraging and supportive of our returning the workers’ day holiday to the 1<sup>st</sup> of May and the grant of the closest long weekend to the end of April to commemorate Workers’ Memorial Day; a measure of which we are justly proud.

### **Budget Measures**

Mr Speaker, I now turn to the specific Budget Measures.

### **General Rates**

Mr Speaker, in line with the Government’s manifesto commitment to encourage and reduce the cost of doing business in Gibraltar, the discount for early payment of Rates for Offices, Workshops, Construction and Manufacturing Industries, and Transport and Distribution Industries, will be increased from 5% to 10% with effect from 1<sup>st</sup> July 2012. A discount for responsible businesses who pay on time.

For new companies starting up business in Gibraltar, there will be a discount for early payment of Rates of 50% for their first year of trading. Rates halved to encourage start ups! The best incentive for entrepreneurs.

In addition to this, the Government has already announced that for bars and restaurants, the discount for the early payment of Rates will be increased by a further 20% to 40% between 1<sup>st</sup> October 2012 and 30 September 2013 and to 30% between 1<sup>st</sup> October 2013 and 30 September 2014 in order to assist in the introduction of the smoking ban. This will extend to casinos.

Mr Speaker, Salt Water Charges which currently form part of the General Rates, will be abolished with effect from 1<sup>st</sup> October 2012.

As regards Domestic Rates, Mr Speaker, the discount for early payment will be maintained at 10%. However, domestic rate-payers will also benefit from the abolition of Salt Water Charges, with effect from 1<sup>st</sup> October 2012.

As a consequence of the abolition of Salt Water Charges, there will also be a corresponding reduction in Government House Rents. This is because Salt Water Charges are currently included and collected as part of Government House Rents which are and will remain frozen.

In this respect this budget will not just deliver this advantage to government housing tenants but it will also be good for homeowners; as all homeowners with a mortgage over property in Gibraltar will be eligible for relief.

Those who pay mortgage interest over property in Gibraltar, whether they are on the Allowance Based System or on the gross income based system, all will benefit.

In order to further assist homebuyers with the purchase of their homes, with effect from 1<sup>st</sup> July 2012, Mortgage Interest Relief under the Allowance Based System will be increased by £50,000 from a maximum of £300,000 to £350,000 in respect of property in Gibraltar.

Tax-payers under the Gross Income Based will also benefit from a deduction from their assessable income of their Mortgage Interest payments, up to a maximum of £1,000.

### **Electricity and Water Charges**

As a further measure to reduce the cost of doing business in Gibraltar, electricity and water charges will not be increased. The 3% increase in electricity charges announced by the previous administration in the last budget, which was due to have been introduced sometime during last year, will also not be proceeded with.

Electricity and Water Charges will not be increased for domestic consumers either and the Annual Pensioners Utility Grant, applicable to persons aged 60 and over, will be increased from £60 per annum to £75 per annum, with effect from 2012.

### **Import Duty**

In order to stimulate the retail sector in Main Street and Gibraltar generally and in order to make Gibraltar a more attractive destination for shopping, the following Import Duties will be reduced, with immediate effect as from midnight last night:

- Portable Computers, including Laptops  
Net books, and Tablet PC's and Memory  
Cards from 6% to 0%
- Perfumes, Beauty and Make-up  
preparations from 6% to 3%
- Televisions from 6% to 0%
- Hi-Fi and other electronic or  
electrical audio or visual equipment from 6% to 0%
- Clothing and Footwear from 6% to 3%
- Watches from 6% to 3%
- Jewellery from 12% to 6%
- Mobile Phones from 12% to 6%
- DVD's and CD's from 12% to 0%

These measures are designed to keep Main Street competitive, to maintain and enhance Gibraltar's attraction as a shopping destination and to promote locals buying from local establishments instead of online retailers. We will therefore be keeping a close eye on how prices are affected by these decreases to monitor whether reductions are being passed on to customers and not pocketed by retailers.

### **Computer Software**

Further Mr Speaker, in order to continue to promote Gibraltar as a place to do high tech business, with immediate effect, import duty on Computer software is reduced from 6% to zero percent.

Moreover, in order to promote the use of Gibraltar as a jurisdiction for the creation and ownership of intellectual property, the import duty on equipment for production of sound or video recordings in the music, television or cinema industry (which may not already be covered by the reduction of rates in respect of Hi-fi and electronic goods) is also reduced to zero with immediate effect.

