

Summary of 2009 Budget Points.

Economy

- The Economy remains in good shape and Government finances remain healthy, solid and stable and robust, despite global economic and financial turmoil.
- The Economy continues to grow.
- In 2007/8 the economy grew by 8.8 % to £804m. In the year to March 09 estimated to have grown by nearly 6% to £850m.
- The number of jobs in our economy grew in 2008 by 813 to a record 20,509, despite global economic crisis.
- Imports increased by 5.7% in 2008, to £450 million.
- Net Public Debt falls to just 7.5% of GDP.
- Government Overall Budget Surplus of £15 million for 08/09. Overall Revenue was £304m. Overall expenditure was £289m.
- Revenue from personal and Company Tax, Gaming taxes and Social Insurance contributions and import duties rose to record levels, despite the global economic downturn.
- The High levels of revenue, employment and economic activity are continuing this financial year. (April and May 09).
- Total capital expenditure on projects last year: £110m. Estimated capital expenditure this year £105m
- The Government will issue a new Debenture, paying interest at 4% or Base Rate, whichever may be higher. The issue is open to all resident savers. Maturity is June 2012(3 years). This gives savers high interest and protects them from rising interest rates. This protection is extended to the Pensioner 4.25% Debenture.

Measures.

- Discount for prompt payment of rates increased by another 10% to 20% for wholesale and retail premises, bars and restaurants.
- Government to eliminate administrative delays and pay all undisputed invoices within 30 days.

- New General 10% corporate tax rate comes into effect on 1 January 2011.
- Corporate tax rate reduced from 27% to 22% for 09/10.
- 10% start up rate with effect from 09/10, until 31 December 2010, for companies established after 1 July 2009.
- Personal Taxation.
 - Lower Rate and zero rate Bands added to the Gross Income Based Systems to deliver annual tax cuts of upto £640 to 3,600 tax payers earning less than £25,000 per annum.
 - The 30% Gross Income Based band reduced by 1% to 29%, delivering up to £750 per annum to 4000 taxpayers, in effect delivering a saving of 1% of a taxpayers income above £25,000.
 - The Top band rate cut from 38% to 35%.
- All allowances in the Allowances Based System increased by 2.8%.
 - Carry back on Retirement Annuity Contracts or Personal Pension plans abolished.
 - HNWI/Cat 2 tax rises to minimum £20,000, and maximum taxable income to £70,000.
- Social Insurance Contribution rise 4%, for both employers and employees contributions.
- Electricity FCA Formula rises to 4.00p – effectively a 6% increase in electricity bills.
- Gaming Machines annual licence fees rise from £500 to £1000.
- Widowers entitled to pension on same terms as widows. Discrimination against widowers eliminated.
- Import Duty on petrol rises by 4p a litre.
- Import duty on “roll your own” tobacco rises from £3.25 to £9 a kilo.
- Upper Rock Entrance fees rise with effect from 1 October 2009 by £2 for adult, £1 for a child and 50p for a vehicle. Tour operators will pay Government £5 per person.

CHIEF MINISTER'S BUDGET SPEECH

25th JUNE 2009

1. INTRODUCTION & SUMMARY

Mr. Speaker, it is an honour for me to present my fourteenth budget of Government revenue and expenditure, and to report to the House on the state of public finances, the public sector, the economy at large, the Government's capital investment programme, the global environment in which our economy is operating, the impacts and challenges that it provides, how we are faring, and what the Government is doing in response.

Last year I alluded to the credit crunch, the high oil prices and the (then) uncertainty about whether the world would plunge into recession. Everyone will have followed in the press the financial and economic events that have unfolded in most of the world in the last 12 months.

The world has plunged into one of the deepest recessions in living memory. Its length is not yet determined. The global financial system has been gripped by a credit crunch resulting from a loss of confidence between banks, concern about the quality of the covenant of borrowers, and the need for banks to conserve and rebuild their capital bases. The result has been a huge reduction in the amount of credit available in the markets, and where it has been available, a very significant increase in its cost.

The combined effect of global recession and credit crunch has fuelled a very significant reduction in consumer demand and in investment, and thus in economic activity, in almost all sectors of the global economy. As everyone in Gibraltar has seen in the press and knows, this in turn has caused huge rises in job losses and unemployment around the world, and the public finances of most governments to deteriorate sharply.

In Gibraltar this has not been the case, even though we are not immune to what is happening elsewhere and there has been some negative impact on our economy, albeit on a scale that does not represent a serious challenge to our economy.

Indeed, our economy in Gibraltar has continued to grow at a healthy rate and the number of jobs in our economy has also continued to grow to record levels. Such minor employment dislocation as there is can be readily absorbed by other employers. The prospects for our economy remain sound and stable, including in the short term.

In recent months I have commented that the world is a different and changing place following all of these events, and that those small economies that did not recognise that and change with it would pay a heavy price. We have been foretelling that change for nearly a decade now, and repositioning accordingly. We are therefore well placed and prepared to continue to do so in response to further change, and indeed to benefit from it.

In Gibraltar's case we have also faced during the last 12 months the effects of the weakening of Sterling, especially against the dollar and the euro (recently recovered in part).

One of the things that we are doing to maximise our vigilance for any early signs of adverse effect of the global economic environment on our own economy, is to keep a much closer eye on indicators of very current economic activity. Traditionally, we have followed our indicators on a quarterly or even annual basis. We are now analysing and assessing many indicators of current levels of activity on a monthly basis, so that we get, and can react to, any sign of ill effect at the earliest possible opportunity. I will be sharing some of these with the House in this address.

And so, Mr. Speaker, and despite what is going on in the world around us, our economy continues to grow and remains in very good shape, reflecting its diversity, efficiency and resilience. Employment remains at record levels and job security has not significantly deteriorated. Public finances remain healthy, solid and stable. All this is very positive in the current global environment.

