



Tauākī o Ngā Kawatau Whakatutuki Mahi

Statement of Performance Expectations

For the year ending 30 June 2023



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 – **Tauāki 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 2022 to 30 June 2023. 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.



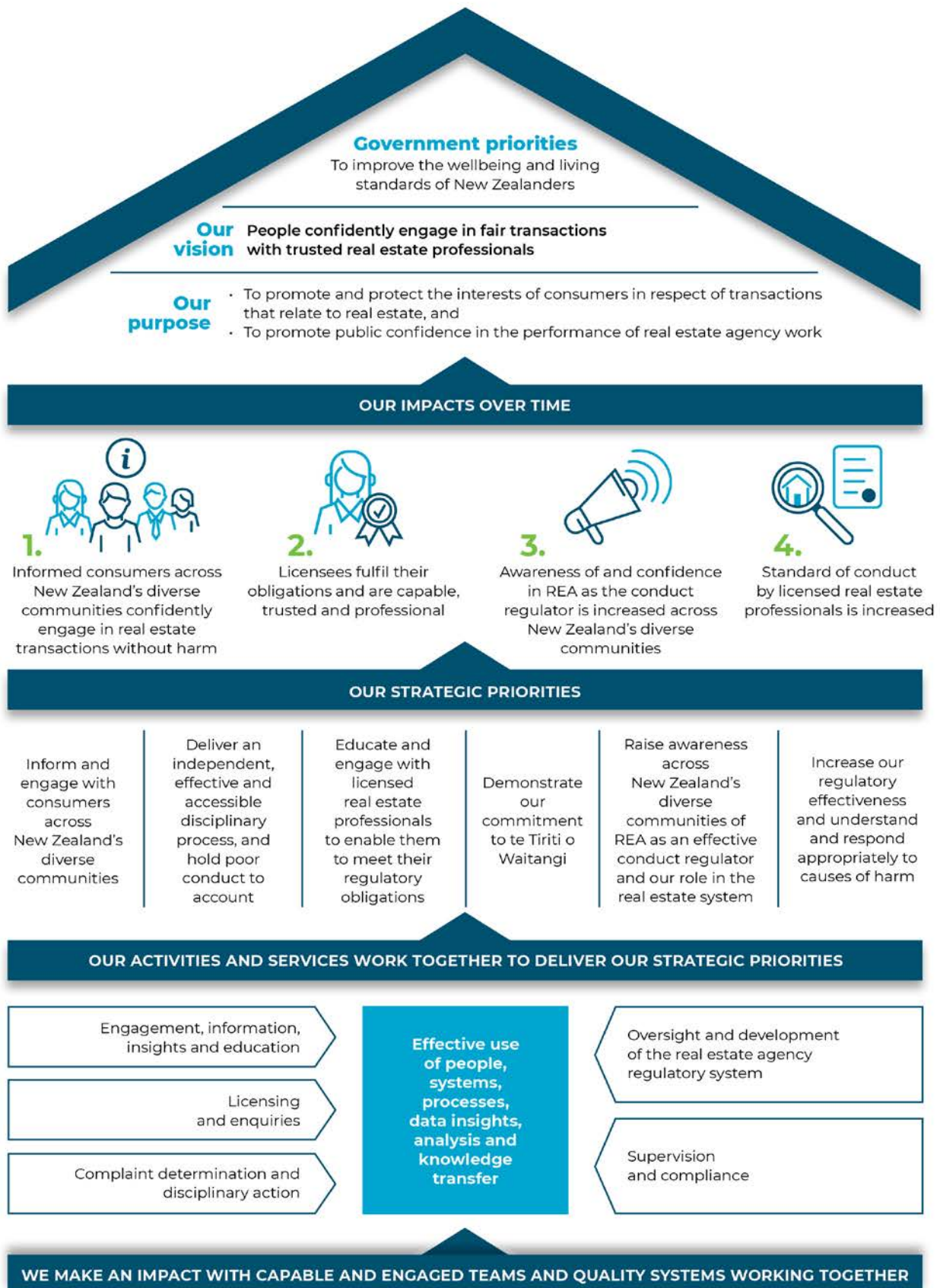
Denese Bates QC
Chair
Real Estate Authority
21 June 2022



Vern Walsh
Chair
Audit and Risk Committee
21 June 2022

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 2022/23 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 (CACs) 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 taken a conservative view of likely revenue. While the current 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 continuing 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.

