

**THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY**

**POLICY & RESOURCES COMMITTEE
GUERNSEY'S FISCAL POLICY FRAMEWORK**

The States are asked to decide:

Whether, after consideration of the Policy Letter entitled "Guernsey's Fiscal Policy Framework" dated 21 November 2025, they are of the opinion to:

1. Adopt the Fiscal Policy Framework as set out in the Policy Letter and commit to the principles of long-term financial stability defined within it.
2. Direct the Policy & Resources Committee to include within any policy letters dealing with projections of States finances, analysis of how decisions will impact compliance with the Fiscal Policy Framework.
3. Agree that the States retain a Fiscal Policy Panel to:
 - a) provide independent oversight of the appropriate application of the Fiscal Policy Framework; and
 - b) consider, at the direction of the Policy & Resources Committee, specific matters impacting future compliance with its terms.
4. Direct the Policy & Resources Committee, working with the Committee *for the* Environment & Infrastructure, to develop a Long-Term Strategic Infrastructure Framework and present this for States approval.

The above Propositions have been submitted to His Majesty's Procureur for advice on any legal or constitutional implications in accordance with Rule 4(1)(c) of the Rules of Procedure of the States of Deliberation and their Committees.

THE STATES OF DELIBERATION

of the

ISLAND OF GUERNSEY

POLICY & RESOURCES COMMITTEE

GUERNSEY'S FISCAL POLICY FRAMEWORK

The Presiding Officer
States of Guernsey
Royal Court House
St Peter Port

21 November 2025

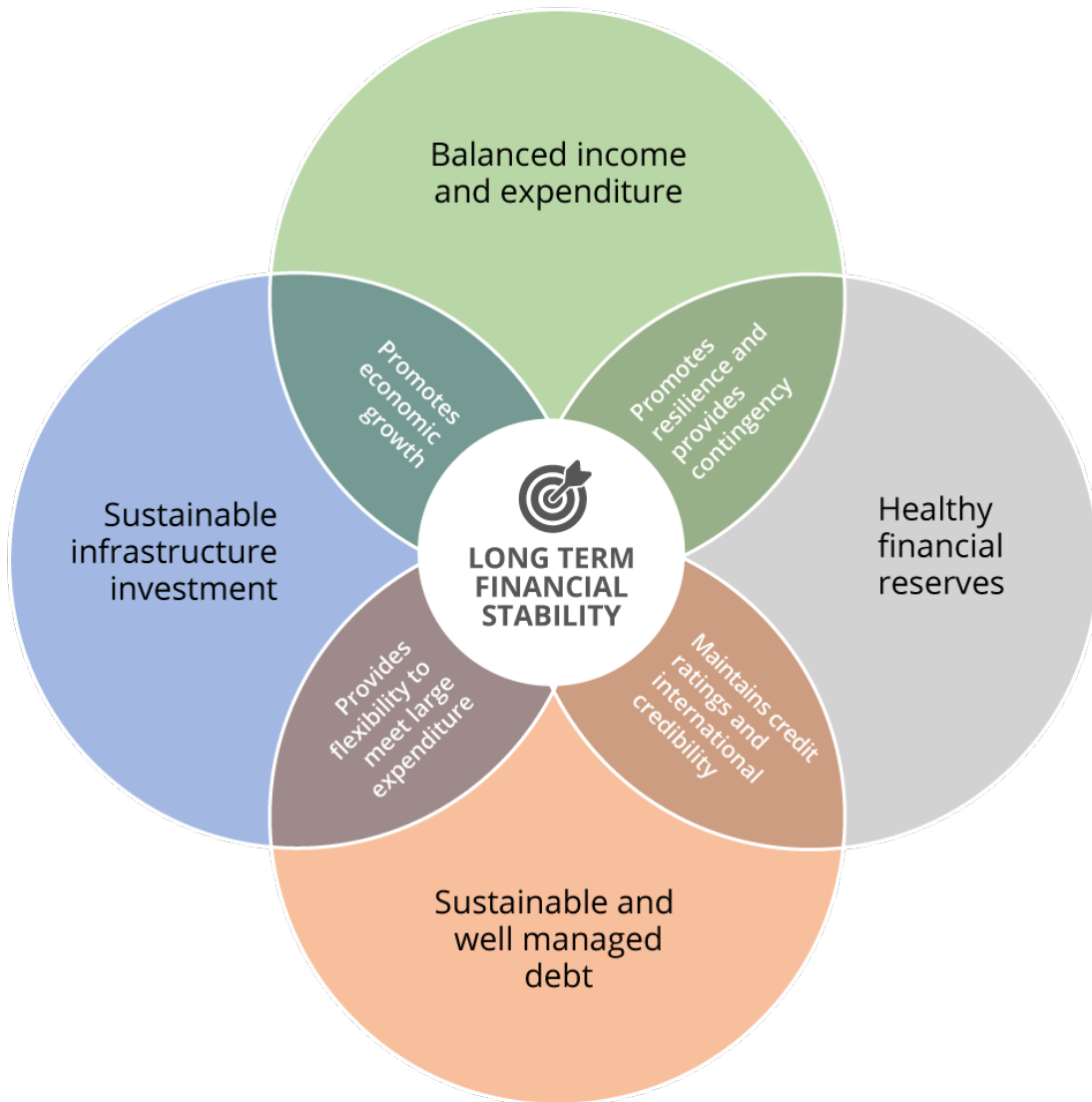
Dear Sir

1. Executive Summary

- 1.1 The Fiscal Policy Framework ('the Framework') sets strategic level principles which are intended to guide the management of States' finances over the long term.
- 1.2 This review of the Framework was triggered by a methodological change to the way GDP is calculated and incorporates changes to the accounting presentation of the States' finances as a result of the implementation of International Public Sector Accounting Standards (IPSAS).
- 1.3 The proposed Framework is built around a central principle of **long-term financial stability** underpinned by four key pillars:
 - Balanced income and expenditure
 - Sustainable infrastructure investment
 - Sustainable and well-managed debt
 - Healthy financial reserves
- 1.4 Each of these pillars is essential to achieving long-term financial stability. Neglecting any one of them would leave the States' finances - and the island's economy - exposed to ongoing vulnerability.

