

NATIONAL ELECTRICITY CONSUMERS ADVOCACY PANEL

Subject: **Request for comments –
How can the effectiveness of projects be assessed?
Fixed costs included in project budgets – should they be funded by the
Panel?**

On 20 April 2007 a request was issued to interested parties for comments on the topics of evaluation of the effectiveness of projects and fixed costs. The request was also published on the Panel's website.

Responses were received from

Australian Council on Social Service
Major Energy Users Inc
Consumer Action Law Centre
Consumer Utilities Advocacy Centre
Tasmanian Council on Social Service
South Australian Council on Social Service
Total Environment Centre
Centre for Credit and Consumer Law, Griffith University

The principal comments by the respondents are set out below.

Assessment of the effectiveness of projects

Many of the responses noted the difficulties of determining what should be measured when determining the effectiveness of a project and how the measurement should be carried out. None of the responses provided detailed comments on a comprehensive measurement process that would involve both quantitative and qualitative assessments, although some listed factors that could be measured in a quantitative sense.

The following conclusions were reached after considering the responses:

1. If the Panel wishes to proceed with an assessment process for capacity building projects it should do so as a matter of urgency in order that the process can be designed and communicated to advocates, with provision for their feedback, as soon as possible in order to allay concerns about the impact on the continued employment of existing advocates;
2. Expert assistance is needed from a person/firm experienced in the assessment of funded projects in order that the best process can be established.
3. As a prelude to obtaining expert assistance, the Panel should seek advice on the likely cost of implementing an assessment process.

The responses by interested parties are appreciated and will be of assistance to the Panel.

After considering the responses the Panel decided that an experienced consultant be engaged to undertake the following tasks:

- Develop a model to evaluate the effectiveness of capacity building projects and other projects and then apply the model to assess two capacity building projects. The model should evaluate issues such as whether the capacity to advocate has been increased and the

effectiveness of outcomes such as submissions and their impact on decision-makers;

- Develop a comprehensive evaluation strategy for the Panel;
- Trial the evaluation strategy on some projects.

A budget of \$40,000 has been set aside for this task.

The Panel also decided to develop a paper which will call on advocates to suggest research topics and to provide reasons why the research is important.

Fixed costs

The views of respondents varied with one saying fixed costs should not be funded whereas others proposed that all or at least some fixed costs should be funded.

After considering the responses, the Panel decided to adopt the following policy on project costs:

- Generally, any new, additional cost to be incurred by an applicant when undertaking a project is a cost that can be included in the project budget and will be funded by the Panel, if the application is successful;
- Where national competition policy requires an applicant to include in its project budget a provision for infrastructure costs, the Panel will consider those costs;
- The cost to an applicant of any existing internal resources to be devoted to the project may be included in the project budget and will be treated as part of the co-payment the applicant is expected to make to a Panel-funded project unless a waiver is granted by the Panel;
- Imputed costs cannot be included in a project budget, as previously determined by the Panel.
- Any particular issue in relation to a project budget will be considered by the Panel on its merit.

David J L Bremner
Executive Officer

Main comments	Response
Australian Council of Social Service	
<p>Effectiveness review</p> <ul style="list-style-type: none"> ▪ Suggests that the evaluation could have regard to two factors – outputs and outcomes. The output is the report or commissioned work which is covered by the Panel’s existing reporting regime. The outcomes would be subject to qualitative assessment in terms of has the work been effective, has the capacity of the organisation to advocate on energy issues grown and has the advocacy achieved its goal? ▪ For long-term capacity building projects the outputs and desired outcomes can only be described in general terms and would not cover new issues that emerge and are responded to during the project. ▪ The Panel should engage a specialist to advise on a process that will enable applicants to self-assess or peer-assess their work <p>Fixed costs</p> <ul style="list-style-type: none"> ▪ Capacity building projects rely on a relationship with the host and the hosting involves costs even if those costs are not incremental but are in the nature of an aggregated cost such as rent. ▪ Takes issue with funded fixed costs being a ‘profit’ as it only seeks cost recovery on resources it devotes to projects. ▪ In the absence of a case-by-case assessment, ACOSS would support funding of fixed costs at the rate of 20% of incremental costs. 	<p>Effectiveness would require an assessment of outputs and outcomes and recognition that other factors can influence the decision-maker to disregard what otherwise be a powerful argument by an advocate.</p> <p>Agree</p> <p>Other respondents have argued that self-assessment diverts advocates from their central role of advocacy. However, it would be of benefit to advocates to include an element of self-assessment in any evaluation system.</p> <p>Noted</p> <p>Other respondents favour a combination of case-by-case assessment and advice from the Panel on how the cost elements in a project should be assessed.</p>

