3. Our funds management

This section identifies Airservices Australia's funding structure.

3.1 Cash and cash equivalents

	2023 $'000	2022 $'000
Cash and cash equivalents		
Cash at bank and in hand	**120,610**	52,137
Deposit at call	**146,000**	185,700
Term deposits	**250,000**	20,000
Total cash and cash equivalents	**516,610**	**257,837**

a. Cash at bank and in hand

Cash at bank has a floating interest rate of 4.30% for balances up to $150m (2022: 1.05% for balances up to $25m). For balances greater than $150m, the interest rate is 4.10% (2022: 0.85% for balances greater than $25m). Cash in hand and some non-interest-bearing bank accounts have a zero interest rate.

b. Deposits at call

The deposits at call have a weighted average floating interest rate of 4.25% (2022: 1.00%). These 11am cash deposits are rolled over daily.

c. Term deposits

The term deposits of $250m will mature on 16 November 2023 and have a weighted interest rate of 4.29% (2022: 1.29%).

Accounting policy

Cash and cash equivalents

Cash is recognised at its nominal amount. Cash in the Statement of Financial Position comprises cash at bank and in hand and deposits at call which are readily convertible to cash on hand.
For the purposes of the cash flow statement, cash includes cash and cash equivalents net of outstanding bank overdrafts.

3.2 Reconciliation of cash and cash equivalents

	2023 $'000	2022 $'000
Reconciliation of net (loss) after income tax to net cash flows from operations		
Net (loss) after income tax	**(205,765)**	(347,562)
Adjustments for:		
Depreciation expense	**127,296**	129,441
Impairment recognised for property, plant and equipment	**-**	7,387
Reversal of previous asset write-downs	**(709)**	(995)
Net loss on sale/write-down of non-current assets	**498**	316
AvSuper defined benefit contributions movement (after tax)	**(49,173)**	66,726
Change in assets		
(Increase)/decrease in gross receivables	**(72,672)**	3,417
(Increase)/decrease in inventories	**95**	(607)
(Increase)/decrease in prepayments	**(11,088)**	(3,949)
(Increase)/decrease in other assets	**(3,615)**	(2,732)
(Increase)/decrease in deferred tax	**(100,749)**	(115,132)
Change in liabilities		
Increase/(decrease) in employee benefits	**170,914**	(113,068)
Increase/(decrease) in allowance for impairment	**(1,861)**	(17,143)
Increase/(decrease) in legal provisions	**-**	(236)
Increase/(decrease) in other liabilities	**(167,610)**	(21,772)
Increase/(decrease) in other provisions	**54,529**	15,201
Increase/(decrease) in creditors and accruals	**87,011**	15,566
Increase/(decrease) in revenue to be returned to customers provision	**(622)**	-
Net cash flow from operating activities	**(173,521)**	(385,142)

3.3 Borrowings

	2023 $'000	2022 $'000
Unsecured borrowings		
Current[1]	**284,388**	384,348
Non-current[2]	**1,072,005**	723,246
Total borrowings	**1,356,393**	1,107,594

1 This represents amounts issued under a $300m commercial paper program and a $250 cash advance facility. It includes $250m maturing 17 November 2023 and $35m maturing 29 November 2023.
2 This represents amounts issued under a $1,500m medium term note program. It includes $200m maturing on 15 May 2026, $300m maturing 15 November 2028, $275m maturing on 15 May 2030, $200m maturing on 15 November 2032 and $100m maturing on 15 November 2052.

3.4 Standby arrangements and unused credit facilities

	2023 $'000	2022 $'000
Unused credit facilities – bank overdraft	-	5,000
Borrowing facilities		
Commercial paper program	**300,000**	300,000
Medium term note program	**1,500,000**	1,500,000
Committed cash advance facilities	**750,000**	750,000
Total borrowing facilities	**2,550,000**	2,550,000
Amount utilised	**(1,360,000)**	(1,110,000)
Unused borrowing facilities	**1,190,000**	1,440,000

3.5 Financial instruments

Airservices has exposure to credit risk, liquidity risk, market risk (comprising of interest rate and foreign exchange risk) arising from its operations and use of financial instruments. Airservices uses financial instruments to manage these risks within a framework consisting of a comprehensive set of risk management policies. These risks are managed centrally, and speculative trading is strictly prohibited.

Financial assets and liabilities – classification and measurement

Cash and cash equivalents

Airservices cash and cash equivalents are overnight or short-term deposits that are held to maturity and have cash flows that solely represent principal and interest. All cash and cash equivalents are classified under AASB 9 as financial assets at amortised cost.

