
Statement of Performance Expectations

2020/21

June 2020





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Presented to the House of Representatives
Pursuant to section 139 of the Crown Entities Act 2004

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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 set out how we will measure our future performance and report on the progress of that performance against our targets.

The other document is the Statement of Intent 2020/21 to 2024/25, 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 2020 to 30 June 2021. 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 prospective financial statements and non-financial performance measures.

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



Denese Bates QC
Board Chair
16 June 2020



Marion Cowden
Board Member
16 June 2020

Our regulatory responsibility

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

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.

Consumers will have more confidence in the real estate industry if licensees are professional and competent and if there are effective processes for redress when things go wrong.

We help build industry capability by:

- promoting best practice
- providing information and guidance to consumers and licensees
- raising professional standards
- managing licensing and complaints
- monitoring and enforcing licensee behaviour.

We increase public confidence by holding poor behaviour to account, delivering interventions that aim to reduce or prevent consumer harm and promoting and improving industry professionalism.

Our strategy

From our beginnings in late 2009, we have evolved from a new entity to a well-established regulator that is making a positive difference by building industry capability and professionalism and helping to protect and promote the interests of consumers.

The following strategic framework outlines our vision, overarching strategic goal and strategic priorities.



Our strategic goal

Empowered consumers working with trusted real estate professionals

Our strategic priorities (impacts)

1. Reduced consumer harm
2. Better educated and informed consumers
3. Increased professionalism and public confidence
4. Increased awareness and understanding of REA

Our outputs

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

Our outcomes

We support the outcomes of the government by working to enable the outcome of empowered consumers working with trusted real estate professionals.

A better real estate experience for all

Our vision statement is a powerful aspiration. 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 us.

Empowered consumers working with trusted real estate professionals

Delivering on this goal is about ensuring that everyone involved in real estate transactions is well informed and feels empowered to make the right decisions based on their situation.

It is also about working collaboratively with the industry to increase professionalism and trust and reduce levels of dissatisfaction, harm or loss for those involved.

The effects of the COVID-19 pandemic

It is difficult to assess the extent of the effects of the COVID-19 pandemic but there is likely to be a significant effect on the economy, the property market, the way the industry operates and REA's operating environment.

To help mitigate the short-term effects of COVID-19 on the industry, REA allowed licensees to suspend their licence at no cost. REA also allowed licensees who were due to renew their licence from March to May 2020 to defer renewal for three months.

As a result, REA is deferring numerous initiatives originally planned for 2020/21, particularly marketing campaigns targeting vulnerable consumer groups. While this will create cost savings, it will also likely affect REA's ability to achieve some SPE impact measures – in particular, targets relating to educating and informing consumers and awareness of REA and settled.govt.nz.

Advancing our impacts

Impact 1. Reduced consumer harm

Buying and selling property is one of the most significant financial 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.



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 2020/21 include:

- 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 2020/21:

- Gain a deeper understanding of what drives industry behaviour

Impact 2. Better educated and informed consumers

The real estate market involves many organisations that promote products and services to home buyers and sellers. Consumers need access to independent, relevant and trusted information to be better informed about the process, risks and issues related to real estate transactions.



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 2020/21:

- Promote awareness and use of settled.govt.nz for consumer information and guidance
- Deliver targeted campaigns to educate and inform vulnerable consumer groups

Impact 3. Increased professionalism and public confidence

Public confidence in the real estate industry will be increased if the sector is made up of professional, competent licensees and if 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, monitor conduct and enforce rules and regulations.



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 2020/21:

- Deliver targeted interventions to increase professionalism and desired behaviours
- Enhance the quality and accessibility of guidance for licensees

Impact 4: Increased awareness and understanding of REA

We position ourselves as the independent, trusted and authoritative source of information and guidance for consumers and licensees. Consumers have had a relatively low awareness of REA's brands and role, which is why it's important to raise REA's profile so we can reach buyers and sellers to educate and inform them and help resolve issues. Awareness and understanding of REA and settled.govt.nz are increasing.



