

AEC ASCENT ISSUE 37: OCTOBER 2011

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EDITORS WELCOME

BY SARAH-JANE CONROY

Welcome to the 37th edition of *AECascent!*

This issue marks an exciting time for *AECgroup* as it rapidly approaches 2012. The past month has seen a number of exciting announcements made by *AECgroup's* board of directors with the decision to celebrate the company's national success by expanding its operations internationally into south east Asia! *AECgroup's* Chairman, Carey Ramm, has been leading the charge in establishing our first international office in Bangkok, Thailand, as well as establishing a number of key partnerships in the region with the Australian Thai Chamber of Commerce, the Australian Embassy and Austrade.

The decision for *AECgroup* to go global has prompted the change of AEC's Vision for the future to become:

*"A leading **global** consulting group recognised through the success of our clients"*

In addition, the board approved the introduction of a new company tagline "Outcome Driven" to our corporate logo. Our key partners and clients will notice this change to our corporate logo over the coming months.

On the home front, our Australian offices continue to forge ahead. A standout player has been our west coast office in Perth, WA, which has experienced increasing demand and popularity with our west coast clients - testimony to the strength of the Western Australian economy and its resources boom.

Due to increasing demand and a need to keep up with our WA clients, *AECgroup* has recently invested in a larger permanent office in Perth (opening in November), relocating from St. Georges Terrace to 580 Hay Street, Perth. The move will give us more space and allow for us to expand our operations - so *AECgroup* is on the recruitment beat once again!

Within this edition you will find an article featuring our Perth Office and our WA staff, providing some insight into what it's like to work in the *AECgroup* Perth Office. Other key highlights within this edition include:

- A feature from IKM on the *Design Process For Custom Written Software*;
- An article from BSF on *Landfill Rehabilitation Costing Within A Waste Management Business*;
- Some hints and tips from our MSR division on the use of *words and visuals* in communicating and how powerpoint can be used as an effective tool in optimising communication styles; and
- DMA's recent launch of the *Townsville Bitter Premium brand*.

Happy reading everyone!



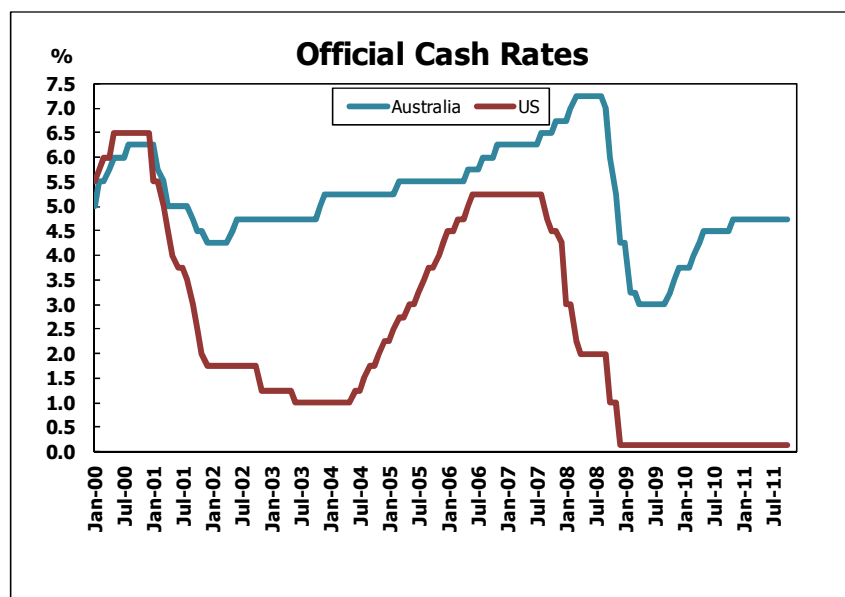
ECONOMIC OUTLOOK

BY TOM SULLY, RESEARCH ECONOMIST, AEC ECONOMICS, PLANNING & DEVELOPMENT (EPD)

The Reserve Bank decided to leave Australian official interest rates unchanged at 4.75% following its most recent meeting in October. The meeting did however signal a change in position for the RBA, with its concerns over inflation having lessened and the outlook now considered to be more consistent with the 2%-3% inflation target.

