Report to the Future Melbourne (Environment) Committee	Agenda item 6.5
Delivering an innovative future for the Smart Blocks program	**15 March 2016**

Presenter: Ian Shears, Manager Urban Sustainability

Purpose and background

1. The purpose of this report is to seek endorsement of the proposed approach for the future of Smart Blocks.

2. Smart Blocks (www.smartblocks.com.au) is a national program that supports owners and managers to improve the energy efficiency of common property in apartment buildings. Smart Blocks was developed by a $1.09 million Commonwealth grant to Strata Community Australia (SCA) (acquitted August 2015). Program development was driven by a consortium including SCA, Melbourne City Council (Council), City of Sydney (CoS), Owners Corporation Network and Green Strata.

3. Due to changes in organisational priorities, SCA gifted Smart Blocks to Council in June 2015. As an interim arrangement, Urban Sustainability has managed the national program in collaboration with CoS.

4. The apartment sector is under-informed, complex and energy intensive. The sector requires significant support to become resilient and sustainable in the physical building stock and its associated communities.

Key issues

5. Independent program evaluation identified a strong sector desire for Smart Blocks to continue. Customers requested program expansion, including sustainability product and service recommendations, improved website functionality, and increased customer support. It is challenging for Council to fulfil these needs. In particular, probity prevents Council from making product and service referrals.

6. The Smart Blocks Steering Committee (Council and CoS staff) has developed an innovative 'service design competition' to appoint an external entity to own and run Smart Blocks.

7. Entrants will be required to pitch their Smart Blocks business model and implementation plan. The Steering Committee will appoint a winner based on recommendations from the judging panel, which will include representatives of Council, CoS and experts from the start-up, technology and strata industries.

8. It is proposed that Council contribute seed-funding of $100,000 over two years, paid from existing operational budgets. CoS will co-contribute the same amount.

9. In late 2016, a Council report will be submitted presenting the appointee and seeking approval to provide performance-based seed-funding to the appointee in financial year 2017-18.

10. There are numerous benefits to this approach, including:

    10.1. Increased potential to meet the demonstrated needs of customers.

    10.2. The start-up and entrepreneurial sectors will be leveraged. An external entity will have access to multiple income streams, such as fee-for-service to owners corporations, council subscriptions, supplier contributions, advertising or service expansion.

    10.3. Increased capacity for Council to focus on strategic work in the growing apartment sector.

    10.4. Operational costs to Council are reduced. If Smart Blocks were to continue under the current model, basic running costs are projected to be $250,000 annually.

11. Mechanisms to assure customer service and mitigate risk include the seed funding being released in two tranches and the intellectual property being licenced for two years, following full ownership will be granted if agreed milestones are achieved.

Recommendation from management

12. That the Future Melbourne Committee endorses a new approach to Smart Blocks which includes:

    12.1. Running a 'service design competition' to appoint a new Smart Blocks owner.

    12.2. All Smart Blocks intellectual property being licenced to the new owner for two years, following which outright ownership will be granted on the basis of quality performance, at which point Council and the City of Sydney will cease oversight and seed funding for Smart Blocks.

Attachments:
1. Supporting Attachment (page 2 of 8)
2. Summary: The future of Smart Blocks (page 4 of 8)

Supporting Attachment

Legal

1. Legal advice has been and will continue to be provided in respect to Smart Blocks.

Finance

2. The proposed approach will cost Council $100,000 over two years as seed funding for the new owner. CoS will co-contribute the same amount. This figure was calculated to be large enough enable the new owner to innovate rapidly but small enough to ensure they "have skin in the game" and are investing their own resources to create a sustainable business model.

3. Implementation of the proposed approach will be accommodated within Urban Sustainability's existing operational budget.

4. A review of Smart Blocks undertaken by Arup in 2014 identified that if Smart Blocks was to continue operating under current arrangements, the estimated annual cost to Council would be at least $250,000.

Conflict of interest

5. No member of Council staff, or other person engaged under a contract, involved in advising on or preparing this report has declared a direct or indirect interest in relation to the matter of the report.

Stakeholder consultation

6. Over the last three years Smart Blocks has conducted annual customer evaluation via surveys and in-depth interviews. CoS has also been consulted via the Steering Committee and working group meetings.

