



# The States of Guernsey Accounts 2025

Analysis and Information from GPEG



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## **THE STATES OF GUERNSEY ACCOUNTS 2025**

Note: This paper has been published at some pace because of the Scrutiny Management Committee Public Hearing which is due to be held on 11 June.

This paper is a mixture of highlighting financial matters and questioning costs and policies. The main thing to note is that the cash allocated for capital expenditure is well below history and plans. If The States want to just spend our income and not rely on selling investments, they need to raise more than £100m extra or cut capital spending.

The more open disclosures in the States Accounts over the last two years are welcomed. Closer compliance with International Public Sector Accounting Standards (IPSAS) is providing better information.

As last year, the accounts focus on the “Core” business which excludes the trading businesses. 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.

With the backdrop of more disclosure, we are surprised that the much publicised write-offs in respect of IT, for the MyGov project of £21.6m and for the Revenue Service System of £24m, are not referred to anywhere in the Accounts. Nor is there any information as to where these write-offs are accounted for. For example, Appendix III identifies States Project Expenditure but doesn’t seem to show any write-offs for MyGov or for the Revenue Service Transformation Programme between the 2024 and 2025 Accounts.

In this context, we refer to page 61 which states that where items are sufficiently significant by their size or nature they are presented separately in the financial statements.

Page 51 states that the audit report is made solely to the members of the P&R Committee. Why isn’t it made to all the Deputies?

It is cheering to see a 'Core' operating surplus for 2025 of £45m (2024 was a deficit of £44m). The Accounts make it clear, however, that this year's surplus has benefitted from one-off tax receipts from the banking sector of £34m. Also included this year is an estimate of £39m in respect of Pillar 2 tax from large companies, which is not yet collected. In fact, Pillar 2 tax will not begin to be collected until the middle of 2027. Without these two items, on a like-for-like basis 2025 becomes a deficit of £28m compared with 2024's deficit of £44m – still an improvement but of only £16m. Furthermore, we note that non-capitalised project costs were significantly lower than Budget by £11.5m (page 58). If a more normal level of costs were to be incurred, the 2025 adjusted deficit would then become a deficit of £39m.

But, as the Accounts make clear, the Operating Surplus is only part of the story. Funds are also needed to finance capital expenditure, including the major projects.

Including capital expenditure at an entirely arbitrary 2% of GDP, the underlying funding gap is stated as being £50m. We do not have up-to-date GDP numbers – the last available are 2023. Taking this, 2% would be £70m. However, looking at fixed asset additions, capital spending is running at a level higher than this and the cash requirement is more like £120m per annum.

During 2025, there were fixed asset additions with a cashflow cost of £87m (2024: £74m). It's clear from the accounts that capital expenditure in 2025 (as was the same for 2024) was largely funded by the sale of investments (rather than borrowings). The Accounts note that £113m from the sale of investments was used to invest in infrastructure assets and major projects. From the cash flow statement (note 32d) we can see that the net proceeds from the sale of investments was £107m – which is a different number (2024: £71m). This year, there is a windfall investment gain of £121m (2024 gain of £132m) – which luckily means that the sale of investments does not result in their depletion. But this cannot be relied on every year – and it's not a good policy to continue to spend the States investments.

The Accounts state that investments available to spend (which are not earmarked for other Reserves such as pensions and social security) amount to £407m at the end of 2025 (2024: £350m). But the available balance is

already needed to support the capital investment portfolio and is therefore not available for any other new spending, whether revenue or further new capital projects. Although not stated in the Accounts, it is inferred that the funding for the Major Projects Delivery Portfolio is going to be covered by the £407m of available investments (and we note that the Major Projects Portfolio Proposition Paper (P2026/19) shows a total forecast estimated cost from 2023 onwards of £466.7m for the Major Projects Delivery Portfolio).

We also note the reference to the IT Stabilisation Project which is referred to as an Emergency Project (Appendix VI) amounting to £5m. But there is no explanation as to when this amount will be spent or whether it will be written off.

We set out below some key headline points from the Accounts.

