



HM Government of Gibraltar

Ministry of Economic Development,
Telecommunications and the
Gibraltar Savings Bank

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Budget 2018 – The Hon Joseph Bossano

Introduction

Mr Speaker

This is our last budget as Members of the European Union, by the end of this Financial Year Gibraltar will no longer be part of the territory of the EU, and the external border of the EU will be the International Frontier between our country and the Kingdom of Spain.

I was first elected to this House, as you were Mr Speaker, in 1972.

We were both here when we voted to join EEC in the Bill that came to the House of Assembly.

I am sure we must hold some kind of record in having been part of the Parliament that joined the EEC and part of the Parliament that is leaving EU, as it is now.

Optimists say there is always a silver lining in every cloud, however black. I guess one silver lining of being outside the external frontier of the EU is that Spain can no longer claim that it is a mere fence, “la verja” as they like to call it, which we have always called a frontier. So after Brexit the EU ends at this frontier and what is on our side is not EU and by definition not Spain.

At present that’s about it, in silver linings, we shall see in 9 months’ time what else there is.

So we are back where we were in 1973 geographically and politically but now in a world that in the intervening 45 years has changed beyond imagination and in the area of economics, driven by technology, changed more than in anything else, and this is the challenge we face.

Efficiency Measures

Mr Speaker as Leader of the Opposition Mr Feetham frequently praised my commitment to prudential control of spending and to living within our means, values which he claims are now shared by the GSD which he led.

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This has always been my hallmark in this House and the core value of the GSLP. It is based on the political philosophy that our most important duty is to ensure that we can defeat any attempt by Spain to take us over. In order to do that we have to be solvent and we need to have a Rainy Day Fund to be able to cope with emergencies when our economy needs readjustment.

He has said that there has never been a greater need for a Rainy Day Fund than in these uncertain times and I agree. So does incidentally the Head of the IMF who recently recommended to the EU that they should create a Rainy Day Fund.

Regrettably in Government they rubbished the idea of a Rainy Day Fund and proceeded to transfer all the ring fenced funds to the Consolidated Fund and spent the money. What they could not transfer, but at one time threatened to, they simply deliberately run down between 1997 and 2010 which was the reserves of the charity, Community Care. If they had done otherwise and added to what we left our level of exposure to the Brexit dangers might not be so great but they left nothing and we have had to restart from zero in 2011.

Mr Clinton also, has often expressed approval of my commitment to keeping spending under control yet almost all the things they criticise are many of the things we did before 1996 in order to strengthen our economy. They also, by the way, criticise us for continuing to do things introduced by then between 1996 and 2011.

I propose therefore Mr Speaker to do two things in my statement, evaluate where we are in our last year of membership of the EU and address a number of issues raised last year by the Opposition to put the record straight. I will only evaluate the economic position for this year because I cannot evaluate where we are going to be next year after March, except that we will not be members of the EU any longer and we have no idea what relationship if any the UK will then have with the EU and if there is one, whether it will be open to us to be a part of it given article 24 and Spain's veto, or indeed whether we would want to be part of it.

No serious economist would venture to forecast the direction in which our economy will or should develop in 2019/20 or later years.

The prudential thing to do in such circumstances always is, prepare for the worst and aim for the best.

We can and should look at this as a point of transition, of our economy similar to the move from our dependence on the MoD expenditure in the 1980s.

One thing is clear that the size and the costs of the public sector as it is structured at present is not sustainable even without Brexit.

There is a simple metric that we all need to understand and we in this House are part of the public sector so I include myself in what I have to say.

Prior to 2011 the public sector was growing in number and costs.



It has continued to do so since 2011 and the Opposition has constantly criticised the growth, though in fact it is it has been little different from what was happening when they were in office. Indeed in the period 2011/15 much of the increase which took place was a result of honouring the commitments and finishing the projects started by them.

Things however will have to change. Controlling Officers have a duty to keep their departments within budget. Ensuring that this is done is not my responsibility but since I am responsible for Public Sector Efficiency, my job is to ensure that we work better, i.e. more efficiently, in order to improve value for money and deliver improved services at the same or lower costs. Not keeping to budgets is in conflict with the policy of the Government to ensure greater efficiency.

I know that within the public sector there are many who understand the need to move in this direction but there are also those that do not. In order to understand why this is a problem that needs to be addressed there are only two figures we need to know, on average the public sector earnings are 25% higher than the UK equivalents and 50% higher than the average earnings in the private sector.

Each year these gaps get bigger. The gap between the lowest paid and the highest in the public sector and the average earnings gap between the public and the private sector.

This is impossible to sustain economically and difficult to justify socially. The Chief Minister has explained the steps we are taking this year to address this issue.

In order to understand the problem we need to realize that in spite of the growth in the level of private sector employment prior to 2011 and since, the earnings gap has increased every year. This means that the growth needed in the private sector to provide Government revenue to meet the increasing cost of the public sector gets bigger every year. It is for this reason that it is unsustainable in economic terms.

With the uncertainty we face as from next year it is an issue that can no longer be ignored. We have a duty to try and put things right and rebalance the relationship between the public and private sectors of the economy.

It is a matter for regret that Mr Feetham who claims to be committed to a policy of living within our means, last year accused us of creating austerity measures across the public sector under the guise of public sector efficiency.

