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Minister for Economic Development, Telecommunications and the Gibraltar Savings Bank

The Hon Joe Bossano MP

Budget Speech 2016

Mr Speaker

For the Department for Economic Development, the decision taken by the UK to leave the European Union is fundamental to the Economic Plan which our Government is committed to.

I will therefore explain for the benefit of Members what is my assessment of the possible consequences of this decision, and to what extent it is going to affect us in the life of this Parliament, any assessment of the longer term consequences can only be entirely speculative at this stage.

It has been said that our participation in the EU, or the EEC, which is what we originally joined with the UK, is the basis for the success of our Economic Model. However, we all know that our rights within the EU have not always been recognised, so participating in the single market has come at a price, including having had often to argue for the rights to be recognised. We have had to comply with EU requirements, whether relevant or not, including of course the free movement of labour. Members may not be aware, that initially we were told that it would be possible to get a temporary suspension of free movement, if there was a disruption of our labour market. Many years later when Spain was a member and we were facing rising unemployment from MOD cuts we tried to access this and were then told it required unanimity and was therefore subject to a Spanish veto!

This is the key to understanding the limitation which the negotiating process will be subjected to, when the article 50 notification is triggered. The precursor to the decision on the Referendum was the concerns in the United Kingdom during the last General Election about high levels of immigration. The purpose of the renegotiation of the terms of Membership of the UK was therefore seen by much of the Electorate, as a renegotiation of the free movement of labour requirement.

It is clear that the European Union Member states were not willing to accept any dilution of this requirement, to discourage the United Kingdom from going to an exit Referendum in the prior negotiation, and it is unlikely that this position will change in the course of the post Article: 50 negotiations.

This is subject to a maximum period of two years, UK should not be, and at present is not, in any hurry to end negotiating process. There is a logic to this. The uncertainty of a lengthy negotiation will hurt both sides. But a short negotiation with UK coming out virtually empty handed is likely to hurt the UK more than the other side.

The position therefore is that the projection we make, assumes that in this financial year and the next, we shall still be full members of the European Union and have an increasingly clear notion of what our relationship with the single market is likely to be in 2018. The direct impact of any changes is likely to be relevant for the 2019/20 Budget and we are sticking with the results predicted for the growth of our Economy and the Public Finances for up to this date, spelt out in Economic Plan for Gibraltar, published in the manifesto.

In terms of our targets for the Rainy Day Fund, if the results of the public finances turn out better than projected, then any extra money should be put into these Funds, given that we are entering a period of change and uncertainty in the Global Economy with no near end date in sight.

Understanding what has been happening with globalisation, and the stagnation that has followed the crisis, sparked off in December 2007 is the key to forming a view as to what the future may hold.

I have been quoted as saying that the effect of Brexit on the Global Economy 'could be the worst thing we have experienced since the 1930's'. This I have said in a number of interviews prior to the Referendum taking place, and at question time last week, it is a view that has been increasingly expressed by a number of economists in other countries.

I will explain why Mr Speaker.

The Great Depression started with an ordinary recession in the summer of 1929 in the US, followed by the collapse of share prices in October on Wall Street. The effect was felt throughout the Western industrialised world and was the longest lasting downturn in economic activity until that time.

The Great Recession, which the Western world is still experiencing also, started in the US with the sub-prime financial crisis at the end of 2007.

Why should Brexit then be considered the most serious threat to the Global Economy since the 1930's?

The Economic Theory developed after the Great Depression was, the role of Government in pump priming by creating economic activity which would result in a revival of the economy, which would be self-feeding on the way up, just as the depression had been on the way down. Keynesian Economic theory has dominated the management of Western economies since then, except for a short period when the Chicago School of Economics, produced an alternative approach based on the control of the money supply, the Monetarist School. These economic theories plus the creation of OECD, the World Bank and the World Trade Organisation developed an approach that consisted in promoting International Trade and removing the barriers to trade as the way to maximise economic growth based of the concept of comparative advantage.

Until the onset of the present recession after 2007, the mechanisms for bringing about a revival had worked. What we have at the moment is a situation where the instruments available to Government by printing money and manipulating interest rates no longer seem to be working in producing the stimulus that was expected.