Operating context – external

We continue to operate in an unpredictable and potentially volatile economic and real estate environment. Low stock and high property prices seen in 2020-2022 are now being replaced in regions throughout the country with increased stock and lower buyer interest. Some price reduction is appearing, while affordability issues remain. Increasing inflation and interest rates, continuing supply chain challenges, changes in investor tax requirements and changing lending sentiment are contributing to the challenging real estate environment. Buyer fear of missing out (FOMO) is being replaced by fear of overpaying (FOOP), requiring licensees to carefully ensure they manage vendor expectations and treat all parties fairly, enabling buyers to complete their due diligence and to make appropriate buying decisions. These factors are expected to place continued pressure on consumers and licensees involved in real estate transactions. It is in this environment that strong skills and high standards of conduct are critical as licensees guide buyers and sellers through the real estate process.

In 2021/22, licensee numbers continued to grow to an all-time high (16,692 active licensees as at 31 March 2022), with the impact of COVID-19 on labour markets and a buoyant real

estate market attracting a strong surge in salesperson licence applications. We expect some reduction in year-on-year licensee numbers. However, it is difficult to predict whether licensee numbers and revenue will move markedly in the next year. In this context, as an agency funded almost entirely by licensee levies, we will continue to operate prudently with the aim of maintaining healthy reserves and operating within our means.

In the year ahead, we will continue to monitor lead indicators to help determine the impact of COVID-19 and economic factors on the real estate market. We will continue to monitor industry and consumer behaviour through analysing complaints and enquiry data and qualitative feedback through research and the Industry Advisory Groups. This will enable us to best manage key regulatory risks.

COVID-19 public health response continues to impact the real estate operating environment. In consultation with government agencies, the sector, REINZ and key stakeholders, REA continues to provide guidance to the sector and consumers on undertaking real estate transactions consistently with public health requirements and adhering to health and safety protocols to keep all those involved in the transaction safe.

Operating context - internal

The dynamic market environment has contributed to an increase in the volume and complexity of consumer complaints and enquiries, and we expect this to continue into 2022/23. The pressure of the market and growing awareness of REA has contributed to increased numbers of people accessing REA's licensing, and complaints and discipline services. Our resources are focused on reducing the number of aged complaints which have been impacted by delays arising from COVID-19 restrictions, increased volumes and resourcing limitations.

REA's resourcing has been increased in response to the increased volumes, and like many entities, we have adjusted to a changing workforce that has been impacted by the labour shortage and restraints on pay. Our work to improve the efficiency of our regulatory services is continuing and will be completed this year.

Importantly, COVID-19 has impacted our working environment, with our single office space justifying the need for our staff to work from home at various times as part of our health and safety response. We have successfully moved all of our services online.

Building on our refreshed strategy – our focus in 2022/23

In 2021 we launched a refreshed four-year strategy for delivery of our role as an effective conduct regulator with a clear consumer protection focus. We have made strong progress in the first year of delivery of the new strategy. We have supported the sector with strong guidance on operating within the COVID-19 requirements, progressed an increased number of complaints, and licensed a record number of licensees. The new qualification pathway for branch managers and agents is now in place, and we will shortly issue guidance on our application of the fit and proper licencing requirement. Research exploring the barriers to entry to real estate transactions, and our work to engage with diverse communities is planned and will commence in July 2022.

While considerable progress has been made, COVID-19, increased regulatory activity and resourcing shortages inhibited our ability to complete all strategic initiatives planned for the 2021/22 year. In 2022/23, we will therefore build on the progress made and complete initiatives that are underway to deliver against our six strategic priorities.

