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Budget Speech 2022 - Sir Joe Bossano

Introduction

In analysing where we are and where we need to be in our public finances, we cannot ignore the global background against which we and every other Government has to operate.

I will therefore share with members my assessment of just how serious the state of health of the global economy is.

The global economic background that we face this year is almost the worst since 1945, with a succession of events that have led some economists to speculate that it might mean the end of the globalization process and a regression to a mutually hostile, competing trading blocs reminiscent of the 1945 to 1990 Cold War period.

The military conflict in Ukraine and the response of the western world is reflected in the damage sanctions are doing to the Russian economy and the substantial costs to central Europe if Russia cuts off its access to natural gas and oil in response.

This may make governments pursue self-reliance and disentangle themselves from economic connections.

Some experts believe it now seems likely that the world economy really will split into blocs—one oriented around China and one around the United States, with the European Union mostly but not wholly in the latter camp, each attempting to insulate itself from and then diminish the influence of the other.

The economic consequences for the world would be immense, and policymakers would need to recognize and then offset them as much as possible.

To see why there is, this concern we need to consider what may happen to supply chains. Currently, most industrial companies and retailers source each key input or step in their production processes from a single or handful of separate places. There was a powerful economic logic to setting up global supply chains this way, with relatively few redundancies. Not only did they save on costs by encouraging firms and factories to specialize, they also increased the scale of production and provided local marketing and information advantages.

But given the current geopolitical and pandemic realities, these global value chains may no longer be worth the risk of relying on specific choke points, particularly if those points are in politically unstable or undependable countries. Multinational companies, with government encouragement, will rationally insure against problems by building redundant supply chains in safer locations. Like any form of insurance, this will protect against some downside risk, but it will be a direct cost that yields no immediate economic returns.

The world will see lower growth and less innovation.

The scale of the economic challenge was underscored by a new report from the OECD recently, showing that the combined GDP of the G7 countries shrank by 0.1% in the first quarter of the year, compared with the previous three-month period.

To limit economic stress, the IMF has been calling for government officials and business leaders meeting in Davos last month to discuss lowering trade barriers.

But as countries battle growing dismay about the cost-of-living crisis at home, some are heading in the opposite direction, implementing restrictions on trade in food and agricultural products that can exacerbate shortages and push up prices globally.

Why should this be relevant to us?

Because we have a totally open economy which can only survive by selling to the rest of the world enough to pay for what we consume which is all imported.

All of this will affect what we buy and maintain inflationary pressures on our import bill.

The greater the disruption in the global economy the more difficult trading conditions become for everyone, us included.

If the protection by others in that scenario is a retreat to self-sufficiency, in our case it is only in the labour market that we can pursue self-sufficiency.

This has been our policy since 2019.

Stagflation.

Our most recent figure for inflation is the index of retail prices for April.

This recorded an overall increase of 7.6% compared to April 2021.

The main drivers of the increase of being food prices which increased 8.1%, housing costs which increased 10.5% and transport which increased 10.4%.

The rate of inflation is clearly driven by imports at higher prices and higher transportation costs, rather than domestically generated costs.

In assessing the future trajectory of prices we need to consider what has happened to prices in our two main suppliers UK and Spain, who account for the bulk of our imports.

The April figure for UK in the Consumer Price Index was a 9% increase from April 2021, in Spain's case the April figure was 8.4%, compared with a 40 year high of 9.8% in March, which has come as something of a surprise as the trend elsewhere is for inflation to increase in April over March.

The supplies from UK and Spain that Gibraltar buys produce a time lag in being reflected in Gibraltar's inflation rate. That is to say today's prices in UK and Spain are in the pipeline before they are reflected in Gibraltar at the end of the supply chain in the retail sector where our inflation statistics are collected.

This implies that at present we can expect the inflation rate to be higher in July.

The double blow of pandemic and war has caused inflation to surge and growth to slow around the world, a global stagflation shock in 2022.

How bad could it get?

The biggest player in the global economy is the US and there from private markets to public markets, from corporate titans to consumer sentiment surveys, from career politicians to accomplished academicians, one concern that is becoming central is that of an economic recession.

The 'CNBC/Acorns Invest in You' survey showed that 81% of US adults think the U.S. economy is likely to experience a recession in the next 12 to 18 months. Recession warnings are coming thick and fast.

At the time of the last Budget, many economists internationally were expecting 2022 to be a period of strong economic rebound. Businesses would return to full operation post-Covid. Consumers would be free to splash their accumulated savings on all the holidays and activities they had not been able to do during the pandemic. It would be a new “roaring twenties,” some said, in reference to the decade of consumerism that followed the 1918-21 influenza.

Now a year later the more commonly cited parallel is the 1970s, when the Arab oil embargo helped create a prolonged period of economic hardship. Inflation surged to double-digit rates even as economies around the world stagnated — a painful mix of high prices and low growth known as “stagflation”.

Now, stagflation is again on the cards.

After the double shock of Covid-19 and the Russian invasion of Ukraine, and in our case the Brexit no deal scenario, inflation rates have exceeded expectations, surging to the highest levels in decades in many countries, while economic growth forecasts are rapidly deteriorating.

The prospect of stagflation’s return strikes fear into policymakers because there are few monetary tools to address it. Tools that in any event are not available to us since we have no way to influence the exchange rate of the pound or the interest rate policy of the central bank, the Bank of England.

Raising interest rates may help reduce inflation, but increased borrowing costs would further depress growth. Keeping monetary policies loose, meanwhile, risks pushing prices higher.

Financial Stability

Mr Speaker, on 17 May at the GSLP Annual Party Conference the following motion, moved by Party Chairman Pepito Baldachino, former Minister and former member of this House and seconded by me, was unanimously approved by our membership.

The text of the motion reads as follows:

“This meeting;

REAFFIRMS the GSLP core policy to limit recurrent public spending at, or below, the level of recurrent revenue, the Golden Rule in Public Finance.

SUPPORTS that the Government should implement such measures as may be required to restore financial stability.

INSTRUCTS the executive committee to work closely with the Government in drawing up a roadmap of policy measures designed to achieve this result, ensuring at the same time protection for those on the lowest incomes"

I place this on the record of the House to highlight the level of commitment and the importance attached to the restoration of this core value by the GSLP and the Government.

This policy resolution by the Annual General Conference is binding policy which means it can only be overturned by a future Annual General

Conference deciding to change it, since the Conference is the highest policymaking organ in our party.

It therefore follows that at all levels in the party, the membership, the Party Officials, the Youth and Women Sections, the Executive Committee and the elected members forming Government, all are as one in the determination to deliver sound public finances to ensure Gibraltar has the ability to protect the social gains delivered in the last 10 years and that it provides the necessary financial resources for Gibraltar to protect its political independence.

At no other time in our history has there been a greater need to make an all-out effort to restore the state of financial stability we enjoyed in 2018/19 and previous years.

I have been tasked with restoring this financial stability.

What does this mean?

Where are we and where do we need to be to attain this objective.

I will remind Members of the state of our public finances in recent years.

The last year when we had a better than anticipated result and indeed the best result ever under this and all the previous administrations was in 2018/19.

I had, at the start of that financial year, pointed out that we were increasing spending at a rate that was unsustainable on the then projected estimate of revenue.

On the basis of those estimates we took action to contain spending by limiting the pay raise in the public sector to a cash payment of twice the increase in the National Minimum Wage. This affected the top earners in the Public Sector who in fact protested at this limitation.

It obviously applied to Ministers salaries but not the salaries of opposition members.

Because the results of the year turned out to be much higher than estimated the cap was reversed retrospectively.

Revenue had been estimated at budget time at £651.7m and revised a year later to £706.6m. This was as a result of an increase in the forecast outturn for Head 1 Tax of £50 from £295m to £345m with the actual figure finally coming in at £345.7 up £50.7m up, and Head 2 duties, up £8.7m at £186m from an estimated £177.3m.

The total revenue for 2018/2019 therefore went from an estimate of £638.1m, to a forecast of £706.6m, to a final actual result of £708.2 which I have anticipated will take us some time to get back to.

Departmental expenditure budgeted for £512.2m was revised down to £507.2m.

The 2018/2019 actual level of revenue and expenditure is therefore the ideal position we should eventually want to get back to but one that I do not expect is possible this side of the next General Election, that is in 2023/24 or probably later.

Mr Speaker last year the Leader of the Opposition said "It is important to bear in mind that even Sir Joe Bossano was warning about the sustainability of costs of the public sector before the pandemic, so those warning signs were there and delivered by the Minister for Financial Stability himself. In some ways it was no different to the warning of Daniel Feetham, when he was Leader of the Opposition."

I will now quote the whole paragraph from the statement that the Honourable Mr. Azzopardi quoted selectively and members will see that there is absolutely no connection whatsoever between my concerns for sustainability in 2017 and Mr. Feetham's views,

He said: "this book, Mr Speaker – these estimates of revenue and expenditure- is only half of the picture of what the Government has directly or indirectly, at what cost, and how much it has directly or indirectly borrowed to pay for it all. The very simple reason for this is that the Government has borrowed some £772m let me repeat that: £772m- 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 that we are debating here today.

