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The States of Guernsey Accounts 2024

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info@gpeg.org.gg
www.gpeg.org.gg

THE GUERNSEY POLICY & ECONOMIC GROUP LBG
REGISTERED NUMBER 68254

THE STATES OF GUERNSEY ACCOUNTS 2024

We're pleased that the States accounts have finally been properly prepared to be fully compliant with International Public Sector Accounting Standards (IPSAS) and that they fully consolidate all the States' entities. It's noteworthy that the accounts do contain more useful information than any previously. At last the audit report was not qualified and is signed off as showing a true and fair view.

However, it means that numbers are being presented on a different basis, which is more likely to cause confusion for the new Deputies and at a time when there is great focus on the deficit. Concern has already been raised about understanding the size of the problem.

In order to keep to numbers that are more recognisable, the accounts introduce the concept of a "Core" business which excludes the trading businesses. We understand why this has been done, but we think the States should move forward and work with the full consolidated accounts as the standard. The 'Core' concept is unrealistic and confusing, as well as open to hiding losses in some of the trading businesses.

If we look at the differences, the Operating Deficit is as follows:

	£'m
Core States Operating Deficit	(44)
Unincorporated businesses surplus	7
Controlled entities surplus	16
Consolidated Operating Deficit	(21)

Even before considering capital spending, the States needs to find £44 million to eliminate the Core deficit because it cannot easily access funds from the trading businesses.

The deficit is only part of the story. Funds are also needed to finance capital expenditure. During 2024, there were fixed asset additions of £72 million. It's clear from the accounts that capital expenditure in 2024 was largely funded by the sale of investments rather than borrowings. It is widely believed that capital spend should be considerably greater than in 2024.

The investments available (which are not earmarked for other Reserves such as pensions and social security) amount to £350 million at the end of 2024. Of this amount, the States has set a minimum level to be retained of £315 million, leaving only £35 million available. Therefore, capital spend cannot continue to be funded by selling investments.

The new States can only fund capital spend out of increased taxes (from new taxes or a lot of economic growth), cuts in public expenditure (deeply unlikely), borrowings or selling such investments as it can.

Therefore it seems highly likely that a financial crisis will be with us towards the end of this States, absent tax increases or implausible growth in the economy.

This paper sets out some key headline points from the Accounts.

We note from the Accounts that pay costs have gone up by 8.5%, or 4.5% in real terms. Pay costs by group are as follows (Note 6b):

	2024	2023	Increase
	£m	£m	%
Established staff	112.2	100.5	11.6
Medical staff	100.7	94.2	6.9
Controlled entities personnel	80.1	72.5	10.4
Educational staff	53.8	50.1	7.6
Uniformed services	25.8	25.1	2.8
Public service employees	18.2	17.6	3.5
Other pay groups	2.6	2.6	(0.8)
Crown officers and judges	2.2	1.9	18.0
Total	395.6	364.5	8.5

Numbers of staff (full time equivalents or FTEs) have gone up by 155. The most significant increase in staff is in medical staff – up by 67 FTEs. The reason for the larger increase in Controlled entities costs is that Guernsey Ports brought airport security in-house during 2024 and added 56 FTEs.

Total benefit payments have gone up to £292 million from £268 million, an increase of 9%. This is surely not sustainable. Benefit payments are as follows:

	2024	2023	Increase
	£m	£m	%
States pension	170	154	10.0
Income support	51	47	7.7
Incapacity benefit	12	11	7.3
Family allowance	7.1	6.6	7.5
Severe disability benefit	6.9	5.8	17.9
Sickness benefit	5.8	5.2	10.6
Other social benefits	9.5	8.8	8.5
Total Social Benefits	262	239	9.5
Residential home care	13.8	12.5	10.8
Nursing home care	11.8	11.1	6.5
Other targeted benefits	4.5	5.3	(15.6)
Total Targeted Benefits	30.1	28.9	4.3
Total Benefit Payments	292	268	9.0

The biggest increases are in disability and sickness benefits, which seems to be following the trend seen in the UK.

The States pension increased by 6.8% in 2024, based on the annual rate of core inflation for the year ended 30 June 2023. It is worth noting that the increase for 2025 is 4.9%, which is 0.4% more than the rate of core inflation. The States measures inflation using RPIX (the retail prices index excluding mortgage interest payments). These days, the lower CPI (consumer price index) is generally used as a measure of inflation. The States cannot afford to continue to use RPIX as a measure of inflation.