This will include continuing to deliver our regulatory functions to a high standard and maintaining business services in a pandemic and business continuity plan environment. We will focus on our engagement with diverse communities to ensure access to our services by all who need them, continuing to raise awareness of REA, and maintaining and promoting our

consumer information product settled.govt.nz. We will continue to provide timely sector guidance to reduce uncertainty for licensees and those who engage in real estate transactions, and to lift awareness of and confidence in REA within diverse consumer groups. As we embed our strategy for demonstrating our commitment to Te Tiriti o Waitangi, we will increase our internal cultural capability, and continue to deepen our understanding of the needs of Māori consumers and licensees in the real estate context. We look forward to progressing the development of our regulatory tools framework and embedding operational efficiencies in the complaints and licensing process. We will continue to support officials as they develop policy for property manager regulation.

Looking to the future

As we look to the future, we will continue to build our operational resilience, including refreshing or replacing aged systems. Ensuring that our systems are optimised, secure and robust against local and global security risks is a key priority. We will also continue our work to assess and report on our carbon emissions, to deliver against the expectations of the Carbon Neutral Government Programme reporting framework, and to meet government expectations for positive procurement practices.

As recognised in our 2021-2025 Statement of Intent we contribute to the wellbeing of New Zealanders who purchase and sell property by providing valuable information and guidance, by increasing professionalism across the real estate sector, and by licensing and enforcing standards in the real estate industry to help prevent and reduce consumer harm. We support the economic and social wellbeing of communities, through our work in regulating real estate professionals. Our work is directed at enabling individuals and communities to thrive, and to see high standards of conduct across a profession which plays a key role in improving the wellbeing and living standards of New Zealanders through property ownership, business broking and commercial leasing.

Our people matter

Importantly, in the year ahead we will continue to support and prioritise the health and wellbeing of our staff team. This will include ensuring quality health and safety protocols and processes, investing in learning and development and supporting the development of our organisational cultural capability. We will ensure that we are well resourced to deliver our functions and responsibilities. We will monitor and measure our gender and ethnic pay, and seek to reward and recognise our people, subject to the limits of expectations issued by the Public Service Commission. We will ensure that REA continues to be a great place to work where people can make a difference, grow and thrive.

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 2023 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 2023 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 2021	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%	35%	31%
	Percentage of consumers who feel empowered to participate effectively in the real estate transaction ³	85%	84%	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%	82%
	Percentage of licensees who find REA compliance guidance useful in understanding their regulatory obligations is increased	90%	92%	New measure
	Percentage of consumers who have confidence that the real estate industry is professional ⁴	85%	87%	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 2021	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%	48%	39%
	Percentage of New Zealand public who have confidence that the real estate industry is well regulated ⁵ is maintained	85%	67%	76% ⁶
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 ⁷	20% ⁸	26%	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	New measure

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

⁶ The Statement of Intent 2021-2025 incorrectly states 87%. The correct percentage for 2020 is 76%.

⁷ A formal complaint is one that has been received by REA under s74(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.

⁸ 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 2022/23 \$000
Revenue		
Total revenue		10,779
Expenditure		
Output 1: Informing consumers, educating and engaging with licensees		3,116
Output 2: Regulatory effectiveness through licensing, interventions, disciplinary and complaints processes		5,537
Output 3: Oversight and development of an effective real estate agency regulatory system		2,680
Total expenditure		11,333
Total comprehensive revenue and expense (deficit)		(554)

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.

To be an effective regulator and to promote confidence in the real estate sector, it is critical that all people across New Zealand's diverse communities are aware that REA exists.

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.

In the first year of our refreshed strategy, through our research and engagement activities, we have increased our understanding of the diversity within the consumer and licensee communities that we serve. We have developed a range of translated resources to support licensees and consumers to navigate real estate transactions. In the year ahead, we will further develop our knowledge of the needs of these diverse communities and engage with them through a range of digital and non-digital methods and channels. We will maintain our important consumer website settled.govt.nz and continue to contribute to reporting on issues of significance in the real estate sector through media engagement.

