

Tauākī o Ngā Kawatau Whakatutuki Mahi

Statement of Performance Expectations

For the year ending 30 June 2022





NZBN 9429041917718

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

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1. Statement of authorisation – Tauākī whakamana

This Statement of Performance Expectations (SPE) is presented to the House of Representatives in accordance with the Crown Entities Act 2004.

This SPE sets out our proposed performance targets and financial budget for the financial year 1 July 2021 to 30 June 2022. It is produced in accordance with section 149(E) of the Crown Entities Act 2004 and should be read together with our Statement of Intent 2021–2025.

The prospective financial statements and underlying assumptions in this document have been authorised as appropriate for issue by our Board in accordance with its role under the Crown Entities Act 2004.

REA is responsible for the preparation of this SPE, including the prospective financial statements and the assumptions on which they are based and the non-financial performance measures.



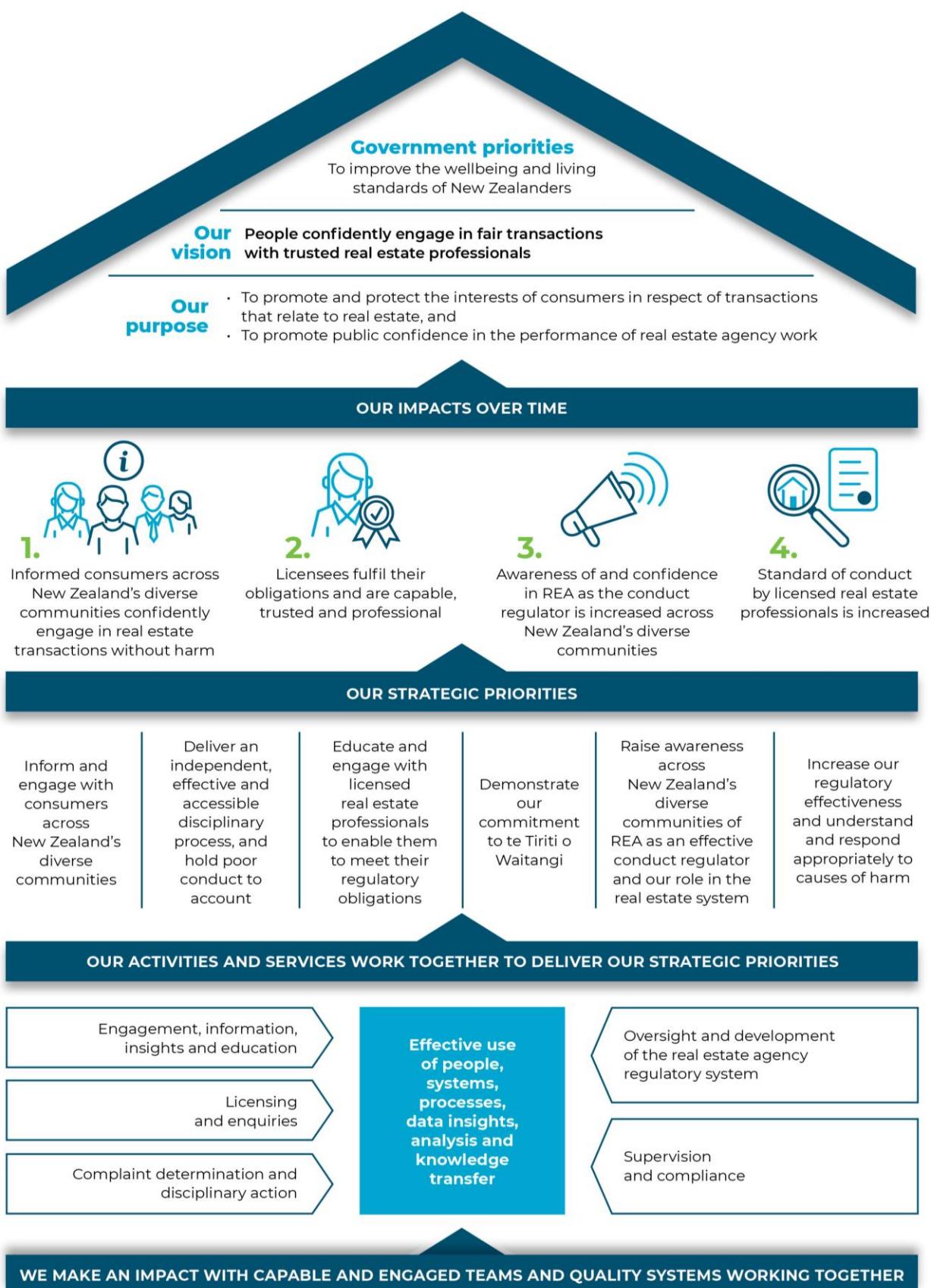
Denese Bates QC
Chair
Real Estate Authority
17 June 2021



Marion Eades
Chair
Audit and Risk Committee
17 June 2021

2. Strategic framework – Te anga rautaki

FIGURE 1: REA'S STRATEGIC FRAMEWORK



3. Introduction – Tīmatanga kōrero

This Statement of Performance Expectations (SPE) is one of two documents that set out how we will measure our performance and report on the progress of that performance against our targets.

