LEGAL
PRACTITIONERS'
LIABILITY
COMMITTEE

ANNUAL REPORT 2016/17

LEGAL
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LIABILITY
COMMITTEE

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 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.

CONTENTS

FROM THE CHAIR

It is now 39 years since compulsory insurance was introduced in Victoria for solicitor practitioners and LPLC has been insurer to those practitioners for 31 of those years.

LPLC remains the only statutory insurer for legal practitioners not only in Australia, but also the common law world.

It has certainly achieved what it set out to do, which was to create a mutual fund to deliver premium stability. The profession shares investment earnings of the Legal Practitioners' Liability Fund, which are applied to in keeping premiums as low as possible. LPLC collects less in premium than the cost of claims, administration and reinsurance on account of its investment earnings. We are able to take a long-term view in relation to both our earnings and claims liabilities to deliver stable premiums amid short-term changes to the cost of claims and investment earnings.

LPLC has expanded its role beyond the management and payment of claims through its risk management activities, which were further extended during the reporting year.

I am mindful that there are now many practitioners within the profession, ranging from sole practitioner solicitors to large firms with global names, and from reader barristers to senior barristers of many years standing. LPLC's challenge is to meet the risk management needs of these sectors within the profession.

In recent years, the way in which lawyers practise has altered dramatically, with advances in digital technology. That technology has also enabled LPLC to improve its delivery of services in renewal and payment of premiums, in claims management and delivery of risk management services. Fast and effective digital communication is of particular value when urgent risk management bulletins are required, particularly in relation to cybercrime.

I thank my fellow committee members for their work. I also thank our CEO, Miranda Milne who is retiring this year.

After 31 years at LPLC and as the CEO for the last 21 of those years, Miranda has seen significant changes in the profession as well as in LPLC.

Under her guidance LPLC has grown from insuring approximately 6,000 practitioners with a fund of $5.9 million in 1986 to now insuring over 2,000 barristers and 16,000 solicitor practitioners with a fund of approximately $220 million. Over that time, LPLC has paid nearly $500 million in claims and costs as well as managed over 14,000 claims and notifications in respect of solicitors and barristers.

On behalf of the former chairs, current and past committee members as well as LPLC staff over the past three decades I thank Miranda for her commitment and dedication to the profession.

I wish Miranda well in the next phase in her life and understand her plans are to devote more time to extra curricula pursuits with a heavy emphasis on winter sports while still staying in touch with the profession.

John Corcoran AM
Chair

FROM THE CEO

LPLC continued its partnership with the legal profession during the reporting period with efficient claims management and an expanded risk management program targeted at reaching different practice sizes and types in varied locations.

Highlights of the reporting year were:

> significant reductions in the cost of claims from prior years of more than $13 million

> return on investment of 8.7 per cent ($19.2 million)

> a modest premium increase for solicitors of 2.2 per cent tracking long-term increases in the cost of claims

> stable premium rates for barristers

> practice visits and counselling for those with poor claims records

> a record number of practitioners attending LPLC risk management events with an increase of 54 per cent from the 2015/16 year

> finalisation of 396 claims and notifications for solicitors and barristers.

The estimated cost of claims for solicitors for the 2016/17 year is higher than expected at $39 million because of an unusal exposure to conveyancing matters, but the increase in the number of claims is modest at four per cent. This increase reflects, in part, the growth in the size in the pool over the reporting period. The estimated cost of barristers' claims was $1.78 million.

LPLC has expanded its risk management reach this year, with visits to practices with poor claims records and follow up counselling for those practices.

In addition, solicitor practitioners taking out principal practising certificates for the first time were invited to LPLC's offices for a Building Solid Foundations workshop. Practitioners met LPLC risk managers and were made aware of the resources available to them, particularly on the website. The workshops enable LPLC to share its experience about the pitfalls of starting a new practice.

Technology, while enabling practitioners to increase their efficiency, does come with accompanying threats. We have seen instances of phishing and spear phishing where clients have their emails hacked and the hacker impersonates clients in an attempt to access money. We also see law practices being imitated with the use of persuasive looking logos and email addresses. LPLC has endeavoured to raise awareness of these threats.

The claims team, led by Justin Toohey, continued its work in finalising claims as expeditiously as possible. Three hundred and ninety-six matters for barristers and solicitors were finalised during the reporting period.

This is the last year in which I will be reporting as CEO as I step down from my position at the end of the calendar year after nearly 32 years with the organisation.

I began my career with LPLC shortly after it began in 1986. During that time I have dealt with four different regulators, four governing Acts for the legal profession and three competition policy reviews.

LPLC came close to extinction in 1996 but two subsequent competition policy reviews recognised the public benefit to consumers of legal services in Victoria delivered by a unique statutory model. The third review recognised that the benefits should be extended to barristers.

This model has weathered a major recession and the global financial crisis. In 2001, HIH Insurance went into administration. Among other professions it insured Victorian barristers who were then left without cover. LPLC has also delivered the certainty of available insurance to all practitioners, together with run off cover after practitioners cease practice. We manage claims each year against former practices and retired practitioners.

I have worked with five chairmen including the current Chairman, John Corcoran AM, whom I thank for his support.

However, the most crucial part of the LPLC's longevity and success has been its staff, many of whom have served more than 10 years and some more than 20 years. It is their accumulated knowledge which drives efficient and effective claims management and claims prevention for the benefit of consumers and practitioners.

Miranda Milne
Chief Executive Officer

CLAIMS – SOLICITORS

During the reporting period 355 claims and notifications were finalised.

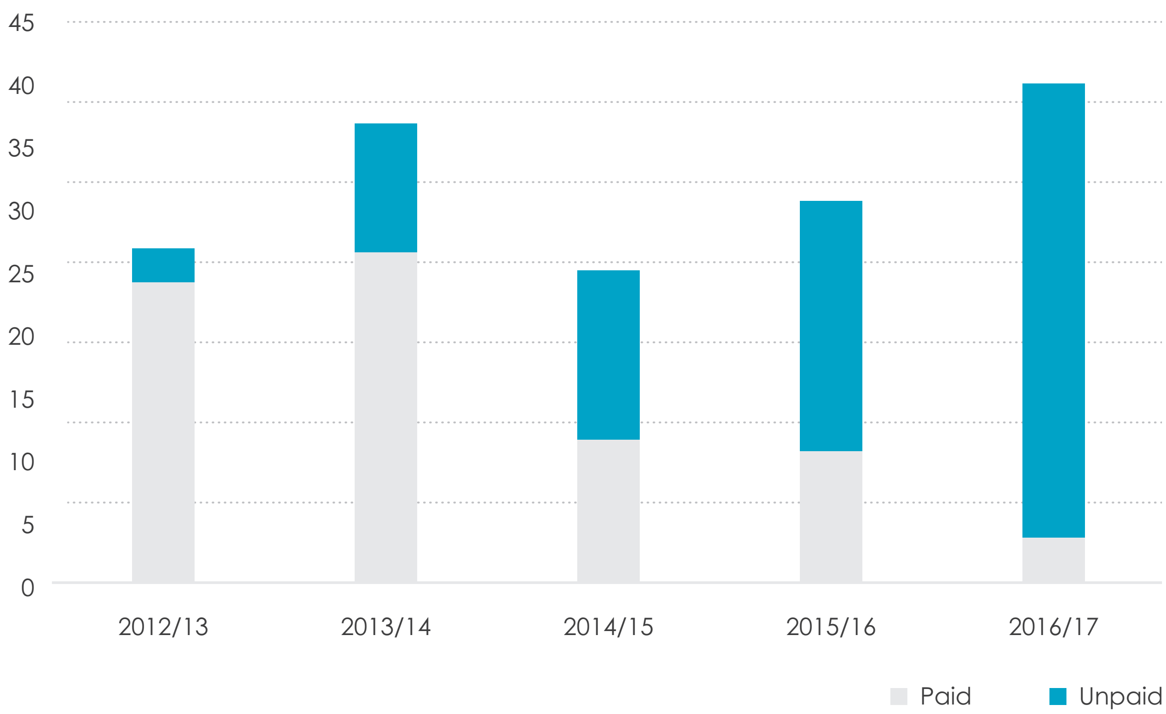
There were 480 new claims and notifications opened in 2017 which was a slight increase of four per cent compared to the 2015/16 year. However, the estimated cost of claims for the reporting year has closed at a substantial increase of $39 million. This is principally on account of the much higher cost of claims in the conveyancing area.

While there has been an improvement in claims estimates in prior policy years of $13 million, there are now only three policy years which have estimates of more than $30 million. This is pleasing when taking into account the number of solicitors insured by LPLC, now being over 16,000 practitioners practising in more than 4,000 practices.

The charts on page 8 set out the percentage of claims and cost of claims by area of practice.

The substantial increase in the cost of conveyancing claims has been attributable to failure to give adequate advice to purchasers about what they were buying. There were also claims arising from stamp duty issues, usually for late lodging of documents or transactions where duty was unnecessarily incurred.

COST OF PAID AND UNPAID CLAIMS 2012–2017 ($M)



Claims also arose from practitioners acting in sales by owner builders or where GST liabilities were not addressed.

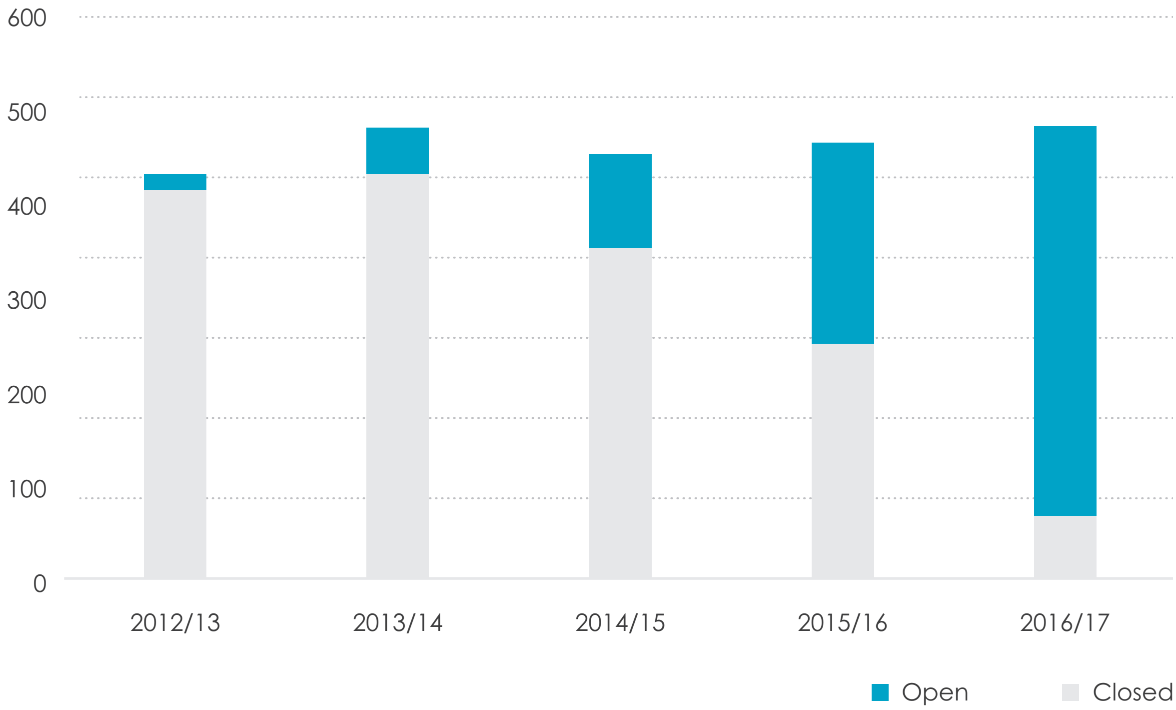
There has also been an increase in the cost of claims in leases as well as wills and estates with a small increase in family law matters. Other areas of practice were consistent with past performance.

Errors arose in drafting of wills and errors in administering estates which were often administered prematurely. This suggests that skills in the drafting of wills are not what they once were.

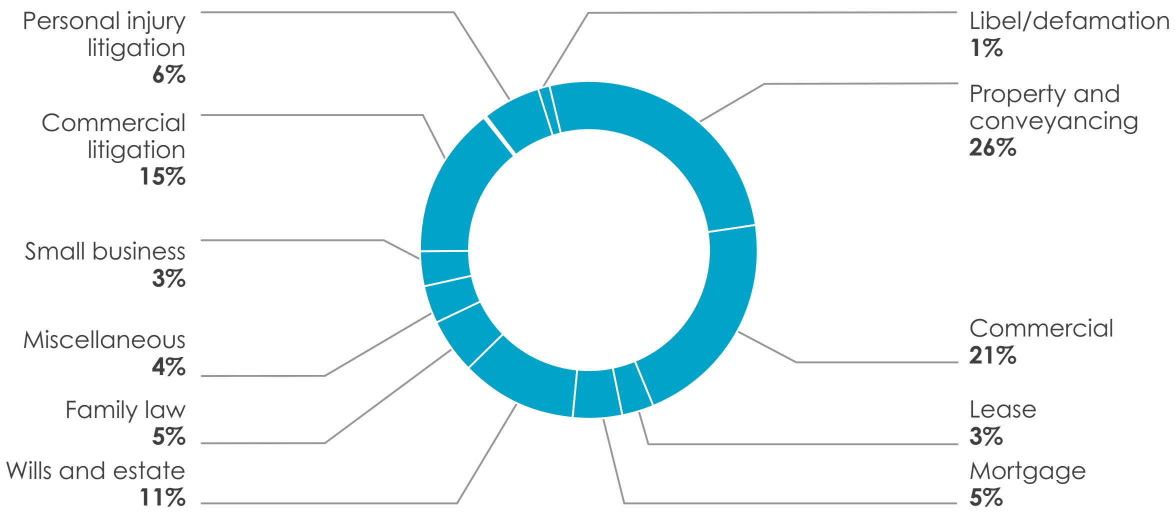
Unusually, failure to manage legal issues was the dominant underlying cause for almost half the anticipated cost of claims for the policy year, particularly in the areas of conveyancing and commercial transactions.

