



Economic Affairs Panel Jersey Innovation Fund Review hearing with the Minister for Economic Development

FRIDAY, 22nd FEBRUARY 2013

Panel:

Deputy S.G. Luce of St. Martin (Chairman)
Connétable S.W. Pallett of St. Brelade
Connétable M.J. Paddock of St. Ouen

Witnesses:

The Minister for Economic Development, Senator A.J.H. Maclean
Chief Executive Officer, Economic Development Department, Mr. M. King
Director, Enterprise and Business Development, Mr. A. Sugden
Performance and Operations Manager, Ms. S. McDonald

[12:02]

Deputy S.G. Luce of St. Martin (Chairman):

Good morning, everybody. Welcome to the last hearing of the Economic Affairs Scrutiny Panel review into the Jersey Innovation Fund. I would like to welcome everybody. If we could start off by just saying that the usual rules apply: if members of the public want to leave or enter, if they could do that quietly; no mobile phones and any interactive switched off and quietly on the iPads, thank you very much. If we could just go around the table as usual and identify ourselves for the benefit of the tape. My name is Deputy Steve Luce, Chairman of the panel.

The Deputy of St. Martin:

If you could just address those microphones, Sarah, just in case ... thank you. For the benefit of the Minister and officers, we have Stuart Fair with us today as our advisor from the U.K. (United Kingdom) as well as our normal officers. Right, this is our last of 6 hearings to do with the proposed Innovation Fund, and I think I would like to say from the outset that the panel are very much in favour of anything that can help to stimulate the economy and create jobs and add to where Jersey is going in the future. We do have a few reservations with the proposition that you put in front of us which we would like to try and get to the detail of today, which will help us to come up with our final review. The first 5 hearings we have had have put us in a position to identify what is going on and now we feel we are in a position this morning to ask some final detailed questions to allow us to complete our work. The first one, Minister, is to do with a potential conflict between the report and proposition and the details that we have been supplied since we have launched the review. In the report and proposition which has been given to the House, it says quite clearly on part C of the proposition that: "The fund will be operated and used in accordance with the operational terms of reference." In the operational terms of reference, we have no reference at all in any detail - or even non-detail - to specific amounts of money, but in the application form, and indeed the policy framework, there are references to a minimum of £20,000 and a maximum of £500,000. We have also had, during our hearings, some intimation from people that really there is not going to be a minimum, and we just wondered if we could have some clarification as to whether there is not a minimum amount of money that is available through this fund.

The Minister for Economic Development:

You are referring to applicants?

The Deputy of St. Martin:

Yes.

The Minister for Economic Development:

That clearly is a detail that is yet to be set, but one needs to consider how other similar funds operate and the level of funding available. We see this as operating in a niche which broadly covers the range that you referred to. I mean, it is open basically to the application consideration at the time when it comes forward, but we are seeing it falling broadly between the ranges that you have referred to.

The Deputy of St. Martin:

Is it not possible at this late stage, literally a couple of weeks before the States sitting, to know where the range is going to be? Do you not feel that there is a requirement to either verify that the

application form and the policy is correct or the report and proposition, which has no mention of it, or the terms of reference, for that matter? Do you not see that as a potential issue when we come to the House?

The Minister for Economic Development:

Not specifically, but if you feel that it is something that needs clarification, then I am more than happy to seek to clarify it.

The Deputy of St. Martin:

I could look for quotes, but I think on a number of occasions we have been told during hearings that we have had mention of applications as low as £500, £1,000, £3,000, and I think it needs to be quite clearly clarified as to whether an application, for example, for £3,000 would qualify, because quite clearly the application form and the policy that we have had in the last few weeks says that that would not be the case.

The Minister for Economic Development:

I do not envisage applications of that level, because clearly if somebody is making an application for £1,000, £3,000 or £5,000 it is likely to be for some items of equipment as opposed to a business proposition that is going to seek to deliver on the objectives of a fund of this nature. So there is, by nature, going to be a certain minimum that is going to be considered, I would imagine, by the board as being appropriate to deliver on the objectives.

The Deputy of St. Martin:

But do you see that minimum being £20,000, as is in the application form and the policy document?

The Minister for Economic Development:

I would think it is unlikely to be as low as that, but not necessarily.

The Deputy of St. Martin:

What are we then to do with the application form and policy document we have been given as to the way the fund is going to be operated?

The Minister for Economic Development:

The application form that you have got is applicable.

The Deputy of St. Martin:

It is a draft?

The Minister for Economic Development:

Yes, it is a draft.

The Deputy of St. Martin:

Okay. Well ...

The Connétable of St. Brelade:

Just following on that, I am just going back to some comments that were made by the Chief Executive at the original hearing just regarding the £500,000 limit and nothing less than £20,000 and the comment that was made there: "They may come to us and need £3,000 just to free up their time and get some basic equipment to get themselves going. So it is about the nature of the proposal they bring to us rather than the monetary contribution." That says to me that this will be open for funding below the £20,000. Is that a yes or no?

The Minister for Economic Development:

But not as far as the overall scheme is concerned. The context that you have just described may well be an overall funding arrangement for a project that is going to be several hundred thousand pounds or more, but they may need some pump-priming, as described by the Chief Executive at the previous hearing.

The Connétable of St. Brelade:

I think we have seen this before. It was Jersey Business that did say that they thought that it would be appropriate for funding of less than £20,000 to be appropriate for certain business proposals. Are you saying that you will be ruling that out totally?

The Minister for Economic Development:

I am not saying I am ruling it out totally, I just said it was less likely, I would have thought, but it depends on the proposition that comes forward. It is very difficult to sit here and predetermine what the merits of a particular application are. If there was a low request for funding from an application that had a compelling case that was put forward, properly assessed, went through an appropriate process and a case could be put forward for support, then clearly one should support it.

The Connétable of St. Brelade:

I just think it is important that Members have an idea about whether it will be available, because one of the questions that will be asked is: "Are we ruling out everything under £20,000?" I think what we want is an answer as to yes or no.

The Minister for Economic Development:

I think the point that I made originally - and I would stand by here - is that each application should be considered on its merit, and I do not think necessarily that we should try and attach a particular financial sum to it.

The Connétable of St. Brelade:

So the answer is yes then?

The Minister for Economic Development:

Yes.

The Connétable of St. Brelade:

It will be available?

The Minister for Economic Development:

Yes, I think potentially it would be. It would depend on the merits of the application, so if you want a yes or no, then it falls under the yes.

The Deputy of St. Martin:

If we could go back again to the application form, Minister, there is a list of eligibility guidelines which we were given. In the first section there, the last sentence in the first section it says that: "Applications would be agreed from firms with a value added per employee significantly in excess of £65,000 per employee." Could I ask how that figure was arrived at, please?

The Minister for Economic Development:

Sorry, whereabouts are you?

The Deputy of St. Martin:

On the application form on the first page under: "The Innovation Fund eligibility guidelines." The first section has got: "An application shall be eligible if the applicant" and then there is a number of boxes, it is the last box, and it says: "these firms with value added per employee significantly in excess of £65,000."

Chief Executive Officer:

Yes, that is very simple to explain, Chairman. That is the average per capita G.V.A. (Gross Value Added) across the whole of the Jersey economy, so if you are consistent with our objective of increasing productivity across all sectors, we would not want to support businesses that did not have the potential of performing at levels of average productivity that were lower than the average.

This is not a fund to support low-productivity business. It is a fund to support innovative businesses that by definition have the ability to perform at higher levels of average profitability and productivity than we currently see in the Jersey economy.

The Deputy of St. Martin:

Are we not in danger of having this fund becoming something that it is a bit elitist? Are we not in danger of saying there is only a small section of the economy which is going to be acceptable to take up this fund?

Chief Executive Officer:

I think what you see - and I think we have discussed this with you in other places - that the per capita G.V.A distribution across the economy is very significant from financial services at one end right down to rural economy and tourism at the other. The low-productivity sectors are supported by what is the majority of the E.D.D. (Economic Development Department) budget through grants and subsidies and other direct marketing support, for instance. That is not the intention of this fund. I think the word "elitist" is, if I could say, the wrong word. The words that I would like to use is that this fund is targeted at high-productivity, high-value sectors.

The Minister for Economic Development:

Given that the only sector of employment on the Island which creates a G.V.A. per employee higher than the average is the finance industry, is there not a danger that we will be targeting only at the finance industry?

Chief Executive Officer:

By definition, I think that is not strictly true, is it?

The Deputy of St. Martin:

Sorry, what number did you quote for the average?

Chief Executive Officer:

I think ... is it £65,000?

The Deputy of St. Martin:

Yes. Our figures show that the finance industry is £118,000 per employee and the next one after that would be construction at £46,000, so that by definition then the only sector of the economy with a G.V.A. per employee high enough to qualify would be finance.

Chief Executive Officer:

No, I think that is a misinterpretation of the statistics. What you are basing your premise on there are the statistics as they are currently presented by the Stats Unit, who, by definition, categorise the economy into 10 or 12 particular areas. Within those, there are individual averages. There are businesses in the rural economy, I am sure there are businesses in the tourism sector that have much higher productivity than the average in their particular area. So that is wrong to say that there are not individual businesses that perform across all sectors - or many of the sectors, at least - above the average, but the average for that particular sub-sector happens to be below the entire average for the ...

The Deputy of St. Martin:

Yes. I take that ...

Chief Executive Officer:

It is an issue of ...

The Deputy of St. Martin:

I understand exactly what you are saying, but even given that, you would have to say that this will be targeted significantly towards the finance industry, even ...

[12:15]

Chief Executive Officer:

No, no, no, I have to correct you. That is completely wrong. This is not about targeting the financial services sector. It is unlikely, in my opinion, that we would be supporting businesses that are in the financial services sector. Unless they have an innovative product and they are not directly involved in the financial services sector at the time, most financial sector businesses do not need support from the Innovation Fund because their own institutions have the ability to invest in them to produce growth. Some of them may very well service the financial services sector, but this is not about supporting the financial services sector. This is primarily about supporting non-financial services, business start-ups and potential high-growth S.M.E.s (small and medium enterprises) with high-productivity potential.

The Deputy of St. Martin:

Do you see a large number of those businesses you have just described falling into the sector that will be able to create more than £65,000 per employee?

Chief Executive Officer:

Yes, I do. Funnily enough, I met with a business the day before yesterday and one of the things I discussed with them is, I think, a very interesting example of a business that could very well fall into many of eligibility criteria that we have here that perhaps you should talk to as a good example of a business that could very well qualify for the Innovation Fund. This is the I.C.T. (information and communication technology) sector and they have very significant expansion plans built on the back of a very sound initial business, but they are not in the financial services sector, they are not anything related to the financial services sector. In fact, they are an I.C.T. business that is in the business of developing applications, which they have done so successfully that they now have dedicated to them 2 senior executives from Apple in Cupertino to help them develop. Now, that is a Jersey-based company.

The Deputy of St. Martin:

I would like to come back to the fund of last resort in the future, but could I ask in this specific case why that particular company would need to access this if this is a fund of last resort?

Chief Executive Officer:

That is a question that the fund would have to ask, but what I was putting forward to you is that this is the type of business, which is a non-financial services sector business. It is in the I.C.T. sector. It is a relatively young, early stage start-up. We do not have all of the details, they just came to us, and they have been to see Digital Jersey as well, and I thought this was a good example of a business, should it fit all the other elements of the eligibility criteria, that we would support, making the point to you that it is not a financial services sector business, but it has the potential to have the sort of productivity levels that are above the average that we see across the whole economy.

