

ANNUAL REPORT
2016/17



We are pleased to present to the House of Representatives the Annual Report of the Real Estate Agents Authority, pursuant to the provisions of the Crown Entities Act 2004. This report covers the period 1 July 2016 to 30 June 2017.



John Auld
Board Chair
17 October 2017



Marion Cowden
Audit and Risk Subcommittee Chair
17 October 2017

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Highlights

We achieved the following highlights in the 2016/17 financial year

Issued our first professional standard for the supervision of salespersons, helping to reinforce expectations for best practice and increase the professionalism of the real estate industry.

Completed a major strategic review. The new vision, strategy and plan will lead to a more proactive, connected and consumer-focused organisation, enabling a better real estate experience for all.

Launched two mobile device-friendly websites to help inform and educate buyers and sellers before they begin their real estate transaction.

Reviewed our fees and levies, leading to a **\$1 million annual saving for the real estate industry.**

Implemented a proactive media approach to help educate and inform consumers including an “Ask Kevin” initiative that provides the public with answers to key questions about buying and selling real estate.

Issued a record 2,279 new licences. There are now more than 15,650 active real estate licensees in New Zealand.

Managed 477 complaints – **the lowest level of real estate agent complaints** since we were established in 2009.

Closed a record 304 complaints through early resolution methods to help save time and cost for all parties to the complaint who agreed with this style of response.



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PART

The Real Estate
Agents Authority

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This Annual Report covers our achievements against the objectives from our 2014/15 Statement of Intent and the performance measures and budget set out in our 2016/17 Statement of Performance Expectations.



About the Real Estate Agents Authority

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

Our purpose is to promote and protect the interests of consumers buying and selling real estate and to promote public confidence in the performance of real estate agency work.

We provide independent oversight of the real estate industry, promote a high standard of service and professionalism within the industry and help provide increased protection for buyers and sellers of real estate. Our responsibilities include licensing, complaint management and setting industry standards. We also provide information and guidance to

consumers and the industry to help better inform them.

We are a Crown entity, established under the Real Estate Agents Act 2008.

THE NOVEMBER 2016 EARTHQUAKE

The 14 November 2016 earthquake had a significant impact on our operations. Following the earthquake, our Deloitte House (Wellington) office was considered to be unsafe. Our business continuity plan was invoked, and an immediate emergency message was sent to all staff.

We established remote working hubs in various staff members' homes while other more regional

staff worked from their own homes. Despite the challenges, staff resilience, commitment and agility shone through, and we managed to continue our operations.

With assistance from the Government Property Group on the assumption that we were not returning to our premises for some months, we were able to secure Level 3, 3 The Terrace, Wellington, from 5 December 2016.

We continue to perform all services from this temporary location while the long-term accommodation issue is resolved.



Report from the Chair

Tēnā koutou katoa. I am pleased to present the 2016/17 Annual Report for the Real Estate Agents Authority (REAA).

The 2016/17 year has been one of significant positive change, including the development of a new strategy and vision for REAA following the result of a major strategy review.

Our purpose remains clear; 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.

Our new vision and strategic goal will help deliver on this purpose over the next four years:

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

As a result of the new strategic direction REAA will move from being a responsive regulator doing its core functions well to becoming a more proactive, connected and consumer-focused organisation. The strategy will enable REAA to make a bigger difference for consumers buying or selling property, which for many New Zealanders is the biggest financial decision and investment they will ever make.

In line with the new strategic direction, during 2016/17 REAA has delivered a number of initiatives to help better inform consumers and improve the real estate experience. Two new mobile device-friendly websites were launched this year to showcase important consumer information about buying and selling property. Taking a proactive approach to media communications has seen REAA-generated content appear in more than 20 newspapers across New Zealand. An 'Ask Kevin' column, which answers common consumer questions about real estate transactions, appears on three major media platforms and reaches thousands of consumers nationwide.

REAA has worked with the real estate industry to improve professionalism and reduce costs. This year the first professional standard for the real estate industry was introduced. The standard sets out how a salesperson carrying out real estate work is to be properly supervised and managed by an agent or branch manager. The new Supervision Standard details guiding principles and information to help licensees understand how to meet their legal obligations. This is the first of a number of standards that will be prepared over the coming years by way of a more proactive approach to improving professional standards.

REAA has also reviewed and changed licensee fees and levies, reducing overall costs to real estate industry licensees by close to \$1million pa. The Board looks forward to further collaboration with the industry over the next year as we continue to work together to increase professionalism and public confidence in real estate agency work.

