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Fiscal Policy Framework - Update

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THE GUERNSEY POLICY & ECONOMIC GROUP LBG

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Fiscal Policy Framework – An update

The Fiscal Policy Framework is a set of principles agreed by the States to govern how we manage our public finances.

These rules were reviewed and were the subject of a Policy Letter from P&R dated 21 November 2025. GPEG commented on the Policy Letter in our paper dated 5 December 2025. The Scrutiny Panel hearing on 26 January 2026 concluded that the new framework shifts too far toward 'subjective' principles rather than measurable rules. The States debated the Policy Letter in late January 2026 and directed P&R to return with a revised, stricter framework by 15 July 2026. In the general chaos of the Tax Package and GST proposals, this has not been done. A classic example of the States changing the rules rather than following them!

Because the Policy Letter has not been approved and no new framework has been forthcoming, the States are still bound by the rules that were reviewed in 2020.

The States are not fully complying with these current rules and especially Principle 5 of the rules.

The Principles of the Framework are as follows:

Principle 1: Guernsey's fiscal policy should operate on a principle of long-term permanent balance. *Whatever that means!*

Principle 2: The annual net deficit reported on the General Revenue accounts for any given year should not exceed 15% of operating revenues. *Changes in accounting since 2020 make this a bit obscure – in the event it looks like this test is passed on any reasonable interpretation.*

Principle 3: Annual net deficits reported in the General Revenue accounts should not be allowed to persist for more than five consecutive years.

Principle 4: Measures to address any identified or anticipated deficit must be incorporated in the States Medium Term Financial Plan (MTFP).

Principle 5: The aggregate amount of States' revenue should not exceed 24% of GDP. *We have no GDP figures since the preliminary estimate for 2023 – because of the failure of the Revenue Service IT system! However, the 2025 figure cannot be far from £3.6bn. 24% thereof is £860m. The definition of revenue was taxation, social security and operating income of the committees. Again changes of accounting and definition since 2020 cloud the issue – but 2025 tax revenues alone were £883m, add in income of £13m from fees, licences and permits (note 3c of the accounts) and you get £896m, without including any operating income from the committees. It shows there is a likely*

***breach** of this Principle of at least £23m and no action has been taken. Taxation seems likely to have been raised in excess of the States' self-imposed limits.*

Principle 6: Total capital expenditure over any States term should be maintained at a level which reflects the need for long- and medium-term investment in infrastructure and direct capital expenditure by the States should average no less than 1.5% of GDP per year averaged over a four year period and no less than 2% of GDP over any 8 year period. *Again, accounting and systems cloud the objective. It looks like we have probably missed the 1.5% target by spending less than this – although it is recognised that the States is cash constrained.*

Principle 7: The States' total debt should not exceed 15% of GDP. *This is again affected by accounting and an unknown GDP due to systems failure. 15% of £3.6bn is £540m – external borrowings at the end of 2025 were £403m so Principle met. However, this Principle is quite ineffective as selling investments has much the same effect as increased borrowing……*

The States' performance against these rules is monitored each year in the Annual Independent Fiscal Review. *Well – actually not - the last review had a limited scope and reviews have not been annual.*

The ineffectiveness of our States' decision-making structure is clearly illustrated by:

"To direct the Policy & Resources Committee to review the Fiscal Policy Framework, approved in January 2020, to determine whether Principle 6, which determines the level at which public capital expenditure should be maintained, should continue to hold, including whether using GDP alone is the right benchmark, and to consider the measures that will enable the funding of any amended policy direction, if such is required, and report back by the end of 2025."

Billet d'État No XVII, Oct 2023

Again not done.

In conclusion, there are three things that need to be put right:

1. GDP for 2024 and especially 2025 should be estimated and published. We recognise that the Revenue Service system is the constraint on this – progress is urgently needed;
2. The revised Framework - with substantially redrafted proposals - for the Fiscal Policy needs to be produced and voted on. The last draft realistically would have been a fiscal colander, designed it seems to avoid financial discipline.
3. The States needs to commit to meet important deadlines and the promises that it makes. Better still – meet them!