

**Response to a Question Pursuant to Rule 14
of the Rules of Procedure of the States of Deliberation and their Committees**

Subject: External Advice on Structural Deficit and GST
States' Member: Deputy D Goy
Date received: 29th October 2025
Date of reply: 13th November 2025

This full set of questions relates to several separate policy instruments which are interrelated. To provide a full and comprehensive answer to the crux of the questions, we will provide the full context for the various Policy Letters, reports and decision-making bodies which formed the basis for decision making across the last five years. For context and ease of review, the pre-ambles provided by Deputy Goy is incorporated in Appendix 1 and the background summary has been provided as Appendix 2.

Question 1:

If the Fiscal Policy Panel (FPP) is not considered an external consultancy, how does P&R officially categorise it?

Question 2:

Given that the members of the FPP are not States' employees and its purpose is to provide "independent commentary and analysis," can P&R clarify what the functional difference is between their role and that of a consultancy, beyond the label used?

Answer to Question 1 and 2:

The Fiscal Policy Panel ("the Panel") is a panel of three independent economists tasked with reviewing and assessing the States' performance against its Fiscal Policy Framework. It is intended to provide independent challenge to States policy and a view on whether it is being applied in a sustainable manner. The Panel's work is evaluative rather than directive and is a governance safeguard intended to support transparency and accountability. This is in contrast to the more traditional consultancy service where a third party is engaged to provide advice and solutions. As such it does not fill a traditional consultancy role; rather, it is better described as a standing independent review body.

The Panel is provided with analytical and administrative support, with internal officers providing additional analysis for the Panel at their request and under their direction. This

arrangement is intended to ensure that the Panel has access to information and to the officers who are most familiar with it, while avoiding the need for additional external cost.

Part of the function of Panel is to provide access to expertise at both a political and an officer level. The Panel can be requested to provide review and commentary or other assistance on request, within the existing terms of their contract, in addition to any specific reports requested.

In addition to the challenge and review, this arrangement provides an informal knowledge transfer and upskilling of officers. This is substantially different to the “task and finish” relationship with a traditional consultancy.

Question 3:

Given that the Deloitte report attached to P.2021/97 was produced under contract and forms the entire evidence base for the Tax Review options, on what basis does P&R assert that "no external consultants were engaged in the projections" when their work was fundamental to projecting the revenue outcomes of the proposed solutions to the deficit?

The vast majority of the analysis supporting the Tax Review was conducted internally by Treasury officers. This includes:

- All the provisional analysis work to support the Tax Review Steering Group to look at a range of different tax options to compile a short list of options;
- Building a comprehensive model of the tax system capable of providing:
 - Full revenue projections of various income and consumption based taxes
 - Detailed household impact analysis including the ability to make differential analysis between different income groups, household types and islands;
- The impact that potential changes in prices might have on inflation as a result of a potential GST.

Across the last term at least a thousand staff hours were dedicated to the analysis and policy development for this workstream.

Deloitte was requested to look specifically at the impact a short list of options might have on the broader economy (and GDP specifically), which the Treasury team did not have the capacity to do at the time. Deloitte was provided with the outcomes of the internal work to support their activities, and these figures may be quoted in their report. Specifically, Deloitte did not calculate either the size of the deficit or the potential revenues. Any reference made to these figures by Deloitte is drawn from calculations made by Treasury officers.

Question 4:

Would P&R agree that while Treasury officers may have compiled the initial deficit figure, the extensive modelling of how to fill that deficit (including the revenue projections for GST) was in fact carried out by the external consultancy firm Deloitte and/or the FPP (whose members are non-States employees)?

No: that is not correct. All financial projections were compiled by Treasury officers, albeit these were later provided to and used by both Deloitte and the FPP in their own reports.

Question 5:

The States' website confirms that the Fiscal Policy Panel (FPP) was "commissioned by the Policy & Resources Committee in 2023." Can P&R please clarify the contractual and remuneration arrangements for the three members of the Panel?

The Panel is contracted on a retainer arrangement, and each panel Member has a separate contract. The retainer arrangement and terms of the contract mean they can be requested to provide review and commentary or other assistance on request, within the existing terms of the contracts, in addition to any specific reports requested.

