P.2026/82 LoC

Scrutiny Management Committee

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The Presiding Officer
States of Guernsey
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28 October 2026

Dear Madam

POLICY LETTER AND PROPOSITION NO. P.2026/82 – POLICY & RESOURCES COMMITTEE: THE STATES OF GUERNSEY ANNUAL BUDGET FOR 2027

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

The Scrutiny Management Committee, through its Public Accounts Sub-Committee ("PASC"), held a public hearing (the "hearing") with representatives of the Policy & Resources Committee on 19 October 2026 to examine the assumptions, forecasts and expenditure proposals underpinning the 2027 Budget. The Committee is grateful to Deputy Parkinson, Deputy Niles and the Policy & Resources Committee's Treasury officers for attending the hearing and for their responses.

The hearing took place against a backdrop of considerable change in the presentation of Guernsey's public finances over the preceding twelve months. In particular, the upward revision of anticipated Pillar 2 revenues has materially altered the near-term financial outlook. The Committee considers it important that the States and the public should be able to understand the reasons for these changes, the degree of confidence that can be placed in the revised forecasts, and their implications for future expenditure and fiscal policy. The hearing also raised more fundamental questions about the completeness and transparency of the financial information provided to the States of Deliberation (the "Assembly"), the drivers of expenditure growth, and the credibility of proposed savings.

Our principal observations are set out below.

1. A material omission from the Budget: capital expenditure and cash-flow forecasts

The Committee's most significant concern arising from the hearing is that the 2027 Budget does not provide a comprehensive picture of the States' anticipated expenditure and

financing requirement which, being between £75m and £80m for the year, is once again not insignificant.

During the hearing, Treasury officers confirmed that the planning assumption for major capital expenditure in 2027 was £81 million, in addition to approximately £22 million of routine capital expenditure. This £81 million figure was not disclosed in the Budget.

The Budget also contains no consolidated cash-flow forecast or projected balance sheet. These are not minor matters of presentation. Capital expenditure represents a substantial call on public resources, while cash-flow projections are essential for understanding the timing and scale of financing requirements, particularly given the anticipated delay between recognising Pillar 2 revenues and receiving the associated cash. Consequently, States Members are being asked to approve a Budget without a consolidated presentation of expenditure, financing requirements and the projected financial position associated with the Government's plans. This is particularly difficult to reconcile with the emphasis placed on capital investment when calculating the States' funding gap and assessing the sustainability of public finances.

The Committee considers this a material deficiency in the financial information provided to the States.

It therefore suggests that the Policy & Resources Committee publishes, in advance of the Budget debate:

1. The consolidated capital expenditure forecast for 2026 and 2027, distinguishing major and routine capital expenditure.
2. A consolidated cash-flow forecast for 2027, identifying anticipated receipts, payments and financing requirements.
3. A reconciliation between the projected revenue surplus, capital expenditure and anticipated movement in cash and financial assets.
4. The projected movement in external borrowing and other financial liabilities, including anticipated new borrowing, repayments and outstanding debt at year-end.
5. An explanation of the assumptions underpinning these forecasts, including the timing of anticipated Pillar 2 receipts.

The Committee considers that this information is fundamental to informed consideration of the Budget and should be included in the standard financial information accompanying future Budgets.

2. The funding gap and the distinction between accounting and cash positions

The hearing highlighted the difficulties arising from presenting several measures of the States' financial position. On the one hand, the Budget forecasts a substantial revenue surplus. On the other hand, it anticipates a significant cash outflow, with financial assets

or short-term financing facilities potentially required to meet expenditure before anticipated Pillar 2 receipts are received.

The hearing confirmed that a principal explanation is the recognition of Pillar 2 income on an accruals basis before the associated cash is received. The Committee recognises that accrual accounting is appropriate and that the timing difference between recognising income and receiving cash does not necessarily indicate fiscal deterioration. Nevertheless, the distinction is fundamental to understanding the financial position.

The Committee is particularly concerned that expenditure commitments may be made on the basis of revenues whose timing and ultimate cash value remain uncertain. Recognition of income in the accounts does not, of itself, provide the cash to finance that expenditure. This is an important distinction when considering proposals that would permanently increase the States' expenditure baseline. This is particularly concerning if a lack of transparency leads to a poor understanding of the underlying cash position.

The hearing also examined the apparent inconsistency between the treatment of investment returns, which are excluded from the funding gap calculation on prudential grounds, and their relevance to the maintenance of financial reserves. The Committee notes that the funding gap calculation incorporates adjustments to reflect a target level of capital investment and an assumed longer-term reduction in Pillar 2 receipts. These are policy and forecasting assumptions rather than measures of an immediate cash deficit. They may be appropriate considerations in assessing longer-term fiscal sustainability, but they should be clearly distinguished from the States' actual and projected financing requirements.