Equally positive to our economic outlook has been the Government's victory in the European courts in the Tax Case, which, as foreseen has reaffirmed Gibraltar's freedom to have its own tax system, separate and different to the UK's. This is absolutely essential to our continued economic, and thus social and political viability as a small country.

We are similarly confident of success in the appeal brought by Spain. As I have already said publicly, that appeal is very long on politics and short on legal merit. The bringing of that appeal by Spain, in circumstances which the Commission itself thought not worthwhile, and the language, terms and tone in which it has been, unnecessarily, formulated, is an act motivated exclusively by political desire on Spain's part.

As this House knows, this Government believes in the value of, and remains committed to political dialogue with Spain. However, it is equally true that there is unlikely to be any significant, meaningful or enduring improvement in relations between Spain and Gibraltar until the Spanish establishment is able to rid itself of precisely the instinctively hostile and offensive mindset to which the fact, language, tone and terms of its tax case appeal, stands as a monument of very recent creation. Confident of our position, Government will now press on with deploying the tax changes in manner to which I will speak later in this address.

Our vision and plans for our economy and for the development of our city and our society, have not changed from those that I outlined last year, and of which I will today provide the House with a progress report.

2. The state of the Economy: overall picture

(1) Economic growth – GDP

As I have said, our economy has continued to grow despite the global economic and financial environment. In the year to 31 March 2008 the economy grew by a further 8.8% to £ 804 million. In the year ending 31 March 2009 it is provisionally estimated to have grown by nearly 6% to £850 million. Current economic indicators all point to continuing significant growth in the economy during the current period of time.

(3) Employment – number of jobs in economy

Employment reached new record levels in October 2008, when the figure stood at 20,509, an increase of 4.1%, or 813 jobs over the October 2007 figure.

(4) Imports

The level of imports (excluding petroleum) increased in 2008 (to December) by 5.7% to £450 million.

(5) Government Budget Surplus

The Government's Overall recurrent revenue and expenditure Budget was again in surplus for the year just ended to March 2009 to the tune of £17 million, or 6% of recurrent overall expenditure. Net of non recurrent exceptional items, the surplus was £15 million.

(6) Public debt

Net public debt as at 31 March 2009 stood at £ 62.5 million, or just 7.5% of the estimated GDP as at that date of £ 850 million.

(7) Government Revenue (in year just ended On 31March 09):

- Government revenue from personal income tax rose to a record £109 million, an increase of 6.5%, thanks to the increase in the number of jobs in the economy, and despite the impact of significant tax cuts introduced in recent years.
- Government's revenue from company tax rose to a record £25.8 million, a 6.5% increase over the previous year.
- Government revenue from import duties also rose to a record £47.3 Million, an increase of 11.5% over the previous year.
- Government revenue from social insurance contributions also stood at a record £ 50 m, an increase of nearly 21 % (which includes 9 months of the 10% increase rate announced in the budget last year)
- Gaming tax receipts held steady at 9.8 millions. Practically the same as the previous record year.

Mr Speaker, this summary of Government revenue focuses on the principal items, which are also those that reflect, and thus indicate levels of economic activity. They demonstrate the resilience of the economy and of public finances in the face of global economic and financial conditions.

3. The economy continues to grow

Mr. Speaker, I said earlier that the economy was continuing to grow even now, and that the Government was micro monitoring the available statistical indicators of current levels of economic activity and

employment. These show that the economy broadly continues to perform in accordance with the indicators that I have just provided.

- During January to June 2009 import duty levels do not indicate any material decline in imports
- PAYE yields, which indicate both employment levels and represent the largest source of Government revenue, also point to employment and fiscal resilience. The yield rose in each of the last two quarters of the last financial year, the fourth quarter in relation to the third, and both of them in relation to the same quarter of the previous year.

The yield during the period comprising the first two months of this (April and May) is up on the same period last year, and the yield for the 12 month rolling year to end May 2009 shows an increase of 6%.

- Similarly, current collection of Social insurance contributions (excluding government employees) shows that employment levels are being at least maintained, if not even further increased. The yield in the last quarter of the last financial year rose significantly in relation to the penultimate quarter, and both were significantly higher than the corresponding quarters the previous year.

The yield in the period April and May 2009 was higher than the same period last year, and the rolling 12 month period ending May 2009 was showing an increase of 14.31%.

Mr. Speaker, these very current indicators justify our confidence that the economy is even now continuing to grow and to generate still greater number of jobs.

4. Government Revenue & Expenditure : 2008/09 (last year)

In the financial year just ended on 31 March 2009, the Consolidated Fund revenue and expenditure budget was in surplus by £16.7 million, struck after £2.3 million of non recurrent exceptional expenditure.

This exceptional expenditure was £1.95 million on the Chief Justice Tribunal, and £0.35 million spent in an unsuccessful attempt to find a compatible bone marrow donor in Gibraltar for a very sick baby. I hope that the House will agree that in our economically prosperous small country this last item is an appropriate way to spend surplus funds

which in other countries may have been thought to be disproportionate. I am sure that this House will consider such occurrences as a positive and valuable distinguishing characteristic of this caring community, and a mark of its collective solidarity with individuals in extreme need.

The £ 16.7 million Consolidated Fund surplus achieved compares favourably to the £11.4 million that we had estimated at the start of the year, and the £ 15.7 m that we achieved the previous year.

Consolidated Fund Revenue came in at £ 243.6 million (an £11.7m or 5% increase over the previous year's revenue), and against the £ 231.8 million that we had estimated. The main drivers of increase in Consolidated Fund Revenue were:

	Against 08/09 est.	Against 07/08 actual
	£ Millions	
Income Tax	3.3	6.7
Company Tax	1.8	1.5
Import Duty	4.3	4.9
Gaming Tax	- 0.4	0.8
Rates	0.4	0.8

Consolidated Fund Expenditure came in at £ 226.9 million (inclusive of the exceptional expenditure that I have mentioned) against the previous year's £ 216.2 m (an increase year on year of £ 10.7 m, or 5% - or, if you strip out the exceptional non recurrent expenditure, £8.4m or less than 4%) and against an estimate of £ 220.5 million at the start of the year. This represents reasonably good budgetary discipline and cost control by departments.