The total cost of the panel in 2023/4 and 2024/5 including expenses was approximately £55,000 per annum.

Question 6:

My previous Rule 14 question (2025-28) asked about the consultancy firm engaged "to look into the issue" of the deficit. P&R's reply focused on who "compiled" the "projections." Can P&R confirm whether any other external parties besides Deloitte and the Fiscal Policy Panel (FPP), were engaged to *analyse, advise on, or model* the structural deficit, even if the final numerical projections were tabulated internally?

As provided in the previous responses, all numerical projections of the deficit were calculated internally.

Deloitte was commissioned to look specifically at the impact that options under consideration might have on the economy, and while they will have commented on the deficit in context, this exercise was technical in nature and conducted to inform broader political discussions. They were not engaged to analyse, advise on or model the structural deficit itself.

As described, the FPP is engaged to monitor the States' compliance with the Fiscal Policy Framework. As such, discussion of the structural deficit, which is a clear breach of the

Framework's principles, would be expected. The FPP requested additional analysis from Treasury officers to consider the size of the deficit under alternative assumptions reflecting the Panel's opinion that the provision for infrastructure was insufficient.

Question 7:

The Deloitte report stated that, 'This Final Report has been prepared by Deloitte LLP ("Deloitte") for the States of Guernsey (the "States") in accordance with the contract with them dated 10 March 2021 (the "Contract")'. Can P&R confirm how much in total the States paid to Deloitte for the Contract?

The Deloitte contract was committed to in the last term and cost £125,000.

Question 8:

Did P&R evaluate whether the required analysis could be undertaken internally before deciding to engage external advisers? If yes, please provide details. If no, why was this not the case?

Yes. It was determined that the existing team did not have the capacity and skills to cover the specific analysis regarding the relative impact the shortlisted options may have on the economy to the level required.

Note that the provision of detailed modelling conducted by internal officers significantly reduced the necessary scope of the contract, reducing the potential cost.

Question 9:

Can P&R confirm whether GST was recommended by:

- **P&R, and/or**
- **Deloitte, and/or**
- **the FPP**

The initial recommendation that the solution should incorporate a GST (in combination with changes to the Income Tax, Social Security contributions and benefits systems) was made to the P&RC by the Tax Review Steering Group. Membership of this group is described in the background information provided.

The P&RC presented this solution to the States for debate under rule 17.9 in 2021. The P&RC recommended an evolved version of this policy to the States in the Tax Review: Phase 2 Policy Letter in 2023, and again in The Funding & Investment Plan 2023. Deloitte's involvement was limited to providing technical comparative analysis of a short list of options approved by the P&RC before the work was opened for tender; therefore, Deloitte did not

make a recommendation with respect to GST.

The FPP identified, in line with its brief, that the structural deficit was in breach of the Framework, that it should be addressed as a matter of priority if Guernsey is to restore its financial stability and that the proposals outlined could significantly progress that objective. While members of the FPP have, at various times, provided comment on the relative strengths and weaknesses of different tax options, it is not within their remit to recommend how the States should address the structural deficit and therefore they made no such recommendation.

Question 10:

Can P&R confirm whether P&R staff and/or Deloitte and/or the FPP modelled the closing of tax loopholes including (but not limited to):

- **ability for shareholders to borrow tax-free money from their own companies under the guise of Commercial Loan**
- **ability for a trust to classify distribution to beneficiaries as "capital" after a certain period of time in order to avoid paying taxes**

These are not issues that were within the remit of either Deloitte or the FPP.

The States have considered the issue of loans to shareholders under the work of the Tax Sub-Committee established in 2023 as described in the background information. This included reviewing the existing anti-avoidance legislation which aims to prevent companies making loans to shareholders (or immediate family members or other connected parties) to circumvent the tax on distributions, by imposing a 25% tax charge.

Question 11:

Can P&R confirm whether political member(s) or officer(s) of P&R were the first to suggest engaging the three FPP members?

The engagement of current Fiscal Policy Panel was approved by the P&RC in August 2023, supported and advised by officers in the normal way.

