LEGAL PRACTITIONERS' LIABILITY COMMITTEE

ANNUAL REPORT **2019–2020**

LEGAL PRACTITIONERS' LIABILITY COMMITTEE

The Legal Practitioners' Liability Committee (LPLC) has been insuring legal practitioners practicing in Victoria since 1986. It is the successor body to the Solicitors' Liability Committee. LPLC administers the Legal Practitioners' Liability Fund.

Pursuant to the *Legal Profession Uniform Law Application Act 2014 (Vic),* LPLC is the insurer to law practices (solicitors and barristers) engaging in legal practice in Victoria, as well as most of Australia's largest national firms.

LPLC is an independent statutory authority, a market leader in a specialised market and insurer of more than 20,000 legal practitioners.

LPLC's statutory scheme is underpinned by the objectives of the Uniform Law in relation to professional indemnity insurance, which are:

- to ensure that Australian legal practitioners are covered by approved professional indemnity insurance
- to ensure that clients of law practices have adequate protection against the consequences of professional negligence.

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

LPLC also provides risk management services to law practices.

LPLC reports to the Attorney-General and to the Assistant Treasurer of the State of Victoria.

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FROM THE CHAIR

This report on LPLC's business for year ended 30 June 2020 is prepared as the coronavirus pandemic grips the global community with our most serious health and economic challenge in more than 100 years.

No sector of the community has been spared and the Australian legal profession faces great uncertainty with nearly all aspects of legal practice impacted in ways none of us would have predicted 12 months ago and Victoria particularly hard hit. Legal practice has been forced to rapidly adapt to an online world of virtual meetings with audio-visual technology, email and other digitised services replacing the traditional face-to-face delivery of many legal services.

Large and small firms alike, metropolitan and regional, are facing challenges like none before. In this most testing outlook, LPLC continues to support the profession (and in turn the interests of consumers of legal services) with stable premiums, expert claims and risk management services and sound financial management.

The Fund now insures more than 20,000 solicitors and barristers and is securely capitalised with net equity at balance date of $115.9m.

LPLC's statutory insurance model has withstood previous crises – the stock market crash in 1987, the early 1990's recession, hard reinsurance markets in the 1990's, the HIH collapse and 9/11 in 2001 and the GFC in 2008. LPLC's longevity and track record delivering high quality insurance cover for all practitioners continues to prove its value to the profession in the midst of the coronavirus pandemic and hard insurance market.

This value was once again demonstrated in March 2020 with the Committee's unprecedented decision to extend an option to all insured law practices to renew their policies for 12 months but to defer payment of 2020–2021 premium from the end of May to the end of November. Some 20 per cent of law practices (representing one-third of premium income) took up this option, affording them welcome financial breathing space and helping to protect jobs in the legal community at a time when many practices were experiencing uncertainty and severe cash flow pressure.

Investment markets experienced significant volatility during the year, with buoyant returns in the first 7 months falling steeply in February/March before rebounding in the June quarter. At a time when many investment funds produced negative investment returns for the year, it was pleasing that our diversified investment strategy protected LPLC on the downside and recorded a positive return of 1.37 per cent overall for the year.

With Australia's already slowing economy entering a COVID-induced recession during the final quarter of the year we saw an increase in claims severity for the 12 months, although it was offset to an extent by improving claims results and reserve releases from prior underwriting years. Overall, the number of claims and notifications per thousand practitioners remains both stable and low. Whilst difficult to measure, there is no doubt LPLC's considerable investment in risk management advice and services for the profession is helping to contain the frequency and cost of claims.

There were also some changes in Committee members during the year, with two Committee members appointed to higher office requiring them to relinquish their Committee positions — John Cain as State Coroner and County Court Judge, and Catriona Lowe as a State member of the Australian Energy Regulator. Both John and Catriona made outstanding contributions in their time on the Committee, John with his deep experience in private legal practice and extensive business and Government connections; and Catriona as a representative of the interests of consumers.

I thank both John and Catriona for their service to the Committee and at the same time we were delighted to welcome newly appointed members, Michelle Dixon and Nicole Rich. Michelle is the CEO of Maddocks and brings a wealth of practical legal and business experience to LPLC. Nicole brings a distinguished career as a consumer advocate, community lawyer and Victoria Legal Aid executive to LPLC and as the recently appointed Director of Consumer Affairs Victoria is uniquely positioned on the Committee as a voice for the interests of consumers of legal services.

LPLC continues to enjoy excellent working relationships with stakeholder groups across the legal profession, most frequently the Legal Services Board, Law Institute of Victoria and Victorian Bar. LPLC's role as insurer to the profession supports important cross-sector collaboration through the insights our comprehensive claims data, risk management perspectives and knowledgeable staff bring to industry consultations.

Finally, I would like to thank fellow Committee members for their advice and support, as well as the Committee's dedicated executive leadership team and staff for their ongoing work with LPLC and with members of the profession. In particular I would like to especially acknowledge and thank management and staff for their great efforts in response to COVID-19.

John Corcoran AM
Chair

FROM THE CEO

LPLC's purpose is to ensure the availability of broad insurance cover for law practices and to ensure a source of compensation for clients of law practices when errors and omissions of practitioners cause them financial loss.

LPLC has a unique statutory model which not only fulfils its insurance obligations in the management and payment of claims, but also ensures a vital risk management resource for the legal profession. The model has served the profession and consumers of legal services well for 35 years.

The Fund once again this year demonstrated its flexibility, fitness for purpose and value to the profession in its response to the COVID-19 crisis. The first wave of the global pandemic coincided with the annual insurance renewal process for practitioners in Victoria. As events unfolded quickly, the uncertainty of the impact on legal practice, and in particular on cashflow for practices, was of great concern (as it was across the economy generally) particularly with courts closing, or diminishing operations significantly, and work from home restrictions applied for the first time.

In recognition of this uncertainty, and in attempt to examine ways in which the LPLC could alleviate at least some of the pressure on practitioners, the Committee convened an extraordinary meeting. It resolved to offer practitioners the opportunity to defer the premium payment to November 2020.

Of the total pool, an overwhelming 80 per cent chose not to take up the offer of a deferral and paid their premium on time. The LPLC is grateful for the support that it has received from the profession and from those firms and practitioners who, notwithstanding the high level of uncertainty, paid their premiums in May. The LPLC is also glad that it was in a position to offer a buffer for those (1000 law firms and 340 barristers) who needed the breathing space in those very difficult times.

The Fund finished with a loss of $5.4m for the year, because of lower than budgeted investment returns and higher incurred claims than in previous years. However, the Fund remains in good financial shape with net equity of $115.9m. This sum includes $12.6m of deferred premium income for the 2020–2021 year receivable by the end of November.

The 2019–2020 year closed with an estimated cost of claims against solicitors and barristers of $39.64m, up 12 per cent on the year before. This was due to increased claim severity more so than an increase in claim numbers, with more claims estimated in the $300,000–$1m range than usual.

Partly offsetting these higher 2019–2020 claim costs were improvements in the anticipated claim costs from prior insurance years as those matters were resolved.

There are clear signs the profession is now entering a higher claims environment, as typically occurs during any economic downturn. Conveyancing and mortgages claims rose noticeably in the last couple of months of the financial year, an early indication of a slowing economy with consumers withdrawing from transactions in response to declining confidence, uncertainty in the economic outlook or because of banks tightening lending criteria in response to concerns about job security of loan applicants in the COVID-19 context.

Personal injury claims (missed limitation periods and revisited settlements) and disputes over wills/estates (will-drafting errors) were also higher than usual in 2019–2020.

Additionally, this year LPLC experienced an increase in claims costs for barristers, arising from a small number of higher-value claims which have coincided in the past 12 months across the current and earlier underwriting years. The number of claims against barristers continues to be low, and the infrequent nature of barristers claims means there is greater risk of claims volatility in that segment of the pool.

These are all reminders that the prudent management of risk with professional practice is an ongoing responsibility for all firms and practitioners.

Investment returns were impacted by the sudden drop in equities markets in February/March 2020 after a strong first half of the year. A partial rebound in May and June recovered some of these losses and given the extent of economic damage wrought by the pandemic it was pleasing to finish the year with a positive investment return of 1.37 per cent. Importantly, LPLC continues to exceed its investment target of CPI +3 per cent over 3, 5 and 10-year time horizons, however the low interest rate environment makes it likely our returns in future will be more subdued than in the recent past.

During the year, LPLC continued to implement its strategic plan and consolidated the achievements of 2018 and 2019.

Key achievements and highlights during the year were:

- further refinement of the pricing model, with gross fee income (GFI) method of premium assessment extended to law firms with fee revenue of $2m or more (from $3m in 2018–2019) — the gradual shift of law firms to the GFI assessment method ensures LPLC's pricing model is responding to shifts in law practice structures so that LPLC continues to spread the premium burden across the pool equitably and transparently

- no increase in premium rates for 2020–2021 and the continuation of LPLC's longstanding approach of allocation of a portion of surplus equity back into the premium pool to keep premiums as low as reasonably possible
- LPLC's support to the profession through the premium deferral option for 2020–2021, as a one-off response to the COVID-19 crisis
- continuation of LPLC's proactive claims management, with 554 claims and notifications finalised during the year — the prompt resolution of claims was again conducive to positive downward development of claims in prior underwriting years
- further initiatives responding to cyber risks during the year — publication of a handy Cyber Guide for lawyers, an online cyber course, several risk alerts, and a cyber risks conference for practitioners held in collaboration with the Law Institute
- the rapid transition of LPLC's popular risk management seminars to webinar format once COVID-19 restrictions were imposed, enabling LPLC to continue the provision of important (and free) risk education across all regional and metropolitan areas.

LPLC management and staff continued to work collaboratively with the Legal Services Board, Law Institute and Victorian Bar over the year on a variety of operational insurance and risk-related topics.

The co-operation between our respective organisations in the second half of the year when responding to the summer bushfires and COVID-19 crises was particularly gratifying and I commend Fiona McLeay, Adam Awty and Katherine Lorenz for their leadership of the legal profession throughout these crises in 2020.

I thank the LPLC Chair, each of the Sub-Committee Chairs, and all Committee members who continue to provide management with unwavering support, especially in the midst of the COVID-19 logistical challenges which affected LPLC's operations in the same way as the law practices we insure.

It is also important to recognise the tireless work of LPLC's staff and external service providers for their contributions during the year. When the COVID-19 pandemic forced radical changes in working arrangements, all staff put their shoulders to the wheel and ensured LPLC continued to attend to the needs of practitioners via phone, email and audio-visual link without any diminution in LPLC's high service standards. It is a privilege to continue working with such a dedicated team.

Justin Toohey
Chief Executive Officer

CLAIMS

LPLC's claims management philosophy encourages early notification by practitioners, with early assessment of potential exposures once notified, and pro-active management to resolve claims as expeditiously and cost effectively as possible.

Many notifications are precautionary. In quite a number of these situations, the underlying problem is resolved by the practitioner with advice and assistance from LPLC and no claim eventuates.

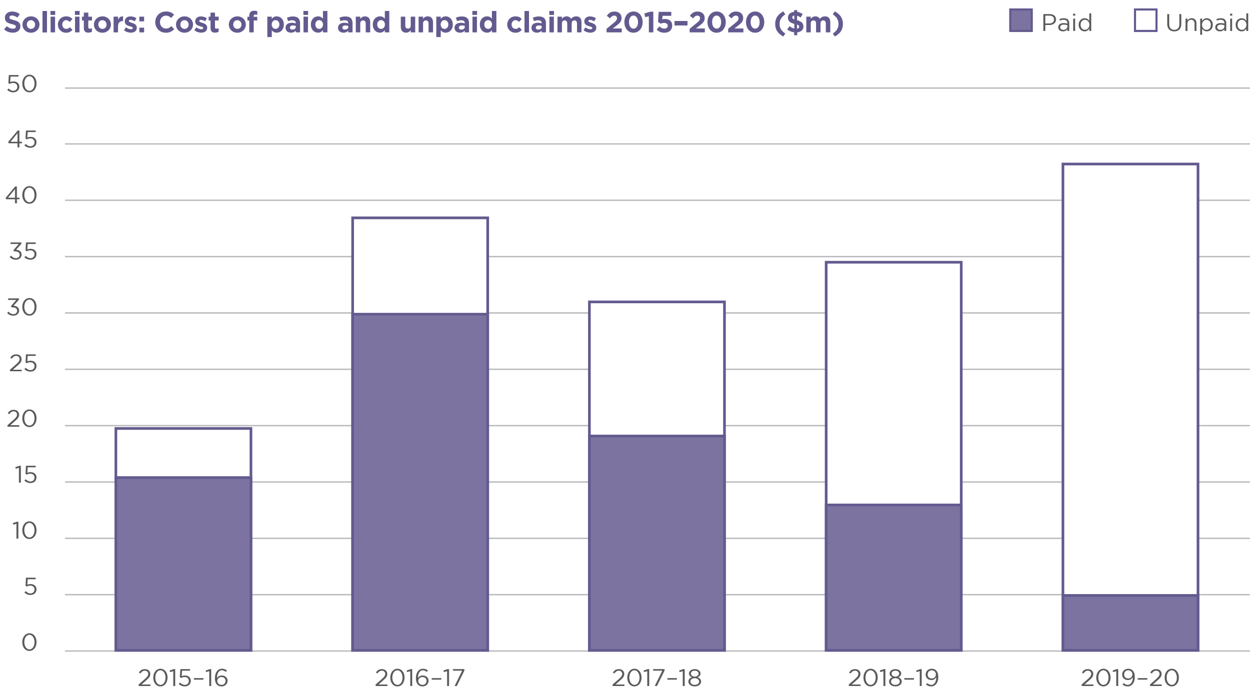
Approximately 60 per cent of matters notified to LPLC are claims, but less than half proceed to litigation. Most claims are resolved through private negotiation prior to the commencement of proceedings. A small number of litigated claims are intractable disputes where the claim is assessed as having no merit and is defended. The majority are resolved after investigation of liability and damages questions, via negotiation and often at mediation.

Claims - Solicitors

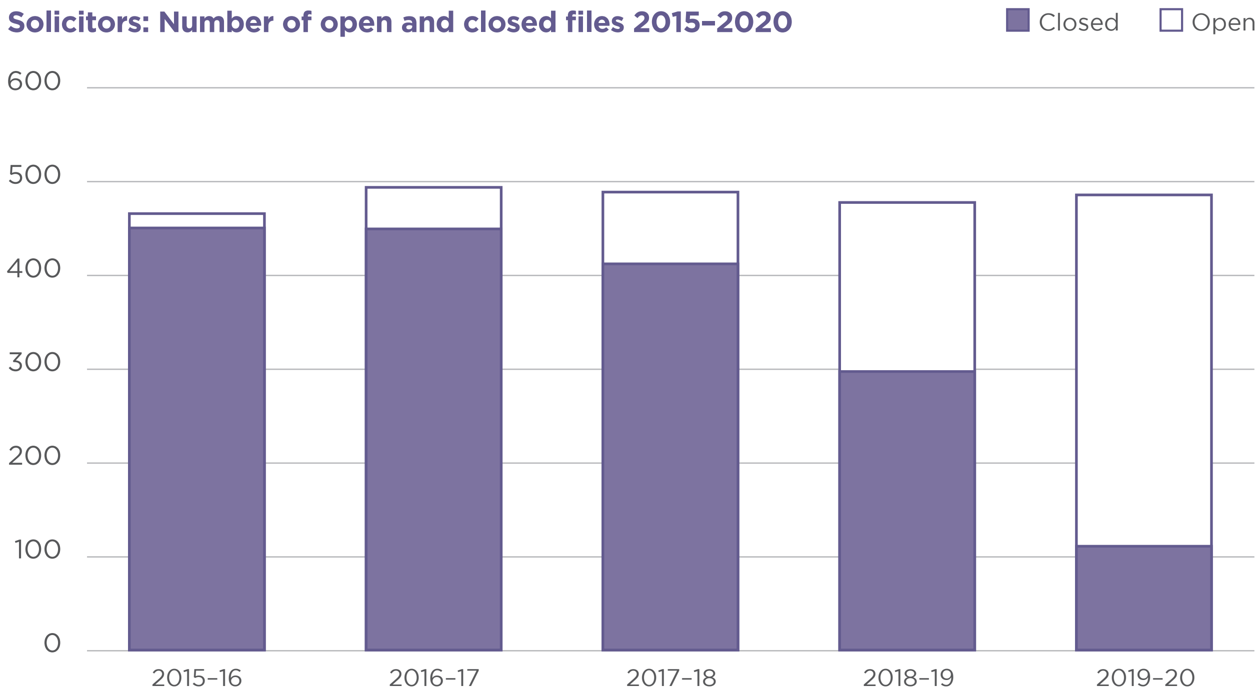
During the reporting period, claims solicitors finalised 540 claims and notifications from solicitors across the current and earlier underwriting years. Of these, 376 claims were resolved in-house by LPLC's experienced claims team.

