Legal Practitioners' Liability Committee

Annual Report 2015/16

LPLC LEGAL PRACTITIONERS' LIABILITY COMMITTEE

30 YEARS 1986—2016 INSURING LEGAL PRACTITIONERS

Serving the profession

The Legal Practitioners' Liability Committee (LPLC) has been insuring the legal practitioners of Victoria since 1986. To engage in legal practice in Victoria, law practices must take out insurance with LPLC.

Pursuant to the *Legal Profession Uniform Law Application Act 2014* (Vic) LPLC is the insurer to law practices engaging in legal practice in Victoria. It is the successor body to the Solicitors' Liability Committee.

The Solicitors' Liability Fund became the Legal Practitioners' Liability Fund in 1996. The fund is administered by LPLC.

The functions of LPLC are:

> to provide professional indemnity insurance to law practices

> to undertake liability under contracts of professional indemnity insurance entered into with law practices

> any other functions conferred upon it by the *Legal Profession Act 2004*.

LPLC also provides risk management services to law practices.

LPLC has the power to enter into contracts or arrangements relating to insurance and reinsurance.

LPLC is an independent body which reports to the Attorney-General and Minister for Finance of the State of Victoria.

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FROM THE CHAIR

2016 is a significant milestone for LPLC. It is the thirtieth anniversary of LPLC commencing its first insurance year on 1 January 1986.

The organisation, which was then known as the SLC (Solicitors' Liability Committee), began with a fund of $5.9M and insured approximately 6,000 practitioners. It now insures over 2,000 barristers and 15,500 solicitor practitioners with a fund of $220M.

LPLC was the first self-insurance model to be adopted among the Australian jurisdictions and was one of the first in the English common law world. LPLC is and remains, the only insurance scheme administered by a statutory authority, a model which serves consumers and the profession well.

Over the 30-year period, LPLC has paid $486M in claims and costs as well as managed 13,719 claims and notifications in respect of solicitor practitioners.

During that time there were a number of significant events impacting LPLC which tested its enduring model – the stock market crash of 1987, the severe decline in the property market in the early 1990s, the failure of HIH in 2001, 9/11 with the subsequent disruption to insurance markets and the Global Financial Crisis.

Since 1993, LPLC has invested in developing risk management services to the profession for the benefit of not only the insured practitioners, but for consumers in improving the quality of practice and minimising risk. There has been a steady decline in the number of claims and notifications over the last 23 years when measured against the number of insured practitioners.

2016 is another milestone for LPLC, being 10 years since it began to insure barristers. During those 10 years LPLC has paid $7.8M in respect of 350 claims and notifications.

While I am a relatively recent arrival on the LPLC, my past involvement on the LIV Council, the Law Council of Australia and the Legal Services Board meant I have been engaged with LPLC for much of its 30-year history.

This has been a year of change on the Committee. Following a long tenure as the consumer representative on the Committee, Mary Radisich retired on 30 June 2015 and was replaced by Catriona Lowe on 1 July 2015.

During the reporting period, Geoff Rees retired as both Chairman and as a Committee Member after joining both the LPLC and the LPLC Investment Committee in 2007. Geoff began his term as Chairman in July 2011.

After Geoff's retirement John Cain was appointed. He also has past involvement with LPLC from his time as CEO of the LIV.

Peter Fox QC also retired during the reporting period and Adrian Finanzio SC was appointed on 1 January 2016 as the barrister representative.

I thank Mary, Geoff and Peter for their longstanding service to LPLC and welcome Catriona, John and Adrian.

I thank my fellow Committee Members, the CEO Miranda Milne and her team at LPLC for their work which is performed with such enthusiasm.

John Corcoran
Chair

FROM THE CEO

As insurer to barristers and solicitors, LPLC's activities comprise of claims management, risk management and investment.

During the reporting year, 437 claims and notifications in relation to solicitors were resolved at a cost of $35.3M, including defence costs.

The year did see considerable improvement in the cost of claims from prior insurance years.

In relation to barristers, 26 claims and notifications were resolved at a cost of $0.8M including defence costs.

There was a lower than usual return on investment of 2.74 per cent on the Legal Practitioners' Liability Fund. However, over the last five years, LPLC has averaged a return of 6.86 per cent. Investment markets have cooled and interest rates have fallen.

It is likely that investment returns into the future will be more modest than they have been in the more recent past.

There were a number of new and additional initiatives taken in risk management – namely, a series of seminars called the Metro held in three Melbourne suburbs. This was an enhancement to our existing city and regional seminar series.

In addition, there were dedicated seminars for verification of identity of clients to assist practitioners understand their obligations.

LPLC also recognised the need to assist practitioners starting their own firms with a series of workshops called Building Solid Foundations, giving practitioners access to an experienced manager.

There has been record attendance of 1,500 practitioners at LPLC risk management events while LPLC presenters spoke at 44 external engagements about claims prevention.

This has been a very productive year for the Committee, and I would like to thank the Chairman, John Corcoran, for his support. I also thank the dedicated LPLC staff for their diligence and hard work.

Miranda Milne
Chief Executive Officer

30 YEARS INSURING LEGAL PRACTITIONERS

1978

Compulsory insurance for Victorian solicitors introduced.

Insurance placed in the commercial market.

1980

1985

Law Institute Council resolves to establish self-insurance scheme.

Victorian Government amends *Legal Profession Practice Act 1958* establishing Solicitors' Liability Committee (SLC).

1986

SLC commences business with assets of $5.9M and reinsurance.

1989

Property markets fall and interest rates increase.

1989–1992

Recession in Australia.

SLC experiences escalation in cost and number of claims.

1990 Pyramid Building Society fails. Insurance and reinsurance markets harden.

1990

1996

New regulatory regime introduced pursuant to *Legal Practice Act 1996*.

Position of Legal Ombudsman is created.

SLC becomes LPLC.

Legal Practice Board becomes regulator of legal practitioners.

1997–1998

Competition policy review conducted by the Legal Practice Board.

Legal Practice Board recommends retention of LPLC as insurer on grounds of public benefit.

2000

2001

March

Provisional liquidator appointed to HIH (insurer to NSW solicitors and most Victorian barristers).

11 September

World Trade Centre destroyed by terrorists.

Worldwide insurance crisis follows.

(Insurance Council of Australia estimates the capacity for professional indemnity insurance limited to $130M in Australia).

Escalation in cost of professional indemnity insurance for most professions, except Victorian solicitors.

2004

LPLC undergoes further competition policy review.

Review recommends not only retention of LPLC but admission of barristers to LPLC.

Legal Profession Act 2004 passed by Victorian Parliament.

Legal Services Board is created with a new office of Legal Services Commissioner.

Victorian Bar resolves that barristers should be insured by LPLC.

2005

Barrister practitioners commence insuring with LPLC.

2007

Global Financial Crisis and investment markets fall.

2010

2014

***Legal Profession Uniform Law Application Act 2014* passed.**

2015

Legal Services Council established.

LPLC's 10th Anniversary for insuring barrister practitioners.

2016

LPLC's 30th anniversary for insuring solicitor practitioners.

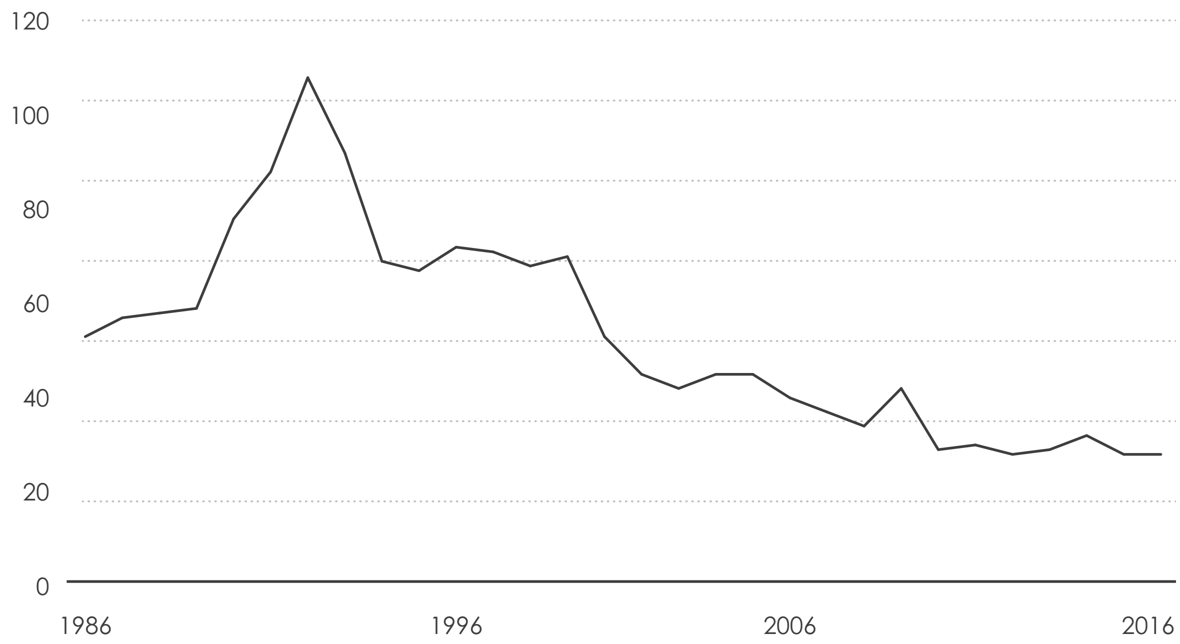
CLAIMS – SOLICITORS

The 2015/16 year saw almost the same number of claims and notifications which were received in the previous insurance year.

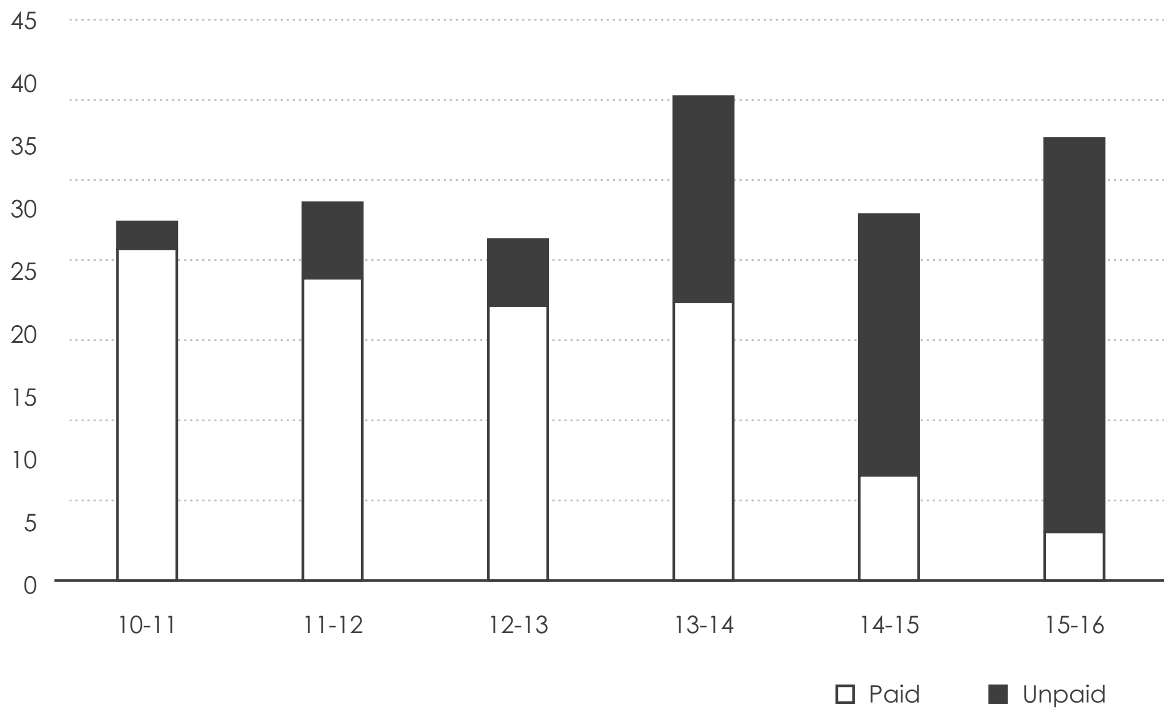
There were 448 claims and notifications, with an estimated value of $35.38M. This shows a return to a more typical year after the claims spike of the 2013/14 year.

The incidence of claims remains stable after what has been a decline when measured against the population of solicitors insured by LPLC.

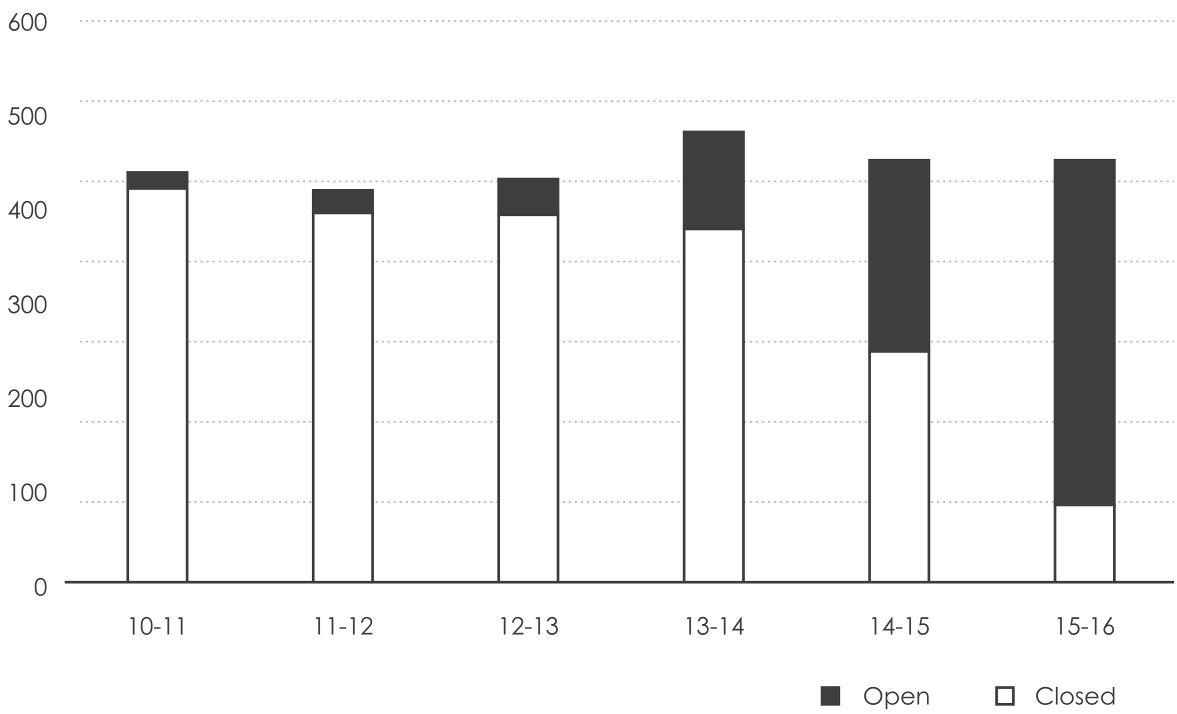
NUMBER OF CLAIMS AND NOTIFICATIONS PER THOUSAND INSURED SOLICITORS



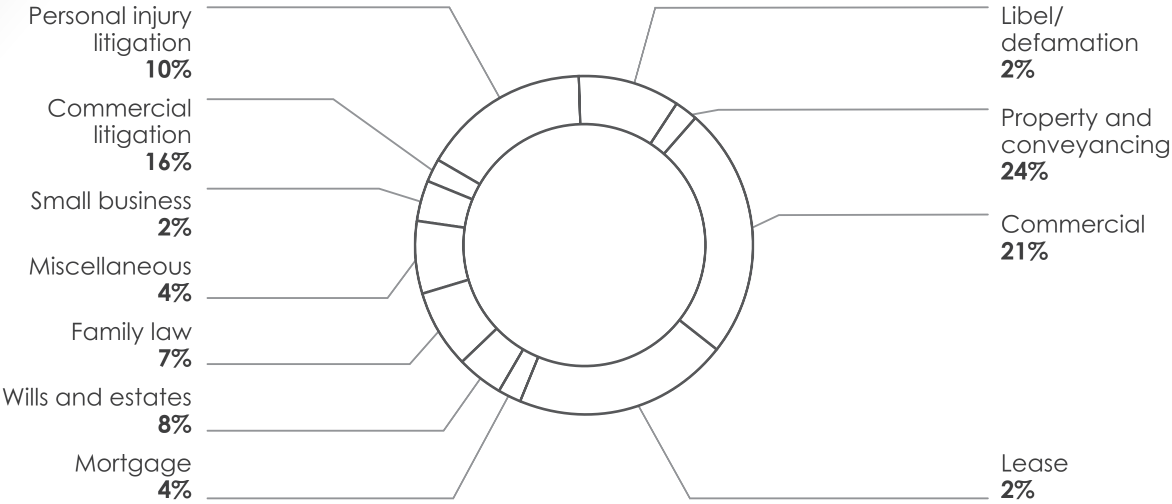
SOLICITORS: COST OF PAID AND UNPAID CLAIMS 2010–2016 ($M)