More large increases in costs come from the States Defined Benefits Pension Scheme, increasing to £42 million from £36 million (Note 42). It should be noted that some pensions under this Scheme are index-linked (which is not mentioned in the note). There are two charges in the Accounts (as explained in Note 42.2) as follows:

	2024	2023
	£'000	£'000
Current service pension costs (included in pay in Note 6)	27,354	25,145
Net interest on Net Defined Benefit Liability (included in finance costs in Note 10)	15,092	11,338
Total	42,446	36,483

From the above it can be seen that charges for the Defined Benefit Pensions have risen by an enormous 16%. Surely not sustainable.

We note this cost has been determined using relatively benign assumptions, namely an inflation/pension increase rate of 3.1% (2.9% for teachers) and a salary increase rate of 3.85%.

Should inflation continue at 4.5% rather than the 3.1% assumed, then the Scheme's liability would increase by £300 million and the Scheme deficit would be £344 million rather than the £44 million stated.

The States interest in Condor VesselCo Limited, its joint venture with Brittany Ferries (formerly Condor), is detailed in Note 17. The joint venture owns The Islander and leases it to Brittany Ferries. It is noted that there is no quoted market price for the vessel, so presumably it is accounted for at cost. The States made a £3 million equity investment in 2023 and provided a £26 million loan to the joint venture. The joint venture disclosure shows interest paid of £1,362,000 in 2024, which is presumably the interest paid to the States on its loan, although this is not stated. Based on the non-current liabilities of the joint venture, we calculate that £2 million of the loan is being repaid each year, making it a 13 year loan.

The joint venture is not consolidated, which implies that the States does not have control. Instead it is accounted for using the equity method, which means the States share of net assets of £3,153,000 is added to Non-current assets in the balance sheet and the share of the net surplus (£289,000) is added at the bottom of the Statement of Financial Performance.

For the Controlled Entities, we should like to see a measure of Return on Capital Employed (ROCE). The reported results do not, in our view, show these entities being run commercially.

Turning to Aurigny's results, we note the airline made a loss for 2024 of £7.6 million (2023 loss of £1.2 million). The loss for 2024 includes a £6.9 million cost during 2024 for wet-leased aircraft. Aurigny managed to burn through cash of £10.8 million during 2024, with the result that its cash deposits of £5 million at the end of 2023 were fully spent by the end of 2024. The amounts are as follows:

	£'m
Operating cash outflow	(2.5)
Repayment of aircraft loan (on sale of the jet)	(7.6)
Sale of aircraft (jet) and other fixed assets	4.2
Purchase of aircraft	(2.7)
Other fixed asset purchases	(1.2)
Loan interest	(1.2)
Investment income	0.2
Total cash spent	(10.8)

We also note that the States has had to guarantee Aurigny's bank overdraft facility of £3 million as from 21 January 2025.

We think this shows that Aurigny's performance is concerning and it will likely need further financial support more urgently than some of our new Deputies seem to believe.

Note 41 provides plenty of details relating to the States' investments. We note that, within the portfolio, £60 million is held as cash. It's not clear why this is such a large amount. The portfolio includes £752 million of equities and derivatives. Of this, £483 million comprises quoted market equities. However, the remaining £269 million are not quoted on an open market. We find this worrying and it's not clear how risky or how realisable these investments are. Derivatives can be dangerous – larger jurisdictions than ours have got into trouble with unexpected losses on derivatives.

Note 41.4.3.1 details the currency risks. It shows a US $ currency risk at the end of 2024 of £583 million compared with 2023 of £421 million. We think this is an unnecessarily high risk to take.

Looking at Appendix XI, The annual report of the States Investment Board, the performance of the States' investments is very mixed, with several funds underperforming relative to benchmarks, although yielding an overall return for 2024 of 8%. There are five managers or funds listed which are underperforming. This appears to be more risky than wise for a public sector investor.

Other areas to highlight:

1. Grants and subsidies amount to £29.7 million (2023 £28.2 million) (Note 8).
2. Consultants' fees cost £18.3 million (2023 £13.4 million) (Note 9a). There is surely an opportunity to reduce this spend in 2025.
3. Audit fees increased by 35% to £1.4 million (Note 9a).
4. We are surprised that internally generated software is being capitalised in fixed assets and written off over 10 years (Note 20). The net book value at the end of 2024 was £2.4 million (2023 £2.7 million).

5. It is unclear from the Accounts what the liabilities for insurance claim recoveries relate to in Note 28 (provision of £12.9 million). There is a corresponding amount due from the insurer of £9.1 million included as a receivable in Note 21. We have been informed by Guernsey Finance that the claims cover general, motor and damage.
6. A provision of £6 million is included in Note 28 for the removal of PFOS contaminated soil which is stored in protective bunds at the airport. The note says that it is estimated that the soil will be removed in 2026.