The Committee recommends that the Budget explicitly distinguish between the accounting balance, underlying fiscal position, policy-based funding gap and actual cash financing requirement, with a transparent reconciliation among them.

3. Revenue forecasts and Pillar 2

The Committee welcomes the improved outlook for corporate tax revenues arising from Pillar 2. The scale of the upward revision is, however, substantial, particularly when compared with the financial projections and fiscal arguments presented in earlier debates on tax reform. During the hearing, the Policy & Resources Committee acknowledged both the uncertainty surrounding the longer-term behavioural response to Pillar 2 and the limitations of current economic data. The Committee recognises that uncertainty is unavoidable when forecasting a new source of taxation. It also recognises the prudential case for allowing for future behavioural change.

However, the distinction between evidence-based forecasts, prudential adjustments and assumptions about longer-term behavioural responses should be made more explicit. The

Committee is particularly concerned that the absence of up-to-date GDP statistics limits the ability to assess the economic assumptions underpinning the Budget and to distinguish changes in tax receipts from changes in underlying economic performance. The hearing did not provide a sufficiently clear basis for assessing the sustainable medium-term level of Pillar 2 revenues.

The Committee recommends that the Policy & Resources Committee provides a reconciliation of the principal changes in revenue forecasts over the past twelve months, identifying separately changes in underlying tax forecasts, timing adjustments, prudential provisions and assumed behavioural effects.

The Committee believes it would also be helpful to provide a range of medium-term scenarios that illustrate the implications of different levels of Pillar 2 receipts.

4. Expenditure growth and budgetary control

A central issue at the hearing was the rate of growth in public expenditure. The Committee recognises that demographic change, service demand and inflation create genuine expenditure pressures. It also acknowledges that the States must continue to provide essential public services. Nevertheless, expenditure has increased substantially in recent years, and the Budget continues to allow for further growth. The hearing established that committees initially sought approximately £33 million in additional expenditure above the Option A position, while Option B would provide a smaller additional allocation.

It also emerged that the original submissions showed a net increase of approximately 161 staff, reduced to approximately 70 under Option B. These figures are material to any assessment of the future cost base of government. Additional permanent posts create expenditure commitments that generally persist beyond the budget year. The Committee was concerned that the Budget does not provide a sufficiently detailed analysis of the drivers of additional expenditure, distinguishing between pay, non-pay inflation, demographic and demand pressures, new services, and discretionary policy decisions.

During the hearing, the Policy & Resources Committee explained that the allocation of additional funding reflected its judgement after considering committee submissions. However, the supporting analysis and criteria for those decisions are not presented in a form that would enable States Members to make an equivalent assessment. The Committee does not question the necessity of political judgement in setting budgets. It does, however, consider that the exercise of that judgement should be supported by transparent financial information.

The Committee recommends that future Budgets provide a consistent reconciliation of expenditure changes by committee, distinguishing inflation, demand pressures, staffing changes, service developments and identifiable savings.

Changes to the underlying expenditure baseline should also be reported separately from changes to contingency and central budget reserves, so that the Assembly can distinguish genuine expenditure reductions from movements between budget headings.

5. Savings, efficiencies and the credibility of expenditure restraint

The Committee remains concerned about the evidence supporting the delivery of savings and efficiencies. During the hearing, considerable time was devoted to the Chief Executive's 2026 savings target of £4 million, comprising £2.5 million in general revenue expenditure and £1.5 million in capital projects. Although reductions in consultancy expenditure were identified, the Committee was unable to obtain a clear reconciliation showing the extent to which the savings target had been achieved.

In particular, the explanation that savings might be reflected in the unutilised balance of the central budget reserve did not provide a sufficiently transparent link between specific management interventions and actual expenditure reductions. The Committee considers that a reduction in forecast expenditure, an avoided future cost and an unspent contingency are not necessarily equivalent measures of savings. Each may be financially beneficial, but they should be separately identified and substantiated.

The hearing also considered the initial results of priority-based budgeting. Treasury officers reported approximately £400,000 in recurring savings incorporated into the 2027 Budget, against estimated internal resource costs of approximately £300,000 for the pilot. The Committee welcomes the identification of recurring savings and recognises the potential value of a systematic review of services. However, the results to date remain modest relative to the scale of overall expenditure and the savings ambitions expressed in the Budget. The proposed replacement of annual savings requirements with a target of £20 million in recurring savings by 2029 also raises questions about the baseline against which savings will be measured, the timing of delivery, and the extent to which savings will offset expenditure increases in the intervening years.

