



Economic Affairs Scrutiny Panel Innovation Fund Review hearing with the President, Jersey Chamber of Commerce

WEDNESDAY, 6th FEBRUARY 2013

Panel:

Deputy S.G. Luce of St. Martin (Chairman)
Connétable S.W. Pallett of St. Brelade (Vice-Chairman)
Connétable M.J. Paddock of St. Ouen

Witness:

President, Jersey Chamber of Commerce

[8:31]

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

I would like to welcome everybody to this hearing this morning to discuss the Innovation Fund and specifically in this first hour we are talking to David who is the President of the Chamber of Commerce but, for the benefit of the tape, if the 3 of us go around the table and introduce ourselves. My name is Steve Luce, Chairman of the Economic Affairs Scrutiny Panel.

The Deputy of St. Martin:

Thank you very much. Just for those members of the public, if they would like to leave, if they could do so quietly and all mobiles and noisy devices to be switched off please. David, thank you very much for coming in this morning. Although it is a public hearing, this is quite informal. We are here not to drill you on stuff. We really want to listen to what you have to say about the proposed Innovation Fund, how you see the benefits of your members or for your possible members, because there may be people out there who will join you later if they come up with good

ideas. I suppose the first thing to do is just ask you, are you aware of the proposals that are coming out of E.D. (Economic Development), what do you think of them and do you think an Innovation Fund of this type that is being proposed is a good thing for the Island?

President, Jersey Chamber of Commerce:

A lot of questions to answer there. First of all, I think the Chamber welcome a £5 million Innovation Fund. Anything that helps try to stimulate the economy and diversify the economy has to be a positive move. That I think is a really important point to make. The second, 2 or 3 concerns are coming out: one is the structure of the board and that is the mixture between public and private because naturally if you have public sector employees who are obviously using State money they are going to be quite risk averse and obviously the nature of such an Innovation Fund is that it has to be quite risky. The investments they are going to be taking on are, by their nature, risky and so one of the concerns is we have this dichotomy between those 2 areas. One is we have something which naturally has to be risky but on the other hand you are going to ... people who are making decisions on this are risk averse, so I do not know how we are going to resolve that particular challenge. The scale of the fund is the next one. £5 million may sound like a lot of money but in the grand scheme of things is not. There is a real danger that it may well not be sufficient to make the real difference that it is hoped to make. If we just think about this logically through, at the very beginning if you do not have a quick win in this situation, in other words, you have put your first million into something and you do not come up with success you can very suddenly have this fund down to £4 million, it goes down to £3 million, in other words, you can very quickly whittle away the fund and not come up with a scheme that you really find is the winning format. One of the challenges for this fund is at only being £5 million, is that by necessity have to get a win early on. So I think that is a point we are really concerned about. The other thing I would just draw to the attention of the panel is that in 2001 there was a thing called the Tourism Development Fund, when £10 million was put to one side. Now I notice in the Scrutiny hearing on 7th August 2012 that they looked at this and the question was asked, hang on, a lot of that money never got spent and clearly a lot of the reason a lot of that money did not get spent was because nobody could agree where to spend the money and so the money was never released, it was quietly siphoned away into other areas. I think we have to always look back and say: "Well, here is evidence of what we are talking about in the T.D.F. (Tourism Development Fund) 2001, what happened there. Can we make sure we do not replicate that in this new concept of the new £5 million fund?" There is a bit of track record on all of that. So that is a warning sign for those. I think from a public perspective point of view is what we have to also be aware is that if somebody has a great scheme, a great idea, regardless which sector it is in: third sector, private sector, public sector. If the private sector, and I mean this in the banks or any other form, Angel funds or anything, do not think it is great idea obviously this fund would become a fund of last resort almost. It is the last one you come to after everybody else has either told you your scheme is rubbish or it

does not go and so the chances of finding a diamond in it all is quite limited. So again we have to be wary of that. There are a lot of areas here which I just want to bring to your attention, which have been raised by Chamber members as to the risks this fund could incur.

The Connétable of St. Brelade:

What will be your comment to a statement that was made by the Minister for Economic Development, for example, that they are expecting 70 per cent failure rate with investments that they give to anybody entering into the scheme?

President, Jersey Chamber of Commerce:

I think that is a very realistic comment to make but I think what is more critical is when that 70 per cent failure rate happens. I think if it happens at the end, in other words you have already had 30 per cent success at the very beginning and you have managed to build up that fund and recoup some of the money, but if you lose that 70 per cent at the very beginning you have a tiny fund and so you have nothing left at all to give to maybe the person who does need that money.

The Connétable of St. Brelade:

Do you believe there is a risk then that as much as they see this as a replenishing fund it will not be a replenishing fund?

President, Jersey Chamber of Commerce:

I do not say it will not be a replenishing fund. It just depends upon how successful those initial investments, early investments are. That is the view of Chamber, anyway.

The Connétable of St. Brelade:

I just have one other comment in terms of if it is not going to be a replenishing fund, the comment that was made by Senator Ozouf, and he was sort of making his view that if the £5 million did not work that he would give it another shot of caffeine. What would be your views on that? Presumably if we have already lost the majority of a £5 million investment should we be throwing more money at it?

President, Jersey Chamber of Commerce:

That is a good question, and the question is: if you lose your first £5 million I think the enthusiasm for putting another £5 million in it would obviously weigh dramatically. Whether he would like to do that or not I think politically it would be very difficult to do.

The Deputy of St. Martin:

Do you think we should have a game plan before we start, if we start? If we kick off this £5 million do you think we should say: "If we get halfway through this £5 million and we have nothing to show for it at all we need to just say: "Stop and let us look at other ways of using the money we have left"?"

President, Jersey Chamber of Commerce:

I think that is a sensible approach, yes.