The property market started to slow over the course of the year, particularly in Auckland, following very strong growth in recent years. Real estate licensee numbers have continued to grow despite the slowdown, with a record 2,279 new licences issued during the year. There are now more than 15,650 active real estate licensees in New Zealand.

The public has relatively high levels of confidence in the real estate industry. Overall, 68% of New Zealanders believe that the real estate industry is professional, well monitored, well regulated and fair.

In 2016/17 REAA managed 477 complaints, the lowest level of complaints against real estate agents since REAA was established in 2009. A more evidence-based approach to information gathering is helping to deepen our understanding of problems and issues with real estate transactions. Through the use of data insights and intelligence, REAA is increasingly able to proactively assess risks. This will help the organisation make better informed decisions about

how to reduce or prevent problems with the real estate experience that lead to complaints.

The Kaikoura earthquake on 14 November 2016 had a significant impact on the organisation. As a result of the earthquake we moved out of our premises in Deloitte House in Wellington and that led to a huge effort by all REAA staff to continue to get the job done. Teams were set up in staff members' homes and meetings were held at various locations across Wellington. I am proud of the resilience, agility and collaboration shown by staff under difficult circumstances. The Senior Leadership Team worked as swiftly as possible to secure temporary offices to bring the team together again. For the most part normal operations resumed, though the earthquake did hamper our ability to deliver in some areas.

REAA has invested more in its people and systems over the past year. A number of staff have been involved in leadership development and specialist training on mediation and complaint management. REAA has also implemented a number of system enhancements to improve capacity and resilience in preparation for any further business disruptions. The online licensee portal is now used by 95% of real estate licensees and this has helped to automate a number of key transactions. The new cloud-based infrastructure also enables remote access for REAA staff anywhere and delivers a new level of organisational readiness.

On behalf of the REAA Board, I thank Kevin Lampen-Smith and his team for managing through a challenging year and for the good progress that has been made in making REAA more effective and efficient. The Board looks forward to delivering with the team the new vision and strategy. I thank the Board members for their contribution and for their willingness to vigorously debate the more pro-active direction for REAA.

Nāku noa na
John Auld
Board Chair

The Board

We are governed by an independent Board with members experienced in law, real estate, investment and risk management. The Board reports to the Associate Minister of Justice, and its members are appointed by the Associate Minister. The Board has an established Audit and Risk Subcommittee.

MEMBERS OF THE REAL ESTATE AGENTS AUTHORITY BOARD AS AT 30 JUNE 2017



John Auld (Chair)
Appointed July 2009



Denese Bates, QC
Appointed March 2014



Aaron Bhatnagar
Appointed April 2013



Marion Cowden
Appointed August 2015



Elizabeth Nidd
Appointed August 2015



Karin Thomas
Appointed July 2016
(Resigned July 2017)



Anthony Stack
Appointed August 2015

The Senior Leadership Team

Leadership and advice are provided by our Senior Leadership Team. The team is responsible for our performance and deliverables.

Kevin Lampen-Smith
Chief Executive/Registrar

Steven Bruce
Head of Strategy and Insights

Tanya Dunlop
HR Business Partner

Graham Durston
Corporate Services Manager
(Resigned August 2017)

Te-Aroha Jennings
Legal Counsel

Margaret Steel
Regulatory Services Manager

MEMBERS OF THE SENIOR LEADERSHIP TEAM AS AT 30 JUNE 2017



From left to right: Steven Bruce, Margaret Steel, Kevin Lampen-Smith, Tanya Dunlop, Te-Aroha Jennings, Graham Durston (absent)

PART

Measuring the
difference we make

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What we are aiming to achieve

The Justice Sector has an aspirational outcome that all New Zealanders should expect to live in a safe and just society. We contribute towards this outcome by helping to ensure that consumers participate with confidence in the real estate industry.

GOVERNMENT PRIORITIES

We are focused on working with our stakeholders and other government agencies to:

- responsibly manage the government's finances
- build a more productive and competitive economy
- deliver better public services to New Zealanders.

JUSTICE SECTOR OUTCOME

Along with other Justice Sector agencies, we aim to ensure New Zealanders can live in a *safe and just society*.

OUR OUTCOME

We support the outcomes of the government by working to enable the outcome *consumers participate with confidence in the real estate industry*.

