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# Statement of Performance Expectations

2019/20

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30 June 2019



## Introduction

The Real Estate Agents Authority is a Crown entity established under the Real Estate Agents Act 2008. The Real Estate Authority (REA) is the operating name of the Real Estate Agents Authority.

We work to promote and protect the interests of consumers in real estate transactions and to promote public confidence in the performance of real estate agency work.

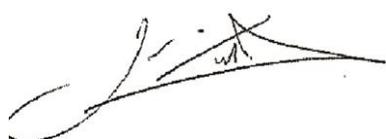
This document specifies how REA will work towards our vision of *a better real estate experience for all* and contribute over the next year to achieving the strategic goal and outcome of having *empowered consumers working with trusted real estate agents*.

This Statement of Performance Expectations (SPE) is one of two documents that sets out how we measure our future performance and report on the progress of that performance against our targets. The other document is the Statement of Intent 2017/18 to 2020/21, which provides a four-year medium-term view of the progress made towards achieving our strategic goal and priorities.

This SPE sets out our financial forecasts for the financial year from 1 July 2019 to 30 June 2020. It is prepared in line with the Crown Entities Act 2004 and should be read together with our Statement of Intent.

REA is responsible for the preparation of this SPE, including the forecast financial statements and the assumptions on which they are based, the non-financial measures and the judgements that used them.

This SPE is presented to the House of Representatives in accordance with Part 4 of the Crown Entities Act 2004.



John Auld

**Chair**

Real Estate Authority

**30 June 2019**



Marion Cowden

**Chair**

Audit and Risk Subcommittee

**30 June 2019**

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## Our strategy

The Justice Sector has an aspirational outcome that all New Zealanders should expect to live in a safe and just society. REA's main contribution to this outcome is to have empowered consumers work with trusted real estate professionals.

### REA's strategic framework

The strategic framework outlines our vision, overarching strategic goal and priorities. Our purpose and values are the foundations of the framework, and the vision and strategic goal statements outline what we want to achieve. The strategic priorities outline how we will align our resources and activities to deliver the vision and strategic goal.



### A better real estate experience for all

The vision statement is a powerful aspiration for REA. It refers to a better real estate experience for New Zealanders buying or selling property and for licensees and other professionals involved in real estate transactions. It also includes the experience these groups have when they interact with REA.

### Empowered consumers working with trusted real estate professionals

Delivering on this goal is about ensuring that participants in real estate transactions are well informed and feel empowered to make the right decisions based on their personal situation. It is also about working with the industry to increase professionalism and trust, with decreasing levels of dissatisfaction, harm or loss for those involved.

### Identify and reduce the causes of consumer harm

Buying and selling property is one of the biggest investment decisions New Zealanders make. There are many risks, and when issues occur with a real estate transaction, the financial and emotional impact on consumers can be significant and long-lasting. We will use research, data analysis, insights and intelligence to identify and understand the causes of problems and issues that lead to harm. We will work with the sector to address these risks and issues; and also raise consumer awareness of the issues and how they can be mitigated.

### Better educate and inform consumers

The real estate market involves many organisations that promote products and services to consumers. Consumers need access to independent, relevant and trusted information to be better educated and informed about the process, risks and issues related to real estate transactions. Most consumers are looking for property information online, and this provides an opportunity for us to educate and inform them through our [settled.govt.nz](http://settled.govt.nz) website and social media channels.

### Increase professionalism and public confidence in the real estate industry

The public's confidence in the real estate industry will be increased if the industry is made up of professional and competent licensees and there are effective processes for redress when things go wrong. We will continue to build industry capability, promote best practices, raise professional standards, manage licensing and complaints and monitor and enforce licensee behaviour. We will raise public confidence by holding poor behaviour to account, working with the industry to increase professionalism including through our continuing professional development programme and using a range of communication tools to promote professionalism in the industry.

### Raise our profile and level of connectedness

Consumers have a low awareness of REA's brands, role and value proposition, which makes it difficult for us to educate and inform them. We will position ourselves as the independent, trusted and authoritative source of information and guidance for consumers and licensees. We will prepare for the possibility of increased volumes of enquiries and complaints as consumers' awareness of REA's role and purpose increases. We will also build stronger connections with the industry, government agencies and the private sector to help us deliver on our strategic goals.

### Strategic priorities and impacts

The four strategic priorities align to the four impacts that we are seeking to achieve.