The Connétable of St. Brelade:

It is called an Innovation Fund and it is looking to invest in new companies' vision, which I think is a very applaudable idea, but would it not be, and this is one thing I thought, is that rather than calling it "Innovation" or that type of fund is just be honest and say: "Let us just put it as a stimulus." Let us just treat it purely as a stimulus measure and aim it at trying to boost the economy right now rather than, like you say, trying to go for a quick win because trying to find a quick win is - I do not know what your views are - but it could be like trying to find a needle in a haystack.

President, Jersey Chamber of Commerce:

I think that is a really good analogy. That is a good question. You look at the third sector, there are all sorts of areas which could do with a boost of funding. The health area segment requires a massive injection of funds. The question is could that £5 million be used there. But that is a political decision in the end and it depends on what you are trying to do. Does Treasury have some other monies there in their back pocket, which they go: "Right, okay, fine, we know we are going to allocate this to this particular sector and this £5 million can be utilised to take a bit of a gamble on." What, I have to say on a positive note, is the way this money is being raised, clearly has come out of selling interest in Jersey Telecom and I think that ... in other words the risk to the public purse, it is something extra that has been found, as it were, as opposed to the original budget which is available. So I think this is separate money and so maybe we should treat it differently.

The Connétable of St. Brelade:

Again you bring up an interesting subject there because obviously that money is currently making us a return and we are going to have to find a return over and above that and also take into account all the costs. In terms of the costs - I do not know if you looked very much into the costs of running the fund - but do you see it as a risk that a lot of this money could be eaten up with government spend, for example, in Civil Service?

President, Jersey Chamber of Commerce:

That is always the risk, is it not? Clearly when you are looking at Innovation Fund and high risk you are looking at high return. If, as Senator Maclean has suggested, you are prepared to lose 70 per cent, and I am sure any fund manager, anybody who is out there investing, will say: "If you find one success in 20 that is good news but that one success has to pay for those other 19 losses" so your return in terms of ... you are talking about cost of running the fund, I think there is £100,000 there allocated for just general day-to-day operations. You have to get way above that to make a success of this fund. So just show you that needle in that haystack has to be found. I keep stressing the point it has to be found early.

The Connétable of St. Brelade:

Would it be a worry to you then? That £100,000 is just for outside advice. It does not cover the cost of any department costs so there could potentially be a lot of cost in that, although we have not had that identified yet, would that be a worry ...

President, Jersey Chamber of Commerce:

I think it is a worry and it does make you realise how small relatively the fund is.

The Deputy of St. Martin:

As the Constable says, we have not got the official numbers yet and we will be making an attempt to make a really good stab of what that is going to be. The problem that we face is that we are told that we have civil servants available to do this work for administering the fund and their salaries are covered. It is almost a reluctance to accept that there is a cost there to the fund except that we feel of course if somebody is being paid to do work there is a cost.

The Connétable of St. Brelade:

Another point with that as well, is that it has also identified maybe there is some slack in the department that they are not currently being totally truthful about.

The Deputy of St. Martin:

That is something else.

President, Jersey Chamber of Commerce:

That is a political comment there.

The Deputy of St. Martin:

Before we move away from this, you mentioned an early win and a necessity to see some success early, any idea how soon? I mean are you talking 6 months, 18 months?

President, Jersey Chamber of Commerce:

Good question. I am trying to think of an example where you go from zero to making £10 million. I certainly personally have never experienced that kind of success but they are out there. But they are few and far between and I think ... this is where we have to put a bit of realism into what is going on here. In reality finding that gem is going to take a lot of digging around and it will be fortuitous because it will be ... it will be on the fortuitous side because the bottom line is, a lot of very smart people who will be looking to find investment returns for their investors in the private sector, will be digging over the numbers, looking at the opportunities and all that, way ahead of somebody maybe coming to the Innovation Fund and looking to the States of Jersey to fund something. You do feel that somebody in the private sector will have to have overlooked something or the opportunity before they have come into here. Obviously that is the biggest concern. The point is: let us be realistic about what this can achieve. This is not some panacea to sort out our economy tomorrow and suddenly provide a whole new opportunity. This is kind of, I think you used the word "stimulus". It is almost akin to stimulus but what we have to bear in mind is £5 million is £5 million. The question is how you use it. How you utilise it and at what level of risk are you prepared to go?

The Connétable of St. Brelade:

You are sort of saying there I think that in terms of how it is assessed that there needs to be a high level of due diligence taken to who the money is given to. Would that be a fair comment?

President, Jersey Chamber of Commerce:

Yes, absolutely. By the due diligence that means you become risk averse, does it not, because the more you hunt around ... these opportunities come and go very quickly.

[8:45]

If it is something which is novel to the market coming in you know damn well there is 100 people behind this person who given another week or another fortnight for that decision to be made may well catch up with the person who may be leading the market out there. There is a huge necessity to get a turnaround fast and quick and get that investment going so that this person or individuals or whoever have that sort of starter advantage, as it were, to get out there and going so decision making has to be fast and furious. As I say, the concern is the States ...

The Connétable of St. Brelade:

There lies some risk though as well.

President, Jersey Chamber of Commerce:

Absolutely. So maybe you do not do due diligence quite as much. You have all these various tensions going on and this is where the tension between private and public sector, in terms of the board setup, and then what happens then if the board makes one recommendation and the Minister advises another because he is nervous about the concern and the loss. So you have huge amounts of tension which could all end up being everybody just standing there with their hands in their pockets and nothing happening at all because their fear of failure, fear of spending public money, and getting it wrong, so you are in a very challenging position.

The Connétable of St. Brelade:

You touched on the board right at the start about public and private. How do you see the board being made up? Do you want to see it more to the private side rather than public side?

President, Jersey Chamber of Commerce:

I think at least if you are more to the private sector you would at least have people who are very sensitised to the necessity of speed. Ultimately it comes down to the Minister for Economic Development to make the big call. Of course he is being advised though by Dougie Peedle who is ... I cannot think of his position.

The Deputy of St. Martin:

Economics Unit.