It seems I need to add to the list of things he doesn't understand what the public sector efficiency strategy, that I have responsibilities for, is.

We are seeking to increase the level of efficiency in the public sector by looking at working methods and the introduction of E-government that increases output without increasing manpower.

The Opposition accused us last year of overspending and austerity both at the same time.

Well the public efficiency measures will ensure that we are able to maintain our public sector and avoid austerity because austerity is not a matter of choice. Austerity happens the day when you do



not have the money to do the things you want or need to do. It is to avoid finding ourselves in that situation that we have to examine how we deliver services and improve what we do. The objective of the Ministry for Economic Development is to improve efficiency so that that day never arrives.

There are things that we do in the public sector which have not changed since you and I first joined this House, Mr Speaker.

In the budget of 1988 the first question the Government answered was from you as Leader of the Opposition and the answer was given by the Financial and Development Secretary as was the norm in those days.

The exchanges went as follows:

"No.1 of 1988

THE HON A J CANEPA

What was the total sum frozen by the Government when considering the Draft Estimates for 1988/89, as announced on the 30th March, (a) in respect of "Departmental Bids" over and above the "Treasury Allocation" for recurrent expenditure, and (b) in respect of items termed as "Special Expenditure"?

ANSWER

Mr Speaker, the Government was unable in the time available between its election to office and the latest date for circulation of the Estimates to the House, to give full consideration to the details of departmental Estimates. It was therefore decided to accept, for the purposes of the Appropriation Bill, with some exceptions, related primarily to the policies of the new Government, the Treasury's estimates of departmental requirements in accordance with the formula adopted in recent years. Departmental Ministers will however give further consideration to departmental bids for additions to these Estimates, and a Supplementary Appropriation will be sought in due course in the light of this.

2. It would not be normal practice for the Government to reveal departmental bids for increases in public expenditure when these are not approved by Ministers. However, in the exceptional circumstances of this year's Appropriation Bill when the bids were prepared during the previous government's tenure of office it is prepared exceptionally to do so.

3. The figures are; for recurrent expenditure, £3.1 million, including £872K in respect of the Gibraltar Health Authority; and special expenditure of ½ million, including £96K in respect of the Gibraltar Health Authority.

4. To have approved these bids in full in the light of the Treasury's Revenue Estimates would have implied a deficit of £5.4 million for this year. The government is not prepared to contemplate a deficit of this magnitude and will seek to contain public spending within reasonable limits. This will be made clear during the course of the Appropriation Bill when the Government's policy on public spending is spelt out."



Well this is an example of something that happens every year when hundreds of man hours are spent by departments on producing a list of things they would like to spend money on. The wish list as they call it. Members of the Opposition who have been in Government will know what I am talking about. This is done without reference to what is likely to be affordable given the previous year's revenue which is known to everyone. Then many more man-hours are spent discussing these requests and removing many of them.

It is how things have always been done, and this is often the only explanation as to why things are still being done in many areas.

We need to look at the detail of workflow to see if things can be done differently it is about working smarter not working harder. People can work very hard and produce very little value, through no fault of their own.

I recently participated in the biennial Forum for Commonwealth Ministers of Telecommunications and ICT in London.

The Commonwealth Countries represented by the Ministers for Telecommunications ranged in size from India with 1.2 billion citizens to Tuvalu with 11,000.

In all cases Governments were grappling with the issue of the transformational changes of the use of technology in the public sector and the implications of Artificial Intelligence and the Internet of Things for the delivery of services. Changes seen by most as dramatic as those brought about by the Industrial Revolution.

We in Gibraltar over the years have spent vast sums of money bringing in experts in order to provide electronic delivery of services instead of manual systems but to date we seem to have precious little to show for such investment.

I came away from the conference with the feeling that we run the risk of being left behind and that is the last thing we want to be doing at this point in our history.

In addition to working methods the efficiency drive looks at how to procure supplies and other areas for possible savings.

In the last two years we have concentrated on the GHA simply because it had the biggest budget, working together with the Minister for Health and the senior management team.

The results can now be seen reflected in this year's GHA budget which is close to what it was two years ago. Mr Feetham last year and in earlier years expressed the concerns of the Opposition on the growth in the size of the GHA budget since 2012.

To put the situation in context let me remind Honourable Members opposite of the historic rate of increase of the GHA budgets.



In 1988 we inherited a budget of £8 million from the AACR administration. The GSLP Government increased the budget to £20 million by 1996 2 ½ times the original figure. Under the GSD Government the GHA budget grew from £20 million to £80 million by 2012, four times the original figure.

Since 2012 it has grown further from £80 million to £120 million a 50% increase.

Let me make clear that by making this comparison I am not for one moment suggesting there are any grounds for complacency.

There is a long road ahead before we get to where we should be across the public sector as a whole but what has been done so far in the GHA shows it is possible to exercise better control of spending.

Appropriation Bill.

Last year the Honourable Mr Feetham went into an analysis to justify his extraordinary decision as Leader of the Opposition to vote against the Appropriation Bill which provided the estimates of expenditure for 2017/18.

This decision is being repeated this year. This is something that no Opposition had ever done before in Gibraltar's history so one would think it would take something unique to make it happen in 2017, to explain how this policy shift on the part of the GSD had come about, because it was only the 4 GSD members present who voted against.

