LEGAL PRACTITIONERS' LIABILITY COMMITTEE

ANNUAL REPORT
2020–2021

LEGAL PRACTITIONERS' LIABILITY COMMITTEE

The Legal Practitioners' Liability Committee (LPLC) has been insuring legal practitioners 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 21,500 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.

CONTENTS

FROM THE CHAIR

Compulsory professional indemnity insurance is an important safeguard in the regulatory framework for the legal profession, and for 35 years LPLC has provided Australian legal practitioners with broad, secure and affordable insurance cover to support their legal practice and to ensure a source of compensation for clients suffering financial loss from practitioner negligence.

As a scheme insurer, LPLC also maintains a comprehensive database enabling LPLC to help the profession understand and reduce the causes and costs of professional liability claims. The data informs an extensive investment in risk management activities to educate the profession on claims prevention and raise awareness of emerging liability risks.

In 2020–2021 LPLC's statutory insurance scheme grew by 4 per cent to cover more than 19,500 solicitors in 4,600 law practices (including many of Australia's largest law firms) and all 2,200 Victorian barristers.

LPLC started and completed the year in a strong financial condition, boosted by excellent investment returns which more than offset significantly higher claims costs for the year. Overall LPLC achieved a surplus of $7.2m for the year.

It was a remarkable 12 months, unlike any other in our history. Practitioners in Victoria endured several COVID-19 lockdowns, including one for more than 3 months from July – November 2020. Legal practice quickly moved to a virtual world enabled by online platforms and the pace of technological change accelerated rapidly. At the same time, many practices were still contending with after-effects from natural catastrophes such as bushfires, storms and floods, and the mental health impacts from COVID-19 fatigue has also now become a significant stress across the profession.

Amidst such challenges, the legal profession has been amazingly resilient. However the Committee remains acutely aware that the pandemic retains its grip on the nation and continues to impede resumption of 'normal' business activities. Its full impact may still lie ahead.

LPLC has adapted too and our statutory 'not for profit' insurance model once again demonstrated its capacity to evolve and support legal practitioners in new ways. We adjusted our operating model to accommodate the delivery of more services by digital means while remaining immediately accessible and responsive to practitioner enquiries. We also completed a major transformation of the pricing model so that premiums for all firms are now assessed on the basis of the law practice's gross fee income rather than on the basis of principal and employee practitioner headcount. The new model is fairer for all law practices and more closely aligns premiums with a practice's risk profile.

The pandemic has also heralded new risks for legal practice – not just keeping abreast of changes in laws and growing cyber risks but also the challenge of supervising staff working remotely from home and, for many, moving from wholly paper-based files to electronic files and record-keeping.

These matters contributed to noticeably higher claims costs during the year and present the profession with more challenges ahead.

The Committee participated in many collaborations with stakeholder groups during the year and continues to maintain excellent working relationships with insured law practices, the Victorian Legal Services Board + Commissioner, Department of Justice & Community Safety, the Law Institute of Victoria and the Victorian Bar as well as other interstate and national legal profession regulatory bodies.

I thank each of my fellow Committee members for their support of LPLC and their excellent sub-Committee work over the past 12 months. I also extend my sincere thanks to LPLC's dedicated executive leadership team and staff who once again carried out their duties in an exemplary manner and ensure that LPLC maintains a high standing in the community we serve.

John Corcoran AM
Chair

FROM THE CEO

As with most of the community, for much of the past 12 months LPLC worked under severe COVID-19 restrictions, including several months in lockdown where the office was closed and staff worked from home.

As we came to realise the pandemic's impact on business and everyday life would not be short-term our focus turned to ensuring LPLC continued to meet the needs of practitioners in an adaptive way.

To that end a number of important changes were made to the delivery of LPLC's insurance, claims and risk management services. Insured practitioners have embraced these changes and continued to engage strongly with us.

Through this engagement we learnt of the human impact of the pandemic on the lives of practicing lawyers and that everyone was searching for their own ways to cope with the uncertainty and change. Conversations with practitioners often extended beyond issues of insurance and risk because many practitioners were deprived of their regular daily interactions with people and wanted a chance to talk.

This mutual respect is a cornerstone of our insurance scheme and our broader public purpose. Working with practitioners, understanding their professional responsibilities and helping them with practical advice to better support their clients is fundamental to providing a quality insurance scheme.

Our pool of insured practitioners grew by 4 per cent in 2020–2021 to more than 21,500 solicitors and barristers. The number of new firms commencing practice (primarily sole practitioners) increased by 9 per cent on the year before, reflecting an impetus for the 'working from home' model directly resulting from the pandemic.

Our scheme operations resulted in a surplus of $7.2m for the year, with Fund equity at year's end standing at $123.1m.

Our equity ratio of 107 per cent provides the scheme with a strong and secure capital position.

Underlying the overall surplus for the year were two contrasting results:

- an underwriting loss of $14.8m arising from high claims in 2020–2021 and the strengthening of reserves for the 2019–2020 year
- an investment return of 11.4 per cent ($29m) on the Fund.

The investment return was an unexpectedly good result and another year of out-performance against our benchmarks. While the performance was driven by the V-shaped rebound in financial markets, the Fund benefited from that rebound with our long-term investment strategy and the diligence of Committee members and investment advisers (Willis Towers Watson) in setting our strategic asset allocation, selecting investment funds, and monitoring and reviewing performance throughout the year.

The underwriting loss was partly due to LPLC's deliberate strategy of subsidising premiums below break-even level with investment earnings from the Fund, and partly due to the higher claims expense from increased claims severity over the last two years.

During the year LPLC successfully collected $12.8m of deferred premiums from the prior 2019–2020 renewal. We were very pleased to provide cash flow assistance to firms requiring it when the pandemic first hit and the response by law practices to promptly pay those amounts within the 6 month deferral period was a great sign of the respect practitioners have for their insurance scheme.

Our major strategic undertaking for the year was to complete the transformation of LPLC's premium model by transitioning more than 1,800 smaller firms from the 'practitioner headcount' method of premium calculation, to a model based on law practice gross fee income (GFI).

The simplicity of the headcount model served LPLC and the profession well for a long time, but premium inequity was emerging with newer legal practice structures, different staff leverage and greater use of technology.

Our actuaries, Finity Consulting, designed a GFI premium model producing a fairer allocation of premiums across the pool of insured firms, achieving premium parity between firms with the same GFI regardless of their business model.

Changes to our renewal systems and processes were required to accommodate the new premium model, as well as communications with insured practitioners to explain premium adjustments resulting from the new model. The insurance team led by Bernadette Mallia are to be commended for achieving such a major transformation so smoothly and in a way that gained broad acceptance from the profession.

The GFI model maintains LPLC's approach of subsidising the premium pool from surplus equity, ensuring that premiums for practitioners continue to remain low. Our model stands in stark contrast with premiums in commercial top-up insurance markets which rose steeply again for the second successive year.

The higher claims activity which started last year continued through 2020–2021, although the experience is of an increase in claim severity rather than increased claim frequency.

For solicitors, the hot spots were again conveyancing and commercial practice. In conveyancing, there was a significant surge in claims arising from incorrect stamp duty returns detected by revenue authorities.

Our claims team led by Jodie Potts completed the conversion of all claims processes to a full digital format shortly prior to Melbourne's extended lockdown in July 2020.

Restrictions on face to face communication with insured practitioners and panel solicitors for much of the year also meant greater reliance on audio-visual platforms for conferring with practitioners, conducting mediations and Court hearings. In amongst this change, it was very pleasing to see no diminution in our proactive approach to resolving matters, with the team finalising 521 claims and notifications (solicitors and barristers) during the year (554 in 2019–2020). Amongst that were a large number of older matters.

LPLC’s risk education seminar program was conducted via (free) webinar format. Led by Heather Hibberd, the program delivered practical risk advice for all types and sizes of law practice. The flexibility and convenience of attending online during (and after) lockdowns opened our program to a significantly wider audience, particularly from regional areas. Attendee numbers increased by 350 per cent on the previous year with high practitioner engagement and satisfaction levels.

We also continued to devote significant resources to educating practitioners about cyber risks, in particular the prevention of client losses from payment redirection fraud where practitioner or client email accounts have been hacked by cybercriminals. For the second consecutive year these claims accounted for more than $1m in claims expense. Our heavily promoted ‘Call and verify before you pay’ message has been adopted by many firms to help to reduce these claims but further intervention is needed to implement multi-factor authentication on email accounts as a standard across all law practices.

Ransomware attacks on law firms and their supply chains have also emerged in Australia and overseas, creating yet another troubling risk for lawyers in their custody of confidential client information and heightening the need for firms to engage with their IT providers and continually update the cyber security posture of their network.

Our new website was launched in October 2020 and was a major project led by Tracey Johnston. Its updated information structure and powerful search functionality makes it easier and faster for practitioners to navigate and locate the risk management information and resources they are looking for from the extensive library on the website.

The website is our key digital communication tool with practitioners and now provides us with a solid base for rolling out future risk management initiatives currently under development.

LPLC continued to work co-operatively with the Victorian Legal Services Board + Commissioner (VLSBC) on a range of matters during the year, particularly in connection with changes made by the VLSBC to practicing certificate renewals which affected LPLC’s insurance processes. Our Risk Managers also participated in working groups with the VLSBC and the Law Institute of Victoria on a range of practice management and other subjects and consulted with VLSBC in their Review of Continuing Professional Development for practitioners in Victoria.

Relationships with all stakeholder groups remain very strong and there is a shared commitment among VLSBC, LIV, the Victorian Bar and LPLC to support each other's work in the interests of practitioners and for consumers of legal services.

We move into 2021–2022 with a clear understanding that further challenges from a continually changing external environment lie ahead, but reassured by the profession's resilience and goodwill towards LPLC over the past 12 months.

Finally, this year's report would not be complete without acknowledging LPLC Claims Solicitor, Alex Macmillan's wonderful contribution over the course of her 29 year career with LPLC. Alex retired at the end of July 2021 with the universal admiration and respect of Committee members, staff and others who had the pleasure of dealing with her on claims over the years.

I also extend sincere thanks to the Chair, Committee members, executive leadership team, staff and outsourced service providers for their contribution to LPLC's work during this most challenging of years.

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 a number of 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 issues via negotiation and often at mediation.

Claims — Solicitors

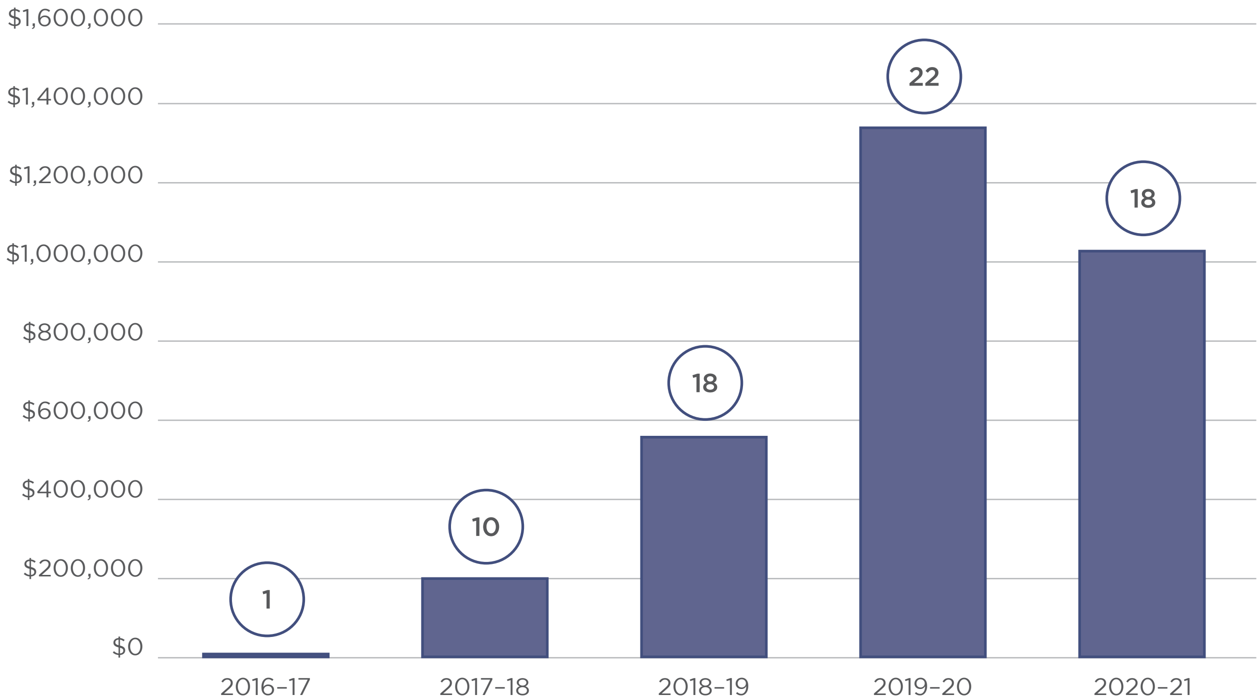
During the reporting period, 479 claims and notifications across the current and earlier underwriting years were finalised. Of these, 327 were resolved in-house by LPLC's experienced claims team.

A total of 444 new claims and circumstances were notified to LPLC from solicitors during 2020–2021 with current incurred estimates of $46.75 million for the year.

While the frequency of new claims was the lowest for the past 5 years (and 10 per cent lower than the previous year), the rise in claim severity which emerged during 2019–2020 continued in the past 12 months and is a concerning trend. Higher average claim sizes were experienced in several practice areas, most notably conveyancing, commercial law and mortgage/securities transactions and reflect rising property values and increased loan amounts fueled by low interest rates.

The surge in cyber-related claims and notifications in recent years abated slightly during 2020–2021 but continues to be a significant threat to law practices. 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. The cost of these claims has exceeded $1m in each of the past two years and could have been higher but for some ‘near misses’ where the fraud was detected by banks quickly enough to freeze the fraudsters’ bank accounts before the money was transferred offshore.