This has left the Western Industrialised Countries and in particular the EU and within that the Eurozone, in a particularly vulnerable and fragile state compared to any other point in the last 43 years. The impact therefore of removing one of the fastest growing economy in the EU from the single market, and what is probably the second largest economy is likely to be if anything more negative for the remaining 27 states, than for the United Kingdom, who is leaving. Even more alarming from the perspective of globalisation, is that it seems to signal a shift from the straight line progression of the post-war period of removing barriers to trade to a position where the fourth largest economy in the world is withdrawing from a free trade area, apparently moving in the opposite direction. It is the implications and interpretations that would be put on the UK exit that poses the risks rather than the direct effect themselves.

The GDP of the UK in real terms has barely recovered the level it had in 2007, by 2015, having in the interim suffered a double dip recession, and notwithstanding the efforts to stimulate consumption by quantitative easing, which is printing money and by keeping interest rates below 1%. The results of the last quarter in 2015 showed the economy of UK slowing down.

The whole of the EU has struggled to come out of the recession, which has been the longest period with below average levels.

In that same period, our economy has doubled in size. The lesson to learn from this is that it does not follow that because the economy of the rest of the world has been stagnating, ours has to stop growing.

However, it is self-evident that when market conditions are negative, when there is uncertainty and investors are unsure when, where and indeed whether to invest their money, then it is more difficult to attract new business to Gibraltar.

What makes Brexit so serious is not just its effect on the UK economy, or for that matter on the rest of the EU, it is that it could represent a shift away from the globalisation process which has been brought about by the removal of barriers to trade.

It could mean introducing tariffs on exports from the UK to the EU, and vice versa 43 years after they were removed. It would mean going back on the creation of a single market for the provision of services to which Gibraltar has been a party.

If the UK insists, as it seems to be doing at present, that access to the EU 27 market must not carry with it an obligation to accept the free movement of labour and the EU insists on the opposite view, namely that there can be no free movement of capital, goods or services without free movement of labour, then there seems little room for compromise.

Our position must be to press ahead with market access to the UK and ensure that whatever agreements are agreed with third parties, we have the choice of joining or not joining, as we had in 1972 in respect of the EEC.

In the meantime, what has been demonstrated is that it is possible for us, to achieve high rate of economic growth over an eight-year period when neither UK nor the EU as a whole, were growing at their traditional average rate of growth, and they were therefore performing below average.

That should be sufficient for us to be confident of our ability to make a success of any new situation.

STRUCTURE OF THE ECONOMY

Mr Speaker,

I have no wish to change the tone of this debate by making it more adversarial or polemical.

However, I have to draw the attention of Parliament to the statistical data we now have which provides incontrovertible evidence of how the economy has performed between 2011 and 2015 and how that compares with the performance between 2007 and 2011 in respect of the source of the economic growth as evidenced by the changes in the labour market.

The Members opposite have argued that the economic performance of recent years was the result of a construction boom paid for, from public funds.

I have argued that the performance of the GSD administration from 2007 to 2011, in which two Members of the Opposition were Ministers, meets that description and not what has happened since.

The evidence as to what generates growth in the economy is partly obtainable from an analysis of the Industrial Sector distribution of the Labour market, given that one of the most important determinants of the size of the GDP is earnings from employment. In turn, the most relevant source of information to calculate the value of this element is the information contained in the Employment Survey Reports, the 2015 copy of which has now been tabled by my colleague, the

Minister for Employment.

The other evidence, which of course has been there all the time is the fact that public borrowing went up from £100 million to £500 million in that period and that a £1 billion plus capital investment programme was launched, part of which was completed, part of which was started by them and continued by us since 2012.

To complete the picture and provide the evidence, we now have the snapshot of the labour market position on the three relevant dates:

- October 2007, October 2011 and October 2015.

The source of the information we have to use is table 10 in 2007, which shows all employee jobs by industry, sex and nationality and the comparable tables in 2011 and 2015. It is of course a snapshot of the picture in one month extrapolated for the year but we are comparing 3 snapshots of the same month in three different years 2007, 11& 15.

The number of private sector jobs at the start of the period, excluding the construction industry, amounted to 13,340.

In the four years to October 2011, it grew to 14,038, an increase of 698 jobs, representing a 5.2% expansion of the private sector jobs market outside the construction sector. The growth in GDP was 49% in the same period. So it is self-evident that private sector non-construction employment expansion can only have accounted for a small share of the growth.

