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### **3.5 Deputy S.Y. Mézec of St. Helier of the Chief Minister regarding the vetting of businesses prior to the release of loans from the Innovation Fund: [9493]**

What vetting takes place and what conditions, if any, are placed upon businesses before loans or grants are released from the Innovation Fund?

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

I would like to ask Senator Ozouf to answer this. I am grateful to Deputy Mézec for agreeing to waive his request that I answer it.

#### **The Bailiff:**

Senator, may I just say we have 2 questions on the Innovation Fund. This question deals with conditions before loans are released and not with what happens afterwards.

#### **Senator P.F.C. Ozouf (Assistant Chief Minister - rapporteur):**

This is a very helpful positioning of effectively 3 matters. We are going to also have a statement later on on the general issues of the fund, but I am grateful for Deputy Mézec's question; it is certainly the process before. So the Innovation Fund has advanced 7 loans to 6 companies over the last 2 years. The fund has not advanced any grants. The fund operates under the strict operational terms of reference that were approved by this Assembly - P.124/2012 - and that clearly defined the application process which was scrutinised and what matters should be taken prior to the Innovation Fund making a recommendation to the Minister to advance a loan. Due diligence, including background checks, a full and detailed analysis of business plans - and often carried out by the experts, entrepreneurs, on the Innovation Fund - and other forms of vetting specific to each application are undertaken. In addition, the Economic Adviser prepares an economic impact analysis based upon all the information provided by the applicant. The result of this due diligence reviewed by the board forms the basis of and including any recommendation the board makes to the Minister or, in my case, Assistant Minister obviously, to advance a loan. Each loan is conditioned by a loan agreement drafted by the Law Officers' Department and an associated repayment schedule. Consistent with the operating terms of reference loan recipients commit to report progress on the plan on a quarterly basis. I have reviewed the way decisions are made and am satisfied that both the board and officials have carried out what this Assembly asked.

#### **3.5.1 Deputy S.Y. Mézec:**

Supplementary. I am sure the Assistant Minister can anticipate what my next question is, which is basically how does £400,000 go missing?

#### **Senator P.F.C. Ozouf:**

I do not recall whether or not the Deputy was in the Assembly at the time. We brought an Innovation Fund forward in a world where there was a credit crunch. That meant businesses were not getting access to funding and where there is a gap in markets government needs to step in, and that is why the Innovation Fund was set up. It was made absolutely clear that, by definition, start-ups have a risk associated with them and some businesses will fail. Others will be spectacular failures and, as I have said in previous answers, no one has evidence of the future. Some businesses will fail, others will succeed and there can be and will be ... an indication of 50 per cent provision was made at the time and I hope that it is going to be less than that.

#### **3.5.2 Deputy R.J. Rondel:**

Would the Minister explain whether the loans are secured and how that is done against property or something else?

**Senator P.F.C. Ozouf:**

No, they are not often secured. Obviously there are personal guarantees and there is ... I cannot stress enough the diligence and the detail that the board, who have been appointed to carry out these tasks, go through. There are a couple of well-known entrepreneurs who have been approved by this Assembly and a chairman who is an Advocate and there is an enormous amount of due diligence gone in. No, they are not secured. By the very nature of a business it is going to be people that cannot access finance and sometimes they simply are not able to get bank loans. They certainly were not able to get bank loans at the time because of the credit crunch and so, therefore, there is a degree of risk and that has been made clear right from the start; it would be likely that there is up to 50 per cent write-off of the overall fund.

**3.5.3 Deputy R. Labey of St. Helier:**

I understand the start-up notion but was the whole of the £400,000 for the start-up and is it usual for such a large sum to be a one-off start-up cost?