OUR IMPACTS

- | | | |
|------------------------------|--------------------------------|----------------------------------|
| 1. Better informed consumers | 2. Improved licensee standards | 3. Improved regulatory framework |
|------------------------------|--------------------------------|----------------------------------|

OUR 2016/17 PRIORITIES

- | | | |
|---|------------------------------|---|
| 1. Improving the real estate experience | 2. Becoming intelligence-led | 3. Improving the efficiency and effectiveness of our operations |
|---|------------------------------|---|

OUR 2016/17 OUTPUTS

- | | | |
|---|--------------|-----------------------------|
| 1. Informing and advising consumers and licensees | 2. Licensing | 3. Monitoring and enforcing |
|---|--------------|-----------------------------|



Outcome

We monitor the progress we are making towards the desired outcome by tracking the percentage of consumers who have confidence in the real estate industry.

OUTCOME MEASURE	PERCENTAGE OF CONSUMERS WHO HAVE CONFIDENCE IN THE REAL ESTATE INDUSTRY	
Actual 2014/15		65%
Actual 2015/16		68%
Result 2016/17		68% ¹
Target 2017/18		75%
How we measure it	We assess the level of confidence the public has that the real estate industry in New Zealand is professional, well regulated, well monitored and fair	

Each year, we complete a programme of research to understand perceptions of the real estate industry among the general public and consumers who have recently been involved in a real estate transaction.

Our latest research, completed in June 2017, shows four in five consumers are confident the real estate industry in New Zealand is professional (80%). Nearly seven in 10 believe it is well regulated (69%) and well monitored (65%), and almost six in 10 consumers believe the real estate industry is fair (58%).

We expect these indices to improve in coming years due to our new strategic goals that will result in more targeted activity to improve consumer awareness of REAA and provide improved information about the real estate transaction and real estate agents.

CONFIDENCE IN THE REAL ESTATE INDUSTRY

Percentage rated 3, 4 or 5, with 5 being a lot of confidence.

PROFESSIONAL		WELL REGULATED	
2015	 74%	2015	 64%
2016	 78%	2016	 67%
2017	 80%	2017	 69%
WELL MONITORED		FAIR	
2015	 63%	2015	 59%
2016	 63%	2016	 64%
2017	 65%	2017	 58%

1 Source: REAA (2017). Annual Perceptions Research (June 2017). Prepared by Nielsen.

Impacts

Our impacts

OUR WORK HAS THREE DIRECT IMPACTS THAT CONTRIBUTE TOWARDS OUR OUTCOME:



IMPACT 1:
Better informed consumers



IMPACT 2:
Improved licensee standards



IMPACT 3:
Improved regulatory framework

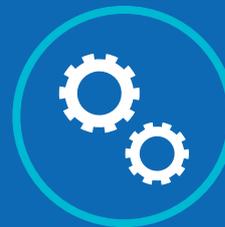
TO PROGRESS THESE IMPACTS IN 2016/17, WE IDENTIFIED THREE PRIORITY WORK AREAS:



PRIORITY 1:
Improving the real estate experience



PRIORITY 2:
Becoming intelligence-led



PRIORITY 3:
Improving the efficiency and effectiveness of our operations

Priority 1



IMPROVING THE REAL ESTATE EXPERIENCE

Buying property may be the biggest financial transaction consumers will ever be involved in, with potentially significant emotional and financial loss if it goes wrong. It is therefore essential buyers and sellers have access to accurate, relevant and real-time information about the buying and selling process.

This year, we implemented a number of consumer communication initiatives to educate and inform consumers before they buy and sell property

as well as raise awareness of the information we provide about the buying and selling process.

We also continued our programme of work to improve licensees' skills and knowledge through education and advice and by developing a new industry standard.

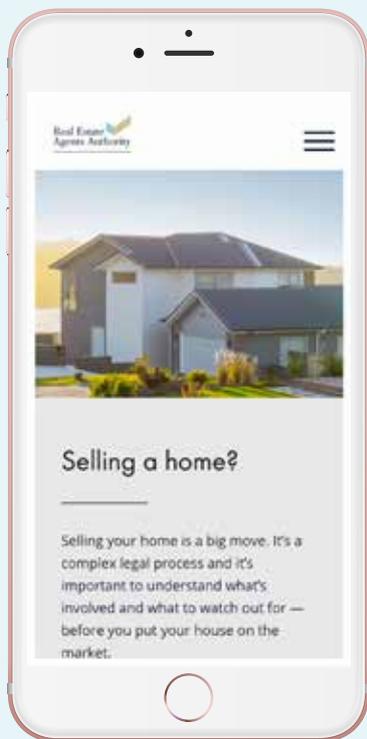
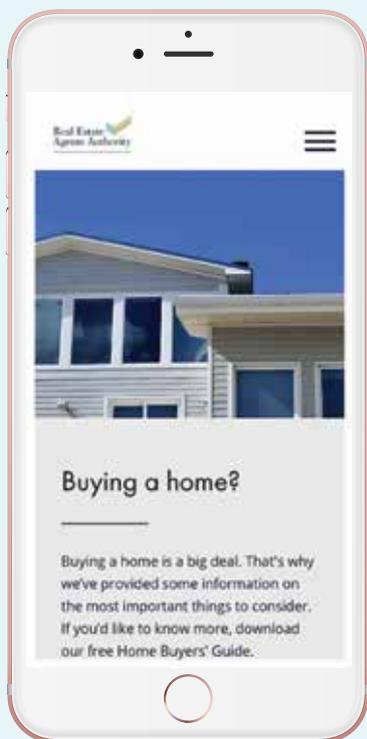
INFORMING AND EDUCATING CONSUMERS