The construction sector, however, increased by 701 jobs, more than the whole of the rest of the private sector, an increase of 31.5% and evidently the main engine of the increase.

In the last four years by comparison, the figures show the opposite.

The GDP has grown by 49.1% based on today's estimates.

The private sector, excluding the construction industry, has increased in size to provide an extra 2926 jobs. Employees in the non-construction private sector went up from 14,038 to 16,964; 20.8% higher.

The contrast with what was happening in the construction industry could not be greater. The extra jobs in the construction sector in the last four years has been 180, amounting to a 6% increase in the workforce.

The evidence is clear; the growth between 2007 and 2011 was much, much more dependent on a public sector capital programme construction boom than has been the case in the period 2011 to 2015.

EMPLOYMENT LEVELS

Whilst on the subject of the Employment Survey results, I would draw the attention of Members to the number of Gibraltarians now in employment, a new record at 11,010.

The available Gibraltarian workforce at any one point in time is estimated by combining the numbers registered as seeking employment and those in employment. This exercise also serves to indicate the reliability of the results of the employment survey, since we are comparing data from two independent sources.

The registered unemployed in October 2014 were 306 and the comparable figure for 2015 was 268, a drop of 38. The number of Gibraltarians in part-time employment in October 2015 is 38 more than the number in October of the previous year as shown in the Employment Survey Report.

The total number of Gibraltarians in employment, however, only increased by 19 because in the same period, there was a reduction in the numbers in full-time employment in MOD in excess of 19.

The close correlation of these results is, as I have said, a good indicator of the accuracy of the picture painted by the Employment Survey Report.

There has been an increase in private sector part-time jobs and a decline in MOD full-time jobs in the year between the two surveys and that alone is more than sufficient to explain the net effect.

This was of course the trend up to October 2015 but we are now living in a different world, which although it has not yet actually changed, we know there are changes on the horizon. Some of which may or may not happen, but of those that do, some are bound to have an impact on us and this requires us to develop strategies to position ourselves to take advantages of whatever new opportunities arise, once the dust settles.

To put this year's result in context, we need to consider the impact on local employment in the four-year term 2011 - 2015.

There were 10,220 Gibraltarians in employment in October 2011, and 11,010, in October 2015 an increase of 790, representing an additional 7.7% Gibraltarians in employment.

In the preceding four years, from 2007 - 2011, the numbers went down, by 321 from 10,541, to 10,220, that is 321 less Gibraltarian's in employment.

This drop took place notwithstanding the fact that the number of jobs grew over the period by 2551. Even in this area of job growth, to which a great deal of importance was attached by the GSD Government, the record for 2011 to 2015 shows a greater expansion of the labour market which went up by 3897 in this four-year period.

In fact, the growth was higher than this. It was in a three-year period, since in the first year there was a drop of 728 jobs from 22,247 in 2011 to 21,590 in 2012 made up of a reduction in the construction industry 1,426 jobs and an increase in other sectors of the economy of 698 jobs.
It is likely that we shall see something similar this year when the October 2016 Employment Survey takes place. The reduction will have nothing to do with the Brexit vote. Quite simply, it would be due to the cyclical nature of our construction industry, which provides between 2000 and 3500 jobs, depending on the volume of work; particularly if there are large construction projects.

Last Thursday, former Member of Parliament, Mr Bossino put forward a very pessimistic view of the consequences of the decision to leave the "EU", quoting me in support of his views:

'that I had said that we would be doing well, if we met my economic growth predictions included in the 2015 manifesto, but that the future predicted growth I had in mind was now out of the picture.'

Well. Mr Speaker I actually thought that what I have said on a number of occasions before the vote took place or the result known, and I repeated in answer to a supplementary from the Leader of the Opposition last week was actually quite positive for Gibraltar's prospects.

Mr Bossino also demanded that the politicians look him straight in the eye and tell him what the future holds for him.

I do not know how many people he used to look straight in the eye and tell them what the future held for them when he was a politician. Nor do I understand why he believes the politicians have the power to see the future and that they lose it when they leave politics, as he has done.

However I am, I suppose, one of the few politicians that has regularly predicted our countries potential economic future on a four year timescale. So I quite happy to look Members opposite in the eye, since Mr Bossino is not here, and repeat my prediction, or maybe since one is supposed to speak through the Chair, Mr Speaker: I need to look you in the eye when I say it.