The latest commentary increases the possibility of an interest rate cut as the next move by the Reserve Bank to stimulate domestic demand given the continued weakness in the United States and European economies. In fact, the Australian bond market has priced-in nearly 50 basis points worth of rate cuts in the next 12 months.

The US Federal Reserve also remains committed to maintaining the target range for the federal funds rate between 0%-0.25% until at least midway through 2013 in an ongoing effort to aid the country's struggling economy and alleviate fears of a possible double dip recession.



Source: Reserve Bank of Australia, United States Federal Reserve Board

The Australian economy posted 1.2% growth in the June quarter, following on from a revised growth rate of 0.9% in the March quarter. Much of this rebound had been anticipated by economists following the downward impact on growth posed by the natural disasters experienced in Australia earlier in the year. The June quarter growth includes a contribution from Queensland flood recovery expenditure. However, over the year to June, the Australian economy expanded by just 1.4%.

The unemployment rate fell to 5.2% in September, after reaching a 10-month high of 5.3% in August. The decrease in the unemployment rate was a result of total employment rising by 20,400 in the month, over double the forecasted rise. Skills shortages remain an issue for the resources sector, continuing to add upward pressure to wages.

Looking ahead, we can continue to expect the Australian economy to be split into two speeds, with the mining sector and related industries continuing to experience high growth and other industries, particularly the tourism, education and manufacturing industries, struggling to cope with subdued consumer spending and the strengthening Australian dollar.

Other economies around the globe have been the source of much uncertainty.

In August, the United States narrowly averted financial collapse after a lengthy stalemate in Debt Ceiling negotiations, and even after an agreement was reached there remain fears that the economy could head back into recession, with President Obama's latest jobs plan being blocked in the Senate. Standard & Poors downgrading of the US's credit rating from AAA to AA+ also had an unsettling effect on global markets.

Sovereign debt remains a concern in Europe, with debt issues that had previously plagued Ireland, Portugal and Greece spreading to other countries in the region including Italy and Spain. In addition, French banks have experienced credit ratings downgrades due to their exposure to these countries. At the recent G20 summit in Paris, European officials outlined their strategy for tackling

the crisis which included additional funding from the EU and the IMF, establishing a backstop for banks and writing down Greek bonds. However, debt concerns continue to see high levels of volatility on the financial markets on a daily basis.

The Chinese economy has continued to grow strongly, although at a slightly slower pace (9.1% p.a. in the September quarter relative to 9.5% p.a. and 9.7% p.a. in the preceding quarters). China's slowing growth in addition to a growing global supply of commodities has caused commodity prices (and the Australian dollar) to fall over the past two months.

In the near term, there are some key dates that need to be monitored. Firstly, an EU summit is scheduled to be held this week to determine whether a resolution can be reached in relation to the eurozone sovereign debt crisis. Then, the Reserve Bank will be keeping a close eye on inflation data due out 26 October 2011 to determine whether there is any scope to cut interest rates in the next few months if global conditions do not improve. Expect continued market volatility for the next three to six months, at which time there will hopefully be greater certainty regarding medium-term growth prospects.

If you require any consultancy advice on the implications of the current economic and financial climate on your organisation, please contact Gavin O'Donovan, Senior Consultant on (07) 3831 0577 or gavin@aecgrouppltd.com.



THE AECGROUP PERTH OFFICE: A BRIEF HISTORY, OUR STAFF, THE OFFICE RELOCATION & WHAT'S AHEAD...

BY SARAH-JANE CONROY, ECONOMIST, AECeconomics, PLANNING & DEVELOPMENT (EPD)

The WA economy...an economy with stamina...

The WA economy is currently experiencing strong growth and development, driven by the resources boom and significant levels of investment occurring on the west coast of Australia. While the east coast of Australia has seen more uncertain economic times, the WA economy is powering ahead, showing an abundance of employment and business opportunities. Seeing the potential of the WA economy, the AECgroup board of directors started actively pursuing expansion into the WA market around 3 years ago. This commenced first with the establishment of an AECgroup serviced office, as well as the frequent fly-in-fly-out of our senior consultants and directors to Perth to establish our client networks and relationships and deliver on number of key projects.

AECgroup firmly establishes its presence in WA...