Mr Feetham was so sure of what he was doing that he told us that history would judge his decision and that their speeches were going to be there as a matter of public record.

Shortly after this he resigned as Leader of the GSD and the Opposition and appointed the Honourable Mr Clinton acting in both capacities pending an election within the GSD.

He then supported a non-elected member of this House Mr Azzopardi as candidate, who had previously left the GSD because he had joined it, in the process going against his own choice of candidate, the Honourable Mr Clinton.

I am not sure if the Honourable Member feels that history has already judged what he did and punished him enough for his mistake or there is still a final judgement to come in the future, based on the public record of the speeches he made in support of a policy of voting against the annual expenditure which of course is to pay for the civil service and all the other expenses that enables the Government to provide services for our country.

However given that the Honourable Mr Phillips has endorsed the position of voting against the Appropriation Bill and for the sake of the public record that Mr Feetham expects history to judge the episode by in future, I feel I have to show that his arguments last year were utter and complete nonsense.



Mr Clinton when he spoke after him said that he echoed the sentiments expressed by his learned friend, Mr Feetham, implying that he was not the instigator of the policy but was following the lead of his Party and Opposition Leader. However he went further and stated that he could not support last year's estimate of expenditure or indeed any other Appropriation Bill presented by us which in his judgement did not have the necessary facts and figures to arrive at an informed decision.

Incidentally the facts and figures for last year were also the same as the ones provided between 2012 and 2016 when he voted in favour of the Appropriation Bill.

They are also the same as the GSD's Appropriation Bills between 1996 and 2011. The same as the GSLP's between 1988 and 1996, and the same as the AACR's between 1972 and 1987.

So what was so special about last year? Neither Mr Feetham nor Mr Clinton sought to explain what was different about last year's Appropriation Bill to make them vote against.

I will in due course and for the record show that their analysis was wrong in a number of areas mentioned, especially that of Mr Feetham.

But at this stage let me point out something that should have been blindingly obvious to the two Members.

What Mr Clinton implied last year was that he believed the information contained in the book for recurrent expenditure was but the tip of the iceberg of Government spending and that the bulk of recurrent spending was not contained in the Appropriation Bill. This information was what they required should be shown and that unless they were shown the rest of the iceberg they would not vote for the tip.

Well even if they had been correct in their assumptions, which they were not, there is no logic in their argument. The Appropriation Bill is the approval by this Parliament for the withdrawal of money from the Consolidated Fund. The vote is to provide this approval without which no one can get paid including the Honourable Members themselves who voted against, since Opposition salaries come from Head 5, subhead 3 (a).

So they do not vote for what they are being asked to vote, for which full details are being provided, as they have been, in the same form, in every previous Appropriation Bill since I joined this House in 1972, because rightly or wrongly they believe there is a far bigger level of expenditure, the iceberg, that was going to be spent in the last 12 months by the Government without them being asked to vote for it and without them being given an explanation for it.

Even if this had been correct which it wasn't and isn't, one has nothing to do with the other and I will show why Mr Speaker.

It is the withdrawal of money from the Consolidated Fund that the House has to approve.

That is what this Parliament, the House of Assembly before and the Legislative Council before that, has ever had to approve.



Mr Clinton's concept of channelling Government company revenues and expenditure through the Consolidated Fund, which would then require a vote for the money to be spent by the company is something that makes no sense whatsoever. It has never been put forward as a GSD policy objective in any election and is contrary to the way every previous Government has dealt with the running of State Owned Companies in the 15 years of the GSD administration, the 8 years of the GSLP before that and the AACR before 1988.

What is the rationale for this radical change in the public accounts of Gibraltar? What is it that Mr Clinton believes is happening to come to the conclusion that the level of annual recurrent revenue and expenditure in the annual estimates is the tip of the iceberg? Or rather was the tip of the iceberg in respect of the expenditure about to be incurred in 17/18.

The tip of an iceberg Mr Speaker is known to be just 10% of the mass of the whole.

So he was telling us that he was refusing to vote to withdraw £490 million from the Consolidated Fund over the financial year to pay for recurrent Government costs because the Government intended to spend an additional £4.41 billion, the submerged 90% of the iceberg, on recurrent spending in 17/18.

Perhaps we can all agree that he must have been exaggerating a little bit when he made this comparison.

Certainly he was exaggerating the alleged hidden recurrent spending when compared to the estimate made by Mr Feetham who argued, "this estimate of revenue and expenditure is only half the picture of what the Government has directly or indirectly spent."

Well, actually we were supposed to be voting on what we were planning to spend and not on the forecast outturn of the previous year which is the only possible interpretation of his use of the past tense. So he seemed to be saying that in the year 16/17 the forecast outturn of £475 million was only half of the recurrent expenditure we had incurred in that year, which according to him would have amounted to an additional £475 million not shown in the estimates book and not funded from the Consolidated Fund.

So Mr Feetham's, allegation, at this stage in his argument, for not voting was that in 16/17 we had spent an amount equal to the funding of the whole recurrent expenditure of the Government, an additional £475m spent through the companies that year which was not shown in the estimates.

This of course is utter and complete nonsense and pure invention on his part and incidentally does not fit in with any of his other arguments last year to explain his decision to vote against the Appropriation Bill.