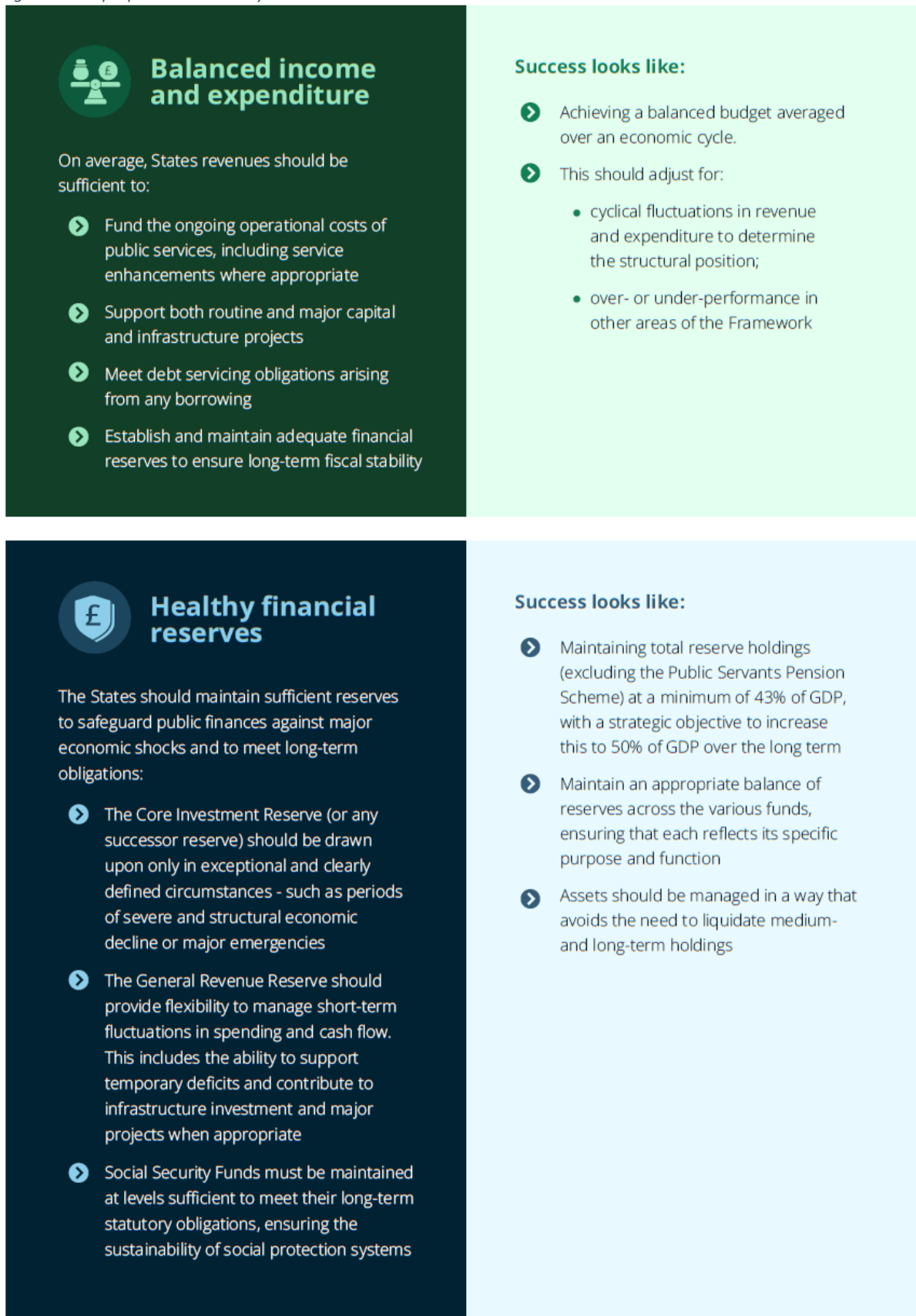
- 1.5 The four key pillars are summarised in Figures 1 and 2. An assessment of Guernsey's current performance against each of the four pillars in the proposed Framework is included in Appendices 2 to 5.
- 1.6 In addition to serving as a basis for evaluating current and historical performance, this Framework should also guide medium- and long-term planning. Accordingly, its pillars should be embedded at the core of the Funding & Investment Plan.

Figure 1: The four pillars of the proposed Fiscal Policy Framework



- 1.7 This Policy Letter will frequently refer to short-, medium- and long-term time horizons. For clarity:
- short-term refers to a period of less than three years;
 - medium-term covers a period between three and ten years;
 - long-term refers to a period exceeding ten years.

Figure 2: The proposed Fiscal Policy Framework





Sustainable and well managed debt

The States may accrue debt to support infrastructure and capital investment within the Group (as defined in the Financial Statements), provided such borrowing remains sustainable. To ensure this:

- Debt must be affordable, with sufficient resources available to meet ongoing repayment obligations
- Long-term debt levels must remain within appropriate, independently assessed limits and an assessment of the States borrowing capacity must be conducted no more than 24 months prior to issuing new long-term debt
- Long-term debt should not fund operational activities; however short-term instruments (e.g. rolling credit facilities) may be used to manage cash flow

Success looks like:

- The aggregate debt liability of the States of Guernsey Group remains within independently assessed sustainable debt limits
- Within these limits, a balanced allocation of debt should be maintained between:
 - Debt serviced by entities with commercial revenue streams (e.g. utilities, ports);
 - Debt serviced directly from the general tax base



Sustainable infrastructure investment

The States should maintain consistent investment in infrastructure and public assets to meet community needs and support long-term economic growth.

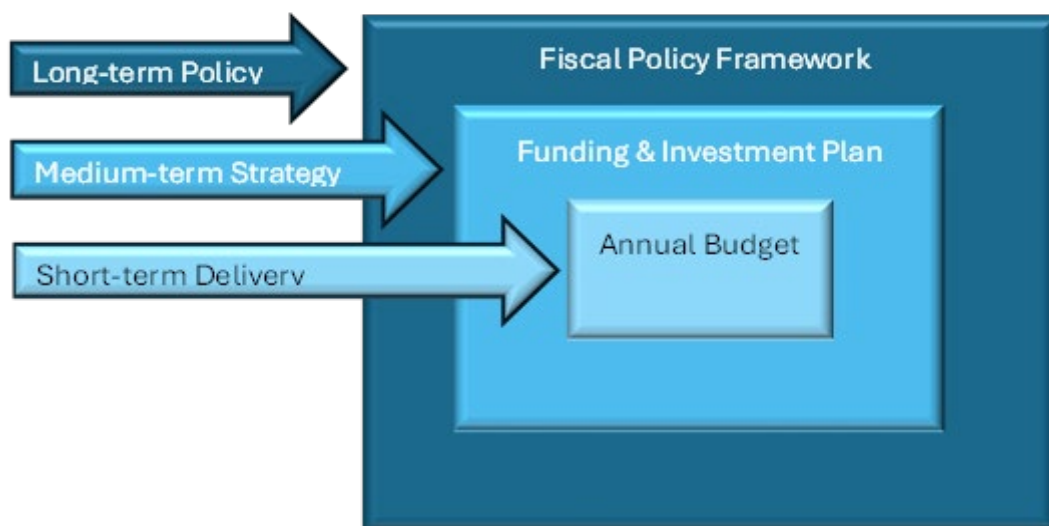
Success looks like:

- A comprehensive infrastructure strategy that identifies the community's long-term infrastructure needs and establishes a framework against which a consistent flow of investment can be prioritised
- The States maintaining the financial capacity to deliver major projects at a sustainable pace:
 - Pending the development of a Long-Term strategic Infrastructure Framework, this should be based on a planning assumption of an average of 3% of GDP a year
 - This includes all direct spending on major projects and routine capital, as well as infrastructure investment by States-owned utilities and ports
 - Development of housing across both the private and public sectors should be considered in addition to this

2. The role and structure of the Fiscal Policy Framework

- 2.1 Although political terms typically span around four years, the States' finances must be managed with a longer-term perspective. Financial assets, debt and major investment plans must be considered over multi-decade horizons to ensure sustainability and resilience. This requires a high-level policy framework that sets out the principles for managing the States' finances over time.
- 2.2 The Framework aims to define core and universal principles for the responsible management of public finances, signalling commitment to sustainable and resilient fiscal policy. As the Framework is designed to span multiple political terms, it does not prescribe specific medium- or short-term measures for each Assembly. Instead, these decisions are more appropriately addressed through the Funding & Investment Plan and Annual Budgets respectively.

Figure 3: Relationship between the Framework, the Funding & Investment Plan and the Annual Budget



- 2.3 Since its inception the Framework has operated on a core principle of permanent fiscal balance. As noted by the Fiscal Policy Panel in their 2025 Report:

“The Panel’s view is that maintaining permanent fiscal balance entails consistently aligning spending, revenue, infrastructure investment and reserves over time so that:

- *The budget remains sustainably/smoothly balanced without resorting to lumpy adjustments, emergency measures or the accumulation of unsustainable debt;*
- *Reserves and cash holdings are maintained at a sufficient level to cover expected liabilities and to provide resilience against major shocks; and*
- *Investment in the capital stock (infrastructure) is maintained at a consistent level over time relative to the size of the economy.*

Thus, maintaining permanent fiscal balance is simultaneously:

- *an annual budget issue, ensuring money received is consistent with the plans for money spent;*

- *a balance sheet maintenance issue, ensuring that the States' stock of assets, both financial and physical, and its liabilities are managed sustainably; and*
- *a governance and regulatory issue, as many critical infrastructure assets formally sit on the balance sheets of private companies (e.g. in telecoms) or arm's-length entities (e.g. ports, electricity)."*