The projected growth of our economy, calculated and published in 2015 is an increase in the GDP of £600 million by the year 2019/20, being 33.3% of the estimated level for 2015/16.

This projected growth was made without reference to whether we stayed in or left the EU after the Referendum took place.

This forecast economic growth still stands and has not been revised as a result of the decision by UK to withdraw its membership of the European Union take us out with it.

As I have said previously, we would have expected the level of growth to increase by a further £100 million if some of the potential FDI projects materialised and started generating economic activity in this term of office. This second prediction of an additional £100 million of economic growth is now less likely.

What I cannot do Mr Speaker, and have never been able to do, however hard I look you in the eye, is predict and chart the course of the Gibraltar economy after 2019/20 when the life of this Parliament ends and after we have had the next general election, but I will be able to do it when the time comes. Assuming I am adopted as a candidate by the GSLP for the 2019 General Election, as I will only be 80 years old then and expect to be around for much longer.

I myself would have thought that my message would be quite reassuring to worried parents like Mr Bossino who knows me well enough to know that I do not say these things unless I mean them.

He also quoted at the same time a much more pessimistic assessment made ahead of the vote by the former Chief Minister, the greatest ever Gibraltarian.

He was quoted as saying:

"if we leave the EU, the whole basis of our economic model is destroyed and there will be significant job losses and a fall in government revenue."

Well, I think we can make some allowance Mr Speaker, for the fact that the opinion was written as part of the remain campaign and there was probably some poetic licence in the drafting and in addition, as Members who were here before may remember, economic statistics were never ‘the forte’ of the former Chief Minister.

The economic model we have today is The Economic Model, designed by myself for the first GSLP Government in 1988, which formed the basis of the first four-year economic plan. The model has been adapted since then to accommodate changing market conditions and EU requirements.

But the model will survive our exit from the single market, whenever that happens, and by then we shall have adapted it to meet the new conditions.

What will these new conditions be? Well, formal notice of exit under Article: 50, has not yet been given and the negotiations on the conditions for limited access to the single market have not even started, let alone been completed, so one cannot and should not speculate. Not because we want to repress debate but because in the field of the economy, negative speculation without hard evidence often become self-fulfilling prophesies.

In the meantime, we cannot and are not standing still and sitting on our hands, or feeling paranoid about the future.

The conduct of our public finances going forward for which, I am not directly responsible, but in respect of which the general public can expect me to be an advocate for prudential control of expenditure, is not determined by whether we are in or out of the EU.

This is a question of good Government, of caring for the welfare of future generations of Gibraltarians, and of ensuring that we have a solvent and prosperous growing economy as the best safeguard for the future of our Nation. This is the philosophy that the GSLP has subscribed to throughout its history.

Mr Speaker, it is not a question of belt tightening, it is a question of looking after the people's money as if it where your own.

The Budget before the parliament was prepared before the Referendum took place when most of us here and in UK thought the result would be narrow, but it would be to remain in the EU.

The forecast outturn for last year is within the approved Recurrent Departmental Budget and the proposed Revenue and Expenditure Estimates are the spending plans that would have been brought to Parliament if the vote had been to stay and no one is suggesting that they need to be cut because of the vote to leave the EU.

THE PUBLIC FINANCES

Mr Speaker,

The Leader of the Opposition has spoken on many occasions on the need to contain public spending. During the General Election he talked of the need to do away with, 'the culture of entitlement'. This, as I understand it, occurs where citizens behave as if the public purse was something that belonged to someone else, called the Government, who has to pay for everything, irrespective of the individual's ability to pay it for themselves.

I have told him that I welcome his concern for sound fiscal policies and the concept of living within our means. I believe it to be good for our Nation not to have a situation where the electorate is converted into individuals entering an auction for their votes irrespective of whether what is being promised is financially, or economically sound or affordable in the long term.

Believe me, Mr Speaker, I want to believe that this philosophy is true of the new GSD because it certainly was not true of the GSD of the 15 years in Government who had vision things like, 'the hole in the ground Theatre Royal', that at first was supposed to finish up looking like, 'La Scala di Milano', but finished up looking more like, 'the Coliseum of Rome'.

But of course he needs to understand that 'grandiose capital projects' were not the only relic, weighing on the public purse we inherited from his period in Government.