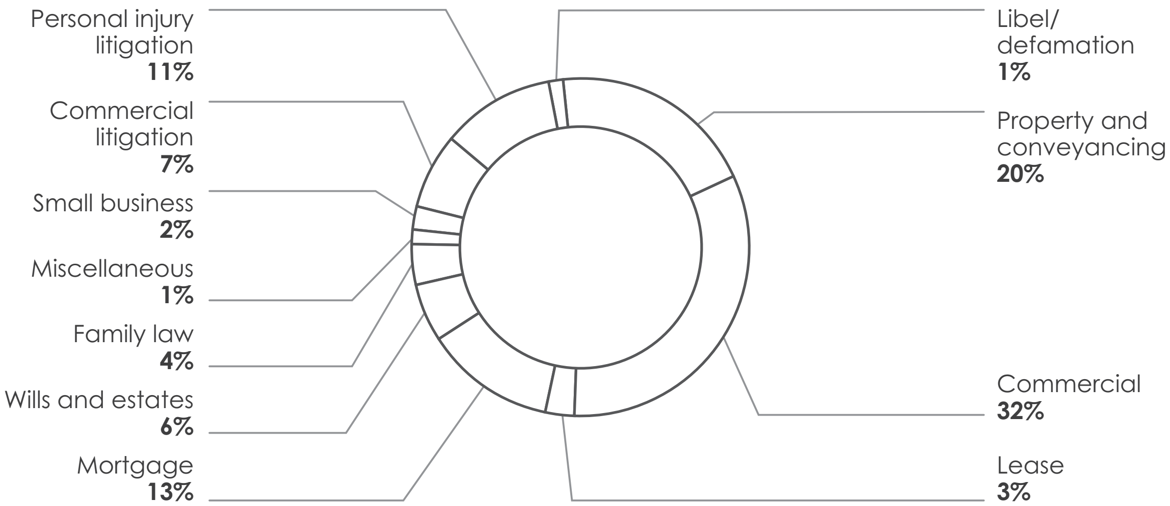
SOLICITORS: NUMBER OF OPEN AND CLOSED FILES 2010–2016



SOLICITORS: PERCENTAGE NUMBER OF CLAIMS BY AREA OF PRACTICE 2015/16



SOLICITORS: PERCENTAGE COST OF CLAIMS BY AREA OF PRACTICE 2015/16



There was above average exposure in commercial matters, personal injury litigation and wills and estates but typically the claims were dominated by conveyancing and commercial matters.

In property and conveyancing matters there was:

> inadequate pre-contractual advice

> insufficient advice in relation to stamp duty and GST

> intra family transfer disputes

> contracts becoming unconditional when they should not have.

In the commercial area claims arose out of:

> failure to advise on unusual and complex terms

> drafting errors and advice about guarantees

> incorrect stamp duty advice

> failure to advise on regulatory issues when clients were establishing businesses.

In the area of wills and estates, there was failure to:

> issue Part IV claims in time

> advise about the consequences of holding property as joint tenants.

In the mortgage area there was:

> inadequate security

> poorly documented finance transactions

> some mortgage fraud.

LPLC staff see many of the same errors and omissions which occur each year, albeit by different practitioners. Risk management information is widely disseminated about errors and their underlying causes. No doubt, this has saved many practitioners from making these mistakes but the repetitive nature of most errors and omissions continues.

CLAIMS – BARRISTERS

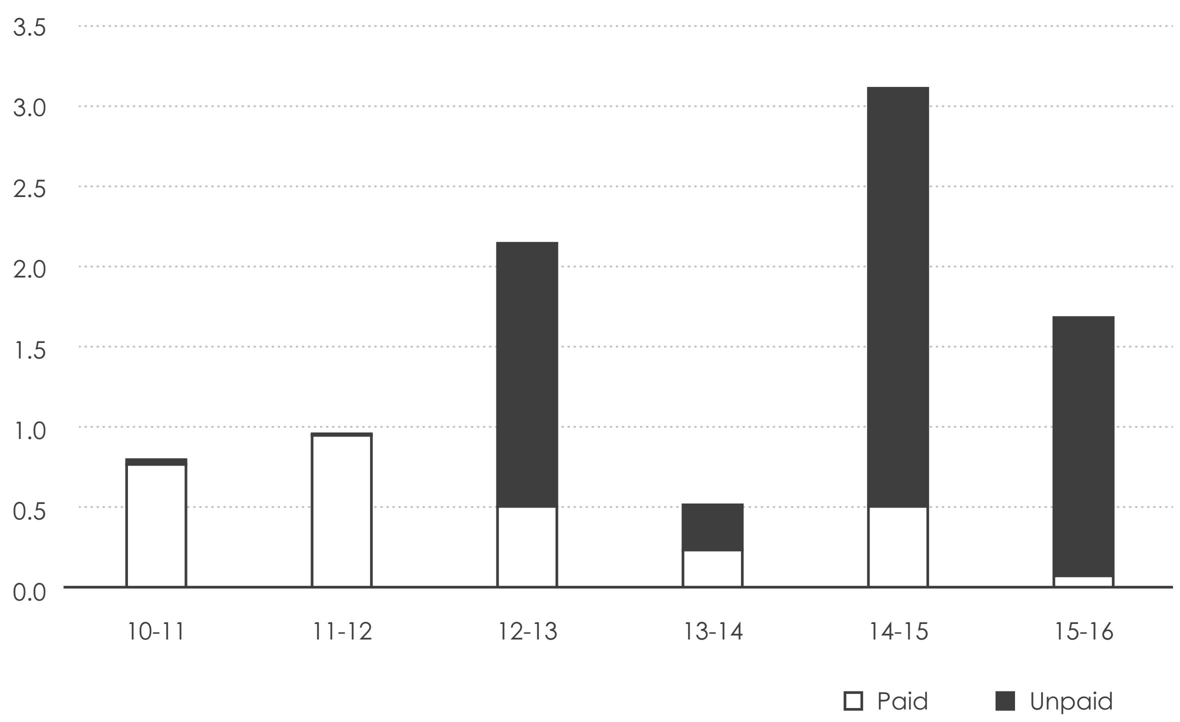
Ten years of insuring barristers

In July 2015 LPLC celebrated its tenth anniversary as sole insurer to Victorian barristers. A low-key celebratory function was held at the Essoign Club in September 2015 to mark this important occasion and to reflect on what has been a beneficial relationship for practitioners and LPLC alike. LPLC has delivered on its 2005 goals of providing barristers with high quality insurance cover and stable premiums, while also building barristers equity in the fund that was established 20 years earlier for solicitor practitioners.

In 2005 the average premium per barrister practitioner was $1,947. This has steadily declined over the years and for the 2015/16 year was just $910. Cover provided to barristers has also increased from $1.5M per claim to $2M per claim in 2007 and continues to be written on a full civil liability basis with unlimited reinstatements. All barristers, whether they have been appointed to the bench, retired or died, have access to automatic and free run-off cover.

These achievements are the product of a number of factors including LPLC's expert claims handling capability as well as its statutory business model.

BARRISTERS: COST OF PAID AND UNPAID CLAIMS 2010–2016 ($M)

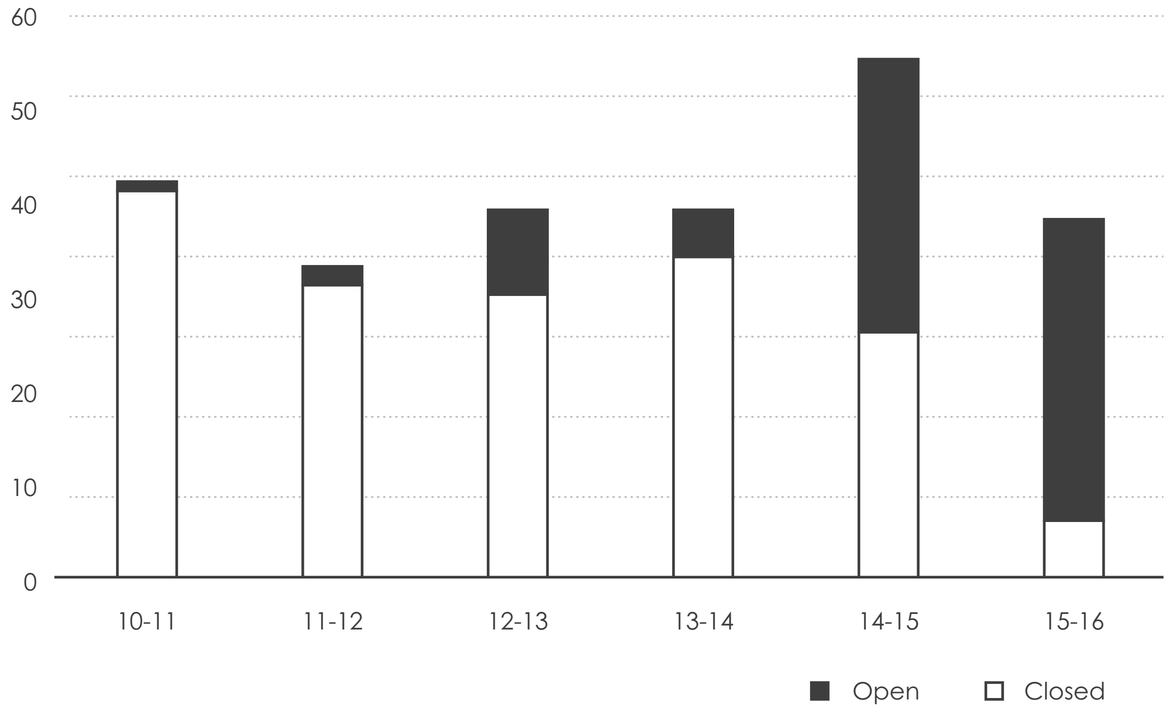


However, the most important influence on the reduction in premiums over the years has been the strong and consistent claims performance from barristers. That in turn reflects the care and attention paid to the management of professional risk by barristers generally, a strong commitment to the maintenance of high ethical standards, testing barriers to entry through the Reader's Program, the maintenance of a collegiate environment in shared chambers and a vibrant continuing professional development program.

LPLC adopts a conservative approach to claims reserving but because relatively few matters become formal claims, there is a consequent risk of volatility if a number of large claims are concentrated in one policy year. LPLC's position as sole insurer enables us to manage the effects of any concentration risk over time. This is in contrast to the approach adopted by market-based insurers where financial results are assessed on a short term horizon.

The claims experience for barristers over the past six years has been relatively stable in both claims frequency and cost, as can be seen from the accompanying charts.

BARRISTERS: NUMBER OF OPEN AND CLOSED FILES 2010–2016



2015/16

LPLC collected net premium for 2015/16 of $1.867M from 2,051 barrister practitioners. Premium rates were unchanged from 2014/15, with the minor difference in premiums attributable to increased practitioner numbers and varied gross fee income declarations.

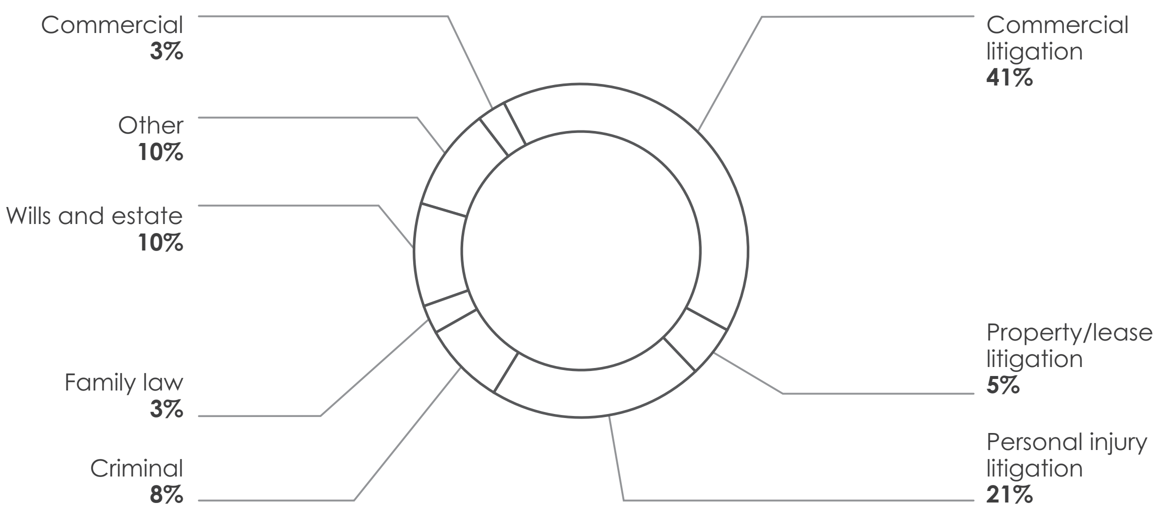
The majority of barristers renewed their insurance through the LPLC's online facility, making the process simple and smooth. The Committee extends its thanks to the Victorian Bar office staff for their support with the distribution of declarations and policy material as well as their assistance with fielding enquiries from practitioners or referring them to LPLC.

There were 39 claims and notifications in the reporting year with an incurred value of $1.68M. This was a substantial decline from the number and cost of claims in the 2014/15 year where 55 matters were reported with an incurred cost of $3.132M, but in line with longer term rates of claims frequency and cost.

