



OFFICIAL REPORT

OF THE

STATES OF GUERNSEY

SCRUTINY MANAGEMENT

COMMITTEE

Policy & Resources Committee
Fiscal Policy Framework Public Hearing

HANSARD

Guernsey, Wednesday, 14th January 2026

No. 1/2026

*Further information relating to the Scrutiny Management Committee
can be found on the official States of Guernsey website at www.parliament.gg*

Members Present:

Panel Chair: Deputy Andy Sloan – President of the Scrutiny Management Committee
Mr Mark Le Page - Non-States Member, Scrutiny Management Committee
Advocate Peter Harwood, O.B.E. - Non-States Member

Mr Mark Huntington – Principal Scrutiny Officer

Business transacted

Procedural – Remit of the Committee 3

EVIDENCE OF Deputy Gavin St Pier, Vice-President, Policy & Resources Committee; Ms
Bethan Haines, Chief Resources Officer 3

The Hearing adjourned and resumed its sitting. 20

The Committee adjourned...... 32

Scrutiny Management Committee

Policy & Resources Committee

Fiscal Policy Framework Public Hearing

*The Committee met
in Castel Douzaine Room*

[DEPUTY SLOAN *in the Chair*]

Procedural – Remit of the Committee

The Chair (Deputy Sloan): Welcome to representatives of Policy & Resources. Although I should add this panel is formed from the Public Account Sub-Committee membership and I am
5 joined by Advocate Peter Harwood and Mr Mark Le Page. It is technically a parliamentary hearing so we follow parliamentary rules. There will be no questions from the floor or members of the public.

Obviously asking you to turn your phones off. I am sure the emergency exits are somewhere pretty visible. There will be a *Hansard* script of this hearing in due course, although if you want it quicker I would go on YouTube and transcribe it using an app; it is pretty easily doable nowadays.
10 We have got two hours. We will try and take a break maybe at some point; we have got a few questions and we will see how we go. We do not necessarily need to spend the whole two hours here this morning – people are very busy – but we shall see how it goes.

EVIDENCE OF Deputy Gavin St Pier, Vice-President, Policy & Resources Committee; Ms Bethan Haines, Chief Resources Officer

The Chair: With no further ado, sir, may I ask you, the panel from P&R, to introduce themselves.
15

Deputy St Pier: Good morning. Deputy Gavin St Pier, I am the Vice-President of Policy & Resources, and the Resources lead for the Committee.

Ms Haines: I am Bethan Haines, Chief Resources Officer for the States.
20

The Chair: Thank you very much.

I suppose, for the record – obviously this is an interesting topic to myself personally – I will kick off with a couple of questions basically on the framework itself. Obviously we will share, but for the first question a nice simple one, I think really hopefully: what problem or limitation was there in the
25 existing Fiscal Framework that the proposed 2025 version is designed to address?

Ms Haines: The previous version needed to be reviewed for two reasons. The first was that there had been a material revision to GDP and several metrics in the former framework were linked to GDP. It had to be reviewed for that purpose.

30 The second reason was the change in our accounting basis, so the move to International Public Sector Accounting Standards meant that some of the terminology and definitions had changed. We needed to look at the framework, and in looking at the framework we were very conscious that that was the second time we had had to look at the framework for changes in GDP, and therefore a wider review of the framework to make it more sustainable and long term without constantly
35 needing to revisit it.

The Chair: That is the second one. The numerical thing, it is a numerator/denominator issue, that is fairly simplistic arithmetic, but you also said in terms of the accounting standards it changed, in terms of definitions. Can you be a bit more specific what therefore was required?

40 **Ms Haines:** I do not think there was anything specific in the framework, but we needed to ensure that there was consistency between the way that we were applying terminology in the framework, the way that we were accounting. There were different uses of things like surplus, operating surplus, overall surplus, etc., that caused confusion. So we wanted to ensure that all of the terminology in
45 the framework aligned with the standardised terminology that we are using in the accounting framework and in the budgeting framework.

The Chair: So again, could you be specific with a couple of examples of that?

50 **Ms Haines:** I think the surplus deficit definitions is probably the main one. Obviously the other change that has happened since the last framework was published was capital accounting, and therefore we did not have a concept previously of depreciation and now we do. So we had to look at it for that.

I am not saying it resulted in any material changes but we needed to make sure it was consistent.
55 That was the reason that the review was triggered.

The Chair: You said the previous framework led to a wider review. In that wider review, do you think that the principles of the framework were a continuation of the original 2009 version, or has that changed?

60 **Deputy St Pier:** Clearly the original framework in 2009 placed heavy reliance on the original seven principles and effectively –

The Chair: The seven principles, what were they, sir?

65 **Deputy St Pier:** I will refresh my memory from the Policy Letter in terms of where they are set out.

Ms Haines: I think that was the revision.

70 **The Chair:** That was the revised version, was it not?

Deputy St Pier: Sorry, I was working from the most recent, which I suppose is the one that I am most familiar with rather than the one that you are most familiar with.

75 **The Chair:** Well I said the original 2009 Framework, so my question is: everything else is a continuation, is it a fundamental change from that?

80 **Ms Haines:** I think for me the core basis of the original framework and the subsequent revisions to it has been the concept of long-term permanent balance. I do not think that has changed.

The Chair: That is interesting because you do say 'permanent balance' or the States P&R said 'permanent balance' in the Budget when they are referring to the Fiscal Framework. But in the Fiscal Framework Policy Letter that is published, it actually says the central principle is around financial stability.

Ms Haines: Yes, and I think we explain in the document that that basically is the same as the other principles.

90 **The Chair:** I do not think you do. Can you explain to me where you say that is basically the same?

Ms Haines: If you give me a moment to have a look, I will ... I am sorry, Chair, I cannot find it at the moment.

95 **The Chair:** Take your time.

Advocate Harwood: Can I just follow up on that because in the Budget Report that came to the States last year, and there was a comment about the Fiscal Policy Framework, you said, this is paragraph 1.5 of the Budget Report:

100 It is currently under review and an update will be debated by the States in December 2025. However, the guiding principles of the States Fiscal Policy Framework, which will not change – not change – is a policy of long-term permanent balance.

There has been a fundamental change since that Budget Statement and the document which the States are now being asked to look at, is it not?

105 **The Chair:** Well, the Chief Resources Officer is looking in the document where it says that that is fundamentally the same. We are just waiting for her to find that piece.

Advocate Harwood: Something must have happened during the period since the Budget; a Policy Letter was produced and this policy document. There has been a fundamental change. Do you acknowledge there has been a fundamental change?

Ms Haines: No. I do not think there is a – I think there is a change in terminology, but there is not a change in principle.

115 **Advocate Harwood:** Are we dancing on the head of a needle here? Previously the Fiscal Panel has reported on permanent balance, whereas now you have introduced a new concept, I suggest. I am not an economist but there are others around me who are. You have now said long-term financial stability.

120 **Deputy St Pier:** Yes, well –

The Chair: It is involved actually is it not?

125 **Deputy St Pier:** Yes, paragraph 1.5, it is proposed that the core principle be redefined as one of long-term fiscal sustainability.

The Chair: So actually that is another change, is it not? Now we have got long-term financial stability as the central principle, the core principle of financial sustainability, but the Chief Resources

130 Officer said the framework is fundamentally the same, that it is long-term permanent balance. And has just said that actually that remains the same. I have just asked where in the Policy Letter it says that.

Ms Haines: What we are saying is that we have redefined –

135 **The Chair:** You did not really though. You said it is the same. You said the central principle is the same.

Ms Haines: Okay. I think we are dancing on the head of the pin because I think that the long-term financial sustainability means that we are balancing all of our resources in the long term and we need to be in permanent balance, which means that we are managing our income and expenditure, our capital investment, our investments and our debt to ensure that the States remains in balance.

145 **The Chair:** You can get flippity with me, but it does not say that, does it? It does not say – you just said the long-term permanent balance is the central principle. I asked you to explain – so essentially the same, and I asked you – now, I am an economist, and financial stability is a different concept. It worries me if the first page ‘central principle’, it is wrong.

Deputy St Pier: Sorry, what is wrong?

150 **The Chair:** The central principle. You just said it has changed – no, it is the same but it is different. As Peter said, in the Budget we said it was long-term permanent balance and we are now saying it is long-term financial stability.

155 **Ms Haines:** Long-term financial sustainability is what is proposed.

The Chair: You just said ‘sustainability’.

Ms Haines: That is what the Policy Letter says; sustainability.

160 **The Chair:** The Policy Letter 1.3 says:

The proposed framework is built around the central principle of long-term financial stability.