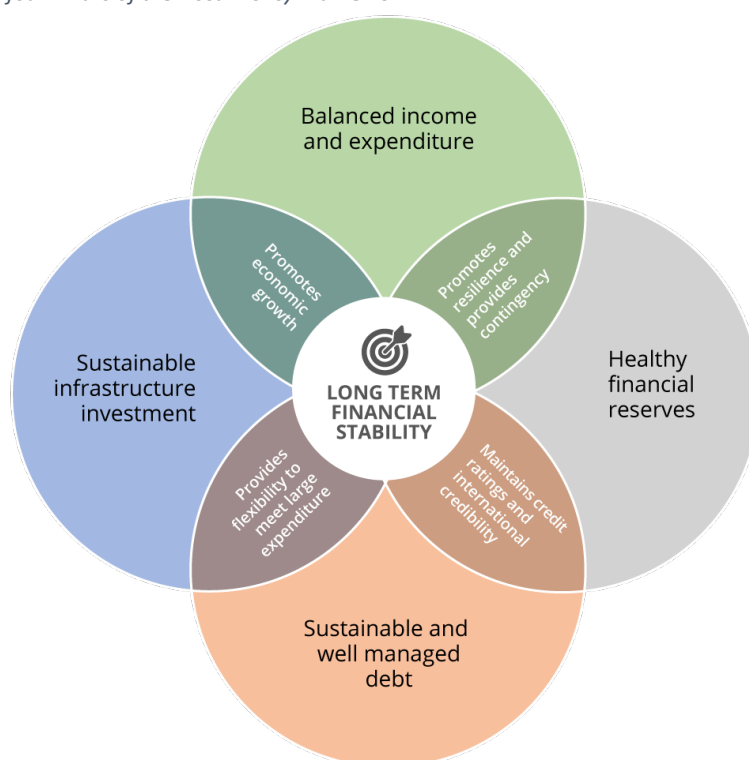
[Guernsey's Fiscal Policy Panel 2025 Report](#)

2.4 To ensure the proposed Framework's longevity, it is founded on economic principles that are universally recognised as core to sound financial management by countries around the world.

2.5 It is proposed that the core principle of the Framework be redefined as one of **long-term financial sustainability**. This central principle will be supported by four pillars, each representing a fundamental component required to achieve sustainable public finances:

- **Balanced income and expenditure**, providing a stable foundation for government operations;
- **Sustainable investment in infrastructure**, ensuring the maintenance and development of the community's physical assets;
- **Well managed debt**, used strategically to support long-term investment; and
- **Healthy financial reserves**, with sufficient capacity to absorb unforeseen shocks and promote financial resilience.

Figure 4: The four Pillars of the Fiscal Policy Framework



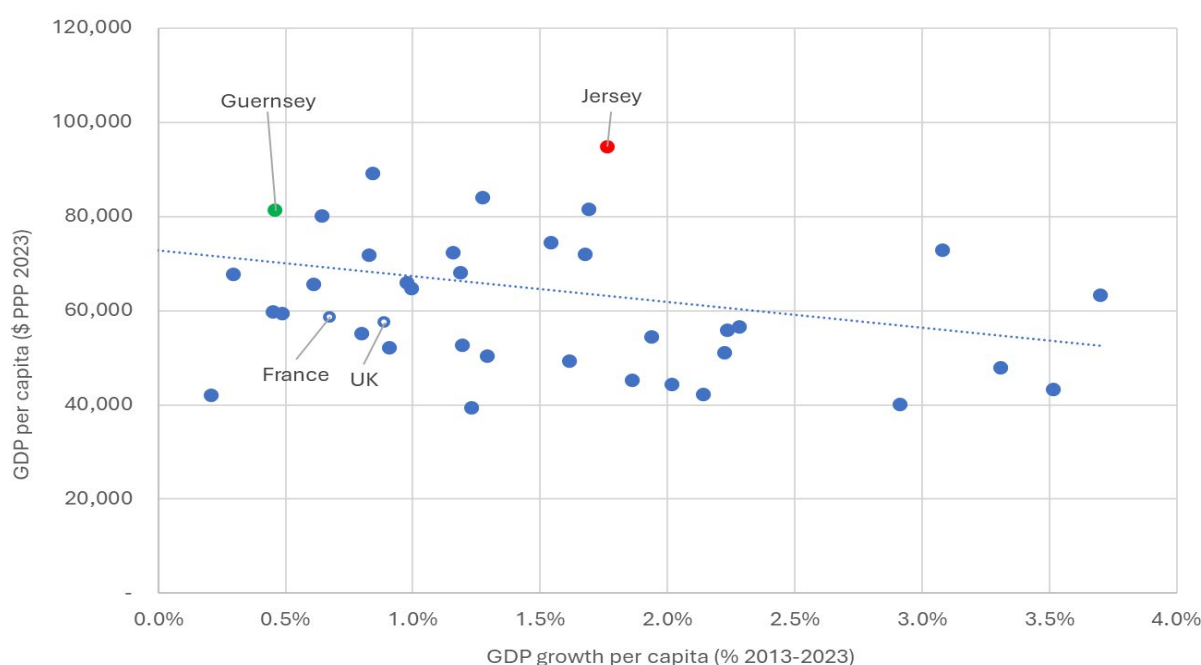
- 2.6 These pillars do not operate in isolation. A balance of income and expenditure is essential to prevent the erosion of reserves and prevent the escalation of uncontrolled debt. Both debt and reserves play a critical role in smoothing the inevitable volatility associated with major project expenditure. Infrastructure investment is equally vital, ensuring the economy and community have the physical and technological foundations needed to generate the revenues that support a balanced budget.
- 2.7 The proposed Framework is designed to embed sound financial and economic principles within Guernsey's fiscal policy, while allowing sufficient flexibility for future Assemblies to make detailed decisions. These may include determining the appropriate balance between different forms of taxation, prioritising infrastructure development, and selecting the most suitable approach to managing reserves and debt in response to prevailing economic conditions.
- 2.8 The following sections examine each of the four pillars in greater detail – exploring their purpose, how they can be monitored, and what successful compliance with the Framework might look like. The objectives of each pillar are expressed in general terms, accompanied by examples to illustrate effective implementation.
- 2.9 The revised Framework is not rigidly bound to specific metrics, allowing flexibility to reflect changes in the underlying environment without requiring a review of its core principles. For example, the proposed Framework enables the States to undertake regular assessments to determine maximum borrowing capacity based on the latest financial position.
- 2.10 When evaluating performance against the new Framework, it is expected that additional metrics will be used to support analysis. This approach is intended to prevent the Framework from becoming overly focused on perceived targets, which could undermine its broader principles and intent. It also helps safeguard the integrity of the Framework by reducing the risk that changes in technical data representation could compromise its effectiveness – a vulnerability that has already emerged twice since its introduction in 2009.

3. Pillar 1: Balanced income and expenditure

- 3.1 This pillar reflects a fundamental financial principle familiar to most households: finances are not sustainable if expenditure consistently exceeds income. This does not mean income and expenditure must balance every year. For example, during periods of higher income, it is prudent to save for times when income may be lower – such as contributing to a pension. Likewise, it can be appropriate to borrow to fund significant one-off expenses that cannot be covered upfront, with repayment spread over time – such as taking out a mortgage to purchase a home.
- 3.2 However, if expenditure consistently exceeds income, savings will eventually be depleted or borrowing will need to increase continuously - ultimately leading to a point where repayments become unaffordable.

- 3.3 The difference with government finances is that the government is essentially immortal, and financial stability needs to be maintained indefinitely. As a result, finances need to be planned and monitored over multi-decade horizons.
- 3.4 In larger jurisdictions, governments can rely on inflation and economic growth to erode the value of debt relative to GDP over time. This allows them to run long-term deficits, provided the size of the deficit and the rate at which new debt is accrued, doesn't exceed the rate at which growth erodes the national debt.
- 3.5 However, this is not a viable strategy for Guernsey. As a small island with a very high GDP per capita (see Figure 5), economic growth tends to be modest. Like most small jurisdictions, the trajectory of growth is volatile and highly susceptible to external stressors – many of which lie beyond the Island's control.

