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# STATES OF JERSEY



## JERSEY INNOVATION FUND: ANNUAL REPORT 2015

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Presented to the States on 21st September 2016  
by the Chief Minister

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STATES GREFFE





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# Jersey Innovation Fund

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## Annual Report

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31 December 2015

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Advisory Board Members

Mr T Herbert (Chairman)

Mr D Allen (appointed 18 December 2013)

Mr A Chatterley (appointed 18<sup>th</sup> December 2013)  
(resigned 30<sup>th</sup> September 2014)  
(re-appointed 1<sup>st</sup> March 2015)

Mr T Ringsdore (appointed 18<sup>th</sup> December 2013)  
(resigned 30<sup>th</sup> November 2015)

Mr P Shirreffs (appointed 18<sup>th</sup> December 2013)

States of Jersey Representatives

Mr M King – Chief Officer, EDTSC

Mr D Peedle – States Economic Advisor

Mr J Shilliday – Treasury Representative

JIF Executive Officers

Mr S Pritchard (inception to 30<sup>th</sup> June 2014)

Mr A Blair (1<sup>st</sup> July 2014 to 31<sup>st</sup> December 2015)

Mr A Sugden (1<sup>st</sup> July 2014 to 31<sup>st</sup> December 2015)

## JIF Report 2015

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### Chairman's Update

2015 has, to some extent, been one of consolidation for the Advisory Board to the Jersey Innovation Fund ("JIF").

JIF was launched by the States in late 2013. It is important to recognise that the Jersey Innovation Fund is not a separate legal entity. The fund is an allocated pool of money available to be invested by the States of Jersey in innovative businesses. Following the board's review of applications received it may make a formal recommendation to the Minister for Economic Development (or his appointee); it is the Minister's decision alone whether to follow the recommendation and make funds available.

After a significant initial flow of applications in 2014, the *rate* of applications dropped in 2015 but the *quality* of the applications has improved. This is reflected in the percentage of applicants in 2015 who were successful in receiving funds from the States under the aegis of JIF.

As a consequence, whereas in 2014 £420,000 of loans were recommended, in 2015 loans to a value of £1,700,000 were approved by the Minister. It should be noted that not every loan approved in 2015 was drawn down in full within the calendar year. One of the approved applications has also been subsequently withdrawn by the applicant and the loan not released.

It remains the case that despite over 50 applications being received since inception, only six have been successful. The JIF Advisory Board does recognise how disappointing it is to applicants when they are not successful in obtaining States funding support for their project – especially when there are now few other sources of States funding. We do our best to explain our reasons but nonetheless it is accepted that a decision not to make a recommendation can be disappointing. The feedback received in 2015 is that the support of the sponsoring non-executive director appointed to review the application can be very beneficial and add real value even if funding is not awarded. The Board is sure there will be occasions where an unsuccessful applicant to JIF proves us wrong and establishes a successful, innovative business.

It has taken a number of paragraphs to use the "I" word. Being innovative is, of course, at the heart of JIF. The Board will often see coherent, well-structured business plans and proposals (especially for scale up businesses) but where the element of innovation is, in truth, sparse. In such instances it is likely that the application will not succeed.

Yet applications in 2015 were received from a wide variety of start-up and scale up businesses, such as out and out inventions for home or industry, innovative solutions to risk and compliance services, oil and industrial technology, horticultural innovation, e-health, sports and outdoor pursuits and e-gaming. It is important also to stress not all the businesses in receipt of States funding will necessarily succeed or meet their business aspirations but new jobs and the diversification of the economy have already occurred directly as a result of JIF funding.

During the latter part of 2015 the Innovation Review authored by Tera Allas was published. The Board welcomed the report. It shows that JIF is a "work in progress" but also underscores that access to funding for innovation is vital to diversify the economy and develop it. There are a significant number of recommendations but three in particular relate to JIF:-

1. for Government to ensure the operation of JIF is appropriate to support funding innovative ideas, and consider changes to make funding more suitable for early stage ideas;

2. for Government to evaluate the effectiveness of JIF, reviewing and, if appropriate, changing its size, scope and type of funding; and
3. for Government to ensure ongoing monitoring of borrowers through JIF is supplemented with ongoing support and aftercare.

The Board are keen to see JIF move forward and are responding to these recommendations working with relevant stakeholders to ensure this excellent report does not gather dust.

As Chairman I have, in addition to applications work, met frequently with all relevant stakeholders within the States (EDTSC, Scrutiny, Treasury, CMD and so forth) as well as external organisations such as Jersey Business, Digital Jersey, and many other interested parties and the media.

