



Economic Affairs Panel Jersey Innovation Fund Review Hearing with the Minister for Treasury and Resources

THURSDAY, 10th JANUARY 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 Treasury and Resources, Senator P.F.C. Ozouf
Chief Executive Officer, Economic Development Department, Mr. M. King
Economic Advisor, Mr. D. Peedle
Project Advisor, Treasury and Resources, Mr. J. Shilladay

Also present:

Mr. T. Oldham, Scrutiny Officer
Ms. J. Hales, Scrutiny Officer

[15:34]

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

Good afternoon, everybody. Welcome to this hearing with the Minister for Treasury, Economic Affairs Panel, and we are discussing this afternoon the Innovation Fund, the post-Innovation Fund from Economic Development. To start the meeting off with, I will just go around the table as we usually do and introduce ourselves and our positions. Before we do that, if I just remind the public who are here to switch off all their mobile devices, but we do now allow tablets to be used if they are relevant to the session that we are having and they do not make any noise, of course. People

who are leaving, if they could do that as quietly as possible, please. Thank you very much. So just to start things off, my name is Steve Luce, Chairman of the Economic Affairs Scrutiny Panel.

The Deputy of St. Martin:

Thank you very much. Right, Minister, we are here to discuss these proposals from Economic Development, and obviously it involves you giving them a lot of money to start with, so I wondered if you could just tell us where, in your view, the idea for this Innovation Fund came from and if you could define how you see ...

The Minister for Treasury and Resources:

Okay, right. Forgive me if my voice is not 100 per cent, I will do my best to make sure that it tries to hold out. Now, first of all, you rightly say, Chairman, this an Economic Development initiated project, but it is a proposition in the name of the Treasury and Resources Minister because only the Treasury can propose a fund, and that is why while Jim Shilliday is here, who has been advising from a Treasury perspective, I am flanked by the Chief Officer of Economic Development and the Economic Advisor. I hope that you would get similar answers when the Minister for Economic Development stands before you, because I am doing his bidding for effectively the fund, and normally it would be his proposition, the way that the public finances law is there. But that is fine, because that means there is additional ministerial support and there is a bit of oversight and challenge from the Treasury in terms of the governance structure and all the way that the fund is set up. I think I am on record a number of occasions of saying that while I am confident about Jersey's future, we must not be complacent. There is no doubt that the economic situation around these waters continues to be extremely challenging. We have seen only yesterday the inevitable, I am afraid, closure of Play.com. We are seeing and likely to see unemployment rising northwards as a result of that probably to 1,800 or 1,900, which is what we expect it to do. If we had not taken the action in co-ordination with our colleagues in Economic Development and Social Security, I have got no doubt that unemployment would be significantly higher than even the very uncomfortable levels that we are seeing now, well north of 2,200. We have got to prioritise, the Chief Minister has said, all Ministers' actions on tackling unemployment and reducing it. Every person unemployed is an opportunity lost and an individual that cannot reach their potential et cetera. We must be under no illusion of the scale of difficulty economically that we face, and we are doing an awful lot, and this is one of a suite of measures that we are taking which are all embedded in the economic growth strategy advised by the Economic Advisor, who has given us some hard advice about while the Island has been very successful, there are real issues about productivity, there are real issues about maintaining economic growth and economic activity per capita going forward that are going to and did require some tough decisions by Ministers about focus and attention. We all want to have a diversified economy. We all want to see economic growth. Economic growth raises the standard of living and maintains the standard of living of our

community, and it does not happen sometimes by accident, and we have got to do a number of things to ensure that we get jobs, that we drive appropriate diversification and we re-fire up the sort of innovation spirit of the Jersey man and Jersey woman to create jobs in small and medium-size enterprises. Oak trees start from acorns and we have got to seed some acorns - I am sorry to mix metaphors and all the rest of it - we have got to kiss a few frogs to find the princes of economic growth of the future. We are going to make some mistakes and we are going to have to take some risks and we are going to have to be bold, and the Innovation Fund is one of the measures designed to try and jump-start innovation and jump-start economic growth and creating jobs that otherwise would not exist. Chairman, you said I am finding £5 million and that is a lot of money.

The Deputy of St. Martin:

To start with, you are finding £5 million.

The Minister for Treasury and Resources:

To start with, yes, and we have prioritised. While in the M.T.F.P. (Medium Term Financial Plan) that we all approved as Members of the States last year, we have put bold amounts of money into services in health, I have got no doubt that we are going to have to put some more money into services, but we are only going to be able to afford that if we have got the tax revenue coming in. I will not talk about financial services, but suffice it to say let us just bank the fact that we have got a lot of work going on to make sure we secure our future in financial services. As far as - and this is all about the non-financial services economy ...

The Deputy of St. Martin:

That is right. The question was where did the idea for this Innovation Fund come from and what do you class as innovation, as opposed to what goes on normally within the Island?

The Minister for Treasury and Resources:

Yes. Mike and Dougie, please jump in where you feel proper, because I am very clear about the high-level principles of this, Chairman. I know the economic challenge. I know the diversification challenge. I know the job challenge. The granular detail of what this Innovation Fund is going to be delivering is rightly in the heads - and in the aspirations, in the plans, because they are going to deliver it - of economic growth. But if you want to push me, what does innovation mean? Innovation means securing new businesses and jobs in economic areas that are outside financial services and that are new. They are probably service-based jobs. We are a service-based economy. We are not going to be making things in Jersey in any scale in any time soon. We are a service-based economy. Financial services are services; I.T. (information technology) services and digital technology are service-based; intellectual property businesses are services; legal

services. We are a service-based economy and we have got to try in terms of exports. So innovation is about creating service-based export opportunities for Jersey. As well as servicing, we have got to capture domestic market, we have got our own domestic economy and whether or not that is providing small business opportunities for I.T. firms servicing locally or hairdressing or all the kind of domestic service stuff. So innovation is about new businesses that otherwise might not happen without a bit of encouragement, and in some cases, financial support.

The Connétable of St. Ouen:

High-net worth is used in a few places here and there. Are these businesses also going to be quite high risk as well, because I would have thought a lot of businesses that are looking to start up, the first port of call would be a bank, for example, and see if they can raise funds there. Is this the sort of fund that will be looking to back more high-risk type enterprises or could you give us an explanation of what you feel will be the core benefit for this fund or core business?

The Minister for Treasury and Resources:

Again, Mike can come in, but I will do the introductions in a second. I will just get my stuff out. High risk: risking reputation, no. We want solid, defensible businesses that we are going to be able to defend. The world has changed in terms of activities of what is acceptable businesses, and I think we can learn a lot of the experience of L.V.C.R. (Low Value Consignment Relief). L.V.C.R. was regarded, in some aspects of it, as aggressive tax avoidance and there are some businesses that are aggressive tax avoidance which are not financial services, and we have got to read the tea leaves correctly about where the world has changed. All business has risk associated with it, and what is very clear is that since 2007, businesses are finding access to capital much more difficult, and obviously you are seeing in the U.K. (United Kingdom) significant action by the Chancellor and the Bank of England to try and get credit into the economy. In a very small way, I suppose this is also trying to get capital available to other people. Some people have access to capital, some people have got homes, their own homes, and equity in their own homes is often the seed corn funding for a lot of business start-ups. There are lots of people who do not have equity in their own homes for whatever reason, and we need to try and find ... yes, so there is a risk/reward issue, but in the years of loose credit and easy credit, it was easy to get cash and easy to get cash from investors. Now it is more difficult, which is why we need to do something about it. Over to Mike.

Chief Executive Officer, Economic Development Department:

I think firstly turning to definition of innovation, on page 19 of the report accompanying the Minister for Treasury's proposition, there is a definition of innovation drawn directly from the Economic Growth and Development Strategy which was approved by the States. I think that it is an extract from P.55/2012 on page 19 of P.124. So that just defines what innovation is very clearly. What

the Minister for Treasury has just said I think is absolutely correct, in that this is a fund, not a fund of first resort, but it is a fund of last resort, but we have to take into account the barriers in terms of access to finance that small start-up businesses or even reasonably high-growth businesses face if they do not have the type of collateral in terms of their own property in which they can leverage, as Minister for Treasury has said. It is very difficult for them to raise finance from the traditional avenues.

[15:45]

This fund is there to free up that barrier, that access to finance barrier, and allow those people who may have very, very good and credible commercial ideas to realise the potential.

The Deputy of St. Martin:

How do you gauge success of the fund then under those circumstances of a difficult economic climate? Is it purely on the basis that if you put your £5 million in the bank and got 5 per cent, if you then create maybe 3 jobs over the top of that it was successful, or is success going to be purely jobs or financial or turnover?

Chief Executive Officer, Economic Development Department:

Investment by a financial institution such as a bank looks at the direct commercial return to that bank in terms of the interest paid on the loan, unless they have some other arrangement. Obviously the 2 products that this fund can put into the marketplace are grants and loans, and in the case of a loan, that would be the same as a bank, so you would get that return on investment when the loan is repaid, but what a bank does not look at, the bank does not look at the very thing that you have just mentioned, and that is the employment and other implications of that success. Now, we do look at that, because that is very important from the perspective of the economic prosperity of the Island, so we would measure, as the Minister for Treasury has said several times, success in terms of the employment creation as well as the pure commercial success of the business, because that results in higher levels of returns through general taxation as much as it does to the loan being repaid to the fund.

