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Commentary on the 2025 Budget

Analysis and Information from GPEG

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

THE GUERNSEY POLICY & ECONOMIC GROUP LBG

REGISTERED NUMBER 68254

GUERNSEY 2025 BUDGET

COMMENTARY

We are seriously concerned that the 2025 Budget is not providing a full picture on which to base decisions. The whole Budget document focuses on the Income and Expenditure account, with no detail of cashflow, debt or sources of funding. The fact that the States continues to operate with a much larger shortfall on cash than the amount of the revenue deficit should stand out in any Budget – but is not at all apparent here.

There is a key point here - we all know the Island has been spending beyond its means for many years. The past few years have seen investments sold at the rate of £100 million each year to fund expenditure. The latest revised numbers for 2024 show that cash outflows will be well over £100 million. The 2025 Budget continues this level of spending, despite the proposed tax rise.

The proposal to raise £34 million (net) by putting 2% on income tax, although a quick way to raise money in the short term, is by no means the whole solution. Tough decisions are being shelved for the newly elected States' members next year.

The Island needs to know where our growth (the only way to maintain the current spending level) is going to come from. The fact that we are losing significant income from the banking sector is worrying. None of the Income Proposals in the Budget address how Guernsey can retain business, attract new business or attract more wealth. We point out that Guernsey's economy declined, in real terms, by 2% in 2023 (the first decline since the pandemic), whereas Jersey's economy grew by 7.3%. There is no good basis for projecting the considerable growth that is needed.

Significantly, there is insufficient detail of real structural change to save costs. Actually this "insufficient detail" is being polite. Spending is rising above inflation. A page in the Expenditure Proposals section that summarises how the Committees' requests for cost increases (based on 2024) have been pushed back on is definitely not what cost reduction is about. There is a lot of analysis of cost saving ideas in Appendix VII, but not much has been realised to date. 2024 targeted cost savings at £956K, whereas only £183K has been found so far. It is noteworthy that, in discussions about the Budget, not one person has talked about tax increases without first asking where the cost reductions are coming from. It seems that our politicians are worried about cutting costs in an election year (though there does not seem any enthusiasm to cut at any time). We think that those who do so will be well received by the electorate. There needs to be proper focus on cutting costs and on reducing the number of employees across all areas of the States. We cannot continue to spend beyond our means.

We are disappointed that the Budget does not present a financially consolidated position, despite the States promising that the 2024 Accounts will fully comply with International Public Accounting Standards (IPSAS). This means that the Budget for 2025 is presented in isolation, lacks clarity and will not be comparable with either the 2024 or the 2025 Accounts – a major opportunity for a lack of accountability.

The Budget appears to gloss over a lot of details:

- First and foremost is the cash outcome for 2024. We are not told how much capital expenditure there now will be (it could be between £100m and £150m). Together with the deficit for the year now estimated at £62.7m and reference to funding losses from the trading entities, there is a large cash outflow. We are not told how this is being funded. Have more investments been sold? Has more debt been taken on?

- There is no analysis of the areas of capital expenditure for 2025. It appears to be confined to hospital modernisation, schools and post-16 education, plus developing a construction village for temporary key workers. What has been spent on these projects to date? What is budgeted to be spent in 2025? What will each project cost in total? There is hidden reference to capital expenditure during 2025 of £100m – which is going to be financed from unallocated bond proceeds plus new debt of up to £200m. The proposed income tax rise to raise £34m is woefully small in comparison.

- Given the accumulated cash shortfalls, any ‘nice to have’ capital expenditure has to be slashed. We include capital expenditure for the trading entities in this.

- How has the income of £30m from the OECD Pillar 2 corporate tax, included for 2025, been estimated? We are concerned that the amount is uncertain and will not be fully realised until 2027.

- What is the mysterious amount of £35.1m for the write off of non-capitalised project costs, shown as a line in the Revenue Statement (alongside a similarly high number of £34m for 2024, when the 2024 budget estimate was only £5.6m)?

- How are all the trading entities to be funded? For example, the cash position of Guernsey Ports is insufficient to fund its proposed capital expenditure of £4m. The potential subsidy for Guernsey Airport is not identified (so not included) because the information won’t be presented until 2025.

- Charging costs to ‘Reserves’ rather than against arriving at a deficit continues. Things are worse than they are presented.

- The accounting remains opaque and the absence of any clear explanation for funding the cash deficit is because the isn’t a plan to explain. Why not?

- Including the full benefit of the reduction in pension contributions, following the latest actuarial valuation, is quite aggressive. It is clearly motivated by a desire to reduce the structural deficit.
  The pension payments assume a return on investments of 5% over the RPI investment return. However the structural deficit is computed without investment return. This is somewhat incompatible.

- The Government published a review of its Fiscal Policy Framework in 2019. It noted that it must increase the amount it raises in taxes closer to the ceiling of 24% of GDP allowed under the Framework. Based on 2023 GDP estimated at £3.488bn, this would equate to raising £837m in taxes compared with Revenue Income of £687m in the 2025 Budget. It also notes that total debt (which includes the bond) should not exceed 15% of GDP. If it doesn’t exceed this already, it seems likely that the 2025 Budget will break this rule.