I would like to take this opportunity to make some "thank yous". First to Alistair Blair who acted as executive officer throughout the year prior to leaving the States – his enthusiasm and hard work were much admired. To Jersey Business with whom JIF has developed a strong relationship – this has been of assistance to the board and, I believe, government. And finally thanks to Tim Ringsdore who served as a board member for two years before relocating to BVI. His contribution was valued.

I remain confident that, provided JIF can adapt and change and respond to the Innovation Review, it will have an important role to play in encouraging the growth of innovative businesses in Jersey, providing job opportunities and stimulate the economy.



Tim Herbert  
Chairman

## Report of the Chief Officer, Economic Development, Tourism, Sport and Culture Department

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The Jersey Innovation Fund (JIF) is an important element of the States of Jersey's Economic Growth and Diversification Strategy. Loans advanced from the JIF provide the working capital and support to entrepreneurs, start-ups, and early stage business that are seeking to bring innovative products or services to the market. The outcomes of the JIF are clearly set out within the JIF Operational Terms of Reference:

'Success for the Jersey Innovation Fund will be to encourage investments into areas of innovation that will deliver a competitive advantage for Jersey, attract additional private sector investment, attract high-value inward investment businesses and raise the productivity of local organisations, resulting in more job opportunities for locals.

Every business that applies to JIF is subject to a detailed assessment process as defined in the Operational Terms of Reference and adopted by the States of Jersey (P.124/2012). On a case by case basis, and in addition to the information supplied with the initial application the Board is supplied with additional due diligence during the appraisal process.

The majority of the loans released are to new or early stage businesses to provide the working capital to develop the innovative product or service, market, manufacture and distribute in both local and international markets. The pre-investment due diligence, assessment and post-investment monitoring undertaken is consistent with the Operational Terms of Reference are designed to minimise risks. However, as reflected in Financial Direction 1.2 which covers the JIF, it is important to acknowledge that it is impossible to operate a fund of this type without accepting some level of risk. To be prudent, and in accordance with accounting standards provision has been made in the 2015 States of Jersey Accounts to reflect such risk.

It is quite typical for an early stage business to face unplanned challenges and/or variation to the forecast business plan on which the recommendation to grant the loan was made by the JIF board. As a responsible lender, we endeavour to accommodate and support such variations. This support could be in the form of additional business advice provided by Jersey Business or, where absolutely necessary, varying the original loan agreement to allow the company more time to repay the loan.


### Investments

To date, the Minister and his predecessor has approved seven JIF loans to six companies:

- StumpyDog Innovations Ltd: Development and distribution of a new playpen for babies.
- Total Billing Solutions Ltd: Development of a medical billing system for businesses operating within the health care sector in Jersey and the UK. (2 loans)
- Snap Ring Joint Limited: Development and commercialisation of a pipeline coupling for connecting and repairing pipelines -specifically in the oil and gas sector.
- Logfiller Ltd; Development and distribution of a computer software solution that measures the actual user experience and system use.
- Sideplay Entertainment Limited: Development and distribution of Instant Win Games(IWG) content to online gaming operators and lottery organisations.
- Proviz Limited: Development and distribution of high visibility sportswear and accessories into international markets.

The after care and ongoing monitoring of the above businesses in receipt of a JIF loan is an important component of managing potential risks. All the businesses are required, as a condition of the loan agreements, to provide quarterly management reports which allows the Department to manage and monitor progress of each project. This is an important aspect of managing risk that was reinforced in writing to all loan recipients during the year and will remain a key priority on all current and future JIF loans.

During 2015 two of the businesses in receipt of a JIF loan experienced revenues below forecast. In both cases this has resulted in cash flow pressures and prevented the companies from repaying the loans as per the terms of the loan agreement. One of the companies has proposed a new repayment plan which needs to be considered. Officers are in regular contact with the second company to find a satisfactory way forward for all parties

A handwritten signature in blue ink, appearing to read 'Mike King', with a large, stylized flourish extending from the end of the signature.

Mike King  
Chief Officer  
Economic Development Tourism Sport and Culture



## Corporate Governance

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It is the view of the Chairman and the other members of the Advisory Board that appropriate standards of corporate governance have been met. A schedule of the dates and attendees at meetings appears in Schedule 1.

### Monitoring and reporting on investee companies

Throughout the loan repayment period for each borrower, recipients of a JIF loan are required to supply the States of Jersey with certain reporting information.