Figure 5: Average annual per capita GDP growth vs GDP (2013 – 2023) ¹



- 3.6 This means Guernsey cannot rely on economic growth alone to resolve debt or fiscal stress. It is therefore essential to run a balanced budget over the long term.
- 3.7 Balanced income and expenditure means that, on average, the States' revenues should be sufficient to:
- Cover the day-to-day operational costs of government services, including their ongoing development where appropriate;
 - Fund routine capital and major infrastructure projects;
 - Meet debt servicing obligations for any borrowing undertaken; and
 - Build and maintain an appropriate level of financial reserves.

¹ Source: Fiscal Policy Panel 2025 Report – 13th March 2025

What does success look like?

- 3.8 This does not imply that the States should never operate with a deficit. Many aspects of public finances are inherently cyclical - rising and falling in response to economic conditions - and there is always a possibility that unforeseen events may affect the financial position in any given year. The States must be equipped to manage the natural fluctuations of the economic cycle, using surpluses generated during periods of economic strength to offset potential deficits during downturns. Providing the States' finances are structurally sound, periods of deficit will be counterbalanced by times of surplus, during which the balance sheet can be restored.
- 3.9 However, if public finances are not broadly balanced over the course of the economic cycle, this indicates a deeper structural issue and signals a deterioration in financial stability.
- 3.10 It is also important to consider how compliance with other pillars of the proposed Framework might influence the deficit position. For example, in previous years the States have opted to limit investment in major projects to ease pressure on public finances. While this may be a reasonable short-term approach, it has contributed to low levels of infrastructure investment for over a decade. This has routinely breached earlier versions of the Framework and has likely suppressed GDP growth. The consequences for the local economy are discussed elsewhere in this report, but it is clear that such underinvestment has obscured the underlying financial position.
- 3.11 The Social Security Funds - which support the payment of the States' pensions, work replacement benefits and long-term care benefits - operate on a different basis. These funds are subject to regular actuarial review, with income and expenditure managed over a long-term horizon to accommodate generational shifts. They are intentionally structured to allow for surpluses, allowing money to be accrued and subsequently drawn upon to manage extended periods of deficit as demographic patterns evolve.
- 3.12 This approach helps to smooth some of the States' most significant long-term spending pressures and offers clear advantages over a "pay-as-you-go" basis. However, it also means that any current surplus or deficit may not accurately reflect a Fund's long-term sustainability. For instance, a Fund may be running a surplus today but still be projected to decline over time - as is currently the case with the Long-term Care Insurance Fund. The Social Security Funds are subject to actuarial review every five years, which includes an estimate of the income or expenditure adjustments required to ensure their long-term viability.
- 3.13 As outlined above, "success" in this context cannot be measured solely by the bottom line in the Financial Statements. The financial position - both current and projected - must be assessed in context, taking into account one-off fluctuations that may obscure the underlying position, as well other factors identified in this Framework that are essential to achieving sustainable public finances.
- 3.14 It is therefore recommended that the financial position is monitored using a structural surplus/deficit measure. This would involve applying a series of transparent

adjustments to the accounting Net Surplus/Deficit as set out in Figure 6, resulting in a figure that more accurately reflects the underlying position.

Figure 6: Recommended adjustments in establishing the Structural Surplus/(Deficit)

| Adjustment | Data source |
|---|---|
| Net Surplus/Deficit before Investments | Accounts/budget |
| Provision for average return on General Reserve and Core Investment Reserve | Calculated from assumed long-term rate of return |
| +Adj 1: In-year cyclical adjustment | Calculated from average income/expenditure levels |
| +Adj 2: Maintaining/growing reserves | Calculated relative to current levels and medium/long term objectives |
| +Adj 3: Provision for capital investment (beyond that accounted for in depreciation) | Determined within the Framework |
| +Adj 4: Sustainable funding of Guernsey Insurance and Long-Term Care Funds | Actuarial reviews |
| Structural Surplus/ Deficit | |

- 3.15 When assessing performance against the Framework, consideration should also be given to adjustments that reflect the underlying structural position. These adjustments must be clearly and transparently disclosed in any presentation or reporting.
- 3.16 The structural deficit in the 2026 Budget was calculated at £77m, based on the definitions set out in the previous version of the Framework.
- 3.17 As this Framework proposes increased investment in major projects and infrastructure, this will have a consequential impact on the calculation of the structural deficit. It also recommends revised treatment of the Social Security Funds – recognising their long-term liabilities rather than focusing solely on in-year deficits as currently reflected in the Budget. These changes increase the estimated structural deficit to £98m, with details of the calculation provided in Appendix 2.

4. Pillar 2: Sustainable infrastructure investment

- 4.1 The provision of public infrastructure is a core responsibility of government. To ensure infrastructure is developed and maintained at a level that effectively supports both the economy and the needs of the community, sustained investment is essential. Prolonged underinvestment typically leads to the deterioration of physical assets and a failure to keep pace with international standards and the evolving expectations of a modern, developed economy.
- 4.2 Infrastructure investment is often highly variable, particularly in small jurisdictions where spend is concentrated in a small number of relatively large projects. This type

of spend is commonly associated with debt financing, as debt enables the cost of acquisition or development to be spread over the lifespan of the asset - helping to smooth out volatility. Accordingly, provision for infrastructure investment has been a key component of the Framework since its inception.

- 4.3 In addition, the following extant resolution has been taken into consideration when developing the revised Framework:

“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](#)

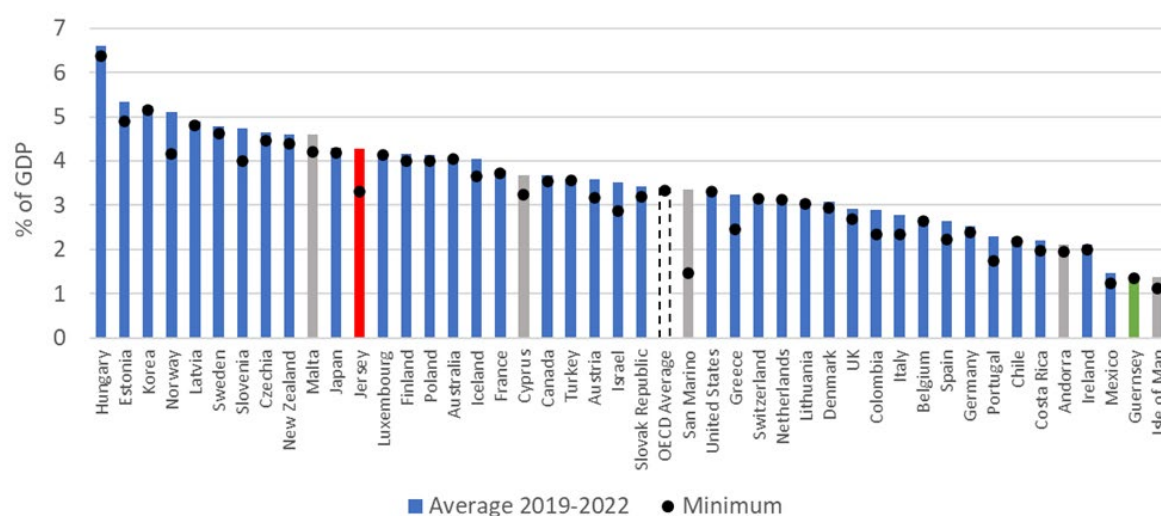
- 4.4 Given the clear direction to look specifically at this issue, the Fiscal Policy Panel was asked to look at it in 2025 and recommended that:

“This definition supports an infrastructure investment strategy which would seek to progress all projects that meet a defined threshold of economic or social return and that these should be prioritised within budget constraints and (construction and planning) capacity to deliver. Notwithstanding those budget constraints, public sector infrastructure spending should account for about 3% of GDP for it to continue to play its role in supporting the cycle described above: infrastructure spending supports economic productivity and growth which, in turn, supports fiscal sustainability.”