The other document is our Statement of Intent 2021–2025 (SOI), which offers a longer-term view of the progress made towards achieving our strategic priorities.

We will report on how we have performed against these targets in the 2021/22 Annual Report.

REA's role and function

The Real Estate Agents Authority, operating as the Real Estate Authority – Te Mana Papawhenua (REA), is a Crown agent established under the Real Estate Agents Act 2008. We work to promote and protect the interests of consumers in real estate transactions and to promote public confidence in the performance of real estate agency work. We are governed by an independent Board, and our staff team is led by our Chief Executive.

We do not receive government funding. Our revenue is derived from levies paid by licensees, fines ordered by the independent Complaints Assessment Committees (CAC) and the Real Estate Agents Disciplinary Tribunal and other sources as detailed in the notes to our forecast financial statements. In the present uncertain and volatile environment, we have continued to take a conservative view of likely revenue. While the number of licensed real estate professionals is higher than forecast, our data indicates that there can be high churn and changes to the overall annual number.

We are the real estate industry conduct regulator responsible for licensing and regulating real estate salespeople, branch managers and agents, raising industry standards and providing accountability to those standards by overseeing a complaints and disciplinary process that is independent, transparent and effective. We set and uphold high professional standards of conduct expected from licensed real estate professionals (licensees) through rules, standards and guidelines and oversee a code of conduct. We oversee a programme for continuous professional development for all licensees to ensure they maintain the level of skill and knowledge expected from a regulated profession. We also develop consumer information on matters relating to real estate transactions and issue guides on agency agreements and sale and purchase agreements. We host the consumer information website settled.govt.nz.

A refreshed REA strategy

This SPE reflects our refreshed strategy through to 2025 and the direction REA intends to take to continue to be an effective conduct regulator with a clear consumer protection focus. Our previous strategy focused on empowering consumers and supporting increased professionalism in the real estate sector. This strategy served us well, with the launch of settled.govt.nz to provide increased consumer information, and saw a reduction in complaints to an all-time low. In the last year, the impact and uncertainty of COVID-19, increased pressures in the real estate market and changes to the licensed real estate population and real estate business models have highlighted the important role REA has to deliver benefits for consumers and the industry. We will do this by continuing to provide quality information to consumers, which has been a major focus for the last few years. We will balance this work with increasing our focus on using all of our regulatory tools effectively to benefit consumers by supporting the industry to meet high standards of conduct.

In the coming four years, we will concentrate our attention on initiatives and work programmes designed to deliver the value and impact to New Zealand set out in our strategic framework

(Figure 1). We will achieve this by focusing on six strategic priorities undertaken across REA. Through this mahi, we will set clear and enforceable rules, standards and guidelines that support licensees to fulfil their regulatory obligations and increase their standard of conduct. Through engagement and education, we will use the range of regulatory tools available to us to prevent harm, and we will respond proportionately to actual or potential harm that may arise through the provision of an accessible, fair and modern complaints and disciplinary system. We will hold licensees to account where their conduct falls short. An important aspect will be to continue to deepen our understanding of the drivers of risk, the causes of potential harm arising from real estate agency work and how we are best to respond to that risk.

This includes developing and enhancing clear and concise standards that provide clear and enforceable guidance for licensees and increasing our proactive efforts to engage with agencies and individual licensees who present the greatest risk of harm. We will undertake a review of the guidance and information provided to licensees and consumers and of our continuing professional development programme to ensure it is fit for purpose and effective. We will also provide clarity on what is required to meet the fit and proper requirements for a real estate licence. We will work with education providers and stakeholders to support the timely implementation of a fit-for-purpose real estate qualification suite.

We will continue to deliver information to consumers through a variety of channels to enable them to confidently engage in real estate transactions. A particular focus will be reaching New Zealand's diverse communities across age, ethnicity, gender identification and ability.

Importantly, we aim to raise awareness of REA as the real estate conduct regulator so that all New Zealanders are aware of the services that we offer and can access them. We play an important role in the real estate sector and will take steps to provide advice and guidance on issues within our scope to other private and public sector entities and policy makers as required. Working closely with other stakeholders involved in real estate work, such as the licensee membership body Real Estate Institute of New Zealand (REINZ) and other professional bodies and associations, will remain an important focus in our work. Our aim is that we work together to strengthen high standards of conduct and protect against harm to consumers. As part of this, we will provide advice as required to policy officials with oversight of housing, including providing advice and support to work under way to explore the regulation of property managers.

As an organisation, we aim to better demonstrate our commitment to te Tiriti o Waitangi, including increasing our own cultural capability reflecting Treaty principles in the way we engage with others and deepening our understanding and response to the needs of Māori consumers and licensees. We will continue to contribute to the Māori-Crown relationship by working with other sector entities who engage with Māori on issues relating to whenua. We aim to achieve our strategic objectives by ensuring that we have great people and a quality team that works together to deliver our impacts. Through all that we do, we aim to increase the wellbeing of New Zealanders and increase trust and confidence in REA and the real estate sector.