The Minister for Treasury and Resources:

Just as we say in terms of our aspirations on housing policy, we want everybody to be able to aspire, subject to their personal circumstances being appropriate and stable enough, to have their own home. We do not want anybody with a good business idea that is bankable ... and there will be some failures, as night follows day. That is the definition of risk, but we do not want anybody that is maybe coming out of a financial services job or a young graduate that has got a fantastic

business opportunity not to be able to reach their potential and reach their ability to set up their own business because of lack of access to capital. That would be a guiding principle.

The Connétable of St. Brelade:

I agree, but the risk management has got to be correct and I think what Mike said is quite right. I mean, there will be people that have got business ideas that have not got the sort of financial clout, they have not got a house to mortgage and things like that, but is it necessarily a case that Government should be getting into that type of risk situation?

The Minister for Treasury and Resources:

Well, who else is going to do it? If we are serious about reducing unemployment ... and I do not want to be scaremongering, but let us be clear, the next few months in this year we are going to see a further difficulty in terms of businesses making some very difficult decisions on their costs. We are going to see more redundancies; we are going to see some more failures. There are business models in Jersey ... as the retail environment, I spent the whole morning this morning at Jersey Post. I have seen the container loads of online retailing, whether or not it is Pampers or Amazon or other businesses. We are moving from a market of bricks to clicks in terms of purchasing, 12 per cent coming into the Island, and that is having a difficult issue. I saw 2 retail stores through the media that were failed because of G.S.T. (Goods and Services Tax) and failure of Government action and all the rest of it. I am sorry, but yes, Government has certainly put costs up, but the world is changing and the world is changing very rapidly, and we are going to run faster to stand still, even to keep the unemployment numbers down, and as Government, we have to take some risks and we have to take some bold action. Some of the things that we are doing, whether it is Advance to Work, whether or not it is apprenticeship schemes, whether or not it small loans guarantee, export initiatives or the Innovation Fund or Tourism Development Fund and some things that we will try in terms of financial services are not going to work, but we are going to have to do more because we have got to take some risks.

The Connétable of St. Brelade:

But as a starting point, this is a core change in Government thinking, no doubt about it, because Government generally is not a risk business. It governs for the people. This is a very different way of looking at ...

The Minister for Treasury and Resources:

Dougie, do you want to just come in? Your questions are very good. Let us get Dougie to come in and let us debate this vigorously.

Economic Advisor:

A couple of things just in terms of where does the idea come from, if you look at ... we did a lot of work on what you should be doing for economic growth and what the key building blocks are and there is a number of them. Innovation is a critical one, and if you look across the world, governments do intervene to try and encourage innovation, because in our terms there is a potential market failure: if you let people operate in their own world, you will not get the right level of innovation to create jobs, to create economic value. So governments have a reason to intervene in this area, and they do that in a number of different ways. If you look to the U.K. they get tax relief, for example, in research and development. That sort of relief is not really ... it is taken up largely by manufacturing and engineering-type firms, not really applicable as much to Jersey, but Jersey still has innovation and still needs to do innovation. So in terms of the risks, there are risks about the individual investment, but there are also risks from no action as well, because if we are not trying to support innovation and we get lower levels of innovation, then we need to meet our economic objectives and the risks are that we do not get the growth, we do not get the jobs and we do not get the tax revenue, so there are risks on both sides, and if you look at what everybody else is doing elsewhere, there is almost like a gap in the policy in Jersey. Yes, we have lots of good work on economic growth, we had the original economic growth plan in 2005 which set out the key building blocks. One of the things our advice has really focused on is that you should be continually looking at what you are doing, how you do it, whether you can improve it, stopping things that do not work, doing things that are going to help you meet your objectives. I think in this current environment, where we need economic growth to bring unemployment down, we need it to create economic value and tax revenue in the future as well. In the past, we have been dependent to some extent on the global economic environment, Jersey being able to export into a growing world economy. We know that the world economy on most people's forecasts is not going to be strong going forward, so there is an added emphasis in terms of our economic policies to generate the growth that we need and that we have had in the past through additional policies. So it is the gap within existing policies, it is the additional requirement that has really been placed on economic growth. In the past, economic growth policies have been there, but we have always had high employment, and that provides different challenges and emphasis on productivity-led growth. Now we have got to marry productivity-led growth with creating jobs and getting unemployment down.

The Connétable of St. Brelade:

It is the level of the intervention and it is the level of the risk and how you mitigate those risks and how you manage those risks. One question I think I just want to go on to is in terms of the roles and responsibilities within Treasury regarding the fund. How do you see those in terms of that risk management?

The Minister for Treasury and Resources:

Well, it is we are setting up the fund and then it is over to the Minister for Economic Development and the Economic Development Chief Officer, who is legally responsible to ensure value for money, and Mike King's neck is on the block in front of the P.A.C. (Public Accounts Committee) if he does not take all necessary prudent measure of steps to implement ministerial policy, which is saying: "We do not mind you taking some risks, Chief Officer, but obviously you are going to need to do this properly and have a good governance structure." So our job and Jim Shilliday's job is to make sure that we have forged a good governance structure and we have questioned E.D. (Economic Development) and questioned and had a constructive tension between Economic Development and Treasury to ensure that we have got a governance structure that works, so that is why in the report we have got an independent chairman, we have got non-execs, we have got a reporting line about who signs off and all the rest of it, so there is a whole gubbins of rules, but also what we have got to be careful of is that we do not smother. Your panel has done some very good challenge on the T.D.F. (Tourism Development Fund) and you wrote a very good report.

The Deputy of St. Martin:

We will come on to that, Minister, but maybe could I just ask a question while we are talking about responsibility? Who is ultimately responsible for this fund? Whose head is on the block if this does not work?

The Minister for Treasury and Resources:

The Minister for Economic Development and the Chief Officer.

The Connétable of St. Brelade:

I am just thinking in terms of when the money ... I mean, presumably the Treasury do at some stage sign the money off, or does that come straight from E.D.D. (Economic Development Department)?

The Minister for Treasury and Resources:

No, I am going to sign off ... I am asking the States to give E.D. £5 million and put this into the fund with the governance structure that is set out in the report.

The Connétable of St. Brelade:

So in terms of any individual funding within that, it will not be individually signed off by Treasury at this stage?

The Minister for Treasury and Resources:

No, I do not want to put a level of bureaucracy in, and there is at the end of our seat an urgency for this. We need to respond. We are in a very strong position in Jersey I trot out regularly of strong public finances, dealing with our deficit. We have not got the issues of the U.K. but there is a call to arms here. We have got rising unemployment. This is not new, this is not today, January 2013 message. The Council of Ministers, since its term of office started last year, has been saying: "We have got economic challenges." That is why we passed the economic growth strategy. That is why we did it. That is why we got some advice about it, and we are doing a whole series of issues which are designed to jump-start economic growth that otherwise would not happen.

The Connétable of St. Brelade:

So let us be clear, the money in terms of its responsibility, in terms of looking after that ...

The Minister for Treasury and Resources:

Absolutely.

The Deputy of St. Martin:

... lies in the hands of E.D.D.?

The Minister for Treasury and Resources:

Yes. We will hold them to account, and of course in the relations that I have with my Minister Colleague Maclean, of course we will, as always, have an active interest in how they are doing, and partly because if they are successful, I hope that they are going to come and ask for some more money.

The Deputy of St. Martin:

Can I ask the Officer what he does with the £5 million when it gets given to him, rather than ... I mean, is there a requirement to invest it and have the return from the £5 million until you need it, or do you put it on call and receive no investment return on it at all?

The Minister for Treasury and Resources:

No, we hold it and they draw it down.

The Deputy of St. Martin:

But do you hold it in such a way that there is a continuing return from it while you are holding it?

The Minister for Treasury and Resources:

As all our cash deposits, we have a common investment fund. We scoop up the cash sitting in every single bank nook and cranny in the States and we invest cash overnight in the same way that we do with everybody else.

Chief Executive Officer, Economic Development Department:

It is very clear, I think, in the accompanying report what the Treasury's role is in this - and indeed, what the Minister for Economic Development and the Chief Officer's role is, which happens to be me at the moment - and it is very clear that there is a governance structure which is populated by private sector investment evaluation professionals who will make recommendations to the Minister. Now, there are ...

The Minister for Treasury and Resources:

Minister for Economic Development.

Chief Executive Officer, Economic Development Department:

Minister for Economic Development, sorry. There are on that board that we propose to form *ex officio* members, because I am the Accounting Officer, Dougie is the Economic Advisor and will be *ex officio* members of that board, firstly to preserve the credibility of my accountability, but it is for those individuals informed by both commercial due diligence and economic advice to make recommendations to the Minister regarding the investments that should be made, and the conditions that are precedent on each of those investments on a case by case basis. I mean, just coming back to your point about risk, Constable, any grant that E.D.D gives has risk associated with it. There is a very broad spectrum of risk. At one end we have things which you could say are subsidies, like the single area payment, which is we give the money and we get, say, a limited return for it. At the other end of the spectrum, there are things like the Export Development Initiative, whereby we give 50 per cent to Jersey companies who are going to try and develop their export trade by attending conferences and sales conferences abroad. Some of those will have resulted in sales being generated, others may not, so there is always risk in there.