As with most prior years, the major themes emerging in claims reported during 2015/16 were:

> problems arising from settlement of litigation including:
  > revisited settlement of personal injury matters as a result of clients later expressing dissatisfaction with the outcome achieved
  > clients alleging the use by counsel of unfair pressure to settle
  > drafting errors in settlement documents prepared under time pressure, in particular the unintended release of other claims
  > counsel downgrading advice on prospects of success at the door of the court
> claims for Civil Procedure Act relief or other personal costs orders against counsel (including claims initiated by the court of its own motion) arising from:
  > unsuccessful interlocutory court applications
  > alleged misconduct in the course of proceedings

BARRISTERS: PERCENTAGE NUMBER OF CLAIMS AND NOTIFICATIONS BY AREA OF PRACTICE 2015/16



> claims or defences lacking a proper basis

> negligent assessment of prospects of success of cases arising from wrong legal advice about underlying issues – often leading to claims that litigation costs were unnecessarily incurred and prompting fee disputes

> dissatisfied and persistent litigants (often self-represented) who take exception to the conduct of cases by opposing counsel and make misconceived allegations about their behaviour. This year a higher number of these were reported to arise from the conduct of criminal proceedings

> alleged breaches of confidential information arising from conflicts of interest or privacy through loss of documents.

More than 75 per cent (by cost) of claims and notifications arose from commercial litigation or personal injury cases. Experienced junior counsel of 15+ years standing again accounted for the largest proportion of claims by both number and cost.

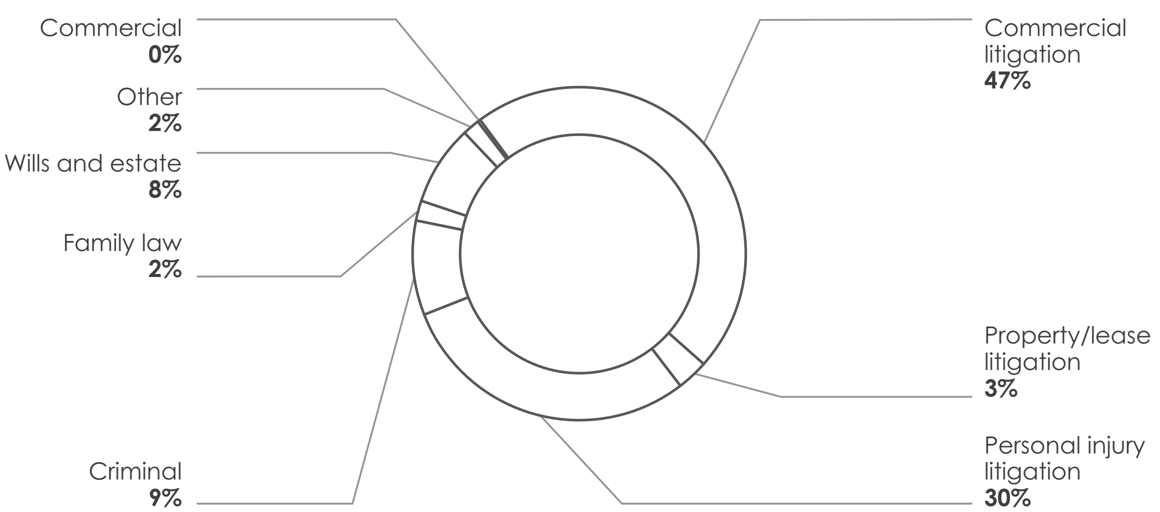
LPLC's experienced claims solicitors provide a confidential telephone service for barristers with specific queries about their exposure to a claim for professional liability, as well as any queries that arise throughout the year relating to the coverage provided by the policy. This service continues to be well utilised, particularly by younger practitioners.

LPLC's website includes a number of articles, seminar papers and risk bulletins providing a handy source of reference material for both young and old members of the Bar, relating to professional liability risks they face in their everyday practice.

LPLC liaised with the Bar on a variety of insurance and risk management issues including changes to the policy wording and any emerging risk issues relating to barristers' practice of law. LPLC also provided support to enable the Bar to comply with its reporting obligations to the Professional Standards Council.

During the year LPLC delivered two seminars to Readers on the professional indemnity insurance and management of risk within their practices.

BARRISTERS: PERCENTAGE COST OF CLAIMS AND NOTIFICATIONS BY AREA OF PRACTICE 2015/16



RISK MANAGEMENT

To assist practitioners avoid risks and minimise their exposure to claims the LPLC Risk Management team provided a range of educational resources and forums as well as mitigating strategies on claims prevention.

Summary of 2015/16

> 2015 Risk Management Intensive: 3 workshops | 582 attendees

> 2015 and 2016 Cost estimates and the new uniform law workshops **(new)**: 4 workshops | 263 attendees

> 2015 Metro Series | Dandenong, Ringwood, Moonee Ponds **(new)**: 3 workshops | 168 attendees

> 2016 VOI – why, when, how **(new)**: 3 sessions | 205 attendees

> 2016 Regional Risk Management Tour: 11 regional locations | 266 attendees

> Building Solid Foundations workshops **(new)**: 2 workshops | 16 attendees

> External speaking engagements: 44

> Weekly risk management blogs: 46 | 1,076 subscribers

> In Check newsletters: 4

> Law Institute Journal articles: 11

> Bulletins: 1

> Practice risk guides: 1

> Training video and workbook: 1

> Checklists: 2 new and 1 revised

> At risk firms project: 7 firms visited and 10 firms interviewed

> New firms contacted with starter kit: 241

> GST hotline enquiries: 234

> Risk Management practitioner telephone and email enquiries: 1,020

Locations LPLC seminar held in 2015/16

Seminars

2015 Risk Management Intensive

The Risk Management Intensive workshops were held in Melbourne in late July and early August. The presenters included LPLC and industry experts. The same program was conducted on three separate days to maximise the opportunity for practitioners to attend.

The topics covered were:

> Personal cost orders – how and why

> Powers of Attorney – old mistakes and new laws

> Outperforming with client experience – the risks and rewards

> Delegation skills

> Drafting mistakes – what the claims tell us

> Risk management issues in e-conveyancing

The sessions were recorded and a complimentary DVD sent to those who attended. The DVD is also available for purchase from the LPLC website.

2015 and 2016 Cost estimates and the new uniform law workshops

In October 2015 and February 2016 four half-day workshops were held to look at some of the changes to costing bought in by the new uniform law as well as how to scope, plan and price legal work more accurately.

The workshops were presented by Liz Harris of Harris Cost Lawyers and were designed to help practitioners identify the risks and manage their clients' expectations more effectively.

2015 Metro Series

The Metro Series was a new event held in Dandenong, Ringwood and Moonee Ponds in November. The LPLC risk managers presented at the half-day seminars on risk management for metropolitan Victorian lawyers. The same program was conducted at the three locations.

The topics covered were:

> Litigation with the lot

> Check mate: property lawyers beware!

> Keeping client interest in focus.

2016 VOI workshops

In March LPLC held three short workshops to assist practitioners understand their obligations to identify clients. The workshops looked at the practical process to identify clients face to face as well as guided practitioners through some trouble areas they may encounter. A suite of documents including checklists for managing verification of identity was given to attendees.

2016 Regional Risk Management Tour

Half-day seminars were held in 11 regional centres across Victoria in April and May. The presentations were given by the LPLC risk managers and were tailored to the specific needs of regional practitioners.

The topics were:

> Old mistakes and new laws: VOI and other conveyancing issues

> Trouble with family law

> Professional responsibility in court and settlement negotiations.

The seminars were held in:

> Bairnsdale

> Ballarat

> Bendigo

> Geelong

> Horsham

> Mildura

> Mt Eliza

> Shepparton

> Traralgon

> Wangaratta

> Warrnambool.

Building Solid Foundations workshops

Building Solid Foundations is a new series of workshops tailored to practitioners establishing new firms. The small group workshops held at the LPLC office gave practitioners access to an experienced manager to ask questions, share information and consider fundamental basics for a solid legal practice structure.

External speaking engagements

Over the 2015/16 year LPLC experts attended 44 external speaking engagements delivering presentations on wide-ranging topics from risk management for family lawyers and foreign residents CGT withholding tax to risk management and the Personal Property Securities Act.

LPLC staff spoke at the following locations/events:

> The College of Law – 6

> Leo Cussen Institute – 3

> Law Institute of Victoria-related – 6

> Law firms – 21

> other legal forums and interest groups – 8.

Publications

Blogs

LPLC's weekly risk management blog discussed current or recurring risk management themes and was emailed directly to over 1,000 subscribers as well as being posted on the LPLC website. The blogs covered topics ranging from limitation periods and advising self-managed superannuation funds to the new Power of Attorney Act and helpful checklists.

In Check

LPLC's quarterly online newsletter, *In Check*, covered topics to assist practitioners stay informed about important developments affecting their professional risk. Four issues were published in 2015/16.

The newsletter covered a range of subjects including:

> changes to the foreign investment framework

> State Revenue Office's purchaser statement updated

> the importance of good working relationships within the profession.

Law Institute Journal articles

LPLC published 11 articles in the Law Institute Journal in 2015/16. The articles provided readers with in-depth risk management advice for all aspects of legal practice.

The topics included:

> Old building claims and new building laws

> Strategic thinking reduces risk

> Wills and super claims.

Bulletins

During the reporting year LPLC published one bulletin titled *1 July new CGT withholding payments for real property sales of $2M or more* to alert practitioners of the new requirements for contracts of sale for real estate worth $2M or more.

Other key points in the bulletin included that:

> all purchasers of such real estate must withhold 10 per cent of the purchase price unless they are given a clearance certificate by the vendor

> vendors of such property who are not foreign residents need to apply for a clearance certificate as soon as possible

> real estate includes vacant land, residential and commercial property – no exceptions.

Practice risk guides

LPLC's practice risk guides are a series of booklets that identify and explain key risks for specific areas of practice. In 2015/16 LPLC published one new guide *Know your limits* that lists the limitation periods that have caught practitioners out in recent years. It also gives some claims examples of how the mistakes have occurred and the lessons that can be learnt from those mistakes.

Training video and workbook

During 2015/16 LPLC produced a new 14-minute training video *The new normal* and accompanying workbook. It explores client relationship and retainer management as well as the importance of comprehensive documentation of all aspects of the matter in the context of a long time and demanding commercial client.

Checklists

During the financial year LPLC published two new checklists on its website as well as revising the Witnessing an Enduring Power of Attorney checklist.

The new checklists were:

> Delegation/supervision instruction sheet

> Tips for effective supervision.

LPLC website

LPLC launched a new website in March 2016 making it easier for practitioners to access information when they visit the website as well as renew their insurance online.

Firm projects

At risk firm reviews

During 2015/16 LPLC interviewed or visited firms of all sizes with significant claims history or concerns to assist them with their risk management strategies.

The aim of this project was to improve the claims experience of these firms by establishing reasons why claims have occurred and implementing steps to prevent claims in the future. The reports were delivered and follow-up visits continue.

Welcome and new starter kit

LPLC continued contacting newly established firms via the new starter kit email and developed a dedicated webpage to complement the email.

Other activities

GST hotline

The GST Hotline is a risk management initiative that has been providing practitioners with expert advice on client-related GST enquiries since 1999. Two hundred and thirty-four GST enquiries were answered during the reporting period.

Informal helpline

Our risk management team continues to answer practitioners' enquiries and requests for assistance. During this financial year the team responded to approximately 1,020 practitioner telephone and email enquiries.

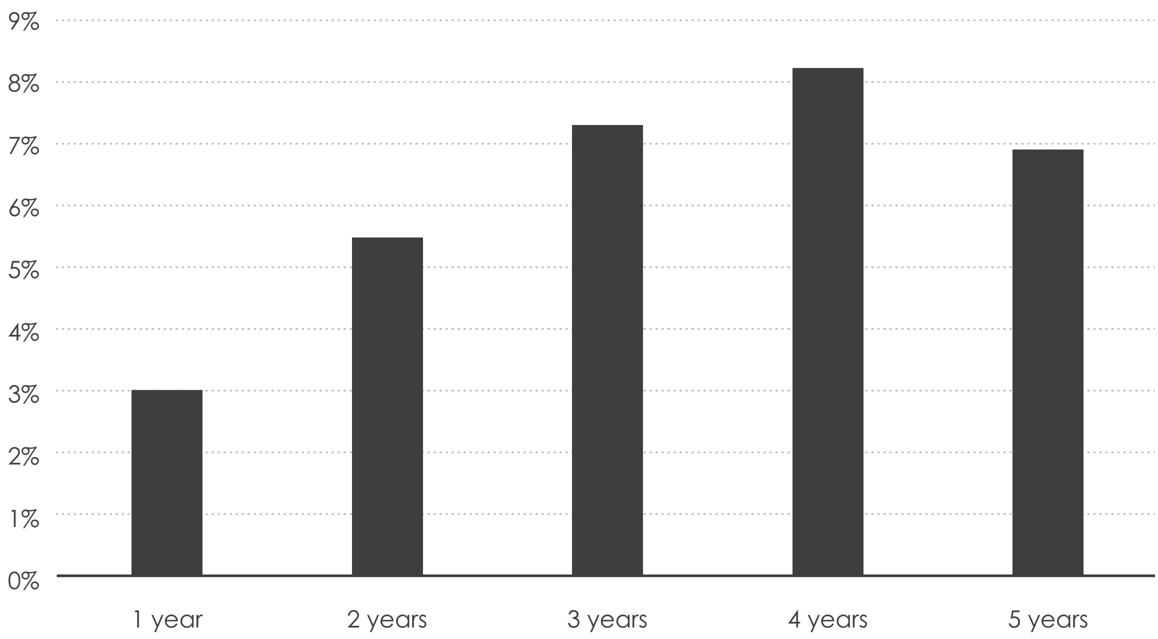
INVESTMENTS

The 2015/16 year yielded an investment return of 2.74 per cent, in a year of significant market fluctuation. The fund continued to be invested as a balanced fund, with an average allocation of approximately 60 per cent to growth assets and 40 per cent to defensive assets.

Within its growth portfolio, the Legal Practitioners' Liability Fund maintained its relatively low exposure to Australian equities in favour of international equities.

LPLC diversified its defensive asset portfolio during the reporting period, investing in Australian Government Bonds, providing risk mitigation and stable returns to the portfolio.

INVESTMENT RETURN OVER FIVE YEARS



Willis Towers Watson Australia Pty Ltd were investment advisers to the Committee during the reporting period. Funds were held with the following managers.