The main drivers for the increases in Consolidated Fund Recurrent Expenditure against actual expenditure in 2007/8 were:

	£ Millions
Pay	2.0
Disposal of refuse	0.5
Contribution to ECA	0.6
Contribution to SSA	0.6
Payment to GEA	2.0
Other departments (items in excess of £100K)	6.2
(Less savings in departments)	(4.9)
Net	7.0

Accordingly, revenue was £11.8 million, and expenditure £6.4 million, higher than had been estimated at the start of the year, thus producing a surplus of £16.7 million, £ 5.4 million higher than had been estimated.

The £16.7 million surplus represents a cushion of 7.4 % of Consolidated Fund Recurrent Expenditure. However, stripping out the £2.3 million of Exceptional expenditure, the £19 million recurrent budget surplus achieved represents a very healthy 8.5 % cushion over recurrent Consolidated Fund expenditure.

In addition, Mr Speaker, last year we transferred £18.5 millions from the Savings Bank Surplus Account to the Consolidated Account (or Government) Reserve.

Mr. Speaker, while the Consolidated Fund accounts only for Government Departments, the figures for the Overall Government Revenue and Expenditure include, in addition to government Departments, all statutory agencies and authorities for whose finances the Government is ultimately liable. These are therefore the Government's preferred statistics since they reflect its real overall fiscal position.

The Overall Government Revenue in the year just ended on 31 March 2009 was £ 304.5 million. As the House knows, this of course excludes the hypothecated revenue of special funds, such as the Statutory Benefits Fund's revenue from Social Insurance contributions, and the revenue of the Savings Bank, and all other moneys that are not available to the Government for general expenditure or defray or reduce

expenditure for which the Consolidated Fund would otherwise be responsible.

The Overall Revenue figure of £304.5 million in 2008/9 compares with a figure of £281.6 million in the previous year 2007/08, a year on year increase of £22.9 million, or 8.1%.

The main drivers for this Overall Revenue increase were as follows:

- Consolidated Fund Revenue increase £ 11.7 m
- The Gib. Health Authorities Share of Social Insurance contributions and other revenue £ 8.6 m
- Increased revenue of Gib.
Electricity Authority £ 4.0 m

Other more minor contributors were a £2m reduction in the Revenue of the Gibraltar Development Corporation, and a £0.6m increase in the Revenue of the Sport and Leisure Authority.

The main sources of Overall Government Revenue (and the previous year's comparator) were as follows:

	08/09	07/08
	£	millions
• Consolidated Fund	243.6	231.9
• Gibraltar Health Auth.	37.4	28.8
• Gib. Electricity Auth.	21.0	17.0
• Elderly Care Agency	0.7	0.7
• Gib. Development Corp.	1.2	3.2
• Sport & Leisure Auth.	0.6	0.0
Total	304.5	281.6

Overall Government Expenditure was £289.6 million inclusive of (or £287.3 million exclusive of) the £2.3 million of Exceptional Expenditure to which I have referred. The Overall Expenditure was incurred in the following entities (with previous year comparator):

(1) Consolidated Fund

	08/09	07/08
	£ millions	
- Government Occupational Pensions	- 21.4	20.4
- Interest on public debt	- 5.6	5.4
- Social Insurance contr.	- 3.4	2.9
- Other CF Charges	- 1.7	2.0

- Wages and Salaries etc	-	63.9	61.9
- Contracted Services	-	25.2	22.8
- Other dept. Costs	-	30.8	29.5
- Contribution to Statutory Benefits Fund	-	10.0	10.0
Sub-total		162.0	154.9
(2) Gibraltar Health Auth.		67.0	60.3
(3) Gibraltar Electricity Auth.		32.6	26.7
(4) Social services Agency		5.4	4.8
(5) Elderly Care Agency		7.5	6.9
(6) Gib Sport & Leisure Auth		2.5	2.0
(7) Gib Development Corpn.		6.6	6.4
(8) Social Assistance Fund		3.7	3.7
(9) Exceptional non recurrent ex		2.3	0.0
TOTAL		£ 289.6	265.7

These figures show a year on year increase in overall expenditure of £ 23.9 millions (9%), driven principally by higher Health authority costs (£6.7 m), higher fuel costs in the GEA as a result of rising oil prices (£ 5.9 m) and the exceptional expenditure (£ 2.3 m).

The House may be interested in the following analysis of Overall Government Expenditure:

• Occupational pensions	£ 21.4	7.35 %
• Payroll	£ 121.2	41.92 %
• Interest on public debt	£ 5.6	1.92 %
• Contracted Services	£ 25.2	8.70 %
• Other costs	£ 116.2	40.11 %
TOTAL	£ 289.6	100.00 %

Accordingly, the Overall Revenue and Expenditure position last year was a surplus of £14.9 million (5.2% of recurrent overall expenditure) or, if you exclude the exceptional expenditure, £ 17.2 million (6% of overall recurrent expenditure).

5. Recurrent revenue and expenditure budget: 2009/10

Mr. Speaker, for the current financial year, which started on 1st April 2009, we are estimating Consolidated Fund recurrent revenue of £249 million, which conservatively estimates a rise of £ 5.5 m, or 2.3% over last year's revenue. Consolidated Fund recurrent expenditure is estimated at just under £ 230

million including a Supplementary Expenditure provision of £ 8.5 millions, compared to £224.6 m last year, an estimated increase of £ 5.4 m or 2.4%.