**Senator P.F.C. Ozouf:**

That is a very good question and the fact is that I know what application the Deputy and other questions are naturally referring to. I, in fact, have a planned statement today anyway which has got nothing to do with the particular issue that has been in the public domain. It would be wrong for me to comment. As I have made very clear to the media, I am not going to comment on a specific business because it would be invidious to do so. What I can do is welcome any investigation under confidentiality arrangements with the P.A.C. (Public Accounts Committee) or the Scrutiny Panel process; that is absolutely open, but what I can say is that often with start-ups you need to put an awful lot of money in to effectively getting it into start-up phase and half a million pounds is a lot of money but when you are dealing with something that could be a really exciting product or service, which is going to be having a worldwide reach, which many of these applications could have done, and some will, then the money that went in, went into building effectively the sales pipeline, and on this occasion it may or may not be successful. It is too early to ... well, I do not really want to comment on the specifics.

**3.5.4 Deputy R. Labey:**

Quick supplementary. Is the business in question still trading and if it is not surely the Senator is at liberty to talk about it.

**Senator P.F.C. Ozouf:**

No. I am more than happy. We are dealing with a ... I do not want to raise expectations about any particular companies and I am going to be very careful in what I say in public because what I can say is that I am totally satisfied, and have been through the procedures that the ... this is almost going into the second bit of the answer that I was going to answer to Deputy Lewis, but the ongoing review process of what is happening with the company has continued and that continues to this day. But let us be clear, there are going to be some businesses that will not succeed and so, therefore, you almost have to say: "Well, are we going to continue to put money in something that ... and lend more money or provide more resource for something that will not work or is it a time to pause and see whether or not this great idea, which all of these companies have got some startlingly good ideas, can be redone elsewhere?" The other thing I would say that occasionally when stresses and strains ... people have got their own skin in the game too. They do not do this for fun. They are

good people, had a good business idea and putting their reputations on the line and sometimes in a stressful situation they will fall out if there is a failure. On some of the businesses, unfortunately, it is inevitable we will see that but there should not be vengeance against decisions because nobody has got evidence of the future.

### **3.5.5 Deputy G.P. Southern of St. Helier:**

My understanding is that this is not just a failure of a start-up; that the company has disappeared. Is it the case, in the Assistant Minister's opinion, that the board made an error or did the Assistant Minister make an error?

### **Senator P.F.C. Ozouf:**

Let me be absolutely clear about one thing. The Minister - and that is delegated to me - takes full responsibility and accountability for the decisions. While the recommendation is to the board it is the Minister who is the corporation sole according to the setting up of arrangements. So it is absolutely, I want to be very clear, that I do not think it is right or appropriate to apportion, with the benefit of hindsight, vengeance or unhappiness on some things, that with the benefit of hindsight, goes wrong. That would be entirely wrong. The board and officials have, on this occasion, in my view, acted properly and discharged their obligations properly so the answer is no. I think I would have made the same decision. In fact I did make the same decision in that I was a counter-signatory to that particular decision and it was a jolly good idea, as many of the others are, but some of them will fail and some of them will not. I am sorry about that.

### **3.5.6 Deputy A.D. Lewis of St. Helier:**

I wonder if the Assistant Minister could answer with a bit more clarity re guarantees. I appreciate that the reason why people have come to this fund is because the banks are not prepared to loan such funds but are there any guarantees at all given? Also the Minister mentioned the words "skin in the game", in other words, is there an expectation for applicants to have funds in the company themselves, in other words taking risk, with their own funds already before in fact they apply for Innovation Funding?

### **Senator P.F.C. Ozouf:**

Those are excellent questions. There is a good track record of governments around the world doing something called Zombie start-ups where the Government feels much better because it piles money into ideas and they do not work. Now, we have put up, effectively, a fund, approved by this Assembly, with very clear operational guidelines and a clear expectation at the time that credit was difficult to get and credit is almost impossible to get if you do not own your own home. If you are an individual who has been working and got a family and got a mortgage of 90 per cent, where have you got the ability to find the funding for your brilliant start-up idea? Now, that is the issue, so I am afraid there is not going to be, and this was the expectation, it is easy to be ... and I am not saying that any Member is going to be an amoeba. It is very easy to simply forget where we have come from on this journey to boost innovation and get good ideas to diversify our economy and create jobs and growth. Some will fail and some will succeed but we should not be effectively casting now doubt ... well, I am happy to be scrutinised on it but I will not reveal individual issues and if there is a failure, if you make it bankrupt, then it certainly will not get any money back.