The Connétable of St. Brelade:

My point was saying in terms of risk is that there are people that have got some financial clout or some financial ... if something goes wrong, there is something to go after, yet there are some of these businesses that we are looking to invest in presumably have not got that financial background and that financial clout, call it what you will, and it is a bigger risk. That all I am trying to say.

The Minister for Treasury and Resources:

They might not be risky, it is just that they might not have access to the capital. It is the people that have got good ideas that have not got access to capital we are trying to help here, and that does mean ... you know, every business start-up, and some are more capital intensive than others. I heard a delightful story on the radio yesterday with a lady that has come out of the finance sector that set up a sweet shop called Toodaloo. Now, good example: "I like going to the pick and mix at Woolworths and identified a market opportunity." Fantastic, and we have got a suite of people that are helping us. We have got Jersey Business now setting up the business advice and helping them - and that is why she was on the radio yesterday - making sure that business plans and all the things that need to be done are happening. Great, brilliant. Toodaloo pick and mix, I am going to go and buy some later on. It was a business that might not have happened if it had not have been for Jersey Business' support. I do not think ...

The Deputy of St. Martin:

Would you class that as innovation, Minister? Is it high-net worth individuals coming to the Island and creating high-worth jobs?

[16:00]

The Minister for Treasury and Resources:

No, it is not, but it is a retail shop which is now let that otherwise might be boarded up and we have seen the high streets of towns and cities across the U.K. and other places with very high percentages of boarded-up shops. We want a retail environment which is innovative, and if Toodaloo employs this particular lady and gives her a purpose in life and a business opportunity and employs a couple of other people, that is good.

Chief Executive Officer, Economic Development Department:

She may very well have - and I think she has - a fairly innovative way of marketing the product that she has, both in the shop front, and possibly we will encourage her, if she is not already doing it, to do it online. So that is innovative activity. I think some months ago I sent you an example of one from Wales, who have started a similar fund with tens of millions of pounds in it. It is a meat product factory, but that is innovative, because it is a product or a service that currently is not in the marketplace. It has the ability ...

The Deputy of St. Martin:

You mentioned £10 million, so that is where I am going to go next.

The Minister for Treasury and Resources:

I just want to add something, if I may.

The Connétable of St. Brelade:

Go ahead.

The Minister for Treasury and Resources:

But innovation, if you want me to be on the wacky end of innovation, I know a student of languages in Jersey that is thinking about how to do a basic app to do a translation service, has got the idea but does not know how to start the business and might need a grant of £30,000 to go and get some I.T. support to do it. That app, we should regard Jersey service businesses as having a worldwide market. The app market is the English-speaking world. Innovation: one of my greatest friends in the world is a French family who set up Ubisoft and Gameloft.com, 5 brothers that started literally in the back of a shed who are now running France's biggest software gaming business, 3 quoted companies employing 5,000 people across the world just across the way in Brittany. That is innovation. They needed some ...

The Connétable of St. Brelade:

They need to be over here.

The Deputy of St. Martin:

Can I go back to my £10 million, Minister?

The Minister for Treasury and Resources:

Yes.

The Deputy of St. Martin:

You have kindly given E.D. £5 million, or found £5 million.

The Minister for Treasury and Resources:

It is not kindly. I must do it because it is necessary.

The Deputy of St. Martin:

Okay. Have we got the other £5 million lined up to make us up to £10 million?

The Minister for Treasury and Resources:

No, I have not, but I have given clear indications to the States in the M.T.F.P. that I have got flexibility within the M.T.F.P., within the capital programme and I obviously struggled with the

M.T.F.P. to balance books. I had to find some creative ways. We redeemed the J.T. (Jersey Telecom) preference share to get some of the funding for this. The rest of it is going in the capital programme. What I have said to E.D. is if they get this fund up and running, if they give some good decisions, if they attract good businesses and they spend their £5 million, I will be right behind them and I will find the other £5 million. I cannot tell you where, but I have a number of options available, potentially I have a number of plans which I could get a further £5 million, but obviously I am living in a cash-constrained world.

The Deputy of St. Martin:

We have touched on this already, and I know it is going to be a difficult subject, but I just want to come back to it again before we go on. You just said, Minister, if the first £5 million is spent and things are going well, you will endeavour your best to find some more.

The Minister for Treasury and Resources:

Yes.

The Deputy of St. Martin:

But I want to get back to this definition of success. If that £5 million is gone, who is going to decide whether it has been successfully spent or not?

The Minister for Treasury and Resources:

I think that you will, in part, and I think we all will, because we will see, because Economic Development will give us - and maybe some of these will be confidential - a list of grants given and jobs created and businesses not otherwise supported. I think we will know, we will be able to smell it and see it.

Chief Executive Officer, Economic Development Department:

I think the intention is to do what the Tourism Development Fund does, and that is that the Treasury, I think on a 6-monthly basis, reports the performance of that fund, and on an annual basis there is a report that is specific to the performance of that fund, and in this case, there would be a report that was specific to each of the loans or grants and each of the business activities and the outputs and outcomes that they delivered. That will be the intention. It has to be visibly measurable, and one of the other things, just to add to what the Minister for Treasury was just saying about the £5 million and the £10 million, the intention is not for this to be a sinking fund, so this is not £5 million out of the door and then: "Can we have another £5 million, please?" We want to see this, through the interest on the loans, being something that is replenished. I would dearly love to get into a situation where we do not need to go back to the Minister for Treasury for a

second £5 million, because we are starting to generate through interest and royalties additional funds to replenish the fund.

The Minister for Treasury and Resources:

I do not want to have a cross word, but I want to just take a slightly contrary view, if I may, or it is an overdone strength view. I think we have got to be really realistic. I think there are serious economic challenges facing Jersey, and I want the Economic Development Chief Officer to spend the £5 million on getting business start-ups up and running and employing people, so I want them to do it because I suspect that the scale of challenge that we have, which if we respond properly, assertively and boldly enough we can deal with, we can reduce our unemployment numbers and we can start some business start-ups that are going to be the wealth creators of the future.

The Deputy of St. Martin:

So you are taking your foot off the pedal when it comes to this fund being self-replenishing then, Minister?

The Minister for Treasury and Resources:

No, I am delighted to hear Mike say that he thinks he can do it, but I want to be ...

Chief Executive Officer, Economic Development Department:

I would dearly love to be able to.

The Minister for Treasury and Resources:

Yes. I think that we should not sit back on our laurels and think that we do not have to work hard to get enterprise, innovation, productivity, new businesses and start-ups and we are going to have to kiss a few frogs. People will criticise. There will be some grants that will fail, but it is worth taking some risks if we can create 1,700 jobs. It would have been 2,300, 2,200 if we had not taken the action on Advance to Work and all these other things. If we do not act, we are going to see this number drip up to 2,000.

The Deputy of St. Martin:

But we have reference in the reports and terms of reference et cetera as to the fund mainly giving loans and not grants, and yet I have heard you now use the word "grants" half a dozen times and loans never. I am concerned that we are starting to deviate from this becoming a grant ...

The Minister for Treasury and Resources:

The implementation of this, I am not going to be prescriptive. I am not going to tell E.D. ... I am not going to have a dog and bark. The fact is E.D. are responsible and they will do and make the right

decisions. They are closer to the detail of this than me and they set up ... I know the panel has, I understand, produced a report today or published a draft report today on the Shadow Tourism Board. Yes, this is a step change, Constable, in activity compared to where we were 2 or 3 years ago. We had tax receipts going up and we had low unemployment and we thought the world was going to be returning to growth. It is not, and so we need to boldly act, and setting up Jersey Business, setting up Digital Jersey, doing the Gigabit Jersey project, setting up ... what is your inward investment?

The Deputy of St. Martin:

Locate.

The Minister for Treasury and Resources:

Locate Jersey; putting a new person in to get 1(1)Ks in with their capital and their jobs into Jersey, and all of these things are designed to have a step change to get this number of unemployed down.

The Connétable of St. Brelade:

I love your enthusiasm, do not get me wrong, and bold is great, but with bold sometimes comes reckless, or potentially could be, and that is the worry, is that is we go and spend a vast sum of money very, very quickly. You have already admitted that there will be failures, there is bound to be, and we are not going to invest in these companies without failures. Is that the steady approach that E.D.D. might want to take probably the right way to take it?

The Minister for Treasury and Resources:

I do not criticise at all if Mike, with his independent board ... and remember we are going to bring some experts, we are bringing some real business, granular, seasoned experience. We have got some great entrepreneurs in Jersey, self-made, brought in, attracted in. We have got a pool of talent in Jersey, and E.D. is going to use some of that talent to give some start-ups and some businesses that otherwise would not happen a chance. I think the argument is not that; I think that you should be asking us are we being bold enough?

The Connétable of St. Ouen:

Can I just clarify something, would anybody else, would the candidates, if you like, exhaust all the other avenues before they would come to it?

Chief Executive Officer, Economic Development Department:

It is absolutely clear in the report that that is exactly the case. It is one of the criteria defined in the report, because what we want to be is a fund of last resort, but in our view, there is a lot of

potential business out there, that people who have good business ideas and no collateral and they cannot therefore raise the finance that they require. Access to finance is identified consistently as the primary barrier in particular at the moment to business start-up and growth.

