



# Statement of Intent

2017/18 to 2020/21





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

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# Introduction from the Board Chair

Real estate is a major industry in New Zealand. Buying and selling property is one of the biggest financial investments New Zealanders will make, with potentially significant emotional and financial loss if things go wrong. With more than 100,000 real estate transactions annually and around 15,000 licensees and 1,000 agencies, it is important the regulatory framework governing real estate transactions is effective. The Real Estate Agents Authority (REAA) is the regulatory body responsible for providing independent oversight of the real estate industry.

For real estate transactions to function smoothly, consumers need to know exactly what they are buying or selling, how the process works, what the risks are and what their rights and responsibilities are. They also need to have confidence that the real estate agent they are working with adheres to appropriate professional and ethical standards.

REAA was established in November 2009 by the Real Estate Agents Act 2008. Over the last eight years, we have developed from a newly formed entity to a well established and reliable regulator that is making a difference with a focus on licensing operations and complaint handling.

As we have matured, we have reviewed our strategy and priorities for the future. The new strategy set out in this SOI, outlines a move from being a reactive and responsive regulator doing its core functions well, to being a more proactive, connected and consumer-focused organisation. This is a shift that will enable us to have a much greater impact for consumers.

We have a clear purpose: 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.

We have developed a new vision and strategic goal that will help deliver on this purpose over the next four years:

- REAA's vision is a better real estate experience for all
- The strategic goal is to have empowered consumers working with trusted real estate professionals.

This Statement of Intent outlines what we want to achieve and how we plan to get there. Over the next four years, we will be working hard to:

- Identify and reduce risks and causes of consumer harm
- Better inform and educate consumers
- Increase professionalism and public confidence in the real estate industry
- Raise REAA's profile and level of connectedness.

In achieving these goals, we are committed to being more proactive in protecting consumer interests and promoting public confidence in the ever-changing real estate industry.

The alignment of our people and systems is critical in delivering our success. Over the next four years, we know challenges will continue to impact the industry and the organisation. We will actively ensure we are well placed to respond efficiently and effectively.

I am proud to present the Real Estate Agents Authority's Statement of Intent 2017/18 to 2020/21.



John Auld  
Board Chair

# Statement of responsibility

In signing this statement, we acknowledge that we are responsible for the information contained in this Statement of Intent 2017/18 to 2020/21 for the Real Estate Agents Authority. This information has been prepared in accordance with sections 138–148 of the Crown Entities Act 2004 and to give effect to the Minister of Justice's expectations of the Real Estate Agents Authority.



John Auld  
Board Chair  
13 June 2017



Marion Cowden  
Board Member  
13 June 2017

## Guide to this document

This Statement of Intent describes the Real Estate Agents Authority's (REAA) operating content and strategic intentions for the next four years and provides the priorities to direct REAA's activities and performance expectations outlined in the Statement of Performance Expectations 2017/18 (Appendix 1).

This Statement of Intent is set out as follows:

- **Section 1:** Nature and scope – describes REAA's role and functions, governance and contribution to Government priorities.
- **Section 2:** Operating environment – describes the external environment and context for the real estate industry in New Zealand.
- **Section 3:** What REAA will aim to achieve – describes REAA's strategic objectives and how REAA will demonstrate success in achieving them.
- **Section 4:** Organisational health and capability – looks at REAA's organisational health and capability, in particular, investment in people, systems and approach to risk management.
- **Appendix 1:** Statement of Performance Expectations 2017/18 – describes REAA's key outputs, activities and measures of performance for the next financial year.

# Section 1: Nature and scope

## REAA's role

The Real Estate Agents Authority (REAA) is a regulatory body responsible for providing independent oversight of the New Zealand real estate industry. REAA is a Crown entity and was established in 2009 by the Real Estate Agents Act 2008. REAA works to promote and protect the interests of consumers in real estate transactions and to promote public confidence in the real estate industry.

REAA's statutory functions are defined by the Real Estate Agents Act 2008 and in summary comprise:

- administering the real estate licensing regime and maintaining a public register of licensees
- informing and advising property buyers and sellers so they can participate with confidence in real estate transactions
- developing and monitoring professional standards, the continuing education programme, agency practice rules and prescribing fees and levies
- responding to enquiries and complaints, investigating problems in the real estate industry and ensuring appropriate action is taken to sanction any unsatisfactory conduct, misconduct or illegal behaviour.

## Governance

REAA is governed by an independent Board that is appointed by the Minister of Justice. The Board works to:

- set strategic direction
- ensure legislative functions are carried out effectively
- monitor performance.

The Board reports directly to the Associate Minister of Justice. The current REAA Board members are:

- John Auld (Chairperson)
- Denese Bates, QC
- Aaron Bhatnagar
- Marion Cowden
- Elizabeth Nidd
- Anthony Stack
- Karin Thomas.

## Contributing to Government priorities

REAA aligns its work to support the Government's priorities of responsibly managing finances, building a more competitive and productive economy and delivering better public services to New Zealanders. Further to this, the Justice Sector has an aspirational outcome that all New Zealanders should expect to live in a safe and just society.

REAA also supports the Government's Better Public Services priorities, in particular, Result 10, which aims to ensure that New Zealanders can complete their transactions with the Government easily in a digital environment, and Result 9, which aims to reduce business's costs of doing business with Government.

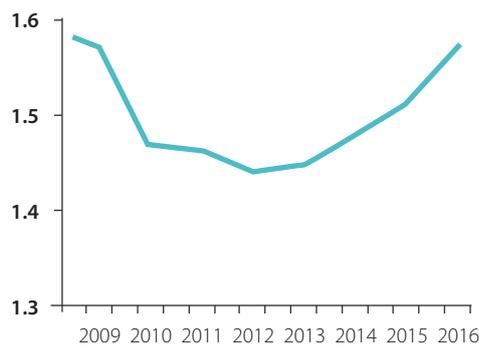
REAA's main contribution towards these priorities and outcomes is to help ensure that New Zealanders feel empowered to participate with confidence in real estate transactions and that they are working with trusted real estate professionals.

## Section 2: Operating environment

### The global real estate market

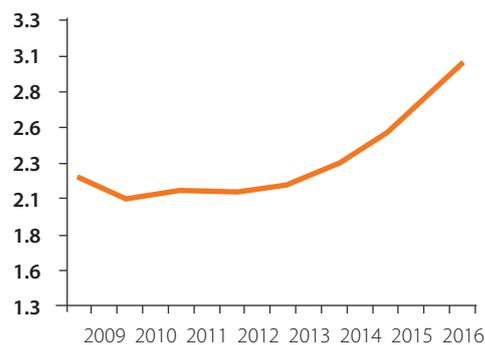
Globally, real estate markets have grown steadily since the end of the Global Financial Crisis in 2011 (Figure 1 below). The New Zealand real estate market has outperformed global house price growth since 2010 and, in 2016, led the world in the annual increase of the house price index (Figure 2 below). REAA will continue to monitor the economic drivers and changes in the global real estate market as these can impact the New Zealand market.

Figure 1: Global house price index (year 2000 = 1)



Source: IMF

Figure 2: New Zealand house price index (year 2000 = 1)



Source: RBNZ

A number of countries have real estate industry regulators to provide protection for consumers and oversight of real estate agent behaviour. There is an opportunity for REAA to connect with similar regulators around the world to share best practice and leverage capability to help REAA achieve its objectives in New Zealand.