We note from the Accounts that pay costs have gone up by 5%, or 1.7% after adjusting for inflation. If we take the past two years, pay costs have gone up by a sizeable 14% over that time. Pay costs by group are as follows (Note 6b of the Accounts):

	2025	2024	<i>Increase</i>	2023
	£m	£m	<i>2025/2024</i>	£m
			%	
Established staff	121.0	112.2	7.8	100.5
Medical staff	104.5	100.7	3.8	94.2
Controlled entities personnel	84.9	80.1	6.0	72.5
Educational staff	55.2	53.8	2.6	50.1
Uniformed services	25.5	25.8	(1.2)	25.1
Public service employees	18.6	18.2	2.2	17.6
Other pay groups	3.5	2.6	34.6	2.6
Crown officers and judges	2.2	2.2	0.0	1.9
<b>Total</b>	<b>415.4</b>	<b>395.6</b>	<b>5.0</b>	<b>364.5</b>

Numbers of staff (full time equivalents or FTEs) have gone up by 189 (2024: 155). The most significant increase in staff is in Established staff – up by 104 FTEs. The increase includes 30 in Human Resources for an “agreed operating model”, 34 in digital and technology due to moving from outsourcing to insourcing the service and 21 in Home Affairs (policing and customs and immigration).

Total benefit payments have gone up to £309m from £292m, an increase of 6% (on top of an increase of 9% last year) (Note 7). This is surely not sustainable. Benefit payments are as follows:

	2025	2024	<i>Increase</i>	2023
	£m	£m	<i>2025/2024</i>	£m
			%	
States pension	177	170	4.4	154
Income support	52	51	3.0	47
Incapacity benefit	13	12	10.6	11
Family allowance	7.0	7.1	(2.4)	6.6
Severe disability benefit	7.6	6.9	11.4	5.8
Sickness benefit	6.3	5.8	9.3	5.2
Other social benefits	<u>10.5</u>	<u>9.5</u>	<u>9.6</u>	<u>8.8</u>
Total Social Benefits	<u>274</u>	<u>262</u>	<u>4.7</u>	<u>239</u>
Residential home care	16.3	13.8	17.8	12.5
Nursing home care	13.4	11.8	13.6	11.1
Other targeted benefits	<u>5.5</u>	<u>4.5</u>	<u>22.1</u>	<u>5.3</u>
Total Targeted Benefits	<u>35.2</u>	<u>30.1</u>	<u>16.8</u>	<u>28.9</u>
Total Benefit Payments	<u>309</u>	<u>292</u>	<u>6.0</u>	<u>268</u>

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

home care and nursing home care are due to the changes in benefit rates in 2025.

The amount of the States pension paid to recipients increased by 4.9% in 2025 to reach £280.32 per week, being 0.4% more than the annual 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.

The annual cost charged to the States Accounts from the States Defined Benefits Pension Scheme has reduced from £42m in 2024 to £21m in 2025 due to increases in the pension scheme assets (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:

	2025	2024
	£m	£m
Current service pension costs (included in pay in Note 6)	19.6	27.3
Net interest on Net Defined Benefit Liability (included in finance costs in Note 10)	<u>1.1</u>	<u>15.1</u>
Total	<u>20.7</u>	<u>42.4</u>

We note this cost has been determined using relatively benign assumptions (even more so than 2024), namely an inflation/pension increase rate of 2.9% (2.6% for teachers) and a salary increase rate of 3.65%.

Should inflation continue at 4.0% rather than the 2.9% assumed, then the Scheme's liability could increase by £272 million and the Scheme deficit could be £266 million rather than a surplus of £6 million as stated.

Included in the Scheme's investments are derivatives of £91m (2024: £65.5m) (Note 42.4). There is no analysis to explain what these are. There is a substantial history of local governments worldwide making these risky investments and consequently losing lots on them. Investing in derivatives

therefore needs questioning – at least the Accounts should explain their use and risks.

The States interest in Condor VesselCo Limited, its joint venture with Brittany Ferries (formerly Condor), is covered in Note 17. More detail is needed here to disclose matters and amounts relating to the joint venture. 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 perhaps it is accounted for at cost or perhaps at estimated value. 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 £822,000 in 2025 (2024: £1,362,000), which is presumably the interest paid to the States on its loan, although this is not stated. The reduction in interest paid is not explained.

Note 41 provides plenty of details relating to the States' investments. We note that, within the portfolio, £97m (2024: £60m) is held as cash. It's not clear why this is such a large amount. The portfolio includes £693m (2024: £752m) of equities and derivatives. Of this, £604m (2024: £483m) comprises quoted market equities. However, the remaining £89m (2024: £269m) are not quoted on an open market. 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 2025 of £623m (2024: £583m). We think this is an unnecessarily high risk to take. Perhaps the derivatives address this risk – but it is unclear.

