



Economic Affairs Scrutiny Panel Innovation Fund Review hearing with Digital Jersey

WEDNESDAY, 6th FEBRUARY 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:

Mr. P. Masterton (Chairman, Digital Jersey)
Mr. T. Ridgway-Watt (Chief Executive Officer, Digital Jersey)

[11:30]

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

Right, thank you, gentlemen, for coming this morning to meet us. As you know, we are the Economic Affairs Scrutiny Panel and we are reviewing the proposed Jersey Innovation Fund. For the benefit of the tape, if we could just go round the table to identify ourselves, that would be useful. My name is Deputy Steve Luce, Chairman of the Economic Affairs Scrutiny Panel.

The Deputy of St. Martin:

Thank you very much. For those members of the public, although we only have 2, if you want to leave if you could do so quietly we would be grateful, and switch off any electronic devices or at least have them working quietly. Thank you. So, gentlemen, once again thank you. Welcome and thank you for coming this morning. The purpose of the 3 hearings we are having this morning is to speak to 3 different arm's length groups, if I may call them that. We have had meetings with the 2 relevant Ministers already and we are now trying to get a view from the other side of the

fence, so to speak. I guess the first question that we would like to put to you, because we are on an information-seeking mission this morning, is how you see this proposed innovation fund working. We are making the presumption that you think it is a good idea, but we are not going to go down that road. We are assuming it is going to be a good idea. How do you see it working and do you see it specifically towards digital or do you see this innovation fund being targeted more at the broader economy?

Chairman, Digital Jersey:

Chairman, thanks for that. Let me start here. With your indulgence, if I could frame my response to that question within just a brief description of Digital Jersey, I think that will assist. Digital Jersey is a business development idea in simple terms to do to the digital or the technology sector what J.F.L. (Jersey Finance Limited) does for Jersey finance. So our remit is to grow the technology of the digital industry here in Jersey, to increase value added, to help diversify the economy in the Island, and through that to assist in creating jobs. Digital Jersey, as you are aware, is a very new organisation and our Chief Executive is literally in post as of last week. But the way we are attempting to fulfil that remit encompasses 5 work streams: very essential research and knowledge work stream, the requirements to improve or change the education and training in the Island to support digital business, a business development work stream, which is where I think most application will be for the innovation fund, regulatory change work stream, and then lastly a focus on infrastructure and e-government requirements in the Island. When it comes to growing the digital economy in the Island, there are 2 main thrusts for that. First of all will be to attract inward investment, new companies to the Island seeking to bring and develop their businesses here, as well as the second thrust will be to assist the existing business and new business ideas and opportunities in the digital sector that are already here. That is how we see growing the economy, and Ted will speak later of his experiences in doing that with Tech City in the East End of London. So that is how we will be stimulating the digital economy in the Island. Now, as part of that we will be bringing together all of the benefits of attracting and growing businesses that the Island has, the strength of our financial system, the regulatory system, legal, the emerging connectivity through Gigabit on the Island, but also a part of attracting businesses will be offering an appropriate level of support in bringing them here, including financial support. I think very much that is where we see the innovation fund as being a very important arrow in our quiver in terms of supporting business growth in the Island. So I think, Chairman, that is a general introduction of where Digital Jersey is and what we are attempting to do. You were quite right in your opening comments that we see the innovation fund as a very good idea and Digital Jersey is very supportive of that.

The Deputy of St. Martin:

Some of the comments we have had this morning about innovation have led us down a path where it has been suggested that we should not be focused in just one direction with innovation. It

is not just somebody coming up with a sparky idea which has never been thought of before, but it could be existing businesses maybe getting together to develop a product which they may not have done otherwise. We have been encouraged to think more broadly about the word "innovation". How would your view be of that?

Chairman, Digital Jersey:

I think my view is it could be a completely new idea that is taken to market. It could be an extension of an existing business, and I think we have to take the view across many potential development opportunities, not just in digital - but we are here to speak to it - but it could be in products and services, it could be in a number of areas. I think innovation is not and should not be simply thought of as being related to digital or technology innovation. Chairman, I think it does cover quite a broad span of the economy with the aim, of course, of creating value and creating jobs and I think that can be done very successfully in a number of different areas. Ted, I do not know if you want to add your thoughts.