How can anyone- the Chamber of Commerce, the Gibraltar Small Business Federation, the media, the press or anyone else who in a democracy would be expected to comment on the state of our public finances- be able to share that very optimistic picture that the Hon. The Chief Minister paints, when other that the gross debt figure for those Government- owned companies…. We do not know, for example, how much it has been spent by those companies, on what's that money has been spent, what cash have left at their disposal and therefore what the next debt position of those companies is. How can anyone say they are happy with these figures when the Government is operating a separate set of accounts it is not disclosing and there is no clarity- indeed there is opacity, Mr speaker- in the way the Government is spending or has spent £772m, a pot of money in Government- owned companies? This is an issue of huge concern for the Opposition, which has become even more concerning post the Brexit referendum, a referendum that we all described in this House as posing an existential threat to our economic model, and today we are asked to believe the statements made by the Hon. The Chief Minister that things could not be better, when we do not know what he is doing or what he has done with £772m in those Government-owned companies. I repeat: this is not about transparency and accountability. It is about being able to spot emerging or existing economic problems so that they can be dealt with, and that becomes more necessary now there are some very significant curves up ahead for the jurisdiction."

Let me highlight his explanation.

This book, the estimate of revenue and expenditure, is only half of the picture of what the government has directly or indirectly spent. He then explained his analysis by claiming that we had borrowed some £772M.

Mr. Speaker it is difficult, in my 50 years in this place, to find a statement from any member at budget time that displays a greater level of ignorance about what is in the book, other than that particular contribution.

And if Mr. Azzopardi thinks that it is in anyway consonant with my analysis and my concerns about financial stability then I can only conclude that he knows even less than Mr. Feetham knew when he was Leader of the Opposition in 2017 and made his analysis. The 2017/18 estimates of revenue and expenditure showed recurrent revenue £614.9m and departmental proposed expenditure, which they refused to vote for, of £490.3m.

So what was the reason for not supporting that the executive should withdraw from the consolidated fund the sum of £490.3m to run government services in 17/18?

To use his words “that it was less than half of what the government had spent “.

In fact, it was of course not less than half of what the government had spent, it had nothing to do whatsoever with what the government had spent at all.

The amount in the book was about future expenditure not the past. As it still is today and has been in every previous budget. It was about getting permission from Parliament to withdraw from the consolidated over the next 12 months’ sums not exceeding £490.3m. And this, Mr. Feetham said on behalf of the GSD opposition, was half of what we had already spent, however he failed to explain then or since over what period of time we were supposed to have spent £980.6m in recurrent expenditure, ie twice that years departmental budget.

In the previous year, 2016/17, the parliament was asked to approve with the same format £468.1m over the future 12 months and they all voted in favor.

Indeed, that was true also of the budgets of 15/16, 14/15, 13/14, 12/13, and of course when they were in government it was exactly the same structure and heads of expenditure that they brought in 11/12 and we supported from the opposition benches.

Of course we are talking here of recurrent expenditure which provides the pay of the public sector workers and the pay of the members of this house which the opposition now vote against.

They do so allegedly because they say we have spent £772m not on recurrent expenditure, I assume, but on capital expenditure for which purpose we have borrowed money between 2012 and 2017, But that presumably never prevented them from voting in favor of the recurrent expenditure before 2017.

Well Mr. Speaker before 2011 and before 1988 I have never objected or saw anything wrong with whoever was in Government borrowing for capital expenditure so clearly there is a conflict between the position of the GSD and mine, on this issue.

The golden rule by which we measure financial stability is concerned with recurrent operating costs.

There has never been any doubt about that and to my knowledge it appears that the concerns of the GSD and Mr. Feetham were about capital spending and borrowing for capital investment costs.

The comparison Mr Azzopardi then went on to make was with Mr Feetham in 2017 saying there was £772m which Government companies had spent or were going to spend. This mysterious expenditure was apparently relevant, in Mr Feetham's economic model, as being, I quote: "able to spot emerging or existing economic problems so that they can be dealt with."

I fail to see the connection between the figure quoted by Mr Feetham, which in any event is wrong, and any emerging and existing economic problems, or rather fiscal problems, because on the economy there are no such problems we are still on track to achieve our manifesto target.

We know our fiscal problems have materialized initially as a consequence of our exit from the EU, the discriminatory approach of the EU in denying us equal treatment with the UK, giving no value to our 96% pro EU vote and awarding Spain a veto at three stages.

But as there was this expectation of the likelihood the EU bias in Spain's favour would materialize, we formulated our response in the 2019 manifesto.

However, the further challenges of Covid, deglobalisation and a European war have made life more difficult for us and everyone else and there was no way of spotting this coming.

There was no way of seeing this coming even if we had borrowed £722m.

The Honorable Mr. Azzopardi was also keen last year to defend the record of the GSD as if he had never left it.

The GSD position in 2009 and 2010 was to defend spending on capital projects. The Minister for Finance said in the 2009 budget session reminded us as follows: "in my budget speech last year I said the Government and Gibraltar stand on the threshold of unprecedented phase of public investment in our city, its infrastructure and amenities the scale and breath of which will transform Gibraltar."

He then went on to spell out the elements of a huge list of capital projects that had started in 2008 and continued in 2009, 2010 and 2011. By 2009 £149m of work had been carried out by Government owned companies we were told. There had also been an equity injection into Gibraltar Investment Holdings of £15m.

Mr Speaker, this is the same terrible Gibraltar Investment Holdings that continues to be used today and gets capital injections out of the £30m we put aside from the budget surplus, which causes the GSD who invented it, to vote against the appropriation Act.

In 2009 in addition to the Improvement and Development spent of just short of £40m, a further of £70m was spent through Government companies making a total of year of £109.6m.

In 2010 another £31m of projects was to be spent though Government companies.

All those things they now condemn from the Opposition, they boasted about doing in Government.

They financed this by borrowing and selling assets, the normal way we do it. But in borrowing they did something no one else does. As a matter of social policy they issued millions of pounds of Government debentures to savers and pensioners and kept the cash in local bank at an annual loss of £9m.

The reason why following the election in 2011 the savers and pensioners were provided with the opportunity of buying debentures at high interest rates from the Savings Bank instead of the Government was not as Mr Feetham claimed to somehow disguise the public debt but to stop the annual loss of £9m which the GSD created. Had we done nothing we would have now required the Government to take on additional borrowing in order to cover the losses between the rate being paid on Government debentures, and the rate paid to savers.

Incidentally in that budget he also proudly announced that the GDP had reached £804m in March 2008, which I had predicted three years earlier in the election campaign would be the case and he had rubbished then my prediction.

In the 2010 Budget opening speech the Minister for Finance said 'the Government seeks £311.082m to fund expenditure from the consolidated fund, £92.5m of which goes to the I & D Fund.

Amongst the GSD achievements claimed last year by the Hon. Mr Azzopardi was the increase in the GHA budget from £20m to £80m in 15 years.

The GSLP, he said, left a completely under sourced GHA which the GSD inherited in 1996.

Well the GHA that the GSLP inherited in 1988 an even more under sourced with a budget of £8m and it was left in 8 years with an increase to £20m. A five times increase in 8 years, as opposed to four times increase in 15 years.

Since we took office the GHA budget has continued to increase and Mr. Feetham, his predecessor as Leader of the Opposition has criticized us for excessive spending in the GHA budget increase.

The pattern is clear everything that we do is bad even if what we do is the same as they were doing.

The criteria as to whether something is good or bad depends on whether it was done by them in government or by us.

I forgot to say that we have had to continue doing some other things which they introduced and that we should've stopped when we came in.

So when the public sector grows under them it is because they are inheriting an under sourced public sector, when it grows under us it is, NOT because they left it under sourced but because we are addicted to bringing about a bloated public sector, however if we stop the growth then we are introducing austerity measures.

The level of hypocrisy in the strategy of the members opposite is a disgrace and a disservice to our country.

Even after I gave them a year ago a detailed explanation of what they had been up to in the plans to dismantle Community Care, to which they committed themselves in the 2011 general election, and then once in opposition denied all knowledge of what was being proposed which they still continue to do to this day.

So Mr Azzopardi is wrong when he says we promised anything to anyone in Community Care in his reference to the Community Officer role.

The Community Officer was introduced by the charity initially for unemployed males over 60 with no income and continued to be like that between 1990 and 2008 under GSLP and under the GSD as it had been under the GSLP. It was at the request of the GSD in 2009 that it was extended to virtually the entire population of men aged between 60 and 65. This was never our policy. They were the architects in 2009 and they planned to get rid of it in 2011 along with the House Cost Allowance.

The plan was the result of a deliberate policy to starve the charity of funds over 15 years.

They say they knew nothing of this and even though it was explained in a public statement by the then Chief Minister in a 2010 press interview

He was in government when the GSD was secretly planning to run down the funding and get rid of Community Care by denying the charity the revenue they were regularly saying in this parliament was being maintained so that the reserves that they enjoyed in 1996 at over £60m would not need to be touched.

