

4. TENDERS FOR BULK SALE OF THE COUNCIL'S PRODUCTION OF COMPOST - REPORT FROM COMPOST SUBCOMMITTEE

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The purpose of this report is to present the outcome from tenders being called for the bulk sale of Council's supply of compost, and to recommend the acceptance of the tender from A1 Contractors.

BACKGROUND

Garden City Compost started compost manufacture in 1994 and from then until February 1998, compost and compost products were sold under the Envy brand name. The Christchurch compost market is an extremely competitive one with many other suppliers in the marketplace, largely on account of the many compostable products available as waste from other production processes, in particular mushroom growing and the Belfast meat works. Because of this, and as Garden City Compost production volumes grew, increasing difficulty was experienced in selling the product at competitive and reasonable prices. Gaining as high a price as possible is necessary to offset production costs and reduce the annual subsidy from rates that the compost plant needs to remain financially viable.

With these factors as drivers, in 1997 the Council entered into a partnership arrangement with Living Earth Ltd to manufacture Living Earth compost under licence for a small royalty. The objective was to increase sales at the high return retail end of the market, and gain the benefit of Living Earth's technical expertise and their high profile as a national branded company in association with TV1's Maggie's Garden Show. The association was successful and total sales have increased in value from \$473,346 in 1997/1998 to \$707,379 in 1999/2000 (22% growth per annum) with most of the growth at the retail end of the market.

However early in 2000 the Living Earth Company merged with the waste disposal company Waste Management Limited. This, together with a feeling that there may be more value in the compost than the Council was currently receiving led the Compost Subcommittee in July 2000 to resolve that the Council should tender for the bulk sale of its compost production. "Registration of Interest" was therefore sought from companies interested in purchasing the compost. Six companies registered and were accepted as being suitable to tender.

Of these six companies, only three elected to tender directly. One tenderer however (Living Earth Limited) negotiated with another tender registrant, City Care, to include provision of City Care equipment and labour within their tender.

TENDERS

Complying tenders have been received from:

- Living Earth Limited
- Frews Contracting
- A1 Contractors

In summary tenderers were required to supply the following information:

- (a) Tender form with prices supplied for both screened compost (option 1) and unscreened compost (option 2) and an indication of the preferred option.
- (b) Details of how and when tenderers would remove product.
- (c) Statement regarding continued operation of the existing Metro Place sales site, and the facilities/space required to do so.
- (d) Statement as to whether tenderers would offer employment to potentially redundant staff.
- (e) Start date for accepting compost if different from December 2000.

Tender Prices

The table below gives the basic tendered prices together with the results of subsequent calculations to determine the overall value to the Council over the six year contract period. Details of the calculations are shown in Attachment A.

Tenderer	Tendered Prices		Net Value to Christchurch City Council over 6 year Contract
(a) Frews	Option 1 Compost Mulch	\$7.50/m ³ \$2.80/m ³	} \$418,126 }
	Option 2	\$1.20/m ³	- lower than for option 1
(b) A 1 Contractors	Option 1 Compost Mulch	\$5.00/m ³ \$2.50/m ³	- lower than for option 2
	Option 2	\$2.50/m ³	\$572,171
(c) Living Earth Ltd	Option 1 Compost Mulch	0/m ³ 0/m ³	- lower than for option 2
	Option 2	(\$4.90)	(\$575,189) i.e. net cost to Council
(d) Status Quo			\$828,094

The 'status quo' option shown here is the sum of the projections of the current sales figures minus the current marketing costs over the next six years, assuming that current margins are maintained with increasing volumes. Note that all of the figures shown in the last column, include estimates about saved future marketing costs, and loss of current sales revenues.

From the financial summary table it is clear that only two alternatives need to be considered. The status quo versus the best tender (from A1 Contractors).

DISCUSSION OF ALTERNATIVES

There is a difference between the alternatives (b) and (d) being considered of \$255,923 (i.e. \$828,094 - \$572,171) spread over six years, i.e. \$42,653 per year. In considering this difference it is necessary to provide some background on chemical contaminants in the Garden City Compost. Detail is provided in Attachment B, but the essence of the problem is that Garden City Composting has been experiencing some spray residue problems in its compost with a herbicide called clopyralid. This herbicide only affects a few plant families, which include tomatoes and potatoes, but a little of it goes a long way. There are however only small amounts present in the compost, and it does degrade naturally over a six-month time period. It is understood that the problem has affected some other compost production plants both in New Zealand and overseas. The chemical has only been found in the finer material, not in the coarser mulch grades of the production. Steps have been taken to overcome the problem, but it is unknown at this point how effective they will be. In the meantime, to maintain the Living Earth product line, and to be assured it is spray residue free, the Council is buying in compost from an outside source. This is clearly unsustainable for any length of time.