President, Jersey Chamber of Commerce:

Economics Unit. Economics adviser. So he is in a quite powerful position as far as this is all concerned. I am not quite sure what his private sector experience is but I have a feeling he is a long term civil servant, so you are already starting to look at someone who is looking at risk averse as opposed to let us take a punt on this.

The Deputy of St. Martin:

I know what the answer is going to be before I ask the question but I am going to do it anyway. Red tape: you are talking about speed to market. We know that innovation has to be quick, snappy, it has to happen fast. You have already said that if you do not do it now somebody is going to catch you up in 5 minutes and do it if you do not. Red tape has to be a hurdle.

President, Jersey Chamber of Commerce:

Absolutely. Therein there has to be a clear set of procedures set out which say this is how we are going to deliver this quickly and it has to be a very clear understanding on that.

The Deputy of St. Martin:

How do you balance the necessity to guard public funds, if you like, and do something safe and sensible with them and the need to move as fast as you possibly can for innovation because that is the way the private sector is going to work? Is there a happy balance?

President, Jersey Chamber of Commerce:

I do not know, is the simple answer. I think right now in the economic climate we are in at the moment whereby every penny has apparently been accounted for and more, I am sure from a public perception point of view, having £5 million there, which maybe make a quick decision and get it wrong, I am sure from a public perception you would be maybe going: "Hang on, what happened to that new extension on the hospital or what happened to this, what happened to that? Why are we not investing in certainty as opposed to a bit of a longshot, kind of thing?" So I think there is another dilemma is the timing of the fund going in. Of course the irony is, is the fund is being set up because of the economic climate so we constantly have all of these various tensions.

The Deputy of St. Martin:

If I could just go back to "the fund of last resort", which you have already spoken about and you have mentioned. We know there is a huge difficulty, not just in Jersey, U.K. (United Kingdom), Europe, globally with getting money out of banks but would you agree with the suggestion that we put forward to see what reaction we get that in Jersey we have a considerable amount of public funds sitting behind lawyers' offices, behind accountants' offices and what have you that is readily available and if lawyers or accountants see something that is worth investing in they have clients who are very keen to use their private wealth at the moment, and that Jersey would be very well suited? The reason I put forward that suggestion is that does that not make "the fund of last resort" even further away from ... I am not explaining it very well. But the chances of "the fund of last resort" picking up the little diamond that you mentioned even more remote.

President, Jersey Chamber of Commerce:

Absolutely. I mean we obviously have this Angel Investors which is an attempt to get these very individuals interested in things. It is always interesting, people talk about banks not being prepared to lend. I think banks are prepared to lend and I am an exponent of that in the current climate. Banks are prepared to lend if you have a decent business plan and the numbers stack up. There is always risk in any decision that they make and maybe their risk aversion level is a little higher than it was when money was piling in and everybody thought they were having fun, but the reality is, is that banks will lend on a decent proposition, which is properly backed and properly thought through, so I think this misnomer that banks have stopped lending is not the case at all. I think that is just the press, the media, keeping on reiterating those points. As far as, as you say, in Jersey in terms of the private sector having funding, absolutely. There are a lot of people out there

who have money, who will invest if you can make the right contacts and surely through E.D. you should be able to make those kind of contacts already. As you correctly say, that then pushes back the £5 million Innovation Fund as being totally last resort. Finding that diamond is going to be a tough one to make because that diamond theoretically should have been found by a lot of other people way before the Innovation Fund got to see it.

The Connétable of St. Brelade:

But is there not another argument there. I mean we keep using this “fund of last resort”. Maybe, and I am just thinking from devil’s advocate, the other side’s point of view, it is not “the fund of last resort” and I just wanted you to comment. You mentioned the banks and they probably are a little bit more risk adverse than they were 5, 6 years ago, as probably are private investors. Do you not see that there is a possibility here for a fund such as the Innovation Fund to be, rather than a last resort, open to some ideas and suggestions that the banks ... they are not bad ideas but the banks have just tightened their criteria to a point where it is not open to these new companies? Do you think there is an argument in that?

President, Jersey Chamber of Commerce:

Absolutely, and there always will be. There is always going to be somebody who is probably sitting in their bedroom right now who has this most amazing idea and plan and has not got an asset to their name so therefore cannot get the borrowing requirement, they have no track record, all of those kind of things, against which normal lending criteria would be made. So what we are asking the Innovation Fund is to say: “Well, we know these are all the lending criteria on which we would normally do it, we are just going to stick our finger in here with you and we are going to take that risk, that little bit extra risk, because we can.” Is that a good thing? It probably is a good thing.

The Connétable of St. Brelade:

Is it as risky as we are thinking though because I understand the argument that you make but maybe there are ideas and innovative ideas that are being lost purely because the banks have tightened and even private investors have tightened. Maybe E.D.D. is right and there is an opportunity here to back some of these ideas.

President, Jersey Chamber of Commerce:

There is but I agree with you, but we come back to the point: how risky are the people who are going to be making these decisions, how much risk are they willing to tolerate? It does come down to individuals in the public sector trying to make calls knowing full well that they will be heavily criticised if they start seeing that fund being eroded very quickly indeed. So my question to you always is how much tolerance are we, the public, prepared to allow them? For all those points you absolutely make, you are absolutely right. There may well be somebody out there who E.D.D.

can back or this fund can back successfully, but what we have to accept is we know we are going into something with our eyes open. We are not going in with our eyes closed of the realities.

The Deputy of St. Martin:

Constable Paddock joined us 5 or 10 minutes ago and he would like to ask a question.

The Connétable of St. Ouen:

Just listening to you, I just wonder whether at the back of your mind you wonder whether there is the expertise within the department to be able to make these decisions. It is no criticism to them but whether you feel there are people out there who perhaps would be more experienced than what is in the department to be able to make the decision.

