

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

4. Our People

This section describes a range of employment and post-employment benefits provided to our people and our relationships with other key people.

4.1 EMPLOYEE PROVISIONS

	2020 \$'000	2019 \$'000
Current employee provisions		
Employee benefits		
Recreation leave	53,708	62,212
Long service leave	142,623	137,639
Separations and redundancies	7,117	9,023
On-costs associated with employee benefits	11,992	12,124
Workers compensation	272	313
Total current employee provisions	215,712	221,311
Non-current employee provisions		
Employee benefits		
Long service leave	33,532	36,000
Separations and redundancies	1,377	2,273
On-costs associated with employee benefits	2,106	2,257
Workers compensation	2,114	2,087
Total non-current employee provisions	39,129	42,617

Description of provision

Employee benefits:

Workers compensation

These provisions represent Airservices self-insured liability for workers compensation prior to 1 July 1989, which is calculated annually by an independent actuary.

Separations and redundancies

This includes \$6.7m (30 June 2019: \$7.7m) in early retirement benefits which have been elected to be taken by employees as a lump sum on retirement, and \$1.8m (30 June 2019: \$3.6m) for redundancy provisions.

The provision for early retirement benefits includes \$6.3m (30 June 2019: \$7.2m) for ATC employees who were employed by Airservices on 1 July 1998 and continue to meet the eligibility requirements under the relevant enterprise agreement.

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ACCOUNTING POLICY

Employee benefits

Salaries, wages and termination benefits

Liabilities for short-term employee benefits and termination benefits expected to be wholly settled within 12 months of the end of the reporting period are measured at their nominal amounts. Liabilities for salary and wages are recognised, and are measured as the amount unpaid at the reporting date at pay rates which will be applicable when paid, in respect of employees' services up to that date.

Recreation leave

The provision for recreation leave is not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. Accordingly, the employee benefit provision is measured as a long-term benefit by calculating the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

Long service leave and early retirement benefit

Employee benefit provisions for long service leave and early retirement benefits are assessed by qualified actuaries on an annual basis. Various actuarial assumptions are required when determining Airservices' obligations, and these are discussed below.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date, using the projected unit credit method. A liability for early retirement benefit is recognised within the provision for separations and redundancies in accordance with the applicable Enterprise Agreement and is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds (AA and AAA rated bonds only) with terms to maturity that match, as closely as possible, the estimated future cash outflows.

On-costs associated with recreation leave and long service leave are classified as separate provisions from employee benefits, in accordance with section 24 of the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR)

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4.2 DEFINED BENEFIT FUND ASSET

Superannuation plan

Airservices is the principal sponsor of the superannuation fund, AvSuper. The plan has a defined benefit scheme and a defined contribution section. The defined benefit section provides benefits based on the length of service and final average salary. The defined contribution section receives fixed contributions and Airservices legal or constructive obligation is limited to these contributions.

The following sections set out details relating only to the defined benefits section of the Plan. Note that the defined benefits section has been closed to new membership since 2002.

	2020 \$'000	2019 \$'000
Benefit asset		
The amounts recognised in the statement of financial position are determined as follows:		
Present value of the defined benefit obligation	(698,840)	(710,657)
Fair value of defined benefit plan assets	842,378	921,059
Net benefit asset - non-current	143,538	210,402
Categories of plan assets		
The major categories of plan assets are as follows:		
Cash	101,875	173,896
Equity instruments	399,877	381,595
Debt instruments	133,358	148,935
Other assets	207,268	216,633
	842,378	921,059
Reconciliations		
<i>Reconciliation of the present value of defined benefit obligation:</i>		
Balance at the beginning of the year	710,657	659,384
Current service cost	25,621	24,681
Contribution by members	9,142	9,372
Interest cost	19,936	26,098
Remeasurements		
Effect of changes in financial assumptions	(13,416)	56,694
Effect of experience adjustments	2,081	(9,306)
Benefits paid	(55,181)	(56,266)
Balance at the end of the year	698,840	710,657
<i>Reconciliation of the fair value of plan assets:</i>		
Balance at the beginning of the year	921,059	922,223
Interest Income	26,180	37,088
Remeasurements		
Return on plan assets (excluding interest income)	(59,118)	8,298
Contribution by Airservices	295	344
Contribution by members	9,142	9,372
Benefits paid	(55,180)	(56,266)
Balance at the end of the year	842,378	921,059