Main comments	Response
<ul style="list-style-type: none"> ▪ Suggests that the requirement of an applicant that it make a contribution towards the project cost unless a waiver is granted is unreasonable in relation to not-for-profit organisations. ▪ Contends that the Panel's recent decision to exclude imputed costs from project budgets and applicant co-payments ignores the reality that there is a cost in developing this organisational capital the contribution of which is critical to the success of the project. Suggests that imputed costs should be provided for at the rate of 10% of the total of incremental and fixed costs. 	<p>The contribution is required under the National Electricity Rules (the Rules) unless the Panel grants a waiver.</p> <p>The Panel's decision on imputed costs is based on its interpretation of the requirements of the Rules and is not a reflection on the contribution that volunteers etc make to a project.</p>
Major Energy Users Inc	
<p>Effectiveness review</p> <ul style="list-style-type: none"> ▪ MEU supports capacity building in the energy market as it enable applicants to take a more active and informed role in consumer advocacy. ▪ The assessment process for capacity building projects should demonstrate that there has been a resultant increase in advocacy activity as a result of the Panel's funding. The applicants should provide regular reports which detail the increase in advocacy. The project should result in a series of outcomes and activities that should be detailed in the application for funding. ▪ Evaluation could take place through a general assessment by the Panel which compares the planned and achieved outcomes, general and objective feedback from relevant decision-making agencies which receive the advocacy and peer group feedback from other advocates. ▪ If an organisation is found to be ineffective in its advocacy it should have the opportunity to comment on the finding and to 	<p>Agree but the assessment process involves consideration of many other issues. In addition the feedback from decision-making agencies and other advocates may not be fully objective.</p> <p>Agree</p>

Main comments	Response
<p>have time to improve its performance.</p> <p>Fixed costs</p> <ul style="list-style-type: none"> ▪ There is a risk that funding fixed costs could substitute resources that consumer organisations would otherwise commit. ▪ Applicants should contribute to the cost of a project. Chief Executives etc should not be funded as this should be considered to be a normal requirement for supervision and accountability within the organisation. ▪ The Panel should fund costs that increase as a result of a project being undertaken ▪ Concerned that Panel funding should not be used to cross-subsidise other activities of grant receiving bodies. 	<p>This view is at odds with the general view of not-for-profit respondents who consider supervisory time to be a cost of the project which should be funded, at least to some extent.</p> <p>Agree</p>
<p>Consumer Action Law Centre</p> <p>Effectiveness review</p> <ul style="list-style-type: none"> ▪ CALC believes that a better process would be for the Panel to commission an external person with expertise in project assessment and evaluation to review the effectiveness of all projects, not just capacity building projects. ▪ Capacity building projects should be more appropriate described as employee-advocate projects. ▪ Asking employee advocates to respond to requests by the Panel for comments on issues such as the effectiveness reviews diverts them from their central task of advocacy. 	<p>Noted. Responses have indicated that an effective assessment process is complex in terms of the number of factors that need to be considered and thus would justify the engagement of expert assistance.</p> <p>The seeking of responses does divert advocates from their prime tasks but not seeking their comments would be a bigger problem. The advocates have the experience that the Panel wishes to draw on and as it is, to an extent, their performance that may be assessed, they must be consulted.</p>

Main comments	Response
<ul style="list-style-type: none"> ▪ The Panel's decision to renew capacity building projects for only the first six months of 2007/2008 upsets the funding certainty required to enable advocates to undertake advocacy now and into the future. ▪ CALC says employee-advocates allow knowledge and expertise to be developed and retained as opposed to external consultancies and this must be taken into account in the review of effectiveness. ▪ There are inherent difficulties in assessing the effectiveness of advocacy because decision makers do not necessarily identify which submissions influence them in their decisions. As a consequence any system based on measuring the impacts of submissions on published decisions will be flawed. ▪ To be effective in measuring effectiveness a range of activities need to be considered to assess the advocate's contribution such as the number of submissions made, the number of forums conducted, the networking events participated in, media undertaken and meetings held with government or regulatory officials. <p>Fixed costs</p> <ul style="list-style-type: none"> ▪ Rather than refuse to fund fixed costs the Panel should flexibly assess budget proposals on a case-by-case basis. CALC includes fixed costs such as supervision in its applications as an in-kind co-payment for the project. ▪ The purpose of the Panel is to fund end-user advocacy. To exclude supervisory time because it is in the interests of the applicant is inconsistent with this purpose. Not-for-profit organisations always end up bearing some unfunded costs for 	<p>The Panel is aware of this and therefore has undertaken to reach a decision on how to proceed with capacity building or employed-advocate funding for the balance of 2007/2008 by 30 September 2007.</p> <p>Noted</p> <p>Agree.</p> <p>Noted. By treating fixed costs as a co-payment, CALC is not seeking funding for the costs. Other applicants seek funding for fixed costs.</p>

