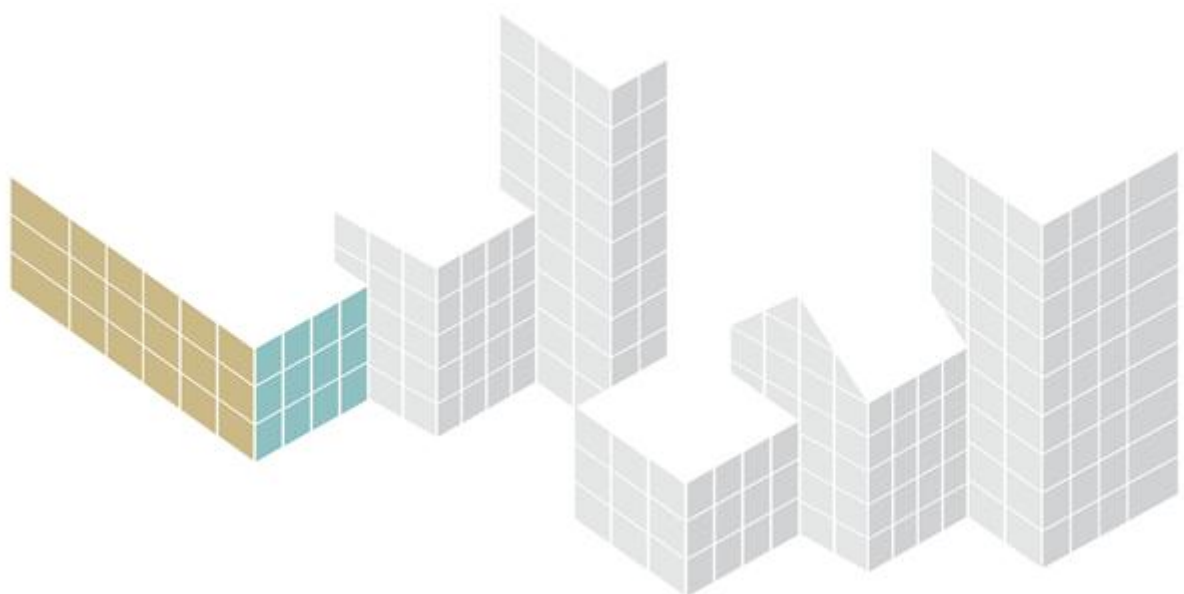


Real Estate Agents Authority

Statement of Intent

2011-2014



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Introduction from the Board Chair

I am pleased to present this 2011–2014 Statement of Intent for the Real Estate Agents Authority (the Authority). The Authority has been operational for over eighteen months and has worked to put systems and processes in place that help to increase public confidence in the real estate industry.

We have continued to focus on promoting professionalism and greater transparency, compliance, monitoring and enforcement in one of the most important sectors of the New Zealand economy. Our work is in three key areas:

- maintaining a set of rules that raise professional standards, and promote and protect the interests of consumers in real estate transactions
- ensuring an effective licensing process for real estate licensees (licensees)
- maximising compliance with the Real Estate Agents Act 2008, including holding licensees to account for their actions.

The economic situation continues to present challenges to the real estate industry. A lower volume of property transactions and the Christchurch earthquakes have significantly reduced the number of active licensees at the beginning of the 2011-2014. period. In the face of these challenges, the Authority continues to focus on efficient and effective services that provide value for money.

We are continuing to refine the way we regulate the real estate industry, for the benefit of consumers. Our licensing and complaints processes have been a major focus since commencing operation in November 2009. We intend to continue that focus with an emphasis on improving efficiency. For example, while all matters raised by consumers will be considered by the Authority, some may not need to be pursued as complaints requiring the attention of Complaints Assessment Committees. We will include a wider range of responses to consumer concerns, such as compliance advice letters, warnings, mediation, and information campaigns to ensure that issues are dealt with effectively and industry standards continue to improve.

This means that the action we take will reflect the nature of the concerns we are dealing with and the way we expect licensees to respond. We expect the majority of licensees to meet the required standards voluntarily, while others will require assistance and some direction and a minority will need the full force of the law to ensure compliance with required standards.

This year the Authority will consult with its stakeholders about a continuing education framework that will aim to enhance professionalism in the industry. We will take a principled approach that requires specific education on topics that support consumers' interests and acknowledges self-directed learning that licensees choose to undertake.

Acknowledging the shared interest in improving consumer outcomes, we will work with industry leaders on emerging issues and on how licensees can work with the Authority to address these.

The knowledge gained in the first period of the Authority's operation has been important to inform how we should operate over the period of this Statement of Intent. I am confident that we will continue to build on our early achievements.



Kristy McDonald, QC

Authority Board's Statement of Responsibility

This Statement of Intent represents the intentions and objectives of the Real Estate Agents Authority. It is presented in accordance with sections 138 to 148 of the Crown Entities Act 2004.



Kristy McDonald, QC
Chair
Date 18 April 2011



Denise Bovaird
Board member
Date 18 April 2011

About the Authority

Establishment of the Authority

Consultation and research undertaken by the Ministry of Justice (the Ministry) before the development of the Real Estate Agents Act 2008 (the Act), and prior to the Authority's inception on 17 November 2009, indicated a need for independent oversight of the real estate industry. At that time, the Real Estate Institute of New Zealand (REINZ) operated a self-regulatory regime, established under the Real Estate Agents Act 1976.

Specifically, consultation and public feedback identified a need to raise standards to promote confidence in the industry and indicated that consumers needed more information to enable more informed decisions when buying or selling property. The consultation also showed that consumers expected an independent and transparent complaints process, accessible to all.

The Authority was then established as a Crown Entity with a consumer protection focus, independent from the real estate industry. Drawing on the purposes of the Act¹, the Authority's vision/high-level outcome is to increase public confidence in the real estate industry.

Nature and Scope of Functions

The Authority's functions² and responsibilities include:

- establishing, monitoring and developing entry, continuing education, professional conduct and client care standards for the real estate industry
- licensing real estate agents, branch managers and salespersons and maintaining a public register of licensees
- informing, educating, advising and influencing consumers and licensees to support the integrity of real estate transactions
- responding to enquiries and complaints, investigating problems in the real estate market and ensuring appropriate action is taken to sanction any unsatisfactory conduct, misconduct or illegal behaviour.

These functions and responsibilities are typical of independent regulatory and compliance organisations in New Zealand and internationally – they focus on both consumer protection and improvement of the way the industry operates.

¹ The purpose of the Act is to promote the interests of consumers in respect of transactions relating to real estate and to promote public confidence in the work of the real estate agency industry.

² The Authority's functions are set out in section 12 of the Act.

Operating Environment

The Real Estate Agents Authority Board

The Real Estate Agents Authority Board is comprised of seven members; at least two of whom are required to be licensees, or former licensees.

Kristy McDonald, QC was appointed Chairperson for the Authority in May 2009.

Funding and expenditure

The Authority and the Real Estate Agents Disciplinary Tribunal are fully funded by the real estate industry through annual levies and fees. Therefore, the number of licensees directly impacts the Authority's income. Based on renewals as at 31 March 2011, the Authority estimates the renewal of 12,500 licences and the suspension³ of 3,000 licences, up to 30 June 2011.