Cyber Claims – Numbers and Costs



Areas of high claims experience in 2020–2021:

Property and conveyancing
Approximately 26% of claims by number and 26% by cost

Property and conveyancing claims continue to account for the highest number and highest cost of claims against solicitors. The complexity of acting in property and conveyancing transactions is demonstrated by the fact that the claims were caused by over 20 different underlying errors. Approximately 20 per cent of claims arose from duty issues, with a spike in claims for additional duty when purchasers were nominated after undertaking land development. There were also multiple claims involving the imposition of foreign purchaser surcharge. Other problem areas were defective vendor statements, drafting errors and inadequate advice about contract terms.

Commercial litigation
Approximately 17% of claims by number and 15% by cost

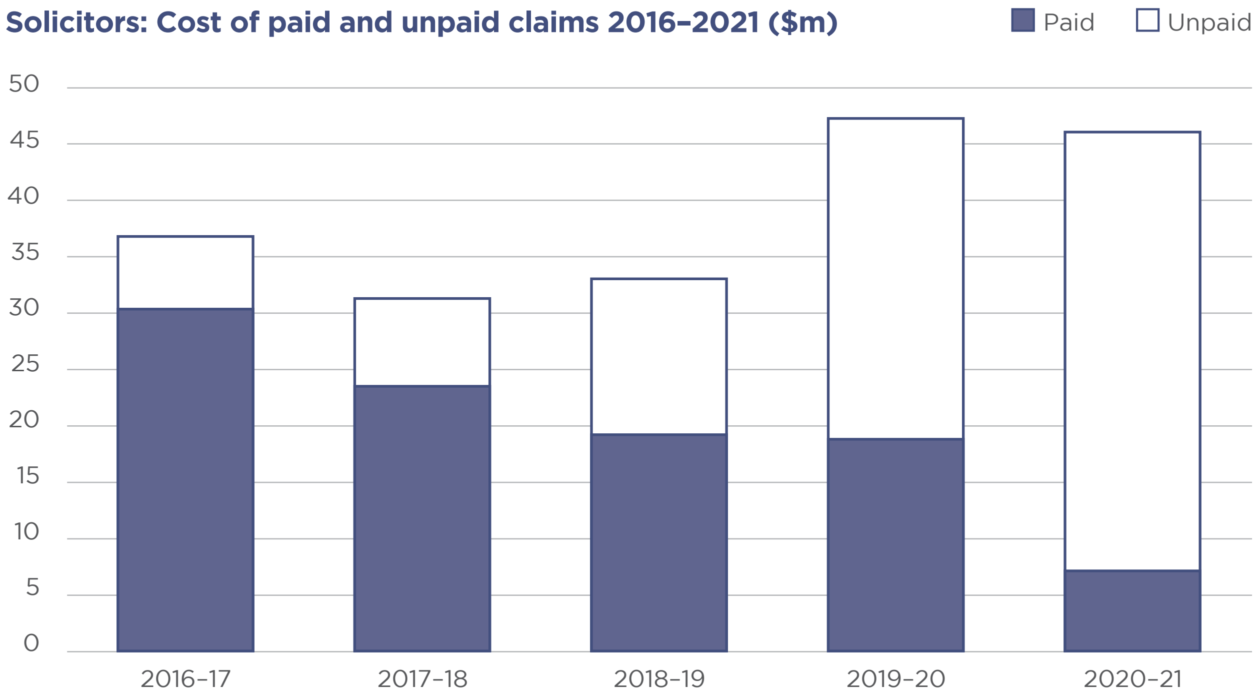
Claims by dissatisfied litigants were the most frequent type of commercial litigation claims. Other areas of concern were missed limitation periods, general mistakes with the conduct of litigation (including delay) and alleged breaches of overarching obligations under the *Civil Procedure Act 2010* and/or personal cost orders.

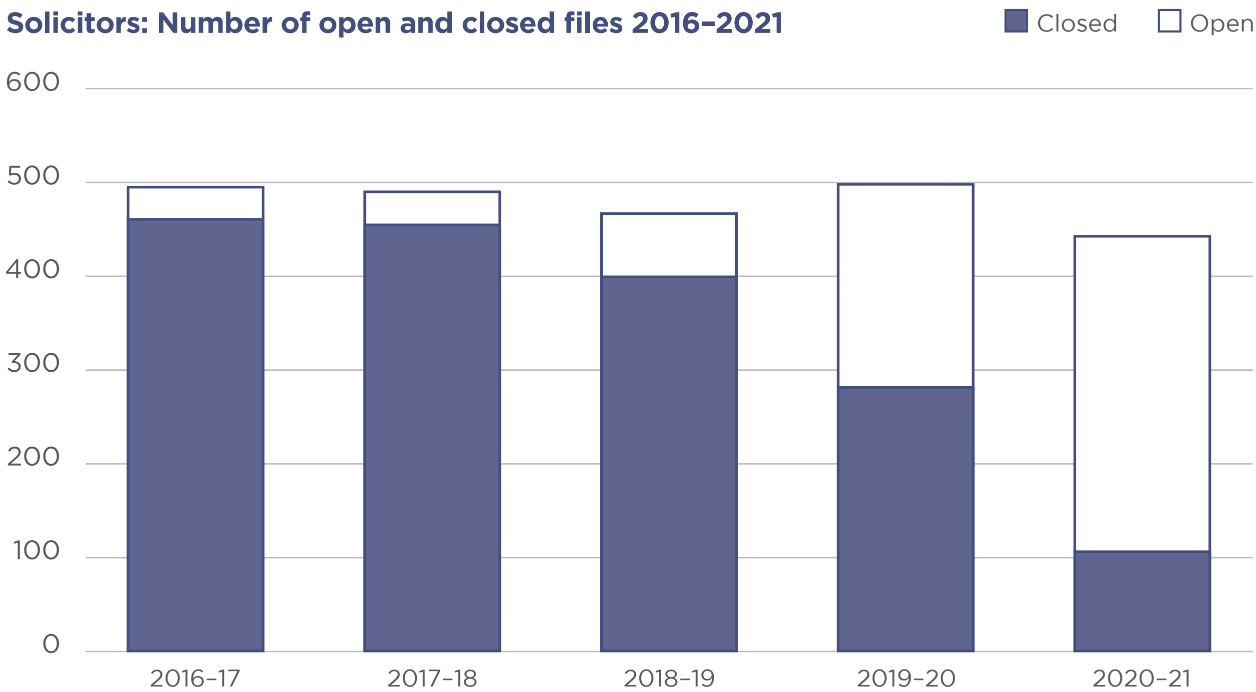
Commercial law
Approximately 17% of claims by number and 24% by cost

Equal second in terms of number of claims, commercial claims account for the second highest cost of claims (24 per cent). Most commercial claims arise from inadequate or incorrect advice in connection with a broad range of commercial transactions. Another common issue is (often very simple) drafting errors in contractual documents. Claims continue to arise from the failure to register security interests on the Personal Property Securities Register within the required timeframe and non-observance of other technicalities of the PPS regime.

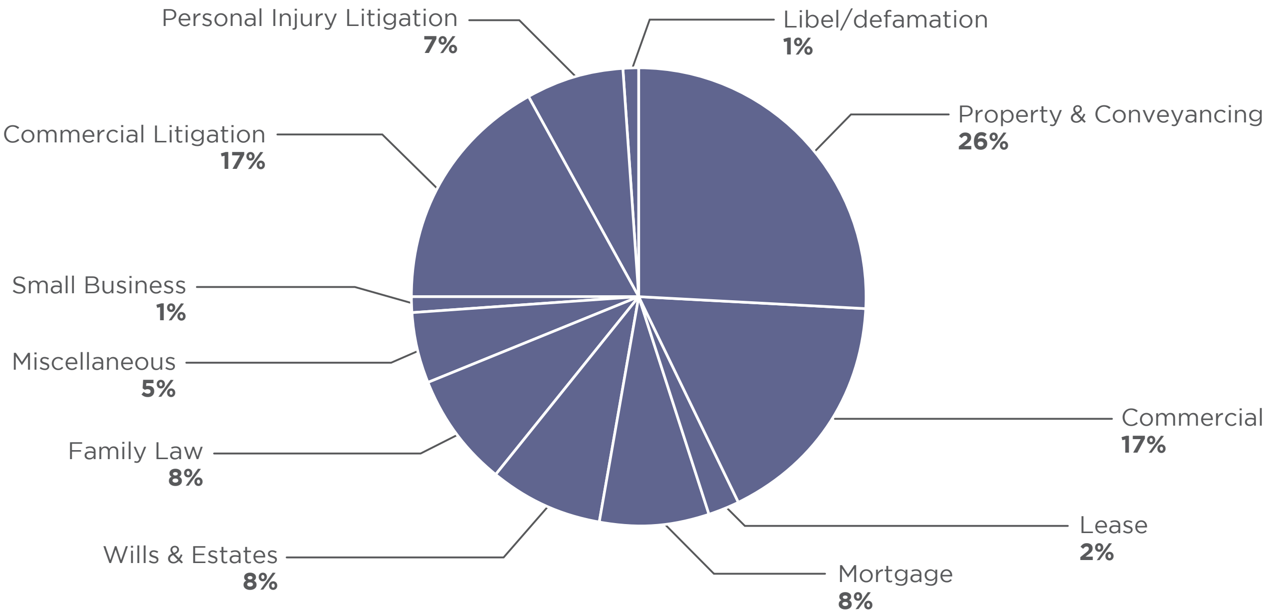
Mortgage lending
Approximately 8% of claims by number and 13% by cost

The number and cost of mortgage claims is often linked to poor economic conditions. When borrowers default and lenders attempt to enforce their securities, the solicitors who prepared the lending documents and/or advised the borrowers and guarantors prior to entry into the lending arrangements are often joined to the proceedings. Claims arose from private lenders against solicitors for failing to adequately secure the loan, often caused by simple drafting errors in the mortgage documents. Amadio type claims by third party sureties continued to feature heavily in this practice area. Practitioners who act for multiple parties, most commonly the borrower and guarantors, were also the subject of claims for acting in conflict of interest and breaching their fiduciary duties.

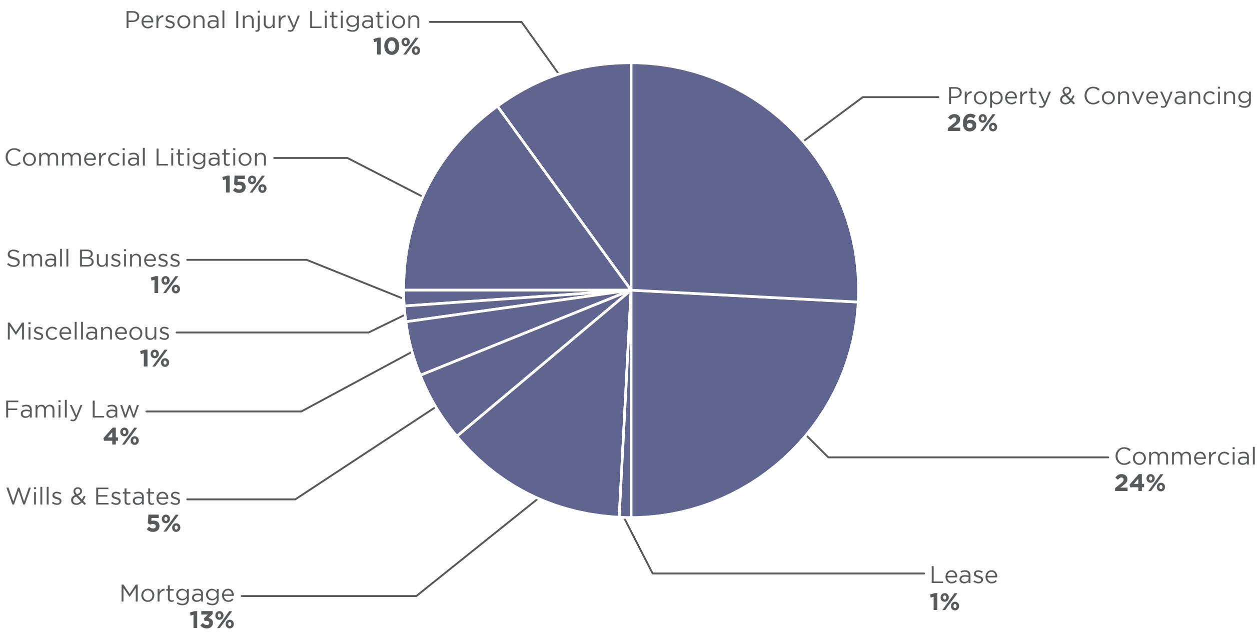

Solicitors: Cost of paid and unpaid claims 2016–2021 ($m)
Paid
Unpaid
50
45
40
35
30
25
20
15
10
5
0
2016–17
2017–18
2018–19
2019–20
2020–21


Solicitors: Number of open and closed files 2016–2021
Closed
Open
600
500
400
300
200
100
0
2016–17
2017–18
2018–19
2019–20
2020–21

Solicitors: Percentage number of claims by area of practice 2020–2021



Solicitors: Percentage cost of claims by area of practice 2020–2021



CLAIMS (continued)

Claims — Barristers

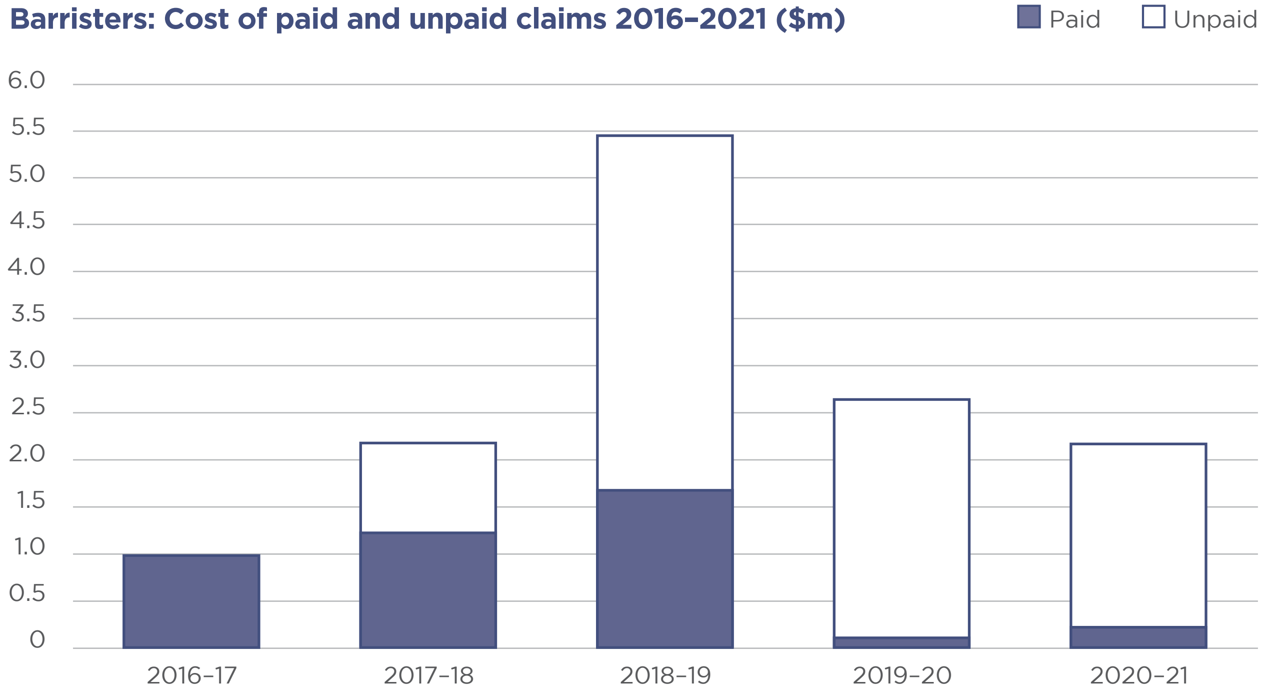
During the reporting period, 42 claims and notifications from barristers across the current and earlier underwriting years were finalised.