So, Mr Speaker, we are estimating a Consolidated Fund Surplus of £19 millions. As I said last year we estimate revenue conservatively because we cannot continue to assume exponential increases in jobs in the economy year in year out. If we do not succeed in limiting expenditure increases at a historically very ambitious 2.4%, any excess will likely be met from revenues being higher than estimated, failing which there will be degradation of the estimated surplus of £19 millions. But we are trying, and in part succeeding where possible to instil a culture of budgetary discipline, with expenditure rises focused on policy driven planned and programmed service improvements or expansions.

The main expenditure rises in the Consolidated Fund are expected to be seen in interest charges on net public debt (up by £ 3 m, reflecting the estimated rise in net public debt and the net cost of carrying aggregate public debt as cash reserves, where interest earned on deposits will be less than interest paid to borrow the money), and payroll cost (£5.00 m reflecting the annual pay review and some increased recruitment in the Care Agency – previously the Elderly care and Social services Agencies- to staff the recently announced extra elderly care residential places). This year we are reducing the contribution to the Statutory Benefits Fund from £10 m to £ 8.5 m to reflect the increasing revenue of that Fund from rising Social Insurance Contributions.

At the Overall level, recurrent expenditure is estimated to rise from £287.3 millions last year to £295.6 millions this year, an increase of £8.3 millions or 2.9%. As I said earlier, there is a Supplementary expenditure vote of £8.5 millions in addition to the estimated increase of £8.3 millions from which to meet Pay Review and other expenditure that may turn out to have been underestimated.

We are estimating overall revenue of £314.6 millions, up by £10.1 millions or 3.3%. We are therefore estimating an Overall recurrent revenue and expenditure budget surplus also of £ 19 million, although the extent of this surplus will depend on the effect of oil prices on GEA expenditure and also the expenditure on demand led consumption of medicines in the GHA.

5. Capital Expenditure

Mr Speaker, I have explained in this House before how the Government in 1996 embarked on a capital investment programme to physically modernise and transform Gibraltar and its public amenities and services. The vast bulk of this has been funded by investing a part of the increasing government revenues each year, as reflected in its annual

budget surpluses, fruit of Gibraltar's increasingly successful and prosperous economy. Net Public debt has risen very little.

In all, during the last 12 years we have invested a total of £427m on capital projects, of which £ 278 m has been incurred through the Improvement and Development Fund, and £ 149 m through Government owned companies.

Mr. Speaker, even though the budget book forecasts last year's spend on capital projects to have been £41.83 millions, it was in fact £39.86m. That is £14.86m more than originally estimated, and £ 7.8 m more than in the previous year.

£10.6 m was spent on Head 101, which is effectively departmental recurrent capital expenditure. £ 2.14m was spent on Head 102, Central Public Administration and Essential Services, which is also effectively departmental recurrent capital expenditure.

Indeed, Mr. Speaker, Honourable members will notice from the Budget Book that, to reflect these facts, Heads 101 and 102 have this year been amalgamated into one Head , 101. So that with effect from this year there is one head, 101, which contains all what is effectively recurrent departmental capital expenditure, and one head, 102, that contains all capital projects.

Expenditure on projects last year (head 103) was £ 27.19 m, the main items of which were:

- Insulation of OESCO station 1.20
- Upper Town Renewal 1.80
- Street Beautification 1.78
- MOD & Other Relocations 15.27
- New Prison 3.00
- New Air Terminal 2.70

Mr Speaker, in my budget speech last year I said that Government and Gibraltar stand on the threshold of an unprecedented phase of public investment in our city, its infrastructure and amenities, the scale and breadth of which will transform Gibraltar and ensure its future as a modern and prosperous European city well into the foreseeable future.

And so, for the current financial year, we are estimating a spend of around £105 million, which comprises £11 m in Head 101, Departmental, and around £95 million of projects, all of which are ongoing. The main ones are:

- Beautification projects 2.8
- New roads, tunnel, and Dudley Ward 28.2
- Relocations 18.0
- New Prison 2.5
- New Air Terminal 24.0
- Women's Hostel 1.6
- New Law Courts 1.5
- New Rental Housing (via GIHL equity) 15.0

Mr Speaker, these projects have a balance to complete of £ 55.6m. How much of the £105 million is actually spent during this year will depend on the level of Departmental spend, and on the progress on site of the various projects. These figures represent the best estimates of the project managers of how much they believe will be incurred this year. What is not will be spent next year.

Last year's Improvement and Development Fund spend of £39.86 m was funded as to £ 10.8 m from the proceeds of asset sales (had been estimated at £9.5m), £1m from grants and reimbursements and the balance of £28 million from reserves (including the £16.7 m budget surplus earned during the year).

But Mr Speaker, last year, in addition to the I&DF spend of £39.6m, a further £70 million was spent through Government owned companies, making a total for the year of £109.6 million. The £70m company spend was on the following projects:

- Mid harbour reclamation 2.0
- Infrastructure review 1.2
- Airport works 5.1
- Upper town properties 1.9
- Rental Housing estate 4.6
- Retrenchment Block 1.4
- Leisure Centre 2.3
- 150 Strand London 2.7
- Car parks 1.2
- Others 2.6
- Waterport Terraces 23.3
- Nelson's, Cumberland & Bayview 21.6

The last two home ownership projects will produce receipts as properties are completed and sold to their buyers.

This year's estimated Improvement & Development Fund spend of £105 million is estimated will be funded from asset sales (£8.2 million), grants and reimbursements (£0.5m) and Contribution from reserves and loans (including this year's estimated budget surplus of £19 million) of £96 million. The latter may be lower if asset sales produce more than £ 8.2 m, which is a distinct possibility.

Mr Speaker, In addition to these projects, Gibraltar Car parks Limited, a wholly owned Government Company is currently building a 1000 space multi storey car park at Devils Tower Road (costing around £16m), and will start the building of other car parks around Gibraltar, using its own revenues and bank project financing facilities.