We have commenced our journey to better understand the needs of Māori consumers and licensees in the context of real estate transactions and real estate agency work and to increase our own internal cultural capability. We are developing a strategy and plan to demonstrate our commitment to te Tiriti o Waitangi.

With the implementation of the outcome of the review of the branch manager and agent qualifications in 2022, we will continue to champion the development of a strong pipeline of senior licensed real estate professionals and the delivery of high-quality educational materials.

This year, we will complete the review of 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, media 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 ⁹	TARGET 2022/23	FORECAST 2021/22	ACTUAL 2020/21
SPE 1.1 Percentage of consumers who find information provided by REA useful	90%	90%	97%
SPE 1.2 REA Pānui (newsletters) are published to keep stakeholders informed	>6	26 ¹⁰	20
SPE 1.3 Media releases are issued on matters of strategic importance (high public interest, provide guidance to consumers or licensees on regulatory issues)	>6	6	4
SPE 1.4 REA undertakes targeted initiatives to provide information and resources to New Zealand’s diverse communities	5 or more initiatives	Achieved	New measure

⁹ Previous measures reporting on the usefulness of rea.govt.nz and settled.govt.nz content have been removed, as the measures only captured a small percentage of viewers and was not meaningful. The effectiveness of REA consumer information and engagement is measured through SPE1.1, SPE 1.6 and SPE 3.3. Usefulness of guidance and information provided to licensees is measured through the SOI measures.

¹⁰ This number includes special COVID-19 Pānui issued with updates on developments in the COVID-19 response and public health settings, along with six general Pānui.

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 deliver an independent, effective and accessible disciplinary process and hold poor conduct to account. 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.

In the 2021/22 year, we experienced higher than ever licensing volumes and an increased number of enquiries and complaints. Combined with the disruption of COVID-19 and resourcing challenges, this impacted our ability to deliver all planned projects in 2021/22. Our focus this year is to continue to deliver our core regulatory functions to a high standard and to complete the work commenced in 2021/22 to develop a transparent framework of all of our regulatory tools and improve the effectiveness and timeliness of our complaints and licensing processes.

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 2022/23	FORECAST 2021/22	ACTUAL 2020/21
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 ¹¹	Achieved – 5 decisions assessed	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%	100%	New measure
SPE 2.3 Percentage of new licence applications processed within three weeks	85%	91%	91%
SPE 2.4 Percentage of licence renewal applications processed within two weeks	95%	97%	96%
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 ¹²	70% ¹³	38%	62%
SPE 2.7 Percentage of formal complaints completed within one year	90%	85%	90%
SPE 2.8 Percentage of parties to a complaint agree that the complaints process is independent, fair and transparent	75%	75%	77%

¹¹ External assessor agrees that at least 5 CAC decisions are well reasoned, consistent and accurate.

¹² 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.

¹³ In 2021 the Tribunal determined that decisions of the Registrar under s74(3) may be subject to review by the Tribunal. REA has adjusted its procedures to take account of this process, which has increased the time spent on these cases. COVID-19 has also impacted on timeliness and this is expected to continue into 2022/23.

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 pakihi 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 on risks of harm are key to ensuring that the regulatory settings are fit for purpose and effective in preventing harm.

In 2021/22, we commenced engagement with the sector and research to gain a clear and informed understanding of the drivers of risk of harm in real estate agency work. We will complete this work in 2022/23 and aim to publish a report reflecting this work.

Our work to develop guidance on our approach to the application of the fit and proper test under the licensing regime commenced in 2021/22. This year, we have consulted with the sector and the public on this work, which will provide certainty as to how we assess fitness and propriety in licensing. We will complete our review of different real estate business models and supervision approaches with a view to updating 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 2023/24. We will continue to provide advice and guidance to policy officials in their work to progress the regulation of property managers.