We have implemented a number of consumer communication initiatives

to improve home buyers' and sellers' access to key information. In February 2017, we launched a new mobile device-friendly simple website providing home buyers with important key information and a new *Home Buyers' Guide*.² In June 2017, we launched a further website that provides key information and a new guide for people who are selling their home.³

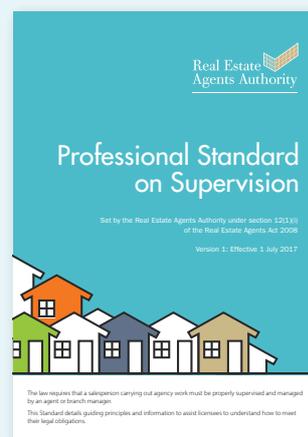
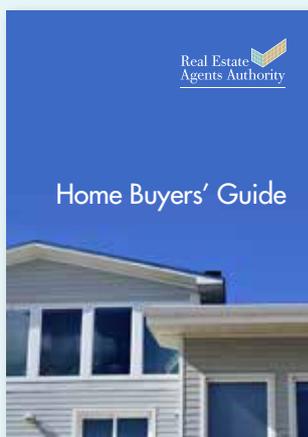
These websites have been visited more than **30,000** times, with thousands of consumers downloading the new guides.

We have also developed a new website strategy and improvement plan and commenced work to design and develop new comprehensive websites for the industry and consumers.



2 buyingahome.reaa.govt.nz

3 sellingahome.reaa.govt.nz



PROACTIVE MEDIA APPROACH “ASK KEVIN”

One of our aims has been to be more proactive in educating consumers about the buying and selling process. In February 2017, we began supplying regular content designed to educate and inform consumers about safe and successful real estate transactions to regional newspapers and news websites. In April 2017, we began supplying Fairfax Media with a regular column on relevant real estate issues. “Ask Kevin” columns have run in *The Dominion Post* and *The Press* and on *stuff.co.nz*, one of New Zealand’s largest news websites.

In May 2017, *Property Overview*, an Auckland Chinese property paper, published the first in a series of REAA pieces. There are now 10 media platforms publishing REAA content designed to answer common consumer questions.

Topics of “Ask Kevin” columns from 2016/17 included:

- the home buying process
- working with a real estate agent
- auction advice
- building inspections
- what you have to tell prospective buyers
- multiple representation versus sole agency.

INTRODUCING A SUPERVISION STANDARD

One of our statutory functions is to set professional standards for real estate licensees. These provide a benchmark for best

practice to inform compliance advice, decision making, agency policies and procedures, and consumer expectations. Without industry standards of best practice, disciplinary decisions risk tending towards maintaining minimum standards rather than raising standards.

We have started the professional standards process by introducing a supervision standard. Introduction of the standard generated wide debate across the industry, with many agencies reviewing their supervision policies and practices. To complement the standard, we have developed training material for agents and branch managers as part of their non-verifiable training. As part of the 2018 verifiable continuing education, we will also develop supervision training material for all licensees.

PROVIDING INDUSTRY ADVICE AND GUIDANCE

REAA sends bimonthly email newsletters to all licensees. The goal is to provide the industry with useful information, relevant advice and recent disciplinary outcomes. The newsletter open rates are consistently high, sitting around the 60% mark. Key stories from 2016/17 included:

- examples of positive outcomes from engaging in the early resolution process
- disclosure and a decision that shows why it’s important to be specific

- ‘flipping’ and why this has been a hot topic in the media
- the Privacy Act and why it’s important to understand it
- five steps to resolving complaints
- balancing obligations between clients and purchasers
- buying a client’s property – what you need to know
- pre-auction offers and your responsibilities
- do’s and don’ts of drone photography

CONTINUING INDUSTRY EDUCATION

In May 2017, a continuing education working group recommended a change to the refresher training and exemptions practice rules. Refresher training will be done within three months of reviving a licence rather than one year. No other changes are proposed for 2018, but a review of the current continuing education framework is being undertaken with a view to updating our approach from 2019.