That is a record of what happened in the Hansards of this parliament which they cannot deny, and the Hon. member has the gall to accuse us of breaking promises on Community Care.

The charity will always have a secure future whilst we are in government and only then. We are committed to providing funds for the payment of the quarterly House Cost Allowance and in addition once we have surpluses in recurrent revenue, to renew additional payments to build up their reserve they cannot be trusted in the promises they make now to support Community Care because they made the same promises for 15 years in government whilst secretly planning to do the opposite.

At present the charity is able to continue the payments for more years because we provided payments from the recurrent surplus in our budget after 2012.

So it's a bit rich for Mr. Clinton to say it last year that we were the ones now running down Community Care, I quote;

'And so it is the GSLP that is now running down Community Care's reserves, contrary to their much repeated mantra. Let me say that again: it is the GSLP who are running down Community Care's reserves.'

When we left them with a safety net of £60m and found them after 15 years without a penny in the kitty having had to burn up all their reserves in the 15 years, to survive.

If the GSD had not helped themselves to the Charity's money, contrary to the promises in this house, the Charity would today be £60m better off.

Mr. Feetham and Mr. Clinton have expressed concerns about the accuracy of the figures in the estimate book in many of the previous budgets and since 2017, this gave rise to the GSD opposition policy to vote, against the whole of the provisions to meet the cost of the department's recurrent expenditure which is only what the Appropriation process entails.

I therefore want to point out to them that, against the background that they take credit for GSD past spending they should accept responsibility for the "cooking" of the books retrospectively for financial years 2009/10 and 2010/11 which was presented by the GSD at the time as a move to increase transparency when it was in fact move to change the goal posts. To legislate a change to the 2009 and 2010 approved estimates of expenditure in 2011 to retrospectively to cover up what was close to a breach of the public debt limit by redefining the Consolidated Fund revenue of the previous year by some £100m and thereby create an additional £80m of headroom in the public debt ceiling. From the opposition we saw no need for this manipulation because in fact the problem was the then existing 80% of revenue limit which was something the UK imposed on other non-self-governing territories, the GSD administration introduced here and we removed after 2012.

The limit that existed on the revenue level was at the mercy of movements in interest rates over which we would have no control over and no sovereign state uses this criteria.

Indeed, since then even the share of GDP has been abandoned by other countries. The ratio which the EU originally put at 60% of GDP, compared to the 40% in Gibraltar in our legislation, is currently observed by hardly any of the 27 member states.

At an international level it is worth noting that Japan's debt is of the order of 200% plus of its GDP, at the same time it is the third largest economy in the world and considered very stable with a very strong currency.

The policy of the GSLP in government and opposition has always been that the level or quantum of the public debt is not important what matters is what you borrow the money for. Hence the golden rule that you do not borrow for meeting the recurrent expenditure, you borrow for infrastructure that will create economic growth and lead to higher revenue.

This is equally valid in the private and the public sector. So it is the use of the money that matters and not how big the loan is.

I know that the Honourable Mr. Clinton agrees with me on this position because he has said so in previous budget debates when I have made the same point.

In 2016 he said: "Mr. Speaker, a lot has been said in the past about Government debt – whether, of itself, it is good or bad, and whether it is affordable. The Father of the House famously said last year that only the Neanderthals didn't borrow and it was not the borrowing that was important but the use it was put to and if it could be serviced.

In this, I again agree with the Hon. Mr. Bossano, debt is not of itself evil so long as it is affordable and put to good use. However, ultimately, debt needs to be repaid and we must be firm in our resolve to pay our own way in this world."

Returning to the point of the manipulation of the "Book" for the 2010/11 budget session I invite honourable members to note the following.

The 2009/10 estimates approved departmental expenditure of £186.344m and the forecast outturn for the year presented in the budget of 2010/11 showed an increase to £190.326m.

The new budget appropriated by Parliament for 2010/11 increased the expenditure of departments to £218.306m, an increase of £28m, around 15%.

The bulk of the increase was in contributions to Community Care that had run out of money and contributions to Social Security which was going into the red, and a contribution to the Care Agency.

In February 2011 the GSD brought a bill to amend the Public Finance Act to incorporate the revenues and expenditure of the following entities:

(1) The Gibraltar Health Authority

(2) The Gibraltar Electricity Authority

(3) The Port Authority

(4) The Care Agency

(5) The Gibraltar Sports and Leisure Authority

(6) The Gibraltar Regulatory Authority

(7) The Gibraltar Development Corporation

So that in future such expenditure should be subject to appropriation and scrutiny by Parliament.

Needless to say the future scrutiny by Parliament, which was the cover-up to legislate the move, did not require the change to be made retrospectively.

The provision in the bill was as follows:

“Part 11A – Revenue of Public Undertakings

Revenue of certain public undertakings to be paid into Consolidated Fund.

17A. Not with standing any provision of any other enactment to the contrary but subject to section 17C below the revenues of the public undertakings to and remove public undertakings from Schedule 3.

17C. Subject to section 17D any revenue of a public undertaking listed in Schedule 3 which has been paid to it from funds voted out of the Consolidated Fund shall not be deemed to constitute the revenue of the Consolidated Fund for any purpose.

17D. All expenditure incurred by a public undertaking listed in Schedule 3, including expenditure funded out of monies paid to it from funds voted from the Consolidated Fund and to which section 17C thus applies, shall require to be authorized by an appropriation law and the provisions of sections 68, 69 and of 70 of the Constitution shall apply thereto mutatis mutandis as if the revenue and expenditure of such undertaking were the revenue and expenditure of Gibraltar"

Sections 17A to 17D retrospective. 3. Clause 2 inserting new sections 17A to 17D in the Principal Acts shall be deemed to have come into operation on the 1st day of April 2009.

The GSD argument was as follows:

"Mr Speaker, the provisions of the Bill are retrospective to include last year and thus require the next accounts of Gibraltar for the year ended 31st March 2010 and this year's forecast outturns in next year's Budget book, to be drawn up on this basis for information and ease of comparison purposes. Transitional provisions have been included whereby this Act constitutes an appropriation law in respect of the expenditure of the Agencies and Authorities incurred prior to the 1st April 2011, that is funded out of revenue to which this Act applies, provided that the expenditure was lawfully and properly incurred, in accordance with the law and procedures applicable to it, prior to the coming into the effect of this Act. In other words, the effect of making this Bill retrospective is that money that has already been spent in the way that it was lawful to do it at the time that it was spent, suddenly becomes deemed to be Consolidated Fund revenue thereby needing the appropriation of this House. We are talking about things that have already happened before we passed this Bill."

In my reply I said:

"Mr Speaker we are going to be voting in favour of this. I must say I cannot see the value of the need to go back to 1st April 2009 because if the Government wants to provide assistance of members, when it comes to looking at the picture over three years at Budget time, an illustrative column showing what it would have been like if it had already been implemented, then that can be done without the need to make it retrospective in effect, what we are doing, by making it retrospective, is that what we are saying is, we are going to require everything that has not been voted by the

House to be treated as if it had been voted by the House from 1st April 2009. That does not seem to be to be a good thing. Because, in fact, it will mean that all this expenditure which has already taken place, on which we did not vote, will be treated as if it had taken place on our vote, which is not the case and which is not accurate. The fact that we are saying that we shall deem it to have come in to operation on 1st April 2009 means, of course, that there has to be a mechanism that treats the expenditure that has been properly and legally expended to be treated as if it has been voted by Parliament, when it has not been voted by Parliament. I would have thought the introduction of this could have easily happened from a current financial year without any need to do this peculiar system.

Surely, Mr Speaker, the accounts of March 2010 at this moment in time have been closed and have been sent to the Principal Auditor on the basis that none of this had happened?"

To which the Chief Minister answered: "we are just in time."

The reason for the retrospection was the need to beef up the consolidated fund revenue, backdated two years, because the GSD was almost in breach of the limit of the public debt.

The revenue estimate after the change in revenue calculations had the following retrospective effects.

The 2009/10 revenue of £266.4m placed the debt ceiling at £213.1m, the recalculated revenue of £334.2m, increased the ceiling to £267.4m.

2010/11 the original revenue went from £276.7m, providing for debt of £221.4m, to £382.7m an increased debt of £306.2m.

The level of expenditure appropriated by Parliament in 2009 was £186.3m and in 2010 £218.3m

The retrospective un-voted amounts in the deemed appropriation act in 2011 converted this figure into £351.9m for 2010/11 and £304.9m 2009/10.

The "cooking" of the book created the unprecedented situation in Gibraltar's history that we had an Appropriation Act in 2009 that allowed the withdrawal from the consolidated front of the sums required by government departments and a similar Appropriation Act for the same purpose in 2010 and then an amending act in 2011 which was deemed to be an Appropriation Act, appropriating a higher level of expenditure from the Consolidated Fund as from 1 April 2009. A totally fictitious figure, created two years after the event whereby de facto the GSD government had "two books" and with the Hon. Mr. Feetham in Government.