7. Market testing has been carried out with entities that may choose to enter the competition. This consultation demonstrated a strong market interest.

8. We have consulted with previous Smart Blocks partners, including SCA and partner councils and other peak bodies. Once council has signed off on the plan for the future of Smart Blocks we will conduct deeper engagement with key stakeholders.

9. Council's Urban Sustainability branch continues to work in close partnership with SCA Victoria on sustainability in strata.

10. Internally, City Lab has been consulted about the process and their channels will be used to promote the offer to market.

Relation to Council policy

11. The suggested approach is strongly aligned with Council policies and strategies across the spectrum of Council goals, from innovation and business development, addressing customer needs, and of course sustainability. The most relevant policies and strategies are highlighted below.

12. A Knowledge City Strategy 2014-18 - Council has assumed four principal roles that seek to create a future in which the knowledge sector is better branded, understood, valued and experienced:

    12.1. promoter: to position Melbourne as the region's knowledge capital and raise public and sectoral awareness of its strengths and opportunities

    12.2. leader: to lead by example in innovation, knowledge transfer and related knowledge sector activities

    12.3. partner: to use existing networks to involve the knowledge sector in the implementation of initiative

    12.4. enabler: to assist the growth of emerging businesses by providing infrastructure, information, financial support and connections to networks.

13. Customer Service Charter - we are committed to customer services, are focused on our customers' needs and preferences, as expressed through consultation and feedback. We are also committed to ensuring information, resources and services are accessible to all.

14. 10-Year Financial Plan - The People's Panel 2014 recommends that as a matter of priority the Council allocate the necessary (increased) funding to its plans to address climate change, so as to protect our existing assets, systematically reduce our carbon footprint (pro rata), maintain the liveability within the city and provide leadership on this issue within the municipality.

15. Zero Net Emissions by 2020 - The delivery of Smart Blocks directly supports Council in its efforts to reduce emissions.

Environmental sustainability

16. Smart Blocks aims to support apartment owners and managers to improve energy efficiency of common property.

17. Under the proposed approach, Management believes that the delivery of the program, and consequently the uptake of energy efficiency actions, will be enhanced via a nimble and more responsive external entity, leading to a larger reduction in emissions.

Summary: The future of Smart Blocks

Smart Blocks is a national service that helps apartment owners, building managers and strata managers to improve the energy performance of common property in apartment buildings.

At the core of Smart Blocks is an interactive online toolkit that helps people discover what energy improvements can be made to common property in their building and guide them through getting projects approved.

In addition, City of Melbourne has overlayed a tailored support and engagement program for our municipality.

smartblocks.com.au

Fast facts: national
- Over 1,000 users.
- 65 councils engaged.

Fast facts: Melbourne
- 10% of CoM's buildings registered (131 buildings).
- 144.12kW of solar installed.
- High Life Expo attended by over 250 people.
- Over 46 energy improvement projects completed.
- CoM was the driving force behind the inception, development and funding for Smart Blocks.

We need Smart Blocks because apartment communities…

guzzle energy
High-rise residential apartments consume 25% more energy per person than in a detached dwelling.
'Multi Unit Residential Buildings Energy and Peak Demand Study', NSW Department of Infrastructure, Planning & Natural Resources, 2005

create a sizable chunk of emissions
71% of Melbourne's residential emissions come from apartment buildings. 10% of Sydney's emissions come from the apartment sector.

are dominant in our city
Apartments account for 80% of City of Melbourne's residential building stock and in Sydney 3/4 of residents live in apartments.

are disengaged
"…lack of engagement and apathy of owners was raised as a common concern in the open responses to both the owners survey and executive committee survey."
Governing the Compact City, P54.

lack knowledge
There is a lack of quality knowledge about the benefits of sustainability and why action is important as well as knowledge about how to successfully implement change within an owners corporation.
Delivering sustainable solutions for apartments, P5.

lack tailored services
Many service providers specialised in delivering sustainability services to either commercial properties or single-family homes, and had not tailored their services for delivery to residential owners corporations, or strata.
Delivering sustainable solutions for apartments, P9

1

We need a new delivery model

Smart Blocks has been a game-changer in the strata sector. However, evaluation indicates an enhanced delivery model is required to increase its impact and ensure its longevity.