Chief Executive Officer, Digital Jersey:

Yes, thank you. Innovation, yes, it is about commercialising and monetising and exploiting ideas. I think there is a great opportunity to work with existing companies on Jersey bringing in collaborators to create new business, be that through existing enterprises or the creation of new companies. One of the characteristics of the digital economy is that you can create high growth businesses with really very low capital costs. This is something we have seen in London. We have seen literally thousands of companies grow up and many of them very successful. Jersey, of course, is not the same as East London. It is a more focused community. It is a very high performing community, but I think we can create ambition to create businesses that will sell overseas and create value on the Island. Now, the attraction of the innovation fund is that it is going to be attractive to new companies, to collaborations, to joint ventures and to start-ups. In terms of how we would go about approaching the use of such a fund, there are perhaps 2 layers, if you like. One I would describe as curation, which would be where we are known to have access to a fund. So, for example, in Digital Jersey's case it may be that we make it known through the digital sector here that we may be able to help companies to bid for funding. This usually ends up as creating a high demand and requires us to curate in a responsive manner. The alternative is you might call it gestation rather than curation, which is where we would look to work over a long period broadly supporting the sector, as Paul Masterton has already indicated, and part of that assistance will be helping small companies and new enterprises to get access to the funding that they would need to establish or to grow. I think that that gestation activity offers a lot of value because it means that over a period of, say, 3 to 6 months or even up to a year we can work to make new enterprises investor ready, get them ready for that next stage of investment so they

have passed the initial seed funding or the family and friends and on to the next stage. I would see Digital Jersey as working very effectively in that way.

The Deputy of St. Martin:

Do you think we have the ability, the scope, here in Jersey to achieve those start-ups with those individuals? We attended your presentation last Monday morning, which was fantastic, and the way you described some of these new ideas coming out of Tech City and people getting together, wow, there is something new there. Do you think we have the ability to do that here in Jersey or do we have to say no, actually we do not have access to the number of people living around London, we are not going to have those individuals; we are going to have start at a different level, which is involving business and businesses that are already established?

Chairman, Digital Jersey:

I think as Ted is new to the Island that might be a challenge for him to answer it.

The Deputy of St. Martin:

Sorry.

Chairman, Digital Jersey:

No, no. I think that there is a latent demand here in the Island for business support and business start-up, but I would see it, Chairman, the use of the innovation fund being to support businesses that are already here that want to extend. There is demand and, in fact, I have been involved already as Chairman of Digital Jersey with a couple of local entrepreneurs, or hope to be entrepreneurs, who have ideas in the digital sector that they would like to see funded. So I think there is demand here, but I also see us using the innovation fund to help attract and support inward investment as well. Now, are we going to find that same level of demand that there is around Tech City? No, I do not think so, but I do not think we should underestimate that there are people with good ideas in the digital sector and outside that will come forward to try and access the innovation fund. I think there will be a queue for that, but very much Digital Jersey's view is, as Ted has described, we very much think that we will be out targeting particular clusters, particular focuses of areas to stimulate. The breadth of possibility in the digital arena is huge and as we discussed at the breakfast briefing last week, we really believe that we will need to focus quite tightly within those and that is part of where the research comes in as to which clusters we will be focusing on and then taking the innovation fund, rather than setting up the innovation fund and waiting for people to come to it for application, targeting where we think some of the best uses of those funds could be in different areas.

The Connétable of St. Brelade:

Obviously, I think if we are going to invest in new businesses we all want them to succeed. I think that is the starting point for anything. You mentioned gestation period and obviously with a new business maybe family and friends are involved where there has obviously been some diligence shown at that stage and then we are moving on to the next stage where there might be an application where you are looking at more due diligence. But I am just coming to a comment that was made by Senator Maclean and that is about the failure rate. One of the comments that he made is he was expecting a 70 per cent failure rate for new business. I just wanted to know what your comments would be on that. Do you think that is a high figure and what would you feel would be a reasonable level of failure/success, whichever way you look at it?

Chairman, Digital Jersey:

The answer to that is really to do with the level of risk that the innovation fund wants to accept and that really speaks to at what point are you going to invest in a company. I have worked with venture capital funds in the past and if they are early stage high-risk venture capital funds it would not be at all surprising that if you made 10 investments that 2 out of the 10 would succeed and succeed very well. At the other end, 2 very quickly would fail, and the biggest problem that venture capitalists have is actually what are often referred to as the living dead between those that really succeed and those that really fail, not bad enough to kill off or close down but not good enough to put new money in.

[11:45]

What typically happens with the living dead is that smart venture capitalists try and sell them on to somebody who is less smart. So early stage V.C. (venture capital) investment typically has those very high failure rates, but at different stages in a career's growth path there is lower risk and risk can be mitigated to reduce that failure rate. Ted's nurturing gestation process that he described where Digital Jersey can work with a company to make it more investable, scrub their ideas, help them with business mentorship, connect them with the right people, can I think mitigate that risk. We should recognise, though, for all of that, investments will be made from the innovation fund into companies - either as debt or hopefully in the future as equity - that will fail. That absolutely will happen.

The Connétable of St. Brelade:

It has been suggested that there may only be 5 to 10 possible applications or agreed applications or approved applications to the funding share. Presumably, then, that is going to raise the risk of failure?

Chairman, Digital Jersey:

It depends at what stage. If it truly is start-up seed capital with a high level of risk, but if it is second or third stage where the company is either just about to launch its service or it, in fact, has launched it and you can see some revenue streams coming in, I think that will all be to do with the governance that is put around the innovation fund and the level of risk that it wants to accept. I do not think that has really been defined as yet.