Trade and other receivables

All Airservices trade receivable cash flows solely represent principal and interest payments and are classified under AASB 9 as financial assets at amortised cost. When measuring its trade and other receivables, Airservices has adopted the AASB 9 simplified approach to measure the impairment loss allowance at an amount equal to the lifetime expected credit loss.

Committed cash advances

Airservices cash advances are bank loans that are held to maturity and have cash flows that solely represent principal and interest. All committed standby cash advances are classified under AASB 9 as financial liabilities at amortised cost.

Medium-term notes and commercial papers

Airservices financial liabilities include medium-term notes and commercial papers which are initially measured at fair value less transactions costs and subsequently remeasured using the effective interest method. Under AASB 9 these instruments are all classified as financial liabilities at amortised cost.

Trade and other payables

Supplier and other payables are recognised at amortised cost as all cash flows solely represent payment of principal. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

Derivative financial instruments

Under AASB 9, all Airservices derivative financial liabilities are measured and classified as financial assets or liabilities at fair value through profit and loss.

Derivative financial instruments - hedge accounting under AASB 9

Airservices uses derivative financial instruments, such as Forward Exchange Contracts (FECs) and Interest Rate Swaps (IRSs) to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value on reporting date. Derivatives are carried as current or non-current financial assets when the fair value is positive and as current and non-current financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion, which is recognised in other comprehensive income.

Fair value measurements

The fair values of Airservices FECs and IRSs are calculated using a credit-adjusted discounted cash-flow methodology. FEC and IRS contracted rates are compared to current market rates to calculate future cash flows which are then discounted to arrive at a present value. Airservices uses only observable market data as inputs.

Airservices does not apply netting to the fair values of its financial assets and liabilities. The Statement of Financial Position separates the fair values into current and non-current financial assets and liabilities. However, as at 30 June 2023, if netting was applied to the FEC portfolio then FEC financial assets of $$2,389,126 would have been reduced by FEC financial liabilities of $$437,978 to a net asset amount of $1,951,148 (2022: FEC financial assets of $1,741,516 would have been reduced by FEC financial liabilities of $3,138,972 to the net liability amount of $1,397,456).

If netting was applied to the IRS portfolio then IRS financial assets of $12,554,899 would have been reduced by IRS financial liabilities of $20,493,103 to the net liability amount of $7,938,204 (2022: IRS financial assets of $9,588,085 would have been reduced by IRS financial liabilities of $21,595,432 to the net liability amount of $12,007,347).

Medium-term note and commercial paper fair values reflect the price that an existing investor is prepared to receive if they were to sell their investment in the secondary market. These prices are provided by independent secondary market traders.

There is no secondary market for committed cash advances as they are executed under bilateral agreements with bank counterparties. As a result their fair value is equal to the carrying amount.

Refer to Note 2.4 for fair value measurement basis of these instruments.

	AASB 9 accounting classification	Carrying amount 2023 $'000	Fair value 2023 $'000	Carrying amount 2022 $'000	Fair value 2022 $'000
Assets					
Forward exchange contracts	FVTPL	**2,390**	**2,390**	1,742	1,742
Cash and cash equivalents	AC	**516,610**	**516,610**	257,837	257,837
Receivables	AC	**155,224**	**155,224**	80,611	80,611
Interest rate swaps	FVTPL	**12,555**	**12,555**	9,588	9,588
Other financial assets	AC	**-**	**-**	80	80
Total assets		**686,779**	**686,779**	349,858	349,858
Liabilities					
Forward exchange contracts	FVTPL	**438**	**438**	3,139	3,139
Interest rate swaps	FVTPL	**20,493**	**20,493**	21,595	21,595
Medium term notes	AC	**1,072,005**	**1,049,654**	672,894	621,190
Trade and other payables	AC	**180,953**	**180,953**	115,474	115,474
Commercial paper	AC	**34,388**	**34,338**	184,700	184,223
Committed cash advances	AC	**250,000**	**250,000**	250,000	250,000
Total liabilities		**1,558,277**	**1,535,876**	1,247,802	1,195,621

Notes:
AC – Amortised Cost
FVTPL – Fair Value Through Profit and Loss

Financial risk

The financial risk management policy is aligned to Airservices risk appetite statement. The policy identifies financial risks and provides effective guidance on how Airservices manages the risks faced by the organisation. It sets the risk limits, identifies the controls and determines the process for monitoring and adhering to limits. The policy is designed to add value without adding to the overall risks of the organisation.