Status Quo

This option assumes no change to current operating arrangements. A roll-over of the partnership agreement with Living Earth. Product sales management remains with Christchurch City Council. Advantages and disadvantages of this option are given below.

Advantages

- Retain control of compost retail sales for possible future developments that may occur over next six years
- Possibly best financial outcome.
- Scope to continue growth of 'profitable' sector of the business i.e. high return retail sales.
- Continue receiving support of high profile national company.
- Technical support from Living Earth still available.

Disadvantages

- Maintaining Living Earth brand under current conditions of chemical contamination is costing the Council, and is not sustainable on an ongoing basis.
- High risks (including financial), associated with ongoing chemical residue problems, because of commitment to maintain Living Earth standards, which they have not been willing to compromise
- Issue of Christchurch City Council being in bulk wholesale markets and retail markets remains unresolved.

While this alternative does show a small financial advantage over the alternative of accepting the A1 Contractors bid, there is a very real financial risk associated with this option, because of the clopyralid issue which could lower the value of the compost and result in high extra costs. This risk could completely outweigh the apparent current financial advantage.

The Compost Subcommittee consider that this risk is unacceptable and furthermore the Council should not put itself in a position of having to continue supplying 'clean' compost for Living Earth on a long term basis. The difference in value over the six year period of \$255,923 is not considered by the Compost Subcommittee to be sufficient an incentive to accept this risk.

A1 Contractors Alternative

A1 have indicated a preference for taking the product unscreened to sell into the wholesale market. Advantages/disadvantages of this alternative are set out below:

Advantages

- Makes consent compliance easier because no screening on site. (Screening will be carried out in a rural area).
- Increases available space on site for production
- Christchurch City Council does not need to invest in a new screening equipment.
- Reduces risk to the Council of problems with chemical issues, especially as A1 Contractors plan to blend with mushroom compost. This will effectively dilute chemical contamination.
- Overcomes site resource consent issues, allowing solid waste site staff to focus entirely on efficient production/waste minimisation
- The Council can be comfortable that market has been 'tested' and best financial outcome achieved. (i.e. taking into account the unacceptable risks of continuing with current arrangements).
- Makes site management easier.
- Resolves issue of Christchurch City Council being in both retail and bulk wholesale markets.

Disadvantages

- Potential loss of opportunities in retail market (but contract is for a defined period so loss is not irreversible)
- On face value financially less attractive than 'status quo' alternative (but serious associated financial risks).
- Likely end to combined bio-solids trial with Living Earth – but the Council will continue its own trials.

The tenderer proposes to assign operation of the Metro Place sales area to Noel Dick of Parkhouse Road Landscape and Garden Supplies. The past association of Garden City Compost with Noel Dick at Parkhouse Road has been very beneficial, and this proposal is considered by the Compost Subcommittee to be a good one.

Financial information supplied with the tender registration, and subsequent checks have shown the firm to be soundly based with assets exceeding liabilities.

Following discussions with the Compost Subcommittee, staff have negotiated further with A1 Contractors as the preferred tenderer, resulting in the following additional agreements.

- That further discussion/negotiation on the value of the product will take place when part of the compost supply is being produced through the proposed in-vessel compost plant.
- Christchurch City Council will co-operate and work jointly with A1 Contractors in seeking bio-certification of the compost should the need arise in the future.
- A1 are to finalise details of their proposal with respect to the Metro Place sales area.
- A1 Contractors feel that they may not be able to afford the services of the Christchurch City Council's Sales and Marketing Manager. However by mutual agreement it is proposed that this person is subcontracted to A1 for six months with the Council paying for her employment and A1 refunding the salary. This will give both parties the opportunity to see if the arrangements will work for them.

When all the factors detailed in this report, are taken into account it is considered by the Subcommittee that the Council's best course of action is to accept the tender from A1 Contractors.

SUMMARY

The Council has tendered for the bulk sale of its compost production and received three tenders. The tender received from A1 Contractors is the preferred tender on two main counts.

- It gives the best financial return (i.e. \$572,171 over six years or \$95,362 p.a.)
- It will mean that compost will no longer be screened on site at Metro Place, which will assist considerably in complying with the Council's compost plant resource consent with respect to dust control.

The preferred tender proposal has also been compared with the 'do nothing' option, i.e. retain the existing marketing partnership with Living Earth Limited. While this option on face value gives an even better financial return than the A1 Contractors bid (\$42,653 per annum), it also carries a significant risk of a much worse financial outcome. This is because an issue of herbicide spray residue has recently become a significant problem with the plant's compost production. Steps have been taken to overcome the problem, but in the meantime the Council is having to buy in other compost in order to manufacture Living Earth products. It is considered by the Subcommittee, that the risk of the Council being committed long-term to having to buy in "clean" compost and/or other serious risks associated with chemical pollutants makes status quo untenable.

Recommendation: That the tender from A1 Contractors for the purchase of the Council's bulk supply of compost be accepted.