We implement our strategy and plan for our engagement with Māori across all of our work, including continuing to increase 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 2022/23	FORECAST 2021/22	ACTUAL 2020/21
SPE 3.1 REA publishes standards in consultation with industry that help raise industry standards	1	Achieved	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 ¹⁴	Commenced	New measure
SPE 3.3 Engagement by Māori in services offered by REA is increased	Baseline to be set this year	Baseline established ¹⁵	New measure

¹⁴ Feedback from 10 stakeholders is received that the research is thorough and valuable.

¹⁵ Baseline established through consumer and licensee surveys and will be reported in the 2021/22 Annual Report.

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. Each year's budget is independent and include forecast assumptions made at the time of preparing the 2022/23 budget.

Specific assumptions

As the primary source of revenue is levies from licensees, the number of licences significantly affects projected revenue. In 2021/22, due to the anticipated fluctuations in licensee numbers and ongoing uncertain environment, REA operated against a conservative budget assuming that the number of active licences would reduce to 14,750 during the period 2021/22. This did not materialise, with active licensee numbers reaching 16,692 at 31 March 2022. It is unknown what impact the ongoing COVID-19 environment and market forces will have on licensee numbers. However, it is assumed that there may be attrition of up to 10%. Accordingly, for budget purposes, it has been assumed that the number of active licences will average 16,000 during 2022/23.

In 2021/22, REA encountered recruitment challenges, with a number of vacancies throughout the year. As at 30 June 2021, REA employed 45.5 full time equivalent (FTE) employees. In response to changing business needs and increased regulatory volumes and to support business continuity during the pandemic, REA forecasts a personnel budget to support approximately 58-60 FTE. The forecast takes account of the pay restraint guidance issued by the Public Service Commissioner.

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

The income recognition accounting policy for the operational levy was adjusted in 2021 to non-exchange in nature reflecting that the benefits of our role are much wider than just to licensees.

Operating levies are recognised when due and received. Previously, operational levy revenue was recognised over a 12-month period from the date of renewal of application.

Explanation of significant variances

REA forecasts an increased spend in personnel costs reflecting a number of vacancies being filled and additional resourcing in place to deliver the strategy and increased regulatory activity across licensing and complaints. The forecast spend in specialist services is aligned with the proposed operational plan for 2022/23. We will continue to manage costs prudently and to demonstrate restraint to enable us to continue to build and maintain healthy reserves.

Planned deficit

This year, we have forecast a small deficit as a result of an 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. Our public equity position remains strong, which is intentional given that we do not receive public funding, and market forces could result in a reduction of levy revenue. Reserves will be drawn on to support any funding shortfall, and to support planned work to replace and/or upgrade aging information and communication technology systems.

Statement of Prospective Comprehensive Revenue and Expense

for the years ended 30 June

	Actual 2020/21 \$000	Budget 2021/22 \$000	Budget 2022/23 \$000
Revenue			
Operating levy received	9,996	8,806	9,552
Application and suspension fees	1,007	775	985
Other revenue	345	240	242
Total revenue	11,348	9,821	10,779
Expenditure			
Audit fee	58	60	60
Personnel costs	5,682	6,169	6,639
Depreciation	144	136	147
Amortisation	392	61	13
Specialist services	1,473	1,704	1,527
Legal fees	610	432	394
Board fees	133	160	160
Complaints Assessment Committee fees	310	300	258
Computer and telecommunications	1,117	1,383	1,356
Printing, stationery and postage	88	36	34
Travel, meetings and entertainment	123	165	164
Occupancy	431	470	510
Miscellaneous expenses	15	24	71
Total expenditure	10,576	11,100	11,333
Total comprehensive revenue and expense	772	(1,279)	(554)