There was increased exposure in respect of claims arising from simple oversight, while poor communication and poor engagement management together accounted for over 25 per cent of the dollar cost across all practice areas.

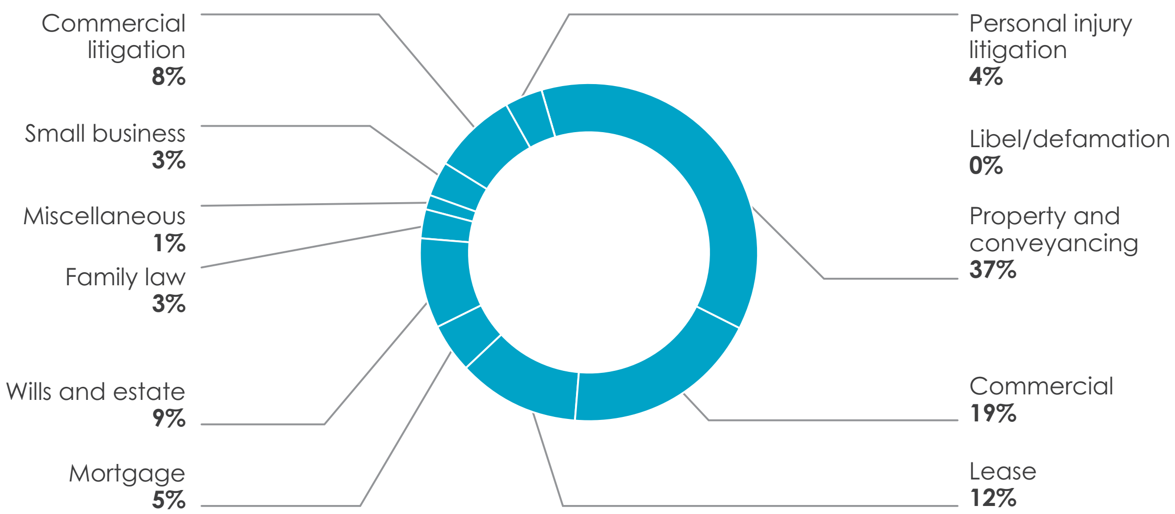
NUMBER OF OPEN AND CLOSED FILES 2012–2017



PERCENTAGE NUMBER OF CLAIMS BY AREA OF PRACTICE 2016/17



PERCENTAGE COST OF CLAIMS BY AREA OF PRACTICE 2016/17



CLAIMS – BARRISTERS

There were 52 claims and notifications for barristers in the reporting period, with estimates of $1.78 million.

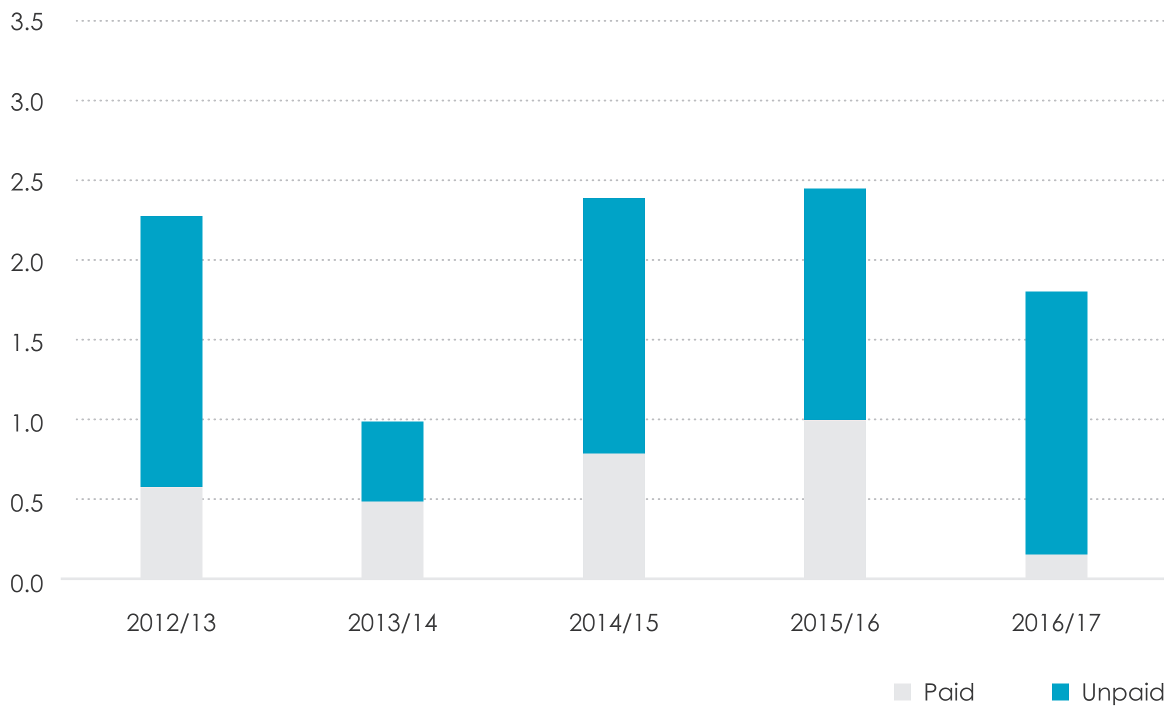
With a little over 2,000 barristers insured by LPLC, claims incidence is low but volatile from year to year. Barristers generally do not perform transactional work, which differentiates much of their risk from that of solicitors.

There were 41 files closed/finalised during the 2016/17 year.

Not surprisingly, more than half of all claims and notifications arose from litigation, particularly commercial litigation.

Barristers were subject to applications for or the threat of, personal costs orders made pursuant to the *Civil Procedure Act 2010* (Vic). These were initiated either by opponents or by the relevant court. There were also threats from clients against whom adverse costs orders were made, particularly where orders for indemnity costs had been made.

COST OF PAID AND UNPAID CLAIMS 2012–2017 ($M)

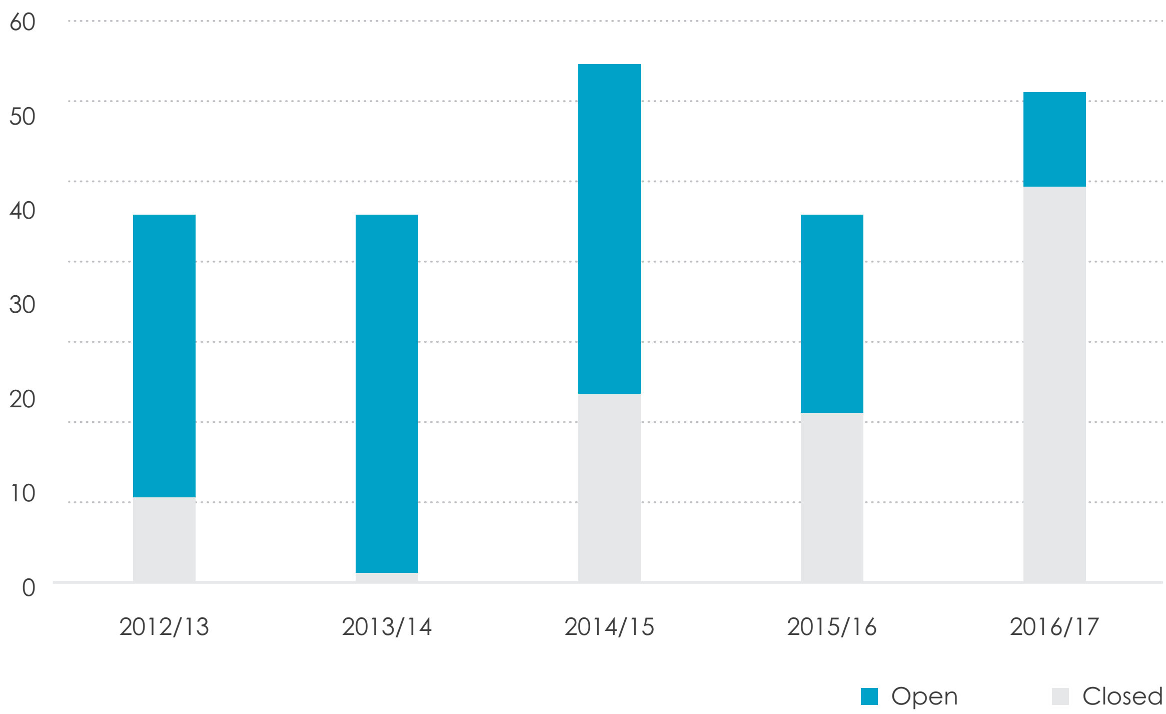


Claims arose out of clients unhappy with settlements or clients who felt aggrieved they should have been advised to accept offers of settlement, which were then rejected. Others felt they had simply been provided with inadequate advice about the prospects of success or failure in litigation.

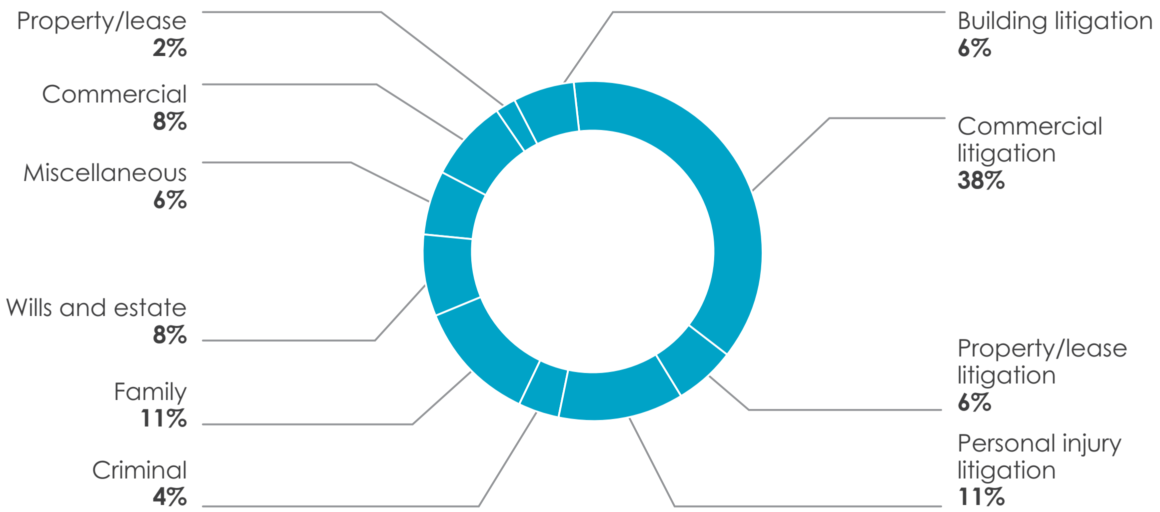
Unfortunately, there is usually at least one unhappy party where cases proceed to judgement or are settled on terms which are perceived by the client to be unfavourable.

Underlying causes behind these claims included failing to manage legal issues, failing to manage the engagement with the client or inadequate communication with clients.