The Connétable of St. Brelade:

Could you just comment on ...? Because the 2 previous groups we have had in have commented on due diligence and the level of due diligence and mitigating the risk. Could you comment on what you think is a process that you would expect to take place in terms of due diligence as would happen obviously in a bank or a private investor that was going to invest in a new company or even an existing company?

Chairman, Digital Jersey:

I think for any investment there are lots of models out there and we certainly should not be recreating well created wheels. We need to plagiarise where we can. This is done all of the time. I think it is a very straightforward stage gate process. One of the keys around this is a very early yes or no to determine whether you are going to spend ... because the longer you spend with due diligence the greater the cost is and then right at the end before you make the investment there will be some legal due diligence and other searches. That is where those upfront costs really build. I think the first stage gate process is a very quick look at it and a very quick yes, we think this has some sense to it and it is worth investigating, or no. I am concerned when we put up the Jersey Innovation Fund shop window that we will get a lot of unsupportable applications to it, very poor business cases, so we need an early yes/no and then you go through a number of stages after that with greater due diligence at each time to say at the end does that make sense. It is a series of filters an opportunity has to work through. I will say that part of that, and it is one that is less science driven, more business experience driven, it is sitting across a table from the entrepreneurs, from the business people, and you look in their eyes and you see whether they are going to make it work or not. There is an awful lot of new business start-ups that are absolutely dependent on the person or the people. Have they done it before? Do they really know what they are talking about? Are they thinking through that? That is very difficult to look at in terms of a spreadsheet or financial analysis or projections. It is a lot to do with the people themselves.

The Deputy of St. Martin:

Well, my question ...

The Connétable of St. Brelade:

Can I just follow on ...

The Deputy of St. Martin:

I think we are going the same way. You carry on.

The Connétable of St. Brelade:

Just a phrase that has been used several times and one I particularly do not like, and I just wanted your views on it. The phrase is it is the fund of last resort. Now, personally I do not look at it like that. I would look at it as filling a hole in a market where banks may want collateral that is not available from a new business, for example. Is that very much what you see it as?

Chairman, Digital Jersey:

I have only just seen that comment and I could not disagree with it more. I do not see the innovation fund as being the fund of last resort at all. I would suggest that if it is viewed that way and if we ask: "Have you been to this bank? Have you been to this person?" what we will be left with is a whole bunch of dross that we are not going to invest in.

The Deputy of St. Martin:

That was our concern as well.

Chairman, Digital Jersey:

I think that would be the wrong philosophy to have around the innovation fund.

The Connétable of St. Brelade:

It is not a comment that has come from us. It is just a comment that we have heard used a few times. I think the people we have asked this morning ... we have asked their views on whether they feel it is that.

Chief Executive Officer, Digital Jersey:

Can I add a comment? From my experience of working in companies in the digital sector, as I said earlier, they are relatively low capital cost companies. The golden band between friends and family funding and your initial V.C. funding is really crucial. From what I have seen of the innovation fund it could be a really aspirational thing. What we are looking at in Digital Jersey is creating diversification in the sector, bringing in catalysts from overseas if you like. We need something that will appeal to the talent already on the Island to give them confidence that they will be able to create a new business perhaps with help from overseas. I think that the innovation fund ... there will be many steps on the way. There will be mentoring, there will be connecting people

with other talent and inward investors, but one of those windows of light I would see as the innovation fund and certainly not a fund of last resort. I think that will be a self-fulfilling prophesy.

The Deputy of St. Martin:

If I could get back to what Paul was saying just earlier where we were mentioning the fact that what we need right at the beginning is a definite decision yes or no and we need to make that early decision to avoid cost and all sorts of stuff like that. I fully agree. I would hope that you would also be thinking with me along these lines of at that early decision you need a group of people who are experienced, been in the private sector, been there, done that, they have taken the chances, they know the pitfalls and they have the ability to spot that little something which you might not get ... and I mean this in the nicest possible way, but what you do not need at that first decision stage is a young civil servant with very little experience who is trying to tick boxes and see whether the bottom number on the bottom right-hand corner is the right colour or not.

Chairman, Digital Jersey:

I agree. Whoever that overview body is needs to have been there and done it, needs to know the questions to ask. I think we are seeing this in the same way. If you do not have that early very clear decision making there will be a lot of time, a lot of effort and a lot of wasted effort would go into looking at companies or ideas that are just never going to see the light of day. You need some experience to do that. We could create a board. This model is a very well established business model in the investment world so we are not doing anything that is at all unusual here. Quite often, that early assessment is not even made by an entire board but there are 2 or 3 people will do an early assessment and say: "The business plan is just ..."

The Connétable of St. Brelade:

Very importantly, that early assessment is done by one or 2 or a group of members of the board, not within the E.D.D. (Economic Development Department) itself where there may not be that expertise there.