Ms Haines: Yes.

165 **The Chair:** You say yes, but you just said it was permanent balance.

Advocate Harwood: I think the concern I have is that there is a fundamental change in the approach to this. It is no longer a fiscal policy framework, it has now morphed into something different. But I am not quite sure, it being still presented as though it was a fiscal policy framework. Just to pick up on Deputy Sloan’s point, the balanced income and expenditure issue now is just one of the principles here, whereas previously it was the core principle.

I think we need to understand the reasoning behind it. It is no longer fiscal rules, it is no longer fiscal policy.

175 **Ms Haines:** I think part of the reason for having a better explanation and showing the different pillars is to ensure that it is properly understood that balancing income and expenditure does not just mean that tax revenues in the year and expenditure in the year needs to be balanced, and that was very often misunderstood. So it is to demonstrate that long-term financial stability means that

180 you need to balance income and expenditure, that you need to have sustainable investment, that
you need to have healthy reserves and that you need to manage your debt. All of those things
contribute to long-term financial stability. That is the core theme of the Policy Letter, which I would
argue is very similar; not exactly the same, as long-term permanent balance.

185 **The Chair:** I will be pernickety about it. Actually financial stability, as an economic concept,
relates to the workings of the financial system. It is not a fiscal term at all. So permanent balance is
a fiscal term and it has been used previously, and that was the central premise. You are describing
things, you are now saying it is better explained. Personally I do not think it is because that is some
of our issues. You are now saying that financial stability, which is the wrong term, I hasten to add,
190 is built around these four pillars.

Balanced income and expenditure, yes, we get that, but now you obviously want to determine
the word 'balanced', but can you explain to me what you mean by 'sustainable and well-managed
debt'? I do not really understand that. That is very qualitative, if you ask me. What does that mean?

195 **Deputy St Pier:** Going back to Advocate Harwood's observation or comment about it, having
moved away from a set of rules, I think the framework previously appeared to be a set of rules, but
it was always intended to be a framework. In other words, a principle-based model, which is what
is more clearly presented in this version. It is working to a set of principles rather than a set of clearly
defined rules. Which I think was arguably always the intention.

200 **The Chair:** The fundamental principle previously was one of long-term permanent balance,
which is quite a clear principle. You are saying it is better described in terms of the principles. We
are here to understand how that is better described because I am struggling with those principles.
Can you explain to me what does that mean in terms of 'sustainable and well-managed'? What does
205 'well-managed' mean?

Ms Haines: Sustainable debt, in my opinion, and as set out in the framework, means that the
debt is not affordable so that the States can afford to repay not only the interest but the capital on
the debt, and that the debt is acceptable externally and within limits that are externally assessed as
210 appropriate for the States and which do not impact on the States' overall standing. That is what we
mean by 'sustainable and well-managed debt'.

Deputy St Pier: I think that is set out in the bullet points under 5.5.

215 **The Chair:** When you say 'appropriate', what do you mean by 'appropriate', sir? You said that it
needs to be appropriate; what does that mean?

Deputy St Pier: You suggested in your question that it was a qualitative assessment.

220 **The Chair:** So appropriate is just qualitative then, we do not have to have any measure or criteria
for what appropriate is?

Deputy St Pier: As the Policy Letter makes clear, Ernst & Young, in their independent
assessment, had previously indicated they thought that 30% of GDP was what they regarded as
225 being, if you like, an appropriate affordable level of debt. That is their independent view. No doubt
that view may change over time as circumstances change, both for us as an economy and for the
wider environment in which we operate. So yes, I think it is a qualitative assessment to be made
by –

230 **The Chair:** So you agree this framework is essentially qualitative. Because you have moved from,
like you said, rules to principles, and we are now relying on qualitative judgement; appropriate. You

are looking at either affordable, and looking at – there are no, and as Advocate Harwood mentioned, in terms of numerical limits, definitions here about what that might look like. It is reliant on independent assessment but there is nothing contained in the framework to describe it or put hard criteria to it.

Deputy St Pier: No, I think the references to hard numbers are less clear than they were previously. We talk, for example, about the desire to build reserves. Previously we talked about the ambition to build the core investment reserve back to 100% of public expenditure, and now we are talking about a medium to long-term objective of building reserves to 50% of GDP.

That is an indicative target. There can be a qualitative judgement as to whether that is the right target. We have already talked about the debt number but similarly, of course, the whole discussion around CAPEX and what proportion is appropriate for our economy – again you will be familiar with – has been bouncing around for a considerable period of time as to whether there should be a hard target of 2% or 3% or 1.5% GDP, what is appropriate in our circumstances at any given time. I think these are qualitative judgements. They are not rules-based judgements.

Advocate Harwood: Can I just pick up on this? We have established that this is a new concept, long-term financial stability. One of the pillars is balanced income and expenditure, where previously that was the core principle. I have difficulty understanding timeframes in here. If I look at your explanation of what success looks like, you say achieving a balanced budget averaged over an economic cycle. You have helpfully put in some definitions of what short term means, what medium term means, what long term means, but what is an economic cycle?

The concern I have is that, all right, there is a commitment to have a balance, but over what period of time? You could say, 'Right, we will not have a balance for the first five years, but we want to try to achieve a balance in year six, seven, eight, or nine'. That is my concern.

I accept you do not want to be tied to specific quantities, but actually in terms of timescale, I think actually this is just totally open-ended. I cannot define what an economic cycle is. You might know one when you come to the end of it, but do you know it at the beginning? That is the sort of question I have over this document. It has become totally open-ended, (a) because you have dropped the quantitative element, but (b) actually I think you have just opened up the timeframes, which are pretty meaningless.

Deputy St Pier: Economic cycles will clearly vary. Yes, some will be short and some will be long. You are right, you do not know what they are until after it has happened. But similarly, if we go back to the previous version of the framework, talking about Guernsey's fiscal balance should operate on the principle of a long-term permanent balance, well, what does 'long term' mean in that context?

Advocate Harwood: At least it was supported by comments about annual deficits should not exceed 15% of operating revenues. There was a reference to a five-year period somewhere here:

Annual net deficits reported in general revenue accounts should not be allowed to persist for more than five consecutive years.

People drew comfort from that. I cannot find that degree of comfort in these new principles.

Deputy St Pier: Well, they may have drawn comfort from it, but it is not something that has been adhered to. So in terms of providing a set of rules that have driven policy, I do not think you can say that it has been effective in delivering that.

Advocate Harwood: But at least you have got something you can comment against.

Ms Haines: Can I add something? I think when the original Fiscal Policy Framework was put together we had that and we had the annual Budget. We did not have a Medium-Term Plan, and the Medium-Term Plan is the opportunity for that particular States to set out its plan for the medium term and beyond its term of government that will ensure it is complying with these and set further policy levels. Through that, there is a mechanism to have more of the quantitative measures that you are talking about, whereas this provides a framework within which that sits.

Advocate Harwood: But there is no obligation, as far as I can see in this document here – perhaps to pick up on your Medium-Term Plan. Is that a commitment that there will be a Medium-Term Plan produced and how often will that be reviewed? So that is a rolling three-year plan, five-year plan, or what?

Ms Haines: The next Funding and Investment Plan will be debated by the States before the summer of this year.

Advocate Harwood: Is that an investment plan or a financial plan?

Ms Haines: Sorry?

Advocate Harwood: Is that an investment plan or a financial plan?

Ms Haines: It is both.

The Chair: Your argument that we have roles that we can meet and so we will just go to a qualitative framework with principles does not give me much confidence that we will therefore meet the qualitative subjective criteria of principles. But if I may, Mark was looking to have a question there.

Mr Le Page: Yes, I was just going to ask again, to try to seek to understand. A theory I have been running with, which might be completely wrong, is that when the original document was done, it was perhaps inspired by a more austerity-driven world, and this one feels more neo-Keynesian. Would that be fair?

Ms Haines: I think that the original – Dr Sloan will remember – rules-based policy framework was put together to manage the States' debt in fact.

Mr Le Page: Yes, so austerity basically.

Ms Haine: No, it was to put some guidelines around and guardrails around the accumulation of debt, because there were none in place and the States were seeking at that time to accumulate debt. I do not think that was the rationale behind establishing the original one. I cannot really comment on your analysis.