The recurrent cost of the public service was hugely increased by a policy of fragmenting the service into separate small units. This removed the limited advantage for economies of scale of the unified service, limited because the scope for economies of scale is not that many in a small economy such as ours. The rationale for this policy was never explained in this Parliament, but the cost was huge.

The separate units continued to have the same conditions of work as they had before. In most cases, the change was cosmetic. They were in the same location, providing the same service with staff with the same job descriptions, but a uniform with a different label.

In order to persuade the employees to accept a change in the employment relationship; from being employees of the Crown to being employees of an Agency or Authority substantial pay increases above the parity analogue rate were offered to the Union as an inducement, which the Union naturally recommended to their members. We have given effect since 2011 to some of these commitments entered into, which we have honoured.

Breaking up into small units, the unified service has created the need for extra work to be undertaken for the internal management of the unit, which has had to be taken on, at extra cost.

There has been no noticeable change in organising the work in a different way which would indicate that there were potential efficiencies not previously available.

The only point that the GSD made in relation to the creation of these units, was that the structure was no longer, as was the historical case in Government departments fixed in any way, and therefore the Government was free to reduce manning levels by not filling vacancies. However, this did not happen in the GSD's time other than in the Housing Works Agency where part of the agreement was a voluntary early exit package.

I need to remind Members opposite and in particular the Leader of the Opposition that the commitment they claim to have, to sound policies in relation to recurrent public spending, which as I say I want to believe is true, because it is good for Gibraltar that it should be so, was seriously undermined by their policy in the Election in this area. If they had won and formed Government, they would have restored the Housing Works Agency to the manning levels it had when it was originally set up, they said.

It was set up by offering a huge increase in pay rates and an early voluntary retirement package costing millions. The justification for this increase in public expenditure was the reduction in numbers resulting from the exit package. The element that, in theory, would recover the extra cost of what had been done and eventually result lower public spending in the fullness of time, for whoever happened to be in Government then. This is still a long way off, as Members can tell from the fact that the numbers this year are down by 5 from 138 to133 and the cost is over £8 million a year.

In the last question time the Leader of the Opposition put it to me that he had for some time now spelled-out criteria on public finances which were consistent with the approach of the GSLP the Government of 1988 to 1996 and I readily acknowledge that it is true, that he has been doing that, but he needs to be consistent if he is to convince me that he means it.

If they really meant what they said in the Elections, and they were in Government now, this year's Budget in this area, would have had to be given a substantial increase approved by the Parliament to bring back the levels of employment to what it was before the exit package was instituted, making the entire exercise even more incomprehensible than it was in the first place.

I believe that in the field of the provision of public services to the community, and in particular to potential investors, for whom I have the responsibility in the Government as Minister for Inward Investments, we have to move in the direction of delivering a cost effective and efficient service.

The key to adapting to whatever changing market conditions, we have to face in the future, is the same as it was in the past.

I have never subscribed to the idea of Pillars that sustain the Gibraltar Economic Structure.

It is simpler than that.

Our country has one asset, which is its geographical location. This is what made it valuable as a British Military Base protecting the trade routes of the Empire and what made it a trading post in its long history.

It still has that advantage for some Industries. But in addition, the equivalent in today's Global Economy, where much of the commerce is no longer geographically determined, is our fiscal independence as a jurisdiction.

Gibraltar must compete to survive, Brexit or no Brexit.

Already George Osborne believes that the Referendum result is likely to put UK into recession and is now said to be planning to reduce company tax from 20% to less than 15% as well as abandoning the target of a budget surplus for 2020, we need to take note of what others are doing.

As well as being competitive in terms of the Fiscal Environment, we must be competitive in terms of customer service and speed of response. International investors do not have to come here; there are plenty of alternative locations.

We have only two resources our people and our land and the efficient use of both resources is the only way we can provide the necessary competitive environment.

We cannot grow our economy indefinitely by increasing the size of the workforce with ever greater numbers in employment. Using the existing pool of labour ever more efficiently, which means working better not necessarily working harder, is an important aspect of what we have to consider for the future development of our country's economic stability.

PUBLIC DEBT

The level of public debt is one area where the Leader of the Opposition is not following the historical and indeed current GSLP view, which is one we have defended in Government and Opposition and is not going to change; because it makes sense.