What he accused us of having in his 2017 speech as Leader of the Opposition and which the present Leader of the Opposition endorsed last year by quoting his 2017 remarks, with approval.

The "deemed" appropriation which never really happened since no such scrutiny or approval was carried out, head by head or debated became the "official" set of accounts that was sent to the Principal Auditor.

The audited account shows estimates of revenue for 2009/10 and 2010/11 which are different from those presented at budget time and the expenditure approved by Parliament as follows;

The original expenditure for 2009/10 in the audited accounts became £304.9m instead of £190.326m and in respect of 2010/11 the expenditure became £351.9m instead of the approved £218.306m.

The reworked accounts also show the appropriation of sums from the consolidated fund which never happened in reality on the dates shown in the audited accounts since it would have required a time machine to do this and I believe that not even the greatest living Gibraltarian in his capacity as Minister for Finance had access to time travel.

The constitutionality of such an operation is highly dubious in my view but since it passed all the hurdles and became law, it created an incredible precedent that we can now bring a bill that is not an appropriation bill, state that we deem it to be one, and then make backdated changes to previously approved expenditure and estimate of revenue which are altering the record of sums of money that has actually been correctly appropriated from the consolidated fund in the budget debate of previous years. A totally fictitious situation in the records of the government since such transactions that never took place, on the dates mentioned.

Another issue raised by GDC since 2011 and pre 1996 was transparency in relation to the use of Government companies.

The GSD love affair with "transparency" is something they display in opposition and forget about in Government, just as they do with most of their other criticisms.

In 1996 when they formed Government, in their first budget the Chief Minister said;

"Mr Speaker, the list of companies wholly-owned by the Government of Gibraltar directly or indirectly would appear to be as follows:

Gibraltar Investments Holdings Limited

Gibraltar Land Holdings Limited

Gibraltar Residential Properties Investment Company Limited

Brympton Co-ownership Company Limited

Westside II Co-ownership Company Limited

Westside I Co-ownership Company Limited

Gibraltar Information Bureau Limited

Gibraltar Joinery and Building Service Limited

Gibraltar Industrial Cleaners Limited

Gibraltar Quarry Company Limited

The Government are considering which of these companies can be eliminated and it is the policy of the Government to eliminate such companies as are not essential for the proper and good organisation of the affairs of Government in the light of the structures as they presently exist. But, whatever happens during the course of the restructuring for the elimination of as many of these companies as possible, as part of the system to restore the presentation of public finances to a transparent one, the Government will shortly publish all the historical accounts of these companies and place them in the public domain. That is not something which the Government are required to do by law but it is something that the Government pursuant to our policy of complete public transparency in matters of finance are to do voluntarily,"

Fast forward the tape and we get to 2011/12 15 years later. There are now 27 companies which include 9 of the original 11. These accounts of the 11 were compiled by the GSLP Government and audited and made public in 1996/97 by the GSD Government.

Since then, when it became a legal obligation, not one more instance of closing and auditing accounts of Government companies took place, let alone publishing them, not the 9 they had kept nor the 18 additional ones they created.

Double standards and hypocrisy in this as in other areas.

We had to start doing in 2011/12 what they had promised to do in 1996/97 with a lot of fanfare.

Mr speaker, I have been tasked with restoring financial stability.

So what does this mean?

Where are we and where do we need to be to attain this objective.

I will remind Members of the state of our public finances in recent years.

The last year when we had a better than anticipated result and indeed the best result ever under this and all the previous administrations was in 2018/19.

I had, at the start of that financial year, pointed out that we were increasing spending at a rate that was unsustainable on the then projected estimate of revenue.

On the basis of those estimates we took action to contain spending by limiting the pay raise in the public sector to a cash payment of twice the increase in the National Minimum Wage. This affected the top earners in the Public Sector who in fact protested at this limitation.

It obviously applied to Ministers salaries but not the salaries of opposition members.

Because the results of the year turned out to be much higher than estimated the cap was reversed retrospectively. Revenue had been estimated at budget time at £651.7m and revised a year later to £706.6m this was as a result of an increase in the forecast outturn for Head 1 Tax of £50 at £345m compared to £295m with the actual figure finally coming in at £345.7 up £50.7m and £186m from Head 2 duties up £8m.

The total revenue for 2018/2019 therefore went from an estimate of £638.1m, to a forecast of £706.6m, to a final actual result of £708.2 which I have anticipated will take us some time to get back to.

Departmental expenditure budgeted for £512.2m was revised down to £507.2m.

The 2018/2019 end result of revenue and expenditure is therefore the ideal position we should eventually want to get back to but one that I do not expect is possible anytime soon.

We have to do this when the rest of the planet is facing its worst ever post-war crisis.

The results of the current departmental spending and consolidated fund revenue now forecast for 2021/2022 have been better than originally estimated and better than appeared to be likely earlier this year when the returns from some departments were coming in.

I would remind members opposite of how, in reaction to my statement that we had removed some £75m from last year's departmental requests for funding, there were some comments on social media. They were placed by persons who clearly do not understand how the budgets are put together and suggested that the savings represented elimination of waste which should have taken place at some earlier date.

We did NOT, of course, cut back last year's extra spending's on the basis that it was £75m worth of waste which could be converted into savings. Therefore, the accusation as to why we had not done so before is totally invalid because it shows the person making it did not understand the nature of the exercise that is undertaken in arriving at the estimated expenditure, in anticipation of what is required for the next 12 months compared to what has been spent in the previous 12 months. The ending of one year and the beginning of another financial year.

This exercise starts with the departments putting forward proposals for expanding their services which can only be considered on the basis that we're not already borrowing money to meet the existing level of services and therefore unless it is absolutely impossible to avoid incurring additional expenditure the proposals are cut back as close as possible to the previous year's estimates. This is where the £75m identified by me came in.

Members opposite who have been in Government are of course familiar with this system since, to my knowledge it was already operating this way when we took office in 2011, and we have done nothing to change it.

It is however a system that tends to operate on the false premise that every year we have to spend more than the preceding year.

So in looking at where we are we have to start with the semi normal year of 2021/2022, after the totally abnormal 24month period of 2019/2021.

I note that the Hon. Mr Clinton has publicly expressed some doubt as to the accuracy of the forecast result for 2021/22 which of course is the work of the Treasury team and not something which the Minister's get involved in nor have they ever been involved to my knowledge.

The GSD in Government regularly reminded the House that all the figures in the book are estimates and continue as such until the final actual results are produced two years after the event.

So a year ago there was a forecast outturn for 19/21 and estimate for 2021/22.

The forecast for consolidated fund balance as at 1st April 21 was £118.9m this was on the premise of a forecast outcome of £633m in revenue and £50m of borrowing, with forecast expenditure of consolidated fund charges at £103.5m, departmental cost of £550.7m and contribution to company costs of £30m.

The starting consolidating fund balance for the 2022/2023 year at the 1 April 2022 was estimated to be £90m some £28.9m down on the same date in the previous year.

This year's book updates these figures now giving as the actual results for 1 April 2021 and the forecast results in 2021/2022.

The opening balance is now £121.5m instead of £118.9m, a £2.6m improvement.

Recurrent revenue in 2021/2022 is forecast at £648.4m compared to the original estimate of £633m, an improvement of £15.4m.

Forecast expenditure is higher than budgeted in both consolidated fund charges at £105.7m instead of £103.5m and departmental expenditure £569.3m instead £550.7m.

This results in a deficit of £55.291m compared to last year's estimate of £50.724m.

The contribution to the I & D is £3m higher than last years' estimate.

The forecast balance for the start of the financial year is higher at £118.6m instead of £90m however, this is because the borrowing was increased from £50m to £100m.

Last year I said;

"A real test in the nine months ahead is to contain expenditure so that it finishes no higher than the amounts that we are approving this week.

We need to establish as a standard the notion that an increase in costs in one area must be matched by savings in another."

We failed to achieve this by a margin of £18.59m at a stage of forecast outturn, the final actual figure may be different. At this stage the overspend is 3.4%

Coming to the current financial year the estimated consolidated fund charges at £99.4m a sum £6m less than the forecast outturn for last year.

We're seeking appropriation of £552.8m for recurrent departmental expenditure. This is in line with the provision of 2021/2022 which was £550.7m.

Members will have noticed that in respect of recurrent departmental spending, the only area in which we can exercise control, the policy to restore financial stability if reflected in trying to keep to the same budgets.

However, they will also have noticed that revenue figures are not getting much better.

Returning to the action on the expenditure side it is worth noting the results to date in £m as follows.

2018/2019 504.2.

2019/2021 1147.8 over 2 years equivalent to 573.9 for each year.

2021/2022 569.3 and

2022/2023 552.8.

Given the effect of inflation on procurement for government departments we are likely to be facing difficulties in keeping to the budget at figures none the less, a policy is to continue the scrutiny of departmental budgets throughout the year in an effort to achieve further savings.

The Economy

The National Economic Plan sets targets and identifies potential opportunities for a new economic structure looking into the future over a 4-year term.

This is not an exact science since it is an evaluation of risks and opportunities over the horizon based on probable factors affecting the global market in which we have to operate.