STRATEGIC PRIORITIES	IMPACTS
Identify and reduce the causes of consumer harm	Reduced consumer harm
Better educate and inform consumers	Increased consumer knowledge
Increase professionalism and public confidence in the real estate industry	Increased professionalism and public confidence
Raise our profile and level of connectedness	Increased awareness and understanding of REA

## Our regulatory responsibility

We are the independent, government regulatory body of the New Zealand real estate industry.

### Our purpose

Our purpose is to promote and protect the interests of consumers buying and selling real estate and to promote public confidence in the performance of real estate agency work.

### What we do

Our job is to promote a high standard of service and professionalism in the real estate industry and help protect buyers and sellers of property.

- We provide independent and comprehensive information and guidance for people who are buying and selling property through [settled.govt.nz](http://settled.govt.nz).
- We provide information and guidance for real estate professionals and deal with complaints about agents' behaviour.
- We respond to enquiries and complaints, investigate problems in the real estate industry and ensure appropriate enforcement action is taken to sanction any unsatisfactory conduct, misconduct or illegal behaviour. We also ensure appropriate enforcement action is taken.
- We maintain a Code of Conduct setting out the professional standards real estate agents must follow.
- We monitor compliance, conduct, behaviour and competency of real estate professionals.
- We maintain continuing professional development for real estate professionals.
- We license people and companies working in the real estate industry.
- We maintain a public register of real estate agents that includes information about disciplinary action taken in the last three years.

### Our regulatory approach

Our regulatory approach is insight driven, intelligence-led and risk-based. We gather and analyse information to identify the greatest risks and causes of harm to consumers in the real estate transaction.

We will identify, reduce and prevent the causes of consumer harm, proactively help the industry improve professionalism and public confidence and respond to issues with intervention and strong enforcement action where necessary.

We align our resources to our strategy to maximise our impact and ability to achieve our strategic goals and deliver on our priorities.

We work closely with our monitoring agency, the Ministry of Justice, to help ensure we are a regulator that is effective, efficient and accountable for the implementation and delivery of our strategy, purpose and functions.

A segmentation model for consumers and licensees has been developed. This enables us to identify, target and support both the consumers most vulnerable to harm and licensees that either have higher needs, or a greater risk of causing harm.

Our segmentation model for home buyers and sellers includes targeted solutions for specific groups like first home buyers and migrant communities. This is based on research completed with these groups which informs how we reach them with relevant information and guidance. The segmentation reflects the needs of diverse groups and the need to understand the communities we serve.

## The impacts we are seeking

During 2019/20, REA will continue to work towards the outcome of *empowered consumers working with trusted real estate professionals* by seeking to advance the following impacts:

- Impact 1. Reduced consumer harm
- Impact 2. Increased consumer knowledge
- Impact 3. Increased professionalism and public confidence
- Impact 4. Increased awareness and understanding of REA

We expect that the implementation of our strategy will lead to improvements in the impacts we are seeking through to 2021. We will invest in initiatives that reduce or solve specific problems that can reduce consumer harm, particularly for vulnerable consumer segments and at-risk licensee groups. We will also aim to increase the use of REA's websites – [rea.govt.nz](http://rea.govt.nz) and [settled.govt.nz](http://settled.govt.nz) – and the resources available on these sites to support increased guidance to licensees and consumers. This guidance, along with our continuing professional development programme supports our work to reduce consumer harm and increase industry professionalism.

### Measuring impact performance:

We use the following indicators to measure performance for each impact.

IMPACTS	INDICATORS	ACTUAL 2017/18	FORECAST 2018/19	TARGET 2019/20	TARGET 2021
1. Reduced consumer harm	Percentage of active licensees during the financial year that receive decisions of unsatisfactory conduct or serious misconduct	0.85%	<1.0%	<1.0%	<1.0%
	Percentage of consumers <sup>1</sup> who experienced problems or issues	18%	<20%	<20%	<20%
2. Increased consumer knowledge	Percentage of consumers who consider they have high levels <sup>2</sup> of knowledge about the real estate transaction process	45%	48%	50%	55%
3. Increased professionalism and public confidence	Percentage of consumers who have high levels <sup>3</sup> of confidence that the real estate industry is professional	54%	55%	55%	55%
4. Increased awareness and understanding of REA	Percentage of consumers who know what REA does <sup>4</sup>	34%	35%	37%	40%
	Percentage of consumers who are aware of <a href="http://settled.govt.nz">settled.govt.nz</a>	15%	20%	30%	50%

<sup>1</sup> Respondents who have participated in a real estate transaction in the last 12 months.