Looking at Appendix XI, the annual report of the States Investment Board (SIB), the performance of the States' investments is very mixed, with several funds underperforming relative to benchmarks, although yielding an overall return in respect of the General Investment Portfolio for 2025 of 7.2% (2024: 8%). There are five managers or funds listed which are underperforming (2024: four). Two of these funds are the same in both 2025 and 2024. We don't know how liquid these funds are. It might be that they could only be sold at a big discount.

Also in Appendix XI, there are two investments held in the General Investment Portfolio which are listed as Special Situations (page 41 of the Appendix). These are where P&R have advised the SIB to implement investments which otherwise wouldn't meet the investment criteria. Special Situations are separately benchmarked – however, no details of the benchmarking are provided. Why are these investments held? Who are the relevant fund managers and why were these (poor performing) investments made?

Other areas to highlight:

1. The bands of senior employees' remuneration on page 67 (Note 6d) do not increase by equal amounts. It would be more helpful to disclose them in bands increasing by the same amount, eg £15,000 (we note that the UK public sector requirement is for disclosure in £5,000 bands).
2. Grants and subsidies amount to £30.7m (2024: £29.7m) (Note 8). This is a large number, with a wide spread of recipients.
3. Consultants' fees cost £16.4m (2024: £18.3m) (Note 9a). We note that it is intended to reduce this spend in 2026 – none would be even better.
4. Audit fees have reduced to £1.1m from £1.4m, back to 2023 levels (Note 9a).
5. It is unclear from the Accounts what the liabilities for insurance claim recoveries relate to in Note 29 (provision of £21m). There is a corresponding amount due from the insurer of £15m included as a receivable in Note 22. We have been informed by Guernsey Finance that the claims cover general, motor and damage.
6. A provision of £16.5m (2024: £6.2m) is included in Note 29 for the removal of PFOS contaminated soil which is stored in protective bunds at the airport. The provision has increased as a result of the preferred remedial solution being assessed. The increase in the provision results in Guernsey Airport's loss for 2025 increasing to £16m. Excluding the provision, Guernsey Airport has a loss of £5m (2024: £6m).
7. The accounts for Aurigny include a £1.3m charge for interest rate and currency derivatives (page 34). According to Aurigny's 2024 accounts, the interest rate charge relates to swaps in respect of a loan facility to

purchase ATR72-600 aircraft. The loan is due to be repaid in December 2028 and the swaps are to fix the future cash flow requirements. The currency derivatives are US\$ currency exchange forward contracts in relation to hedging fuel costs. We think that decisions on currency or other derivatives should be made on the totality of risks across the States. Aurigny should not be placing bets of this magnitude without even having a stated policy or framework.

According to Appendix IV, Aurigny has outstanding loans at the end of 2025 advanced by the States from the Bond issue in respect of Dornier aircraft amounting to £7.3m. £2.7m is noted as being extended to the end of 2025 and £4.6m is noted as due at the end of 2028. In late 2025 and in February 2026 Aurigny retired its remaining Dornier fleet. No information on the sale of the Dorniers has been disclosed. No information is provided on when the loans are to be repaid.

8. The amount attributable to the Alderney jurisdiction is disclosed in Appendix V and shows a net cost of £9.6m (2024: cost of £8.2m) which comprises income of £11.1m and expenditure of £20.7m. It's a lot!
9. Amounts included in Health and Social Care include GP and Nurse Consultation Grants of £5m (page 265). This oddly titled payment is the amount of subsidy automatically provided when a Guernsey Bailiwick resident visits an approved doctor or nurse.
10. Pay costs for Corporate Services when compared with Budget (Appendix VIII, page 268) are noted as being favourable because there were vacancies throughout the year. However, it is noted that good progress was made to fill many of these vacancies by the end of the year. Someone should tell the States that the people of Guernsey would be happier with less recruitment!  
The comparison to Budget for 'Other Committees' on page 277 adds them together. It would be helpful to see the comparison for each and every Committee, rather than bundling them together.
11. The movements on the Seized Asset Fund are shown in Appendix IX. It is obscure as to when the States is able to use such funds and more explanation is needed as to what the funds are spent on.