[Guernsey’s Fiscal Policy Panel 2025 Report](#)

- 4.5 Infrastructure investment is essential for achieving long-term economic growth. In contrast, sustained underinvestment is likely to constrain the economy’s growth potential. The recommendation outlined above reflects the average level of investment observed in comparable jurisdictions as set out in Figure 7.

Figure 7: Government investment in infrastructure as a % of GDP²



4.6 This pillar of the Framework requires the States to maintain consistent investment in infrastructure and public assets to meet community needs and support economic growth.

4.7 Historically, the States have struggled to meet their own investment targets. As shown in Appendix 3, the States have consistently fallen short of the previous principle of investing 2% of GDP in routine capital and major projects. This suggests that a revised approach is needed to more effectively define and measure success.

What does success look like?

4.8 Major infrastructure projects often require long lead times and substantial investment. Success in this context depends on establishing a long-term, adaptive understanding of the Island's infrastructure needs. This must be followed by a process that enables the prioritisation and delivery of a consistent flow of investment over the medium term.

4.9 The States determine which major projects to prioritise by assessing their strategic fit, affordability, potential to deliver economic, social or financial benefits and the ability to address key risks. Projects are prioritised each political term with delivery planned over the medium to long term.

4.10 Currently, this prioritisation occurs without the benefit of a long-term infrastructure strategy. There is a clear need to strengthen long-term planning and adopt a more holistic approach to identifying infrastructure requirements and strategic opportunities. This would support a more consistent and sustainable flow of projects over the medium-term.

² Source: Fiscal Policy Panel 2025 Report – 13th March 2025

- 4.11 **The Policy & Resources Committee seek direction from the States to develop a Long-Term Strategic Infrastructure Framework.**
- 4.12 The primary function of the Strategic Infrastructure Framework is to identify long-term investment requirements in physical assets that are essential to the functioning of the island. This should include, but is not limited to, the following infrastructure categories:
- Energy
 - Water and wastewater
 - Solid waste
 - Sea and flood defences
 - Ports and transport
 - Digital and communications
 - Public service infrastructure
- 4.13 Planning within these infrastructure categories must account for projected changes in long-term demand and supply, anticipated shifts in industry standards, external influencing factors, strategic risk management and international commitments - such as climate change mitigation.
- 4.14 The Strategic Infrastructure Framework should:
- Establish a process and consistent format for identifying long-term infrastructure requirements;
 - Define a process for setting consistent planning assumptions to guide development;
 - Provide a high-level indication of the scale of long-term infrastructure needs to support financial and resource planning; and
 - Recognise that ownership and investment in strategic infrastructure is distributed between the core government, the States Trading entities and private sector organisations and needs to be managed appropriately.
- 4.15 The Strategic Infrastructure Framework will be used to guide the medium-term planning and implementation of major projects and guide the prioritisation of the Major Projects Portfolio.
- 4.16 While the pipeline of projects within the Major Projects Portfolio will naturally evolve over time, frequent disruption – where projects are subject to stop/start cycles – undermines the integrity of the portfolio and introduces unnecessary costs. An enhanced longer term planning structure should help manage some of the causes of this disruption.
- 4.17 Within the context of the Fiscal Policy Framework, a key consideration is that the States have the financial capacity to maintain a capital portfolio at a sustainable level. This requires the establishment of a planning assumption that can guide the allocation of financial resources to support a consistent flow of projects.

- 4.18 Ultimately, the Strategic Infrastructure Framework should inform this planning assumption. In its absence, the Fiscal Policy Panel recommends that the States invest in its routine capital and major infrastructure at an average rate of 3% of GDP per annum, aligning with the level of investment observed in comparable jurisdictions.
- 4.19 The Fiscal Policy Panel recommends that expenditure on housing infrastructure should be treated separately from the core infrastructure investment target and monitored independently. In most jurisdictions, housing is not typically funded directly through government capital programmes. Instead, governments often support housing development by subsidising rents for specialised affordable housing providers or by incentivising private sector investment through other mechanisms.
- 4.20 As is common in many small jurisdictions, the States – either directly or through its trading entities – is actively involved in the development of infrastructure that would typically be delivered by the private sector elsewhere. Where this includes investment in the core utilities and ports infrastructure – such as though Guernsey Electricity, Guernsey Water and Guernsey Ports – it is appropriate to include this expenditure within the 3% of GDP investment target.
- 4.21 While actual spending will inevitably vary from year to year due to the nature of capital investment, the States should maintain the financial capacity to support spending at this level on an ongoing basis.

Included in Monitored Capital Investment:

- Routine capital spending
- Investment in major projects directly funded from core government (excluding housing provision by the GHA)
- Investment in major projects by:
 - Guernsey Ports
 - Guernsey Electricity
 - Guernsey Water
 - Guernsey Waste

Monitored Separately:

- Public sector investment in housing, including Guernsey Housing Association
- Private sector housing development

Excluded:

- Investment by other Group entities not typically responsible for core infrastructure, such as:
 - Guernsey Dairy
 - Aurigny
 - James Co
 - States Works
- Capital investment by private sector organisations

- 4.22 The available timeseries data suggests that Guernsey Ports and the States-owned utilities contribute between 0.4% and 1% of GDP annually to infrastructure development. This level of investment should be included in the States' planning framework – both within the proposed Long-Term Strategic Infrastructure Framework and the States medium-term financial planning cycle – to ensure coordinated and sustainable capital investment across the public sector.
- 4.23 The creation of the Long-Term Strategic Infrastructure Framework should provide greater clarity on future investment requirements – arising from both the trading entities and that supported directly by the States – over a longer timeframe than is currently available. **While this framework is being established, and in the absence of more detailed forecasts, it is reasonable to assume that the trading entities should contribute, on average, around 0.7% of GDP³ to infrastructure investment annually, with approximately 2.3% of GDP needing to be supported directly from General Revenue resources.**
- 4.24 This is expected to increase the level of capital spending assumed in medium- and long-term financial projections by an estimated £11m a year compared to the previous assumptions.

5. Pillar 3: Sustainable and well managed debt

- 5.1 Debt is a normal part of managing finances over the long term, particularly when there is a need to invest in large assets. For households, this might involve purchasing a home or a car. For governments, it typically relates to the provision of public infrastructure. Sustainable government debt refers to a level of borrowing that can be maintained over time without compromising the ability to meet current and future obligations.
- 5.2 In a small jurisdiction like Guernsey, debt management is particularly important. Small and specialised economies are more vulnerable to external shocks and global economic fluctuations. Guernsey also has a relatively small tax base and limited economies of scale in the delivery of public services, which constrains the revenue available to service debt.
- 5.3 Poorly managed debt can lead to a loss in economic confidence, increased borrowing costs, reduced fiscal flexibility due to rising interest payments, and – at worst – default.
- 5.4 It is therefore essential that debt is used effectively and kept within boundaries that are appropriate and affordable for Guernsey.
- 5.5 This Framework recommends that the States may accrue debt to support infrastructure investment within the Group (as defined in the Financial Statements), provided it remains sustainable. To ensure this:

³ This is the average level of spend for the relevant entities for the period over which data is available.

- Debt must be affordable, with sufficient resources available to meet ongoing repayment obligations.
- Long-term debt levels must remain within appropriate, independently assessed limits. An assessment of the States' borrowing capacity must be conducted no more than 24 months prior to issuing new long-term debt.
- Long-term debt should not be used to fund operational activities; however, short-term instruments (e.g. revolving credit facilities) may be used to manage cash flow.

What does success look like?