Priority 2



BECOMING INTELLIGENCE-LED

We have developed a more evidence-based approach to information gathering, decision making and determining actions at both a strategic and operational level. Through data and intelligence that we have collected, collated and analysed, we are gaining a deeper understanding of real estate transaction problems and issues. We are able to proactively assess the risks and make better-informed decisions about what interventions are needed.

USING INTELLIGENCE TO IMPROVE THE REAL ESTATE EXPERIENCE

In June 2017, we completed building a new data warehouse to enable more effective analysis of internal and external industry data to provide

valuable insights and to better inform decision making. The data warehouse will also enable us to more effectively analyse enquiries and complaints and underlying problems and issues. This will help us to better understand what is causing problems and complaints and how their occurrence can be reduced or prevented in the future.

USING INTELLIGENCE TO HELP INVESTIGATE 'FLIPPING'

Media interest in the fast-moving Auckland housing market highlighted a potential real estate industry issue with stories of property flipping dominating front pages and news bulletins. The articles mostly dealt with the rapid-fire sales that have seen some properties on-sold within days or weeks for a

significant profit. While much of the focus has been on Auckland, news outlets nationwide have picked up the story and run with it. During the year, we were able to use our data and insights to proactively investigate a sample of flipping cases to determine if real estate behaviour was appropriate. The investigation identified only a small number of issues, and enquiries are continuing with the agencies involved to ensure they acted appropriately.



Priority 3



IMPROVING THE EFFICIENCY AND EFFECTIVENESS OF OUR OPERATIONS

The quality of our organisational capability contributes to the way in which we can influence the real estate industry. To be flexible and responsive to the industry, we need effective and efficient processes. Through a range of initiatives in 2016/17, we have improved how we operate to better support licensees, buyers and sellers.

STREAMLINING THE COMPLAINTS PROCESS

In 2016/17, we introduced new information sheets to explain the complaints process to consumers. Our complaints team has completed training and development to achieve accredited mediation status to help with early resolution of minor complaints. We have also improved our information gathering to include all parties before a complaint is triaged. Although this adds a little more time to process each complaint, the overall complaint experience has improved for all parties involved.

FEES AND LEVIES REVIEW

In 2017, our Board approved a revision to the licensee fees and levies, which resulted in an overall cost reduction to the industry of \$1 million per annum. The revised fees and levies were effective from 1 February 2017.

Fee/levy type	New	Previous
Application fee	\$187	\$295
Annual suspension fee	\$148	\$95
Annual operational and disciplinary levies	\$630	\$690