Deputy St Pier: I think the situation you have just described does speak to the need or the importance of having an independent assessment and therefore the importance of the Fiscal Policy Panel, I think, arguably becomes more important in this model than perhaps previously, where perhaps previously their commentary was interesting but perhaps less important than it now is because of the qualities and nature of the judgement –

Mr Le Page: Where it is now in the entire language, the language of economic cycles, the language of seeking in and out of debt, even the language of using RCF – which is quite an interesting measure, but we will come to that later –to manage working capital. That all suggests

335 more of a neo-Keynesian approach than perhaps what the Islanders traditionally look towards, and possibly therefore for the driver for this to, as it were, popularise the idea of wider forms of debt.

The Chair: In terms of the debt, it is something we have discussed as a panel, but to the Chief Resource Officer's point about, yes, I am pretty sure a civil servant was involved in drafting the original version, it was a very conservative – with a small 'c' –fiscal framework, which put in rigid
340 fiscal rules to constrain unwarranted uplift in debt.

The thing about being able to judge and assess frameworks is that you need to have hard and fast rules and criteria against which judgement can be made. If you are reliant on qualitative assessment it is horrendously difficult to assess whether something is successful or not. But before we get there, in terms of the role of the panel, the movement, and this has concerned all of us, from
345 a hard rigid rules-based approach to a principles framework, which gives the impression that we are talking about well-managed debt. Our concern is there are no constraints to what – you are talking about independent assessment, what is appropriate, what is affordable, there are no constraints there other than quantitative ex-post assessment. What would unsustainable debt look like?

350 **Ms Haines:** I think accumulating debt that can be serviced but not repaid, to me, is an unsustainable debt.

The Chair: Our current levels of debt are unsustainable now at the moment, are they not?

355 **Ms Haines:** No, the Funding and Investment Plan has modelled repayment of that – that is included in all of our assessments, is repayment of any debt accumulated –

The Chair: I am not understanding how that can be the case if we are running a structural deficit
360 of £77 million, as prescribed by the framework, as prescribed by your document. If we are in deficit by £77 million, how are we paying back debt when we are accumulating deficits? That is not valid, is it?

Ms Haines: It is not sustainable but the modelling has at least incorporated the repayment of
365 that debt, which drives part of the –

The Chair: But you just said it was sustainable. I asked you what sustainable debt looked like and you said – and then I said, well, our present level of debt is not sustainable and you said it is. Then you just said it is not.

370 **Ms Haines:** It can be repaid.

The Chair: But not without us running a deficit.

375 **Ms Haines:** Exactly.

The Chair: So it is not sustainable, is it?

Ms Haines: We have also got reserves.

380 **The Chair:** According to the old rules or these rules, surely. Is it sustainable?

Ms Haines: Not in the long term, not unless the imbalance in income and expenditure is addressed.

Deputy St Pier: Hence the interaction between the pillars. You said earlier, Deputy Sloan, that the question of GDP was simply one of denominator and numerator. I think that brushes over actually what is quite a significant issue in our case, the nature of our GDP, which is overly reliant – not overly reliant, it is –

The Chair: Disproportionately comprised of profits.

Deputy St Pier: Disproportionately, thank you. You got there even faster than me, which I would expect, given your background. Yes, it is disproportionately impacted by corporate profits and the volatility of those. That feeds through in a rules-based world to quite a significant – has quite significant effects.

Advocate Harwood: Is there an alternative denominator or numerator – denominator that could be used? I think people have come up with one or two other ideas.

Deputy St Pier: Such as?

Advocate Harwood: One test might be the measurement against the income of the States, averaged over a three-year period.

Mr Le Page: One of the alternatives would be to substitute GVA for GDP, but the challenge with GVA is it is normally done on a sector-by-sector level, so you then have to accumulate them up.

The Chair: Personally, I think it is a red herring.

Mr Le Page: The other interesting thing about GVA, of course, is that it does not include any sales tax in the figures, which GDP does. I am not going to open that up today.

The Chair: I know it constitutes a problem, but it is a resolvable problem, it is a red herring because it is only a step change. The rationale for using GDP is that it allows you a measure against time. So you are not looking for an international comparison. Where we struggle with is international comparisons because everyone calculates their GDP differently. Large economies do not compare to ourselves.

Against time, we calculated GDP back to 1969 and 2009 in the same way, so we have 30 years of data. Obviously, if you change your methodology, you have to change your numerator and denominator, your ratio changes, that sort of thing. It is a very simple arithmetic issue, and you restate absolutely everything going back and you backcast it. The fact that we have changed twice the way we are calculating GDP is concerning, I think, more than anything else. The fact that we did not restate our GDP at the time was also concerning.

I think that is a very minor arithmetic issue.

Deputy St Pier: I perhaps misstated the issue on the numerator and the denominator, but the influence of corporate profits and the volatility, whether you change your composition of GDP or not, the variability of that is probably the greatest concern.

The Chair: Yes, and hence you look through for the long-run permanent balance position because it is the long-run position you look at. However, you still need some measure to use, and you used Ernst & Young's 30% figure. but again you are reliant on somebody else using that figure. My concerns or our panels' concerns were about debt and deficits, so in terms of previously we were looking at limiting deficits and borrowing. I am trying to figure out in this framework how that happens.

Advocate Harwood: Can I just pick up on that? The principles focus on long-term debt, and the economy must remain within appropriately independently assessed limits. That is required for long-term debt.

What is not clear, you say long-term debt should not be used to fund operational activities, however short-term instruments, e.g. revolving credit, may be used to manage cash flow. Now, have you given any considerations to assessment as to how much revolving credit facility is appropriate against the size of income of the States? There is nothing in here that gives me any guidance as to how you actually are going to manage it, how you are going to measure that.

Ms Haines: We have been operating with revolving credit facility of £100 million over the last three or four years, I think. The drawdown has been pretty low, but we do have very lumpy income, and so we have drawn down on it to manage our cash flow. But £100 million is the size of the facility, but the drawdown has been significantly less than that.

Advocate Harwood: But given, I think, the deficit, or cash flow deficits of a £100 million last year, and projected to be about the same for this year, how are you going to manage that? Over what period of time do you need to be satisfied that your cash management and cash flow is going to get cash positive? Or are you assuming you are building into the ongoing, if not model, commitments to use revolving credit facilities? If so, what is the maximum amount?

The Chair: I think there is another point within that as well, that, of course, even if it is not drawn, there is still a charge on the undrawn, and that can be up to 25% to 40% of the margin, typically. So, in practice, that probably emerges as another 100 basis points above base, but it is not a free undrawn.

Ms Haines: No, it is not, and I do not have the numbers with me. No. But our facility, our charge is significantly less than that.

The Chair: Really?

Ms Haines: Undrawn, yes.

The Chair: So, how would you determine whether a proposed increase in debt is compatible with the framework?

Ms Haines: Well, I think using the principles of the framework, you would need to be able to ensure that you could repay the debt. You would need to ensure that you are not having to draw down on your reserves to pay the debt. There would have to be an independent assessment that the level of debt is not counterproductive to the States in terms of things like credit ratings, and I think the fourth pillar does not really come into it in this instance. I was looking at sustainable infrastructure investment, but I do not think that is as relevant in this instance, but I think that the whole point is that, in accumulating debt, you would need to ensure that you are not impacting on your reserves by accumulating debt, or that you are not going into a deficit position because you are accumulating debt.

The Chair: I have got an interesting question; it is about immortality. If Government was immortal, which the framework says it is, it would never need to borrow, would it, because it is immortal? Why would it borrow if it was immortal? It would always manage its expenditure, because there would never be a time period to pay back the debt, would there? So, that is interesting. When you say accumulating debt, why are we accumulating debt? Why? Explain that to me.

Ms Haines: The States may choose to accumulate debt to manage its infrastructure investment.

490

The Chair: You want to accumulate debt to spend more money than you have coming in, or to temporarily fund imbalances, or to manage the financing of a discrete project over that time period.

495

Ms Haines: Or to spread the cost of the investment over its useful life.

The Chair: Okay, so all of those things. But why would we be accumulating debt?

Deputy St Pier: You mean as in building it?

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The Chair: Why are we accumulating more debt? Why? Why is the UK Government accumulating more debt?

Advocate Harwood: We are talking about Guernsey Government.

505

The Chair: Because it is spending more money than it has got coming in. Why are we accumulating debt? You talked about accumulating debt, and I asked you, what would justify an increase in debt?

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Deputy St Pier: I think the previous response deals with that. It is principally going to be about your sustainable infrastructure investment. Building assets and funding them over their useful economic lives rather than relying on – and a lot of that, of course, is dealing with the mortality of your taxpayers.

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The Chair: The Government is immortal.

Deputy St Pier: No, but the taxpayers are not, are they? There is an equity issue between today's taxpayers, or yesterday's taxpayers, funding assets which they will never get to enjoy. Therefore there is a good reason for assets to be funded and paid for by future taxpayers, who will enjoy those assets.