6. Government Reserves and Debt

Mr. Speaker, as this House knows, the Government has always maintained, and continues to maintain an economically very prudent approach to public debt. Public debt is used to fund capital investment projects and never recurrent spending. In many countries government borrowing is used to fund annual budget deficits. This does not happen in Gibraltar, not least because our budgets have been and remain in permanent, structural surplus, year after year. The question of funding deficit budgets therefore simply does not arise here.

Net Public debt (that is Government borrowing less government cash reserves) stood as at 31 March 2009 at £62.5m (not £ 67.649 m as forecast in the Budget book), up from £42.6 m the previous year, reflecting the increased capital spend.

At £62.5 million, net public debt stands at less than 7.5% of 2008/9 GDP assuming just 5% economic growth in that year. To put this figure into historical context, 15 years ago in 1995 net public debt stood higher at £78 million when GDP was only £340 m, and represented 23% of GDP.

So, the current figure of £62.5 m is very low by all usual economic measurement of public debt, and indeed historically for Gibraltar.

In the UK for example it is 47% and scheduled to rise to 70% and higher. Given the further rise in capital spend this year we are estimating that at 31 March 2010, net public debt will stand at £116 million. Assuming just 3% economic growth in 2009/10, that will represent just 13% of GDP, still very low. And even in the most unlikely event that 2009/10 sees no economic growth, net public debt will still represent just 13.6% of GDP.

Even with the Government's extensive capital investments programme, we do not envisage net public debt rising above 20% of GDP, which is economically lower than it was in 1995.

Mr. Speaker, as the House is aware from legislation that it has recently passed, the level of public debt permissible by statute has changed from a formula based on the gross debt to the same formula but based on the net debt. In other words, what the Government can borrow is not limited to a particular figure, but rather limited by a maximum permissible difference between what it borrows and what it has in cash reserves.

Moving to this more normal and economically more relevant measure of public debt and its limitation, whether by law (as in our case) or by policy (as is the case in most other countries) has enabled the Government to do three things, without degrading its fiscal position or any aspect of public finances:

- (1) First, it has enabled the Government to provide savings opportunities to local savers through Government Debentures at rates which they could not obtain in the present market or in any reasonably foreseeable likely market conditions. Without the change the Government would have reached its statutory ceiling of gross debt, and would not have been able to carry on issuing Government debentures;
- (2) Second, the Government has been able to take full advantage of the excellent borrowing terms secured on £150 million of bank medium term revolving credit facilities that we had negotiated prior to the credit crunch, and coupled with current low interest rates and the use of credit swap agreements, to lock into historically low interest rates;
- (3) Third, the Government has been able to assure itself of sufficient liquidity, including potential funding for its capital projects programme, despite the current very tight conditions in the banking sector reflecting the credit crunch and at lower cost than is currently available in the credit markets, even for valued covenants like the Gibraltar Government's..

These three things provide stability and certainty of Government's liquidity and funding requirements, at reduced cost, while simultaneously providing generous interest rates to local savers.

Mr Speaker, some of these arrangements post date the printing of the Budget Book, and I would therefore like to provide the House with restated figure of Gross Debt and cash reserves. There is no increase in net public debt because the moneys drawn down from the banks has simply been added to the Government's cash reserve:

	31 March 09 Forecast	31 March 10 estimate
Gross Debt	191.5	350.0
Cash Reserve	129.0	234.6
Net Debt	62.5	115.4

Mr Speaker, the Government has further taken steps to ensure that it is taking no risk that it might lose borrowed money through the failure of the financial institution with which reserves are placed on deposit, while retaining liability to repay the lending bank. We have done this by placing the moneys on deposit with the same bank from which the moneys were borrowed on contractual terms that include the right of set off. Therefore, if the bank with which we place the deposit fails and Government loses the moneys on deposit, the Government's obligation to repay the debt is similarly extinguished in the same amount. In addition we have placed funds borrowed from savers through Debentures on Deposit in an account of the Gibraltar Government that we have established at the Bank of England.

Mr Speaker, at present the Government has open an issue of 4.25% Debentures maturing in December 2011, purchasable at par, but open only to pensioners. The Government want to extend this scheme and facility to resident persons who are not pensioners.

Accordingly, the Government will today open for sale an issue of Debentures at par, paying interest at 4.00% or at Base Rate, whichever is the higher, per annum. Interest will be payable monthly. The Debenture will mature on 30th June 2012, and the capital cannot

be withdrawn before that date. The issue is limited to a maximum of £100,000 per individual. Any current holder of Government or Savings Bank monthly debentures may transfer into this new higher rate issue immediately.

As a safeguard to savers against an unexpected rise in interest rates above 4% during the next three years, the Government will pay interest at Base Rate if that should be higher than 4%. This same safeguard will be extended to the current issue of Pensioner 4.25% debentures, including to existing holders. This means that savers who purchase these debentures will not be locked in at unfavourable interest rates if market interest rates should rise.

7. Further transparency and control of public finances

Mr Speaker, the House will be aware that since 1996 this Government has taken unprecedented steps to ensure that all statistics and information, relating to all aspects of public finances are available to this House and are before it at Budget time. Already we have restored 100% of Government revenue and expenditure to the appropriation mechanism of the House, and the revenues and expenditure of all government controlled agencies and authorities appear as an annex in the budget book that supports the Appropriation Bill.

The Budget Book has been restructured to maximise the coherence and accessibility of the information provided in it. There has been a consolidation of all the social insurance funds into a single Statutory Benefits Fund, and Government Borrowing legislation has been modernised and reformed. All government cash reserves are now held in a single Consolidated Fund Reserve. In short, transparency and accountability to this House, and beyond it to the public at large have been transformed. But there is still more that can and will be done, this year.

We will bring an amendment to the Public Finance (Control & Audit) Act that will treat the revenue of government controlled agencies and authorities as government revenue, and their expenditure as government expenditure for all the purposes of the Act, and thus bring them within the Appropriation mechanism of this House as if they were Government Departments. In this way we will effectively make the

Overall Revenue and Expenditure of the Government subject to the House's Appropriation mechanism, and not just the Consolidated Fund as required by the Constitution and the Act.