<sup>2</sup> Respondents who answered 'reasonable knowledge' or 'a lot of knowledge' about the real estate transaction process.

<sup>3</sup> Respondents who answered 'reasonable confidence' or 'a lot of confidence' with respect to the real estate industry being professional.

<sup>4</sup> Respondents who answered 'know a little' or 'a reasonable amount' about what REA does.

## Advancing our impacts

### Impact 1. Reduced consumer harm

#### *What do we want to achieve?*

Use research and insights, data analysis and business intelligence to continue to identify, understand and reduce the causes of consumer harm. We will work both independently and collaboratively with the sector to reduce or prevent consumer harm. Some of the problems that are contributing to harm that we will focus on in 2019/20 include:

- lack of consumer knowledge (particularly by vulnerable groups) that can lead to poor decisions and risky behaviour
- licensees and vendors failing to disclose important information
- poor behaviour from a small group of licensees.

We will contribute to this impact through the following output:

- Output 1: Informing and educating consumers, licensees and other stakeholders.

#### *Key initiatives during 2019/20:*

- Deliver targeted interventions to help solve specific problems to reduce harm.

### Impact 2. Increased consumer knowledge

#### *What do we want to achieve?*

Position our settled.govt.nz brand as the source of independent, trusted and comprehensive information and guidance for buyers and sellers. We will educate and inform consumers about the real estate transaction process and their rights and responsibilities through targeted campaigns and investing in our websites and digital channels to provide helpful content, resources and tools.

We will contribute to this priority through the following output:

- Output 1: Informing and educating consumers, licensees and other stakeholders

#### *Key initiatives during 2019/20:*

- Develop tools and interactive experiences on settled.govt.nz
- Deliver targeted campaigns to educate and inform vulnerable consumer groups.

### Impact 3. Increased professionalism and public confidence

#### *What do we want to achieve?*

Build real estate industry capability and professionalism through our continuing professional development programme, promote best practice, provide information and guidance, manage licensing, resolve and investigate complaints, monitor licensee behaviour, enforce the Act, increase consumer perception of industry professionalism and public confidence in the industry.

We also want to continuously improve the organisational efficiency and effectiveness of our regulatory approach, capability, services, processes and systems.

We will contribute to this priority through the following output:

- Output 2: Licensing, enforcing and monitoring of the real estate industry

#### *Key initiatives during 2019/20:*

- Deliver the continuing professional development programme
- Deliver industry interventions to increase professionalism and desired behaviours.

## Impact 4. Increased awareness and understanding of REA

### What do we want to achieve?

Position our REA brand as the independent and authoritative source of comprehensive information and guidance for consumers and the real estate industry. We will engage, collaborate and partner with the industry, government and private sector to leverage capability and build support to enable us to more effectively promote and protect consumer interests.

We will contribute to this priority through the following outputs:

- Output 1: Informing and educating consumers, licensees and other stakeholders
- Output 2: Licensing, enforcing and monitoring of the real estate industry.

### Key initiatives during 2019/20:

- Develop and leverage stakeholder relationships
- Promote understanding of REA and awareness of settled.govt.nz.

## Alignment of initiatives to strategy

During 2019/20, our key initiatives will benefit multiple strategic priorities.

### REA's initiatives aligned to strategy

KEY INITIATIVES IN 2019/20	Identify and reduce the causes of consumer harm	Better educate and inform consumers	Increase professionalism and public confidence in the real estate industry	Raise our profile and level of connectedness
★ Primary benefit from the initiative ✓ Secondary benefit from the initiative				
Deliver targeted consumer interventions to reduce harm	★	✓	✓	
Develop tools and interactive experiences on settled.govt.nz	✓	★	✓	
Deliver targeted campaigns to educate and inform vulnerable consumer groups	✓	★		
Deliver the continuing professional development programme	✓		★	
Deliver industry interventions to increase professionalism and desired behaviours	✓		★	
Develop and leverage stakeholder relationships	✓		✓	★
Promote REA and settled.govt.nz to increase awareness	✓	✓	✓	★

## Output class: Operate the Real Estate Authority

REA has one output class through Vote Justice: *Operate the Real Estate Authority*. Our outputs are grouped into two results areas:

- Output 1: Informing and educating consumers, licensees and other stakeholders
- Output 2: Licensing, enforcing and monitoring of the real estate industry