Early in 2011, Mark Wallace, Senior Economist, came on board with AECgroup as Team Leader for the Perth Office, to establish a more permanent presence within WA. With the active guidance of our CEO (Simon Smith), General Manager, EPD (Ashley Page) and National Business Development Manager (Michael Campbell), the Perth Office has gone ahead in leaps and bounds.

Mark's experience in property and urban economics has seen him complete a number of key projects in WA working for key clients, ABN Group, Landcorp, Lend Lease, Tourism WA, Town of Port Hedland and a number of local government authorities. Mark's energy and drive to succeed has been a critical success factor for the Perth office over the past couple of months - maintaining a high standard and quality of output in keeping with AECgroup's passion to achieve real and tangible outcomes for our clients.

And then there were three....

In July 2011, Mark was joined by new recruits, Darryl Buswell (Economist) and Thomas Devitt (Research Economist), and have set themselves to tackling a number of key projects in WA including:

- The Port Hedland Economic Development and Property Consultancy Projects;
- Tourism WA Government Investment Incentives Project;
- Scarborough Beach Master Plan Economic Impact Study; and
- The Perth Convention Bureau Business Events Socio-Economic Impact Assessment (SEIA).

A tight-knit office, these guys have developed a strong working relationship in a short space of time that sets AECgroup's Perth operations in good stead for future growth and success with our clients.

AECgroup expanding...! Our Perth office is on the move...

In mid-November 2011, AECgroup will be relocating its Perth Office to Level 2, 580 Hay Street, Perth into the brand new Equus building. The move from serviced office accommodation will allow for further growth and expansion in the WA market and underpin the longevity of AECgroup in the State. The office will provide a dedicated space for meeting with clients and project partners and has the capacity to accommodate the medium term expansion goals of the Perth team. It is centrally located in the Perth CBD, allowing our team to respond to the needs of government and private sector clients quickly and efficiently. A small event celebrating the opening of the new office and the growth of AECgroup over the past several years, is planned for later in the year.



A bright future!

And the new office couldn't have come at a better time. The team in Perth is currently very busy, working closely with AECgroup's other offices to help deliver strategic outcomes for clients. The relationships that have been formed and continue to be nurtured with key clients and partners in WA are providing a solid foundation for future medium and long-term growth. This is supporting further recruitment, growing and diversifying the skills of the Perth team and providing greater capacity for Perth clients to receive tailored, practical and local-oriented economic advice to support their projects and policies. AECgroup recognises the strength, resilience and vibrancy of the Perth and WA economies. Our growth over time reflects not only that strength but the commitment of AECgroup generally, and the Perth Team specifically, to provide quality support to our partners and clients to achieve real outcomes.

AECgroup is currently seeking to recruit experienced consultants and senior consultants to join our exciting Perth Economics, Planning and Development team. Interested? Email recruitment@aecgrouppltd.com or visit our [careers](#) page for more information.

LANDFILL REHABILITATION COSTING WITHIN A WASTE MANAGEMENT BUSINESS

BY GAVIN O'DONOVAN, SENIOR ECONOMIST, AECBUSINESS STRATEGY & FINANCE (BSF)

Waste management businesses are very complex businesses that require dedicated costing and financing models to ensure short-term and long-term financial sustainability. Appropriate consideration in the price setting process must also be given to the ongoing liabilities associated with today's waste disposal activities to ensure future generations do not bear an unnecessary financial burden.

The focus of this paper is the appropriate recognition of the future rehabilitation, maintenance and monitoring costs that are incurred at landfills post closure, not only from a statutory accounting perspective but also in terms of the need for appropriate annual provisions to ensure sufficient cost recovery exists during their working life. Waiting to fund these costs until after a landfill has been closed will place cash flow pressures on waste businesses in addition to resulting in intergenerational inequity.

(Note that this paper specifically excludes carbon costs, which will be dealt with in a separate paper.)

Landfill Rehabilitation, Maintenance and Monitoring Costs

Historically, the focus of cost recognition and recovery has been on ensuring appropriate funds are available to recoup the costs associated with landfill establishment and associated infrastructure, landfill operations and cell construction and capping. Whilst such costs are incurred during the working life of a landfill, appropriate recognition must also be given to the costs incurred once landfills are exhausted (i.e. fully consumed) to ensure compliance with a legislative obligations (e.g. responsibility for site management for 30 years post closure).

