



GPEG Commentary: Guernsey 2027 Budget

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GUERNSEY 2027 BUDGET

COMMENTARY

Summary

To perk up your interest, look for the £273m error.

We are presented with two budgets – Option A and Option B. The savings proposed in Option A are £6.8m, which is not trying at all, given the level of expectations from this time last year. Only five committees met the savings target and budget submissions came in at £33m over target. Option B has higher costs than Option A of £15.7m. Where is the ambition? Why have the committees not taken advantage of experienced help offered to them? The vote to implement GST is only one side of the bargain with Islanders. Deputies need to also deliver significant spending cuts. It is unacceptable to continue to grow the States' workforce and to continue to spend more than the previous year.

Recent news reporting shows that many of the segmental Committees are seeking still further spending and taking a very narrow view of the Island's ability to spend. It is entirely possible that Option C will be put forward, with further spending and accompanying increased borrowing and/or sale of investments to fund it.

The Budget largely ignores its funding issues. There is no capital expenditure budget so you cannot properly estimate the cash outflow for 2027.

Apparently, under Option A, the Budget shows a surplus of £4.2m. What surplus? In normal speak, a surplus means that cash improves. Not so – the cash position is a resounding deficit. There is a stated cash outflow in 2027 of between £75m and £80m. The focus needs to be on cash and funding. The budgeted cash outflow is going to mean yet more selling of investments to balance the cash. Delaying the introduction of GST until 2029 is not going to help funding the cash shortfall.

In fact, the States is already continuing to survive on a hand-to-mouth basis of managing cash by selling investments (and/or increasing borrowing). It will have to do so for the foreseeable future.

Although the estimate of Pillar 2 tax has been significantly increased, this does not help short term cash flow, because the Pillar 2 tax returns do not start to be submitted until the middle of 2027. This Pillar 2 windfall we are expecting to receive is not certain to continue – the international politics of improving the finances of tax havens seems unlikely favour us for very long!

The biggest issue is that capital expenditure remains on hold. There is only a limited capital expenditure plan that was inherited from the previous States. The Tax Reform Package which has been voted through is not going to raise enough to fund the backlog in capital projects. Funding of housing and other major projects will have to rely on borrowing. The Budget for 2027 repeats the delegated authorities for entering into external borrowing facilities of £200m and for taking out new external borrowings of £150m specifically to lend to Guernsey Housing Association (appendix V).

We are overdue an update to the Funding & Investment Plan. The Funding & Investment Plan addresses the structural deficit (or funding gap). It is the States' framework to balance day-to-day public spending, multi-year infrastructure investments and long term fiscal resilience. There is reference to producing a Medium Term Financial Plan in the Major Projects Report, but the timing for this is uncertain. The debate on funding and investment is due to follow the debate on the Tax Reform Package – however, no timing has been published for this. As all too often the process is out of synch.

Two Budgets

We believe Deputies should approve Option A and reject Option B. P&R should not have felt it necessary to present two Budgets. It smacks of being overly procedural to be presenting Option A and Option B when the only difference is the amount of cost savings – with Option B having higher costs of

£15.7m. It shows clearly the procedural problems of P&R not having authority and having to get States' approval at every turn. We understand that about 40% of the increased spending in Plan B is additional P&R (*The Policy & Resources Committee (P&R) is the States of Guernsey's senior committee*) spending - the inability to fix on a sensible budget ought to be embarrassing. Our government structure remains ineffective.

Appendix VI should allocate the budget costs by expenditure category and by committee. However, these have all been left blank (pages 105 to 130) because whether it's Option A or Option B has not been voted on. It is strange to present a budget with lots of gaps – 26 pages in fact – making it something of a draft budget only.