The Act provides for fees and levies to be imposed and adjusted to accommodate changes in costs. Subject to any extraordinary events, the Authority's goal is to restrict an industry levy to a maximum of \$690 (GST exclusive) per annum until at least the 2014/15 financial year. This means the Authority will need to manage expenditure carefully, in line with its reduced income.

Government goals

The Authority developed its strategy in light of the Government's goal to build a strong economy based on real enduring growth, and to provide New Zealanders with jobs, improved incomes and improved living standards. Based on this, the Authority will do what it can to ensure that New Zealand has a vibrant real estate market with well-informed buyers and sellers, serviced by licensees who operate with integrity.

Working for consumers

Consumers benefit from the Authority's work in three ways. First, buyers and sellers of real estate receive information produced by the Authority that informs them of their rights and obligations. Secondly, when things go wrong the Authority provides an avenue to address the public's enquiries or complaints, at no cost. Finally, the Authority aims to ensure that licensees' behaviour is consistent with consumers' reasonable expectations and interests.

Working with the industry

The Authority works with licensees directly in its licensing and compliance activities. At a broader level it interacts with industry participants and representative groups to maintain and continually improve its knowledge of current and emerging industry practice.

³ Voluntarily suspension is available for licensees to put a hold on their license, for a nominal fee.

Working with other agencies

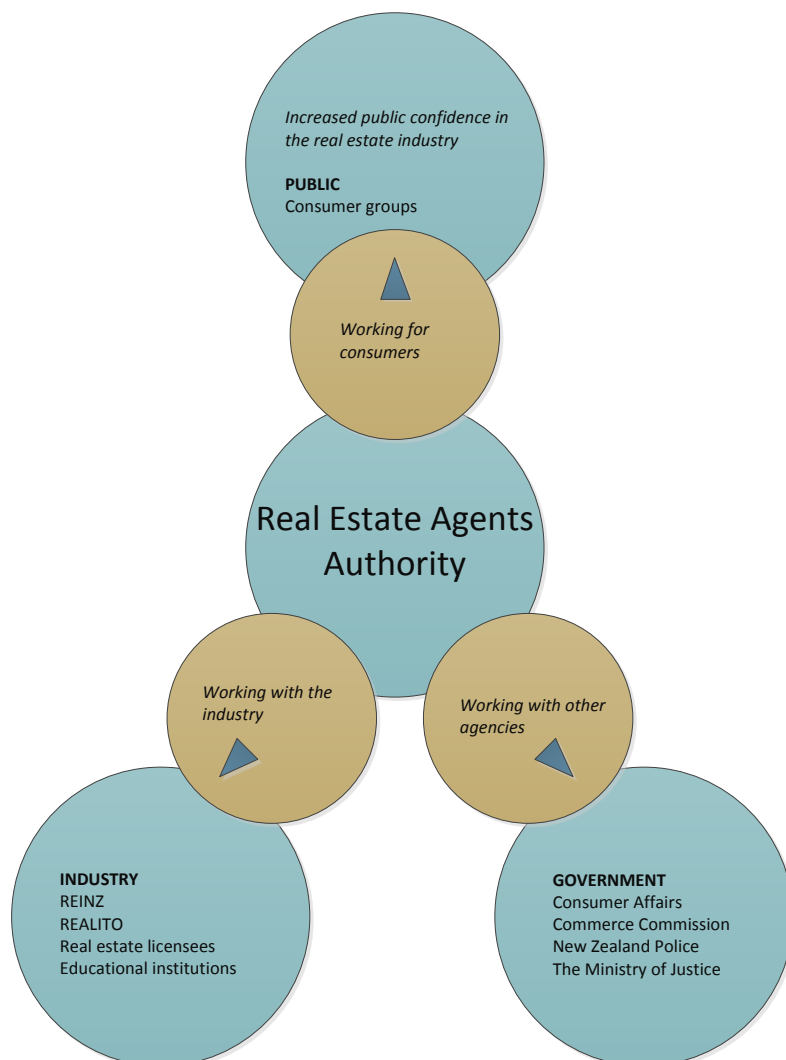
The Authority draws on all its relationships to support an intelligence-led⁴ approach and directs its resources where they can be most effective.

The Authority has key relationships with:

- the Ministry of Justice, responsible for broader policy development
- the Real Estate Agents Disciplinary Tribunal, which has responsibility for misconduct and appeal matters
- a number of other agencies as part of its regulatory activity, drawing on information necessary to make licensing decisions, co-operating in appropriate ways to solve compliance problems, and sharing information and ideas to improve its own practices.

The figure below represents the various groups and agencies the Authority works with to increase consumer confidence in the real estate industry.

Figure 1: Working for consumers through the industry and other agencies



⁴ Intelligence-led means an approach driven by the identification, analysis and management of problems or risks that undermine desired outcomes.

The Authority's Strategic Direction

Vision/high-level outcome

'To increase public confidence in the real estate industry'

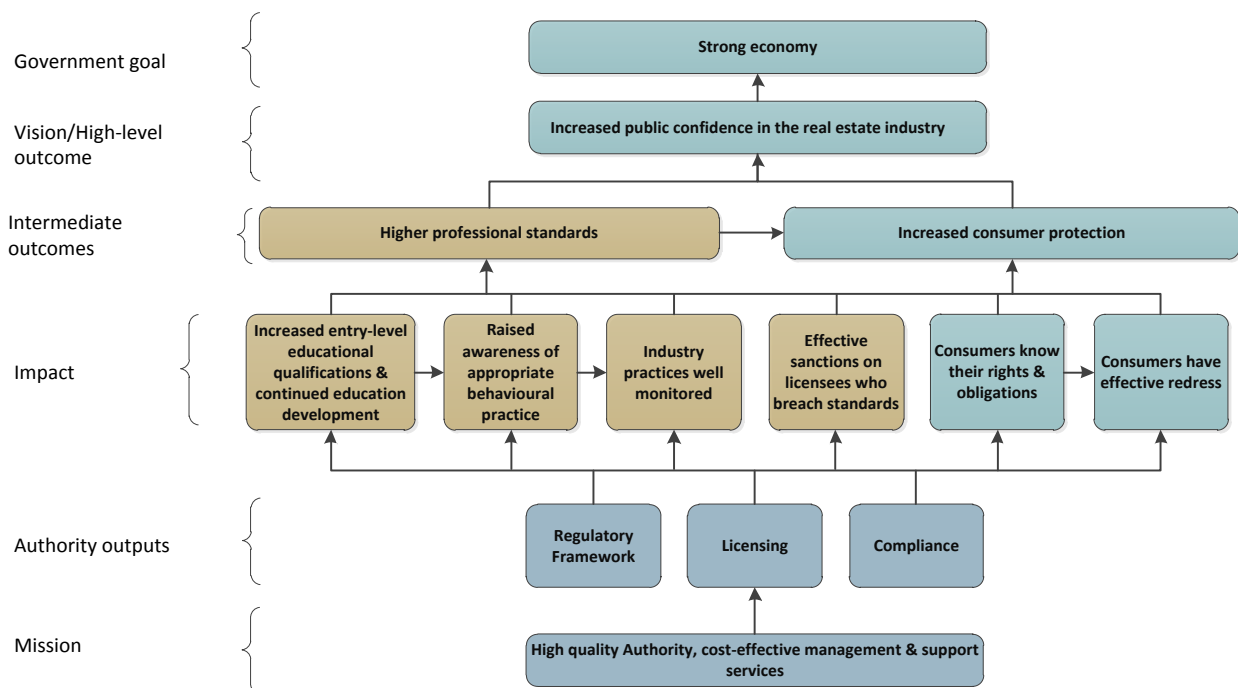
The outcomes framework, (Figure 2) illustrates that a mixture of interventions is required to achieve the Authority's vision/high-level outcome. It shows the Authority's intended impacts, which are to:

- ensure appropriate educational standards are in place
- raise industry awareness of appropriate behavioural practice through education and awareness campaigns
- ensure the industry is well monitored
- provide for effective sanctions for licensees who breach standards
- target consumers, using appropriate channels to raise consumers' awareness of their rights and understanding of how to seek effective redress when things go wrong.