- 5.6 Since Guernsey is a small and specialised jurisdiction, its sustainable borrowing capacity is inherently more limited than that of larger economies. The extent to which Guernsey can borrow responsibly will depend on several dynamic factors, including the scale and resilience of its revenue base, the availability of surpluses to service debt repayments, the level of reserves, and prevailing global economic conditions.
- 5.7 Accordingly, it is essential that the Government's debt limits are reassessed using credible, independent expertise. These assessments must be conducted prior to the issuance of any new debt and should consider the revenue available to meet repayment obligations and the potential impact on Guernsey's credit rating.
- 5.8 An assessment undertaken by EY in 2023 indicated that, based on current revenue projections, Guernsey could sustain debt liabilities of up to 30% of GDP without adversely impacting its strong credit rating.
- 5.9 Ongoing monitoring is also required to distinguish between debt borne directly by taxpayers and that held by trading and commercial entities within the Group. In the latter case, repayment may be supported by dedicated revenue streams.
- 5.10 As of December 2024, Guernsey's direct debt liabilities stand at approximately 9.3% of GDP, with an additional 2.0% held on the balance sheets of other entities included in the consolidated accounts, for which the States holds a contingent liability.

6. Pillar 4: Healthy financial reserves

- 6.1 Maintaining robust financial reserves is a cornerstone of the States' fiscal resilience. As at December 2024, the States core entities hold financial reserves totalling £1,598m⁴, equivalent to 43.3% of GDP. These reserves are structured into three principal categories:
- The Core Investment Reserve (£182m): intended to function as Guernsey's sovereign wealth fund.

⁴ This excludes the trading entities and the Public Servants Pension Scheme, neither of which are available to the States to spend on public services or infrastructure. It also excludes the accounting adjustments which are a notional reserve reported in the accounts to accommodate the valuation of the States Fixed assets.

- The General Revenue Reserve (£474m): serves as the States' operating capital and includes the Guernsey Health Reserve and residual proceeds of the Guernsey Bond. Of this, £124m is allocated for specific purposes, leaving £350m unallocated.
- The Guernsey Insurance and Long-Term Care Insurance Funds (£942m): these reserves are legislatively bound to support the provision of pensions, contributory benefits and long-term care.

6.2 These reserves fulfil a range of strategic functions essential to the financial health of the States, including:

- Generating financial returns through asset growth and dividends;
- Providing flexibility to manage short-term deficits;
- Supporting both major projects and routine capital investment;
- Smoothing long-term demographic pressures on pensions and long-term care;
- Acting as an emergency buffer against exceptional events;
- Offering assurance to lenders and credit rating agencies regarding Guernsey's debt repayment capacity.

6.3 To effectively meet the States' need for contingency and resilience – and to fulfil the functions outlined above – financial reserves must be maintained at a level sufficient to safeguard public finances against major economic shocks and to meet long-term obligations.

6.4 The specific functions of each reserve are outlined below, and their management should reflect their intended purpose:

- **The Core Investment Reserve** (or any successor fund): should be accessed only in exceptional and specific circumstances of severe and structural decline or major emergencies.
- **The General Revenue Reserve:** should be available to support fluctuations in States' spending and cashflow requirements. This includes temporary deficit financing and infrastructure investment where appropriate.
- **Social Security Funds:** must be sufficient to meet their statutory obligations over the long term, taking into account contribution levels and demographic pressures.

6.5 This implies that the appropriate path may involve building up certain reserves to enhance contingency, capacity and resilience, while allowing others to be drawn down in line with their designated function. For example, current policy direction supports increasing the Core Investment Reserve to a level equivalent to 100% of General Revenue expenditure. Conversely, actuarial planning for the Guernsey Insurance Fund anticipates a managed drawn down to support the payment of pensions and benefits during a period of demographic transition.

6.6 It should be noted that the Public Servants Pension Scheme is held in trust for the benefit of its members and therefore falls outside the scope of this pillar of the Framework.

What does success look like?

- 6.7 In this instance ‘success’ must be considered in terms of medium and long-term objectives, as increasing the value of reserves to meet policy targets is likely to take many years to achieve.
- 6.8 The current policy target for the Core Investment Reserve, is to hold 100% of General Revenue expenditure. Achieving this would require an almost four-fold increase in its current value of £182m. Independent analysis by the Fiscal Policy Panel suggests that to provide a contingency sufficient to absorb the impact of exceptional events – such as the collapse of the banking systems in both Iceland and Cyprus – the Core Investment Reserve would need to be increased to between 30% to 60% of GDP. This equates to a target range of £1bn to £2bn, a level that would take decades of sustained surpluses to reach.
- 6.9 It is therefore recommended a more achievable medium-term objective be established against which progress can be measured. Specifically, it is proposed that total reserve holdings – including the Core Investment Reserve, the General Revenue Reserve and the Social Security Funds – be maintained at no less than 43% of GDP (the level estimated for 2024), with a strategic objective to increase this to 50% of GDP over the long term.
- 6.10 To support this objective, it is recommended that the 2026-29 Funding & Investment Plan, and all future editions, should include:
- Clear medium-term objectives for each reserve;
 - Provisions for building reserve values over the medium term.

7. Conclusion

- 7.1 The revised Fiscal Policy Framework establishes a clear and principled approach to managing Guernsey’s public finances over the long term. It is anchored in the overarching objective of long-term financial sustainability and structured around four interdependent pillars:
- **Balanced Income and Expenditure:** ensuring that revenues are sufficient to meet operational needs, fund investment and build reserves.
 - **Sustainable Infrastructure Investment:** maintaining and developing public assets to support economic growth and community well-being.
 - **Sustainable and Well-Managed Debt:** using borrowing prudently to fund infrastructure while preserving fiscal flexibility.
 - **Healthy Financial Reserves:** maintaining robust reserves to provide resilience against economic shocks and meet long-term obligations.
- 7.2 Together, these pillars form a comprehensive and adaptable framework for fiscal decision-making. Rather than imposing rigid targets, the Framework promotes a principles-based approach that supports transparency, accountability, and long-term strategic thinking.

- 7.3 By adopting the proposed Framework, the States of Guernsey reaffirm their commitment to sound financial stewardship – ensuring that public finances remain resilient, responsive, and sustainable for current and future generations.

8. Compliance with Rule 4

- 8.1 Rule 4 of the Rules of Procedure of the States of Deliberation and their Committees sets out the information which must be included in, or appended to, motions laid before the States.
- 8.2 In accordance with Rule 4(1)(a), the Propositions which this Policy Letter accompanies review and update the States strategic fiscal policy objectives.
- 8.3 In accordance with Rule 4(1)(b), the Propositions relating to the creation of a Long-Term Strategic Infrastructure Framework have been discussed with the Committee *for the Environment & Infrastructure*.
- 8.4 In accordance with Rule 4(1)(c), the Propositions have been submitted to His Majesty's Procureur for advice on any legal or constitutional implications. She has advised that there is no reason in law why the Propositions should not be put into effect.
- 8.5 Rule 4(1)(d) concerns the financial implications to the States of carrying into effect the proposals. The Propositions have implications for the long-term management of the States' finances, including the management of debt, reserves and the average level of investment made in major projects and the definition of this investment.
- 8.6 In accordance with Rule 4(2)(a), the Propositions relate to the duties of the Committee to co-ordinate policy including leading the policy planning process, the allocation and management of resources, including the States' budget and facilitating cross-committee policy development.
- 8.7 In accordance with Rule 4(2)(b) of the Rules of Procedure of the States of Deliberation and their Committees, it is confirmed that the Propositions above have the unanimous support of the Members of the Committee.

APPENDIX 1: History of the Fiscal Policy Framework

A version of the Framework has been in place since 2009, and while this will be the second substantive revision in that time, the basic principles remain the same: we should not spend more than we have in the long term, we should limit our exposure to debt, and we should invest in the economy.

Both the last revision, completed in 2020, and this one were triggered by technical revisions to the way in which either Guernsey's financial performance (via the gradual transition to IPSAS) or the economy (through GDP) are measured rather than a substantive desire to change the States' fundamental policy regarding its finances. One of the key objectives of the latest revision is also to find a mechanism to provide more resilience in the presentation of the Framework, its core principles and intent, from purely technical changes in the way our finances and our GDP are measured.