President, Jersey Chamber of Commerce:

The point is on the board you are going to have private sector experience, so the people who are appointed to the board, one would hope are going to be the kind of people who are familiar with this kind of territory. Clearly the real expertise is in the private sector because these are people, whether you are a banker or whether you are getting involved in private equity finance or anything like that, this is your day job. You know exactly what to look for, you know what the risks are, so forth and so on, so you are dealing with it on a day-to-day basis. For me, it really does depend on the board structure and who comes on into this board. Are they people who are up to speed with current thinking or are they people who maybe are retired who used to do it and now coming in to help out because that is a good thing to do. I think the people who get appointed to the board are absolutely critical to its potential success.

The Deputy of St. Martin:

And you would like to see some younger blood rather than older blood?

President, Jersey Chamber of Commerce:

Absolutely. I do not think there is any doubt about that at all because these markets are moving so fast. The world of innovation is so fast. We have seen it recently, have we not, with Apple computers, for instance. One minute they are out there leading by a country mile, next minute they are having to now adapt their offer to the market and who would have thought that would happen within 2 years. These markets are just moving so fast. I know that is a global scale and that is a global thing but things are moving and if you are not in there at the coalface on a regular basis you are going to lose touch with what is going on very quickly.

The Deputy of St. Martin:

Let us move slightly to innovation itself, if we may. You are a pretty innovative guy who is out there doing it, if I can put it that way. Do you think we have scope in Jersey? We have always been pretty innovative as Islanders, reinventing ourselves over generations of different industries. Are we still as innovative as we ever were?

President, Jersey Chamber of Commerce:

I think we are and I think what is frustrating, certainly from where I am sitting, is just how unbalanced our economy has become because we have become so finance centric and I think we have lots of other areas where investment ... tourism is clearly way under invested in. I think our heritage is way under invested in. These are kind of bankers, if I can put it that way. These are things which are for me we have the physical beauty, we have the accessibility, we have the geographic locations, we have the history, we just do not have the investment going into it because those who are able to, and I think the fact that £10 million in 2001 was not spent and invested in the future, had a dramatically detrimental effect to the tourism industry. There is a lot of political talk about how we should diversify the economy. The reality is there is one game in town. Right now today, I believe, Mike King and the Economic Development Department are down in South Africa trying to encourage mining companies to come up to Jersey, which is all to do with finance and those kind of issues. So the only gain which is being taken seriously is finance centric or mineral centric, how funds are moved around. None of what we physically have here at the moment, I think, is really truly being invested in. I think that is a real tragedy. When you do not have that kind of public backing, really genuine, not just public backing but physical backing, financial backing, I think that makes it very difficult to say there is real honesty in our economy we can diversify.

The Deputy of St. Martin:

There is a big emphasis, and I am sure you are seeing it, that has come out of E.D. in the last 18 months. We have the economic growth strategy, we have an enterprise strategy, which sort of backs up this Innovation Fund. But the 2 words that keep jumping out at us, I am sure you as well, is high value, high value, high value, and they are looking for high value industry to create high value jobs and people to earn high value wages. How do you see that in the big ... I know we are going a little bit off piste here but how do you see that in the big scheme of things when you have Jersey as an Island which has to employ people who do high value, medium value and low value jobs for the Island to run?

President, Jersey Chamber of Commerce:

I think the tourism industry surely has to be the classic one. At the top end there are hotel owners who are obviously making a very good living. At the bottom end we require people who are on

minimum wage. It is a real diverse industry employment. All sorts of people with all sorts of backgrounds. One of the dangers is that we are so focused on the high value that we forget about whatever the other 80 per cent of people who can maybe make an ordinary kind of living or those who are not capable, are not superstars, who basically simply just want a job and something to do. We are almost like sidelining them, as if they are not there anymore. We are seeing unemployment at 2,000 at the moment and maybe going north of that right now. The L.V.C.R. (low value consignment relief) industry soaked up a lot of the people who are not high value, as it were. Where are we headed in Jersey with all of this? Why are we not thinking about this because it could cause a major social problem? It is all well and good to talk about high value but in the grand scheme of things you are actually causing a social problem.

The Connétable of St. Brelade:

But you are not advocating the use of any of this particular fund for use within an industry like tourism, for example?

President, Jersey Chamber of Commerce:

I do not know, I would not rule out that. I would not rule out using it in tourism. I would not rule out ...

The Connétable of St. Brelade:

How would you see it used?

President, Jersey Chamber of Commerce:

Tourism have already got some funds allocated but where can we ... this is going to be on the fly as a reaction. We are talking about event-led tourism. We talk about attracting big events to Jersey, those kind of areas. These need sponsoring. You only have to look at the air display and the lack of funding for that, and the number of people that brings in. The problem with some of these industries is they do not bring in an immediately obvious revenue stream. They bring in a revenue stream but that trickle-down effect into our economy in terms of more people on the High Street, visitors spending in our economy, that money circulating around our economy creates more jobs.

[9:00]

That is to some extent why our High Street is being devastated at the moment. It is not as sexy as the others, that is the problem.

The Connétable of St. Brelade:

Would you say somebody with an event-led tourism idea is innovative and should be considered?

President, Jersey Chamber of Commerce:

Absolutely.

The Connétable of St. Ouen:

Just going back to the unemployment and I am slightly going off the track here, but can you see a reason why or what can be done to try and encourage local people into the hotel industry? I have a member of my family that worked in I guess one of the biggest hotels in the Island. She was the only Jersey girl that worked there. She was in P.R. (public relations) admittedly but do you see a way that we can try and draw these people into the hotel industry because, like you say, it is not a Jersey job to do.

President, Jersey Chamber of Commerce:

I think that is historic, is it not? I am sorry we are getting way away from here, but I think the problem we have is value, is people being valued within these industries and I think sadly they have not been historically valued in these industries and that is why ... and also do not forget, we are talking about a housing stock. If you want to get your foot on the ladder in housing the kind of wages being paid out just mean you get this 2-tier society of the people who can afford to get on the ladder and those who cannot and historically finance has always done that. This is a whole different subject matter, I think, yes.