520

The Chair: Except in the aggregate time does not matter. It is immortal.

Deputy St Pier: At Government level, but not for those who are actually paying for it.

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The Chair: Okay, I will do another arithmetic exercise then. So, in terms of reserves, you have got a reserves target of building up to 50%. How was that worked out?

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Ms Haines: That was based on the – I think it is, very clear in the framework that that is not a precise number.

The Chair: You do not like precise numbers in your framework, do you?

535

Ms Haines: There is no absolute for the right level of reserves, is what I am trying to say. But the Fiscal Policy Panel –

The Chair: There is not, but we have said that healthy financial reserves are a principle, so there must be some notion of some working out.

540

Deputy St Pier: Some notion is 50%.

The Chair: How do we get there?

Deputy St Pier: How do we get to 100% of the core investment reserve originally?

545 **The Chair:** Well, I am asking the questions, not answering.

Deputy St Pier: No, no, it is the same principle, is it not?

550 **The Chair:** No, I do not know. That is what I am asking. What is the principle? What is 50%? Why 50%?

Deputy St Pier: It is a judgement call on what is seen to be reasonable for an economy.

555 **The Chair:** Whose judgement? It does not say.

Deputy St Pier: Well, it comes back again to the qualitative nature of the framework and, therefore, the importance of others to be independently assessing it.

560 **The Chair:** If everything is qualitative, how can it be judged?

Advocate Harwood: Can I ask you a thing about that? Can I just pick up on, and it relates to the same point, I mean, the importance of the independent fiscal panel, how do you see their role going forward against these new principles, against the new principle-based approach? At the moment, they work on an ad hoc basis, I understand. Should we not be saying that every year budget there should be an OBR-type of approach?

570 **Ms Haines:** I think it is slightly different from the OBR because they would not be calculating our numbers for us. They would be commenting on our performance against this framework. But, yes, I think the role becomes even more important under this framework.

Advocate Harwood: Is there a commitment to recognise that in this document?

Ms Haines: Yes.

575 **Advocate Harwood:** You have to maintain the panel.

580 **Ms Haines:** So, proposition 3 is that the States agree to retain the Fiscal Policy Panel to provide independent oversight of the appropriate application of the fiscal policy framework and consider, at, the direction of the Policy & Resources Committee, specific matters impacting future compliance with its terms.

Advocate Harwood: That is pretty meaningless. Is there a commitment that they will be asked to review annually against the budget?

585 **Ms Haines:** Yes.

590 **Advocate Harwood:** That would seem to be the appropriate – if we are going down a quantitative approach (a) have they been asked how comfortable they are to be able to do that assessment? Have you had any conversations with the panel on the outcome of this review?

Ms Haines: Yes.

Deputy St Pier: Going back to the question of reserves levels. The setting of that 50% was very much also reflecting their own view on that.

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Advocate Harwood: But just to get clarification, they will be asked to give a commentary on each year's budget?

Ms Haines: On the performance against the framework, yes.

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Advocate Harwood: Yes, in other words (a) to review the current performance, but (b) to assess how much the impact of the budget going forward will satisfy the criteria. In other words, are they going to be asked to review your budget proposals against the new policy?

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Deputy St Pier: No, I think we envisage an annual report against the framework, not necessarily a scrutiny of the budget proposals.

The Chair: Again, you did use the word 'appropriate' when you said 'appropriate assessment'. It is not defined, it is concerning. Many of the terms in here are used without definition. In the move from rules to principles, things have been left very open-ended. You said you used their thinking on the 50%. Although I have noticed it does include the Social Security Fund, which, again, are affecting the – one point you say we should not really include them, and the next minute we do. Why was that?

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Ms Haines: Sorry, whereabouts in the framework do we say we should not include them?

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The Chair: In that they are not available for expenditure.

Ms Haines: Yes, but they are still an important part of the overall reserves of the States.

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Advocate Harwood: But you cannot actually process –

Ms Haines: They are being accessed every year to support the social security benefits.

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Advocate Harwood: Yes, but they cannot be accessed for any other purpose.

Ms Haines: No, they cannot.

Deputy St Pier: But they are there to meet the obligations and the liabilities of the States. Therefore –

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Advocate Harwood: Are they not hypothecated?

Deputy St Pier: Yes, they are.

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Advocate Harwood: In assessment, if you are a banker looking to look at what are the available reserves of the States, can they count on those?

Deputy St Pier: In the context of your long-term fiscal sustainability, you have got to take into account what your long-term liabilities are.

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The Chair: Well, no, because that is social security payments; it is separate to the revenue. It is like, I have got a mortgage. There were certain expenditure items I cannot include for my income,

for how much I can borrow. That is the whole rationale for debt being related to tax revenues in the first place.

Deputy St Pier: But if there is nothing left in the hypothecated fund, then that liability will fall to the taxpayers, which is a –

The Chair: Well, that is in 30 years' time, is it not?

Deputy St Pier: Sorry?

The Chair: It is like 20-30 years' time; the social security. I know the permanent balance you are bringing it in but in terms of any immediate borrowing, you do not have access to –

Deputy St Pier: We are talking about permanent – we are talking about long-term fiscal sustainability. So it is relevant in that context.

The Chair: In terms of your revenues, whatever, but in terms of counting them as reserves for the revenue position, they are not though, are they? Well, you are not going to be able to borrow for infrastructure investment against social security funds, are you? You are not going to be able to use social security funds as a security for borrowing to build a hospital. Not £250 million worth. You can use the money. You can change a law to build a hospital.

Deputy St Pier: We are not suggesting the borrowing is set against your reserves limit. We are suggesting that should be a proportion of GDP.

The Chair: Say that again?

Deputy St Pier: In terms of what is affordable debt, an affordable level of debt, that is by reference to the debt as a proportion of gross GDP, not debt as a proportion of reserves.

The Chair: No, but we are asking about the – what is the reserve's level? What is the point of having that reserves level at 50%? What was the thinking of 50%? Why are you including the social security reserves in that target? Because the social security reserves relate to the social security expenditures. So why is it in the reserves target?

Deputy St Pier: It may be a social security obligation, but ultimately if the social security obligation cannot be met then it becomes a general tax burden responsibility, which is going to be met in-year..

The Chair: Yes, that might be the case, but how is it in your arithmetic target of 50% of GDP? What is that to do with? Why? There is no explanation of how this comes about in terms of 50% of GDP. You talk about Iceland.

Ms Haines: The 50% reserve was a suggestion by the Fiscal Policy Committee.

The Chair: Okay. It did not say that though, did it? It just says – there is not a lot of references in there, which is the rationale for the question: why did you set 50%?

Advocate Harwood: Sorry. Can I pick up and ask specifically, we have said elsewhere, and I think you convinced me the GDP is not an appropriate denominator – yet you still use it for purposes of reserves. What is the logic of that?

Deputy St Pier: Well, I did not say it was not appropriate. I said it is a challenge to build a rules-based model that is reliant upon it.

Ms Haines: Particularly in the short-term.

Deputy St Pier: Particularly in the short-term, yes.

Advocate Harwood: So you still think it is an appropriate measure for other purposes?

Deputy St Pier: We touched earlier I think perhaps on your previous question, Advocate Harwood, on whether there are any other alternatives and that is an open discussion I guess, but I think GDP is a widely recognised and understood metric and we have talked about some of the challenges with others such as GVA so there is not an easy and obvious alternative.

Advocate Harwood: So in the absence of anything else, GDP is the best you can use.

Mr Le Page: I think as I understood it, it is more of the volatility of the GDP because of the profitability or otherwise within the corporate sector. That is the problem. You would need to basically get a cyclically -return which, given the size of our industry and the number of players and the proportion of revenue in only a few firms, that makes that very difficult to do I suspect, is the point that you are making.

Can I ask one more question around the debt? Sorry to come back to this point again. So within EY's assessment, so the assessment on where things would need to be in terms of a gearing level before the capital rating agencies will start getting rather excited about it. But the capital rating agencies are one thing. There is also the appetite of the market if we were to keep on going back and dipping in.

Did EY give any indications about what the appetite of the market would be versus the credit rating agencies, because they are of course two different things, and CRAs really have not quite got the gilt-edged feeling that they once had post 2008-09? So I guess the question I am going for really is how credible would we be to the market if we kept on dipping into a pot or going back for new?