There were 482 claims and notifications from solicitors during 2019–2020 with incurred estimates of $37.3 million for the year. This represents an increase of 10–15 per cent on prior years, of which a significant proportion occurred in the last two months of the year (May and June) as economic conditions tightened on the back of the business impact of COVID-19. The higher claims costs are also to some extent attributable to continuing growth in the pool of practitioners insured by LPLC.

Solicitors: Cost of paid and unpaid claims 2015–2020 ($m)



Solicitors: Number of open and closed files 2015–2020



Areas of high claims experience in 2019–2020:

Property and conveyancing
Approximately 27% of claims
The complexity of acting in property and conveyancing claims is demonstrated by the fact that the claims arose out of 23 separate underlying causes. The highest frequency of claims arose from defective vendor statements, inadequate advice on contract terms, inadequate advice about property restrictions, incorrect GST treatment and incorrect stamp duty advice.

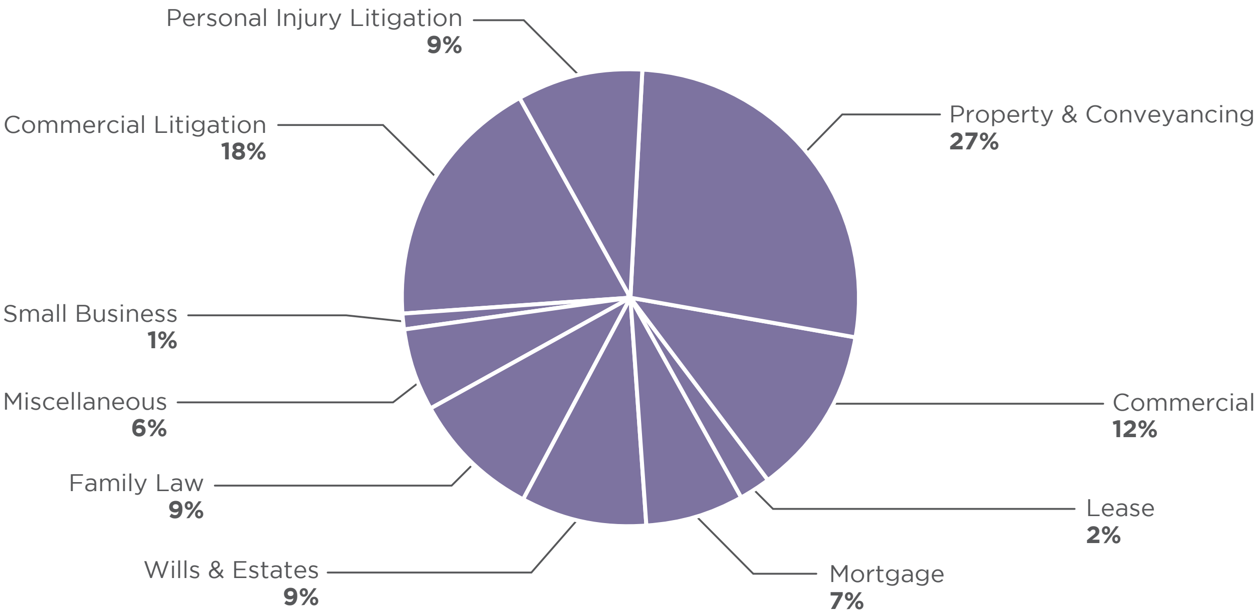
Commercial litigation
Approximately 18% of claims
Principal areas of concern were claims by dissatisfied litigants, alleged negligent advice about the merits of litigation, missed limitation periods, general mistakes with the conduct of litigation and alleged breaches of overarching obligations under the *Civil Procedure Act 2010.*

Commercial law
Approximately 12% of claims
Claims in this area arose from drafting errors, failure to register security interests on the Personal Property Securities Register, and inadequate or incorrect advice in connection with a broad range of commercial transactions.

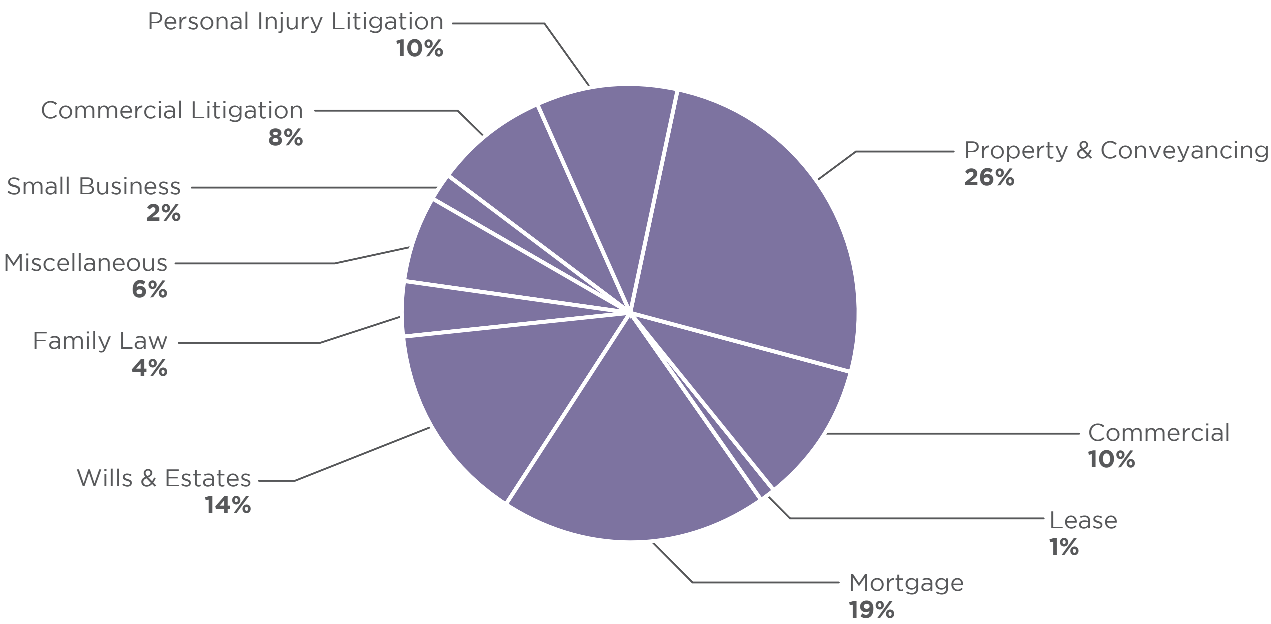
Solicitors remain vulnerable targets for cyber-criminals, with the number of claims and notifications arising from cyber-related incidents continuing to increase in 2019–2020 from previous years. The most common scenario is business email compromise, where practitioner and/or client emails are intercepted by fraudsters and altered to re-direct settlement funds from property, estate, family law or litigation.

Claims from earlier underwriting years continued to develop within estimates with significant reserve releases. This helped to offset the higher than anticipated claims costs from the current year.

Solicitors: Percentage number of claims by area of practice 2019–2020



Solicitors: Percentage cost of claims by area of practice 2019–2020



CLAIMS (continued)

Claims - Barristers

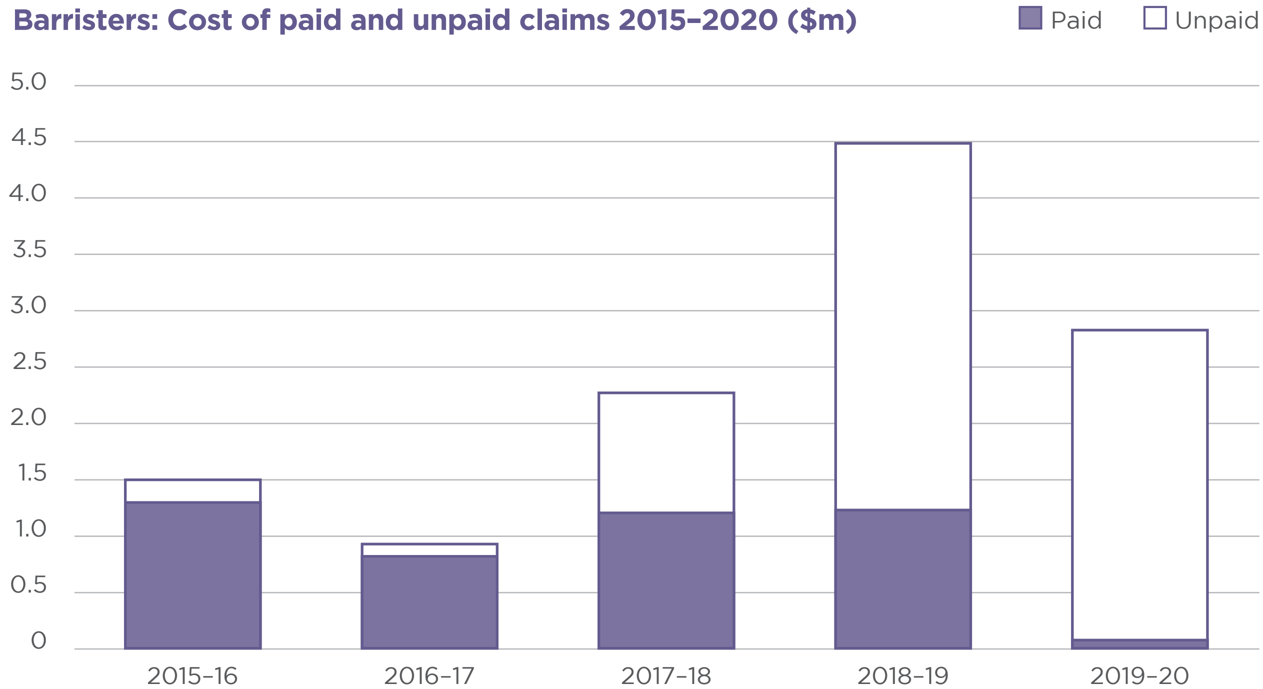
During the reporting period, claims solicitors finalised 56 claims and notifications from barristers across the current and earlier underwriting years.

For the 2019–2020 underwriting year, there were 38 claims and notifications from barristers, with incurred estimates of $2.34 million.

Major themes giving rise to claims and notifications reported during 2019–2020 concerned:

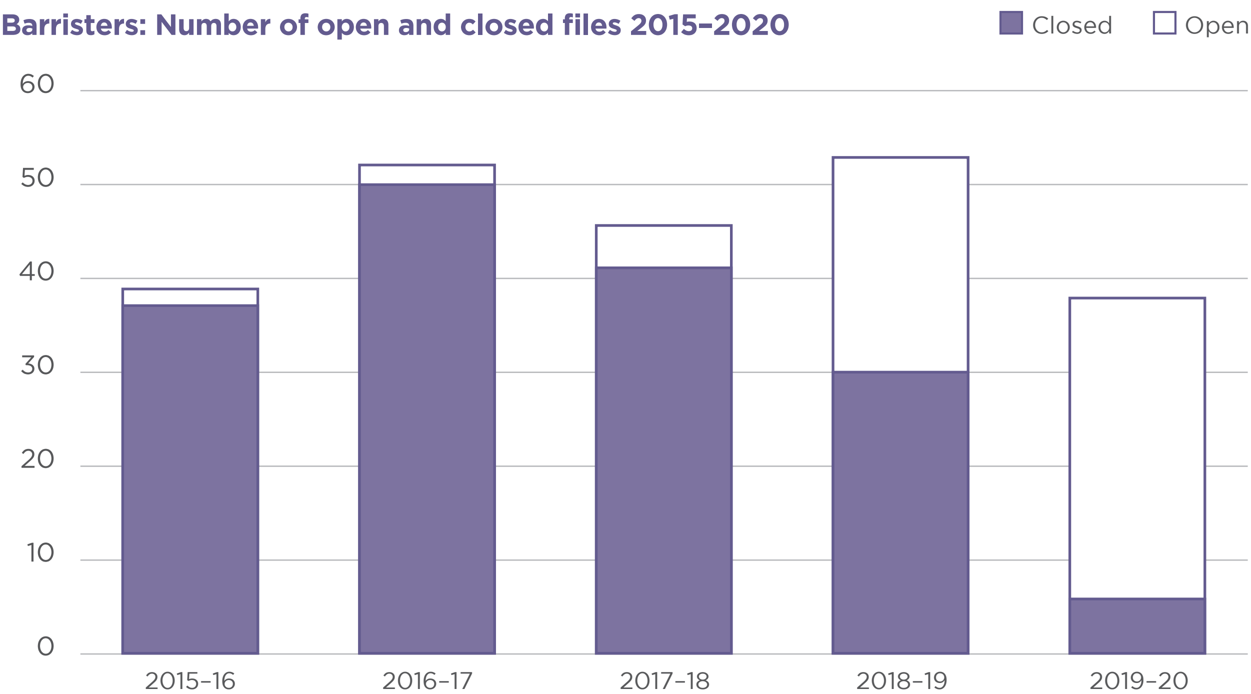
- alleged deficiencies in a barrister's preparation or involvement in litigation

Barristers: Cost of paid and unpaid claims 2015–2020 ($m)

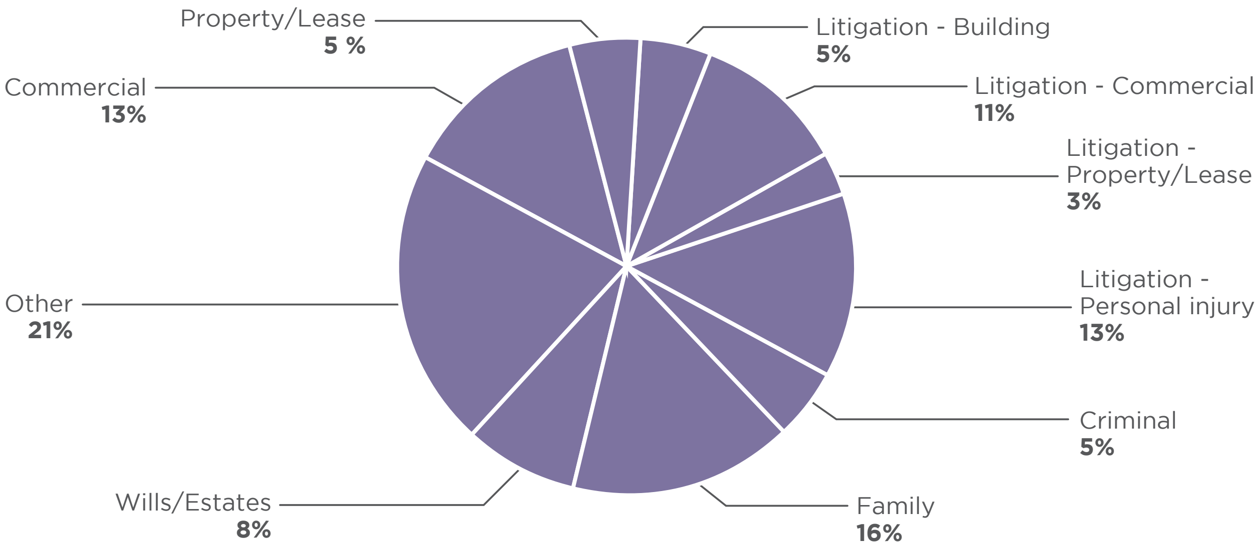


- drawing of pleadings, acting for a named party without specific instructions, acting in a conflict of interest, bringing claims in the wrong jurisdiction, missing limitation dates, and inadequate advice in relation to prospects of success
- claims by dissatisfied litigants, often caused by poor communication and unexpected outcomes
- claims from breaches of overarching obligations under the *Civil Procedure Act* and/or applications for personal costs orders.

