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# Statement of Performance Expectations

2018/19

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30 June 2018



## 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 outcome also contributes to the justice sector outcome of *a safe and just society*.

The Statement of Performance Expectations (SPE) is one of two documents that set 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 2018 to 30 June 2019. It is prepared in line with the Crown Entities Act 2004 and should be read together with our Statement of Intent.

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 2018



Marion Cowden

**Chair**

Audit and Risk Subcommittee

30 June 2018

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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 towards this outcome is to help empowered consumers work with trusted real estate professionals.

### REA’s strategic framework

The strategic framework outlines our vision, overarching strategic goal and priorities for the next three years. 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 them and how these 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 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	Consumers are better educated and informed
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

## The impacts we are seeking

During 2018/19, REA will 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. Consumers are better educated and informed
- Impact 3. Increased professionalism and public confidence
- Impact 4. Increased awareness and understanding of REA

We expect that the implementation of our strategy will help lead to a significant improvement in our impacts over the next three years. This is reflected in our aspirational targets for 2021. In particular, we will invest in initiatives and activities that help lift consumer awareness of REA and the use of REA websites and resources. This will help us to reach consumers and support better educating, informing and empowering them – particularly vulnerable consumer groups. This 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 2016/17	FORECAST 2017/18	TARGET 2018/19	TARGET 2021
1. Reduced consumer harm	Percentage of active licensees during the financial year that receive decisions of unsatisfactory conduct or serious misconduct	0.95%	<1.0%	<1.0%	<1.0%
	Percentage of consumers <sup>1</sup> who experienced problems or issues	22%	21%	20%	<20%
2. Consumers are better educated and informed	Percentage of consumers who consider they have high levels <sup>2</sup> of knowledge about their rights and obligations with respect to real estate transactions	42%	43%	45%	52%
	Percentage of consumers who consider they have high levels <sup>3</sup> of knowledge about the real estate transaction process	45%	46%	48%	55%
3. Increased professionalism and public confidence	Percentage of consumers who have high levels <sup>4</sup> of confidence that the real estate industry is professional	49%	50%	51%	55%
4. Increased awareness and understanding of REA	Percentage of consumers who know what REA does <sup>5</sup>	31%	32%	34%	40%
	Percentage of consumers who are aware of settled.govt.nz	-	-	Measure in Jul-18	50%

1 Respondents who have participated in a real estate transaction in the last 12 months.

2 Respondents who answered 'reasonably knowledgeable' or 'very knowledgeable' about their rights and obligations in real estate transactions.

3 Respondents who answered 'reasonable knowledge' or 'a lot of knowledge' about the real estate transaction process.

4 Respondents who answered 'reasonable confidence' or 'a lot of confidence' with respect to the real estate industry being professional.

5 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 and understand the causes of consumer harm. We will work both independently and collaboratively with the sector to reduce or prevent consumer harm.

We will contribute to this impact through the following output:

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

#### *Key programmes of work during 2018/19:*

- Deliver targeted consumer campaigns and interventions to reduce harm

### Impact 2. Consumers are better educated and informed

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

Position our settled.govt.nz brand as the source of independent and trusted information and guidance for buyers and sellers. We will educate and inform consumers about the real estate process and their rights and responsibilities through targeted campaigns and investing in 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 programmes of work during 2018/19:*

- Develop tools and interactive experiences on settled.govt.nz
- Deliver targeted campaigns to educate and inform at-risk consumers

### Impact 3. Increased professionalism and public confidence

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

Build real estate industry capability, enhance continuous education, promote best practices, manage licensing, resolve and investigate complaints, monitor licensees behaviour, enforce the Act, improve licensees' skills and knowledge, increase the public's perception of industry professionalism and public confidence in the industry, and continuously improve the efficiency and effectiveness of our 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 programmes of work during 2018/19:*

- Develop resources and tools for the REA website
- Deliver the continuing professional development programme
- Deliver industry campaigns 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 both 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 programmes of work during 2018/19:*

- Develop and leverage stakeholder relationships
- Promote REA and settled.govt.nz to increase awareness



## Alignment of initiatives to strategy

During 2018/19, our key initiatives will benefit multiple strategic priorities.