A total of 36 new claims and circumstances were notified by barristers to LPLC in the 2021–2021 underwriting year, with current incurred estimates of $2.23 million. This was in line with the previous policy year.

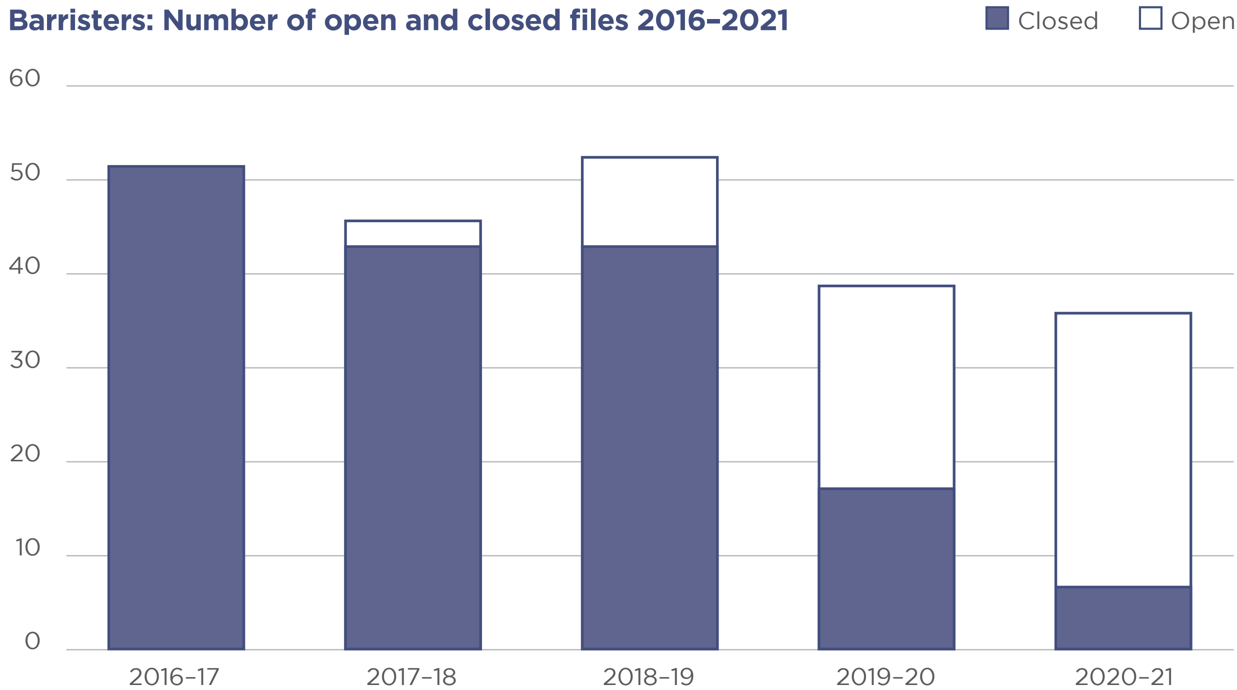
Major themes giving rise to claims and notifications reported during 2020–2021 concerned:

- alleged deficiencies in a barrister's conduct in litigation, including allegations of not having a proper basis for pleadings; missed limitation dates; issuing proceedings in the wrong jurisdiction; incorrect advice about the law; inadequate advice about the merits of claims; and revisited settlements
- claims by dissatisfied litigants (who are often self-represented) which are caused by poor communication and unexpected outcomes in earlier cases. Such claims are often brought in response to practitioners taking action to recover unpaid fees
- claims alleging breaches of overarching obligations under the *Civil Procedure Act* and/or applications for personal costs orders – these can arise from negligent errors in the course of civil proceedings, but in some cases involve more cavalier conduct in disregard of a practitioner's paramount duty to the Court.

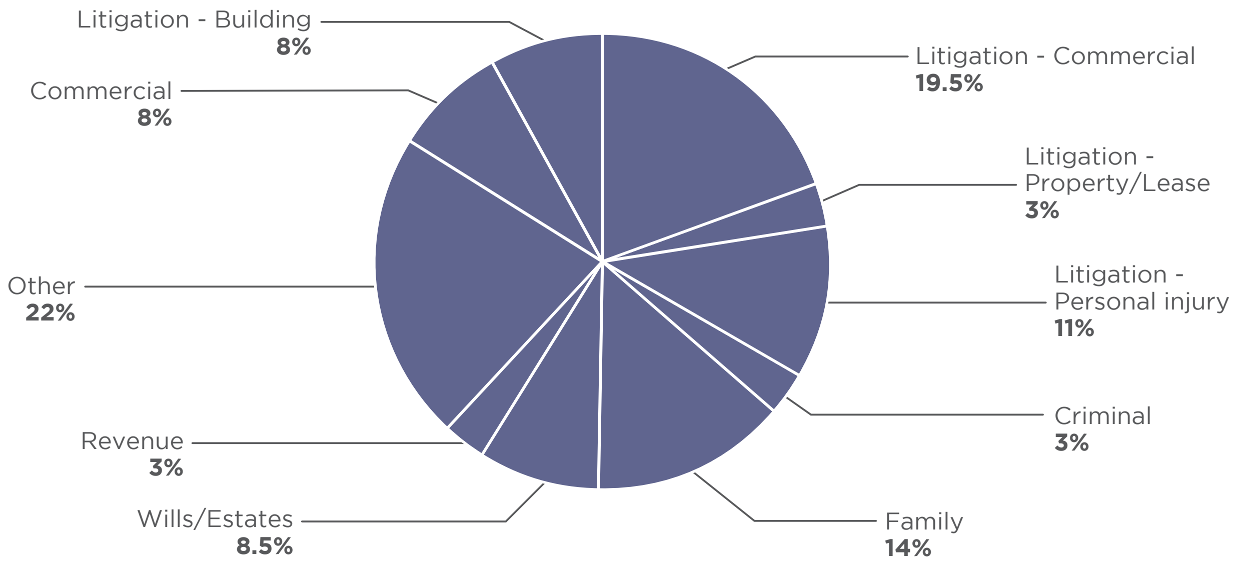
Barristers: Cost of paid and unpaid claims 2016–2021 ($m)



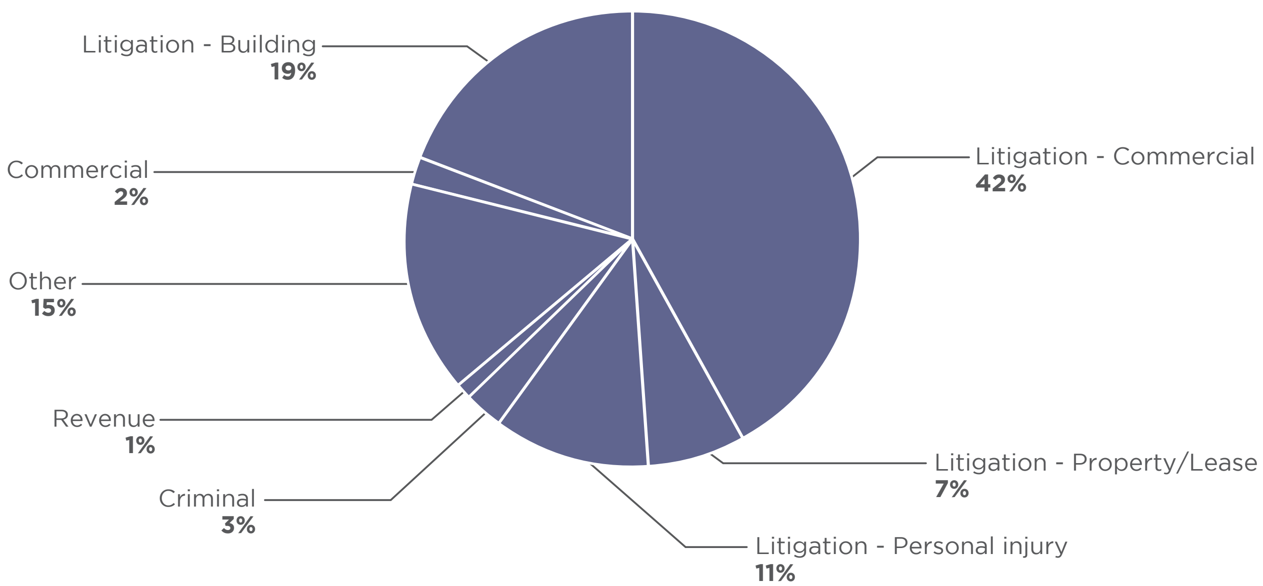
Barristers: Number of open and closed files 2016–2021



Barristers: Percentage number of claims and notifications by area of practice 2020–2021



Barristers: Percentage cost of claims and notifications by area of practice 2020–2021



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 the underlying causes of claims. With the COVID-19 restrictions throughout the year, our usual face-to-face events were replaced with regular webinar education sessions, with over 12,000 attendees overall. Our in person firm visits were converted to video conferences. Our regular publications and phone contact with practitioners continued uninterrupted. The webinars and publications addressed COVID-19 related issues as well as legal issues, practice management systems and behavioural issues emerging from the underlying causes of claims.

This year we developed a quality legal practice management framework and focused on one of the five areas in the framework — the Work Habit. We also continued our focus on conveyancing errors and managing cyber risk. We worked with key legal profession stakeholders including contributing to the Victorian Legal Service Board and Commissioner's (VLSBC) CPD Review and ethics guidance.

Initiatives for the safer practise of conveyancing

The Conveyancing Best Practice Program Our 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. The focus this year was on documents prepared for 'off the plan' sales.

There was a pleasing response from smaller suburban firms to this initiative and among the issues of concern detected during the reviews and brought to the attention of firms were:

- typographical errors
- inadequate references to legislation
- failure to deal with compulsory legislative provisions
- in some cases, queries whether contracts contained unfair terms.

One outcome from these reviews was the suggestion for the LIV to prepare a standard off-the-plan contract which we understand is now being drafted.

We ran conveyancing specific webinars covering an expanded list of six topics featuring significantly in our conveyancing claims. The topics covered:

- section 32 statements
- contracts of sale
- purchasers' issues
- managing breaches
- subdivisions
- tax and stamp duty issues.

The sessions provided training to improve practitioner understanding of the legal issues and appropriate practice in each of these areas of conveyancing. Excellent practitioner feedback was received for each of these webinars with attendees listing LPLC's practical key risk management strategies as their 'biggest take away'.

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 as well as an updated edition of our Claim Free Conveyancing Practice Risk Guide. Conveyancing checklists and client questionnaires were also revised. All of this content was distributed via our weekly email to subscribers and promoted on our social media channels.

Our GST and general enquiries lines helped practitioners deal with more than 1,200 property-related legal enquiries.

Addressing cyber risks

With the pandemic accelerating the shift to increased remote working arrangements and the growth in online cybercrime, the spectre of cyber risk for law practices is more acute now than ever before.

A number of law practices handling significant electronic funds transfers in matters involving conveyancing, small business, probate, family law and litigation matters continue to be targets of fraudulent emails redirecting EFT payments. LPLC's primary campaign urging practitioners to always "Call before you Pay" and verify email payment directions has helped to reduce the number of these successful scams, but they remain an ever-present threat.

Our continued cyber risk campaign this year built on and added to the significant work done last year. Our free online cyber course created in conjunction with Law & Cyber for all staff in our insured firms continued until the end of March 2021. During that time over 2,300 people completed 100 per cent of the course and over 850 people enrolled and did at least some part of the course. The course provided 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.

We ran a webinar on managing cyber risks when working remotely in conjunction with representatives from Cyber Safe Legal, Marsh and Chubb Insurance Australia. It included recent case studies of cyber-attacks on firms, the threat landscape facing them, what they can do to stay safe as well as the value of cyber insurance. Further cyber sessions were presented by our risk and claims managers with a representative from a cyber security organisation to the Australian Legal Practice Management Association and another legal interest group. Cyber risk management also featured in our workshops for principals of new firms, our risk component of all of the practice management courses in Victoria, and the practical legal training risk session we presented for the College of Law.