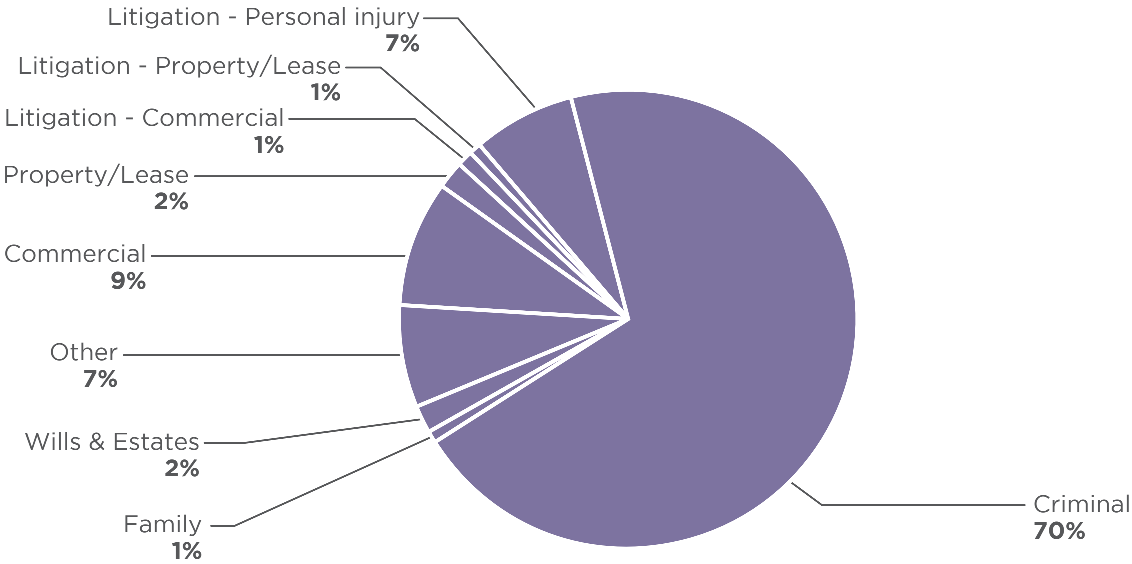
Barristers: Number of open and closed files 2015–2020



Barristers: Percentage number of claims and notifications by area of practice 2019–2020



Barristers: Percentage cost of claims and notifications by area of practice 2019–2020



RISK MANAGEMENT

LPLC's risk management services contribute significantly to our strategic objectives of protecting the interests of legal practitioners and their clients and maintaining public confidence in the legal profession.

Risk management activities are multipronged to address the variety of risk issues and target underlying causes of claims. They are conducted via face-to-face and (since the onset of COVID-19) webinar-based education sessions, publications and direct contact with practitioners. They address legal issues, practice management systems and behavioural issues emerging from the underlying causes of claims.

There was a strong focus this year on a practice management theme of developing the Engagement Habit, as well as a continued focus on conveyancing errors and managing cyber risk. Training was provided in a variety of settings — at large legal community events, inhouse to specific firms, and in conjunction with programs offered by other key legal profession stakeholders such as the Law Institute, Leo Cussen Institute, College of Law, Legal Services Board and universities.

Initiatives for the safer practise of conveyancing

The Conveyancing Best Practice Program continued this year, looking at sample contracts and section 32 statements, and providing feedback to practices on their compliance with legislative requirements. Practitioners participating in the program find this 'peer review' a valuable and effective service.

Conveyancing specific seminars on section 32 statements and contracts of sale and purchasers' issues were held on several occasions throughout the year to sell-out audiences. These sessions provide training to improve practitioner understanding of the legal issues underpinning standard form documents and help bring practitioners up to date with changes in the law that affect their preparation of these documents.

A further property tax issues topic featured in our annual major risk management events in the city, regional and metropolitan areas in response to a growing incidence of claims from stamp duty claims in particular.

Increasing legal understanding of conveyancing risks and pitfalls was also achieved through a range of articles published on our website and in the Law Institute Journal and distributed to subscribers via email.

Our GST and general enquiries lines helped practitioners deal with more than 1,000 property-related legal enquiries.

Addressing cyber risks

Cyber risks continue to impact lawyers and they increased markedly during the year. Law practices handling significant electronic funds transfers in connection with the settlement of conveyancing, probate, family law and litigation matters are most at risk.

LPLC's cyber campaign comprised four major components this year. First, was publication of a Cyber Risk guide for law firms with five key areas of focus for law practices of all sizes, explaining why each is important, with a checklist in each area to help firms manage the risks.

Second, was the delivery of face to face cyber education sessions. A one-hour cyber session at our all-day risk management event was run three times in July and August. The recording of this session was made freely available on our website. The second session was a half day cyber conference in conjunction with the Law Institute of Victoria in early February before COVID-19 hit. It included practical information on what firms need to do to secure their technology today and how cyber events are managed by the experts when they happen, to bring home to practitioners the need for immediate expert assistance if they suffer a cyber event. There were also some cyber-expert vendors present to assist practitioners explore possible cyber solutions.

Third, was a free LPLC-branded interactive online cyber course commissioned from Law & Cyber for all staff in our insured firms. The course provides extensive information and context on the what, how and why of cyber claims to raise awareness across the profession of the seriousness of the cyber threat, and what can be done to combat it.

Fourth was the publication of a series of articles and bulletins addressing emerging cyber risks as they occurred, giving firms timely warnings about trends including the proliferation of phishing emails in the legal profession purporting to be from other firms.

The impact of this activity has increased awareness and the diligence of many staff and law firms, who have not only introduced verification procedures for checking email instructions in relation to electronic funds transfers but have worked with technical experts to improve their firm's cyber security. They also provide warnings to their clients not to rely solely on email communications in relation to money transfers.

Direct contact with firms

FIRM VISITS

We enhanced our program of visiting law practices in suburban locations by providing firms with a one-hour training session for all staff, as well as a separate discussion with the principals. This program raises awareness of general risk management, including cyber security and the LPLC's risk management services. Many practitioners work on their own or in small firms, and these visits introduce them to LPLC's practice resources and establish a relationship to increase the likelihood of them contacting us to seek assistance when they most need it.

The COVID-19 restrictions have curtailed these visits and while some firms have accepted a webinar version, other firms were not yet equipped to do so.

HELPING NEWLY ESTABLISHED FIRMS

In addition to setting up their insurance cover, LPLC has three further contact points with principals establishing their own new firm:

1. presentation of the risk management module of each of the practice management courses available for new principals in Victoria offered by the Law Institute of Victoria (LIV), College of Law and Leo Cussen Institute

2. phone or email contact initiated upon opening a new practice and introduction to the range of practice support materials available from LPLC
3. an invitation to attend one of our 'Building Solid Foundations' workshops, where a small group of practitioners, all starting their own firms, are introduced to each other and provided with guidance on business strategy and key risk issues to consider when growing a sustainable legal practice.

These activities build rapport with practitioners when they are starting a new phase in their career, open up networking opportunities, and help them put good risk management strategies in place from the outset.

The practice management course and Building Solid Foundations presentations have continued during the COVID-19 restrictions as webinars.

RISK ASSISTANCE PROGRAM

Our Risk Assistance Program maintained operations until March when the COVID-19 restrictions were implemented. The program involves targeted visits to firms whose claims experience requires special assistance to address the occurrence of multiple claims made against them from clients.

These visits entail in-depth discussion about the firm's specific risk management strategies, and development of a tailored practice management improvement plan.

All participating firms reported positive feedback on this program.

RISK MANAGEMENT ASSISTANCE

Firms facing specific practice management issues are also provided with advice both in person and in writing to improve the organisation of their office, systems and business plans. In a busy practice, many practitioners are often so consumed with day-to-day pressures, they find it hard to take time to pause and reflect objectively on important structural elements of legal practice.

LPLC also proactively contacts firms we consider may need specific assistance. In early 2020 we contacted firms located in the bushfire affected areas and when the COVID-19 restrictions were first introduced, we contacted a range of firms to offer support and advice. We also developed a Privacy Act awareness program for relevant firms.

During the year LPLC's risk managers answered approximately 2,000 matter-specific risk enquiries through phone and email, giving practitioners access to objective risk advice and an opportunity to talk through their concerns about matters. It is a valuable service for sole practitioners and other firms who may have limited networks for obtaining 'sounding board' advice.

Through these enquiries we are often able to direct practitioners to resources that not only help solve their immediate query, but also provide information and resources to increase their own knowledge and understanding of practice areas.

Ad hoc telephone and email assistance of this nature helps practitioners make more informed decisions and reduces the risk of claims occurring.

LARGE FIRM RISK MANAGERS NETWORK

Large and mid-tier firms all have dedicated staff tasked with responsibility for leading risk management functions within their firms. The number and scope of these roles has grown considerably in the last 10 years, and LPLC's risk and claims solicitors interact with them in a variety of ways and on a broad variety of topics.

Raising awareness of claims and their causes

A core part of our risk management program is the analysis of the root causes of negligence claims made against practitioners during the year. This analysis informs the topics and strategies behind LPLC's publication of materials and speaking engagements to raise awareness of the causes and appropriate mitigation strategies for firms to avoid claims re-occurrence. Our campaign theme of the Engagement Habit for this year, tapped into the underlying causes and consequences of claims when firms don't carefully select their new clients and new matters. The campaign focused on the need for practitioners and firms to ask: is this the 'right client, right matter, right time?' for each new piece of work.

The theme was developed and presented throughout the year in various ways. A decision tool poster was produced, included in all firm's insurance renewal information and made freely available for download on LPLC's website. Articles were published on our website, in the Law Institute Journal and distributed by weekly email to our subscribers. The theme was explored at the face-to-face risk management seminars held in the city, regional and suburban areas. Several very well attended webinars were held.

Some of the other practice management topics covered during the year were:

- safe practice in the pandemic
- supervision in the pandemic
- developing from lawyer to leader and manager
- legal research resources
- using technology well
- practice management basics
- keeping files moving.

We also addressed the new laws brought in relation to electronic signing and witnessing wills, and how to deal with clients by video conference during COVID-19 restrictions.

LPLC WEBSITE

The LPLC website is the organisation's primary publicly accessible, digital communication channel with legal practitioners. The site is widely used by individuals and peak bodies within the legal sector, as a key publication channel and information source with a focus on risk management and practice support. The site is also the primary source destination for claims and notification information and forms, as well as the gateway for online insurance renewal.

A complete website review was undertaken throughout 2019–2020 and a project to redesign and rebuild the site undertaken to produce an enhanced and accessible user experience for practitioners when taking out insurance, making a claim and seeking risk management advice and support.

Practitioners' needs have been a focus of the redesign process and focus group consultations held in the discovery and design phases of the project, in exercises to determine an intuitive information architecture and user-testing of the site prototype.

The new website will be completed and launched early in the next financial year.

Working with regulators and professional associations

Supervision failures are a recurring theme in negligence claims against solicitors, and a clearer understanding of supervision obligations and practices will benefit the profession and the consumers of legal services.

This year LPLC worked with the Legal Services Board and Commissioner (LSBC) to help LSBC develop a supervised legal practice supervision plan for use during COVID-19 remote working arrangements.

LSBC staff co-presented at LPLC's metropolitan risk seminars again this year on their new policies and risk-based preventative focus. Many of the underlying causes of negligence claims and complaints to the LSBC are the same, and coordination in delivering this education is beneficial for the profession.

We continued our regular meetings with staff from the LSBC and the Law Institute of Victoria (LIV), discussing issues of mutual concern, trends and problems affecting the legal profession, activities and projects each organisation is undertaking and opportunities for collaboration. The frequency of these meetings was increased in the latter part of the year to address mutual concerns arising from the impact of COVID-19.

LPLC staff spoke at several events throughout the year for the LIV and several of its regional and suburban associations.

Risk management activity 2019–2020

SPEAKING ENGAGEMENTS	Number held (attendees)
Risk Management Intensive - CBD	3 (525)
Risk Management Intensive - metro Melbourne	5 (205)
Conveyancing Series	13 (827) = 6 CBD. 6 regional. 1 webinar.
Building Solid Foundations	17 (157)
Practice management course presentation on risk management (run by LIV, College of Law and Leo Cussen)	20
In-house seminars to law firms	17
Presentations to other external groups	31
Victorian Bar Reader's Course	2
Various topics delivered via webinar	6 (1021)
Cyber risk online training course	1,800 completed

PUBLICATIONS	Number produced
LPLC risk management blog articles	22
Law Institute Journal articles	11
Risk management bulletins on changes in law or practice	5
New practice risk guides	cyber risk guide
Practice management tool	1 engagement decision tool

CONTACT WITH FIRMS	Numbers made/received
Telephone and email enquiries	1,742
New firm phone contact	295
GST hotline calls for help	263
Contact and Connect visits to law firms	39 in total = 34 visits & 5 webinars
Bushfire support calls	33
COVID-19 support calls	25
Cyber awareness training calls	55
Conveyancing Best Practice Project (CBPP) reports/visits	46 invitations 23 reports
Risk assistance visits to law firms	16 practices
Privacy Act Awareness Program	70 firms contacted.
Practice assistance meetings	11

INVESTMENTS

Overview

LPLC's primary investment purpose is to achieve long term real growth in the investment portfolio, to ensure sufficient funds are available to meet liabilities when they fall due, and to maintain competitive and stable premiums and an appropriate solvency level.

The fund seeks to achieve a return of CPI + 3 per cent over a rolling five-year period.

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 maintains a diverse portfolio of investments.

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

Investment performance

Investment returns for the 2019–2020 financial year were impacted by the COVID-19 pandemic and its effect on global markets and economies. The investment return for the reporting period was 1.37 per cent, with the fund's average return over the last five years being 5.74 per cent continuing to meet our target return.

Australian and international equities experienced significant variation across the reporting year, with a mixture of positive and negative returns. Equities were weighted in favour of international investments, with a lower exposure to Australian equities. There was an exposure to hedged and unhedged funds within the international equities to address currency fluctuation risk.

During the reporting year a new investment was made into the Ardevora Global Long Only Fund (international equities). This investment continues LPLC's investment strategy of risk diversification, adding another manager style to the portfolio.

LPLC maintains an investment in an unlisted wholesale property trust with exposures to commercial, retail and industrial property, which has provided diversity in the growth portfolio. This investment has, over time, provided steady returns through fluctuations in markets for equities, although the 2019–2020 year yielded a small negative return due to the COVID-19 impact on retail and commercial property.

Sustainability

LPLC, through its investment advisers, considers material sustainability issues in the selection, management and monitoring of investments and fund investment managers.

During the year, assisted by our investment advisers, LPLC commenced a process of measuring the Fund's portfolio against a basket of environmental, social and governance factors:

- portfolio resilience;
- carbon footprint;
- climate impact;
- proportion of revenue generated from industries exposed to both climate opportunities and climate risks; and
- manager integration of environmental, social and governance (ESG) considerations into their investment strategies.

Overall, LPLC's portfolio scored favourably or neutrally against a comparator 60/40 portfolio in all these dimensions, other than carbon footprint where at this early stage of its development specific data for LPLC's unlisted infrastructure funds was not available and the scorecard therefore used proxy scores rather than LPLC's actual investment funds.

LPLC also completed important foundational work during the year to identify specific Funds with suitable ESG screens (e.g. excluding investment in companies with significant business activities in tobacco, controversial weapons, fossil fuels, alcohol, gambling, civilian firearms, nuclear power and adult entertainment) and this work will come to fruition in the coming year.