Income

1. Income has benefitted from a significant reassessment of Pillar 2 tax receipts. The revised estimate for 2027 is £79m. The 2026 budget has also been revised, increasing Pillar 2 income from £40m to £77m for 2026 and adding a further £31m to 2026 in respect of 2025 (making 2025 £75m). However, Pillar 2 income remains highly uncertain. The first returns are not due until mid-2027 and cash won't begin to be collected until then. To reflect this, the estimated income for 2027 has been reduced by 15% to get to the estimate of £79m. Then a further sensitivity of £10m is illustrated (table 6).
2. P&R are proposing that £5m is allocated (a notional thing) out of Pillar 2 income each year from 2027 to 2029 to fund economic growth initiatives. Is this a slush fund? Initiatives that are eligible for support include those to improve productivity and workforce participation, enhance connectivity, increase cyber security and remove structural barriers to economic growth, of which housing affordability is one of the most significant (the objectives vary a bit depending on where you read it). Projects seeking funding will be required to demonstrate clear economic benefits, measurable outcomes and value for money. If it is used for housing, it won't go very far. We don't wish to be unduly negative, but we think we'll be writing a paper in 3 years' time when this funding has vanished without trace.
3. A new tap relief scheme is to be introduced to provide targeted reductions in alcohol duty for qualifying draught beer, cider and wine sold through the hospitality sector. The relief will apply to qualifying beer, cider and wine products supplied in containers of at least 20 litres but would not apply to spirits. The relief was heralded in the 2026 budget, following the introduction of a scheme by Jersey in order to stimulate activity in the hospitality sector. However, the sector is under real pressure and this is just too small to make a difference.
4. We note that P&R want to introduce measures that support first time buyers and younger homeowners. We must also be careful to ensure that the effect of these subsidies is not to drive up house prices. Why not introduce them now? Delayed implementation seems silly. Mortgage interest relief is being withdrawn and no new incentives are replacing it, so perhaps the combined effect will be not a lot.

Expenditure

1. We note an error of £273m in the forecast outturn 2026 expenditure on page 20, due to a notable transposition error.
2. The total net expenditure budgets of the Committees are 3.2% higher than 2026 for Option A and 5.5% higher for Option B. Option A assumes target savings of 1% of expenditure, amounting to £6.8m. In the context of total net Committee expenditure of £700.4m (Option A), the amount of savings shows that the Committees are not really trying. Numbers of people employed by the States are continuing to rise, such that the States is ranked as the largest

employer on the Island by headcount. The number employed is not sustainable. There surely must be a ban on hiring any more people. There are many layers of responsibility which could be stripped back to allow those at the front-line to take decisions.

3. It is good to see the reduction in consultancy spend, which has reduced from £15.5m in 2024 to £12m in 2025, with 2026 expenditure expected to be £10m.
4. Our civil service is widely thought to be expensive and ineffectual. There are obvious examples of mismanaged and delayed projects (the hospital and IT for example). But they are good at language usage and manipulation. The use of the word “saving” is an example.

Savings are of efficiency, cancellation of part or whole of in-progress projects and not starting fresh projects. Clearly all have a role in reducing spending but there is no doubt that efficiency improvements are the hardest to effect and the only way to reduce structural cost. Cancelling in-progress projects is easier, but cancelling projects not started is very easy and might extend to ‘ghost’ projects that were never going to happen! Be wary of savings numbers.

Civil service costs are clearly attackable but, in mitigation, a relentless stream of additional and complex projects, tax changes and the like are often voted through with little thought of the administrative burden. Fewer ideas from States’ members seems like a good idea.

We will have the lowest rate of GST on earth and as a result the highest costs per pound for both set up (40% of first year collections) and annual administration costs for the States – and much more for businesses. And it will take two to three years to set up

Priority-based budgeting

Priority-based budgeting is a financial management approach that allocates resources based on how effectively a programme or service achieves pre-established goals and strategic priorities, rather than relying on traditional incremental increases from previous years’ budgets.

In November 2025, P&R agreed to pilot priority-based budgeting. Three areas were selected: the States Property unit, the Committee for the Environment & Infrastructure and Adult Disability Services. The Budget refers to the process used as requiring a significant commitment of officer time and resources – as the States has found, priority-based budgeting is slow and requires strong management. But it is good to learn that the process used is structured and involves panel reviews at each stage. It is also good to learn that the pilot has supported more informed resource allocation decisions and identified opportunities for efficiencies and service redesign equivalent to 8.5% of the existing budgets of the three pilot areas. However, we question why the process used has turned out to be so cumbersome and time consuming. It leads you to conclude that no-one knows the current costs of individual services.