### **Hybrid Cars : IMPORT DUTY REDUCED AND CASHBACK**

In order to promote the use of renewable energy sources and reduce our dependence on fossil fuels in Gibraltar, the import duty on biofuels will be 0%, with immediate effect.

Further, in order to promote the acquisition of hybrid vehicles, the import duty on these when imported via licensed motor vehicle dealers in Gibraltar will go down from 8.25 to 6.25% (depending on cubic capacity) to a flat 2% across the board.

MOREOVER, upon registration of a hybrid vehicle, the purchaser will receive £500 cash back. A tax cut and cash back incentive to purchase hybrids.

I have said already Mr Speaker that the Government is looking at such vehicles for its fleet and we hope that this measure will encourage consumers to consider hybrids also; not just because of the saving on fuels, but also because of the savings on import duty and the cash back on registration.

That is not the only measure designed to promote a more environmentally friendly society.

Despite the increased use of computers offices still use very large amounts of paper.

Therefore as from midnight last night, import duty on recycled or approved environmentally friendly or eco paper (that is, paper from renewable forests) will be reduced from 12% to 0%.

Any stationery made predominantly from recycled materials will also not attract any import duties. By taking these items out of the general tariff of import duties, the reduction in the rate is of 12%

### **Import Duty on Yachts, Pleasure Craft and other Seagoing Vessels**

At present vessels with a gross tonnage of less than 80 tons are subject to import duty at 12% and there is no import duty on vessels with a gross tonnage above 80 tons.

In order to stimulate the use of Gibraltar by vessels of this "Superyacht" category, with

immediate effect these vessels will be reclassified into “Seagoing vessels of over 18 meters in length” which will not be subject to any import duty.

“Vessels under 18 meters in length” which will be subject to an import duty reduction of 50% to a reduced rate of 6 per cent.

### **Tobacco**

Mr Speaker, in order to simplify the administration in the collection of import duty on cigarettes, the current import duty of £2.48 per kilo is abolished with immediate effect. This is replaced by a corresponding increase in import duty of 45 pence per carton of 200 cigarettes. A further increase of £1.00 per carton will also be effective immediately, bringing the total duty per carton to £9.45. This represents an overall increase in import duty on cigarettes of 10p per packet.

Mr Speaker, it is no secret that raising the price of this commodity is as all members will know, sensitive; but it is the right thing to do in support of our agenda to stop smoking in enclosed public places.

### **Income Tax**

Mr Speaker, the Government is committed to reducing the level of personal tax down to no more than 15% for every taxpayer in Gibraltar on the Allowance Based System by 2015/16.

As a first step in this direction, the following reductions in income tax will apply, with effect from 1<sup>st</sup> July 2012.

For those tax-payers who have chosen to pay income tax under the Allowance-Based System, the income tax rate on the first £4,000 of taxable income will be reduced from 17% to 15%.

This measure will benefit approximately 4,500 tax payers.

Any taxpayer under the Allowance-Based System with earnings of £9,000 or less will not have to pay any income tax at all; a measure Mr Speaker that takes even more people out of the tax net than ever before. This will be done by extending the Low Income Earners Allowance.

This will affect over 500 of the lowest paid in our economy and will I know be widely welcomed by workers’ representatives.

Next year, that figure will increase again to £10,000 so that we will take even more of the lower paid out of taxation!

Mr Speaker that will affect an additional 600 based on today’s computations.

And further Mr Speaker as from this year over 2,600 taxpayers with taxable earnings between the zero income tax threshold of £9,000 and £19,500 will benefit from “taper relief” in order to smooth out their tax liability between income tax bands.

Mr Speaker since we have been elected young people who were on what was known as “the scheme” have as you will know been put on the minimum wage as part of the Future Job Strategy.

That includes disabled people who were on the scheme and some who are now in the scheme. Mr Bossano will say more about the success of the Future Job Strategy to date.

One particular aspect to refer to at this stage is that since we were elected, a disabled person who secures employment no longer has their disability allowance removed from them completely – as was the case before.

Instead the disability allowance is removed on a staggered basis **and 25%** of it remains payable indefinitely and is not withdrawn.