Ms Haines: Well, I think that the advice that we have been given is that we are a very attractive proposition in terms of debt for long-term investors but, obviously, if we kept dipping in, I am not sure that would be advisable. The States need to have a planned programme. If they do wish to accumulate debt, then it should be a very carefully planned programme of doing so and, yes, I do not think it would be attractive to investors if we are turning up on a frequent basis.

Mr Le Page: Yes, sure, thank you. I agree with that. So going back then to our RCF, as I understood the principles here, RCF would be very much used as a working capital management tool. Would that be fair?

Ms Haines: That is how it is currently used. The policy set out in the previous States was that the RCF in this – because the States do have an extant resolution to issue more debt and rather than issuing debt and then having to manage the quite long-term nature of the cash flows, it was suggested that we use the RCF to accumulate debt and then convert that into long-term debts.

Mr Le Page: Okay.

Ms Haines: So that is the current policy of the States. Whether the States changes that, that will be determined, but that is the current policy. But the relatively small RCF that we hold at the moment is used to manage timings and cash flows and to avoid drawing down from reserves at the wrong times, etc.

750 **Mr Le Page:** Sure, okay, and my understanding of the Policy Letter is very much actually that there would be quite a guillotine put down to the, 'Well let us convert the RCFs into long-term debt.' The long term would match infrastructure projects?

Ms Haines: Yes.

755 **Mr Le Page:** So, effectively, it is looking to guillotine the previous approach, the Policy Letter.

Ms Haines: The previous approach to –

760 **Mr Le Page:** Being that if the RCFs were then effectively rolled up and converted into long-term debt, as I understand this Policy Letter now, that would not be done because the intention is long-term debt versus long-term projects.

765 **Ms Haines:** Well, I think that would still be allowable under this framework because that is a mechanism to achieve your long-term debt which best manages your cash flows.

Mr Le Page: But that is effectively financing a short-term working capital position as opposed to an infrastructure project.

770 **Ms Haines:** Currently, that is how the RCF is – I am not trying to be difficult but I am not entirely understanding the question. Tell me if I am wrong but, currently, the RCF is used simply to manage cash flow.

Mr Le Page: Yes.

775 **Ms Haines:** The intention is that it will be used to manage infrastructure investment ahead of issuing long-term debt, and I do not think that is inconsistent with this framework.

780 **Deputy St Pier:** And that partly reflects the market appetite of course in terms of your opportunities you have said to access the market, the minimum tranches, but clearly there is merit in terms of long-term debt, in terms of securing better rates, rather than the variable rates of an RCF, which is obviously one of the reasons why we would seek to do it. The market appetite underlining your first question of course is another variable which will be in constant change and, again, is not something that can be determined or really impacted by the framework.

785 **Mr Le Page:** This is a bit of an unfair question but I think it is one to think about. Given the current geopolitical uncertainty, would an invitation to the market to come and invest in Guernsey via debt, would that be considered a flight of safety?

790 **Deputy St Pier:** Sorry, would the market regard an investment in Guernsey a flight to safety?

Mr Le Page: Yes, in the current environment.

Deputy St Pier: I am not sure really. I think I would agree that is an unfair question.

795 **Mr Le Page:** Yes, okay. Can I just quickly go back to this point because I completely understand everything you said around the principles about bringing it through. I am not sure that is fully drawn out particularly where the four pillars are placed within that box diagram summary. How that box diagram summary reads to me – and it could be me misunderstanding it – is that there is a clear

800 dividing line between the financing of short-term debt and how that is done and the financing of long-term debt. It might just be that I have misunderstood that.

Ms Haines: That is not the intention. So I think the intention is that it is very clearly a principle of the framework that long-term debt cannot be used to manage short-term operational matters, but can short-term debt be used to manage infrastructure? I think that would be appropriate in certain circumstances as I have explained.

Mr Le Page: But that is not an asset liability mismatch though, is it?

810 **Ms Haines:** Yes, but only on a short-term basis until it is converted into long-term.

Advocate Harwood: Can I raise a question on how actually do we fund operational deficits? I think you have acknowledged that there is a deficit from the previous year. How are we funding that?

815 **Ms Haines:** They are funded from our limited reserves at the moment.

Deputy St Pier: It is drawing down on reserves.

820 **Advocate Harwood:** It is drawing down on reserves?

Ms Haines: Yes.

825 **Advocate Harwood:** So would you envisage or is there any suggestion that there should be some built-in debt to cover those deficits or are you just going to draw down reserves until there are no more reserves?

Deputy St Pier: That is hence the reason for the requirement for a Long-Term Fiscal Plan.

830 **Advocate Harwood:** But will that address your past deficit?

Deputy St Pier: No, it does not address your past deficits but, again, the framework expresses the ambition to rebuild your reserves to 50% again.

835 **Advocate Harwood:** That is the fundamental question. There are a lot of changes between the new policy and the old one. There was a clear statement that you could not run deficits for more than a certain number of years.

Deputy St Pier: Yes.

840 **Advocate Harwood:** There is no such commitment in the new policy. That does beg the question: how are you going to fund those deficits and how long actually can the States physically run deficits?

845 **Deputy St Pier:** Well, I think that has been made clear to the States in its previous term that the reserves will effectively deplete by 2032 if no decisions are made to alter the path.

850 **The Chair:** Obviously, we have been focusing on debt and I do think, as a panel, it seems to be a debt management framework, and I do worry when I hear the market appetite that we are an attractive target for people to lend us money, and it does get the sense that there is that unconstrained increase in levels of debt.

We are going to take a break but I will leave a question for you. I will ask the question again. We talk about E&Y and a 30% level of GDP. Again, we use the word 'GDP'. There is not anything else to use as an anchor. That is higher than actually our overall share of Government revenues. I will leave this one with you.

855 In terms of 30% of GDP and tax revenues, the original fiscal framework was used as the revenue stream by which you use security for borrowing. So social security revenues are not security for borrowing but the tax revenue is up. That level of GDP is higher than our share of GDP of tax revenues. My question is: how is that sustainable because that crosses the long run permanent balance rule and can you tell me what an appropriate level of debt might be in this well-managed
860 framework after the break?

Ms Haines: Can I just come back on just one point of accuracy in that? The 30% that EY were looking at was not as a group, so not just through taxation but the States of Guernsey group; so looking at Guernsey's electricity requirements of the Guernsey Housing Association, etc. Some of
865 that obviously is debt that is supported by commercial income streams so that 30% was overall. It was not for the Government per se core.

The Chair: Thank you. That does not answer that question. It comes back down to the second reason why you changed the framework: GDP, the numerator and denominator, the change in
870 accounting standards. That is the issue because if your revenue stream of core Government is what is the fiscal position but you are conflating the wider group with that because the States is probably being – is there a security for what are commercial utilities and if the commercial utilities borrow, the shareholder of the States stands behind it?

So, yes, I understand the rationale for bringing that in, but it does not give me the rationale for
875 why that is relevant to the overall fiscal position. But we will take a break and we will come back to it.

*The Hearing adjourned
and resumed its sitting.*

The Chair: I hope you had a nice little break. Did you have a thought about that question and about what might be a sustainable number?
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Ms Haines: Yes. I think we could not sit here today and give you a number which is the sustainable level of debt. I think that the framework sets the framework and the principles around accumulating debt and the medium plan of the States will set the actual proposals for any debt that is accumulated in the context of actual numbers, forecasts and a much more detailed analysis that
885 the States will be able to decide on, so that is –

The Chair: Yes, okay, that sounds much better than having a number.

Deputy St Pier: Well, that is where the number will be that will need to be justified, and where
890 the scrutiny will come no doubt from the Fiscal Policy Panel but also from the States.

The Chair: Do you know of any other frameworks that issue numbers like this?

Deputy St Pier: Is that a rhetorical question? I am not aware of any.
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The Chair: The master criteria, that is a number. You will find that most fiscal frameworks have numbers but, okay. We will move on.

We do want to talk a bit more about debt. We explained our concern about expenditure limits and compliance, but this session will probably be a bit shorter than the previous session. But what I do want to start off with this afternoon is to go to the economic growth issue. I am an economist.

I appreciate the fiscal issues and economic growth issues are not necessarily as directly related as some people think, but it does say in the policy document – I am trying to find it now – 3.10 that actually, the fact that we have not been investing, that we have routinely breached earlier versions of the framework and this has likely suppressed GDP growth. I was just wondering if you could justify that and explain that for me, please, somebody must have gone and worked this one out, I assume.

Deputy St Pier: Well, investment is a component of GDP so if you are not investing –

The Chair: The old basic Keynesian model. GDP plus I plus X, in that one then.

Deputy St Pier: Yes, maybe we could get a whiteboard and you could explain it to us.

