



DECISION PAPER
Economic Development Grant
CallActive Pty Limited

August 2013

Purpose

1. This paper seeks approval to provide an Economic Development Grant to CallActive Pty Limited of \$300,000 to assist with the costs of establishing and growing a new call centre business within the Wellington CBD.

Discussion

Background

2. CallActive Pty Limited (CallActive) is an Australian call centre operator based in Melbourne. The business has been in operation for 38 years in Australia, in 2011 the business was acquired through by the then Chief Operating Officer, Rick Allan, and his business partner Phil Allan. CallActive is now a family owned business headed up by Rick Allan as Chief Executive.
3. Since late 2012, CallActive has been researching the opportunity to expand their Australian operations into New Zealand and their initial investigations were centred on establishing a call centre base in Auckland.
4. CallActive and its senior executives have a strong relationship with the St Kilda Football Club and through the AFL/Wellington relationship CallActive were encouraged to consider basing their New Zealand operations in Wellington rather than Auckland.
5. This business attraction opportunity has been facilitated through Councillor Morrison.
6. In establishing a Wellington based operation CallActive are seeking financial support from Council. The level of funding sought is \$300,000 to assist with the establishment costs of setting up the call centre operations in Wellington from scratch.

The Proposal

7. CallActive are seeking upfront funding support of \$300,000 from Council to assist with the set up costs of the new call centre in the Wellington CBD and the costs of setting the centre up to enable it to reach its first stage growth targets.

8. The first stage of CallActive's business plan is to grow the call centre operation to a stage where within 12 months the Wellington based call centre will have directly created the equivalent of 200 full time jobs.
9. Officers have held a number of discussions with CallActive with respect to their business proposal and the requested funding.
10. Officers have indicated that on the basis that any grant funding from Council was tightly linked to the delivery and retention of the targeted jobs then they would support the grant proposal being considered under the Economic Development Initiatives Fund.

The Basis of Providing Funding

11. The Economic Development Grant of \$300,000, if approved, would be provided to CallActive PTY Limited through a "*Suspensory Loan Agreement*". The grant would be payable on entering the agreement.
12. The suspensory loan provides protection to Council to link the payment of the grant to the delivery of agreed milestones. In this case the agreed milestones are centred on the creation and retention of jobs in the Wellington CBD. The agreed milestones will be:
 - Within the period of 6 months from the start of the agreement the equivalent of 50 full time jobs will be created;
 - Within the period of 9 months from the start of the agreement the equivalent of 100 full time jobs will be created;
 - Within the period of 12 months from the start of the agreement the equivalent of 200 full time equivalent jobs will be created; and
 - Between 12 from the start of the agreement and two years the equivalent of 200 full time equivalent jobs will be retained.
13. As each of these milestones is achieved then the values of the loan reduces by 25% such that by the end of two years if the milestones have been met then the loan will be fully written off. Conversely if the milestones have not been met and a balance on the loan remains at the end of two years then this amount would become repayable to Council by CallActive.
14. The agreement includes provision for the milestones to be caught up at the next milestone test in the event a milestone has not been achieved at a measurement date.
15. This form of agreement where an Economic Development Grant is secured through a suspensory loan is a useful tool for Council to establish a clear link

between the grant and the delivery of agreed milestones to ensure the anticipated benefits from the funding provided are delivered.

16. A copy of the draft agreement is appended to this paper. The agreement also covers off due diligence provisions around CallActive's financial capability and to establish an on-going open book approach to enable Council to verify the job positions within the business at each milestone date.

CallActive

17. As mentioned CallActive is now a family owned business. They are regarded as being among the top four customer management businesses in Australia. The owners have provided summary financial statements to Council, it is noted that these are not audited financial statements as there is no requirement on the business for audited statements. An overview of the financial statements is set out below:-

| CallActive Pty Limited (Australian \$000's) | |
|---|--------------|
| Financial Position 12 months to 31 July 2013 | |
| Turnover | 24,270 |
| Expenses | (22,602) |
| EBITDA | 1,668 |
| Interest Income | 7 |
| Depreciation | (1,104) |
| Net Profit before tax | 571 |
| Assets | |
| Bank | 226 |
| Receivables/Prepayments | 2,948 |
| Unbilled income | 1,738 |
| Fixed Assets | 1,736 |
| Total Assets | 6,648 |
| Liabilities | |
| Creditors/Employee Liabs | 3,571 |
| Borrowings | 824 |
| Total Liabilities | 4,395 |
| Net Assets/Equity | 2,253 |