Original Smart Blocks delivery model
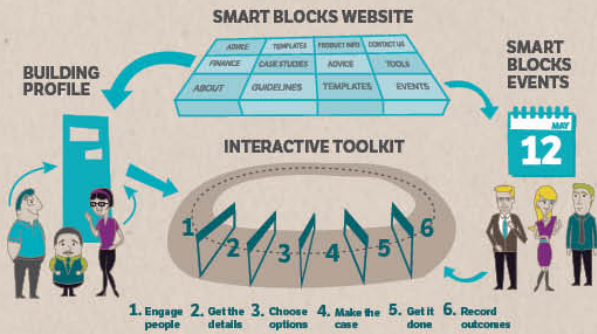
Smart Blocks evaluation (DM#: 9356253) indicates:

- Customers demand sustainability product and service referrals. This need cannot be filled by Council.
- Service upgrades (e.g. website) and increased tailored support and engagement (e.g. phone support, site visits, and events). This will require significant on-going investment.

Smart Blocks Evolution Business Plan (DM#: 9353578) developed by ARUP in 2015:

- Identified a number of income generation opportunities that could support Smart Blocks over the long-term leading to a sustained, stable service for customers (see p5 for details).
- Calculated that it would cost $250,000 annually to run the most basic Smart Blocks service.

Given customer needs and limited council budgets, a new delivery model is needed.

We have a fresh solution

The Smart Blocks Steering Committee is designing an unprecedented new approach - through a competitive process, we will test the capacity of the private sector to deliver the Smart Blocks service.

Ultimately, Smart Blocks could be owned and run externally, provide a better service to our community at reduced cost to council.

Pros	Cons
• More comprehensive service for our customers.	• Reduced capacity to influence direction of the program.
• Promote economic development and encourage growth in apartment focused services.	• Potential reduced capacity for councils to collectively lobby Federal Government.
• Enhanced capacity for Smart Blocks to respond nimbly to customer needs.	• Some legal complexities around maintaining subscriber privacy.
• Reduced costs to CoM.	
• CoM staff have increased capacity to focus on strategic sector-wide change.	

To become a zero net emissions city requires collaboration from everyone in our community.

CoM Zero Net Emissions by 2020 Update

2

Let's take Smart Blocks to market.

By taking Smart Blocks to marketplace, we are creating an opportunity to draw on a large pool of ideas and resources, from which we can select the best candidate. We have softly tested the market and found many organisations and entrepreneurs keen to apply to be the new Smart Blocks owner.

We have designed a robust approach to recruit a new owner and support them to deliver to the strata sector. This approach is summarised below.

Recruitment

• Execute a competitive, national recruitment process.

• Use the well-established Business Model Canvas as a frame to test the applicant's capacity to develop and run an effective enterprise.

• Put together a knowledgeable judging panel that includes experts from City of Melbourne, City of Sydney, entrepreneurial, technological and strata sectors.

Transition service delivery

• City of Sydney and City of Melbourne to provide seed funding of $100,000 each over two years. Enough to support the new owner to move quickly, yet still incentivise the new owners to innovate and create ongoing revenue streams.

• Work closely with CoM legal team to protect the Smart Blocks brand, information and core service elements through a legal agreement and IP licencing arrangement.

• Agree on a monitoring framework with the new owners.

• Ensure that there is enough flexibility in our approach to allow the new owner to capitalise on their strengths.

• Provide all Smart Blocks research and evaluation to the new owner so they can build on the knowledge base.

• Facilitate connections between the new owner and other councils nationally to assist in the expansion of the service.

• Create a support network for the new owner, including City of Melbourne and City of Sydney staff, an entrepreneurial expert and a strata expert.

• Remain open to future collaboration with the new owners. Note that Smart Blocks Evolution Business Plan report (ARUP 2015), identified council subscription fees as a potential income stream for Smart Blocks. Wether this eventuates depends completely on the business model and organisation selected by the judging panel. Regardless, CoM will not have any obligations to pay following the exhaustion of the seed funding.