Main comments	Response
<p>a project e.g. management and supervision. This cost can be in the form of diversion from other core activities or the inability to remunerate staff for extra hours worked.</p> <ul style="list-style-type: none"> ▪ Imputed costs should be included in the applicant's co-payment for a project. The input to projects from volunteers or by pro bono or in-kind support are an efficiency and a benefit that such groups bring to a project. ▪ A different approach would be for the Panel to provide more detailed guidance to applicants on how to appropriately account for and include imputed costs in a project budget. ▪ Rather than developing a blanket policy on fixed and imputed costs, the Panel should consider each funding application on its merits and discuss any budget concerns with the applicant. 	<p>The Panel's decision on imputed costs is based on its interpretation of the requirements of the Rules and is not a reflection on the contribution that volunteers etc make to a project.</p> <p>Noted</p> <p>Noted</p>
Consumer Utilities Advocacy Centre	
Effectiveness review	
<ul style="list-style-type: none"> ▪ CUAC repeats CALC's comment that capacity building projects would be better described as being employee-advocate projects. This type of funding allows the applicant flexibility to participate the full range of reviews. ▪ In assessing effectiveness the Panel needs to be clear as to whether it would be measuring effectiveness in terms of how the project has met its objectives or in terms of how the project has secured outcomes in the interests of consumers, or a combination of the two. Defining and measuring outcomes is difficult particularly where trade-offs are concerned e.g. better consumer protection but at a higher price to consumers. ▪ The evaluation exercise needs clear and well defined objectives, but needs to have realistic expectations about what 	<p>Agree. An assessment process would need to clearly identify what is being measured as well as describing how the measurement would take place.</p> <p>Agree</p>

Main comments	Response
<p>can be measured. It should also be aware that advocates have limited resources and cannot advocate on every issue. The quality and effectiveness of advocacy need to be perceived within the context of competing and equally important demands on consumer advocates.</p> <ul style="list-style-type: none"> ▪ The effectiveness review process should not place an additional resource burden on applicants. The review should also include a review of the Panel's procedures so seek improvements in documentation and advice to applicants. ▪ Assessing the impact of the project is more difficult. Assessments by stakeholders such as regulators could be undertaken but would still be subjective and may not take account of all of the relevant factors. CUAC sees little value in consulting with the energy industry because of the adversarial nature of policy and regulatory debates. ▪ Consumer organisations would benefit from an indication from the Panel of how the evaluations will be used because of the potential impact of uncertainty on the employment of advocates. <p>Fixed costs</p> <ul style="list-style-type: none"> ▪ CUAC strongly opposes that fixed costs be ruled ineligible for funding. These costs address the additional workload that results from the management of the project. Consideration of fixed costs should therefore be undertaken on a case-by-case basis. ▪ CUAC understands the position taken by the Panel but does not agree that imputed costs should be excluded from a project budget. The decision diminishes the contribution of external 	<p>Agree</p> <p>A key issue will be to ensure that all assessments are objective.</p> <p>Noted</p> <p>As mentioned earlier, the decision on imputed costs makes no judgement on the value of the input by volunteers.</p>

Main comments	Response
personnel.	
Tasmanian Council of Social Service	
<p>Effectiveness review</p> <ul style="list-style-type: none"> ▪ TASCROSS also disagrees with the use of the term capacity-building for its project. ▪ The Panel should assess the effectiveness of the project by referring to the periodic reports and copies of submissions provided by applicants. ▪ It is often difficult to gauge the effect of an advocate's efforts but it is still important that the views of consumers are put to decision makers. In Tasmania, TASCROSS is the only consumer representative. ▪ If the Panel seeks to measure effectiveness by measuring the effect of the advocacy on policy outcomes it will be on dangerous ground. Instead effectiveness should be assessed by the reported activities and the quality of material produced by the project. <p>Fixed costs</p> <ul style="list-style-type: none"> ▪ The Panel should fund fixed costs. In undertaking the energy project TASCROSS is using resources that could be applied to other activities. Each project must contribute to fixed costs in accordance with its usage of them 	<p>The Panel has reviewed periodic reports and some submissions but these documents are only part of what needs to be reviewed in order to arrive at a balanced view of the effectiveness of a project.</p> <p>Noted</p>
South Australian Council of Social Service	
<p>Effectiveness review</p> <ul style="list-style-type: none"> ▪ SACOSS does not receive government funding for energy advocacy and therefore could not be involved in the debate without the Panel's funding. 	

