

**CABINET MEETING – 10<sup>TH</sup> MARCH 2010**

**EXECUTIVE SUMMARY SHEET – PART I**

**Title of Report:**

THE DIFFERENCE ENGINE – INVESTMENT FUND

**Author(s):**

CHIEF EXECUTIVE AND DIRECTOR OF FINANCIAL SERVICES.

**Purpose of Report:**

To seek Cabinet approval to make a contribution to The Difference Engine Investment Fund.

**Description of Decision:**

Cabinet is recommended to approve a contribution of £100,000 to The Difference Engine Investment Fund.

**Is the decision consistent with the Budget/Policy Framework? \*Yes/No**

**If not, Council approval is required to change the Budget/Policy Framework**

**Suggested reason(s) for Decision:**

Joining with the other partners will help us to develop this innovative concept and grow new Hi-tech businesses and high quality jobs.

**Alternative options to be considered and recommended to be rejected:**

Not to support the project would lose the opportunity to assist new businesses and job creation.

**Is this a “Key Decision” as defined in the Constitution?** Yes

**Is it included in the Forward Plan?** Yes

**Relevant Scrutiny Committee:**

Prosperity and Economic Development Scrutiny Committee



**THE DIFFERENCE ENGINE – INVESTMENT FUND**

**REPORT OF THE CHIEF EXECUTIVE AND DIRECTOR OF FINANCIAL RESOURCES**

**1. PURPOSE OF REPORT**

- 1.1 To seek Cabinet approval to make a contribution to The Difference Engine Investment Fund.

**2. DESCRIPTION OF DECISION**

- 2.1 Cabinet is recommended to approve a contribution of £100,000 to The Difference Engine Investment Fund.

**3. BACKGROUND**

- 3.1 The Difference Engine concept has been developed in partnership with Digital City, Sunderland Software City, Entrepreneurs Forum, One North East, Middlesbrough Council and Sunderland City Council. All of the partners are agreed that a mentor-led business acceleration programme and the availability of investment capital will help to grow high worth businesses and create high quality jobs.

The strategy behind this concept is that if the businesses are successful the investment money will be repaid and there will be no cost to the partners.

- 3.2 The proposal is to emulate other such schemes which have been hugely successful, in particular Techstars in Bolder, Colorado and Y-Combinator in Silicon Valley, California and Launchbox in Washington DC. This model has been highly successful in identifying `real winners` in new business and accelerating their growth. A similar fund recently launched in London had over 200 applicants.
- 3.3 The fund will be administered by the North East Business and Innovation Centre and will provide equity investment and 16 weeks of intensive business development support for qualifying leading edge digital or high tech / software businesses.

**4. CURRENT POSITION**

- 4.1 One North East has committed £300,000 to the project and Middlesbrough Council £100,000. The funds will be equally allocated to help digital businesses in Middlesbrough and to assist high tech /

software businesses in Sunderland.

- 4.2 North East BIC will administer and control the fund and will make investments of up to £20,000 per business on behalf of the partners for which they will take a nominal administration fee.

The process will involve selection panel, similar to the Dragon`s Den concept, consisting of representatives from both councils, plus Chief Executive of the BIC, Chief Executive of Software City and Chief Executive of Digital City.

- 4.3 The Council`s current financial assistance scheme includes grants and in some cases loans to new and existing businesses to encourage growth and job creation. In some cases fast growing innovative companies have difficulty in raising funding through the usual financial institutions and therefore seek equity funding. The Difference Engine approach allows the partners to make equity investments in companies which it would otherwise be unable to do. The Difference Engine therefore complements the Council`s existing scheme.

- 4.4 This is a pilot scheme and it is anticipated that the fund will be invested during the initial 12 months and then the growth of the companies monitored over a three year period. Once the performance of the scheme is known a further report will be submitted to Cabinet to decide whether the funds recovered from the investment are either repaid or re-invested. An annual report will be submitted to Cabinet advising of progress with the scheme at the end of the first, second and third years.

- 4.5 Any digital or high tech / software business which locates its base in Sunderland or Middlesbrough will be eligible to apply for this funding. The scheme will prioritise potential high growth businesses which are in a rapid development phase. The demand for capital investment in the business is essential to sustain growth at this stage.

It is expected that a minimum of 20 companies will be supported equally , split between Sunderland and Middlesbrough. Each business is anticipated to create a minimum of 5 high quality jobs

- 4.6 The monitoring of the project will be carried out by the Chief Executive of the BIC, the Chief Executive of Digital City and the Chief Operating Officer of Sunderland Software City and they will provide monthly reports and updates to the three funding organisations.

## **5 REASON FOR DECISION**

- 5.1 Joining with the other partners will help us to develop this innovative concept and grow new Hi-tech businesses and high quality jobs.

## **6. ALTERNATIVE OPTION**

- 6.1 Not to support the project would lose the opportunity to assist new businesses and job creation.

## **7. FINANCIAL IMPLICATIONS AND RISK ASSESSMENT**

- 7.1 Funding for the project is available from the Revenue Budget for Employment and Sectoral Initiatives within the Inward Investment Budget.

## **8. BACKGROUND PAPERS**

- 8.1 Project file.