The Chair: Do you genuinely think that that has been the case? Has there been any assessment of this? It just says 'likely' which seems to be a very unjustifiable term. 'Likely', 'maybe' or 'possibly'. Has anybody assessed this? There must be some assessment that has gone into this claim.

Ms Haines: We do not have a detailed assessment, no. That is why it is phrased as 'likely'.

The Chair: Detailed assessments are not really the thing for this policy framework because if I looked above the page previously, which is we are talking about growth and the fact that growth and inflation can inflate away debt. Not noticed that for the last couple of decades, but it does say in 3.4:

In larger jurisdictions, governments can rely on inflation and economic growth to erode the value of debt ratio to GDP over time. This allows them to run long-term deficits, provided the size of the deficit and the rate at which new debt is accrued, does not exceed the rate at which growth erodes the national debt.

And, again, you can be working on numbers when you try and work those things out. It says:

However, this is not a viable strategy for Guernsey. As a small Island with a very high GDP per capita, economic growth tends to be modest. Like most small jurisdictions, the trajectory of growth is volatile [fair point] and highly susceptible to external stressors, many of which are beyond the Island's control. [Fair point too.] But we cannot rely on growth alone to resolve our debt or fiscal stress.

Yes, which is why I am concerned about having excessive levels of debt.

But if I go to the chart above that, I am looking at that we actually have lower rates of GDP growth than the UK and France, but Jersey has got a higher rate of GDP. So is it a small island thing or is it a Guernsey thing? This is average over 10 years so it is not like a volatility issue.

Deputy St Pier: I think the important statement is the conclusion in 3.6. However, we are getting to the point where we recognise the need to run a balanced budget in the long-term which takes us back to the need for the four pillars.

The Chair: Well, I think it gets us back to the need for a permanent balance, the pillars being principles which we have not yet managed to define during this session, but it comes down to if we cannot rely on that to get rid of debt, what is the level of sustainable debt?

Deputy St Pier: Which drives us back to the same response to your previous question, which is there is not a number in this document other than the broad assessment by EY in relation to 30%

945 as percentage of GDP, but the need for the funding and investment plan to assess it in detail at any given point in time, which will be a rolling assessment looking at economic conditions and economic growth in time.

950 **The Chair:** It does not sound very robust to me as a framework. You are relying on an assessment that was done over 24 months ago. We could have had an economic cycle in that time for all we know.

Deputy St Pier: Sorry, relying on –

955 **The Chair:** You have just referred to EY and 30%. Well, that was 24 months ago.

Ms Haines: Yes, and the framework requires that, before any new debt is taken, a new independent assessment is sought.

960 **The Chair:** But this is all very dynamic, is it not? The framework is dynamic, is it not?

965 **Advocate Harwood:** Can I ask why the 24 months? It seems a long time ago to be relying upon an assessment given, as Bethan was saying, it is economic cycles, change of interest rates and all sorts of things. To suggest you can rely on an exercise done 24 months ago to justify your level of debt seems strange.

Ms Haines: I think it was just to recognise that it takes time to make policy decisions and get decisions made that would authorise debt and then there might be timing decisions around when you actually go to the market. So that was the reasons to give it –

970 **Advocate Harwood:** I think we have seen over the last 24 months, you have had two years of deficits.

Ms Haines: Yes.

975 **Advocate Harwood:** So your reserves level has been eroded and yet you are still relying on that same GDP measure.

980 **Deputy St Pier:** Well, it is a maximum of 24 months. You may wish to not rely on that and have a more recent assessment. I think in the context of a decision being presented to the States as to whether to seek an additional tranche of debt which may have a life of 30 or even 40 years and then looking back over that sort of timeframe is perhaps what gives it some context and perspective.

985 **The Chair:** So I think Peter's point was two years ago, it will have clearly worsened if we have been spending reserves in that time period so it ought to have noted that point in the report. But I suppose you are saying when we make some judgement about debt and borrowing, we are going to have an independent report, which is a jolly good thing, and we are also going to rely on an assessment at the time. I get that. Can you explain to me what the criteria will be *ex ante*, i.e. beforehand, what the judgement will be. How are you going to determine it? I do not want a principle. I want an explanation of how this has happened.

990 **Deputy St Pier:** Well, it is going to be projecting forward about your ability to sustain the repayment of that debt. That is what the affordability of debt means, is it not? And that –

995 **The Chair:** But there are no rules here. I will give you an example. Is there a situation where you would say that this framework would say no?

1000 **Ms Haines:** Yes, looking forward, if you work through the Funding and Investment Plan, the States make all their decisions in terms of tax policy and spending decisions, if you looked at the Funding and Investment Plan and debt, you could service the debt but you could not repay it without recourse to reserves, then this framework would say you do not accumulate debt.

1005 **The Chair:** But we have already agreed that our current borrowing, according to that criteria, is not sustainable, is it, because we are spending reserves? I know you are saying we are paying it down but we are spending reserves now. So our current levels of debt are not sustainable, are they, according to what you have just said?

Ms Haines: Not without addressing the mismatch between Government revenue and Government expenditure.

1010 **The Chair:** At this present moment in time, we are not running a permanent balance situation, are we?

Ms Haines: No.

1015 **The Chair:** So we cannot therefore increase our debt, can we, according to your principles that you have just set out?

Deputy St Pier: Not without resolving our Long-Term Fiscal Plan, no.

1020 **The Chair:** So you cannot borrow at the moment? So you cannot increase borrowing according to this unless revenues are raised.

Deputy St Pier: And we are not seeking to.

1025 **The Chair:** No, but I just want that on the record. According to the criteria you just said – and I asked what the outcome was – you are not going to have numerical limits. So therefore you are going to set conditions. We have just gone through that set of conditions that there is no situation at the present moment in time with current levels of revenues that we can borrow despite us being attractive.

1030 **Deputy St Pier:** The previous assessments which authorised that borrowing were made on assumptions around the States having made decisions in relation to the Fiscal Plan.

1035 **The Chair:** I get in relation to the Fiscal Plan. But according to the criteria that the Chief Resources Officer has just set out, we cannot borrow.

Ms Haines: Today.

1040 **The Chair:** Today.

Advocate Harwood: And notwithstanding E&Y's optimistic forecast which suggest that you have got headroom up to 30%.

1045 **Deputy St Pier:** Yes, but again, I think that is in the context of an assumption that the States will have made decisions that have not yet been made.

1050 **Advocate Harwood:** Can we move on then, just looking at the revenue and expenditure side of things, and I suppose the balanced income expenditure pillar? One thing I have picked up on is the framework no longer specifies a revenue ceiling expressed as a percentage of GDP. So how a Committee assess the appropriate scale of Government revenue relative to the economy as a member of the public? There was an old figure of I think 24% which, whether you liked it or not, that at least gave you something to measure things against. How do we assess the appropriate scale going forward? How do you suggest we approach the appropriate level of expenditure?

1055 **Ms Haines:** Well, I think each State could make a policy decision around the appropriate level of expenditure. That does not need to be set in the framework. We have already had instances twice where the framework has had to be rebased because we have made changes to our GDP which –

1060 **The Chair:** We agree that is just an arithmetic change.

1065 **Ms Haines:** But it does reduce confidence on the long-term nature of the framework, which is why the framework has moved away from that. There is no inconsistency with the States deciding a limit on its expenditure or income. Within the context of this framework, that would be entirely appropriate, but the long-term framework does not include it.

Advocate Harwood: So each States can make up its own rule as it goes along in terms of expenditure against a percentage of GDP.

1070 **Deputy St Pier:** Well, each States will be determining its annual budget as it goes along.

Advocate Harwood: So the community has no ability to control that. There is no comfort we can draw in saying, 'The States are not going to go AWOL'.

1075 **The Chair:** Do you think the framework should introduce a constraint or even imply it?

Deputy St Pier: I do not think there is any evidence that its presence in the previous framework had any impact material or otherwise.

1080 **Advocate Harwood:** If it is not there, is there any incentive then for the States to actually control expenditure?

Deputy St Pier: Yes. The public's expectation is about services and their willingness to pay for them. That ultimately is what will drive political decisions on an annual basis.

1085 **Advocate Harwood:** But I would suggest that, without that ceiling measure, the community just cannot draw any comfort from actually being able to control expenditure.

1090 **Deputy St Pier:** Well, again, I would re-state I do not think there is any evidence that its prior presence has impacted prior decisions.

Advocate Harwood: Well, except I suppose it gives you a level of scrutiny against comparable jurisdictions. That is one of the comforts, if you like. You can see Guernsey, we can go up to 24%. Other jurisdictions are spending considerably more. Can we take comfort from that?