Main comments	Response
<ul style="list-style-type: none"> ▪ Any criteria the Panel develops should be based on a sound understanding of the capacity of the organisation and the advocate to undertake the various forms of advocacy. ▪ SACOSS suggests criteria that the Panel could use to measure project effectiveness including the number of submissions made and forums conducted. <p>Fixed costs</p> <ul style="list-style-type: none"> ▪ Notes the difficulties in assessing fixed costs and suggests that a one third allowance would be appropriate. 	<p>Agree</p> <p>The criteria mentioned cover only part of what needs to be assessed on order to arrive at a comprehensive assessment of effectiveness.</p>
<p>Total Environment Centre</p>	
<p>Effectiveness review</p> <ul style="list-style-type: none"> ▪ Effectiveness should be judged in reference to the actions taken by the advocacy group in working towards the desired goal. “Actions” should have a wide ambit and not be restricted to submissions. ▪ Project reporting states what activities have been undertaken but does not include the links that have been formed with other consumer advocates and improvement in the capacity of the organisation to advocate on issues. ▪ Evaluation of submissions – some submissions take more effort and time than others. The experience of the advocate has an impact of the quality of the submissions and it is therefore essential to maintain funding where skills have been developed. ▪ The assessment of media output is also difficult because efforts can go unrewarded as energy is not a topic of regular mainstream media interest. 	<p>This would result in a measurement of effort and would ignore an assessment of results achieved.</p> <p>Reporting organisations could report on these issues if they wished to.</p> <p>Noted</p>

Main comments	Response
<p>remain constant over subsequent increases It is therefore difficult to assign fixed costs to any individual event unless the cost increase is significant. Griffith University therefore levies fixed costs at the rate of 25% of the direct costs for all but large projects. The University will not permit staff to engage in projects that do not ensure the recovery of fixed costs.</p>	

**NATIONAL ELECTRICITY CONSUMERS
ADVOCACY PANEL**

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Attachment A

REQUEST FOR COMMENTS

HOW CAN THE EFFECTIVENESS OF PROJECTS BE ASSESSED?

FIXED COSTS INCLUDED IN PROJECT BUDGETS – SHOULD THEY BE FUNDED BY THE PANEL?

Request for comment

The Advocacy Panel (the Panel) would appreciate comments from potential and current applicants for funding on two matters - how the effectiveness of projects can be assessed and whether or not the Panel should fund fixed costs included in project budgets.

The Panel would appreciate your comments on these matters. Please forward comments to the Panel's office by email to djlb@axtonjones.com.au by Friday, 11 May 2007.

Effectiveness of projects

The National Electricity Rules (the Rules) require the Panel to allocate funding to eligible applicants and projects. The requirements for eligibility are set out in the Panel's funding criteria and application guidelines which are based on principles set down in the Rules, and are subject to consultation with interested parties and the approval of the Australian Energy Market Commission. A requirement not expressly stated, but which the Panel feels is implied by the Rules, is that the Panel should assess the effectiveness of the manner in which the funds it grants are used by successful applicants in undertaking advocacy on behalf of end-users of electricity that they represent.

The Panel has therefore decided to assess the effectiveness of funded projects, focusing initially on capacity building projects. This consultation is part of a process being undertaken by the Panel to arrive at a robust and valid evaluation methodology.

Projects proposed to the Panel by applicants for funding fall into two categories – individual projects that focus on one specific topic or issue and capacity building projects under which applicants seek funding for employee-advocates to undertake advocacy on a range of topics and issues.

In recent years there has been a significant increase in the funding allocated to capacity building projects, as shown in the following table:

Capacity building projects undertaken	
	\$
2004/2005	342,346
2005/2006	474,718
2006/2007*	539,103
* to 17 April 2007	

The Panel has therefore decided that it wishes to seek the views of interested parties on how the effectiveness of projects can be assessed.

A number of organisations to whom the Panel currently provides capacity building funding sought further funding to enable their projects to continue in 2007/2008. The Panel has advised those organisations that it is undertaking this review and has invited them to provide comments. In order that the projects can continue for the time being, the Panel has approved funding for the period 1 July to 31 December 2007 at the current year cost plus 4% to cover recent cost increases. The Panel appreciates that its decision to extend these projects only until 31 December will impact on the longer term plans of the applicants and therefore it has undertaken to reach and publish its decision on the capacity building effectiveness review by 30 September 2007.