The financial risk management policy and systems are reviewed regularly to reflect changes in market practices and Airservices activities. Internal audit undertakes ad hoc reviews of financial risk management policy, controls and procedures, the results of which are reported to the Board Audit and Risk Committee.

Airservices uses financial instruments to manage its financial risks. The central Treasury unit identifies and evaluates the financial risks in close co-operation with other Airservices units and seeks to minimise potential adverse effects on the financial performance.

As a result of the nature of Airservices business and internal policies dealing with the management of financial risk, Airservices', residual exposure to credit, liquidity and market risk is considered to be low.

Credit risk

Credit risk represents the risk that one party to a transaction will fail to discharge an obligation and cause the other party to suffer a financial loss. Airservices invests money and enters into financial derivative contracts with authorised counterparties whose long-term credit rating is at, or above, A- (Standard and Poor's) or A3 (Moody's). There are currently only 4 approved counterparties. The maximum credit limit for each approved counterparty is currently $300m (2022: $250m). Counterparty credit exposure is assessed using the principles of the 'Current Exposure Method'. As at 30 June 2023, the maximum risk exposure to all authorised counterparties after applying the Current Exposure Method was $593.7m (2022: $298.2m).

Airservices is exposed to credit risk arising from potential default of debtors. This is equal to the total amount of trade and other receivables (2023: $155.2m and 2022: $80.7m). Airservices has assessed the risk of default on payment and has allocated $9.1m in 2023 (2022: $10.9m) as an allowance for impairment.

Airservices trades only with recognised, creditworthy third parties and, as such, collateral is not requested, nor is it Airservices', policy to securitise its trade and other receivables.

Credit risk of financial instruments not past due or individually determined as impaired.

	Not past due nor impaired 2023 $'000	Not past due nor impaired 2022 $'000	Past due or impaired 2023 $'000	Past due or impaired 2022 $'000
Receivables	**89,503**	73,082	**47,252**	16,451
Total	**89,503**	73,082	**47,252**	16,451

Airservices is exposed to concentration of risk with respect to trade receivables. 57% of revenues earned are from the following dominant operators: Qantas Group (including Jetstar) and Virgin Group.

Liquidity risk

Liquidity risk management is concerned with ensuring there are sufficient funds available to meet financial commitments in a timely manner while also planning for unforeseen events which may reduce cash inflows and cause pressure on liquidity.

The primary objectives of short-term liquidity risk management are to ensure sufficient funds are available to meet daily cash requirements, while ensuring that cash surpluses in low interest bearing accounts are minimised.

The primary objective of long-term liquidity risk management is to ensure that funding (i.e. debt) facilities are in place to meet future long-term funding requirements.

2023	Average interest rate %	Floating interest rate $'000	1 year or less $'000	1 to 5 years $'000	More than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial liabilities							
Non-derivative							
Trade and other payables	–	–	–	–	–	180,953	180,953
Standby cash advances	0.81	–	251,021	–	–	–	251,021
Commercial paper	4.32	35,000	–	–	–	–	35,000
Medium-term notes	4.39	–	46,650	373,600	1,093,750	–	1,514,000
Derivative							
Interest rate swaps[1]	–	–	(3,334)	(7,320)	(362)	–	(11,016)
Interest rate swaps[2]	–	–	4,129	11,698	4,917	–	20,744
Net financial liabilities		35,000	298,466	377,978	1,098,305	180,953	1,990,702

1 Weighted average interest rates at 30 June were pay fixed at 2.22% and receive float at 4.04%.
2 Weighted average interest rates at 30 June were pay float at 4.04% and receive fixed at 3.04%.

2022	Average interest rate %	Floating interest rate $'000	1 year or less $'000	1 to 5 years $'000	More than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial liabilities							
Non-derivative							
Trade and other payables	–	–	–	–	–	115,474	115,474
Standby cash advances	0.81	–	2,025	251,021	–	–	253,046
Commercial paper	0.56	185,000	–	–	–	–	185,000
Medium term notes	2.78	–	218,050	243,700	293,150	–	754,900
Derivative							
Interest rate swaps[3]	–	–	(508)	(9,909)	(379)	–	(10,796)
Interest rate swaps[4]	–	–	2,091	14,669	8,566	–	25,326
Net financial liabilities		185,000	221,658	499,481	301,337	115,474	1,322,950

3 Weighted average interest rates at 30 June were pay fixed at 2.33% and receive float at 1.80%.
4 Weighted average interest rates at 30 June were pay float at 1.80% and receive fixed at 1.78%.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates. The following table is a sensitivity analysis of the market risk that Airservices is exposed to through the use of foreign exchange and interest rate derivatives as well as investments and borrowings.