The Government will also begin publication this year of a new annual report dedicated to the publication of a range of new economic and public finance statistics, which today are not available in easily referable form, even if all the information is technically in the public domain. We shall be publishing shortly the list of statistics that will be included in this new publication that will be known as the "National Economic Statistics".

While on this subject, I should alert the House to a helpful change in the 2008 Employment Survey which they will not yet have been able to notice. Well two changes really.

The first is that the Gibraltar Government is disaggregated from the MOD, which means that users of the survey will be able to distinguish clearly between the two. The second is that the Gibraltar Government part of what used to be called the Official Sector has been renamed "Public Sector" and now includes the Gibraltar Government, all Government controlled agencies and authorities, and all wholly owned Government companies. But the Gibraltar public sector now excludes the MOD which is a department of the UK Government. The three categories are now:

- Public Sector (as defined above)
- MOD
- Private Sector

8. The Public Sector

Mr Speaker, 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, recently published uses the word " bloated". This is not true.

First, it ignores the fact that, in order to provided 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. The Government therefore rejects the notion that the public service 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 does Government believe that history in Gibraltar or elsewhere shows that services delivered by the public sector are more expensive.

Second, as I have explained on numerous occasions before, the public sector is not getting bigger and more expensive. 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 terms.

In 1988 when the total number of jobs in the economy was 12,995 the number of Gibraltar Government jobs was 4028, representing 31% of the total. In 1996, the government accounted for 2718 jobs out of a total in the economy of 12975, representing 21 %. As at October 2008, the Government accounts for 3998 jobs out of a total of 20,509 jobs in the economy , representing just 19.5%, the lowest it has ever been. And this after hundreds of employees that used to rank as private sector even though they were funded by the government have now been brought formally into the public sector and counted as such. The comparable figure in 1996 was in reality much higher than 2718. In the UK the public sector accounts for 20% of all jobs.

In 1988 Government payroll cost as a proportion of total Government revenue was 38%. In 1999 it was 38% and in 2009 it is still 38%.

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% . In 2000 it was 35%% and in 2009 it stands at 34%. In the UK it stands at 38%.

Public expenditure as a proportion of GDP is falling, not rising. And this despite huge extra recurrent expenditure by the Government in the last 10 years on expanding and improving our health, social and education services. This is one of the ways that the Government distributes the fruits of Gibraltar’s economic prosperity. We think it is a good thing to do, not a bad thing, even though it means rising public expenditure.

If the Government were funding this from rising taxes the call for expenditure cuts may be understandable. But at the same time as

increasing public expenditure on improving care services, we have also delivered huge cuts in personal and corporate taxation, another of the ways in which the Government distributes the fruit of our economic prosperity.

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

A quite different debate is whether, regardless of its size – and whether getting bigger or smaller – the public sector needs to change some of its practices to deliver better efficiency and value for money to the taxpayers. That is undoubtedly true, and trade unions have no difficulty in acknowledging that and embracing change.

Accordingly, at the Government's invitation, unions are already participating with the Government in a process of high level talks and working groups dealing with issues such as:

- Occupational pensions and retirement age
- Absenteeism
- Reform of General Orders
- Medical Boarding
- The recruitment, selection and promotion process
- Family friendly working
- E Government
- Staff appraisals
- Civil Service management

I am confident that this initiative will result in significant qualitative reform of the public sector on an unprecedented scale, for the benefit of staff, users, taxpayers and government.

The Government is especially keen to maximise the number of transactions and the amount of business which citizens can do online.

In so far as concerns the public service final salary Occupational Pension Scheme, this is a very expensive and unfunded millstone around the necks of our children and grandchildren, which is getting larger and larger. It should be changed without affecting any existing civil servants. Already over 800 public sector employees are on different pension arrangements. That should be the benchmark for future civil servants as well.

9. The economy in the Private Sector

Mr. Speaker, once again all the available macro economic indicators show an economy that continues to perform very well, even in the most challenged global economic environment in living memory. This is a veritable testament to the efficacy, resilience, diversification, quality and durability of our small economy. I have already referred to the GDP figures that show that the economy has continued to grow even during these difficult times.

Inflation

During the year to January 2009 inflation in Gibraltar was 2.8%, even though it peaked at 4.7% in July 2008 largely due to the effects of rising oil and world food prices. Our inflation rate is largely 'imported'.

Mr Speaker, as the house knows the new Family Expenditure Survey is under way. The RPI Advisory Committee was reconstituted in 2008, and the groundwork in connection with the FES was completed by June last year. The first session (or quarter) commenced in late October and was completed by the end of January 2009. The second quarter is currently under way. 80 randomly selected households were successfully enumerated and it is therefore envisaged that the average expenditure of a total of 320 households throughout the year long survey period will be used to calculate the 'weights' of the representative basket of goods and services that will form the basis of the revised index of retail prices.

Employment

As I have already said, employment as at October 2008 increased year on year by 4% or 813 jobs to a record 20,509 jobs.

Jobs in the private sector increased by 1068 or 6.9% to 16,629. 128 of these were existing jobs transferred from MOD (public sector) to Serco (private sector), so the private sector's share of new job creation was, in reality, 940. Jobs in the official sector fell by 255.

The main increases were in the Construction industry (+427) and the related Labour recruitment sub industry group (+112), hotels and restaurants (+75), wholesale and retail trade (62), shipbuilding (+67) and education (+54).

The number of Spanish national employed in Gibraltar rose by 353 during the year to 3341. The Government believes that when unregistered labour is taken into account the figure is much higher. 946 Spanish nationals are employed in Construction alone. We are delighted to be able to provide job opportunities in increasing numbers for residents of the Spanish hinterland during these difficult economic times. However it needs to be understood that people from

other countries who choose to work in Gibraltar, welcome as they are, must accept the benefits system that operate in this country which reflects the fact that there is almost full employment in Gibraltar.