Note that a panel of this nature, which provides independent evaluation of Guernsey adherence to its fiscal rules is part of the governance of the Fiscal Policy Framework. A panel of this nature was first implemented in 2010 following the approval of the original Framework.

Question 12:

Can P&R confirm whether political member(s) or officer(s) of P&R were the first to suggest engaging Deloitte?

The engagement of Deloitte was approved by the Policy & Resources Committee on 14 January 2021, supported and advised by officers in the normal way.

Question 13:

Can P&R confirm whether political member(s) or officer(s) of P&R signed off on the deliverables of the FPP?

The 2023/24 and 2024/25 brief for the Fiscal Policy Panel was incorporated within the contracts agreed in August of the respective years. The brief for each was agreed by the Policy & Resources Committee and the contracts, including the agreed brief, were signed by the States Treasurer in August 2023, and by the Senior Economist in August 2024.

Question 14:

Can P&R confirm whether political member(s) or officer(s) of P&R signed off on the deliverables of Deloitte?

The contract with Deloitte, including the agreed deliverables was approved by the States Treasurer in March 2021, following approval of the scope of work and funding by the Policy & Resources Committee.

Appendix 1: Preamble provided by Deputy Goy

PREAMBLE:

Previously under **Rule 14 Question 2025-28** (<https://parliament.gg/parliamentary-business/assets/questions/2025-28>) I asked a series of questions in order to seek better understanding on the issue of the use of consultants by P&R in formulating its tax strategy.

P&R's reply contained two key claims:

1. **"The financial projections on the size of the structural deficit were compiled by States of Guernsey officers in the Treasury team."**
2. **"No external consultants were engaged in the projections."**

While the first claim may be technically true (Treasury officers did the final compilation), the second claim appears to be inconsistent with the available evidence.

The existence and content of the **Fiscal Policy Panel (FPP)**'s reports and the **Deloitte** report directly undermine the States' answers.

The Fiscal Policy Panel (FPP)'s Reports

The Fiscal Policy Panel (FPP) was commissioned by P&R to provide independent commentary and analysis as detailed by the States' own website (link: <https://www.gov.gg/fiscalsolicypanel>):

- The FPP members (**Prof. Matthew Agarwala, Prof. Francis Breedon, and Matthew Bell OBE**) are all external, independent experts with primary employment outside the States of Guernsey.
- their work involves detailed fiscal analysis, sustainability assessments, and specific recommendations on addressing the structural deficit - all core to the "projections" mentioned in the States' reply.
- The 2025 report continues this work, providing analysis and recommendations specifically on "**permanent fiscal balance**" - which is the conceptual foundation for understanding and projecting structural deficits.

The FPP's work directly involves deficit projections and analysis:

- Both reports extensively analyse the States' financial position, revenue shortfalls, and the unsustainability of current fiscal policies.
- The 2025 report contains detailed charts and analysis of the States' deficit

positions under different scenarios (Fig. 24, pages 34-35), showing projected deficits with and without tax reforms.

- The Panel explicitly states that **"revenues in recent years have been insufficient to support the Panel's definition of permanent fiscal balance" and that the "current tax base... cannot sustainably support both the current profile of service provision and the level of infrastructure investment needed."**

The FPP's mandate covers the very subject of the structural deficit:

- The Terms of Reference in the 2025 report (Appendix 1, page 37) specifically include examining *the relationship between infrastructure investment and its importance in achieving permanent fiscal balance* - which is essentially the structural deficit issue.
- Their analysis of the States' reserves, debt, and investment levels directly informs understanding of the structural deficit.

The Deloitte Report

Source: The report attached to P.2021/97 (<https://parliament.gg/parliamentary-business/assets/propositions/p2021-97>), Economic Impact Study of the States of Guernsey Tax Review.