The Connétable of St. Brelade:

What credit checks will you be putting in place with people that apply to this fund then and also in terms of the Minister? Will you be involved in the application process in any way?

The Minister for Treasury and Resources:

No, it is we are not going to create a separate level of bureaucracy, Constable. We are not going to get 2 layers of decision-making, one in E.D. and then another one in the Treasury. I think the scale of the challenge that we have got means that I am in no way slackening the rules about good governance and good decision-making, but we must guard against bureaucracy, we must guard against ... I think one of the calls to action is speed and appropriate ... I am not saying that you are going to get a self-certified grant application approved in a day, but we need to put some speed and some dynamism into this call to attack the problem of economic stagnation.

Chief Executive Officer, Economic Development Department:

Can I give a direct answer to your question, Constable? If you look at the process map under appendix 6, the second part of the process is: "Due diligence, K.Y.C. (Know Your Client)." That would include a full set of evaluations in addition to the economic impact.

Economic Advisor:

Can I just a couple of things on success, because it also, I think, relates to the measuring success and the recklessness point. In terms of economic advice, we have set out a lot of detailed information that we require. I mean, we are trying to make sure we get the balance right, we are not overly onerous and getting too much information to be able to assess what the projects are likely to deliver in terms of economic value, employment and tax receipts, so we will be doing an assessment. We will be advising the board on that basis. That will be measurable going forward, so what will success look like? Well, if a project has got the go-ahead because it is going to create additional jobs, you look back and say: "What do you think it was going to deliver? Has it got anywhere near that?" If it has, success, if it has not done as well but still delivered jobs, it could still be successful. Similarly, in terms of other reasons, it might get the go-ahead because you think a business is doing a new product or process, particularly a new process, say, that means they change their business model and that spills over into other businesses and we get improvements in efficiency. You can look at that. You can see has it delivered, have you seen an improvement in that business, has it spilled elsewhere? So we can measure those and we can

see the success. In terms of the recklessness, the fact that we have that detailed framework - and that is just the economic advice, there is commercial advice alongside that as well - there is going to be a lot of due diligence to make sure we have got the framework, and I think we are ready to go from an economic perspective, you know, if we get the projects, we know the information that we need, we have set out the type of information we will need from applicants to be able to assess them on that basis, and the board will have to advise back and monitor: "We have given this support. This is what is happening in year 1, this is what has happened after year 2. It is on target/it is off target" and put it that way.

Deputy S.G. Luce of St. Martin:

You must accept though that if you are going to do true innovation, it will be incredibly difficult to put any forward projections on it at all, because it will not have been done before.

Economic Advisor:

It will be difficult, but if that is a pure innovation that you cannot measure at all on any particular element of this that we have set out, it could be hard to measure, but it does not mean that you cannot at least assess it and say: "Okay, it is likely to have an impact. What will be the impact be? Will it be a new process?" You can look and see if the new processes arrive: "Is it a new product? Has that been delivered?" So yes, it might be hard to follow all the way through and say: "We have got X in terms of tax revenue and we have got Y in terms of jobs" but if you set out at the start knowing that you think there is going to be an employment impact, then you must have been able to identify a route by which you were going to get the employment impact and you can follow that through. But yes, it will be hard in some cases.

The Minister for Treasury and Resources:

People are not going to just rock up and say: "I have got this idea of doing this language app and I have got a language degree and I know how to do this stuff" and all the rest of it. They have got to have a business plan, they have got to have projections, and year 1 and year 2 and year 3 projections, and that is going to be able to be measurable. So they are going to have to do some work. Jersey Business and some of the business advisory services that have also been put in place to a much greater extent are there also to help them formulate their ideas. Lots of people have ideas. We probably have a good idea every day, but it is the implementation of it that is sometimes the challenge, and we have to get people to be able to follow through on their ideas, but without being reckless.

The Connétable of St. Brelade:

You are quite right about the business case, and there is an awful lot of information these people that are putting ideas forward are going to have to do.

[16:15]

In terms of having that checked, in terms of making sure it all adds up, a figure of £100,000 has been looked at in terms of management costs for the year. Could you give us some idea how you sort of came to that figure and whether you think it is a realistic figure for the sort of work that you are going to have to do?

Chief Executive Officer, Economic Development Department:

That is cost in addition to the ... I mean, what we have made clear, I think, in the report is that the cost of administering the fund, for want of a better word, will be borne from within existing E.D.D. resources, so this ...

The Connétable of St. Brelade:

Not from within the fund, but from the department?

Chief Executive Officer, Economic Development Department:

No, from within E.D.D. resource, yes. We will provide that administration function from within our existing resource base. The £100,000 is our estimate, our current estimate based on the best knowledge that we have of the external due diligence, effectively the commercial due diligence that will be required based on a realistic amount of deals coming through, so that we will be required to inform the board. Now, that is a forecast, but it is very difficult to make a truly accurate forecast because we do not know at the moment until the fund would be launched, subject to approval, what the scale of applications is going to be and the nature of those applications. If we got an application in, for instance, for support of let us say a 6-figure sum, and with the amount of due diligence that would be undertaken on that would be really quite significant.

The Connétable of St. Brelade:

Presumably some of that due diligence will be from outside sources and from outside ...

Chief Executive Officer, Economic Development Department:

I think it would, but yes, in many cases it would be. I mean, for instance, if we had an app development, as you can see here, the commercial assessment we have got to inform the board is about is there a market; is it a growing market; is there competition out there? That can only come from external sources. Now, we do have, interestingly, on the board of Digital Jersey tremendous knowledge in that digital sector that we may be able to get and that may cost us nothing, because those people already have a relationship with us. There may be other instances where we do have to go out and effectively procure that commercial analysis if it is something that is not deliverable from within our own knowledge base.

The Connétable of St. Brelade:

In terms of the board, presumably then it will be a good idea to have more than less people with that type of experience that can provide you with some of that knowledge, presumably, I would say, free of charge.

Chief Executive Officer, Economic Development Department:

I think we have been very clear in some of the discussions that we have had with individuals about the notion of the Innovation Fund. Some of the people who are resident in the Island who have made their career and their fortune from making successful investments in innovative products and services are very enthused about sitting on a board such as this and giving something back to the Island by giving of their experience.

The Minister for Treasury and Resources:

We have got an amazing array of entrepreneurial talent that is either Jersey-born and gone away and come back here and retired, or people that have come here for 1(1)Ks or others, and we have got a big resource and we need to tap into some of that, and people do want to serve and give something back to the Island in which they live and we just need to give people some time to have the opportunity to do it. Just standing for the States is not the only way you can serve your Island.

The Deputy of St. Martin:

I think we just want to be clear as to how this fund is going to be administered and where the costs of it are going to come from. We can presume then, Mike - or Dougie for that matter - the economic impact assessment and the written reports of the board are going to come from you and that is not part of the £100,000. That is going to come out of your existing budget?

Economic Advisor:

Existing budget, yes.

The Deputy of St. Martin:

The six-month reviews and that type of thing will all be done in-house as well?

The Minister for Treasury and Resources:

The fund is not going to be recharged any costs within E.D. All E.D. services and economic services and treasury where that is appropriate, that is a zero cost to the fund. £100,000 is the estimated cost because you may need to get some additional outside ... whether that is an Alex Picot bit of accounting advice or a bit of marketing analysis for somebody to check up on something.

The Deputy of St. Martin:

It is quite obvious but I will state it anyway. If you have got £5 million and you divide it up into £20,000 chunks, that is a lot of applications and a lot of administration and a lot of reports that take up a lot of time and effort to spend administering that. Obviously if you chop it up into £2.5 million chunks it is not very many. Do we have a level in mind that is a maximum for an application for this or for an award? Do we have a feeling for the size of the loans or advance that might be given? If I could just explain where I am coming from; when reviewed the Tourism Development Fund I very much got the impression that if you went to the T.D.F. (Tourism Development Fund) with a large-scale application, a 6 or 7 figure application, you would be told: "No, it is too much of a hassle," and you might be steered towards the Innovation Fund. That is what we were told. Is that the feeling you get, that the Innovation Fund is here for larger applications and that smaller ones might be directed elsewhere?

Chief Executive Officer, Economic Development Department:

No. Interestingly, the Minister for Treasury and Resources gave an example earlier of somebody who comes to us looking at app development and maybe wants £30,000. 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 should not be a filter. We have in the recent round of T.D.F. applications seen some very significant 6-figure bids, which are good projects and the board is actively considering them.

The Deputy of St. Martin:

So there is no maximum amount with this Innovation Fund?

Chief Executive Officer, Economic Development Department:

Jim will remind me. Is there maximum amount per loan that we can ...

Project Advisor, Treasury and Resources:

No, I think that is right.

The Connétable of St. Brelade:

In terms of assessing the loans in both departments, are you confident that you have got enough existing people as a resource or will you need any additional staff to carry out any of this work?

Chief Executive Officer, Economic Development Department:

From an E.D.D. perspective in terms of the administration of the loans, as I said in the report, I think we can do it from within our existing resource. That is a capacity issue. In terms of capability, if there was a technical due diligence for instance, that is what the £100,000 is there for

should we need to procure that from outside. But remember, the investment professionals who will sit on the board and who will be making the recommendations - because Dougie and I are *ex officio* members of this - are going to come from an environment where their whole background is about evaluating these type of investments.

