

3.1 Connétable C.H. Taylor of St. John of the Chief Minister regarding the reasons why the Assembly was not informed of the agreement to increase the level of risk of loans from the Jersey Innovation Fund of not being repaid from 10 per cent to 50 per cent: [1(297)]

Further to a meeting held in March 2014 (described on page 28 of R.45/2017 and attended by the Chief Minister), which led to the formulation of Financial Directions for the Jersey Innovation Fund and an agreement to increase the level of “risk” on loans not being repaid from 10 per cent to 50 per cent, will the Chief Minister explain why this was done without the Assembly being informed?

Senator I.J. Gorst (The Chief Minister):

This matter was raised at a Public Accounts Committee meeting hearing last week. In that hearing it was acknowledged that the Assembly should have been informed that the Financial Direction estimated the level of risk of failure at 50 per cent. Although the timing just before an election was difficult and I do not believe any further decision was needed, a statement or report could have been provided and it was not.

3.1.1 The Connétable of St. John:

I do not feel the question has been answered but I will continue. Does the Chief Minister not agree that had the figure of 50 per cent been given when the debate took place many Members may have voted differently?

Senator I.J. Gorst:

That may be a conclusion of some Members who supported the creation of the Jersey Innovation Fund.

[9:45]

But other Members during that debate in their own comments said that they thought that while there was no agreement for a specific failure rate in the actual proposition they themselves talked about a 50 per cent failure rate. Some spoke about a 70 per cent failure rate. The Minister, when he was before Scrutiny, spoke about a 70 per cent failure rate. The question perhaps should be which - and which now with hindsight - was the correct rate. Now we see with hindsight that the 50 per cent rate that when Treasury started to look at how you could deliver this type of funding to these innovative ideas, it was going to lead to that sort of failure rate.

3.1.2 Connétable J.E. Le Maistre of Grouville

Could the Minister tell us who made the decision to increase the risk level from 10 per cent to 50 per cent?

Senator I.J. Gorst:

That is another good question. Looking through the Hansard of the Public Accounts Committee hearing - and some Members of this Assembly were there - it is clear that the Innovation Fund Board came and made the suggestion that the idea of 10 per cent or 20 per cent did not work. They proposed that it should be increased to 50 per cent, as the former chairman said in his hearing. They proposed that at a meeting that I was at. I have got to say I think that is a reasonable assessment of how these types of investments function from experience elsewhere. Then that conversation, together with further work that Treasury and Economic Development did, led to it being put into the Financial Direction.

3.1.3 Deputy G.P. Southern of St. Helier:

Surely the criterion used to set up the Innovation Fund was not hindsight but setting up proper procedures, checks and balances within the system correctly, so that these sort of problems could be ironed out beforehand. Is that not the case? Does the Chief Minister not agree?

Senator I.J. Gorst:

I am not sure what sort of problems he is wanting ironing out. The proposition did not have a failure risk percentage included in it. The report of course we know did. There were suggestions in that report of 10 per cent. The Minister for Economic Development, while at a Scrutiny hearing, suggested a 70 per cent figure, as was explained post that, would be a realistic figure for those who not only just failed but did not reach their full potential. I think it was right to say that there would potentially be a 50 per cent failure rate. The problem is, as the Comptroller and Auditor General suggested, that that was not relayed back to this Assembly in an appropriate way. Again, we know from the hearings last week that the suggestions were that both the board felt that you would not get that through prior to the election because the time period was too long, and it was therefore not acted upon. That is where the problem arose.

3.1.4 Deputy G.P. Southern:

Supplementary. The steer perhaps that the Chief Minister wants from me is that there should have been measures put in place in setting up the scheme that no political pressure could have been brought by any political members surrounding this scheme on the board members themselves because we now hear that they were subject to political pressure, did he not realise that?