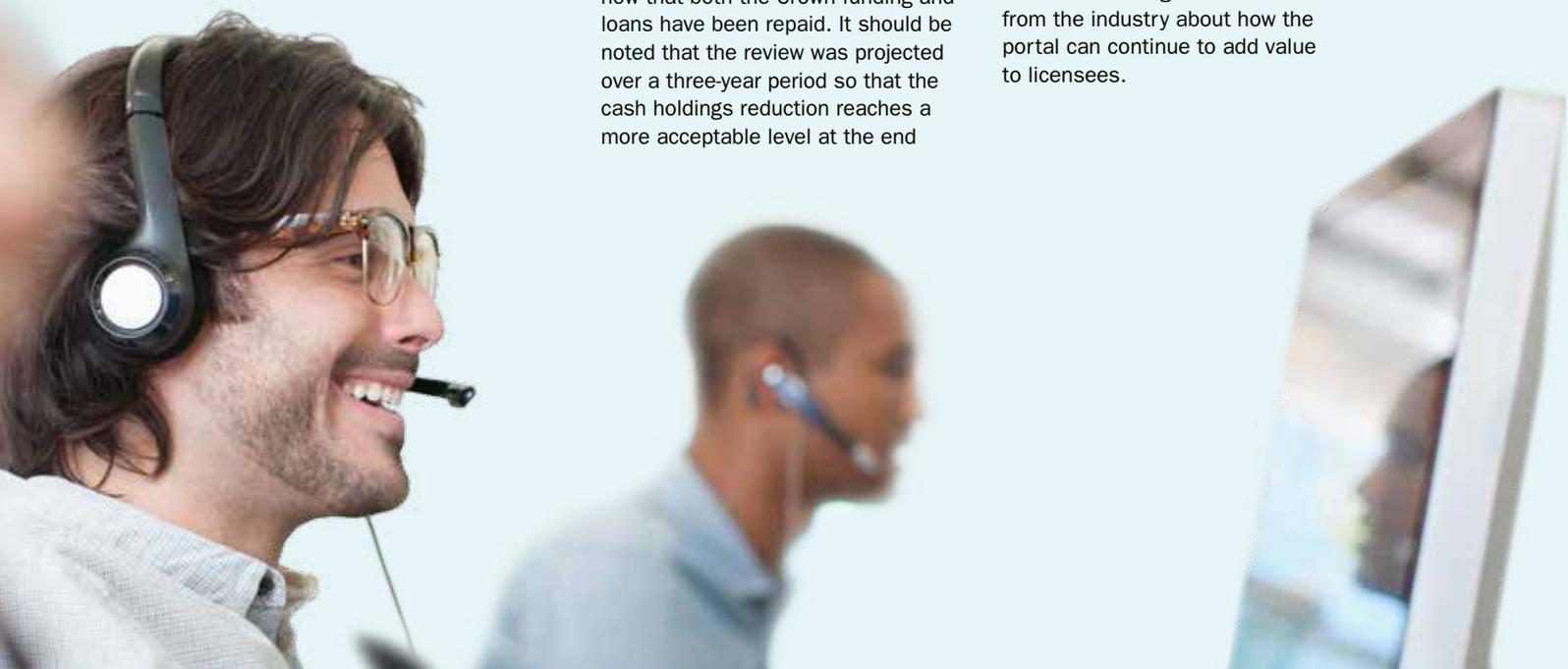
The fees and levies have been set after taking into account expected licensee numbers and to provide for a reduction in our cash holdings now that both the Crown funding and loans have been repaid. It should be noted that the review was projected over a three-year period so that the cash holdings reduction reaches a more acceptable level at the end

of that three years. If, however, licensee numbers vary significantly within that three-year period, we may deem it necessary to make a further amendment to the fees and levies.

IMPROVING THE LICENSEE PORTAL

As part of the government's Better Public Services Result 10, we, like other agencies, have been charged with making it easier for the public to transact with the government in a digital environment.

In 2017, we successfully completed the final phase of our Licensee Management System project. The project upgraded and enhanced our Customer Relationship Management System (CRM) and delivered a Licensee Portal, using verified RealMe security features, that enables licensees to apply, renew, view and update their details online. So far, the portal has achieved a 95% uptake, and we are now receiving useful feedback from the industry about how the portal can continue to add value to licensees.



Measuring our impacts

MEASURE	PERCENTAGE OF CONSUMERS WHO CONSIDER THEMSELVES INFORMED OF THEIR RIGHTS IN RELATION TO REAL ESTATE TRANSACTIONS	
Actual 2014/15		54%
Actual 2015/16		63%
Result 2016/17		57% ⁴
Target 2017/18		75%
How we measure it	We assess the level of confidence the public has that the real estate industry in New Zealand is professional, well regulated, well monitored and fair	



Impact 1: Better informed consumers

We measure the effectiveness of our impact by monitoring the percentage of consumers who consider themselves informed of their rights in relation to real estate transactions.

MEASURE	PERCENTAGE OF ACTIVE LICENSEES DURING THE FINANCIAL YEAR WHO RECEIVE DECISIONS OF UNSATISFACTORY CONDUCT OR MISCONDUCT	
Actual 2014/15		1.5%
Actual 2015/16		1.1%
Result 2016/17		0.95%
Target 2017/18		<1%
How we measure it	By assessing the number of decisions of unsatisfactory conduct (128) and misconduct (21) made against the number of active licences held at 30 June 2017 (15,658)	



Impact 2: Improved licensee standards

We measure the effectiveness of our impact by tracking the number of active licensees who, during the financial year, receive decisions of unsatisfactory conduct or misconduct.

⁴ Source: REAA (2017). *Annual Perceptions Research (June 2017)*. Prepared by Nielsen.

MEASURE **PERCENTAGE OF CONSUMERS WHO VIEW RESIDENTIAL PROPERTY TRANSACTIONS IN NEW ZEALAND AS HIGH RISK**

Actual 2014/15	Not measured in 2014/15
Actual 2015/16	22%
Result 2016/17	Not measured in 2016/17
Target 2017/18	<20%

How we measure it By assessing the perception of risk buyers and sellers of residential property are exposed to⁵



Impact 3: Improved regulatory framework

We measure the effectiveness of our impact by monitoring the perceptions of risk in the New Zealand residential property market.