That is progress in the right direction for disabled people and goes beyond even what we set out in our manifesto that we would do.

And we are going to go even further still Mr Speaker.

As from this year of assessment, the Disabled Individuals’ Tax Allowance under the Allowance Based System will be EXTENDED to provide an allowance against the earned income of a disabled individual.

This additional Earned Income Allowance will be on top of all existing tax allowances on the Allowance Based System and is designed to bring any disabled individual who is in receipt of the whole or part of Disability Allowance paid by the Department of Social Security (as provided for in Section 7A of the Income Tax (Deductions and Exemptions) Rules 1992 and is in employment **entirely out of taxation.**

All disabled individuals who are in employment will therefore be substantially better off than they were before.

And both for those who are in employment and those who retain part of the Disability Allowance despite being in employment, I am delighted to be able to announce adherence to another one of our manifesto commitments, namely, to increase the Disability Allowance by the rate of inflation.

The Disability Allowance was last increased on 1<sup>st</sup> of July 2007 and stands presently at a rate of £304.50 per month. Using the April figure for the Index of Retail Prices, since that date that sum has done down in money terms by 16%.

Applying those figures Mr Speaker, the Disability Allowance will INCREASE to £353.22 as from the next payment after the 1<sup>st</sup> of August this year.

In addition, Mr Speaker, the import duty on any vehicle which is adapted for the use of a disabled person is hereby abolished.

All disabled people in Gibraltar will therefore be better off after this Budget.

A real commitment to deliver real change for our disabled people reflected already in our first Budget.

## **Other Tax Measures**

### **Façade Refurbishment Allowance : EXTENDED TO GIBS**

Mr Speaker, it is important to also stimulate the continued refurbishment of our city by property owners, many of whom presently pay tax under the Gross Income Based system.

Under the Allowance Based System, a taxpayer who has an interest in a building situated in Gibraltar may claim a deduction from his/her assessable income in respect of approved expenditure incurred on painting, decorating, repair or enhancement of the frontage. Once approved by the Town Planner, this deduction is in the full amount of the spending incurred.

In order to encourage the beautification of buildings in Gibraltar owned by taxpayers who are taxed under the Gross Income Based System and who are therefore unable to benefit from the deduction that is available under the Allowance Based System, I now introduce a deduction from their assessable income up to a maximum of £5,000 in respect of approved expenditure incurred on painting, decorating, repair or enhancement of the frontage approved by the Town Planner. This new tax benefit will be introduced for expenditure incurred with effect from 1<sup>st</sup> July 2012.

### **Medical Insurance Allowance : INCREASED**

In order to encourage the use of medical insurance which in some ways relieves pressure on the GHA, with effect from 1<sup>st</sup> July 2012, the maximum annual Tax Relief on Medical Insurance contributions, under the Allowance Based System, is increased from £1,120 to £1,500.

### **The Nursery School Allowance : INCREASED**

This will also be a good Budget for parents of children of nursery school age.

The Nursery School Allowance currently stands at £1,023. Taxpayers can claim this allowance in respect of any of their children who are at least 3 years of age and who attend private nurseries in Gibraltar. With effect from, 1<sup>st</sup> July 2012, the Nursery School Allowance will be doubled to £2,000 and will be extended for all children of pre-school age who attend private nurseries in Gibraltar.

### **Pensions to persons aged 60 and over : TAX EXEMPTED**

This Budget will also deliver to pensioners over the age of 60 with non-pension income.

An occupational pension approved by the Commissioner of Income Tax payable to a person aged 60 or over is currently taxed at 0%. The pension is nevertheless taken into account for the purpose of establishing the taxpayer's total assessable income resulting in any income earned in addition to their pension being taxed at a higher marginal rate.

All such occupational pensions will now be exempt from income tax altogether. This will mean that pensioners who have to get a job in order to supplement their pensions will benefit from a significant reduction in income tax on such earned income. This measure will be backdated to 1<sup>st</sup> July 2011.

## **Private Pension Contributions: UNCAPPED & CARRYBACK**

Under the Allowance Based System, the contributions to Approved Personal Pension Schemes and Retirement Annuity Contracts, as well as the tax relief on such contributions, is limited to the lesser of 20% of earned income or £35,000.

With effect from 1<sup>st</sup> July 2012, although the tax relief on such contributions will remain at current levels, the annual limit or 'cap' on the contributions into to such pension schemes will be removed.