Fund managers

Funds were held with the following managers:

Australian Equities

- Vanguard Australian Shares Index Fund

International Equities

- GQG Global Equity
- Real Index Global Share Fund (hedged and unhedged)
- Schroder Emerging Markets Fund
- Ardevora Global Long Only Fund
- Vanguard International Shares Index Fund (hedged and unhedged)

Diversifying Alternatives

- Schroder Real Return Fund

Property

- Dexus Wholesale Property Fund

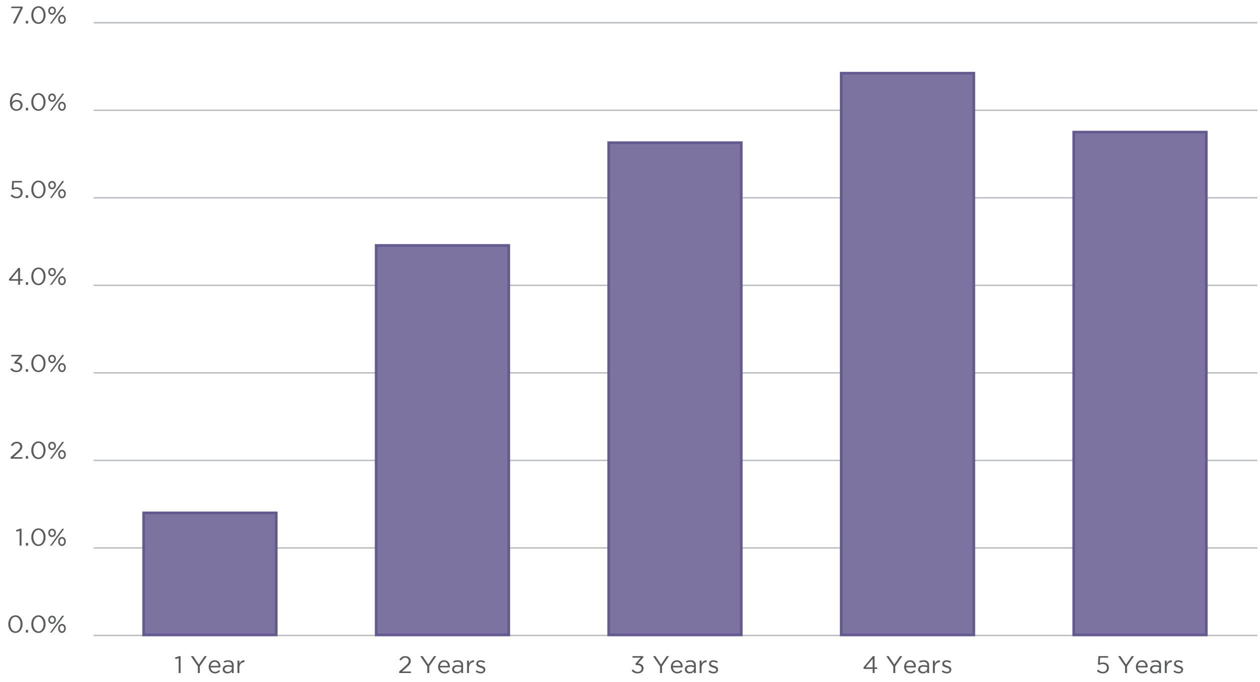
Infrastructure

- Palisade Diversified Infrastructure Fund
- Lighthouse Infrastructure Fund Trust

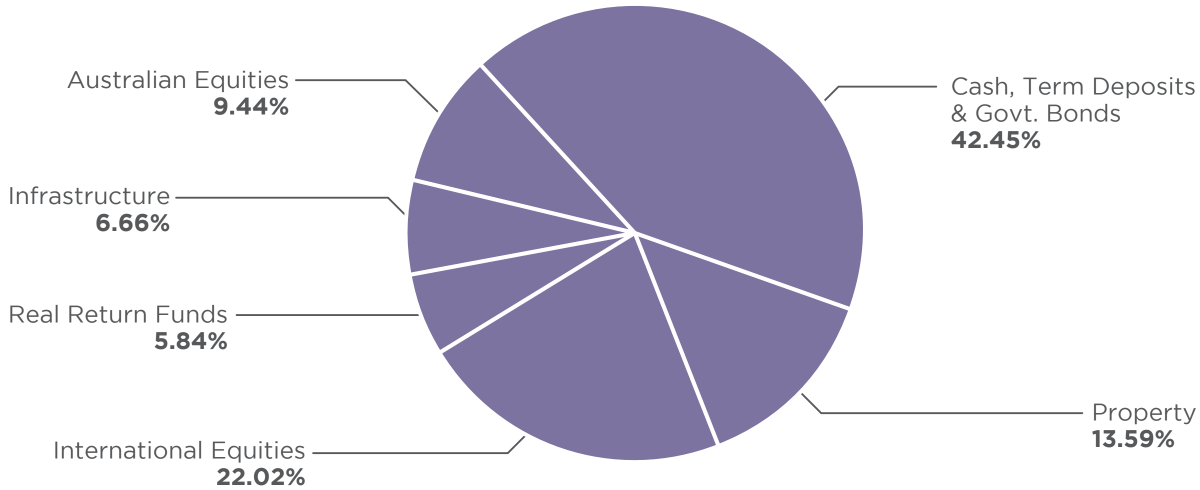
Cash, Bonds and Fixed Interest

- Cash was invested by way of term deposits with Westpac and National Australia Bank
- Vanguard Australian Government Bond Index Fund

Investment return over different time horizons (%)



Asset allocation as at 30 June 2020



LEGAL PRACTITIONERS' LIABILITY COMMITTEE

John Corcoran AM
Chairperson

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 Deputy Chair of Mercy Health and a board member of the Foundation for Surgery of The Royal Australasian College of Surgeons.

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.

He is a Law Institute of Victoria Accredited Specialist in Commercial Law. 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 corporate governance.

Danny Barlow
Committee Member

Danny has practiced as a solicitor in Victoria since being admitted to practice in 1996. He is currently a director of Dawes & Vary Riordan, a large regional law firm with multiple offices in various regional towns including Shepparton, Kyabram, Echuca, Cobram and Tatura.

Danny practices primarily in agribusiness, commercial litigation and employment law. In addition to his legal practice, Danny is a former executive member of the Law Institute of Victoria, including serving as President in 2009. He has also served as a director of the Law Council of Australia. He remains a member of the Ethics Committee of the Law Institute of Victoria.

Adrian Finanzio SC
Committee Member | Chair Investments Committee
(From 30 November 2019)

Adrian has served on the Committee since 2015 and is currently the chair of the Investment Sub-Committee. Adrian was admitted in 1996, was called to the Victorian Bar in 1998 and took silk in 2012. He is presently a member of the Victorian Bar Council and deputy chair of Barristers' Chambers Limited. He was recently appointed as a member of the Heritage Council of Victoria. Adrian is a Graduate member of the Australian Institute of Company Directors and serves, and has served, as a non-executive and executive director on boards over the last 10 years. Adrian has taught at both Monash University and the University of Melbourne and served as the deputy chair of the Readers' Course Committee of the Bar.

Patricia Kelly
Committee Member | Chair Remuneration and Appointments Committee

Tricia has over 35 years' experience in the Financial Services industry. Tricia is the former Executive General Manager Strategy & Business Development Personal Insurance at Suncorp, and previously Executive Director of Norwich Union Life Australia. She is a Past President and Honorary Life Member of the Insurance Institute of Victoria and a former Director of the Australian and New Zealand Institute of Insurance & Finance.

She was appointed an independent non-executive Director of RACV Limited in 2010, and is also currently Chairperson of Ansvar Insurance Limited & RACT Insurance Limited.

Helen Thornton
Committee Member | Chair Audit and Risk Committee

Helen, a chartered accountant for over 30 years, has extensive experience in governance, audit and risk management. She has held senior leadership roles at Deloittes, KPMG and BHP Ltd as well as BlueScope Steel Ltd where she was responsible for the global risk management and insurance program. Helen has been a non-executive director for over 20 years and is an experienced Chair of Audit and Risk Committees. She is currently on the boards of ISPT Pty Ltd, Ansvar Insurance, Treasury Corporation of Victoria, Yarra Valley Water and Austin Health.

Michelle Dixon
Committee Member (From 18 February 2020)

Michelle is the CEO and a Board member of Maddocks, an Australian law firm with 82 partners across Melbourne, Sydney and Canberra. She was appointed as CEO in January 2014 after 17 years with the firm including 12 years as a partner, and seven years as the leader of the firm's national commercial disputes' practice.

Michelle is a member of a number of advisory and fiduciary boards including The Nature Conservancy, Women and Leadership Australia and a Director at Global Sisters Limited.

A strong advocate for women in leadership, in 2016 Michelle's contribution was recognised when she received both the Victorian Award for Excellence in Women's Leadership and Executive of the year at the Lawyers Weekly Women in Law Awards.

Nicole Rich
Committee Member (From 17 March 2020)

Nicole is the Executive Director, Regulatory Services and Director, Consumer Affairs Victoria at the Victorian Department of Justice & Community Safety, and was formerly the Executive Director Family, Youth and Children's Law and for the Gippsland region at Victoria Legal Aid.

Experienced as a consumer advocate and in the development of legal research and policy, including as a former Director Policy and Campaigns at the Consumer Action Law Centre, Nicole has also worked as a lawyer across private practice and within the community legal sector. She was admitted to practice in 2001. Nicole has also served on a number of public interest boards and committees including as Chairperson of CHOICE (2013–2017).

Catriona Lowe
Committee Member (Until 2 Feb 2020)

Catriona Lowe resigned as a Committee member during the year following her appointment by the Commonwealth Treasurer as a State member to the Australian Energy Regulator.

Catriona is a lawyer with extensive experience in the consumer sector including directorships at the Australian Financial Complaints Authority, the Financial Adviser Standards and Ethics Authority and the Telecommunications Industry Ombudsman. Catriona was also Co-Chair of the Australian Competition and Consumer Commission Consumer Consultative Committee. Catriona is a former Chair of the Consumers' Federation of Australia and former Co-CEO of the Consumer Action Law Centre.

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

John Cain
Committee Member | Chair Investment Committee (Until 29 November 2019)

John Cain resigned from the Committee in November 2019 following his appointment as a Judge of the County Court and Victorian State Coroner.

Prior to this, John was the Solicitor to the Office of Public Prosecutions and previously held the position of Managing Partner at Herbert Geer from 2011 to 2014 during which time he oversaw the merger of that firm with Thomson Lawyers to create Thomson Geer. John also spent 5 years from 2006 as Victorian Government Solicitor where 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, an advisory board member of the Sir Zelman Cowen Centre and a member of the Victorian College of Law Chapter Board.

ORGANISATIONAL STRUCTURE

Committee and sub-committees

LEGAL PRACTITIONERS' LIABILITY COMMITTEE

John Corcoran AM | Chair
Helen Thornton | Danny Barlow
Patricia Kelly | Adrian Finanzio SC
Michelle Dixon from 18 Feb 2020 | Nicole Rich from 17 March 2020
Catriona Lowe until 2 Feb 2020 | John Cain until 29 Nov 2019

AUDIT AND RISK COMMITTEE
Helen Thornton | Chair
Patricia Kelly
Danny Barlow
Michelle Dixon from 18 Feb 2020
Adrian Finanzio until 29 Nov 2019

REMUNERATION AND APPOINTMENTS COMMITTEE
Patricia Kelly | Chair
John Corcoran AM
Helen Thornton

INVESTMENT COMMITTEE
John Cain | Chair until 29 Nov 2019
Adrian Finanzio SC | Chair from 30 November 2019
John Corcoran
Nicole Rich from 17 March 2020
Catriona Lowe until 2 Feb 2020

LPLC Staff

Chief Executive Officer
Justin Toohey

Kerrie Billings
Executive Officer – People, Compliance and Projects

EXECUTIVE LEADERSHIP TEAM

Heather Hibberd
Chief Risk Manager

Jodie Potts
Head of Claims

Bernadette Mallia
Corporate Services Manager

Martin Dohnt
Chief Finance Officer

Tracey Johnston
Digital Communications Manager

Risk Managers
Stephen Bubb
Phil Nolan
Matthew Rose (until 31/10/19)

Admin & Events Coordinator
Suzana Bonnici

Claims Managers
Prue Campton
Bronwyn Hine
Alex Macmillan
Ryan Lee
Alix Osborn (from 13/1/20)
Josh Clutterbuck (until 18/10/19)

Claims Administration
Jenny Aitken
Jackie Miller
Lauren Dickenson (from 17/03/20)

Insurance Officer
Terri Hedt

Executive Assistant to CEO
Lauren Hage (until 22/11/19)

Administration
Barbara McKay
Inge Gallery

Communications Officer
Emily D'Elia

GOVERNANCE

LPLC provides professional indemnity insurance and risk management services for law practices.

The Committee:

- provides professional indemnity insurance for law practices
- oversees and monitors the affairs of the LPLC
- 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 the investment of the Legal Practitioners' Liability Fund (the 'Fund')
- develops policy relating to national practice issues and professional indemnity insurance
- recommends the implementation of effective risk management for legal practitioners.

The Audit and Risk Committee comprised Helen Thornton (Chair), Patricia Kelly, Danny Barlow, Michelle Dixon (from 18 February 2020) and Adrian Finanzio SC (until 29 November).

The Audit and Risk Committee oversees LPLC's:

- financial reporting
- finances and budgeting procedures
- actuarial and reserving functions
- internal risk and control environment
- corporate governance and regulatory compliance
- internal and external audits.

The Investment Committee comprised Adrian Finanzio SC (Chair from 30 Nov 2019), John Corcoran AM, John Cain (Chair until 29 November 2019), Catriona Lowe (until 2 February 2020) and Nicole Rich (from 17 March 2020).

The Investment Committee:

- makes recommendations to LPLC on benchmarks, asset classes and asset allocation
- monitors the Fund's investment strategies and performance
- makes recommendations to the Committee on the appointment of fund managers and investment advisers.

The Remuneration and Appointments Committee comprised Patricia Kelly (Chair), John Corcoran AM and Helen Thornton.

The Remuneration and Appointments Committee:

- advises and makes recommendations to LPLC in relation to nominations to the Legal Services Board for appointment of the Chair and Committee members
- advises and makes recommendations to LPLC in relation to the appointment, remuneration and performance review of the CEO
- oversees executive succession planning, staff remuneration and people matters.

Committee meeting attendance 2019–2020

	Committee		Investment		Audit & Risk		Remuneration & Appointments	
	Attended	**Eligible**	**Attended**	**Eligible**	**Attended**	**Eligible**	**Attended**	**Eligible**
John Corcoran AM	10	10	4	4	-	-	3	3
Patricia Kelly	9	10	-	-	4	4	3	3
Helen Thornton	10	10	-	-	4	4	3	3
Catriona Lowe	4	4	2	2	-	-	-	-
John Cain	3	3	1	1	-	-	-	-
Adrian Finanzio SC	10	10	2	2	1	3	-	-
Danny Barlow	9	10	-	-	4	4	-	-
Michelle Dixon	4	4	-	-	1	1	-	-
Nicole Rich	3	4	1	1	-	-	-	-

Executive management team

Justin Toohey
Chief Executive Officer

Justin was appointed as Chief Executive Officer in 2018, having previously served as Deputy CEO and Head of Claims at LPLC since 2005.

Prior to joining LPLC, Justin's career spanned five years in a senior executive position with the Institute of Architects' professional indemnity scheme and 15 years in private legal practice; including time as a partner with Tress Cocks & Maddox where he specialised in professional indemnity litigation as a panel solicitor to LPLC.

Martin Dohnt
Chief Financial Officer

Martin joined the Committee as Chief Financial Officer in January 2014. Martin manages LPLC's accounting, finance and payroll functions. Prior to commencing at LPLC, Martin worked in the financial services industry for over 20 years holding senior finance management positions at Defence Force Credit Union and ASG Friendly Society.

Heather Hibberd
Chief Risk Manager

Heather was appointed Chief Risk Manager in 2010 having previously served as a risk manager with LPLC since 2001.

Prior to joining the LPLC Heather was an insurance litigation solicitor for eight years with Minter Ellison, specialising in professional indemnity claims defending legal practitioners and hospitals.

Tracey Johnston
Digital Communications Manager

Tracey has been with LPLC since 2018 and has worked as a communications professional for 18 years in the not-for-profit sector with a focus on health and Aboriginal and Torres Strait Islander initiatives. Tracey is responsible for the development, implementation and management of LPLC's communications strategy. With a speciality in online communications, she is responsible for the website, social media and all digital communications produced by LPLC.

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.

Jodie Potts
Head of Claims

Jodie joined LPLC in 2018 as Head of Claims.

Prior to joining LPLC in January 2018 Jodie was a partner in the professional indemnity team of Moray & Agnew, Melbourne, having joined that firm in 2006 from Herbert Geer & Rundle. Jodie is an experienced insurance litigator with strong property and commercial dispute resolution experienced having worked for Australian and international insurers across a wide range of business classes.

Kerrie Billings
Executive Officer

After running her own successful business managing legal associations for 17 years, Kerrie further honed her skills as the practice manager of a mid-sized law firm. A move in location bought her to the LPLC in 2020 where she provides support to the team through her role in People, Compliance and Projects.

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 2020.

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.

Public Interest Disclosures

LPLC is committed to the objectives of the *Public Interest Disclosures Act 2012 (Vic).*

LPLC recognises the value of transparency and accountability and will support the making of any disclosures pursuant to the *Public Interest Disclosures Act 2012 (Vic).*

LPLC has established procedures for protecting people against detrimental action that might be taken in reprisal for making public interest disclosures.

Our policy on how we handle public interest disclosures is available from our office on request. Under this legislation, disclosures of improper conduct or detrimental action by Committee members or Committee staff should be made to the Independent Broad-based Anti-corruption Commission:

Independent Broad-based Anti-corruption Commission

Level 1, North Tower, 459 Collins Street

Melbourne VIC 3000

Tel: 1300 735 135 Fax: 03 8635 6444

Website: www.ibac.vic.gov.au

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
- risk and compliance records
- library material.