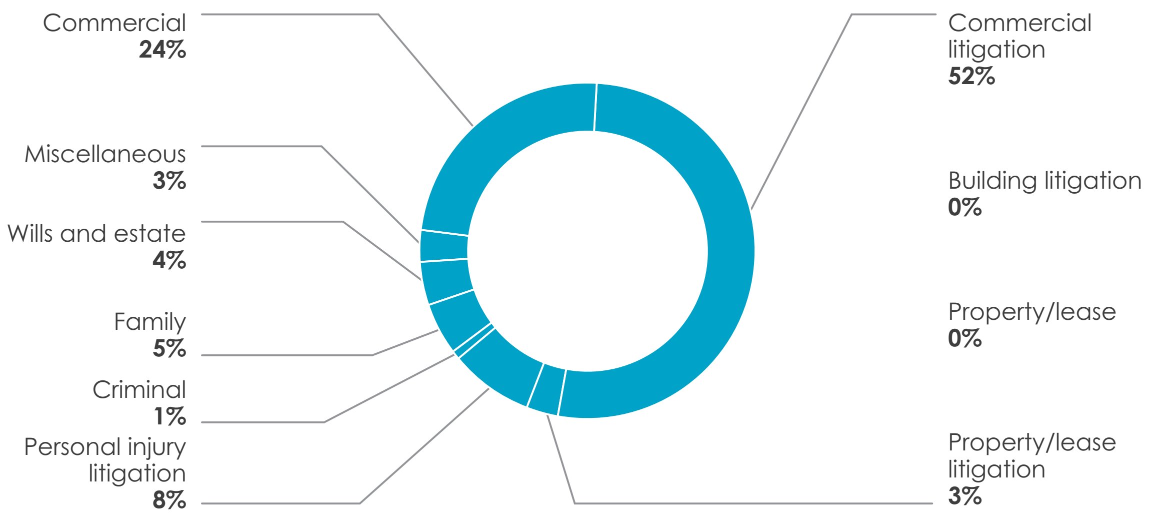
NUMBER OF OPEN AND CLOSED FILES 2012–2017



PERCENTAGE NUMBER OF CLAIMS AND NOTIFICATIONS BY AREA OF PRACTICE 2016/17



PERCENTAGE COST OF CLAIMS AND NOTIFICATIONS BY AREA OF PRACTICE 2016–17



RISK MANAGEMENT

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

Summary of 2016/17

LPLC seminars

64 events

2,270 attendees

External speaking engagements

49 presentations

Publications

14 new and 4 revised publications

15 newsletters and articles

5 new videos

45 blogs

1,087 blog subscribers

Website

163,142 LPLC website pages viewed

Communications with firms and practitioners

216 Hotline enquiries

387 Newly established firms contacted

1,149 Practitioner telephone and email enquiries

Risk assistance program and other firm visits
53 firm visits
18 written reports
2 whole firm risk training sessions

Claims follow-up project
132 closed claims reviewed
42 firms followed up

Risk managers network
3 meetings
40 attendees

Other activities

Advocacy for a practice management course

National Risk Managers' Conference

6 LIV, VLSB+C, LPLC meetings

Seminars and speaking engagements

Locations of LPLC seminars held in 2016/17

LPLC Boardroom Series

Attendees – 433 Sessions – 18

Launched in July 2016, the LPLC Boardroom Series are topical one to one and half hour seminars for up to 20 practitioners. The five topics covered were CGT, identity verification, work intake and file management, GST and people management.

Building Solid Foundations workshops

Attendees – 103 Sessions – 18

Tailored for practitioners setting up new firms, these small group workshops gave practitioners access to an experienced manager to ask questions, share information and learn the fundamentals for establishing a legal practice. Topics covered included management systems for law practices, the LPLC insurance policy as well as planning and strategy.

2016 Risk Management Intensive

Attendees – 670 Sessions – 3

As in previous years, the same program was conducted on three separate days to maximise the opportunity for practitioners to attend the workshops. The topics presented included cybercrime, adverse costs, paying trusts money and conveyancing.

For the first time attendees received the video of the sessions via a password-protected section of the website rather than a physical DVD.

2016 Legal Business Essentials

Attendees – 148 Sessions – 6

The program for the half-day workshops, a repetition of the successful series run in 2014 and 2015, was designed to develop crucial skills and knowledge to assist practitioners build and manage a successful legal practice. The topics included estimating costs effectively, how to strengthen relationships, managing work intake and developing your people.

2016 Metro Series

Attendees – 197 Sessions – 4

2016 was the second year the half-day workshops for metropolitan lawyers were run. The same program was conducted at each of the four suburban Melbourne locations. The topics were tax, risk in commercial law and managing risk throughout your practice.

2017 Regional Risk Management Tour

Attendees – 548 Sessions – 11

The half-day seminars were tailored to the specific needs of regional practitioners. The presentations covered tax, transactions traps and avoiding claims in changing times, and the same program was conducted at each location.

Estimating costs effectively workshops

Attendees – 171 Sessions – 4

Two of the half-day workshops were held in Melbourne and the other two were in Bendigo and Geelong. 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.

Other speaking engagements

Engagements – 49

LPLC experts delivered presentations on wide-ranging topics from the new CGT withholding regime and conveyancing claims to professional responsibility in court and settlement negotiations.

The locations and events included The College of Law, Leo Cussen Institute, Law Institute of Victoria, law firms as well as other legal forums, conferences and interest groups. In May 2017, the Chief Risk Manager was a participant in a panel at The Eighth Annual General Counsel, Compliance and Risk Forum in London, UK.

Publications

Short training videos

New videos – 5

Each of the four-minute videos depicts a different scenario of a practitioner heading for a claim as well as an alternative approach that would have avoided the claim.

Practice risk guides

New guides – 1 Revised guides – 3

LPLC's practice risk guides identify and explain key risks for specific areas of practice. The new and revised practice risk guides covered superannuation, personal injury litigation, mortgages and time limits.

Client brochures

New brochures – 2

LPLC published a sample brochure to assist firms manage the relationship and communication with their clients right from the start of their retainer. Firms could tailor the content to suit their specific needs.

To assist practitioners explain the difference between joint tenancy and tenancy in common to their clients, LPLC also published a diagram on the LPLC website.

Checklists

New checklists – 8

During the financial year LPLC published new checklists on a range of topics including identity verification, tax issues as well as opening, closing and transferring files.

Bulletins

New bulletins – 3   Revised bulletin – 1

The bulletins LPLC published to alert practitioners about significant developments in terms of professional risk covered new CGT withholding payments and cyber security risks.

In Check newsletter

Newsletters – 4

LPLC's quarterly online newsletter covered topics, including terminating contract notices, cyber security, the Domestic Building Dispute Resolution Victoria and CGT.

Law Institute Journal

Articles – 11

Similar to previous years, LPLC published articles in the Victorian Law Institute Journal providing in-depth risk management advice on a range of legal issues including solicitor's certificates, handling trust money as well as the importance of delegation and supervision.

Blogs

Blog posts – 45   Subscribers – 1,087

LPLC's weekly blog discussed current or recurring risk management themes on a wide range of issues including seeking a personal cost order, new cyber security resource, superannuation claims and the new CGT threshold.

LPLC website

Page views – 163,142

LPLC continued to improve its website with additions including a more user friendly and flexible e-commerce section for booking seminars and a new resources page for cyber security information. Practitioners again visited the website to access claims and risk management information as well as renew their insurance online.

The four most viewed pages listed were:

> Working together – roles and obligations brochure

> 2016 Risk Management Intensive

> Face to face verification of identity

> Starting a practice.

Communication with firms and practitioners

Welcome kit

Emails sent – 387
Follow up phone calls – 300

LPLC continued to contact newly established firms via a tailored welcome email containing essential links and contact details as well as by telephone.

Telephone and email enquiries

Enquiries received – 1,149

LPLC risk managers answered telephone and email enquiries on client-related matters as well as practice management issues.

LPLC hotlines

Enquiries received – 216

LPLC's three hotline services on goods and services tax, personal property securities and water continued to provide practitioners with advice on these complex issues.

Claims follow-up project

Files reviewed – 132
Firms followed up – 42

To assist LPLC understand the underlying causes of claims as well as help firms avoid similar claims in the future, this new project involved reviewing closed claims and speaking to relevant firms.

Risk assistance program and other firm visits

Firms visited – 53 **Reports – 18**

LPLC visited firms of all sizes to assist them with their risk management strategies. Two whole-of-firm risk training sessions were held to support this program. Over the same period LPLC also interviewed or visited 30 firms for various reasons such as health issues of the sole practitioner.

Risk managers network

Networking sessions – 3
Attendees – 40

To assist risk managers in LPLC-insured firms, LPLC started a risk managers network with the aim of creating a platform for in-house risk managers to share their knowledge and experiences.

Other activities

Advocacy

LPLC risk managers met with LIV and VLSB+C a number of times to discuss the need for and possible structure of a compulsory practice management course in Victoria.

National risk managers' conference

LPLC risk managers met with the insurance risk managers from interstate schemes to discuss risk initiatives and issues.

Meeting with LIV and VLSB+C

Meetings – 6

LPLC attended meetings with LIV and VLSB+C to discuss issues of mutual concern, activities or projects each organisation was undertaking and opportunities for collaboration.

INVESTMENTS

Investment return for the reporting period was 8.7 per cent in a year which saw significant volatility in markets for both Australian and international equities. The performance was better than expected in an investment environment in which muted returns were predicted.

On a year by year basis, the return was a significant improvement on the 2015/16 year and lifted the average return to 8.44 per cent over the last five years.

The Legal Practitioners' Liability Fund continued as a balanced fund with an average allocation of 60 per cent to growth assets and 40 per cent to defensive assets.

Within its growth portfolio, LPLC maintained relatively low exposure to Australian equities in favour of international equities. There was an exposure to hedged and unhedged funds within international equities to address currency fluctuation risk.

LPLC retained its investment in unlisted wholesale commercial property, which has provided diversity in the growth portfolio. This investment has, over time, provided steady returns through fluctuations in markets for equities.

Willis Towers Watson Australia Pty Ltd were investment advisers to the Committee.

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

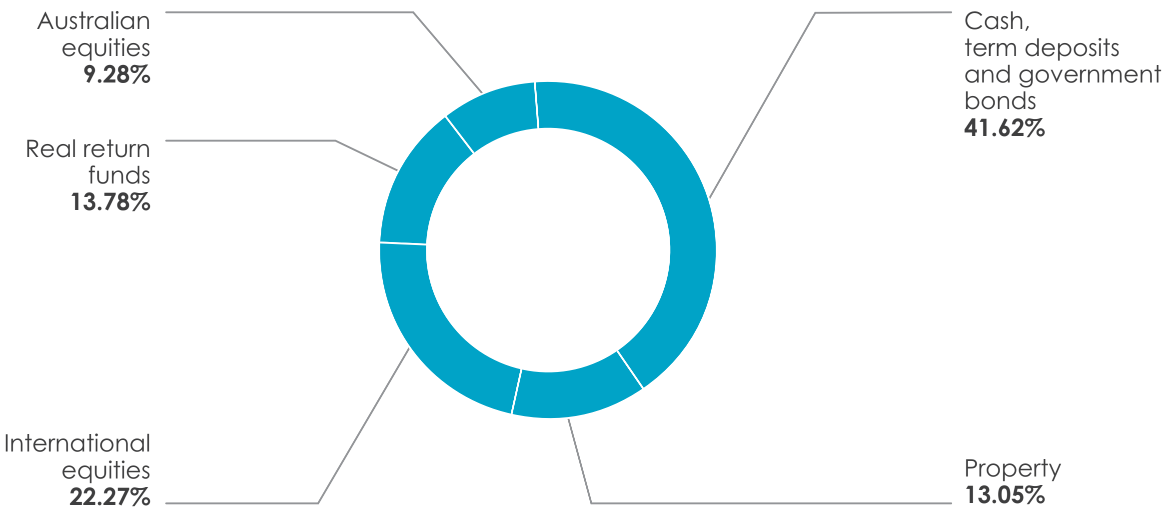
> Dexus Wholesale Property Fund

Cash

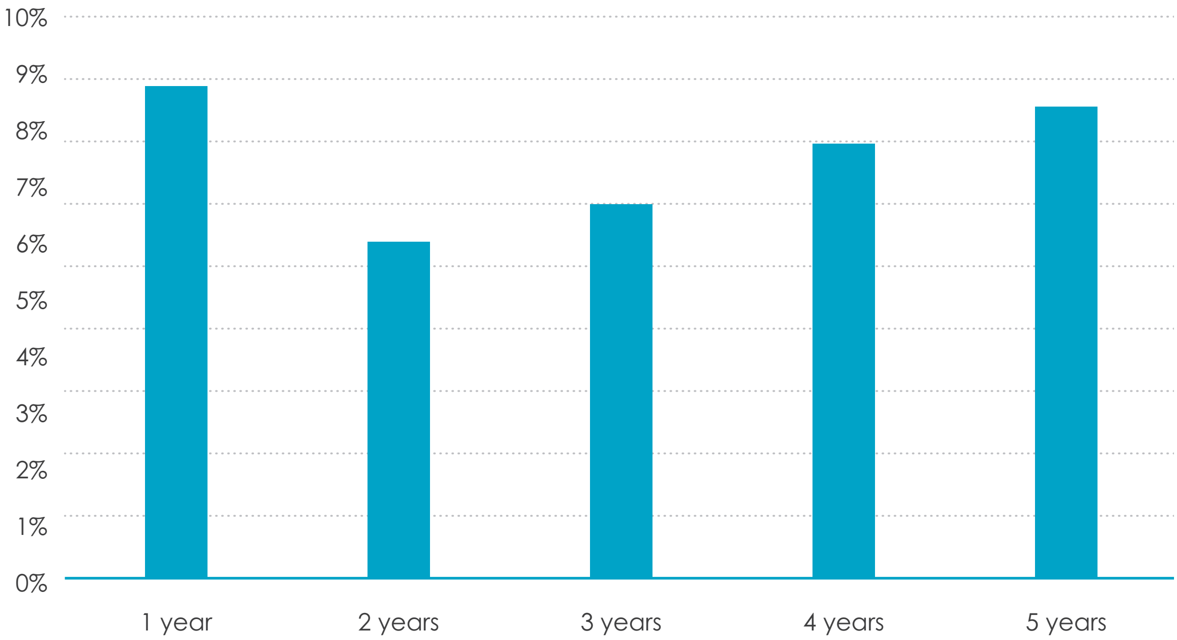
> Cash was invested by way of term deposits with Westpac, ANZ, NAB and the Commonwealth Bank

> Vanguard Australian Government Bond Index Fund

ASSET ALLOCATION AS AT 30 JUNE 2017



INVESTMENT RETURN OVER FIVE YEARS (%)



Investment returns on a year by year basis over the last five years.