The existing Framework is structured as a list of seven principles as follows:

- | | |
|---------------------|---|
| Principle 1: | Guernsey's fiscal policy should operate on a principle of long-term permanent balance. |
| Principle 2: | The annual net deficit reported in the General Revenue accounts for any given year should not exceed 15% of revenue income. |
| 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. |
| Principle 5: | The aggregate amount of States' revenue should not exceed 24% of GDP. |
| 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 2% per year averaged over any eight-year period. |
| Principle 7: | The States' total debt should not exceed 15% of GDP. |

APPENDIX 2: The States current structural deficit

A structural deficit is distinct from an accounting deficit in that it attempts to ascertain the underlying financial position, adjusting for factors like the cyclical swings in income and expenditure resulting from the movement through the economic cycle and one-off pressures. This is generally established by examining the timeseries to establish a “normal” level for various different factors.

In the context of the Fiscal Policy Framework, this also needs to consider the other elements of the framework such as any under or over investment in infrastructure, or the erosion of reserves.

An estimate of the structural deficit was included in the 2026 Budget based on the previous Framework. This placed the size of the structural deficit at £77m in 2026. This estimate assumes that the desired level of infrastructure spend is 2% of GDP, and that this is provided entirely from General Revenue. It also makes no provision for any requirements to maintain or increase the value of the States reserves.

The provisions of this version of the Framework recommend a slightly different approach and as a result the structural deficit presented is larger. The primary differences in the presentation are as follows:

- An increased assumption regarding the necessary long-term provision from General Revenue required to sustain infrastructure and major capital investment from 2% of GDP to 2.3% of GDP (with an assumption that an average of 0.7% of GDP will be provided via the States-owned ports and utilities)
 - **Net impact -£12m**
- Inclusion of the long-term funding requirements of the Guernsey Insurance and Long Term Care Insurance Funds as opposed to their in-year operational deficit
 - **Net impact -£9m**

Figure 8: Comparison of the structural deficit presented in the 2026 Budget with that calculated using the revised Framework

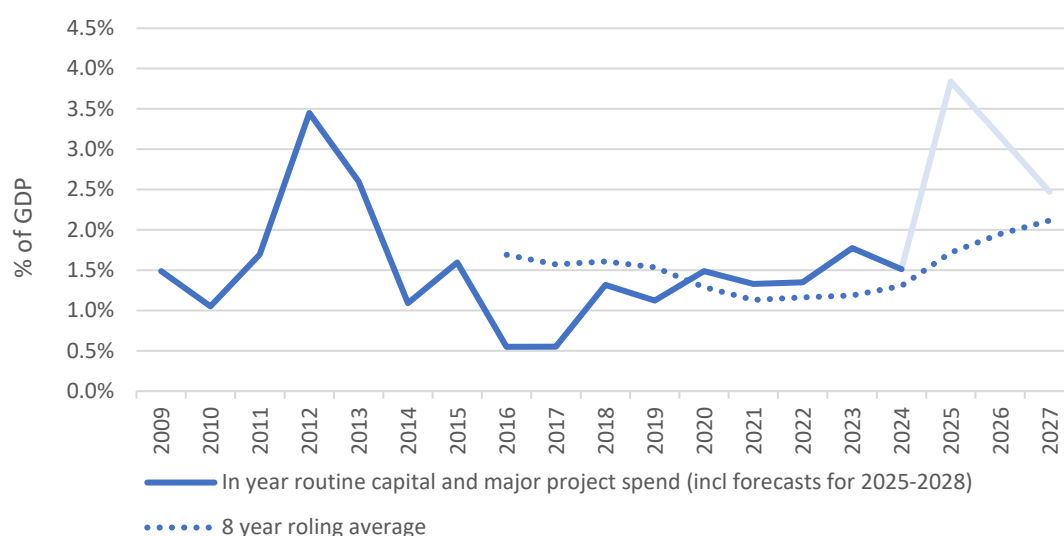
| | 2026 Budget estimates (£m) | 2026 Estimates against revised Framework (£m) |
|---|-------------------------------|---|
| Net deficit before investments | -67 | -67 |
| Provision for return on General Revenue and Core Investment reserves | - | 21 |
| (High)/Low Personal Income Taxes | 4 | 4 |
| (High)/Low Corporate Income Taxes | -1 | -1 |
| (High)/Low Property activity | 2 | 2 |
| (High)/Low Social Security Contributions | 2 | 2 |
| Capital and Project Spend (increase) | -19 | -31 |
| Inflation driven Cost/(Benefit) | 1 | 1 |
| One Off-Expenses | 1 | 1 |
| Adjustment for long-term liability on Social Security Funds | 0 | -9 |
| Provision for maintaining/enhancing the value of General Revenue and Core Investment reserves | - | -21 |
| Estimated Structural Deficit | -77 | -98 |

APPENDIX 3: The States' history of capital and infrastructure investment

While the States has applied a Framework criterion to its major infrastructure investment since 2009, it has routinely struggled to maintain spending at the required level for a variety of reasons. These include not only financial restrictions, but project delays for logistical and political reasons and restrictions on the personnel and other non-financial resources required to manage major projects.

Only in 2012/13 were the States exceeding the former principle of the Framework to spend 2% of GDP and the current 8-year average totals 1.5% of GDP in the period up to 2024.

Figure 9: Expenditure on routine capital and major projects as % GDP

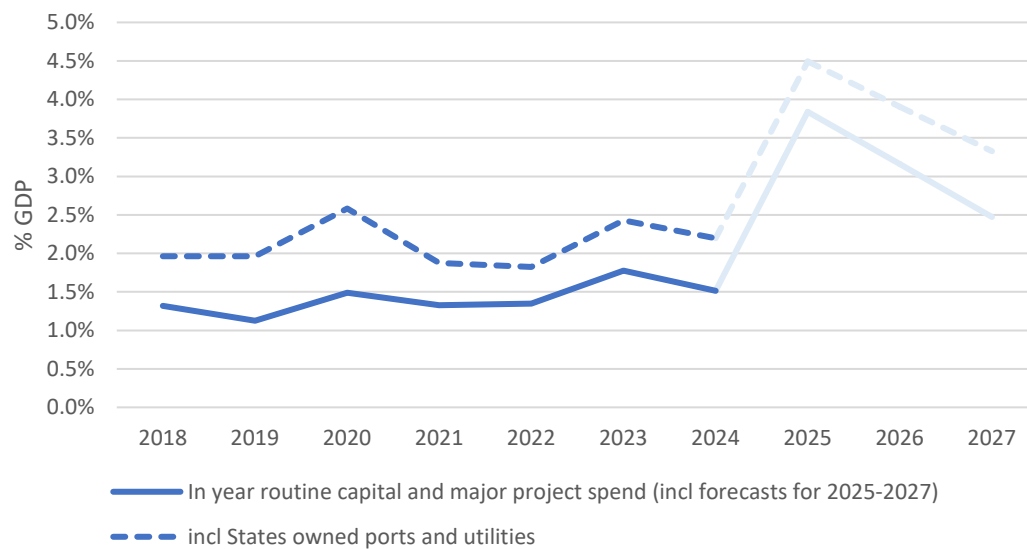


The previous Assembly approved a significantly larger program of major projects which is currently in delivery. If the delivery of the projects currently underway progresses as agreed, this is expected to increase the rolling average level of spend to just over 2% of GDP by 2027.

However, because much of the States' critical infrastructure rests within the mandate of the various States trading entities, some of the most critical infrastructure is supported outside of the States direct funding. Figure 10 below incorporates the infrastructure spending of the States Ports and utilities. During the six years for which data is available this group of trading entities have invested between 0.4% and 1% of GDP in capital projects.

If these are incorporated within the analysis this bring the average spend on Routine Capital and Major Projects to 2.1% of GDP across the last seven years and could increase the average to 2.8% by 2027.

Figure 10: Expenditure on routine capital and major projects as % GDP including States owned ports and utilities



What is evident is that the current short-term projections should bring the States significantly closer to the suggested average of 3% of GDP (including the States owned ports and utilities). The fiscal challenge will be to sustain this level of expenditure, both in terms of the capacity of the States finances and maintaining momentum on the Major Projects portfolio.