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 the 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 2020/21:

- Engage and collaborate with industry and broader property-system stakeholder groups to support REA's goals
- Promote awareness and understanding of REA and its regulatory position

We expect that implementing our strategy will lead to improvements in the results we are seeking through to 2025. We will invest in initiatives that reduce or resolve specific and systemic 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 and 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 and targeted interventions, supports our work to reduce consumer harm and increase industry professionalism.

Aligning initiatives to the strategy

During 2020/21, our key initiatives will benefit multiple strategic priorities.

KEY INITIATIVES 2020/21	IMPACT 1	IMPACT 2	IMPACT 3	IMPACT 4
Gain a deeper understanding of what drives industry behaviour	★		✓	
Promote awareness and use of settled.govt.nz for consumer information and guidance	✓	★	✓	
Deliver targeted campaigns to educate and inform vulnerable consumer groups	✓	★		
Deliver targeted interventions to increase professionalism and desired behaviours	✓	✓	★	
Enhance the quality and accessibility of guidance for licensees	✓		★	
Engage and collaborate with industry and broader property-system stakeholder groups to support REA's goals	✓		✓	★
Promote awareness and understanding of REA and its regulatory position	✓	✓	✓	★

Impact 1: Reduced consumer harm

Impact 2: Better educated and informed consumers

Impact 3: Increased professionalism and public confidence

Impact 4: Increased awareness and understanding of REA

★ Primary benefit

✓ Secondary benefit

Measuring impact performance

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

IMPACTS	INDICATORS	ACTUAL 2017/18	ACTUAL 2018/19	FORECAST 2019/20	TARGET 2020/21
Reduced consumer harm	Percentage of active licensees who don't receive decisions of unsatisfactory conduct or serious misconduct ¹	99%	99%	<1.0%	>99%
	Percentage of consumers who experienced issues or problems with respect to the real estate agent ²	n/a	8%	<15%	<10%
Better educated and informed consumers	Percentage of consumers who consider they are knowledgeable about the real estate transaction process ³	87%	85%	85%	>85%
Increased professionalism and public confidence	Percentage of consumers who have confidence that the real estate industry is professional ⁴	87%	84%	85%	>85%
Increased awareness and understanding of the REA	Percentage of consumers who know what REA does	34%	36%	37%	38%
	Percentage of consumers who are aware of settled.govt.nz	n/a	23% ⁵	30%	33%

¹ We have changed this to be a positive indicator. The previous measure was: Percentage of active licensees who receive decisions of unsatisfactory conduct or serious misconduct.

² This is a new measure for 2020/21. The previous measure was: Percentage of consumers who experienced issues or problems during their real estate transactions. The measure was changed to exclude other issues and problems, for example, financing or failing to buy/sell.

³ Consumers who consider they are somewhat to very knowledgeable, i.e. a rating of 3, 4 or 5 on a scale of 1-5.

⁴ Consumers who have some to a lot of confidence that the sector is professional, i.e. a rating of 3, 4 or 5 on a scale of 1-5.

⁵ 2018/19 was the first full year for this measure after the brand was launched in February 2018.

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 areas of results:

- 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	ACTUAL 2018/19 \$000	BUDGET 2019/20 \$000	BUDGET 2020/21 \$000
Total revenue	10,879	10,330	10,072
<hr/>			
Output expenditure			
Educating and informing consumers, licensees and other stakeholders	3,738	3,929	3,792
Licensing, enforcing and monitoring of the real estate industry	7,971	9,039	8,209
Total expenditure	11,709	12,968	12,001
Total comprehensive revenue and expenditure	(830)	(2,638)	(1,929)

REA has planned deficits to reduce cash holdings to a more prudent level.

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:

- identifying and understanding the causes of consumer harm
- understanding the drivers of industry behaviour
- developing targeted campaigns to reduce or prevent consumer harm
- providing relevant and accessible information to help educate consumers
- informing and advising licensees about their responsibilities
- providing best-practice guidance for licensees
- managing the continuing professional development programme, overseeing the development of training material, monitoring licensee compliance with annual requirements and auditing training providers
- developing strategic partnerships with stakeholders
- raising awareness of REA and settled.govt.nz.