We published five articles and an alert on cyber risk issues including the importance of multifactor authentication, other essential steps for cyber safety, the issues to consider in remote working, an email scam quiz, and an example of a cyber theft that involved theft of identity and changes to bank multifactor authentication.

We updated the previously published cyber risk guide for law firms. The guide outlines five key areas of focus and explains why each is important and then provides a checklist in each area to help firms take action to manage the risks. The guide also provides links to government cyber expert sites for more resources and practical assistance.

The impact of this activity has increased the awareness and diligence of many staff and law firms who have introduced verification procedures for checking email instructions in relation to electronic funds transfers.

Direct contact with firms

HELPING NEWLY ESTABLISHED FIRMS

LPLC's three contact points with principals establishing new firms, once insurance cover is set up, continued this year despite the disrupted environment.

1. Presentation via webinar 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. Invitation to attend one of our 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.

The workshops previously called 'Building Solid Foundations' were revised and retitled as 'Building A Quality Legal Practice'. The workshops were run by video conference and attracted not only principals of new firms, but also principals of existing firms looking for further practice management assistance. The workshops have a focus on the Quality Legal Practice Management Framework developed this year.

We continued to present at the two Bar Readers Courses this year, providing an introduction to LPLC and the causes of barristers' claims.

These activities build rapport with practitioners, particularly 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.

CONSULTING WITH THE PROFESSION

We engaged with members of the profession seeking feedback on various checklists and automation prototype projects we have been developing, some of which will be launched in early 2021–2022. This contact has helped us better design our risk management initiatives, build further rapport and provided the practitioners involved with a deeper understanding of the risk issues.

We have also consulted with specialist personal injury firms on best practice in their speciality area to inform risk management advice for this highly technical and time sensitive area.

RISK ASSISTANCE PROGRAM

Our Risk Assistance Program works with individual firms requiring targeted risk management advice to address the occurrence of multiple claims made against them by dissatisfied clients.

Ideally this assistance is provided face-to-face in the law firm's own environment for maximum benefit, but with COVID-19 restrictions in place for significant periods during the year the assistance was moved online with the aid of audio-visual conferencing technology.

The consultation involves in-depth discussion about the firm's specific risk management strategies and development of a tailored practice management improvement report. Nineteen firms participated in the program this year. In addition, risk managers followed up visits to firms in prior years to check on their progress with implementation of recommended risk measures and to encourage their ongoing investment in office systems and procedures to prevent the reoccurrence of claims.

All participating firms reported positive feedback on this program.

RISK ENQUIRIES AND ADVICE

We answered over 2,300 matter specific risk enquiries on our general enquiry service and specific GST enquiry service. These enquiries are received by phone or email and give practitioners access to objective risk advice and an opportunity to talk through things concerning them.

Through these enquiries we were often able to direct practitioners to resources that not only help solve their immediate query, but also provide information 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 aims to minimise 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.

This year we held a webinar for large firm risk managers, and their human resource manager counterparts, on supervision in law firms. It is a topic relevant to both functions and for which a lot can be gained in working together.

We also developed a tailored large firm risk management session for the practice management course. This session was well received, where participants developed effective risk management actions to implement in their practice.

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 LPLC's publication of materials and speaking engagements to raise awareness of the causes and appropriate mitigation strategies for firms to avoid re-occurrence.

During the year, a new risk manager (Rebecca Kelton) was employed to focus significantly on enhancing our data from negligence claims. Significant progress has been made on developing a more in-depth level of coding of mistakes which will be completed in the next year. This work will enable us to more effectively and efficiently identify trends in mistake categories to then target our risk management efforts. It will also allow for sharing of more meaningful and timely data with all our relevant stakeholders.

QUALITY PRACTICE MANAGEMENT FRAMEWORK

The claims data and practice management discussions with many firms and law firm consultants contributed to the development this year of our Quality Legal Practice Framework (QLPF). It is a new framework that sets out five key practice management areas that firms need to address in order to practice to a high standard. Two of the five areas built on our campaign areas for the last two years.

The five areas are:

- governance
- engagement
- work
- people
- risk management.

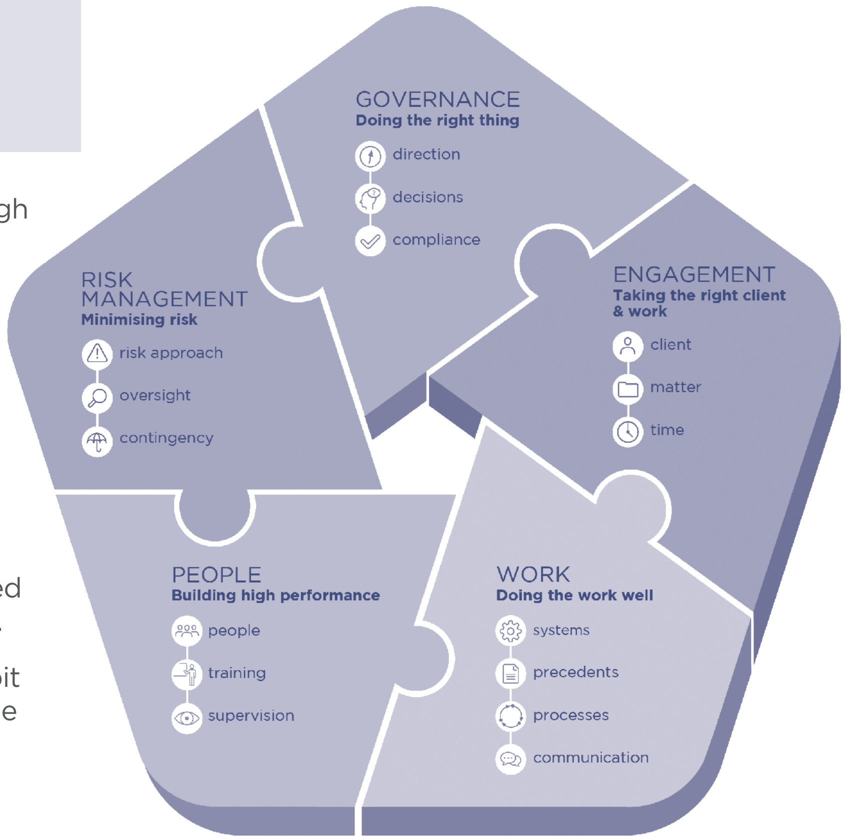
An infographic was developed with high level key concepts for each area.

The QLPF was launched via webinar in March 2021 and followed by an article in the Law Institute Journal. Both are available on our website.

The QLPF was used to redevelop the workshops delivered to principals of new law firms and inspired the rebranding to Building a quality legal practice. Further work on more detailed maturity matrices is being undertaken.

Our campaign theme of the Work Habit for this year, one of the five areas in the QLPF, tapped into what we see as the underlying causes and consequences when firms don't have the right systems, precedents, processes and communication to do the work efficiently and effectively. The new theme followed on from last year's Engagement Habit. Where last year's theme focused on setting up the retainer by choosing the right client, right matter and right time, this year's theme focused on how firms do the work well, once they have accepted the retainer, by using appropriate systems, precedents and processes for the work they do.

The theme was developed and presented in two articles in the Law Institute Journal and distributed by weekly email to our subscribers. A webinar was presented on the topic and the recording was made available on our
website.



OTHER PUBLICATIONS

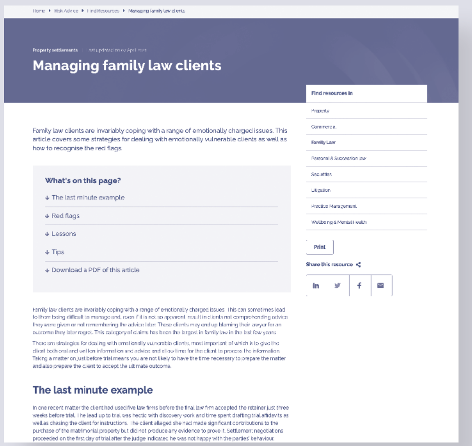
Our practice risk guides are flagship publications for the risk issues in the major areas of legal practice. This year five of them were updated and refreshed with new claims scenarios, risk issues and recommendations. The revised guides are in the practice areas of conveyancing, family law, commercial litigation, securities and wills and estates.

New and revised key risk checklists were developed from these guides.

LPLC risk managers continually monitor claims, notifications and the legal environment to identify and assess risks practitioners are encountering in the course of daily practice. Each month we provide practitioners with a new article on a topical risk issue as well as recommendations for existing resource material on our website. The weekly email program to practitioners now provides a summary newsletter at the end of each month reviewing the month's articles and reinforcing their learnings, as well as other useful resources available to the profession.

Among the new topics covered during the year were:

- urgent steps for moving to remote working
- online learning while working from home
- risk management for COVID-19-weary lawyers
- five tips to switch off for 2020
- automation software - reduce risk, add value
- acting in litigation
- managing family law clients
- barristers and personal cost orders.



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 content review, redesign and rebuild of the site was undertaken and the new site launched in October 2020.

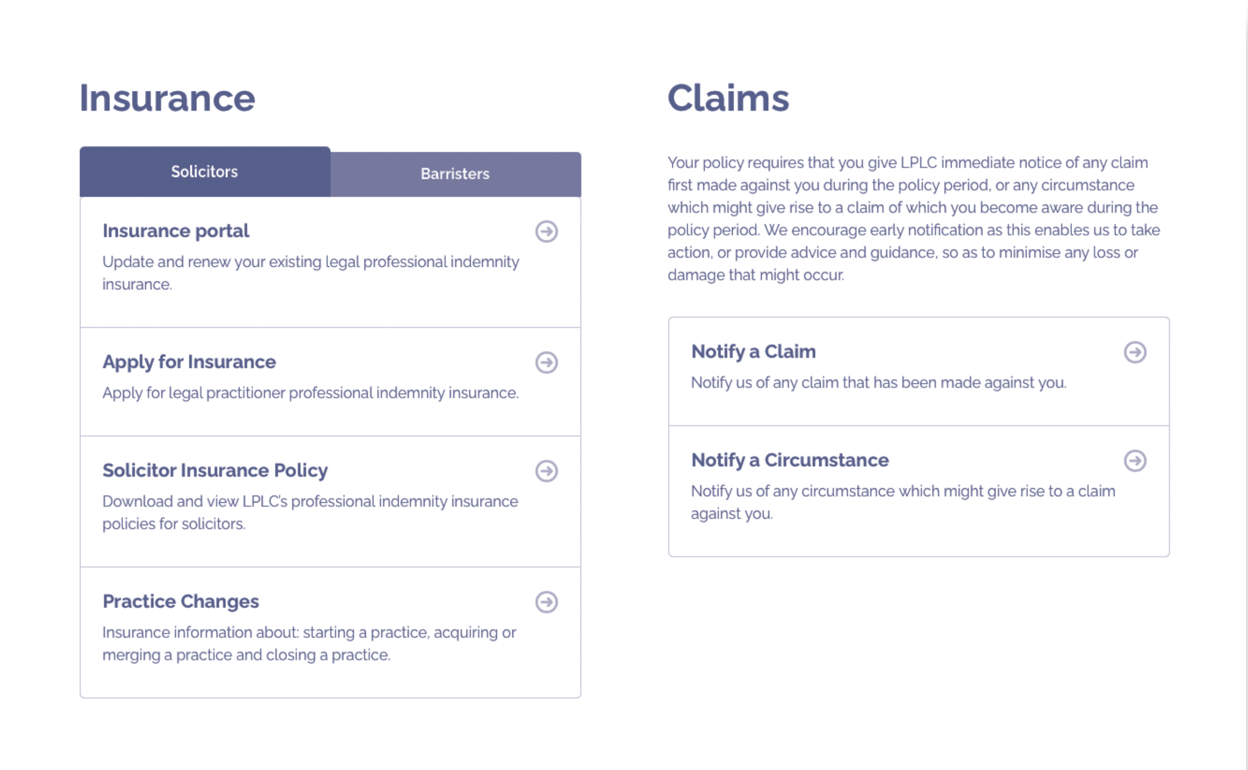
Key improvements

1. **Insurance and claims content within easy reach**

Smart links on the homepage to make locating the insurance renewal portal, insurance scheme information and claims notification quick and easy.

Online and fillable pdf forms to streamline the process of notifying a claim or circumstance.

Important claims information featured prominently in the News & Alerts section of the homepage.



2. Practitioners can quickly find what they need with smarter search capabilities

Search by keyword, area of law or resource type.

Browse quick-links to upcoming events and our most popular resources.

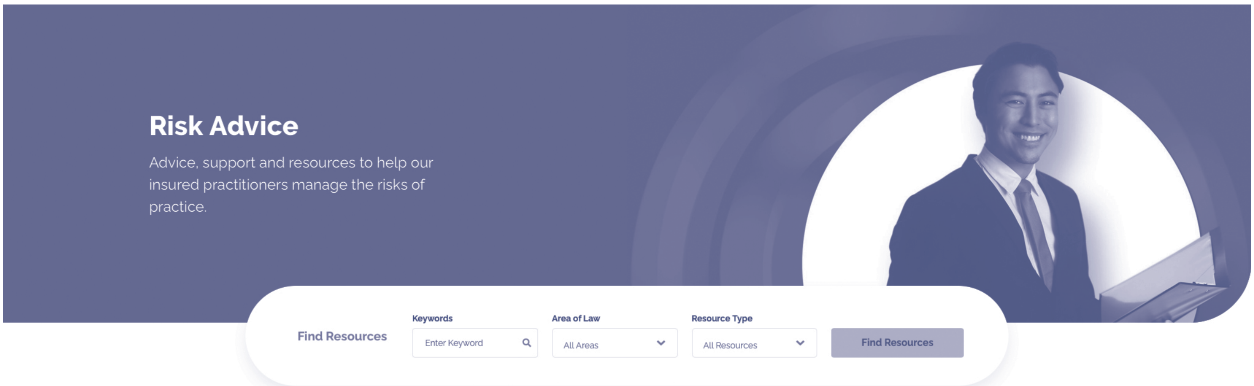
Find the right contact for the right question.

3. Helpful and easy to use

Mobile friendly. Practitioners can find what they need anytime, anywhere on any device.