Outcomes framework

The framework shows how the Authority's work will contribute to intermediate outcomes and ultimately the Authority's vision/high-level outcome in support of the government's goal to build a strong economy.

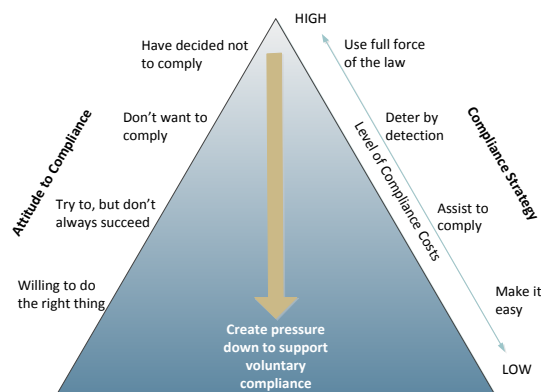
Figure 2: The Authority's Outcomes Framework



Compliance model

As the Authority moves out of start-up mode and matures as a regulatory organisation, it will build on the established licensing and complaints handling components of its operating model and put in place a best-practice approach to compliance (Figure 3).

Figure 3: Compliance model⁵



In its first financial year⁶, the Authority operated at the higher-levels of the compliance model, forwarding all cases to the Complaints Assessments Committees (CACs) for determination. While thorough, this approach meant each case took a significant amount of time to resolve (an average of 110 days). A recent survey of complainants indicated that this was too slow.⁷

To better align with the compliance model the Authority will now use a wider range of responses including compliance advice letters, warnings, mediation and information campaigns. This will ensure that consumers' concerns are still responded to effectively, but in less time. Faster resolution will also benefit licensees, helping them to address issues sooner and reducing the stress associated with being the subject of an investigation.

Application of the compliance model involves taking a problem-solving, risk-based and intelligence-led approach. This means that resources are targeted to areas that will provide both the greatest gains for consumers and improvements in industry behaviour.

'the Authority will now use a wider range of interventions including compliance advice letters, warnings, mediation and information campaigns'

Key features of this approach include:

- Focussing on pro-active information-based interventions. This means information is systematically gathered, analysed and used both to improve the Authority's policy and standards frameworks, and to direct compliance activities.
- Screening or triage of enquiries. This is the ability to act quickly where appropriate, resolving matters of less detriment or significance, with less cost.
- Supporting CACs to address the most serious matters quickly and thoroughly.
- Recognising the contribution made by industry associations. For example the REINZ has codes of practice relating to auctions and tenders that assist licensees to comply with the law.

⁵ This compliance model (Figure 3) is widely used in compliance agencies in New Zealand and internationally. It reflects the reality that a regulated population is made-up of people who are; willing to comply, willing but not able to comply, do not want to comply and those people who have decided not to comply. The compliance model shows that intervention costs increase with greater use of force and that less costly interventions can influence the majority of people in an industry.

⁶ The Authority's first financial year spanned 17 November 2009 through 30 June 2010.

⁷ As indicated in the 2009/10 complainants' satisfaction survey.

Demonstrating Success

The Authority demonstrates its impact in two ways; first it monitors improvements in high-level outcomes to which it contributes, but does not fully control; and secondly it assesses changes – the impact resulting from its work.

Monitoring the high-level and intermediate outcomes

The outcomes the Authority monitors (Figure 2) are:

- 'increased public confidence in the real estate industry'
- 'higher professional standards'
- 'increased consumer protection'.

Indicators of these include:

- A consumer feedback survey
- UMR Mood of the Nation Survey – occupational respect
- Volume of cases, the nature and significance
- Percentage of licensees undertaking further educational requirements.

Table 1 presents the indicators linked to the outcomes. Historical data is included for comparison where records exist.

Table 1: Indicators of the Authority's high-level outcomes

Outcomes	Indicators	Changes in the indicators and progress to develop indicators
Vision/high-level outcome <i>'Increased public confidence in the real estate industry'</i> & Intermediate outcome <i>'Increased consumer protection'</i>	A consumer feedback survey	A survey will be developed in 2011/12 to assess public confidence in the real estate industry. ⁸
	UMR Mood of the Nation Survey - Occupational respect	The UMR survey on occupational respect shows a continued increase in the public's respect for real estate agents (licensees). ⁹
	Volume of cases, the nature and significance	The Authority forecasts the receipt of 740 cases ¹⁰ in 2011/12, which is more than the estimated forecast of 672 cases for 2010/11. The Authority will develop further indicators of the nature and significance of matters.
Intermediate outcome <i>'Higher professional standards'</i>	Percentage of licensees undertaking further educational requirements	The Authority is yet to collect this information and plans are in place to collect it through the 2013 licensee renewal period as part of implementing continuing education practice rules.

The Authority will also analyse matters in terms of their nature and significance and relate this to demographic¹¹ data about licensees. From this the Authority will develop further indicators of the high-level outcomes.

⁸ The Authority mentioned it would develop a consumer survey in its SOI 2010-13.

⁹ A survey was carried out in 2008, 2009 and 2010. For a link to three surveys conducted by UMR research on occupational respect, go to: <http://www.umar.co.nz/Reports.php>. The surveys refer to licensees as real estate agents.

¹⁰ This includes the receipt of complaints and allegations, and Authority initiated investigations.

¹¹ Example demographic information includes; geographic location, length of experience as a licensee, or type of business model a licensee operates in.

Assessing impact

The Authority is required by the Crown Entities Act to report on its impact. These are actual changes the Authority can prove it caused rather than ones caused by a mixture of the Authority and external factors. Establishing impact goes beyond just measuring whether or not high-level outcomes have improved. Many factors influence high-level outcomes and it is difficult to isolate the Authority's impact. However, the Authority can demonstrate impact on the intermediate outcomes below the high-level outcomes presented in Figure 2, labelled impacts.