Where contributions in any one year are below the maximum tax relief that can be claimed for that year, a 'one-year carry back' facility will be introduced enabling members of such pension schemes to top-up any unused tax relief for the year based on contributions made to the pension scheme during the preceding tax year, provided that no tax relief has previously been claimed in the previous year on those contributions.

## **Community Care : Invitation to Leader of Opposition**

On that front, one other issue that featured prominently during the General Election campaign, was the future of Community Care.

The GSD denied they had any intention of replacing Community Care by making payments through the Government social security system.

In his New Years Message for 2010 Mr Caruana said that Community Care represented "a financial time bomb ticking under our children and grandchildren in the future, for which they cannot have recourse to the UK."

He added that he was "not willing to bequeath this potentially lethal legacy of a massive and unaffordable backdated claim to our future generations".

He said that therefore, in the 2010 budget, he would "introduce significant reforms to protect Gibraltar from this possibility," adding that the "reform will NOT result in financial loss to our pensioners or recipients of Community Care."

In fact, in his 2010 Budget Speech Mr Caruana did not say a word about those significant reforms.

In his 2011 Budget Speech, he said only that as from this year "Community Care payments [would] become a statutory right and will be paid in conjunction with old age Pensions."

I therefore now call on the Leader of the Opposition to make public in his reply to my speech in support of this Bill in Parliament today, the Proposals he said he was going to introduce in 2010 and which he again referred to in 2011 and the reasoning behind them.

If he feels these should not be aired in this Chamber, I invite him to write to me privately and set them out as soon as possible.

If these are, as he claimed, capable of protecting all existing and future resident pensioners and giving us better protection from the claims of outsiders, we shall be glad to support them as we have always said we would.



That is our style of Government – to seek what is best for Gibraltar and not just insist that we are right.

What would be unforgivable is to have such an alternative, if it does indeed exist, and not bring it forward because the GSD lost the General Election.

We are committed to renewing the funding to Community Care to make it independent and self sufficient as it was in 1996 and is not now, but we are prepared to consider the honourable member's alternative – if there is one - before we proceed with ours.

### **Social Insurance**

Mr Speaker, back to Budget measures. No increases to Social Insurance Contributions will be made this year.

### **The Minimum Wage**

Mr Speaker, the minimum wage was first introduced by the GSLP after we were first elected into Government in 1988.

That made Gibraltar an earlier adopter of the principle of a salary floor than the United Kingdom where the concept of minimum earnings per hour was not provided for in legislation until 1998 – a whole decade later.

Mr Speaker, in our manifesto we committed to keep the minimum wage under constant review.

The statutory minimum wage was last increased on 1st January 2011 from £5.00 per hour to £5.40 per hour. This was announced as part of the 2010 Budget.

The Index of Retail Prices increased during the period 1 January 2011 to 31st July 2012 (19 months) by around 5.8%.

This means that the value of the pay packet of a worker on the minimum wage has decreased in real money terms by an equivalent percentage.

With effect from 1st August 2012 the statutory minimum wage will be increased in line with inflation, from £5.40 to £5.70.

To business, Mr Speaker, this is not a cost in real terms.

To working people on the minimum wage this will be a real increase in real terms!

And I know that this measure will be welcomed by workers representatives groups as we bring the standard of living of the lowest paid in our economy up in line with inflation.

It should not be lost on anyone, Mr Speaker, that the Future Job Strategy makes the Government itself the largest single employer of persons now on the minimum wage – since our election.

This increase will therefore also further benefit those on the Future Job Strategy.

Those who were previously on the "Scheme" run by the previous administration will therefore benefit from their second pay rise this year!

Finally, Mr Speaker, before I sit down, I want to thank the staff of the Treasury and of the Ministry for Finance, including the Commissioner of Income Tax and his staff and the Financial Secretary for their work on this Budget.

As the Hon the Leader of the Opposition will know, a few words uttered by a politician in this place as a “budget measure” require many calculations in those departments to work out cost and affordability.

I want I particular to thank Mr Dilip Dayaram and Mr Frank Carreras for their work with me and my team of Ministers on this Budget.

I should also thank all Public Servants of Gibraltar without whom the machinery of Government cannot operate.