The Connétable of St. Brelade:

I can understand how an I.C.T. company would certainly qualify in terms of providing employees over the £65,000 range, but I just want to come back to a comment that was made. Just directly related to the £65,000 there was a comment made: "The aim of the fund is to support innovation and it will be available to support a wide [and it does say 'wide'] range of activity and direct business support with significant infrastructure investments in the private, public and third sectors." In relation to public and private sectors, where do you see that level of jobs or jobs of that nature coming from, because I can understand in the I.C.T. industry and digital industry that the opportunity for high net worth jobs is fairly obvious, but in terms of the other 2 sectors, public and the third sector, where do you see them coming from?

Chief Executive Officer:

If I had a crystal ball to tell you where I saw them coming from, I cannot tell you today - I think we cannot tell you today, not I cannot tell you today - where those would come from. The reason that the eligibility includes the public sector, the third sector is that it is not the intention to rule out any potential opportunity at day one. I do not know if anybody could tell you that the private sector or the third sector ... and I think an example that we used in a previous hearing - I am not sure if it was with the Minister for Treasury or the Minister for Economic Development - was the one of the forts and fortifications that are operated by Jersey Heritage, which is a highly profitable entity within Jersey Heritage's overall operation. That has the ability to be ... if you ring-fence that entity, it is a very profitable proposal.

The Connétable of St. Brelade:

I think the point is that aiming at the £65,000 high worth ...

Chief Executive Officer:

Potential for, yes.

The Connétable of St. Brelade:

Potential for. For me, or I think for the panel, it is potentially ruling out a large part of the market, but which you say it should have a wide range of activity. I am failing to understand where the 2 connect.

Chief Executive Officer:

I think you are being quite derogatory to what some of the sectors in the economy ...

The Connétable of St. Brelade:

But in producing employees that earn over the £65,000 ...

Chief Executive Officer:

No, they do not earn over £65,000. Their productivity, their per capita G.V.A., which is a combination of profit plus wages, is over the average. There is no reason why a business in the rural economy, tourism, any other sectors, cannot develop in such a way that it has that level of productivity. Our objective is to support the broadest range of sectors possible.

The Connétable of St. Brelade:

But as Stuart said, the figures suggest otherwise. Well, they do.

Chief Executive Officer:

Sorry, they do not, because you are confusing, with respect, the issue of the statistics as presented, which are averaged by sector and then averaged across the economy, with what an individual business is able to do. I do not know and you do not know what the spread of profitability and productivity in each of those sectors is. I can tell you what the average across the economy is, because that is what the statistics deliver.

The Deputy of St. Martin:

We mentioned the development of the castles and forts around and turning them into tourist attractions, but the application form also says that the applicant has to be a high-growth business. Surely that would not qualify, because a high-growth business by definition has to double its revenue and its employment within 4 years and employ at least 10 fulltime equivalent staff by the end of the fourth year.

Chief Executive Officer:

I am not necessarily saying that the forts and fortifications fits that criteria, but what I am saying is that the ... and I am not sure whether it does or whether it does not across all those criteria, but the revenue growth from forts and fortifications where there was an investment went from zero to a very, very significant number, because not only is the occupancy rate very high on those facilities but the yield is also very high as well, and it has provided employment because all of those facilities require servicing, cleaning et cetera, which has provided jobs for local people. It is an innovative idea, to take an element of Jersey's heritage and convert it into something which is aligned with current U.K. demand from the visitor economy.

The Deputy of St. Martin:

Please do not for one minute think that we do not think that is a good idea as well. What we are saying is we have an application form in front of us which gives us great difficulty in finding where we identify the businesses which we use for examples, how they would fit in here, because the ...

Chief Executive Officer:

That would have to be assessed against their application.

The Deputy of St. Martin:

We have the assessment here. It says: "The applicant is a high-growth business" and otherwise they will not get a grant, and then in the policy document, it quite clearly says what a high-growth business is, and in the case of the castles: "Employ 10 fulltime equivalent staff within 4 years." Do you think that they would show that there is an additional 10 staff after 4 years?

Chief Executive Officer:

I do not know whether that particular entity has done that, but what I do know is that the level of employment associated with the forts and fortifications is certainly not zero and it is certainly quite significantly higher than ... well, it is not zero, because they were not there before. That investment caused something to happen - which came from the Tourism Development Fund in this instance - that would not have happened, because Jersey Heritage did not have the financial wherewithal to make that investment. It has proven a number of things. Firstly, it is that it has generated significant additional revenue for Jersey Heritage, which has reduced the burden that Jersey Heritage places on the general taxation rule, and has also created a product which has made the Island far more attractive and bolstered our tourism sector, and in doing so, has provided employment to service that.

The Deputy of St. Martin:

So we are in agreement then that the application form is far too stringent and needs changing, given that we have already identified a problem with a number of items, the minimum, the maximum, whether it is a high-growth business and there are a few others as well. Are we not setting ourselves up here with an application form which is basically going to rule out a large number of the businesses which we feel and other people, stakeholders, feel should be eligible to take this on?

Chief Executive Officer:

I think there is a difference between amending an application form which is in draft and would be finalised by the board and the issue of whether or not an innovation fund with £5 million in it should support lower-value, lower-productivity businesses that get sufficient amounts of support from the public sector in other ways. Those are 2 completely different things. The application form itself is of course subject to review.

The Deputy of St. Martin:

I know the problem we have, Chief Officer, is that we have an application form that has been given to us and it does not say "draft" anywhere. It says: "This is the application form" and we are moving forward and doing our review on its basis and finding it difficult to square the circle.

Chief Executive Officer:

It will be subject to review by the board, because it is the board that will oversee the process through which applications are received.

The Deputy of St. Martin:

With respect, I would suggest that it would not be subject to review by the board, because it would not get as far as the board, because the criteria would not be fulfilled that is in the application form. The person reviewing the application would look at the application and say: "Are you a high-growth business? Are you going to create significant added value over £65,000 per employee?" and if the answer is no to either of those 2 questions, notwithstanding a whole list of requirements here, the answer is: "No. Please go away and come back when you do."

The Minister for Economic Development:

Yes, but I think the point that was being made is that the board themselves would reappraise the draft application form to see if the terms in it are consistent with the objectives that are laid out. Now, if there are inconsistencies, as you have identified as you see them, then indeed the board may arrive at a similar position and review the criteria based within the application form.

The Deputy of St. Martin:

So we have a report and proposition coming to the Assembly which does not mention money, we have an application form which we now expect the board to review if they ever get established. It is not particularly certain as to where we are going here.

The Minister for Economic Development:

The board will be established if the proposition goes through, clearly.

Chief Executive Officer:

The intent of the Innovation Fund is absolutely clear, and that is to support innovative business. That is defined in the report and proposition. What it is not - I think it was a phrase possibly used by the Minister for Treasury - is a self-service buffet for companies to come along and gain States funding, particularly from taxpayers' money, particularly when there are other avenues open to them to obtain support. So yes, I do not think we make any apologies for this being a very targeted fund, targeted at delivering high-value, high-productivity businesses. If there is a business in the tourism sector, there is the Tourism Development Fund; if there is a business in the rural economy sector, any business, there is the Rural Initiatives Scheme and others, both of which are funded on a recurring basis from the department. So we are not setting this out to be elitist, but in economic terms, we are looking to support businesses which have the potential for high growth, and in doing so, we are certainly not out of line with all - or the majority of - the other jurisdictions, both small and large, that we have researched and that certainly we are aware of are doing.

The Deputy of St. Martin:

Do you not feel that ...

The Connétable of St. Brelade:

In terms of what the Chairman just said regarding the application form, is it not important that Members, when they are considering this proposition, know exactly where the goalposts are and that the goalposts are not moved by the board further down the line? I think for me it would be important to know what the criteria were before people are entering into or asking for ... or putting an application into this and understanding what that process is. I can understand what you are saying, but from the point of view of the Members, I think they would like to know exactly where the goalposts are prior to ...

The Minister for Economic Development:

I think it is a valid point. Having said that, I think equally that one has to appreciate that as time goes by and circumstances, economic circumstances and what have you, change, it may well be appropriate, just understandably, that in the future the board do consider a change to the criteria as to meet objectives. However, if there is that much confusion caused by the application as it sits at the moment, then that is something that perhaps we do need to look at.

The Connétable of St. Brelade:

We do not want to tie the hands of the board, but I think that is what you are saying, but I think there does need to be some clarification.

Chief Executive Officer:

Could I make the point, and I do not know if I am reading this correctly - and if I am not, please tell me - but I think the sections that you are referring to on loans, eligibility policies: "The application should only be eligible for a loan facility if it is ... the requested loan facility is greater than £20,000."

[12:30]

I think what we have referred to previously, and I think this is what you say, Connétable, was I think I probably referred to somebody coming out of Hautlieu or other schools who had taken advantage of some of our extra-curricular programming activity and had come up with an idea and needed some money to move that on. I think what I said then, if I remember correctly - and I cannot remember the transcript fully - is that that is the sort of thing that would probably be eligible for a grant, not a loan. I think what this talks about is a loan. There is no page numbering, but if you look under: "Loans, eligibility policies" in the document, under 111.2 and 111.3 it talks about

loans and the minimum loan being £20,000 and the maximum loan being £500,000. I think below £20,000 was the sort of level that may be dependent on the business opportunity. We may consider that to be more applicable to a grant. I think the example of the £3,000 I gave - and I apologise if I am misquoting myself - but I think ...

The Connétable of St. Brelade:

I think the Minister has gone over that and what he is saying is he is not ruling out a loan under that.

The Minister for Economic Development:

No, no, absolutely.

The Connétable of St. Brelade:

I think that is an important point to make, is that I can see if it is only going to be £500 or £1,000, it probably would be easier to do it as a grant, and I understand that, but if it falls in between the 2, £15,000, whatever, it could be the possibility that there is a loan available.

The Minister for Economic Development:

It is not impossible. You see, although grants form part of the proposition, I think we have made the point before that we do not envisage that there are going to be very many grants at all.

The Connétable of St. Brelade:

No. Well, you did say exceptional circumstances.

The Minister for Economic Development:

Yes, exactly.

The Deputy of St. Martin:

Certainly on the application form I am looking at here, I think you have got to go 5 pages in before you find the words "loan" or "grant". It is a project. It is referred to as "the project" all the way through.

Chief Executive Officer:

I think we also make it clear that it would be for the board to recommend to the Minister whether or not the most applicable way of vehicles is indeed a grant or a loan and what the conditions precedent to that loan would be.

The Deputy of St. Martin:

Yes. The point that we would make is that the application form, as we have been given it, would preclude many of the applications from getting anywhere near the board, because they just would not fulfil the basic criteria before you even get into detail. If I go further than that, Minister, and go back to the report and proposition, the problem that we have is that we want to encourage innovation and we want to grow the economy, and in the report it says: "The aim of the fund will be available to a wide range of activity in the private, public and third sectors." I would put it to you that how likely is it that the third sector are going to come with a proposition which has a benefit to the economy for each employee of over £65,000? Maybe you do not have to answer, but in my view, the criteria that is set out in the application form makes it very unlikely that the public and third sector would get involved. As such, we are creating an aura in the Assembly with the report and proposition which is: "This is an innovation fund available to a wide range of activity throughout the economy" and we intimate that there will not be restrictions on very many things at all, and yet when we look at the application form, the criteria are quite tight. If we could move on to another prerequisite ...