The main reason for borrowing whether you are a Government or an individual is in order to pay for a long-term asset so that the cost of the asset does not, come out of one year's income. The entire Western economic system is based on this premise, on the basis that if every citizen had to pay cash upfront for all the consumer durables they obtain, then the volume of consumer spending would be a fraction of what it is in the Western world and the Global Economy without doubt would go from the stagnation it faces if now to a recession and probably a depression.

No one questions, that this would be so, even if there are concerns about a consumer led basis for economic growth in that it may not be sustainable indefinitely.

If Governments engage in acquiring assets, then the formula is no different, this is done either by borrowing money or by supplier finance or private finance initiatives that do not form part of the national debt.

The latter mechanisms were introduced by the GSD and as I have quoted in previous budgets, it was explained in Parliament at the time by the then Chief Minister that such finance was slightly more expensive precisely because it was not public debt but secured by the assets being purchased.

The logic of acquiring assets in this way rather than with cash upfront has always been that you would pay over the life of the asset, and therefore enjoy the benefits of its use earlier.

As regards the size of the element of financing that constitutes public debt this in our case has a legal limit, the 40% of GDP. This is below what the EU used to require of member states when the economic and monetary union concept came into existence, which was and theoretically still is 60% of GDP.

Neither the UK, nor anyone else in the EU links the debt levels to revenue and we approved recently the legislation to amend this. As I explained then the technical reasons why it will not work, particularly in an economy where there is not a fixed or stable relationship between the increase in GDP and the increase Government revenue, as is the case with ours, is that very soon it becomes unsustainable.

Mr Speaker, a former candidate of the GSD who was not elected, Mr Robert Vazquez, wrote a piece in the Gibraltar Chronicle saying:

"inconsistently, Joe Bossano argued that the Government should not have its borrowings constrained, if those borrowings are used productively. Briefly he is saying that Government will increase borrowings, not reduce them."

Well, there is no inconsistency in what I said then in Parliament, because it was simply what I have always said in Parliament, in Government, and Opposition.

Irrespective of the maximum level of debt that may be established, and I remind members that on the basis of the estimated GDP of £1.768 billion for 2015/16, it would be permissible to have a net debt of £707 million which in any event can be exceeded without limit, by resolution of the Parliament, the law introduced by the GSD administration. As I said, irrespective of this level, my view has always been and still is that borrowing money should be driven by the economic logic as to what you intend to use the money for.

The GSLP in 1988 introduced what became known as the 'Golden Rule', when it was introduced much later in the UK, since subsequently abandoned, namely that borrowing should not be for meeting recurrent expenditure.

Indeed in the UK the current budget deficit running into billions of pounds every year, is covered by borrowing, and even the policy objective of the UK government to move into surplus by 2020, has now been abandoned as a result of Brexit.

So if we have to meet infrastructure costs that are going to improve the performance of our economy, it is legitimate to meet that cost by borrowing or supplier finance in order to spread the cost and bring in the economic benefit before the investments have been fully paid.

The second "Golden Rule" on borrowing is quite simple. If it results in revenue and therefore servicing the debt is financed from the returns on the investment, why should the public sector not do what the private sector does all the time? Which is to leverage its equity and increase its returns?

Therefore, I am sure that my friend Robert on further consideration will acknowledge that instead of saying that we should increase borrowing simply because we could, as he claimed, I was in fact saying the opposite, that the level of borrowing should not be driven by the fact that the law allows it to happen, but be done because it makes economic sense to do it.

SAVINGS BANK

Mr Speaker,

I provide Members opposite regularly with details of the deposits and investments of the Savings Bank Fund. This year we introduced amendments, which they supported and for which I expressed my gratitude, which clearly sets out the priorities in reinvesting the money from savers in supporting investment in our economy.

There is a balance here that has to be weighed in the choice.

Reinvesting the money in UK as we have done on a small scale may be attractive because it deploys our assets so that we are not solely dependent on the performance of our economy. However, we have no control over the performance of such assets and rely on the advice of our agent in UK, and at present no one in the UK markets sees the way ahead very clearly and it seems likely that there will be large movements in both directions, which may create opportunity for those able to take advantage of such short term movements, but that is not the sort of business we are in.

Only today, for example the media reported that Standard Life had stopped withdrawals from the £2.9 billion property fund which invests in commercial properties including shopping centres, ware houses and offices to stop a rush of withdrawals, following Brexit. The first time this has happened since 2007 financial crisis.