His explanation went as follows "the very simple reason for that, (meaning that the expenditure in the book showed only half of what had been spent in 16/17), is that the Government has borrowed some £772 million – let me repeat that £772 million – that we know of, through Government owned or, controlled companies which it has used and continues to use to fund its expenditure and none of that is reflected in this book we are debating today".



Well whatever it is that the Honourable Member thought he was debating in the course of the Appropriation Bill, it clearly was not the Appropriation Bill.

Moreover he was obviously not talking about the estimates for 17/18, he was only arguing about the estimates of 16/17 that he had voted in favour of the previous years because he then connected the argument to the forecast outturn surplus of £75.8 million for 2016/17.

This, which he said the Chief Minister was saying poker-faced, was the result of the £772 million, we were told.

I would remind members that we are talking about recurrent revenue and recurrent expenditure and that the £75.8 million for 2016/17 was the excess of recurrent revenue over recurrent expenditure.

Mr Feetham was talking about borrowing as if the borrowing was annually recurrent revenue used to meet annually recurrent expenditure in order to create a surplus.

If anyone in this house has ever demonstrated he didn't have a clue what he was talking about, no one has done it as clearly and explicitly or as well as Mr Feetham did last year and here is the evidence, Mr Speaker.

He then added "but of course if the debt in the Government owned company to the tune of £772 million – that pot of money – is being used to pay for expenditure that is properly Government expenditure and that expenditure is not reflected in this accounts it is not possible to say that the Government is running the public finances of Gibraltar at a surplus of revenue over expenditure."

Mr Speaker, this analysis of the recurrent expenditure of the Government and a surplus of recurrent revenue is so ridiculously wrong that it beggars believe how anyone who has been in Government can make such a statement.

So the Opposition was not able last year to judge whether we had made a surplus of £75.8 million or not, during the preceding year 2016/17 because they believed Government companies had borrowed £772 million and used some of it for spending that should have been included on the expenditure side of the forecast outturn for 16/17.

Amazing.

Let me explain to the Honourable Member how the book shows the difference he cannot explain by looking at the book, and then he does not have to invent outlandish explanations.

The 2016/17 Appropriation Bill, which he voted for, estimated revenue of £590.8 million, expenditure of £517.5 million and a surplus of £20.3 million.

The forecast outturn for the surplus which he was quoting was £75.8 million that is £55.5 million more than anticipated at the time the Appropriation Bill was approved in 2016.



He told us last year he could not tell if this was true because there was £772 million borrowed by companies which had taken on expenditure that should have been in the book.

So if removing recurrent expenditure from the approved estimate was not the reason for the increased surplus, what was it?

Well the answer was under his nose in the book.

Expenditure was actually higher than budgeted at £578 million instead of £570.5 million but the revenue came higher by a much bigger margin at £653.8 million instead of £590.8 million.

So increased revenue of £63 million less increased expenditure of £7.5 million increased by £55.5 million the estimated surplus in the 16/17 Appropriation Bill of £20.3 million to the forecast levels of £75.8 million, a difference of £55.5 million.

Simple.

It's all in the book.

In fact not only is it all in the book, the Honourable Mr Clinton knew it was all in the book and actually said so himself when he referred to the reasons for the surplus of £75.8 million. I quote "the Government surplus, larger than expected, is entirely due to revenue being £63 million greater than expected."

Entirely due to this.

Not due to the so-called £772 million of eye watering debt, nor the result of duty on property sales in any preceding years, nor the investments made by the Savings Bank in order to be able to pay the attractive rates of interest that it does to its depositors.

Mr Speaker the analysis by the Honourable Mr Feetham last year was about the 2016/17 forecast surplus, but what did he actually say in 2016 when he voted in favour of the Appropriation Bill?

The tone of his address then was so different that it is difficult to believe we are talking about the same person.

He told us that we faced potentially the single largest threat to our economic model since the closure of the frontier and in his view, in the history of democratic government in Gibraltar.

As a result he said it was important that the debate took place within a framework of sober analysis, prudence and realism. He then said that in spite of his criticisms over four years, of Government spending it was his duty to steer a careful line between honest assessment and the need to maintain confidence and work with the Government to steer Gibraltar into calmer waters.

He then added "to do otherwise would constitute a dereliction of duty and it is not what I am in politics for. It is therefore a difficult speech that I deliver today balancing as I must, objective



observation of the state of our public finances – which is my principal duty after all, to this House – against a very difficult backdrop indeed.”

I ask myself Mr Speaker what on earth possessed him a year later to make him abandon that balance of the need not to undermine confidence in Gibraltar and for the first time ever in our history vote against the appropriation of funds from the Consolidated Fund to enable Government to continue functioning after July 2017.

I have no answer.

The arguments he used in 2017 were flawed then and flawed when he had used the same arguments in previous budgets. There was nothing new in the budget of 2017 and nothing had happened lessening the Brexit threat since 2016. Indeed if anything it had got worse with the article 24 veto granted to Spain and the failure of the EU to respond to any of the compromises and ideas suggested by UK. We are now much closer to the cliff edge departure than we were in 2016, since to date the position has not improved.

Pension Payment.

So what was the reduction of expenditure of 16/17 from the £772m which the Honourable Member had in mind?

He told us last year,

“Today the Government comes to this house and says it has made a surplus of £75.7 million. It is complete nonsense when it is not accounting for expenses in Government owned companies. A simple example – and by no means the only one – Mr Speaker, is that through the Government owned companies the Government is paying the commuted pensions of civil servants. That is traditional Government expenditure and the expenditure no longer appears in this book, it is paid through Government owned or controlled companies.”