LEGAL PRACTITIONERS' LIABILITY COMMITTEE

John Corcoran AM
Chair

John Corcoran AM is Principal at the law practice of Russell Kennedy and was Chair of that firm for 10 years until 30 June 2017. 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.

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 Committees of the Department of Environment, Land, Water and Planning, the Department of Health and Human Services and the Department of Education and Training. She is a former board member of Rural Finance Corporation and Big Sky Building Society.

Catriona Lowe
Committee Member

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

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

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

John Corcoran AM | Chair
Patricia Kelly
Helen Thornton
Catriona Lowe
John Cain
Adrian Finanzio SC
Miranda Milne | CEO

Audit and Risk Committee

Helen Thornton | Chair
Patricia Kelly
Catriona Lowe

Remuneration and Appointments Committee

Patricia Kelly | Chair
John Corcoran AM

Investment Committee

John Cain | Chair
John Corcoran AM
Adrian Finazio SC

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

Risk Management Administration

Kristy Fuga

Communications Manager

Sophie Patten

Digital Content and Reporting Manager

Kelly Cooper

Chief Financial Officer

Martin Dohnt

Premiums Manager

Terri Hedt

Corporate services 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 Victorian 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
- corporate governance and compliance
- conduct of audits, both internal and external
- finances and budgeting procedures.

The Investment Committee comprised of John Cain (Chair), John Corcoran AM and Adrian Finanzio SC.

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) and John Corcoran AM.

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
John Corcoran AM	8	7			4	4	2	2
Patricia Kelly	8	7	4	4			2	2
Helen Thornton	8	8	4	4				
Catriona Lowe	8	8	4	4				
John Cain	8	8			4	4		
Adrian Finanzio SC	8	6			4	3		
Miranda Milne	8	8	4	3	4	4	2	2

LPLC 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 is a trusted professional indemnity lawyer who combines experience over 30 years in both private legal practice and at senior executive level in the insurance industry. He assists the CEO with the Committee's corporate governance and leads LPLC's team of experienced claims solicitors.

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.

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.

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.

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.

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 and has been Chief Risk Manager since September 2010.

Matthew Rose
Risk Manager

Matthew joined LPLC in 2010 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 Dispute Resolution Committee at the Law Institute of Victoria (LIV).

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

On 18 November 2011 Phil received the LIV 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.

Bernadette Mallia
Corporate Services Manager

After working in the property/leasing department of several city law firms, Bernadette joined the Committee in 1988. In addition to supervising the annual renewal of insurance and overseeing the maintenance of the LPLC database, Bernadette is the reference point for insured practitioners, LPLC service providers and other stakeholders.

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 2017.

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

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 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 Corporate Services Manager at any time. Alternatively, matters can be raised with the Committee.

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
Office 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**

2016/17

Position	Male	Female	Total
Chief Executive Officer		1	1
Chief Financial Officer	1		1
Claims Manager	2	3	5
Risk Manager	3	1	4
Corporate Services 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 2016/17 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 59,220 kWh compared to 54,582 kWh in 2015/16 and the energy used per unit of office area 83.40 compared to 76.87 in 2015/16. kWh of energy used per FTE was 3483.

The 2017/18 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 1.33 tonnes of paper in the reporting period which contributed to a reduction in greenhouse gas emissions of more than 1.9 tonnes of carbon over 2016/17.

Units of paper used per FTE (A4 reams/FTE) was 22.41 which was a reduction from the previous year.

The target for the 2017/18 year is to reduce the paper consumption by at least 10 per cent compared to 2016/17, 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 until 30 June 2015 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 2016/17 total consultancy expenditure as defined by the *Financial Management Act 1994* (Vic) was approximately $381,224.

Taylor Fry – Actuaries

Taylor Fry is LPLC's actuary. The expenditure for the reporting period was $119,804. Taylor Fry has been retained as LPLC's actuary for the 2017/18 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 $42,033. Cumpston Sarjeant has been retained for the 2017/18 reporting period.

Willis Towers Watson

Willis Towers Watson is LPLC's Fund Administrator. The expenditure for the reporting period was $219,387. Willis Towers Watson has been retained for the 2017/18 reporting period.

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 2017

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 5.2 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 2017 and financial position of the Legal Practitioners' Liability Committee at 30 June 2017.

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 06 September 2017.

John Corcoran – Chairman

Miranda Milne – Chief Executive Officer

Martin Dohnt – Chief Financial Officer

Dated this 6th day of September 2017

AUDITOR-GENERAL'S REPORT

VAGO
Victorian Auditor-General's Office

Independent Auditor's Report

To the Committee of the Legal Practitioners' Liability Committee

Opinion	I have audited the financial report of the Legal Practitioners' Liability Committee (the authority) which comprises the: • balance sheet as at 30 June 2017 • statement of comprehensive income for the year then ended • statement of changes in equity for the year then ended • cash flow statement for the year then ended • notes to the financial statements, including a summary of significant accounting policies • declaration by committee members, chief executive officer and chief financial officer. In my opinion the financial report presents fairly, in all material respects, the financial position of the authority as at 30 June 2017 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 7 of the *Financial Management Act 1994* and applicable Australian Accounting Standards.
Basis for Opinion	I have conducted my audit in accordance with the *Audit Act 1994* which incorporates the Australian Auditing Standards. My responsibilities under the Act are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. My independence is established by the *Constitution Act 1975.* My staff and I are independent of the authority in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.
Committee's responsibilities for the financial report	The Committee of the authority is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Financial Management Act 1994*, and for such internal control as the Committee determine is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error. In preparing the financial report, the Committee is responsible for assessing the authority's ability to continue as a going concern, and using the going concern basis of accounting unless it is inappropriate to do so.

Level 31 / 35 Collins Street, Melbourne Vic 3000
T 03 8601 7000 enquiries@audit.vic.gov.au www.audit.vic.gov.au

AUDITOR-GENERAL'S REPORT (continued)

Auditor's responsibilities for the audit of the financial report

As required by the *Audit Act 1994,* my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 authority's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Committee
- conclude on the appropriateness of the Committee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the authority to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

T. Dit

MELBOURNE
8 September 2017

Travis Derricott
as delegate for the Auditor-General of Victoria

2

Statement of Comprehensive Income
for the Financial Year Ended 30 June 2017

	Note	2017 $	2016 $
UNDERWRITING			
Premium revenue	2.2	31,529,174	30,694,225
Outwards reinsurance expense	3.2	(1,000,000)	(1,072,170)
Net earned premiums		30,529,174	29,622,055
Claims expense	3.3	(19,248,645)	(24,945,889)
Net claims incurred		(19,248,645)	(24,945,889)
Movement in unexpired risk liability		5,110,382	(511,448)
UNDERWRITING RESULT		**16,390,911**	**4,164,718**
Investment income	2.3	19,207,122	6,055,357
Other income	2.4	221,794	191,315
Employment Expenses	3.1.1	(3,358,125)	(3,163,266)
Depreciation	4.1.1	(28,857)	(27,544)
Other expenses	3.4	(2,789,594)	(2,894,193)
Net Result		**29,643,251**	**4,326,387**
Other Comprehensive Income		–	–
Total Comprehensive Income		**29,643,251**	**4,326,387**

Notes to and forming part of these financial statements are set out in pages 42 to 111

Balance Sheet
as at 30 June 2017

	Note	2017 $	2016 $
CURRENT ASSETS			
Cash and cash equivalents	6.1	12,757,739	29,990,031
Receivables	5.1	1,435,062	1,538,470
Other financial assets	4.3	66,015,288	47,781,242
Other non-financial assets	5.3	191,207	1,301,454
Total Current Assets		**80,399,296**	**80,611,197**
NON-CURRENT ASSETS			
Other financial assets	4.3	169,092,732	150,073,423
Property, plant & equipment	4.1	90,602	55,808
Intangible assets	4.2	54,810	–
Total Non-Current Assets		169,238,144	150,129,231
TOTAL ASSETS		**249,637,440**	**230,740,428**
CURRENT LIABILITIES			
Outstanding claims liability	5.5	32,695,000	33,537,000
Payables	5.2	1,093,761	1,277,928
Unearned premium liability	5.4	42,275,000	45,857,000
Provisions	3.1.2	671,599	600,910
Total Current Liabilities		**76,735,360**	**81,272,838**
NON-CURRENT LIABILITIES			
Outstanding claims liability	5.5	77,642,000	83,842,000
Provisions	3.1.2	36,396	45,157
Total Non-Current Liabilities		**77,678,396**	**83,887,157**
TOTAL LIABILITIES		**154,413,756**	**165,159,995**
NET ASSETS		**95,223,684**	**65,580,433**
EQUITY			
Accumulated funds	8.1	95,223,684	65,580,433
TOTAL EQUITY		**95,223,684**	**65,580,433**

Notes to and forming part of these financial statements are set out in pages 42 to 111

Cash Flow Statement
for the Financial Year Ended 30 June 2017

	Note	2017 $	2016 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium revenue received		36,405,350	34,388,856
Other Income		215,180	177,974
Dividend Received		791,723	812,869
Interest Received		2,676,855	3,074,020
Other Income from Investments		8,263,636	7,804,910
Claims paid		(27,590,066)	(38,442,420)
Outward reinsurance premium paid		–	(1,000,000)
Payments to suppliers and employees		(8,071,775)	(6,976,418)
Net cash provided by/(used in) operating activities	6.1.1	12,690,903	(160,209)
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of property, plant and equipment		–	1,500
Purchase of property, plant and equipment		(118,461)	(22,740)
(Purchase)/sale of investments		(11,570,688)	(23,799,974)
Net cash provided by/(used in) investing activities		(11,689,149)	(23,821,214)
Net increase/(decrease) in cash held		1,001,754	(23,981,423)
Cash and cash equivalents at beginning of period		77,771,273	101,752,696
Cash and cash equivalents at end of period	6.1	**78,773,027**	**77,771,273**

Notes to and forming part of these financial statements are set out in pages 42 to 111

Statement of Changes In Equity
for the Financial Year ended 30 June 2017

	Note	Accumulated Funds $	Total $
At 01 July 2015		61,254,046	61,254,046
Net result for the year		4,326,387	4,326,387
Other comprehensive income for the year		–	–
At 30 June 2016		65,580,433	65,580,433
Net result for the year		29,643,251	29,643,251
Other comprehensive income for the year		–	–
At 30 June 2017	8.1	**95,223,684**	**95,223,684**

Notes to and forming part of these financial statements are set out in pages 42 to 111

Notes to the Financial Statements
for the year ended 30 June 2017

1. ABOUT THIS REPORT

The reporting entity is the Legal Practitioners' Liability Committee (LPLC). The Legal Practitioners' Liability Committee is a statutory authority established under 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.

Its principal address is: Legal Practitioners' Liability Committee
Level 31, 570 Bourke Street
Melbourne, Vic 3000

Basis of Preparation

These financial statements are in Australian dollars and the historical cost convention is used unless a different measurement basis is specifically disclosed in the note associated with the item measured on a different basis.

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.

The fund makes estimates and assumptions in respect of certain key assets and liabilities. The significant judgements made in the preparation of these financial statements are disclosed in the notes where amounts affected by those judgements are disclosed. 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 8.7.

Notes to the Financial Statements
for the year ended 30 June 2017

1. ABOUT THIS REPORT (CONTINUED)

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision. Judgements and assumptions made by management in applying AAS that have significant effects on the financial statements and estimates are disclosed in the notes under the heading: 'Significant judgement or estimates'.

These financial statements cover the Legal Practitioners' Liability Committee as an individual reporting entity and included all the controlled activities of the Committee.

Amounts in the financial statements have been rounded to the nearest dollar unless otherwise stated.

Compliance Information

These general purpose financial reports have been prepared in accordance with the FMA and applicable Australian Accounting Standards (AASs) which includes interpretations, issued by the Australia Accounting Standards Board (AASB). In particular, they are presented in a manner consistent with the requirements of *AASB 1049 Whole of Government and General Government Sector Financial Reporting (AASB 1049)*.

Where appropriate, those AASs paragraphs applicable to not-for-profit entities have been applied. Accounting policies selected and applied in these financial statements ensure that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or events is reported.

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.

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 and financing activities which are recoverable from or payable to the taxation authority, are presented as operating cash flow.

Notes to the Financial Statements
for the year ended 30 June 2017

2. FUNDING DELIVERY OF OUR SERVICES

Introduction

LPLC is the professional indemnity insurer to Victorian legal practices and the insurer to many national law firms. In addition, LPLC provides a comprehensive program of risk management services to legal practices that insure with us. LPLC's long-held values are; equity and fairness, transparency, probity, stability.

To enable LPLC to fulfil its values and provide outputs as described in section 4, it receives income (predominantly premium revenue).