Statement of Prospective Financial Position

as at 30 June

	Actual 2020/21 \$000	Budget 2021/22 \$000	Budget 2022/23 \$000
Current assets			
Cash and cash equivalents	7,753	1,894	3,938
Investments - short-term deposits	1,211	4,568	6,100
Debtors and other receivables	11	26	15
Prepayments	151	138	193
GST receivable/(payable)	-	(41)	(41)
Approved guide stock	14	17	10
Total current assets	9,140	6,602	10,215
Non-current assets			
Property, plant and equipment	245	170	129
Intangible assets	74	113	-
Total non-current assets	319	283	129
Total assets	9,459	6,885	10,344
Liabilities			
Trade creditors and accruals	873	1,200	1,078
Employee entitlements	186	154	255
Income In Advance	363	-	-
Disciplinary levy payable	-	30	30
Total current liabilities	1,422	1,384	1,363
Total liabilities	1,422	1,384	1,363
Net assets/equity	8,037	5,501	8,981
Public equity			
Retained earnings	7,015	6,530	9,285
Litigation reserve	250	250	250
Current year surplus/(deficit)	772	(1,279)	(554)
Total public equity	8,037	5,501	8,981

Statement of Prospective Changes in Equity

for the years ended 30 June

	Actual 2020/21 \$000	Budget 2021/22 \$000	Budget 2022/23 \$000
Public equity as at 1 July	7,265	6,780	9,535
Total comprehensive revenue and expense	772	(1,279)	(554)
Total public equity as at 30 June	8,037	5,501	8,981
Comprised of the following funds:			
Retained earnings as at 1 July	7,015	6,530	9,285
Total comprehensive revenue and expense	772	(1,279)	(554)
Total retained earnings	7,787	5,251	8,731
Litigation reserve as at 1 July	250	250	250
Movement in litigation reserve	-	-	-
Total litigation reserve	250	250	250

Statement of Prospective Cash Flows

for the years ended 30 June

	Actual 2020/21 \$000	Budget 2021/22 \$000	Budget 2022/23 \$000
Cash flows from operating activities			
Cash was provided from:			
Receipts from licensees	10,178	9,161	10,021
Receipts from sale of publications	159	142	134
Interest received	50	18	52
Receipts from suspension fees	499	447	518
Receipts from fines	109	80	56
Receipts from other revenue	48	-	-
Cash was applied to:			
Payments to suppliers	(4,348)	(5,081)	(4,905)
Payments to employees	(5,471)	(5,813)	(6,197)
Net GST received/(paid)	34	69	20
Net cash flows from operating activities	1,258	(977)	(301)
Cash flows from investing activities			
Cash was provided from:			
Receipts from investments in term deposits	(18)	-	-
Cash was applied to:			
Purchase of property, plant and equipment	-	(60)	(55)
Purchase of intangible assets	-	(100)	-
Investment in term deposits	-	-	-
Net cash flows from investing activities	(18)	(160)	(55)
Net increase/(decrease) in cash and cash equivalents	1,240	(1,137)	(356)
Opening cash and cash equivalents	6,513	3,031	4,294
Closing cash	7,753	1,894	3,938
Investments - short-term deposits	1,211	4,568	6,100
Total cash and cash equivalents	8,964	6,462	10,038

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, REA 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, REA considered if there is an indirect exchange of economic benefits or services to licensed members and whether the levy itself does not result in REA directly giving approximately equal value of this exchange. Based on REA's role as a consumer protection agency and 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, REA has determined the services provided for the operational levy are accounted for as non-exchange revenue as the benefits of REA's work are for the public good and wider than just licensees and PBE IPSAS 23 applies.

Operational levy revenue, application fees, manual processing fees and suspension fees are recognised when the fee or levy is due and has also been received. When the operational levy revenue is received in advance of a licence renewal date, this is treated as income in advance. 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 Revenue and Expense.

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, other transactions relating to changes in borrowings and equity of REA.

Equity

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

Changes in accounting policies

There have been no changes in accounting policies during the financial year. The accounting policies have been consistently applied throughout the periods of the financial statements.

Critical judgements in applying REA's accounting policies

In the application of IPSAS, REA 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.

REA has exercised critical judgement with respect to operating levy revenue recognition as detailed in the Statement of Accounting Policies.

Key estimates and assumptions are made in respect to the useful life of property, plant and equipment and intangible assets as detailed in the Statement of Accounting Policies.

Judgements made by REA 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 17 of this Statement of Performance Expectations.

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