The Minister for Economic Development:

Just to comment on that very briefly, I think that is right in many respects. First of all, we made it plain at the beginning that the idea is that this would be broad-based across economic sectors and so on and you have just listed third and voluntary and so on. It is probably unlikely that many would qualify and it is right that the bar is relatively high when you look at the underlying core objectives of the Innovation Fund, but it is also equally right that they should be included, because it is not impossible.

The Deputy of St. Martin:

If I could move to another part of the application, and I make no apologies really if we keep coming back to it, because there is a long, long list of requirements and hoops that people have to jump through in order to qualify, and another one is the fact that ... where are we, about limited companies: "A business has to be incorporated under the Companies (Jersey) Law 1991." Do I read into that that a limited liability partnership would not qualify? Or could I put it in a different way: is it your intention that limited liability partnerships should qualify for this scheme?

The Minister for Economic Development:

There is no good reason that they should not be able to.

The Deputy of St. Martin:

So we are not clear then whether a business incorporated under ... or whether a limited liability partnership is a business incorporated under the Companies (Jersey) Law, because it intimates that we are talking about normal companies and not limited liability partnerships.

The Minister for Economic Development:

Either structure or other appropriate structures would potentially qualify, so that covers that point.

Chief Executive Officer:

A Jersey company can be a limited liability partnership. In fact, many of the law firms are, certainly, and more and more will be so now we have changed the LLP legislation to remove the requirement for a £5 million bond.

The Deputy of St. Martin:

So there is no question there is going to be any difference between just the normal, our limited liability partnerships; everybody should be eligible?

The Minister for Economic Development:

Correct.

The Deputy of St. Martin:

Okay. We have covered that. If we could go to due diligence, there is some discussion that needs to be had, I think, about the level of due diligence. We just wondered whether there is a case for different levels of due diligence throughout the size of the application and we note obviously in the ... we referred to earlier the application form, your internal form that you use for loans inside, which was less than £25,000 or greater than £25,000. We do not know what the minimum for the Innovation Fund is going to be, but it would appear that if it was £20,000, there might be a smaller section between £20,000 and £25,000 where certain criteria would fit. But the question would be if, for example, a loan came in at £50,000 and another application for a loan of £150,000, do you see the level of due diligence on those 2 being different? In other words, would you see a stepped due diligence, depending on the size of the application?

The Minister for Economic Development:

I think the principle of due diligence applies to whatever the amount that is being requested. Clearly if there is greater complexity which is likely with a bigger application, then by necessity that is going to have a certain degree of additional work involved.

The Connétable of St. Brelade:

Could you explain the levels of due diligence and how you see it working through the process from the start all the way through to you approving it?

The Minister for Economic Development:

Well, it depends on the application, does it not?

The Connétable of St. Brelade:

An application that is going to go all the way through to ...

Chief Executive Officer:

I think the process diagram on the back to some extent indicates that in outline form, and what the report and proposition says is that there will be 2 forms of due diligence or 2 forms of analysis undertaken. One is an economic impact analysis, which will be undertaken by the Economic Advisors Unit, which looks at broader impacts rather than purely commercial returns. I think we have addressed the issue that one of the reasons that a fund such as this is put in place is because financial institutions do not tend to look at impacts outside the broad commercial returns. The second level of analysis and due diligence is on the commercial proposition that is put forward to us, which has to be related in great part on the nature of the business plan presented to us, bona fides of the individuals who are presenting that, and we would see that as being done, as I think you said previously, independently. Both of those 2 things are then brought together and will inform the board's deliberations and the final decision to be made by the Minister.

The Deputy of St. Martin:

So to be clear, all the due diligence is done at executive level before it goes to the board, so there is no question of any further diligence needed after the application ...

Chief Executive Officer:

The board process, I think what typically happens in situations like this is that the board process of approval or recommending to the Minister, in this case for approval, can be an iterative process. Due diligence and analysis will be provided both by the economic advisor and by specialist advice, which will come from outside the department, I think as we said to you previously. It may be that the board sees that there is a deficit there of information that it wants. It can then go back and request further information until it is satisfied that the level of due diligence is sufficient to either approve the loan or indeed reject it.

The Deputy of St. Martin:

If you sat on the board, would you not be disappointed if you felt you needed to send it back to executive level for more information?

Chief Executive Officer:

No. Having sat on boards for the majority of my working life and looking at individual investments that are, in some instances, hundreds of times the scale of this, it is not at all unusual that when the proposal is brought and the analysis is brought, when the board members, who have experience in these matters, bring that experience to bear that they do not ask for additional information. That is not implying that there is a weakness in the organisation providing the due diligence. It is a function of the expertise and experience that those evaluating those applications have.

The Minister for Economic Development:

As I said a moment ago, the complexity of some applications are such that - and particularly in the sectors that one would envisage interest, such as technology and innovation-type businesses - it is going to require, I would suspect, specialist advice to be brought in.

The Connétable of St. Brelade:

In terms of that specialist and independent advice, where do you see that coming from? Depending obviously on what sector it is coming from and what the type of business is, but where would you see that type of expertise coming from?

Chief Executive Officer:

Again, as you quite rightly say, it depends on the nature of the application, but elements of it would come from businesses in the Island and other elements may very well come from businesses outside the Island who have direct technical or commercial expertise in that area. For instance, the big 4 accountancy firms carry expertise within both here, and if it is not here, they can access it from elsewhere to bring to bear.

The Connétable of St. Brelade:

Just thinking of a comment that was made by Jersey Business, and I will just quote. Due diligence, in their mind, consists of 4 elements: "One is the investment manager or group of people to decide whether it is a good business proposition" that is the first part of it, and then the outside expertise afterwards. You say you get it from an independent source. Is there not a role to play for Jersey Business within that at a very early stage?

Chief Executive Officer:

As Jersey Business said, we have not formalised the discussions with them yet, but I was talking to the Chairman of Jersey Business only 2 or 3 days ago. We see their role as twofold. One is that they have a role to work with businesses in the pre-application phase to provide advice, support to them to make sure that their application is as comprehensive as it needs to be, and once the process has been gone through, an evaluation process, and let us assume the grant has been awarded, then they have a very significant role in continuing to mentor those businesses to ensure that the plan which they have helped put together, which is now being funded, is brought to fruition. That is their role.

The Connétable of St. Brelade:

But could there not be a role for them to be able to play within that assessment and that help? They could also play a major part within the due diligence part.

Chief Executive Officer:

There could be, but that would make them poacher and gatekeeper. If they were involved in working with the business to develop the submission and mentoring the business after, could they really provide independent due diligence on the proposal?

The Connétable of St. Brelade:

All they are doing is checking whether the company ...

Chief Executive Officer:

But they are doing that ...

The Connétable of St. Brelade:

... yes, that the individual and the company, for example, have got a good track record and no liabilities.

Chief Executive Officer:

No, but they would what you said it could do, but the view and the discussions I had the other day with Peter Funk was about pre-application and post-award mentoring. There is a requirement for properly independent due diligence, bringing in high levels of technical and commercial expertise that is specific to that application that, to be frank, Jersey Business, good as they are, will not have.

The Deputy of St. Martin:

Taking that a step further, if I might, I accept 100 per cent your suggestion about due diligence, I think that is quite correct, that diligence needs to be done, if necessary, by a complete independent body, but you say that Jersey Business could assist with the pre-application advice. Is there a great difference between pre-application advice and making the application itself? I mean, if you are assisting somebody to come up with all the answers to fill the form in, why can you not just then fill the form in and submit it?

Chief Executive Officer:

Let me give you an example from the recent Tourism Development Fund. We broadened the eligibility of the Tourism Development Fund to the private sector. We received 27 applications, we made 8 awards, so 19 bids were rejected, okay?

[12:45]

When we looked at that, and we are re-examining the process now, one of the fundamental weaknesses was the quality of the bid that was submitted, not necessarily the underlying quality of the proposition, but it was the quality of the bid that was submitted. One of the other discussions we have with Jersey Business in the context of the T.D.F. (Tourism Development Fund) is whether or not they could work with potential applications to the T.D.F., which is a proxy for this, to make sure that the bids were of sufficient quality to allow the panel to make a positive judgment, because they have got funds to award.

The Deputy of St. Martin:

That is exactly what I was suggesting here, because what you are saying is that in the innovation stage, Jersey Business would give the pre-application advice, and are you suggesting that once Jersey Business have finished their work with the applicant that the pack would then be in a position to go straight to the board? Is that something you just ...

Chief Executive Officer:

No, no, no. The pack would then be ready to be submitted to the evaluation process, to the due diligence process. That is what I am suggesting. It is not the same thing.

The Deputy of St. Martin:

Yes, the due diligence is external anyway.

Chief Executive Officer:

Yes, okay, let us just take an I.C.T. company comes along with a proposal, works with Jersey Business, who will give them help and advice on the quality of their business plan and the quality of their proposals, may help them with some market analysis. They will submit that with the assistance of Jersey Business, so Jersey Business will have added value, because in the absence of that, that will have been a lesser quality bid, but it is still a bid which still requires from a board and governance perspective independent commercial due diligence and economic impact analysis to be undertaken on it. It is unusual for the people to do that to be the same people who are involved in the pre-application process, because they are not independent, because they do not have a vested interest, but they have been involved in evolving the proposal. That is rather like saying that Jersey Business, who do help businesses apply to one of the clearing banks for a loan, provide the bank with the due diligence that the governor of the bank makes the decision. I can assure you ...

The Deputy of St. Martin:

Sorry, I might be getting confused here, but is that not what Jersey Business is set up to do? I mean, are they not going to be administering taxpayers' money through schemes which people will walk through their door and say: "I would like to apply under this scheme. Help me fill my form in and if it is good enough, give me some money."

Chief Executive Officer:

No, no. This is the whole issue. The Innovation Fund is one part of a very broad spectrum of support that is provided by the States, not just by E.D.D. for businesses. Jersey Business itself has offered services and products to small businesses, which it does so from within the funds available to it of the grant we give them, which I think is about £600,000 and something. Yes, that is the right number. That is different to helping a business, assisting a business to provide advice to make an application to the Innovation Fund, over which Jersey Business has no governance role at all. It is there to help businesses in this instance prepare, and they will use their business advice and support expertise to do that, as they do for businesses who make applications to Barclays Bank or any of the other clearers, but Barclays Bank do not go back to them and say: "Now, guys, you have helped me. Would you do the due diligence for us?"

The Deputy of St. Martin:

No, let us take due diligence out of this altogether. You said at the outset that Jersey Business were there, they have a list of products and people can walk in and apply for money.

Chief Executive Officer:

They can, yes. The Innovation Fund is not one of them.

Chief Executive Officer:

But if the Innovation Fund was one of them, Jersey Business ...

Chief Executive Officer:

The intention is not for Jersey Business to have control over the award of funds from the Innovation Fund.

The Deputy of St. Martin:

But the board of the Innovation Fund are the ones that have ... well, the Minister is the one with the ultimate control.

Chief Executive Officer:

Absolutely.

The Deputy of St. Martin:

But you could not foresee a situation - and you go back to the Tourism Development Fund, but they are all very similar - where Jersey Business would be capable of working up the application which would be able to go to the board?

The Minister for Economic Development:

No, they can do that. They can work up the application, they just cannot determine it. They cannot do the due diligence.