MEASURING CONSUMER PERCEPTION OF RISK

In 2016/17, this impact was not measured, as the in-depth consumer research required will be conducted in 2017/18. The consumer research will provide a deeper understanding of the issues with the real estate experience and help enable us to identify and reduce the causes of consumer harm.

⁵ Source: REAA (2015). *Consumer Risk: Measuring the issues and risks consumers face undertaking residential real estate transactions in New Zealand (October 2015)*. Prepared by Colmar Brunton.



PART

Organisational health
and capability

3

This part of the Annual Report provides
information on how we work.



Our values

Our values have remained unchanged and continue to help us determine how we act as an organisation.



We are professional

We act with integrity. We respect each other and those we interact with. We take responsibility and hold ourselves and others to account.



We are proactive

We are energetic, courageous and committed. We use innovation and expertise to improve New Zealand's real estate industry.



Our people matter

We build strong and positive relationships with the people we work with. We develop our people and share our combined expertise to create outcomes we are proud of.

Improving our capability

Maintaining and improving organisational health and capability is essential to achieving the outcome and impacts we are seeking. Providing the right environment, tools, support and leadership enables our people to do their jobs effectively and grow our capability as an organisation. This year, we have continued to focus our capability improvement around three themes: people, processes and tools.

THEME	PROGRESS FOR THIS YEAR
People	<ul style="list-style-type: none"> Expanded the Strong Inspirational Leadership programme to include all people managers and key staff members. Established a strategy and insights team to focus on strategic design and using data and insights to gain a deeper understanding of consumer and industry needs. Implemented mediation accreditation for staff involved in dispute resolution.
Processes	<ul style="list-style-type: none"> Completed the fees and levies review and reduced the overall costs for the industry. Commenced new disaster recovery and infrastructure projects to improve business continuity, system accessibility and a new phone solution. Commenced the finance system replacement project.
Tools	<ul style="list-style-type: none"> Enhanced the online Licensee Portal to enable licence renewals and further reduced manual administration. Developed a website strategy and improvement plan and implemented mobile device-friendly websites to provide relevant and accessible information for buyers and sellers. Developed a data warehouse to enable more effective analysis into the causes of real estate problems and issues.

Our people

We have many people with diverse backgrounds, skills, experiences and knowledge. This is critical to ensuring our continued success and progress towards our goals. As at 30 June 2017, we had a permanent staff of 46, comprising 27 female and 19 male staff. We are multicultural and have origins in New Zealand, Europe, North America, Asia and Africa. No current employees have identified themselves as being disabled.

Promoting equal employment opportunities

We promote equal employment opportunities through our practices relating to recruitment and selection, leadership, workforce development, management of people and performance as well as the way we engage with our employees. The table below outlines our achievements in 2016/17 against the seven key elements of being a good employer, as set out by the New Zealand Human Rights Commission.

ELEMENT	ACTIVITIES FOR THIS YEAR
Safe and healthy environment	<ul style="list-style-type: none"> Enhanced our health and safety policies and practices. Empowered the internal Culture Club to be responsible for organisational wellness and health and safety. Provided staff with a range of support services, including an earthquake preparedness pack, Employee Assistance Programme, workstation assessments and free flu vaccinations.
Leadership, accountability and culture	<ul style="list-style-type: none"> Established a leadership development programme, which focuses on growing leadership capability for people leaders and key talent. Held regular meetings with staff to promote learning opportunities and facilitate discussion on our priorities and developments.
Recruitment, selection and induction	<ul style="list-style-type: none"> Strengthened recruitment practices by reviewing core competencies for key roles. Continued peer-to-peer interviews as part of our recruitment process.
Employee development, promotion and exit	<ul style="list-style-type: none"> Completed personal development plans for all staff. Provided study assistance and professional development support. Offered exit interviews to all leaving employees.
Flexibility and work design	<ul style="list-style-type: none"> Maintained a flexible working practice policy. Provided tailored options to support the work/life balance of staff.
Remuneration, recognition and conditions	<ul style="list-style-type: none"> Continued transparent and equitable job evaluation processes. Offered enhanced benefits in relation to paid parental leave and sick leave.
Harassment and bullying prevention	<ul style="list-style-type: none"> Maintained anti-harassment, anti-discrimination and anti-bullying policies. Continued to have zero tolerance of harassment and bullying.

Directions issued by Ministers

During the reporting period, we continued to comply with the directions previously issued by the Minister of State Services and the Minister of Finance in respect of the New Zealand Business Number, shared authentication services, procurement, ICT and property.