### Output revenue and expenditure

COMPREHENSIVE REVENUE AND EXPENDITURE		2019/20 \$000
<b>Total revenue</b>		<b>10,330</b>
<hr/>		
<b>Output expenditure</b>		
<hr/>		
Educating and informing consumers, licensees and other stakeholders		3,929
<hr/>		
Licensing, enforcing and monitoring of the real estate industry		9,039
<hr/>		
<b>Total expenditure</b>		<b>12,968</b>
<hr/>		
<b>Total comprehensive revenue and expenditure</b>		<b>(2,638)</b>

The REA Board approved a change to fees and levies effective from 1 February 2017. The rationale for this change was to reduce REA cash holdings over a three-year period to a more prudent level. The comprehensive revenue and expense deficit as reflected above is, therefore, a planned deficit and will continue throughout the term of the Statement of Intent 2017–2021.

The following pages outline the aims we are trying to achieve in the delivery of our outputs and how our performance will be measured.

## **Output 1: Informing and educating consumers, licensees and other stakeholders**

This output includes:

- the identification and understanding of the causes of consumer harm
- the development of targeted initiatives to reduce or prevent the occurrence of consumer harm
- the provision of relevant and accessible information to help educate and inform consumers
- the development and implementation of continuing education and provision of guidance to improve industry professionalism
- working collaboratively with other government agencies and the private sector to achieve our vision and strategic goal.

This output primarily contributes towards the following impacts:

- Impact 1. Reduced consumer harm
- Impact 2. Consumers are better educated and informed
- Impact 4. Increased awareness and understanding of REA

## Assessing output performance

MEASURES	HOW IT WILL BE MEASURED	ACTUAL 2016/17	ACTUAL 2017/18	TARGET 2019/20
<b>Quality</b>				
Percentage of consumers <sup>5</sup> who consider the residential property guides (agency agreement guide and sale and purchase agreement guide) useful	Consumer survey	90%	88%	90%
Percentage of consumers who find the information and guidance provided by REA useful <sup>6</sup>	Consumer survey	93%	91%	90%
Percentage of licensees who find REA's compliance guidance useful	Licensee survey	88%	92%	90%
Percentage of licensees who agree the continuing professional development programme has improved their knowledge and understanding of the topic area	Licensee survey	86%	83%	87%
Percentage of licensees who plan to make changes to their practice as a result of CPD	Licensee survey	77%	63%	80%
Number of targeted initiatives for consumers	Internal reporting	2	6	4
Number of targeted interventions for licensees	Internal reporting	1	2	4
Total number of website sessions	Analytics	677,465	601,237	750,000
Total number of settled.govt.nz website sessions	Analytics	-	157,150	450,000
Usefulness of rea.govt.nz content <sup>7</sup>	Website feedback	-	3.3	3.75
Usefulness of settled.govt.nz content <sup>7</sup>	Website feedback	-	4.4	4.45

<sup>5</sup> Respondents of the annual survey who have participated in a real estate transaction in the last 12 months.

<sup>6</sup> Warning: There is a small sample size in relation to this measure in the annual consumer survey.

<sup>7</sup> Website users can score each page on a scale of 1 to 5. Average scores are shown here.

## Output 2: Licensing, enforcing and monitoring of the real estate industry

This output includes managing and administering the licensing regime, monitoring the industry, raising professional standards, taking action following non-compliance and supporting the Complaints Assessment Committees, Tribunals and court activities.

This output primarily contributes towards the following impacts:

- Impact 1. Reduced consumer harm
- Impact 3. Increased professionalism and public confidence

### Assessing output performance

MEASURES	HOW IT WILL BE MEASURED	ACTUAL 2016/17	ACTUAL 2017/18	TARGET 2019/20
<b>Quality</b>				
Percentage of applications approved where licensees at the time of approval are 'fit and proper' and meet the required professional standards	Internal reporting	100%	100%	100%
Percentage of complainants and respondents that consider the complaints process independent, fair and transparent <sup>8</sup>	Complaints survey	58%	46%	60%
Percentage of Complaints Assessment Committee decisions that meet quality standards	External review	81%	85%	85%
<b>Timeliness</b>				
Percentage of new applications for licences processed within three weeks	Internal reporting	84%	88%	85%
Percentage of renewal applications for licences processed within two weeks	Internal reporting	97%	98%	98%
Percentage of complaint enquiries resolved through early resolution within one month <sup>9</sup>	Internal reporting	-	98%	95%
Percentage of complaints completed through early resolution within three months <sup>9</sup>	Internal reporting	74%	95%	95%
Percentage of complaints completed within one year	Internal reporting	84%	86%	90%