18. The objective of doing a limited form of due diligence on CallActive's financial position is purely to gain a degree of comfort that in the event that the milestones are not met and the grant becomes repayable under the suspensory loan that the business is able to fulfil its obligations. While the financial statements are high level and unaudited the financial position as provided is sufficient.

The CallActive Wellington operations

19. CallActive has established a New Zealand company, CallActive Limited which was incorporated on 26 June 2013. The directors of the New Zealand business are Rick and Phil Allan and the registered office is Guardian Trust House, 15 Willesden Street.
20. CallActive has entered into a six year lease on floor space within Guardian Trust House on Willesden Street with an option for a further 6 years and an option on additional floor space within the building. They are currently in the process of fitting out Level 1 of Guardian House.
21. Work has commenced in establishing the call centre in Guardian House and to date CallActive has secured contracts with Trust Power and Igloo to provide call centre services.
22. Direct investment to establish the operation capability of the call centre including desks, PCs, amenities, IT fit-out and staff set up costs are budgeted by CallActive at \$680k. The investment required will increase as the business takes on additional contracts and its scale grows. These costs do not include the costs associated with extending the IT platform to New Zealand on which to base the Wellington operations.
23. Officers note that CallActive has ambitious plans to grow the Wellington operations beyond the 200 jobs that captured within this proposal. Their vision for the Wellington operation is ambitious and they see the potential for Wellington to be a global hub for customer management systems.

The Economic Benefit to Wellington

24. The direct economic benefit to Wellington will be through the creation and retention of 200 new full time equivalent jobs in the Wellington CBD.
25. In addition to economic benefits from the job creation, the city economy will benefit from the increased utilisation of currently vacant office space within the CBD.
26. There will be incidental benefits to the Wellington economy from the establishment and set-up spend however these are relatively minor and secondary to the job creation benefits.
27. Call centre jobs are not in themselves highly paid, in Wellington a call centre team leader would expect to earn between \$50k and \$60k per annum and a call centre operator around \$35k to \$45k per annum. However this work is in a sector of the market where in Wellington there is currently relatively high unemployment. Unemployment in Wellington of 18 to 24 year olds is reported as being at 10.9%, totalling 1,347 people in this age group out of work¹.

¹ Stats NZ, Jan-Mar 2013 Household labour survey

28. With this kind of incentive payments it is always important to consider whether they are a true incentive that attracts business and effectively seals a deal, or are they simply a payment to a commercial operator for business that would have eventuated in any case.
29. We are aware of other call centres that have located to Wellington recently without the need for any Council financial incentive. The economics for establishing call centres in New Zealand are favourable with cost advantages estimated at 30% compared to operating in Australia. Without a degree of confidence that the city would assist through the provision of an economic grant to help with establishment and growth costs the owners of CallActive would most likely have opted for Auckland as their base.

Recommendations

30. That the Committee agree to the provision of an Economic Development Grant of \$300,000 to CallActive Pty Limited from the \$3m Economic Development Initiatives Fund.
31. Note the economic grant will contribute to the creation and retention of 200 full time equivalent jobs in the Wellington CBD.
32. That the Chief Executive be authorised to finalise and execute the formal Grant Agreement on the terms as outlined within this paper. The Grant will be payable in full on the satisfactory execution of this agreement.
33. That Officers are requested to report back to the committee periodically on the milestone targets and the status of the suspensory loan and consequential loan reductions.

Economic Development Initiatives Fund

34. The status of the fund is as follows:

| Economic Development Initiatives Fund <i>as at 13 August 2013</i> | |
|---|-------------------------|
| Opening Balance | 3,000,000 |
| Bids: | |
| CallActive PTY Limited | (300,000) |
| Balance of Fund if Bid accepted | <u>2,700,000</u> |