- **Key Evidence:**
 - **Page 2, "Important Notice":** The report explicitly states it was prepared by Deloitte LLP for the States "in accordance with the contract with them dated 10 March 2021." This confirms they were engaged as external consultants.
 - **Scope of Work:** The report's purpose was not just to opine on tax options, but to analyse them **in the context of the fiscal deficit**. The entire report is framed by the "fiscal pressures" and the need to raise revenue to meet the "24% of GDP" target. **Deloitte's analysis is inextricably linked to the deficit projections.**

Key examples:

- **Revenue Modelling for the Deficit Gap:** The report analyses how much revenue each tax option would raise to **close the deficit** (see Table 7 on page 39, and the analysis on pages 39-41). Deloitte did not create the original deficit number, but they were absolutely engaged in modelling the **financial projections of the solutions** to that deficit.
- **The Deficit is the Core Justification:** The report's Executive Summary (Page 4)

begins by stating the problem: "Guernsey is facing increasing fiscal pressures... the economic impacts of COVID-19 have resulted in the States operating at a deficit of £64 million." Deloitte's entire mandate was to analyse options to fix the problem defined by that deficit.

3. Public Record in the Proposition (P.2021/97)

The report was not produced in a vacuum; it was commissioned to inform a specific policy proposition.

The very existence of Proposition P.2021/97, "The Tax Review Policy Letter," which proposes the tax options, is predicated on the work done by Deloitte. The Policy Letter and the Deloitte report are a packaged set of documents. It is implausible to claim that the policy response to the deficit was developed without the engagement of the consultants who produced the foundational analysis for that policy.

Based on these two documents alone, there is clear evidence that:

1. **External experts were indeed engaged** to analyse the States' fiscal position, including structural deficit issues.
2. **Their work directly involved projections and analysis** of the deficit situation.
3. P&R's claim of "**no external consultants were engaged in the projections**" is, in my respectful view, contradicted by the evidence of the reports produced by Deloitte and the Fiscal Policy Panel (FPP).

The distinction P&R might be trying to make in its reply to *Rule 14 Question 2025-28* is that Treasury officers "compiled" the final numbers, but this ignores the substantial analytical and advisory role played by Deloitte and the externally constituted Fiscal Policy Panel (FPP) in shaping the understanding and projections of the structural deficit.

Appendix 2: Background information

The questions presented relate to several separate policy instruments which are inter-related. To provide a full and comprehensive answer to the crux of the questions presented it is necessary to present the full context for the various different Policy Letters, reports and decision-making bodies which formed the basis for decision making across the last five years. For context and ease of review, the pre-amble provided by Deputy Goy is incorporated in Appendix 1.

This background summary is intended to explain the role these various policy debates and reports played in the States fiscal policy over the last five years, the timeline of debates and decisions made over the last political term, what third party expertise was engaged at what point in this process, for what purpose, for what cost and under whose authority and direction in order to support the answers to the questions presented.

Note that this background covers a large proportion of strategic fiscal policy-making over the last political term and is much broader than the 2020-2025 Tax Review and the calculation of the structural deficit.

Further, the background demonstrates that over the last political term the capacity to conduct detailed analysis in-house has been significantly expanded to support what was and continues to be a very complex area of work. The expansion of the internal skills has significantly reduced the need for analysis to be commissioned out to a third party, resulting in a significant reduction in expenditure and a significant increase in the support and flexibility of financial policy discussions.

The Review of the Fiscal Policy Framework and Fiscal Pressures debate in 2020 ***Presenting Committee: Policy & Resources Committee (P&RC)***

The **Fiscal Policy Framework** is the States' highest level of fiscal policy which sets broad principles against which the States' Fiscal Performance should be assessed. The core principle of this is that the States should operate on a principle of long-term permanent balance. This was last reviewed in early 2020 and the policy letter is available here: [billet-i-2020¹](#).

This Policy Letter also included a high-level assessment of the States' known fiscal pressures based on the current profile of service provision and the policy developments under consideration at the time. This exercise identified long term income and expenditure pressures of between £79m and £133m a year, noting that not all of the potential pressures listed have materialized (for example the review of primary care services), while others have manifested at more or less than the indicative values included in this policy letter.

This analysis supported a resolution:

¹ BILLET D'ETAT I, Wednesday 15th January 2020: <https://parliament.gg/parliamentary-business/billets/billet-i-2020>

“...to conduct a review to ensure that Guernsey’s tax base is capable of raising sufficient revenues to meet long term government expenditure needs in a sustainable manner within the boundaries of the Fiscal Policy Framework”

All this analysis was conducted internally: no external resource was used in the compilation of this Policy Letter.