In particular Mr Speaker, thanks to you and to the Clerk and staff of the House for the work you have done in implementing our reform agenda to date, including the monthly meetings and the quicker delivery of Hansard.

Very special thanks also to all the staff of No6 Convent Place; especially the team that works on my floor of the building and keeps me working, smiling and sure that nothing that anyone can throw at Gibraltar will ever get the better of us.

Mr Speaker, from the moment that the General Election was announced and our candidates declared the ten of us sitting on this side of the House have been a team.

We work as a team and we support each other as a team.

I do not pretend to be anything other than an equal to the other ministers on these benches even though we all have differing responsibilities.

So I want to thank my ministerial team; all of them – the novice Parliamentarians, the more experienced hands and the most experienced hand, the father of the house, for their support in the past seven months to the day since, at first light on the 9<sup>th</sup> December last year, we become the Government of Gibraltar.

In particular, I want to thank the Deputy Chief Minister for his support at No 6 where we work together in ensuring delivery of our manifesto commitments.

I should also say, Mr Speaker, that it is one year to the day since I married.

Last year, I might not have expected to rise today, on the date of our first anniversary to move the Appropriation Bill, as a father and as Chief Minister.

What a year it has been and what a pleasure it is to move this Bill.

Because, Mr Speaker, this is a Budget that balances the books by filling a £100m hole in borrowing from some Government companies and settling the outstanding recurrent expenditure of other Government companies.

It provides support for the lowest paid in our economy by taking them out of taxation and increasing the minimum wage.

It provides incentives for greener living and promotes and protects disabled people by exempting their earned income from taxation and raising the Disability Allowance.

It delivers tax advantages to a large number of taxpayers and complies with our manifesto commitment to reduce tax on the Allowance Based System, whilst going beyond our commitment to maintain the Gross Income Based System by allowing deductions against income to taxpayers on that method of assessment

Mr Speaker, this Budget delivers for business too.

It keeps the social insurance burden static – which means it is in effect reduced in real terms by the rate of inflation of since it was last raised. It delivers important import duty reductions for the retail industry and it provides for discounts on rates and eliminates the previous Administration's 3% rise in electricity costs.

Mr Speaker, this Budget provides for pensioners by the exemption of pensions from tax computations and for working families by the increase in the nursery allowance and raising the cap on mortgage interest relief.

Mr Speaker, a Socialist Liberal Budget delivering social justice for our nation.

I commend the Bill to the House.

ENDS



## Summary of Budget Measures – 2012

### **Disabled Sponsored Patients funding : INCREASED by 50%**

Rates payments made to the Sponsored Patients who are disabled increased by 50% with effect from 1 July 2012

### **Civil Service Pay : INCREASED by 2.7% - up again next year by 2.9%**

Civil Service pay rise of 2.7% in 2012/13 despite no rise in the United Kingdom and a 2.9% increase for the year 2013/14.

### **General Rates**

- The discount for the early payment of Rates for Offices, Workshops, Construction and Manufacturing Industries, and Transport and Distribution Industries **increased from 5% to 10%** with effect from 1 July 2012.
- For new companies starting up a business in Gibraltar, **a discount of 50%** for the early payment of rates for their first year of trading.
- The **discount** for the early payment for bars, restaurants and casinos **increased by a further 20% to 40% between 1 October 2012 and 30 September 2013; and to 30% between 1 October 2013 and 30 September 2014** for the purpose of assisting these in the introduction of the smoking ban.
- Salt Water Charges which currently form part of the General Rates to be **abolished** with effect from 1 October 2012.

- Domestic rate-payers will benefit from the abolition of Salt Water Charges.
- As Salt Water Charges are included and collected in Government House Rents, the abolition of the Salt Water Charges will be a **corresponding reduction in Government House Rents**.

### **Electricity and Water Charges**

- No increase in Electricity and Water Charges. GSD **3% increase abandoned**.
- The Annual Pensioners Utility Grant applicable to persons aged 60 and over, is **increased from £60 per annum to £75 per annum** with effect from 2012.