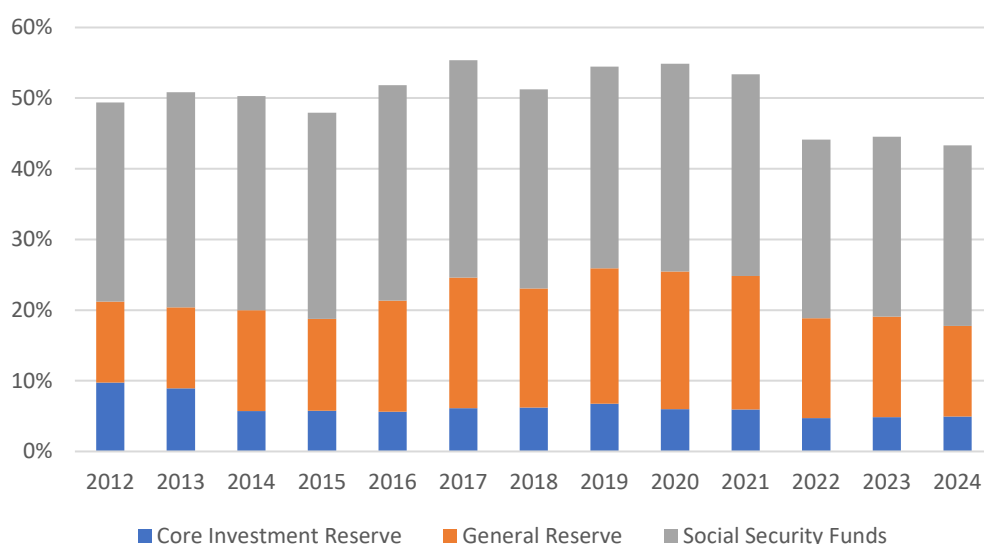
The 2023 Funding & Investment Plan was based on the planning assumption that the States would spend an average of 2% of GDP on Routine and Major Projects directly from the States core Capital Portfolio. Even allowing for an average of around 0.7% of GDP to be delivered via the States-owned utilities and ports, under the proposed Framework the States will need to successfully deliver its planned major capital portfolio and sustain a higher level of investment of 2.3% in the future.

APPENDIX 4: The States' financial and investment reserves

The States currently holds financial and investment reserves totalling £1,598m or 43% of GDP (as at December 2024). These can be divided into three broad categories:

- The Core Investment Reserve (£182m at December 2024), which is intended to function as the States' 'sovereign wealth fund'.
- The General Revenue Reserve (£474m at December 2024) which broadly speaking functions as the States' operating capital and includes the Guernsey Health Reserve and the residual proceeds of the Guernsey Bond. Some of this reserve is allocated for specific purposes.
- The Guernsey Insurance and Long-Term Care Insurance Funds (£942m at December 2024), which are specifically bound in legislation to support the provision of pensions, contributory benefits and Long-Term Care benefit respectively.

Figure 11: Financial Reserves as a % of GDP



The projections presented in the [2023 Funding & Investment Plan](#)⁵ suggest that without significantly more revenue, the States reserves will continue to erode, and that the unallocated funds held within the General Reserve could be exhausted by 2032. Generating additional revenues at the scale expected to be achieved from the implementation of the GST+ package, is expected to improve the situation, potentially stabilising the value of reserves in real terms, but they are likely to continue falling relative to GDP.

The 2025 Policy letter "[The Need to Stabilise the Private Care Home Market and Incentivise Growth to Meet Demand](#)"⁶ demonstrated that the Long-term Care Insurance Fund is also unsustainable and could be exhausted by 2062 unless further policy changes are considered. This is expected to be progressed further this term, and considerations are likely to cover

⁵ Billet d'État No XVII, October 2023

⁶ Billet d'État No V, February 2025

either a reduction in the cost of care born by the Fund (with individuals paying more for their own care where they are able) or further increases in revenues.

As things currently stand, the States are not likely to comply with this pillar of the Framework, and additional measures will be needed to do so. Updated projections of the States' reserves will be incorporated into the next version of the Funding & Investment Plan.

APPENDIX 5: The States long-term debt

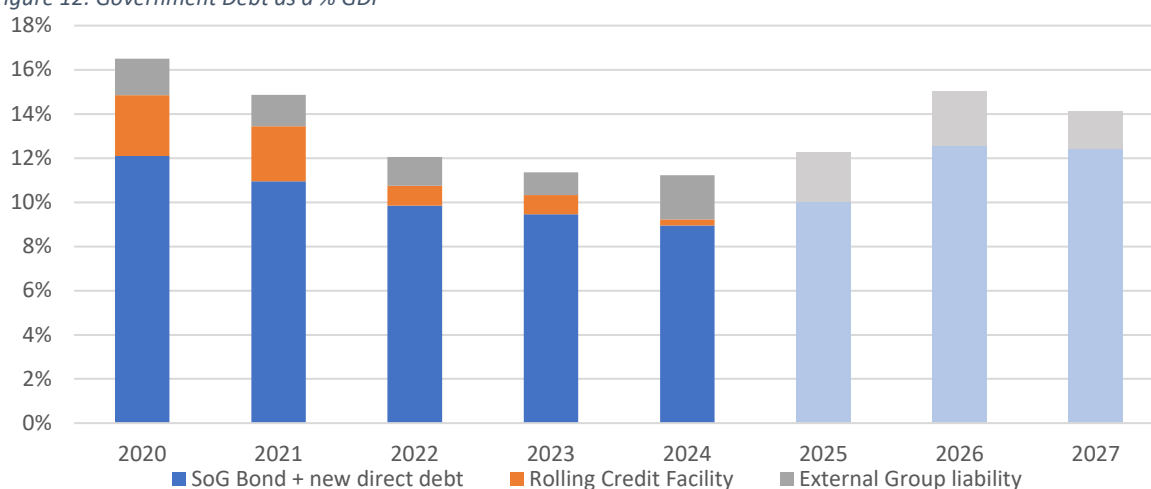
The States of Guernsey hold only a single long-term debt within its core Budget – a £330m bond issued in December 2014, which matures in 2046. This loan was equivalent to 13.2% of GDP at its issue but economic growth and inflation has reduced its relative value to an estimated 9.0% of GDP by 2024.

The States of Guernsey also procured a Rolling Credit Facility (broadly speaking, the equivalent of a short-term overdraft facility) in 2020 to assist in managing the extraordinary demands of the Covid-19 pandemic. This was utilised for a number of years but has now been paid down. While the States still has access to this facility it is used only to manage temporary cash flow challenges.

In addition to the direct debt listed above the entities in the wider accounting group (including Aurigny, the Guernsey Housing Association and Guernsey Electricity) hold debt totalling £74m. While these are issued to the commercial entities, they are included in the analysis because it is assumed that the States of Guernsey holds ultimate liability for this debt. This brings the total value of debt to an estimated 11% of GDP in December 2024.

The plans outlined in the 2023 Funding & Investment Plan indicate plans to borrow a further £155m by 2026, with additional borrowing to be issued within the wider group for Guernsey Electricity. This is expected to increase the States total debt to around 15% of GDP.

Figure 12: Government Debt as a % GDP



Even allowing for the issue of additional debt, the current projected path (the faded bars) shows debt maintained at a relatively low level (less than 15% of GDP, including the wider group liabilities) which would be considered sustainable for a small jurisdiction like Guernsey and is well within 30% of debt to GDP ratio (or 20% net debt) which the last external assessment of Guernsey's borrowing capacity (conducted by EY in 2023) indicated would place Guernsey at risk of a downgrade in its credit rating.

Guernsey's borrowing history also shows a pattern of significant issues (which allows access to better rates) but sufficient time has been allowed to elapse before the issue of new debt to substantially reduce the relative value of that debt and accrue additional capacity. As currently projected, this would be considered sustainable under the terms of the proposed Framework.