The Connétable of St. Brelade:

But you do not foresee any additional roles being created within E.D.D.?

Chief Executive Officer, Economic Development Department:

I can assure, as we have said to the panel before, Economic Development's model is to reduce the number of people per year, not increase it. So no is the answer.

The Minister for Treasury and Resources:

There are business start-ups that are happening all over the world, every day. Sometimes they are absolutely enormous and I know we are a small Island with 100,000 people. If somebody came up with a fantastic idea that had a credible business case where everybody said: "Goodness me, I wish I had thought of that," and it was 250 people within 3 years in the digital space or something then, frankly, let us tool up and do it. I do not want to be a broken record and I know we are not going to reduce unemployment to zero, but we have 1,700 and rising because of play.com and other things that we know are going to happen. We have to find positions for hundreds of people. That is a wakeup call. We have hundreds of people and there are people in employment today that are not going to be in employment in a few months because of the economic situation.

The Connétable of St. Brelade:

I may as well ask another question. If this fund is successful, as we hope it may well be, and it does produce significant amounts of extra funding, that funding will remain within the fund. It will not be drawn off at any stage?

The Minister for Treasury and Resources:

No intention of that.

Economic Advisor:

No. The payments go straight back into the department.

The Connétable of St. Brelade:

To be reinvested in further business?

The Minister for Treasury and Resources:

Yes. I think we have got 2 or 3 years of really hard work to drive economic growth and to drive jobs. I am seeing the Chief Minister at 5.00 p.m. and the Minister for Economic Development and I have been reassessing our priorities this year. We are taking a step back and saying: "Are we doing enough?" I think we are doing a lot but I think certainly there is a capacity issue and I think, from a Treasury perspective, my job is to make sure that I do everything possible to meet my income projections. I think I am going to meet my income projections for 2013 and 2014, but I am going to have to get people to work hard to make sure that we get the incomes levels in 2015 and then when the next M.T.F.P. comes around for the next slug of health money that is going to be required, we are going to have to work hard if we do not want to see G.S.T. going up.

The Connétable of St. Brelade:

I know we have mentioned loans and grants. Just one point in terms grants, it does state that it will only be considered in exceptional circumstances. What do you mean by exceptional circumstances in terms of a grant?

Chief Executive Officer, Economic Development Department:

The base assumption is that we will be able to loan the money to the venture and it will have the capability because of the business plan that it has put forward to repay those monies over a period of time, with interest. That is what we would suggest that the majority of funding is. There may be examples where that is not appropriate and it may be more appropriate - it if is, for instance, something that a business needs as a one-off, just to support a particular piece of activity - the Innovation Fund may say: "We do not need to give them a loan which they need to repay. We can grant fund this because if they are successful it will drive more export business." They would be examples of where that is the case, but generally we would be investing in early-stage or start-up businesses that had a growth path, that would get produce to market or services to market, that would generate revenue that could service the loan. What we would be doing is providing an element of access to finance that was not available from any other source.

The Deputy of St. Martin:

Could I just ask though, it says here quite clearly for Project Eligibility: "Funding will range from direct business support for start-up, growth and innovative investment" - as you just said, Mike - "through to strategic infrastructure in the private, public and third sectors projects." Can you explain how the third sector and the public sector could access this, because it seemed to us that innovation is generally a commercial private-sector-type affair?

Chief Executive Officer, Economic Development Department:

I do not know if Dougie wants to expand on that at all, but what we are expecting from the majority of applications is that they will come from the private sector. What we did not want to do was be totally prescriptive because it may be that there are parts of the public sector and particularly the third sector, who are increasingly delivering more services in the Island but again may suffer from a lack of access to finance, that we may be able to support and they can develop something that is innovative in terms of the delivery of services.

The Deputy of St. Martin:

I mean we had this again with the Tourism Development Fund where we found that we had public sector dipping into the Tourism Development Fund to fund things that they could not find elsewhere. Surely the public sector should not be dipping into an innovation fund, borrow money and then have to repay it with interest.

The Minister for Treasury and Resources:

Let me give you an example of defensible public sector subsidy from the T.D.F. We would not have easyJet into Jersey if we had not cut landing fees to attract easyJet into Jersey, who now bring plane-loads of visitors from Liverpool, Glasgow and ...

Chief Executive Officer, Economic Development Department:

Southend.

The Minister for Treasury and Resources:

Southend. Okay? Now, that was going straight into the airport, the public sector. I stand by that decision every day of the week. We have got easyJet here and, now easyJet is anchored here, we have now got more easyJet services opening up. Mike has rightly reminded me about Southend, which is now a new fantastic daily service bringing people in, low cost, and staying in hotels.

The Deputy of St. Martin:

You must agree, Minister, though, that taking money for the public sector through a Tourism Development Fund, if you just did it *ad infinitum*, why have the fund in the first place? Just take it out States' coffers and do it. I know there was an instance with subsidising the airport.

The Minister for Treasury and Resources:

Okay, let me take a third sector grant that was the T.D.F. I know we are not doing a T.D.F. review, but let us take Jersey Heritage Trust with the forts, follies and towers project, which was

refurbishing of the visitor accommodation; the upturned boat down at S. Ouen. It is St. Ouen, is it not, Connétable?

Chief Executive Officer, Economic Development Department:

Barge Aground.

The Minister for Treasury and Resources:

Barge Aground, yes. Okay, public asset which we have got some fantastic tourism marketing about an upturned boat and we have kept that in *de facto* and public ownership.

The Deputy of St. Martin:

This is granted money, not loaned money, though, Minister, is it not?

The Minister for Treasury and Resources:

We lent it and they are paying it back.

Chief Executive Officer, Economic Development Department:

No, we granted that from the T.D.F.

The Minister for Treasury and Resources:

Yes, okay.

Chief Executive Officer, Economic Development Department:

But what is happening is that ...

The Deputy of St. Martin:

The difficulty that we have is that on one hand we have got a report here which emphasises very much: "Only in exceptional circumstances would it be granted," and it should be loans.

The Minister for Treasury and Resources:

I am loose in my wording. I will be tighter in my language because I am not going to make these decisions. It is these guys that are going to do it. A repayable grant I should have said. They are making the basis, and I accept that, that they are going to hand some money over to an organisation which at some point, because of the success of those organisations, is going to be repayable.

[16:30]

Chief Executive Officer, Economic Development Department:

But can I make a specific point? The Minister's example of forts and fortifications is a perfect example and I think it does go to the heart of what you just said. Even though that money was grant-funded to Jersey Heritage, Jersey Heritage as a consequence were able to develop 3 or 4 properties which generate significant revenue for them, add greatly to the product in the Island, the self-catering product, and provides revenue funding for Jersey Heritage, which reduces the burden on the public purse.

The Deputy of St. Martin:

I do not dispute that for one minute. I think that was a wonderful idea. The problem is that we have a report that states quite clearly that only in exceptional circumstances will grants be given and goes on to say that these loans will be given to public and third sectors. I just find it confusing because I would not normally expect that ...

The Connétable of St. Brelade:

There is another issue with that because, again, it mentions public use but it also mentions: "in the scope of the fund." Sometimes alarm bells may ring when you put one and 2 together and you get the wrong number, but it also says: "enable funding investments and infrastructure." Now, what does it mean by that, for example? Infrastructure can mean an awful lot of things. If it meant Digital Jersey, for example, I could understand that being a good use of Innovation Fund money. But what do you mean by infrastructure when you use it in the scope of the fund, when you also say that it could be used for public-funded issues?

Economic Advisor:

It is just worth coming back to the definition of innovation because I think new products and new processes are not solely occurring in the private sector. Yes, it is harder to think of examples in the public sector and the third sector but if it meets the criteria then I do not think we should be excluding anything. As I said earlier on, the fund is there to fill a gap in our policy area on innovation, which covers a whole area of things, and it is designed to be able to meet a number of different requirements.

The Connétable of St. Brelade:

The scope of the fund is quite wide-ranging ...

Economic Advisor:

Yes, because innovation is very wide-ranging.

The Connétable of St. Brelade:

... and that is why I am trying to narrow it to be what it should be.

Economic Advisor:

If it is in the third sector and it is going to create jobs, create economic value or have spin-off impacts in other third sector organisations or even into the private sector that should not be precluded from it. Yes, it might be harder to think of the examples, but if we got the assessment criteria right then whether it is public, private or third sector does not matter, does it, if it is going to deliver?

The Deputy of St. Martin:

We are not expecting charities to pay back loans with the sort of levels of interest that we would expect this fund to be creating.

Chief Executive Officer, Economic Development Department:

Under sections 4.2 and 4.3 it talks not just about interest on loans. It also talks about royalties. Now, take the forts and fortifications as an example. It would be legitimate, in the context of the Innovation Fund, that rather than see that as a loan it could be a grant on which royalties on revenues generated as a consequence of that grant were paid. That is an option. That links investment in the grant form to the success of that and the revenue generated from it. This is why I said we have been very clear that the nature of the funding agreement and the nature of the funding has to be looked at on a case-by-case basis.