Output 1 primarily contributes to:

- **Impact 1. Reduced consumer harm**
- **Impact 2. Better educated and informed consumers**
- **Impact 4. Increased awareness and understanding of REA**

Output 1: Assessing performance

MEASURES	ACTUAL 2017/18	ACTUAL 2018/19	FORECAST 2019/20	TARGET 2020/21
Quality				
Percentage of consumers who find the information and guidance provided by REA useful	91%	95%	90%	>90%
Percentage of licensees who find REA's compliance guidance useful	92%	93%	90%	>90%
Percentage of licensees who agree that continuing professional development has improved their knowledge and understanding of the topic area	83%	85%	87%	>85%
Number of rea.govt.nz website sessions per year	n/a	288,958 ⁶	300,000	300,000
Number of settled.govt.nz website sessions each year	n/a	691,704 ⁷	450,000	>750,000

⁶ This result is for 2018/19 only – the first full year after the new rea.govt.nz website was launched in February 2018.

⁷ This result is for 2018/19 only – the first full year after the settled.govt.nz website was launched in February 2018.

Output 2: Licensing, enforcing and monitoring 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 Complaints Assessment Committees, the Tribunal and court activities.

Output 2 primarily contributes to:

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

Output 2: Assessing performance

MEASURES	ACTUAL 2017/18	ACTUAL 2018/19	FORECAST 2019/20	TARGET 2020/21
Quality				
Percentage of applications approved where licensees at the time of approval are fit and proper and meet the required professional standards	100%	100%	100%	100%
Percentage of complainants and respondents who consider the complaints process independent, fair and transparent	46%	66%	60%	60%
Timeliness				
Percentage of new applications processed within three weeks	88%	89%	85%	85%
Percentage of renewal applications processed within two weeks	98%	98%	98%	98%
Percentage of complaints enquiries resolved through early resolution within one month	98%	95%	95%	95%
Percentage of complaints completed through early resolution within three months	79%	85%	95%	95%
Percentage of complaints completed within one year	90%	89%	90%	90%

Prospective financial statements

Statement of significant assumptions

REA has made several assumptions to develop these prospective 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 section below.

Specific assumptions

The number of licences significantly affects projected revenue. For budget purposes, it has been assumed that, due to the impact of COVID-19, the number of active licensees will reduce and that 14,500 active licensees will be registered with REA for the period 2020/21. As of 31 March 2020, there are 15,512 active licensees registered.

Revenue

REA reviewed the licence fees structure, and amendments became effective on 1 February 2017. The statement of prospective 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 statement of prospective comprehensive revenue and expense assumes no change to the licence fee over the period presented.

Additional information

Equity

At the end of 2020/21, REA forecasts a declining equity position. However, this does not impact REA's liquidity as there is enough cash to pay current liabilities.

The declining equity position has arisen due to two factors:

- REA has planned deficits to reduce cash holdings to a more prudent level.
- 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 \$4.941 million as at the end of 2020/21, noting that REA only refunds the levy in exceptional circumstances (such as the death of a licensee).

Statement of prospective comprehensive revenue and expense

for the years ended 30 June

	Actual 2018/19 \$000	Budget 2019/20 \$000	Budget 2020/21 \$000
Revenue			
Operating levy received	9,292	8,973	8,874
Approved guide sales		46	4
Application and suspension fees	866	872	437
Other revenue	721	439	757
Total revenue	10,879	10,330	10,072
Expenditure			
Audit fee	56	60	60
Personnel costs	5,395	5,783	5,908
Depreciation	76	142	156
Amortisation	1,045	994	615
Specialist services	2,027	2,315	2,094
Legal fees	914	882	672
Board fees	140	160	149
Complaints Assessment Committee fees	351	380	355
Computer and telecommunications	877	1,350	1,264
Printing, stationery and postage	104	57	43
Travel, meetings and entertainment	232	366	199
Occupancy	432	452	456
Miscellaneous expenses	60	27	30
Total expenditure	11,709	12,968	12,001
Total comprehensive revenue and expense	(830)	(2,638)	(1,929)