The Connétable of St. Ouen:

Yes, but I was wondering whether funding could be used to try and encourage people? This is maybe where the funding should be used to try and ...

President, Jersey Chamber of Commerce:

I think the funding of the headline at least is funding in things like event-led tourism and people out there, we have Jersey Live, which is bringing people to the Island. There are all sorts of initiatives which, if encouraged and enthused, will create those jobs that you are looking for. But if we constantly back off, I mean my pet project at the moment is Le Carte(?) where we have a world heritage site pretty much and yet there is no funding being made available to that and that could be a hugely innovate area to get involved in.

The Connétable of St. Brelade:

You very much see this fund as for your current members and current business, you do not just see it as new innovative...

President, Jersey Chamber of Commerce:

I think they will be new but every industry is innovating all the time. It does not matter if you are in tourism. I mean there will be innovations in tourism and innovative ideas. aMazin! Maze at the moment is looking to - I know it is a tiny thing - they want to put a shed up. But they are innovating all the time into they have gone out of farming, gone into tourism. They are trying to think of the next idea, what people are looking for. Whether it be looking at what maybe Centre Parcs is doing outside of the Island. How can we bring that into Jersey or that concept into Jersey? We are seeing Les Ormes with their self-catering accommodation and all the innovation there. So there is plenty of innovation out there going on.

The Connétable of St. Brelade:

Do you think E.D. are being a bit too blinkered in terms of where they see this innovation coming from?

President, Jersey Chamber of Commerce:

I do not know that they are being blinkered. I do not think they are setting any criteria because from the report I am seeing here they are saying investment can be made anywhere. I think we are somehow perceptive of thinking this has to be high revenue, low footprint, all these terms.

The Connétable of St. Brelade:

It is not just about digital.

President, Jersey Chamber of Commerce:

It is not about digital, exactly. It is about a much wider scope than that and I think you just have to be. But the point is, if you constantly focus on digital or this kind of thing I think you miss so many other opportunities.

The Connétable of St. Brelade:

If you are going to invest in some of these local businesses it could be a quick win but it is not going to be a big win.

President, Jersey Chamber of Commerce:

I agree. I think that, but do you not think if you put the small wins ... the famous cycling analogy is there not, with the British cycling team, where the guys said: "All that we tried to do was get a 1 per cent improvement out of everything we did and by the time we got 1 per cent, 1 per cent, 1 per cent, 1 per cent, we had improved by 50 per cent" so I think we have to be more realistic in how we think. I do not think we can say: "Right, we are looking for the scheme and we are only interested in the scheme that is going to double that fund from £5 million to £10 million because

that is all we are looking for.” I think the opportunity lies in maybe lots of small successes and being in there for the long haul.

The Connétable of St. Brelade:

Do you think those small successes they all provide, which I think is important to anybody, is confidence?

President, Jersey Chamber of Commerce:

Confidence. Absolutely right.

The Deputy of St. Martin:

If I could just be quite clear, I think some of us were looking for innovation and innovation itself is something new, something we have not thought of and we are struggling here to try to understand how much innovation there might be on the basis that it is new and nobody has thought of it so it is difficult to quantify or impossible to quantify. But the vibes I am getting from you this morning are that we should be looking at our traditional industries as much as anything else and for them to be innovative and not necessarily something brand new that nobody has thought of but a diversification from where they are at the moment, new ideas and not maybe 100 per cent radical but something that is 20, 30, 50 per cent radical.

President, Jersey Chamber of Commerce:

Absolutely. Because I think if you quietly innovate what we have here and use our strengths, use all the things that Jersey has to offer here on the ground, innovation will come out of those things. I may as well quote my own company and looking at what we do. We have gone out there with this electronic device for a payment system, or whatever, and that innovation ... we are one of the earliest adopters of doing that but that innovation has only come from me thinking about trying to work out a solution for my business and seeing what is out there. I think innovation, it is very rare we get innovation that completely changes the trajectory of everything. I think what happens is you have little quiet steps and then suddenly a big step happens. Now that big step might happen on Jersey and we have to be aware of it but what we have to be careful with is, is that we do not start knocking things down early on because we say: “Well, you know what, that is not innovative enough.” I think we just have to constantly invest, invest, and those entrepreneurs on Jersey who have the ideas, you look at Dougie Richardson out at St. Ouen there with his pallet business. He is trying to be innovative and use ideas and waste in clever and new ways.

The Deputy of St. Martin:

What you are saying is we should not be looking for anything that is fantastically revolutionary. Just general progression or ...?

President, Jersey Chamber of Commerce:

Absolutely. I would be looking for general progression. I would be looking to back people who seem to be doing an interesting area, doing an interesting job, innovating away from what they are doing. I would be backing those existing entrepreneurs to the hilt with those ideas, but not all of them are going to be successful because they are going to get it wrong and they will put their hands up and get it wrong. But at least you can look in the whites of their eyes and go: "You know what, you are trying your damndest here." Now if something comes along, fantastic; that is great. But I think the problem we have here is we can be sitting on a pile of money and going: "Well, we have not seen the latest innovation yet so therefore we are not going to spend the money."

The Deputy of St. Martin:

Getting back to the original thread of the question: do we have youngsters or young people out there at the moment who are coming up with snappy ideas, who do need some funding for start-ups?