The Deputy of St. Martin:

But at the same time, Mike, you have to accept that you have said already yourself it would be very nice to have it self-replenishing.

Chief Executive Officer, Economic Development Department:

It would.

The Deputy of St. Martin:

But every time you give out a grant, every time you give out a loan with variations on the theme which is not going to be paying a reasonable amount of interest in a reasonably short time ...

The Minister for Treasury and Resources:

Hold on, I think there is ...

The Deputy of St. Martin:

... you reduce the ability of the fund to be self-replenishing.

The Minister for Treasury and Resources:

Okay, fine, but I think there is ... and this is where I am ...

The Deputy of St. Martin:

If we are changing the emphasis we need to say: "We are going away from loans."

The Minister for Treasury and Resources:

No, we are not. I think there are a few things. First of all, I do not think we should get hung up on interest. I think where I would like to see E.D. going is that if they give a repayable grant of £100,000 to a really snazzy idea in I.T. there is not a lot of point in charging them interest in the first 2 years of their start-up. They might do and I am completely at ease with them thinking about how to get that money back. If the business is going to be successful then the business is going to be able to repay its seed capital in a variety of different ways. I am not sure whether you are going to do this. They could take a stake in the business. They could take a royalty payment of it. They could put a low-interest charge that is only payable after 3 years. I think we have got to be innovative in getting this money into these businesses to get them started and I am delighted. I think there is a lot of learning that has happened from previous examples of where the States has tried and, Connétable, you are right. We have not been as bold in the past as we are trying to be now, but we have done some things. We have got experience from the Jersey Information Society Commission. That was set up in 1998 with £10 million from the Strategic Reserve to kick start then I.T. developments. A lot of that went in education to buy computers, to help young kids get computers otherwise. It funded the Jersey Legal Information Board and the digitalisation of all our laws which have been massively productivity-driven and I think we have got lessons that we have got from J.I.S.C. (Jersey Information Society Commission), from the T.D.F., from the Small Loans Guarantee domestically and we have learned from other countries and from the experience - and that is where Dougie has done the research - on other places that done innovation funds. So I think we have got to be flexible and allow them to be flexible in terms of the way that they are doing it. If their guiding principle is: "Get the money back after a period of time," fantastic.

The Deputy of St. Martin:

But surely you have got to accept, Minister, it is pretty difficult to get to a self-replenishing type of fund. It is difficult enough doing it with tight repayment schedules and reasonable interest rates. Any variation from that is going to make this fund very difficult to be self-replenishing. It is going to continual top-ups.

The Minister for Treasury and Resources:

I think Mike's ...

The Deputy of St. Martin:

He said it would be very nice if it could be.

Chief Executive Officer, Economic Development Department:

Yes.

The Deputy of St. Martin:

It does say in the report ...

Chief Executive Officer, Economic Development Department:

What it says in the report is that there is no intention that this is a sinking fund. That would mean that all of the monies given were given by grant and there was no form of financial return. That is not the intention. Are we going to need a process to replenish on a 100 per cent level? Well, in the event of spectacular success, if we had a revenue-driven royalty bit, one would hope we would be and there are examples from other jurisdictions that we have looked at in the case in point where there have been spectacular successes of that nature. But I think what we have to have is the flexibility to tailor the support to the case that the board will look at.

The Connétable of St. Brelade:

What sort of ongoing monitoring arrangements will be put in place for each company that you invest in?

Chief Executive Officer, Economic Development Department:

Well, we will follow, with a one-to-one relationship between a member of E.D. staff and the business, the progress of that business. We may delegate some of that to Jersey Business, which is fully funded by E.D.D., and they have a role in providing some of the non-financial support to these businesses, as the sweet shop lady ...

The Connétable of St. Brelade:

Would some of that monitoring be done by some of the entrepreneurial members of the board, for example?

Chief Executive Officer, Economic Development Department:

It could very well be, or indeed entrepreneurial members of the Digital Jersey board who are more than happy to participate in any way, I am sure.

The Connétable of St. Brelade:

Has the ongoing monitoring been included in the costings in terms of that £100,000 management structure?

Chief Executive Officer, Economic Development Department:

No, the ongoing monitoring would be done within existing E.D.D. resources or resources that we already have budgeted from third parties. For instance, if the Innovation Fund is going to support a new start-up business, it would be very sensible for us to talk to our colleagues in Jersey Business who either sit on the board or in the newly recruited team and say: "There is a natural link there. You are fully funded to provide business advice and support. The Innovation Fund has handled the issue of access to finance and now we can work together to ensure that that is as successful as possible." That was the reason that we put Jersey Business together, so we had that type of private sector board and then public sector business and business advice with it.

The Deputy of St. Martin:

Who is tracking the performance and monitoring the fund on a regular basis or who is doing the audit on this?

Chief Executive Officer, Economic Development Department:

E.D.D. will be tracking the performance on an investment-by-investment basis, reporting as we do with T.D.F. on an annual basis, but the Treasury report I think on a 6-monthly basis on all the funds under its remit.

The Minister for Treasury and Resources:

I am not going to be a non-executive and Shadow Minister for Economic Development because we all have got to work on our priorities and I do not want them thinking I am breathing down their neck, but we are going to have a monitoring, as we do with all things, and it is set out effectively on managing risk register, updated, notifying the board. It is set out on page 13 - thank you, Jim - for annual reporting. We have got a bureaucratic system. Not stifling in a bureaucracy. We have a system in place for monitoring, but it is the informal monitoring as well. It is the water cooler discussions that I have with the Minister for Economic Development on a daily basis and Mike King coming up to see me and me seeing the Economic Advisor and me being actively interested in: "How is it going?" Have I got a formal reporting system in place for Digital Jersey? No. But, by goodness me - and Mike is smiling - on the Digital Jersey, we put the money into Gigabyte. I found the money for Digital Jersey start-up and I put it in the M.T.F.P. and I have kept, I can assure you, a very active interest in: "How is the board selection going? Have you got very good people? Have you got good non-execs? How is that going? What has been happening?" So it is the Cyril Le Marquand House bubble that is actively working, if I may say, with the Minister for

Economic Development there, with me there, with the Chief Minister. We need to put a lot of energy and effort and challenge.

The Deputy of St. Martin:

I certainly do not want to talk things down and I like to look forward with a glass half full, but this is £5 billion of taxpayers' money, Minister, and if after 18 months there is only £3 million left and there is nothing to show for it, who is going to make the decision that that has not gone very well? Do we stop? Do we carry on?

The Minister for Treasury and Resources:

No, I think if that is the result then we put another shot of caffeine into the machine and we work up and say: "What has gone wrong? What can we do? What lessons can we learn?" Failure is not an option here. There is no plan B of failure. We have got to make this stuff work and we are going to make it work.

The Connétable of St. Brelade:

But there is going to be some failure.

The Minister for Treasury and Resources:

Some failure, yes, but the Chairman said: "There is £3 million left and you have got nothing to show for it." That is not an option.

The Connétable of St. Brelade:

Okay. You mentioned a formal reporting process. Would there be a formal reporting process put in place for companies or businesses that are looking like they are going to down the Suwannee, i.e. (*id est*) are we looking at possibly recovering any bad debt we can recover from that company? What process would be put in place to ensure that, when we see things going wrong and we know there is no way back, how are we going to deal with it? There has got to be some way of protecting any money that we have invested into some of these companies and getting back whatever we can if things do go wrong.

Chief Executive Officer, Economic Development Department:

Yes, and things will go wrong and there may be parts of the investments that we make that we have to write off, but the fact that we will be following each of those investments carefully, either directly or through Jersey Business or Digital Jersey, if there are things starting to go wrong I would hope that we will be in a position to intervene to correct that. It is only *in extremis* that things will fail. But coming back to what we said earlier, many of these businesses will suffer from a lack of collateral. So in the event of failure it may be necessary to write those monies off

because we are investing in innovation. We are not investing in innovation backed by physical collateral, which is what the banks do.

The Connétable of St. Brelade:

But I do not want people that are going to want investment thinking: “Well, if it all goes wrong it does not matter.”

Chief Executive Officer, Economic Development Department:

No.

The Connétable of St. Brelade:

That is what I am trying to say. Is there going to be a formal recovery process if something goes wrong and what will that cover?

Chief Executive Officer, Economic Development Department:

Yes. Within the funding agreement there will clearly be a recovery process if there are assets, for want of a better word, from which value can be recovered. That is what will be part of the agreement.

The Connétable of St. Brelade:

Would Treasury have any role to play in any debt recovery or would you leave this totally to E.D.D. and let them sort it?

The Minister for Treasury and Resources:

The questions you ask are asking are all very good and we could bore you with all of the legal requirements. There are guiding principles about the way that things are run in the States to ensure value for money and appropriate financial controls across the board. This man is legally responsible for value for money and he can be hauled before the P.A.C. in public and the Comptroller and Auditor General can call in all the papers of all the decisions that have been made. People have to understand that in public life in Jersey if you make bad decisions you are going to be held to account in public for those things.