Senator I.J. Gorst:

I do agree with that and I was surprised to see that in the Hansard of the hearing of the Public Accounts Committee and that is something that I am going to consider and investigate further because there should not be, in regard to individual decisions like that, political pressure. The whole point of having the expert innovative board was that they would get independent advice and then they would make the recommendation to the Minister. That should have been the point that there was ministerial involvement, not the other way round.

3.1.5 Deputy K.C. Lewis of St. Saviour:

While we support new business, does the Chief Minister believe the failure rate between 50 and 70 per cent is acceptable with public funds?

Senator I.J. Gorst:

If we are not prepared, and I have not heard Members say they were not prepared to accept the 50 per cent rate, with hindsight the question is: how was the figure in the report that then a different figure was put in the Financial Direction, and the States were not informed of that, that should not have happened. But if we wanted to invest in innovative ideas, innovative companies, you have to accept that level of risk. That is what elsewhere shows us. Banks do not invest in these innovative start-up ideas for the very reason that they have a responsibility to shareholders not to put that level of risk on their funds. That is why governments set up innovation funds, like the one that this Assembly approved.

3.1.6 Deputy G.P. Southern:

To what extent does the Chief Minister believe that his inability to put into action and bring to the States his decision to transfer responsibility to the Innovation Fund to his Assistant Minister in his department, why that took 13 or 14 months to bring it to fruition? Surely the Chief Minister himself must hold some responsibility for that absence of steering the responsibility.

Senator I.J. Gorst:

It depends how one wants to think that the Chief Minister might have been responsible. With hindsight - and hindsight is a pleasant experience to have, finding fault with others - perhaps I should have pushed the Scrutiny Panel to undertake their work quicker than they did, but I wanted to work with the Scrutiny Panel. They wanted to undertake reviews. There is documentation on file where they were asking me, first of all, not to lodge the changes, then to lodge the changes so they could do reviews. They did 2 reviews. My approach is a consensual approach. I do not like to see division between Ministers and Scrutiny. With hindsight, perhaps I should have pushed for the debate and then allowed Scrutiny to review it within the 6 weeks. Of course Members can say, well, therefore I was at fault. In that regard I was at fault.

3.1.7 Senator S.C. Ferguson:

With regard to the business of political pressure, will the Chief Minister investigate that and report back to the States as to where the political pressure was coming from?

Senator I.J. Gorst:

I have already indicated that I wish to investigate that further. I am not sure whether I will be able to conclude that, bearing in mind the former chairman, when asked at the Public Accounts Committee, said that he was not prepared to issue further comment.

3.1.8 Deputy M. Tadier of St. Brelade:

The Chief Minister talks about the power of hindsight but could he talk to us about the power of foresight? Was there at any point during the establishment of this framework the foresight to see the obvious problem when you change from a relatively low risk threshold to one of 50 per cent where these companies cannot even get loans from a bank because their businesses are so risky but government will quite happily throw money at them? Is there not some foresight among Ministers at the time to see that there are obvious problems on the horizon?

Senator I.J. Gorst:

That question gets to the fundamental heart of whether governments are going to step in and support innovation in a way that the private sector does not and cannot for the reasons that I have suggested. The board were quite clear and again the former chairman was quite clear appearing before the Public Accounts Committee last week, that had one taken what was in the report, the figure of 10 per cent, as I say, not in the proposition, rather than a more appropriate in-depth look at what the potential failure rate would be, which the Treasury function then undertook, one would not be supporting innovation. It is a straightforward decision. The board said that. They came and told Ministers and officials that and experience elsewhere shows that. So some Members were not in favour of supporting innovation; that is absolutely right. But these types of companies, this type of approach, we should expect that rough percentage of failures.

Deputy M. Tadier:

Can I raise a point of order? Just for the record in future, I do not wish to pick a fight here, but for future reference, and we do only have 10 oral questions today. I think there has been a previous ruling by a previous speaker that supplementaries should be allowed because it is within the supplementary questions from individual Members that one teases out the information. I just wanted to put that on record.