Smart Blocks service ingredients

Through the recruitment process we will test the applicant's capacity to deliver on the Smart Blocks service needs or ingredients. Smart Blocks research and evaluation has highlighted ingredients for the continuation of the service:

Essential

Assist apartment owners, building and strata managers to identify and implement sustainability projects in common areas of their buildings.

1. Provide an online platform that delivers free, open and strata specific sustainability and project management information and tools.

   - At a minimum the online information must be relevant to NSW and VIC.

   - All current project areas must be maintained or improved (lighting, solar, water systems etc).

   - The online information should include freely accessible showcases of successful projects in target regions (eg case studies, stories, video, audio, photos).

2. Engage and recruit new owners corporation members and their managers.

3. Continue engagement with existing Smart Blocks customers.

4. Maintain current privacy standards, including integrity of contact database.

5. Maintain a register of buildings, program participants and projects (including contact details, roles, addresses, project types and status).

6. Capture benefits from projects completed through Smart Blocks.

7. City of Melbourne and City of Sydney to have full access to all data until at least 1 July 2018.

Suggested

1. Connect apartment owners / managers with trusted, locally relevant sustainability technology and service providers (eg create a referral service or peer review system for suppliers).

2. Improve and expand the Smart Blocks website, including the development of new project modules to cover other areas of sustainability (eg water, waste, green infrastructure, community building).

3. Deliver Smart Blocks nationally.

4. Track the changes that occur as a result of efficiency improvements from projects registered on the Smart Blocks site.

5. Engage with the strata sector more broadly, including strata managers and facility managers.

6. Follow-up with registered Smart Blocks users to support and encourage them to complete projects.

7. Facilitate personalised, action-based engagement to build owner capacity and stimulate action (site visit, audits, phone support).

8. Expand the service to include retrofits that people can implement inside their own apartments.

4

Income streams for new owner

Smart Blocks evaluation and business modelling by ARUP has identified a number of income generation streams:

- Technology and service providers are increasingly keen to access the strata sector and see Smart Blocks as a conduit to market. This could be converted in an income stream via advertising, customer referrals, online database of suppliers, fees to participate in events.

- Smart Blocks evaluation indicates that some buildings would pay a fee-for-service to get projects completed.

- Government and private sector grants.

- Fee-for-service to councils (see below for more information).

If councils were paying a free-for-service we would need Smart Blocks to deliver as follows:

Essential

1. Provide access to flexible materials and support to assist councils to promote Smart Blocks locally.

2. Promote relevant council events, grants and opportunities to Smart Blocks users within their local government area.

3. Provide monitoring, evaluation and reporting of Smart Blocks activities and outcomes.

4. Provide access to municipal level data, including:
   - Number of buildings
   - Number, type and status of projects
   - Number of users and their role

Suggested

1. Expand Smart Blocks to cover a broad range of strata sustainability projects (water, waste, gardens, social connection, internal apartment sustainability).

2. Design and run locally tailored events where requested.

3. Provide municipal scale, detailed reporting on reductions and sustainability value adds (eg carbon emission reductions, kWh reductions, kW of solar installed, community impacts, hotspots reporting)

4. Personalised engagement activities at local buildings (site visits, presentations to committees, audits etc).

5. Generate case studies, stories or showcases for councils to push out through their communications channels.

6. Facilitate a connection or network between councils who are engaged with Smart Blocks as a mechanism to share information and support advocacy efforts.

7. Provide insights into the effectiveness of different engagement activities undertaken across municipalities. Recommend initiatives/ offers that are complementary to Smart Blocks and help councils tailor their strata offerings.

Monitoring performance

Once we have selected the new owner, we would negotiate a monitoring plan with them. The following would form a foundation for negotiations:

Reporting

- Short quarterly/six monthly written updates (1-2 pages)
- Face-to-face meetings every 6 months
- Ad hoc consultation as required

Indicators

- Number of buildings
- Number, type and status of projects
- Number of users and their role
- Integrity of privacy statement is maintained
- Environmental and dollar savings
- Sector engagement activities (case studies, events, newsletters etc)
- Website engagement
- New initiatives or developments in the pipeline
- High level budget
- Others as negotiated