I interjected from a sedentary position, though I know it’s not really allowed, “which is a jolly good idea.”

Mr Feetham responded “I hear the Father of the House saying it’s a jolly good idea. Well Mr Speaker that may or may not be so.”

This requires quite a lot of explaining to put the record straight and demonstrate how confused the Honourable Member was and probably still is.

I was not saying it was a jolly good idea, Mr Speaker. I would not say that, since the idea was mine. But I can tell the House that I have been told by some highly qualified people that it was a brilliant idea. Be that as it may, I was simply quoting what someone else had said the previous year in the budget.

This person in the previous year’s budget, in 2016 said:



“The commuted pensions of civil servants have traditionally been an expense of the Government and now it is an expense of Credit Finance Company Limited. The effect – it does not take a rocket scientist to work this out – is that of course the Government does not have to pay that money directly itself for the commuted pensions of civil servants... Which is a jolly good idea, Mr Speaker I am not criticising it.

Do you remember Mr Speaker, who said: “it’s a jolly good idea, I am not criticizing it”?

Wait for it.

It was the Honourable Mr Feetham, who clearly had forgotten what he had said a year later, in 2017.

Thankfully my own memory is still serving me slightly better than that and I can remember the things I have said a year ago and indeed many years more.

It is obvious that the Honourable Member is not a rocket scientist and a jolly good thing too otherwise you would have lots of rockets exploding.

He was not criticising me in 2016 he just wanted it explained.

OK.

I have done this before but I will explain it again and let’s hope this time he remembers.

Mr Speaker, when the GSD government decided to allow private sector employees to commute 100% of their pensions on retirement, I asked for the same to be done for Civil Service Pensioners. The then Chief Minister, the Greatest Gibraltarian of our time, did not reject the idea in principle but said it could not be financed.

Well I had thought of a way of financing it and we committed ourselves to doing it in the 2011 general election.

It is what I call a “Reverse Annuity.”

In defined benefit schemes, what you do is accumulate a sum of money which matures when you retire. This sum is available to buy an annuity, which incidentally the GSD Government at one stage announced they would be providing using the Gibraltar Savings Bank, which I never criticised them for, but which they never put into practice.

The annuity is the income paid to a pensioner purchased by the lump sum received from the pension fund.

What we provide is the opposite but with a similar mechanism.

The civil servant retires and gets paid by the Government the pension monthly and can use this income to buy a lump sum, the commutation, by entering into an agreement with Credit Finance.



This was initially done for civil servants only and in 2012 the then Honourable Leader of the Opposition, approached me to ask whether it was going to be extended to Members of this House as he was interested in the facility. I told him I was planning to find a way of extending it as the only persons who otherwise would not enjoy the opportunity of 100% commutation would be Members of the House, now that both public and private sector employees were able to do it.

Although originally he had some reservations when I explained the mechanism in this House he saw the logic of how the system worked.

So let's be clear Credit Finance does not pay and has never paid Government pensions.

Government pensions continue to be a direct charge on the Consolidated Fund as provided by law and does not require members to vote the funds in the Appropriation Bill.

So nothing has been removed from the voting of the Appropriation Bill and therefore it is nonsense to say. "I am not voting because there is less in the recurrent expenditure which is the pensions no longer paid by the Government but now paid by Credit Finance in order to reduce this size of the expenditure of the Government." This is not the case now and has never been the case any time since 2011.

The cost to the Government of paying Civil Service Pensions has grown, but is not included in the amount we are voting this year or the amount we have voted in any year since 1973 when you and I, Mr Speaker voted in our first budget.

The cost of pension payments from the Consolidated Fund was put by the GSD Government at £19.6 million in 2010/11, it was estimated to grow to £20 million by their last budget for 2011/12 and the outturn was £21.5 million an increase of £1.9m over the preceding year.

It was estimated to cost £36.5 million last year when the Honourable Member voted against the Appropriation Bill and the outturn is now put at £37 million. The estimate for the coming year is £40 million.

So Mr Speaker from the last budget of the GSD in 2011/12 to the budget for the current year 2018/19 the cost to the Government, which Mr Feetham said was no longer being paid by the Government, has grown 100% and is now put at £40m a year instead of £20 million a year. This 100% increase over the last seven years compared with a slower increase in the last seven years of the GSD administration when the estimate in 2004/05 for the Consolidated Fund Pension payment was £11.5 million and grew to £20 million in 2011/12 an increase of 74%.

The cost to Government of paying pensions has in fact grown faster than the departmental expenditure that is voted on and included in the Appropriation Bill, which has increased from an estimate of £316.6 million in their last budget in 2011/12 to £512.3 million for 2018/19, an increase of 61.8%.

Indeed I predict that the cost of pensions will continue to grow at a faster rate than the recurrent operating costs of the Government since this is something we have to control and to some extent



are already doing. That is we are taking steps to contain the latter, but can do nothing about the former.

Non-Government Debt.

Whilst on the question of Credit Finance and the payment of pensions, I will deal also with the argument on the size of the non-government debt, the eye watering non-governing debt, Mr Speaker.