In particular, every organisation in receipt of a loan must provide quarterly progress reports, which as a minimum, should include:

1. Progress against the original project plan noting all key milestones
2. A financial analysis of spend and income compared with the original forecast
3. A progress report on all new innovation
4. Details of any changes in key staff
5. Details on any change to the company's Board of Directors and major shareholders

It is also worth noting that all organisations in receipt of a loan must provide an annual Loan/Grant Assurance Statement, confirming how the loan has been spent and the outcomes achieved in comparison with the original plans. Further all organisations must provide quarterly progress reports.

To date all of the organisations in receipt of a loan have provided a quarterly report. These vary in detail and in some cases have not fully satisfied the agreed reporting requirements. This has been addressed and will remain an area for improvement and closely monitored in 2016.

In 2015 two of the companies failed to make the loan repayments in accordance with the terms of their loan agreements. Officers are in regular contact with both companies and efforts are being made to find a satisfactory resolution.

## Financial Summary Statement

The Jersey Innovation Fund is a specially constituted fund capitalised with an initial £5 million in 2014. The fund receives income from the interest charged on loans approved and incurs operational expenses. The balance of the Fund on January 1<sup>st</sup> 2015 was £4,988,819

In 2015 The JIF Advisory Board recommended and the Minister approved 5 loans with a total value of £1,700,000. By the end of 2015 £1,050,000 of the approved loans had been advanced. The balance of £650,000 is due to be released, subject to any pre-conditions being satisfied, in 2016. There were no grants approved or released in 2015

An overview of the approved loans in 2015 and the key terms are shown in the table below.

Recommended and Approved loan	Amount	Key Terms	Value released in 2015	Balance
Company A	£400,000	5 year term/12 month holiday repayment period / 6% interest	£275,000	£125,000
Company B	£500,000	5 year term/12 month holiday/5% interest	£500,000	0
Company C	£250,000	5 years/9% interest	£125,000	£125,000
Company D	£150,000	4 year term /12 months holiday/8.5% interest	£150,000	0
Company E*	£400,000	3 year/8% interest	£0	£400,000

\*Company E has subsequently withdrawn its application

### Expenditure

During 2015 the Fund incurred the following operational expenses

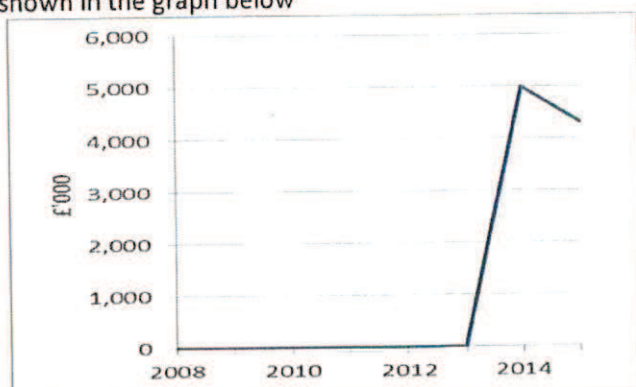
- Board costs - £39,000
- Support costs £57,000 (JIF Executive, administration, research and due diligence expenses)
- Provision made for potential loan write-offs £692,000

### 2015 Income

JIF receives income in the form of interest charged on all loans advanced. In 2015 the interest charged on the loans totalled £104,000.

### 2015 closing balance

The balance of the fund on 31<sup>st</sup> December 2015 was £4,305,152. The Net Asset Value over time is shown in the graph below



## The JIF Board

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The JIF Board convened 9 Board meeting in 2015. The meeting dates and members attendance are shown in the table below. Mr Tim Ringsdore resigned from the Board on November 30<sup>th</sup> 2015

Date	Tim Herbert	Dave Allen	Aaron Chatterley	Tim Ringsdore	Peter Shirreffs	Mike King	Dougie Peedle	Jim Shilliday	Alistair Blair	Greg Boyd	Andrew Sugden
12/01/15	X	X		X	X	X	X	X	X	X	
24/02/15	X	X		X	X			X	X	X	
24/03/15	X		X		X		X	X	X	X	X
29/04/15	X	X	X		X	X	X		X	X	
3/06/15	X	X	X		X	X	X	X	X	X	
29/07/15	X	X			X				X	X	
30/09/15	X	X	X	X	X	X	X	X	X		
5/11/15	X		X	X	X	X	X	X	X	X	
10/12/15	X	X	X		X	X	X	X	X		X