The Deputy of St. Martin:

I am not suggesting that at any point Jersey Business determine anything. All I am saying is that we have set up Jersey Business with a group of people in there at a cost, and they are very expert and they know what they are doing. All I am saying is in the same way that they have helped with the development of the Tourism Development Fund, would there not be a case - and it is just expanding on what the Constable said just now - could Jersey Business not fulfil the requirement that we have in the Innovation Fund?

Chief Executive Officer:

I think if they fulfilled the due diligence requirement for the board of the Innovation Fund, they would be conflicted.

The Deputy of St. Martin:

I am not suggesting they are. I am suggesting they do ...

Chief Executive Officer:

In the model you paint, you portray, if they were the body providing the due diligence service to the Innovation Fund board, and let us just say for a moment they could be, because they could engage with third parties as well, they would be conflicted in helping businesses apply to that, because due diligence, by its very nature, has to be independent from the application process, surely. I come back to my bank example. If we help a business prepare, either directly or through Jersey Business, to make a loan application to a bank, the bank does not ask us - in fact, would not even contemplate asking us - to provide them with due diligence on the application.

The Deputy of St. Martin:

I will repeat, I am not suggesting for one minute that Jersey Business do the due diligence. We have already agreed that is going to be external. All I am saying is do we not have the expertise inside Jersey Business to work up the application form, do the initial checks? We have got people there who are experts in their field. When the applicant walks through the door, within half an hour I would expect them to be able to say to him: "No, this is not a good idea."

The Minister for Economic Development:

They can help, absolutely ...

Chief Executive Officer:

That is exactly what they will do.

The Minister for Economic Development:

... to help and assist and advise the businesses with their application and whether it has validity.

Chief Executive Officer:

The answer to your question, I think, Deputy, is that you would hope that as a result of the expertise that does exist within Jersey Business, the probability that all of the criteria and all of the requirements of the board of the Innovation Fund, which will be informed by the due diligence work undertaken, will be satisfied, so it should increase the probability that an applicant is successful. The ones that are not going to be successful, they should say: "Do not apply" and that is an important role that they will have.

The Connétable of St. Brelade:

Putting the due diligence to one side just for a minute, in terms of the initial decision about whether ... because there are some comments that have been made and one certainly from the Chamber of Commerce about: "Decision-making has to be fast and furious at an early stage" and also this is from Digital Jersey: "I think the first stage gate process is quick look and a very quick yes or no."

Do you see a role to play for Jersey Business with that, that they have that role to play in deciding? Somebody walks through the door, probably as they do now, and they can assess whether it is a good idea or not.

Chief Executive Officer:

Yes. If somebody walks through the Jersey Business door and says: "I have got this idea" what Jersey Business should say is sort of triage, for want of a better word. Firstly: "It is not a good idea and it does support not funding in any shape or form" and secondly: "It is a good idea, and this is the avenue you should go down for funding" or thirdly: "It is a good idea and you should go to the Innovation Fund and we will help you prepare the bid." So what it is doing is conditioning on a broad range of things that are coming to it and signposting the ones that are most likely to get success and should get success in terms of an innovation fund, but that is not due diligence.

The Connétable of St. Brelade:

No, no, park due diligence to one side for a minute, rather than complicating the issue. Another comment has been made about creating an awful lot of red tape. For example, if you use Jersey Business as the first port of call, even for the Innovation Fund, and allow them to be the arbiter of whether something is a ...

The Minister for Economic Development:

It is not just to allow them. They would do that as a natural function and that is exactly what they are there to do, just for business. There was another leg that Mike did not mention: there could be an application that came forward, for example, that in principle was a good idea but had certain weaknesses. What they should be doing is saying: "You need to strengthen up on X, Y and Z in order to make your application one that probably might fit the Innovation Fund."

The Connétable of St. Brelade:

But was it not the intention of E.D.D. to have that decision made in-house rather than ... I am not saying Jersey Business is in-house, but have that decision made in-house at E.D.D. by a specific member of staff, rather than ...

Chief Executive Officer:

No. What E.D.D. staff will do is provide an administrative function, end of. Not an analytical function, an administrative function. That is what we do with the T.D.F. and it is Sarah who does it, provides an administrative function.

The Minister for Economic Development:

This is an important point here, because if an application comes forward to E.D.D., for example, the appropriate thing might well be to say: "Well, look, you need to go and get appropriate advice on the application" or you might well go to Jersey Business.

The Connétable of St. Brelade:

I think that is the point. I think that is something we need to clear up, is who is going to make that initial decision, good or bad idea.

Chief Executive Officer:

First, a number of things, if I could say. There is not a requirement that a business applying to the Innovation Fund does so through Jersey Business. That is not in here. However, even this morning we had a business approach us at the E.D.D. office: "Got a great idea." They knew we were coming here today: "Got a great idea. We think this one is a ..." We said: "Right, go to Jersey Business. Call Andy Cooke." So we signposted. That is not our job. We do not - to use an adage - have a dog and bark yourself. We have created Jersey Business to do exactly that, so if anybody comes to us we will signpost them to Jersey Business, but if somebody wants to ignore the fact that Jersey Business exists, so it has not come to us or they want to ignore it and they want to submit an application to the Innovation Fund, they should be free to do so, but I would think that their probability of success, having not been advised by Jersey Business, will be lower.

The Connétable of St. Brelade:

I think that is what I want to nail down, is that obviously Jersey Business and Digital Jersey are now in the same building, for example.

Chief Executive Officer:

Yes.

The Connétable of St. Brelade:

There is an opportunity there. They have got a wide range of expertise in those 2 departments over a range of sectors. Is it not rather than come to E.D.D., apply to the Innovation Fund, it is you initially say: "If you have not been through Jersey Business, then we should not be looking at this"? I just think as a conduit ...

Chief Executive Officer:

What we have not done is make it a condition to go to Jersey Business and Digital Jersey, but a lot of this I think will be wrapped up if and when the fund is approved how it gets presented and marketed to the business community. We will make it very clear that while there is not a condition

- and I do not think you can make it a condition - we would strongly advise anybody considering applications to do so via Jersey Business and/or Digital Jersey, because that is what they are there to do. That is the function that they are there to discharge.

The Connétable of St. Brelade:

I think what Members and certainly I want - and I think other panel members want - is an understanding of who is going to provide that initial expertise as to whether something is a good idea or not, because I think as much as your staff have got good expertise and good knowledge, but somebody like Jersey Business I think probably give a wider range of expertise.

The Minister for Economic Development:

But, Steve, to be fair, that was the purpose of setting up Jersey Business and that was the purpose of setting up Digital Jersey, to have access to that sort of expertise for the business sector. But do not forget that an application may well come forward from somebody who has private sector expertise, considerable expertise in specialist fields that are able to put a very strong application forward without the need necessarily to go to either of those bodies. But they would be wise nevertheless, I would suggest, to still consult with them on the process.

Chief Executive Officer:

But what I can guarantee you, Constable - and that is not a word I use lightly these days - is that any business that approaches E.D.D. will be signposted immediately to Jersey Business and/or Digital Jersey. That is not a function that we discharge any more.

The Connétable of St. Brelade:

I think that is the important point.

Chief Executive Officer:

That is absolutely what the case will be, because it is not our role to advise businesses. It is now our role to signpost people, having created Jersey Business, to them. They are a very competent team. They have got a very competent board and they can provide that pre-application advice and what they can do is they can condition the application such that when the due diligence is undertaken, it will not find any chinks in the armour and that is ...

The Connétable of St. Brelade:

My final point there in terms of the individual member of staff that deals with the Innovation Fund, his role will be purely, as you say, administrative to make sure people are going in the right direction, make sure the function is working rather decision-making on whether something is a good or bad idea.

Chief Executive Officer:

Absolutely, and if it is helpful to you, probably in about 2 minutes Sarah could explain to you the function she fulfils for the Tourism Development Fund, which is exactly that. It is about preparing the information for the board to be able to take a view. Now, the T.D.F. board undertakes due diligence. It does that initial good/bad/indifferent triage based on the information, which is largely what is submitted by the company; well, it is submitted by the company. They undertake their due diligence by an individual member of the T.D.F. board going out to visit the applicant, because they are tourism businesses in the Island, and sitting down with them and going through their business plan and satisfying themselves and then reporting back to the board.

[13:00]

That is how that works, but Sarah is not involved in that part of the process at all.

The Deputy of St. Martin:

Sorry, I am confused now. You are telling us, Minister, that there will be a member of staff in E.D. who will be purely administration and the main body of work is going to be done by Jersey Business?

Chief Executive Officer:

No. Shall I clarify that?

The Deputy of St. Martin:

Yes, if you could, please.

Chief Executive Officer:

The administrative function that runs the Innovation Fund will be provided by E.D.D. It may not be a person. The T.D.F. is only part of Sarah's job.

The Deputy of St. Martin:

Minister, hang on ...

Chief Executive Officer:

It is not fulltime.

The Deputy of St. Martin:

This is where I am getting confused because, Chief Officer, you told us in a hearing not very long ago: "I would expect us to have signed off for one fulltime employee from E.D. staff probably at grade 12, a fairly senior level of the organisation."

Chief Executive Officer:

Yes, but that will not be everything that they do. A grade 12 person ...

The Deputy of St. Martin:

I am sorry, you did say: "I would expect us to have signed one fulltime employee."

Chief Executive Officer:

Okay, that is a fulltime employee, and this is not semantic, Deputy, that is a fulltime employee employed by E.D. That is a grade 12 person that we probably have in our existing staff complement who will discharge the administrative function to support the Innovation Fund. Now, that does not mean it takes them 24 hours a day, 5 days a week, 52 weeks a year, because the nature of the way the Innovation Fund may work, if it goes down the route of bids rather than things coming in as and when they do, means that the periods of work are in specific timeframes and they are very concentrated. This is exactly what will happen ...

The Deputy of St. Martin:

So your use of the words "fulltime employee" was not quite ...

Chief Executive Officer:

It was absolutely accurate. It is a fulltime employee of the department. What we would not do is we would not bring in somebody on a temporary basis, who is not part of our F.T.E. (fulltime equivalent) complement, to discharge this function. We will use one of our existing F.T.Es, as we do for the T.D.F., but that is not a fulltime job. I, as Chief Officer, would not be doing my job if I assigned a resource to a task and I was over-resourcing that particular task.

The Connétable of St. Brelade: Just going back to the J.I.F. (Jersey Innovation Fund) Executive and going back to the operational terms of reference, there is a list of responsibilities for the J.I.F. Executive. The first one, I think, is something you have agreed and that is receiving and co-ordinating all applications, which is very much an administrative role. Could you give me some comment on the second one because I think it is ... I will go back to due diligence because it is mentioned here.

The Deputy of St. Martin:

I was nearly going to ban to 2 words. The next person who uses the words “due diligence” will leave the room.

The Connétable of St. Brelade:

One of his responsibilities would be, as listed here, undertaking initial and appropriate levels of due diligence. Could you, again, explain then what his role is within that? Presumably you obtain that from an outside source.

Chief Executive Officer:

Obtain it from whatever is the most appropriate source to provide the level of due diligence that the board requires.

The Connétable of St. Brelade:

The third one, in terms of preparing a business case, presumably an administrative role rather than making any decision as to ...

Chief Executive Officer:

Absolutely. I am sorry I keep referring to the T.D.F. but it is probably the closest analogy that we have to this, although they are grants not loans. We can only submit to the board information from the applicant and any independent due diligence that has been undertaken. It is not our role as officers to form an opinion on whether or not the board should approve or reject. We do not do what the Planning system do. We do not say: “It is recommended for approval or rejection.” That is for the board to determine.