President, Jersey Chamber of Commerce:

That is a good question. If I look at the retail end of the business, no, I do not see anybody. I do not see any young people because obviously there are lots of other issues, there is rent, there is internet, there is all these other challenges which they face. I think what was interesting and telling was the guy - I know you were once in the egg industry - this young guy in St. Lawrence, Laurent Coenen, he is a young farmer who has gone out there, developed it but his biggest criticism is the battle of red tape and not really being helped to make sure he gets that business established and going quickly. I think if people like Laurent can be held up as a shining example and say: "Look, here is a young guy. He got assistance, da da da, here you go" I think that would encourage other young people to come forward and go: "Well, you know what, I am sat in an office, I am bored to tears but I have got a really interesting idea." We have the Smokehouse, these 2 guys doing things there. As far as I am concerned as a business, I really want to encourage these local entrepreneurs to try and get out there and do it. But there is not enough backing for them. There are not enough people to support, giving them the critical mass to try and make a going of it. They are having to do these things in their spare time and bits and pieces.

The Deputy of St. Martin:

Talking of spare time: I mean do you see any barriers on the fund inasmuch as the amount of money you can borrow, the top and bottom end? Do you think the fund should be lending out £500 or should they have a bottom line before they say: "Well unless it is a certain amount we are not interested"?

President, Jersey Chamber of Commerce:

That is an interesting point. I mean somebody who only wants £500 might have a brilliant idea and a brilliant innovation and that is all they need. So I think absolutely they should not be ruled out at all. I think this should be for anybody. There is a real danger because obviously when you get into the big world of the banks and the finances and the private equity businesses, they are only interested in talking to you if you need £10 million or you need a million or whatever.

The Deputy of St. Martin:

Should we have a top limit as well, do you think?

President, Jersey Chamber of Commerce:

Are we prepared to risk just 10 per cent of the fund at any one time on any one project? I do not know. That is a judgment call to be made by those running the fund. I think again it just depends on what gets put in front of you. I think, again, like all of these things, I would far prefer, say: "We have no minimum and no maximum limit. We are not going to put any precepts in that respect. We just take each opportunity presented to us on its merits and then we decide, and if that is £500 or £1,000 or £1 million we will make that decision. I think it is a very valid point that about no minimum. I am not talking about £1 obviously. But no minimum I think is a valid point.

The Deputy of St. Martin:

Let us move ahead then and accept the fact that hopefully this moves forward. We have had 2 Ministers in front of us in hearings, we have had the Minister for Treasury and Resources and we have had the Minister for Economic Development. The 2 have slightly different angles on what they measure success as. The Minister for Treasury and Resources was very much focused on jobs and not necessarily on the return financially to the fund whereas the Minister for Economic Development is putting forward these propositions for a self-replenishing fund and feels that there should be more money given out in loans, which are going to be repayable, and we will get on to interest rates and stuff in a minute. How would you interpret the success of this fund if it moved forward in the next year or 2? Is it purely jobs? Do we need to be seeing some returns in the coffers or can we just say: "Look, there is an industry we are going to get some indirect tax through I.T.I.S. (Income Tax Instalment System), blah blah blah through the job creation".

President, Jersey Chamber of Commerce:

I think it is a bit of everything, is it not? It is a bit of return, it is jobs. I think jobs are crucial, clearly that is important. When we have people creating local jobs, that gets your social security bill down and so forth and so on, so I think that is really important. In terms of return into the fund, I think that is such a difficult call to make. The reality is how do you measure what the return was to our economy? Do you turn round and say 5 more people were employed there. But you go those 5

more people were employed, they then went out and spent in their local store and then that local store owner was then able to paint and decorate or upgrade their store. They then employed 3 other people. That kind of follow through, which nobody can ultimately measure directly and say: "Well, you know, the fund created X amount of money" or whatever. I think the crucial bit is that we get ... employment is a really valid point. I think employment. I think the fact that we have more people employed is a really crucial point.

The Deputy of St. Martin:

I think you can - well obviously it is a hugely difficult thing to do - and I am sure you are aware of leakage out of the local economy but I think you can measure. There is a multiplier that you can use and I accept fully what you are saying. People with jobs employing people to do other jobs or buy things that are provided by other people who are then employed and it just goes on.

President, Jersey Chamber of Commerce:

So I think jobs is the crucial measure. But in terms of success. I do not know, I guess you do not run out of money. I think in the end those people who borrowed the money you see them paying it back into the fund again and somehow you have some kind of equilibrium balance.

The Deputy of St. Martin:

There has been a suggestion that the fund is going to start off as grants, loans and in the future is going to potentially take an equity stake in people's businesses; we are not there yet and there is some legislation that has to come forward first to be able to do that. But if I could focus initially on grants and loans. When we first started this investigation, this review, we were very much on the lines of loans, loans, loans, loans and grants in only exceptional circumstances. Now again I think I know what the answer is going to be but would you agree with the suggestion that was made that being given a grant does not really make you hungry enough, does not really get you out of bed in the morning because you know you are never going to have to pay that back? Is the thought of a loan ... does that help you to really stimulate you and get you out there working?

President, Jersey Chamber of Commerce:

You are in business as I am in business. Why do banks take security against loans? Because they want to make sure you get out of bed in the morning to repay the loan. What would my thoughts be? I think there is a place for grants and why do I think there is a place for a grant? I think because if you are trying to innovate into a new area and you have not quite got the cash in the bank or you have not quite got the money there to know it is a goer, kind of thing, and I know one or 2 examples out there, where there is some new innovation in the industry and you are thinking: "Should I, shouldn't I? How much can I afford to risk my existing business to try and have a go at something which is a bit of a punt and I do not know?" I think there is a place for a grant in

that scenario. I think sometimes maybe it is the timing of the grant. I think to an extent I would like to see somebody maybe with a little ... I do not say a track record particularly but with something maybe a little bit more. Give us some evidence that what you are doing is working before we go and give you a grant to go and ramp you up to the next level. That would be maybe how I would try and play it. I know that is not maybe as easy as it could because sometimes the grant is needed there just to do the investigation, to see if something is viable and so forth and so on. Again, it is one of those things. It is not black and white. I think there is a lot of grey there and you would have to think about each case on its own merits.

The Deputy of St. Martin:

You are very much a case by case manager?

President, Jersey Chamber of Commerce:

Absolutely.