Chairman, Digital Jersey:

I would agree with that, yes. Just on the role, if I may, of Digital Jersey in and around this, Digital Jersey I think plays potentially several roles. If the idea is in the digital arena I would hope that Digital Jersey could provide some of that assessment to the board. I would hope also that Digital Jersey, to the point that Ted made earlier on, can help a company get itself ready to make an application to the innovation fund, so some nurturing and so on. I also hope, while the innovation fund is not just about technology and we completely understand that, that Digital Jersey in some way would be a participant on the board itself, understanding as well that you have to avoid any potential conflicts of interest.

The Connétable of St. Brelade:

As Chief Executive within your role at Tech City, were you involved with any similar type innovation funds or a fund of that type where you had to make assessments or there was an assessment process and application process?

Chief Executive Officer, Digital Jersey:

Yes.

The Connétable of St. Brelade:

Could you enlighten us a little bit about your experience of that?

Chief Executive Officer, Digital Jersey:

Yes. Paul has described it very well, the stages of assessment and due diligence, but I would say that there is a very mature role for an established fund of this sort in an environment where you are expecting/hoping innovative companies to come to the fore. One of the companies that I worked with in this vein is Seedcamp in London, who have a very structured way of making investments of around £50,000 to £200,000. They work with advisers who are connected to the process in a similar way that the board would be with the innovation fund. They have a very low failure rate. We talked earlier about the 70 per cent failure. The failure rate in innovative companies is a spectrum. The more strongly managed they are over a longer period of time the lower the failure rate. So I would say it is probably a spectrum that goes somewhere between 70 per cent success to 70 per cent failure. A well-managed fund such as that operated by Seedcamp, which incidentally is an equity fund, not a loan or grant, has a very high success rate. That is in no small part thanks to the advice of its specialist advisers prior to the investment and a guiding hand and mentorship after the investment as well.

The Connétable of St. Brelade:

In terms of the due diligence process and credit checks, issues like that, how was that part of the process? That is presumably quite a strong part of the process?

Chief Executive Officer, Digital Jersey:

Yes, indeed. I think investors like to know where their money is going and particularly who it is going to. Paul mentioned earlier that actually a lot of it is about the look in the eyes of the person opposite you at the table. Although it is a slightly tangential point, one of the things I would like to say is that in looking for diversification in Jersey's digital industry a crucial part of that will be about the social capital, about who knows who, and I think beginning to embolden these networks and bring people in. From my experience, we will naturally find over a period of 6 months or a year working with events Digital Jersey is involved in, who are the people who are most likely to want to

create a new business and we will begin to understand who it is that is most likely to succeed, who are the people who participate, who are the people with ideas, who are the people that connect and are open to collaboration. I think knowledge of that and advice to an innovation fund at point of application will be very helpful to increase the chances of successful investments.

The Connétable of St. Ouen:

What was the scale of the investments from the lower end to the top end? Was it from £500 up to half a million pounds? What was the scale?

Chief Executive Officer, Digital Jersey:

You mean around in London?

The Connétable of St. Ouen:

Yes.

Chief Executive Officer, Digital Jersey:

Well, it goes from everything. Normally a company will come to you when they have something to bring, which normally means they have had some sort of investment. Typically they will have received what we might call off radar investment, which will be friends and family, which might be £10,000, £20,000, £30,000. By the time they want to sit at a desk they are looking for the next round of funding, so normally associated with that desk, or let us call it an innovation centre or a hub, there will be some sort of fund. That fund will not just be giving them a loan or a grant or an investment, it will be bringing together other skills. It will be bringing together mentoring, financial advice, legal advice. In London there are dozens, hundreds of such buildings, clusters, funds. I mentioned Seedcamp because it is one that is located in Shoreditch in what we call Tech City and particularly relates to digital companies, but there are many.

[12:00]

Of course, beyond that you start to look at institutional investment and venture capital, but these are very mature markets and there is a very well established sector that spent its time identifying and helping venture capital trusts and potential investments for them.

The Deputy of St. Martin:

You mentioned earlier the success rate of the equity when the company or venture people were investing in the equity side. Do you have a view on loans/grants versus equity? Initially, the innovation fund is going to be set up just to deal with loans and grants. The equity bit will come a

bit further with additional legislation, but should we be almost holding back and waiting for the equity bit to come?

Chairman, Digital Jersey:

Chairman, I would like to see this move forward as speedily as possible given that we need to do this in the right way and it needs to be set up in the right way. I think it is fair to say that Digital Jersey and myself and Ted favour debt far above grants. I think that we should be viewing this as really, really solid business transactions and I would lean away from grants except in very exceptional circumstances towards debt. I also think that early on ... because I would like to see the opportunity for equity participation because that is where the greatest upside in terms of return to the fund lies. While that is not available through regulation at the moment, I think to get going we should go with debt but also as part of that debt agreement have it convertible at a later stage to equity, which is again a very common tool. I think you can do that without contravening any regulations right from the start. So go with debt appropriately structured, convertible as part of that into equity at a later date, and then change the law as well to allow for equity participation.