The Connétable of St. Brelade:

I am not going to bring the planning agreement in because I think we want to go on to that later on, but the next one down is something that I think we are all interested in, and it is providing the after care and ongoing monitoring of approved projects. Again, as we have been talking about Jersey Business, is that really a role for the J.I.F. Executive or should that be something that should go to a group such as ...

Chief Executive Officer:

If there is a misunderstanding I think we apologise. What that refers to is the fact that we will have advanced taxpayers’ money. I think I mentioned this at the last hearing. What we need to do - and it is a function discharged by both Treasury and ourselves - is to make sure that that taxpayers’ money is being expended in the way it is and the sort of returns that we are expecting we see, we are getting back. So that is collating information that the business will provide on

exactly that. Jersey Business has a very, very clear role, and we would hope - and I think this is something that Peter Funk and I discussed the other day - both in terms of the members of the staff and the board in providing ongoing mentoring support for those businesses. So those are 2 distinct things. Do you see what I mean? There is an issue of following ...

The Connétable of St. Brelade:

Looking after public funding.

Chief Executive Officer:

Exactly, which is what our role is. There is an issue of mentoring the business to see that it realises its potential, which we would see as a function of Jersey Business or Digital Jersey. We cannot insist that that is the case but, given that business mentoring from either Jersey Business or Digital Jersey is effectively free of charge, any business would be foolish, in my view, if it did not take up those services, particularly because of the quality of people that are in those organisations.

The Connétable of St. Brelade:

I do not want to lose my line of questioning but just in terms of public funding and ensuring the proper funds are spent correctly and making sure that we are looking after them, in terms of the J.I.F. Executive, where do you see this role within those individual companies? How will you monitor that? I am saying that in terms of if something is not going right and it could be 2 things; it could maybe loan repayments are not being made, but it could be that the company is making their loan repayments but the company is not functioning correctly, for example.

Chief Executive Officer:

Well, I think again there are 2 elements to this. The funding agreement, which will be compliant with Financial Direction 5.5, places a requirement on the company to report on the financial elements of the grant or the loan that has been advanced and obviously to make the payments. We have rights of audit and recovery on that.

The Connétable of St. Brelade:

Is that to Treasury?

Chief Executive Officer:

Sorry?

The Connétable of St. Brelade:

Is that to Treasury or yourself?

Chief Executive Officer:

It comes through to ourselves, but also all of these are monitored by Treasury and reported on a regular basis as well. Through the mentoring relationship with Jersey Business or Digital Jersey or others, if there was something going wrong in the business the feedback loop between them and us is very active. I mean they are literally just up the road from us and we would work on that basis because we would be aware, quite rightly, because we would be encouraging Jersey Business or Digital Jersey to play that mentoring role and we would be looking to get regular updates. Remember, the other thing I think I said at the last hearing is that, with the Innovation Fund, the expectation is that, in addition to the Treasury reporting that is already set under the Public Finance (Jersey) Law, certainly on an annual basis, would report on all of the grants awarded and not just: "This is the grant to company X and this is the amount," but on the performance of that business. That is the norm for funds of this nature. So monitoring what happens after the grant has 2 components, one is the strict financial protection of public funds and the other is the actual overall wherewithal, the success of the business. One is ours and one is Jersey Business or Digital.

The Connétable of St. Brelade:

I know the figures mentioned are 4 or 5 applications a year that run, but is there enough capacity within the J.I.F. Executive to ensure that we are monitoring the funds in the right way because it ...

Chief Executive Officer:

Well, there certainly is not any slack in our team as has been implied.

The Connétable of St. Brelade:

Well, you would not say there was, would you?

Chief Executive Officer:

No, but I think we have a track record of reducing the number of people within E.D.D. on annual basis year on year. I think, as I said to you the last time, our intention is to make sure we can do what we do with the minimum not the maximum number of people. So there is no slack in the system, but we have to undertake a prioritisation of activity. This is a very important function for us to discharge. The Innovation Fund we see as a very important component of the spectre of support and we will make the resources appropriate from within the existing staff complement. As a result of that there will undoubtedly be things that we would like to do that we probably will not do.

The Deputy of St. Martin:

Well, that was my question. Where do you see cuts being made then and what ...

Chief Executive Officer:

I am not saying that cuts will be made but there are things that sometimes will ... as I said this is not a fulltime job for somebody, necessarily. It may very well turn out to be a fulltime job and, if that is the case, we would have to reappraise this, what I am about to say, but there maybe things that we are advancing and we advance across a very, very broad front, as I think you know, and there are some things that we would like to do that maybe we do not do. I cannot tell you exactly what those things are right now, but there are areas of policy development that are not time critical, but this sort of work is time critical and therefore would have a higher priority.

The Connétable of St. Brelade:

Could I just finish on one point? Just to equate to private investment, for example, if it was a private equity or a private investment investing in a company there might be an opportunity or they might even insist on being part of the board or part of that company. That is not something you see the J.I.F. Executive getting involved in, just to protect the interest?

Chief Executive Officer:

No, absolutely not. I think that if we ever move to a position where we do take equity investment then it would not be unusual for us to have a nominee on the board. Personally - and the Minister may contradict me I am sure - I would not expect that to be a member of my E.D.D. team. I, perhaps, would expect it to be a member of either the Jersey Business Board or indeed the Digital Jersey Board who could bring relevant expertise to that board, but we do not want somebody there just as an interested observer. There is no point.

The Connétable of St. Brelade:

No, but it would be somebody from a public body that had some expertise within that.

Chief Executive Officer:

Yes. Well, it is interesting. A publicly-funded body, which is certainly different to a public body; somebody who is drawn from the private sector with relevant expertise.

The Deputy of St. Martin:

We need to move on because we are hardly off page one of 8 and we only have three-quarters of an hour left. We mentioned the word "equity", Minister, and, in case we do not get to it, I am just going to ask a couple of very quick questions about equity. We know that 6 months down the road it is coming and there is going to be legal drafting and stuff like that, but do you have any idea in your mind how much of the funds available are directed in an equity direction and how much will be directed in loans and grants direction once we are up and running properly? Do you have any concept of what the breakdown might be?

The Minister for Economic Development:

It is very difficult to say. I think I have stated already that, as far as I am concerned, grants would be *in extremis*. I do see very little scope for grants. Obviously, as we start loans will be the only other option as we are currently structured. I think an interesting option would be, when structuring with a loan, the ability to convert to equity in the future should be part of that loan agreement. As far as the breakdown, if indeed we are successful in the future of getting equity as part of the remit of the fund, it is difficult to give you an actual balance as to what would be loans and what would be equity. I think, again, it would depend very much on the opportunities that are presented.

The Deputy of St. Martin:

Would you see the equity requirement within the Innovation Fund as being an absolute requirement? In other words, if we start the Innovation Fund with loans and grants and we get to the equity stage and find that we cannot make it work, does that then render the fund not really doing what you want or would you be happy to move forward *ad infinitum* with loans and grants without equity?

The Minister for Economic Development:

I would be very disappointed if we did not have the capability in the future of converting to equity participation. I mean we can see from examples elsewhere in the world the advantage of equity. I think I have used, publicly, the comment that I see it as critical in the future if we are going to optimise the true value of this particular fund and also be able to ensure that it has the potential for self-replenishing in the future. I know we discussed at the first hearing the issue about self-replenishing.

The Deputy of St. Martin:

There are a number of reservations about the self-replenishing of this fund and it is very difficult to see without equity how that might work.

The Minister for Economic Development:

Exactly, that is why I use the word "critical".

The Deputy of St. Martin:

The reason I asked the question is that we are asking the Assembly to approve a fund where we agree that equity is going to be vitally important and yet we have no detail at all. We do not even have any rough drawings as how it might work. You know, whether there are going to be parameters for valuing companies because that is going to be a hugely important thing if we get to equity. Where is the direct and very specific criterion for how we value a company?

The Minister for Economic Development:

Well, it is quite interesting because as we move forward with this I think one of the areas that I would be seeking to ask the advice of the board on would be about the potential. We have been talking a lot this morning about the Executive function and indeed around due diligence and areas like that, which I know the Connétable is particularly rightly interested in.

[13:15]

I think if we move to the equity involvement element, I would be asking the board to consider that in light of whether indeed we outsource the Executive function to a professional, perhaps a venture capital organisation of which there are quite a number, to fulfil that particular role. I think that would be, probably, an important consideration to give.

The Connétable of St. Brelade:

Do you think it might not be more important, certainly at this time, to inform the Members, when this comes up for debate, a little bit more about how the equity side of it will work and how you see the basis for that? I mean both Jersey Business and Digital Jersey both virtually said the same thing. I will just quote Digital Jersey: "I think the real returns of the funds will come when you have the equity structure." So it is obviously very important and it obviously will be a major part of any self-replenishing of the fund. Will you be offering any further comment or any further ideas as to how that will function or how you see that functioning?

Chief Executive Officer:

It is worth saying, Minister, that I think the intention is that we will undertake a series of States Members' briefings immediately prior to the debate and we would address that point then, but in the report that accompanies the proposition, in the section that looks at alternative models that have been deployed elsewhere, this is one of 3 and the other 2 really do cover exactly the type of thing the Minister has just referred to; where, essentially, you externalise that equity investment function to a third party where that is what they do; that is their day job. Interestingly that is something that the Israeli Government, who we also cite in there, do on a ... it is very common within Israel, Iraq and so on.

The Connétable of St. Brelade:

Would it be a fair comment to say that under the loan and grants system it is highly unlikely that this fund will be self-replenishing or certainly short to medium term it is highly unlikely?

Chief Executive Officer:

Not to the extent that it would be with an equity fund that had a series of successful exits; yes, that is true. But I think one of the other things that we mention that could be a potential component of a loan agreement for a loan are royalties associated with success, so you do capture some financial feedback from the success case in the form of royalties, but that would not be of the same magnitude, you are quite right, Constable, of a successful equity at 20, 30 or 40 times the level of investment, which is not uncommon.

The Deputy of St. Martin:

You mentioned equity being undertaken by an external body, but is it not correct that in Israel and Ireland the whole Innovation Fund would be undertaken by an external body where the minister would grant the £5 million to an outside organisation that would be completely ...

Chief Executive Officer:

The Irish model is quite interesting - I think we do cite this - where they have taken, I think, €125 million, which is a little bit more than we have, and have said to the venture capital community or private equity community: "If you match that with €125 million you could administer the €250 million fund, but it has to be administered with the criteria that we define." So, yes, that is what they do. That is an alternative model.

The Minister for Economic Development:

That is quite an interesting model when you consider the amount that we do have available. As the Chief Executive has said we have a fund of £5 million - I nearly said £10 million, hopefully it is going to be a £10 million fund - but the opportunity to leverage that amount by the exact model described is a very interesting opportunity in my view.

The Connétable of St. Brelade:

Is there a risk? That is something that I asked Digital Jersey. We were wondering when they would be up and running and when they would possibly have businesses that will be coming to the Innovation Fund for possible funding. £5 million is a lot of money. I do not have the comment quite here, but I think Jersey Business said they could give that money away tomorrow if they had an opportunity because they have so many people looking for it. That is a risk that, by the time some of the digital companies and some of the digital ideas come, the money could be eaten away and I bring up the other £5 million. I presume that is where you see, in future, the other possible £5 million feeding in at some stage.

