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Dear Sir

THE POLICY & RESOURCES COMMITTEE'S POLICY LETTER: GUERNSEY'S FISCAL POLICY FRAMEWORK

This Letter of Comment from the Scrutiny Management Committee (SMC) is submitted in accordance with Section 3(19) of the Rules of Procedure.

The Scrutiny Management Committee (SMC) has considered the Policy Letter proposing a revised Fiscal Policy Framework and held a public hearing with the Policy & Resources Committee on 14 January 2026.

The Committee recognises the importance of a credible and durable framework to guide the long-term management of the States' public finances. However, following detailed examination, the Committee is not persuaded that the proposed Framework, as drafted, provides the clarity, discipline or accountability required of a fiscal framework of this importance.

1. Core principle and clarity of purpose

Previous versions of the Fiscal Policy Framework were explicitly anchored in the principle of *long-term permanent balance*. The proposed Framework instead adopts *long-term financial stability* or *financial sustainability* as its central organising concept.

Evidence given at the hearing did not clearly establish whether this represents a change in substance or a change in terminology. At different points it was described as both. The Committee considers this ambiguity unsatisfactory. A fiscal framework must be built around a clearly defined and consistently applied core principle if it is to provide a stable reference point for decision-making and scrutiny.

The Committee considers that a fiscal framework without a clear and stable organising principle cannot provide a reliable basis for long-term fiscal management.

2. Shift from rules to discretion

The Committee notes that the proposed Framework represents a clear shift away from numerical reference points and time-bound constraints toward a predominantly principles-based approach.

While the Committee accepts that rigid rules have limitations, it is concerned that the near-complete removal of measurable benchmarks materially weakens the ability of the States Assembly, the public and independent bodies to assess compliance. Key concepts — including “appropriate”, “sustainable” and “balanced over an economic cycle” — are left undefined and rely heavily on subjective judgement.

In the Committee’s view, this results in discretion being substituted for discipline, without an adequate mechanism for accountability.

3. Debt, deficits and constraint

The Committee remains concerned that the proposed Framework does not provide clear or enforceable constraints on borrowing or the persistence of deficits.

The Framework refers to historic external assessments suggesting that debt of up to a certain proportion of GDP may be affordable. However, these assessments are indicative rather than binding, are not incorporated into the Framework itself, and depend critically on assumptions about future fiscal decisions that have yet to be taken. As such, they cannot operate as effective guardrails.

More fundamentally, evidence given at the hearing included an explicit acknowledgement that, under the Framework’s own principles, further borrowing while structural deficits persist would not be sustainable. In particular, it was accepted that debt can only be considered sustainable if it can be repaid, and that the accumulation of new debt alongside ongoing structural deficits would be inconsistent with that requirement.

The Committee considers this to be a critical point. It implies that, notwithstanding references elsewhere in the Policy Letter to debt affordability, the Framework does not in fact provide scope for additional borrowing unless and until a credible and timely path to balance between income and expenditure is established. The Committee considers this internal inconsistency to be a fundamental weakness of the proposed Framework.

However, this implication is not clearly articulated or operationalised in the Policy Letter. There is no explanation of:

- how long deficits may persist;
- what scale of deficit would be considered inconsistent with sustainability;
- what corrective action would be required; or

- how compliance would be assessed in advance of borrowing decisions.

The Committee also notes ambiguity in the Policy Letter's references to "short-term borrowing" for cash-flow management. It is unclear whether this is intended to refer solely to in-year liquidity management arising from timing differences between receipts and payments, or whether it is also intended to encompass multi-year cash shortfalls resulting from successive annual deficits.

The Committee is concerned that, without clear distinction, this ambiguity could be used to justify the repeated use of short-term, potentially high-cost borrowing instruments to address what are, in substance, cumulative structural cash deficits. In the Committee's view, the use of short-term financing to manage long-term fiscal imbalance would materially weaken transparency and discipline, and should not be permitted by implication within a fiscal framework.

In the absence of such clarity, the Framework risks enabling the accumulation of debt on the basis of qualitative judgement alone, with sustainability assessed retrospectively rather than prospectively. The Committee considers that a fiscal framework should constrain borrowing decisions *before* they are taken, rather than rely on ex-post assessments of whether outcomes remain "appropriate" or "affordable".

4. Reserves

The proposed long-term target of reserves equivalent to 50% of GDP was not adequately explained. In particular, the Committee notes:

- the absence of a clear rationale for the chosen level;
- the inclusion of hypothecated Social Security funds within the target; and
- the lack of any mechanism or timeframe for rebuilding reserves once depleted.

Without greater transparency, the Committee considers it difficult to place confidence in this element of the Framework. In the Committee's view, a reserves policy that lacks rationale, accessibility analysis and a replenishment mechanism cannot credibly support a fiscal framework.

5. Governance and independent oversight

The Committee considers governance to be a material weakness of the proposed Framework.

The Policy Letter increases reliance on the Fiscal Policy Panel at the same time as moving toward a more qualitative, judgement-based framework. However, the Panel's remit, reporting cycle and assessment criteria are not clearly specified, and its work is directed by the Policy & Resources Committee, which is itself responsible for fiscal policy decisions.

During the hearing, concerns were raised about whether this arrangement provides sufficient independence. In response, the Policy & Resources Committee indicated that it would be open to changes to the governance model, including suggestions from the SMC, provided these could be achieved within the existing cost envelope.

The Committee considers that this acknowledgement reinforces the case for resolving governance weaknesses before the Framework is approved. In light of the evidence received, the Committee considers that a more credible arrangement would be for the SMC to act as the commissioning body for the Fiscal Policy Panel. Under this model:

- appointment, administration and resourcing would remain unchanged;
- the Panel's brief would be fixed, published and time-invariant;
- reports would be addressed formally to the States Assembly; and
- independence from the executive arm of government would be materially strengthened.

The Committee believes this would significantly enhance accountability and public confidence without increasing cost.

6. Overall assessment and recommendation

The Committee is concerned that, taken together, the issues identified above indicate that the proposed Fiscal Policy Framework is not sufficiently clear, coherent or robust to operate as an effective constraint on fiscal decision-making.

The Committee does not consider these weaknesses to be matters of drafting or emphasis. Rather, they reflect more fundamental issues of structure, definition and governance that go to the heart of how the Framework would operate in practice.

Given the central role of the Fiscal Policy Framework in guiding the long-term management of the States' public finances, the Committee does not believe it would be appropriate for the States Assembly to approve the Policy Letter in its current form.

The Committee therefore **recommends that the Policy Letter be rejected**, and that the Policy & Resources Committee be invited to return to the States with a revised Fiscal Policy Framework that addresses the concerns set out in this Letter of Comment, including:

- clarity of the core fiscal principle;
- clearer and more realistic conditions governing borrowing, deficits and cash-flow management;
- transparent and coherent treatment of reserves; and
- strengthened, independent governance and oversight arrangements.

Yours sincerely

A handwritten signature in blue ink, consisting of a large, stylized 'A' followed by a long, horizontal stroke.

Deputy Andy Sloan
President of the Scrutiny Management Committee