



To: Corporate Services Scrutiny Panel

January 9th 2015

Subject: Review into Draft Budget 2015 and Medium Term Financial Plan 2016-2019

Written Submission: Paul Masterton Chairman Digital Jersey

Dear Sirs,

Thank you for the invitation to provide commentary regarding the growth outlook for the digital sector over the next 5 years. On behalf of Digital Jersey I offer the following observations:

Structure of this submission

- i) Macro considerations and outlook for the digital economy
- ii) Jersey's digital economy outlook

Macro considerations and outlook for the digital economy

Forward projections of the digital economy require both definition and accurate measurement. The digital economy is not straightforward to define and standard methodologies based on the widely used SIC (Standard Industry Classification) codes are no longer adequate; one in ten UK companies are now classified as 'other', one in five have no SIC classification at all. This is especially true for the digital economy as it has spread in to every sector, with digital technology regarded as one of the primary forces for growth in most businesses and industries.

NIESR (National Institute for Economic & Social Research) conservatively estimates that the number of digital companies in the UK in 2013 was 270,000, more than double the Government estimate of 120,000, based on SIC codes.

The digital sector and, more broadly, the digital economy are at the heart of most economies and an essential underpinning for growth. The UK's digital sector is thriving and is estimated to generate alone over £70 billion to the economy.

The overall digital economy in the UK grew by 10.9% in 2011 and is forecast to grow at 11% annually to 2016 and beyond.

In the UK firms that are part of the digital economy are, on average, growing faster than those firms that are not.

- UK data indicates that digital economy companies on average employ a higher number of employees than non-digital companies, 23.37 to 20.40
- On revenue NIESR estimates that digital economy companies revenue grew at 20% annually, 2010-2012, compared to 16% for non-digital
- Per employee job, the sector is one of the most productive and in the UK employment in the sector grew 5.5% 2009-2012
- In the UK, using SIC codes, the digital economy supports 5% of employees; more accurate estimates indicate that this is 11%
- UKCES (UK Commission for Employment & Skills) projects the need for 300,000 recruits at higher levels to meet growth needs up to 2020. Tech City estimates this number at 500,000
- Employment in the UK tech sector is projected to grow at 5x the UK average to 2020
- While all sectors and the overall economy has been impacted through the recent economic downturn, the digital sector has proved highly resistant to this and has reported continued growth

Comparable statements and data can be made for most developed countries. G20 digital economies grew 8.1% in 2011. In developing countries the differential between digital growth and others is even greater, with digital economies growing at 15-25% due to with the phenomenal growth and penetration of the internet.



Growth rates for the digital economy will accelerate, the key drivers being

- Emerging and disruptive technologies including, but not limited to
 - The Internet of Things
 - Big data
 - Mobile technology
 - Cloud computing
 - Biotech & HealthTech
 - FinTech
 - GreenTech
 - Cyber Security
 - Gamification
- Superfast broadband
- Cost reduction pressure
- Consumerisation

Regulatory and legislative frameworks are increasingly unable to match the pace of technological change, causing uncertainty and acting as a brake on economic development. This is notably apparent in the spheres of data and health, with both facing profound ethical and moral dilemmas.

Digital technology both creates and destroys economic value; leading economists continue to argue the net impact of technology on economies and jobs.

Research indicates that 30% of jobs can now be replaced by technology.

Jersey Digital Economy Outlook

The digital sector in Jersey, often referred to as ICT, is largely serviced based with digital companies supporting other sectors, including the finance industry, professional services companies and the States of Jersey.

There is a small but growing number of companies that are developing digital products and services and IP that will generate both on island and export sales. This is being accelerated through the work and activities of Digital Jersey. Attached with this document is a Digital Jersey brief, including a report on the attainment of 2014 Objectives and planned objectives for 2015. (It should be noted that Digital Jersey became operational in February 2013. Compared to other jurisdictions this was a very late start with a digital growth strategy. Malta, for example, began in the early 1990's and is now on their fourth strategic plan iteration.)

Government data on both the digital sector and Jersey's digital economy is not available, though various estimates put the proportion of GVA between 2-3%. This does not however include the value contributed by technology to other sectors.

Given the structure of the industry today, the economic outlook for the digital sector will correlate in part to that of the overall economy, especially that of the financial services sector and, to a lesser extent, to government spending.

However, given that many of the factors driving the digital economy, cited in the Macro section above, will apply in Jersey, we can anticipate and target significant growth for our digital economy. The factors noted above, combined with the efforts of the island's development agencies working together – Jersey Finance, Locate Jersey, Jersey Business and Digital Jersey- will successfully position Jersey for digital sector growth. At its outset Digital Jersey established a target of 2300 new jobs in the digital sector by 2020, a target that, while ambitious, is deliverable.

The following observations should also be noted:

- The forces driving the digital economy are global, pervasive and inescapable



- Jersey cannot isolate or preserve itself from these forces
- In addition to opportunity, technology also poses a threat to Jersey, for example global Fintech investment has tripled in the past 5 years to \$3 billion in 2013. While this is a major opportunity for Jersey, a significant proportion of this investment is targeted at efficiency improvements and automation. The implications are clear for any jurisdiction that generates tax income for well paid professionals. The internet impact on retail is already here
- Jersey has clear advantages and options in developing its digital economy
- Without continued and increase investment in its digital strategy Jersey will be risking its future

Yours sincerely

Paul Masterton
Chairman
Digital Jersey

References

National institute for Economic & Social Research
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