In 2019 the structure I designed took account of the worst case scenario of a hard Brexit Schengen Border which in our case would require examination of documents on entry and exit to and from the Schengen area.

That is why the first priority was to shift our economy from the model of growth driven by an ever growing workforce which could not be accommodated within our own frontiers and entailed making us ever more dependent on fluidity of the frontier crossing, hence the target of no growth in the size of the workforce, which with time will go further and start reducing.

Covid lockdown did that for us but at the same time eliminated much of the revenue from visitor's arrivals. This had a small impact on our GDP but a big impact on our revenue because of the import duty on retail sales.

The current state of the world economy is that all the indicators are pointing towards a recession with at the same time high inflation.

The last time that this happened in the 1970's it lasted 10 years.

The recent action by central banks of almost every nation except Japan increasing Central Bank Lending Rates is designed to reduce demand and thereby reduce inflation.

However, it is likely to stop economic growth before it starts affecting prices as these are going up because of serious supply problems, so in the short-term we could finish up with Stagflation.

The Schengen Access deal will not solve these problems but it will make it easier for Gibraltar's economy to function without frontier led distortions.

However, there is still no guarantee that an acceptable Schengen Access agreement will be reached.

And if it does not happen we need to be clear what is in store for us.

The position of Spain in the UN has not changed as we have seen and heard at the C24 recently.

They continue to tell the world that the real Gibraltarians are not us but the people in San Roque who are not even remotely connected to the few hundred Spanish families that chose to leave Gibraltar in 1704.

And if this version of reality is the official line in Madrid which continues to make use of the same arguments of the 1960's fascist dictatorship, which are repeated and placed on the record at the UN, with the socialist Gibraltar friendly administration, it does not take much imagination to picture what awaits us if Vox and Avascal get anywhere near the seat of power in Madrid.

A few weeks ago in Algeciras, across the bay of Gibraltar, Avascal was reminding us in case we needed reminding. So this is just one more negative element in the background to the most uncertain and volatile global situation in economic terms since the end of World War 2.

The direction in our economic strategy is the only one we can take if we are to protect Gibraltar's future.

The most important external element in the National Economic Plan, which thankfully is now starting to get off the ground after 2 years of inactivity, is that the thrust is on inward investment to bring to Gibraltar enterprises that will use Gibraltar as a springboard to invest elsewhere.

That is invest in Gibraltar to establish a physical presence, which then invests in third countries.

We are engaged with a number of potential partners and I believe it is reasonable to be cautiously optimistic that we shall be showing some success in this area in the current financial year.

One particular group of investors that we are talking to in London and has a presence in the EU, is considering the assimilation of all its projects in one holding company that would then move to Gibraltar and manage investments with a current valuation of the order of £20b.

As members know my policy is not to make announcements until I am confident it will happen.

I have said more than once I don't count my chickens until the eggs are hatched but the possibility is there because there is interest, at a time when doing new business is almost an impossible task because of the level of uncertainty as to the political, economic and climatic direction that the world is taking in the near future.

The international dimension of the National Economic Plan is therefore the establishment of companies with products that can be created by subsidiaries of the Gibraltar headquarters.

In my last year's budget statement, I mentioned the case of Etioca, with a new design of electric vehicles and a business model that is consistent with the circular economy by creating a product with a long life, low maintenance and primarily a pay for use not pay to own product.

This product is now being sponsored under the National Economic Plan in the expectation that it will succeed and meet the criteria of establishing new businesses to reinvest and support the circular economy.

I attended a recent launch of the Gibraltar Company investment in Italy and spoke in support of the company's objectives.

The company's description of its proposed activities was as follows.

Etioca Holding, an international company based in Gibraltar, presented an ecosystem of services for mobility and the community in Turin.

The technology and the subscription platform Mark Ishakov has invented and developed during the last years, are based on innovative technologies and services, with solutions for alternative and sustainable mobility.

The business model, developed by the management of Etioca, envisages the centrality of financial services and technologies, to enhance each specific mobility project.

The first project of the Etioca ecosystem, which comes after five years of analysis of the Taxi industry needs and the trends of urban mobility by the founder, involves Italy, with the creation of the "Anna" platform based on a modular architecture that allows different vehicle configurations.

The first project to be born is the Etioca Taxi Cab, a new concept of multi-function electric taxi as a world preview, in the workshop of the historic Carrozzeria Coggiola, recently acquired by Etioca. In the cradle of the Italian automotive industry, a global ecosystem of electric taxis is born and will be accompanied by a range of services built around the driver and the passengers who will have an unprecedented user experience.

In the near future, the "Anna" platform will also give life to a new generation of service vehicles: taxi, delivery, school shuttle, rescue, fire department, police and defence. A solid and successful industrial and financial operation, designed by the managers of Etioca, brings back the historic Coggiola automotive brand, beholder of a WMI (Worldwide Manufacturers Identifier), a license which allows an unlimited production of vehicles, with a technology that is already available and with a zero-impact vehicle development plan.

In 2024 the first 10,000 vehicles will be on the road, the annual production in 2025 will be of 45,000 units and will reach 100,000 units per year in 2027 with an initial development investment of 400 Million dollars to reach 1.2 Billion dollars over the next 3 years.

The project will also relaunch the automotive industry economy in the area.

The construction of the future Giga Plant for large-scale vehicle production will also be announced soon. The recently world-wide patent pending multi-function taxi has already met the interest of the European and Middle-East taxi associations for its innovative features of use and for the integrated management and payment software which creates a dynamic benefit for both drivers and passengers: the electric vehicle is given in use by Etioca to the driver in possession of a license, who doesn't buy the vehicle, but pays only for the real mileage he drives.

The vehicle will have 7 seats, plus one for disabled passengers who will be able to get on board by himself with an automated ramp. Safety and security of the driver will be granted by an isolated cabin, as well ETIOCA is focusing on the integration of the autonomous driving assistance, to fulfil the homologation regulations of 2025.

In addition to the investment in Italy the Gibraltar Company is in current discussions with the Government of Latvia about a possible production factory and is also in other discussions with other partners about the possibility of manufacturing facilities in the Campo area.

The technical support from the Ministry of Economic Development does not involve any financial participation in any of these ventures.

The possibility of investment in the hinterland is consistent with the alleged desire of the Spanish government to create shared prosperity.

The Ministry for Economic Development considers that the prosperity in the Campo area is to the benefit to the Gibraltar economy and the Gibraltar Government finances on the basis that it adds value and not competition.

The GSLP Government of 1988-1996 strongly supported economic co-operation to deliver mutually beneficial results but was unable to obtain them because the Spanish participants withdrew from the Gibraltar registered entity set up to promote economic co-operation.

The same was the case with the Cordoba agreement tripartite forum set up by the GSD which was abandoned by the Partido Popular government.

The potential for investment does not require a special treaty for Schengen Access but of course if there is such an agreement it may enhance the potential of such mutually beneficial co-operations.

Cleary the Schengen Access treaty if it happens has a maximum life of 4 years.

From the debates in the Spanish Parliament it is clear that those who support it do so because they believe it will enable Spain to persuade us to become a part of Spain. We need to disabuse them of this belief because it is not going to happen.

The duty of the Ministry for Economic Development is to ensure that the strategy underlining the National Economic Plan should increase Gibraltar's self-sufficiency and the ability in a hard Brexit non-treaty situation to continue to maintain and deliver the benefits of a sound economy with or without a Schengen Access treaty, and if there is one, so that we are in a position to walk away from it at the end of the 4 year implementation period, or before that if there are any issues in its implementation which are in contrary to Gibraltar's vital interests, which is its economic independence from Spain, so that our economic relationship with our neighbour remains because it is mutually beneficial and not because we are dependent on them. In other words, it's our insurance policy.

The shared prosperity concept is an idea that has yet to be fleshed out.

There is no question about the fact that the prosperity of Gibraltar already makes a substantial contribution to the prosperity of the campo from the income it receives from us for supplying workers, goods and services.

However, in the past the central Government in Spain has not just not encouraged foreign direct investment into Spain from Gibraltar based companies, it has in fact been quite hostile to the idea and quite critical of it as if investment from us were different to that of any other source. For example there was a recent investment from Qatar which was given much publicity and a very warm welcome.

So the issue is not the type of investment but the source, and Gibraltar until now it seems has not been a welcome source.

We shall have to see if anything changes in this respect in a Schengen Access treaty context.

The economic policy of the Government which was announced in the 2019 General Election is therefore designed to change the structure of the economy with less low pay jobs and more high pay jobs and a higher level of productivity.

The metric by which we will measure our performance on this objective will change therefore from the GDP per capita which as everyone knows produces a false picture of how well off Gibraltar is, although the measure is exactly the same for all countries.

The distortion only occurs in small countries with half or more of their workforce as frontier workers.

Those are the characteristics of the Gibraltar labour market at the present time and there are not many others in the world that share these characteristic to the same degree.

The UK economy for example is the result of the output of a workforce which represents 75.2% of the employable age range of 16 years to 64 which therefore comes to 32m persons in work from a population of working age of 43.2m and a total population of 68m people.