The Minister for Economic Development:

Yes. I mean this was originally billed as a £10 million Innovation Fund. We have already agreed £5 million and the Minister for Treasury and Resources is working to identify the further £5 million, which he is hoping to be successful on. But, again, even £10 million is, although a large sum of money in the context of Jersey in some respects, in the greater scheme of things, when looking at funds of this nature, is quite small. So we do need to look at opportunities for leveraging it.

The Connétable of St. Brelade:

I do not think that it is a question that we had really thought of. Could it be tied and matched with private investment as well? Is that something that you ...

Chief Executive Officer:

That is one of the models, I think, that we have outlined in the report. Coming back to your earlier question about the percentage of equity, if we want this thing to be generally self-sustaining the percentage of equity investments would be very high, but if that were the case that probably leads you towards having the type of model the Irish have deployed where they do match those funds with external funds and it is managed externally, because that is where the genuine investment expertise is and this is not just in the area of pre-award evaluation. It is the amount of effort you need to put in place to follow the investment, membership of the board, et cetera, and so it is a different type of model.

The Connétable of St. Brelade:

Well, that is what leads into the area of the fund of last resort, which I have got to say all the stakeholders that we went to hated the sound of and hated the words. But you could see it, rather than being a fund of last resort, if a company was to come to you that was partly funded privately, obviously if a private investor or bank has got involved, it must be a good idea. Would you play a part in that if they came to you and said: "I cannot get off the ground; I have some of the money but I do not have all the money," or is it purely a fund of last resort?

The Minister for Economic Development:

I do not like the phrase ...

Chief Executive Officer:

It is still a fund of last resort, is it not? The phrase is not a great phrase, I will give you that, which is what I think people are railing against. Think of the other end of the spectrum. If a company comes to us and they have a very robust balance sheet, very good cash reserves, and they come along to the Innovation Fund and say: "We have this great idea; can we have some money?" The obvious question has got to be: "Well, why?" Almost, if you go to the other end of the spectrum,

the people who will come to us is probably because (a) they have not been able to raise the amount of money either privately, or (b) if they have gone into the banking system, they do not have the collateral so to do. So maybe fund of last resort, which is sort of common parlance for the way the public sector does fund, makes it sound a bit more draconian than it is but what it is really about is making ... You know if Apple, taking a very extreme example, came and knocked on our door and said: "We would like £500,000 to develop something," we would say: "Well, why do you need that? You have £150 billion in the bank."

The Connétable of St. Brelade:

But if it was a new business that did have part funding but did not have full funding, it is possible?

Chief Executive Officer:

Yes, absolutely. If they came to us and they had got partial funding but they could not secure the rest of it - it was a great idea that had great potential but they did not have the collateral to secure the rest - that would meet the criteria.

The Minister for Economic Development:

But it also might, equally, be something that has value to invest in, in its own right and in its own merits, and that is not a fund of last resort necessarily, but it may well add economic value more broadly to the local economy in terms of jobs and wealth creation and so on and a return to the fund.

The Deputy of St. Martin:

So are we agreed, then, that the words "fund of last resort" were badly chosen and maybe we should do something about them because it does seem difficult, Minister, to accept that if it genuinely is a fund of last resort and it has exhausted the bank and it has exhausted private wealth and it turns up at our doorstep - and a number of people have said the same thing to us - you have to question whether it is worth backing at all.

Chief Executive Officer:

This is where they are completely wrong. There was a business this weekend in the *Sunday Times* that was started because a father lent his son - he was in his thirties when he started business - £500 because he did not have the wherewithal to go and get that from anywhere else. He had a brilliant idea, which has turned into a brilliant idea. I think he eventually sold it to Yahoo for £30 million or £40 million or something like that. He had a brilliant idea but he did not have ability to raise the capital, regardless of where he went.

The Deputy of St. Martin:

But he would not get the capital from us either, Chief Officer, because if it was only £500 he is still £19,500 short.

Chief Executive Officer:

Yes, 3015, Chairman, but no. The point I am trying to make, I suppose, is that it is about the quality of the proposal. There is nothing wrong with being the funder of last resort and it does not mean that what you are looking at ... I think the word that has been used is "dross". Well, that is not the case. There are a lot of people with a lot of very, very bright ideas who for reasons, some of which are through no fault of their own, do not have the ability to raise funds. There is effectively a market failure.

The Deputy of St. Martin:

But you would have to accept in Jersey we are even in a more privileged position because not only do we have the banks but we have a considerable amount of private wealth with accountants and lawyers, access to it, and people who have the ... There is a lot of private money that is looking for a home at the moment.

Chief Executive Officer:

There is, absolutely, at "healthy interest rates".

The Deputy of St. Martin:

We have got this fund of last resort and it does say quite clearly in the policy framework, in bold letters: "For the avoidance of any doubt the Fund will not compete or replace private sector funding," and I accept your point that match funding ... How you define match funding is one thing, but I would like to stress that everybody we have spoken to saw match funding as a really good way forward. It doubles our money. It gets us involved with third parties who will also have an involvement and people thought it would be very attractive for third parties to get involved with Government in schemes, but we keep coming back to this fund of last resort which seems, above all, to say, "Well, no, we cannot do that because it is not the last resort."

Chief Executive Officer:

If I am a private individual and I want to invest in a business and I can get Government to stump up half the money, I have halved my risk. But is that what we are seeking to do? Are we seeking to compete with the private sector and advantage them in that way or are we seeking to fund the things that may be very, very good quality opportunities but have not been able to secure that funding?

The Connétable of St. Brelade:

Can I just clarify that because it comes down to the policy framework document. I will just rephrase that: “For the avoidance of doubt the Fund will not compete or replace private sector funding ... only to be used after all other sources of funding and security have been fully utilised and to invest in innovative projects.” The question is, does that rule out match funding or you are quite happy for that ...

Chief Executive Officer:

No, it does not rule it out. It depends what you mean by match funding. Does it rule out a mix of private and public sector funding?

The Connétable of St. Brelade:

Yes.

Chief Executive Officer:

No, it does not.

The Deputy of St. Martin:

Should it not say that, though?

Chief Executive Officer:

That is what it does say. Perhaps I think the use of the term “fund of last resort”, which is something that is common parlance in terms of the way the public sector supports ventures in the private sector, is being misinterpreted and I can understand why it sounds far too draconian in this context.

The Connétable of St. Brelade:

Maybe some clarification as to that probably would ...

Chief Executive Officer:

Absolutely.

The Connétable of St. Brelade:

Again, from that, which I think is great, it will potentially ... because match funding should reduce the risk and provide leverage and again it would be a better position than being in a fund of last resort in many regards because it would give the public some protection to some degree.

Chief Executive Officer:

Yes. I think from a match funding perspective the best way of putting it, rather than a fund of last resort, is if we are the last one in that complements funding that is coming from elsewhere, that is a tick box. That is good.

The Connétable of St. Brelade:

Just going on because I think Members will probably look at this and say, and I am not going to use the word “dross”: “If it has been through the bank process and it has been through the private equity process, why should we even be considering it?” I think the answer we have had back, certainly from Jersey Business is that a lot of this is because companies have not got collateral. The banks have tightened up their procedures. So you see that very much as what this fund is about?

Chief Executive Officer:

Yes. I was interested, when I read the transcript from the chairman present in Chamber, who said that the banks are still lending. Well, he may be using his own experience. Now, he has a very nice robust business which he wishes to expand and I am sure the banks, on the back of the strength of the company and the revenue and the profitability, are happy so to do. But there are other people, particularly in early stage, who simply do not have that and they are having significant issues. We get this back all the time about access to finance and, it may have been Andy or Peter from Jersey Business, if he wanted to put all that money under the door tomorrow, not just in these sort things, he probably could because there is a real issue in terms of businesses even being able to get cash flow facilities these days let alone debt.

The Deputy of St. Martin:

While we are talking about equity and while you are disdaining the fund, maybe we should just touch on royalties in case we do not get there. We understand, Minister, that you have the law draftsmen working on some royalty issues for you. Could you just outline that for us please?

[13:30]

The Minister for Economic Development:

I do not know that I have the detail. Do you?

Director, Enterprise and Business Development:

I do not know that we are in a position to discuss getting the fund up and running, but we are looking at the actual wordings of the agreements. I personally have not been involved in it.

Shaun, who unfortunately cannot be with us today, has been dealing with that, but he has had some initial briefings with the Law Officers about how we can word those royalty agreements.

The Deputy of St. Martin:

Okay. Is there any other work that he is asking the law draftsman to get on with on at the moment or is it just purely the royalty stuff?

Director, Enterprise and Business Development:

Just the royalties at this stage. Just the royalties that are attached to both the loans and the grants., so it does not relate strictly to the equity, I would not have though.

The Deputy of St. Martin:

Have the Law Officers given us any indication as to how long they are going to take to do this work?

Director, Enterprise and Business Development:

I personally have not got any indication, Chair.

The Deputy of St. Martin:

Maybe we could ask for any emails or ...

Director, Enterprise and Business Development:

Can I clarify that and get it back to you?

The Deputy of St. Martin:

Could you just pass the emails that you have had and any other feedback? That would be useful.

The Connétable of St. Brelade:

I mean we have not been into costings. I think it is something the Chairman will go into fairly soon, but, in terms of the cost of the Law Officers or if they are too busy and it has to be outsourced, has there been any allocation made as to the costings for that, as to the overall cost of the fund?

The Minister for Economic Development:

Well, there is no costing with regard to the Law Officers.

The Connétable of St. Brelade:

In-house I mean. We were going to on to that, I think, within E.D.D. You have given us a figure of £100,000, which is for outside resourcing, but, in terms of internal, I think we are quite interested in

knowing what the overall cost would be including officers of E.D.D. I know you have got them in-house, but I think it maybe something that we can explore now maybe. Have you got a figure of what you think that cost might be?

The Minister for Economic Development:

From the Law Officers Department?

The Connétable of St. Brelade:

Well, from the Law Officers' point of view, from officers within E.D.D - obviously you have got your J.I.F. Executive for example - the board itself, all of those issues. What cost will that be as a whole against what the size of the fund is?

The Minister for Economic Development:

Yes. I mean it is not broken down and obviously Ministers and departments use the Law Officers Department and no cost is allocated to that.

The Deputy of St. Martin:

If you went to a private law firm to have that work done do you have any idea what it would cost?

The Minister for Economic Development:

Well, you would get a quote for a piece of work to be done.

Chief Executive Officer:

What work is this, sorry?

The Deputy of St. Martin:

We talked about royalties and we are talking about the royalty agreement and the Law Officers Department and, if that work was done by an outside law firm, where the money would come from.

Chief Executive Officer:

In terms of quantifying that sum, have we been over to one of the private law firms to try and quantify what that sum would be? No we have not, but that cost would be borne by the fund.

The Minister for Economic Development:

By the fund.

Chief Executive Officer:

That is not atypical.

The Connétable of St. Brelade:

We just started to get on to costings. In terms of a figure, we have a figure of £100,000 for our side.

Chief Executive Officer:

Due diligence. Yes, that is right.

The Connétable of St. Brelade:

Now, I know you said a lot of the work will be done in-house, within E.D.D. itself. Have you got an idea of the cost of that within the department? I know it has been ...

Chief Executive Officer:

The administrative cost?

The Connétable of St. Brelade:

Yes.