The Bailiff:

I do not think it was a position of generality that was being expressed on the last occasion. I think it was expressly being said in relation to the election of Ministers or panel chairmen, I forget which, and it is not a point of general application.

3.1.9 Deputy J.A.N. Le Fondré of St. Lawrence:

Could the Chief Minister, given his earlier comments, confirm that even at the end of April 2015, which is some 5 months after his initial proposals for the transfer of functions, the Corporate Services Scrutiny Panel was still seeking clarity from the Chief Minister as to what his final proposals were?

Senator I.J. Gorst:

It is not going to be useful for the chairman and myself to argue across the Assembly. Of course there was a change, and that is quite clear from the Q.C.'s (Queen's Counsel) report, that I had initially intended to create the post as a ministerial post within the Chief Minister's Department. That would have been my ideal situation. That came across those people who did not want to deliver that and said: "Why not just do an Assistant Minister?" But the chairman knows that they, in Corporate Services Scrutiny Panel, if my memory serves - and I could be corrected - had sight of the proposed changes prior to that date.

3.1.10 Deputy J.A. Martin of St. Helier:

In hindsight, can the Minister remember when this chaos was going on nobody knew who was running the show, did not one of his Ministers, or Assistant Minister who should have been in charge, come to the Chief Minister and say: "This is not working"? And if it was not working why did the Chief Minister not put in the right person with the responsibility at the time until the rules were changed? Why did he ignore it and just keep going as it was?

Senator I.J. Gorst:

I did not ignore it. I think it is clear from the confusion in the Q.C.'s report that I tried to ensure that responsibility was clarified but legally we were at the position that we were at, and it is not just about a legal position of course, it is the working of officers within a department that were sharing information and providing information to only one of those individuals rather than what would have been appropriate, the 2 of them, so that they could have made properly informed decisions. It is quite clear from the report. The Chief Minister works with goodwill and persuasion when he is outside of the legal responsibilities. So I was trying to work to alleviate that situation but it is quite clear from that report that that confusion, because of what I have just said about who was being given information and from whom information was being withheld, it continued.

3.1.11 The Connétable of St. John:

The Chief Minister has accepted responsibility for not reporting back to this Assembly over the increase in risk. You said there was a failure. There was also a failure to put into place the ability for the fund to benefit from equity growth in those businesses that were successful. Again, another failure. The Chief Minister, or any Minister, is responsible for his Assistant Ministers and as his Assistant Minister was responsible for the fund would the Chief Minister therefore accept that it was ultimately his responsibility and may I suggest he think carefully what he does about it?

Senator I.J. Gorst:

We can quite easily use this report for political point scoring, for personality beating up, for suggesting that the Chief Minister should act in a presidential style across all departments, and that the Chief Minister's word should be the writ of law, as the Constable has just tried to do

by suggesting that I should have said that departments and officers in departments should have done something and when they have not done it, despite what the law says, I personally should be responsible.

[10.00]

We do not have a prime ministerial or a presidential system. I do not for one minute think that the Constable wants that system because he has voted against changes and suggested he would not support changes to the ministerial system. If the Constable reads the report, and I think he was ... and reads the hearing of Hansard of the Public Accounts Committee, he will see that that quite clearly shows that there were failures of the officers in the Economic Development Department. The reports say that. Although we have now published the report into ministerial responsibility and action has been taken, there is further report into the responsibility of officers in that regard. Just because somebody comes into my office and has a conversation with me and asks my opinion, as they did about the risk of failure, it does not mean I am the decision maker. Under the law others are the decision maker. People ask my opinion on all sorts of things but I am quite clear about where legal responsibility and who is the decision maker absolutely lies. In both of those points that the Constable ... I see others shaking their heads. This is the system that we work in. If Members want to see a different system then I say let them propose it. I have seen from this report the changes that I think need to be made to this system to improve it and I ask Members to get behind those changes.