These are the most recent published statistics for November 2020 that are currently available from UK.

In Gibraltar the size of the working population including frontier workers is greater than the theoretically available working populations aged 16 to 64 as compared to the whole population of the 34.000 residents and a working population of resident and frontier workers combined at 30.000.

The new approach, the test of the value of the output per worker in respect of the last normal year 2018/19, produces the following figures obtained by dividing the GDP by the size of the workforce giving us an output per worker of £85,156 for 2018/19 and £92.267 for 21/22.

The domestic aspect of the National Economic Plan involves cooperating with the private sector so that facilities are created that serve to enhance the potential of Gibraltar and meet some of its important needs in a manner that it will be self-financing by including commercial aspects that will enable the investment to pay for itself.

This is particularly important in the context of the requirement for restoring financial stability which requires us to reduce the need for borrowing to finance recurrent expenditure in the provision of government services.

Once the position is reached that the recurrent revenue covers or exceeds recurrent expenditure, the reduction of the net government debt to bring it down to the level provided in the manifesto will be the next challenge.

In this context the opportunities for borrowing to finance capital projects which meet social or other needs but fail to provide revenue to be self-financing, are going to be very limited.

Many of the projects we anticipated starting in 19/20, were shelved because of the lockdown.

In practical terms we have lost two years of the four in which we planned to deliver local investments, but now our expectation is to be able to start delivering results in the current financial year.

The context of the potential changes taking place in the economy that I have detailed above take no account of the development of the East Side which has been initiated independent of the items in the National Economic Plan program.

Labour Market

Since 2012 the GSD opposition, through the statements of the Hon Mr. Feetham, has been critical of the ever increasing size of the public sector.

I am not in a position to say whether there is a need for all this extra jobs created since 2011.

What I have said is that the cost of an ever increasing number in the public sector was unsustainable, namely the rate of growth in the cost, driven by the additional numbers and additional earnings could not continue indefinitely and would eventually become unaffordable, which is now the case.

As early as 2012 Mr. Feetham said the increase in the public sector meant it was bloated. In 2012 it was up from 2011 namely in their 9 months and in our 3 as follows: In the nine months, March to December 2011, the public grew under the GSD from 4,427 to 4,804, 377 extra bodies in nine months, the biggest increase ever in such a period. In the subsequent three months, after we took over, the numbers were reduced.

However, it is worth pointing out and reminding members opposite, as yet another example of "do as I say and not as I do", what the position of the GSD government was in 2009, with the Hon Mr. Feetham in Government.

In the 2009 budget speech the then Chief Minister launched an attack on those who argued that the public sector was "bloated", I quote

"Moving on to the public sector, and seamlessly therefore, from that point to what I want to say about it. There is a complete misconception, routinely and ritualistically regurgitated by certain elements in the private sector, that the public sector is getting bigger, or is too big. The last Chamber of Commerce Annual Report, published only a few days ago, uses the word "bloated". This analysis is simply incorrect. First, it ignores the fact that in order to provide a safe, undriven by profit motives, comprehensive and universal service to all in society, regardless of means, there are some services that can only be effectively provided by the public sector. For example, policy administration, education, health, social services, a police service, other law enforcement, a fire service, a judicial service, protection of the environment, tax collection, amongst many others. The Government, therefore, reject the notion implicit in some of these statements that the public sector is somehow a bad thing, or that it is not productive. It delivers very necessary outputs, without which there can be no civilised society. Nor do Government believe that history in Gibraltar or elsewhere shows that services delivered by the public sector are necessarily more expensive than services that have been transferred into the private sector. Secondly, as I have explained on numerous occasions before, the public sector is not getting bigger, and is not getting more expensive by any economically literate, relevant measure of those two things. Those that comment publicly on such things have an obligation to have regard for normal macro-economic principles of measurement and not simply think of a rising figure in absolute abstract terms, which is economically irrelevant and inappropriate. In 1988, when the total number of jobs in the economy was 12,995, the number of Gibraltar Government jobs was 4.028, representing 31 per cent of the total. In 1996, the Government accounted for 2,118 jobs out of a total in the economy of 12,975, representing 21 per cent. As at October 2008, the Government accounts for 3,998 jobs out of a total of 20,509 jobs in the economy, representing just 19.5 per cent of all the jobs in this community. The lowest that it has ever been, ever. This, despite the transfer of hundreds of jobs from the private sector into the public sector statistics, in the way and for the reasons that I explained a few moments ago, when explaining the changes in the employment statistics, and also despite the fact that since 1996, many Government funded jobs in private trusts, the Dr Giraldi Trust, the Mount Alvernia Trust and SOS, which were in effect Government funded labour posts, but which were included in the private sector and not in the public sector, have since been transparently brought into the public sector. Despite all of that, the share of employment in the Government sector, as a proportion of all employment in the economy, is at the lowest percentage proportion that it has ever been. Therefore, commentators please note, the public sector as measured in one of the ways that it is measured by economists, in terms of the proportion of overall jobs in the economy, is not getting bigger, it is getting smaller. It is not getting bloated, it is debloating. Secondly, and by the way, hon Members may wish to know that, for example, in the United Kingdom the figure stands at 20 per cent. Moving on to another measure, in 1988 Government payroll costs as a proportion of total Government revenue was 38 per cent. In 1999 it was 38 per cent and in 2009 it is still 38 per cent. Therefore, the cost to the Government of its employees as a proportion of its revenue, understanding that the cost of payroll rises as revenue also rises, is not getting bigger. It is not bloatifying or debloatifying.

It is the same. It is also wrongly said that public expenditure is too high and needs to be cut. In 1988, Government expenditure as a proportion of GDP was 45 per cent. In 2000, it was 35 per cent and in 2009 it stands at 34 per cent. In the UK it stands at 38 per cent. Public expenditure, as a proportion of GDP, which is the economically meaningful and relevant way of measuring these things, is therefore falling and not rising. This, despite huge extra recruitment expenditure by the Government in the last ten years, on expanding, modernising and improving and bringing into the 21st century, our health, social and education services. This expanding and improving our health, social and education services, is just one of the ways that the Government distribute throughout the whole community the fruits of Gibraltar's economic prosperity. We think it is a good thing to do, not a bad thing to do, even though it means rising and raising public expenditure."

"So, when people talk about the public sector being too big, or public expenditure being too high, they have to see the issue in the context of the growing and developing Gibraltar of which it forms a part. The fact is that in economically meaningful terms, the public sector is getting smaller, not bigger, and public expenditure is falling, not rising."

So the GSD thinks it is a good thing to expand the size and the cost of the public sector and not a bad thing.

Of course Mr Speaker he forgot to add when the GSD is in government and is doing it, but it's a bad thing to do when the GSD is in opposition and someone else is doing it.

He also quite obviously provided incorrect figures about when I was in Government in 1988 when he said the government had 4,028 employees in 1988 and that when the GSD was in government in 1996 they started in October with 2,118. Of course the size of the government sector in 1988 was not known since the total work force of 12,995 is from the employment survey from April 1988 and this showed the official sector meaning Gibraltar government and Mod at 6,269.

There was no separate figure for the Gibraltar government at the time. In 1996 the figure for 12,975 total work force was from the October 1996 report this showed the official employers as 3,996 in respect of the Gibraltar Government and the Mod however, since the GSD was in power then there were in a position to produce a figure for the Gibraltar government public sector share which they claimed was 2,118. If the government was telling the truth and supplying correct information to parliament, then the public sector of 2,118 in October 1996 grew to a public sector of 4,574 by the October 211 employment survey report it would mean that the GSD had brought about an increase of 2,456 in the public sector an increase of 160%.

In the speech that these figures were quoted was from the October 2008 Employment Survey Report and this was put by the GSD at 3,908, an increase of 1,980 more public sector employees than in their first year October 1996 an increase of 89% over the first three terms was perfectly normal and acceptable and in fact I draw the attention of members to the description of what this growth meant by the greatest living Gibraltarian who said with what the Hon Mr. Feetham likes to call a "poker face" that it was not getting bloated it was debloating and that what he was doing with the figures that he had provided was not bloatifying or debloatifying.

As I have mentioned in my introduction, the need for self-sufficiency in the labour market was already identified by us in the aftermath of the Brexit vote which was clearly going to result in a

Spanish veto, under EU law, on any new arrangement between Gibraltar and the EU. This was subsequently manifested when the exit date arrived.

For this reason, we formulated in the National Economic Plan, a different economic structure from the one that had operated since the GSD formed Government in 1996.

Instead of a policy of increasing the size of the working population by relying on ever larger numbers of frontier workers we put in the manifesto a cap on its size at 32,000 which was where we were expecting the labour market to be with the impact of Brexit but not with the impact of Covid, which was not even on the horizon in the 2019 General Election.

The Covid lockdown in fact reduced our workforce from 30,603 to 29,316 between 2019 and 2020 when we had been expecting that it would grow from 30,603 to around 32,000.

The Covid drop of 1087 was mainly a reduction in construction and hotels and restaurants sectors due to the lockdown.