The Authority has only been operating since 17 November 2009 and is still collecting baseline data from which future assessments of the Authority's impact (on outcomes) can be made. At this early stage the Authority can provide indications and some proof of impact on intermediate outcomes (the layer of outcomes labelled 'intermediate outcomes/impacts' in Figure 2).¹²

Table 2: Impacts of the Authority's work (from 17 November 2009 until 1 March 2011)

Impacts	Indication of impact	Proof of impact
<i>Impact 1.1</i> Increased entry-level qualifications	See proof of impact 1.1	Impact proved. The entry-level qualifications for licensees increased from 28 to 47 credits. ¹³
<i>Impact 1.2</i> Increased continued education development	The Authority is currently developing a framework on continuing education for the industry. This includes assessing the core skills required to operate in the industry and ensuring that the framework addresses legitimate consumer expectations and interests.	Unable to assess impact until a continuing education programme is implemented.
<i>Impact 2.0</i> Raised awareness of appropriate behavioural practice	The Authority provided a copy of the Code of Professional Conduct and Client Care (the Code) to every licensee in March 2010, and provides a copy to every new licensee. All published determinations are available to the public via the website. The Authority published 204 determinations. The Authority will monitor the volume of unique website visitors.	An industry commentator stated that licensees should "Make a point of reading the CAC and Tribunal decisions. They are great examples of what can go wrong, and are excellent material for weekly sales meetings and reviewing your processes." ¹⁴
<i>Impact 3.0</i> Industry practices well monitored	The Authority's publicly available determinations database records all published CAC determinations. CACs determined 512 complaints.	An industry commentator stated that "Good practice and best-practice are being actively encouraged through the range of CAC determinations now available" on the Authority's website. ¹⁵

¹² The Authority's approach to developing its outcomes framework, evaluation and impact evaluation planning is based on a standard evaluation planning methodology 'Duignan's Easy Outcomes approach'. The framework assesses the appropriateness, feasibility and affordability of different impact evaluation methods and is outlined in Duignan, P. (2005-2009). Seven possible impact/outcome evaluation design types. Outcomes Theory Knowledge Base article No. 209. (<http://knol.google.com/k/paul-duignan-phd/seven-possible-outcome-impact-evaluation/2m7zd68aaz774/10>)

¹³ For a link to the new entry qualification go to: <http://www.nzqa.govt.nz/nzqf/search/viewQualification.do?selectedItemKey=1543>
The new standards include an additional focus on; legal matters, the Act, establishing a presence in the real estate market, appraisals, planning, and methods of selling real estate.

¹⁴ Page 19 of Mike Pinkey's article, Complaints and the REAA, March 2011 edition of 'The Hub', Journal of Real Estate New Zealand.

¹⁵ Page 17 of Graham Crew's article, Real estate compliance review 2011: Staying safe with the REAA, March 2011 edition of 'The Hub', Journal of Real Estate New Zealand.

Impacts	Indication of impact	Proof of impact
<p><i>Impact 4.0</i></p> <p>Effective sanctions on licensees who breach standards</p>	<p>CACs referred twenty cases to the Disciplinary Tribunal and determined sixty-six cases of unsatisfactory conduct.</p> <p>The sanctions include: censure, fines, reparation and apologies to complainants.</p> <p>The Authority imposed \$13,000 worth of fines.</p>	<p>An industry commentator states that “clear boundaries are being set by CACs, and conduct that falls outside these boundaries is increasingly being regarded as unprofessional. A finding of unsatisfactory conduct almost inevitably follows”.¹⁶</p>
<p><i>Impact 5.0</i></p> <p>Consumers know their rights and obligations</p>	<p>The Authority provided licensees with 104,290 copies of the Sale and Purchase Agreement Guides and 62,770 Agency Agreement Approved Guides.</p> <p>Licensees are required by law to hand out Approved Guides to sellers and purchasers of residential property.</p>	<p>A consumer survey will also be used to test whether the impact is occurring.</p>
<p><i>Impact 6.0</i></p> <p>Consumers have effective redress</p>	<p>The Authority received 978 complaints and allegations.</p> <p>Redress to date has occurred through CAC processes.</p> <p>The Authority will develop alternative methods of redress including compliance advice, warnings and mediation.</p>	<p>At the end of each financial year the Authority will compare the cost and time taken to resolve matters by the different methods of redress.</p>

Further work on proof of impact

The Authority is satisfied that the activities identified in the indication of impact column (Table 2) will create the desired impacts. Further work will be done to evaluate the Authority’s effect on the outcomes sought; specifically; ‘increased consumer protection’, ‘higher professional standards’, and ‘increased public confidence in the real estate industry’.

Economic analysis of the Authority’s work

The Authority plans to develop an economic analysis model over the period of this Statement of Intent to assess the relative costs of, and benefits from, its work. The Authority is planning to trial more lower-level interventions, (including warnings, compliance advice letters, mediation, and information campaigns), as opposed to forwarding all matters to a CAC for determination. The Authority will evaluate the impact of these alternative interventions in terms of the time and cost taken to resolve matters, compared to the approach used in 2009/10 and 2010/11.

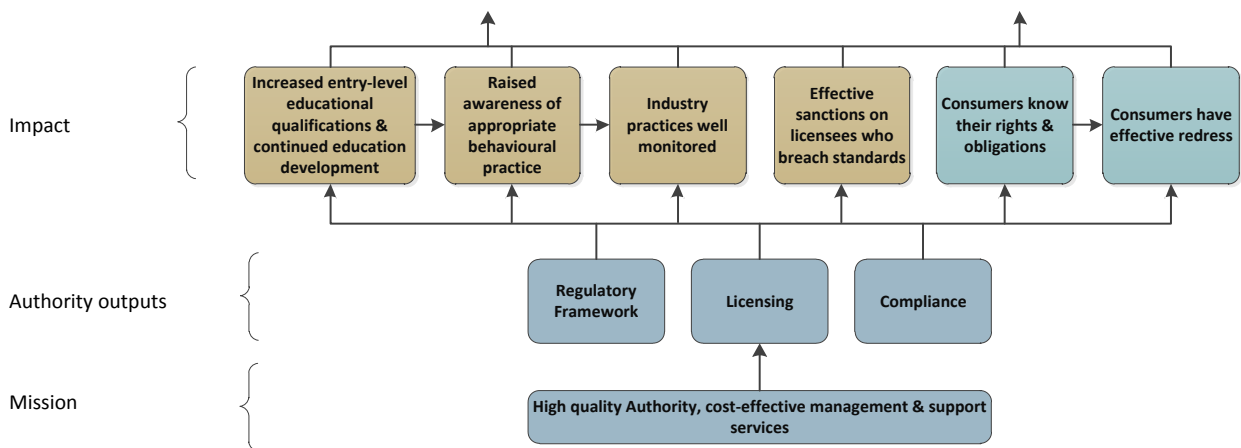
In addition, the Authority will develop a model to calculate the relative detriment to consumers from industry bad-practice and will use this to understand the total impact resulting from its work.

¹⁶ Ibid.

Forecast Statement of Service Performance

The following section outlines measures the Authority will use to assess its output performance. These are linked to the Authority’s outputs, or final goods and services. It is through this mix of outputs that the Authority aims to increase consumer protection and public trust in the real estate industry, via the impact layer in Figure 4.

Figure 4: The link between outputs and impacts



The Authority reports every four months to the Associate Minister of Justice on progress against the measures outlined in the Statement of Forecast Service Performance, and yearly to the public in its Annual Report.

Output class: Operate the Real Estate Agents Authority (the Authority)

The Authority has one output class through Vote Justice. This output class pools the cost of the Authority's work, which also includes the Complaints Assessment Committees. All the Authority's outputs are linked to this output class.

In its second year of operation the Authority refined the categories of outputs to provide a better summary of the Authority's work. The total number of outputs reduced from seven to three. This did not change to the Authority's actual activities.