### **The Bailiff:**

Assistant Minister, the question was whether or not guarantees were being requested and secondly, whether it was a standard term, not in relation to any particular borrowing, but the applicant had, as was put, "skin in the game"; put some assets of his or her own in.

**Senator P.F.C. Ozouf:**

I am sorry if I did not answer, you are right to pull me up. I am not going to comment in public on the commercial confidentiality arrangements of specific lenders that have been lent money from the fund.

**The Bailiff:**

No, it is about policy I think.

**Senator P.F.C. Ozouf:**

It is a policy, where possible yes, but generally no by the very definition that if you have got assets in a house then a bank will lend. If you have not got assets you cannot get credit and that is at the heart of the whole dilemma of the difficulty in the financial crisis where credit became almost impossible to access and that is the problem we are solving. Now, that means you cannot have guarantees but I am not going to make a specific in public comment about this particular applicant because it would be wrong to do so.

**3.5.7 Deputy A.D. Lewis:**

Supplementary. The Minister is not answering the question. It is a generally accepted fact that when you start a business you often put some money in yourself. So all I am asking the Minister is: when you use the tick box exercise of working out whether this applicant that stands head and shoulders above other applications, is the fact that they are putting some money in themselves, wherever that may have come from, in addition to what the Innovation Fund is going to give them, is that considered and is that one of the things that you use to assess the applicant?

**Senator P.F.C. Ozouf:**

One of the phrases that I like to use is: "Time is our most precious resource", so there is money and time and effort. I have been truly astounded at the amount of effort that the individuals themselves are going to in getting their business idea into a commercial success and getting the good advice from sometimes some really ... the people on the Innovation Fund have gone almost beyond the call of duty, I would say, in helping applicants get that business idea into a position and there has been lots of good work by Jersey Business as well and we have got Business Angels and all the rest of it. So almost, just because you have not got any money does not mean to say you have not got skin in the game. Some people have dedicated years of their life to programming or working out a good idea, getting skills or going to university or whatever to do it.

[10:15]

Yes, they have got skin in the game and it is often their time if they have not got any money but that should not be a prevention of setting up good businesses.

**3.5.8 Deputy J.A. Hilton:**

Just very briefly. The Minister, in his initial answer, said that reviews were carried out on a quarterly basis. Can the Minister tell Members whether he is satisfied that those reviews were carried out when they should have been carried out?

**The Bailiff:**

No, that is a question that will come as a supplementary to No. 13.

**Deputy A.D. Lewis:**

Would it be useful, if you would allow, to move on to that question on the next question rather than leaving it to the end of the questions?

**The Bailiff:**

Well, I must admit I had wondered about the idea of grouping questions. We often have this difficulty but anyway, Deputy Tadier, let us finish this one.

**3.5.9 Deputy M. Tadier:**

In my parents' generation the States would loan money for people to buy houses when they could not get bank loans. That stopped and it seems that this Government is now adopting more of a Dragons' Den approach when it comes to funding businesses, some of which the Minister has already admitted are very risky. It seems clear that the risk on the States and the taxpayers' money is clear but when a business is a resounding success, and that business may or may not, of course, pay tax in Jersey, what mechanisms are there in place other than the loan and possibly interest being paid back to make sure that the States benefit in the success of that business either in the form of a dividend or in the form of co-ownership of the profits that are being made given that it is taxpayers' money that is being used in the first place?