Structure

2.1 Summary of income that funds the delivery of our services

	Note	2017 $	2016 $
Premium revenue	2.2	31,529,174	30,694,225
Investment income	2.3	19,207,122	6,055,357
Other income	2.4	221,794	191,315
Total Income		50,958,090	36,940,897

Income is recognised to the extent it is probable the economic benefits will flow to the LPLC and the income can be reliably measured at fair value. Where applicable, amounts disclosed as income are net of returns, allowances, duties and taxes.

Notes to the Financial Statements
for the year ended 30 June 2017

2. FUNDING DELIVERY OF OUR SERVICES (CONTINUED)

2.2 Premium Revenue

	2017 $	2016 $
Gross Written Premiums	33,057,557	31,235,777
Movement in Unearned Premium	(1,528,383)	(541,552)
Net Premium Revenue	31,529,174	30,694,225

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.

Notes to the Financial Statements
for the year ended 30 June 2017

2. FUNDING DELIVERY OF OUR SERVICES (CONTINUED)

2.3 Investment Income

	2017 $	2016 $
Net fair value gains on financial assets at fair value through profit or loss	7,448,621	(5,428,532)
Other Income	8,241,208	7,718,834
Dividend Income	791,723	812,869
Interest Income	2,725,570	2,952,186
Total Investment Income	19,207,122	6,055,357

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.

Interest income includes interest received on bank term deposits and other investments and the unwinding over time of the discount on financial assets.

Interest income is recognised using the effective interest method, which allocates the interest over the relevant period.

Other income includes distributions received from managed investment funds.

2.4 Other Income

	2017 $	2016 $
Seminar Income	221,794	191,315
Total Income	221,794	191,315

Seminar income is income received for seminars and workshops held during the financial year. Seminars and workshops are aimed at assisting practitioners to avoid risks and minimise their exposure to claims. Income is recognised when the seminar or workshop has been completed.

Notes to the Financial Statements
for the year ended 30 June 2017

3. THE COST OF DELIVERING SERVICES

Introduction

This section provides an account of the expenses incurred by Legal Practitioners' Liability Committee in delivering services and outputs. In section 2, the funds that enable the provision of services were disclosed and in this note the cost associated with provision of services are recorded. Section 4 discloses aggregated information in relation to the income and expenses by output.

Structure

3.1 Expenses incurred in delivery of services

	Notes	2017 $	2016 $
Employee benefit expenses	3.1.1	3,358,125	3,163,266
Outwards reinsurance expense	3.2	1,000,000	1,072,170
Claims expense	3.3	19,248,645	24,945,889
Other Operating expenses	3.4	2,789,594	2,894,193
Total expenses incurred in delivery of services		**26,396,364**	**32,075,518**

3.1.1 Employee benefits expense in the comprehensive operating statement

	2017 $	2016 $
Defined contribution superannuation expense	259,274	243,692
Salaries and wages, annual leave and long service leave	3,098,851	2,919,574
Total Employee expenses	**3,358,125**	**3,163,266**

Employee expenses include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, termination payments and WorkCover premiums.

Notes to the Financial Statements
for the year ended 30 June 2017

3. THE COST OF DELIVERING SERVICES (CONTINUED)

The amount recognised in the comprehensive operating statement in relation to superannuation is employer contributions for members of defined contribution superannuation plans that are paid or payable during the reporting period.

3.1.2 Employee benefits in the balance sheet

Provision is made for the Fund's liability for employee benefits arising from services rendered by employees to balance date and recorded as an expense during the period the services are delivered.

	2017 $	2016 $
CURRENT PROVISIONS		
Annual Leave		
unconditional and expected to settle within 12 months	157,695	180,441
unconditional and expected to settle after 12 months	67,433	51,176
Long Service Leave		
unconditional and expected to settle within 12 months	61,070	–
unconditional and expected to settle after 12 months	299,176	292,141
Provisions for on-costs		
unconditional and expected to settle within 12 months	32,224	26,582
unconditional and expected to settle after 12 months	54,001	50,570
Total current provisions	671,599	600,910
NON-CURRENT PROVISIONS		
Employee benefits	31,723	39,359
On-costs	4,673	5,798
Total non-current provisions	36,396	45,157
Total provisions for employee benefits	707,995	646,067

Notes to the Financial Statements
for the year ended 30 June 2017

3. THE COST OF DELIVERING SERVICES (CONTINUED)

3.1.2 Employee benefits in the balance sheet (continued)

Reconciliation of movement in on-cost provision

	2017 **$**
Opening Balance	82,950
Additional provisions recognised	44,051
Reductions arising from payments/other sacrifices of future economic benefits	(36,103)
Closing balance	**90,898**
Current	86,225
Non-current	4,673

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.

The liability for wages and salaries are recognised in the balance sheet at remuneration rates which are current at the reporting date. As the Legal Practitioners' Liability Committee expects the liabilities to be wholly settled within 12 months of reporting date, they are measured at undiscounted amounts.

The annual leave liability is classified as a current liability and measured at the undiscounted amount expected to be paid, as the Legal Practitioners' Liability Committee does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

No provision has been made for sick leave as all sick leave is non-vesting and it is not considered probable that the average sick leave taken in the future will be greater than the benefits accrued in the future. As sick leave is non-vesting, an expense is recognised in the Statement of Comprehensive income as it is taken.

Employment on-costs such as payroll tax, workers compensation and superannuation are not employee benefits. They are disclosed separately as a component of the provision for employee benefits when the employment to which they relate has occurred.

Notes to the Financial Statements
for the year ended 30 June 2017

3. THE COST OF DELIVERING SERVICES (CONTINUED)

3.1.2 Employee benefits in the balance sheet (continued)

Long Service Leave

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:

- undiscounted 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.

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

Notes to the Financial Statements
for the year ended 30 June 2017

3. THE COST OF DELIVERING SERVICES (CONTINUED)

3.1.3 Superannuation Contributions

Employees of LPLC are entitled to receive superannuation benefits and the LPLC contributes to defined contribution plans on their behalf.

Superannuation contributions paid or payable for the reporting period are included as part of employee benefits in the comprehensive operating statement of LPLC.

	Paid contribution for the year		Contribution outstanding at year end	
	2017	**2016**	**2017**	**2016**
DEFINED CONTRIBUTION PLANS				
Legal Super	147,655	144,258	–	–
Other	111,619	99,434	–	–
Total	**259,274**	**243,692**	**–**	**–**

3.2 Outwards reinsurance expense

	2017 $	**2016 $**
Outwards reinsurance expense	1,000,000	1,072,170
Total	**1,000,000**	**1,072,170**

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, with a defined sum insured, to cover the payment of claims made during the year ended 30 June 2017 in excess of $45.0m (2016:$42.5m).

Notes to the Financial Statements
for the year ended 30 June 2017

3. THE COST OF DELIVERING SERVICES (CONTINUED)

3.3 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.

NET CLAIMS INCURRED

	2017 Current Year $	Prior Years $	Total $	2016 Current Year $	Prior Years $	Total $
Gross claims expense	43,360,000	(23,372,355)	19,987,645	42,638,000	(19,668,111)	22,969,889
Discount movement	(1,960,000)	1,221,000	(739,000)	(1,588,000)	3,564,000	1,976,000
	41,400,000	(22,151,355)	19,248,645	41,050,000	(16,104,111)	24,945,889
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue – undiscounted	–	–	–	–	–	–
Discount movement	–	–	–	–	–	–
	–	–	–	–	–	–
Net claims incurred	41,400,000	(22,151,355)	19,248,645	41,050,000	(16,104,111)	24,945,889

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.

Notes to the Financial Statements
for the year ended 30 June 2017

3. THE COST OF DELIVERING SERVICES (CONTINUED)

3.4 Other Operating Expenses

	2017 $	2016 $
Purchase of Services	2,442,138	2,563,488
Operating leases	347,456	330,705
Total other operating expenses	**2,789,594**	**2,894,193**

Other operating expenses generally represent the day-to-day running costs incurred in normal operations.

Supplies and services are recognised as an expense in the reporting period in which they are incurred. The carrying amounts of any inventories held for distribution are expensed when the inventories are distributed.

Operating lease payments (including contingent rentals) are recognised on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset.

Notes to the Financial Statements
for the year ended 30 June 2017

4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

Introduction

The Legal Practitioners' Liability Committee controls infrastructure and other investments that are utilised in fulfilling its objectives and conducting its activities. They represent the resources utilised by the LPLC for delivery of those outputs.

Significant judgement: Classification of investments as 'key assets'

The LPLC has made the judgement that investments are key assets utilised to support the LPLC's objectives and outputs.

Fair Value measurement

Where the assets included in this section are carried at fair value, additional information is disclosed in Note 7.3 in connection with how those fair values were determined.

Structure

4.1 Total property, plant and equipment

	2017 $	2016 $
Furniture & equipment:		
At Fair Value	252,389	193,054
Accumulated depreciation	(179,173)	(158,436)
	73,216	34,618
Leasehold Improvements:		
At Fair Value	105,607	105,607
Accumulated depreciation	(88,221)	(84,417)
	17,386	21,190
Total	90,602	55,808

Notes to the Financial Statements
for the year ended 30 June 2017

4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY (CONTINUED)

4.1 Total property, plant and equipment (continued)

Initial Recognition

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.

The cost of leasehold improvements is capitalised and depreciated over the shorter of the remaining term of the lease of their estimated useful lives.

Subsequent Measurement

Property, plant and equipment (PPE) are subsequently measured at fair values less accumulated depreciation and impairment. Fair value is determined with regard to the asset's highest and best use (considering legal or physical restrictions imposed on the asset, public announcements or commitments made in relation to the intended use of the asset) and is summarised below by asset category.

Refer to Note 7.3 for additional information on fair value determination of property, plant and equipment.

4.1.1 Depreciation and impairment

Charge for the period

	2017 $	2016 $
Furniture & equipment	20,737	23,740
Leasehold improvements	3,804	3,804
Intangibles	4,316	–
	28,857	27,544

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.

Notes to the Financial Statements
for the year ended 30 June 2017

4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY (CONTINUED)

4.1.1 Depreciation and impairment (continued)

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

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives.

Impairment

Non-financial assets, including items of property, plant and equipment, are tested for impairment whenever there is an indication that the asset may be impaired.

The assets concerned are tested as to whether their carrying value exceeds the recoverable amount. Where an asset's carrying value exceeds its recoverable amount the difference is written off as an "other economic flow", except to the extent that it can be debited to an asset revaluation surplus amount applicable to that class of asset.

If there is an indication that there has been a reversal in impairment, the carrying amount shall be increased to its recoverable amount. However this reversal should not increase the asset's carrying amount above what would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years.

The recoverable amount for most assets is measured at the higher of depreciated replacement cost and fair value less cost to sell. Recoverable amount for assets held primarily to generate cash inflows is measured at the higher of the present value of future cash inflows expected to be obtained from the asset and fair value less costs to sell.

Notes to the Financial Statements
for the year ended 30 June 2017

4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY (CONTINUED)

4.1.2 Reconciliation of movements in carrying amount of property, plant and equipment

	Furniture Equipment $	Leasehold Improvements $	Total $
2017			
Balance at the Beginning of the year	34,618	21,190	55,808
Additions	59,335	–	59,335
Disposals	–	–	–
Depreciation Expense	(20,737)	(3,804)	(24,541)
Carrying amount at the end of the year	**73,216**	**17,386**	**90,602**
2016			
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**

4.2 Intangible assets

Computer Software

	2017	2016
GROSS CARRYING AMOUNT		
Opening balance	–	–
Additions	59,126	–
Disposals or classified as held for sale	–	–
Closing balance	**59,126**	–
ACCUMULATED DEPRECIATION, AMORTISATION AND IMPAIRMENT		
Opening balance	–	–
Amortisation of intangible assets	(4,316)	–
Disposals or classified as held for sale	–	–
Closing balance	**(4,316)**	–
Net book value at end of financial year	**54,810**	–

Notes to the Financial Statements
for the year ended 30 June 2017

4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY (CONTINUED)

4.2 Intangible assets (continued)

Initial recognition

Purchased intangible assets are initially recognised at cost. When the recognition criteria in AASB 138 Intangible assets is met, internally generated intangible assets are recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Depreciation and amortisation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent measurement

Intangible produced assets with finite useful lives, are depreciated as an "expense from transactions" on a straight line basis over their useful lives. Produced intangible assets have useful lives of between 2 and 5 years.

Impairment of intangible assets

Goodwill and intangible assets with indefinite useful lives (and intangible assets not yet available for use) are tested annually for impairment and whenever there is an indication that the asset may be impaired. Intangible assets with finite useful lives are tested for impairment whenever an indication of impairment is identified.

The policy in connection with testing for impairment is outlined in section 4.1.1.

Notes to the Financial Statements
for the year ended 30 June 2017

4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY (CONTINUED)

4.3 Investments and other financial assets

	2017 $	2016 $
CURRENT INVESTMENTS AND OTHER FINANCIAL ASSETS		
Term Deposits:		
Australian dollar term deposits > three months	66,015,288	47,781,242
Total current investments and other financial assets	66,015,288	47,781,242
NON-CURRENT INVESTMENTS AND OTHER FINANCIAL ASSETS		
Managed Unit Trusts		
- Overseas Equities	55,200,173	46,717,386
- Property Fund	32,355,598	29,869,414
- Australian Equities	22,996,289	20,214,859
- Diversified Funds	34,161,243	31,738,096
- Government Securities	24,379,429	21,533,668
Total Non-current investments and other financial assets	169,092,732	150,073,423
Total investments and other financial assets	235,108,020	197,854,665

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.