Let me just first remind Members opposite that I do not need any lessons from them on a sound and prudential approach to debt or public spending. I would refer members to the first budget of the GSLP in 1988 to which I referred earlier in the context of question No1 of 1988 from yourself, Mr Speaker.

In 1987, by the way, the main budget speech had been delivered by the Financial & Development Secretary as had been the case in every budget since I was elected in 1972. The constitution of 1969 made it mandatory that he should move the Appropriation Bill which now is done by the Minister for Finance.

This change brought in by the 2006 constitution was claimed by the GSD in the 2007 budget to be evidence that we were now decolonised.

If that were the case then we were “de facto” decolonised in 1988 because this is how the Financial and Development secretary made a much shorter speech in the first GSLP budget, a one-minute statement starting with the words

“I propose to make a very short introductory statement”

and ended with the words “the only thing I need to say Mr Speaker is that having spent most of my period as Financial Secretary restraining public expenditure with varying success, of course it is not only an honour for me to move an Appropriation Bill which comes as closely to Treasury purity as is feasible for me to imagine, but that I have great pleasure as well in commending the Bill to the House. Having made that point Mr Speaker ‘El Giri’ will now give way to ‘El Jefe.’” As already mentioned by the Chief Minister.

The Honourable Brian Traynor with whom I had crossed swords from the Opposition benches on many occasions, had a sense of humour and we became good friends.

In my 1988 contribution I made clear that we would tackle the deficits but not borrow to cover them. I said

“We do not believe in borrowing for recurrent expenditure and therefore it will be our intention to use the powers in the Loans Empowering Ordinance which is the pipeline for investments and not to finance recurrent expenditure”.

A policy which I am glad to say was also followed by the GSD Government after 1996.



However it is also worth pointing out that the state owned companies in existence were never included in the government estimates then, during the GSLP Government or subsequent years of GSD Government.

Incidentally, as has been previously stated, it was the GSD Government who introduced borrowing by companies as an alternative to Government debt. This was initially done for the purchase and conversion of the Europort Building.

In reply to my question the then Chief Minister said that although there was a slightly higher rate of interest it was not sovereign debt but debt secured on the value of the assets.

The same concept was then used for the construction of car parks which was removed from the I & D Fund and where the revenue from the car parks was expected to service the loan but in the end it was found not to be sufficient.

The GSD in 2011 when the Honourable Minister Feetham was in Government had entered into an arrangement to raise a company Loan for the proposed Upper Rock Generating Station.

There was to be a road-show in the States to raise the money and a commitment of a 5% increase in electricity charges to create profits from the sale of electricity to service the loans.

GDP Growth.

What about the performance of our economy?

The Honourable Mr Feetham last year said I was right to be cautious about the size of the future GDP.

In 2007 when the Honourable Member joined the GSD Government I predicted that the GDP for 2008 would be £800m.

The view of the GSD Government then expressed by the Greatest Gibraltarian of our time, was not very flattering. Rather than reply to my analysis of the state of the economy in that Budget, the reaction was to tell me that, my questioning of the figures did nothing for my credibility and even less for my waning reputation as a supposed economist.

Well we all know that in politics you cannot please everyone.

I was then predicting an £800m result for the 2008 GDP which 3 years later the GSD published at £806m. So I underestimated the figure.

I also predicted the 2012 result at £1.2b, and the final figure came in at £1.201, so I underestimated this also, by £1m this time.



Based on the £1.2b I predicted a result for 15/16 of £1.8 b. This year we have the final figure for 15/16 and it is £1.794b, £6m below my estimate.

The projection for 2019/20 was £2.4b, a £600m increase in output. The projected estimate for 2017/18 is estimated at £2.18 b. A £386m increase in output in two years. This figure can go down as more actual results are imputed and estimates replaced, but if it stays at this level then there is a very good chance we will meet our target or even slightly surpass it.

One of the main contributors to GDP growth is the growth in the payroll of the labour force.

In the case of the construction industry this is the payroll of construction workers. In turn this is the best indication of how much of the growth of the economy is due to construction projects and can be deduced by comparing in different periods of time the number of construction workers.

I have explained this before to Mr Feetham and Members of the Opposition who nonetheless insist on the basis of personal intuition that the growth in the economy is fuelled by Government construction projects financed by the eye watering £772 million, the mysterious £772 million which appears in almost every budget, with the figure changing each time on the way up.

I will provide the Honourable Member opposite with the construction figures again, to jog his memory and update the information in the light of the 2017 Employment Survey Report tabled in the House which shows what the latest position is.

I have previously compared the private sector labour market on different dates to establish the relative importance of the construction sector showing how it played a bigger role before 2011. This looked at the position in 2007, 2011 and 2015 which I remind Members of now, and add an update for by including 2005 and 2017, so that we are looking at changes over 6 instead of 4 years.

The number of private sector jobs at the start of the previous period 2007, 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.

This was the position under the GSD.

In the four years from 2011 by comparison, the figures show the opposite.

The GDP grew by 49.1% and the private sector, excluding the construction industry, 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 from 2011 to 2015 was 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.

Since 2015 non-construction private sector jobs have grown by almost 2000 bringing the total since 2011 to 4925. By contrast the private sector construction workforce in the same period has grown by a mere 144.