### Increasing use of technology and social media in the real estate experience

Globally, the real estate experience is being changed by technology. Smartphone usage has transformed website design, content and functionality. Consumers expect organisations to deliver good experiences on all devices. As smartphone usage grows, REAA must ensure that content is well designed for mobile devices.

The increasing use of social media to share customer experiences has led to a changing landscape whereby consumers can more easily find information about good and bad experiences across many industries. An emerging trend globally in the real estate industry is consumers providing ratings and feedback on real estate agents. REAA will plan for the implications of this changing landscape to ensure that consumers' interests are protected and public confidence in the industry is not compromised.

### The New Zealand real estate market

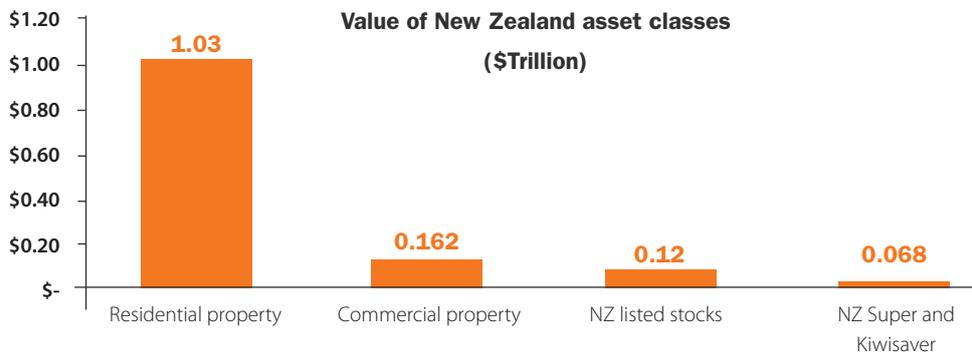
New Zealand residential real estate is currently valued at more than \$1 trillion (Figure 3 on following page). By comparison, commercial/industrial real estate is \$162 billion, investments in New Zealand stocks are \$120 billion and New Zealand superannuation \$68 billion (New Zealand Super and KiwiSaver combined).<sup>1</sup>

The New Zealand real estate market has experienced a recent boom with annual sales doubling in volume and value since 2012. It is estimated that annual sales were \$75 billion in 2016<sup>2</sup>. There are around 125,000 real estate transactions each year. Of these, it is estimated that about 20% are purchases by first-home buyers and about 10% are private sales.

<sup>1</sup>Source: CoreLogic NZ, Monthly Property Market and Economic Update: May-June 2017

<sup>2</sup>Source: CoreLogic NZ, Average residential property price (~\$622,000) multiplied by the number of real estate sales (~121,000)

Figure 3: The comparative value of residential property in New Zealand



Source: CoreLogic NZ – Monthly Property Market and Economic Update: May - June 2017

The New Zealand real estate market growth has been caused by a number of favourable economic drivers, including historically low interest rates, low unemployment and high net migration.

The high value and high profile of the New Zealand property market has attracted participation from a range of organisations and industries offering products and services to consumers. It also attracts interest in negative media when real estate licensees fall short of expected standards. This presents a busy landscape for REAA to cut through to reach buyers and sellers with independent information.

The growth has created a number of concerns, especially around household debt levels and associated risks and falling home-ownership levels. Government and a number of financial organisations have recently introduced restrictions in an effort to slow the growth of the real estate industry – particularly restrictions on bank lending to first-home buyers, offshore buyers and property investors. REAA will continue to monitor the New Zealand real estate market and anticipate and prepare for impact on both consumers and licensed real estate agents. Recent signs indicate that the property boom may be levelling out somewhat.

### Consumers

The recent property boom has increased consumer interest in buying and selling property. In 2016, real estate market research showed that more than 450,000 people planned to purchase or sell property in New Zealand over the next 12 months. Of those people, almost everyone (95%) was planning to buy, while only half (49%) were planning to sell. This highlights the excess demand for real estate, with first-home buyers making up 38% of the people planning to buy property.<sup>3</sup>

When it comes to researching information about property, 83% of buyers and sellers used websites to search available properties and keep an eye on the market. This online research is supplemented with, on average, up to four additional resources (for example, real estate brochures, local newspapers, friends and family) to support the buying and selling process. Currently, most consumers do not consider REAA as a source of information about buying and selling property.

REAA's research shows that most buyers and sellers consider themselves to have at least some knowledge and trust in the real estate process, and 49% feel empowered. REAA's challenge is to increase the percentage of consumers who are very knowledgeable about the process, have a high degree of trust and feel empowered.<sup>4</sup>

### Real estate licensees

REAA's scope includes residential, commercial, business and rural real estate transactions and licensees. Well established industry advisory groups that represent each of these licensee segments, along with broader industry engagement, help ensure that an industry perspective is incorporated into REAA's work.

Since 2012 and during the period of strong residential property sales, REAA has seen consistent growth in new licence applications. In the last year there has been high growth in the number of licensed agencies – there are currently 15,600 active individual and company licensees.

<sup>3</sup>Source: Nielsen Consumer Research, Nielsen 2016

<sup>4</sup>Source: REAA Consumer Research, Nielsen 2016

REAA has built and strengthened relationships with a number of industry organisations and developed a continuing education framework and code of conduct to help raise industry standards. There is an opportunity to increase engagement levels and collaborate further with the industry to continue to raise standards and promote best practices to support industry professionalism.

### **Enquiries and complaints**

Consumer research tells us that about 20% of consumers (both buyers and sellers) are unhappy with some aspect of their real estate transaction. Further analysis identified that, of these consumers, only 8% make a formal complaint with a real estate agency and even fewer with REAA.<sup>5</sup> REAA's focus is on gaining a deeper understanding of the causes of dissatisfaction and initiating programmes to reduce the likelihood of them occurring, therefore building greater confidence in the industry.

The number of enquiries to REAA has increased in line with industry sales volumes and the number of licensees. At the same time, the number of formal complaints has decreased.

The main reasons for enquiries to REAA are consumers asking about licensee conduct and seeking information about sales methods and agency agreements or licensees requesting guidance about conflicts of interest and non-disclosure requirements.

The main reasons for complaints to REAA are around perceived licensee incompetence or negligence, licensee non-disclosure or concern about misleading or incorrect marketing and advertising.

