P.2025/121 SMC LoC

Scrutiny Management Committee

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The Presiding Officer
States of Guernsey
Royal Court House
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24 October 2025

Dear Sir,

SCRUTINY MANAGEMENT COMMITTEE - COMMENTARY ON THE 2026 BUDGET REPORT

This Letter of Comment from the Scrutiny Management Committee (SMC) is submitted in accordance with Section 3(19) of the Rules of Procedure. Following publication of the 2026 Budget Report, the SMC wishes to highlight a number of significant concerns.

<u>Cash Position and Fiscal Sustainability</u>
The SMC 's foremost concern is the forecast cash outflow of £115 million (para 4.15) in 2026. The composition of this drawdown is not detailed within the report, but it is evident that the States intends once again to finance expenditure from liquidating reserves or borrowing. This approach is unsustainable and continues to erode fiscal resilience.

<u>Unsustainable Spending Growth</u>
Despite forecast revenue growth of 3.4%, expenditure is expected to increase by 4.4%. This continued pattern of spending growth is incompatible with long-term fiscal balance. This is of particular concern as the structural deficit, as defined, is projected to worsen from £66 million to £77 million in 2026.

<u>Pay Costs</u>
The principal driver of higher expenditure remains pay. Total pay costs are now forecast at £360 million — a significant increase (an uplift of 6.8% against the 2025 Budget) and a reflection of the scale of the public sector as the island's largest employer. The SMC believes there is limited evidence that the size or cost of the workforce is being effectively managed. Greater clarity, accountability, and discipline are required around workforce planning, pay policy, and productivity. The SMC considers that any organisation of this scale should be able to identify annual efficiency savings of at least 1% of total expenditure.

<u>Health & Social Care Spending</u>
The SMC notes the significant increase in Health & Social Care expenditure but is concerned by the absence of supporting analysis within the Budget Report. In particular, there is little explanation of the demographic or service pressures driving this rise, nor any detail on the measures being taken

to improve cost control and efficiency. The SMC considers that fuller information should have been provided to justify such a substantial increase in spending.

Pillar 2 Revenue Assumptions

The inclusion of approximately £40 million in Pillar 2 receipts within the 2026 Budget, before any collection has commenced, raises concern. The Budget acknowledges that these estimates are based on “secondary data sources” and should be treated with caution. Recognition of such uncertain revenue sources risks overstating the fiscal position and is in our view not a prudent approach.

Corporate Services Expenditure

The SMC also notes the continued growth in Corporate Services expenditure, with a further 9.4% increase in 2026 when compared to the original budget for 2025. Given that the stated purpose of centralisation was to deliver efficiencies and economies of scale, such increases warrant close examination.

Capital Programme

The absence of information on proposed capital spending for 2026 prevents a full understanding of the States’ overall financial position and priorities. Without visibility of capital commitments, Members cannot assess the sustainability of the Budget as a whole.

Context and Economic Analysis

The Budget provides limited contextual, comparative, or economic information. There is little analysis of the assumptions underpinning revenue forecasts or the economic outlook more broadly. Without this, neither Members nor the public can meaningfully assess the realism of the figures presented.

Fiscal Framework

It is regrettable that the long-promised review of the Fiscal Policy Framework has not yet been completed. Members are again being asked to approve a budget in the absence of an agreed framework or fiscal strategy, leaving the Assembly to take decisions without a clear policy basis.

Structural Deficit

This continued and worsening structural deficit position is incompatible with the concept of long run permanent balance which has been the cornerstone of all iterations of the Fiscal Policy Framework. We welcome the recognition that investment returns have no place in the consideration of the underlying budget fiscal position, albeit we believe there is insufficient economic rigour evident in the presentation of the calculation of the underlying structural position.

Timing and Process

Because of the General Election timetable, this Budget has effectively become a holding exercise. Newly elected Members have had no meaningful input into its preparation. The SMC is concerned that this weakens both political accountability and effective governance of the public purse.

Conclusion

In summary, the 2026 Budget fails to move the States towards financial sustainability. It lacks context, transparency, and fiscal discipline. The difficult decisions required to restore balance have once again been deferred.

Yours sincerely

Deputy Sloan
President of the Scrutiny Management Committee