The Committee recommends that savings programmes be accompanied by clearly defined baselines, quantified targets, delivery timetables, responsible owners and independently verifiable reporting of savings achieved.

The distinction between gross savings, net savings, cost avoidance and unused budget provisions should be clearly defined.

6. Option A, Option B and the choices facing the States

The Committee does not consider it appropriate, in the exercise of its scrutiny function, to recommend either of the two Budget options. However, it is concerned about the clarity of the choices presented to the Assembly. During the hearing, both Deputy Parkinson and

Deputy Niles indicated that they did not regard Option A as realistic and that Option B would better accommodate expenditure pressures.

The Committee also notes that approximately 40% of the additional expenditure proposed under Option B is attributable to the Policy & Resources Committee and Corporate Services. This is a significant proportion and does not sit comfortably with the presentation of Option B as principally a response to additional funding requests from other committees.

The Committee recognises that some of these allocations may reflect legitimate pressures on central expenditure. Nevertheless, their scale underscores the need for greater transparency regarding the composition of Option B, including the distinction between additional funding for service committees, centrally managed expenditure and discretionary policy decisions.

The Committee recognises that Option A was prepared in response to a previous resolution of the States. Nevertheless, presenting two alternatives places a particular responsibility on the Policy & Resources Committee to explain its respective consequences clearly. The Assembly should be able to understand the services, staffing assumptions, savings measures and financial risks associated with each option. In particular, where an option proposes a higher expenditure baseline, it is important to distinguish unavoidable expenditure pressures from discretionary decisions to increase the scope or level of services.

The Committee considers that the information presently available does not make those distinctions sufficiently clear and risks obscuring the extent to which Option B reflects centrally determined expenditure increases rather than additional demands from service committees.

The Committee recommends that the Policy & Resources Committee provides a concise comparative assessment of Options A and B, identifying their principal expenditure drivers, centrally managed expenditure, staffing implications, risks to service delivery and anticipated effects on future expenditure baselines.

7. Economic growth and fiscal sustainability

The Committee acknowledges the importance of improving Guernsey's underlying economic growth rate. The hearing highlighted that the Budget assumes real economic growth of approximately 0.5% in 2027, whereas expenditure under Option B is forecast to rise in real terms at a faster rate. The Committee agrees that stronger economic growth would improve the sustainability of the public finances. However, economic growth and expenditure management should not be treated as alternative responses to fiscal pressures.

The Budget provides for a £5 million economic development initiative, but the hearing did not establish clear evidence of the extent to which this expenditure could materially affect economic growth over the Budget period. The Committee considers that proposals intended to stimulate growth should be supported by transparent objectives, appraisal criteria and measurable outcomes. More broadly, the absence of a published medium-term financial framework makes it difficult to assess the combined implications of expenditure growth, revenue uncertainty, capital investment and reserve management.

The Committee recommends that the Policy & Resources Committee brings forward a credible medium-term financial framework incorporating revenue and expenditure projections, capital investment, financing requirements and explicit fiscal objectives.

Conclusion

The Committee recognises the considerable effort required to prepare the Budget and acknowledges the improvement in the near-term revenue outlook. However, the hearing reinforced our concern that the Budget does not provide the Assembly with a sufficiently integrated or transparent account of the States' finances.

The Committee's most significant finding is the absence of consolidated capital expenditure and cash-flow forecasts. These are fundamental to financial planning and accountability, particularly at a time when substantial capital investment is anticipated and the timing of major tax receipts is uncertain. The hearing also exposed weaknesses in the presentation of expenditure increases, the reconciliation of savings and the explanation of the financial consequences of the choices before the States.

The Committee believes that the Assembly should not be expected to approve the States' annual financial plans without being provided with a consolidated account of what the States expects to spend, how that expenditure will be financed, and the resulting movement in its financial assets and liabilities.

The central issue is not merely whether the States should spend more or less in 2027. It is whether the financial information presented enables States Members to understand the consequences of the choices before them and to exercise effective oversight of public expenditure. The Committee therefore considers it important that the additional financial information requested in Section 1 be made available before the Budget debate. More generally, the Committee believes that the matters identified in this Letter of Comment underscore the need for a more comprehensive and transparent approach to medium-term financial planning, budget preparation and the reporting of public expenditure.

Yours sincerely



Deputy Andy Sloan
President of the Scrutiny Management Committee
Chair, Public Accounts Sub- Committee

cc. Deputy de Sausmarez, President, Policy & Resources Committee
cc. Deputy Parkinson, Treasury Lead, Policy & Resources Committee