Freedom of information

LPLC 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 occupational health and safety (OH&S) compliance during the reporting period and undertook a range of initiatives to support staff health, safety and wellbeing including ergonomic assessments, flu vaccinations, and mindfulness activities.

During the COVID-19 lockdown, management were particularly mindful of the stress of working from home and the isolation involved and worked to accommodate each team member with their individual requirements.

Three staff members are trained first aid officers.

All issues relating to safe workplace practices are regularly considered and reported at staff meetings. LPLC's Audit & Risk Committee also monitors occupational health and safety risks on a quarterly basis.

As in the previous year, 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 Chief Executive Officer (CEO). The CEO and Executive Managers conduct annual performance reviews of their respective direct reports.

Internal staff training sessions were held regularly throughout the year addressing a variety of topics including mindfulness, cyber security and risk management. Staff members also attended a variety of external courses and conferences.

Staff members can raise grievances or other issues privately with the CEO, Corporate Services Manager or LPLC external HR consultant at any time. Alternatively, matters can be raised with a member of the Committee.

2018–2019

Position	Male	Female	Total
Chief Executive Officer	1		1
Chief Financial Officer	1		1
Claims Manager	1 (until 11/6/19) 2 (from 11/6/19)	4	6
Risk Manager	3	1	4
Corporate Services Manager		1	1
Digital Communications Manager		1	1
Premiums Manager		1	1
Communications Officer (from 29/4/19)		1	1
Receptionist/PA/Administration		6	6
Total	**7**	**15**	**22**

2019–2020

Position	Male	Female	Total
Chief Executive Officer	1		1
Chief Financial Officer	1		1
Claims Manager	1.5	4.5	6
Risk Manager	2.5	1	3.5
Corporate Services Manager		1	1
Digital Communications Manager		1	1
Premiums Manager		1	1
Communications Officer		1	1
Receptionist/EO/Administration		7	7
Total	**7**	**16.5**	**22.5**

Environmental issues

LPLC has an environmental management plan (EMP) which assists to manage the environmental impact of day to day business activities.

Monitoring the EMP has been allocated to a team within the office led by the Corporate Services Manager.

The plan covers the 2019–2020 reporting year and covers energy consumption, waste generation and paper consumption.

Energy consumption

Total energy usage was approximately 49,101.47 kWh compared to 58,716 kWh in 2018–2019 and the energy used per square metre of office area was 69.64 kwh compared to 83.28 kWh in 2018–2019. kWh of energy used per FTE was 2360. Part of this reduction in energy usage was attributable to staff working from home due to COVID-19 restrictions.

The 2020–2021 target is to reduce energy usage by at least 10 per cent.

Waste generation

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

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

Where permitted, the LPLC coordinates with Oz Harvest to donate any food left over from events.

Paper consumption

LPLC has a policy to only purchase printers that are capable of double-sided copying, defaulting all communal printers to double sided, and using electronic documents instead of paper whenever possible.

The majority of LPLC's paper and cardboard waste is recycled through a secure paper recycling contractor who recover 98.5 per cent of the material collected.

Units of paper used per FTE (A4 reams/FTE) was approximately 17.41 compared to 15.66 in the previous reporting period.

The target for the 2020–2021 year is to reduce the paper consumption by 20 percent. LPLC believes the target will be achievable as it moves more of its services (and particularly claims management) from a combination of paper and electronic files to fully electronic files.

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 2019–2020 total consultant expenditure as defined by the *Financial Management Act 1994 (Vic)* was approximately $442,709.

Finity Consulting Pty Ltd — actuaries

During the reporting year Finity Consulting was engaged to prepare a Financial Condition Report and provide pricing advice and other ad hoc actuarial consulting services. Expenditure for the reporting period was $128,665. Finity Consulting has been retained again for the 2020–2021 period.

Cumpston Sarjeant — actuaries

During the reporting year LPLC obtained half-yearly valuation reports of outstanding liabilities and other ad hoc actuarial advice from Cumpston Sarjeant.

The consulting fee paid to this firm for the reporting period was $51,235. Cumpston Sarjeant has been retained again for the 2020–2021 reporting period.

Willis Towers Watson — investment advisers

During the year Willis Towers Watson continued to be engaged as LPLC's Investment advisers for which consulting fees of $249,059 were paid.

Hive Legal

During the year Hive Legal was engaged to consult on advice regarding the Reimagining Risk Management project for which consulting fees of $13,750 were paid.

Contact details

Legal Practitioners' Liability Committee
Level 31, 570 Bourke Street
MELBOURNE VIC 3000
DX 431
ABN: 45 838 419 536
T: (03) 9672 3800
F: (03) 9670 5538
Website: www.lplc.com.au

Declarations of pecuniary interests

Declarations of pecuniary interests have been duly completed by Committee members and relevant staff.

Legal Practitioners' Liability Committee Financial Management Compliance Attestation Statement

I John Corcoran AM, on behalf of the Responsible Body, certify that the Legal Practitioners' Liability Committee has no Material Compliance Deficiency with respect to the applicable Standing Directions under the Financial Management Act 1994 and Instructions.

LEGAL PRACTITIONERS' LIABILITY COMMITTEE

FINANCIAL REPORT

For the Financial Year Ended 30 June 2020

CONTENTS

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 Assistant Treasurer 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 2020 and financial position of the Legal Practitioners' Liability Committee at 30 June 2020.

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 16 September 2020.

John Corcoran AM - Chairman

Nicholas J Toohey - Chief Executive Officer

Martin Dohnt - Chief Financial Officer

Dated this 16th day of September 2020

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 which comprises the:

- balance sheet as at 30 June 2020
- 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 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 Legal Practitioners' Liability Committee as at 30 June 2020 and its 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. I further describe my responsibilities under that Act and those standards 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 Legal Practitioners' Liability Committee 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 Victoria. 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.

The Committee's responsibilities for the financial report

The Committee of the Legal Practitioners' Liability Committee (the Committee) 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 determines 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 Legal Practitioners' Liability Committee's ability to continue as a going concern, disclosing, as applicable, matters related to 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 my 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 Legal Practitioners' Liability Committee'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 Legal Practitioners' Liability Committee'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 Legal Practitioners' Liability Committee 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.

MELBOURNE
21 September 2020

Janaka Kumara
as delegate for the Auditor-General of Victoria

2

Statement of Comprehensive Income

for the Financial Year Ended 30 June 2020

	Note	2020 $	2019 $
UNDERWRITING			
Premium revenue	2.2	35,217,224	34,197,207
Outwards reinsurance expense	3.2	(1,000,000)	(1,000,000)
Net earned premiums		34,217,224	33,197,207
Claims expense	3.3	(35,694,207)	(31,037,607)
Net claims incurred		(35,694,207)	(31,037,607)
Movement in unexpired risk liability	5.4	(884,779)	(664,497)
UNDERWRITING RESULT		**(2,361,762)**	**1,495,103**
Investment income	2.3	3,606,569	19,828,221
Other income	2.4	228,540	238,914
Employment expenses	3.1.1	(3,823,773)	(3,542,624)
Depreciation	4.1.1	(364,233)	(100,713)
Other expenses	3.4	(2,716,968)	(3,015,933)
Net result		**(5,431,627)**	**14,902,968**
Other comprehensive income		**-**	**-**
Total comprehensive income		**(5,431,627)**	**14,902,968**

Notes to and forming part of these financial statements are set out in pages 46 to 116

Balance Sheet
as at 30 June 2020

	Note	2020 $	2019 $
CURRENT ASSETS			
Cash and cash equivalents	6.1	18,985,397	12,425,913
Receivables	5.1	13,322,091	1,193,443
Other financial assets	4.3	42,389,808	44,674,101
Other non-financial assets	5.3	185,080	159,306
Total current assets		**74,882,376**	**58,452,763**
NON-CURRENT ASSETS			
Other financial assets	4.3	199,199,380	222,174,185
Property, plant & equipment	4.1	1,365,354	156,789
Intangible assets	4.2	4,168	28,574
Total non-current assets		**200,568,902**	**222,359,548**
TOTAL ASSETS		**275,451,278**	**280,812,311**
CURRENT LIABILITIES			
Outstanding claims liability	5.5	34,193,000	34,011,000
Payables	5.2	1,999,385	944,754
Unearned premium liability	5.4	48,299,000	47,207,000
Lease liability	6.3	311,190	-
Provisions	3.1.2	627,021	696,092
Total current liabilities		**85,429,596**	**82,858,846**
NON-CURRENT LIABILITIES			
Outstanding claims liability	5.5	73,174,000	76,558,000
Lease liability	6.3	906,459	-
Provisions	3.1.2	34,232	56,847
Total non-current liabilities		**74,114,691**	**76,614,847**
TOTAL LIABILITIES		**159,544,287**	**159,473,693**
NET ASSETS		**115,906,991**	**121,338,618**
EQUITY			
Accumulated funds	8.1	115,906,991	121,338,618
TOTAL EQUITY		**115,906,991**	**121,338,618**

Notes to and forming part of these financial statements are set out in pages 46 to 116

Cash Flow Statement

for the Financial Year Ended 30 June 2020

	Note	2020 $	2019 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium revenue received		25,137,557	39,081,262
Other Income		197,962	222,407
Dividend received		830,381	1,092,424
Interest received		2,505,895	2,223,631
Other income from investments		4,470,364	5,289,834
Interest paid on lease liabilities		(47,663)	-
Claims paid		(40,678,566)	(33,857,504)
Outward reinsurance premium paid		(1,000,000)	(1,000,000)
Payments to suppliers and employees		(6,067,584)	(8,767,714)
Net cash provided by/(used in) operating activities	6.1.1	**(14,651,654)**	**4,284,340**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(55,459)	(121,106)
(Purchase)/sale of investments		19,257,588	(26,323,007)
Net cash provided by/(used in) investing activities		**19,202,129**	**(26,444,113)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings and principal portion of lease liabilities		(275,284)	-
Net cash provided by/(used in) financing activities		**(275,284)**	-
Net increase/(decrease) in cash held		4,275,191	(22,159,773)
Cash and cash equivalents at beginning of period		57,100,014	79,259,787
Cash and cash equivalents at end of period	6.1	**61,375,205**	**57,100,014**

Notes to and forming part of these financial statements are set out in pages 46 to 116

Statement of Changes In Equity
for the Financial Year ended 30 June 2020

	Note	Accumulated funds $	Total $
At 1 July 2018		106,435,650	106,435,650
Net result for the year		14,902,968	14,902,968
Other comprehensive income for the year		-	-
At 30 June 2019		**121,338,618**	**121,338,618**
Net result for the year		(5,431,627)	(5,431,627)
Other comprehensive income for the year		-	-
At 30 June 2020	8.1	**115,906,991**	**115,906,991**

Notes to and forming part of these financial statements are set out in pages 46 to 116

Notes to the Financial Statements
for the year ended 30 June 2020

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.

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'.

Notes to the Financial Statements
for the year ended 30 June 2019

1. ABOUT THIS REPORT (CONTINUED)

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.

COVID-19

On 16 March 2020 a state of emergency was declared in Victoria due to the global pandemic Coronavirus, known as COVID-19. A state of disaster was subsequently declared on 02 August 2020.

To contain the spread of the virus and to prioritise the health and safety of our communities various restrictions have been announced and implemented by the state government, which in turn have impacted the manner in which businesses operate, including Legal Practitioners Liability Committee.

LPLC in response implemented work from home arrangements where appropriate and required staff to observe all government health directions in relation to COVID-19 testing. For further details related to the impact of COVID-19 refer to notes 2.3, 4.3 and 5.1.

Compliance Information

These general purpose financial reports have been prepared in accordance with the *Financial Management Act 1994* (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*.

Notes to the Financial Statements
for the year ended 30 June 2020

1. ABOUT THIS REPORT (CONTINUED)

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.

Going Concern

The Financial statements were prepared on a going concern basis. The Committee considered this view notwithstanding the actual operating loss of $5,431,627 for the year, the net cash outflow from operating activities of $14,651,654 and the working capital deficiency as at 30 June 2020 of $10,547,220 (2019: $24,406,083). The net deficiency in working capital includes unearned premium liability of $48,299,000 (2019: $47,207,000) and the majority of which will be brought to account as income in the 2020/21 year. The deficiency in cash flows from operating activities mainly relates to the decision of the Committee to extend the premium payment arrangements until November 2020 to assist practitioners with the impacts of COVID-19. Budgets prepared for the year ending 30 June 2021 indicate that the entity is expected to achieve a minor loss from activities. Notwithstanding this the Committee has sufficient reserves to continue as a going concern. On this basis the Committee members believe the going concern basis is appropriate for preparation of the financial statements.

Notes to the Financial Statements
for the year ended 30 June 2020

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	2020 $	2019 $
Premium revenue	2.2	35,217,224	34,197,207
Investment income	2.3	3,606,569	19,828,221
Other income	2.4	228,540	238,914
Total income		**39,052,333**	**54,264,342**

Revenue from supply of services was recognised by reference to the stage of completion of the services performed. The income was recognised when:

- the amount of revenue, the stage of completion and transaction costs incurred could be reliably measured: and
- it was probable that the economic benefits associated with the transaction would flow to the LPLC.

The recognition of investment income and other income are disclosed at notes 2.3 and 2.4 respectively.

Notes to the Financial Statements
for the year ended 30 June 2020

2. FUNDING DELIVERY OF OUR SERVICES (CONTINUED)

2.2 Premium revenue

	2020 $	2019 $
Gross written premiums	35,424,445	35,486,711
Movement in unearned premium	(207,221)	(1,289,504)
Net premium revenue	**35,217,224**	**34,197,207**

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 2020

2. FUNDING DELIVERY OF OUR SERVICES (CONTINUED)

2.3 Investment income

	2020 $	2019 $
Net fair value gains/(loss) on financial assets at fair value through profit or loss	(3,717,218)	11,033,661
Managed fund distributions	4,033,296	5,282,688
Other income	251,336	183,080
Dividend income	830,381	1,092,424
Interest income	2,208,774	2,236,368
Total investment income	**3,606,569**	**19,828,221**

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.

The COVID-19 pandemic has created unprecedented economic uncertainty. From March 2020 to June 2020 investment income has been significantly impacted by this uncertainty, in particular the valuation of investments held by LPLC. As responses by government and central banks continue to evolve management recognises that it is difficult to reliably estimate with any degree of certainty the potential impact of the pandemic after the reporting date on LPLC's investments.

2.4 Other income

	2020 $	2019 $
Seminar income	228,540	238,914
Total income	**228,540**	**238,914**

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 2020

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

	Note	2020 $	2019 $
Employee benefit expenses	3.1.1	3,823,773	3,542,624
Outwards reinsurance expense	3.2	1,000,000	1,000,000
Claims expense	3.3	35,694,207	31,037,607
Other operating expenses	3.4	2,716,968	3,015,933
Total expenses incurred in delivery of services		**43,234,948**	**38,596,164**

3.1.1 Employee benefits expense in the comprehensive operating statement

	Note	2020 $	2019 $
Defined contribution superannuation expense		304,930	283,201
Salaries and wages, annual leave and long service leave		3,518,842	3,259,423
Total employee expenses		**3,823,773**	**3,542,624**

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

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.

Notes to the Financial Statements
for the year ended 30 June 2020

3. THE COST OF DELIVERING SERVICES (CONTINUED)

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.

	2020 $	2019 $
CURRENT PROVISIONS		
Annual leave		
unconditional and expected to settle within 12 months	163,542	192,103
unconditional and expected to settle after 12 months	-	21,115
Long service leave		
unconditional and expected to settle within 12 months	10,292	63,898
unconditional and expected to settle after 12 months	372,355	329,237
Provisions for on-costs		
unconditional and expected to settle within 12 months	25,727	37,888
unconditional and expected to settle after 12 months	55,105	51,851
Total current provisions	**627,021**	**696,092**
NON-CURRENT PROVISIONS		
Employee benefits	29,819	49,518
On-costs	4,413	7,329
Total non-current provisions	**34,232**	**56,847**
Total provisions for employee benefits	**661,253**	**752,939**

Reconciliation of movement in on-cost provision

	2020 $
Opening balance	97,068
Additional provisions recognised	43,224
Reductions arising from payments/other sacrifices of future economic benefits	(55,046)
Closing balance	**85,245**
Current	**80,832**
Non-current	**4,413**

Notes to the Financial Statements
for the year ended 30 June 2020

3. THE COST OF DELIVERING SERVICES (CONTINUED)

3.1.2 Employee benefits in the balance sheet (continued)

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.