[16.45]

People are not unaware. One of the problems I think in the States is that we have got to encourage people to take some more risks because what we do is we say to them is: “Do this. Take some risks and, by the way” - and we politicians and the political environment sometimes are absolutely dreadful in saying - “then we are going to murder you and we are going to wreck

reputation and we are going to humiliate you in public.” We want our public sector people to believe that politicians are going to back them in taking some proper risks. So I do not want to frighten. I can assure that there is an appropriate governance structure, rules, in place to ensure value for money. Jim and my role and the Treasurer with our own fault systems in place plus our own internal audit, we have got all that. We are doing this all the time. We are challenging people and bringing people in and saying: “What are you doing? Why are you doing this? Has that worked? Can we learn lessons from that?” That happens all the time. But in reality, if I go back to where I started, I think the scale of problems that we have and challenges and wanting to be optimistic is needing to allow people to take some appropriate risks and not telling them: “If you go through a proper process, if we can audit your decision-making, if you have made something fair and proper and all the rest of it and it still goes wrong we are not going to take your head off.”

The Connétable of St. Brelade:

No, and I agree. Boldness is great and we do not want to stifle, but you may have to bore us at some stage about the process of what happens if something goes wrong because that is something that we as a panel, I think, need to find out about it.

The Minister for Treasury and Resources:

They are good questions and if you want assurance on that ...

The Deputy of St. Martin:

This might not be £20,000. This could be a lot of money.

The Minister for Treasury and Resources:

We take some of this stuff for granting, if I may say, because we know what they say.

The Connétable of St. Brelade:

I have not seen it and some of us have not seen it.

The Minister for Treasury and Resources:

Fine and I appreciate that. Jim, did you want to say something on that?

Project Advisor, Treasury and Resources:

Certainly the intention is that once the funding agreement is in place for any of these individual loans ... in fact the Treasury has a mechanism in place for that: monthly collection of monies for reporting on, if you like, aged debts and all that sort of thing. So I think there would be the regular review of that position; the J.I.F. Executive then starting to talk to the company, flagging it up with

the board. I would expect the certainly the Innovation Board itself would want to know how things are going in terms of ...

The Connétable of St. Brelade:

In terms of payment for interest on a loan, would that come straight to Treasury or again does that go to E.D.D.?

The Minister for Treasury and Resources:

We deal with the administration.

Economic Advisor:

We would collect it but it would be credited back to the Jersey Innovation Fund.

The Connétable of St. Brelade:

So if there was an issue about it, it would be dealt with by the States?

Economic Advisor:

Yes.

The Minister for Treasury and Resources:

Let me give you some examples of some of the things that you would not necessarily know unless we told you what happens. The Treasurer has a quarterly reporting with each chief officer on their business plan. So the Treasurer sits down with each chief officer on a quarterly basis in their office or she goes to them with other Treasury officials and says: "Right, Mike, how is that budget to actual going?" That is the standard ...

Chief Executive Officer, Economic Development Department:

On a line-by-line basis.

The Minister for Treasury and Resources:

On a line-by-line basis we account for things. We have a budget and a line item and there is an actual versus delivery and that is reported. Ministers have quarterly reports and 6-monthly reports. Ministers have 6-monthly reports. I go to the Council of Ministers and show quarterly reporting. There is a whole governance of financial control that is in place in the States of Jersey and I can assure you that this ... we see States and we see failures and we see bad decisions but we spend, as an organisation, £650-700 million; if you add on Social Security, £900 million a year. We do financial control. That is what we do.

The Deputy of St. Martin:

Can I then ask ...

The Minister for Treasury and Resources:

The Treasurer, in that informal treasury reporting, will include in her quarterly visit down to the Chief Officer of E.D.D., I am sure, the Innovation Fund ...

Chief Executive Officer, Economic Development Department:

I am sure she will.

The Minister for Treasury and Resources:

... as she does with the T.D.F.

The Deputy of St. Martin:

I am going to ask how much we have put aside for administering this fund then for the next 12 months. You say it is coming out of your internal funds, but how much do you expect ...

Chief Executive Officer, Economic Development Department:

It is coming out of our internal resources.

The Minister for Treasury and Resources:

That is right.

The Deputy of St. Martin:

Yes. So how much do you expect to spend on it?

Chief Executive Officer, Economic Development Department:

An individual from within E.D.D. will be nominated, as they are with T.D.F., to do all of the administration of the fund.

The Minister for Treasury and Resources:

They are paid for.

The Deputy of St. Martin:

But you do not know how much that is going to be.

The Minister for Treasury and Resources:

No, but their salaries are paid for.

Chief Executive Officer, Economic Development Department:

They are paid for. They are part of my existing establishment.

The Minister for Treasury and Resources:

E.D. has a budget, which we agreed in the M.T.F.P., which exists of a certain headcount of people and some of their time is going to be deployed on these duties.

The Deputy of St. Martin:

Okay.

The Connétable of St. Brelade:

Could I just come back to a question? I know we are going into debt recovery.

The Deputy of St. Martin:

No, that is all right.

The Connétable of St. Brelade:

What processes are in place to report and request if things are going wrong? You started to go into it.

Project Advisor, Treasury and Resources:

Yes, and it is part of the debt collection process, if you like, which is automated. There will be monthly reports that sort of show the debts outstanding: current, 30 day plus, 60 day plus and 90 day plus. Those are provided to the chief officers and will be monitored on a regular basis. Obviously within that the J.I.F. Executive will be looking at it on a regular basis. There are normal processes automatically in place, follow-up letters in place and what have you, but I think the J.I.F. Executive will be looking at them more closely because of the very nature of what we are dealing with and will be maintaining, as part of his after-care process, regular meetings with these companies to discuss progress and so on. This clearly would be something that they would be raising on a regular basis specifically with them.

The Connétable of St. Brelade:

I do not want to see anything failure, do not get me wrong, but I just want to know at what stage you would say: "Enough is enough," just so we have got an understanding about how the actual fund is going to run and what those criteria would be.

Chief Executive Officer, Economic Development Department:

You would have to judge that on a case-by-case basis.

The Connétable of St. Brelade:

I agree.

Chief Executive Officer, Economic Development Department:

But there may be a point where a business plan, despite whatever our subsequent support for it would have been, is not going to succeed and that is the point of failure. That is when we would go into recovery.

The Connétable of St. Brelade:

Is that a board decision, Mike, or is that your decision or is that Alan's decision?

Chief Executive Officer, Economic Development Department:

That would be a board decision. I think Alan would have to take advice from the board and from me as the accounting officer that that was the case because what we would effectively be doing in that instance is writing off those funds. Now, that would be a ministerial decision, as any write-offs that we do. We have done them in the past with agricultural loans, for instance. It is a ministerial decision. It is public and it has to be properly justified.

The Minister for Treasury and Resources:

That is a good example of financial controls and, Steve, you will know the history of agricultural loans.

The Deputy of St. Martin:

Absolutely.

The Minister for Treasury and Resources:

Okay. So we have been there, done that and got the T-shirt on a few issues. E.D., to their great credit, has done a great job in clearing up and cleaning up some very poor decisions made on agricultural loans. Do I have confidence in E.D. in making those decisions, Connétable? Yes, I do. Look at their track record with agricultural loans. They inherited a right Horlicks of a problem and they have cleaned it up. I have had regular reportings of it and if they do as well as that as they do in other things we will be okay. So there is a track record.

The Connétable of St. Brelade:

I think you underestimate my confidence in E.D.D.

The Minister for Treasury and Resources:

No, no. This is by nature a questioning and you are asking all the right questions, Connétable, and it is our job to answer.

The Connétable of St. Brelade:

I doubt that very much.

The Minister for Treasury and Resources:

No, you are.

The Deputy of St. Martin:

We have got 5 minutes left, Minister, and this is not particular full on subject but I would just like to get your views on a number of initiatives that are coming out of the growth strategy and I am just going to list them. I just want to know how you see the Innovation Fund working alongside Jersey Business, Local Jersey, Digital Jersey and the Tourism Development Fund. There is a lot of interaction to go on there and how do you see that working? The Innovation Fund, a large pot of money is going to be sitting there quite soon that is going to be available. Are you looking for all those other entities to be accessing the fund?

The Minister for Treasury and Resources:

Jersey Business provides business services and is now the combined unified body which consisted of the Jersey Business Enterprise and they provide business support and business advice. Free advice?

Chief Executive Officer, Economic Development Department:

Free advice. Fully funded.

The Minister for Treasury and Resources:

Free advice, fully funded. What is the budget for Jersey Business?

Chief Executive Officer, Economic Development Department:

About £700,000.

The Minister for Treasury and Resources:

Right, okay. That is a serious amount of money for business advice and some of that is preventative. Some of that is a control to help people not make stupid decisions and start making investments with their own money into stupid business ideas that are not thought through, that have not got the right regulatory approvals for all sorts of different reasons and all the rest of it. Is

Jersey Business going to help and provide some business advice for some of these new start-ups once they have got their capital? Once they get their grant and loan, royalty arrangement or whatever, then these businesses are going to be up and running. Jersey Business is going to provide some support for that and that is going to be an added control for these guys because one of the things Jersey Business Venture did is stop people making stupid decisions and make people be realistic. Lots of people have got whacky ideas and some people just have not got the organisation to follow them through.

The Deputy of St. Martin:

So you are definitely looking for Jersey Business to be informed of the process in early days?