The Tax Review Policy Letter debate 2021

Presenting Committee: Policy & Resources Committee (P&RC)

This Policy Letter was the first of four debates which considered long-term revenue raising measures across the 2020-2025 political term, in compliance with the resolution made in the **Review of the Fiscal Policy Framework and Fiscal Pressures**.

This Policy Letter presented the recommendations of the **Tax Review Steering Group**, a cross-committee working party established specifically to meet this obligation.

Membership of this committee included:

- Deputy Helyar (as P&RC Treasury Lead and chair)
- Deputy Mahoney (P&RC)
- Deputy Roffey (as President of the Committee *for* Employment & Social Security)
- Mark Thompson (non-States member on the Committee *for* Employment & Social Security)

The Steering group was supported by Treasury officers and considered a range of potential routes to addressing the deficit including:

- Variations on increases in income tax rates (including headline rates)
- Social Security Contributions
- Consumption taxes
- Other smaller taxes

Treasury officers conducted a very significant amount of analysis internally in support of the Steering Group (including more than a thousand hours of detailed modelling across the entire life of this workstream). This analysis was used to allow the Steering Group to shortlist three options to consider in its final report to P&RC. To further support the work of the Steering Group a discrete piece of analysis was commissioned from Deloitte to examine the relative impact the shortlisted options would have on GDP. This analysis was technical in nature and Deloitte and Touche specifically describe their brief as follows in their final report:

“This Final Report reviews the tax structures and policies in comparable benchmark jurisdictions and the expected economic impacts of a set of tax policy options provided by the States. This Report does not conclude or opine on the suitability of the tax policies being considered, nor does it provide advice or recommendation on the policy design, implementation of the chosen option(s) or legislation required.”

The cost of this report was £125,000 and the brief and short list of options considered was approved by the P&RC before work was commenced.

This analysis was used to support the compilation of a final report on behalf of the Steering Group to present its recommendation that the preferred mechanism for raising revenues should include a reduction in income tax liability (at that stage via a substantial increase in the personal allowance), reform of the Social Security Contributions system and a broad-based GST to the P&RC. This report was accepted by the P&RC who presented the Steering Group report and recommendation to the States for consideration as a “green paper” under rule 17.9 in 2021.

The work of the political Tax Review Steering Group which presented the initial recommendations is incorporated in the 2021 Policy Letter available here: [proposition-p2021-97.pdf²](#).

This debate resulted in the continuation of this workstream, together with an initiation of an additional piece of work examining the options within the corporate tax sphere.

Note that immediately following this debate, the States resolved to apply a phased increase in Social Security Contributions as part of the debate on the 2022 Contributory Benefits Upgrading Policy Letter, and this resolution was supported by the same internal modelling tools developed as the larger Tax Review. These modelling tools have also been used to support policy consideration at each successive budget and have significantly improved the quality of data available to support decision-making.

The Tax Review: Phase 2 debate 2023

Presenting Committee: Policy & Resources Committee (P&RC)

This Policy Letter was a continuation of the policy discussion begun in the previous debate, and the first presentation of the package or tax measures in the form it was subsequently agreed. It is available here: [The Tax Review: Phase 2 - States of Guernsey³](#). Appended to this report is a piece of analysis undertaken by EY providing a Review of Corporate Tax Options. This work was commissioned in response to a resolution made following an amendment to the previous policy letter which directed the P&RC to further investigate this avenue. This report was commissioned at a cost of £198,067 and, like the report provided by Deloitte, was technical in nature, providing a comparison of a short list of options agreed by the P&RC before the work was offered for tender. This report provides no recommendations on GST other than noting that it would be necessary to consider the interplay between a potential GST and any changes to the corporate tax structure.

No external analysis was commissioned in relation to the GST plus package beyond that included in the previous Policy Letter. The entirety of the additional analysis conducted to progress the policy from the first Policy Letter to the second was conducted in-house. The proposals presented were arrived at through iterative discussion with the P&RC with no external recommendations.