The following table provides an indication of the types of costs incurred at closed landfill sites.

Cost Item	Description
Closure and site management plans	<ul style="list-style-type: none"> Preparation and approval of closure and site management plans in accordance with statutory requirements
Intermediate and final landfill cell capping	<ul style="list-style-type: none"> Includes cell capping profiling and intermediate and final cell capping with clay or other suitable materials, and cell re-vegetation once capping is completed
Gas capture	<ul style="list-style-type: none"> Installation of gas capture infrastructure, ongoing operations and maintenance
Leachate collection and disposal	<ul style="list-style-type: none"> Installation of leachate infrastructure (i.e. either holding tanks or sewer connection), trade waste disposal costs, pumping costs, infrastructure maintenance, etc.
Vegetation management	<ul style="list-style-type: none"> Ongoing maintenance costs associated with weed control and fire break management
Monitoring	<ul style="list-style-type: none"> Ongoing periodic groundwater, surface water and landfill gas monitoring, in addition to compliance reporting

Accounting Recognition of Landfill Rehabilitation Works

In accordance with accounting standard *AASB137 (Provisions, Contingent Liabilities and Contingent Assets)*, waste businesses are required to recognise a provision for the future costs associated with closing and restoring landfills as liabilities within the financial accounts. The generally accepted valuation approach to determine the extent of the liability is the Net Present Value (NPV) approach, which calculates the current value of future cash flows arising from ongoing landfill closure, remediation, maintenance and monitoring activities.

While only those liabilities relating to historic and current use (or consumption) of operating landfills should be accounted for, practical outcomes in recent years have shown that auditors have demanded that all future liabilities – including liabilities associated with the future disposal of waste in operating landfills – need to be recognised.

Funding of Landfill Rehabilitation Works Costs

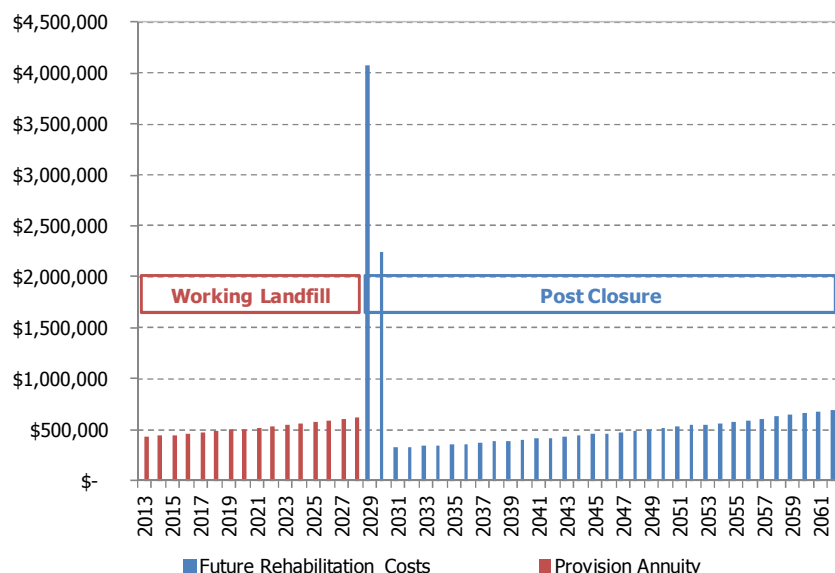
Although the above approach recognises the present value of total future costs, the calculated value on the balance sheet will unlikely be supported by cash reserves (magnified by the fact that the calculated value represents the closure of all landfills even those with available capacity). As such, whilst it is unnecessary to 100% cash back the calculated value on the balance sheet, waste businesses must ensure that appropriate funds are available to undertake rehabilitation works as and when required.

In reality, waste businesses often resort to loan funding significant cell capping and remediation works, with ongoing maintenance and monitoring costs funded from general expenses at the time that they are incurred rather than at the time that the liability is accrued. Borrowing for post



closure costs is not considered appropriate given that such costs are related to historic waste disposal. Such costs should also never be capitalised given that they merely reflect the cost associated with bringing a landfill back to a condition that meets environmental obligations, i.e. no new asset is created from the expenditure.