Chief Executive Officer:

Notwithstanding my comments earlier, but if it took one full-time F.T.E. at grade 12 then we are talking about something in the high £40,000s to £50,000. That is the full cost of salary plus overhead.

The Connétable of St. Brelade:

Again, I know that they are all separate departments and separate issues and obviously Jersey Business, the board itself, and all those issues.

Chief Executive Officer:

Yes.

The Connétable of St. Brelade:

I know it is a very difficult thing to quantify but, in terms of the fund itself, which is £5 million, what would be the overall cost of running this?

Chief Executive Officer:

There are 2 things. Will certain things be provided by bodies that are fully funded so to do, like Jersey Business, Digital Jersey, et cetera? Yes. In their business plans have they got specific quantification of what that will be? No, they have not. From an administrative perspective, if it were to be one full-time F.T.E. which would not be charged to the fund, I think I have given you an

indication of roughly what that cost would be but I would expect it not to be one full-time F.T.E. in total. We have not got the cost of legal work to prepare a loan arrangement of that nature, but if you look at all of the work that was done, for instance, to set up the governance structure of Digital Jersey and the governance structure of Jersey Business it was certainly somewhere between £5,000 and £10,000. It was not hundreds of thousands of pounds.

The Connétable of St. Brelade:

I think it is an important point. I have just been to the Falkland's and I have just had independence and the benefits and burdens shoved down my throat for the best part of 3 days. It is obviously looking for the benefits of this fund and what potentially the payback could be and it is not just about money. It is jobs and all the things that go with it, but I think Members will want to know what the underlying cost of this could be. Is there something that you could explore between now and the debate in terms of ...

Chief Executive Officer:

Well, we could certainly get a model quote from either in-house legal or indeed independent legal.

The Connétable of St. Brelade:

Jersey Business and people like that.

Chief Executive Officer:

Jersey Business, yes. Interestingly, the function that we have talked about Jersey Business fulfilling, pre-application and mentoring, that is what they are funded to fulfil. The issue for Jersey Business is how much of that time that they have, their executive team time or their board time, will be allocated to businesses that are supported from the innovation fund. I think that is a little bit of an unknown at the moment, to say the least.

The Deputy of St. Martin:

I was going to move on. I mean we nearly got there and then we drifted off and we are going to come back again. I suppose it is to do with value for money. I would just like to move now, Minister, to how we are going to decide whether this innovation fund is a success or not and I think we touched on this at a previous hearing. We have certainly asked the question of all the people that have come before us in the last 5 hearings. Is it jobs? Is it return to the fund? Is it stimulating the economy? There are a number of different criteria and in the first hearings the Minister for Treasury and Resources said it was jobs and you, in your hearing, said that you felt the return to the fund was more important. I just wanted to know whether, given the criteria that we have now seen from the application form and the definition of things like high-growth business, it would

appear that certainly creating jobs is very important. I just wondered if you had any further words you wanted to say on how you anticipate finding the success or failure of the fund.

The Minister for Economic Development:

I am sure you will correct me if I am wrong, but I think I said, although a return to the fund is important, that ultimately will come in the second stage to a greater degree, in any event, if we are successful with the introduction of the equity element that we have referred to. Although there will be a return under the loan scheme, particularly with the royalty element that is attached, it will not be to the same extent as we have explored. My view is that a return to the fund is clearly very important, but one cannot diminish in any shape or form the value of jobs and stimulus to the wider economy that I believe the innovation fund can generate.

The Deputy of St. Martin:

In the earlier hearing we had with you, you mentioned a 70 per cent failure rate. Given what we have discussed this morning and the criteria and the application forms that we now see, the policy document and the structure that we have discussed which is going to fulfil the needs of the pack to go to the board and the quality of the board, do you still think that a 70 per cent failure rate would be acceptable?

The Minister for Economic Development:

I think the 70 per cent failure rate was referring specifically to the Jerusalem Fund that I was mentioning at the time and that was referring in particular to the exits, 30 per cent of which were high-value exits. The balance, the 70 per cent, is in fact still investments that the fund itself held. They are not referring to businesses that have gone out of business in that sense, but they just simply had not exited to the value that the 30 per cent had. So perhaps that was a slight misunderstanding in that respect. I was not meaning that 70 per cent of the businesses are going to go out of business and everything would be lost. To finalise the other point with regard to the way this will be set up and structured, I would say that we would not dream of seeing 70 per cent of businesses failing; using the definition of "going out of business" that is, by the way.

The Deputy of St. Martin:

It has been suggested to us that in the economic climate that we face at the moment on one hand you may have a fund here which is looking to create jobs and put money into the economy, but it has been suggested to us that money might be available to save jobs and to save money which is going to be lost to the economy has the same if not a more beneficial effect because it costs Government less in the big scheme of things. I think what I am trying to say is, is there scope for this which is in front of us, an innovation fund, becoming more of an enterprise fund where we might say we change the criteria so that we are not saying: "You have got to create and make

more jobs”, but if you are saving jobs and saving companies from going under with great debt to third parties and saving people going to La Motte Street for unemployment benefit then we would be better off using this money for that. Have you got any views on that?

The Minister for Economic Development:

Yes, I do and I do not agree. I think we have got to do both and I think we are doing both. I think the innovation fund has a clear role and objective but, equally, organisations that we have discussed like Jersey Business fulfil a function in ensuring that not only start-ups occur but also existing businesses have the ability to survive and to grow. Now, survival is important because if a business survives clearly the jobs you are referring to do not end up going down to Social Security and costing us significantly more. That is why we have invested in Jersey Business. It is important that the right expertise is got into businesses at a time when perhaps they are struggling and looking for ways to survive or change the business model to deal with the very changing economic climate we are seeing at the moment, which is threatening jobs.

The Connétable of St. Brelade:

Jersey Business, as was Digital Jersey, were quite keen to see that any investment in venture capital certainly had a return in it. They felt that was quite an important thing. It should not be just money that is given to companies with no return in the future. In terms of performance and key performance indicators, who do you see would be monitoring performance?

Chief Executive Officer:

I will reiterate what I said earlier. Let us assume that a business has been awarded a grant from the innovation fund and there is a continuing mentoring arrangement with Jersey Business, either a board member or one of their team. I would expect them to monitor the performance of that business. That does not in any way, though, remove their obligation to report back to us and to Treasury in terms of the financials and the return on the investment and the delivery on the business plan that they use to secure the funds.

The Connétable of St. Brelade:

So you very much see it on a company-to-company basis ...

Chief Executive Officer:

Yes, absolutely.

The Connétable of St. Brelade:

... not as a set of key performance indicators and everybody has got to do the same?

Chief Executive Officer:

Ultimately it could be wrapped up into a set of K.P.I.s (Key Performance Indicator) but we will want to see reporting. Personally, and I have got experience of this, I would want to see an annual report on a loan on a company-by-company basis that would be informed by the mentoring activity that has been undertaken by Jersey Business or Digital Jersey, for instance.

The Deputy of St. Martin:

As an aside from that report, there has been a little bit of confusion as to the interest rates and repayment terms and who sets that. Certainly from the Treasury we got the impression that if they were making £5 million available they really wanted to make it available and have nothing more to do with it. Whereas I think we get from the report that it is a combination of Treasury and E.D. (Economic Development) that are going to set interest rates and the repayment terms. Could you clarify? Well, could you go even further; should it not be for the board to decide on interest and repayment terms or will they have that quite clearly defined before they make the decision?

Chief Executive Officer:

I think ultimately it is for the board to recommend to the Minister particularly the repayment terms to some respect, but one would expect to get an element of guidance from the Treasury with bands as to what that should be. I think it is not acceptable for us to go - and I am not say that the board would - and apply a 10 per cent interest rate. That would be crazy.

The Minister for Economic Development:

It would be wrong to leave it with Treasury or indeed Economic Development to be making that call. It is primarily, in my view, a commercial decision and there has got to be a commercial rationale behind the proposal brought forward and the recommendation from the board to me to consider.

[13:45]

The Deputy of St. Martin:

Have Treasury indicated or has the Treasurer indicated to you, in making this money available, that we have to fall into the same criteria that she is and risk analysis? Is there a strict code of conduct of what we can do with this money that the Treasurer adheres to herself?

Chief Executive Officer:

For the funds that are under its direct control, the Treasury has releases and it publishes to the States what its investment structure is, but the Minister for Treasury and Resources, I think, has made it very clear that this fund is being made available by him or by them to E.D.D. and the

returns that we will look for will be both direct financial returns and associated returns. The board will be guided by input in terms of interest rates and other things that will come from the Treasury, but it is for the board to recommend to the Minister what those will be.

The Deputy of St. Martin:

Yes. So you are not having to fall into the same strict criteria that the Treasurer is looking to her money to achieve return?

Chief Executive Officer:

That is not my understanding. There is a representative from Treasury here who shakes his head. I might change what I said, but I do not think so.

The Minister for Economic Development:

Not, Chairman, unless of course we were considering how to enlarge the size of the innovation fund and we had discussions ... which, by the way, we have not had but I will just mention anyway - of a possibility of the States investment portfolio, an element of which has a higher-risk investment profile to it and there may be a decision in the future that some of that could be used as part of the innovation fund to grow the whole pot.

The Deputy of St. Martin:

But certainly at the moment there is no restriction, if I use that word politely, that has been placed on you with the fund and how much return you have to achieve?

Chief Executive Officer:

Yes, absolutely. But I think if we ever were to go down the route the Minister has just suggested then that would become part of the collective investment strategy, which is published by component. So there is an investment strategy which, again, is not prescriptive because it operates within a band.

The Deputy of St. Martin:

Do you know how the £5 million is going to appear on the Treasurer's balance sheet if we loan it to companies or take royalties or start taking equity in a company? Will the Treasurer have to reflect that in the balance sheet at the end of the year?

Chief Executive Officer:

It will be reflected in the States accounts, yes.

The Deputy of St. Martin:

It will be?

Chief Executive Officer:

It has to be.

The Connétable of St. Brelade:

On a resourcing issue again, it is just a comment the Minister made at the last hearing. It relates to the Economics Unit in terms of what they will be doing. For example, there was a commitment of their time to look at projects coming forward to the innovation fund; things that they could not do and therefore they needed an initial resource and that is a matter outside of existing resources. Is there any scope within your existing budgets in the current Medium Term Financial Plan to allow for existing resourcing or, if you needed existing resourcing, you would have to go back and ask for it from Treasury?

The Minister for Economic Development:

Well, we have probably more flexibility than most States department. There is more discretionary spend by virtue of what we do. So yes, but dependent upon what it happened to be.

Chief Executive Officer:

The answer to your question is there is no intention to increase the E.D.D. headcount to provide the necessary support from within the resources.

The Connétable of St. Brelade:

You are so cynical.

Chief Executive Officer:

Yes. Well, I have been for the last couple of weeks.

The Connétable of St. Brelade:

I was thinking more of headcount but I mean it could be financial resources, for example, rather than extra bodies.

The Minister for Economic Development:

Well, it could be contractors. It could be anything.

Chief Executive Officer:

What we on a monthly basis within E.D.D. is that we do look at re-prioritisation and that does throw up discretionary funding which, for whatever reason, is no longer going to be required for the purpose for which it was originally intended. That is re-allocated and that process goes on within E.D.D. on a monthly basis. We are not unique but it is unusual because of the percentage of discretionary spend we have, which is quite high, as opposed to Health or Education where they have a very high ...