Activity-based budgeting, with a focus on how much money a chosen activity or process will actually cost, is generally quicker, less subjective and easier.

Then there is zero-based budgeting, which builds a completely new budget starting from scratch. But starting from scratch requires substantial time and resources, which makes it intimidating.

These two approaches are quicker and easier and require only some of the skills that are required for priority-based budgeting. We would have expected one of them to be used first. The results would be a much quicker harvest of most of the potential.

We understand why a pilot has been used, but the States must learn quickly from the pilots and speed up the process.

A resolution is included to allocate £5m to support the development and implementation of spend-to-save initiatives. The funding is supposed to cover investment in things like technology, equipment, service redesign or energy efficiency to deliver savings (paras 6.69 to 6.76). This is apparently funded

from another pot – the existing Routine Capital Allocation (page 11). It seems that reallocation of existing funding is not an additional expense or funding.

Funding gap

The funding gap seems to be the new name for the structural deficit. It focuses on the long-term sustainability of Government finances. Under Option A the funding gap is identified as £47m, which would worsen to £63m under Option B (Table 5, para 4.37).

Because we are not told how much is intended to be spent on the Major Projects Portfolio during 2027, it is not possible to understand and identify the funding gap for capital expenditure. The last published data was in March 2026. We were promised regular reviews at the time, but nothing has appeared since then.

The Budget notes an expected cash outflow of £75m to £80m (para 4.19). The States must focus on cash. It is not helpful to use different definitions of financial performance, time after time. Call it as it is – the States is budgeting a material cash deficit.

Whilst para 4.19 refers to cash outflow being the result of adjusting for depreciation, the timing of Pillar 2 receipts, estimated cash requirements for capital expenditure and for the unincorporated trading entities, the Budget does not give us these numbers!

Para 4.20 goes on to refer to the Funding and Investment Plan. This was dated 18 August 2023. The Funding and Investment Plan limits the funding for Major Projects to unallocated bond proceeds (£160m) and up to £200m of new borrowings. This is because of the depletion of investments - in other words, the States is getting to the point where there is no money left. It is difficult to update the Funding and Investment Plan without having a plan to rebuild the financial base. Plans to continue spending and not executing sufficient cost savings simply increase cash outflows. The States has to get serious about halting cash outflows and rebuilding its financial base. Without that, the States won't be able to lift the restrictions on funding capital projects. We are being promised a new Medium Term Financial Plan (which is apparently the new name for the Funding and Investment Plan), which was referred to in the Major Projects Portfolio Report. We don't know for sure, but the debate on the Medium Term Financial Plan was due to follow the debate on Tax Reform

Fiscal Policy Framework

The Budget refers to the Fiscal Policy Framework being not fit for purpose (para 4.17). It is, though, still Government policy to follow it. An updated framework was presented in early 2026 but members requested further work before it is reconsidered. The Budget instead refers to the guiding policy of the Fiscal Policy Framework as requiring long-term, permanent balance. Unfortunately, as noted above, a funding gap of £47m is optimistically predicted to remain under Option A. We think the real number is considerably more.

We note that, according to the Fiscal Rules, the States' total debt should not exceed 15% of GDP. We don't have up-to-date GDP numbers because of the failure of the Revenue Service system (and it's unbelievable that we still don't know our economic growth). But the 2025 figure cannot be far from £3.6bn. 15% of that is £540m SPACE! and therefore the total debt is limited to £540m.

Looking at the 2025 Accounts (the latest detail available), we assess that debt at 31 December 2025 totalled £403m and comprised the Bond issue (£319m), the revolving credit facility (£47m), bank overdrafts (£15m) and bank loans (£37m), less cash and other financial assets (£15m). That leaves borrowing headroom of £137m at the end of 2025 (£540m less £403m), but that assumes no adverse cashflow in 2026 – and there will be.

Appendix V, the Summary of Delegated Authorities, repeats the authorities for external borrowing facilities of up to £200m (page 99) and also for taking out new external borrowings of up to £150m

specifically to lend to Guernsey Housing Association (page 100). Using these facilities would take debt past the 15% limit - clearly the Fiscal Policy Framework will have to be altered first.