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 2020

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	
	2020	**2019**	**2020**	**2019**
DEFINED CONTRIBUTION PLANS				
Legal super	121,619	131,122	-	-
Other	183,311	152,079	-	-
Total	**304,930**	**283,201**	-	-

3.2 Outwards reinsurance expense

	2020 $	2019 $
Outwards reinsurance expense	1,000,000	1,000,000
Total	**1,000,000**	**1,000,000**

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 2020 in excess of $47.5m (2019:$46.0m).

Notes to the Financial Statements
for the year ended 30 June 2020

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

	2020 Current year $	Prior years $	Total $	2019 Current year $	Prior years $	Total $
Gross claims expense	47,912,000	(13,841,793)	34,070,207	43,462,000	(15,456,393)	28,005,607
Discount movement	(464,000)	2,088,000	1,624,000	(966,000)	3,998,000	3,032,000
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue - undiscounted	-	-	-	-	-	-
Discount movement	-	-	-	-	-	-
	-	-	-	-	-	-
Net claims incurred	**47,448,000**	**(11,753,793)**	**35,694,207**	**42,496,000**	**(11,458,393)**	**31,037,607**

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 2020

3. THE COST OF DELIVERING SERVICES (CONTINUED)

3.4 Other operating expenses

	2020 $	2019 $
Administration expenditure	2,101,099	2,122,317
Consulting & professional services expenditure	615,869	508,525
Operating leases up until 30/6/2019	-	385,091
Total other operating expenses	**2,716,968**	**3,015,933**

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.

From 1 July 2019, the following lease payments are recognised on a straight-line basis:

- short-term leases - leases with a term less than 12 months: and
- low value leases - leases with the underlying asset's fair value (when new, regardless of the age of the asset being leased) is no more than $10,000.

Variable lease payments that are not included in the measurement of the lease liability (i.e. variable lease payments that do not depend on an index or a rate and which are not, in substance fixed) such as those based on performance or usage of the underlying asset, are recognised in the comprehensive operating statement (except for payments which has been included in the carrying amount of another asset) in the period in which the event or condition that triggers those payments occur.

Remaining Leases are recognised as a right of use asset or liability in line with AASB 16 Leases and are disclosed in notes 4.1 and 6.3.

Notes to the Financial Statements
for the year ended 30 June 2020

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

	2020 $	2019 $
Property, plant & equipment:		
At fair value	1,801,519	274,978
Accumulated depreciation	(528,080)	(219,725)
	1,273,439	55,253
Leasehold improvements:		
At fair value	232,521	215,787
Accumulated depreciation	(140,606)	(114,251)
	91,915	101,536
Total	**1,365,354**	**156,789**

Note: AASB 16 - Leases has been applied for the first time from 1 July 2019.

Notes to the Financial Statements

for the year ended 30 June 2020

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

4.1 Total property, plant and equipment (continued)

The following tables are subsets of buildings, and, plant and equipment by right-of-use assets.

4.1a Total right of use assets: buildings, plant and equipment

	2020 $
Property, plant and equipment	
Gross carrying amount	1,487,816
Accumulated depreciation	(270,167)
Net carrying amount	**1,217,649**

	2020 $
Opening balance - 1 July 2019	1,267,722
Additions	229,281
Disposals	(4,070)
Depreciation	(275,284)
Closing balance - 30 June 2020	**1,217,649**

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.

Right-of-use assets acquired by lessees (Under AASB 16 - Leases from 1 July 2019) - initial

LPLC recognises a right-of-use asset and a lease liability as the lease commencement date. The right-of-use assets is initially measured at cost which comprises the initial amount of the lease liability adjusted for:

- any lease payments made at or before the commencement date; plus
- any initial direct costs incurred: and
- an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received.

Notes to the Financial Statements
for the year ended 30 June 2020

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

4.1 Total property, plant and equipment (continued)

4.1a Total right of use assets: buildings, plant and equipment (continued)

Subsequent measurement

Property, plant and equipment (PPE) as well as right-of-use assets under leases and service concession assets 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. In addition, for right-of-use assets the net present value of the remaining lease payments is often the approximate proxy for fair value of relevant right-of-use assets.

Right-of-use asset - Subsequent measurement

LPLC depreciates the right-of-use assets on a straight line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The right-of-use assets are also subject to revaluation.

In addition, the right-of-use asset is periodically reduced by impairment losses, if any and adjusted for certain remeasurements of the lease liability.

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	**2020** **$**	**2019** **$**
Furniture & equipment	313,472	37,104
Leasehold improvements	26,355	19,339
Intangibles	24,406	44,270
	364,233	**100,713**

Note: The table incorporates depreciation of right-of-use assets as AASB16 - Leases has been applied for the first time from 1 July 2019.

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 2020

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

4.1 Total property, plant and equipment (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	10 - 25%	n/a
Intangibles	40%	n/a

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term. Where the LPLC obtains ownership of the underlying leased asset or if the cost of the right-of-use asset reflects that the entity will exercise a purchase option, the entity depreciates the right-of-use asset over its useful life.

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 2020

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 $
2020			
Balance at the beginning of the year	55,253	101,536	156,789
Recognition of right-of-use assets on initial application of AASB 16	1,267,722	-	1,267,722
Additions	268,006	16,734	284,740
Disposals	(4,070)	-	(4,070)
Depreciation expense	(313,472)	(26,355)	(339,827)
Carrying amount at the end of the year	**1,273,439**	**91,915**	**1,365,354**
2019			
Balance at the beginning of the year	71,672	30,105	101,777
Additions	20,685	90,770	111,455
Disposals	-	-	-
Depreciation expense	(37,104)	(19,339)	(56,443)
Carrying amount at the end of the year	**55,253**	**101,536**	**156,789**

4.2 Intangible assets

	Computer software	
	2020	**2019**
GROSS CARRYING AMOUNT		
Opening balance	112,528	102,877
Additions	-	9,651
Disposals or classified as held for sale	-	-
Closing balance	**112,528**	**112,528**
ACCUMULATED DEPRECIATION, AMORTISATION AND IMPAIRMENT		
Opening balance	(83,954)	(39,684)
Amortisation of intangible assets	(24,406)	(44,270)
Disposals or classified as held for sale	-	-
Closing balance	**(108,360)**	**(83,954)**
Net book value at end of financial year	**4,168**	**28,574**

Notes to the Financial Statements
for the year ended 30 June 2020

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

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 2020

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

4.3 Investments and other financial assets

	2020 $	2019 $
CURRENT INVESTMENTS AND OTHER FINANCIAL ASSETS		
Term deposits:		
Australian dollar term deposits > three months	42,389,808	44,674,101
Total current investments and other financial assets	**42,389,808**	**44,674,101**
NON-CURRENT INVESTMENTS AND OTHER FINANCIAL ASSETS		
Managed unit trusts		
- Overseas equities	57,393,573	69,458,805
- Property fund	35,404,901	37,088,147
- Infrastructure fund	17,361,747	13,890,792
- Australian equities	24,597,163	28,953,273
- Diversified funds	15,210,158	24,053,656
- Government securities	49,231,838	48,729,512
Total non-current investments and other financial assets	**199,199,380**	**222,174,185**
Total investments and other financial assets	**241,589,188**	**266,848,286**

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 percent of the current asset value which has been the basis of recent sales.

The COVID-19 pandemic has created unprecedented economic uncertainty. Actual economic events and conditions in the future may be materially different from those estimated in the valuation of LPLC's investments at the reporting date.

As responses by government continue to evolve management recognises that it is difficult to reliably estimate with any degree of certainty the potential impact of the pandemic after the reporting date on LPLC's investments.

Notes to the Financial Statements
for the year ended 30 June 2020

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
2020						
Managed unit trusts	199,199,380	199,199,380	-	-	-	-
Term deposits	42,389,808	42,389,808	-	-	-	-
Total	**241,589,188**	**241,589,188**	-	-	-	-
2019						
Managed unit trusts	222,174,185	222,174,185	-	-	-	-
Term deposits	44,674,101	44,674,101	-	-	-	-
Total	**266,848,286**	**266,848,286**	-	-	-	-

Notes to the Financial Statements

for the year ended 30 June 2020

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

	2020 $	2019 $
CONTRACTUAL		
Deductibles receivable & cost recovery	-	474,298
Allowance for impairment losses of contractual receivables	-	(474,298)
Accrued Investment income	710,588	1,193,443
Premium Receivable	12,611,503	-
Total receivables	**13,322,091**	**1,193,443**

Contractual receivables are classified as financial instruments and categorised as "financial assets at amortised cost". 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, less any impairment.

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

In response to COVID19, LPLC offered a premium deferment option to insureds in respect of 2020/21 premiums. Premiums for the 2020/21 policy were able to be deferred until 30 November 2020, upon application by the insured. As at 30 June 2020 $12.6m of premiums had been deferred out of a total premium pool of $35m. It is expected that the deferred portion of premiums will be paid in full by 30 November 2020.

Notes to the Financial Statements
for the year ended 30 June 2020

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
2020						
Deductibles receivable & cost recovery	-	-	-	-	-	-
Premium receivable	12,611,503	12,611,503				
Accrued investment income	710,588	710,588	-	-	-	-
Total	**13,322,091**	**13,322,091**	-	-	-	-
2019						
Deductibles receivable & cost recovery	-	-	-	-	-	-
Premium receivable	-	-				
Accrued investment income	1,193,443	1,193,443	-	-	-	-
Total	**1,193,443**	**1,193,443**	-	-	-	-

Notes to the Financial Statements
for the year ended 30 June 2020

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.2 Payables

	2020 $	2019 $
CONTRACTUAL		
Supplies and services	793,827	155,670
Deferred other income	20,906	51,484
STATUTORY		
GST payable	457,031	240,646
Other taxes payable	727,621	496,954
	1,999,385	**944,754**
Represented by:		
Current payables	1,999,385	944,754
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.

In accordance with Government directions, payments for services and supplies have been effected within required timeframes, as part of governments response to the COVID19 virus.

Notes to the Financial Statements
for the year ended 30 June 2020

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
2020						
Supplies and services	793,827	793,827	793,827	-	-	-
Deferred other income	20,906	20,906	-	20,906	-	-
Total	**814,733**	**814,733**	**793,827**	**20,906**	-	-
2019						
Supplies and services	155,670	155,670	155,670	-	-	-
Deferred other income	51,484	51,484	-	51,484	-	-
Total	**207,154**	**207,154**	**155,670**	**51,484**	-	-

5.3 Other non-financial assets

	2020 $	2019 $
CURRENT OTHER ASSETS		
Prepayments	185,080	159,306
Total Current other assets	**185,080**	**159,306**
NON-CURRENT OTHER ASSETS		
Total Non-current other assets	-	-
Total Other assets	**185,080**	**159,306**

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 2020

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.4 Unearned premium liability

	2020 $	2019 $
Unearned premium liability 1 July	47,207,000	45,253,000
Earning of premiums written in previous periods	(34,460,505)	(33,171,002)
Deferral of premium contracts written in period	34,667,726	34,460,505
Unexpired risk liability recognised for year ending 30 June (note 7.5.1)	884,779	664,497
Unearned premium liability 30 June	**48,299,000**	**47,207,000**

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 5.5.

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.

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.

Notes to the Financial Statements
for the year ended 30 June 2020

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.5.1 Outstanding claims liability

	2020 $	2019 $
Central estimate of claims still to be paid	91,779,000	96,105,000
Discount to present value	(1,168,000)	(2,792,000)
	90,611,000	93,313,000
Present value of claims handling costs	6,116,000	6,299,000
Risk margin	10,640,000	10,957,000
Gross outstanding claims liability	107,367,000	110,569,000
Gross outstanding claims liability - undiscounted	108,536,000	113,361,000
Current	34,193,000	34,011,000
Non-current	73,174,000	76,558,000
Total	**107,367,000**	**110,569,000**

5.5.2 Risk margin applied	**11.000%**	**11.000%**

5.5.3 Reconciliation of movement in discounted outstanding claims liability

	2020 $	2019 $
Brought forward	110,569,000	112,001,000
Increase/(Decrease) in claims incurred/recoveries anticipated over the year	(13,841,793)	(15,456,393)
Incurred claims recognised in the Statement of Comprehensive Income	47,912,000	43,462,000
Claims payments/recoveries during the year	(38,896,207)	(32,469,607)
Movement in net present value adjustment	1,624,000	3,032,000
Carried forward	**107,367,000**	**110,569,000**

Notes to the Financial Statements
for the year ended 30 June 2020

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.5.4 Claims development table ($m)

Policy year	2016	2017	2018	2019	2020	Total
Estimate of ultimate claim cost at end of policy year	34.389	35.414	34.130	35.321	39.637	
One year later	29.760	35.364	31.634	34.887		
Two years later	27.337	35.615	30.834			
Three years later	23.656	38.094				
Four years later	21.439					
Current estimate	21.439	38.094	30.834	34.887	39.637	164.892
Cumulative payments	-16.595	-30.856	-20.461	-14.401	-4.984	-87.298
Undiscounted central estimate	4.843	7.238	10.374	20.485	34.653	77.595
Discount						-1.168
Inflation to future values						4.170
Present value of claims handling expenses						6.116
Undiscounted central estimate prior years						10.014
Risk margin						10.640
Total outstanding claims						**107.367**

5.5.5 Net present value adjustment to outstanding claims

	2020 $	2019 $
Opening balance	2,792,000	5,824,000
Prior year	(2,088,000)	(3,998,000)
Current year	464,000	966,000
Closing balance	**1,168,000**	**2,792,000**

Notes to the Financial Statements
for the year ended 30 June 2020

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:

	2020 $	2019 $
Cash and cash equivalents	18,985,397	12,425,913
Cash trusts & deposits	42,389,808	44,674,101
	61,375,205	**57,100,014**

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

	2020	2019
Operating profit	(5,431,627)	14,902,968
Depreciation	364,233	100,713
(Profit)/Loss on sale of property, plant & equipment	-	-
Changes in net market value of investments	3,717,218	(11,033,661)
Unexpired risk liability	884,779	664,497
Change in assets and liabilities	-	-
Increase/(Decrease) in provision for long service and annual leave	(91,686)	18,528
(Increase)/Decrease in receivables & prepayments	457,081	213,017
Increase/(Decrease) in creditors	1,054,631	(439,226)
Increase/(Decrease) in premiums received in advance	(12,404,283)	1,289,504
Increase/(Decrease) in claims outstanding	(3,202,000)	(1,432,000)
Net cash and cash equivalents provided by operating activities	**(14,651,654)**	**4,284,340**

The fund has no credit standby arrangements or loan facilities (2019: Nil)

Notes to the Financial Statements
for the year ended 30 June 2020

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 2020	**Less than 1 year**	**1 - 5 years**	**5+ years**	**Total**
Operating and lease commitments payable	-	-	-	-
Other commitments payable	261,087	-	-	261,087
Total commitments (inclusive of GST)	**261,087**	-	-	**261,087**
Less GST recoverable				23,735
Total commitments (exclusive of GST)				**237,352**

2019	**Less than 1 year**	**1 - 5 years**	**5+ years**	**Total**
Operating and lease commitments payable (a)	461,959	1,564,886	-	2,026,845
Other commitments payable	248,654	-	-	248,654
Total commitments (inclusive of GST)	**710,613**	**1,564,886**	-	**2,275,499**
Less GST recoverable				206,864
Total commitments (exclusive of GST)				**2,068,635**

(a) For 2019 operating lease commitments relate to property and office equipment leases with lease terms between five and ten years. These contracts do not allow the LPLC to purchase the assets after the lease ends, however the LPLC can renew the property lease for a further five years. These have been recorded on the balance sheet as lease liabilities at 30 June 2020.

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 2020

6. HOW WE FINANCED OUR OPERATIONS (CONTINUED)

6.3 Leases

	2020 $	2019 $
CURRENT IIABILITIES		
Lease liabilities	311,190	-
Total current liabilities	**311,190**	-
NON-CURRENT LIABILITIES		
Lease liabilities	906,459	-
Total non-current liabilities	**906,459**	-
Total lease liabilities	**1,217,649**	

6.3.1 Leases

Information about leases for which LPLC is a lessee is presented below.

LPLC leasing activities

LPLC leases property and equipment. The lease contracts are typically made for fixed periods of 1-10 years with an option to renew the lease after that date.