Our refreshed strategy has meant we have revisited our SPE outputs and changed our accounting policy for the treatment of revenue generated from licence fees and levies. We have also adjusted our measures to properly assess our performance that underpins the impacts we are seeking to have.

The high-pressure real estate market

The New Zealand real estate market is currently experiencing high levels of competition for sales and increasing prices. These factors are contributing to pressure placed on consumers and licensed real estate professionals involved in real estate transactions. Our role in upholding the purpose of our Act is to help protect the wellbeing of consumers by informing them about

the real estate transaction and risks involved and ensuring that licensed professionals are aware of their regulatory obligations when they perform real estate agency work.

Reflecting this increase in real estate activity, REA has also experienced increases in real estate enquiries, consumer complaints and new people wanting to join the real estate profession. It is critical that REA is equipped to provide regulatory stewardship in response to these market pressures and increased demand on our services.

The Government housing policy settings have been designed to dampen the residential real estate market and improve the affordability of housing. While we do not have a policy mandate, we operate in the environment on which these settings may have an effect. In the year ahead, these actions may impact the level of real estate activity, the level of REA activity and the number of people who may join the real estate profession. This contributes to the level of uncertainty in our operating environment.

Ongoing uncertainty of COVID-19

The ongoing impact of COVID-19 on the New Zealand economy, real estate industry and REA's operations and regulatory effectiveness remains uncertain, with the risk of regional and/or national alert level changes still high.

REA continues to monitor lead indicators to help determine the impact of COVID-19. At a macro level, REA is monitoring economic outlooks and data (GDP, CPI, unemployment rates, house prices, real estate listings, sales data) to gain an insight into the economic position of the real estate market. REA is also tracking the operational impacts of COVID-19 (volumes of phone calls, active licences, licence applications and suspensions, complaints, enquiries, engagement surveys for industry and staff). REA is also monitoring industry and consumer behaviour through Industry Advisory Group feedback, internal enquiries and complaints data to manage key regulatory risks related to COVID-19. We remain ready to provide guidance to licensees and consumers in shifting alert levels and to adapt our processes to address the additional issues arising from transactions in this context.

As an agency funded almost entirely by licensee levies, in the year ahead, REA will continue to take a prudent approach to operational expenditure and financial forecasts while the uncertainty of COVID-19 remains a high risk to the New Zealand economy and real estate sector.

Increase in issues brought to REA

In the last financial year, formal complaints to REA reached an all-time low, whilst access of our consumer information and use of our enquiry and early resolution services increased. Licensing numbers held steady. However, in the wake of the COVID-19 response and a pressured housing market, licensing numbers have increased, with a 45% increase in new licences issued in the period 1 July to 31 December 2020. Complaints and enquiries have also increased, putting greater demand on our regulatory services. In this context, it is important that REA has a clear focus on its regulatory responsibilities to ensure that it identifies and responds to risks, supports licensees to meet their obligations and provides an effective complaints and disciplinary process. This work is complemented by the work we do to deliver information to consumers to enable them to confidently engage in real estate transactions.

This SPE is provided in two parts:

PERFORMANCE ASSESSMENT AND EXPECTATIONS

This section sets out our non-financial performance measures and targets for the year ending 30 June 2022 in accordance with the Crown Entities Act 2004. This section explains how our activities and services work collectively to influence and contribute to our longer-term outcome and the impacts we intend to achieve.

As shown in our strategic framework, the activities and services we deliver work collectively. Together, they contribute to our overarching vision and what we intend to achieve.

Our performance measures provide an assessment of our progress towards our strategic priorities, which are linked to the key impacts we intend to achieve:

- Informed consumers across New Zealand's diverse communities confidently engage in real estate transactions without harm.
- Licensees fulfil their obligations and are capable, trusted and professional.
- Awareness of and confidence in REA as the conduct regulator is increased across New Zealand's diverse communities.
- Standard of conduct by licensed real estate professionals is increased.

We contribute to these impacts through the delivery of our activities and services:

- Engagement, information, insights and education.
- Licensing and enquiries.
- Complaint determination and disciplinary action.
- Oversight and development of the real estate agency regulatory system.
- Supervision and compliance.

We have grouped the delivery of our activities and services into three output areas:

- Output 1: Informing consumers, educating and engaging with licensees.
- Output 2: Regulatory effectiveness through licensing, interventions, disciplinary and complaints processes.
- Output 3: Oversight and development of an effective real estate agency regulatory system.

PROSPECTIVE FINANCIAL STATEMENTS

The prospective financial statements provide all appropriate information and explanations needed to fairly reflect the prospective financial operations and financial position of REA for the year ending 30 June 2022 in accordance with section 149(G) of the Crown Entities Act 2004.