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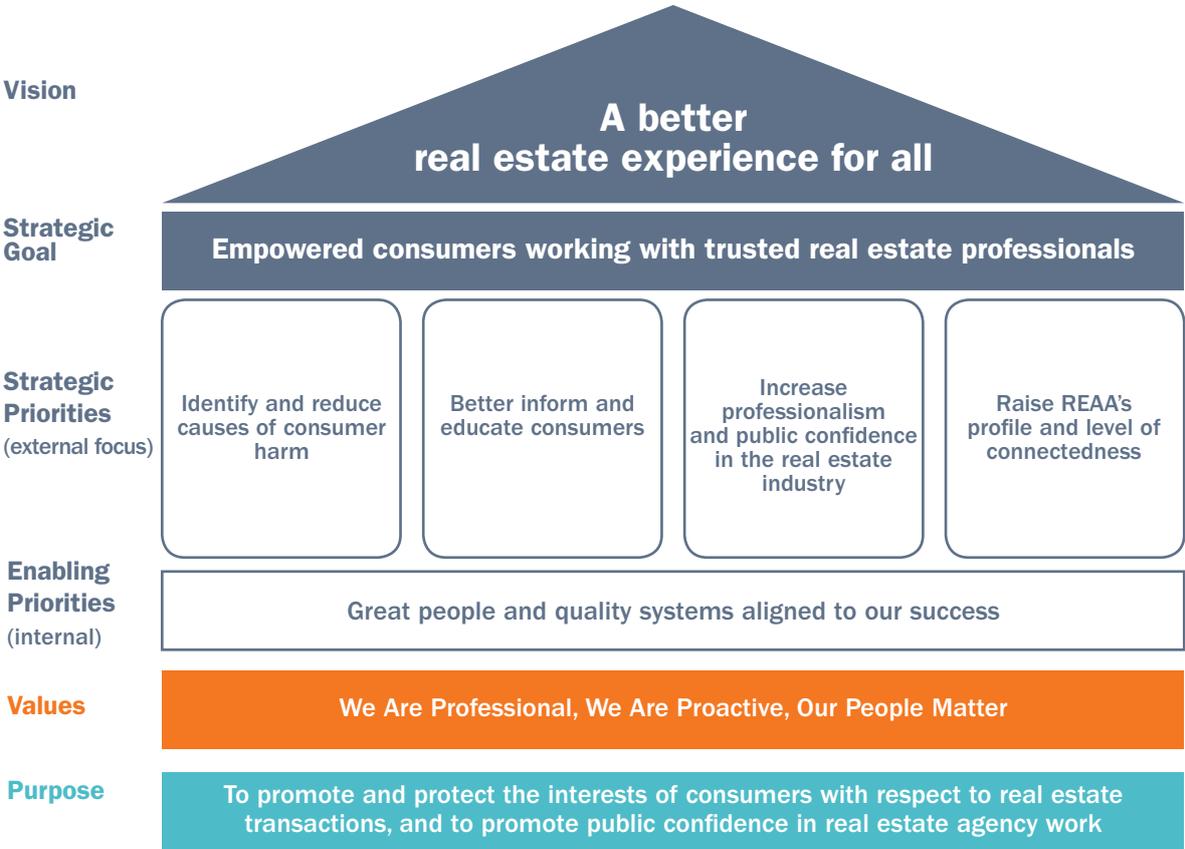
<sup>5</sup>Source: REAA Consumer Research, Colmar Brunton 2015

# Section 3: What REAA will aim to achieve

## REAA's strategy

The strategic framework (Figure 4 below) outlines REAA's vision, overarching strategic goal and strategic priorities for the next four years. REAA's purpose is the foundation of the strategic framework, and the vision and strategic goal statements outline what REAA aims to achieve. The strategic priorities outline how REAA will align resources and activities to help achieve the vision and strategic goal and also the Government's desired outcome for the justice sector – that all New Zealanders should expect to live in a safe and just society.

Figure 4: REAA's strategic framework



### A better real estate experience for all

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

### Empowered consumers working with trusted real estate professionals

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

REAA will target the people identified as being the most at risk, for example, first-home buyers, buyers who are new to New Zealand (especially those with English as a second language) and other inexperienced or vulnerable buyers and sellers.

REAA will aim to further raise professionalism across the industry with targeted campaigns focusing on the issues and behaviours most likely to generate complaints.

REAA's strategy works towards achieving the following outcome:

- **Outcome: Empowered consumers working with trusted real estate professionals**

REAA will measure success by seeing an increase in the percentage of consumers who feel empowered to participate in real estate transactions and an increase in consumers who feel their real estate agent was trustworthy and professional.

## Identify and reduce causes of consumer harm

Buying and selling property is one of the biggest investment decisions New Zealanders make. There are many risks, and when issues occur with a real estate transaction, the financial and emotional impact on consumers can be significant and long lasting.

REAA will use data analysis, insights and intelligence to identify and understand the causes of risks and issues. REAA will work with the sector to address, and REAA will also raise consumer awareness of risks and issues and how these can be mitigated.

REAA will seek to achieve the following impact under this strategic priority:

- **Impact 1: Reduced consumer harm**

REAA will measure success by seeing a reduction in the percentage of consumers who report that they experience problems during their real estate transaction and a reduction in the proportion of licensees that have either unsatisfactory conduct or misconduct decisions made against them. It is recognised that, in the short term, as REAA raises its profile to increase awareness of its role, complaint volumes and disciplinary outcomes may increase.

## Better inform and educate consumers

The real estate market has many organisations that promote products and services to consumers. Consumers need access to independent, relevant and accessible information to be better informed about the process, risks and issues related to real estate transactions. Most consumers are looking for property information online, and this provides an opportunity for REAA to inform and educate.

REAA will deliver targeted campaigns and initiatives to inform and educate consumers, particularly for the most at-risk groups, for example, consumers with little experience such as first-home buyers.

REAA will invest in an increasing number of avenues, including REAA's website and social media, to provide information, resources and tools to educate and inform consumers. This will be supported by the capability of our people when consumers contact us.

REAA will seek to achieve the following impact under this strategic priority:

- **Impact 2: Better informed and educated consumers**

REAA will measure success by seeing an increase in the percentage of consumers who consider themselves informed of their rights and obligations, and an increase in consumers who consider themselves knowledgeable about the real estate transaction.

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

The public's confidence in the real estate industry will be increased if the industry is made up of professional and competent licensees and there are effective processes for redress when things go wrong.

REAA will continue to help build industry capability, promote best practices, raise professional standards, manage licensing and complaints, and monitor and enforce licensee behaviour. REAA will raise public confidence by holding poor behaviour to account and by using a range of communication tools to promote the professionalism of the industry.

REAA will seek to achieve the following impact under this strategic priority:

- **Impact 3: Increased professionalism and public confidence**

REAA will measure success by seeing an increase in the percentage of consumers who have confidence in the real estate industry and an increase in consumers who consider the real estate industry to be professional.

## Raise REAA's profile and level of connectedness

Consumers have a low awareness of REAA's brand, role and value proposition, which makes it difficult for REAA to educate and inform them.

REAA will position itself as the independent, trusted and authoritative source of information and guidance for consumers and licensees. REAA will prepare for the possibility of increased volumes of enquiries and possibly complaints as consumers' awareness of REAA's role and purpose increases.

REAA will also engage, collaborate and partner with the industry, Government and private sector to leverage capability and build support to enable REAA to more effectively promote and protect consumer interests.

REAA will seek to achieve the following impact under this strategic priority:

- **Impact 4: Increased awareness and understanding of REAA**

REAA will measure success by seeing an increase in the percentage of consumers who consider REAA as a source of independent information and support.

### Assessing performance

REAA will assess performance through outcome and impact indicators and service output measures. Consumer perception, process quality and timeliness, compliance with standards and regulations, will all be used to measure REAA's performance. Contained within the annual Statement of Performance Expectations (Appendix 1) are detailed performance targets and measures for each service output.