[9:15]

The Deputy of St. Martin:

Again we get back to the problems we face when we are dealing with public funds and how things are done in the private sector and we are trying to say to ourselves: "Do we think that the board need a quiz sheet of guide that they should use inasmuch as that loans should be repaid at a particular interest, they should be repaid at this repayment schedule, this is how it should look like" and that grants should be given in the form of non-repayable loans just to be technical. But you are not the first person that said case by case is the way to do it. But it can, at the same time, we are dealing with public funds, we need to be fair to everybody. It is really difficult and I am sure you would accept this, on one hand to give person A, say: "Yes, we are going to give you a grant" and B to say: "Well, we are not quite so, case by case, we are going to treat you slightly differently to the first one even though the amount of money you need is the same and your idea is not fantastically different."

President, Jersey Chamber of Commerce:

I think if you even went into a bank and saw the lending criteria and you think about how banks have lent money. Sometimes they will ask you just to pay the interest. Sometimes they will ask you to pay capital and interest and that will be done on a ... ultimately I think it just depends on cash flow. Is this innovation heavily capital intensive? Is it not very cash intensive? I think you have to look at the finances, the cash flow forecasts, all of those kind of things to say: "Do you know, there is no point in us giving you this money and then demanding that you pay a monthly

loan back when we can clearly see you cannot afford to do that. This scheme will never get off the ground if you we do not give you some breathing space to get going.”

The Deputy of St. Martin:

You see a place for a mentor, for want of a better word, who is sitting in there and will be advising them as to saying: “Look, we know that we asked him to start paying this back next month but give him another 3 or 4 months I can see the cash flow building up. I know in 6 months’ time he is going to be able to cope with this repayment without interfering.”

President, Jersey Chamber of Commerce:

Correct. Again that is all about structure. It may be that for the 5 years or whatever you give this individual a loan for or business a loan for you may turn round and say: “Well, actually we want the capital back at the end and all we are going to charge you throughout that period is the interest to try and grow, to get your business going and get a strong footing on it.”

The Deputy of St. Martin:

So flexibility and understanding.

President, Jersey Chamber of Commerce:

Absolutely. Flexibility is huge and just close monitoring. Just regular monthly whatever or even weekly, I am sure there will be situations where you are needing to be ... you use the word “mentoring”. I just think they need to be very close to those businesses who are being funded.

The Connétable of St. Brelade:

It has been suggested that in terms of monitoring any new start-up or any new idea that that monitoring or that overseeing role is done by Jersey Business. What would be your reaction to that?

President, Jersey Chamber of Commerce:

That is fair enough if they have got the expertise to know what they are looking at. I think that is the crucial bit. It is about expertise because any smart person in business who may be high tech or low tech, whatever. I know my business very well. I am sure someone could stand over my should and go: “Yeah, why is it like this?” or: “I do not understand why it is like that” where I am the person in the middle of it all know exactly how these fundings go and how the financing goes, how it all works.

The Connétable of St. Brelade:

They could have a role to play.

President, Jersey Chamber of Commerce:

They will have a role to play in terms of making sure that the cash flow forecast or the management accounts are as predicted. In other words, 3 months down the track you said you would be here, now if you are not there, why are you not there? What are the reasons for? What is the clear evidence and I want to be sure that what you are saying is you are not pulling wool over my eyes about what you are doing. So I have to have a degree of nous as a mentor, or whatever, about how your business works.”

The Deputy of St. Martin:

So what you are saying in actual fact is this person, this mentor, the one who stays close to the business needs to know what he is talking about.

President, Jersey Chamber of Commerce:

Absolutely.

The Deputy of St. Martin:

And that comes from experience of dealing with this type of thing in the private sector.

The Connétable of St. Brelade:

I think what I am getting at is it is not 100 per cent a role for Jersey Business?

President, Jersey Chamber of Commerce:

I have a feeling not. I have a feeling they may well end up having to pull in people who may be expert in certain fields and certain areas and turn round and say: “Right, okay, fine. Do you mind coming in and doing this?” There no doubt would be a cost to doing that but I would see that ... I would feel far happier that in my business if I was looking at something, cement business or whatever, which I have no idea at all, I would be very much expecting somebody in that industry to be monitoring ... if we were giving some money out to somebody in that industry I would expect somebody within that kind of field to be monitoring what was going on. I am certainly ... okay fine, I can look at a balance sheet or a spreadsheet or anything like that but the bottom line is, I do not understand the mechanics of it, and so I think that is crucial.

The Connétable of St. Brelade:

Would you expect Treasury to have a role to play because obviously they will ... any repayment of loans will go through Treasury? Do you think they have a role to play?

President, Jersey Chamber of Commerce:

No.

The Connétable of St. Brelade:

No. In highlighting when something is not right.

President, Jersey Chamber of Commerce:

I do not think they have at all. I think the board themselves have to take the can. They really do have to. Treasury are just ...

The Connétable of St. Brelade:

It is an E.D.D. issue.

President, Jersey Chamber of Commerce:

Absolutely, yes. No, Treasury are just there for the funding. What happens, how that money is spent, I do not think Treasury should have any input in at all, not unless they have some brilliant idea in going: "Well, we have someone knocking on the door saying 'Why do we not innovate here?'" but I think that is an E.D.D. issue absolutely 100 per cent.

The Connétable of St. Brelade:

Just while I mention success and failure. In terms of the failure which has already been said could be up to 70 per cent, in terms of the number of applicants that receive funding what they are suggesting is we could only have 5 or 10 per annum. What would be your reaction to those figures and obviously what it would then lead on to any chance of real success?