<sup>8</sup> In 2017/18, the complaints survey frequency and methodology were improved to provide better measures of quality and performance of the complaints processes. The complaints survey is now completed every six months rather than annually, providing a more timely opportunity for respondent feedback after the complaint process has completed. A new 10-point scale has been introduced rather than the previous 5-point scale. The new scale provides better insights into performance, a wider range of answers for respondents to select, no middle score option (which, in the past, was considered favourable), a higher degree of measurement and more opportunity to detect changes over time.

<sup>9</sup> New measure in 2019/20.

## Forecast financial statements

### Statement of significant assumptions

REA has made several assumptions to develop these forecast financial statements. The specific assumptions that impact the financial statements are detailed in the sections below. Items that require further explanation are also detailed in the additional information section below.

#### *Specific assumptions*

The number of licences significantly affects projected revenue. For forecasting purposes, it has been assumed that 15,030 active licensees will be registered with REA for the period 2019/20 and 15,000 for each year to 2020/21 and 2021/22. As at 31 March 2019, there are 15,568 active licensees registered.

#### *Revenue*

REA reviewed the licence fees structure, and amendments became effective on 1 February 2017. The forecast statement of comprehensive revenue and expense is based on the annual licence fee of \$597 (exclusive of the Real Estate Agents Disciplinary Tribunal Levy of \$33, which is remitted to the Ministry of Justice) exclusive of GST. The forecast statement of comprehensive revenue and expense assumes no change to the licence fee over the periods presented.

### Additional information

#### *Equity*

At the end of 2019/20, REA forecasts a positive equity position of \$1.000 million.

At the end of 2020/21 and 2021/22, negative equity positions of \$0.124 million and \$0.899 million arise. However, this does not impact REA's liquidity as there is enough cash to pay current liabilities.

The negative equity position has arisen due to two factors:

The Statement of Intent 2017–2021 has planned deficits to reduce cash holdings to a more prudent level, and this plan has been extended to the 2021/22 year. (By 30 June 2022, REA is expected to have reached the appropriate level of cash holdings.)

Revenue recognition policy – REA's policy recognises operational levy revenue over a 12-month period from the date of renewal. This results in a deferred operating levy account, which is shown as a liability with a balance of \$5.210 million as at the end of 2021/22, noting that REA only refunds the levy in exceptional circumstances (such as death of a licensee).

#### *Capital expenditure*

The focus remains on upgrading and improving our systems (such as document management and enhancing our websites). It is expected that there will be approximately \$1.239 million incurred across the year.

#### *Revenue and licensee volumes*

Total active licensees at 30 June 2020 are expected to be 15,030. The revenue recognised in 2019/20 from these licensees is estimated to be \$4.109 million inclusive of application levies for new licensees and the annual licence fee, which is deferred over a 12-month period.

#### *Personnel costs*

Personnel costs of \$5.783 million include health and welfare, training and development, ACC levies, recruitment, superannuation, and salaries and wages.

## Forecast statement of comprehensive revenue and expense

for the years ended 30 June

	2019/20 \$000	2020/21 \$000	2021/22 \$000
<b>Revenue</b>			
Operating levy received	8,973	8,955	8,955
Approved guide sales	46	46	46
Application and suspension fees	872	872	872
Other revenue	439	439	439
<b>Total revenue</b>	<b>10,330</b>	<b>10,312</b>	<b>10,312</b>
<b>Expenditure</b>			
Audit fee	60	60	60
Personnel costs	5,783	5,565	5,574
Depreciation	142	133	119
Amortisation	994	738	479
Specialist services	2,315	1,330	1,283
Legal fees	882	882	882
Board fees	160	163	166
Complaints Assessment Committee fees	380	387	395
Computer and telecommunications	1,350	1,275	1,225
Printing, stationery and postage	57	57	57
Travel, meetings and entertainment	366	367	368
Occupancy	452	452	452
Miscellaneous expenses	27	27	27
<b>Total expenditure</b>	<b>12,968</b>	<b>11,436</b>	<b>11,087</b>
<b>Total comprehensive revenue and expense</b>	<b>(2,638)</b>	<b>(1,124)</b>	<b>(775)</b>