4. Performance assessment and expectations – Te aromatawai whakatutuki mahi me ngā kawatau

We have identified in our 2021–2025 SOI a series of key performance measures and targets to determine progress towards achieving our impacts over time. Taken together, these measures provide a good indication of whether REA is working as efficiently and effectively as it should and whether we are progressing towards our vision and outcome. The long-term indicators sit alongside our annual performance measures set out in this SPE.

We assess our performance using a range of tools, including surveys of consumers and licensees, data and evidence of REA activities. We will report on how we are performing against these targets in our annual reports.

Impact performance measures (as detailed in REA's 2021–2025 SOI)

IMPACTS	KEY PERFORMANCE MEASURE	TARGET 2025	ACTUAL 2020
Informed consumers ¹ across New Zealand's diverse communities confidently engage in real estate transactions without harm	Percentage of consumers who are aware of settled.govt.nz is increased ²	35%	31%
	Percentage of consumers who feel empowered to participate effectively in the real estate transaction ³	85%	82%
Licensees fulfil their obligations and are capable, trusted and professional	Percentage of licensees who agree REA's CPD programme has improved their knowledge and understanding of the topic area	85%	82%
	Percentage of licensees who find REA compliance guidance useful in understanding their regulatory obligations is increased	90%	New measure
	Percentage of consumers who have confidence that the real estate industry is professional ⁴	85%	90%

¹ 'Consumers' refers to people who have bought or sold a home in the last 12 months or who have tried to do so but were unsuccessful.

² Survey population to be broken down into demographic segments including age, ethnicity, gender identification and ability.

³ Consumers who feel somewhat to very empowered.

⁴ Consumers who have some to a lot of confidence that the sector is professional.

IMPACTS	KEY PERFORMANCE MEASURE	TARGET 2025	ACTUAL 2020
Awareness of and confidence in REA as the conduct regulator is increased across New Zealand's diverse communities	Percentage of New Zealand public aware of REA and the services it provides is increased	45%	42%
	Percentage of New Zealand public who have confidence that the real estate industry is well regulated ⁵	85%	86%
Standard of conduct by licensed real estate professionals is increased	Percentage of licensees subject to a formal complaint found to have breached conduct rules and requirements is decreased ⁶	20% ⁷	New measure
	Licensed real estate professional conduct, practices, policies and/or procedures are improved following action taken by REA or a CAC/Tribunal decision	5 case studies	New measure

⁵ Public who have some to a lot of confidence that the sector is well regulated.

⁶ A formal complaint is one that has been received by REA under section 74(2) of the Real Estate Agents Act 2008. The percentage is calculated according to the findings of breach by a CAC and/or the Tribunal determined in the reported period.

⁷ Based on a baseline of findings of breach arising from formal complaints determined in 2019/20 of 28%.

Our annual performance expectations – Ko ā mātau kawatau whakatutuki mahi ā-tau

Our performance measures and targets for our annual expectations are aligned to our activities and services and grouped into three output classes, which are described in detail in the sections below.

- Output 1: Informing consumers, educating and engaging with licensees.
- Output 2: Regulatory effectiveness through licensing, interventions, disciplinary and complaints processes.
- Output 3: Oversight and development of an effective real estate agency regulatory system.

Our budget revenue and expenditure for these output classes is set out in the table below.

COMPREHENSIVE REVENUE AND EXPENDITURE	BUDGET 2021/22 \$000
Revenue	
Total revenue	9,821
Expenditure	
Output 1: Informing consumers, educating and engaging with licensees	2,967
Output 2: Regulatory effectiveness through licensing, interventions, disciplinary and complaints processes	5,624
Output 3: Oversight and development of an effective real estate agency regulatory system	2,509
Total expenditure	11,100
Total comprehensive revenue and expense	(1,279)

Output 1: Informing consumers, educating and engaging with licensees

Putanga mahi 1: Te whakamōhio i ngā kiritaki, te whakaako me te hono atu ki te hunga whai raihana

We have an important role to play to prevent harm arising from real estate agency work by engaging with and educating licensees to support them to understand their regulatory obligations and through this to raise standards in the industry. This includes providing licensees with guidance and information and an effective and robust continuing professional development programme that supports skilled and capable real estate professionals. Our focus through this output is to prevent harm to consumers, to raise industry standards and confidence in the profession and to support licensees to meet the standards expected of them.

We promote and protect the interests of consumers and empower them to confidently engage in real estate transactions by providing information that is accessible and clear through a range

of digital and non-digital channels. Our consumer website settled.govt.nz is a core service for consumers providing independent, trusted and comprehensive information for buyers and sellers. We intend to continue to maintain and promote this service for consumers.

We intend to undertake a range of activities to raise awareness of REA and the regulatory framework so that New Zealanders may have confidence in the sector and professionalism of licensees.

Our aim is that all people from different cultures, backgrounds and abilities are aware of and can access and benefit from the regulatory framework and the services that we provide.

We intend to deepen our engagement with Māori, including increasing our own internal cultural capability, through a detailed strategy and plan and through this demonstrate our commitment to te Tiriti o Waitangi. This will include increasing our knowledge and use of te reo Māori and tikanga and understanding of the needs of Māori consumers and licensees in the context of real estate transactions and real estate agency work.

