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Dear David

Re: Request for comments

How can the effectiveness of projects be assessed?

Fixed costs in project budgets – should they be funded by the Panel?

Thank you for your invitation to comment in response to this paper. We submit below some initial thoughts on both matters but would be pleased to discuss these issues further if needs be.

Effectiveness of projects

We understand the Panel's interest to be assured that grant funds are spent effectively. Our reading of the paper suggests that the Panel intends to develop a "robust and valid methodology for evaluation" and then to apply that methodology, initially, to funded capacity building projects.

We refer to the Panel's *Funding Criteria and Guidelines*, observe that they derive from the Rules and suggest that they serve as a useful starting point. We note that the process through which organisations seek funding (especially the form Application for Funds') requires that they articulate a project proposal that details, with regard to the *Objectives of funding support* at 1.2:

- the end-users represented in consultations;
- the nature of the interests represented; and
- the issues that are put forward for consideration for funding.

The application process also requires that projects "relate to the efficiency and effectiveness of the national electricity market or of the retail electricity market where that market or an aspect of that market affects the efficiency and effectiveness of the national electricity market". Part 1.4 of the *Guidelines* sets out additional criteria for eligibility, in terms of project focus, which might be understood quite broadly.

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The *Funding Criteria and Guidelines* at part 1.4 *Eligible projects* ‘Stream 1 projects’ recommend that

an applicant should consider whether it desires to be involved in consultation or inquiry processes associated with energy market reform: and

if the appointment is for capacity building, the application should show how the capacity of the organisation will be increased in the long term.

We suggest that, beyond an interest in the electricity market as it does and will affect end-use customers, applicants are likely to have expertise in one or more of consumer advocacy, energy policy, issues affecting particular classes of customers. It is likely that a period of capacity building will be required in one or more of these areas before an applicant is adequately prepared to participate in inquiries, consultations and other electricity-specific advocacy.

To cite ACOSS as an example, we knew that energy policy and energy market reform were looming as issues with potentially significant effects on our constituency of interest; low income and disadvantaged consumers. Our application for Panel funding was predicated on our expertise in issues affecting that constituency, expertise in advocacy and the capacity to host and support a project focused on a particular area of national policy.

Since the project commenced, the employee recruited to the advocate position, the organisation and its constituency have all been engaged in a process of capacity building while participating, as appropriate, in processes of consultation and inquiry. Our capacity is now mature to the point that our advocacy can be confidently directed to processes of market development in a way that is consistent with our organisational framework.

The paper suggests that the Panel ought to “assess the effectiveness of the manner in which grants funds are used in undertaking advocacy”.

Our view is that, having satisfied the Panel’s tests of eligibility and been offered a grant of funds, evaluation might have regard to two measures. The first is outputs (submissions, representations and so on). We suggest that the reporting regime currently in place for recipients of Panel funding adequately canvasses outputs: recipients are required to report, on a regular basis, on their activities and any products of their work.

The second is measure might be termed outcomes and would have regard to a qualitative dimension and, possibly, results ie has the work been effective? has there been an enhancement in the capacity of the applicant to participate in processes of market development? have the outputs of advocacy achieved their goals? ACOSS supports the development of an evaluation methodology that helps projects and the Panel assess outcomes.

The current version of the *Application for Funds* form requires at parts 4 and 5 details of proposed project outputs and outcomes. For long term, staff funded capacity building projects it will likely be difficult to nominate outputs and outcomes in other than broad terms; even with the reform agenda set out as it is, the detail of reform parameters is often revealed only when processes are well in train. The current Retail Policy Working Group process offers a good example.

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Claims for and measures of effectiveness are likely to require a level of subjectivity and subtlety and it may be difficult for one project to establish responsibility for a successful outcome. A

Given the limited resources of both the Panel and the projects it funds, the total funding allocated by the Panel to capacity building projects (not a large sum by some standards), the nature of the work undertaken and the seeming urgency of the project (potentially to allow for an evaluation of currently funded projects at some stage of the second half of this year), we suggest that the Panel tender for a specialist to advise on a framework and an assessment tool that can be used by projects to self-evaluate and/or peer-assess their work. This is a specialist field but it is likely that models exist that might be tailored to the Panel's needs.