The Panel's review will initially focus on capacity building projects. The Panel has no particular view on how the effectiveness of these projects should be assessed.

It welcomes the views of interested parties as to mechanisms and processes that will provide a fair and effective review of the effectiveness of capacity building projects.

A relevant issue that should be considered when preparing comments is that the cost of the proposed review process will be an important issue. It will be counterproductive if the cost of undertaking the reviews exceeds the resultant benefits or is a significant proportion of the funding devoted to capacity building projects. The funds provided to the Panel ultimately come from end-users of electricity and therefore the Panel must always be conscious of the cost of its operations.

Funding of fixed costs

Under the Panel's funding criteria and application guidelines¹, applicants for funding are required to provide a cost budget for the proposed project. Generally, the costs included in such budgets fall into three categories:

1. Imputed costs – costs that are not actually paid by the applicant e.g. the estimated value of time devoted to a project by volunteers such as committee members or employees of organisations which are members of the applicant organisation;
2. Incremental costs – additional costs directly incurred by the applicant as a result of the project being undertaken; and
3. Fixed costs – a share of the overhead costs of an applicant that does not vary as a result of the project being undertaken.

As advised on the Panel's website on 10 April 2007, the Panel has resolved that imputed costs are not incurred by the applicant and therefore cannot be included in a project budget or considered to be a contribution by the applicant towards the cost of a

¹ The document can be found at <http://advocacypanel.com.au/applications/fundingCriteria.htm>

project. The Panel's decision is based on its understanding of Rule 8.10.3(d)(4) which sets out the principles that the funding criteria used by the Panel for allocating funding must be consistent with. Paragraph (d)(4) provides that "the applicant for funding must fund a share of the project costs from a source other than funding provided by the Advocacy Panel."

Incremental and fixed costs are costs incurred by the applicant and therefore can be included in a project budget and can be claimed as part of the co-payment that Rule 8.10.3(d)(4) requires of an applicant, unless a waiver from the co-payment responsibility is given by the Panel.

Because of their nature - additional costs directly incurred by the applicant as a result of the project being undertaken – incremental costs are clearly eligible to be funded by the Panel.

The issue on which the Panel would appreciate comment is whether fixed costs should be eligible for funding.

The following arguments have been suggested to support an argument that fixed costs should not be funded:

1. The Panel's funding criteria and application guidelines provide that:
 - "The prime objective of funding support is to increase end-user input into consultation processes towards the longer term goal of increased end-user involvement in the national electricity market and making that market more efficient and effective."² and
 - "The Panel aims to increase the overall resources committed by end-users to advocacy and not substitute resources that end-users would otherwise commit."³

Incremental costs result from the use of additional resources to increase advocacy whereas fixed costs represent the re-deployment of existing resources.

2. If fixed costs are funded by the Panel, the applicant will make a profit because its revenue will increase as a result of the funding but its fixed costs will not increase. Examples of fixed costs often included in project budgets are the cost of the applicant's chief executive in supervising the project and the cost of rent and cleaning.

If the project is undertaken, the cost to the organisation of the chief executive will not increase and, generally, the cost of cleaning and rent will not increase. Therefore any funding provided by the Panel for such fixed costs will be a profit to the applicant. Given that the Panel has limited funds and that end-users of electricity would benefit more from advocacy of their interests rather than seeing applicants become more 'profitable', fixed costs should not be funded.

It could be argued that some fixed costs should be funded by the Panel because they represent the cost to an applicant of forgoing the use of those resources for other purposes. As an example, the organisation may be happy to devote its chief executive's time to an advocacy project rather than some other project. However, as part of a chief executive's role is to supervise staff and to advocate the interests of the organisation, it may be difficult to distinguish the time spent on this normal activity from

² Page 1

³ Page 2

time spent on the advocacy project proposed to the Panel, which would also be in the interests of the applicant.

The Panel has not taken a position on this issue although it will be discussing the matter at its meeting on 30 May 2007. Before taking a position, the Panel wishes to receive comments from potential and current applicants who may raise any relevant issues but it particular are requested to respond to the following questions;

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?
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. 1/3rd of the cost?

Comments

Please forward responses on these issues to the Panel's office by email to djlb@axtonjones.com.au. It would be appreciated if responses could be submitted by Friday, 11 May 2007.

David J L Bremner
Executive Officer
20 April 2007