## Forecast statement of financial position

as at 30 June

	2019/20 \$000	2020/21 \$000	2021/22 \$000
<b>Current assets</b>			
Cash and cash equivalents	670	869	1,451
Investments	4,468	3,698	2,718
Debtors and other receivables	64	64	64
Prepayments	46	46	47
GST receivable/(payable)	(11)	18	59
Approved guide stock	33	33	34
<b>Total current assets</b>	<b>5,270</b>	<b>4,728</b>	<b>4,373</b>
<b>Non-current assets</b>			
Property, plant and equipment	373	255	151
Intangible assets	2,039	1,651	1,422
<b>Total non-current assets</b>	<b>2,412</b>	<b>1,906</b>	<b>1,573</b>
<b>Total assets</b>	<b>7,682</b>	<b>6,634</b>	<b>5,946</b>
<b>Liabilities</b>			
Trade creditors and accruals	1,259	1,331	1,415
Employee entitlements	180	184	187
Deferred operating levy	5,210	5,210	5,210
Disciplinary levy payable	33	33	33
<b>Total current liabilities</b>	<b>6,682</b>	<b>6,758</b>	<b>6,845</b>
<b>Total liabilities</b>	<b>6,682</b>	<b>6,758</b>	<b>6,845</b>
<b>Net assets/equity</b>	<b>1,000</b>	<b>(124)</b>	<b>(899)</b>
<b>Public equity</b>			
Retained earnings	3,388	750	(374)
Litigation reserve	250	250	250
Current year surplus/(deficit)	(2,638)	(1,124)	(775)
<b>Total public equity</b>	<b>1,000</b>	<b>(124)</b>	<b>(899)</b>

## Forecast statement of changes in equity

for the years ended 30 June

	2019/20 \$000	2020/21 \$000	2021/22 \$000
Public equity as at 1 July	3,638	1,000	(124)
Total comprehensive revenue and expense	(2,638)	(1,124)	(775)
<b>Total public equity as at 30 June</b>	<b>1,000</b>	<b>(124)</b>	<b>(899)</b>
<b>Comprised of the following funds:</b>			
Retained earnings as at 1 July	3,388	750	(374)
Total comprehensive revenue and expense	(2,638)	(1,124)	(775)
<b>Total retained earnings</b>	<b>750</b>	<b>(374)</b>	<b>(1,149)</b>
Litigation reserve as at 1 July	250	250	250
Total comprehensive revenue and expense	-	-	-
<b>Total litigation reserve</b>	<b>250</b>	<b>250</b>	<b>250</b>

## Forecast statement of cash flows

for the years ended 30 June

	2019/20 \$000	2020/21 \$000	2021/22 \$000
<b>Cash flows from operating activities</b>			
<b>Cash was provided from:</b>			
Receipts from licensees	8,306	9,319	9,319
Receipts from sale of publications	46	46	46
Interest received	180	180	180
Receipts from suspension fees	507	507	507
Receipts from fines	259	259	259
<b>Cash was applied to:</b>			
Payments to suppliers	(6,671)	(5,272)	(5,083)
Payments to employees	(5,202)	(5,226)	(5,331)
Interest paid	-	-	-
Net GST received/(paid)	46	(19)	(30)
<b>Net cash flows from operating activities</b>	<b>(2,529)</b>	<b>(206)</b>	<b>(133)</b>
<b>Cash flows from investing activities</b>			
<b>Cash was provided from:</b>			
Receipts from investments in term deposits	3,000	770	980
<b>Cash was applied to:</b>			
Purchase of property, plant and equipment	(35)	(15)	(15)
Purchase of intangible assets	(1,204)	(350)	(250)
Investment in term deposits	-	-	-
<b>Net cash flows from investing activities</b>	<b>1,761</b>	<b>405</b>	<b>715</b>
<b>Cash flows from financing activities</b>			
<b>Cash was provided from:</b>			
<b>Cash was applied to:</b>			
<b>Net cash flows from financing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(768)</b>	<b>199</b>	<b>582</b>
<b>Opening cash and cash equivalents</b>	<b>1,438</b>	<b>670</b>	<b>869</b>
<b>Closing cash and cash equivalents</b>	<b>670</b>	<b>869</b>	<b>1,451</b>

## Statement of accounting policies

### Reporting entity

These are the forecast financial statements of the Real Estate Agents Authority, a Crown entity as defined by the Crown Entities Act 2004. The Real Estate Authority (REA) is the operating name of the Real Estate Agents Authority. REA is domiciled in New Zealand. REA's functions are defined in the Real Estate Agents Act 2008 and are described on page 4 of the Statement of Intent 2017/18 to 2020/21. REA is a public benefit entity for the purposes of New Zealand equivalents to the International Public Sector Accounting Standards (IPSAS).