### **Import Duty**

- To stimulate the retail sector in Main Street and Gibraltar generally, the following Import Duty reductions apply with immediate effect:

• Portable Computers, including Laptops, Net books, and Tablet PC's and Memory Cards	From 6% to 0%
• Perfumes, Beauty and Make-up preparations	From 6% to 3%
• Televisions	From 6% to 0%
• Hi-Fi and other electronic or electrical audio or visual equipment	From 6% to 0%
• Clothing and Footwear	From 6% to 3%
• Watches	From 6% to 3%
• Jewellery	From 12% to 6%
• Mobile phones	From 12% to 6%
• DVD's and CD's	From 12% to 0%
• Computer software	From 6% to 0%

- To promote the use of Gibraltar as a jurisdiction for the creation and ownership of intellectual property, the import duty on equipment for the production of sound or video recordings in the music, television or cinema industry, is reduced to zero with immediate effect.

- **Import Duty - Tobacco**

In order to simplify the administration in the collection of import duty on cigarettes, the current import duty of £2.48 per kilo is abolished with immediate effect and is replaced by a corresponding increase in import duty of 45 pence per carton of 200 cigarettes.

An increase of £1.00 per carton to be effected immediately, bringing the total duty per carton to £9.45, representing an overall increase in import duty on cigarettes of 10p per packet.

- **Import Duty changes to promote Environmental Measures**

The import duty on biofuels will be 0% with immediate effect.

Import duty on the importation of hybrid vehicles via a licensed motor dealer in Gibraltar to be **reduced to 2%**.

A **£500 cash back** to the purchaser of a hybrid vehicle on registration in Gibraltar.

Import duty on recycled or approved environmentally friendly or eco paper (paper from renewable forests) is **reduced from 12% to 0%** with effect from 1 July 2012.

Import Duty on stationery made predominantly from recycled materials **reduced from 12% to 0%**.

- **Import Duty – Yachts, Pleasure Craft and Other Seagoing Vessels**

In order to stimulate the use of Gibraltar by vessels of 'Superyacht' category, these vessels will be reclassified into 'Seagoing vessels of over 18 metres in length' and **will not be subject to any import duty**. Import duty on 'Vessels under 18 metres of length' will be **reduced from 12% to 6%**.

## Changes to existing personal tax system with effect from 1 July 2012

### Allowance Based System (ABS)

- The tax rate on the first £4,000 of taxable income is **reduced from 17% to 15%**.
- **No taxpayer with assessable income of £9,000 or less will pay any income tax.** (500 taxpayers will benefit). Next year the figure will increase to £10,000 (a further 600 taxpayers will benefit). The effect of this measure is that by July 2013 a total of 1,100 of the lowest paid taxpayers will not pay any tax.
- Taxpayers with assessable income between £9,000 and £19,500 will benefit from **tapering relief** in order to smooth out their tax liability between the income bands (2000 taxpayers will benefit).
- The existing cap on **mortgage interest relief is increased by £50,000** from £300,000 to £350,000.
- Earned income received by disabled individuals who are in receipt of financial assistance from the Social Assistance Fund of the Government of Gibraltar is **exempt from tax**.
- Medical insurance allowance is **increased from £1,120 to £1,500**.
- Nursery school allowance is **increased from £1,023 to £2,000** and this allowance is now extended to all children of pre-school age.
- With effect from 1 July 2011, occupational pensions, received from an approved pension scheme, payable to taxpayers aged 60 or over who are in employment will not be taken into account for the purpose of

establishing the tax due on the earned income. **In addition all such pensions will now be tax exempt.**

- Tax relief on approved personal pension schemes and retirement annuity contracts will continue at the current limit of the lesser of 20% of earned income or £35,000. However **the cap on the amount of annual contributions that can be made to such pension schemes is removed.**
- In order to allow members of approved personal pension schemes and retirement annuity contracts to top-up unused tax relief, **a one year carry back provision is introduced for pension contributions made from 1 July 2012.**

#### **Gross Income Based System (GIBS).**

- Taxpayers who have purchased property in Gibraltar will benefit from **a deduction from their assessable income of their mortgage interest payments up to a maximum of £1,000.**
- In order to further encourage the beautification of buildings in Gibraltar, taxpayers will now benefit from **a deduction from their assessable income, up to a maximum of £5,000** in respect of approved expenditure incurred on painting, decorating, repair or enhancement of the frontage of the building.

#### **Social Insurance**

**No increases** to Social Insurance Contributions.

#### **The Minimum Wage**

The statutory minimum wage is **increased from £5.40 to £5.70** with effect from 1 August 2012.