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Net amount recognised in the Statement of Comprehensive Income

The amounts recognised in the Statement of Comprehensive Income are as follows:

	2020 \$'000	2019 \$'000
i. Defined benefit cost recognised in profit or loss		
Current service cost	25,621	24,681
Interest on the net defined benefit asset	(6,244)	(10,990)
Total included in employee benefits expense	19,377	13,691
ii. Remeasurements (recognised in Other Comprehensive Income)		
Effect of changes in financial assumptions	(13,416)	56,694
Effect of experience adjustments	2,081	(9,306)
Return on plan assets (excluding interest income)	59,118	(8,298)
Total remeasurements included in Other Comprehensive Income	47,783	39,090
iii. Total defined benefit income recognised in the Statement of Comprehensive Income	67,160	52,781
Actual return on plan assets	(11,139)	47,954

Principal actuarial assumptions

The principal actuarial assumptions used (expressed as weighted averages) were as follows:

	2020	2019
Discount rate	2.70%	2.90%
Future salary increases	3.10%	3.50%

The economic assumptions used by the actuary to make the funding arrangements were:

- a discount rate of 2.70 per cent p.a. derived by applying the yield curve reported by Milliman to the expected cashflows of AvSuper and equating this to a single equivalent rate.
- the salary increase rate assumption is equivalent to a liability weighted single rate assumption of 3.1 per cent p.a.

Sensitivity analysis

A sensitivity analysis for the key actuarial assumptions, holding other assumptions constant, and their potential impact on the defined benefit obligation are shown below.

2020	Increase \$'000	Decrease \$'000
Discount rate (0.5% movement)	38,843	(35,826)
Future salary increases (0.5% movement)	(33,430)	36,987
2019	Increase \$'000	Decrease \$'000
Discount rate (0.5% movement)	43,818	(38,217)
Future salary increases (0.5% movement)	(35,627)	41,832

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Maturity profile

The following payments are expected to be made in future years out of the defined benefit plan obligation.

	2020 \$'000	2019 \$'000
Undiscounted Benefit Payments		
1 year or less	47,541	42,538
2 to 5 years	227,503	214,034
5 to 10 years	244,318	255,328
Greater than 10 years	744,749	883,377
Total expected payments	1,264,111	1,395,277

The average duration of the defined benefit plan obligation at the end of the reporting period is 9 years (2019: 10 years).

Employer contributions

Employer contribution rates are reviewed by the Employer as required under the Trust Deed. The Trustee receives advice on contribution rates with each actuarial investigation of the Plan undertaken for the Trustee. The Employer also reviews contributions rates as required if the financial position of the plan deteriorates. An actuarial investigation of the Plan is made each year (current practice), and the last such assessment was made as at 30 June 2019. This disclosed a surplus of \$240m.

For the year ended 30 June 2020 the employer contribution rate was:

- 3 per cent of gross salary for those employees who remain members of the Commonwealth Superannuation Scheme (CSS category) (2018-19: 3 per cent).
- From 1 July 2018 contributions ceased for other Airservices employees (FULL category) under a contribution holiday.

The Employer and Trustee have in place an agreement on the contributions required should the Fund's financial position become unsatisfactory.

The objectives in setting the contribution rate are to ensure:

- i the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable, and
- ii there is a low probability that the assets are insufficient to meet the minimum benefit liabilities of the Fund should it terminate.