² The Tax Review P.2021/97: <https://parliament.gg/parliamentary-business/propositions/p2021-97>

³ The Tax Review: Phase 2, <https://www.gov.gg/article/192211/The-Tax-Review-Phase-2>

The Funding & Investment Plan 2023 and the Major Projects Portfolios

Presenting Committee: Policy & Resources Committee (P&RC)

These two policy instruments are a standard part of the States' financial management and set the income and expenditure profile over a medium-term planning horizon to allow more effective management of resources.

It is within the 2023 Funding & Investment Plan (F&IP) that the structural deficit was modelled in a greater level of detail. The deficit was also projected over a clearer time scale than the high-level estimates provided in the three previous Policy Letters. These financial projections were compiled using internal staff resources, collaborating across multiple disciplines.

Having identified the scale of the forecast deficit in more detail through this exercise, the P&RC once again presented the States with an option to progress the Tax Review measures in the same format, and identified how the Major Projects Portfolio might be progressed with and without additional revenue and the consequences this might have for the States' reserves and debt.

The Fiscal Policy Panel Reports 2023 and 2025

Presented as an independent assessment of Fiscal Policy against the criteria of the Fiscal Policy Framework

The Fiscal Policy Panel is a panel of three independent economists who are tasked with reviewing and assessing the States' alignment with the criteria of the Fiscal Policy Framework. It provides independent challenge to States policy and considers whether it is being applied in a sustainable manner. The Panel does not operate as a traditional consultancy body.

The Panel works primarily with data that is already published and with officers in the compilation of their report. They will request additional analysis from officers to support discussion and challenge the assumptions made in that analysis where necessary.

In 2023/24 the Panel was specifically tasked with reviewing the F&I Plan. Given the primary principle of the Fiscal Policy Framework is a requirement for long-term permanent balance, this required a discussion about the sustainability of States' Finances, the expected scale of the deficit and the solution presented in the Policy Letter.

The Panel's conclusions identified that the deficit set out in the 2023 F&I Plan was unsustainable (and in their opinion understated, due to an inadequate provision of major projects investment). It further noted that the solution presented in F&I Plan could substantially improve the financial position and move States finances closer to a sustainable position. While the Panel offered some economic insight into the strengths and weaknesses of various approaches, it did not formulate or recommend the GST Plus package, and it was not in its brief to do so.

The Panel's brief in 2024/25, again agreed by the P&RC, was to consider what an

appropriate level of investment in infrastructure should be for a jurisdiction like Guernsey. It also considered the appropriate level of financial reserves that the States should hold to provide a suitable level of contingency. Both these considerations were requested in the context of supporting the ongoing review of the Fiscal Policy Framework.

Again, these considerations were made in the context of the current Fiscal Policy Framework and its core principle of long-term permanent balance. As part of its analysis, consideration was given to how changing these principles would impact the States' long term deficit position, and again the Panel identified that action was needed to address this. Including expenses, the panel cost approximately £55,000 in both 2023/24 and 2024/25.

The 2023/4 Tax Sub-Committee

Following a successful amendment to the Tax Review: Phase 2 Policy Letter, a sub-committee was formed in the last assembly to look at a specific series of measures, largely within the corporate tax sphere, which might raise additional revenues.

The scope of this subcommittee included:

- Changes to the corporate tax regime
- The application of a government levy or changes to the Guernsey Registry Fee structure
- Increases in exempt company fees
- Incentives to distribute from investment companies with local resident shareholders
- The formation of an alternative corporate vehicle taxable at a non-zero rate
- The application of a Taxe d'Abonnement
- Review the structure of property taxes
- Investigate options in relation to the concept of a minimum tax contribution
- The application of minimum tax rates

No third-party expertise was commissioned to support this work.

Separate to the work of this Sub-Committee, resolutions were also made to progress the development of additional taxes on transport. A significant amount of work was done on this during the last Assembly but it was not brought forward for debate. The latest fiscal projections include an assumption that additional revenue will be generated in this area.

The 2025 Budget Debate

Presenting Committee: Policy & Resources Committee (P&RC)

The 2025 Budget presented propositions to increase the income tax rate which were subsequently successfully amended to approve the implementation of the package of measures initially presented in the Tax Review: Phase 2 Policy letter.

Supporting analysis for the budget and the amendment was conducted using internal resources and no third-party expertise was commissioned to support this work.