#### Assessing outcome performance

| Outcome  | Indicator   | Average 2013-16 | Forecast 2021 | Change Sought |
|--|---|-----------------|---------------|---------------|
| Empowered consumers working with trusted real estate professionals | Percentage of consumers <sup>6</sup> who feel empowered or very empowered to participate effectively in the real estate transaction | 51%             | 56%           | ▲             |
|  | Percentage of consumers who rate the real estate agent very good or excellent in terms of being trustworthy                         | 58%             | 67%           | ▲             |
|  | Percentage of consumers who rate the real estate agent very good or excellent in terms of being professional                        | 61%             | 67%           | ▲             |

#### Assessing impact performance

| Impact  | Indicator   | Average 2013-16 | Forecast 2021       | Change Sought |
|---|---|-----------------|---------------------|---------------|
| Reduced consumer harm                           | Percentage of active licensees during the financial year that receive decisions of unsatisfactory conduct or serious misconduct                                       | 1.1%            | 1.0%                | ▼             |
|   | Percentage of consumers who experienced issues or problems with the real estate agent during their most recent transaction <sup>7</sup>                               | Not measured    | Establish benchmark | ▼             |
| Better informed and educated consumers          | Percentage of New Zealanders <sup>8</sup> who consider they have high levels of knowledge about their rights and obligations with respect to real estate transactions | 14%             | 15%                 | ▲             |
|   | Percentage of consumers who consider they have high levels of knowledge about their rights and obligations with respect to real estate transactions                   | Not measured    | Establish benchmark | ▲             |
|   | Percentage of consumers who consider they have high levels of knowledge about the real estate transaction process   | Not measured    | Establish benchmark | ▲             |
| Increased professionalism and public confidence | Percentage of New Zealanders who have confidence in the real estate industry  | 69%             | 75%                 | ▲             |
|   | Percentage of consumers who have high levels of confidence that the real estate industry is professional <sup>9</sup>   | Not measured    | Establish benchmark | ▲             |
| Increased awareness and understanding of REAA   | Percentage of New Zealanders who know what REAA does <sup>10</sup>  | 41%             | 50%                 | ▲             |
|   | A measure of awareness for the new REAA consumer brand – to be included after the new brand is developed and launched in 2017   | Not measured    | Establish benchmark | ▲             |

<sup>6</sup>Consumers' refers to respondents to the annual survey of people who have participated in a real estate transaction in the last 12 months

<sup>7</sup>Colmar Brunton research in 2015 identified 20% of consumers experienced a problem during the real estate transaction.

<sup>8</sup>New Zealanders' refers to respondents to the annual survey of people who reflect the New Zealand population.

<sup>9</sup>Rating 4 or 5, with 5 being 'a lot'.

<sup>10</sup>Rating 3 'know a little' and 4 'know a reasonable amount'.

**Assessing output performance (annual)**

| <b>Output</b>   | <b>Measure</b>  |
|---|---|
| Informing and educating consumers, licensees and other stakeholders | <b>Quality</b>  |
|   | Percentage of consumers who consider the residential property guides (Agency Agreement Guide and Sale and Purchase Agreement Guide) useful    |
|   | Percentage of consumers who found information and guidance provided by REAA useful  |
|   | Percentage of consumers who know what REAA does   |
|   | Percentage of licensees who find REAA's compliance guidance useful  |
|   | Percentage of licensees who agree the continuing education programme has improved their knowledge and understanding of the topic area         |
|   | Percentage of licensees who plan to make changes to their practice as a result of continuing education  |
|   | Number of targeted campaigns to consumers and licensees   |
|   | Number of website sessions  |
| Licensing, enforcing and monitoring of the real estate industry     | <b>Quality</b>  |
|   | Percentage of applications approved where licensees at the time of approval are 'fit and proper' and meet the required professional standards |
|   | Percentage of complainants and respondents that consider the complaints process independent, fair and transparent                             |
|   | Percentage of Complaints Assessment Committee decisions that meet quality standards   |
|   | Number of judicial criticisms on the Complaints Assessment Committee decision process   |
|   | <b>Timeliness</b>   |
|   | Percentage of new applications for licences processed within three weeks  |
|   | Percentage of renewal applications for licences processed within two weeks  |
|   | Percentage of complaints completed within one month   |
|   | Percentage of complaints completed within six months  |
| Percentage of complaints completed within one year                  |   |

## Section 4: Organisational health and capability

To achieve everything we have committed to do, we need to ensure that we provide the right environment, the right tools and the right support to enable our people to do their jobs effectively.

### Great people

REAA is committed to being a good employer and recognises that people are our greatest asset. Accordingly, REAA has developed a human resource strategy that sets out specific goals, objectives and measures to help foster a strong and collaborative culture and develop great people who are aligned and committed to REAA's success by:

- attracting, recruiting and retaining the right people
- recognising and rewarding
- developing leadership capability
- building capacity, personal growth and succession planning
- increasing staff engagement
- maintaining a safe and healthy work environment.

### Quality systems

REAA will maintain and develop core systems to support the achievement of impacts. The technology roadmap provides clarity about what is required from the information systems to support REAA's work. A significant priority is the development of new websites to better inform and educate consumers and provide guidance and support to licensees. We will invest in internal systems to continue to improve efficiency and analysis leading to better decision making.

### Capital intentions

During the period of this Statement of Intent and in accordance with the technology strategy and roadmap, REAA anticipates \$2.091 million to be spent. The outcome of this expenditure will principally be:

- improved information technology systems
- developing new websites focused on both consumer and licensee needs.

### Managing risk

REAA's risk management programme is designed to help manage risks that could affect our ability to achieve our ultimate vision and strategic goal. The senior leadership team regularly identifies, monitors and reviews the key strategic risks REAA faces and ensures adequate mitigation strategies are in place. A key element of this programme is the Audit and Risk Subcommittee of the Board. This monitors performance, provides oversight of the risk management programme, and makes recommendations to the Board.

### Responsibly managing finances

REAA aims to ensure financial sustainability through setting tight, realistic budgets and careful financial management.

REAA has repaid all Crown funding. The initial \$6 million from the Ministry of Justice to establish REAA has been repaid and in April 2016 REAA repaid a further \$2 million of working capital funding received from the Crown.

REAA is fully funded by fees and levies from licensed real estate agents. It receives no Government funding. The current fee and levy schedule came into effect on 1 February 2017 and is set at the minimum level required to maintain financial stability for the organisation.

### Reporting performance to the Minister

REAA strives to ensure strong working relationships and open communication with the Minister and with the Ministry of Justice. This includes maintaining a 'no surprises' policy, where early communication is provided about any material or significant events, transactions and other issues that could be considered contentious or attract wide public interest, whether positive or negative. Reports on progress against this Statement of Intent and the Statement of Performance Expectations will be provided on a four-monthly basis to the Associate Minister of Justice.

# **Appendix 1: Statement of Performance Expectations 2017/18**

Presented to the House of Representatives  
Pursuant to section 149 of the Crown Entities Act 2004

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# Introduction

This statement of performance expectations has been prepared in accordance with the requirements of section 149 of the Crown Entities Act 2004. It reflects and is intended to be read with REAA's Statement of Intent 2017/18 to 2020/21.

This document specifies how REAA will contribute over the next year towards achieving the strategic goal and outcome of having *empowered consumers working with trusted real estate professionals*.