President, Jersey Chamber of Commerce:

It could be just one per annum. That would not worry me at all. If it was 100 fantastic, if it was 10, 5 ... there is a real danger that you try and force success. I think you have to accept that there are people out there with innovative ideas and if you can somehow get that funding in there and create something that they could not have achieved without this kind of funding and that then allows them to develop a business, and I am talking about developing existing business as opposed to starting from scratch and doing something else, that has to be as good as anything out there. There is a real danger that you turn around and go to the first guy who comes in and says: "Well, I could not get any funding anywhere else and I need £1 million and it is a great idea" and then someone sort of ra-ra: "We have lent £1 million to something and such and it is a fantastic idea", there is a real danger that you have tried to force the issue to say: "We have lent the money" without maybe going to: "Well did we lend the money in the right area? Was that a sensible thing to do?"

The Connétable of St. Brelade:

Or have we done a correct due diligence on it.

President, Jersey Chamber of Commerce:

The whole of that kind of thing. And we talk about speed and all these kind of areas. So again I would be fairly relaxed about it. I would be very concerned if nobody came and knocked on my door because I would say: "You did not structure it right" because that would be clear evidence the structure was not right.

The Deputy of St. Martin:

We have 7 or 8 minutes left. I am just playing devil's advocate a bit. We know the state of the local economy, we know the state of the global economy. We have £5 million here with hopefully an option of another £5 million. We know there is going to be some costs in administering this fund. There are some hidden costs which we are going to investigate. We are uncertain how we measure success, whether that is financial or jobs or what have you, and working out whether this is good value for money is going to be tricky. So the question is, with my devil's advocate hat on, could we use, in your mind, this £5 million somewhere else in the economy where we could put our flag up and say: "We have a quantifiable success here that we know"? Is there a better alternative use for this money? I am as entrepreneurial as you are. How do you feel about that?

President, Jersey Chamber of Commerce:

Is there a better use for this money?

The Deputy of St. Martin:

Or is there a better use for this money when it comes to trying to create jobs, for example, or to stimulate the economy?

President, Jersey Chamber of Commerce:

I think that is an almost impossible question to answer. I do not have the privilege of knowing where all the money is being spent at the moment by Treasury, so you would have to say: "Is everything the Treasury want to do currently funded?" Is it properly funded and are they spending the money wisely? I do not think I can really answer that. I think it is a positive thing to do. It is certainly a worthwhile effort to be made on it but could that money be spent elsewhere? I do not think I am qualified to say that.

The Connétable of St. Brelade:

Could I ask that question maybe another way and, rather than how Steve has put it, is to say is there an alternative method for using this money? I am thinking, i.e. give rent holidays, tax

holidays, social security holidays. Would that money be better spent doing that with a new business? I am also thinking as well, after what has happened this morning with the 50 jobs lost at Axle, is there an opportunity at the moment to use that money to preserve existing businesses and making sure some of those do not go under thus saving jobs in another way.

President, Jersey Chamber of Commerce:

Were you reading all the letters page in yesterday's *J.E.P.* (*Jersey Evening Post*) about ...

The Connétable of St. Brelade:

I have not read the *J.E.P.* ...

President, Jersey Chamber of Commerce:

Have a quick read and talk about preserving and supporting local businesses. There is no appetite whatsoever in the public domain to preserve or support local businesses unfortunately. I think it is absolutely tragic where we are going at the moment. The market goes the way it goes.

The Deputy of St. Martin:

I was just going to say, I mean I know you have been a great advocate in the past of social security breaks and things like this. Let us press a bit further on Steve's point here. If we use this £5 million and say to somebody with a very bright idea of: "We will give you an office rent free, do not worry about social security for the first 6 months, we are going to give you a loan, you do not have to pay any interest on it for 6 months" or what have you: "And all you have to do is to come into work, think up some good ideas and create enough money to survive and take the business forward. We will take care of all the services and stuff." Would that be better use because there is no red tape with that, which obviously the initial attraction is ...

President, Jersey Chamber of Commerce:

But then that gives someone a competitive advantage. Why, if you are prepared to give somebody a social security holiday, a tax break, et cetera, why are you not prepared to give me that?

The Deputy of St. Martin:

Well, if somebody start ...

President, Jersey Chamber of Commerce:

It does not matter whether you are starting new or not. I am saying is that if you are prepared to give it to one you have to be prepared to give it to all. There has to be a level playing field.

The Deputy of St. Martin:

So you would not accept that for the first 6 months of a new company start-up or what have you, a kind of bright idea, we find a way of making it easier for that idea to become a success?

President, Jersey Chamber of Commerce:

No. The way you are making it easier for that idea to become a success is lending the money, giving them some seed capital. That is it. End of. I do not have a problem with that. That is not an issue. If you start talking about saying social security breaks to me and tax breaks, et cetera: "You do not have to pay any G.S.T. (Goods and Services Tax)" or so forth and so on, no I think that is totally unfair because I think you then are completely changing the pitch completely and I think that would be ... I would absolutely support any business who howled and complained about that.

The Deputy of St. Martin:

Good. Have you got any further questions, Constables? We have got a couple of minutes left. Our hour has flown by as I knew it would. Anywhere else we want to go? I think we have covered everything. I did not like to finish on a downbeat but how we ... anything else in 5 minutes you want to say before we close?

President, Jersey Chamber of Commerce:

No, I do not think so. I think we just have to ... as I say with this fund we have to be flexible, we have to have the right level of expertise in there to support the ideas. We have to accept that not every idea is the big sexy idea. We have to accept that there may be worthwhile investment in existing businesses trying to diversify. Just because a business is not in your criteria of high value, low footprint, et cetera, does not mean you write it off. I think the Tourism Development Fund in 2001 huge lessons should be learnt about what happened there, and I think we have to learn from that and then use this fund in an appropriate way on a scale which is appropriate to Jersey.

The Connétable of St. Brelade:

But you definitely want to see £5 million used to boost the economy?

President, Jersey Chamber of Commerce:

Absolutely.

The Deputy of St. Martin:

On that note, thank you, David, for coming this morning and I will declare the hearing closed.

President, Jersey Chamber of Commerce:

Thank you.

[9:28]