A more appropriate method of funding landfill rehabilitation works requires the incorporation of an annuity within the cost base, to ensure that annual pricing levels and cash flows incorporate the recovery of future cost obligations from current consumers of landfill airspace.



Waste businesses should ensure that appropriate internal financial processes are established to administer annual provisions expenditure, including consultation with accountants/finance managers to ensure provision balances contained in the balance sheet are available as an ongoing funding source for rehabilitation works (with the cash flow implications also considered). This should also involve the use of financial/asset management systems to create work orders/job costing numbers linking directly to the liability account for each rehabilitation project so that costs are captured for reporting purposes.

Incorporating the Cost of Landfill Rehabilitation Works in Pricing Models

Overall, the cost of rehabilitation works should be recognised on an annual basis during the working life of each landfill, and be based on the proportional volume of waste disposed each year into each landfill. The underlying pricing principle is to assign additional costs to the waste business as landfill capacity is utilised rather than when landfills are exhausted, such that today's disposers pay their share of the liabilities incurred from the need to undertake landfill rehabilitation works.

The costs associated with rehabilitation works on current and future cells of operating landfills should be recovered via waste disposal fees, e.g. if an annual provision of \$500,000 has been determined, this cost should be added to landfill operating expenses, depreciation charges, a return on capital invested in infrastructure, plant and equipment, and the value of land consumed as a result of waste disposal to landfill (the topic of a previous paper) to derive the total costs that must be recovered by disposal fees.

Any rehabilitation costs incurred at closed (legacy) landfills and portions of operating landfills that have already been utilised should be funded from waste business landfill rehabilitation provisions or non-user charge revenues if nil/insufficient provisions exist (e.g. Council separate charge or general rates).

The AECgroup Business Strategy & Finance team is an industry leader in the provision of advice to the waste industry regarding financial modelling and analysis (including the development of annual rehabilitation provisions), pricing, regulatory compliance, the evaluation of long-term waste management strategies (including economic and financial analyses of Alternative Waste Technologies) and project feasibility studies.





Should you require assistance regarding any aspect of your waste business, please don't hesitate to contact Gavin O'Donovan, Business Strategy & Finance manager, on (07) 3831 0577 or gavin@aecgrouppltd.com.



WORDS OR VISUALS? : USING POWERPOINT AS AN EFFECTIVE COMMUNICATION TOOL...

BY PRIYA NARSEY, MARKET RESEARCH CONSULTANT, AECcommunity RESEARCH & STRATEGY (CRS)

In a business world that is accelerating at a faster pace, given technological advances, clients are finding themselves amongst a myriad of valuable information but not enough time to absorb that information.

Motivated to be market research consultants rather than mere suppliers of market research data, AECcommunity research & strategy division is geared towards delivering insightful data in a way which is most relevant and useful for our clients in a format that is entertaining and can be easily recalled.

According to Edgar Dale’s Cone of Learning, after two weeks we tend to remember 10% of what we read and 30% of what we see.

Another recent study from the University of Minnesota found that the average length of meetings in which visuals were used were 26.8% shorter (26.7 minutes vs. 18.6 minutes) than meetings in which no visuals were used.

The search into improving our deliverable strategy found us in the arms of PowerPoint and we find most research data is now presented in PowerPoint. PowerPoint has become a useful tool as it allows for easy sharing, reference and reuse.

PowerPoint reports have collided the world of words and visuals into one to bring data to life. PowerPoint offers tools and techniques that help to communicate findings effectively and powerfully while conveying a human element of the findings.

Individuals learn and recall information in different ways – Some are ‘visual’ people while others are ‘word’ people. In either case, AECgroup caters for both. Our aim is to deliver research data while telling the story in a compelling, easily digested and in a succinct manner.

If your vision is blurred from looking for key information presented in the current research report and you find yourself looking for ‘life’ in your data, please contact Market Research Consultant Priya Narsey on (07) 3831 0577 or priya@aecgrouppltd.com.

"A picture is worth a thousand words."

-Author Unknown

In total, 80% of respondents recalled newspaper advertisements. Additionally, two-thirds recalled advertisements on television. Radio advertisements had the lowest recollection (22%).

OR

80%
of respondents recalled newspaper advertisements.