Intuitive information architecture. Content categories have been expanded and reorganised in a more intuitive way.

Resources are cross-referenced and linked. Practitioners can find related resources easily.



How practitioners are using the new website

Metrics for the new site have been positive, showing stability in the numbers of new and returning visitors, and a significant increase from previous years in numbers of pageviews and interaction with content on those pages. This demonstrates the achievement of the key aims of the site to provide easily accessible, relevant and engaging content for LPLC's target audiences.

Since the launch of the new website the top 5 most accessed resources were:

1. Section 32 statements: the basics
2. Sections 55 and 55A of the Estate Agents Act 1980 (Vic)
3. Updated requirements for e-conveyancing
4. Claim free conveyancing practice risk guide
5. Double duty and nominations

This dominance of conveyancing resources represented in the most accessed pages on the site corresponds with the representation of conveyancing in our cause of claims.

We have also seen a significant uptake in visits to our new recorded webinars page. This was an addition to the website after we began running live webinars in response to COVID-19 and was the second most visited page on our website after the Homepage.

Working with regulators and professional associations

We continued meetings, phone calls and correspondence with staff from the VLSBC and the Law Institute of Victoria (LIV), discussing issues of mutual concern, trends and problems affecting the legal profession, particularly concerns arising from the impact of COVID-19.

We met with staff from the VLSBC and provided written submissions on the VLSBC's CPD Review and ethics guidance initiative, providing insights into the causes of claims, topics relevant for addressing professional indemnity risks and our experience as a CPD provider.

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

Having the resources available and ability to do legal research can be a challenge for some practitioners, so we also promoted the online learning courses for legal research produced by the Law Library of Victoria and other library resources to LPLC's database of subscribers.

Risk management activity — 2020–2021

SPEAKING ENGAGEMENTS	Number (audience)
Conveyancing Series webinars	10 (5,402)
Webinar series	15 (6,523)
Building Solid Foundations / Building a quality legal practice	22 (197)
Large firm event	1
Practice management course presentation on risk management (run by LIV, College of Law and Leo Cussen)	38
In-house presentations to law firms	5
Victorian Bar Reader's Course	2

PUBLICATIONS	
LPLC Articles	12
Law Institute Journal articles	11
Bar News article	1
Risk management alerts on changes in law or practice	4
Checklists	12 new, 8 revised
Practice Risk Guides	5 revised
Practice management tool	1 QLPF

CONTACT WITH FIRMS	
Telephone and email enquiries	2,105
New firm phone contact	300
GST hotline	232
Cyber incident calls	16
Conveyancing Best Practice Project (CBPP) reports / visits	12
Risk Assistance Visits - RAP	19
Practice assistance meetings	18
Personal injury best practice project meetings	4

SUPPORTING AUSTLII

The Australasian Legal Information Institute (AustLII) is the largest free-access provider of online Australian legal materials and an invaluable risk management resource for insured solicitors and barristers.

The AustLII databases are widely used by the profession and the Courts on a daily basis and contribute meaningfully to the cost-effective delivery of legal services and access to justice for the broader community.

The AustLII Foundation operates as a charity and relies heavily on public donations to fund its operations. LPLC has been a significant financial contributor to AustLII since 2007 to ensure it continues this vital work.

LPLC and AustLII share the same ideal to serve the public interest and in 2020 the total value of LPLC's collective donations to AustLII have now exceeded $700,000 over the past fourteen years.

We are proud to be continuing our association with AustLII.

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

LPLC achieved an outstanding investment return of 11.4 per cent for the 2020–2021 financial year as financial markets rebounded quickly from the lows in early 2020 on the back of strong domestic and international economic activity in response to global economic stimulus in response to the COVID-19 virus and the subsequent vaccine rollout from late 2020.

The Fund's average return over the last five years rose to 7.42 per cent.

Equities continued to be 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 new investments were made into the Vanguard Ethically Conscious Index Fund and Fulcrum Australian Diversified Absolute Return Fund. These new funds reflected LPLC's investment strategy of risk diversification and building greater ESG integration into the portfolio.

LPLC maintains an investment in an unlisted wholesale property fund (comprising office, retail and industrial property) which has provided diversity in the growth portfolio. This investment has, over time, provided steady returns and continued to do so in the reporting year.

Sustainability

LPLC considers sustainability as a key input into constructing its investment portfolios and selecting investment managers. Aiding this approach, a sustainability scorecard is utilised on an annual basis to assess the sustainability characteristics of LPLC's portfolio against a reference portfolio. The scorecard measures LPLC's portfolio against a range of environmental, social and governance (ESG) factors, including:

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

During the 2020–2021 year LPLC's portfolio scored favourably or neutrally against a comparator 60/40 portfolio in all metrics, with the exception of carbon footprint where proxy scores were used for LPLC's unlisted infrastructure funds as actual data was not yet available.

Following considerable foundational work during the 2019–2020 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), LPLC implemented an investment in the Vanguard Ethically Conscious International Shares Index Fund during the 2020–2021 year. Implementation of this investment has improved LPLC's overall sustainability score compared to the reference portfolio.

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
- Schroder Emerging Markets Fund
- Schroder Real Return Fund
- Ardevora Global Long Only Fund
- Fulcrum Australian Diversified Absolute Return Fund
- Vanguard Ethically Conscious Index Fund
- Vanguard International Shares Index Fund

Property

- Dexus Wholesale Property Fund

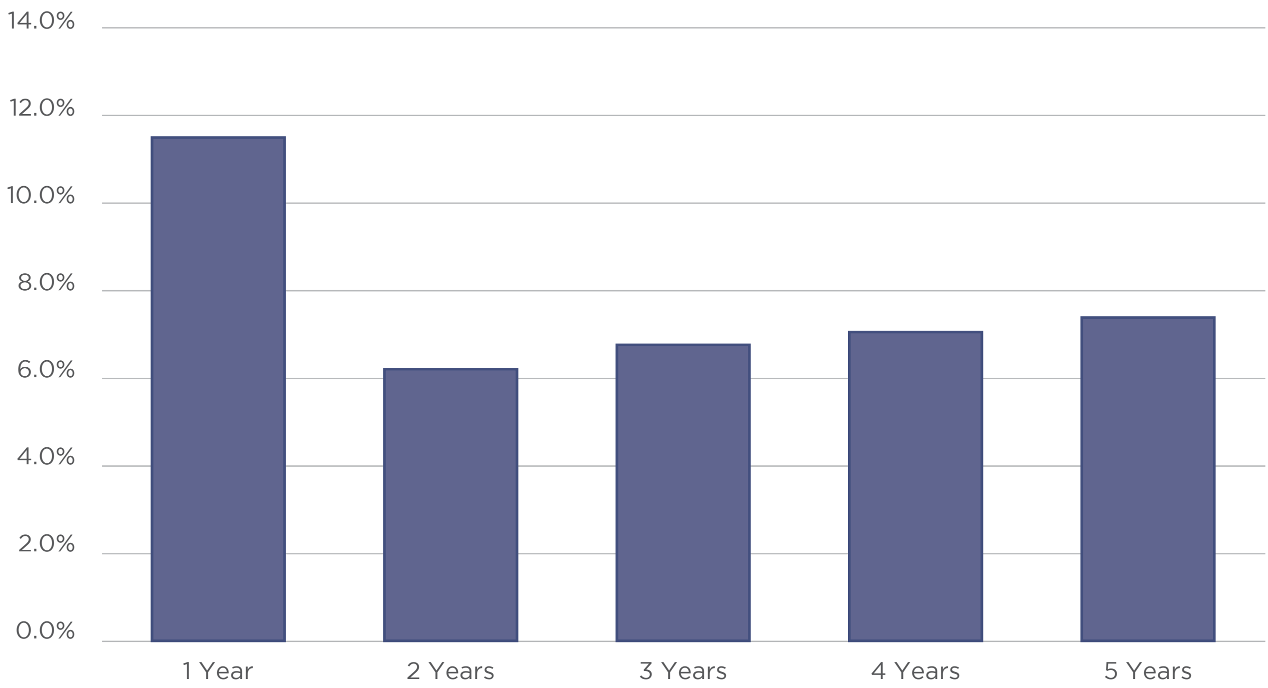
Infrastructure

- Palisade Diversified Infrastructure Fund
- Lighthouse Infrastructure Fund Trust

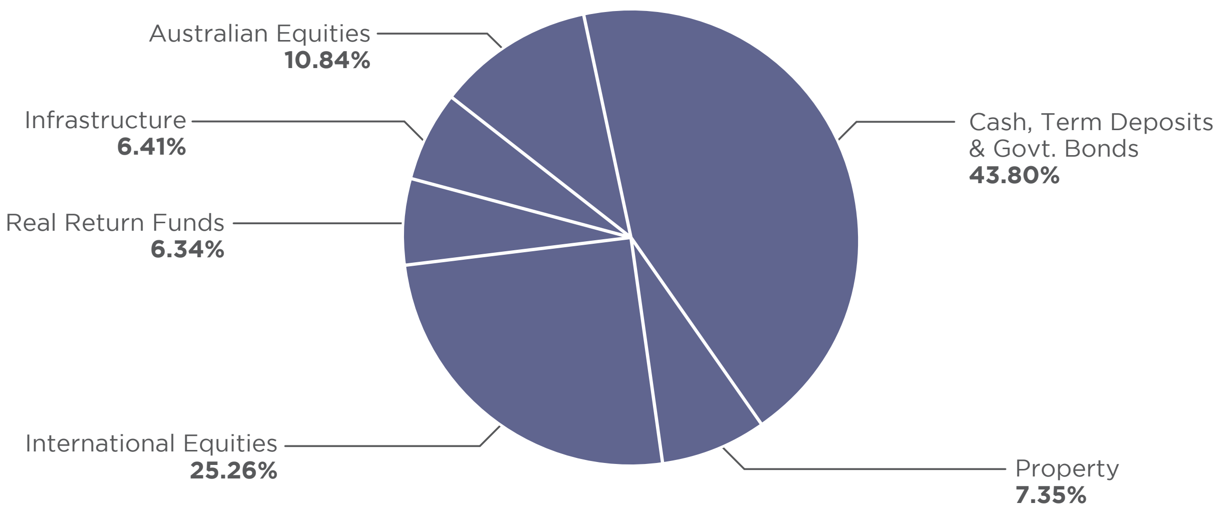
Cash, Bonds and Fixed Interest

- 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 2021



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 Victorian 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.

John was appointed to the Committee in 2013 and has been LPLC’s Chair since 2015.

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, Cobram and Tatura.

Danny practices primarily in agribusiness, commercial litigation and employment law. In addition to his legal practise, 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.

Danny was appointed to the Committee in 2018.

Adrian Finanzio SC
Committee Member | Chair Investments Committee

Adrian has served on the Committee since 2015 and is currently the chair of Investment Sub-Committee.

Adrian was admitted in 1996, was called to the Victorian Bar in 1998 and took silk in 2012.

He is presently the Deputy Chair of Barristers' Chambers Limited and was recently appointed as a member of the Heritage Council of Victoria. In 2021 Adrian was appointed to the role of Counsel Assisting the Victorian Royal Commission into the Casino Operator and Licence.

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 also currently Chairperson of Ansvar Insurance Limited & RACT Insurance Limited.

Tricia was first appointed to the Committee in 2010.

Helen Thornton
Committee Member | Chair Audit and Risk Committee

Helen, a chartered accountant for over 35 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.

Helen was appointed to the Committee in 2014.

Michelle Dixon
Committee Member

Michelle is a partner of Maddocks, an Australian law firm with offices in Melbourne, Sydney and Canberra. She was the firm's CEO between 2014 and 2020.

Michelle is a member of a number of advisory and fiduciary boards including In-Life Independent Living Limited, The Nature Conservancy, Women and Leadership Australia and Global Sisters Limited.

A strong advocate for women in leadership, Michelle's contribution to the profession was recognised by being awarded both the Victorian Award for Excellence in Women's Leadership and Executive of the year at the Lawyers Weekly Women in Law Awards in 2016, and in 2019 being named as NSW Women Lawyers' Change Champion of the Year.

Michelle was appointed to the Committee in 2020.

Nicole Rich
Committee Member

Nicole is the Executive Director, Regulatory Services and Director, Consumer Affairs at the Victorian Department of Justice & Community Safety. She 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. Nicole has also served on a number of public interest boards and committees including as Chairperson of CHOICE (2013–2017).

Nicole was appointed to the Committee in 2020.

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 | Nicole Rich

AUDIT AND RISK COMMITTEE

Helen Thornton | Chair
Patricia Kelly
Danny Barlow
Michelle Dixon

REMUNERATION AND APPOINTMENTS COMMITTEE

Patricia Kelly | Chair
John Corcoran AM
Helen Thornton (until 26 April 2021)
Michelle Dixon (until 26 April 2021)

INVESTMENT COMMITTEE

Adrian Finanzio SC | Chair
John Corcoran AM
Nicole Rich

LPLC Staff

Chief Executive Officer
Justin Toohey

Kerrie Billings
Executive Officer – People, Compliance and Projects

EXECUTIVE LEADERSHIP TEAM

Heather Hibberd
Chief Risk Manager

Risk Managers
Stephen Bubb
Phil Nolan
Rebecca Kelton (from 14/9/2020)

Admin & Events Coordinator
Suzana Bonnici

Jodie Potts
Head of Claims

Claims Managers
Prue Campton
Bronwyn Hine
Alex Macmillan
Ryan Lee
Alix Osborn

Claims Administration
Jenny Aitken
Jackie Miller
Lauren Dickenson

Bernadette Mallia
Corporate Services Manager

Insurance Officer
Terri Hedt
Sharon Mead (from 3/03/2021)

Administration
Barbara McKay (to 23/7/2021)
Inge Gallery

Martin Dohnt
Chief Finance Officer

Tracey Johnston
Digital Communications Manager

Communications Officer
Emily D'Elia

FAREWELL TO ALEX MACMILLAN

2021 marks a special milestone at LPLC with the retirement of Alex Macmillan after 29 years of continuous service as a Claims Solicitor.