At some point we may however want to invest in the UK in sectors that may provide some indirect benefit to our economy over and above the returns that we get from the investment that will make.

At present the most valuable part of the role of the fund is in providing direct investment in our own economy, what the Honourable Member Mr Clinton calls the Development Bank Role, is where, in line with the new provisions, our priority lies as and when the opportunity exists.

Although the fund itself may only benefit from the return it gets on the money it provides, from the point of view of the Ministry for Economic Development there is an additional benefit in that by making possible the economic activity that might otherwise not happen, the Savings Bank is contributing to the growth of the economy and the creation of employment.

This is why, as I have previously explained the role of the Savings Bank in the National Economic Plan is there today just as it was in the 1988 to 1996 period, the last time the fund grew.

Members opposite are entitled to hold a different view and it is a matter for them should they be in Government to want to run down the role of the Savings Bank as they did in the 15 years between 1996 and 2011, that is their prerogative.

However, what they have to accept is that what I am doing as the Minister responsible for the Savings Bank is what we promised to do in our two manifestos, and the Electorate has endorsed this policy with their votes and continues to endorse it with their money.

The figures I provided last week in Parliament showed that in the last financial year deposits from the public produced a net increase of £102 million, in line with expectation of growth of £100 million a year. This is the net figure, that is the excess of deposits over withdrawals.

The figure I gave for April shows that the inflow was still at the average level of £8 million a month.

It remains to be seen if the Brexit vote has any effect on these numbers from this month on, but there is no indication that this is happening at present.

INWARD INVESTMENT

Mr Speaker,

The Honourable Member, Mr Clinton had a question about the proposed joint venture with our Chinese partners, last week.

As I indicated in my answer, although the timetable for all the necessary preparatory work had been made within the deadlines we set ourselves, the start of the projects was put on hold ahead of the Brexit vote and the viability is now being reassessed following the result.

The concept we had in the agreement was the use of Gibraltar, where the potential is very limited, as a showcase to be followed by making the model that was working for us here, exportable to other member state due to our access to the single market.

Some of the projects were long-term and are therefore no longer possible, Since results would not have come through until after 2019/20 and no one knows exactly what the relationship would be at that point in the future. Our partners are still engaged with us and are still exploring what it may be possible to do.

Our China Inward Investment Programme, strategy mirrored the initiatives taken by Mr Cameron and George Osborne in setting out the advantages of making the United Kingdom the preferred location in the European Union. Commentators in the United Kingdom have noted that China's reaction to the decision has been to describe it as a “lose- lose situation that is already emerging.” A spokesperson from China's Foreign Ministry however, has said that China continues to be willing to work in tandem with UK to preserve and develop the bilateral relationship. Other international observers consider that the expectations raised by the UK initiatives in this area may no longer be fulfilled. At this point a lot will depend on the composition and policy of the new leadership of the Conservative party and the individuals holding key roles in the new Conservative Government.

As I have made clear on a number of occasions Mr Speaker, given my cautious nature when it comes to predicting the future, I never count my chickens before they're hatched, and this is why my Ministry does not include any of these potential projects in the level of economic activity reflected in the National Economic Plan we are currently working to.

I have also pointed out previously that much of the activity in the area of Inward Investment is something that is not visible because is not my practice to make announcements each time we receive an approach from a potential investor or make contact with someone with a proposal that we believe can be attracted to Gibraltar. There is good reason for this, I do not believe it is a good idea to raise false expectations and in my experience, bearing in mind that many of the possible investment projects do not reach maturity, however much time and effort one devotes to them. I have explained this in simple terms previously by saying that if 1 out of 1000 turn out to be feasible and delivers the results we want then we would be doing well and if it is one out of a hundred, we would be doing very well. But one needs to see and hear all the 1000 prospective investors; otherwise, the one that you don't follow through might be the one that would have worked for us.

What is also true is that some investment projects were not possible simply because we have not been able to accommodate the client in terms of the space that they were looking for and we need to be looking to additional land reclamation and investment in the creation of industrial units to provide the facilities that will enable us to bring in fresh areas of activity. The diversification of the economy, such as it is, is also an important policy objective so that we do not become overly dependent on one type of activity or set of skills, having learned the lessons of the disadvantages of the one crop economy from the days of the MOD dependence and the effects of its rundown.