6.3.1 (a) Right-of-use assets

Right-of-use assets are presented in note 4.1 (a).

6.3.1 (b) Amounts recognised in the Statement of Comprehensive Income

The following amounts are recognised in the Statement of Comprehensive Income relating to leases:

	2020 $
Interest expense on lease liabilities	47,663
Expense relating to short-term leases	-
Total amount recognised in the statement of comprehensive income	**47,663**

6.3.1 (c) Amounts recognised in the statement of cashflows

The following amounts are recognised in the Statement of Comprehensive Income relating to leases:

	2020 $
Interest expense on lease liabilities	47,663
Principal payments on lease liabilities	275,284
Total cash outflow for leases	**322,947**

Notes to the Financial Statements
for the year ended 30 June 2020

6. HOW WE FINANCED OUR OPERATIONS (CONTINUED)

6.3 Leases (continued)

For any new contracts entered into on or after 1 July 2019, LPLC considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition LPLC assesses whether the contract meets three key evaluations which are:

a) whether the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to LPLC and for which the supplier does not have substantive substitution rights;

b) whether LPLC has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract and the department has the right to direct the use of the identified asset throughout the period of use; and

c) whether LPLC has the right to take decisions in respect of 'how and for what purpose' the asset is used throughout the period of use.

This policy is applied to contracts entered into, or changed, on or after 1 July 2019.

Separation of lease and non-lease components

At inception or on reassessment of a contract that contains a lease component, the lessee is required to separate out and account separately for non-lease components within a lease contract and exclude these amounts when determining the lease liability and right-of-use asset amount.

Recognition and measurement of leases as a lessee (under AASB 16 from 1 July 2019)

Lease liability – initial measurement

The lease liability is initially measured at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily determinable or LPLC's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

a) fixed payments (including in-substance fixed payments)

b) variable payments based on an index or rate, initially measured using the index or rate as at the commencement date

c) amounts expected to be payable under a residual value guarantee; and

d) payments arising from purchase and termination options reasonably certain to be exercised.

Notes to the Financial Statements
for the year ended 30 June 2020

6. HOW WE FINANCED OUR OPERATIONS (CONTINUED)

6.3 Leases (continued)

Lease Liability – subsequent measurement

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in-substance fixed.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right of use asset is already reduced to zero.

Short-term leases and leases of low value assets

The LPLC has elected to account for short-term leases and leases of low value assets using the practical expedients. Instead of recognising a right of use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight line basis over the lease term.

Presentation of right-of-use assets and lease liabilities

The LPLC presents right-of-use assets as ‘property plant equipment’ unless they meet the definition of investment property, in which case they are disclosed as ‘investment property’ in the balance sheet. Lease liabilities are presented as ‘borrowings’ in the balance sheet.

Recognition and measurement of leases (under AASB 117 until 30 June 2019)

In the comparative period, leases of property, plant and equipment were classified as either finance lease or operating leases.

Leases of property, plant and equipment where LPLC as a lessee had substantially all of the risks and rewards of ownership were classified as finance leases. Finance leases were initially recognised as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payment, each determined at the inception of the lease. The leased asset is accounted for as a non-financial physical asset and depreciated over the shorter of the estimated useful life of the asset or the term of the lease. Minimum finance lease payments were apportioned between the reduction of the outstanding lease liability and the periodic finance expense, which is calculated using the interest rate implicit in the lease and charged directly to the consolidated comprehensive operating statement.

Contingent rentals associated with finance leases were recognised as an expense in the period in which they are incurred.

Assets held under other leases were classified as operating leases and were not recognised in LPLC’s balance sheet. Operating lease payments were recognised as an operating expense in the Statement of Comprehensive Income on a straight-line basis over the lease term.

Notes to the Financial Statements
for the year ended 30 June 2020

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 7.1.3 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.

Notes to the Financial Statements
for the year ended 30 June 2020

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Categories of financial instruments

Financial assets at amortised cost

Financial assets are measured at amortised cost if both of the following criteria are met and the assets are not designated as fair value through net result:

- the assets are held by the LPLC to collect the contractual cash flows, and
- the assets' contractual terms give rise to cash flows that are solely payments of principal and interest.

These assets are initially recognised at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method less any impairment.

LPLC recognises the following assets in this category:

- cash and deposits
- receivables (excluding statutory receivables)
- term deposits

Financial assets at fair value through other comprehensive income

Debt investments are measured at fair value through other comprehensive income if both of the following criteria are met and the assets are not designated as fair value through net result:

- the assets are held by the LPLC to achieve its objective both by collecting the contractual cash flows and by selling the financial assets, and
- the assets' contractual terms give rise to cash flows that are solely payments of principal and interests.

Equity investments are measured at fair value through other comprehensive income if the assets are not held for trading and the LPLC has irrevocably elected at initial recognition to recognise in this category.

These assets are measured at fair value with subsequent change in fair value in other comprehensive income.

Upon disposal of these debt instruments, any related balance in the fair value reserve is reclassified to profit or loss. However, upon disposal of these equity instruments, any related balance in fair value reserve is reclassified to retained earnings.

LPLC recognises certain unlisted instruments within this category.

Notes to the Financial Statements

for the year ended 30 June 2020

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Financial assets at fair value through net result

Equity instruments that are held for trading as well as derivative instruments are classified as fair value through net result. Other financial assets are required to be measured at fair value through net result unless they are measured at amortised costs or fair value through other comprehensive income.

However, as an exception to those rules above, the LPLC may, at initial recognition, irrevocably designate financial assets as measured at fair value through net result if doing so eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different bases.

LPLC recognises listed equity securities as mandatorily measured at fair vale through net result and designated all of its managed investment schemes as fair value through net result.

Categories of financial liabilities

Financial assets and liabilities at fair value through net result

Financial assets are categorised as fair value through profit or loss at trade date it they are classified as held for trading or designated as such upon initial recognition. Financial instrument assets are designated at fair value through net result 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 net result 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 2020

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 2020

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.1 Financial instruments: Categorisation

	Cash and deposits	Financial assets/ liabilities designated at fair value through profit /loss (FVTPL)	Financial assets measured at fair value through other comprehensive income (FVOCL)	Financial Assets at amortised cost (AC)	Financial liabilities at amortised cost (AC)	Total
2020						
CONTRACTUAL FINANCIAL ASSETS						
Cash and deposits	18,985,397	-	-	-	-	18,985,397
Receivables (a)						
Deductibles receivable & cost recovery	-	-	-	-	-	-
Premium receivable	-	-	-	12,611,503	-	12,611,503
Accrued investment income	-	-	-	710,588	-	710,588
Investments and other contractual assets						
Term deposits	-	-	-	42,389,808	-	42,389,808
Managed unit trusts	-	199,199,380	-	-	-	199,199,380
Total contractual financial assets	**18,985,397**	**199,199,380**	**-**	**55,711,899**	**-**	**273,896,676**
CONTRACTUAL FINANCIAL LIABILITIES						
Payables (a)						
Supplies and services	-	-	-	-	793,827	793,827
Lease liability	-	-	-	-	1,217,649	1,217,649
Deferred other income	-	-	-	-	20,906	20,906
Total contractual financial liabilities	-	-	-	-	**2,032,382**	**2,032,382**

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 2020

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.1 Financial instruments: Categorisation (continued)

	Cash and deposits	Financial assets/ liabilities designated at fair value through profit /loss (FVTPL)	Financial assets measured at fair value through other comprehensive income (FVOCL)	Financial assets at amortised cost (AC)	Financial liabilities at amortised cost (AC)	Total
2019						
CONTRACTUAL FINANCIAL ASSETS						
Cash and deposits	12,425,913	-	-	-	-	12,425,913
Receivables (a)						
Deductibles receivable & cost recovery	-	-	-	-	-	-
Accrued investment income	-	-	-	1,193,443	-	1,193,443
Investments and other contractual assets						
Term deposits	-	-	-	44,674,101	-	44,674,101
Managed unit trusts	-	222,174,185	-	-	-	222,174,185
Total contractual financial assets	**12,425,913**	**222,174,185**	**-**	**45,867,544**	**-**	**280,467,642**
CONTRACTUAL FINANCIAL LIABILITIES						
Payables (a)						
Supplies and services	-	-	-	-	155,670	155,670
Lease liability	-	-	-	-	-	-
Deferred other income	-	-	-	-	51,484	51,484
Total contractual financial liabilities	-	-	-	-	**207,154**	**207,154**

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 2020

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
2020					
CONTRACTUAL FINANCIAL ASSETS					
Financial assets at amortised cost - other than on derecognition	-	2,208,774	-	-	2,208,774
Equity investments designated at fair value through profit/loss	(3,717,218)	-	-	-	(3,717,218)
Total contractual financial assets	**(3,717,218)**	**2,208,774**	**-**	**-**	**(1,508,443)**
Contractual financial liabilities	-	-	-	-	-
Financial liabilities at amortised cost	-	-	-	-	-
Total contractual financial liabilities	**-**	**-**	**-**	**-**	**-**

Notes to the Financial Statements
for the year ended 30 June 2020

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

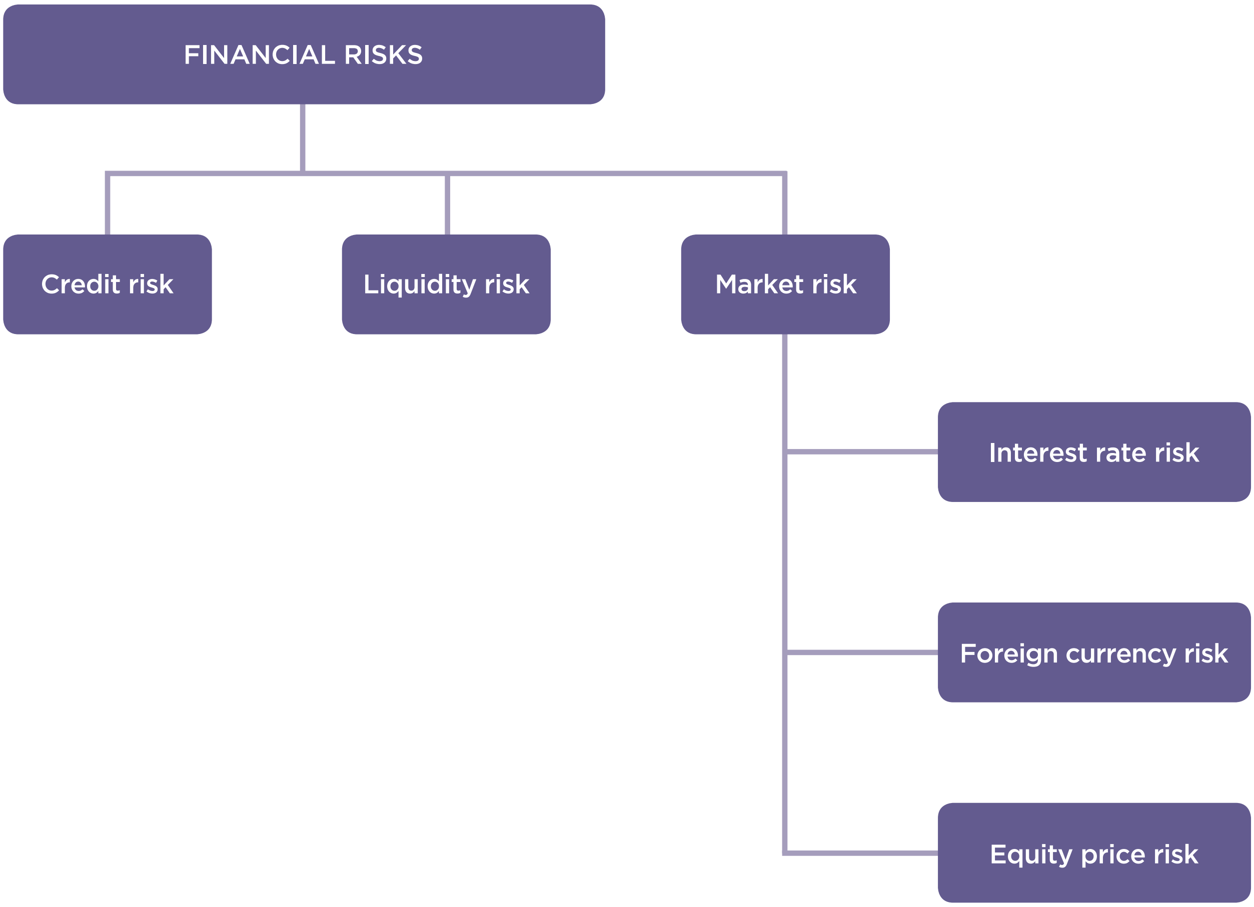
	Net holding gain/(loss)	Total interest income (expense)	Fee income/ (expense)	Impairment loss	Total
2019					
CONTRACTUAL FINANCIAL ASSETS					
Financial assets designated at fair value through profit/loss	-	-	-	-	-
Financial assets - loans and receivables	-	2,236,368	-	-	2,236,368
Financial assets available-for-sale recognised in net result	11,033,661	-	-	-	11,033,661
Financial assets available for sale recognised in other comprehensive result	-	-	-	-	-
Total Contractual financial assets	**11,033,661**	**2,236,368**	-	-	**13,270,028**
Contractual financial liabilities	-	-	-	-	-
Financial liabilities at amortised cost	-	-	-	-	-
Total Contractual financial liabilities	-	-	-	-	-

Notes to the Financial Statements
for the year ended 30 June 2020

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 7.3 to the financial statements.

Notes to the Financial Statements
for the year ended 30 June 2020

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. There has been no material change to LPLC's credit risk profile in 2019-20.

Impairment of financial assets under AASB 9

LPLC records the allowance for expected credit loss for the relevant financial instruments, replacing AASB 139's incurred loss approach with AASB's Expected Credit Loss approach. Subject to AASB 9 impairment assessment include the LPLC's contractual receivables and statutory receivables.

Equity instruments are not subject to impairment under AASB 9. Other financial assets mandatorily measured or designated at fair value through net result are not subject to impairment assessment under AASB 9. While cash and cash equivalents are also subject to the impairment requirements of AASB 9, the identified impairment loss was immaterial.

Notes to the Financial Statements
for the year ended 30 June 2020

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Contractual receivables at amortised cost

The LPLC applies AASB 9 simplified approach for all contractual receivables to measure expected credit losses using a lifetime expected loss allowance based on the assumptions about risk of default and expected loss rates. The LPLC has grouped contractual receivables on shared credit risk characteristics and days past due and select the expected credit loss rate based on the LPLC's past history, existing market conditions, as well as forward-looking estimates at the end of the financial year.

On this basis, the LPLC has determined the opening loss allowance on initial application date of AASB 9 and the closing loss allowance at the end of the financial year.

Contractual receivables are written off when there is no reasonable expectation of recovery and impairment losses are classified as a transaction expense.

Subsequent recoveries of amounts previously written off are credited against the same line item.

In prior years, a provision for doubtful debts is recognised when there is objective evidence that the debts may not be collected and bad debts are written off when identified. A provision is made for estimated irrecoverable amounts from the sale of goods when there is objective evidence that an individual receivable is impaired. Bad debts considered as written off by mutual consent.

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 2020

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 2020

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 2020			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	0.05%	18,985,397	-	-	-	-	18,985,397
Receivables	n/a		-	-	-	13,322,091	13,322,091
Units in managed funds	n/a	-	-	-	-	199,199,380	199,199,380
Term deposits	1.80%	-	42,389,808	-	-	-	42,389,808
Total financial assets		**18,985,397**	**42,389,808**	-	-	**212,521,471**	**273,896,676**
Financial liabilities:							
Creditors - contractual	n/a	-	-	-	-	793,827	793,827
Lease liability	3.73%	-	-	1,217,649	-	-	1,217,649
Outstanding claims	n/a	-	-	-	-	107,367,000	107,367,000
Total financial liabilities		-	-	**1,217,649**	-	**108,160,827**	**109,378,476**

Notes to the Financial Statements
for the year ended 30 June 2020

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Interest rate risk (continued)

30 June 2019			**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	0.65%	12,425,913	-	-	-	-	12,425,913
Receivables	n/a		-	-	-	1,193,443	1,193,443
Units in managed funds	n/a	-	-	-	-	222,174,185	222,174,185
Term deposits	2.37%	-	44,674,101	-	-	-	44,674,101
Total financial assets		**12,425,913**	**44,674,101**	-	-	**223,367,628**	**280,467,642**
Financial liabilities:							
Creditors - contractual	n/a	-	-	-	-	155,670	155,670
Lease liability	n/a	-	-	-	-	-	-
Outstanding claims	n/a	-	-	-	-	110,569,000	110,569,000
Total financial liabilities		-	-	-	-	**110,724,670**	**110,724,670**

Notes to the Financial Statements

for the year ended 30 June 2020

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			
2020	Carrying	**-0.25%**		**+.5%**		**-10%**		**+10%**	
Financial assets	amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Cash and cash equivalents	61,375,205	(153,438)	(153,438)	306,876	306,876				
Units in managed funds	199,199,380					(19,919,938)	(19,919,938)	19,919,938	19,919,938
2019	Carrying	**-0.25%**		**+.5%**		**-10%**		**+10%**	
Financial assets	Amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Cash and cash equivalents	57,100,014	(142,750)	(142,750)	285,500	285,500				
Units in managed funds	222,174,185					(22,217,419)	(22,217,419)	22,217,419	22,217,419

Notes to the Financial Statements
for the year ended 30 June 2020

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. 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.