Since 1996, this economy has now created a staggering 7,534 jobs representing an increase of 58%! There were 12975 jobs in the economy in October 1996. There are now 20,509. This is a testament to the success of our economy during this period.

The number of Gibraltarians in employment rose by 36 to another new record of 10,577. This compares to 9390 in 1996.

Average wage and take home pay

Average annual earnings rose by 3.2% to £22,266 in the year to October 2008.

Average weekly earnings rose by 11% to £379.

Financial Services

Our financial services centre has continued to grow during 2008 and 2009, two of the toughest years it has known around the world in living memory. While other finance centres shed jobs on a large scale, ours managed a small increase of 65 or 2.3% in the year to October 2008.

As appears by Employment Service statistics that I provided in the House earlier this month, it would appear that these employment levels are being broadly maintained during the first and second quarters of 2009.

There are now 103 licensed insurance operations. 63 in licensed companies and a further 40 in protected cell companies. There are 28 intermediaries and 9 managers. We have 27 Investment firms, 95 Collective investment Schemes, 87 licensed trust and company services providers, 2 pensions providers and 19 credit institutions. I am confident that our finance centre is poised for further growth during the coming years.

The Port

The port continues to perform well and is now firmly established as a profit centre for the Government, as well as sustaining significant levels of economic activity in the private sector. Although the quantity of bunkers supplied in 2008 was slightly down on the record 2007 figure, all other indicators of activity showed growth. The number of vessels arriving at the port rose to 9,749 and their gross registered tonnage grew further to 288.4 million GRT. The number of vessels flagging into our register also rose by 9% to 271 ships. These are all record or near record figures.

Tourism

Tourism had another excellent year in 2008, and the trend appears to be continuing in 2009. Arrivals over the land border again reached a new record of 9.43 million, an increase of 7%. Vehicle arrivals, visitors to the Upper Rock,

air arrivals, museum visitors, cruise liner passengers and hotel arrivals and room nights sold all climbed to record levels. Yacht arrivals also rose slightly.

Gambling

The online gambling industry continues to grow within the quantitative and qualitative restrictions that Government places on new entrants. As at May 2009 it continues to employ 1742 people in Gibraltar, and we expect this to increase as newcomers establish and grow their new operations here. Government revenue from remote gaming tax has risen to £9 million. There are now 20 operators established here. We continue to be very selective as to who we licence, and we do not seek growth in the number of operators.

General Trade

Mr. Speaker, some parts of the wholesale and retail trade will have come under increased competitive pressure as a result of the volatility of exchange rates. Nevertheless, in the year to October 2008, the sector was able to increase employment levels by 62 jobs or 2.2% to 2878 jobs. This is an important part of our economy.

The value of imports, excluding petroleum products, for 2008 stood at £ 449.8 millions compared with £ 425.7 m in 2007, an increase of 5.7%.

Employment in hotels and restaurants has increased by 75 or 7% reflecting the opening of new establishments in new leisure developments. These add to Gibraltar's leisure and tourist product, and, together with the effects of a stronger euro, encourage residents to dine out more in Gibraltar.

Mr. Speaker, as a means of providing some relief to this sector, the discount for prompt payment of rates on retail, wholesale and restaurant and bar premises is increased by a further 10% to 20%.

Mr Speaker, it has been reported that the Government often delays in paying invoices to local businesses and that this increases pressure on their cash flows. These administrative delays are wholly unacceptable, and I shall take steps to ensure that invoices are paid within 30 days, unless they are disputed.

Property Sector

Mr. Speaker, this year I have asked for some statistics to be collated in relation to activity in the real estate market, so that interested parties can follow it , and the Government can use it as a further economic indicator. In calendar year 2007 there were 805 property sales transactions with an aggregate value of £184.4 million. In 2008 there were fewer transactions, 618, but with a higher aggregate value, £188.9 m. This suggests less activity at the lower value end of the market and more activity at the higher value end of the market.

The 2007 monthly averages are 67 transactions and a value of £15.4 m. The 2008 averages are 51.5 and £15.74 m, respectively. Between January and May

2009, the monthly average is 47 and £11.2 m, respectively, suggesting a slowdown in number and value of transactions in 2009.

10 . Company Taxation

Mr. Speaker, as the House knows, the Exempt Status Tax Regime must end by 31 December 2010. It is essential for Gibraltar's socio economic prosperity that our corporate tax rate should be as competitive as is compatible with Government's revenue needs. Without this there would be large scale loss of economic activity and job losses.

Existing corporate tax payers (who presently pay 27%) will be huge windfall beneficiaries of the need to eliminate tax exempt status, and its replacement with a low rate for all companies. The new rate will be 10%. Energy and utility providers will pay a 10% surcharge and will thus suffer a rate of 20%. These will include electricity, fuel, telephone service and water providers.

Most Exempt Status companies currently hold exemption certificates that are valid, subject to repeal of the legislation, for 25 years. The Government therefore feels honour bound not to remove the tax benefit provided by the exemption certificate until the last possible moment. That will therefore occur at midnight on the 31st December 2010, by means of a repeal of the Companies (Taxation and Concessions) Act.

Details of the legislative provisions required to implement the new common low rate for all companies will be provided later, hopefully before the end of July. However, the salient features will be as follows:

- Rate 10%
- Effective date: 1 January 2011. This means that the tax rate in respect of the first half of the tax year 2010/11 will be whatever is then the corporate tax rate, and in respect of the second half of the tax year will be 10%. Companies that are presently tax exempt will thus pay tax in respect of the tax year 2010/11 at the rate of 10% in respect of half a year. Companies that are not tax exempt will pay at the then corporate tax rate in respect of half a year, and at 10% in respect of half a year.
- The preceding year basis of assessment will be abolished in favour of an actual basis. Commencement provisions will be abolished. There will be transitional rules.
- The basis of taxation will not change and will thus continue to be on an accrued and derived basis, effectively what is known as a source based system
- There will be wide ranging and far reaching anti - avoidance provisions.