This year, we will complete the implementation of the review of the branch manager and agent qualifications, including supporting policy officials to make the necessary changes to regulation. We will also review the continuing professional development programme to ensure it is fit for purpose and effective and responsive to the areas of conduct that present the greatest risk of harm.

This output includes:

- informing and engaging with consumers about their rights, the real estate transaction process and associated risks
- informing and educating licensees about their responsibilities and providing them with best-practice guidance to enable them to understand and meet their regulatory obligations
- maintaining and utilising a range of digital and non-digital methods and channels to inform, educate and engage with stakeholders
- responding to enquiries by providing information and guidance
- managing the continuing professional development (CPD) programme, including high-quality training materials and programmes, skilled providers and compliance with CPD requirements
- providing information and resources to New Zealand's diverse communities through a range of channels and methods
- raising awareness of REA as an effective conduct regulator and our role in the property system and of consumer information provided by REA through settled.govt.nz and other channels.

Output 1 primarily contributes to the following impacts:

- Impact 1: Informed consumers across New Zealand's diverse communities confidently engage in real estate transactions without harm.
- Impact 2: Licensees fulfil their obligations and are capable, trusted and professional
- Impact 3: Awareness of and confidence in REA as the conduct regulator is increased across New Zealand's diverse communities

Output 1 performance measures

OUTPUT 1: MEASURES	TARGET 2021/22	FORECAST 2020/21	ACTUAL 2019/20
SPE 1.1 Percentage of consumers who find information provided by REA useful	90%	90%	94%
SPE 1.2 Usefulness of rea.govt.nz content (rating out of 5)	>4.25	4.05	4.20
SPE 1.3 Usefulness of settled.govt.nz content (rating out of 5)	>4.25	4.51	4.41
SPE 1.4 REA newsletters are published to keep stakeholders informed	>6	New measure	New measure
SPE 1.5 Media releases are issued on matters of strategic importance (high public interest, provide guidance to consumers or licensees on regulatory issues)	>6	New measure	New measure
SPE 1.6 REA undertakes targeted initiatives to provide information and resources to New Zealand's diverse communities	5 or more initiatives	New measure	New measure

Output 2: Regulatory effectiveness through licensing, interventions, disciplinary and complaints processes

Putanga mahi 2: Te whakaawe o ngā whakahaere ture mā te tuku raihana, mā te āta kuhu atu, mā ngā hātepe whakatikatika, amuamu hoki

As the real estate industry's conduct regulator, our core regulatory functions include administering the licensing regime for agents, branch managers and salespeople, maintaining a register of licensees, overseeing an effective complaints process through CACs and investigating and, where appropriate, initiating proceedings relating to unsatisfactory conduct or misconduct by licensees.

Through the licensing process, we ensure that all licensee applications are dealt with in a timely way and that all licensees meet the licensing requirements under the Act. Through the complaints and disciplinary proceedings, we investigate and respond to actual or potential harms arising from licensee conduct. It is important that the complaints process is effective, fair and transparent and that the decisions are fair, clear, soundly reasoned and consistent. The decisions not only respond to conduct issues but also provide guidance to the sector as to the standard of conduct expected. Through the complaints and disciplinary process, we aim to maintain a high level of trust and confidence in the real estate industry standards system.

Alongside this work, we use a range of regulatory tools to respond to actual and potential harm. We offer an enquiry service to assist licensees to understand their obligations and to navigate the regulatory requirements. We triage and, in some cases, resolve complaints that raise low-level conduct issues.

A particular focus this year is developing a transparent framework of all of our regulatory tools and increasing the timeliness in the determination of complaints. We will deliver an independent, effective and accessible disciplinary process and hold poor conduct to account. Some complaints are complex and raise multiple issues, which may justify additional time. Increasing our regulatory effectiveness and understanding and responding appropriately to causes of harm is a key focus for this year. As part of this, we will continuously improve the efficiency and effectiveness of our regulatory approach, capability, services, processes and systems to ensure we are applying our resources to the matters that raise the greatest risk of harm.

This output includes:

- managing the licensing scheme to ensure that, at the time of approval, all active licensees are fit and proper and meet the required professional standards
- processing new applications, renewals and voluntary suspensions of licences
- managing the licensee portal and maintaining a current register of all licensees
- auditing real estate agency trust accounts
- delivering an independent, effective and accessible complaints and disciplinary process and holding poor conduct to account
- monitoring and acting on non-compliance using the full range of regulatory tools
- supporting CACs, the Tribunal and court activities
- triaging and resolving low-level complaints

- regulatory effectiveness across all of our regulatory services and responding appropriately to causes of harm.

Output 2 primarily contributes to the following impacts:

- Impact 2: Licensees fulfil their obligations and are capable, trusted and professional.
- Impact 4: Standard of conduct by licensed real estate professionals is increased.