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.

Notes to the Financial Statements
for the year ended 30 June 2020

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

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.

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.

Notes to the Financial Statements
for the year ended 30 June 2020

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.3 Fair value determination (continued)

Financial assets measured at fair value

	Level 1 $	Level 2 $	Level 3 $	Total $
30-Jun-20				
FINANCIAL ASSETS				
- Unit in managed funds	163,794,479	35,404,901	-	199,199,380
30-Jun-19				
FINANCIAL ASSETS				
- Unit in managed funds	185,086,038	37,088,147	-	222,174,185

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 2020

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 $**
2020			
Furniture & equipment	-	-	55,790
Leasehold improvements	-	-	91,915
Total assets at fair value			**147,705**
2019			
Furniture & equipment	-	-	55,253
Leasehold improvements	-	-	101,536
Total assets at fair value			**156,789**

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 2020. 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

2020 and 2019	**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 2020

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.3 Fair value determination (continued)

Reconciliation of level 3 fair value movements

	Furniture & equipment	Leasehold improvements
2020		
Opening balance	55,253	101,536
Recognition of right-of-use assets on initial application of AASB 16	1,267,722	-
Purchases (Sales)	263,936	16,734
Depreciation	(313,472)	(26,355)
Revaluation	-	-
Closing balance	**1,273,439**	**91,915**

There have been no transfers between levels during the period.

	Furniture & equipment	Leasehold improvements
2019		
Opening balance	71,672	30,105
Purchases (Sales)	20,685	90,770
Depreciation	(37,104)	(19,339)
Revaluation	-	-
Closing balance	**55,253**	**101,536**

Notes to the Financial Statements

for the year ended 30 June 2020

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 2020 in excess of $47.5m.

Notes to the Financial Statements
for the year ended 30 June 2020

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 2020.

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.

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 2020

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.5 Unexpired risk liability (continued)

7.5.1 Unexpired risk liability	**2020 $**	**2019 $**
Unexpired risk liability as at 1 July	12,746,495	12,081,998
Recognition of additional unexpired risk liability in the period	884,779	664,497
Unexpired risk liability as at 30 June	**13,631,274**	**12,746,495**
7.5.2 Calculation of deficiency		
Unearned premium liability relating to insurance contracts	34,667,726	34,460,505
Central estimate of present value of expected future cash flows arising from future claims	42,183,000	41,229,000
Risk margin of 14.5%	6,116,000	5,978,000
	48,299,000	47,207,000
Net deficiency	**13,631,274**	**12,746,495**

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 2020

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

	2020 $	2019 $
Accumulated funds at the beginning of the year	121,338,618	106,435,650
Operating profit/(loss) for the year	(5,431,627)	14,902,968
Accumulated Funds at the end of the year	**115,906,991**	**121,338,618**

Notes to the Financial Statements
for the year ended 30 June 2020

8. OTHER DISCLOSURES (CONTINUED)

8.2 Remuneration of auditors

	2020 $	2019 $
VICTORIAN AUDITOR-GENERAL'S OFFICE		
- auditing or reviewing the financial report	48,400	47,200
- other services	-	-
Total remuneration of auditors	**48,400**	**47,200**

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

	2020 $	2019 $
Paid as at 30 June	22,000	21,000
Payable as at 30 June	26,400	26,200
	48,400	**47,200**

8.3 Responsible persons

In accordance with the Ministerial Directions issued by the Assistant Treasurer 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. Jill Hennessy, MP	1 July 2019 to 30 June 2020
Accountable Officer	Mr Nicholas J Toohey	1 July 2019 to 30 June 2020
Committee Member	Ms Patricia Kelly	1 July 2019 to 30 June 2020
Committee Member	Ms Helen Thornton	1 July 2019 to 30 June 2020
Committee Member	Mr John Corcoran	1 July 2019 to 30 June 2020
Committee Member	Ms Catriona Lowe	1 July 2019 to 31 January 2020
Committee Member	Mr John Cain	1 July 2019 to 29 November 2019
Committee Member	Mr Adrian Finanzio	1 July 2019 to 30 June 2020
Committee Member	Mr Daniel Barlow	1 July 2019 to 30 June 2020
Committee Member	Ms Michelle Dixon	18 February 2020 to 30 June 2020
Committee Member	Ms Nicole Rich	17 March 2020 to 30 June 2020

Notes to the Financial Statements
for the year ended 30 June 2020

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:

$	2020 No.	2019 No.
0 - 9,999 (a)	2	1
10,000 -19,999	2	-
20,000 - 29,999	-	-
30,000 - 39,999	4	5
40,000 - 49,999	-	-
50,000 - 59,999	1	1
360,000 - 369,999	-	-
370,000 - 379,999	-	1
410,000 - 420,000	1	-
Total numbers	**10**	**8**
Total remuneration	**$645,407**	**$594,501**

(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 2020

8. OTHER DISCLOSURES (CONTINUED)

8.4 Remuneration of executives

The number of executive officers, other than ministers and accountable officers, 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.

	Total remuneration	
Remuneration of executive officers (including key management personnel disclosed in Note 8.5)	**2020** **$**	**2019** **$**
Short-term employee benefits	2,076,384	2,016,421
Post-employment benefits	160,727	170,377
Other long-term benefits	27,194	30,391
Termination benefits	-	-
Total remuneration	**2,264,305**	**2,217,189**
Total number of executives	**16**	**15**
Total annualised employee equivalents	**15.6**	**14.6**

Notes:
(a) 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)
(b) 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 2020

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.

Significant transactions with government-related entities.

During the year the LPLC had the following government-related entity transactions:

- there were no transactions with government related entities.

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

Chief Executive Officer	Mr Nicholas J Toohey
Committee Member	Ms Patricia Kelly
Committee Member	Ms Helen Thornton
Committee Member	Mr John Corcoran
Committee Member	Ms Nicole Rich
Committee Member	Ms Michelle Dixon
Committee Member	Mr Daniel Barlow
Committee Member	Mr Adrian Finanzio

Notes to the Financial Statements
for the year ended 30 June 2020

8. OTHER DISCLOSURES (CONTINUED)

8.5 Related parties (continued)

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	
Compensation of KMP's	**2020 $**	**2019 $**
Short-term employee benefits	604,180	555,246
Post-employment benefits	41,227	39,255
Other long-term benefits	6,104	5,978
Termination benefits	-	-
Total compensation:	**651,512**	**600,479**

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

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.

In the ordinary course of business LPLC provides Committee members with a Deed of Indemnity. The Deed indemnifies the Committee member against all liabilities, penalties, losses, damages, expenses and costs that the member may sustain or incur in the capacity of a member of the Committee.

8.6 Subsequent events

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

The COVID-19 pandemic has created unprecedented economic uncertainty. Actual economic events and conditions in the future may be materially different from those estimated by LPLC at the reporting date.

As responses by government continue to evolve management recognises that it is difficult to reliably estimate with any degree of certainty the potential impact of the pandemic after the reporting date on LPLC, its operations, future results and financial position. The state of disaster in Victoria was extended on 16/8/20 until 13/9/2020.

There were no other material matters or circumstances after balance date that require disclosure.

Notes to the Financial Statements
for the year ended 30 June 2020

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 30/6/20.

Development year	Ultimate claims incurred as % of current estimate	Payments to end of year, as % of ultimate claims
0	84.3% *	14.1%
1	88.5%	42.8%
2	92.2%	61.7%
3	96.0%	74.3%
4	100.0% **	82.8%
5	100.0% **	88.5%
6	100.0%	92.3%
7	100.0%	94.8%
8	100.0%	96.5%
9	100.0%	97.7%

* Ratio of ultimate incurreds for the 2020 policy year includes 25% weight given to average costs per practitioner equivalent.

** Ultimate incurreds for the 2015 and 2016 policy years have been set to 100% in light of the current low claims incurred in those years.

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 2020

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 2020 are estimated by deducting payments to date.

Gross payments in 2019-20 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 2019-20.

Gross payments in 2019-20 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 2020. 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 30/6/20

Risk variable	Base	Altered	Outstanding claims ($m)	Premium liability ($m)
Discount rate (% pa)	0.25%	1.25%	-2.432	-1.184
	0.25%	-0.75%	2.585	1.261
Claim administration	6.75%	7.75%	0.906	
expenses (% of claims)	6.75%	5.75%	-0.906	
Wage inflation (% pa)	2.25%	3.25%	2.625	1.325
	2.25%	1.25%	-2.524	-1.271
"Regular" solicitor claims per	3,580	3,938	0.678	2.568
principal equivalent	3,580	3,222	-0.617	-2.335
"Large" claims ($m)	$10.7m	$9.9m		-0.861

Notes to the Financial Statements
for the year ended 30 June 2020

8. OTHER DISCLOSURES (CONTINUED)

8.7 Actuarial assumptions and methods (continued)

Sensitivity analysis as at 30/6/19

Risk variable	Base	Altered	Outstanding claims ($m)	Premium liability ($m)
Discount rate (% pa)	2.00%	3.00%	-2.540	-1.191
	2.00%	1.00%	2.702	1.269
Claim administration expenses (% of claims)	6.75%	7.75%	0.933	
	6.75%	5.75%	-0.933	
Wage inflation (% pa)	3.00%	4.00%	2.709	1.252
	3.00%	2.00%	-2.621	-1.269
"Regular" solicitor claims per principal equivalent	3,480	3,828	0.635	2.411
	3,480	3,132	-0.635	-2.411
"Large" claims ($m)	$11.6m	$9.9m		-1.739

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 2020

8. OTHER DISCLOSURES (CONTINUED)

8.8 Change in accounting policies

8.8.1 Leases

This note explains the impact of the adoption of AASB 16 Leases on the LPLC's financial statements.

The LPLC has applied AASB 16 with a date of initial application of 1 July 2019.

The LPLC has elected to apply AASB 16 using the modified retrospective approach, as per the transitional provisions of AASB 16 for all leases for which it is a lessee. The cumulative effect of initial application is recognised in retained earnings as at 1 July 2019. Accordingly, the comparative information presented is not restated and is reported under AASB 117 and related interpretations.

Previously, the LPLC determined at contract inception whether an arrangement is or contains a lease under AASB 117 and Interpretation 4 Determining whether an arrangement contains a Lease. Under AASB 16, the LPLC assesses whether a contract is or contains a lease based on the definition of a lease as explained in note 6.3.

On transition to AASB 16, the LPLC has elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 and Interpretation 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under AASB 16 was applied to contracts entered into or changed on or after 1 July 2019.

Leases classified as operating leases under AASB 117

As a lessee, the LPLC previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the LPLC. Under AASB 16, the LPLC recognises right-of-use assets and lease liabilities for all leases except where exemption is availed in respect of short-term and low value leases.

On adoption of AASB 16, the LPLC recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of AASB 117. These liabilities were measured at the present value of the remaining lease payments, discounted using the LPLC's incremental borrowing rate as of 1 July 2019. On transition, right-of-use assets are measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019.

Notes to the Financial Statements
for the year ended 30 June 2020

8. OTHER DISCLOSURES (CONTINUED)

8.8 Change in accounting policies (continued)

8.8.1 Leases (continued)

The LPLC has elected to apply the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

a) applied a single discount rate to a portfolio of leases with similar characteristics;

b) adjusted the right-of-use assets by the amount of AASB 137 onerous contracts provision immediately before the date of initial application, as an alternative to an impairment review;

c) applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term;

d) excluded initial direct costs from measuring the right-of-use asset at the date of initial application and

e) used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

For leases that were classified as finance leases under AASB 117, the carrying amount of the right-of-use asset and lease liability at 1 July 2019 are determined as the carrying amount of the lease asset and lease liability under AASB 117 immediately before that date.

Leases as a Lessor

The LPLC is not required to make any adjustments on transition to AASB 16 for leases in which it acts as a lessor.

Impacts on financial statements

On transition to AASB 16, the LPLC recognised $1.267million of right-of-use assets and $1.267million of lease liabilities.

When measuring lease liabilities, the LPLC discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted average rate applied is 3.71%.

	1 July 2019
Total operating lease commitments disclosed as 30 June 2019	2,026,845
Other adjustment relating to lease incentive	(367,287)
Adjusted operating lease commitments disclosed as 30 June 2019	1,659,558
Discounted using the incremental borrowing rate at 1 July 2019	1,396,799
Recognition exemption for:	
Short-term leases	(129,077)
Leases of low value assets	-
Lease liabilities recognised at 1 July 2019	**1,267,722**

Notes to the Financial Statements

for the year ended 30 June 2020

8. OTHER DISCLOSURES (CONTINUED)

8.8.4 Transition impact on financial statements

This note explains the impact of the adoption of the following new accounting standards for the first time, from 1 July 2019:

a) AASB 16 Leases

Impact on Balance Sheet due to the adoption of AASB 16 is illustrated with the following reconciliation between the restated carrying amounts at 30 June 2019 and the balances reported under the new accounting standards at 1 July 2019:

Balance sheet	Notes	Before new accounting standards opening 1 July 2019	Impact of new accounting standards AASB 16	After new accounting standards opening 1 July 2019
Current assets		58,452,763		58,452,763
Non-current assets	4.1	222,359,548	1,267,722	223,627,270
Total assets		**280,812,311**	**1,267,722**	**282,080,033**
Current liabilities		82,858,846	252,472	83,111,318
Non-current liabilities	6.3	76,614,847	1,015,250	77,630,097
Total liabilities		**159,473,693**	**1,267,722**	**160,741,415**
Accumulated surplus		121,338,618	-	121,338,618
Total equity		**121,338,618**	-	**121,338,618**

Notes to the Financial Statements
for the year ended 30 June 2020

8. OTHER DISCLOSURES (CONTINUED)

8.9 Australian Accounting Standards issued that are not yet effective

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 2020. Their details are disclosed below.

Standard/ Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
AASB 17 *Insurance Contracts*	The new Australian standard eliminates inconsistencies and weaknesses in existing practices to provide a single principle-based framework to account for all types of insurance contracts, including reissuance contract that an insurer holds. It also provides for presentation and disclosure to enhance comparability between entities. This standard does not apply to not-for-profit public sector entities.	1 Jan 2022	It is expected that the impact from the introduction of AASB17 will be minimal and primarily in the nature of additional disclosures. Further analysis of the impact of AASB 17 on LPLC will be undertaken as guidance and advice is received.
AASB 2020-1 *Amendments to Australian Accounting Standards - Classification of Liabilities as Current or Non-Current*	This Standard amends AASB 101 to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current. A liability is classified as non-current if an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. The meaning of settlement of a liability is also clarified.	1 Jan 2022. However, ED 301 has been issued with the intention to defer application to 1 Jan 2023.	The standard is not expected to have a significant impact on the public sector.

Notes to the Financial Statements
for the year ended 30 June 2020

8. OTHER DISCLOSURES (CONTINUED)

8.9 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 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*	This Standard principally amends AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments refine and clarify the definition of material in AASB 101 and its application by improving the wording and aligning the definition across AASB Standards and other publications. The amendments also include some supporting requirements in AASB 101 in the definition to give it more prominence and clarify the explanation accompanying the definition of material.	1 Jan 2020	The standard is not expected to have a significant impact on the public sector.

Notes to the Financial Statements
for the year ended 30 June 2020

8. OTHER DISCLOSURES (CONTINUED)

8.10 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 2020

8. OTHER DISCLOSURES (CONTINUED)

8.10 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 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.

Leases are rights conveyed in a contract, or part of a contract, the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

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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