To achieve the first objective, the actuary has adopted a method of funding benefits known as the Attained Age Normal funding method. This funding method seeks to have benefits funded by means of a total contribution which is expected to be a constant percentage of members' salaries over their remaining working lifetimes. To achieve the second objective, the actuary undertakes scenario testing of the short-term financial position of the Plan.

Employer contributions expected to be paid by Airservices for the year ending 30 June 2021 are \$0.3m due to the contribution holiday for FULL members, not including any additional contributions required.

Net Financial position of the plan

In accordance with AAS 25 Financial Reporting by Superannuation Plans, the Plan's net financial position is determined as the difference between the present value of the accrued benefits and the net market value of Plan assets. This was determined as at the date of the most recent financial report of AvSuper (30 June 2019), when a surplus of \$240.3m was reported. Last year in these financial statements, Airservices recognised a defined benefit asset of \$210.4m as at 30 June 2019. The difference between the amounts is due to the different accounting treatment of the net financial position for the employer under AASB 119, and the Plan under AAS 25.

As at 30 June 2020, these financial statements disclose a defined benefit asset of \$145.5m (30 June 2019: \$210.4m). AvSuper's net financial position for the Plan under AAS 25 will not be available until after these financial statements have been signed.

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ACCOUNTING POLICY

Superannuation

Contributions are made predominantly to AvSuper (sponsored by Airservices) and Commonwealth Superannuation Corporation (ComSuper) which administers the Commonwealth Superannuation Scheme (CSS) and Public Sector Superannuation (PSS) funds. AvSuper has a defined benefit section and an accumulation section within its fund. Contributions to the AvSuper defined benefit fund are made in accordance with advice received from the fund's actuary. Contributions to accumulation funds are in accordance with the organisation's Enterprise Agreement(s) and other employee contracts, having regard to legislative requirements. Contributions to ComSuper for the PSS and CSS funds are in accordance with actuarial reports as notified by the Department of Finance.

Contributions to all funds except the AvSuper defined benefit fund are recognised as an expense as they become payable. With respect to the AvSuper defined benefit fund, the net interest on the net defined benefit asset is recognised in the profit before income tax, whereas actuarial gains and losses are recorded in other comprehensive income.

A liability or asset in respect of the AvSuper defined benefit superannuation plan is recognised in the Statement of Financial Position and is measured as the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets as outlined above. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the interpolation between the yield on high quality corporate bonds (AA and AAA rated bonds only) that have terms approximating to the terms of the related obligation. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

ACCOUNTING JUDGEMENTS AND ESTIMATES

AvSuper defined benefit plan

Various actuarial assumptions are required when determining Airservices obligations under the AvSuper defined benefit plan. The assumptions relied on for the period to 30 June 2020 are discussed above.

Long Service Leave and Early Retirement Benefits

Various actuarial assumptions are required when determining Airservices obligations for long service leave and the early retirement benefit scheme. The assumptions relied on for the period to 30 June 2020 are based on enterprise agreements that were applicable during the financial year. These include a 2.2 per cent annual salary increase for the first four years and 3.2 per cent p.a. thereafter, staff turnover rates ranging from 7 per cent to 19 per cent (depending on period of service), and average long service leave taken of 0.23 months per annum. The Discount Rate is derived from a yield curve based on interpolation of high-quality corporate bonds (AA and AAA rated bonds only) based on the durations to reflect the estimated mean term of the liabilities, they are as follows:

Liability	Mean term	Corporate Bonds	Discount Rate
Defined Benefits	9.0 years	Discount rate derived by applying Milliman's yield curve to expected cashflows of AvSuper and equating this to a single rate	2.7% p.a.
Long Service Leave	6.4 years	6 year and 7 year	1.9% p.a.
Early Retirement Benefit	4.2 years	3 year and 5 year	1.1% p.a.
Recreation leave	0.8 years	1 year and 2 year	0.6% p.a.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

4.3 KEY MANAGEMENT PERSONNEL REMUNERATION

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of Airservices, directly or indirectly, including any Board member. Airservices has determined the key management personnel to be the Board members, Chief Executive Officer and 7 Executive General Managers.