So the economic analysis of the Opposition, as expressed by Mr Feetham last year as the Leader of the Opposition, was that the economy had grown in one year from £1.75b to £1.91b, an increase of £160m. This was to a large extent due to the Government injecting hundreds of millions of pounds to produce significant economic growth, he suggested. Hundreds of millions of pounds of Government money plus private sector investment to provide growth of £160m?

Not rocket science we were told. Well certainly not economic science.

Was there hundreds of millions of pounds being injected into the construction industry?

In the construction industry there were 303 less workers in 2016/2017 than in 2015/2016. So no hundreds of millions of pounds injected that year.

Maybe the Honourable Member didn't mean to apply his analysis to just one year. So let's look at what has happened since 2011. Did 144 more construction workers in 2017 than in 2011 produced the bulk of the 6 year growth and not the 4925 in the other industries?

Are they serious Mr Speaker?

Do they really believe anyone in Gibraltar, will swallow all this?

Do they really believe this, themselves?

It seems to me the explanation is that they decided a long time ago that the only way the economy could grow was on the back of a construction boom because it is what was happening between 2007 and 2011 the only time that Mr Feetham was in Government and therefore they came to the conclusion that this is what must be happening since 2011, irrespective of the evidence to the contrary.

Let me add one further comparison. I have given the changes in the composition of the private sector workers in the six years 2011 to 2017 construction workers at 144, rest of the private sector up 4925, so let's look at their six years 2005 to 2011, the increase in that period under the GSD was construction workers up 1321, rest of the private sector 2827.

Mr Speaker the figures speak for themselves.



Gibraltar Savings Bank.

Mr Speaker the Honourable Mr Feetham and Mr Clinton have continued their attack on the Gibraltar Savings Bank after 2015 on the same basis and with the same arguments that they used before 2015. They seem to forget that the policy of the Government on the role of the Savings Bank was defended in a general election and forms part of our election manifesto. That is to say we are doing with the Savings Bank what we promised we would do and received a mandate from the electorate to implement. This is to grow the size of the Savings Bank with a target of increasing deposits to achieve a deposit base of £1.6 billion by 19/20 up from the £1.1 billion we expected to have reached in 2015/16.

In 15/16 we actually fell short of our target with £990 million in deposits which added to the reserves came to a total of £1.016 billion. Since then we have had a higher increase in deposits from the public, both new and existing customers, and deposits recently stood at around £1.35 billion up £360 million since 2015/16.

I am sure members opposite must be horrified to hear that the Gibraltar Savings Bank is doing so well, especially the Honourable Mr Feetham who told us last year that the Savings Bank was the culprit in what he described as the eye watering debt of £772 million, that he knew of, which when added to the Government debt of £447 million produced an even more eye watering debt of £1.2 billion. A gross debt of that figure he said was running at 62.5% of GDP.

Well I will deal with his debt fabrication shortly Mr Speaker but let me just remind the House that the percentage of gross debt to GDP no longer has any relevance because he, in Government, removed the legal link between gross debt and GDP.

So let's stay with the Savings Bank for a while longer.

He told us last year that the Savings Bank in 2011 had £27.6 million of debentures and bonds. He said "in other words money borrowed by the Gibraltar Savings Bank from members of the public, owed to members of the public, was £27.6m. The total of debentures and bonds issued by the Gibraltar Savings Bank at 31 March 2017 was £834.5 million. That represents an increase Mr Speaker of 3023% in six years."

Actually he was quoting the wrong figures, the Savings Bank did better than this, or worse on the watery eyes of the Opposition. The figure for debentures and bonds in last year's book was £902.3m a 3629% increase and the final figure for March '17 was a £921.9m increase, a magnificent, or if you suffer from watery eyes, an eye watering 3340% increase, expected this year to have reached over £1b. An incredible 3623% increase. I am looking at doing at even better, or worse in the eyes of Members opposite, in the next financial year.

He then said this was not a sovereign fund. Well of course it is not a sovereign fund. But describing it as a debt to the public is a strange way of describing what a Savings Bank or any other Bank does and he never described it like that when he was in government.



He then added “the reason for the huge increase is that the Government embarked on a process when they got elected of shifting debentures issued by Government directly, which legally count as public debt, to the GSB where it does not count as a debt of the Government, it is a debt owed by the Gibraltar Savings Bank to members of the public”.

Based on the figures and the language he was using he was saying the growth from £27 million in 2011 to £834 million in 2017 was paralleled by a drop of Government debentures and the replacement by Gibraltar Savings Bank Bonds and debentures.

This, we all know, is totally false.

In the first place there was no £807 million of Government debentures to shift to the Savings Bank.

Secondly in December 2011 there was £280 million in Government debentures which reached £318 million in March 2012.

Thirdly the debentures were repaid to members of the public who invested some of their cash in Savings Bank debentures, around £250 million.

Fourthly the Savings Bank in turn purchased £250 million of Gibraltar Government debentures.

Result of this transaction was that the level of government debt was reduced at the time by the £68 million that the public took in cash. The public debt is still composed of the £250 million of debentures that the Savings Bank bought and £200 million of loans from other banks.

For reasons that I cannot understand the Members opposite think that it is very bad for the Government to borrow from its own Bank and give it the benefit of the interest paid but fine to do so from other Banks and give them the benefit.

Mr Speaker the policy of the Government today on the Gibraltar Savings Bank is the policy of the GSLP Government of 1988 on the Gibraltar Savings Bank.