### Basis of preparation

#### *Statement of compliance*

The financial statements have been prepared in accordance with requirements of the Crown Entities Act 2004 including the requirement to comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP). The financial statements comply with Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS) and other applicable financial reporting standards, as appropriate for Tier 2 public sector public benefit entities for which all reduced disclosure regime exemptions have been adopted.

REA qualifies as a Tier 2 reporting entity as, for the two most recent reporting period, it has between \$2 million and \$30 million operating expenditure and is not considered publicly accountable as defined by the External Reporting Board.

#### *Measurement basis*

The financial statements have been prepared on a historical cost basis.

#### *Functional and presentation currency*

The financial statements are presented in New Zealand dollars, and all values are rounded to the nearest thousand dollars (\$000) unless otherwise specified. The functional currency of REA is New Zealand dollars.

### Significant accounting policies

The following accounting policies that materially affect the measurement of comprehensive revenue and expenditure and financial position have been applied.

#### *Revenue*

REA derives revenue through an annual charge to real estate licensees, the sale of publications, interest on funds held at approved institutions and the receipt of fees and fines. The annual charge to real estate licensees has two components: an operational levy to cover the ongoing service provision of REA, which is recognised as revenue, and a disciplinary levy that is transferred to the Ministry of Justice to provide funding for the Disciplinary Tribunal, which is not recognised as revenue. In addition, an application fee is charged to recover the additional costs for new licence applications. REA also charges a fee for suspending a licence.

Under PBE IPSAS 9, REA considers the revenue generated from operating levies to be exchange in nature as it is consideration for goods and services that REA provides to licensed members and approximates the fair value of those transactions.

Operating levy revenue is recognised over a 12-month period from the date of renewal or application. Revenue not recognised in the financial year the operating levy is received is deferred to the following financial year.

Application fees, manual processing fees and suspension fees are recognised when due and received. Revenue is measured at the fair value of consideration received or receivable.

### *Fines*

Section 75 and section 100 of the Real Estate Agents Act 2008 allow the establishment of Complaints Assessment Committees and the Real Estate Disciplinary Tribunal. The Committees and Tribunal make decisions on complaints, which can result in an order to pay a fine. Fines revenue is classified as non-exchange in nature and is recognised when due and receivable.

### *Sale of publications*

Section 127 of the Real Estate Agents Act 2008 requires licensees to provide a copy of an approved guide to their clients. These guides are provided to licensees on a cost-recovery basis by REA. Revenue from the sale of publications is classified as exchange in nature and is recognised when the significant risks and rewards of ownership of the goods have passed to the licensee, usually on receipt of the funds.

### *Interest*

Interest is recognised using the effective interest rate method and recognised in the period to which it relates.

### **Leases**

Leases that do not transfer substantially all the risks and rewards incidental to ownership of an asset to REA are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis, over the term of the lease, in the statement of comprehensive revenue and expense.

### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand and deposits held on call with banks and other short-term, highly liquid investments with maturities of three months or less.

### **Investments**

Investments include deposits held with banks with original maturities greater than three months but less than one year.

Investments in bank deposits are initially measured at fair value plus transaction costs. After initial recognition, investments in bank deposits are measured at amortised cost using the effective interest rate method, less any provision for impairment. Impairment is established when there is objective evidence REA will not be able to collect amounts due according to the original terms of the deposit. Significant financial difficulties of the bank, probability the bank will enter into receivership or liquidation and default in payments are considered indicators the deposit is impaired.

### **Debtors and other receivables**

Debtors and other receivables, comprising trade debtors and accrued interest, are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment.

Impairment of a receivable is established when there is objective evidence that REA will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership or liquidation and default in payments are considered indicators that the debt is impaired.

The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate.

The carrying amount of the asset is reduced through the use of an impairment allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible, it is written off against the impairment allowance account for receivables.

### **Inventories**

Inventories are valued at the lower of cost (using the first in, first out method) and net realisable value. The amount of any write-down for the loss of service potential or from cost to net realisable value is recognised in surplus or deficit in the period of the write-down.