The Deputy of St. Martin:

Is it important that we deal with each applicant on a case by case basis in that case or do you feel that when you are looking at loans you need to say upfront: "Well, this is the sort of repayment schedule we will be expecting. This is the sort of level of interest over base we will be expecting"? Or do you think, again with your mentoring hat on and people who know the business or know business, it might be they are advising saying: "No, just take it easy with them for the next couple of months. We can see the cash flow coming in the next quarter" sort of thing?

Chairman, Digital Jersey:

I think there will be some commonality among the debt agreements. There will be some things that are universal across them all. But I would take a view that the terms of the debt should very much reflect the level of risk and where the company is at the time that the money is going in. I think in all other businesses in terms of return on capital, return on debt, it should be and we should relate it to the level of risk. Chairman, I would just add on to that that I think we should understand that debt could go in to help a company grow, but we need to be very careful about the repayment schedule around that because these are going to be start-up companies. They are not going to be throwing off profit. They are not going to be throwing off cash, perhaps not for some time, so you would not want to burden a company with huge interest payments up front which would, in fact, stall their growth. So I think schedules of repayment of how the money is repaid, et cetera, need to be very carefully thought through.

The Connétable of St. Brelade:

That is an interesting point. Are you confident that there are sufficient relevant potential applicants to this fund to make a meaningful impact in terms of the idea is for this fund to be self-replenishing. Another part on that, if I could just add to that a little bit as well, you mentioned quickly and the fact that these companies can get a decision quickly and move on very quickly. Do you have any concerns about any red tape in terms of overburdened application forms and other issues could actually hold it up to a point where people would say: "I cannot be bothered doing this"?

Chairman, Digital Jersey:

I think we should be very sensitive to that. It is always a balance between the appropriate level of due diligence and understanding and making sure that the entrepreneurs have thought through the business plan but not tying them down in red tape. If it is going to take us 6 months of due diligence and everything else to get it going, then I think that is self-defeating. I refer the panel to some very successful models. I am thinking of incubators and I had the chance to experience one in Israel where companies come in ... not companies at that point, people with ideas, and this is rather in the seed start-up, so quite heavy risk. They are provided with infrastructure, a room, connectivity, accounting support, legal support, and some upfront cash to get going, in this case £20,000, £25,000, and there was an expectation that in 6 months they will have made it. So there are models out there and if you are doing that and if the expected return time is 6 months - by the way, this is in Israel where they have been going over this for a while - you cannot take 4 months of that signing the agreement. So I think the panel is right to identify the threat of too much bureaucracy here and to find the right level of due diligence and then getting going and providing the cash.

The Connétable of St. Brelade:

In the first part in terms of the demand, in terms of do you see ... is the return going to be enough over ... I do not know what you think about what sort of period, but in terms of replenishing that fund, do you see it can be replenished? The other question would be is it important that it is replenished or do you see the fact that we have new businesses starting, we maybe eat into the fund in a large way, is not that important?

Chairman, Digital Jersey:

I think with my business hat on and treating this as an investment fund that we should not see it as a sinking fund; that we should absolutely seek to have it replenished from the investments we made. I think you are right to identify the timing around that and how long it will take for the returns to come in. I think it would be a lot easier to achieve that as a growing fund using equity than it will be with debt because I am assuming that while the debt covenants will be related to risk, I think we will be thinking about some advantageous interest rates and advantageous terms to

help the business get off the ground. So hopefully you will recover capital plus a little bit offset by some of the failures that I think will happen. I think the real returns to the fund come when you have the equity structure.

The Connétable of St. Brelade:

Can I just ask one short question just following up from that? In terms of obviously it is a world market, digital is a big market worldwide, is the fund big enough? Will it be able to cope with the sort of applications we might get?

Chairman, Digital Jersey:

In comparison to other funds that are out there it is not. Is it a really meaningful sum of money? Yes, it is, and I know there has been discussion of £5 million to start which has been identified with the potential for another 5. But Ted I think should comment and I think this really plays to the question earlier on about how big the investments should be. So, Ted, some of your experiences might really assist here.

Chief Executive Officer, Digital Jersey:

Thank you. Mr Chairman, I think Digital Jersey will take some time before we have identified within our strategy a direction that we will take in terms of supporting the digital sector. So Paul Masterton mentioned earlier that we have a research and knowledge technical advisory group. That will be spending the next few months starting out, getting us a direction of travel. A few comparisons have been borne with Tech City in London and other jurisdictions. One thing is for sure, we will be more focused with Jersey because it is a smaller environment. So we will be looking, rather than attracting a broad range of investments, to actually quite a small focus, but it will take us a while to get there. It will take us a while to understand where we should be concentrating, a while to engage with what is here already. It will take us some time to create an appetite for creating new business on the Island. My understanding is that there is some great talent on the Island but at the moment it is very focused, for example, on the financial sector, providing digital services to the financial sector. Once we identify the talent and look for diversification, then we will start looking at this. I think it will be a year to 18 months before we are able to be really putting companies forward for funding. So as to the level, the level of funding will be somewhere between seed and first round funding, so that is sort of around £20,000 to £100,000, maybe £200,000. I think that would be a suitable gamut to look at. In terms of numbers, well, I am afraid at the moment it will be a wild guess, but I would like to think that we could probably make somewhere between 5 to 10 good applications a year.