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.

Notes to the Financial Statements
for the year ended 30 June 2017

4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY (CONTINUED)

4.3 Investments and other financial assets (continued)

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 above. 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.

Ageing analysis of investments and other financial assets

	Carrying amount	Not past due and not impaired	Past due but not impaired			
			Less than 1 month	1-3 months	3 months – 1 year	1-5 years
2017						
Managed unit trusts	169,092,732	169,092,732	–	–	–	–
Term Deposits	66,015,288	66,015,288	–	–	–	–
Total	**235,108,020**	**235,108,020**	**–**	**–**	**–**	**–**
2016						
Managed unit trusts	150,073,423	150,073,423	–	–	–	–
Term Deposits	47,781,242	47,781,242	–	–	–	–
Total	**197,854,665**	**197,854,665**	**–**	**–**	**–**	**–**

Notes to the Financial Statements
for the year ended 30 June 2017

5. OTHER ASSETS AND LIABILITIES

Introduction

This section sets out those assets and liabilities that arose from the LPLC's operations.

Structure

5.1 Receivables

	2017 $	2016 $
CONTRACTUAL		
Deductibles Receivable & Cost Recovery	592,041	721,736
Accrued Investment income	843,021	816,734
Total receivables	1,435,062	1,538,470

Contractual receivables are classified as financial instruments and categorised as "loans and receivables". They are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement they are measured at amortised cost using the effective interest rate method.

Deductibles receivable and cost recoveries include excesses payable and costs recoverable, on terms, by insured practitioners.

Notes to the Financial Statements
for the year ended 30 June 2017

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.1 Receivables (continued)

Ageing Analysis of contractual receivables

	Carrying amount	Not past due and not impaired	Past due but not impaired			
			Less than 1 month	1-3 months	3 months – 1 year	1-5 years
2017						
Deductibles Receivable & Cost Recovery	592,041	586,041	2,000	4,000	–	–
Accrued Investment income	843,021	843,021	–	–	–	–
Total	**1,435,062**	**1,429,062**	**2,000**	**4,000**	**–**	**–**
2016						
Deductibles Receivable & Cost Recovery	721,736	721,736	–	–	–	–
Accrued Investment income	816,734	816,734	–	–	–	–
Total	**1,538,470**	**1,538,470**	**–**	**–**	**–**	**–**

Notes to the Financial Statements
for the year ended 30 June 2017

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.2 Payables

	2017 $	2016 $
CONTRACTUAL		
Supplies and services	210,009	224,090
Deferred other income	51,695	58,309
STATUTORY		
GST Payable	303,910	309,435
Other taxes payable	528,147	686,094
	1,093,761	**1,277,928**
Represented by:		
Current Payables	1,093,761	1,277,928
Non-current payables	–	–

Payables consist of:

- contractual payables, classified as financial instruments and measured at amortised cost. 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, that 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 contracts.

Notes to the Financial Statements
for the year ended 30 June 2017

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.2 Payables (continued)

Maturity analysis of contractual payables

	Carrying amount	Nominal amount	Maturity dates			
			Less than 1 month	1-3 months	3 months – 1 year	1-5 years
2017						
Supplies and Services	210,009	210,009	210,009	–	–	–
Deferred other income	51,695	51,695	–	51,695	–	–
Total	**261,704**	**261,704**	**210,009**	**51,695**	**–**	**–**
2016						
Supplies and Services	224,090	224,090	224,090	–	–	–
Deferred other income	58,309	58,309	–	58,309	–	–
Total	**282,399**	**282,399**	**224,090**	**58,309**	**–**	**–**

5.3 Other non-financial assets

	2017 $	2016 $
CURRENT OTHER ASSETS		
Prepayments	191,207	1,301,454
Total Current other assets	**191,207**	**1,301,454**
NON-CURRENT OTHER ASSETS		
Other	–	–
Total Non-current other assets	**–**	**–**
Total Other assets	**191,207**	**1,301,454**

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
for the year ended 30 June 2017

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.4 Unearned premium liability

	2017 $	2016 $
Unearned premium liability 1 July	45,857,000	44,804,000
Earning of premiums written in previous periods	(30,522,871)	(29,981,319)
Deferral of premium contracts written in period	32,051,253	30,522,871
Unexpired risk liability recognised for year ending 30 June (note 7.5.1)	(5,110,382)	511,448
Unearned premium liability 30 June	42,275,000	45,857,000

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 6.5.

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.

Notes to the Financial Statements
for the year ended 30 June 2017

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.5 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.

5.5.1 Outstanding Claims Liability

	2017 $	2016 $
Central estimate of claims still to be paid	98,589,000	104,259,000
Discount to present value	(5,471,000)	(4,732,000)
	93,118,000	99,527,000
Present value of claims handling costs	6,285,000	6,221,000
Risk Margin	10,934,000	11,631,000
Gross Outstanding claims liability	110,337,000	117,379,000
Gross Outstanding claims liability – undiscounted	115,807,000	122,111,000
Current	32,695,000	33,537,000
Non-current	77,642,000	83,842,000
Total	110,337,000	117,379,000

5.5.2 Risk margin applied	11.000%	11.000%

Notes to the Financial Statements
for the year ended 30 June 2017

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.5 Outstanding claims liability (continued)

5.5.3 Reconciliation of movement in discounted outstanding claims liability

	2017 $	2016 $
Brought forward	117,379,000	128,585,000
Increase in claims incurred/recoveries anticipated over the year	(23,372,355)	(19,668,111)
Incurred claims recognised in the Statement of Comprehensive Income	43,360,000	42,638,000
Claims payments/recoveries during the year	(26,290,645)	(36,151,889)
Movement in net present value adjustment	(739,000)	1,976,000
Carried forward	110,337,000	117,379,000

5.5.4 Claims Development table ($m)

Policy Year	2013	2014	2015	2016	2017	Total
Estimate of ultimate claim cost						
at end of policy year	30.336	39.248	37.066	34.389	35.414	
one year later	30.505	37.750	31.690	29.760		
two years later	31.743	38.716	26.454			
three years later	29.183	36.884				
four years later	28.677					
current estimate	28.677	36.884	26.454	29.760	35.414	157.190
cumulative payments	-24.476	-27.163	-12.159	-10.930	-3.714	-78.442
undiscounted central estimate	4.201	9.721	14.295	18.830	31.700	78.747
discount						-5.471
inflation to future values						5.695
present value of claims handling expenses						6.285
undiscounted central estimate prior years						14.147
risk margin						10.934
Total Outstanding Claims						**110.337**

Notes to the Financial Statements
for the year ended 30 June 2017

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.5 Outstanding claims liability (continued)

5.5.5 Net present value adjustment to outstanding claims

	2017 $	2016 $
Opening Balance	4,732,000	6,708,000
Prior Year	(1,221,000)	(3,564,000)
Current Year	1,960,000	1,588,000
Closing Balance	5,471,000	4,732,000

Notes to the Financial Statements
for the year ended 30 June 2017

6. HOW WE FINANCED OUR OPERATIONS

Introduction

This section provides information on the sources of finance utilised by the Legal Practitioners' Liability Committee during its operations, along with interest expenses (the cost of borrowing) and other information related to financing activities of the LPLC.

Structure

6.1 Cash flow information and balances

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:

	2017 $	2016 $
Cash and Cash Equivalents	12,757,739	29,990,031
Cash Trusts & Deposits	66,015,288	47,781,242
	78,773,027	**77,771,273**

6.1.1 Reconciliation of Operating profit for the year to the net cash flows from operations:

Operating profit	29,643,251	4,326,387
Depreciation	28,857	27,544
(Profit)/Loss on sale of property, plant & equipment	–	356
Changes in net market value of investments	(7,448,621)	5,428,532
Unexpired Risk Liability	(5,110,382)	511,448
Change in assets and liabilities		
Increase/(Decrease) in provision for long service and annual leave	61,928	69,715
(Increase)/Decrease in receivables & prepayments	1,213,655	(106,705)
Increase/(Decrease) in creditors	(184,167)	246,963
Increase/(Decrease) in premiums received in advance	1,528,382	541,552
Increase/(Decrease) in claims outstanding	(7,042,000)	(11,206,000)
Net cash and cash equivalents provided by operating activities	**12,690,903**	**(160,209)**

The fund has no credit standby arrangements or loan facilities (2016: Nil)

Notes to the Financial Statements
for the year ended 30 June 2017

6. HOW WE FINANCED OUR OPERATIONS (CONTINUED)

6.2 Commitments for expenditure

Commitments for future expenditure include operating capital commitments arising from contracts. These commitments are recorded below 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.

6.2.1 Total commitments payable

Nominal Amounts	Less than 1 year	1 – 5 years	5+ years	Total
2017				
Operating and lease commitments payable	400,067	1,689,700	647,766	2,737,533
Other commitments payable	229,016	–	–	229,016
Total commitments (inclusive of GST)	**629,083**	**1,689,700**	**647,766**	**2,966,549**
Less GST recoverable				269,686
Total commitments (exclusive of GST)				**2,696,863**
2016				
Operating and lease commitments payable	387,476	1,662,479	1,075,054	3,125,009
Other commitments payable	219,997	–	–	219,997
Total commitments (inclusive of GST)	**607,473**	**1,662,479**	**1,075,054**	**3,345,006**
Less GST recoverable				304,091
Total commitments (exclusive of GST)				**3,040,915**

Operating and lease commitments include a property lease which 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 payable include an ongoing agreement with Willis Towers Watson for the provision of investment advice.

Notes to the Financial Statements
for the year ended 30 June 2017

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Introduction

The LPLC is exposed to risk from its activities and outside factors. In addition it is necessary to make judgements and estimates associated with recognition and measurement of items in the financial statements. This section sets out financial instrument specific information, (including exposures to financial risks) as well as those items that are contingent in nature or require a higher level of judgement to be applied, which for the LPLC related mainly to fair value determination.

The fund's principal financial instruments comprise of unquoted unit trusts and cash and cash equivalents. The main purpose of these financial instruments is 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 8.1.1 below. There are no significant concentrations of credit risk within the fund.

Structure

7.1 Financial instruments specific disclosures

Introduction

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.

Notes to the Financial Statements
for the year ended 30 June 2017

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Categories of financial instruments

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
for the year ended 30 June 2017

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Derecognition of 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.

Derecognition of financial liabilities

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

Notes to the Financial Statements
for the year ended 30 June 2017

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.1 Financial Instruments: Categorisation

	Contractual financial assets/liabilities designated at fair value through profit/loss	Contractual financial assets/ liabilities held-for-trading at fair value through profit/loss	Contractual financial assets – loans and receivables and cash	Contractual financial assets – available for sale	Contractual financial liabilities at amortised cost	Total
2017						
CONTRACTUAL FINANCIAL ASSETS						
Cash and deposits	–	–	12,757,739	–	–	12,757,739
Receivables (a)						
Deductibles Receivable & Cost Recovery	–	–	592,041	–	–	592,041
Accrued investment income	–	–	843,021	–	–	843,021
Investments and other contractual assets						
Term deposits	–	–	66,015,288	–	–	66,015,288
Managed unit trusts	–	–	–	169,092,732	–	169,092,732
Total contractual financial assets	**–**	**–**	**80,208,089**	**169,092,732**	**–**	**249,300,821**
CONTRACTUAL FINANCIAL LIABILITIES						
Payables (a)						
Supplies and services	–	–	–	–	210,009	210,009
Deferred other income	–	–	–	–	51,695	51,695
Total contractual financial liabilities	**–**	**–**	**–**	**–**	**261,705**	**261,705**

Note: (a) The total amounts disclosed here exclude statutory amounts (e.g. amounts owing from Victorian government and GST input tax credit recoverable and taxes payable).

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.1 Financial Instruments: Categorisation (continued)

	Contractual financial assets/ liabilities designated at fair value through profit/loss	Contractual financial assets/ liabilities held-for-trading at fair value through profit/loss	Contractual financial assets – loans and receivables and cash	Contractual financial assets – available for sale	Contractual financial liabilities at amortised cost	Total
2016						
CONTRACTUAL FINANCIAL ASSETS						
Cash and deposits	–	–	29,990,031	–	–	29,990,031
Receivables (a)						
Deductibles Receivable & Cost Recovery	–	–	721,736	–	–	721,736
Accrued investment income	–	–	816,734	–	–	816,734
Investments and other contractual assets						
Term deposits	–	–	47,781,242	–	–	47,781,242
Managed unit trusts	–	–		150,073,423	–	150,073,423
Total contractual financial assets	**–**	**–**	**79,309,743**	**150,073,423**	**–**	**229,383,166**
CONTRACTUAL FINANCIAL LIABILITIES						
Payables (a)						
Supplies and services	–	–	–	–	224,090	224,090
Deferred other income	–	–	–	–	58,309	58,309
Total contractual financial liabilities	**–**	**–**	**–**	**–**	**282,399**	**282,399**

Note: (a) The total amounts disclosed here exclude statutory amounts (e.g. amounts owing from Victorian government and GST input tax credit recoverable and taxes payable).