Australian equities

> Vanguard Australian Shares Index Fund

International equities

> MFS (Massachusetts Financial Services) Investment Fund

> Real Index Global Share Fund

> Schroder Emerging Markets Fund

> Schroder Real Return Fund

> Vanguard International Shares Index Fund

Property

> Dexus Wholesale Property Fund

Interest bearing growth alternatives

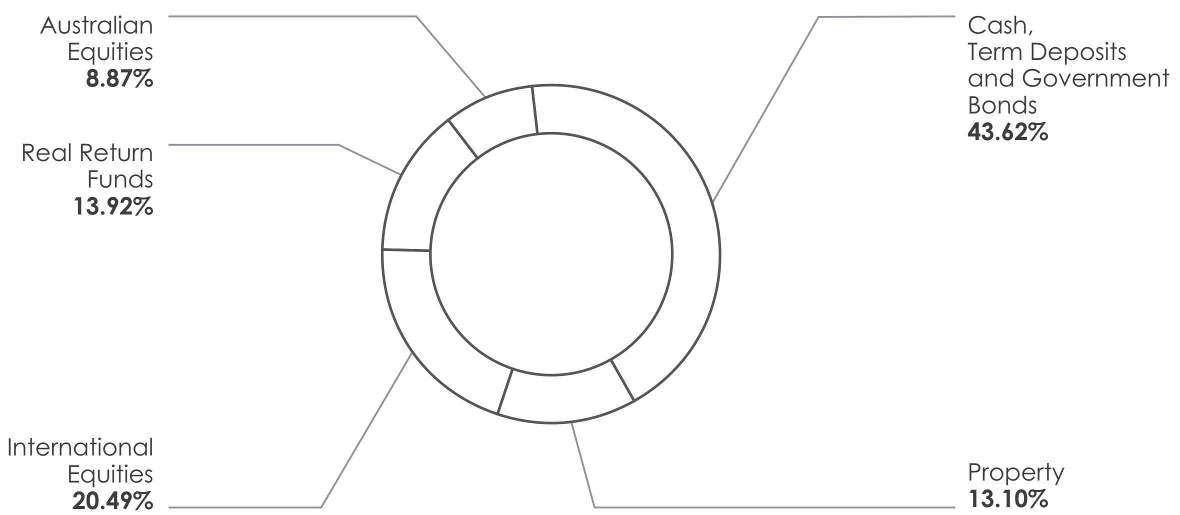
> Colonial First State Wholesale Global Credit Income Fund

Cash

> Cash was invested by way of term deposits with Westpac, ANZ, NAB and the Commonwealth Bank

> Vanguard Australian Government Bond Index Fund

ASSET ALLOCATION AS AT 30 JUNE 2016



LEGAL PRACTITIONERS' LIABILITY COMMITTEE

Legal Practitioners' Liability Committee Members

Geoffrey Rees
Chair (retired 22 July 2015)

Geoff is a graduate from Melbourne University in law and commerce and is a Law Institute of Victoria accredited business law specialist. He is one of the founding partners of the JRT Partnership.

With broad commercial and litigation experience, Geoff regularly advises and presents to institutions and their controlled entities on operational risk management strategies.

Geoff is an author for Business Law and General Counsel modules of LexisNexis Practical Guidance.

He is the Representative Director of the University of Melbourne on Uniseed, a $60M preseed technology commercialisation fund of three leading Australian universities. The fund invests in research outcomes from the institutes and manages the early stages of the commercialisation of that research.

John Corcoran
Chair (appointed as Chair 23 July 2015)

John Corcoran is Chairman of the law practice of Russell Kennedy, a position he has held since 2007. He is a member of the board of Mercy Health.

He has been a board member of the Legal Services Board as well as the International Bar Association. He is also a past president of the Law Institute of Victoria and was President of the Law Council of Australia in 2009.

His experience as a commercial lawyer is in the areas of commercial property, retirement and aged care, as well as sale and purchase of business, and securities.

Peter Fox QC
Committee Member (retired 31 December 2015)

Peter is a practising barrister and a part time Senior Fellow of the Melbourne Law School. He has practised as a commercial lawyer for more than 30 years as a barrister, as a partner of Mallesons Stephen Jaques, as a senior counsel of the World Bank in Washington DC, and as an overseas service fellow of the Law Council of Australia assigned to the Monetary Authority of Singapore.

Patricia Kelly
Committee Member

Tricia has extensive experience in the financial services industry. She worked for Suncorp/AAMI where her roles included Executive General Manager Strategy & Business Development Personal Insurance and General Manager AAMI New South Wales. Prior to that she was a Director and Executive General Manager Life & Superannuation of Norwich Union Life Australia.

Tricia is a past president and honorary life member of the Insurance Institute of Victoria and a former Director of the Australian Insurance Institute. She is currently a non-executive director of ANSVAR Ltd and of RACV Limited and subsidiary companies.

Helen Thornton
Committee Member

Helen is a Chartered Accountant with over 30 years' experience across a wide range of industries including financial services. Helen has extensive experience in governance, audit and risk management and she has held senior leadership roles at Deloittes, KPMG, BHP Ltd and Bluescope Steel Ltd, where she was responsible for the global risk management and insurance program.

Helen has 16 years' experience as a non-executive director and is an experienced Chair of Audit and Risk Committees. She is currently on the board of Yarra Valley Water, the Zoological Parks and Gardens Board and is an independent member of the Risk & Audit Committee of the Department of Environment, Land, Water and Planning and the Department of Health and Human Services. She is a former board member of Rural Finance Corporation and Big Sky Building Society.

Catriona Lowe
Committee Member (appointed 1 July 2015)

Catriona is a lawyer with extensive experience in the consumer sector including directorships at the Consumers' Federation of Australia, the Financial Ombudsman Service and the Telecommunications Industry Ombudsman. Catriona is also Co-Chair of the Australian Competition and Consumer Commission Consumer Consultative Committee.

Catriona's skills and expertise include policy analysis and corporate governance, legal practice management and consumer and competition law as well as dispute resolution and regulation.

John Cain
Committee Member (appointed 23 July 2015)

John has extensive legal experience in both the public and private sectors. He was the Managing Partner at Herbert Geer from 2011 to 2014 and the consultant overseeing the merger of that firm with Thomson Lawyers to create Thomson Geer. During John's five years as Victorian Government Solicitor starting in 2006, he oversaw the restructuring of that office as well as the creation of a whole of government legal services panel. While in that position John also represented the Victorian Government and its departments and agencies at the 2009 Bushfire Royal Commission. Prior to these roles John was the CEO at the Law Institute of Victoria (2002-2006) and Managing Partner at Maurice Blackburn from 1991 to 2002.

John is the chair of the Centre for Innovative Justice, RMIT University, an advisory board member in the School of Business and Law, Victoria University and an advisory board member of the Sir Zelman Cowen Centre.

Adrian Finanzio SC
Committee Member (appointed 1 January 2016)

Adrian signed the Victorian Bar Roll in 1998, was appointed Silk in 2012 and is a leading Victorian barrister practising in the areas of planning and environment, local government, and major projects. He brings to LPLC a broad range of skills arising from the various committees on which he serves, including Barristers Chambers Limited, the Bar Readers Course Committee (as Vice Chair) and the Victorian Planning and Environment Law Association (as Vice President) and as a past member of the Victorian Bar Council.

Miranda Milne
Executive Member

Miranda was solicitor to the Committee until 1986 and has been CEO since 1996.

Prior to her appointment to the Committee, Miranda engaged in private practice, specialising in litigation and professional indemnity insurance.

Miranda has been a director of the Victorian Managed Insurance Authority and a trustee of the Melbourne Cricket Ground. She was also a member of the executive of the Trinity College Foundation. She sits on the Appeals Committee of the Royal Australasian College of Surgeons.

ORGANISATIONAL CHART

Legal Practitioners' Liability Committee

COMMITTEE

Geoff Rees | Chair (until 22 July 15)
John Corcoran | Chair (from 23 July 15)
Patricia Kelly
Helen Thornton
Peter Fox QC (until 31 Dec 15)
Catriona Lowe (from 1 July 15)
John Cain (from 23 July 15)
Adrian Finanzio SC (from 1 Jan 16)
Miranda Milne | CEO

AUDIT AND RISK COMMITTEE

Helen Thornton | Chair
Patricia Kelly
Catriona Lowe

REMUNERATION AND APPOINTMENTS COMMITTEE

Patricia Kelly | Chair
Geoff Rees (until 22 July 15)
John Corcoran (from 23 July 15)

INVESTMENT COMMITTEE

John Corcoran | Chair (until 21 Oct 15 then member)
John Cain | Chair (from 21 Oct 15)
Peter Fox QC (until 31 Dec 15)
Adrian Finazio SC (from 17 Feb 16)

Legal Practitioners' Liability Committee Staff

CHIEF EXECUTIVE OFFICER

Miranda Milne

DEPUTY CHIEF EXECUTIVE OFFICER

Justin Toohey

CLAIMS

Alex Macmillan
Bronwyn Hine
Josh Clutterbuck
Prue Campton

CLAIMS ADMINISTRATION

Jenny Aitken
Jackie Miller
Kathy Gourlay

CHIEF RISK MANAGER

Heather Hibberd

RISK MANAGEMENT

Matthew Rose
Phillip Nolan
Stephen Bubb
Kristy Fuga

COMMUNICATIONS MANAGER

Sophie Patten

DIGITAL CONTENT AND REPORTING MANAGER

Kelly Cooper

CHIEF FINANCIAL OFFICER

Martin Dohnt

PREMIUMS MANAGER

Terri Hedt

OFFICE MANAGER

Bernadette Mallia

ADMINISTRATION

Barbara McKay (PA to CEO)
Inge Gallery (Reception)

GOVERNANCE

LPLC:

> manages and conducts the affairs of and is responsible for the organisation and business of LPLC

> provides professional indemnity insurance for law practices

> determines the terms of and submits policies of professional indemnity insurance for legal practitioners in Victoria for approval by the Legal Services Board

> oversees investment of the Legal Practitioners' Liability Fund

> develops policy relating to national practice issues and professional indemnity insurance

> oversees implementation of effective risk management for legal practitioners.

The Audit and Risk Committee comprised of Helen Thornton (Chair), Patricia Kelly and Catriona Lowe.

The Audit and Risk Committee oversees:

> financial reporting

> internal risk and control procedures

> actuarial and reserving functions

> audit

> reporting compliance

> corporate governance

> conduct of audits, both internal and external

> finances and budgeting procedures.

The Investment Committee comprised of John Corcoran (Chair until 21 October 2015 then member), John Cain (Chair from 21 October), Peter Fox QC (until 31 December 2015) and Adrian Finanzio SC (from 17 February 2016).

The Investment Committee:

> makes recommendations to LPLC as to benchmarks, asset classes and asset allocation

> monitors the fund's investment strategies

> makes recommendations to the Committee as to the appointment of fund managers and investment advisers.

The Remuneration and Appointments Committee comprised of Patricia Kelly (Chair), Geoff Rees (until 22 July 2015) and John Corcoran (from 23 July 2015).

The Remuneration and Appointments Committee considers matters pertaining to appointments and remuneration.

	Committee meetings		**Audit and Risk Committee**		**Investment Committee**		**Remuneration and Appointments Committee**	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
Geoff Rees	1	1					1	1
John Corcoran	8	8			4	3	1	1
Patricia Kelly	6	6	3	3			2	2
Helen Thornton	8	8	4	4				
Peter Fox QC	5	5			2	1		
Catriona Lowe	8	7	4	4				
John Cain	7	7			4	4		
Adrian Finanzio SC	3	3			1	1		
Miranda Milne	8	8			4	4	2	2

LEGAL PRACTITIONERS' LIABILITY COMMITTEE STAFF

Miranda Milne
Chief Executive Officer

The Committee began its operations in January of 1986. Miranda was solicitor to the Committee from May 1986 until October 1996 and has been the Chief Executive Officer since that time.

She previously worked in private practice in the area of insurance litigation, particularly professional indemnity insurance.

Justin Toohey
Deputy Chief Executive Officer

Justin joined LPLC in 2005 from IBL Ltd where he was employed for four years as National Claims and Risk Manager with the professional indemnity scheme run by the Royal Australian Institute of Architects.

Prior to 2001, Justin was a partner with Tress Cocks & Maddox specialising in professional indemnity litigation and was a panel solicitor to the Committee conducting the defence of claims against members of the profession for more than 10 years.

Alex Macmillan
Claims Solicitor

After 17 years in private practice specialising in insurance litigation, Alex joined LPLC on secondment as a partner from Lander & Rogers. She subsequently joined the Committee staff permanently in 1994.

Bronwyn Hine
Claims Solicitor

Bronwyn joined LPLC in 2006 from the Melbourne office of then specialist insurance firm Moray & Agnew.

In the 10 years prior to joining LPLC, Bronwyn worked in private practice in Victoria and South Australia as a professional indemnity defence solicitor.

Josh Clutterbuck
Claims Solicitor

Josh joined LPLC in October 2013 after 11 years as a Victorian solicitor in private practice.

Prior to commencing as a claims solicitor, Josh worked in the General Insurance group at Lander & Rogers as a senior associate defending personal injury claims, liability claims generally and class actions.

Prue Campton
Claims Solicitor

Prue specialised in commercial litigation with Allens for 24 years prior to joining LPLC in 2014. She also practised as a general common law and insurance litigator with Ashurst.

Heather Hibberd
Chief Risk Manager

Heather practised as a solicitor for eight years in insurance litigation at Minter Ellison specialising in professional indemnity litigation before joining the Committee on secondment in 1999. She became a permanent member of staff in 2001.

Matthew Rose
Risk Manager

Matthew joined LPLC after working in risk management roles with the London office of global law firms Clifford Chance and Mayer Brown. Previously, Matthew practised as a senior associate in Minter Ellison's commercial litigation group.

Phillip Nolan
Risk Manager

Phil joined LPLC in February 2013 and was formerly a principal at SBA Law. He is a member of the Property Law Committee and a member of the Dispute Resolution Committee at the LIV as well as chair of the Estate Agents Council.

He is a Senior Fellow of the University of Melbourne where he lectures in Property Law to postgraduates and Property Environments to undergraduates in the Faculty of Architecture, Building and Planning.

On 18 November 2011 Phil received the Law Institute of Victoria Certificate of Service Award.

Stephen Bubb
Risk Manager

Stephen joined LPLC in January 2016 after 18 months at the Law Institute of Victoria and over 30 years in private practice. In addition to legal work Stephen is a director at Goulburn Valley Water Corporation and has successfully completed the directors training course at the Australian Institute of Company Directors. His particular focus is legal practice management.

Martin Dohnt
Chief Financial Officer

Martin joined LPLC as Chief Financial Officer in December 2013 and manages the accounting, finance and payroll functions. Martin previously worked in the financial services industry where he held senior finance management positions in credit unions and friendly societies.

Bernadette Mallia
Office Manager

After working in solicitors' firms both as a personal assistant and a conveyancing clerk, Bernadette joined the Committee in 1988. Bernadette supervises the annual renewal of insurance and oversees maintenance of the Committee's database.

SUPPLEMENTARY INFORMATION

Legislation administered by the Committee

The *Legal Practice Act 1996* – 1 July 2005 to 11 December 2005.

The *Legal Profession Act 2004* – 12 December 2005 to 30 June 2015.

The *Legal Profession Uniform Law Application Act 2014* – 1 July 2015 to 30 June 2016.

Financial management regulations

The information specified in the Financial Management Regulations has been prepared and is available on request to the Attorney-General, Members of Parliament and the public.

Whistleblowers policy statement

Policy

LPLC is committed to the objectives of the *Whistleblowers Protection Act 2001* (Vic) (WP Act). LPLC recognises the value of transparency and accountability and will support the making of any disclosures pursuant to the guidelines set out in the WP Act, but subject to section 246 of the *Legal Practice Act 1996* (Vic), section 6.6.13 of the *Legal Profession Act 2004* (Vic) and section 112 of the *Legal Profession Uniform Law Application Act 2014* (Vic).

Compliance with the *Building Act 1993* (Vic)

LPLC does not own any buildings and consequently is exempt from notifying its compliance with the building and maintenance provisions of the *Building Act 1993* (Vic).

Categories of documents held by LPLC

> Applications by legal practitioners for insurance.

> Assessment notices.

> Notifications by legal practitioners of claims or circumstances likely to give rise to claims.

> Board papers and minutes for LPLC and LPLC sub committees.

> Management records.

> Administration records.

> Accounting records.

> Library material.

Freedom of information

LPLC has received no requests pursuant to the *Freedom of Information Act 1982* (Vic) for the reporting period.

Publications

LPLC continues to publish relevant information on its website www.lplc.com.au.

Occupational health and safety

LPLC continued its commitment to OH&S compliance during the reporting period. Three staff members are trained as first aid officers. All issues relating to safe work place practices are considered and reported at staff meetings. There were no reported OH&S related incidents in the reporting year.