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UNDERSTANDING THE DESIGN PROCESS FOR CUSTOM WRITTEN SOFTWARE

BY SIMON SMITH, CEO

Often when we are going through the design stage for a custom software application clients ask "Can it do this, this and this?" Whatever "this" is, the answer is almost always yes because we are at the design stage and the required functionality can always be built in to the design of the application whether or not it is actually implemented.

Another common question is "Can we have this report?" Again the answer is yes, but it is qualified by the statement "As long as the information upon which the report is based is captured."

These two points highlight the importance of the functional design stage for a custom software application. The functional design stage is a process intended to lock down the key functionality or business requirements that a custom software application is to deliver by documenting how that application is to function and what outcomes it is to provide.

The information and knowledge management (IKM) team of the AECgroup uses a tried and tested three stage process to deliver custom software applications:

- Stage 1 – Functional Specifications and Detailed Design
- Stage 2 – Implementation and Testing
- Stage 3 – Maintenance and Enhancement

Stage 1 involves us meeting with the client in a series of workshops to design the application that will meet their needs. Firstly, a functional specifications document is created that describes the problem to be solved, business rules and outputs and breaks the problem down into its components explaining what needs to happen for each. Secondly, a detailed design document is written that describes all the various elements that will be required for the application including user control and permissions, tables, fields, relationships, file formats, interfaces, administration items, procedures and reports. The detailed design also provides a schedule of programming elements and an indication of the effort and time required as well as a testing plan. At the end of Stage 1 the client will have a blueprint for a solution that can be put to market and be accurately costed.

Stage 2 is the implementation of the solution, or building of the application. The detailed design in Stage 1 will have described the order in which the components are to be constructed. Also part of this stage is the testing of the application. Testing generally occurs in three stages, by the programmer(s), by the project manager and by the client. Depending on the number of components and complexity of the application there may be several testing feedback loops. At the end of Stage 2 the client accepts the application and it goes into production accompanied by a user manual and user training.

Stage 3 occurs once the application is past its warranty date. IKM allows a three month warranty period during which any bugs that arise, or areas that do not perform according to the specifications, are addressed. We then generally put in place with our client a maintenance contract, or service level agreement, to respond to and fix any unforeseen issues that may crop up from time to time. During this phase it often arises that the client may wish to expand the functionality of the application in which case enhancements are designed and implemented. Depending on the size and scope of the enhancement a similar three stage process outlined here maybe followed.

The above process has been used many times by AEC's IKM team to deliver successful custom software applications. But the key to achieving a successful custom application with minimum fuss is to keep it simple using the 80/20 rule, that is, 80% of the solution can be delivered using 20% of the effort required to get to a 100% solution (and 20% of the cost!). So when asking the





question "Can it do this, this and this?" remember yes it can if it's designed in upfront but is really required? or would it be just nice to have?

For you custom software needs please contact Simon smith, CEO at simon@aecgrouppltd.com.



AECGROUP LAUNCHES TOWNSVILLE BITTER PREMIUM

BY LYNDON BERRESFORD, CREATIVE DIRECTOR, AECDESIGN, MARKETING AND ADVERTISING

Over the last few months, Creative Director Lyndon Berresford has been getting more and more comments and raised eyebrows from clients as to why there is an increasing number of empty beer bottles lying around his office.

Fortunately for Lyndon there is a good explanation for this. "It's just research." Lyndon assures us...

The AECgroup design team have spent the last few months working on the launch of the new Townsville Bitter Premium. AECgroup's designers have been hard at work on concepts and producing the branding, labels and packaging for beer, which is brewed at the multi-award-winning Brewery in Townsville.

With the official launch scheduled in late-October. AECgroup's design division produced an internet-only commercial to generate interest the product.

Lyndon said the design team aimed to make a fun, clichéd, beer ad that spoofed other beer commercials.

"It's not really along the track of how we're promoting Townsville Bitter but we're just releasing it virally and will see how it goes." Lyndon said.

The designers are currently working on all the collateral for the product with the aim for new beer to sit up against any imported product in a bar in Europe or in America.

To view the online commercial go to <http://www.youtube.com/watch?v=P-J-HtWQbMY>

Should you require assistance regarding any aspect of your organisations brand, or help in launching a new one. Please contact Lyndon Berresford, Creative Director, on 07 4771 5550 or lyndon@aecgroupit.com