The Authority aligns all its activities to the following outputs:

Table 3: Income and output costs

Income and output costs	2011/12 (\$000)
Income	\$9,779
Output costs/operating expenses	
Output 1 Regulatory framework – contribution to and development of policy and legal framework	\$1,667
Output 2 Licensing – managing and administering the licensing regime	\$1,501
Output 3 Compliance – general compliance activities including information, education, investigation and enforcement	\$6,127
Total output cost	\$9,295
Total Comprehensive income	\$484

For each of these outputs the Authority established measures of price, quantity, quality and time. The Authority considered carefully whether; the measures related to the outputs; provided useful business information and could be measured reliably.

Output 1 - Regulatory framework

This output covers the costs of any policy work, including general legislative costs. In 2011/12 the Authority anticipates undertaking a number of policy projects, including:

- Contributing to the Ministry of Justice's on-going development of the Act and Regulations to ensure the legislation supports the outcomes desired. Specifically, this is to develop a report including any proposed legislative changes by March 2012.
- Developing, implementing and monitoring practice rules:
 - Code of Professional Conduct and Client Care – this is in place and the Authority will monitor it to ensure that it remains appropriate
 - Continuing Education Programme – this is under development, and will be implemented and monitored to ensure it is having the desired effect of improving and supporting appropriate behavioural practice.
- Monitoring expenditure to assess whether the Authority has sufficient resource.

In addition the output includes detailed operational policy activities to support the Authority's systems and processes, including, for example, the development of an economic analysis model.

Table 4: Performance measures of the regulatory framework

Regulatory Framework			
Performance Measures	Forecast Performance 2011/12	Comparative forecast performance 2010/11	Comparative actual performance 7 November 2009 – 30 June 2010
Quality Ministry of Justice satisfaction with the Authority's contribution to the regulatory framework ¹⁷	Satisfied (The rating scale ranges from; Very good, Good, Satisfied, Poor, or Very Poor).	Not previously assessed	Not previously assessed
Quality Quality requirements ¹⁸ for policy advice are met in the development of practice rules	Met (Quality dimensions include: purpose, consistency, logic, options, consultation, practicality, presentation, and impartiality).	Not previously assessed	Not previously assessed

¹⁷ Ministry of Justice (MoJ) is at least satisfied with the Authority's contribution to the on-going development of the 2008 Act and Regulations. The Authority will invite the MoJ to grade the Authority's contribution each financial year.

¹⁸ The Authority's legal manager will assess the quality of advice.

Output 2 - Licensing

This output includes the Authority's work to administer and manage the licensing regime. A key activity in monitoring the industry involves the Registrar's mandate to allow only 'fit and proper' people to work as licensees. This output covers the cost of the licensee registration database, which contains a complete list of all active licensees.

The demand-driven figures listed in Table 5 are not controlled by the Authority.

Table 5: Performance measures of licensing

Licensing			
Performance measure	Forecast Performance 2011/12	Comparative forecast performance 2010/11	Comparative actual performance 17 November 2009 – 30 June 2010
Demand driven			
<i>New applications</i>	1,200	1,200	1,827
<i>Renewal applications</i>	13,000	12,500	15,030
<i>Suspended applications</i>	1,200	3,500	1,113
Quantity & timeliness			
Complete ¹⁹ applications processed ²⁰ within 6 weeks	95%	100% ²¹	100%
Quality			
Licensees that consider Authority staff competent and reliable ²²	70%	70%	Did not survey

¹⁹ This includes new licence applications with all required documentation.

²⁰ Processed is the final state for licensees whereby a licensee is informed of whether they are approved or not. Licensees are sent approval notification via email and then a letter.

²¹ At 1 March 2011 the forecast for 2010/11 was for 100% of complete applications to be processed within six weeks.

²² The level of licensee satisfaction is determined from two questions in the State Services Commission's Common Measurements Tool; namely staff competency and reliability. Respondents are deemed to be satisfied if they provide, from a 1-5 scale, a 3, 4, or 5, for the two questions. The survey is run at the end of the financial year.

Output 3 - Compliance

This output covers the cost of the Authority's compliance activities, including; educating, investigating and enforcing and the work of Complaints Assessment Committees (CACs). This output is designed to increase industry professionalism, raise consumers' awareness of their rights, and provide consumers with effective redress.

The figures listed in Table 6 are demand-driven and not controlled by the Authority.

Table 6: Performance measures of compliance

Compliance			
Performance Indicator	Forecast Performance 2011/12	Comparative forecast performance 2010/11	Comparative actual performance 17 November 2009 – 30 June 2010
Demand-driven New cases ²³	740	672 ²⁴	531 ²⁵
Quantity & timeliness Complaint closure ²⁶ within 32 weeks	80%	80%	N/A ²⁷
Quality Complainants' satisfaction survey ²⁸	70%	70%	67%
Judicial criticism	None received ²⁹	No adverse judicial criticism received	No adverse judicial criticism received

²³ A case is a catch-all term that includes complaints and allegations and Authority initiated investigations.

²⁴ This forecast performance is comprised of actuals as at 1 March 2011, plus additional average receipt volumes since the beginning of the financial year.

²⁵ This figure is lower than the reported 550 complaints and allegations published in the Annual Report 2009/10. The revised volume is a result of improved measurement systems.

²⁶ A closed complaint means that the Authority's work is complete. The complaint may still proceed through to higher jurisdictions, such as the Real Estate Agents Authority Disciplinary Tribunal.

²⁷ No complaint exceeded 32 weeks from 17 November 2009 until 31 July 2010 because the Authority did not operate for 32 weeks in its first financial year.

²⁸ The level of complainant satisfaction is determined from two questions in the State Services Commission's Common Measurements Tool; namely staff competency and reliability. Respondents are deemed to be satisfied if they provide, from a 1 – 5 scale, a 3, 4, or 5, for the two questions. The survey is run at the end of the financial year.

²⁹ 100% of judicial decisions from the Real Estate Agents Disciplinary Tribunal, High Court and Court of Appeal contain no substantive criticism of the Authority's work.

Organisational Development

People capability

To be a well-run agency the Authority needs to employ and retain staff with the right mix of knowledge, experience and skills. To do this the Authority maintains a strong focus on getting the fundamentals right in terms of recruitment and retention.

In 2011/12 the Authority will continue to build on its people capability. As part of our longer-term view the Authority provides staff with the opportunity to up-skill. For example, several Authority staff are currently completing their real estate licensing qualifications. This will increase staff understanding of the industry's entry education requirements, as well as develop deeper insight into industry behaviour.

The Authority will also support staff accessing qualifications developed as part of the Compliance Common Capability Programme. This is a whole-of-government initiative to standardise and improve operational compliance work.

Employment policies

As part of being a good employer the Authority will continue to promote diversity and equal employment opportunities (EEO) and support the Equality and Diversity: New Zealand Public Service Equal Employment Opportunities Policy. This means the Authority will carry-out good employer practices in human resource management and ensure practice meets human resource policies.