Output 2 performance measures

OUTPUT 2: MEASURES	TARGET 2021/22	FORECAST 2020/21	ACTUAL 2019/20
SPE 2.1 External assessment of CAC decisions is conducted to assess whether decisions are well reasoned, consistent and accurate	At least 5 CAC decisions ⁸	New measure	New measure
SPE 2.2 Percentage of judgments on appeals taken to the Tribunal are analysed to enable improvements to REA's regulatory decisions and processes	100%	New measure	New measure
SPE 2.3 Percentage of new licence applications processed within three weeks	85%	87%	87%
SPE 2.4 Percentage of licence renewal applications processed within two weeks	95%	94%	97%
SPE 2.5 Percentage of complaint enquiries completed within one month	95%	98%	99%
SPE 2.6 Percentage of formal complaints resolved or determined under s74(3) within three months ⁹	90%	50%	89%
SPE 2.7 Percentage of formal complaints completed within one year	90%	87%	90%
SPE 2.8 Percentage of parties to a complaint agree that the complaints process is independent, fair and transparent	75%	70%	69%

⁸ External assessor agrees that at least 5 CAC decisions are well reasoned, consistent and accurate.

⁹ Formal complaints resolved by withdrawal of complaint, compliance advice or consumer information or determined under s74(3)(a)-(d) of the Real Estate Agents Act 2008.

Output 3: Oversight and development of an effective real estate agency regulatory system

Putanga mahi 3: He tirohanga, he whakawhanaketanga i tētahi pūnaha whakahaere ture e whakaawe ana mō ngā pakihī hokohoko whare

Our role overseeing and developing an effective real estate agency regulatory system requires us to ensure that we set clear rules, standards and guidelines that respond to the risks of harm and reflect the operating environment in which they apply. Using our data and insights, undertaking research and analysis and engaging with the sector are key to ensuring that the regulatory settings are fit for purpose and effective in preventing harm.

This year, we intend to undertake work to gain a clear and informed understanding of the drivers of risk of harm in real estate agency work. We aim to publish a drivers of risk report reflecting this work. We will consult with the industry on the development of a standard that sets out how we will apply the fit and proper test under the licensing regime, and we will review the supervision standard to ensure it is fit for purpose, taking into account the different ways in which real estate services are offered. We will begin preparation for the review of the code of conduct rules in the coming years. We will provide advice and guidance to policy officials in their work to progress the regulation of property managers. We will develop and implement a strategy and plan for our engagement with Māori across all of our work, including with a focus on increasing our own internal cultural capability.

An important aspect of this output is our role as part of the regulatory system and our work with others to provide stewardship of the real estate regulatory system. We will engage, collaborate and partner with the industry, government entities and the private sector to leverage capability and support an effective regulatory system that can anticipate and respond to the needs of industry, while also protecting consumers from harm, in the face of change over time.

This output includes:

- identifying and understanding the drivers of risk that cause harm in the real estate industry
- understanding licensee and consumer behaviour and vulnerabilities across different communities
- shaping regulation, compliance and operational policy practices to address actual and potential risks in the real estate industry
- developing and issuing best-practice guidance, rules and standards to support high standards of conduct in the real estate industry
- developing strategic relationships with property system stakeholders
- providing advice and guidance to policy makers as required
- demonstrating our commitment to te Tiriti o Waitangi by engaging with and understanding the needs of Māori in the real estate agency regulatory context
- working with stakeholders across the real estate system.

Output 3 primarily contributes to the following impacts:

- Impact 1: Informed consumers across New Zealand's diverse communities confidently engage in real estate transactions without harm.

- Impact 2: Licensees fulfil their obligations and are capable, trusted and professional.
- Impact 3: Awareness of and confidence in REA as the conduct regulator is increased across New Zealand's diverse communities.
- Impact 4: Standard of conduct by licensed real estate professionals is increased.

Output 3 performance measures

OUTPUT 3: MEASURES	TARGET 2021/22	FORECAST 2020/21	ACTUAL 2019/20
SPE 3.1 REA publishes standards in consultation with industry that help raise industry standards	1	New measure	New measure
SPE 3.2 Commission and publish research that analyses the drivers of risk in real estate agency work and is considered as thorough and valuable to development of standards and/or future regulation	1 research project undertaken ¹⁰	New measure	New measure
SPE 3.3 Engagement by Māori in services offered by REA is increased	Baseline to be set this year	New measure	New measure

¹⁰ Feedback from 10 stakeholders is received that the research is thorough and valuable.

5. Prospective financial statements – Ngā tauākī mō te matapae pūtea

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

Specific assumptions

As the primary source of revenue is levies from licensees, the number of licences significantly affects projected revenue. Due to the anticipated fluctuations in licensee numbers and ongoing uncertain environment, for conservative budget purposes it has been assumed that the number of active licences will reduce to 14,750 during the period 2021/22.