### REA's initiatives aligned to strategy.

KEY INITIATIVES IN 2018/19	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
<ul style="list-style-type: none"> <li>★ Primary benefit from initiative</li> <li>✓ Secondary benefit from initiative</li> </ul>				
Deliver targeted consumer campaigns and interventions to reduce harm	★	✓	✓	
Develop tools and interactive experiences on settled.govt.nz	✓	★	✓	
Deliver targeted campaigns to educate and inform at-risk consumers	✓	★		
Develop resources and tools for the REA website	✓		★	
Deliver the continuing professional development programme	✓		★	
Deliver industry campaigns 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		2018/19 \$000
<b>Total revenue</b>		<b>11,153</b>
<hr/>		
<b>Output expenditure</b>		
<hr/>		
Educating and informing consumers, licensees and other stakeholders		4,223
<hr/>		
Licensing, enforcing and monitoring of the real estate industry		9,091
<hr/>		
<b>Total expenditure</b>		<b>13,314</b>
<hr/>		
<b>Total comprehensive revenue and expenditure</b>		<b>(2,161)</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, and the development of strategic partnerships with stakeholders.

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	AVERAGE 2014-17	ACTUAL 2016/17	TARGET 2018/19
<b>Quality</b>				
Percentage of consumers <sup>6</sup> who consider the residential property guides (agency agreement guide and sale and purchase agreement guide) useful	Consumer survey	87%	90%	90%
Percentage of consumers who found the information and guidance provided by REA useful <sup>7</sup>	Consumer survey	96%	92%	95%
Percentage of licensees who find REA's compliance guidance useful	Licensee survey	87%	88%	88%
Percentage of licensees who agree the continuing education programme has improved their knowledge and understanding of the topic area	Licensee survey	86%	86%	87%
Percentage of licensees who plan to make changes to their practice as a result of continuing education	Licensee survey	74%	77%	80%
Number of targeted campaigns to consumers	Internal reporting	1	2	4
Number of targeted campaigns or interventions for licensees <sup>8</sup>	Internal reporting	1	1	3
Total number of website sessions	Analytics	502,233	677,465	700,000
Number of settled.govt.nz website sessions <sup>9</sup>	Analytics	-	-	300,000

<sup>6</sup> Respondents of the annual survey who have participated in a real estate transaction in the last 12 months.

<sup>7</sup> Warning: There is a small sample size in relation to this measure in the annual consumer survey.

<sup>8</sup> Revised measure for 2018/19.

<sup>9</sup> New measure for 2018/19.

## 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	AVERAGE 2014-17	ACTUAL 2016/17	TARGET 2018/19
<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	Complaints survey	54%	58%	45% <sup>10</sup>
Percentage of Complaints Assessment Committee decisions that meet quality standards	External review	86%	81%	85%
<b>Timeliness</b>				
Percentage of new applications for licences processed within three weeks	Internal reporting	86%	84%	90%
Percentage of renewal applications for licences processed within two weeks	Internal reporting	98%	97%	98%
Percentage of complaints completed within one month	Internal reporting	28%	14%	45%
Percentage of complaints completed within six months	Internal reporting	63%	67%	75%
Percentage of complaints completed within one year	Internal reporting	84%	84%	95%

<sup>10</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.

## Forecast financial statements

### Statement of significant assumptions

REA has made a number of 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 15,400 active licensees will be registered with REA for each year of the period 2018/19 to 2020/21. As at 31 March 2018 there are 15,955 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 2018/19, REA forecasts a positive equity position of \$2.551 million.

#### *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 \$1.324 million incurred across the year.

#### *Revenue and licensee volumes*

Total active licensees at 30 June 2019 are expected to be 15,400. The revenue recognised in 2018/19 from these licensees is estimated to be \$4.392 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 \$5.677 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

	2018/19 \$000	2019/20 \$000	2020/21 \$000
<b>Revenue</b>			
Operating levy received	9,729	9,195	9,195
Approved guide sales	46	46	46
Application and suspension fees	939	938	938
Other revenue	439	439	439
<b>Total revenue</b>	<b>11,153</b>	<b>10,618</b>	<b>10,618</b>
<b>Expenditure</b>			
Audit fee	60	60	60
Personnel costs	5,677	5,450	5,533
Depreciation	89	114	105
Amortisation	1,179	1,128	732
Specialist services	2,701	1,362	1,385
Legal fees	1,125	1,049	1,049
Board fees	160	163	166
Complaints Assessment Committee fees	380	387	395
Computer and telecommunications	1,241	1,236	1,236
Printing, stationery and postage	55	55	55
Travel, meetings and entertainment	327	327	328
Occupancy	296	439	439
Miscellaneous expenses	24	25	24
<b>Total expenditure</b>	<b>13,314</b>	<b>11,795</b>	<b>11,507</b>
<b>Total comprehensive revenue and expense</b>	<b>(2,161)</b>	<b>(1,177)</b>	<b>(889)</b>