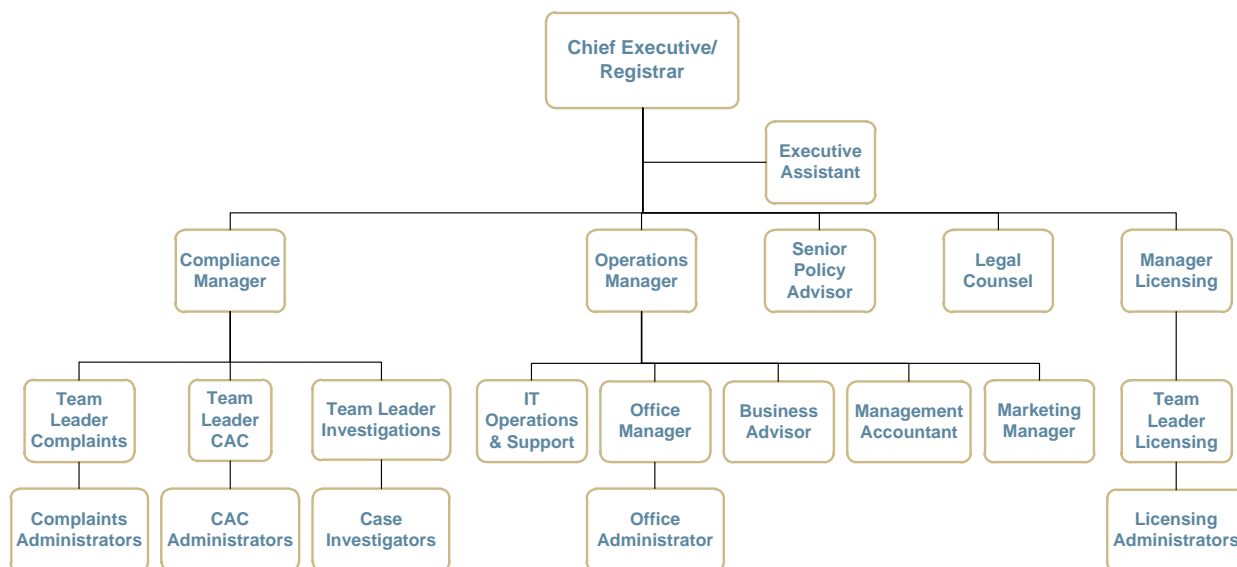
The Authority will continue to use its personnel policy and provide for the fair and proper treatment of employees in all aspects of their employment. As part of this, management recognises the need to encourage staff to raise concerns, whether in performance reviews or on a more informal basis.

Information systems

Information systems are integral to the Authority's business intelligence. In 2011/12 the Authority will develop its information technology strategy to deliver this need. The solutions that the Authority uses will align with best-practice approaches used by other New Zealand government departments.

Organisation Chart

Figure 5: The Authority's organisation chart



Risk

Table 7 summarises the Authority's highest priority risks and strategies to manage them:

Table 7: The Authority's priority risks

Risk Analysis	
Risks rated 'high priority'	Managing the risks
Failure of the current compliance operating model to increase public confidence in the real estate industry and increase the industry's professionalism.	A review of the current operating model has recommended changes using best-practice compliance methodologies. Ongoing improvements are intended to provide flexibility for speedier interventions to best meet the needs of the consumer.
Failure to develop and maintain consumer confidence.	The activities outlined in Table 2 intend to manage this risk. The Authority will monitor consumer confidence via its collective indicators (outlined in Table 1) and measure its impact (Table 2) to assess the most appropriate interventions to reduce industry bad practice and empower consumers.
Inadequate information and communications technology (ICT) to support business needs and the Authority's strategic direction.	The Authority will develop an information technology strategic plan, which will identify the most appropriate technology solutions to meet business needs. This will be implemented in 2011/12 with an 'all of government' philosophy in mind, to reduce cost and identify the most appropriate solutions.
Failure to capture, utilise, share and retain critical business intelligence.	The Authority will identify the most appropriate business intelligence technology solutions and business rules to collect relevant information, analyses performance and uses resources efficiently. These solutions and business rules will be implemented in 2011/12.
A significant fluctuation in the number of active participants in the industry that directly impacts the Authority's operating result.	A decrease in licensee numbers in 2011/12, from the level assumed when the levy was first set in 2010, impacted on the Authority's operating budget. The Authority's goal is not to increase the operating levy. Instead it will manage costs, increase the time to recover from a negative equity position and increase the term of repayment for the establishment funding.

Forecast Financial Statements

This section of the Statement of Intent covers the Authority's financial statements and notes, and includes the:

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Forecast Statement of Comprehensive Income

For the year ending 30th June

	Note	Forecast Actual 2010/11 \$000	2010/11 SOI Budget \$000	2011/12 \$000	2012/13 \$000	2013/14 \$000
Revenue						
Operating levy	1	7,031	7,642	9,083	9,412	9,740
Suspension fees		193		76	76	76
Application fees		354	171	354	354	354
Other income	2	899	130	266	266	266
Total Revenue		8,477	7,943	9,779	10,108	10,436
Expenditure						
Personnel costs		3,497	3,057	3,483	3,657	3,840
Finance costs	3	479	156	565	529	464
Depreciation and amortisation	4	939	712	962	290	254
Specialist services	5	846	1,308	982	979	1,024
Legal fees		596	1,654	710	878	915
Board fees		156	246	180	180	180
Complaints Assessment Committee fees		390	851	500	500	500
Miscellaneous expenses		27		53	56	59
Computer and telecommunications		590	450	626	657	690
Printing, stationery and postage		156	414	459	482	506
Travel, meetings and entertainment		163	230	361	379	398
Occupancy		372	372	414	434	456
Total Expenditure		8,211	9,450	9,295	9,021	9,286
Total Comprehensive Income		266	(1,507)	484	1,087	1,150

Forecast Statement of Financial Position

As at 30th June

	Note	Forecast Actual 2010/11 \$000	2010/11 SOI Budget \$000	2011/12 \$000	2012/13 \$000	2013/14 \$000
Current Assets						
Cash and cash equivalents		8,859	8,253	9,659	10,826	11,199
Other current assets		8		8	8	8
Total Current Assets		8,867	8,253	9,667	10,834	11,207
Non-Current Assets						
Property, plant and equipment		221	382	86	35	22
Intangible assets	6	888	2,193	1,060	1,120	1,180
Total Non-Current Assets		1,109	2,575	1,146	1,155	1,202
Total Assets		9,976	10,828	10,813	11,989	12,409
Current Liabilities						
Trade creditors, accruals and provisions		776	379	522	536	558
Employee entitlements		80		80	80	80
Deferred operating levy	7	6,554	9,030	6,800	7,046	7,293
Current portion of term loan	8		1,316	127	953	1,040
Disciplinary levy payable		18	533	17	17	17
Total Current Liabilities		7,428	11,258	7,546	8,632	8,988
Term Liabilities						
Rent rebate		137		90	46	
Establishment funding from Crown at fair value	10	4,750	3,750	5,032	4,079	3,039
Total Term Liabilities		4,887	3,750	5,122	4,125	3,039
Total Liabilities		12,315	15,008	12,668	12,757	12,027
Net Assets						
Net Assets		(2,339)	(4,180)	(1,855)	(768)	382
Public Equity						
Crown funding		2,078	2,078	2,078	2,078	2,078
Retained earnings		(4,933)	(4,751)	(4,667)	(4,183)	(3,096)
Litigation reserve	9	250		250	250	250
Current year surplus/deficit		266	(1,507)	484	1,087	1,150
Total Public Equity		(2,339)	(4,180)	(1,855)	(768)	382