The Minister for Treasury and Resources:

Absolutely. Digital Jersey is our flagship body to raise the prospect and raise the level of I.C.T. (Information and Communications Technology) innovation in Government, in the existing business sector and to attract businesses to Jersey on the back of fibre and our tax system and our new laws and all the rest of it, but Digital Jersey has not got any cash to inject into businesses. That is where this Innovation Fund potentially comes in and there is going to be some spin off into good ideas from Digital Jersey saying: "Go to banks, go to the investors or your business angels or go to the Jersey Innovation Fund," or Digital Jersey may take by the hand a good idea and walk into Barclays Bank or HSBC or some other wealthy people who want to invest some money. Sometimes they will say: "This one should go to Digital Jersey." Locate Jersey is to provide a concierge facility of business that express an interest in setting up that we want to fast-track. We do have bureaucracy. We have high levels of bureaucracy because people need Reg. of Uns. (Regulation of Undertakings) consent, they need housing consents and we have got lots of red tape which we politicians need to have in place to do certain other objectives. So Locate Jersey is concierging and promoting. Could I see Innovation Fund businesses ... yes, I could see a non-Jersey idea of (and this is at the extreme end) an inward investor coming forward with an idea. It is possible but I am not sure that one is going to be happening very often.

Chief Executive Officer, Economic Development Department:

No, but one of the things we are doing with Locate Jersey or we are planning to do is to work, for instance, leading U.K. universities to establish whether Jersey can be a place where some of the intellectual property that is generated can be commercialised. Say you had a couple of former researchers from Imperial who wanted to start up a business and needed access to capital to make it happen. Had that business had employment generation potential in the future, that could very well be something that we would consider as an example.

The Minister for Treasury and Resources:

Just a side comment. If you do not do research and development and you do not invest in research and development you are not going to understand the way the world is working and where markets are moving. Investment in research and development is absolutely critical in delivering productivity and innovation and the States of Jersey perhaps has not fostered a climate in the past of research and development. That is changing.

Chief Executive Officer, Economic Development Department:

What were the other ones you mentioned, Chairman?

The Deputy of St. Martin:

I think you covered them all. I threw in the Tourism Development Fund but, of course, that is just an alternative to innovation really and it is a bit more localised.

Chief Executive Officer, Economic Development Department:

I think one of the things that is interesting, when we were going through the Digital Jersey recruitment process - and we really have got a spectacularly talented board there, I do not include myself in that - they were all aware of the Innovation Fund proposals, all something they brought up independently. You have got people there like Stephen Heppell who is one of the world leaders in education and the development of e-learning. If we had somebody that came forward with an e-learning application or e-learning business we would ally them very quickly to Stephen. An hour of his time for a business like that is hugely helpful. That is where those sorts of hook-ups can happen. We have not set up all of these things in isolation. They do all have to work together and they are established in such a way that they do work together. I think in the next few weeks we are having the first meeting of Jersey Business, Local Jersey and Digital Jersey, all coming together to look at common issues and how they can work together.

Economic Advisor:

Just in terms of the interaction with the other initiatives, one of the things it will hopefully do is act as a catalyst so that if we get it right, if we can show that we have got the money in the fund that can support businesses, then they will come out and ask questions. It might not be that it is real innovation, but it might be something for the Tourism Development Fund. It might be something that they just need actual business advice and we can say: "Jersey Business, that is what they are there for." So it can act as a catalyst between everything and get the sort of synergies moving.

[17:00]

Chief Executive Officer, Economic Development Department:

Something the Minister for Treasury and Resources mentioned earlier and it comes back to the Constable's risk, a very significant number, of not the majority, of people who are coming to us with bright ideas, the best piece of advice you can give to them is: "Go away. It is not going to work as currently configured. We can give you some advice to establish whether or not it has got a market potential or whether it has got growth potential." If you said: "Everybody who walks through our door has got to be given some money," you would be taking some very significant risk and we do not do that. We say no as often as we say yes and that is the right thing to do.

The Minister for Treasury and Resources:

You said that I was going to mention one of my stock phrases. This fund is not a self-service buffet. Sorry, I say that on lots of things: "This is not a self-service buffet."

The Deputy of St. Martin:

Is there anything else you want to ask?

The Connétable of St. Brelade:

Just one thing from me. In terms of doing this economic assessment that you are going to do with every case, is there a standard form that they do or is it really on a case-by-case basis?

Economic Advisor:

I think the bones of the standard form are on pages 16 and 17 of the document. The information that we require from the applicant is what we said we will need to be able to assess the things that we will look at from an economic perspective. Yes, we have got to accept in some of the smaller cases we do not have the same granularity but in terms ...

The Connétable of St. Brelade:

Are there parts of it that are more important or you put more stress on or do you really look at it as a whole package rather than ...

Economic Advisor:

I think ...

The Connétable of St. Brelade:

For example, the number of jobs that might come from that.

Economic Advisor:

If the decision is going to be made purely on the basis of the number of jobs, obviously that is where you want the real information on employment in the business plan. If you are particularly looking at value-added going forward that comes directly from ...

The Connétable of St. Brelade:

Are there any issues that are more important than others when you are putting that assessment together?

Economic Advisor:

I think it is the business plan that shows profitability, expenditure, what the levels of employment are going to be, and then some description of the innovation is going to be spilling over elsewhere, where we can see, yes, there is going to be some benefits out with just the individual that is doing it and some way of monitoring that going forward. I think the key one is getting the business plan and then you can also get estimates of tax revenue, which obviously is another thing from that as well that you would want to assess. But employment, economic activity and tax revenue are quite important ones.

The Connétable of St. Brelade:

Would Jersey Business have any part to play in the business plan if they wanted to play a part?

The Minister for Treasury and Resources:

They probably help write them.

Chief Executive Officer, Economic Development Department:

They may very well be helping people to write them, yes. The fact that we have moved business advice and support to give it far greater private sector input, which I think is absolutely the right thing to do, does not mean that it is completely disjointed from issues such as the innovation fund. More often than not people come to us with ideas and we will refer them immediately to Jersey Business because that is now where the capacity and the capability are to deliver that, as the sweet shop lady quite accurately identified. The only issue there was that she said: "Well, the States have done nothing for us." The interesting thing was that the States funded Jersey Business.

The Minister for Treasury and Resources:

I was amused by that: "What have the States ever done for us?" Well, the business advice that got you set up was funded by the Government.

The Deputy of St. Martin:

We will call a halt there, Minister. This is our first hearing of what is going to be quite an interesting review and we may well ask you to come back again in the future, I do not know, but we have the Minister for Economic Development on Monday and that is going to kick-start us. Again, thank you all for coming this afternoon.

The Minister for Treasury and Resources:

If we can help you in any way; Dougie has given some really hard advice and it might be useful for the panel to perhaps re-read, if I may respectfully suggest, the fairly hard amount of economic advice that the Economic Advisor did. He wrote a report which was one of the best pieces of work I have seen by our Economic Advisor and he has done a lot of stuff. He wrote a report developing a new growth strategy for Jersey in June 2011. That is a real wake-up call for people reading it about the need to act and to focus high-level jobs and to be realistic about the issue of diversification. We have not said much about the word “diversification” this morning and diversification drips off political tongues easily; about: “The solution is just simply a diversified economy by having tourism, fishing, agriculture and financial services.” Financial services provide a G.D.P. (Gross Domestic Product) per capital return which is a multiple of these other sectors and I am not down about tourism and agriculture and fishing but I am under no illusion that we need some other strings to our bow. I happen to think that digital and I.T. business is an important part of it, but we have got some work to do and the wake-up call is in this document. That was the first call to arms and that is before we lost L.V.C.R., I think. That was maybe on the way of being lost.

Chief Executive Officer, Economic Development Department:

No, that was before that.

The Minister for Treasury and Resources:

That was before that. That was before the economic situation in June 2011. I think we all thought that the economic situation of the world was going to be improving. It got worse. It was before the world changed in terms of now clearly a different trading environment for us, particularly in some aspects. So if the advice was hard-hitting then ... and I do not think people necessarily understood it or maybe we forgot it. I have re-read it. I regard this as a very important document. If the call to arms was strong then and the message was clear, it is now even more important and I am not “glass half empty” and I am not optimistic, but we have got some challenges and we must respond as politicians. I will end the lesson.

Chief Executive Officer, Economic Development Department:

One other thing I think I have offered to you in the past, Chairman - as I said, we are not the first people to do this and, in fact, most other jurisdictions do it - I can make contacts available to you in other jurisdictions where these type of funds are being actively run.

The Deputy of St. Martin:

That was one of the reasons I was interested because a lot of these funds elsewhere are looking for returns on their money in 3 to 5 years and 6 per cent return. I am glad in one way that we have established something today, which is that we may be going away from self-replenishing and we may be going away from loans with exceptional circumstances for grants.

The Minister for Treasury and Resources:

I think they should say: "Money given out, we want it back".

Chief Executive Officer, Economic Development Department:

As a for instance - sorry, the land of my fathers in Wales: their economic renewal strategy - there is no such thing there anymore as a grant. Every form of business support that is given by Government is given in the form of a loan and the only exception to that is that inward investment are given the support in the form of loans, but if they deliver the job opportunities that they commit to deliver then those loans become repayable over a much longer period of time. But support for start-up businesses is not done in the form of grants there anymore.

The Deputy of St. Martin:

There is more work to do and I am sure we will be speaking to you again.