### **Property, plant and equipment**

Property, plant and equipment consist of leasehold improvements, computer equipment, furniture and office equipment.

#### *Additions*

The cost of an item of property, plant and equipment is recognised as an asset only when its probable future economic benefits or service potential associated with the item will flow to REA and the cost of the item can be measured reliably.

#### *Disposals*

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the assets. Gains and losses on disposals are included in the statement of comprehensive revenue and expense.

#### *Subsequent costs*

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to REA and the cost of the item can be measured reliably. Costs of day-to-day servicing of property, plant and equipment are recognised in the statement of comprehensive revenue and expense as they are incurred.

#### *Depreciation*

Property, plant and equipment are depreciated at rates that will write off the cost of the assets to their estimated residual value over their useful life. The useful lives and associated depreciation rates used in the preparation of these statements are as follows:

- Leasehold improvements                      4 years                      25% straight line
- Computer equipment                            3 years                      33% straight line
- Furniture and office equipment              5 years                      20% straight line

### **Intangible assets**

#### *Capital work in progress*

Capital work in progress consists of expenditure on assets that has not yet been completed. This expenditure will not be amortised until the asset is in a workable condition.

#### *Software acquisition and development*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated directly with the development of software for the internal use of REA are recognised as an intangible asset. Direct costs include the software development and consultants' costs. Costs associated with maintaining computer software are recognised as an expense when incurred.

### *Amortisation*

The carrying value of software with a finite life is amortised on a straight-line basis over its useful life. Amortisation commences when the asset is available for use and ceases when the asset is derecognised. The amortisation charge for each period is recognised in the statement of comprehensive revenue and expense. The useful lives and associated amortisation rates used in the preparation of these statements have been estimated as follows:

- Acquired and developed software    3–5 years    20–33% straight line

The above treatment has been adopted for all items of acquired and developed software.

### **Impairment of non-financial assets**

Property, plant and equipment and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of an asset's fair value, less costs to sell and value in use. The value in use is the depreciated replacement cost.

### **Creditors and other payables**

Creditors and other payables are initially recognised at fair value and subsequently measured at amortised cost.

### **Employee entitlements**

Provision is made in respect of liability for annual leave that is expected to be settled within 12 months of balance date (or approval is gained to carry forward leave) and measured at undiscounted nominal values based on an actual entitlement basis at current rates of pay.

### **Superannuation schemes**

Obligations for contributions to KiwiSaver are accounted for as defined contribution superannuation schemes and recognised as an expense in the statement of comprehensive revenue and expense as incurred.

### **Goods and services tax**

The financial statements are prepared on a GST-exclusive basis, except accounts receivable and accounts payable, which are prepared on a GST-inclusive basis.

### **Taxation**

REA is a public authority in terms of the Income Tax Act 2007 and consequently is exempt from income tax.

### **Financial instruments**

REA is party to a variety of financial instruments as part of its normal operations. A financial instrument is any contract that gives rise to both a (recognised or unrecognised) financial asset of one entity and a (recognised or unrecognised) financial liability of another entity or is any contract that demonstrates residual interest in the assets of an entity after deducting all its liabilities. These financial instruments include bank accounts, short-term deposits, accounts payable and accounts receivable. All financial instruments are recognised in the statement of financial position, and all revenue and expenses in relation to financial instruments are recognised in the statement of comprehensive revenue and expense.

### Statement of cash flows

The statement of cash flows is prepared exclusive of GST, which is consistent with the method used in the statement of comprehensive income.

Cash flows are classified into three activities:

- Operating activities include cash received from all revenue sources.
- Investing activities include cash received for sale and cash payments made for the purchase of investments and any other non-current assets.
- Financing activities include capital contributions and other transactions relating to changes in equity of REA.

### Equity

Equity for REA is comprised of surpluses less any deficits incurred through operations and a litigation reserve for extraordinary unanticipated legal expenses.

### Changes in accounting policies

There have been no changes in accounting policies during the financial year. The accounting policies have been consistently applied throughout the periods of the financial statements.

### Critical judgements in applying REA's accounting policies

In the application of IPSAS, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors believed reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised:

- in the period the estimate is revised
- if the revision affects only that period or in the period of the revision and future periods
- if the revision affects both current and future periods.

Judgements made by management in the application of IPSAS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the significant assumptions section on page 15 of this Statement of Performance Expectations.

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