Forecast Statement of Changes in Equity

For the year ending 30th June

	Forecast Actual 2010/11 \$000	2010/11 SOI Budget \$000	2011/12 \$000	2012/13 \$000	2013/14 \$000
Public Equity					
Public Equity at Beginning of Year					
Capital funding from Crown	2,078	2,078	2,078	2,078	2,078
Retained earnings	(4,683)	(4,751)	(4,667)	(4,183)	(3,096)
Reserves			250	250	250
Total Public Equity as Start of the Year	(2,605)	(2,673)	(2,339)	(1,855)	(768)
Recognised Income and Expenses					
Total comprehensive income	266	(1,507)	484	1,087	1,150
Transfer to litigation reserve	(250)				
Public Equity at End of Year					
Capital funding from Crown	2,078	2,078	2,078	2,078	2,078
Reserves	250		250	250	250
Retained earnings	(4,667)	(6,258)	(4,183)	(3,096)	(1,946)
Total Public Equity at End of the Year	(2,339)	(4,180)	(1,855)	(768)	382

Forecast Statement of Cash Flows

For the year ending 30th June

	Note	Forecast Actual 2010/11 \$000	2010/11 SOI Budget \$000	2011/12 \$000	2012/13 \$000	2013/14 \$000
Cash Flows from Operating Activities						
Cash was provided from:						
Receipts from licensees	11	9,721	15,781	10,229	10,558	10,886
Receipts from sale of publications		161	114	120	120	120
Receipts from fines and penalties		150		50	50	50
Interest income		135	30	50	50	50
		10,167	15,925	10,449	10,778	11,106
Cash was applied to:						
Payments to suppliers	12	(5,182)	(6,309)	(5,233)	(5,463)	(5,647)
Payments to employees		(3,145)	(3,013)	(3,060)	(3,213)	(3,374)
Interest on capital funding from Crown		(156)		(156)	(156)	(156)
Net GST paid		221	(1,185)		(4)	5
		(8,262)	(10,507)	(8,449)	(8,836)	(9,172)
Net cash inflows from operating activities		1,905	5,418	2,000	1,942	1,934
Cash Flows from Investing Activities						
Cash was applied to:						
Purchase of property, plant and equipment		(29)	(162)			
Purchase of intangible assets		(122)	(1,581)	(1,200)	(275)	(300)
Total cash outflows from investing activities		(151)	(1,743)	(1,200)	(275)	(300)
Cash Flows from Financing Activities						
Cash was applied to:						
Repayment to Crown			(2,027)		(500)	(1,261)
Total cash inflows from financing activities			(2,027)		(500)	(1,261)
Net Increase in Cash Held		1,754	1,648	800	1,167	373
Plus cash at the start of the year		7,105	6,605	8,859	9,659	10,826
Cash Held at the End of the Year		8,859	8,253	9,659	10,826	11,199
Represented by:						
Cash and Cash Equivalents		8,859	8,253	9,659	10,826	11,199
Cash held at the end of the year		8,859	8,253	9,659	10,826	11,199

The Authority made a number of assumptions to develop its financial statements for 2011/12. These specific assumptions that impact the Authority's financial statements are detailed in the sections below.

Specific assumptions

The number of licences significantly affects projected income. Presently the Authority has little historical data to forecast the number of licences renewed each year. Compared to forecast actuals for 2010/11, the Authority estimates an increase in renewal income for 2011/12 to 2013/14, as the real estate market improves.

The costs of legal services also fluctuate depending on the nature and complexity of complaints received. The Authority created a reserve account to accommodate extraordinary litigation costs.

By the end of 2010/11, the Authority forecasts negative equity of \$2.339 million. The forecast financial statements show the Authority intends to generate a surplus to restore this equity to \$382,400 by the end of 2013/14.

The Authority expects to replace its compliance and licensing information system in November 2011 and has adjusted the useful life of the asset to spread the amortisation expense over the remaining period.

Operating levy

The Forecast Statement of Comprehensive Income is based on the Authority's goal to maintain the industry levy at \$690 (excluding GST) until 2013/14.

Notes to the Forecast Financial Statements

Revenue (\$000)

1. Operating levy

This includes the following income components:

Operating Levy	2011/12
Operating levy received during the year	9,329
Current year deferred income	-6,800
Deferred income from previous FY	6,554
Total operating levy received	9,083

2. Other income

Other income includes:

Other Income	2011/12
Sale of Publications	120
Interest	50
Fines	50
Rent Rebate Received	46
Total other income	266

Other income in 2010/11 includes a \$527,000 fair value interest adjustment following deferral of the first establishment loan repayment until April 2013.

Expenditure (\$000)

3. Finance costs

Finance Costs	2011/12
Fair value interest expense	409
Interest payable on Crown capital funding	156
Total finance costs	565

Fair value interest expense is the charge recognised for the interest-free loan of \$6.307 million provided by the Crown to establish the Authority and the Disciplinary Tribunal.

Interest payable on capital funding represents the 7.5% annual charge for the Crown's capital contribution of \$2.078 million. This should not be confused with the establishment loan.

4. Depreciation and amortisation

Depreciation and amortisation	2011/12
Amortisation	829
Depreciation	133
Total depreciation and amortisation	962

The amortisation expense includes an allowance for the accelerated amortisation of the Authority's existing registration and complaints database, which will be replaced in October 2011.

5. Specialist services

Specialist services	2011/12
Other specialist services ^(a)	828
Specialist services for hearings	48
Auditors – audit fees	40
Auditors – other services	25
Auditors - trust account audit services	12
Advertising and publicity	27
Property specialist services	2
Total Specialist Services	982

(a). Other specialist services

Other Specialist Services	2011/12
Investigations	300
Operations and Administration	120
Marketing and Communications	132
Finance	130
Licensing	75
Complaints assessment committee	31
Information communication technology	20
Policy & Legal	20
Total Other Specialist Services	828

6. Intangible assets

Intangible assets for 2011/12 include an estimated acquisition cost of \$1.200 million to replace the registration database and complaints management system planned for October 2011.

7. Deferred operating levy

In January 2011 the operating levy increased to \$657. This has resulted in increased deferred operating levy in 2011/12.

8. Current portion of term loan

The current portion of the term loan is estimated at its fair value.

9. Litigation reserve

The Authority has established a \$250,000 litigation reserve for extraordinary unanticipated legal expenses. The Litigation Reserve represents the Authority's opinion of the potential legal costs that could arise from one or more significant matters.

10. Establishment funding from Crown at fair value

In 2009/10 the Authority recognised a \$6.307 million term liability to the Crown to fund the establishment of the Authority and Disciplinary Tribunal. The Crown expected the Authority to generate operating surpluses to repay this within five years.

The terms of the repayment state that the amount to be recovered will:

- consider the impact of cash resources and the continued operation of the Authority
- be agreed in November each year, based on the 30 June audited result
- be negotiated if circumstances change.

Forecast repayments to the Crown are based on nominal values calculated from available cash holdings. The Authority aims to repay \$500,000 in April 2013. To repay the full value of the loan the Authority aims to make successive annual repayments of \$1.200 million.

The Authority incurred a \$4.933 million operating loss in 2009/10. The Authority forecasts a return to positive equity in 2013/14 and will apply operating surpluses over the next three years to recover the 2009/10 deficit.

Establishment funding recoveries (continued)

Up until 30 June 2011, the Authority has set aside a portion of the operating levy to repay the Crown funding.

To date the Authority has recognised \$1.281 million in revenue generated from the establishment funding recovery. The Authority will now apply this to recover from its negative equity balance. Future repayments to the Crown will be calculated on the basis of available cash holdings. The Authority forecasts the first repayment in April 2013 and expects the operating levy to remain unchanged.