Key management personnel remuneration is reported in the table below:

	2020 \$'000	2019 \$'000
Key executive remuneration expense for the reporting period		
Board		
Short-term employee benefits:		
Salary	660	542
Allowances and other benefits	33	92
Total short-term employee benefits	693	634
Post-employment benefits:		
Superannuation (post-employment benefits)	64	59
Total post-employment benefits	64	59
Total Board remuneration	757	693

The information about non-executive Board members included in the table above relates to 10 individuals (2019: 8 individuals)

Key Executive Management		
Short-term employee benefits:		
Salary ¹	2,977	3,056
Allowances and other benefits	119	58
At risk component ²	-	242
Total short-term employee benefits	3,096	3,356
Post-employment benefits:		
Superannuation (post-employment benefits)	294	293
Total post-employment benefits	294	293
Other long-term benefits:		
Long service leave	43	69
Total other long-term benefits	43	69
Total Key Executive Management remuneration	3,433	3,718
Total key management personnel remuneration³	4,190	4,411

The information about executives included in the above table relates to 7.1 Full Time Equivalents (FTEs) (2019: 7.3 FTEs).

Notes:

- Salary includes recreation leave paid and the net movement in recreation leave balance in the current reporting period. Prior year comparative for recreational leave has moved from other long-term benefits to short-term employee benefits.
- Executive remuneration packages include an at risk element that is awarded based on executives meeting or exceeding objectives and key performance measures, which are linked to specific annual business objectives.
- The above key management personnel remuneration excludes the remuneration and other benefits of the Portfolio Minister. The Portfolio Minister's remuneration and other benefits are set by the Remuneration Tribunal and are not paid by the entity.

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4.4 RELATED PARTY TRANSACTIONS

(A) BOARD MEMBERS

The names of persons who were Board members of Airservices during the financial year and up to the date of signing these financial statements are as follows:

	Status	Commenced	Finished
Chairman			
John Weber	On-going	3 June 2018	Current
Deputy Chairman			
Mark Binskin	On-going	13 September 2018	Current
Board members			
Fiona Balfour	Ceased	3 June 2013	2 September 2020
Samantha Betzien	Ceased	4 June 2012	3 September 2019
Anne Brown	On-going	4 December 2019	Current
Sue-Ellen Bussell	On-going	4 December 2019	Current
Marlene Kanga	On-going	4 September 2017	Current
David Marchant	On-going	21 July 2014	Current
John McGee	Ceased	4 September 2015	3 December 2019
Tim Rothwell	On-going	21 July 2014	Current
Chief Executive Officer			
Jason Harfield	On-going	11 August 2015	Current

(B) EXECUTIVES

The names of persons who were Executives of Airservices during the financial year (excluding the CEO, included above) and up to the date of signing these financial statements are as follows:

	Title	Commenced	Finished
Executives			
Peter Curran	Executive GM Air Navigation Services	6 May 2019	30 August 2020
Peter Curran	Chief Customer Experience & Strategy Officer	31 August 2020	Current
Michelle Bennetts	Executive GM Customer Service Enhancement	16 April 2018	30 August 2020
Michelle Bennetts	Chief Service Delivery Officer	31 August 2020	Current
Lucinda Gemmell	Chief People & Culture Officer	1 June 2020	Current
Paul Logan	Chief Financial Officer	2 July 2015	Current
Mark Hind	A/g Chief Information Officer	27 April 2020	30 August 2020
Mark Hind	A/g Chief Technology Enablement Officer	31 August 2020	Current
Chris Seller	Chief Information Officer	1 July 2016	24 April 2020
Claire Marrison	Executive GM Safety & Assurance	3 November 2018	30 August 2020
Claire Marrison	Chief Safety & Risk Officer	31 August 2020	Current
Rob Porter	Executive GM Aviation Rescue Fire Fighting Services	7 January 2019	31 August 2020