1095 **Deputy St Pier:** Well, that comparison can still be made, and indeed, to the extent that that comparison has been made up to date, it has been made in the context of actual expenditure, not by reference to the reported limit in the previous framework.

1100 **The Chair:** It is not because to actually get this into balance, in a structural sense, some might argue that we need £100 million, £150 million more revenue, and that would be a few percentage points of GDP, but that is not the reason for its omission, that we are looking, in terms of the share of Government revenue?

1105 **Ms Haines:** ?you take that kind of view, then the Committee could have built in a couple of extra percentage points of revenue into the target that was set.

The Chair: Yes, that has been done in the past, has it not, when we talk about headroom and stuff like that. Is that the reason for its omission, not for its –

1110 **Ms Haines:** No, the reason for its omission is for the reason set out, and I think there are much more effective ways of controlling expenditure than through the Fiscal Policy Framework.

The Chair: Such as?

1115 **Ms Haines:** Such as through the Funding and Investment Plan and the annual budgeting process.

The Chair: How has that worked out for us in the last 10 years? In terms of how successful –

1120 **Ms Haines:** There has been a real-term increase in public expenditure, but that has been because of policy decisions of the States, regardless of the Fiscal Policy Framework limit, and because of demand for services in the community. So that does not mean there is not scrutiny and challenge to the figures that go into the budget. I think that real-term growth in public expenditure is experienced in many other jurisdictions, regardless of what the fiscal framework they have in place.

1125 **Deputy St Pier:** I do not recall any decisions of the States in relation to spending decisions being made by reference back to the rule in the previous framework..

1130 **The Chair:** Well, there was a long time when the fiscal framework report was not published, was it not? I think in COVID people had not even noticed there had not been one published for a while.

1135 **Mr Le Page:** Yes, but really that brings us back, I think, to the point that we did come on to, which was to do with our accountability and evaluation and assessment against, and on the basis of everything just said, there is an argument that this document is pretty useless, is it not?. Because if it is not made reference to, if there is not any metrics there that one can sensibly assess against, and if you yourselves are saying that actually there are two higher standards, one being the investment plan and the other one being the annual budgets, this thing almost becomes wallpaper, does it not?

1140 **Deputy St Pier:** Well, no, it is intended in this evolved state to provide the framework against which those documents are prepared, and against which more effective scrutiny and judgement and assessment, independent and by the States, can be undertaken.

1145 **Mr Le Page:** So who will make those assessments that are then reported to the States?

Deputy St Pier: Well, we have already talked about the greater importance and role of an independent fiscal policy panel, and as Deputy Sloan said, I think the absence of previous reports, again, that was a political choice at the time, driven largely by the desire to maintain balanced budgets and avoid unnecessary expenditure, and so on. But also by the States themselves, it will

1150 hopefully provide a better – it is intended to provide, that phrase that is used so often, the golden thread; the starting point that should run through the other financial planning for the States.

1155 **Mr Le Page:** The golden thread did not work so well for Guernsey Finance, but we will put that to one side. The Chief Resources Officer previously talked about, as you did, about the important role of the Policy Committee within this. I recently heard the previous Director of the OBR speak quite persuasively on the impossibility of his job, and he has got a big army behind him to try and give it. So again, I think it comes back to the how of this, how would such a committee have the resources to then assess compliance that would then presumably make some form of report to the States at the time of the annual budget? Is that how you would envisage it working? Have there
1160 been a pending comment similar to what happens in the UK?

1165 **Ms Haines:** I think an annual report, definitely from the Fiscal Policy Panel. It is not a well-resourced panel, clearly. We have got three independent experts sitting on the panel. They rely on civil servants to support that work, but we are a very, very different scale and their role is very, very different from the OBR. It is limited to what direction is given by the Policy & Resources Committee, but assessing performance against this framework. They might use lots of other metrics in so doing, but I do not think we necessarily want to link the Fiscal Policy Panel report to the annual budget.

1170 **Mr Le Page:** So, again, it comes back to how is this document going to be assessed for compliance against what people are doing day on day? Because the overwhelming message that came from the Director of OBR at the meeting I was at a couple of months ago was the data is likely to be wrong anyway. The budgets are likely to be not quite as well put together as originally thought. So one is shooting for the moon.

1175 My point is, he is shooting for the moon with an army behind him. We clearly have not got that resource here. So I just cannot see how at the moment the budget can be assessed against this plan. That is not a criticism, I just cannot see how it can happen.

1180 **Ms Haines:** Well, again, I think that the really valuable contribution from the Fiscal Policy Panel will come at the time of the Funding and Investment Plan. That being the real meaty policy decisions of the States. So I do not think that the panel commenting on the budget is necessarily where the States would get the best bang for their buck, as you say, in terms of use of that panel.

1185 **The Chair:** Firstly, in principle, ignore practicalities, the budget would be the appropriate juncture in principle. Practicality aside, I appreciate I have been a member and I also serviced the original panel, who were very high maintenance.

Deputy St Pier: Were they as high maintenance as when you were on it?

1190 **The Chair:** It was like chalk and cheese. We had three ex-MPC members, which were used to some rather sterling civil service. Anyhow, my point being in terms of what concerns me, is the governance and the requirements of the panel, insofar as it is not stated in the Policy Letter what that report has to set out. So it is not time invariant. The brief, in my personal experience, is now prone to change, and it is whatever is in our determined brief this time around. It is not specified in
1195 the report.

Ultimately, the governance arrangements are idiosyncratic, I think is the best word. Originally, it was a policy council appointed panel, which opined on the P&R operated revenue position. Do you believe that governance arrangements presently are appropriate for P&R to be judge, jury and executioner, as it were?
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Deputy St Pier: I think one of the challenges that we always face in Guernsey is designing structures which are appropriate and proportionate for our scale of Government and our needs. So is there an ideal model? There may well be, but if that produces significantly greater cost, then that is a political judgement that needs to be taken into account and accepted.

1205 In relation to your operational experience of the panel having been on both sides of that particular table, clearly that is valuable insight and experience, which I have not had as part of the commissioning force.

The Chair: You have been part of the decommissioning force when the panel no longer reported.

Deputy St Pier: Yes, I indicated to you before that that was a political judgement driven to remove costs from Government at a time when we were seeking to balance the budget in accordance with the extant Fiscal Policy Framework.

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The Chair: To the question though, can I ask you – it is a very good answer, but is it appropriate?

Deputy St Pier: I think it is appropriate for a jurisdiction of our scale and size and trying to find something which straddles that constant challenge that we have. I think we would welcome input from the Scrutiny Management Committee and if you have got suggestions as to how we could more effectively design a more appropriate governance model, albeit within the same cost envelope, then that would be something –

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The Chair: For example, you could just change the governance arrangements for the and the reporting arrangements, and the administration resourcing would stay where presently resides. That would be possible.

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Mr Le Page: So can I just follow through again on how it would work, because I completely understand the point you made about the key driver of the Funding and Investment Plan, and that really is tied in quite nicely in the schematic at figure 3.

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But just to make sure I have understood this correctly, so obviously Fiscal Policy Framework and assuming you get the blessing of the States and it is there, so you then turn of course to the Funding and Investment Plan and at which point, whatever Policy Letter goes through there with all of that etc., will make heavy reference to the Fiscal Policy Framework and ultimately there will be a judgement that says, 'It meets here A, B, C, D, or A, B, C, but for whatever reason this pillar has not quite worked but these are the reasons why', and I guess in reality that is probably a reasonable expectation, that there will be some departures from it, so that is fine.

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So we then get to the annual budget, what does the annual budget – what in your view when the Policy Letter is created there for the annual budget, what should be referenced there? Should it be the Funding and Investment Plan or should it be both, and how would departures be identified within that?

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Ms Haines: So until very recently, until this framework was under review, we had an appendix to the budget where we set out compliance with the fiscal framework, and I would imagine that that would be reinstated. The budget is entirely – throughout the budget, it makes reference to the Funding and Investment Plan and the policies decided in the Funding and Investment Plan, but you could equally have a table that set that out as well.

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The Chair: We talked about the Funding Investment Pan – I am looking at time now, we have probably got one more area to cover, you will be relaxed to know, and it is about infrastructure investment and the level thereof, which we can come to. Peter, do you want to kick us off?