Chairman, Digital Jersey:

Just from the digital?

Chief Executive Officer, Digital Jersey:

From the digital side, yes.

The Connétable of St. Brelade:

From a timing point of view, obviously I understand it is going to take time to get your groups up and running and identifying where in this market it is going to be. Is there not a risk with having the fund up and running, if it is up and running in the next 3 or 4 months, that ... I use the word "plundered", but the fund is plundered for other sectors, which it seems to me it will be open to other sectors, and by the time you get round to actually putting your applications in there is a risk that the fund may have been diminished to a level that is damaging for the digital sector to put its ...

Chairman, Digital Jersey:

That is a threat if you think about it as a threat, but I would say that if those opportunities have come forward and been appropriately vetted and they are meeting the criteria of the fund, then the fund should be there to support them, albeit that that might lessen the amount of money available for digital companies in the future. I would also hope that if that were the case and they were successful then there is the view that perhaps that second £5 million then becomes available.

The Deputy of St. Martin:

Could I just expand further on the ability of the fund to help the digital sector to grow and with new initiatives? I guess the question is probably aimed more at Ted. Ted, we have mentioned inward investment, Locate Jersey and what have you, but could you see success coming from physically advertising the fund outside of the Island or are we just going to be literally a tiny little pebble on the beach when it comes to the other places and other areas that people could go with taking ideas?

Chief Executive Officer, Digital Jersey:

Thank you, Mr Chairman. Yes, it is no doubt that attracting inward investment will be a crucial catalyst and growth factor for the Island's digital sector. It is no doubt that having as part of Jersey's digital shop window the innovation fund will be an advantage. However, it will be more successful if we are able to fit it into a strategy for the sector. So I think we will be targeting particular incoming companies that we believe will help to boost what is already here. We are not looking to move large companies here lock, stock and barrel. We are looking to increase the G.V.A. (gross value added) of the digital sector for Jersey and that will involve the talent that is here and some incomers. So, yes, I think it needs to be advertised, if you like, but in a targeted way.

Chairman, Digital Jersey:

Could I build on that, Chairman? There are lots of aggregators out there who can access the internet and go to lists of venture capitalist funds that are out there. I am sure some of those are just picked up by those that create those lists, others you can position your fund on it. There is absolutely I think no requirement for us to have any paid advertising or anything else. That will not be required. But I think some careful promoting into those areas to let people know that the fund is there and here are the criteria that it would look at for investments would be useful, but I would call that very much appropriate promotion. I do not think we need advertising in the accepted sense of the word.

The Connétable of St. Ouen:

Sorry, can I just go back a pace to when we were talking about the board, about you assisting people that come to you? I am kind of getting mixed messages this morning of the demand for this innovation fund. I have heard that it might not be much and then somebody stated this morning they think it would be inundated with requests. I can see you guys doing a lot of research and helping people to get something from the innovation fund.

[12:15]

Do you feel that once you have done this there is an obligation for those funds to be made available? For example, say you did all this work, you went there and they suddenly said: "It has all dried up because all the money has been ..." Do you feel that once this fund, if is up and running, there should be an obligation for people to have access to this? Especially when you have put a good plan forward for somebody, it should be there, not to be said no at the end of it because there is no more money left for them.

Chairman, Digital Jersey:

That is an interesting question. I would hope that as you are going through that process I think you have to balance supporting the applicant with the available funds. I think that is a very difficult one to be hard and fast about, but I would hope that there was enough understanding of what is being committed or what is potentially to be committed so that you are not taking a company essentially down the garden path because that would actually cause a lot of negative sentiment.

The Connétable of St. Ouen:

That is where I am coming from.

Chairman, Digital Jersey:

So I think that has to be managed in terms of the quality of the applicant and the staged gate process, but if you know the funds have been committed or are likely to be committed, that is I think part of the management of the fund itself.

Chief Executive Officer, Digital Jersey:

May I add to that that most managers of funds, be they grants, debt or investment funds, would be very pleased to have very well qualified leads brought to them, albeit at a later stage, than to have the doors thrown open to all and sundry early. So I do not know whether there is the possibility ... and Paul mentioned management. I think if we can share with you or share with the board of the innovation fund our plans to engage companies and bring strongly pre-qualified companies to the board and if that could help with decisions about when to release tranches of funds, then I would be very happy to be involved in that.