Alex joined the Committee in 1992 from Lander & Rogers to help manage the proliferation of claims made against practitioners in the aftermath of the recession of the early 1990's. At the time new writs were landing daily on her desk, arising particularly from property and mortgage transactions.

With her renowned efficiency, direct communication skills and a strong ethical compass, Alex quickly mastered the art of pro-active claims management. Over the ensuing years she developed strong relationships with hundreds of practitioners from legal practices all around Victoria and interstate when they needed support and assistance to deal with difficult situations, and always helped them with humility and without passing judgment on their professional mistakes.

Alex mentored many of LPLC's current staff and grounded us all with her pragmatic, co-operative and commonsense approach to whatever task was at hand – and always with a cheery disposition.

We will miss Alex's character in the office, her booming letter dictation and animated stories from her very active life. We wish her well in retirement and thank her for her wonderful service to LPLC and the profession.

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, 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 and Michelle Dixon

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), John Corcoran AM and Nicole Rich.

The Investment Committee:

- makes recommendations to LPLC on benchmarks, asset classes and strategic 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, Helen Thornton (until 26 April 2021) and Michelle Dixon (from 26 April 2021).

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 2020–2021

	Committee		Investment		Audit & Risk		Remuneration & Appointments	
	Attended	**Eligible**	**Attended**	**Eligible**	**Attended**	**Eligible**	**Attended**	**Eligible**
John Corcoran AM	10	10	3	4	-	-	3	3
Patricia Kelly	9	10	-	-	4	4	3	3
Helen Thornton	9	10	-	-	4	4	2	2
Adrian Finanzio SC	5	10	4	4	-	-	-	-
Danny Barlow	10	10	-	-	4	4	-	-
Michelle Dixon	10	10	-	-	4	4	1	1
Nicole Rich	10	10	4	4	-	-	-	-

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 specialty 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

Kerrie joined LPLC in 2020 as 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 2021.

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.

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. An Employee Assistance Program was implemented during the year to provide additional support by way of a work-based intervention program designed to enhance the emotional, mental and general psychological wellbeing of all employees and immediate family.

Six staff members are trained mental health first aid officers and staff are now updating their first aid certificates with the restrictions lifting.

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 virtual 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.

2020–2021

Position	Male	Female	Total
Chief Executive Officer	1		1
Chief Financial Officer	1		1
Claims Manager	1	5	6
Risk Manager	2	1 1 from 14/9/2020	4
Corporate Services Manager		1	1
Digital Communications Manager		1	1
Premiums Manager		1	1
Communications Officer		1	1
Receptionist/PA/Administration		6 1 from 3/2/2021 1 from 23/7/2020	8
Total	**5**	**19**	**24**

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	**6**	**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 2020–2021 reporting year and covers energy consumption, waste generation and paper consumption.

Energy consumption

Total energy usage was approximately 40,183.41 kWh compared to 49,101.47 kWh in 2019–2020 and the energy used per square metre of office area was 57.40 kWh compared to 69.64 kWh in 2019–2020. kWh of energy used per FTE was 2009.17. Part of this reduction in energy usage was attributable to staff working from home due to COVID-19 restrictions.

The 2020–2021 target was to reduce energy usage by at least 10 per cent. We exceeded this target and reduced our energy usage by 18 per cent. Our 2021–2022 target is to maintain this level for the year.

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.

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.

The 2020–2021 target was to reduce paper consumption by 20 per cent. Units of paper used per FTE (A4 reams/FTE) was approximately 5.75 compared to 17.41 in the previous reporting period, reaching a reduction of approximately 66 per cent.

The target was achieved through the move to electronic files and providing dual screen to most staff.

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 2020–2021 total consultant expenditure as defined by the *Financial Management Act 1994* (Vic) was approximately $398,771.

Finity Consulting Pty Ltd — Actuaries

During the reporting year Finity Consulting was engaged to provide pricing advice and other ad hoc actuarial consulting services. Expenditure for the reporting period was $81,383. Finity Consulting has been retained again for the 2021–2022 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 $62,254. Cumpston Sarjeant has been retained again for the 2021–2022 reporting period.

Willis Towers Watson — Investment advisors

During the year Willis Towers Watson continued to be engaged as LPLC's Investment advisers for which consulting fees of $255,134 were paid.

Contact details

Legal Practitioners' Liability Committee
Level 31, 570 Bourke Street
MELBOURNE VIC 3000
ABN: 45 838 419 536
Telephone: (03) 9672 3800
Facsimile: (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 2021

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 2021 and financial position of the Legal Practitioners' Liability Committee at 30 June 2021.

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 08 September 2021.

....

John Corcoran AM - Chairman

....

Nicholas J Toohey - Chief Executive Officer

....

Martin Dohnt - Chief Financial Officer

Dated this 08th day of September 2021

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 2021
- 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 2021 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 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 Legal Practitioners' Liability 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
17 September 2021

Janaka Kumara
as delegate for the Auditor-General of Victoria

2

Statement of Comprehensive Income
for the Financial Year Ended 30 June 2021

	Note	2021 $	2020 $
UNDERWRITING			
Premium revenue	2.2	35,606,493	35,217,224
Outwards reinsurance expense	3.2	(1,000,000)	(1,000,000)
Net earned premiums		34,606,493	34,217,224
Claims expense	3.3	(47,425,081)	(35,694,207)
Net claims incurred		(47,425,081)	(35,694,207)
Movement in unexpired risk liability	5.4	(2,039,260)	(884,779)
UNDERWRITING RESULT		**(14,857,848)**	**(2,361,762)**
Investment income	2.3	28,819,613	3,606,569
Other income	2.4	42,092	228,540
Employment expenses	3.1.1	(3,878,471)	(3,823,773)
Depreciation	4.1.1	(366,725)	(364,233)
Other expenses	3.4	(2,553,845)	(2,716,968)
Net result		**7,204,816**	**(5,431,627)**
Other comprehensive income		**-**	**-**
Total comprehensive income		**7,204,816**	**(5,431,627)**

Notes to and forming part of these financial statements are set out in pages 54 to 118

Balance Sheet
as at 30 June 2021

	Note	2021 $	2020 $
CURRENT ASSETS			
Cash and cash equivalents	6.1	15,071,740	18,985,397
Receivables	5.1	635,837	13,322,091
Other financial assets	4.3	61,439,433	42,389,808
Other non-financial assets	5.3	170,066	185,080
Total current assets		**77,317,076**	**74,882,376**
NON-CURRENT ASSETS			
Other financial assets	4.3	215,026,215	199,199,380
Property, plant & equipment	4.1	1,018,777	1,365,354
Intangible assets	4.2	-	4,168
Total non-current assets		**216,044,992**	**200,568,902**
TOTAL ASSETS		**293,362,068**	**275,451,278**
CURRENT LIABILITIES			
Outstanding claims liability	5.5	38,015,000	34,193,000
Payables	5.2	2,131,484	1,999,385
Unearned premium liability	5.4	51,359,000	48,299,000
Lease liability	6.3	336,365	311,190
Provisions	3.1.2	685,535	627,021
Total current liabilities		**92,527,384**	**85,429,596**
NON-CURRENT LIABILITIES			
Outstanding claims liability	5.5	77,114,000	73,174,000
Lease liability	6.3	570,094	906,459
Provisions	3.1.2	38,783	34,232
Total non-current liabilities		**77,722,877**	**74,114,691**
TOTAL LIABILITIES		**170,250,261**	**159,544,287**
NET ASSETS		**123,111,807**	**115,906,991**
EQUITY			
Accumulated funds	8.1	123,111,807	115,906,991
TOTAL EQUITY		**123,111,807**	**115,906,991**

Notes to and forming part of these financial statements are set out in pages 54 to 118

Cash Flow Statement
for the Financial Year Ended 30 June 2021

	Note	2021 $	2020 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium revenue received		54,194,375	25,137,557
Other Income		21,187	197,962
Dividend received		655,985	830,381
Interest received		1,289,794	2,505,895
Other income from investments		6,464,650	4,470,364
Interest paid on lease liabilities		(40,199)	(47,663)
Claims paid		(41,204,381)	(40,678,566)
Outward reinsurance premium paid		(1,000,000)	(1,000,000)
Payments to suppliers and employees		(9,575,376)	(6,067,584)
Net cash provided by/(used in) operating activities	6.1.1	**10,806,035**	**(14,651,654)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(15,980)	(55,459)
Sale of investments		31,158,363	44,300,000
(Purchase) of investments		(26,501,260)	(25,042,412)
Net cash provided by/(used in) investing activities		**4,641,123**	**19,202,129**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings and principal portion of lease liabilities		(311,190)	(275,284)
Net cash provided by/(used in) financing activities		**(311,190)**	**(275,284)**
Net increase/(decrease) in cash held		15,135,968	4,275,191
Cash and cash equivalents at beginning of period		61,375,205	57,100,014
Cash and cash equivalents at end of period	6.1	**76,511,173**	**61,375,205**

Notes to and forming part of these financial statements are set out in pages 54 to 118

Statement of Changes In Equity
for the Financial Year ended 30 June 2021

	Note	Accumulated funds $	Total $
At 1 July 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		**115,906,991**	**115,906,991**
Net result for the year		7,204,816	7,204,816
Other comprehensive income for the year		-	-
At 30 June 2021	8.1	**123,111,807**	**123,111,807**

Notes to and forming part of these financial statements are set out in pages 54 to 118

Notes to the Financial Statements
for the year ended 30 June 2021

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 2021

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.

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.

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 working capital deficiency as at 30 June 2021 of $15,210,308 (2020: $10,547,220). The net deficiency in working capital includes unearned premium liability of $51,359,000 (2020: $48,299,000) and the majority of which will be brought to account as income in the 2021-22 year. Budgets prepared for the year ending 30 June 2022 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 2021

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	2021 $	2020 $
Premium revenue	2.2	35,606,493	35,217,224
Investment income	2.3	28,819,613	3,606,569
Other income	2.4	42,092	228,540
Total income		**64,468,198**	**39,052,333**

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 2021

2. FUNDING DELIVERY OF OUR SERVICES (CONTINUED)

2.2 Premium revenue

	2021 $	2020 $
Gross written premiums	36,627,233	35,424,445
Movement in unearned premium	(1,020,740)	(207,221)
Net premium revenue	**35,606,493**	**35,217,224**

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 2021

2. FUNDING DELIVERY OF OUR SERVICES (CONTINUED)

2.3 Investment income

	2021 $	2020 $
Net fair value gains/(loss) on financial assets at fair value through profit or loss	20,483,936	(3,717,218)
Managed fund distributions	6,156,207	4,033,296
Other income	283,412	251,336
Dividend income	655,985	830,381
Interest income	1,240,073	2,208,774
Total investment income	**28,819,613**	**3,606,569**

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 management fee rebates received from managed investment funds.

2.4 Other income

	2021 $	2020 $
Seminar Income	42,092	228,540
Fines and Regulatory Fees	-	-
Other miscellaneous income	-	-
Total income	**42,092**	**228,540**

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

Notes to the Financial Statements
for the year ended 30 June 2021

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	2021 $	2020 $
Employee benefit expenses	3.1.1	3,878,471	3,823,773
Outwards reinsurance expense	3.2	1,000,000	1,000,000
Claims expense	3.3	47,425,081	35,694,207
Other operating expenses	3.4	2,553,845	2,716,968
Total expenses incurred in delivery of services		**54,857,397**	**43,234,948**

3.1.1 Employee benefits expense in the comprehensive operating statement

	2021 $	2020 $
Defined contribution superannuation expense	307,352	304,930
Salaries and wages, annual leave and long service leave	3,571,119	3,518,842
Total employee expenses	**3,878,471**	**3,823,773**

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 2021

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.

	2021 $	2020 $
CURRENT PROVISIONS		
Annual leave		
unconditional and expected to settle within 12 months	179,005	163,542
unconditional and expected to settle after 12 months	6,695	-
Long service leave		
unconditional and expected to settle within 12 months	5,327	10,292
unconditional and expected to settle after 12 months	403,494	372,355
Provisions for on-costs		
unconditional and expected to settle within 12 months	28,219	25,727
unconditional and expected to settle after 12 months	62,795	55,105
Total current provisions	**685,535**	**627,021**
NON-CURRENT PROVISIONS		
Employee benefits	33,634	29,819
On-costs	5,149	4,413
Total non-current provisions	**38,783**	**34,232**
Total provisions for employee benefits	**724,318**	**661,253**

Reconciliation of movement in on-cost provision

	2021 $
Opening balance	85,245
Additional provisions recognised	49,561
Reductions arising from payments/other sacrifices of future economic benefits	(38,643)
Closing balance	**96,163**
Current	**91,014**
Non-current	**5,149**

Notes to the Financial Statements
for the year ended 30 June 2021

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 2021

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	
	2021	**2020**	**2021**	**2020**
DEFINED CONTRIBUTION PLANS				
Legal super	101,415	121,619	-	-
Other	205,937	183,311	-	-
Total	**307,352**	**304,930**	-	-

3.2 Outwards reinsurance expense

	2021 $	**2020 $**
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 2021 in excess of $48.5m (2020:$47.5m).

Notes to the Financial Statements

for the year ended 30 June 2021

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

	2021 Current year $	**Prior years $**	**Total $**	**2020 Current year $**	**Prior years $**	**Total $**
Gross claims expense	48,985,000	(1,197,919)	47,787,081	47,912,000	(13,841,793)	34,070,207
Discount movement	(532,000)	170,000	(362,000)	(464,000)	2,088,000	1,624,000
	48,453,000	**(1,027,919)**	**47,425,081**	**47,448,000**	**(11,753,793)**	**35,694,207**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue - undiscounted	-	-	-	-	-	-
Discount movement	-	-	-	-	-	-
	-	-	-	-	-	-
Net claims incurred	**48,453,000**	**(1,027,919)**	**47,425,081**	**47,448,000**	**(11,753,793)**	**35,694,207**

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 2021

3. THE COST OF DELIVERING SERVICES (CONTINUED)

3.4 Other operating expenses

	2021 $	2020 $
Administration expenditure	1,994,170	2,101,099
Consulting & professional services expenditure	559,675	615,869
Total other operating expenses	**2,553,845**	**2,716,968**

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.