Workforce data

The Committee undertakes an annual performance appraisal and salary review of the CEO. Department managers conduct an annual performance review of their respective direct reports. The CEO conducts an annual performance review of her respective direct reports.

Staff members are able to raise issues privately with the CEO and Office Manager at any time. Alternatively, matters can be raised with the Committee.

2014/15

Position	Male	Female	Total
Chief Executive Officer		1	1
Chief Financial Officer	1		1
Claims Manager	2	3	5
Risk Manager	2	1	3
Officer Manager		1	1
Communications Manager		1	1
Premiums Manager		1	1
Digital Content and Reporting Manager		1	1
Receptionist/PA/Administration		6	6
Total	**5**	**15**	**20**

2015/16

Position	Male	Female	Total
Chief Executive Officer		1	1
Chief Financial Officer	1		1
Claims Manager	2	3	5
Risk Manager	3	1	4
Officer Manager		1	1
Communications Manager		1	1
Premiums Manager		1	1
Digital Content and Reporting Manager		1	1
Receptionist/PA/Administration		6	6
Total	**6**	**15**	**21**

Environmental issues

In July 2009 LPLC registered with Sustainability Victoria to develop an environmental management plan (EMP). This plan assists LPLC to manage the environmental impact from its day to day business activities.

LPLC staff attended a series of workshops held through Sustainability Victoria's Resource Smart Government program.

Each area of LPLC's business was assessed to see where energy was used, resources consumed and how this could be reduced. The task of monitoring this EMP has been allocated to a team within the office.

The plan covers the 2015/16 reporting year.

Energy consumption

LPLC will continue with its energy saving initiatives such as using natural light in offices where possible, shutting down computers and printers after hours and only having lights on in the parts of the office where necessary. LPLC again made a commitment to purchase no less than 20 per cent green power for office requirements.

Total energy usage was 54,582 kWh compared to 60,041,501 kWh in 2014/15 and the energy used per unit of office area 76.87 compared to 85.16 in 2014/15. kWh of energy used per FTE was 3638.

The 2016/17 target is to reduce energy usage by at least 10 per cent.

Waste generation

LPLC continues to monitor the levels of waste generated by its operations and staff. Building management continue to provide a commingled recycling service which has assisted greatly in reducing waste generated by LPLC sent to landfill.

LPLC continues to reduce waste generation through recycling of all computer components, CDs, DVDs, used printer cartridges, old dictating equipment, old mobile phones, old landline phones and any other computer peripherals by using a not for profit recycling service, Byte Back.

LPLC continued to recycle close to 90 per cent of its waste for the reporting period.

Paper consumption

The policies adopted by LPLC in purchasing only printers that are capable of double sided copying, defaulting all communal printers to double sided and using electronic documents instead of paper whenever possible are still policies which are very much adhered to.

A very high percentage of LPLC's paper and cardboard waste is recycled through a secure paper recycling contractor. LPLC recycled 0.84 tonnes of paper in the reporting period which contributed to a reduction in greenhouse gas emissions of more than 1.2 tonnes of carbon over 2015/16.

Units of paper used per FTE (A4 reams/FTE) – 2566.

The target for the 2016/17 year is to reduce the paper consumption by at least 10 per cent compared to 2015/16, taking into account the increase in producing risk management material in-house.

Transport

LPLC does not operate a fleet of vehicles for business use and has a travel policy which includes the purchase of carbon credits for all air travel undertaken.

Competition policy

Until 11 December 2005 section 227A of the Legal Practice Act provided:

'For the purposes of the *Trade Practices Act 1974* of the Commonwealth and Competition Code, the entering into and performance of a contract of professional indemnity insurance by a person or firm and the Liability Committee under sections 224, 225, 226 or 227 is authorised by this Act.'

From 12 December 2005 section 3.5.5 of the *Legal Profession Act 2004* provides:

'For the purposes of the *Trade Practices Act 1974* of the Commonwealth and Competition Code, the entering into and performance of a contract of professional indemnity insurance by a law practice and the Liability Committee under this Part is authorised by this Act.'

From 1 July 2015 section 119 of the *Legal Profession Uniform Law Application Act 2014* provides:

'For the purposes of the *Competition and Consumer Act 2010* of the Commonwealth and Competition Code, the entering into and performance of a contract of professional indemnity insurance by a law practice and the Liability Committee is authorised by this Act'.

Consultants

Consultants each year provide specialist advice to assist with decision making and risk management programs. During 2015/16 total consultancy expenditure as defined by the *Financial Management Act 1994* (Vic) was approximately $415,955.

Taylor Fry – Actuaries

Taylor Fry is LPLC's actuary. The expenditure for the reporting period was $155,895. Taylor Fry has been retained as LPLC's actuary for the 2016/17 reporting period.

Cumpston Sarjeant – Actuaries

LPLC also obtains actuarial advice from Cumpston Sarjeant. The consulting fee paid to this firm for the reporting period was $49,214. Cumpston Sarjeant has been retained for the 2016/17 reporting period.

Willis Towers Watson

Willis Towers Watson is LPLC's Fund Administrator. The expenditure for the reporting period was $210,846. Willis Towers Watson has been retained for the 2016/17 reporting period.

Serving the profession

The Legal Practitioners' Liability Committee (LPLC) has been insuring the legal practitioners of Victoria since 1986. To engage in legal practice in Victoria, law practices must take out insurance with LPLC.

Pursuant to the *Legal Profession Uniform Law Application Act 2014* (Vic) LPLC is the insurer to law practices engaging in legal practice in Victoria. It is the successor body to the Solicitors' Liability Committee.

The Solicitors' Liability Fund became the Legal Practitioners' Liability Fund in 1996. The fund is administered by LPLC.

The functions of LPLC are:

> to provide professional indemnity insurance to law practices

> to undertake liability under contracts of professional indemnity insurance entered into with law practice

> any other functions conferred upon it by the *Legal Profession Uniform Law Application Act 2014* (Vic).

LPLC also provides risk management services to law practices.

LPLC has the power to enter into contracts or arrangements relating to insurance and reinsurance.

LPLC is an independent body which reports to the Attorney-General and Minister for Finance of the State of Victoria.

Contact details

Legal Practitioners' Liability Committee
Level 31, 570 Bourke Street
MELBOURNE VIC 3000
DX 431
ABN: 45 838 419 536

Telephone: (03) 9672 3800
Facsimile: (03) 9670 5538
Website: www.lplc.com.au

Legal Practitioners' Liability Committee

Financial Report

For the Financial Year Ended 30 June 2016

Statement of Comprehensive Income
for the Financial Year Ended 30 June 2016

	Note	2016 $	2015 $
UNDERWRITING			
Premium revenue	24	30,694,225	26,627,249
Outwards reinsurance expense		(1,072,170)	(1,128,600)
Net earned premiums		29,622,055	25,498,649
Claims expense		(24,945,889)	(48,702,325)
Net claims incurred	25	(24,945,889)	(48,702,325)
Movement in unexpired risk liability	26	(511,448)	1,685,641
UNDERWRITING RESULT		**4,164,718**	**(21,518,035)**
Investment income	3	6,055,357	15,491,479
Other income		191,315	155,536
Other expenses	7	(6,085,003)	(5,653,969)
Net Result		**4,326,387**	**(11,524,989)**
Other Comprehensive Income		–	–
Total Comprehensive Income		**4,326,387**	**(11,524,989)**

Notes to and forming part of these financial statements are set out in pages 40 to 78

Balance Sheet
as at 30 June 2016

	Note	2016 $	2015 $
Current Assets			
Cash and cash equivalents		29,990,031	16,766,753
Receivables	4	1,538,470	1,263,745
Other financial assets	5	47,781,242	84,985,943
Prepayments		1,301,454	1,469,475
Total Current Assets		80,611,197	104,485,916
Non-Current Assets			
Other financial assets	5	150,073,423	131,701,979
Property, plant & equipment	6	55,808	62,468
Total Non-Current Assets		**150,129,231**	**131,764,447**
TOTAL ASSETS		**230,740,428**	**236,250,363**
Current Liabilities			
Outstanding claims liability	27	33,537,000	39,393,000
Payables	8a	1,277,928	1,030,965
Unearned premium liability	8b	45,857,000	44,804,000
Provisions	9	600,910	548,187
Total Current Liabilities		**81,272,838**	**85,776,152**
Non-Current Liabilities			
Outstanding claims liability	27	83,842,000	89,192,000
Provisions	9	45,157	28,165
Total Non-Current Liabilities		**83,887,157**	**89,220,165**
TOTAL LIABILITIES		**165,159,995**	**174,996,317**
NET ASSETS		**65,580,433**	**61,254,046**
EQUITY			
Accumulated funds	10	65,580,433	61,254,046
TOTAL EQUITY		**65,580,433**	**61,254,046**

Notes to and forming part of these financial statements are set out in pages 40 to 78

Cash Flow Statement
for the Financial Year Ended 30 June 2016

	Note	2016 $	2015 $
Cash flows from operating activities			
Premium revenue received		34,388,856	33,669,768
Other Income		177,974	158,441
Dividend Received		812,869	868,586
Interest Received		3,074,020	3,284,851
Other Income from Investments		7,804,910	7,444,635
Claims paid		(38,442,420)	(36,147,092)
Outward reinsurance premium paid		(1,000,000)	(1,072,170)
Payments to suppliers and employees		(6,976,418)	(6,778,693)
Net cash provided by/(used in) operating activities	2b	**(160,209)**	**1,428,326**
Cash flows from investing activities			
Sale of property, plant and equipment		1,500	–
Purchase of property, plant and equipment		(22,740)	(27,902)
(Purchase)/sale of investments		(23,799,974)	8,123,965
Net cash provided by/(used in) investing activities		**(23,821,214)**	**8,096,063**
Net increase/(decrease) in cash held		**(23,981,423)**	**9,524,389**
Cash and cash equivalents at beginning of period		**101,752,696**	**92,228,307**
Cash and cash equivalents at end of period	2a	**77,771,273**	**101,752,696**

Notes to and forming part of these financial statements are set out in pages 40 to 78

Statement of Changes In Equity for the
Financial Year ended 30 June 2016

	Note	Accumulated Funds $	Total $
At 30 June 2014		72,779,035	72,779,035
Comprehensive result for the year		(11,524,989)	(11,524,989)
At 30 June 2015		61,254,046	61,254,046
Comprehensive result for the year		4,326,387	4,326,387
At 30 June 2016	10	**65,580,433**	**65,580,433**

Notes to and forming part of these financial statements are set out in pages 40 to 78

Notes to the Financial Statements
for the year ended 30 June 2016

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1(a) Basis of Preparation

The reporting entity is the Legal Practitioners' Liability Committee (LPLC). The Legal Practitioners' Liability Committee is a statutory authority established under what is the Legal Profession Act 2004 (from 1 July 2015 The Legal Profession Uniform Law Application Act 2014). The Committee administers the transactions of the Legal Practitioners' Liability Fund. The Legal Practitioners' Liability Committee is specifically regulated out of the Commonwealth Insurance Act and is not regulated by the Australian Prudential Regulatory Authority. The LPLC has the power to impose a levy in the event of insolvency. The assets, liabilities and financial transactions of the Legal Practitioners' Liability Fund are reported in this financial report.

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Australian Accounting Standards and the Financial Management Act (1994).

The accrual basis of accounting has been applied in the preparation of these financial statements whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

Critical Accounting Judgements and Estimates

The fund makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates are applied are described below.

The ultimate liability arising from claims made under insurance contracts.

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance date. The estimated cost of claims include direct expenses to be incurred in settling claims. The fund takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions it is likely that the final outcome will prove to be different from the original liability established. For assumptions and methods used refer Note 22.

Consistent with AASB 13 Fair Value Measurement, all assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Notes to the Financial Statements (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1(a) Basis of Preparation (continued)

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosures, Legal Practitioners' Liability Committee has determined classes of assets and liabilities on the basis of nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The financial report is presented in Australian dollars.

Statement of Comprehensive Income

The statement of comprehensive income comprises three components, being 'net result', 'other comprehensive income' and 'total comprehensive income'. The net result is equivalent to profit or loss derived in accordance with AASs.

Balance Sheet

Assets and liabilities are classified as Current and Non-Current in accordance with AASB 101 – Presentation of Financial Statements. Current and non-current assets and liabilities (non-current being those assets or liabilities expected to be recovered or settled more than 12 months after the reporting period) are disclosed in the notes, where relevant.

Cash Flow Statement

Cash flows are classified according to whether or not they arise from operating, investing or financing activities. This classification is consistent with requirements under AASB 107 Statement of Cash Flows.

For cash flow statement presentation purposes, cash and cash equivalents include bank overdrafts, which are included as current borrowings on the balance sheet.

Statement of Changes in Equity

The statement of changes in equity presents reconciliations of non-owner and owner changes in equity from opening balances at the beginning of the reporting period to the closing balance at the end of the reporting period. It also shows separately changes due to amounts recognised in the 'Comprehensive result' and amounts related to 'Transactions with owner in its capacity as owner'.

Rounding

Amounts in the financial statements have been rounded to the nearest dollar unless otherwise stated. Figures in the financial statements may not equate due to rounding.

Notes to the Financial Statements (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1(b) Statement of Compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board.

A number of Australian Accounting Standards, which have been issued or amended and are not yet effective have not been adopted for the annual reporting period ended 30 June 2016. Their details are disclosed below.

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
AASB 4 Insurance Contracts	The key change is the requirement for the measurement of all insurance contracts on a discounted cash flow basis, using market based estimations.	1 Jan 2018	The impact of the amendments to the standard are currently being assessed.
AASB 9 Financial Instruments	The key changes include the simplified requirements for the classification and measurement of financial assets, a new hedging accounting model and a revised impairment losses model to recognise impairment losses earlier, as opposed to the current approach that recognises impairment only when incurred.	1 Jan 2018	The assessment has identified that the financial impact of available for sale (AFS) assets will now be through other comprehensive income (OCI) and no longer recycled to the profit and loss. While the preliminary assessment has not identified any material impact arising from AASB 9, it will continue to be monitored and assessed.

Notes to the Financial Statements (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1(b) Statement of Compliance (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
AASB 15 *Revenue from Contracts with Customers*	The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer.	1 Jan 2018	The changes in revenue recognition requirements in AASB 15 may result in changes to the timing and amount of revenue recorded in the financial statements. The Standard will also require additional disclosures on service revenue and contract modifications. A potential impact will be the upfront recognition of revenue from licenses that cover multiple reporting periods. Revenue that was deferred and amortised over a period may now need to be recognised immediately as a transitional adjustment against the opening retained earnings if there are no former performance obligations outstanding.
AASB 2014-1 Amendments to Australian Accounting Standards [Part E Financial Instruments]	Amends various AASs to reflect the AASB's decision to defer the mandatory application date of AASB 9 to annual reporting periods beginning on or after 1 January 2018 as a consequence of Chapter 6 Hedge Accounting, and to amend reduced disclosure requirements.	1 Jan 2018	This amending standard will defer the application period of AASB9 to the 2018-19 reporting period in accordance with the transition requirements.