Statement of prospective financial position as at 30 June

	Actual 2018/19 \$000	Budget 2019/20 \$000	Budget 2020/21 \$000
Current assets			
Cash and cash equivalents	6,152	670	1,445
Investments	2,279	4,468	4,562
Debtors and other receivables	66	64	57
Prepayments	95	46	135
GST receivable/(payable)	(1)	(11)	17
Approved guide stock	15	33	16
Total current assets	8,606	5,270	6,232
Non-current assets			
Property, plant and equipment	518	373	277
Intangible assets	1,502	2,039	552
Total non-current assets	2,020	2,412	829
Total assets	10,626	7,682	7,061
Liabilities			
Trade creditors and accruals	806	1,259	1,481
Employee entitlements	190	180	204
Deferred operating levy	5,380	5,210	4,941
Disciplinary levy payable	-	33	29
Total current liabilities	6,376	6,682	6,655
Total liabilities	6,376	6,682	6,655
Net assets/equity	4,250	1,000	406
Public equity			
Retained earnings	4,000	3,388	2,085
Litigation reserve	250	250	250
Current year surplus/(deficit)		(2,638)	(1,929)
Total public equity	4,250	1,000	406

Statement of prospective changes in equity for the years ended 30 June

	Actual 2018/19 \$000	Budget 2019/20 \$000	Budget 2020/21 \$000
Public equity as at 1 July	5,080	3,638	2,335
Total comprehensive revenue and expense	(830)	(2,638)	(1,929)
Total public equity as at 30 June	4,250	1,000	406
Comprised of the following funds:			
Retained earnings as at 1 July	4,830	3,388	2,085
Total comprehensive revenue and expense	(830)	(2,638)	(1,929)
Total retained earnings	4,000	750	156
Litigation reserve as at 1 July	250	250	250
Movement in litigation reserve	-	-	-
Total litigation reserve	250	250	250

Statement of prospective cash flows for the years ended 30 June

	Actual 2018/19 \$000	Budget 2019/20 \$000	Budget 2020/21 \$000
Cash flows from operating activities			
Cash was provided from:			
Receipts from licensees	9,430	8,306	10,048
Receipts from sale of publications	191	46	4
Interest received	218	180	60
Receipts from suspension fees	519	507	74
Receipts from fines	294	259	100
Cash was applied to:			
Payments to suppliers	(5,272)	(6,671)	(5,685)
Payments to employees	(5,225)	(5,202)	(5,370)
Net GST received/(paid)	(14)	46	50
Net cash flows from operating activities	141	(2,529)	(719)
Cash flows from investing activities			
Cash was provided from:			
Receipts from investments in term deposits	3,041	3,000	1,000
Cash was applied to:			
Purchase of property, plant and equipment	(506)	(35)	(38)
Purchase of intangible assets	(288)	(1,204)	(463)
Investment in term deposits	-	-	-
Net cash flows from investing activities	2,247	1,761	499
Net increase/(decrease) in cash and cash equivalents	2,388	(768)	(220)
Opening cash and cash equivalents	3,764	1,438	1,665
Closing cash and cash equivalents	6,152	670	1,445

Statement of accounting policies

Reporting entity

These are the prospective 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 6 of the Statement of Intent 2020/21 to 2024/25. 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 periods, 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.

Operational levy

In establishing the appropriate revenue recognition policy for the operational levy, management has considered whether the revenue is exchange (covered by PBE IPSAS 9) or non-exchange (covered by PBE IPSAS 23) in nature, the classification of which determines when revenue from the operational levy is recognised. This decision requires significant judgement.

In making a judgement as to the appropriate policy, management considered whether there is a direct exchange of economic benefits or services to licensed members and whether the levy approximates a fair value of this exchange. Based on the benefits provided to members of REA including resources for agents, continuing education, industry regulation and research, management has determined the services provided are of approximate equal value to the operational levy charged. Therefore, the operational levy is accounted for as exchange revenue and PBE IPSAS 9 applies.

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 prospective 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, the probability the bank will enter into receivership or liquidation and default on 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 prospective 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 prospective 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 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 prospective 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 3–4 years 25–33% 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 prospective 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 prospective financial position, and all revenue and expenses in relation to financial instruments are recognised in the statement of prospective comprehensive revenue and expense.

Statement of prospective cash flows

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

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 14 of this Statement of Performance Expectations.

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