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.

Notes to the Financial Statements
for the year ended 30 June 2021

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

	2021 $	2020 $
Property, plant & equipment:		
At fair value	1,817,499	1,801,519
Accumulated depreciation	(863,277)	(257,913)
	954,222	1,273,439
Leasehold improvements:		
At fair value	232,521	232,521
Accumulated depreciation	(167,966)	(140,606)
	64,555	91,915
Total	**1,018,777**	**1,365,354**

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 2021

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

4.1 Total property, plant and equipment (continued)

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

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

	2021 $	2020 $
Property, plant and equipment		
Gross carrying amount	1,487,816	1,487,816
Accumulated depreciation	(581,357)	(270,167)
Net carrying amount	**906,459**	**1,217,649**

	2021 $	2020 $
Opening balance - 1 July	1,217,649	1,267,722
Additions	-	229,281
Disposals	-	(4,070)
Depreciation	(311,190)	(275,284)
Closing balance - 30 June	**906,459**	**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 - initial measurement

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 2021

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

4.1 Total property, plant and equipment (continued)

4.1a Total right of use assets: property, 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	2021 $	2020 $
Property, plant and equipment	335,197	313,472
Leasehold improvements	27,360	26,355
Intangibles	4,168	24,406
	366,725	**364,233**

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 2021

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
Furniture and equipment	20 - 40%
Leasehold improvements	10 - 25%
Intangibles	40%

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 2021

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 $
2021			
Balance at the beginning of the year	1,273,439	91,915	1,365,354
Additions	15,980	-	15,980
Disposals	-	-	-
Depreciation expense	(335,197)	(27,360)	(362,557)
Carrying amount at the end of the year	**954,222**	**64,555**	**1,018,777**
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**

4.2 Intangible assets

	Computer software 2021	Computer software 2020
GROSS CARRYING AMOUNT		
Opening balance	112,528	112,528
Additions	-	-
Disposals or classified as held for sale	-	-
Closing balance	**112,528**	**112,528**
ACCUMULATED DEPRECIATION, AMORTISATION AND IMPAIRMENT		
Opening balance	(108,360)	(83,954)
Amortisation of intangible assets	(4,168)	(24,406)
Disposals or classified as held for sale	-	-
Closing balance	**(112,528)**	**(108,360)**
Net book value at end of financial year	-	**4,168**

Notes to the Financial Statements
for the year ended 30 June 2021

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 2021

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

4.3 Investments and other financial assets

	2021 $	2020 $
CURRENT INVESTMENTS AND OTHER FINANCIAL ASSETS		
Term deposits:		
Australian dollar term deposits > three months	61,439,433	42,389,808
Total current investments and other financial assets	**61,439,433**	**42,389,808**
NON-CURRENT INVESTMENTS AND OTHER FINANCIAL ASSETS		
Managed unit trusts		
- Overseas equities	73,646,124	57,393,573
- Property fund	21,425,358	35,404,901
- Infrastructure fund	18,678,510	17,361,747
- Australian equities	31,618,823	24,597,163
- Diversified funds	18,472,442	15,210,158
- Government securities	51,184,958	49,231,838
Total non-current investments and other financial assets	**215,026,215**	**199,199,380**
Total investments and other financial assets	**276,465,648**	**241,589,188**

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

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.

Notes to the Financial Statements
for the year ended 30 June 2021

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

	2021 $	2020 $
CONTRACTUAL		
Accrued Investment income	635,837	710,588
Premium Receivable	-	12,611,503
Total receivables	**635,837**	**13,322,091**

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 COVID-19, 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.

Notes to the Financial Statements
for the year ended 30 June 2021

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
2021						
Deductibles receivable & cost recovery	-	-	-	-	-	-
Premium receivable	-	-				
Accrued investment income	635,837	635,837	-	-	-	-
Total	**635,837**	**635,837**	-	-	-	-
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**	-	-	-	-

Notes to the Financial Statements
for the year ended 30 June 2021

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.2 Payables

	2021 $	2020 $
CONTRACTUAL		
Supplies and services	167,698	793,827
Deferred other income	-	20,906
STATUTORY		
GST payable	839,301	457,031
Other taxes payable	1,124,485	727,621
	2,131,484	**1,999,385**
Represented by:		
Current payables	2,131,484	1,999,385
Non-current payables	-	-

Payables consist of:

- contractual payables, classified as financial instruments and measured at amortised cost. Accounts payable represent liabilities for goods and services provided to Legal Practitioners' Liability Committee prior to the end of the financial year that are unpaid, and arise when Legal Practitioners' Liability Committee becomes obliged to make future payments in respect of the purchase of those goods and services; and
- statutory payables, that are recognised and measured similarly to contractual payables, but are not classified as financial instruments and not included in the category of financial liabilities at amortised cost, because they do not arise from contracts.

Notes to the Financial Statements
for the year ended 30 June 2021

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
2021						
Supplies and services	167,698	167,698	167,698	-	-	-
Deferred other income	-	-	-	-	-	-
Total	**167,698**	**167,698**	**167,698**	-	-	-
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**	-	-

5.3 Other non-financial assets

	2021 $	2020 $
CURRENT OTHER ASSETS		
Prepayments	170,066	185,080
Total Current other assets	**170,066**	**185,080**
NON-CURRENT OTHER ASSETS		
Total Non-current other assets	-	-
Total Other assets	**170,066**	**185,080**

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 2021

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.4 Unearned premium liability

	2021 $	2020 $
Unearned premium liability 1 July	48,299,000	47,207,000
Earning of premiums written in previous periods	(34,667,726)	(34,460,505)
Deferral of premium contracts written in period	35,688,466	34,667,726
Unexpired risk liability recognised for year ending 30 June (note 7.5.1)	2,039,260	884,779
Unearned premium liability 30 June	**51,359,000**	**48,299,000**

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 2021

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.5 Outstanding claims liability (continued)

5.5.1 Outstanding claims liability

	2021 $	2020 $
Central estimate of claims still to be paid	97,745,000	91,779,000
Discount to present value	(1,530,000)	(1,168,000)
	96,215,000	90,611,000
Present value of claims handling costs	7,505,000	6,116,000
Risk margin	11,409,000	10,640,000
Gross outstanding claims liability	115,129,000	107,367,000
Gross outstanding claims liability - undiscounted	114,859,000	108,536,000
Current	38,015,000	34,193,000
Non-current	77,114,000	73,174,000
Total	**115,129,000**	**107,367,000**

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

5.5.3 Reconciliation of movement in discounted outstanding claims liability

	2021 $	2020 $
Brought forward	107,367,000	110,569,000
Increase/(Decrease) in claims incurred/recoveries anticipated over the year	(1,197,919)	(13,841,793)
Incurred claims recognised in the Statement of Comprehensive Income	48,985,000	47,912,000
Claims payments/recoveries during the year	(39,663,081)	(38,896,207)
Movement in net present value adjustment	(362,000)	1,624,000
Carried forward	**115,129,000**	**107,367,000**

Notes to the Financial Statements

for the year ended 30 June 2021

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.5 Outstanding claims liability (continued)

5.5.4 Claims development table ($m)

Policy year	2017	2018	2019	2020	2021	Total
Estimate of ultimate claim cost at end of policy year	35.414	34.130	35.321	39.637	40.720	
One year later	35.364	31.634	34.887	44.493		
Two years later	35.615	30.834	36.130			
Three years later	38.094	32.198				
Four years later	37.778					
Current estimate	37.778	32.198	36.130	44.493	40.720	191.317
Cumulative payments	-31.534	-25.237	-21.095	-18.996	-7.537	-104.401
Undiscounted central estimate	6.243	6.961	15.034	25.496	33.182	86.918
Discount						-1.530
Inflation to future values						4.461
Present value of claims handling expenses						7.505
Undiscounted central estimate prior years						6.366
Risk margin						11.409
Total outstanding claims						**115.129**

5.5.5 Net present value adjustment to outstanding claims

	2021 $	2020 $
Opening balance	1,168,000	2,792,000
Prior year	(170,000)	(2,088,000)
Current year	532,000	464,000
Closing balance	**1,530,000**	**1,168,000**

Notes to the Financial Statements
for the year ended 30 June 2021

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 department.

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:

	2021 $	2020 $
Cash and cash equivalents	15,071,740	18,985,397
Cash trusts & deposits	61,439,433	42,389,808
	76,511,173	**61,375,205**

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

	2021 $	2020 $
Operating profit	7,204,816	(5,431,627)
Depreciation	366,725	364,233
(Profit)/Loss on sale of property, plant & equipment	-	-
Changes in net market value of investments	(20,483,936)	3,717,218
Unexpired risk liability	2,039,260	884,779
Change in assets and liabilities	-	-
Increase/(Decrease) in provision for long service and annual leave	63,065	(91,686)
(Increase)/Decrease in receivables & prepayments	89,763	457,081
Increase/(Decrease) in creditors	132,099	1,054,631
Increase/(Decrease) in premiums received in advance	13,632,243	(12,404,283)
Increase/(Decrease) in claims outstanding	7,762,000	(3,202,000)
Net cash and cash equivalents provided by operating activities	**10,806,035**	**(14,651,654)**

The fund has no credit standby arrangements or loan facilities (2020: Nil)

Notes to the Financial Statements
for the year ended 30 June 2021

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 2021	**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**

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**

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 2021

6. HOW WE FINANCED OUR OPERATIONS (CONTINUED)

6.3 Leases

	2021 $	2020 $
CURRENT LIABILITIES		
Lease liabilities	336,365	311,190
Total current liabilities	**336,365**	**311,190**
NON-CURRENT LIABILITIES		
Lease liabilities	570,094	906,459
Total non-current liabilities	**570,094**	**906,459**
Total lease liabilities	**906,459**	**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:

	2021 $	2020 $
Interest expense on lease liabilities	40,199	47,663
Expense relating to short-term leases	-	-
Total amount recognised in the statement of comprehensive income	**40,199**	**47,663**

Notes to the Financial Statements
for the year ended 30 June 2021

6. HOW WE FINANCED OUR OPERATIONS (CONTINUED)

6.3 Leases (continued)

6.3.1 (c) Amounts recognised in the Statement of Cashflows

The following amounts are recognised in the Statement of Cashflows for the year ending 30 June 2021 relating to leases

	2021 $	2020 $
Interest expense on lease liabilities	40,199	47,663
Principal payments on lease liabilities	311,190	275,284
Total cash outflow for leases	**351,389**	**322,947**

For any new contracts entered into, 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

Notes to the Financial Statements
for the year ended 30 June 2021

6. HOW WE FINANCED OUR OPERATIONS (CONTINUED)

6.3 Leases (continued)

6.3.1 (c) Amounts recognised in the statement of cashflows (continued)

Recognition and measurement of leases as a lessee

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.

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

Notes to the Financial Statements
for the year ended 30 June 2021

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 2021

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 2021

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 2021

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 2021

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
2021						
CONTRACTUAL FINANCIAL ASSETS						
Cash and deposits	15,071,740	-	-	-	-	15,071,740
Receivables (a)						
Deductibles receivable & cost recovery	-	-	-	-	-	-
Premium receivable	-	-	-	-	-	-
Accrued investment income	-	-	-	635,837	-	635,837
Investments and other contractual assets						
Term deposits	-	-	-	61,439,433	-	61,439,433
Managed unit trusts	-	215,026,215	-	-	-	215,026,215
Total contractual financial assets	**15,071,740**	**215,026,215**	-	**62,075,270**	-	**292,173,225**
CONTRACTUAL FINANCIAL LIABILITIES						
Payables (a)						
Supplies and services	-	-	-	-	167,698	167,698
Lease liability	-	-	-	-	906,459	906,459
Deferred other income	-	-	-	-	-	-
Total contractual financial liabilities	-	-	-	-	**1,074,157**	**1,074,157**

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 2021

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
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 2021

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
2021					
CONTRACTUAL FINANCIAL ASSETS					
Financial assets at amortised cost - other than on derecognition	-	1,240,073	-	-	1,240,073
Equity investments designated at fair value through profit/loss	20,483,936	-	-	-	20,483,936
Total contractual financial assets	**20,483,936**	**1,240,073**	**-**	**-**	**21,724,010**
Contractual financial liabilities	-	-	-	-	-
Financial liabilities at amortised cost	-	-	-	-	-
Total contractual financial liabilities	**-**	**-**	**-**	**-**	**-**

Notes to the Financial Statements
for the year ended 30 June 2021

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.2 Financial instruments - net holding gain/(loss) on financial instruments by category (continued)