Interest rate sensitivity analysis is calculated on a 'reasonably possible' basis with reference to the key drivers of interest rates, market expectations and historical data. In analysing interest rate sensitivities Airservices has adopted to vary actual interest rates by +/- 1.04% (2022: +/- 0.79%).

Airservices has adopted a simplified approach to calculate market risk sensitivities for foreign exchange contracts. A standard sensitivity variable of +/- 8.48% (2022: +/- 8.31%) has been applied to all currencies. Airservices acknowledges that it is necessary to monitor annual movements in currencies to ensure the relevance of using a single constant rate.

			Effect of positive movement		Effect of negative movement	
2023	**Carrying amount $'000**	**Change in risk variable +/-%**	**Profit and loss $'000**	**Equity $'000**	**Profit and loss $'000**	**Equity $'000**
Currency risk						
Buy USD forward contracts	2,208	8.48	–	(2,444)	–	2,897
Buy EUR forward contracts	(257)	8.48	–	(166)	–	197
Interest rate risk						
Cash and cash equivalents	516,610	1.04	5,347	–	(5,347)	–
Medium term notes	1,072,005	–	–	–	–	–
Standby cash advances	250,000	–	–	–	–	–
Interest rate swaps	(7,938)	1.04	(10,982)	–	11,989	–
Commercial paper	34,388	1.04	(364)	–	364	–

			Effect of positive movement		Effect of negative movement	
2022	**Carrying amount $'000**	**Change in risk variable +/-%**	**Profit and loss $'000**	**Equity $'000**	**Profit and loss $'000**	**Equity $'000**
Currency risk						
Buy USD forward contracts	1,413	8.31	–	(2,204)	–	2,327
Buy EUR forward contracts	(2,810)	8.31	–	(1,576)	–	1,261
Interest rate risk						
Cash and cash equivalents	257,837	0.79	2,010	–	(2,010)	–
Medium term notes	672,894	–	–	–	–	–
Standby cash advances	250,000	–	–	–	–	–
Interest rate swaps	(12,007)	0.79	(1,806)	–	1,967	–
Commercial paper	184,700	0.79	(1,146)	–	1,146	–

Forward exchange contracts

Airservices uses Forward Exchange Contracts (FECs) to hedge foreign currency exchange rate risk arising from committed transactions primarily relating to capital expenditure program undertakings. Airservices accounts for all of its FECs as cash flow hedges. Airservices policy is to achieve 100% hedge effectiveness. All foreign currency exposures have a greater than 95% certainty of occurring, as all exposures are committed.

The effectiveness test is on a FEC rate to market rate comparison. Prospective testing is on a critical terms basis with the retrospective test based on an effectiveness ratio of 80-125%. Gains or losses are recognised on the hedging instrument (i.e. the FEC) and hedged item (i.e. the committed foreign exchange exposure) with any ineffectiveness recognised in the Statement of Comprehensive Income.

At balance date, the details of outstanding contracts are (Australian dollar equivalents):

	Sell Australian Dollars		Average Exchange Rate	
Buy EUROs	**2023 $'000**	**2022 $'000**	**2023 EURO/$1**	**2022 EURO/$1**
Maturity				
3 months or less	**310**	807	**0.5867**	0.5758
Greater than 3 months but less than 1 year	**-**	5,735	**-**	0.5576
Greater than 1 year	**2,311**	14,483	**0.5279**	0.5383

	Sell Australian Dollars		Average Exchange Rate	
Buy US Dollars	**2023 $'000**	**2022 $'000**	**2023 US/$1**	**2022 US/$1**
Maturity				
3 months or less	5,133	5,429	0.7082	0.7106
Greater than 3 months but less than 1 year	11,897	15,946	0.6989	0.7229
Greater than 1 year	13,469	4,761	0.7401	0.7583

Capital management

Airservices is a price regulated government-owned corporate commonwealth entity with a capital management strategy that currently targets a minimum standalone/independent credit rating of 'bbb' and allows for sufficient flexibility in gearing to enable Airservices to absorb a short- to medium-term shock to traffic levels.

When managing capital structure, Airservices considers its current and forecast net debt and shareholders' equity positions to develop funding and liquidity strategies that achieve the longer term optimal capital structure and provide a balance between cost and risk. These strategies are then incorporated into the annual planning cycles.

Airservices reviews its optimal capital structure on a regular basis. There were no changes to Airservices approach to capital management during the year.