The Connétable of St. Brelade:

So you have some flexibility within E.D.D.?

Chief Executive Officer:

Yes. They have very high staff, which is not effectively a discretionary spend.

The Deputy of St. Martin:

We are running very short of time, Minister; so if we could go through a couple of areas quite quickly, if possible. We have seen from the paperwork and all the work that we have got here that the intention at the moment is to have a board of 6 people, 3 from Government and 3 from the private sector. Do you not feel that is a little bit heavily weighted in favour of Government given the level of expertise and private sector knowledge that is going to be required on the board?

The Minister for Economic Development:

I think we answered that question previously.

The Deputy of St. Martin:

It must be so important I need to ask it again. Chamber, for example, have said the appointment to the board is critical to the success of the fund and other people have said the same thing. Do you not think that we should be reviewing that decision and have more private sector experience?

The Minister for Economic Development:

I think, if necessary, additional resource can be brought in, if that were deemed to be a requirement. I think the balance is probably right in terms of the make-up of the board at the moment. I am satisfied with what has been proposed. That said, I am not surprised in some respects that Chamber, for example, might have made a comment along those lines, but I think it gives a nice balance.

Chief Executive Officer:

The other thing worth mentioning is I think that all of the Government Members are *ex officio*. There is an independent chair, then the 3 and then *ex officio* Government representation. So if we were going to have a vote the intention is that one of those would be the economic advisor, primarily because it is he who will have done the economic impact and he and his team are going to bring that to inform the board on a direct basis, and the other is the accounting officer for these funds, who would sit there to provide advice on that. But it would be the voting members' recommendation that goes forward to the Minister.

The Deputy of St. Martin:

I am going to chop and change all over the place here because there are a couple of questions that I have not asked that I need to. The process map that we referred to earlier is a 6-week process. Is that set in stone? Is there flexibility there or are we going to say things will be done in 6 weeks?

Chief Executive Officer:

We would like to say that things will be done in a maximum of 6 weeks. Are you asking us to make it longer?

The Deputy of St. Martin:

I am just asking you whether that is going to be set in stone or whether there are going to be variations.

Chief Executive Officer:

No, it is not set. I think we were trying to give an indication of our target to turn around these things from point of application to point of decision. We would hope to be able to take less time than that. I mean for particularly large or complicated applications, where there are greater degrees of technical due diligence that are required, it may take longer.

The Connétable of St. Brelade:

I know you said there would only be 4 or 5 applications a year, but how often do you expect the board to sit?

Chief Executive Officer:

It depends on how the grants are received. If we go out and seek expressions of interest then you could put it quite readily how often the board would sit. I would expect them to sit no less than once a month because I think we ...

The Connétable of St. Brelade:

But more on an ad hoc basis when things come up?

Chief Executive Officer:

Yes, because what we see - and I gave you an example earlier today - is somebody will call you. Well, you would signpost those guys immediately, which we did, to Jersey Business but then you do not want them sitting around for 3 months waiting for a board meeting to determine what their application is going to be. That is not the way that we should do it.

The Connétable of St. Brelade:

No, absolutely not. How often, for example, does the T.D.F. sit?

Chief Executive Officer:

Once a month is it?

Performance and Operations Manager:

There are 2 bidding rounds for T.D.F., in the spring and autumn, and they sit once a week for about a month in order to evaluate those 2 rounds. So altogether it is 8 or 9, 10 maybe.

The Connétable of St. Brelade:

Slightly different to what we are looking at here maybe.

The Deputy of St. Martin:

We would be looking at something different for this, would we, Minister?

The Minister for Economic Development:

Yes, I think so.

The Deputy of St. Martin:

I would not hope that people would have to wait 6 months. If there are 2 bidding rounds for the T.D.F., you would.

The Minister for Economic Development:

You will find, certainly in the initial establishment, the board is going to sit far more often, which is a similar experience to what we have seen in other boards we have set up, like the ports for example, as they establish themselves. We have given a stab in terms of the number of presentations. I am very happy if there are more applications if they are quality and, if indeed

there is a requirement for the board to sit more often, I think we need to reappraise it in the future depending on the demand of the level of work that they have to do.

The Connétable of St. Brelade:

In terms of what the board will be given to make a decision on each scheme, will it be the business case and the application form or will that be the initial contact and then if they want further information they will go back for that?

The Minister for Economic Development:

They can ask for information but they may seek to go somewhere else to get whatever additional information they may require; from another specialist source, for example, if it were particularly complex.

Chief Executive Officer:

I think the other thing worth say - and this is common, I have certainly had this experience myself - is the communication between the administrative function and the board does not only happen at the meetings. I mean there is regular communication - we see this with T.D.F. - so that we make sure that when something gets to the board for consideration all of the relevant information is there, certainly for the final determination. Otherwise you are spinning people's wheels which is not a good use of their time and certainly not a good use of ours.

The Connétable of St. Brelade:

In terms of that necessary information, probably a bank would be the best example. They obviously have got experience day to day with credit checks and so on. How do you see that working with the board and the sort of information that you might want? Is that something that you will set up so you will have some way of accessing that type of information?

Chief Executive Officer:

That is a very good point. Where there is information that is required on all applications - credit checks, bona bides and whatever - you would set that up because obviously that is an administrative element.

The Connétable of St. Brelade:

That is going to happen all the time, yes.

Chief Executive Officer:

Then layered on top of that are the things that are specific to that application, which are more related to the technical due diligence and commercial due diligence, for instance.

The Deputy of St. Martin:

I just had a couple of very specific questions, Minister, which I do not think they will take long. We have seen a number of references in the documentation to drawdowns and it says that applicants will have to draw down their funds in 2 stages. Can we ask why that is?

Chief Executive Officer:

I will have to get back to you on that one. That is not something I recall from the ... When was that?

The Deputy of St. Martin:

I have got it written down here. I can send you the references. Something I wanted to ask right at the very beginning when we were talking, I am sure you will remember, about the £65,000 added value per employee. In the application form it says: "The grant will only be given to those firms with added value per employee significantly in excess of £65,000." I just wondered if you had any idea what the definition of "significantly in excess" would be. Is it £10,000, £20,000, £40,000? I mean it is another one of those parts of the application form which is not easy to be clear about. Do we have a definition of "significantly in excess"?

Chief Executive Officer:

Not that I can give you at the moment, Deputy, but we will revert to you with that.

The Deputy of St. Martin:

Okay. Another one: grants. As I am sure you know, it says: "Grants will only be granted in exceptional circumstances." Have we got a definition of "exceptional circumstances"?

Chief Executive Officer:

I think we would rely upon the board to determine whether or not the nature of assistance should be in the form of grant or loan. That is effectively a function of the analysis of the business case and, the example I gave earlier about somebody that came out with a good idea, that may very well be a grant, but we have not defined that. If we put too many definitions or criteria around these things we effectively restrict the freedom of the board to make the appropriate recommendation to the Minister on a case-by-case basis and that is the value of having that independence and experience on the board.

The Minister for Economic Development:

I mean there could be an example, for instance, where a particular business may not have, in the short term, the ability to service a loan but the business proposition does generate job creation and so on. That could well be a consideration.

The Connétable of St. Brelade:

In terms of royalties, I know we touched on Law Officers and I do not know if you said anything while I was out. But in terms of the royalty agreement and in terms of the Law Officers, when will you have an idea of what could be put in place in terms of detail? Is that something that might be in place before the debate, for example?

Chief Executive Officer:

In terms of what, a draft loan agreement?

The Connétable of St. Brelade:

A draft, yes.

Chief Executive Officer:

We were not intending to do that, but if you think that that would assist the process, because there are so many potential variables within the ...

The Connétable of St. Brelade:

I think somebody said that Israel have got some sort of draft. Is it Israel that have some sort of royalty draft agreement? It was one of the jurisdictions.

Chief Executive Officer:

Yes, there is ...

The Deputy of St. Martin:

It is the Israeli version that has been sent to the Law Officers.

Chief Executive Officer:

Yes, there are templates that are used by the Office of the Chief Scientist, I think, in Israel.

The Connétable of St. Brelade:

Will you have any advice back before the debate from the Law Officers in terms of ... I mean we had a few questions here. One of them, for example, is: "How can you create a royalty on an already-existing product and company?" That type of advice from the Law Officers, would that be available in short time if you asked for it?

Chief Executive Officer:

We could attempt to ask for it. In that instance, if there is an existing product and the innovation fund were being applied to a new product, we would not expect to apply a royalty to the existing

product revenue stream; only the new product revenue stream. But we can certainly get advice from the Law Officers on that.

The Connétable of St. Brelade:

So if we can provide some questions you would be ...

Chief Executive Officer:

Yes, absolutely. Yes, very happy to refer to them on that.

[14:00]

The Deputy of St. Martin:

I am just going to wind up but before I do I just would go back to something you said, Chief Officer, literally a minute ago when we were asking specifics about exceptional circumstances: "We do not want to make it overly complicated." Given that statement and the potential problems we have raised over people being able to be eligible to fill in this application form, is it your intention to carry on with this form or are we going to see a revised version of this before we get to the Assembly in a couple of weeks' time?

The Minister for Economic Development:

I think it is suffice to say that we have detected that you have got some concerns about the application form. I think we will take away the questions you have asked and the concerns you have raised, we will have a look at it and revert back to you, but there may well be an opportunity to clarify the details of the form. I think the point has been made already, though, that it is a draft in any event and you have raised some valid point. I think we need to take that away and have a look at it.

The Connétable of St. Brelade:

Just one on personnel, because I know he came across very well when we met him, was the Chief Executive of Digital Jersey. I know he has got some experience with a seed company in London. Will he be somebody that you may use for his expertise somewhere along the line with the innovation fund?

Chief Executive Officer:

It is one of the reasons we hired him. Absolutely. I mean he comes from an environment where they have done what they have done in Israel, where they have combined the physical environment with the ability to financially support businesses. So, yes, we will. I mean he has got

a lot of experience in this area and both he and Digital Jersey have got an awful lot to add. So, yes, we will, very much offer.

The Connétable of St. Brelade:

So he very much comes with 2 hats?

Chief Executive Officer:

With more than 2 hats, I hope.

The Deputy of St. Martin:

A box full of hats.

Chief Executive Officer:

Yes.

The Deputy of St. Martin:

With that, Minister and your team, I thank you very much for coming today and it has already been a very long morning and early afternoon. So I think we will call it a day and thank you for attending.

The Minister for Economic Development:

Just before we close could I ask what your intentions are in terms of timing now leading up to when the intended ...

The Deputy of St. Martin:

Well, I think our intentions are fairly tight inasmuch as sometime in the middle of next week we have got to be coming up with a final report really. We are not nearly there but we are nearly, nearly there.

Scrutiny Officer:

We are hoping to have something to Stakeholders by the second week of March.

The Connétable of St. Brelade:

I know it is something you mentioned very briefly. If we were to suggest any change in the actual wording of the proposition, is that something you would consider?

The Minister for Economic Development:

I am always open to listening to suggestions.

The Deputy of St. Martin:

I think what we might need to do is go away and look at the timing, because I am not experienced enough to know at what short notice things can be changed and whether it might be a delay or whether we just take it to the House as it is.

The Minister for Economic Development:

I think there is a difference between amendments that other Members can put in and an amendment the Minister can put it, which can be put in very late in the piece.

The Deputy of St. Martin:

Okay.

The Minister for Economic Development:

Thank you.

The Deputy of St. Martin:

Thank you.

[14:03]