REA's primary revenue is derived from licensee levies. REA reviewed the licence fees and levies structure, and amendments became effective on 1 February 2017. The statement of prospective comprehensive revenue and expense is based on the annual licence levy of \$597 (exclusive of the Real Estate Agents Disciplinary Tribunal Levy of \$33, which is remitted to the Ministry of Justice) exclusive of GST. The statement of prospective comprehensive revenue and expense assumes no change to the licence levy over the period presented.

Additional information

Revenue recognition policy

REA reviewed the revenue recognition accounting policy for the operational levy following February's 2021 refreshed strategy. Subsequently, management and the Board of REA agreed to change the income revenue accounting policy for the operational levy from exchange in nature to non-exchange in nature.

To date, REA has taken the view that all activities undertaken by the entity serve to enhance the professionalism and reputation of the industry, which in turn directly benefits the individual licensees.

Following the February 2021 strategy refresh, REA has emphasised its role as being the conduct regulator for licensed real estate professionals whose work has the following resulting impacts:

- Informed consumers across New Zealand's diverse communities confidently engage in real estate transactions without harm.
- Licensees fulfil their obligations and are capable, trusted and professional.
- Awareness of and confidence in REA as the conduct regulator is increased across New Zealand's diverse communities.
- Standards of conduct by licensed real estate professionals is increased

Therefore, management and the Board of REA agreed to change the income recognition accounting policy of the operational levy to non-exchange in nature as the benefits of our role are much wider than just to licensees.

The impact of the change to the revenue recognition policy is that the operating levies will be recognised when due and received. Previously, operational levy revenue was recognised over a 12-month period from the date of renewal of application.

The prospective financial statements have been prepared using the updated revenue recognition policy with 2019/20 actual and 2020/21 budget results restated applying the updated policy.

Explanation of significant variances

REA forecasts an increased spend in personnel costs to support the resourcing required to deliver the strategy. The forecast spend in specialist services is aligned with the proposed operational plan for 2021/22 and anticipates an increase of activities undertaken in-house. This also reflects additional resource required to strengthen REA's cultural capability, to build the Engagement, Insights and Education team and to ensure that increased regulatory activity is appropriately resourced.

Planned deficit

This year, we have forecast a deficit as a result of the anticipated reduction in levy revenue and costs arising from planned projects and resources required to meet our statutory obligations. We note that the actual impact on our revenue is difficult to forecast in the face of changing licensee numbers. We expect to draw on our cash reserves, which have been built up for the purpose of supporting projects and responding to fluctuating levy income. We will continue to operate prudently throughout the year to minimise the deficit where possible. Notwithstanding the deficit, we will continue to have healthy cash reserves in line with our financial management policy.

Statement of prospective comprehensive revenue and expense

for the years ended 30 June

	Restated-Actual 2019/20 \$000	Restated-Budget 2020/21 \$000	Budget 2021/22 \$000
Revenue			
Operating levy received	8,628	9,253	8,806
Application and suspension fees	713	437	775
Other revenue	424	299	240
Total revenue	9,765	9,989	9,821
Expenditure			
Audit fee	57	60	60
Personnel costs	5,624	5,908	6,169
Depreciation	152	156	136
Amortisation	866	615	61
Specialist services	2,016	2,230	1,704
Legal fees	841	672	432
Board fees	147	149	160
Complaints Assessment Committee fees	330	355	300
Computer and telecommunications	1,152	1,264	1,383
Printing, stationery and postage	77	43	36
Travel, meetings and entertainment	137	199	165
Occupancy	417	456	470
Miscellaneous expenses	36	30	24
Total expenditure	11,852	12,137	11,100
Total comprehensive revenue and expense	(2,087)	(2,148)	(1,279)

Statement of prospective financial position

as at 30 June

	Restated-Actual 2019/20 \$000	Restated-Budget 2020/21 \$000	Budget 2021/22 \$000
Current assets			
Cash and cash equivalents	6,513	1,445	1,894
Investments - short-term deposits	1,192	4,562	4,568
Debtors and other receivables	29	57	26
Prepayments	163	135	138
GST receivable/(payable)	(38)	17	(41)
Approved guide stock	10	16	17
Total current assets	7,869	6,232	6,602
Non-current assets			
Property, plant and equipment	390	277	170
Intangible assets	573	552	113
Total non-current assets	963	829	283
Total assets	8,832	7,061	6,885
Liabilities			
Trade creditors and accruals	1,090	1,481	1,200
Employee entitlements	199	204	154
Disciplinary levy payable	-	29	30
Total current liabilities	1,289	1,714	1,384
Total liabilities	1,289	1,714	1,384
Net assets/equity	7,543	5,347	5,501
Public equity			
Retained earnings	7,293	7,245	6,530
Litigation reserve	250	250	250
Current year surplus/((deficit)	(2,148)	(1,279)	
Total public equity	7,543	5,347	5,501