John Auld  
Board Chair  
13 June 2017



Marion Cowden  
Board Member  
13 June 2017

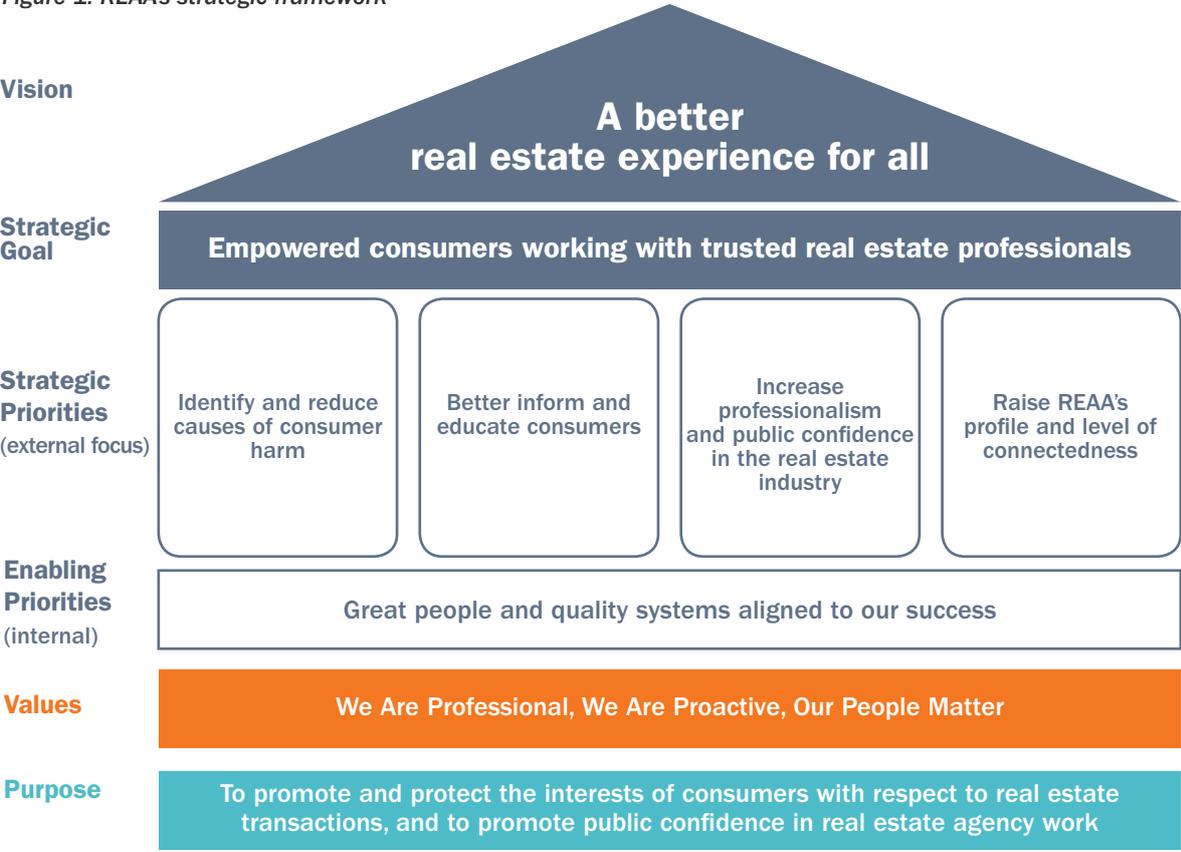
# Strategic intentions

## Strategic goal and outcome

The Justice Sector has an aspirational outcome that all New Zealanders should expect to live in a safe and just society. REAA's contribution towards this outcome is to help ensure that New Zealanders feel empowered to make informed decisions based on their personal situation so they can participate with confidence in real estate transactions and that they are working with trusted real estate professionals.

The strategic framework (Figure 1 below) outlines REAA's vision, overarching strategic goal and strategic priorities for the next four years. REAA's purpose is the foundation of the strategic framework and the vision and strategic goal statements outline what REAA aims to achieve. The strategic priorities outline how REAA will align resources and activities to deliver the vision and strategic goal.

Figure 1: REAA's strategic framework



The four strategic priorities align to four impacts that REAA is seeking to achieve.

## REAA's strategic priorities and impacts

| Strategic priorities   | Impacts  |
|--|--|
| Identify and reduce causes of consumer harm                                | 1. Reduced consumer harm                           |
| Better inform and educate consumers  | 2. Better informed and educated consumers          |
| Increase professionalism and public confidence in the real estate industry | 3. Increased professionalism and public confidence |
| Raise REAA's profile and level of connectedness                            | 4. Increased awareness and understanding of REAA   |

# The impacts we are seeking

During 2017/18, REAA will work towards the outcome of empowered consumers working with trusted real estate professionals by seeking to advance the following impacts:

- ▶ **Impact 1:** Reduced consumer harm
- ▶ **Impact 2:** Better informed and educated consumers
- ▶ **Impact 3:** Increased professionalism and public confidence
- ▶ **Impact 4:** Increased awareness and understanding of REAA

## Measuring impact performance

REAA will use the following indicators to measure performance for each impact.

### Impact 1: Reduced consumer harm

| Indicator  | Actual 2015/16 | Forecast 2016/17 | Expectation 2017/18 |
|--|----------------|------------------|---------------------|
| Percentage of active licensees during the financial year that receive decisions of unsatisfactory conduct or serious misconduct          | 1.1%           | 1.0%             | 1.0%                |
| Percentage of consumers <sup>11</sup> who experienced issues or problems with the real estate agent during their most recent transaction | Not measured   | 20%*             | Establish benchmark |

\*Based on Colmar Brunton research in 2015.

### Impact 2: Better informed and educated consumers

| Indicator   | Actual 2015/16 | Forecast 2016/17 | Expectation 2017/18 |
|---|----------------|------------------|---------------------|
| Percentage of New Zealanders <sup>12</sup> who consider they have high levels of knowledge of their rights and obligations with respect to real estate transactions | 15%            | 15%              | 15%                 |
| Percentage of consumers who consider they have high levels of knowledge of their rights and obligations with respect to real estate transactions                    | Not measured   | New measure      | Establish benchmark |
| Percentage of consumers who consider they have high levels of knowledge about the real estate transaction process   | Not measured   | New measure      | Establish benchmark |

### Impact 3: Increased professionalism and public confidence

| Indicator  | Actual 2015/16 | Forecast 2016/17 | Expectation 2017/18 |
|--|----------------|------------------|---------------------|
| Percentage of New Zealanders who have confidence in the real estate industry                             | 68%            | 68%              | 70%                 |
| Percentage of consumers who have high levels of confidence that the real estate industry is professional | Not measured   | New measure      | Establish benchmark |

### Impact 4: Increased awareness and understanding of REAA

| Indicator   | Actual 2015/16 | Estimate 2016/17 | Forecast 2017/18    |
|---|----------------|------------------|---------------------|
| Percentage of New Zealanders who know what REAA does  | 43%            | 43%              | 45%                 |
| A measure of awareness for the new REAA consumer brand – to be included after the new brand is developed and launched in 2017 | Not measured   | New measure      | Establish benchmark |

<sup>11</sup>Consumers' refers to respondents to the annual survey who have participated in a real estate transaction in the last 12 months.

<sup>12</sup>New Zealanders' refers to respondents to the annual survey who reflect the New Zealand population.