Notes to the Financial Statements (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1(b) Statement of Compliance (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
AASB 16 Leases	The key changes introduced by AASB 16 include the recognition of most operating leases (which are currently not recognised) on balance sheet.	1 Jan 2019	The assessment has indicated that as most operating leases will come on balance sheet, recognition of lease assets and lease liabilities will cause net debt to increase. Depreciation of lease assets and interest on lease liabilities will be recognised in the income statement with marginal impact on the operating surplus. The amounts of cash paid for the principal portion of the lease liability will be presented within financing activities and the amounts paid for the interest portion will be presented within operating activities in the cash flow statement. No change for lessors.
AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9	Amends various AASs to incorporate the consequential amendments arising from the issuance of AASB 9.	1 Jan 2018	No significant impact is expected from these consequential amendments on entity reporting.

Notes to the Financial Statements (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1(b) Statement of Compliance (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15	Amends the measurement of trade receivables and the recognition of dividends. Trade receivables, that do not have a significant financing component, are to be measured at their transaction price, at initial recognition. Dividends are recognised in the profit and loss only when: • the entity's right to receive payment of the dividend is established • it is probable that the economic benefits associated with the dividend will flow to the entity; and • the amount can be measured reliably.	1 Jan 2017, except amendments to AASB 9 (Dec 2009) and AASB 9 (Dec 2010) apply from 1 Jan 2018	The assessment has indicated that there will be no significant impact for the public sector.

Notes to the Financial Statements (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1(c) Changes in accounting policies

Subsequent to the 2014-15 reporting period, the following new and revised Standards have been adopted in the current period with their financial impact detailed as below.

AASB 116 Plant, Property and Equipment

AASB 116 establishses the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of future economic benefits of an asset. Additionally, it prohibits the use of revenue based methods to calculate the depreciation or amortisation of an asset, tangible or intangible, because revenue generally reflects the pattern of economic benefits that are generated from operating the busines, rather than the cosumption through the use of the asset.

LPLC does not use the revenue based method for depreciation and amortisation, as such there has been no impact to the financial statements from the introduction of the amended AASB 116.

1(d) Premium

Premium revenue comprises amounts charged to solicitors and barristers, excluding amounts collected on behalf of third parties, principally stamp duties and goods and services tax.

Premium revenue is recognised in the Statement of Comprehensive Income when it has been earned. Premium revenue is recognised in the Statement of Comprehensive Income from the attachment date over the period of the contract.

The proportion of premium received or receivable not earned in the Statement of Comprehensive Income at the reporting date is recognised in the Balance Sheet as an unearned premium liability.

1(e) Outwards Reinsurance

Premium paid to reinsurers is recognised as an expense in accordance with the expected pattern of risk. Where applicable, a portion of outwards reinsurance premium is treated at the reporting date as a prepayment. Reinsurance recoveries are recognised as revenue for claims incurred.

The Legal Practitioners' Liability Fund carries a stop loss insurance policy to cover the payment of total claims made during the year ended 30 June 2016 in excess of $42.5m (2015:$42.5m).

Notes to the Financial Statements (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1(f) Outstanding Claims Liability

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims made at the reporting date under general insurance contracts issued by the fund, with an additional risk margin to allow for the uncertainty in the central estimate.

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees and other costs that can only be indirectly associated with individual claims, such as claims administration expense.

The expected future payments are discounted to present value using a risk free rate.

A risk margin is applied to the outstanding claims liability, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate of the outstanding claims liability.

1(g) Unexpired Risk Liability

At each reporting date the fund assessed whether the unearned premium liability is sufficient to cover all the expected future cash flows relating to the future claims against current insurance contracts. This assessment is referred to as the Liability Adequacy Test.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less any related intangible assets and deferred acquisition costs then the unearned premium liability is deemed to be deficient. The fund applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability, see note 1(f).

The entire deficiency, gross and net of insurance, is recognised immediately in the Statement of Comprehensive Income. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the balance sheet as an unexpired risk liability.

1(h) Property, Plant and Equipment & Intangibles

All non-current physical assets are measured initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment. Where an asset is acquired for no or nominal cost, the cost is its fair value at the date of acquisition. Assets transferred as part of a merger/machinery of government are transferred at their carrying amount.

More details about the valuation techniques and inputs used in determining the fair value of non-financial physical assets are discussed in Note 6 – *Property, plant and equipment.*

Notes to the Financial Statements (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1(h) Property, Plant and Equipment & Intangibles (continued)

Intangibles – This is the cost of production of training films recorded onto DVDs for use in presentations to management of legal firms. Their anticipated useful life is three years.

Impairment

The carrying value of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If such an indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the Statement of Comprehensive Income.

Depreciation and Amortisation

Furniture and equipment is depreciated on a straight line or diminishing value basis over their useful life to the Fund commencing from the time the assets are held ready for use.

Intangibles are amortised on a straight line or diminishing value basis over their useful life to the Fund commencing from the time the assets are held ready for use.

The depreciation rates used for current and prior years are:

Class of Asset Prime	Cost Depreciation Rate	Diminishing Value Depreciation Rate
Furniture and equipment	20–40%	15–33%
Leasehold Improvements	20–25%	n/a
Intangibles	33%	n/a

Notes to the Financial Statements (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1(i) Employee Benefits

Provision is made for the Fund's liability for employee benefits arising from services rendered by employees to balance date.

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits annual leave and accumulating sick leave, are all recognised in the provision for employee benefits as current liabilities, because the Legal Practitioners' Liability Committee does not have an unconditional right to defer settlements of these liabilities.

Depending on the expectation of the timing of settlement, liabilities for wages and salaries, annual leave and sick leave are measured at:

- nominal value – if expected to wholly settle within 12 months: or
- present value – if not expected to wholly settle within 12 months.

Long Service Leave

Liability for long service leave (LSL) is recognised in the provision for employee benefits.

Unconditional LSL is disclosed in the notes to the financial statements as a current liability, even where the Legal Practitioners' Liability Committee does not expect to settle the liability within 12 months because it will not have an unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months.

The components of this current LSL liability are measured at:

- nominal value – if expected to wholly settle within 12 months: or
- present value – if not expected to wholly settle within 12 months.

Conditional LSL is disclosed as a non-current liability. There is an unconditional right to defer settlement of the entitlement until the employee has completed the requisite years of service. This non-current LSL Liability is measured at present value.

Any gain or loss following revaluation of the present value of non-current LSL liability is recognised as a transaction.

Notes to the Financial Statements (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1(i) Employee Benefits (continued)

Termination Benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee decides to accept an offer of benefits in exchange for the termination of employment. Termination benefits are recognised when the Legal Practitioners' Liability Committee is demonstrably committed to either terminating the employment of current employees according to a formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

On-Costs

Provisions for on-costs such as payroll tax, workers compensation and superannuation are recognised separately from the provision for employee benefits.

Contributions are made by the Fund to an employee superannuation fund and are charged as expenses when incurred.

1(j) Cash and cash equivalents

For the purpose of the cash flow statement, cash includes cash on hand, bank bills, at call deposits with banks or financial institutions and investments in money market instruments maturing within less than three months, net of bank overdrafts.

1(k) Goods and Services Tax (GST)

Revenues and expenses are recognised net of the amount of GST, except where the amount of GST is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the item of expense.

Receivables and payables in the Balance Sheet are shown inclusive of GST.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

1(l) Other Financial Assets

For financial assets that are held for trading or designated at fair value through the profit or loss, the net gain or loss is calculated by taking the movement in the fair value of the financial asset and this gain or loss is recognised in the profit or loss.

Notes to the Financial Statements (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1(l) Other Financial Assets (continued)

Net market values have been determined as follows:

1. Units in managed equity funds by reference to the unit redemption price at the end of the reporting period as determined by the respective constitutions governing each fund.
2. Units in a managed property fund by reference to unit redemption price at the end of the reporting period which is 98% of the current asset value which has been the basis of recent sales.

1(m) Asset backing general insurance liabilities

As part of its investment strategy the fund actively manages its investment portfolio to ensure that the investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities.

With the exception of property plant and equipment, the fund has determined that other financial assets are held to back general insurance liabilities and their accounting treatment is described in note 1(l). As these assets are managed under the fund's Risk Management Statement on a fair value basis and are reported to the Committee on this basis, they have been valued at fair value through profit or loss.

1(n) Financial Instruments

Financial instruments arise out of contractual agreements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Due to the nature of the Fund's activities, certain financial assets and financial liabilities arise under statute rather than a contract.

Such financial assets and financial liabilities do not meet the definition of financial instruments in AASB 132 Financial Instruments: Presentation. For example, statutory receivables arising from taxes, fines and penalties do not meet the definition of financial instruments as they do not arise under contract.

Where relevant, for note disclosure, a distinction is made between those financial assets and financial liabilities that meet the definition of financial instruments in accordance with AASB 132 and those that do not.

The following refers to financial instruments unless otherwise stated.

Notes to the Financial Statements (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1(n) Financial Instruments (continued)

Loans and receivables

Loans and receivables are financial instrument assets with fixed and determinable payments that are not quoted on an active market. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment.

Loans and receivables category includes cash and deposits, term deposits with maturity greater than three months, trade receivables, loans and receivables, but not statutory receivables.

Financial assets and liabilities at fair value through profit and loss.

Financial assets are categorised as fair value through profit or loss at trade date if they are classified as held for trading or designated as such upon initial recognition. Financial instrument assets are designated at fair value through profit and loss on the basis that the financial assets form part of a group of financial assets that are managed by the entity concerned based on their fair values, and have their performance evaluated in accordance with documented risk management and investment strategies.

Financial instruments at fair value through profit and loss are initially measured at fair value and attributable transaction costs are expensed as incurred. Subsequently, any changes in fair value are recognised in the net result as economic flows. Any dividend or interest on a financial asset is recognised in the net result from transactions.

Financial liabilities at amortised cost

Financial instrument liabilities are initially recognised on the date they are originated. They are initially measured at fair value plus directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the interest-bearing liability, using the effective interest rate method.

Notes to the Financial Statements (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1(o) Derecognition of financial assets and financial liabilities

(i) Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group or similar assets) is derecognised when:

- the right to receive cash flows from the asset have expired;
- the fund retains the right to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the fund has transferred its rights to receive cash from the asset and either (a) has transferred substantially all the risk and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

1(p) Income Tax

The Fund is exempt from income tax pursuant to item 5.2 of section 50-25 of the Income Tax assessment Act 1997.

1(q) Claims Expense

Claims expense recognises the estimated cost of claims incurred for the current year, less or plus any adjustment for the improvements/deterioration in prior policy/accounting years.

1(r) Investment Income

Investment income is accrued and includes capital movements, distributions and interest income. Any investment income relating to the current period that is not received during the accounting year is accrued to that accounting year.

1(s) Receivables

Income accrued on term deposits during the accounting year but not paid until after the accounting year are treated as receivables.

Excesses payable, by insured's on terms, and costs recoveries are also included.

Notes to the Financial Statements (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1(t) Payables

Payables consist of:

- contractual payables, such as accounts payable, and unearned income. Accounts payable represent liabilities for goods and services provided to Legal Practitioners' Liability Committee prior to the end of the financial year that are unpaid, and arise when Legal Practitioners' Liability Committee becomes obliged to make future payments in respect of the purchase of those goods and services; and
- statutory payables, such as goods and services tax and fringe benefits tax payables.

Contractual payables are classified as financial instruments and categorised as financial liabilities at amortised cost (refer Note 1(n)). Statutory payables are recognised and measured similarly to contractual payables, but are not classified as financial instruments and not included in the category of financial liabilities at amortised cost, because they do not arise from a contract.

1(u) Commitments

Commitments for future expenditure include operating capital commitments arising from contracts. These commitments are disclosed by way of a note (refer to Note 13 Commitments) at their nominal value and inclusive of GST payable. In addition, where it is considered appropriate and provides additional relevant information to users, the net present values of significant individual projects are stated. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the balance sheet.

1(v) Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the balance sheet, but are disclosed by way of a note (refer to Note 14 Contingent Asset/Liabilities) and, if quantifiable, are measured at nominal value. Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

1(w) Prepayments

Prepayments represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period.

Notes to the Financial Statements (continued)

2 RECONCILIATION OF CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks, bank bills and investments in term deposits. Cash and cash equivalents at end of the financial year as shown in the cash flow statement is reconciled to items in the Balance Sheet as follows:

		2016 $	2015 $
2(a)	Cash and Cash Equivalents	29,990,031	16,766,753
	Cash Trusts & Deposits	47,781,242	84,985,943
		77,771,273	**101,752,696**
2(b)	**Reconciliation of Operating profit for the year to the net cash flows from operations:**		
	Operating profit	4,326,387	(11,524,989)
	Depreciation	27,544	33,003
	Profit)/Loss on sale of property, plant & equipment	356	–
	Changes in net market value of investments	5,428,532	(5,014,362)
	Unexpired Risk Liability	511,448	(1,685,641)
	Change in assets and liabilities		
	Increase/(Decrease) in provision for long service and annual leave	60,664	46,215
	(Increase)/Decrease in receivables & prepayments	(106,705)	942,455
	Increase/(Decrease) in creditors	256,014	453,004
	Increase/(Decrease) in premiums received in advance	541,552	3,958,641
	Increase/(Decrease) in claims outstanding	(11,206,000)	14,220,000
	Net cash and cash equivalents provided by operating activities	**(160,209)**	**1,428,326**
2(c)	**The fund has no credit standby arrangements or loan facilities (2015: Nil)**		

3 INVESTMENT INCOME

	2016	2015
Net fair value gains on financial assets at fair value through profit or loss	(5,428,532)	5,014,362
Other Income	7,718,834	6,507,752
Dividend Income	812,869	868,586
Interest Income	2,952,186	3,100,779
	6,055,357	15,491,479

Notes to the Financial Statements (continued)

		2016 $	2015 $
4	**RECEIVABLES**		
	CURRENT		
	Deductibles Receivable & Cost Recovery	721,736	239,100
	Accrued Income	816,734	1,024,645
		1,538,470	1,263,745
5	**OTHER FINANCIAL ASSETS**		
	CURRENT		
	Cash Trusts, Bank bills & Term Deposits	47,781,242	84,985,943
		47,781,242	84,985,943
	NON CURRENT		
	Managed Unit Trusts		
	- Overseas Equities	46,717,386	49,732,577
	- Property Fund	29,869,414	27,477,076
	- Australian Equities	20,214,859	33,128,951
	- Diversified Funds	31,738,096	21,363,375
	- Government Securities	21,533,668	–
		150,073,423	131,701,979
6	**NON-FINANCIAL ASSETS**		
	PROPERTY, PLANT AND EQUIPMENT		
	Furniture & equipment:		
	At Fair Value	193,054	195,182
	Accumulated depreciation	(158,436)	(157,708)
		34,618	37,474
	Leasehold Improvements:		
	At Fair Value	105,607	105,607
	Accumulated depreciation	(84,417)	(80,613)
		21,190	24,994
	Total	**55,808**	**62,468**
	DEPRECIATION		
	Furniture & equipment	23,740	29,279
	Leasehold improvements	3,804	3,724
	Intangibles	–	–
		27,544	33,003

Notes to the Financial Statements (continued)

6 NON-FINANCIAL ASSETS (continued)

MOVEMENT IN THE CARRYING AMOUNTS

Movement in the carrying amounts for each class of non-current assets between the beginning and end of the current financial year.