The clear message I want to send is that we are no longer in the business of chasing an ever increasing labour market which history shows brings short term benefits but eventually long term problems and in any event is not the direction in which science and technology is taking our society.

The October 2021 Employment Survey records the number of jobs up by 887 to 30,403 still below the 30.603 of 2019 and well below our cap of 32,000 for 2023 which we do not expect to be breached even if there is further growth in 2022.

At present the level of turbulence in the global economy is such that no realistic projection can be made for more than a few months ahead.

The private sector growth was 851, up from 22,787 to 23,638. This compares with 24,601 in 2019. The public sector however is up again at 47 extra jobs to 6,279 and therefore higher than 2019 when it was 6,115.

In October 2021, the public sector jobs accounted for 20.7% of the labour market, up from 20% in October 2019.

The 2018 Employment Survey was sent to 2,711 employers, 813 of which made a nil return and 11 did not submit a reply. The balance 1,887 provided 29,995 jobs.

The 2021 Employment Survey tabled at this meeting was sent to 2,902 employers, 889 registered a nil return and 2009 provided 30,403 jobs.

This indicates that following the lockdown there has been an increase in the number of active businesses from 1,887 to 2,009 an increase of 122 employers and an additional 408 jobs. In between 11/12 and 18/19 the total working population grew from 22,247 to 29,995. This was made up of an increase of frontier workers from 7,589 to 13,654 and an increase in the resident worker population from 14,502 to 16,148.

From 2018 to 2021, the picture changes totally, now it goes up to 30,403, but frontier workers decline to 13,439 and resident workers go up to 16,910. This is the direction in which the labour market is expected to be developing in the future.

Although I regularly provide updated figures on training in answer to questions from the Hon Mr Reyes, the last time I provided a summary was in the 2015 budget, 7 years ago.

The standard courses in construction and electromechanical trades continue as they were under the GSD and as they started under the GSLP when the training centre was open by a UK minister.

Outside these traditional areas we have provided training in the following;

Healthcare Assistant Courses

- Healthcare Assistant Course (Coordinated by Med Doc Ltd.)
- Healthcare Assistant Course (Coordinated by GHA)
- Healthcare Assistant Course (Coordinated by ERS)
- Trainee Care Worker (Coordinated by the Care Agency)

Insurance Course

- Chartered Insurance Institute (CII) – Foundation Insurance Course
- (CII) – Certificate in Insurance – Level 3
- (CII) – Support & Assistance with Levels 4 & 6 Diploma Qualifications

Shipping Agents Access Course

Driving Licence Training Programme

- Forklift
- Lorry
- Bus
- Last year we saw the first cohort of apprentices that went through the Insurance Apprenticeship scheme. The program finalises with the apprentices attaining their Level 3 Certificate in Insurance. This is a core qualification for insurance staff working across all sectors of the profession. The Certificate develops core knowledge and confidence of the key disciplines needed before you focus your subsequent studies and specialise according to your ambitions and career requirements.
- It provides a grounding in basic general insurance principles including the regulatory environment, key disciplines of underwriting and claims, in addition to popular products such as motor, household, healthcare and packaged commercial insurances.
- The Apprentices were placed within local insurance firms and once the course was finalised they were permanently employed. This year we have seen a greater interest from the industry which has led to us increasing the number of trainees.

- The Course is being delivered by a Fellow of the Chartered Institute of Insurance, who is also one of the nine assessors in the UK. The first local to be give such a privileged position within the Institute.

- Another industry that was lacking with regards to qualified locals was that of commercial divers. There are currently a number of companies in Gibraltar that specialise in this industry. In the next couple of days, we will be commencing the Commercial Diver Apprenticeship scheme. The scheme is designed to offer an incremental and staggered learning process, to develop eligible candidates over an entire year, with those who complete all stages acquiring full Commercial Diver Certification and an offer of Full Time Employment. However, to maximise the Net Benefit for all candidates and the project as a whole, the developmental aspect of the course is formulated to ensure that even those that do not complete the entire course will nonetheless emerge with some form of formal qualification/s, certified diplomas and skills which will in any case enhance their employment opportunities within our maritime industry.

- The apprentices will initially commence their training in Gibraltar and will later on be sent to the UK for a full seven weeks training by a UK certified institution. The successful completion of each Stage of the course will grant the candidate the following qualifications: -

We are now looking at new areas condoned with the changes I have spelt out for the structure of the economy and the impact such changes we have on the labour market, always with the view to seeking self-sufficiency.

Since I am involved with potential foreign direct investment parties I ensure that where we can we provide support for training in the new schemes.

We are at the start of this journey so we shall have to see with a passage of time how far it takes us.

In October 2011 the Labor Market reflected in the Employment Survey Report consisted of 2,121 employers 703 registered a nil return, 32 made no response and 1,386 reported providing 22,247 jobs.

So from 2011 to 2018 the economic growth was accompanied by an increase in active employers from 1,318 to 1,887 a total of 501 with the number of jobs growing by 7,752.

Looking to the future we would expect the growth in jobs to be less even if there is a growth in employers.

The 2021 results show the first post Brexit post Pandemic effect on the labour market.

From October 2020 the private sector has increased by 851 jobs from

22,787 to 23,638. This is still below the level reached in 2018 when it provided 23,969 and 2019 when it reached 24,001 its highest level.

The number of frontier workers increased compared to 2020 but are still below the 2019 level.

The net increase of 373 jobs was led by hotels and restaurants which at

357 actually finished higher than the 2019 level.

The public sector on the other hand with an increase of 47 means that were not yet succeeded in keeping their numbers in the public sector down and it is quite possible that future October 2022 Survey may show another increase notwithstanding the policy of not filling vacancies automatically when they come available.

The growth in the size on the public sector to 2018 from 2011 has been

948 and from 2018 to 2021 has been 757, as reflected in the annual Employment Survey Report which is of course a snapshot of those getting paid in the month of October in each year.

So the number went up by an annual average of 135 between October 2011 and October 2018, and then a further annual average of 252 from that year to last October.

The recovery of the economy reflected in the GDP which currently is estimated at £2.589B represents a growth of 5.4% over the final figure for the last pre-Covid year, 2018/19 with GDP which is confirmed now at £2.268B.

The employment survey report for October 21 gives an increase in the number of businesses as well as well as higher workforce compared to 2018/19.

The number of employers making a return of the employees in October 2019 was 1887, in the 2021 survey the number had grown to 2009.

That is to say the Gibraltar economy had increased domestic activity by 2021 and had 122 more employers than the last normal financial year before Covid 2018/19.

As well as the increases in employers and jobs in 2021, another indicator of the recovery of economic activity is the number of arrivals by air, shown in the relevant survey report.

In 2020 the number collapsed below the level of 1998 of 92,000 arrivals.

Having previously grown almost every year from 1988 to 2019 with the highest ever figure in 2017 at 281,000 arrivals.

The recovery from 90,000 to 129,000 arrivals means that last year we were below the level of 2003.

Hotel arrivals have not had the same consistency of growth of as air arrivals and they are not necessarily correlated because of the number of air arrivals that simply cross into Spain after landing without spending any time in Gibraltar.

However, there was in 2020 an over 50% drop in hotel arrivals from 92,657 to 44,830 taking us back to a level before 1995 when it was 45,056.

The 2021 recovery to 56,697 puts us back below the hotel arrivals for 2002.

The increase in arrivals is reflected in an increase of room nights sold of 96,500 in 2020 and 132,400 in 2021.

As regards average earnings of employees the figure was slightly down in 2021 compared to the previous year £182 a year. However, compared to the last pre-Covid year 2018/19 average earnings were higher in 2021 by no less than £1946 a year.

This performance is commensurate with the policy objectives of the 2019 manifesto to deliver an economy structured with a smaller, better paid workforce and higher productivity.

Social Security

Mr speaker I welcome the fact that the issue of community officer payments of £511 a month to male residents at the age of 60, which was costing the charity the sum of £5m a year is no longer being pursued because the charity is clearly not in a position to continue paying these sums and the government is not going to borrow an extra £5m a year to provide the funding.

I realise that in the past people have come to expect to receive benefits from the existing institutions whether they had a real need or not, as a matter of entitlement.

But those days are over and may never come back, given the mounting problems the western world is facing.

Most of those in the age group which actually was from 50 to 65 and included people retired at 50 and expecting to be paid in 10 years' time, have realised that the circumstances in which we are today change everything and there is no other choice. I have met some of them and explained these matters and I am grateful of their understanding of the situation.

Incidentally this system was introduced by the GSD in 2009 and would have been abolished by them in 2012 had they won the 2011 election because they said during the election campaign that this was what they were going to do. Although they also claimed that nobody would lose out the reality is that the alternatives being looked at were considering means tested benefits for people on minimum income which would have disqualified 99% of those getting the payment in the past.

The Leader of Opposition is therefore wrong to say that we were the architects of this though it is true we did not try to stop it when we came in because we were able to provide funding in excess of what the charity required and to be quite honest we were focused at that time on other issues.