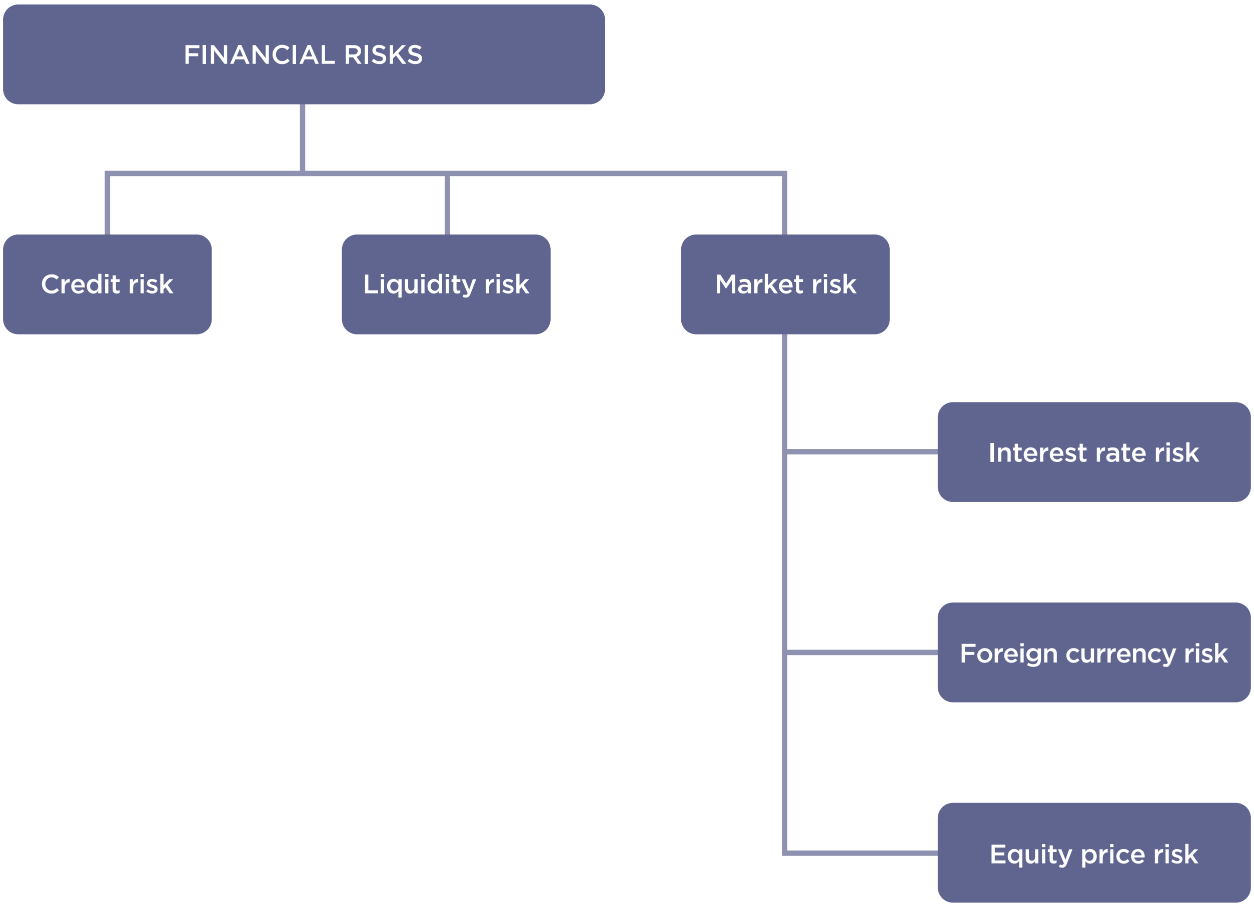
	Net holding gain/(loss)	Total interest income (expense)	Fee income/ (expense)	Impairment loss	Total
2020					
CONTRACTUAL FINANCIAL ASSETS					
Financial assets at amortised cost - other than on derecognition	-	2,208,774	-	-	2,208,774
Equity investments designated at fair value through profit/loss	(3,717,218)	-	-	-	(3,717,218)
Total contractual financial assets	**(3,717,218)**	**2,208,774**	**-**	**-**	**(1,508,444)**
Contractual financial liabilities	-	-	-	-	-
Financial liabilities at amortised cost	-	-	-	-	-
Total contractual financial liabilities	**-**	**-**	**-**	**-**	**-**

Notes to the Financial Statements
for the year ended 30 June 2021

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 2021

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.3 Financial risk management objectives and policies (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 2020-21.

Impairment of financial assets under AASB 9

LPLC records the allowance for expected credit loss for the relevant financial instruments applying AASB 9'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.

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 closing loss allowance at the end of the financial year.

Notes to the Financial Statements
for the year ended 30 June 2021

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.3 Financial risk management objectives and policies (continued)

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.

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 0.10%
- 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 2021

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.3 Financial risk management objectives and policies (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 2021			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	0.00%	15,071,740	-	-	-	-	15,071,740
Receivables	n/a		-	-	-	635,837	635,837
Units in managed funds	n/a	-	-	-	-	215,026,215	215,026,215
Term deposits	0.57%	-	61,439,433	-	-	-	61,439,433
Total financial assets		**15,071,740**	**61,439,433**	-	-	**215,662,052**	**292,173,225**
Financial liabilities:							
Creditors - contractual	n/a	-	-	-	-	167,698	167,698
Lease liability	3.73%	-	-	906,459	-	-	906,459
Outstanding claims	n/a	-	-	-	-	115,129,000	115,129,000
Total financial liabilities		-	-	**906,459**	-	**115,296,698**	**116,203,157**

Notes to the Financial Statements

for the year ended 30 June 2021

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.3 Financial risk management objectives and policies (continued)

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 2021

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.3 Financial risk management objectives and policies (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**			
2021	Carrying	**-0.25%**		**+.5%**		**-10%**		**+10%**	
Financial assets	amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Cash and cash equivalents	76,511,173	(191,278)	(191,278)	382,556	382,556				
Units in managed funds	215,026,215					(21,502,622)	(21,502,622)	21,502,622	21,502,622
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

Notes to the Financial Statements
for the year ended 30 June 2021

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.3 Financial risk management objectives and policies (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 2021

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 2021

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.3 Fair value determination (continued)

7.3.1 Fair value determination of financial assets and liabilities (continued)

Financial assets measured at fair value

	Level 1 $	Level 2 $	Level 3 $	Total $
30-Jun-21				
FINANCIAL ASSETS				
- Unit in managed funds	193,600,857	21,425,358	-	215,026,215
30-Jun-20				
FINANCIAL ASSETS				
- Unit in managed funds	163,794,479	35,404,901	-	199,199,380

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 2021

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 $**
2021			
Furniture & equipment	-	-	47,763
Leasehold improvements	-	-	64,555
Total assets at fair value			**112,318**
2020			
Furniture & equipment	-	-	55,790
Leasehold improvements	-	-	91,915
Total assets at fair value			**147,705**

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 2021. 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

2021 and 2020	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 2021

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.3 Fair value determination (continued)

7.3.2 Fair value determination: Non-financial physical assets (continued)

Reconciliation of level 3 fair value movements

	Furniture & equipment	Leasehold improvements
2021		
Opening balance	55,790	91,915
Purchases (Sales)	15,980	-
Depreciation	(24,008)	(27,360)
Revaluation	-	-
Closing balance	**47,763**	**64,555**

There have been no transfers between levels during the period.

	Furniture & equipment	Leasehold improvements
2020		
Opening balance	55,253	101,536
Recognition of right-of-use assets on initial application of AASB 16		
Purchases (Sales)	38,725	16,734
Depreciation	(38,188)	(26,355)
Revaluation	-	-
Closing balance	**55,790**	**91,915**

Notes to the Financial Statements

for the year ended 30 June 2021

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 2021 in excess of $48.5m.

(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.

Notes to the Financial Statements
for the year ended 30 June 2021

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.4 Insurance contracts - risk management and procedures (continued)

(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 2021.

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 2021

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.5 Unexpired risk liability (continued)

7.5.1 Unexpired risk liability	**2021 $**	**2020 $**
Unexpired risk liability as at 1 July	13,631,274	12,746,495
Recognition of additional unexpired risk liability in the period	2,039,260	884,779
Unexpired risk liability as at 30 June	**15,670,534**	**13,631,274**
7.5.2 Calculation of deficiency		
Unearned premium liability relating to insurance contracts	35,688,466	34,667,726
Central estimate of present value of expected future cash flows arising from future claims	44,855,000	42,183,000
Risk margin of 14.5%	6,504,000	6,116,000
	51,359,000	48,299,000
Net deficiency	**15,670,534**	**13,631,274**

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 per cent probability of adequacy.

Notes to the Financial Statements
for the year ended 30 June 2021

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

	2021 $	2020 $
Accumulated funds at the beginning of the year	115,906,991	121,338,618
Operating profit/(loss) for the year	7,204,816	(5,431,627)
Accumulated Funds at the end of the year	**123,111,807**	**115,906,991**

Notes to the Financial Statements
for the year ended 30 June 2021

8. OTHER DISCLOSURES (CONTINUED)

8.2 Remuneration of auditors

	2021 $	2020 $
VICTORIAN AUDITOR-GENERAL'S OFFICE		
- auditing or reviewing the financial report	48,200	48,400
- other services	-	-
Total remuneration of auditors	**48,200**	**48,400**

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

	2021 $	2020 $
Paid as at 30 June	10,000	22,000
Payable as at 30 June	38,200	26,400
	48,200	**48,400**

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 2020 to 16 December 2020
Attorney-General	The Hon. Jaclyn Symes, MP	22 December 2020 to 30 June 2021
Acting Attorney-General	The Hon. Daniel Andrews, MP	17 December 2020 to 21 December 2020
Acting Attorney-General	The Hon. Martin Pakula, MP	11 January 2021 to 26 January 2021
Accountable Officer	Mr Nicholas J Toohey	1 July 2020 to 30 June 2021
Committee Member	Ms Patricia Kelly	1 July 2020 to 30 June 2021
Committee Member	Ms Helen Thornton	1 July 2020 to 30 June 2021
Committee Member	Mr John Corcoran	1 July 2020 to 30 June 2021
Committee Member	Mr Adrian Finanzio	1 July 2020 to 30 June 2021
Committee Member	Mr Daniel Barlow	1 July 2020 to 30 June 2021
Committee Member	Ms Michelle Dixon	1 July 2020 to 30 June 2021
Committee Member	Ms Nicole Rich	1 July 2020 to 30 June 2021

Notes to the Financial Statements
for the year ended 30 June 2021

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:

$	2021 No.	2020 No.
0 - 9,999 (a)	1	2
10,000 -19,999	-	2
20,000 - 29,999	-	-
30,000 - 39,999	5	4
40,000 - 49,999	-	-
50,000 - 59,999	1	1
360,000 - 369,999	-	-
380,000 - 389,999	1	-
410,000 - 420,000	-	1
Total numbers	**8**	**10**
Total Remuneration	**$615,601**	**$645,407**

(a) Represents Committee members employed in public service roles and ineligible to receive remuneration.

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 2021

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.

Remuneration of executive officers (including key management personnel disclosed in Note 8.5)	**Total remuneration 2021 $**	**2020 $**
Short-term employee benefits	1,810,644	2,076,384
Post-employment benefits	148,006	160,727
Other long-term benefits	26,421	27,194
Termination benefits	-	-
Total remuneration	**1,985,072**	**2,264,305**
Total number of executives	**14**	**16**
Total annualised employee equivalents	**13.6**	**15.6**

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 2021

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 significant transactions with government related entities, other than statutory payments relating to stamp duty on insurance premiums and Goods and Services Tax (GST).

Key Management personnel of the Legal Practitioners' Liability Committee includes the Attorney General, the Hon. Jaclyn Symes 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 2021

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.

Compensation of KMP's	Total remuneration 2021 $	2020 $
Short-term employee benefits	574,729	604,180
Post-employment benefits	40,872	41,227
Other long-term benefits	6,104	6,104
Termination benefits	-	-
Total compensation:	**621,705**	**651,512**

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.

There were no other material matters or circumstances after balance 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.

Notes to the Financial Statements

for the year ended 30 June 2021

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 30/6/21.

Development year	Ultimate claims incurred as % of current estimate	Payments to end of year, as % of ultimate claims
0	83.3%*	13.6%
1	88.0%	44.7%
2	92.2%	62.9%
3	96.0%	75.2%
4	99.0%**	83.4%
5	100.0%**	88.9%
6	100.0%	92.5%
7	100.0%	95.0%
8	100.0%	96.6%
9	100.0%	97.8%

* Ratio of ultimate incurreds for the 2021 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 per cent 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 2021

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 2021 are estimated by deducting payments to date.

Gross payments in 2020-21 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 2020-21.

Gross payments in 2020-21 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 2021. 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 per cent and the premium liabilities a standard deviation of 36 per cent.

Sensitivity analysis as at 30/6/21

Risk variable	Base	Altered	Outstanding claims ($m)	Premium liability ($m)
Discount rate (% pa)	0.10%	1.10%	-2.564	-1.238
	0.10%	-0.90%	2.724	1.316
Claim administration	7.80%	8.80%	0.962	
expenses (% of claims)	7.80%	6.80%	-0.962	
Wage inflation (% pa)	2.25%	3.25%	2.785	1.604
	2.25%	1.25%	-2.662	-1.468
“Regular” solicitor claims per	3,550	3,910	0.717	2.686
principal equivalent	3,550	3,200	-0.697	-2.611
“Large” claims ($m)	$12.4m	$10.7m		-1.716
	$12.4m	$14.0m		1.716

Notes to the Financial Statements
for the year ended 30 June 2021

8. OTHER DISCLOSURES (CONTINUED)

8.7 Actuarial assumptions and methods (continued)

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 expenses (% of claims)	6.75%	7.75%	0.906	
	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 principal equivalent	3,580	3,938	0.678	2.568
	3,580	3,222	-0.617	-2.335
"Large" claims ($m)	$10.7m	$9.9m		-0.861

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 2021

8. OTHER DISCLOSURES (CONTINUED)

8.8 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 2021. 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 2023	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 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 2021

8. OTHER DISCLOSURES (CONTINUED)

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

Standard/ Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
AASB 2021-3 Amendments to Australian Accounting Standards - Covid-19 Related Rent Concessions beyond 30 June 2021	This Standard amends AASB 16 to extend by one year the application period of the practical expedient added to AASB 16 by AASB 2020-4 Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions. The practical expedient permits lessees not to assess whether rent concessions that occur as a direct consequence of the covid-19 pandemic and meet specified conditions are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications (e.g. account for as variable lease payment instead). This standard extends the practical expedient to rent concessions that reduce only lease payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.	1 April 2021	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 2021

8. OTHER DISCLOSURES (CONTINUED)

8.9 Glossary

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

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

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

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

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

Financial asset is any asset that is:

(a) cash;

(b) an equity instrument of another entity;

(c) a contractual right:

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

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

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

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

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

Notes to the Financial Statements
for the year ended 30 June 2021

8. OTHER DISCLOSURES (CONTINUED)

8.9 Glossary (continued)

(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.

Legal Practitioners' Liability Committee
Level 31, 570 Bourke Street
Melbourne Vic 3000
ABN 45 838 419 536
T (03) 9672 3800
F (03) 9670 5538
W lplc.com.au

LEGAL PRACTITIONERS' LIABILITY COMMITTEE