Mr. Speaker, in the meantime the corporate tax rate is reduced from 27% to 22% with effect from 1st July 2009.

Mr. Speaker, as a further transitional measure, and to encourage business start ups, I am also introducing with effect from 1st July 2009 a start up rate of 10%, which will apply to any business established in Gibraltar after the 1st July 2009. Tax will be assessed on an actual year basis. As an anti avoidance provision, it will not apply in respect of any commercial activity being carried out before today and which is reorganised by the taxpayer in the name of a different entity for the purpose of benefiting from this scheme.

In order to assist them in their early developmental needs, this scheme will also be available, on certain conditions, to businesses that have been recently established. Those conditions are as follows:

- (1) The business must have commenced after the 1st July 2007;
- (2) The company must agree to be taxed on a preceeding year basis, and not on an actual year basis in the context of commencement provisions;
- (3) The first tax year for which the company will be liable is 2008/9, and Tax will be payable in respect of this period at the rate of 27%;
- (4) In 09/10 the tax rate will be 10%.

10. Personal Taxation

Mr Speaker, as the House knows the Government has introduced a dual tax system under which taxpayers may choose the basis on which they will suffer tax, between two different systems. One, known as the Allowance Based System is the tradition system. The other is known as the Gross Income Based system, under which the tax rates are lower, but the taxpayer is entitled to no allowances. Already 3500 taxpayers have transferred from the ABS system to the GIB system and are paying very significantly less tax as a result.

Under the GIB system tax is payable as follows;

- 20% on the first £25,000 of income
- 30% on the next £75,000 of income
- 38% on the remainder of income

It is in the nature of the GIB system that a taxpayer cannot be better off under it until his earnings reach £18,450. Low income earners cannot therefore benefit from the GIB alternative at present.

In order to make the GIB alternative attractive to low income earners, to reduce their tax and that of others under the GIB system, I am today modifying that scheme, with effect from 1 July 2009, as follows:

- For persons whose gross income does not exceed £16,000 per annum, a new band of £10,000 will be added on which tax will be paid at 10%.
- For persons with incomes between £16,000 and £25,000, new bands will be added as follows on which tax will be paid at zero %:
 - Income of £16,000 to £17,000, on the first £5000 - 0%
 - Income of £17,000 to £18,000, on the first £4000 - 0%
 - Income of £18,000 to £19,000, on the first £3000 - 0%
 - Income of £19,000 to £20,000, on the first £2000 - 0%
 - Income of £20,000 to £25,000, on the first £1000 - 0%

These new bands will benefit 3600 taxpayers by between £40 and £640 per annum. For example a single person earning £16,000 pa will pay £640 less tax, a 22% reduction in tax.
- The 30% band is reduced by 1% to 29%. This will benefit 4000 taxpayers in sums ranging from up to £750 per annum. The benefit to each taxpayer is the sum of 1% of the amount by which their income exceeds £25,000 (up to £100,000).
- The top band rate is reduced from 38% to 35%.

The GIB system is intended to encourage taxpayers to migrate to a simpler to administer tax system, under which they will pay less tax. I would therefore urge all taxpayers to check whether they would be better off under the GIB system, and if so ask the Income tax to issue a new tax code which would result in less PAYE being deducted from pay. There is a tax calculator on the Government website on which taxpayers can calculate easily which system results in the lower tax for them.

For the purposes of the Allowances Based System, all personal allowances are increased by 2.8% with effect from 1 July 2009.

Mr. Speaker, at present, members of an approved Retirement Annuity Contract (RAC) or Personal Pension Scheme (PPS) can claim as a deduction the contributions paid in any tax year up to a maximum of 25% of earned income. Where for any tax year the amount of contributions relieved is less than the

total contributions paid, members may carry back this balance, up to six tax years in the case of an RAC and one year in the case of a PPS, provided that the member was not in pensionable employment at any time during this period. With effect from today, this carry back will no longer be available.

Mr Speaker, I am also making some changes to the tax payable by High Net Worth Individuals and Category Two Individuals. The minimum amount of tax that they must pay is increased from £18,000 to £20,000. The maximum amount of their income on which they pay tax increases from £60,000 to £70,000. Both changes with effect from 1 July 2009.

11. Other Budget Measures

- (1) The maximum weekly social insurance contribution rises by 4% in respect of both employers' and employees' contributions from 1 July. This amounts to an increase of £1.15 per week for employers and 91p a week for employees.
- (2) The Flexible Cost Adjustment element of electricity bills rises from 3.26p to 4.00 with effect from 1 July. This represents a 6% increase in electricity bills. Since the average bill is £50 per month, the rise represents £3 per month.
- (3) Gaming machine licence fees are presently £500 per annum per machine. There has been no increase since 1990. It is increased to £1000 per annum with effect from 1 July 2009.
- (4) At present a widow (and in certain circumstances, the children) receive a pension on the death of the husband/father. The Act discriminates against men by not making the same right available to widowers/children on the death of the wife/mother. With effect from 1 July 2009 this discrimination is eliminated and the death of the widower and children will have the same rights on the death of their wife/mother as the widow/children have on the death of their husband/father.
- (5) Import duty on petrol is increased by 4p per litre.
- (6) In April we increased duty on cigarettes. There is now no further increase. However we are increasing the duty on 'Other Manufactured Tobacco and Tobacco Substitutes' from £3.25 per kilo to £9.0 per kilo.
- (7) Upper Rock entry fees will rise by £2, to £8 for adults, by £1, to £5 for children and by 50p to £2 for cars. The amount payable by tour operators to the Government will rise to £5 per person, thereby

increasing by £1 per person the income to tour operators. These increases will come into effect on 1 October 2009.