# Advancing our impacts

## Impact 1: Reduced consumer harm

### What do we want to achieve?

- Use data analysis, business intelligence, research and insights to identify and understand the causes of consumer harm
- Work both independently and collaboratively with the sector to reduce or prevent occurrences of consumer harm.

We will contribute to this impact through the following output:

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

### Key programmes of work during 2017/18:

- Conduct research to gain a deeper understanding of issues with the real estate experience
- Design and implement a voice of the customer programme
- Deliver targeted campaigns to improve the real estate experience.

## Impact 2: Better informed and educated consumers

### What do we want to achieve?

- Invest in digital channels to provide content, resources and tools to educate and inform consumers
- Deliver targeted campaigns and initiatives focusing on at-risk segments.

We will contribute to this priority through the following output:

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

### Key programmes of work during 2017/18:

- Develop and promote a new consumer-focused brand
- Develop and launch a new consumer-focused website
- Deliver targeted campaigns to inform and educate consumers.

## Impact 3: Increased professionalism and public confidence

### What do we want to achieve?

- Build real estate industry capability, enhance continuous education and promote best practices
- Manage licensing and complaints, increase consumer trust and the public's perception of industry professionalism
- Continuously improve the efficiency and effectiveness of REAA's services, processes and systems.

We will contribute to this priority through the following output:

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

### Key programmes of work during 2017/18:

- Conduct current state analysis into agency complaint handling
- Develop and implement a professional standards framework
- Develop and launch new professional standards.

## Impact 4: Increased awareness and understanding of REAA

### What do we want to achieve?

- Position REAA as the independent, trusted and authoritative source of information and guidance for consumers and licensees
- Engage, collaborate and partner with the industry, Government and private sector to leverage capability and build support to enable REAA to more effectively promote and protect consumer interests.

We will contribute to this priority through the following outputs:

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

### Key programmes of work during 2017/18:

- Launch and promote the refreshed REAA brand
- Develop and launch the new REAA website.

# Alignment of initiatives to impacts and strategy

During 2017/18, REAA initiatives will benefit multiple strategic priorities.

## REAA's initiatives aligned to strategy

| Key initiatives<br><br>Key: ✦ Primary benefit from initiative<br>✓ Secondary benefits     | Identify and reduce causes of consumer harm | Better inform and educate consumers | Increase professionalism and public confidence in the real estate industry | Raise REAA's profile and level of connectedness |
|---|---|-------------------------------------|--|---|
| Conduct research to gain a deeper understanding of issues with the real estate experience | ✦   | ✓                                   | ✓  |   |
| Design and implement a voice of the customer programme                                    | ✦   | ✓                                   | ✓  |   |
| Deliver targeted campaigns to help improve the real estate experience                     | ✦   | ✓                                   | ✓  |   |
| Develop and promote a new consumer-focused brand  | ✓   | ✦                                   | ✓  | ✓   |
| Develop and launch a new consumer-focused website   | ✓   | ✦                                   | ✓  | ✓   |
| Deliver targeted campaigns to inform and educate consumers                                | ✓   | ✦                                   | ✓  |   |
| Conduct current state analysis into agency complaint handling                             | ✓   | ✓                                   | ✦  | ✓   |
| Develop and implement a professional standards framework                                  | ✓   | ✓                                   | ✦  | ✓   |
| Develop and launch a new professional standard  | ✓   | ✓                                   | ✦  | ✓   |
| Launch and promote the refreshed REAA brand   | ✓   | ✓                                   | ✓  | ✦   |
| Develop and launch the new REAA website   | ✓   | ✓                                   | ✓  | ✦   |

# Output class: Operate the Real Estate Agents Authority

REAA has one output class through Vote Justice: Operate the Real Estate Agents Authority.

REAA's outputs are grouped into two results areas:

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

*Output revenue and expenditure:*

|   | 2017/18<br>\$000 |
|---|------------------|
| <b>Output Revenue and Expenditure</b>                               |                  |
| <b>Total revenue</b>  | <b>11,114</b>    |
| <b>Output expenditure</b>   |                  |
| Informing and educating consumers, licensees and other stakeholders | 3,529            |
| Licensing, enforcing and monitoring of the real estate industry     | 9,080            |
| <b>Total expenditure</b>  | <b>12,609</b>    |
| <b>Total Comprehensive revenue and expense</b>                      | <b>(1,495)</b>   |

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

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

This output includes the identification and understanding of the causes of consumer harm, the development of targeted campaigns to reduce or prevent the occurrence of consumer harm and the provision of relevant and accessible information to help educate consumers as well as the development of strategic partnerships with stakeholders.

This output primarily contributes towards the following impacts:

- ▶ **Impact 1:** Reduced consumer harm
- ▶ **Impact 2:** Better informed and educated consumers
- ▶ **Impact 4:** Increased awareness and understanding of REAA

**Cost:** The total cost allocation to this output area for 2017/18 is \$3,529,000.

## Assessing output performance

| Measure  | Actual 2015/16 | Forecast 2016/17 | Expectation 2017/18 | How it will be measured           |
|--|----------------|------------------|---------------------|-----------------------------------|
| <b>Quality</b>   |                |                  |                     |                                   |
| Percentage of consumers who consider the residential property guides (Agency Agreement Guide and Sale and Purchase Agreement Guide) useful | 88%            | 85%              | 85%                 | Annual consumer perception survey |
| Percentage of consumers who found information and guidance provided by REAA useful   | 96%            | 97%              | 97%                 | Annual consumer perception survey |
| Percentage of consumers who know what REAA does*   | 59%            | 59%              | 59%                 | Annual consumer perception survey |
| Percentage of licensees who find REAA's compliance guidance useful   | 86%            | 80%              | 80%                 | Licensee survey                   |
| Percentage of licensees who agree the continuing education programme has improved their knowledge and understanding of the topic area      | 86%            | 87%              | 87%                 | Licensee survey                   |
| Percentage of licensees who plan to make changes to their practice as a result of continuing education                                     | 74%            | 80%              | 80%                 | Licensee survey                   |
| Number of targeted campaigns to consumers and licensees <sup>^</sup>   | -              | 2                | 5                   | Internal reporting                |
| Number of website sessions <sup>^</sup>  | 451,866        | 650,000          | 600,000             | Website analytics                 |

\* Refined measures

<sup>^</sup> New measures

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

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

This output primarily contributes towards the following impacts:

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

**Cost:** The total cost allocation to this output area for 2017/18 is \$9,080,000.

### Assessing output performance

| Measure   | Actual 2015/16 | Forecast 2016/17 | Expectation 2017/18 | How it will be measured                |
|---|----------------|------------------|---------------------|--|
| <b>Quality</b>  |                |                  |                     |  |
| Percentage of applications approved where licensees at the time of approval are 'fit and proper' and meet the required professional standards | 100%           | 100%             | 100%                | Internal review of applications        |
| Percentage of complainants and respondents that consider the complaints process independent, fair and transparent                             | 52%            | 60%              | 60%                 | Complainants' and respondents' surveys |
| Percentage of Complaints Assessment Committee decisions that meet quality standards <sup>13</sup>   | 90%            | 100%             | 100%                | External review of decisions           |
| Number of judicial criticisms on the Complaints Assessment Committee decision process <sup>14</sup>   | 0              | 1                | 0                   | Internal review of decisions           |
| <b>Timeliness</b>   |                |                  |                     |  |
| Percentage of new applications for licences processed within three weeks  | 87%            | 85%              | 87%                 | Report from data management system     |
| Percentage of renewal applications for licences processed within two weeks  | 98%            | 96%              | 98%                 | Report from data management system     |
| Percentage of complaints completed within one month   | 27%            | 15%              | 45%                 | Report from data management system     |
| Percentage of complaints completed within six months  | 61%            | 70%              | 75%                 | Report from data management system     |
| Percentage of complaints completed within one year  | 85%            | 90%              | 95%                 | Report from data management system     |

<sup>13</sup>This result is obtained through an annual external review of a sample of Complaints Assessment Committee (CAC) decisions. Each CAC decision is scored against four set criteria: knowledge of the legislation and Tribunal decisions; analysis – identifying the issues and evidence and applying the legal knowledge to them; procedural compliance – whether the process follows prescribed statutory process, other procedural guidelines and requirements of natural justice; form – compliance with REAA's Committee style guides.