The Connétable of St. Brelade:

Clearly, you are supportive of the fund and the idea of an innovation fund. Do you believe that it could have been done in an alternative way? Obviously, one of the options that we suggested to people this morning is by tax breaks, social security breaks, rent breaks, or providing property for them to use. Could that be an alternative or would you, for example, see some of those as an actual add-on rather than ... something you add on to the innovation fund?

Chairman, Digital Jersey:

There is a model. For example, if you were to create a hub, an office hub, where what you are providing to the business in terms of cash, although cash in kind, is the office, the access, the mentoring, the business support, the guidance, really valuable but not flat out cash. I would hope that somewhere in Digital Jersey's future that hub will become a reality. A lot of hubs do go the additional step of providing the operating investment, the cash, to go with it. So I think there are lots of elements of a successful investment or innovation fund strategy. One that I think is implicit in what is being said today but I think we should make explicit is that the mentoring and the guidance carries on post the investment. I do not think we should view this as here is the money, report back in 3, 6, 12 months. I think that there is an ongoing huge value in providing business guidance to those entrepreneurs.

The Connétable of St. Brelade:

Do you see yourselves as the conduit for that monitoring post set-up or do you see that as a role, as has been suggested this morning, for Jersey Business, for example, or would you see yourselves working hand in hand with Jersey Business to provide that sort of mentoring and that sort of monitoring?

Chairman, Digital Jersey:

I would hope that among these arm's length organisations in the Island, whether it is Jersey Business ... the panel should know that we have collocated with Jersey Business to really facilitate that interchange, and whether it is with other organisations I would hope that Digital Jersey will demonstrate great collaboration. I think the important thing is to find that guidance and that mentoring and not be too precious about where it comes from, just as long as it is provided. But I also think that that should be part of the innovation fund oversight: what is that ongoing support to help ensure success and mitigate against failure?

The Connétable of St. Brelade:

Just on that last point I made in terms of government assistance, obviously the fund is government assistance but in terms of tax breaks, social security issues, are they things that you have come across, for example, in the U.K. (United Kingdom)? Is that something that is offered to new start-up businesses?

Chief Executive Officer, Digital Jersey:

There are some measures that have been put in place to support entrepreneurs. Some of them, in fact, were targeted particularly at Tech City, although they are nationwide by their nature. So there were tax regimes for incoming investors. There were tax breaks for entrepreneurs. There is the R. and D. (research and development) tax credit, which has been very helpful. I would say all of the measures aggregated have a significant effect but they are not the only thing. It is normally business reasons and the opportunity for growth that will bring a company rather than offset of taxes.

The Deputy of St. Martin:

Could I just ask a more general question about Digital Jersey? We are obviously enthused to hear Ted's story of the 2 gentlemen in London that came up with the icons for somebody and what have you. We know that there are areas where people go to develop apps. I think in Aberdeen or somewhere in Scotland there are centres where people gravitate to to develop certain types of things. Obviously, in the Island we have financial services, but do you see a particular area in the future for Digital Jersey and Jersey per se moving forward in the digital global market where we might specialise?

Chief Executive Officer, Digital Jersey:

Yes. Although we have a programme of research to go through that will initially take us a few months and then be ongoing, it is almost certain that Jersey's offering in the digital space will be about being connected, about being, if you like, a closed system, a jurisdiction where we can reach out to the majority of, for example, healthcare nodes or ... This is unusual to have

somewhere that is so well socially connected, will be so well connected by telecoms systems, and Gigabit represents pretty much the entire demographic and is all reachable. It is going to be something connected. I mentioned at the breakfast seminar and the launch of the executive of Digital Jersey a couple of examples: e-health, education. Just by virtue of the fact that we will be strongly engaging with the talent on the Island and bringing people in, there will be new ideas and there will certainly be developers who want to create apps around some of these pilot schemes. There will be activity that happens. That is what happens when you stimulate a sector in this way. It is my ambition to have an innovation hub of the sort of that Paul mentioned earlier. We need to find a way to do that in Jersey because it is a small market, if you like, but, sure, we expect there to be a focus on connected services but around that a cloud of innovative services, apps, web services.

The Deputy of St. Martin:

Just to expand on a point the Constable made, is a £5 million, potentially £10 million, fund enough to help stimulate that type of idea that you have just put forward? Will we be as a Government looking for a lot more money than £10 million to really kick start that hub?

Chief Executive Officer, Digital Jersey:

In the short term no because we need to actually create an environment where new businesses will be able to start up and I do not feel we are there yet. Certainly, in the medium to long term if this digital sector is successful, then it will absorb as much investment money as you want to throw at it and particularly if it is equity investment. That alone will be a bigger attracter to inward investors.

Chairman, Digital Jersey:

I think for the future there will be ways to have a multiplier effect with the funding that comes from the States, matched funding with other V.C. It is a very common model. A jurisdiction puts in X, a venture capital company or investment company comes in and matches it, and then you leverage the size altogether. So I think there are a number of models that could be considered in the near future as to how to get a greater fund to be invested in the industry.