Establishment funding from Crown	2010/11	2011/12
Opening balance	6,307	4,601
Transfer current portion to current liabilities	-296	
Fair value interest adjustment	-1,410	
Adjustment for deferred repayment		149
Closing balance	4,601	4,750

Current portion of term loan	2010/11	2011/12
Opening balance		296
Transfer current portion from term liability	296	
Adjustment for deferred repayment		-296
Closing balance	296	0

11. Receipts from licensees

Receipts from licensees consist of the following categories and include cash receipts from the collection of Disciplinary Tribunal levies paid to the Ministry of Justice.

Receipts from licensees	2011/12
Operating Levy	9,329
Disciplinary Levy	470
Application & Suspension Fees	430
Total receipts from licensees	10,229

12. Payments to suppliers

Payments to suppliers	2011/12
Creditor payments	-3,764
Rent	-318
Board and CAC	-680
Disciplinary levy Paid	-471
Total payments to suppliers	-5,233

Statement of Accounting Policies

Reporting entity

These are the forecast financial statements for the Authority for the year ended 30 June 2012, a Crown entity as defined by the Crown Entities Act 2004. .

The Authority's functions are defined in the Real Estate Agents Authority Act 2008 and include maintaining the regulatory framework, licensing and compliance activities.

For the purposes of the New Zealand International Financial Reporting Standards (NZ IFRS) the Authority is a public benefit entity domiciled in New Zealand.

Basis of preparation

Statement of Compliance

The financial statements of the Authority have been prepared in accordance with requirements of the Crown Entities Act (2004), which includes the requirement to comply with New Zealand generally accepted accounting practice.

The financial statements comply with the NZ IFRS.

Measurement system

The financial statements have been prepared on an 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). The functional currency of the Authority is New Zealand Dollars.

Significant accounting policies

The following accounting policies, which materially affect the measurement of financial performance and financial position, have been applied.

Revenue

The Authority derives revenue through an annual charge to licensees, the sale of publications, fines imposed on licensees and interest on investments. The annual charge has two components;

- an operational levy to cover the on-going costs of the Authority
- a disciplinary levy, which is transferred to the Ministry of Justice to provide funding for the Disciplinary Tribunal.

In addition, a fee is charged on application to recover the additional costs of processing new licensing applications (as opposed to the renewal of a licence) as well as a fee for suspending a licence.

Revenue is measured at the fair value of consideration received or receivable.

Levies

Operational Levies are recognised when earned and are reported in the period to which they relate.

Disciplinary Levies are not recorded as income as they are directly paid to the Crown on receipt.

Fines

Revenue from fines is recognised when earned and reported in the period to which it relates.

Sale of publications

Revenue from sale of publications is recognised when the sale is made.

Interest

Interest is recognised when earned and reported in the period to which it relates.

Capital funding

The capital funding interest charge of 7.5% is recognised as an expense in the period to which the charge relates.

Leases

Leases that do not transfer substantially all the risks and rewards incidental to ownership of an asset to the Authority 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 Income Statement.

Cash and cash equivalents

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

Property, plant and equipment

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

Property, plant and equipment are shown at cost or valuation, less any accumulated depreciation and impairment losses.

Additions

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the Authority 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 loss on disposals are included in the Income Statement.

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 the Authority 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 Income Statement as they are incurred.

Depreciation

Fixed assets 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:

Table 3: Depreciation

Items	Years	Depreciation Rate	Depreciation Method
Furniture and office equipment	5 years	20%	Straight line
Computer equipment	3 years	33%	Straight line
Leasehold improvements	4 years	25%	Straight line

Intangible assets

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 that are directly associated with the development of software for the internal use of the Authority are recognised as an intangible asset. Direct costs include the software development and consultant's costs. Costs associated with maintaining computer software are recognised as an expense when incurred.

Amortisation

The carrying value of software is amortised on a straight-line basis over its useful life. Amortisation commences when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the Income Statement.

The useful life and associated rate is estimated as follows:

Table 4: Amortisation

Items	Years	Depreciation Rate	Depreciation Method
Acquired and developed software	5 years	20%	Straight line

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 that 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 higher of an asset's fair value less costs to sell and value in use. The value in use is the depreciated replacement cost.

Investments

At each balance date the Authority assesses whether there is any objective evidence that an investment is impaired. Investments in bank deposits are measured at fair value.

Creditors and other payables

Creditors and other payables are measured at fair value.

Employee entitlements

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

Budget and forecast figures

The budget figures are derived from the Statement of Intent and approved by the Authority at the beginning of the financial year. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Authority for the preparation of the prospective financial statements.

“Forecast Actual” figures for 2010/11 represent actual costs for 1 July 2010 to 31 March 2011 and remaining forecast estimates for 1 April to 30 June 2011.

Establishment loan

The Crown has extended the Authority a long term interest free loan. The loan was made to cover the establishment costs of the Authority. The loan is recognised at fair value.

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.

The net amount of GST payable to the Inland Revenue is included as payables in the Forecast Statement of Financial Position.

Taxation

The Authority is a public authority in terms of the Income Tax Act 1994 and consequently is exempt from income tax.

Financial instruments

The Authority 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 has a residual interest in the assets of an entity after deducting all its liabilities. These financial instruments include bank accounts, short-term deposits, and accounts payable and receivable. All financial instruments are recognised in the Forecast Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the Forecast Statement of Comprehensive Income.

Statement of cash flows

The Statement of Cash Flows is prepared exclusive of GST, which is consistent with the method used in the Income Statement.

Cash flows are reported in three activities:

- operating activities including cash received from all income sources
- investing activities including cash received for sale, and cash payments made for the purchase investments and any other non-current assets
- financing activities including capital contributions and other transactions relating to changes in equity of the Authority.

Equity

The Equity is the Crown's investment in the Authority plus any surpluses/less any deficits incurred over time through its operations.

Changes in accounting policy

Amortisation of intangible assets has changed from 3 years (33%) to 5 years (20%) following the proposed replacement of the Authority's existing Registration database.

All other accounting policies have been applied on bases consistent with previous years.

Glossary of Terms

Table 5: Glossary of terms

Terms	Description of terms
Case	Is a catch-all term that includes complaints and allegations, and Authority-initiated investigations.
Complaint	A matter made to the Authority about the conduct of a licensee, which meets Regulation 4 of the Real Estate Agents (Complaints and Discipline) Regulations 2009.
Impact	The contribution made to an outcome by a specified set of outputs, or actions, or both [s2 (1) of the Public Finance Act].
Indicator	Linked to an outcome and used to assess whether an outcome is changing. Indicators may not necessarily change because of the Authority's work.
Licensee	An agent, branch manager, or salesperson [s4 (1) Real Estate Agents Act 2008]
Outcome	A state or condition of society, the economy or the environment and includes a change in that state or condition [s2 (1) of the Public Finance Act].
Outcome evaluation	A type of evaluation, which can prove that a particular activity causes an outcome to change. An outcome evaluation establishes impact or attribution.
Outcomes framework	Another name for an intervention logic model. The model helps to demonstrate: how an output can affect many outcomes; the Authority's intended impact, and; how the many impacts will influence the Authority's high-level outcomes.
Outputs	Final goods or services produced by the Authority. They should not be confused with goods and services produced entirely for consumption within the Authority. Outputs classes are groups of similar outputs.

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