<sup>14</sup>Judicial criticism is assessed through a comprehensive review of each Tribunal decision, most particularly Tribunal decisions that overturn CAC decisions. In each case, the reason for the overturn is assessed as to whether there is any judicial criticism of the original CAC decision.

# Forecast financial statements

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

## Specific assumptions

The number of licences significantly affects projected revenue. For forecasting purposes, it has been assumed that 15,800 active licensees will be registered with REAA for each year of the period 2017/18 to 2020/21. Currently, there are 15,645 active licensees registered.

## Revenue

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

## Additional information

### Equity

At the end of 2017/18, REAA forecasts a positive equity position of \$3.976 million.

### Capital expenditure

REAA has completed the Licensing Management System project enabling an online portal for licensees and also improved internal systems.

The focus has now turned to upgrading and improving other systems (such as telephony, document management and the finance system). It is expected that there will be approximately \$1.5 million incurred across the year.

### Revenue and licensee volumes

Total active licensees at 30 June 2018 are expected to be 15,800. The revenue recognised in 2017/18 from these licensees is estimated to be \$4.237 million inclusive of application levies for new licensees and the annual licence fee, which is deferred over a 12-month period.

### Personnel costs

Personnel costs of \$5.401 million include health and welfare, training and development, ACC levies, recruitment, superannuation, and salaries and wages.

# Forecast Statement of Comprehensive Revenue and Expense

for the years ended 30 June

|  | 2017/18<br>\$000  | 2018/19<br>\$000  | 2019/20<br>\$000  | 2020/21<br>\$000 |
|--|-------------------|-------------------|-------------------|------------------|
| <b>Revenue</b>                                 |                   |                   |                   |                  |
| Operating levy received                        | 9,527             | 9,433             | 9,433             | 9,433            |
| Approved guide sales                           | 250               | 250               | 250               | 250              |
| Application and suspension fees                | 877               | 877               | 877               | 877              |
| Other revenue                                  | 460               | 460               | 460               | 460              |
| <b>Total revenue</b>                           | <b>11,114</b>     | <b>11,020</b>     | <b>11,020</b>     | <b>11,020</b>    |
| <b>Expenditure</b>                             |                   |                   |                   |                  |
| Audit fee                                      | 60                | 60                | 60                | 60               |
| Personnel costs                                | 5,401             | 5,386             | 5,452             | 5,566            |
| Depreciation                                   | 95                | 94                | 93                | 69               |
| Amortisation                                   | 1,169             | 1,312             | 1,148             | 771              |
| Specialist services                            | 2,272             | 1,830             | 1,810             | 1,810            |
| Legal fees                                     | 1,316             | 1,336             | 1,336             | 1,336            |
| Board fees                                     | 160               | 163               | 166               | 170              |
| Complaints Assessment Committee fees           | 380               | 387               | 395               | 403              |
| Computer and telecommunications                | 840               | 851               | 851               | 851              |
| Printing, stationery and postage               | 141               | 141               | 141               | 141              |
| Travel, meetings and entertainment             | 327               | 327               | 327               | 327              |
| Occupancy                                      | 417               | 417               | 417               | 417              |
| Miscellaneous expenses                         | 31                | 31                | 31                | 31               |
| <b>Total expenditure</b>                       | <b>12,609</b>     | <b>12,335</b>     | <b>12,227</b>     | <b>11,952</b>    |
| <b>Total Comprehensive revenue and expense</b> | <b>\$ (1,495)</b> | <b>\$ (1,315)</b> | <b>\$ (1,207)</b> | <b>\$ (932)</b>  |

# Forecast Statement of Financial Position

as at 30 June

|                                  | 2017/18<br>\$000 | 2018/19<br>\$000 | 2019/20<br>\$000 | 2020/21<br>\$000 |
|----------------------------------|------------------|------------------|------------------|------------------|
| <b>Current Assets</b>            |                  |                  |                  |                  |
| Cash and cash equivalents        | 1,129            | 1,462            | 1,224            | 1,122            |
| Investments                      | 5,184            | 4,684            | 4,684            | 4,684            |
| Debtors and other receivables    | 162              | 162              | 162              | 162              |
| Prepayments                      | 19               | 20               | 20               | 20               |
| GST receivable/(payable)         | (3)              | 36               | 96               | 144              |
| Approved guide stock             | 40               | 40               | 41               | 42               |
| <b>Total current assets</b>      | <b>6,531</b>     | <b>6,404</b>     | <b>6,227</b>     | <b>6,174</b>     |
| <b>Non-Current Assets</b>        |                  |                  |                  |                  |
| Property, plant and equipment    | 277              | 208              | 140              | 96               |
| Intangible assets                | 3,825            | 2,764            | 1,866            | 1,101            |
| <b>Total non-current assets</b>  | <b>4,102</b>     | <b>2,972</b>     | <b>2,006</b>     | <b>1,197</b>     |
| <b>Total assets</b>              | <b>10,633</b>    | <b>9,376</b>     | <b>8,233</b>     | <b>7,371</b>     |
| <b>Liabilities</b>               |                  |                  |                  |                  |
| Trade creditors and accruals     | 892              | 947              | 1,007            | 1,073            |
| Employee entitlements            | 172              | 175              | 179              | 183              |
| Deferred operating levy          | 5,569            | 5,569            | 5,569            | 5,569            |
| Disciplinary levy payable        | 24               | 24               | 24               | 24               |
| <b>Total current liabilities</b> | <b>6,657</b>     | <b>6,715</b>     | <b>6,779</b>     | <b>6,849</b>     |
| <b>Total liabilities</b>         | <b>6,657</b>     | <b>6,715</b>     | <b>6,779</b>     | <b>6,849</b>     |
| <b>Net assets/equity</b>         | <b>3,976</b>     | <b>2,661</b>     | <b>1,454</b>     | <b>522</b>       |
| <b>Public Equity</b>             |                  |                  |                  |                  |
| Retained earnings                | 5,221            | 3,726            | 2,411            | 1,204            |
| Litigation reserve               | 250              | 250              | 250              | 250              |
| Current year surplus/(deficit)   | (1,495)          | (1,315)          | (1,207)          | (932)            |
| <b>Total public equity</b>       | <b>\$ 3,976</b>  | <b>\$ 2,661</b>  | <b>\$ 1,454</b>  | <b>\$ 522</b>    |