We suggest that standard project reports provided for under agreement with the Panel could, in future, include a continuing evaluation of outcomes that has regard to the project proposal, market and organisational developments.

Fixed costs in project budgets

We note the Panel's definition of "fixed costs" – "a share of the overhead costs of an applicant that does not vary as a result of the project being undertaken". We will confine our remarks to the kind of applicant (project host) with which we are most familiar ie not-for profit, community based organisations such as ACOSS and project types with which we are most familiar ie capacity building and advocacy.

With those caveats in place we will suggest that the distinction between incremental costs and fixed costs is vexed and, arguably, artificial. The simple fact is that these projects, generally speaking, need to be hosted somewhere. Unlike other kinds of projects, for example a closely briefed, short term research project, these projects depend on a symbiotic relationship.

By their very nature, ie capacity building, they depend on a (mutually beneficial) relationship with a host. And the fact of their being accommodated by an organisation implies real costs to that organisation, even if those costs may not be measurably incremental but in the nature of an aggregated overhead or a resource applied across a range of activities: eg rent, accounting, payroll, management.

As suggested by the Paper, the resources allocated to a Panel-funded project might well be regarded as discretionary and might well be allocated to another purpose.

It is also the case that in the absence of a Panel-funded project, ACOSS, for example, might chose to downsize its administrative resource or let office space to a sub-tenant. This organisation runs to an extremely constrained budget and shepherds its resources very closely.

1. Should an applicant's fixed costs be funded if the effect of the funding is to provide a 'profit' to the applicant as the costs will not vary if the project is undertaken?

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ACOSS takes issue with the idea that Panel funding (or any other project-based funding) might contribute to a 'profit'. ACOSS, with the experience of fifty years in the 'business', seeks cost recovery of the resources it contributes to projects based on reasonable estimates, pro rata, of real and essential expenses.

2. Given that it is difficult to be precise about the value of fixed overheads and the extent to which they may vary if an advocacy project is undertaken, should, as a compromise, a proportion of fixed overhead costs be funded e.g. 1/3 rd of the cost?

If there were to be a 'compromise' in the form of a standardised approach (rather than assessment on a case by case basis) ACOSS would suggest the application of a generic rate of overhead for 'fixed' costs, in this case 20% of the total of 'incremental' costs.

We will take this opportunity to draw attention to section 1.5 of the *Funding Criteria and Guidelines* and the requirement that (domestic end-user) applicants contribute a minimum 10% of budgeted project costs. We do not have access to information regarding previous decisions of the Panel regarding reductions or waivers of this requirement. However, we will suggest that this requirement is unreasonable, particularly in the case of capacity building projects that go to the long term funding of a salaried officer in relatively small not-for profit organisations.

The recent decision of the Panel such that 'imputed' costs would no longer be regarded as 'incurred' and so would not be considered as a the contribution of a share of costs ignores the reality that there are real expenses involved in the development and maintenance of this organisational capital and that the contribution of this capital is critical to the success of these projects. In a similar vein to our suggestion regarding fixed costs, we suggest that imputed costs be assumed as the contribution of applicants to the project and valued at a generic 10% of the sum of incremental and fixed costs.

In summary, our suggestion for the establishment of a standard funding formula would be:

- > funding support by Panel = incremental + fixed (@ 20% of incremental)
- > total project value = (incremental + fixed) x 1.1

This formula fairly acknowledges the value added by an applicant by virtue of its organisational capital and, we suggest, sits comfortably with Rule 8.10.3(d)(4). As well as simplifying processes to assess applications, the formula demonstrates that funding support provided by the Panel yields returns greater than cash expenditure.

Thanks again for the opportunity to comment. ACOSS is appreciative of the Panel's endeavours to consult on the development of its policies and programs. Should you require further information or wish to discuss the content of this letter, please contact me directly on 02 9310 4844 or at andrew@acoss.org.au

Yours sincerely
Australian Council of Social Service

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