The GSLP increased the role of the Savings Bank in 1988 and developed it so that by 1996 it had £165.9 million pounds instead of £2.7 million pounds in 1988 a change I brought about as Chief Minister, an even more terrible percentage increase of 6144% which the GSD of the time did not complain about.

The Savings Banks role has been correctly identified by the Honourable Mr Clinton previously, describing it as fulfilling the function of a Development Bank. It did so between 1988 and 1996 and continues to do so since 2011.

In between the GSD ran the bank down to nothing and if they ever get back into Government, they will do the same again given the remarks of Mr Feetham as Leader of the Opposition and Leader of the GSD in 2017 and earlier years.

Since when has anybody described a Bank as having debts because it accepts deposits from the public. The only reason for doing so is to make it sound negative. Banks exist to take savings from



the public and reinvest the money at a profit. This is what the business consist of or was it something different when Mr Clinton was running his Bank.

The Government is proud of the role of the Savings Bank in providing a secure home for the savings of our people and putting those savings to work for the economic growth of our country. Mr Feetham talks of it as if it was something bad that we are trying to hide and he had discovered something that the public did not know.

Mr Speaker he knows that as Minister for the Savings Bank I produce a report containing this information for our customers which gives details of the increases that are taking place in deposits every year. This is something that reflects the confidence that our customers have in the institution that they see as a safe home for their money.

He should ask as Mr Clinton whether the bank that employed him as a director would have punished or rewarded him if the bank had increased deposits by over 3000%.

Government Debt.

So now we know that no Government Debt was transferred from the Government to the Savings Bank in order to reduce the Government Debt.

The £447 million which was added to the £772 million to increase the eye watering effect by combining it into £1.2 billion can now be discarded. The Government Debt of £447 million is the reduced level of the Government Debt from the GSD debt of £520 million of 2011. It is not money borrowed by us since 2011.

What about the £772 million of non-government debt?.

£400 million of the so-called debt is an investment in shares of Credit Finance Company Limited. Credit Finance has a money lending licence, money lending companies lend money, that is how they make a profit for their owners. So if Credit Finance lends money to the Sunborn Company at a commercial rate of interest this is not hidden non-Government Debt it is the debt of the Sunborn Company owners.

If the loan was to be made to the Sunborn Hotel that is berthed in Victoria Docks in London it would not matter in the watery eyes of the Opposition because all the investments in loans in the UK shown in the list of assets of the Savings Bank are okay as far as they are concerned.

If Credit Finance lend money to a former Chief Minister who pays interest and repays the loan by transferring to Credit Finance his entitlement to a final salary pension, and so do countless of other civil service pensioners, it is not in order to reduce the expenditure in the Appropriation Bill as has already been shown and it is not a hidden debt of the Government because the loan has not been made to the Government but to the individual.

If the Savings Bank buys shares in Gibtelecom it is not hidden Government debt it is the purchase of an asset just as if it bought shares in British Telecom.



If GHA pays rent to RBS in respect of the building it occupies which the GSD as Government arranged, this is not hidden Government Debt. It was a perfectly reasonable and acceptable form of meeting the needs of the GHA which we in the GSLP never criticized when it was done.

If they did the same in respect of the construction of car parks using the Car Park Company it is not hidden Government Debt, but creating an asset that produces revenue.

This is how the Opposition last year concocted a £772 eye watering hidden debt used they said to meet recurrent Government expenditure. When much of it was done before 2017, and some of it even before 2011. This is what was used to justify their incomprehensible vote against the Appropriation Bill. Indeed in the division vote Mr Feetham said “No” and added “Account for the £772m.”

Closing.

In closing I want to say that the Training for Employment Apprenticeships and Vocational Training is working as intended and the results reflect the increase in Gibraltarian employment. The October 2017 Gibraltarian employment level at 11,130 was 910 more than in October 2011.

This compares with an increase of 350 between 2005 and 2011, the last 6 years of GSD government.

We have had some success in placing unemployed workers in the private sector construction industry and elsewhere using the public contract requirement introduced in 2010 by the GSD which I welcomed at the time.

In the 2011 budget the then Minister for Labour said “there are many areas of employment within the private sector that are not attractive enough to the local unemployed. As I have stated in the past, few, if any, are clamouring to replace foreign labour in the private construction market, catering, hotels, shops, bars or restaurants”.

Last year Mr Feetham said “my heart breaks every time I see someone break down in front of me, as indeed they do because they simply cannot find employment – any employment, anywhere, in any building site in Gibraltar.”

I am happy to look into any cases of local unemployed persons able and willing to work and help in any way I can, if the Honourable Member provides me with the information.

Similarly, my doors continue to be open to any employer in any industry who is interested in taking on apprentices for which my department would provide financial support and therefore I repeat my call that they should approach me directly since approaching Mr Phillips does not enable us to engage as he is unwilling to provide me with the contact.

Finally I apologise for having to cut my contribution short, as I will be flying to London this evening, to officially open the magnificent, new, asbestos-free, Calpe House tomorrow morning. I will be



back tomorrow evening and as Father of the House I hope Members will behave themselves whilst I am away.

As Patron of the Calpe House Charity, I would also like to thank Members opposite once again for their support, and especially the Honourable Mr Feetham for his initiative, at the start of the fund raising campaign, in coming forward to donate his salary of one month to the charity.