## Forecast statement of financial position

as at 30 June

	2018/19 \$000	2019/20 \$000	2020/21 \$000
<b>Current assets</b>			
Cash and cash equivalents	370	667	1,317
Investments	5,331	4,831	3,831
Debtors and other receivables	98	98	98
Prepayments	95	97	98
GST receivable/(payable)	14	72	167
Approved guide stock	40	41	42
<b>Total current assets</b>	<b>5,948</b>	<b>5,806</b>	<b>5,553</b>
<b>Non-current assets</b>			
Property, plant and equipment	480	391	311
Intangible assets	2,319	1,441	959
<b>Total non-current assets</b>	<b>2,799</b>	<b>1,832</b>	<b>1,270</b>
<b>Total assets</b>	<b>8,747</b>	<b>7,638</b>	<b>6,823</b>
<b>Liabilities</b>			
Trade creditors and accruals	872	937	1,009
Employee entitlements	123	126	128
Deferred operating levy	5,176	5,176	5,176
Establishment funding from the Crown	0	0	0
Disciplinary levy payable	25	25	25
<b>Total current liabilities</b>	<b>6,196</b>	<b>6,264</b>	<b>6,338</b>
<b>Term liabilities</b>			
Establishment funding from the Crown	-	-	-
<b>Total term liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>	<b>6,196</b>	<b>6,264</b>	<b>6,338</b>
<b>Net assets/equity</b>	<b>2,551</b>	<b>1,374</b>	<b>485</b>
<b>Public equity</b>			
Crown funding	-	-	-
Retained earnings	4,462	2,301	1,124
Litigation reserve	250	250	250
Current year surplus/(deficit)	(2,161)	(1,177)	(889)
<b>Total public equity</b>	<b>2,551</b>	<b>1,374</b>	<b>485</b>

## Forecast statement of cash flows

for the years ended 30 June

	2018/19 \$000	2019/20 \$000	2020/21 \$000
<b>Cash flows from operating activities</b>			
<b>Cash was provided from:</b>			
Receipts from licensees	8,353	9,569	9,569
Receipts from sale of publications	46	46	46
Interest received	180	180	180
Receipts from suspension fees	564	564	564
Receipts from fines	259	259	259
<b>Cash was applied to:</b>			
Payments to suppliers	(6,716)	(5,189)	(5,222)
Payments to employees	(5,253)	(5,307)	(5,386)
Interest paid	-	-	-
Net GST received/(paid)	30	(50)	(85)
<b>Net cash flows from operating activities</b>	<b>(2,537)</b>	<b>72</b>	<b>(75)</b>
<b>Cash flows from investing activities</b>			
<b>Cash was provided from:</b>			
Receipts from investments in term deposits	2,000	1,000	1,000
<b>Cash was applied to:</b>			
Purchase of property, plant and equipment	(285)	(25)	(25)
Purchase of intangible assets	(1,039)	(250)	(250)
Investment in term deposits	-	(500)	-
<b>Net cash flows from investing activities</b>	<b>676</b>	<b>225</b>	<b>725</b>
<b>Cash flows from financing activities</b>			
<b>Cash was provided from:</b>			
<b>Cash was applied to:</b>			
Repayment of establishment funding to the Crown	-	-	-
<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>(1,861)</b>	<b>297</b>	<b>650</b>
<b>Opening cash and cash equivalents</b>	<b>2,231</b>	<b>370</b>	<b>667</b>
<b>Closing cash and cash equivalents</b>	<b>370</b>	<b>667</b>	<b>1,317</b>



## Forecast statement of changes in equity

for the years ended 30 June

	2018/19 \$000	2019/20 \$000	2020/21 \$000
Public equity as at 1 July	4,712	2,551	1,374
Total comprehensive revenue and expense	(2,161)	(1,177)	(889)
Repayment of capital funding	-	-	-
<b>Total public equity as at 30 June</b>	<b>2,551</b>	<b>1,374</b>	<b>485</b>
<b>Comprised of the following funds:</b>			
Capital funding from the Crown as at 1 July	-	-	-
Repayment of capital funding	-	-	-
<b>Total Capital funding from the Crown</b>	<b>-</b>	<b>-</b>	<b>-</b>
Retained earnings as at 1 July	4,462	2,301	1,124
Total comprehensive revenue and expense	(2,161)	(1,177)	(889)
<b>Total retained earnings</b>	<b>2,301</b>	<b>1,124</b>	<b>235</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>

## 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 except for establishment funding from the Crown, which has been measured at fair value on inception.

#### *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 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 are 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 goods 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.

### **Establishment funding**

The Crown provided establishment funding to be repaid over a period of five years ending April 2016. Any interest expense has been recognised in the statement of comprehensive revenue and expense in accordance with the associated effective interest rate.

### **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 13 of this Statement of Performance Expectations.



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