The Community Officer allowance is still being paid to a reduced number of officers and in accordance the rules that we were the "architect" of, to use the terminology of the Leader of Opposition, when Robert Mor asked the charity to consider coming up with community work for a reduced number of men over 60 who were finding it very difficult to get employment and had no other income.

I am informed that in the period from July 2021 to April 202, 38 Community Officers have been taken on by the charity because they meet the criteria of being unemployed and have an income below £21.000.

I gave a full documented account of all these issues last year. Of course

I stand by the offer that I made on television that any of the persons' over 60 that wants to take up work at the National Minimum Wage can approach me directly and my department will find them the necessary employment.

There is a serious issue that needs addressing in respect of our social security system for pensioners and it is one that cannot be put right by simply equalising the ages up or down because the numbers will not add up as it is at the moment, never mind if we make it more generous.

The problem is that the contributions of those who join the scheme pay the pensions of those retiring, as in most other Social Security schemes elsewhere, but in our case because of the growth of the working population what we have is something in the order of 30,000 employees paying to barely cover the payment to some 6,000 pensioners a ratio of 5 to 1 in broad terms.

The Gibraltar Social Insurance scheme like those in many other countries is basically a Ponzi scheme. This, as members will know, is what happens in an investment system where investors are paid with the return of their own money or money of future investors.

With a stable workforce that hardly changes it would not be so but since the strategy in the economy has been driven by an ever increasing cross border workforce it has become one, because the current ratios of 5 contributors to the scheme just about covering one average pension means 30.000 paying and 6.000 being paid and there is a slight deficit that needs to be covered.

The annual funding deficits were covered in the past from Government Surpluses, in the present financial climate, they would now have to be covered by greater borrowing, unless contributions are increased.

We have identified the need to restructure the system and put it on a viable footing for future generations but the scope for doing so is severely constrained by the requirements of the EU which are designed to promote the free movement of labour, an example was the cost of the huge bill that the UK finally paid in respect of Spanish pre 1969 frontier workers once Spain became an EU member. Members will recall that that saga finally came to an end with the Cordoba agreement that produced the Airport deal which was never implemented by Spain and the payment of £200m plus, back payments to Spanish pensioners which UK made as a quid pro quo.

We do not want to find ourselves in a similar situation in the future and the current systems therefore needs to be replaced.

For example, at the end of March this year social security pensioners had increased since 2011 by 34% in respect of resident pensioners and 53% in respect of non-resident.

As I have previously explained on the number of occasions the potential number of non-resident pensioners is a much bigger figure than that of resident pensioners given the acquired rights of former workers over the 43 years of EU membership.

It is a matter of simple arithmetic that if currently we have 30000 insured workers and their payments barely cover 6000 pensioner payments and the ratios of contributions to benefit are not dramatically altered then with the passage of time every additional pensioner added to the 6000 requires 5 additional workers added to the contributors.

So when the 30,000 become pensioners the work force would have to be 150,000, which is not going to happen.

I shall be initiating the process this year to reform the system and put it on a long term viable footing but the options that are open to us will depend on whether there is a Schengen Access Treaty with the EU or not, and if there is one whether it will involve the continued application of the EU constrains on the scope of the social security system which by definition limits the options open to us in the new structure.

The question of the alignment of the ages for pensions will be addressed at the same time, and of course it will be from age 60, as provided in our manifesto commitment.

The present social security contributions have since 1973 included those made by EU nationals who acquire a right to a pension if they have paid a years' contributions in Gibraltar and sufficient contributions in other member states that when added to their own year in Gibraltar would meet the minimum threshold.

The system known as aggregation and apportionment means you put all the contributions together and then each member state pays a share back reflecting the years' of work in that particular state.

There is a logic to this requirement which is to promote movement of labour in the European Union so that someone who works in several member states moving from one to the other of the 27 states is no worse off than someone who lives and works in his home state all his life and does not move.

The problem we have and no one else has is in relation to our size and the fact that the Gibraltarian work force is outnumbered by workers from other countries, EU and non EU, and this is exceptional.

The UK for example has a workforce of 32.7 million and by comparison with us a minimal ratio of immigrant workers.

I am bringing these issues to the notice of members so that they realise that when people make demands on the social security system it is not a straight forward matter of addressing their demands without studying the consequential repercussions on a bigger scale.

The Environment

Last year I reminded the House, in closing my budget contribution of the most dangerous issue that faces us in Gibraltar and the rest of mankind.

I explained why I believe the green initiatives are insufficient and will not save us from the global catastrophe.

I will remind members of my analysis.

As I said last year, beyond the green economy, there is the Circular Economy, which in my judgement is the only initiative that has a chance of stopping the climate change catastrophe.

The green economy is not enough because it only addresses how we produce what we consume.

It says and does nothing about the fact that we consume too much.

What it does is say we should produce what we consume with a less polluting, more environmentally friendly technology.

So if consumption of electricity is very high and growing what is wrong is that it is produced by fossil fuels. So we have natural gas instead of oil which is less polluting or wind and wave power or solar energy which is greener but we can still continue consuming ever higher amounts of electricity per capita.

Of course even if the green energy source is less damaging and less CO_2 producing it still needs us to use raw materials and metals to manufacture the substitute technology.

The scientific evidence is that 91% of the resources we take from nature is wasted to enable us to consume the remaining 9%.

The Ukraine war is having a negative impact on phasing out fossil fuels.

A new study says that the world is using more fossil fuels than ever as the transition to green energy stalls.

The Renewables 2022 Global Status Report says the share of wind and solar in the global energy mix has risen minimally in the last decade.

While renewables boomed in the electricity sector last year, they didn't meet the overall rise in demand.

REN21 is an international energy policy network made up of industry figures, scientists, and some governments.

Their 17th annual status report draws on over 600 experts to produce a snapshot of what is really happening in terms of renewable energy.

The study says that the transition to renewables, in essence, has stalled. The use of coal, oil and gas continues to dominate total energy consumption

The share of renewable energy has moved in the last decade from 10.6% to 11.7%, but fossil fuels, all coal and gas have moved from 80.1% to 79.6%. So, it's stagnating, and since the energy demand is rising, this actually means that we are consuming more fossil fuels than ever."

U.N. Secretary-General Antonio Guterres has warned that the Ukraine war is diverting attention away from climate change, while at the same time showcasing the world's “suicidal” dependence on fossil fuels.

The climate crisis is a race the world is losing. Rising temperatures are worsening natural disasters, fuelling environmental degradation, and threatening food and water security. Scientists estimate that limiting warming to 1.5°C would reduce the odds of initiating the most dangerous and irreversible effects of climate change, according to the highly regarded firm McKinsey & Company

STOCKHOLM+50, at the start of this month was held on 50^{th} anniversary of first intentional climate change meeting

Speakers called for Circular Economic Models to Promote Reusability, Reduce Waste.

The international community must urgently transition from unsustainable patterns of consumption and production to circular economic models that promote reusability and reduce waste, speakers stressed as the Stockholm+50 international meeting concluded.

Major economies have neglected the promise made at the 1972 United Nations Conference on the Human Environment, so their little reason to expect this to change.

In fact, the warning came even earlier that 1972.

The Waste Makers is Vance Packard's pioneering 1960 work on how the rapid growth of disposable consumer goods was degrading the environmental, financial, and character of American society by introducing "the systematic attempt of business to make us wasteful, debt-ridden, permanently discontented individuals,".

Planned obsolescence.

The Waste Makers was the first book to probe the increasing commercialization of American life—the development of consumption for consumption's sake. Packard outlines the ways manufacturers and advertisers persuade consumers to buy things they don't need and didn't know they wanted, including the two-of-a-kind of everything syndrome—"two refrigerators in every home"—and appeals to purchase something because it is more expensive, or because it is painted in a new colour. The book also brought attention to the concept of planned obsolescence, in which a "death date" is built into products so that they wear out quickly and need to be replaced. By manipulating the public into mindless consumerism, Packard believed that business was making us "more wasteful, imprudent, and carefree in our consuming habits," which was using up our natural resources at an alarming rate.

Two years earlier in 1958, Harvard economist and public intellectual John Kenneth Galbraith published The Affluent Society. Galbraith's celebrated book examined America's new post-World War II consumer economy and political culture. Galbraith warned that an economy where "wants are increasingly created by the process by which they are satisfied," was unsound, unsustainable, and, ultimately, immoral. "The Affluent Society," he said, was anything but.

What started off in the USA has become the norm in the Western World and other so called affluent economies and its aspired to by the developing countries.

The crucial issue will be how the global community can reconcile the conflict between those who have too much and resist giving it up and those who don't have it but want it.

The deglobalisation which threatens to slow down economic growth may help.

The Covid lock down showed how it was bad for economic growth but good for the environment highlighting the fact that FastTrack growth produces more damage to the environment.

The move to the circular economy is still in its infancy, and may never grow big enough to change the worsening climate crisis situation.

Our policy in Gibraltar will have no impact on the planet but we are clearly committed which I believe is the only way ahead which is no longer consistent with an ever bigger GDP.

Ends