As I mentioned in answer to a supplementary question last week, my recent participation in the Commonwealth Telecommunication Ministers Forum in London provided very valuable contacts and increased the opportunities for cooperation with others. As a result of my participation, we shall be taking up associate membership of the Commonwealth Telecommunications Organisation, which will give us access to their technical expertise in the development of our industry.

EDEC EMPLOYMENT TRAINING PROVISION/ EU FUNDING

Mr Speaker,

Currently the number of trainees is lower than when we started the policy in February 2012 for the obvious reason that the level of unemployment has been considerably reduced since then.

I gave last year a summary of the areas in which we have been providing training and the number of persons that have benefited from.

The training programme has continued in the areas identified last year but in respect of one area, which is that of bus drivers, the program has been expanded because of the demand for supply drivers for the Bus Company and for coach drivers from the tourist industry in the private sector, to cater for an increase in the number of cruise liner calls this year.

A total of 120 individuals have been provided with the training opportunity and 82 were successful in obtaining the necessary qualifications and PSV licence and 9 continue currently in training.

We have also been providing training for lorry drivers who at the end of their training will gain a HGV licence. Of the 27 taken on, 9 are still in the training and 14 successfully completed the training and obtained their license.

In both areas, the result of a higher number put through the training programme has been the demand known to exist as a result of our difficulty in finding qualified candidates for vacancies or on the approach from employers.

The Honourable Mr Phillips told us after the General Election that he was informing those employers who had been in contact with him that they should approach the department to discuss their requirements for apprentices. Regrettably no-one has done so, to date.

The Department has been in contact with the Chamber of Commerce and held meetings with the GFSB to get them to contact members who were keen to take on trainees and apprentices without any success so far.

We have therefore recently taken up jointly with the employment service. A review of the approved contractor lists, of which I gave a copy to the Leader of the Opposition last week.

The purpose of the exercise is to ensure that those on the list are aware that the condition for being on the list, introduced by the GSD in 2010 and continue by us, is to give priority to local workers from the unemployment list, seeking employment.

The Ministry for Economic Development is responsible for monitoring the approved contractor list and for assisting in providing training if there is a need to upgrade skills to meet the requirements of a contract, so that the contractors can comply with their obligations. Although this was initiated prior to the result of the Brexit referendum the fact that we expect to be outside the European Union in two years' time makes this exercise now acquire greater importance, in ensuring that employment in the private sector for Gibraltarians and other resident workers is prioritised.

As regards the problem of identifying areas of training which are employer-based, employers can make direct contact with my department if they feel we can assist them with their training requirements and I take this opportunity to issue an open invitation to all employers that are registered with the employment service and carrying out economic activities that they should approach the Department and make us aware of their requirements.

We already do a lot of this on our own initiative in respect of every vacancy that is notified to the Employment Service and passed to us, we make contact with the businesses concerned to see how our training programs can help satisfy their employment needs.

The Department is also responsible for managing the EU funding from the ESF and ERDF programs and continues to ensure that the funds that have been allocated to us are made available to promote employment and economic activity, for as long as we can continue to access them. This will not be the case in the future, once we have ceased to be members of the European Union.

CONCLUSION

Mr Speaker, as regards my Department's budget, last year Parliament approved a sum of £70,442,000 which was £409,021 less than the actual expenditure for financial year 2014/15.

The forecast for the year just ended has come in at £16,840,000, though there may be some minor changes as there are always adjustments inputted after the close of the year.

For this year, my Department expects it will need to spend £17,018,000 which, although it is

£178,000 more than we spent in in 2015/16, it is nonetheless below the amount requested, that Parliamentary approved in last year's budget, by £602,000.
The numbers employed in the Department have increased by two. One is a security guard already in the service that was previously deployed in another department, and the other is the additional AO in the European Union Programs section where the Head of the Unit felt the cost of the EO post which became vacant could be better used to fund two AO posts, thereby having an extra body.

This section is responsible for the allocation of EU financial support from the European Social Fund (ESF) and the European Regional Development Fund (ERDF).

We shall in the course of this year be making use of these funds but as a result of leaving the European Union these funds will no longer be available to us in future.

The funding for training will not be affected as the Departments own budget, approved by this Parliament from the Consolidated Fund, will be deployed to provide whatever training for employment requires funding under the existing structure and going forward to meet future needs.