The Connétable of St. Brelade:

In terms of the fund, there has been some external costs, expertise costs, been identified of around £100,000 to get outside advice. In terms of the internal costs, do you think that we will get enough positive outcome out of this fund to mitigate those costs? Because we have not identified those costs yet, but they could be quite considerable in terms of E.D.D. staff, for example. Do you see this producing the sort of outcomes that are going to be successful to the point that it will far outweigh any internal and overall costs?

Chairman, Digital Jersey:

I do not know the answer to that question because we are dealing with things that are not defined at the moment. There could be quite substantial time required to really manage this fund in the appropriate way before, during and, as we have discussed, post investment. The thing that I think should give us confidence is the success of these models in the commercial world, in the investment world, that do return very healthy amounts to the investors. Now, I think we are right at the start of that curve but I would have confidence that appropriately run it will more than cover that. I should also just identify that there will be a start-up curve before we really begin to see that and it is tough at the moment to say how long that curve will be.

The Connétable of St. Brelade:

Do you think once we have made the decision and the States make the decision to go ahead with this that we have to support it hell or high water, that once we have committed to the first £5 million - and obviously it will take some time for these investments to come through - that the States and States Members and the public need to know it is a long-term commitment, it is not a short-term commitment, and it may need more funding further down the line? Is that a fair comment?

Chairman, Digital Jersey:

That is a fair comment, although again with my business hat on I would never say you do something and that is it, you are going to do it for ever. I think initiatives like this really have to be judged on their success and if it is not working then you do not carry on doing it. So I do not see that this gets baked into everything we are going to do for the future. I think we need to put some very ... not ambitious but stimulating targets and key performance indicators around this as to what we should expect out of it. I think it is too early to equate that to another thousand jobs, for example. I think that is way too soon to do that, but I do think that the fund needs ambitious objectives that it should be working towards.

The Connétable of St. Brelade:

That is the point that I ...

The Deputy of St. Martin:

We have 2 minutes left of our hour and my final question was going to be around perception of success. Obviously, we have Digital Jersey; we have an innovation fund. We are going to hopefully get those 2 together. I just wondered in conclusion how you gentlemen would have seen success moving into the future. I think you have ...

Chairman, Digital Jersey:

For the innovation fund?

The Deputy of St. Martin:

Well, for the innovation fund and for the innovation fund in conjunction with Digital Jersey.

Chairman, Digital Jersey:

The remit is to grow economic value and drive employment and those are the 2 metrics, and I think it should be the same for the innovation fund. Those are the very clear metrics. What we would have to discuss are the targets for those metrics over what period. But unless Digital Jersey and the innovation fund are driving those outcomes, then those are the success metrics that need to be clung to. There will be others, reputational, stimulation and all the rest of that, but it is economic growth and jobs. That is what Digital Jersey is here to do. That is what the innovation fund should be doing.

The Connétable of St. Brelade:

Just a very short one on targets, you mentioned targets. Jersey Business right at the end of the hour with them mentioned that there should be targets and when you have an investment fund and you are looking for returns they were mentioning figures of maybe 10 or 20 per cent. Do you think we should be that rigid with it or do you think we should just be targeting growth rather than ... or do you think there should be rigid targets as to what we need to meet in terms of return?

[12:30]

Chairman, Digital Jersey:

In the investment world investment funds, and I can think of one that I am involved with, has a published targeted annual return which is both the improvement in the fund's listed share price and the dividend it throws off. The fund I am involved with is an annual target of 9 per cent and they publish that because that is why they want to attract investors into the fund itself. We are not quite in that position here and there should, I think ... because we create this fund and if we do not want it to be a sinking fund there should be targets around return aspirations. Now, I think it is premature to suggest what those are, but I think that there should be targets.

Chief Executive Officer, Digital Jersey:

Being at the moment more likely to be a loan grant system it would be difficult and dangerous to have year 1 returns because, as Paul said earlier, you have to give these companies some breathing space.

The Deputy of St. Martin:

It is difficult. Obviously, this is Government money and on the one hand we have to try and be the hardnosed businessmen but on the other hand we have to have a social aspect to what we are

doing here, so it is a combination of the 2 and I accept exactly what you are saying about 9 per cent and that is the target. I think in this case we will probably have to accept less.

Chairman, Digital Jersey:

Chairman, could I add to my earlier comment around Digital Jersey to just restate what we said at the business breakfast last week that there were very clear economic targets that Digital Jersey aspires to. There is an equally important social target, not least that we do not want to see any kind of a digital divide arising here in Jersey because somebody simply cannot afford to participate on online services. So I am not parlaying that directly into the investment fund, but as this is a matter of record while I think the economic metrics are incredibly important, for Digital Jersey there is an equally important social metric that is going to be fundamental to how we operate.

The Deputy of St. Martin:

Okay. I think I will finish and thank you gentlemen very much for coming this morning.

Chairman, Digital Jersey:

Thank you.

Chief Executive Officer, Digital Jersey:

Thank you.

[12:32]