Notes to the Financial Statements
for the year ended 30 June 2017

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.2 Financial Instruments – Net holding gain/(loss) on financial instruments by category

	Net Holding gain/(loss)	Total interest income/ (expense)	Fee income/ (expense)	Impairment loss	Total
2017					
CONTRACTUAL FINANCIAL ASSETS					
Financial assets designated at fair value through profit/loss	–	–	–	–	–
Financial assets – loans and receivables	–	2,725,570	–	–	2,725,570
Financial assets available-for-sale recognised in net result	7,448,621	–	–	–	7,448,621
Financial assets available for sale recognised in other comprehensive result	–	–	–	–	–
Total Contractual financial assets	**7,448,621**	**2,725,570**	**–**	**–**	**10,174,191**
Contractual financial liabilities	–	–	–	–	–
Financial liabilities at amortised cost	–	–	–	–	–
Total Contractual financial liabilities	**–**	**–**	**–**	**–**	**–**

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.2 Financial Instruments – Net holding gain/(loss) on financial instruments by category (continued)

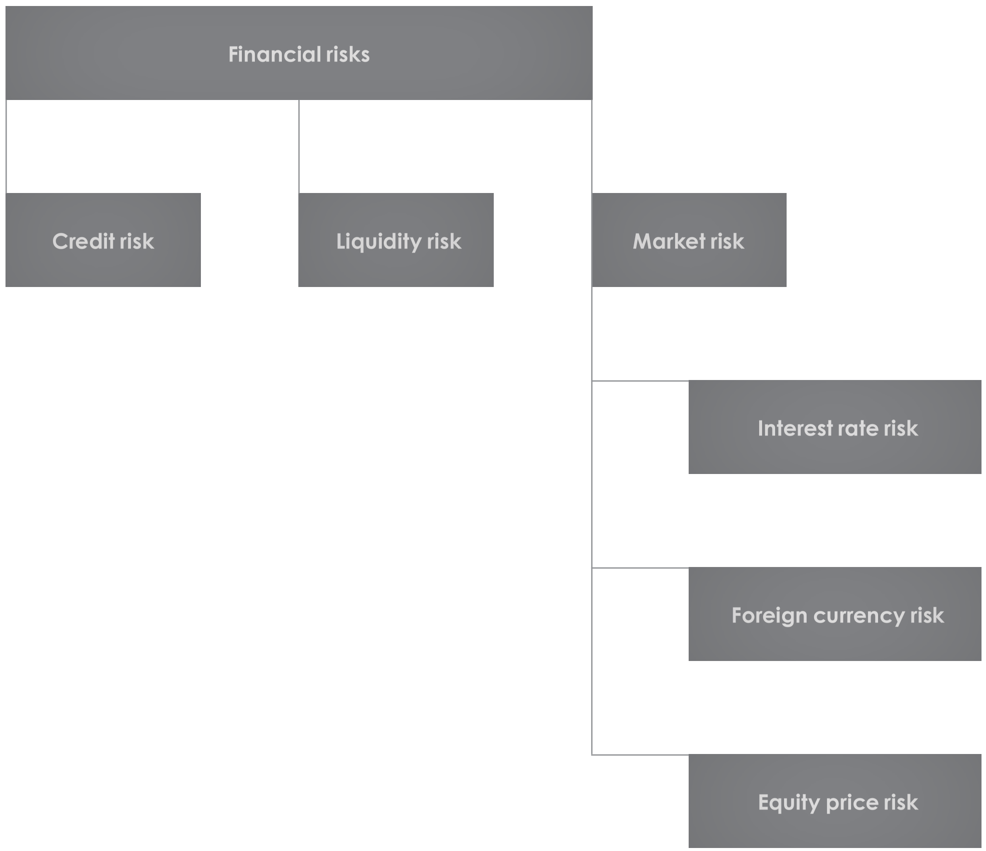
	Net Holding gain/(loss)	Total interest income/ (expense)	Fee income/ (expense)	Impairment loss	Total
2016					
CONTRACTUAL FINANCIAL ASSETS					
Financial assets designated at fair value through profit/loss	–	–	–	–	–
Financial assets – loans and receivables	–	2,952,186	–	–	2,952,186
Financial assets available-for-sale recognised in net result	(5,428,532)	–	–	–	(5,428,532)
Financial assets available for sale recognised in other comprehensive result	–	–	–	–	–
Total Contractual financial assets	**(5,428,532)**	**2,952,186**	**–**	**–**	**(2,476,346)**
Contractual financial liabilities	–	–	–	–	–
Financial liabilities at amortised cost	–	–	–	–	–
Total Contractual financial liabilities	**–**	**–**	**–**	**–**	**–**

Notes to the Financial Statements
for the year ended 30 June 2017

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.3 Financial risk management objectives and policies



As a whole the LPLC's financial risk management program seeks to manage these risks and the associated volatility of its financial performance.

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, financial liability and equity instrument above are disclosed in Note 8.3 to the financial statements.

Notes to the Financial Statements
for the year ended 30 June 2017

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Financial instruments: 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.

Financial instruments: Liquidity risk

Liquidity risk arises from being unable to meet financial obligations as they fall due.

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.

Notes to the Financial Statements
for the year ended 30 June 2017

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Financial instruments: 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 and are primarily through interest rate risk, foreign currency risk and equity market risk.

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 1.50%
- A shift of +10% or -10% in the average weighted market value of local equities, overseas equities and local property unquoted unit trusts.

The tables that follow show the impact on the LPLC's net result and equity for each category of financial instrument held by the LPLC at the end of the reporting period, if the above movements were to occur.

Notes to the Financial Statements
for the year ended 30 June 2017

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

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 2017			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	0.67%	12,757,739	–	–	–	–	12,757,739
Receivables	n/a		–	–	–	1,435,062	1,435,062
Units in Managed Funds	n/a	–	–	–	–	169,092,732	169,092,732
Term Deposits	2.87%	–	66,015,288	–	–	–	66,015,288
Total Financial Assets		12,757,739	66,015,288	–	–	170,527,794	249,300,821
Financial Liabilities:							
Creditors – Contractual	n/a	–	–	–	–	210,009	210,009
Outstanding claims	n/a	–	–	–	–	110,337,000	110,337,000
Total Financial Liabilities		–	–	–	–	110,547,009	110,547,009

Notes to the Financial Statements
for the year ended 30 June 2017

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Interest Rate Risk (continued)

30 June 2016	Weighted Average Interest Rate	Floating Interest Rate	Fixed Interest maturing in: 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

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Interest Rate Risk (continued)

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.

Interest rate risk sensitivity

		Interest Rate Risk				**Other Price Risk**			
2017	**Carrying**	**-0.25%**		**+.5%**		**-10%**		**+10%**	
Financial Assets	Amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Cash and cash equivalents	78,773,027	(196,933)	(196,933)	393,865	393,865				
Units in Managed Funds	169,092,732					(16,909,273)	(16,909,273)	16,909,273	16,909,273
2016	**Carrying**	**-0.25%**		**+.5%**		**-10%**		**+10%**	
Financial Assets	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

Notes to the Financial Statements
for the year ended 30 June 2017

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (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.

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.

7.2 Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the balance sheet but are disclosed and, if quantifiable, are measured at nominal value. at nominal value. Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

Contingent Assets

Contingent assets are possible assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

There are no contingent assets.

Notes to the Financial Statements
for the year ended 30 June 2017

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.2 Contingent assets and contingent liabilities (continued)

Contingent Liabilities

Contingent liabilities are:

- possible obligations that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- present obligations that arise from past events but are not recognised because:
    - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations; or
    - the amount of the obligations cannot be measured with sufficient reliability.

There are no contingent liabilities.

7.3 Fair value determination

This section sets out information on how the LPLC determined fair value for financial reporting purposes. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair Value hierarchy

In determining fair values a number of inputs are used. To increase consistency and comparability in the financial statements, these inputs are categorised into three levels, also known as the fair value hierarchy. The levels are as follows:

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

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 observable.

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.

Notes to the Financial Statements
for the year ended 30 June 2017

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.3 Fair value determination (continued)

7.3.1 Fair value determination of financial assets and liabilities

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.

Financial assets measured at fair value

30-Jun-17	Level 1 $	Level 2 $	Level 3 $	Total $
FINANCIAL ASSETS				
- Unit in managed funds	136,737,134	32,355,598	-	169,092,732
30-Jun-16				
FINANCIAL ASSETS				
- Unit in managed funds	120,204,009	29,869,414	-	150,073,423

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 4.3.

There have been no transfers between levels during the period.

Notes to the Financial Statements
for the year ended 30 June 2017

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.3 Fair value determination (continued)

7.3.2 Fair value determination: Non-financial physical assets

Fair Value measurement hierarchy

	Fair value measurement at end of reporting period using:		
	Level 1 $	**Level 2 $**	**Level 3 $**
2017			
Furniture & Equipment	–	–	73,216
Leasehold improvements	–	–	17,386
Total assets at fair value			**90,602**
2016			
Furniture & Equipment	–	–	34,618
Leasehold improvements	–	–	21,190
Total assets at fair value			**55,808**

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 2017. 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

2017 and 2016	Valuation Technique	Significant unobservable
Plant and Equipment	Depreciated Replacement Cost	Useful life of plant and equipment

Notes to the Financial Statements
for the year ended 30 June 2017

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.3 Fair value determination (continued)

Reconciliation of Level 3 fair value movement

	Furniture & Equipment	Leasehold improvements
2017		
Opening balance	34,618	21,190
Purchases (Sales)	59,335	–
Depreciation	(20,737)	(3,804)
Revaluation	–	–
Closing Balance	**73,216**	**17,386**

There have been no transfers between levels during the period.

2016		
Opening balance	37,474	24,994
Purchases (Sales)	20,884	–
Depreciation	(23,740)	(3,804)
Revaluation	–	–
Closing Balance	**34,618**	**21,190**

Notes to the Financial Statements
for the year ended 30 June 2017

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.4 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.

(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.

(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.

(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 2017 in excess of $45.0m.

Notes to the Financial Statements
for the year ended 30 June 2017

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.4 Insurance contracts – risk management and procedures (continued)

(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 5.5.4 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.

(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.

(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.

7.5 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 2017.

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 5.5.

Notes to the Financial Statements
for the year ended 30 June 2017

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.5 Unexpired risk liability (continued)

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.

7.5.1 Unexpired risk liability

	2017 $	2016 $
Unexpired risk liability as at 1 July	**15,334,129**	**14,822,681**
Recognition of additional unexpired risk liability in the period	**(5,110,382)**	**511,448**
Unexpired risk liability as at 30 June	**10,223,747**	**15,334,129**

7.5.2 Calculation of deficiency

	2017 $	2016 $
Unearned premium liability relating to insurance contracts	**32,051,253**	**30,522,871**
Central estimate of present value of expected future cash flows arising from future claims	**36,922,000**	**40,050,000**
Risk Margin of 14.5%	**5,353,000**	**5,807,000**
	42,275,000	**45,857,000**
Net deficiency	**10,223,747**	**15,334,129**

The process of determining the overall risk margin is discussed in Note 7.4. As with outstanding claims the overall risk margin is intended to achieve a 75% probability of adequacy.

Notes to the Financial Statements
for the year ended 30 June 2017

8. OTHER DISCLOSURES

Introduction

This section includes additional material disclosures required by accounting standards or otherwise, for the understanding of the financial report.

Structure

8.1 Reserves

	2017 $	2016 $
Accumulated Funds at the beginning of the year	65,580,433	61,254,046
Operating Profit/(loss) for the year	29,643,251	4,326,387
Accumulated Funds at the end of the year	**95,223,684**	**65,580,433**

8.2 Remuneration of auditors

	2017 $	2016 $
VICTORIAN AUDITOR-GENERAL'S OFFICE		
- auditing or reviewing the financial report	45,300	44,000
- other services	–	–
Total remuneration of auditors	**45,300**	**44,000**

Notes to the Financial Statements
for the year ended 30 June 2017

8. OTHER DISCLOSURES (CONTINUED)

8.2 Remuneration of auditors (continued)

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

	2017 $	2016 $
Paid as at 30 June	10,000	10,000
Payable as at 30 June	35,300	34,000
	45,300	44,000

8.3 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 2016 to 30 June 2017
Accountable Officer/ Committee Member	Ms Miranda Milne	1 July 2016 to 30 June 2017
Committee Member	Ms Patricia Kelly	1 July 2016 to 30 June 2017
Committee Member	Ms Helen Thornton	1 July 2016 to 30 June 2017
Committee Member	Mr John Corcoran	1 July 2016 to 30 June 2017
Committee Member	Ms Catriona Lowe	1 July 2016 to 30 June 2017
Committee Member	Mr John Cain	1 July 2016 to 30 June 2017
Committee Member	Mr Adrian Finanzio	1 July 2016 to 30 June 2017

Notes to the Financial Statements
for the year ended 30 June 2017

8. OTHER DISCLOSURES (CONTINUED)

8.3 Responsible persons (continued)

Remuneration

Remuneration received or receivable by the Responsible Minister, Committee member and Accountable Officer in connection with the management of the Legal Practitioners' Liability Committee during the reporting period was in the range:

$	2017 No.	2016 No.
0 - 9,999 (a)	1	2
10,000 -19,999	-	2
20,000 - 29,999	-	3
30,000 - 39,999	4	-
40,000 - 49,999	-	1
50,000 - 59,999	1	-
390,000 - 399,999	-	1
400,000 - 410,000	1	-
Total numbers	**7**	**9**

(a) Remuneration received by John Cain for the year is $nil.