Statement of prospective changes in equity

for the years ended 30 June

	Restated-Actual 2019/20 \$000	Restated-Budget 2020/21 \$000	Budget 2021/22 \$000
Public equity as at 1 July	9,630	7,495	6,780
Total comprehensive revenue and expense	(2,087)	(2,148)	(1,279)
Total public equity as at 30 June	7,543	5,347	5,501
Comprised of the following funds:			
Retained earnings as at 1 July	9,380	7,245	6,530
Total comprehensive revenue and expense	(2,087)	(2,148)	(1,279)
Total retained earnings	7,293	5,097	5,251
Litigation reserve as at 1 July	250	250	250
Movement in litigation reserve	-	-	-
Total litigation reserve	250	250	250

Statement of prospective cash flows

for the years ended 30 June

	Restated-Actual 2019/20 \$000	Restated-Budget 2020/21 \$000	Budget 2021/22 \$000
Cash flows from operating activities			
Cash was provided from:			
Receipts from licensees	9,044	10,048	9,161
Receipts from sale of publications	129	139	142
Interest received	103	60	18
Receipts from suspension fees	368	74	447
Receipts from fines	163	100	80
Cash was applied to:			
Payments to suppliers	(5,093)	(5,820)	(5,081)
Payments to employees	(5,431)	(5,370)	(5,813)
Net GST received/(paid)	58	50	69
Net cash flows from operating activities	(659)	(719)	(977)
Cash flows from investing activities			
Cash was provided from:			
Receipts from investments in term deposits	1,088	1,000	-
Cash was applied to:			
Purchase of property, plant and equipment	(24)	(38)	(60)
Purchase of intangible assets	(44)	(463)	(100)
Investment in term deposits	-	-	-
Net cash flows from investing activities	1,020	499	(160)
Net increase/(decrease) in cash and cash equivalents	361	(220)	(1,137)
Opening cash and cash equivalents	6,152	1,665	3,031
Closing cash	6,513	1,445	1,894
Investments - short-term deposits	1,192	4,562	4,568
Total cash and cash equivalents	7,705	6,007	6,462

Statement of accounting policies

Reporting entity

These are the prospective financial statements of the Real Estate Agents Authority, a Crown entity as defined by the Crown Entities Act 2004. The Real Estate Authority (REA) is the operating name of the Real Estate Agents Authority. REA is domiciled in New Zealand. REA's functions are defined in the Real Estate Agents Act 2008 and are described on page 7 of the Statement of Intent for the period 1 July 2021 to 30 June 2025. REA is a public benefit entity for the purposes of New Zealand equivalents to the International Public Sector Accounting Standards (IPSAS).

Basis of preparation

Statement of compliance

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

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

Measurement basis

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

Functional and presentation currency

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

Significant accounting policies

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

Revenue

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

Operational levy

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

In making a judgement as to the appropriate policy, management considered whether there is a direct exchange of economic benefits or services to licensed members and whether the levy approximates a fair value of this exchange. Based on REA's role as a conduct regulator, which includes industry regulation, upholding standards of conduct and providing resources for licensees and consumers, a continuing professional development programme and research about real estate matters, management has determined the services provided for the operational levy are accounted for as non-exchange revenue as the benefits of REA's work are wider than just licensees and PBE IPSAS 23 applies.

Operational levy revenue, application fees, manual processing fees and suspension fees are recognised when due and received.

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

Fines

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

Sale of publications

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

Interest

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

Leases

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

Cash and cash equivalents

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

Investments

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

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

Debtors and other receivables

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

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

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

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

Inventories

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

Property, plant and equipment

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

Additions

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

Disposals

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

Subsequent costs

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

Depreciation

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

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

Intangible assets

Capital work in progress

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

Software acquisition and development

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

Amortisation

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

- Acquired and developed software 3–4 years 25–33% straight line

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

Impairment of non-financial assets

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

Creditors and other payables

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

Employee entitlements

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

Superannuation schemes

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

Goods and services tax

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

Taxation

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

Financial instruments

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

Statement of prospective cash flows

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

Cash flows are classified into three activities:

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

Equity

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

Changes in accounting policies

Other than as disclosed below, there have been no changes in accounting policies during the financial year. The accounting policies have been consistently applied throughout the periods of the financial statements.

The below change in accounting policy is reflected in the prospective financial statements, and the 2019/20 actual and 2020/21 budget results have been restated using the changed policy.

Revenue recognition policy

Management has determined the services provided for the operational levy are accounted for as non-exchange revenue and PBE IPSAS 23 applies.

In prior years, the operational levy was accounted for as exchange revenue and PBE IPSAS 9 applied.

REA management reviewed the revenue recognition accounting policy for the operational levy following the completion of REA's refreshed strategy and concluded that REA's role as a conduct regulator, which includes industry regulation, upholding standards of conduct and providing resources for licensees and consumers, a continuing professional development programme and research about real estate matters, should be considered as non-exchange in nature as the benefits of REA's work are wider than just for licensees.

Critical judgements in applying REA's accounting policies

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

Judgements made by management in the application of IPSAS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the significant assumptions section on page 19 of this Statement of Performance Expectations.

Real Estate Authority

Level 4, 95 Customhouse Quay

PO Box 25371

Wellington 6140

New Zealand

0800 367 7322

info@rea.govt.nz

rea.govt.nz