2016	Furniture Equipment $	Leasehold Improvements $	Intangibles $	Total $
Balance at the Beginning of the year	37,474	24,994	–	62,468
Additions	22,740	–	–	22,740
Disposals	(1,856)	–	–	(1,856)
Depreciation Expense	(23,740)	(3,804)	–	(27,544)
Carrying amount at the end of the year	**34,618**	**21,190**	**–**	**55,808**
2015				
Balance at the Beginning of the year	43,235	24,333	–	67,568
Additions	23,518	4,385	–	27,903
Disposals	–	–	–	–
Depreciation Expense	(29,279)	(3,724)	–	(33,003)
Carrying amount at the end of the year	**37,474**	**24,994**	**–**	**62,468**

Fair value measurement hierarchy for assets as at 30 June 2016

Fair value measurement at end of reporting period using:

	Level 1 $	Level 2 $	Level 3 $
Furniture & Equipment	–	–	34,618
Leasehold improvements	–	–	21,190
Total assets at fair value			**55,808**

Notes to the Financial Statements (continued)

6 NON-FINANCIAL ASSETS (continued)

Fair value measurement hierarchy for assets as at 30 June 2015

Fair value measurement at end of reporting period using:

	Level 1 $	Level 2 $	Level 3 $
Furniture & Equipment	–	–	37,474
Leasehold improvements	–	–	24,994
Total assets at fair value			**62,468**

Reconciliation of Level 3 fair value as at 30 June 2016

	Furniture & Equipment	Leasehold improvements
Opening balance	37,474	24,994
Purchases (Sales)	20,884	–
Depreciation	(23,740)	(3,804)
Revaluation		
Closing Balance	34,618	21,190

There have been no transfers between levels during the period.

Reconciliation of Level 3 fair value as at 30 June 2015

	Furniture & Equipment	Leasehold improvements
Opening balance	43,235	24,333
Purchases (Sales)	23,518	4,385
Depreciation	(29,279)	(3,724)
Revaluation		
Closing Balance	37,474	24,994

Notes to the Financial Statements (continued)

6 NON-FINANCIAL ASSETS (continued)

Plant and Equipment

Plant and equipment is held at carrying value (depreciated cost). When plant and equipment is specialised in use, such that it is rarely sold other than as part of a going concern, fair value is determined using the depreciated replacement cost method. Unless there is market evidence that the current replacement costs are significantly different from the original acquisition cost, it is considered unlikely that depreciated replacement cost will be materially different from the carrying value.

There are no changes in valuation techniques throughout the period to 30 June 2016. For all assets measured at fair value, the current use is considered the highest and best use.

Description of significant unobservable inputs to Level 3 valuations

2016 and 2015	Valuation technique	Significant unobservable inputs
Plant and Equipment	Depreciated replacement cost	Useful life of plant and equipment

Notes to the Financial Statements (continued)

		2016 $	2015 $
7	**OTHER EXPENSES**		
	Included in other expenses are:		
	Depreciation and amortisation	27,544	33,003
	Employee benefits	3,152,994	3,051,696
	Operating lease payments	330,705	317,457
8(a)	**PAYABLES**		
	Current		
	Creditors – Contractual	224,090	188,290
	Creditors – Statutory	995,529	771,025
	Deferred other income	58,309	71,650
		1,277,928	1,030,965
8(b)	**UNEARNED PREMIUM LIABILITY**		
	Current		
	Unearned premium liability 1 July	44,804,000	42,531,000
	Earning of premiums written in previous periods	(29,981,319)	(26,022,678)
	Deferral of premium contracts written in period	30,522,871	29,981,319
	Unexpired risk liability recognised for year ending 30 June (note 26(a))	511,448	(1,685,641)
	Unearned premium liability 30 June	45,857,000	44,804,000
9	**PROVISIONS**		
	Current provisions		
	Employee Benefits (Note 9(a))		
	Annual Leave (Note 9(a)):		
	- unconditional and expected to settle within 12 months	180,441	183,985
	- unconditional and expected to settle after 12 months	51,176	40,110
	Long Service Leave (Note 9(a)):		
	- unconditional and expected to settle within 12 months	-	-
	- unconditional and expected to settle after 12 months	292,141	253,804
		523,758	477,899

Notes to the Financial Statements (continued)

	2016 $	2015 $
Provisions for on-costs (Note 9(a) and Note 9(b)):		
- unconditional and expected to settle within 12 months	26,582	27,046
- unconditional and expected to settle after 12 months	50,570	43,242
	77,152	70,288
Total current provisions	600,910	548,187
Non-current provisions		
Employee benefits (Note 9(a))	39,359	24,554
On-costs (Note9(a) and Note9(b))	5,798	3,611
Total non-current provisions	45,157	28,165
Total provisions	646,067	576,352
Number of employees at year end	21	20

9(a) EMPLOYEE BENEFITS AND ON-COSTS

Current employee benefits		
Annual Leave	231,617	224,095
Long service Leave	292,141	253,804
Non-current employee benefits		
Long Service Leave	39,359	24,554
Total employee benefits	563,117	502,453
Current on-costs	77,152	70,288
Non-current on-costs	5,798	3,611
Total on-costs	82,950	73,899
Total employee benefits and on-costs	646,067	576,352

9(b) Movement in provisions

	On-costs 2016	Total 2016
Opening Balance	73,899	73,899
Additional provisions recognised	40,623	40,623
Reductions arising from payments/other sacrifices of future economic benefits	(31,572)	(31,572)
Closing balance	82,950	82,950
Current	77,152	77,152
Non-current	5,798	5,798
	82,950	82,950

Notes to the Financial Statements (continued)

		2016 $	2015 $
10	**ACCUMULATED FUNDS**		
	Accumulated Funds at the beginning of the year	61,254,046	72,779,035
	Operating Profit/(loss) for the year	4,326,387	(11,524,989)
	Accumulated Funds at the end of the year	65,580,433	61,254,046
11	**AUDITORS' REMUNERATION**		
	Remuneration of the auditor for:		
	- auditing or reviewing the financial report	44,000	43,000
	- other services	–	–
		44,000	43,000

Audit fees paid or payable to the Victorian Auditor-General's Office for audit of the Fund's financial report:

	2016 $	2015 $
Paid as at 30 June	10,000	10,000
Payable as at 30 June	34,000	33,000
	44,000	43,000

Notes to the Financial Statements (continued)

12(a) RESPONSIBLE PERSONS

In accordance with the Ministerial Directions issued by the Minister for Finance under the Financial Management Act 1994, the following disclosures are made regarding responsible persons for the reporting period.

Names

The persons who held the positions of Responsible Minister, Committee Member and Accountable Officer in the Fund are as follows:

Attorney General	The Hon. Martin Pakula, MP	1 July 2015 to 30 June 2016
Accountable Officer/ Committee Member	Ms Miranda Milne	1 July 2015 to 30 June 2016
Committee Member	Mr Geoffrey Rees	1 July 2015 to 22 July 2015
Committee Member	Ms Patricia Kelly	1 July 2015 to 30 June 2016
Committee Member	Ms Helen Thornton	1 July 2015 to 30 June 2016
Committee Member	Mr John Corcoran	1 July 2015 to 30 June 2016
Committee Member	Mr Peter Fox	1 July 2015 to 31 December 2015
Committee Member	Ms Catriona Lowe	1 July 2015 to 30 June 2016
Committee Member	Mr John Cain	23 July 2015 to 30 June 2016
Committee Member	Mr Adrian Finanzio	1 January 2016 to 30 June 2016

Remuneration

Remuneration received or receivable by committee members and the accountable officer, excluding the responsible Minister during the reporting period was in the range:

$	2016 No.	2015 No.
0 - 9,999	2	-
10,000 -19,999	2	-
20,000 - 29,999	3	5
40,000 - 49,999	1	1
390,000 - 399,999	1	1
Total numbers	9	7
Total Amount	567,701	578,271

Amounts relating to Ministers are reported in the financial statements of the Department of Premier and Cabinet. For information regarding related party transactions of ministers, the register of members' interests is publicly available from: www.parliament.vic.gov.au/publications/register-of-interests.

Notes to the Financial Statements (continued)

12(b) EXECUTIVE OFFICER REMUNERATION

Income Band $	Total Remuneration 2016 No.	Total Remuneration 2015 No.	Base Remuneration 2016 No.	Base Remuneration 2015 No.
150,000 - 159,999	1	2	1	2
160,000 - 169,999	-	-	1	-
170,000 - 179,999	2	1	1	1
210,000 - 219,999	2	2	2	2
250,000 - 259,999	1	1	1	1
330,000 - 339,999	-	-	1	1
340,000 - 349,999	1	-	-	-
360,000 - 369,999	-	1	-	-
Total Numbers	7	7	7	7
Total annualised employee equivalents (AAE)*	6.5	6.5	6.5	6.5
Total Amount	$1,541,541	$1,523,864	$1,526,975	$1,487,472

* Annual employee equivalent is based on working 35 ordinary hours per week over the reporting period.

The remuneration of the Chief Executive Officer is included in the Committee remuneration disclosure

No other payments were made to contractors in an executive capacity (i.e. contractors with significant management responsibilities) (2015 – $Nil).

13 COMMITMENTS

	2016 $	2015 $
Operating Lease Commitments:		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable:		
- not later than 1 year	387,476	355,678
- later than 1 year but not later than 5 years	1,662,479	1,533,222
- later than 5 years	1,075,054	1,487,894
	3,125,009	3,376,794

Notes to the Financial Statements (continued)

13 COMMITMENTS (continued)

The property lease is a non-cancellable lease.

The lease is for a 10 year term, with an option for a further 5 years. Rental increases are fixed annually on the anniversary of the commencement date. Figures are inclusive of Goods and Services Tax (GST).

Other Commitments:
The Fund has entered into an agreement with Willis Towers Watson for the provision of investment advice.

This agreement is an ongoing agreement.

Payable:		
- not later than 1 year	219,997	212,741

14 CONTINGENT ASSETS/LIABILITIES

Currently the Fund has an interest in Real Estate as a result of the provision of funds relating to the settlement of a claim.

The Fund is entitled to a proportion of the net proceeds less certain expenses after the death of the proprietor. As the realisable value of the property cannot be known at this point in time the future economic benefit cannot be quantified.

This entitlement is secured by a mortgage over the property.

There are no contingent liabilities.

15. INDEMNIFYING OFFICERS

During or since the end of the financial year the Legal Practitioner's Liability Fund has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The fund has paid premiums to insure the Committee Members against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Committee Member of the Fund, other than conduct involving a wilful breach of duty in relation to the Fund. The total amount of the premium was $24,407.

Individual Committee members have entered into Deeds of Indemnity with all other members to indemnify them to the extent permitted by law against certain liabilities and legal costs incurred by them as members of the Committee.

Notes to the Financial Statements (continued)

16 SEGMENT REPORTING

The Fund operates in a single industry and geographical segment, being a professional indemnity insurer to legal practitioners in Australia.

17 FINANCIAL INSTRUMENTS

17(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, with respect to each class of financial asset, and equity instrument are disclosed in Note 1(l) to the financial statements.

17(b) Fair Values

The financial instruments recognised at fair value in the Balance Sheet have been analysed and classified using a fair value hierarchy reflecting the significance of inputs used in making the measurements. The fair value hierarchy consists of the following levels:

Level 1 – the fair value of financial instrument with standard terms and conditions and traded in active markets are determined with reference to quoted market prices;

Level 2 – the fair value is determined using inputs other than quoted prices that are observable for the financial asset or liability, either directly or indirectly; and

Level 3 – the fair value is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using unobservable market inputs.

	Level 1 $	Level 2 $	Level 3 $	Total $
30-Jun-16				
Financial Assets				
- Unit in managed funds	120,204,009	29,869,414	-	150,073,423
30-Jun-15				
Financial Assets				
- Unit in managed funds	104,224,903	27,477,076	-	131,701,979

Included in Level 1 are the managed equity funds and in Level 2 is the managed property fund. Their market value has been determined as per note 1(l).

There have been no transfers between levels during the period.

Notes to the Financial Statements (continued)

17 FINANCIAL INSTRUMENTS (continued)

17(c) Interest Rate Risk

The fund's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

30 June 2016			Fixed Interest maturing in:				
	Weighted Average Interest Rate	Floating Interest Rate	Within Year	1 to 5 Years	Over 5 Years	Non Interest Bearing	Total
Financial Assets:							
Cash	0.81%	29,990,031	–	–	–	–	29,990,031
Receivables	n/a		–	–	–	1,538,470	1,538,470
Units in Managed Funds	n/a	–	–	–	–	150,073,423	150,073,423
Term Deposits	2.95%	–	47,781,242	–	–	–	47,781,242
Total Financial Assets		**29,990,031**	**47,781,242**	**–**	**–**	**151,611,893**	**229,383,166**
Financial Liabilities:							
Creditors – Contractual	n/a	–	–	–	–	224,090	224,090
Outstanding claims	n/a	–	–	–	–	117,379,000	117,379,000
Total Financial Liabilities		**–**	**–**	**–**	**–**	**117,603,090**	**117,603,090**

30 June 2015			Fixed Interest maturing in:				
	Weighted Average Interest Rate	Floating Interest Rate	Within Year	1 to 5 Years	Over 5 Years	Non Interest Bearing	Total
Financial Assets:							
Cash	1.29%	16,766,753	–	–	–	–	16,766,753
Receivables	n/a		–	–	–	1,263,745	1,263,745
Units in Managed Funds	n/a	–	–	–	–	131,701,979	131,701,979
Term Deposits	3.50%	–	84,985,943	–	–	–	84,985,943
Total Financial Assets		**16,766,753**	**84,985,943**	**–**	**–**	**132,965,724**	**234,718,420**
Financial Liabilities:							
Creditors – Contractual	n/a	–	–	–	–	188,290	188,290
Outstanding claims	n/a	–	–	–	–	128,585,000	128,585,000
Total Financial Liabilities		**–**	**–**	**–**	**–**	**128,773,290**	**128,773,290**

The fund's exposure to the risk of change in market interest rates relate primarily to the fund's investments in cash and cash equivalents.

The fund's policy is to invest cash and cash equivalents with a recognised bank. Banks are selected on recommendation of our external advisors and their performance is monitored.

Notes to the Financial Statements (continued)

17 FINANCIAL INSTRUMENTS (continued)

17(d) Credit Risk

Credit risk arises from the contractual financial assets of the Fund, which comprise cash and deposits and other financial assets. The Fund's exposure to credit risk arises from potential default of a counter party on their contractual obligations resulting in financial loss to the Fund. Credit risk is measured at fair value and is monitored on a regular basis.

Credit risk associated with the Fund's contractual financial assets is minimal because the main assets are cash at bank and other investments. It is the fund's policy to only deal with entities with high credit ratings.

The Fund has an investment policy detailing controls in regard to credit risk. Any investments in a financial institution must be approved by the Committee. Investments are monitored regularly by management and an external investment advisor and are reported to the Committee on a monthly basis. Any investment deposit or redemption is approved by the Committee.

In addition, the fund does not engage in hedging for its contractual financial assets and has contractual financial assets that are primarily cash at bank but also includes funds invested by the Committee in approved fund managers having considered advice from an independent expert investment advisor.

17(e) Liquidity Risk

To ensure adequate liquidity to meet cash outflows the fund maintains the necessary funds in cash and short term bank bills or term deposits.

While the receipt of the annual premium provides sufficient cash to meet most if not all of the fund's requirements during the year, additional cash is held in reserve.

17(f) Market Risk

The fund is exposed to the risk of market movements in the local and overseas equity markets through its investment in managed unit trusts in these asset classes.

Equity Market Risk

The fund's exposure to the risk of change in equity markets relate primarily to the fund's investments in local and overseas equities.

The fund's policy is to use independent investment managers to manage our exposure to local and overseas equities.

Managers are selected on recommendation of our external advisors and their performance is monitored.

