

2016.06.14

3.13 Deputy A.D. Lewis of the Chief Minister regarding follow-up checks on successful applicants of the Innovation Fund: [9498]

What follow-up checks, if any, are made on successful applicants of the Innovation Fund to ensure they are meeting their business objectives as set out in their original application, and is funding drawn-down in a lump sum or in tranches over an agreed period based on achieving those objectives? Thank you.

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

I do not want to repeat any of the ground I have taken. The Innovation Fund has advanced 7 loans, as said earlier, over the past 2 years. The fund operates under the scheme that was set out and approved and scrutinised in P.124/2012 and that clearly defined the application process and what would be undertaken prior and after in recommending the Minister to advance a loan. Due diligence and background checks have been carried out and there is assistance that is given to recipients on the actual loans after they have been done with quarterly reporting. Perhaps it is best that I just deal with supplementaries.

3.13.1 Deputy A.D. Lewis:

Could the Minister explain what he means by “quarterly reporting”? In other words, are targets set and are K.P.I.s (Key Performance Indicators) expected to be met? What monitoring exactly goes on after a grant has been handed out? Could he answer the question about is it one lump sum or is it given out in tranches when they meet certain K.P.I.s and other business objectives that you may well have agreed as part of the application?

Senator P.F.C. Ozouf:

This issue of tranches: I can advise that I signed yesterday a further loan to one of the businesses that has been really quite successful. So what is a single lump sum? Every business is of course different and every business in the start-up phase is going to have different requirements. Some of them will need some research, some of them will need some particular sales activity, marketing, others will receive a sort of little-and-often assistance that can be almost limited and made over a period of time. Every business is different and that is why the monitoring is so important to see how the businesses are doing. I will allude in the statement later the fact that I think that there can be even some more support given to the businesses to ensure that they reach their potential that so excited the board to make the recommendation in the start. You did ask me another supplementary but I have forgotten it, I am sorry.

3.13.2 Deputy A.D. Lewis:

The Minister is not answering the question. In normal angel funding-type scenarios of which this is a similar scenario, it is quite normal for drawdown to be done in tranches so that you can monitor the progress of that business. So is the Minister saying that that does happen sometimes or it does not, or does it always happen or does it not? What is the answer?

Senator P.F.C. Ozouf:

It does happen in some cases and that means that every business will be different. So in one example it requires the upfront funding and its heavy cost to get the thing up and running and others will require more funding later on. But the example of the business that is being supported with an additional loan today is a business that is exceeding its expectations in terms of the markets that it can operate in, so it is just simply not possible to say. The thing of having a scheme that just

has £50,000 or £100,000 or £200,000 of strictures on it is simply not as flexible as it should be to meet some of the different range of businesses that are there. I do not want to comment on any of the individual businesses but happy to brief the P.A.C. or a Scrutiny Panel confidentially so that they can see the rigour that goes into the prior and post-evaluation of the businesses. The board themselves receives this report, and the minutes that I have reviewed and seen, see that they get regular updates of exactly how they are doing. But now what we are going to do is provide some extra support for those businesses that was not available previously in E.D. (Economic Development) or Jersey Business but we will now do that.

3.13.3 Deputy R. Labey:

Does the board of the J.I.F. (Jersey Innovation Fund) have the ability to pursue money loaned through the courts if there is evidence of fraud or if that is suspected? If parties have moved to the U.K. because of our jurisprudence, can they chase the money through the U.K. courts?

Senator P.F.C. Ozouf:

Well, first of all, at the end of the day the recommendation is made by the board to the Minister. The Minister must be satisfied that the processes are being fulfilled. Thereafter, obviously the board themselves are not that mandated at the moment to provide that monitoring service but they have done that. They continue to provide really invaluable assistance to some of the businesses that have been supported by way of a loan. In any event, it is not their decision whether or not the loan is going to be written-off or taken off. That is a matter for my good friend, the Minister for Treasury and Resources Department. All I would say on that is that if you basically say: "Okay, this business has not succeeded. It has not met its targets so we are going to be taking proceedings against it and we are going to collect the debt", well that is one way of never getting the debt because the business may succeed at some time in the future. For example, the I.P. (Intellectual Property) that has been devised or basically created by the entity that failed to meet its objectives for an unfortunate set of reasons - and some businesses just do not work despite how great an idea they are - that if you effectively take proceedings against them and declare them bankrupt, well they are finished then. But the ...

The Bailiff:

Senator, your answers must be concise ...

Senator P.F.C. Ozouf:

Sorry.

The Bailiff:

... and should hopefully answer the question. Deputy Higgins.

Deputy M.R. Higgins:

Believe it or not, the Minister strayed into the area that I was going to ask a question about.

3.13.4 Deputy J.A. Hilton:

Can the Minister confirm to Members that he is satisfied that the review that he referred to in his original answer many questions ago about reviews taking place on a quarterly basis have been carried out in this case in a timely fashion?

Senator P.F.C. Ozouf:

From everything that I have seen, yes. Of course, given that every loan is different and of course there will be changes - these are start-ups - things will change. Markets will change. One market, for example, for an oil sector investment may well, because of a plunge in oil price, not get the sales that they think if they have an innovative product which has been investing in; for example, fracking. So things will change but it is the deftness and the appropriate advice that is important and the assessment of whether or not the business is going to be successful. I think it really is moving to a world where advice for start-ups rather than credit, which was the purpose of the Innovation Fund, is where we need to go.

3.13.5 Deputy J.A. Hilton:

A supplementary? Notwithstanding change, is the Minister confirming that the reviews did happen in a timely fashion?

Senator P.F.C. Ozouf:

Yes.

3.13.6 Deputy A.D. Lewis:

Does the Assistant Minister not accept though by giving money out in tranches rather than in one lump sum does mitigate some of the risk? But also furthermore, could he also let us know how many applicants have there been since the fund was set up, how many of them were successfully given out, and has there been any measureable impact on the Island's economy since the commencement of the scheme, or is it too early to tell?

Senator P.F.C. Ozouf:

That was an omnibus of questions. I will try and ...

[11:15]

The Bailiff:

None of the questions followed from the original question but still, do what you can.

Senator P.F.C. Ozouf:

Pardon?

The Bailiff:

Still, if you would like to answer it, please do.

Senator P.F.C. Ozouf:

I have now forgotten what they were. This issue about tranches, when you are starting a business, it could, if it is going to be successful, the issue of venture capital, which I am sure the Deputy knows, is that you have to almost put greater and greater and greater amounts of money into start-ups to get them to be successful. There are companies on the Nasdaq and the U.K. stock market and the fast-growing German market that have effectively not made a single penny and made huge losses because you are effectively shovelling money in to reach the potential of the business. So this concept of knowing everything from the start and a tranche is almost, if I may say, not really reflective of what happens. When you have a business that looks like it is going to be a success and you agree to fund those early start-up costs and it gets better and better, you might need to spend a lot more. The Deputy knows that and that monitoring has been carried out, but I think that we can provide additional mentoring and assistance for these companies to make sure that they reach their

potential. I am satisfied that the monitoring has been carried out, but the officials and board have asked for more support and they are going to get it.