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(C) TRANSACTIONS WITH RELATED PARTIES

Certain Board member-related entities have transactions with Airservices that occur within normal customer or supplier relationships on terms and conditions no more favourable than those which it is reasonable to expect Airservices would have adopted if dealing with the Board member-related entity at arm's length in similar circumstances. These transactions include the following entities and have been described below where the transactions are considered likely to be of interest to users of these financial statements:

2020

- Airservices received professional services from Klynveld Peat Marwick Goerdeler under a standing panel arrangement amounting to \$304,544 for the period 1 July 2019 to 30 June 2020 during which time Sue Bussell was a board member of Airservices Australia and held a contract with KPMG to undertake work on an ad hoc basis through her own business, DAIS.
- Airservices provided rent payments to Sydney Water Corporation amounting to \$21,167 for the period 1 July 2019 to 30 June 2020 during which time Dr Marlene Kanga was both a Board member of Airservices Australia and a Board member of the Sydney Water Corporation.
- Airservices provided rent payments to Queensland Rail Limited amounting to \$70,476 for the period 1 July 2019 to 30 June 2020 during which time David Marchant was both a Board member of Airservices Australia and a Chair of the Queensland Rail Limited.
- Airservices provided air navigation services to BAE Systems Flight Training amounting to \$48,404 for the period 1 July 2019 to 30 June 2020 during which time Mark Binskin was both Deputy Chair of the Airservices Board and Non-Executive Director of BAE Systems Australia.
- Airservices entered into a contract with PrimeNext Consulting to receive IT consulting services from Chris Seller which amounted to \$27,720 for 2019-20. Chris Seller was Chief Information Officer of Airservices until his resignation on 24 April 2020. The contract with PrimeNext Consulting was executed on 15 April 2020.

2019

- Airservices received legal services from Minter Ellison under a standing panel arrangement amounting to \$334,461 for the period 1 July 2018 to 30 June 2019 during which time Samantha Betzien was both a Board member of Airservices Australia and a partner with Minter Ellison.
- Airservices received professional services from PriceWaterhouseCoopers under a standing panel arrangement amounting to \$3,840,601 for the period 1 July 2018 to 30 June 2019 during which time John Weber was Chairman of the Airservices Board and Advisor for PriceWaterhouseCoopers. John Weber was acting as an Advisor for PriceWaterhouseCoopers up until 30 September 2018.
- Airservices provided rent payments to Sydney Water Corporation amounting to \$20,353 for the period 1 July 2018 to 30 June 2019 during which time Dr Marlene Kanga was both a Board member of Airservices Australia and a Board member of the Sydney Water Corporation.
- Airservices provided rent payments to Queensland Rail Limited amounting to \$67,120 for the period 1 July 2018 to 30 June 2019 during which time David Marchant was both a Board member of Airservices Australia and a Chair of the Queensland Rail Limited.
- Airservices provided annual fire alarm monitoring services to BAE Systems Australia amounting to \$1,039 and provided air navigation services to BAE Systems Flight Training amounting to \$95,440 for the period 1 July 2018 to 30 June 2019 during which time Mark Binskin was both Deputy Chair of the Airservices Board and Non-Executive Director of BAE Systems Australia. During this period, in relation to the services provided to BAE Systems Flight Training, \$89 of charges were written off to bad debts.

To the extent permitted by law, Airservices provides indemnities to its Board members and officers to complement the insurance arrangements that it has in place.

The Board adheres to a strict Conflict of Interest Protocol which includes a review of Board members' personal interests at each Board meeting. The management of any conflict is dependent on its nature and severity and may include the exclusion of Board members from receiving related material or withdrawal from discussion or decision making.