**Senator P.F.C. Ozouf:**

I was looking to see the transcript of the proposition which proposed this to see where Deputy Tadier made his comments because I am sure that many people of his economic view of the world would welcome the fact that government was stepping in into a period where banks and credit markets were not working to step in. Now, I do not think the Deputy is fair to say that nothing has been done for homeowners with the innovative way that Andium and the plans that the Minister for Housing has to get effectively people on to the ladder of homeownership and shared ownership, and I think things like the scheme at Trinity is the case. It is just simply not right to say that: "Oh, it is just solution of the States becoming a bank." The States only becomes a bank for businesses or home ownership when markets do not ...

**Deputy M. Tadier:**

May I raise a point of order? It seems to me that I would not be allowed to ask a question about home ownership or the about the Minister for Housing. It would be ruled out of order so could I ask whether it is appropriate for the Minister to use up most of his 90 seconds to answer a question which I have not asked and it would not be in order anyway.

**The Bailiff:**

The Chair does not take control over what a Minister says in answer to a question. It sometimes points out later on that the Minister has said something which is irrelevant or perhaps has not answered the question, sometimes. But on this occasion I think the point of order has resolved against you. Yes, Minister, would you complete your answer.

**Senator P.F.C. Ozouf:**

In relation to risk, which is an important question that he asked, start-ups have a risk associated with them and the return to the taxpayer is a return of jobs that otherwise would not be in Jersey. I can see Members again looking back to the lovely days when we have got lots of money from corporation tax. Corporation tax is not the way that we will raise revenue to any great extent in the future as we did in the past. We cannot reinvent the past and I would remind the Deputy that, as far as corporation tax, we have a greater proportion of corporation tax paid today than, for example, in the U.K. even with the Zero/Ten 20 rate. So it is about jobs and growth and diversification and this

fund was set up to do that and that is to the benefit of the Island and his constituents who are getting job opportunities that they would not otherwise have.

**3.5.10 Deputy S.Y. Mézec:**

I accept some of what the Senator says in that a government can take a macroeconomic approach to it where banks loaning money would understandably be more self-interested but does he accept that the public have legitimate concerns when they see this as such a large amount of money which appears to have just disappeared especially when we have the context of the history of a certain grant being given to a certain film company, also a very large amount of money, which seems to have disappeared as well? Does he accept that the public are right to be concerned about this and what is being done and can he assure the public that steps are being taken to mitigate the chances of money being given to businesses when it appears that it is unlikely that the business will succeed when that surely is the wrong place for government to be giving loans when there is no chance at all of seeing a return on it?

**Senator P.F.C. Ozouf:**

I do not think we will ever win because effectively Members of this Assembly and the public want investment in public services. They want a growing income line in order to fund their spending aspirations. Now, that is only going to be achieved with a growing economy. A growing economy which is increasingly diverse and an economy which is fit for the future because the digital revolution is changing everything and many of these businesses are just about that. I understand absolutely the point, and agree, that the public should be concerned about every penny of taxpayers' money that is spent, or I would say in this case, invested. Half a million is a lot of money but when I think about an acorn of a trust company that was sold last week for £435 million, every oak or valuable company employing hundreds of people doing reputable business starts up with a start-up and sometimes you have to invest in order to accumulate and these numbers may appear conveniently politically large, to compare against certain things, but if we are serious about growing the income line at certain points we must invest. My statement later on will say furthermore on that subject. I hope the Deputy recalls the support that this proposition was given in the context it was at the time.

**The Bailiff:**

Deputy Andrew Lewis suggested we should take his question, which is at the bottom, next. I am not going to do that because Standing Orders provide for the order of questions but I can say to Members that the Greffier and I have had a discussion about whether a change might not be considered at some point to group together questions on the same subject matter which seems to me to be far more sensible but it is ultimately a matter for the States. It will be referred to Privileges and Procedures and no doubt if Members have any views they will be able to pass them on to Privileges and Procedures for consideration. Now, we come to question 6 which Deputy Southern will ask of the Minister for Health and Social Services.