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Advocate Harwood: Well I just want to pick up; this leads back to the Fiscal Panel because the Fiscal Panel came up with a figure of 3% being a target for infrastructure investment. As far as I could see, the rationale for that was this is comparable jurisdictions, it was not specifically related to Guernsey. I wonder whether any work has been done, and I know you are coming back to the States at some stage with an infrastructure framework document – I do not know how far advanced it is, do you have a timescale for when that document may be published – but within that context are you able to produce any Guernsey economic analysis to justify the level of infrastructure spend?

Deputy St Pier: As I hinted at earlier in relation to this number, it is one that has been kicked around for quite a number of years, trying to find what is the appropriate number for Guernsey, particularly again given the nature of what underpins our GDP, therefore actually 3% of a large number that is driven by corporate profitability is not necessarily the same as 3% of a more normal economy.

Certainly, the last time that I was involved in the review of the framework, we ended up recommending 1.5% to the States. The States, really on a whim, picked a different number which was 2%, and that is what then drove the subsequent budget decisions in terms of seeking to try and fund that. I think what is made clear is the 3% here is supported exactly as you said, Advocate Harwood, seeking to compare to comparable jurisdictions, but it is very much an interim holding position until that infrastructure plan is developed.

It is something that again the States has been talking about for some time and has failed to deliver. You will see there is a proposition here to direct that that is now done. I am not aware of a firm timeline for that delivery but that really is required in order to provide any kind of sustainable argument for it being something other than 3%.

I think the one difference of course between this 3% and previous discussions of 3%, again goes back to what parts of the infrastructure or what parts of non-Government spending, particularly electricity and so on, should be included. Hence, the 0.7% that is attributed to those assets. But I think, as the Policy Letter acknowledges, it is more than a finger in the wind, but I think we do have to acknowledge that it is a holding position that provides the framework on which decisions can be made until we have something clearer and better to work with.

The Chair: Did the States not resolve to work this all out when it did the tax review in 2021? Was this not one of the resolutions that the States would work all this out?

Ms Haines: The States resolved to do that and the way that was discharged was by asking the Fiscal Policy Panel to look specifically at what the rate should be, that independent view, and they came up with 3% while you develop an infrastructure plan, and I think their view is the infrastructure plan is the only real way forward to –

The Chair: And you have got the trail that sort of says, this is how we met that resolution? Because I am asking the panel about – but it is just hearsay, is it not? Because there was not any specific body of work. In the report it talked about it but no real detail.

Ms Haines: There was a specific request to the panel to look at that particular item in response to that particular resolution of the States.

The Chair: It is very circular, is it not?

Advocate Harwood: Can I just come back to the fundamental issue? I appreciate the figure of 3% was a holding figure. I was around in the States I think when you came forward with the 1.5%, given the experience of our investment programme historically.

One of the criteria I think which you mentioned about why it was important to have infrastructure spend was a contribution to GDP, again, has that ever been tested in the Guernsey context? We

1305 have got a full employment, the normal – as I understand it, was saying well you needed infrastructure to give employment to people. Well, if we have got full employment, can we justify that?

What I am saying is, you are accepting the figure from the Fiscal Panel, but have they been challenged really as to if it is appropriate for Guernsey?

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Ms Haines: In terms of whether it has been challenged, yes. When the draft report was produced it was definitely challenged as to whether that was an appropriate number. But I think it is an impossible argument to settle until we have got a Guernsey-specific plan that sets out what Guernsey needs in terms of our infrastructure, our public assets. For me that is the missing piece of the jigsaw, so we could forever continue arguing as to whether it is 1.5%, 2%, 2.5%, 3% or a different number.

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Advocate Harwood: it is a danger of having a target, you spend up to the target rather than looking at it from a needs point of view?

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Ms Haines: Yes, and I think that in the last review of the framework, one of the considerations, one of the suggestions was that you might have a minimum. Well I think that is what the 1.5% was, was a minimum rather than a target. But it quickly becomes a target. As soon as you put a number in it becomes a target.

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The Chair: In terms of that, do you think we are likely to see a requirement go down as a result of the Financial Investment Plan, whatever it is called? Do you anticipate saying that we need more or less ?

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Deputy St Pier: Of infrastructure.

The Chair: So we are talking about percentages. We are going to do a review, okay, and we do the review. What is your anticipation? That way or that way?

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Deputy St Pier: I would not wish to prejudge.

The Chair: No one wants to guess.

Deputy St Pier: Well, the Fiscal Panel arguably have guessed at 3%.

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The Chair: In terms of requirement for revenues, requirement for income, requirement for investment, you have got no idea whether this review is likely to say we need to spend more money or less?

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Deputy St Pier: I am going to prejudge work that I have not seen or has not been undertaken.

The Chair: Okay. Bethan, have you got any informed?

Ms Haines: No, because as Deputy St Pier says, the work has not been done yet.

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The Chair: When is it due to be published?

Ms Haines: What, the –

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Advocate Harwood: The Strategic Infrastructure Framework.

Ms Haines: I do not know at this point.

The Chair: It is this year though, is it not?

Ms Haines: Hopefully this year.

The Chair: Yes, so we expect to have an idea soon, I would have thought. Have you got any idea now?

Ms Haines: No.

The Chair: Okay. No idea whether up or down, okay.

Advocate Harwood: Just before we move off. Are you saying that it will be on a needs basis rather than just a target basis?

Deputy St Pier: Correct. The intention of building that plan is to seek to project forward a number of decades to be able to anticipate what the future infrastructure requirements will be and build the plan from there.

Ms Haines: I would just say that putting a number to that is not going to be the easiest thing in the world either, and it is obviously going to be very assumptions based. But it will give a clearer picture of what the requirements of the Island are.

The Chair: But we will be using numbers, not principles, yes?

Ms Haines: Yes.

Advocate Harwood: The assumption will be that that will be funded from debt?

Deputy St Pier: Not entirely, no.

Advocate Harwood: We are somewhat depleted of reserves. There is not much left in reserves. What is the alternative?

Deputy St Pier: A restructuring of our Fiscal Plan.

The Chair: Bearing in mind that that is being talked about this week, presumably. I think it was reported this week. Have you got any idea of the structural adjustment that is likely to be required to conform with these principles?

Ms Haines: That is set out in the Policy Letter.

The Chair: In this framework, the Fiscal Policy Framework, what is the structural revenue adjustment likely required to meet these principles?

Ms Haines: Well, the Policy Letter sets out that the structural deficit on this basis would increase from what was set out in the budget to a figure of £98 million

The Chair: But that is the structural definition as defined today?

Ms Haines: As defined in this Policy Letter, compared to the structural position defined today, which is set out in the 2026 Budget.

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The Chair: But that structural position changes, does it not? You went from 77 to something more?

Ms Haines: Ninety-eight.

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The Chair: How did that happen? Remind me.

Ms Haines: Well, two main things. One is the change in the assumption around the investment in infrastructure, and the second is the change in the adjustment that is made for the Social Security Fund. So we are not just looking at the in-year position of the funds, we are looking at the long-term position of the funds and adjusting accordingly.

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The Chair: So if I change my assumptions on investment, it changes the deficit in there, does it not?

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Ms Haines: Yes.

The Chair: That changes, so the required revenues would change.

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Ms Haines: Yes.

The Chair: But we are not going to – other than principles, we are not going to commit to any sort of notion of what the numerical world will look like?

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Deputy St Pier: Well, we are working with this model until we have something better, which will be driven by the ...

The Chair: Okay. Are there any more questions about –

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Advocate Harwood: No more questions.

The Chair: In terms of the views of the Panel, we had discussed this, and the representatives here are actually representing the Public Accounts Sub-Committee, and we as a Committee discussed this last week. We also, within the Committee, looked at the budget and provided the Letter of Comment from the Scrutiny Management Committee. It is fair to say, I think, our concerns were, and were borne out today, in that we are moving from a rules-based regime to a principles-based regime where everything is qualitative and subjective.

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Not that any of the questions, the answers, have given me any greater confidence of what those principles mean in practice. For me, that is quite a concerning one. If I do not know beforehand what something looks like, how am I supposed to judge whether we have met that objective? That was the view of the Committee last week.

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We also, quite frankly, do have concerns about the movement. Fiscal frameworks are supposed to be there in place to constrain governments in their fiscal – remove the latitude, as it were; that is the policy rationale behind them. It felt a little that that was being removed with this, and that a lot of the policy framework had been designed with the objective of more borrowing in mind. Again, that was the reason why a lot of our questions focused on where this notion of what was unsustainable would look like. We will go back and look over the answers, and we will see.

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1460 Thank you very much for coming. We will go back to repairing our roofs and look forward to the debate in a couple of weeks' time, I think. Obviously, plenty of other things to keep you occupied in the interim. So thank you very much for coming.

The Committee adjourned.