It is clearly poor practice that the economy has not been run in line with the Fiscal Policy Framework.

A different basis from the Accounts

We continue to be disappointed that, as last year, the Budget does not follow the form of the Accounts in that it does not present a fully consolidated picture. For example, trading entity impairment is included for trading entities at the bottom of the Income and Expenditure statement, whereas we would have expected trading losses to be incorporated in a consolidation.

Further complexity is presented on page 24, where the net surplus of £4.2m becomes a deficit of £9m after the shortfall on social security and long term care funds. There is also reference to presenting the 'Core Government' segment. We believe the numbers have too many presentation complexities. We doubt that many people on the Island can follow what is happening.

Cash outflow would be a much better and understandable measure. Everyone can follow cash. The budgeted cash outflow is between £75m and £80m (para 4.19, page 23). Everyone needs to understand how that cash deficit is arrived at. We need to see how much cash is consumed by day-to-day operating activities – cash collected from tax minus payments for pay and non-pay items. And we need to see how much cash is being spent on capital projects.

It should not be complex.

Risks to the Budget

We note the table of risks on page 30 is headed worst case and best case. Well, we disagree with those headings. The table itself says that the sensitivities shown are only illustrative. They are certainly not a worst case scenario.

There are a number of risks to the Budget which present funding challenges:

- Pillar II revenues remain uncertain. It relies on all countries implementing the model rules otherwise there will be holes where profits can be shifted. The USA, in particular, is not adopting Pillar II and has been given a 'safe harbour' exemption from the OECD. The Budget recognises that the benefit may be temporary, as companies restructure to minimise the effect. Tax would cease to be a reason to be in Guernsey for many companies. Guernsey will have to compete on other things – regulation, cost, access, etc. This adds up to the risk of income loss for Guernsey and means we run an increased risk of losing the operations of large multinational companies.
- The ability of the Committees to manage within the cash limits set. There has been push back against demands for cost savings by the Committees, which P&R expect them to manage. Recent demands from Committees for more cash make this very likely.
- Funding will be required for Aurigny because the States needs to ensure that the airline has sufficient liquidity. Its reserves are severely depleted by losses, with an estimated deficit of £9.7m for 2026 and a further deficit of £5.7m budgeted for 2027.
- Further funding for the unincorporated entities may be required. The 2027 budget proposes funding of £2.5m to cover Guernsey Ports, Guernsey Dairy and Guernsey Waste.
- Delivery of IT continues to be a high cost. IT services have been switched to a multi-vendor model. It has recently been disclosed that the cost of switching from the disastrous prior arrangements has been £4m. There is a stated determination to learn the lessons from

MyGov Digital, Electronic Patient Record and the Hospital Modernisation. We are told that there continue to be high level interventions for these projects – whatever that means.

- Leale's Yard demolition and site clearance is continuing, being one of the current Major Projects. A new vehicle access is proposed and adjacent property has been bought. Costs have been disclosed piecemeal and no total updated estimate of the amount involved in this work has been given.
- Health and Social Care services continue to experience strong demand, together with a continuing high reliance on short term agency staff. The overspend for 2026 is estimated to be £2.6m. It's not possible to assess what the 2027 overspend could be, only that it's likely to continue to be significant. A 1% risk of overspend amounts to £2.7m. Further capital overspends and errors may well add to the cash usage of this Committee.

Other comments

1. Although the 2027 Budget was prepared on the assumption that the Tax Reform proposals would be approved, it is noted that the budget may well be amended by the Committee as necessary to reflect the final decisions made by the States.
2. P&R intends to introduce an entrepreneur tax cap as soon as practicable, the details of which will be worked up with the Committee for Economic Development, to incentivise entrepreneurs to relocate to the Bailiwick (page 34). We think a definition of entrepreneurs would be very difficult. Guernsey needs to encourage business owners and wealthy individuals to come to the Island. If we're taxing the wealthy, we need more wealthy people!

NOTE: References are to the 2027 States Budget:

<https://www.gov.gg/CHttpHandler.ashx?id=204125&p=0>