Notes to the Financial Statements (continued)

17 FINANCIAL INSTRUMENTS (continued)

17(f) Market Risk (continued)

Foreign Currency Risk

The fund's exposure to the risk of change in exchange rates relate primarily to the fund's investments in overseas equities. A combination of partially and fully hedged funds are used.

Managers are selected on recommendation of our external advisors and their performance is monitored.

Sensitivity Disclosure Analysis

Taking into account past performance, future expectations and management's knowledge and experience of the financial markets, the fund believes the following movements are 'reasonably possible' over the next 12 months

A shift of +.5% or -.25% in market interest rates from year end rates of 1.75%

- A shift of + 10% or -10% in the average weighted market value of local equities, overseas equities and local property unquoted unit trusts.

Market Risk Exposure

		Interest Rate Risk				Other Price Risk			
2016		**-0.25%**		**+.5%**		**-10%**		**+10%**	
Financial Assets	**Carrying Amount**	**Profit**	**Equity**	**Profit**	**Equity**	**Profit**	**Equity**	**Profit**	**Equity**
Cash and cash equivalents	77,771,273	(194,428)	(194,428)	388,856	388,856				
Units in Managed Funds	150,073,423					(15,007,342)	(15,007,342)	15,007,342	15,007,342

2015		**-0.25%**		**+.5%**		**-10%**		**+10%**	
Financial Assets	**Carrying Amount**	**Profit**	**Equity**	**Profit**	**Equity**	**Profit**	**Equity**	**Profit**	**Equity**
Cash and cash equivalents	101,752,696	(254,382)	(254,382)	508,763	508,763				
Units in Managed Funds	131,701,979					(13,170,198)	(13,170,198)	13,170,198	13,170,198

Notes to the Financial Statements (continued)

18 DESIGNATION OF FINANCIAL ASSETS

The financial assets are measured at fair value through the profit and loss.

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The fund's principal financial instruments comprise of unquoted unit trusts and cash and cash equivalents.

The main purpose of these financial instruments it to ensure that there is sufficient ability to meet the obligations under the policies of insurance that have been issued.

These instruments are managed by the Investment Committee who utilise the services of our external advisor – Willis Towers Watson.

The main risk arising from the fund's financial instruments are interest rate risk, equity market risk, foreign currency risk and credit risk which are discussed in note 17 above.

There are no significant concentrations of credit risk within the fund.

20 RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions unless otherwise stated.

21 EVENTS AFTER THE BALANCE SHEET DATE

There were no material events after balance sheet date that require disclosure.

22 ACTUARIAL ASSUMPTIONS AND METHODS

Under 17.6.1c of AASB 1023, the following describes the method and main assumptions that have the greatest effect on the calculated insurance liabilities provisions.

The Legal Practitioners' Liability Fund has provided professional indemnity insurance to solicitors since 1/1/86, and to barristers since 30/06/05. Incurred development and payment patterns derived from the average experience for solicitors over the last 5 complete policy years were assumed to apply to solicitor and barrister claims outstanding at 30/6/16.

Notes to the Financial Statements (continued)

22 ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Development Year	Ultimate claims incurred as % of current estimate	Payments to end of year, as % of ultimate claims
0	91.0%	7.5%
1	95.2%	31.6%
2	97.7%	54.2%
3	98.9%	69.3%
4	99.5%	79.4%
5	99.8%	86.2%
6	100.0%	90.8%
7	100.0%	93.8%
8	100.0%	95.9%
9	100.0%	97.2%

* Ratio of ultimate incurreds for development year 0 includes 25% weight given to average costs per practitioner equivalent.

Other main assumptions used in calculating insurance provisions and their sources are:

- Discount rates based explicitly on medium term Commonwealth bond yields
- Claim administration expenses of 6.25% of net claim payments based on forecasted expenses of LPLC
- Wage inflation based explicitly on Victorian AWE and state government forecasts.

Claims incurred estimates are made by applying the above claims incurred development ratios to current claims incurred data and applying wage inflation and payment patterns. Outstanding claims at 30 June 2016 are estimated by deducting payments to date.

Gross payments in 2015-16 for solicitors are estimated by determining an average, inflation adjusted claim incurred estimate per principal equivalent from the last 5 complete policy years and applying to expected incurred principals in 2015-16.

Gross payments in 2015-16 for barristers are estimated as a ratio of solicitor incurreds.

Premium liabilities are determined by applying wage inflation and payment patterns and allowing for reinsurance and overhead claim administration expenses.

Notes to the Financial Statements (continued)

22 ACTUARIAL ASSUMPTIONS AND METHODS (continued)

The calculations used to estimate outstanding claim and unexpired premium liabilities for solicitors were repeated as at each prior balance date back to 31 December 1987 and compared with the actual outcomes estimated at 30 June 2016. Log normal distributions were fitted to the resulting percentages, and used to estimate the risk margins needed to provide varying probabilities of adequacy.

The outstanding claims are assumed to have a standard deviation of 14% and the premium liabilities a standard deviation of 36%.

Sensitivity analysis as at 30/6/16

Risk Variable	Base	Altered	Outstanding claims ($m)	Premium liability ($m)
Discount rate (% pa)	1.50%	2.50%	-2.707	-1.254
	1.50%	0.50%	2.877	1.337
Claim administration expenses (% of claims)	6.25%	7.25%	0.995	
	6.25%	5.25%	-0.995	
Wage inflation (% pa)	3.50%	4.50%	3.047	1.854
	3.50%	2.50%	-2.745	-1.074
“Regular” solicitor claims per principal equivalent	3,400	3,750	0.750	2.860
	3,400	3,100	-0.562	-2.145
“Large” claims ($m)	$11.2m	$9.0m		-2.410

Sensitivity analysis as at 30/6/15

Discount rate (% pa)	2.00%	3.00%	-2.723	-1.153
	2.00%	1.00%	2.879	1.223
Claim administration expenses (% of claims)	5.75%	6.75%	1.105	
	5.75%	4.75%	-1.105	
Wage inflation (% pa)	3.50%	4.50%	2.720	1.242
	3.50%	2.50%	-2.627	-1.195
"Regular" solicitor claims per principal equivalent	3,448	3,793	0.619	2.358
	3,448	3,135	-0.562	-2.144
"Large" claims ($m)	$11.2m	$9.0m		-2.344

Under AASB 1023 17.7.1(b)(i), the insurer has to disclose sensitivity to insurance risk. The above table gives the changes in central estimates for changes in various risk variables.

Notes to the Financial Statements (continued)

23 INSURANCE CONTRACTS – RISK MANAGEMENT AND PROCEDURES

The financial condition and operation of the fund are affected by a number of key risks including insurance risk, interest rate risk and credit risk.

Notes on the fund's policies and procedures in respect of managing these risks are set out in this note.

23(a) Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

The fund has an objective to control insurance risk thus reducing the volatility of operating profit. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, profit from insurance business is affected by market factors, particularly the movement in asset values.

The Committee and senior management of the Fund have developed, implemented and maintain a sound and prudent Risk Management Strategy (RMS).

Key aspects of the processes established in the RMS to mitigate risk include:

The maintenance and use of sophisticated management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time.

- Actuarial models, using information from the management information systems, are used to calculate premiums and monitor claim patterns.
- Past experience and statistical methods are used as part of the process.
- Reinsurance is used to limit the fund's exposure to catastrophes.
- The mix of assets in which the fund invests is driven by the nature and term of its insurance liabilities.

23(b) Terms and conditions of insurance

- The terms and conditions attached to insurance contracts affect the level of insurance risk accepted by the fund. The majority of direct insurance contracts are entered into on a standard form basis.

Notes to the Financial Statements (continued)

23(c) Concentration of risk insurance

- In the event of a catastrophe, the Legal Practitioners' Liability Fund carries a stop loss insurance policy to cover the payment of total claims made during the year ended 30 June 2016 in excess of $42.5m.

23(d) Development of claims

- There is a possibility that changes may occur in the estimate of our obligations at the end of a contract period. The table in note 27 shows the estimate of total claims outstanding for each underwriting year at successive year ends with the current year being an estimate provided by our external actuarial consultant.

23(e) Interest rate risk

- None of the financial assets or liabilities arising from insurance or reinsurance contracts entered into by the fund are directly exposed to interest rate risk.
- Insurance and reinsurance contracts are entered into annually. At the time of entering into the contract all terms and conditions are negotiable or, in the case of renewals, renegotiable.

23(f) Credit risk

- Financial assets and liabilities arising from insurance and reinsurance contracts are stated in the balance sheet at the amount that best represents the maximum credit risk exposure at balance date.
  There are no significant concentrations of credit risk.

24 NET PREMIUM REVENUE

	2016 $	2015 $
Gross Written Premiums	31,235,777	30,585,891
Movement in Unearned Premium	(541,552)	(3,958,642)
Net Premium Revenue	**30,694,225**	**26,627,249**

Notes to the Financial Statements (continued)

25 NET CLAIMS INCURRED

	2016			2015		
	Current Year $	Prior Years $	Total $	Current Year $	Prior Years $	Total $
Gross claims expense	42,638,000	(19,668,111)	22,969,889	45,603,000	2,263,325	47,866,325
Discount movement	(1,588,000)	3,564,000	1,976,000	(2,297,000)	3,133,000	836,000
	41,050,000	(16,104,111)	24,945,889	43,306,000	5,396,325	48,702,325
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue – undiscounted	–	–	–	–	–	–
Discount movement	–	–	–	–	–	–
Net claims incurred	**41,050,000**	**(16,104,111)**	**24,945,889**	**43,306,000**	**5,396,325**	**48,702,325**

Current year amounts relate to risks borne in the current financial year. Prior periods amount relate to a reassessment of the risks borne in all previous financial years.

26 UNEXPIRED RISK LIABILITY

When the amount of the premium pool to be collected for the next insurance year is set, it is 'subsidised' on the basis that a proportion of the accumulated funds are offset against the premium pool which would otherwise have been collected. As a result the unearned premium liability is deficient as at 30 June 2016.

26(a) Unexpired risk liability

	2016 $	2015 $
Unexpired risk liability as at 1 July	14,822,681	16,508,322
Recognition of additional unexpired risk liability in the period	511,448	(1,685,641)
Unexpired risk liability as at 30 June	**15,334,129**	**14,822,681**

26(b) Calculation of deficiency

Unearned premium liability relating to insurance contracts	30,522,871	29,981,319
Central estimate of present value of expected future cash flows arising from future claims	40,050,000	39,130,000
Risk Margin of 14.5%	5,807,000	5,674,000
	45,857,000	44,804,000
Net deficiency	**15,334,129**	**14,822,681**

Notes to the Financial Statements (continued)

26 UNEXPIRED RISK LIABILITY (continued)

26(b) Calculation of deficiency (continued)

The process of determining the overall risk margin is discussed in Note 22. As with outstanding claims the overall risk margin is intended to achieve a 75% probability of adequacy.

27 OUTSTANDING CLAIMS LIABILITY

		2016 $	2015 $
27(a)	**Outstanding Claims Liability**		
	Central estimate of claims still to be paid	104,259,000	117,246,000
	Discount to present value	(4,733,000)	(6,708,000)
		99,526,000	110,538,000
	Present value of claims handling costs	6,221,000	6,357,000
	Risk Margin	11,632,000	11,690,000
	Gross Outstanding claims liability	117,379,000	128,585,000
	Gross Outstanding claims liability – undiscounted	122,111,000	135,291,000
	Current	33,537,000	39,393,000
	Non-current	83,842,000	89,192,000
	Total	**117,379,000**	**128,585,000**
27(b)	**Risk margin applied**	11.000%	10.000%

27(c) Reconciliation of movement in discounted outstanding claims liability

	2016 $	2015 $
Brought forward	128,585,000	114,365,000
Increase in claims incurred/recoveries anticipated over the year	(19,668,111)	2,263,325
Incurred claims recognised in the Statement of Comprehensive Income	42,638,000	45,603,000
Claims payments/recoveries during the year	(36,151,889)	(34,482,325)
Movement in net present value adjustment	1,976,000	836,000
Carried forward	**117,379,000**	**128,585,000**

Notes to the Financial Statements (continued)

27 OUTSTANDING CLAIMS LIABILITY (continued)

27(d) Claims Development table ($m)

Policy Year	2012	2013	2014	2015	2016	Total
Estimate of ultimate claim cost at end of policy year	27.217	30.336	39.248	37.066	34.389	
one year later	30.406	30.505	37.750	31.690		
two years later	30.639	31.743	38.716			
three years later	33.410	29.183				
four years later	31.648					
current estimate	31.648	29.183	38.716	31.690	34.389	165.626
cumulative payments	(24.217)	(21.628)	(21.679)	(8.518)	(3.776)	(79.818)
undiscounted central estimate	7.431	7.555	17.037	23.172	30.613	85.808
discount						(4.732)
inflation to future values						7.613
present value of claims handling expenses						6.220
undiscounted central estimate prior years						10.838
risk margin						11.632
Total Outstanding Claims						**117.379**

28 NET PRESENT VALUE ADJUSTMENT TO OUTSTANDING CLAIMS

	2016 $	2015 $
Opening Balance	6,708,000	7,543,000
Prior Year	(3,564,000)	(3,133,000)
Current Year	1,588,000	2,298,000
Closing Balance	**4,732,000**	**6,708,000**

DECLARATION BY MEMBERS OF THE COMMITTEE

LEGAL PRACTITIONERS' LIABILITY COMMITTEE

DECLARATION BY COMMITTEE MEMBERS, CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

The attached financial statements for the Legal Practitioners' Liability Committee have been prepared in accordance with Direction 4.2 of the Standing Directions of the Minister for Finance under the Financial Management Act 1994 (FMA), applicable Financial Reporting Directions, Australian Accounting Standards, including Interpretations, and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes forming part of the financial statements, presents fairly the financial transactions during the year ended 30 June 2016 and financial position of the Legal Practitioners' Liability Committee at 30 June 2016.

At the time of signing, we are not aware of any circumstance which would render any particulars included in the financial report to be misleading or inaccurate.

We authorise the attached financial statements for issue on 7 September 2016.

John Corcoran – Chairman

Miranda Milne – Chief Executive Officer

Martin Dohnt – Chief Financial Officer

Dated this 7th day of September 2016

AUDITOR-GENERAL'S REPORT

VAGO
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INDEPENDENT AUDITOR'S REPORT

To the Committee Members, Legal Practitioners' Liability Committee

The Financial Report

I have audited the accompanying financial report for the year ended 30 June 2016 of the Legal Practitioners' Liability Committee which comprises the statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement, notes comprising a summary of significant accounting policies and other explanatory information, and the declaration by committee members, chief executive officer and chief financial officer.

The Committee Members' Responsibility for the Financial Report

The Committee Members of the Legal Practitioners' Liability Committee are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*, and for such internal control as the Committee Members determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Committee Members, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Auditing in the Public Interest

AUDITOR-GENERAL'S REPORT (continued)

Independent Auditor's Report (continued)

Independence

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, I and my staff and delegates complied with all applicable independence requirements of the Australian accounting profession.

Opinion

In my opinion, the financial report presents fairly, in all material respects, the financial position of the Legal Practitioners' Liability Committee as at 30 June 2016 and of its financial performance and its cash flows for the year then ended in accordance with applicable Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*.

MELBOURNE
9 September 2016

for Dr Peter Frost
Acting Auditor-General

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Auditing in the Public Interest

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LEGAL PRACTITIONERS' LIABILITY COMMITTEE