# Forecast Statement of Cash Flows

for the years ended 30 June

|   | 2017/18<br>\$000 | 2018/19<br>\$000 | 2019/20<br>\$000 | 2020/21<br>\$000 |
|---|------------------|------------------|------------------|------------------|
| <b>Cash Flows from Operating Activities</b>                 |                  |                  |                  |                  |
| <b>Cash was provided from:</b>                              |                  |                  |                  |                  |
| Receipts from licensees                                     | 9,983            | 9,807            | 9,807            | 9,807            |
| Receipts from sale of publications                          | 250              | 250              | 250              | 250              |
| Interest received   | 180              | 180              | 180              | 180              |
| Receipts from suspension fees                               | 503              | 503              | 503              | 503              |
| Receipts from fines   | 280              | 280              | 280              | 280              |
| <b>Cash was applied to:</b>                                 |                  |                  |                  |                  |
| Payments to suppliers                                       | (6,495)          | (5,723)          | (5,715)          | (5,726)          |
| Payments to employees                                       | (5,019)          | (5,156)          | (5,217)          | (5,326)          |
| Net GST received/(paid)                                     | (49)             | (33)             | (51)             | (40)             |
| <b>Net cash flows from operating activities</b>             | <b>(367)</b>     | <b>108</b>       | <b>37</b>        | <b>(72)</b>      |
| <b>Cash Flows from Investing Activities</b>                 |                  |                  |                  |                  |
| <b>Cash was provided from:</b>                              |                  |                  |                  |                  |
| Receipts from investments in term deposits                  | 1,000            | 500              | -                | -                |
| <b>Cash was applied to:</b>                                 |                  |                  |                  |                  |
| Purchase of property, plant and equipment                   | (96)             | (25)             | (25)             | (25)             |
| Purchase of intangible assets                               | (1415)           | (250)            | (250)            | (5)              |
| <b>Net cash flows from investing activities</b>             | <b>(511)</b>     | <b>225</b>       | <b>(275)</b>     | <b>(30)</b>      |
| <b>Cash Flows from Financing Activities</b>                 |                  |                  |                  |                  |
| Net cash flows from financing activities                    | -                | -                | -                | -                |
| <b>Net increase/(decrease) in cash and cash equivalents</b> | <b>(878)</b>     | <b>333</b>       | <b>(238)</b>     | <b>(102)</b>     |
| Opening cash and cash equivalents                           | 2,007            | 1,129            | 1,462            | 1,224            |
| <b>Closing cash and cash equivalents</b>                    | <b>\$ 1,129</b>  | <b>\$ 1,462</b>  | <b>\$ 1,224</b>  | <b>\$ 1,122</b>  |

# Forecast Statement of Changes in Equity

for the years ended 30 June

|  | 2017/18<br>\$000 | 2018/19<br>\$000 | 2019/20<br>\$000 | 2020/21<br>\$000 |
|--|------------------|------------------|------------------|------------------|
| Public equity as at 1 July               | 5,471            | 3,976            | 2,661            | 1,454            |
| Total comprehensive revenue and expense  | (1,495)          | (1,315)          | (1,207)          | (932)            |
| <b>Total public equity as at 30 June</b> | <b>3,976</b>     | <b>2,661</b>     | <b>1,454</b>     | <b>522</b>       |
| <b>Comprised of the following funds:</b> |                  |                  |                  |                  |
| Retained earnings as at 1 July           | 5,221            | 3,726            | 2,411            | 1,204            |
| Total comprehensive revenue and expense  | (1,495)          | (1,315)          | (1,207)          | (932)            |
| <b>Total retained earnings</b>           | <b>3,726</b>     | <b>2,411</b>     | <b>1,204</b>     | <b>272</b>       |
| Litigation reserve as at 1 July          | 250              | 250              | 250              | 250              |
| Total comprehensive revenue and expense  | -                | -                | -                | -                |
| <b>Total litigation reserve</b>          | <b>\$ 250</b>    | <b>\$ 250</b>    | <b>\$ 250</b>    | <b>\$ 250</b>    |

# Statement of accounting policies

## Reporting entity

These are the forecast financial statements of the Real Estate Agents Authority (REAA), a Crown entity as defined by the Crown Entities Act 2004. REAA is domiciled in New Zealand. REAA's functions are defined in the Real Estate Agents Act 2008 and are described on page 4 of the Statement of Intent 2017/18 to 2020/21. REAA 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.

REAA qualifies as a Tier 2 reporting entity as it has between \$2 million and \$30 million operating expenditure and is not considered publicly accountable as defined by the External Reporting Board.

### Measurement basis

The financial statements have been prepared on a historical cost basis except for the establishment funding from the Crown, which has been measured at fair value on inception.

### Functional and presentation currency

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

REAA 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 REAA, 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. REAA also charges a fee for suspending a licence.

Under PBE IPSAS 9, REAA considers the revenue generated from operating levies to be exchange in nature as it is

consideration for goods and services that REAA provides to licensed members and approximates the fair value of those transactions.

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

Application fees and suspension fees are recognised when due and received.

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

### Fines

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

### Sale of publications

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

### Interest

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

### Leases

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

### Cash and cash equivalents

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

### Investments

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

Investments in bank deposits are initially measured at fair value plus transaction costs. After initial recognition, investments in bank deposits are measured at amortised cost using the effective interest rate method, less any provision for impairment. Impairment is established when there is objective evidence REAA will not be able to collect

amounts due according to the original terms of the deposit. Significant financial difficulties of the bank, probability the bank will enter into receivership or liquidation and default in payments are considered indicators the deposit is impaired.

### Debtors and other receivables

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

Impairment of a receivable is established when there is objective evidence that REAA 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 REAA and the cost of the item can be measured reliably.

#### Disposals

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

#### Subsequent costs

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

### Depreciation

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

|                                       |                         |
|---------------------------------------|-------------------------|
| <i>Leasehold improvements</i>         |                         |
| 4 years                               | 25% straight-line basis |
| <i>Computer equipment</i>             |                         |
| 3 years                               | 33% straight-line basis |
| <i>Furniture and office equipment</i> |                         |
| 5 years                               | 20% straight-line basis |

### 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 REAA are recognised as an intangible asset. Direct costs include the software development and consultants' costs. Costs associated with maintaining computer software are recognised as an expense when incurred.

#### Amortisation

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

|  |                            |
|--|----------------------------|
| <i>Acquired and developed software</i> |                            |
| 3–5 years                              | 20–33% straight-line basis |

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

### Impairment of non-financial assets

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

### Creditors and other payables

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

## Employee entitlements

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

## Superannuation schemes

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

## Establishment funding

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

## Goods and services tax

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

## Taxation

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

## Financial instruments

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

## Statement of cash flows

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

Cash flows are classified into three activities:

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

## Equity

Equity for REAA 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, and the policies are consistent with those used in the past year. The accounting policies have been consistently applied throughout the periods of the financial statements.

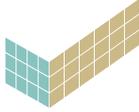
## Critical judgements in applying REAA's accounting policies

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

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

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

Judgements made by management in the application of IPSAS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the specific assumptions section on page 22 of this Statement of Performance Expectations.

Real Estate   
Agents Authority

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Level 3, 3 The Terrace, Wellington (temporary address)  
PO Box 25 371, Featherston Street, Wellington, 6146

[www.reaa.govt.nz](http://www.reaa.govt.nz)