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
for the year ended 30 June 2017

8. OTHER DISCLOSURES (CONTINUED)

8.4 Remuneration of executives

The number of executive officers, other than ministers, and their total remuneration during the reporting period are shown in the table below. Total annualised employee equivalents provides a measure of full time equivalent executive officers over the reporting period.

Remuneration comprises employee benefits in all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered, and is disclosed in the following categories:

Short-term employee benefits include amounts such as wages, salaries, annual leave or sick leave that are usually paid or payable on a regular basis, as well as non-monetary benefits such as allowances and free or subsidised goods and services.

Post-employment benefits include pensions and other retirement benefits paid or payable on a discrete basis when employment has ceased.

Other long-term benefits include long service leave, other long service benefits or deferred compensation.

Termination benefits include termination of employment payments, such as severance packages.

Remuneration of executive officers (including Key Management Personnel disclosed in Note 8.5)	**Total Remuneration** **2017** **$**	**2016** **$**
Short-term employee benefits	2,007,358	
Post-employment benefits	159,344	
Other long-term benefits	30,789	
Termination benefits	–	
Total Remuneration	**2,197,491**	
Total number of executives	**14**	
Total Annualised employee equivalents	**13.6**	

Notes:

(a) No comparatives have been reported because remuneration in the prior year was determined in line with the basis and definition under FRD21B. Remuneration previously excluded non-monetary benefits and comprised any money, consideration or benefit received or receivable, excluding reimbursement of out-of-pocket expenses, including any amount received or receivable from a related party transaction. Refer to the prior year's financial statements for executive remuneration for the 2015-16 reporting period.

(b) The total number of executive officers includes persons who meet the definition of Key Management Personnel (KMP) of the entity under AASB 124 Related Party Disclosures and are also reported within the related parties note disclosure (Note 8.5)

(c) Annualised employee equivalent is based on the time fraction worked over the reporting period.

Notes to the Financial Statements
for the year ended 30 June 2017

8. OTHER DISCLOSURES (CONTINUED)

8.5 Related parties

The Legal Practitioners' Liability Committee (LPLC) is a statutory authority established under the Legal Profession Act 2004 (from 1 July 2015 The Legal Profession Uniform Law Application Act 2014).

Related parties of the Legal Practitioners' Liability Committee include:

- all key management personnel and their close family members and personal business interests (controlled entities, joint ventures and entities they have significant influence over); and
- all cabinet ministers and their close family members.

Key Management personnel of the Legal Practitioners' Liability Committee includes the Attorney General, the Hon. Martin Pakula MP and members of the LPLC and senior executive team, which includes:

Chief Executive Officer	Ms Miranda Milne
Committee Member	Ms Patricia Kelly
Committee Member	Ms Helen Thornton
Committee Member	Mr John Corcoran
Committee Member	Ms Catriona Lowe
Committee Member	Mr John Cain
Committee Member	Mr Adrian Finanzio

The compensation detailed below excludes the salaries and benefits the Portfolio Minister receives. The Minister's remuneration and allowances is set by the Parliamentary Salaries and Superannuation Act 1968 and is reported within the Department of Parliamentary Services' financial report.

	Total Remuneration	
	2017	2016
Compensation of KMP's	$	$
Short-term employee benefits	545,572	
Post-employment benefits	35,051	
Other long-term benefits	6,394	
Termination benefits		
Total Compensation:	**587,017**	

Notes: (a) Note that KMP's are also reported in the disclosure of remuneration of executive officers (note 8.4)

Notes to the Financial Statements
for the year ended 30 June 2017

8. OTHER DISCLOSURES (CONTINUED)

8.5 Related parties (continued)

Transactions and balances with key management personnel and other related parties

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

Members of Key Management personnel and their related parties who are practising solicitors and barristers are required, pursuant to the Legal Profession Uniform Law Application Act 2014, to enter into a contract of insurance, on standard terms and conditions, with the Legal Practitioners' Liability Committee.

Ms Patricia Kelly is also a director of the RACV Limited. During the year the Legal Practitioners' Liability Committee hired conference facilities on normal commercial terms and conditions from the RACV Limited. The amount paid for conference facility hire was $117,000 including GST.

8.6 Subsequent events

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

Notes to the Financial Statements
for the year ended 30 June 2017

8. OTHER DISCLOSURES (CONTINUED)

8.7 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 30/6/17.

Development Year	Ultimate claims incurred as % ofcurrent estimate	Payments to end of year, as % of ultimate claims
0	84.2% *	8.2%
1	92.7%	33.3%
2	96.3%	56.3%
3	98.2%	70.1%
4	99.1%	79.9%
5	99.6%	86.6%
6	99.8%	91.0%
7	99.9%	94.0%
8	100.0%	96.0%
9	100.0%	97.3%

* 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 6.75% of net claim payments based on forecasted expenses of LPLC
- Wage inflation based explicitly on Victorian AWE and state government forecasts.

Notes to the Financial Statements
for the year ended 30 June 2017

8. OTHER DISCLOSURES (CONTINUED)

8.7 Actuarial assumptions and methods (continued)

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 2017 are estimated by deducting payments to date.

Gross payments in 2016-17 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 2016-17.

Gross payments in 2016-17 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.

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 2017. 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 30/6/17

Risk Variable	Base	Altered	Outstanding claims ($m)	Premium liability ($m)
Discount rate (% pa)	2.00%	3.00%	-2.462	-1.105
	2.00%	1.00%	2.612	1.176
Claim administration expenses (% of claims)	6.75%	7.75%	0.931	
	6.75%	5.75%	-0.931	
Wage inflation (% pa)	3.00%	4.00%	2.682	1.185
	3.00%	2.00%	-2.597	-1.198
“Regular” solicitor claims per principal equivalent	3,450	3,925	0.804	3.024
	3,450	3,100	-0.593	-2.229
“Large” claims ($m)	$11.2m	$9.0m		-2.316

Notes to the Financial Statements
for the year ended 30 June 2017

8. OTHER DISCLOSURES (CONTINUED)

8.7 Actuarial assumptions and methods (continued)

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

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
for the year ended 30 June 2017

8. OTHER DISCLOSURES (CONTINUED)

8.8 Australian Accounting Standards issued that are not yet effective

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 2017.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 amendments are likely to result in earlier recognition of impairment losses and at more regular intervals. While there will be no significant impact arising from AASB 9, there will be a change to the way financial instruments are disclosed.

Notes to the Financial Statements
for the year ended 30 June 2017

8. OTHER DISCLOSURES (CONTINUED)

8.8 Australian Accounting Standards issued that are not yet effective (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.
AASB 2015-8 Amendments to Australian Accounting Standards – Effective date of AASB 15	This standard defers the mandatory effective date of AASB 15 from 1 January 2017 to 1 January 2018.	1 Jan 2018	This amending standard will defer the application period of AASB 15 for for-profit entities to the 2018-19 reporting period in accordance with the transition requirements.

Notes to the Financial Statements
for the year ended 30 June 2017

8. OTHER DISCLOSURES (CONTINUED)

8.8 Australian Accounting Standards issued that are not yet effective (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
AASB 2016-3 Amendments to Australian Accounting Standards – clarifications to AASB 15	This Standard amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence. The amendments require: - A promise to transfer to a customer a good or service that is 'distinct' to be recognised as a separate performance obligation; - For items purchased online, the entity is a principal if it obtains control of the good or service prior to transferring to the customer; and - For licences identified as being distinct from other goods or services in a contract, entities need to determine whether the licence transfers to the customer over time (right to use) or at a point in time (right to access).	1 Jan 2018	The assessment has indicated that there will be no significant impact for the public sector, other than the impact identified for AASB 15 above.

Notes to the Financial Statements
for the year ended 30 June 2017

8. OTHER DISCLOSURES (CONTINUED)

8.8 Australian Accounting Standards issued that are not yet effective (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
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.
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.

Notes to the Financial Statements
for the year ended 30 June 2017

8. OTHER DISCLOSURES (CONTINUED)

8.8 Australian Accounting Standards issued that are not yet effective (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
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	The assessment has indicated that there will be no significant impact for the public sector.
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
for the year ended 30 June 2017

8. OTHER DISCLOSURES (CONTINUED)

8.8 Australian Accounting Standards issued that are not yet effective (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities	This Standard defers the mandatory effective date of AASB 15 for not-for-profit entities from 1 January 2018 to 1 January 2019.	1 Jan 2019	This amending standard will defer the application period of AASB 15 for not-for-profit entities to the 2019-20 reporting period.
AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities	This Standard amends AASB 9 and AASB 15 to include requirements to assist not-for-profit entities in applying the respective standards to particular transactions and events. The amendments: - require non-contractual receivables arising from statutory requirements (i.e. taxes, rates and fines) to be initially measured and recognised in accordance with AASB 9 as if those receivables are financial instruments; and - clarifies circumstances when a contract with a customer is within the scope of AASB 15.	1 Jan 2019	The assessment has indicated that there will be no significant impact for the public sector, other than the impacts identified for AASB 9 and AASB 15 above.

Notes to the Financial Statements
for the year ended 30 June 2017

8. OTHER DISCLOSURES (CONTINUED)

8.8 Australian Accounting Standards issued that are not yet effective (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
AASB 1058 *Income of Not-for-Profit Entities*	This standard replaces AASB 1004 Contributions and establishes revenue recognition principles for transactions where the consideration to acquire an asset is significantly less than fair value to enable to not-for-profit entity to further its objectives.	1 Jan 2019	The assessment has indicated that revenue from capital grants that are provided under an enforceable agreement that have sufficiently specific obligations, will now be deferred and recognised as performance obligations are satisfied. As a result, the timing recognition of revenue will change.
AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows: - The change in fair value attributable to changes in credit risk is presented in other comprehensive income (OCI); and	1 Jan 2018	The assessment has identified that the financial impact of available for sale (AFS) assets will now be reported through other comprehensive income (OCI) and no longer recycled to the profit and loss.Changes in own credit risk in respect of liabilities designated at fair value through profit and loss will now be presented within other comprehensive income (OCI). Hedge accounting will be more closely aligned with common risk management practices making it easier to have an effective hedge.

Notes to the Financial Statements
for the year ended 30 June 2017

8. OTHER DISCLOSURES (CONTINUED)

8.8 Australian Accounting Standards issued that are not yet effective (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
	- Other fair value changes are presented in profit and loss. If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.		For entities with significant lending activities, an overhaul of related systems and processes may be needed.

Notes to the Financial Statements
for the year ended 30 June 2017

8. OTHER DISCLOSURES (CONTINUED)

8.9 Glossary

Amortisation is the expense that results from the consumption, extraction or use over time of a non-produced physical or intangible asset.

Commitments include those operating, capital and other outsourcing commitments arising from non-cancellable contractual or statutory sources.

Depreciation is an expense that arises from the consumption through wear or time of a produced physical or intangible asset.

Effective interest method is the method used to calculate the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, where appropriate, a shorter period.

Employee benefits expenses include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, redundancy payments, defined benefits superannuation plans, and defined contribution superannuation plans.

Financial asset is any asset that is:

(a) cash;

(b) an equity instrument of another entity;

(c) a contractual right:

- to receive cash or another financial asset from another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or

(d) a contract that will or may be settled in the entity's own equity instruments and is:

- a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
- a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Notes to the Financial Statements
for the year ended 30 June 2017

8. OTHER DISCLOSURES (CONTINUED)

8.9 Glossary (continued)

Financial liability is any liability that is:

(a) a contractual obligation:

- to deliver cash or another financial asset to another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

(b) a contract that will or may be settled in the entity's own equity instruments and is:

- a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
- a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Financial statements in the Model Report comprises:

(a) a balance sheet as at the end of the period;

(b) a comprehensive operating statement for the period;

(c) a statement of changes in equity for the period;

(d) a cash flow statement for the period;

(e) notes, comprising a summary of significant accounting policies and other explanatory information;

(f) comparative information in respect of the preceding period as specified in paragraph 38 of AASB 101 Presentation of Financial Statements; and

(g) a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 41 of AASB 101.

Notes to the Financial Statements
for the year ended 30 June 2017

8. OTHER DISCLOSURES (CONTINUED)

8.9 Glossary (continued)

Leases are rights to use an asset for an agreed period of time in exchange for payment. Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and rewards incidental to ownership. Leases of infrastructure, property, plant and equipment are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership from the lessor to the lessee. All other leases are classified as operating leases.

Net result is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those classified as 'other non-owner movements in equity'.

Payables includes short and long-term trade debt and accounts payable, grants, taxes and interest payable.

Receivables include amounts owing from government through appropriation receivable, short and long-term trade credit and accounts receivable, accrued investment income, grants, taxes and interest receivable.

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LPLC LEGAL PRACTITIONERS' LIABILITY COMMITTEE