A new strategy for the next four years

From our beginnings in late 2009, we have evolved from a new entity to a well-established and responsive regulator that is making a positive difference with respect to licensing operations and complaint handling. This year, we have reviewed our strategy and made the decision to be a more proactive, connected and consumer-focused organisation. This shift will enable us to have a much greater impact for consumers and the industry over the next four years.

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

OUR STRATEGY AND KEY INITIATIVES TO MOVE FROM GOOD TO GREAT



Details of our new strategy are highlighted in our 2017/18 Statement of Intent, which is available to view on our website.

PART

Our performance

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This part of the Annual Report summarises the performance of our functions. Forecast service performance is set out in our Statement of Performance Expectations 2016/17.



Statement of responsibility

In the year ended 30 June 2017, the Real Estate Agents Authority Board and Senior Leadership Team were responsible for:

- the preparation of the annual financial statements and the statement of performance and for the judgements made in them
- establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of the Real Estate Agents Authority's financial reporting
- end-of-year performance information provided by the Real Estate Agents Authority under section 19A of the Public Finance Act 1989.

In the opinion of the Board and Senior Leadership Team, the financial statements and the statement of performance for the year ended 30 June 2017 fairly reflect the financial position, result of operations and cash flows of the Real Estate Agents Authority.

Signed on behalf of the Board.



John Auld
Board Chair
17 October 2017



Marion Cowden
Audit and Risk Subcommittee Chair
17 October 2017



BDO WELLINGTON

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF REAL ESTATE AGENTS AUTHORITY'S FINANCIAL STATEMENTS, AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2017.

The Auditor-General is the auditor of Real Estate Agents Authority (the Authority). The Auditor-General has appointed me, Mark Bewley, using the staff and resources of BDO Wellington, to carry out the audit of the financial statements and the performance information of the Authority on his behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Authority on pages 32 to 53, that comprise the statement of financial position as at 30 June 2017, the statement of comprehensive revenue and expenses, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Authority on pages 27 to 31.

In our opinion:

- the financial statements of the Authority on pages 32 to 53:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2017; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity International Public Sector Accounting Standards Reduced Disclosure Regime
- the performance information on pages 27 to 31:
 - presents fairly, in all material respects, the Authority's performance for the year ended 30 June 2017, including:
 - for each class of reportable outputs:
 - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
 - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year;
 - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 17 October 2017. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities relating to the financial statements and the performance information, we comment on other information, and explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board for the financial statements and the performance information

The Board is responsible on behalf of the Authority for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board is responsible for such internal control as they determine is necessary to enable them to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Group, or there is no realistic alternative but to do so.

The Board's responsibilities arise from the Crown Entities Act 2004 and the Real Estate Agents Act 2008.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.



BDO WELLINGTON

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Authority's *statement of performance expectations*.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- We evaluate the appropriateness of the reported performance information within the Authority's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Authority to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible for the direction, supervision and performance of the Authority audit. We remain solely responsible for our audit opinion.

We communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board is responsible for the other information. The other information comprises the information included on pages 3 to 55, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Authority in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with or interests in the Authority.

Mark Bewley
BDO Wellington
On behalf of the Auditor-General
Wellington, New Zealand

Statement of performance

REAA provides outputs in three result areas:

- **Output 1:** Informing and advising consumers and licensees
- **Output 2:** Licensing
- **Output 3:** Monitoring and enforcing

The following pages outline what we have achieved against the performance measures set out in our Statement of Performance Expectations 2016/17.

	Actual 2017 \$000	Budget 2017 \$000	Actual 2016 \$000
Comprehensive revenue and expenditure			
Total revenue	11,888	11,590	11,613
Output expenditure			
Output 1: Informing and advising consumers and licensees	1,097	1,330	1,011
Output 2: Licensing	3,426	2,051	2,108
Output 3: Monitoring and enforcing	5,926	7,784	6,274
Total expenditure	10,449	11,165	9,393
Total comprehensive revenue and expense	1,439	425	2,220

Outputs

Output 1: Informing and advising consumers and licensees

SCOPE

This output provides for the provision of information and advice to buyers, sellers and licensees and includes:

- informing and advising consumers of their rights
- informing and advising licensees of their responsibilities
- providing best-practice guidance for licensees
- managing the continuing education programme, overseeing development of continuing education material, monitoring licensee compliance to annual requirements and auditing continuing education providers
- raising awareness of REAA.

This output supports achievement towards the following impacts:

- **Impact 1:** Better informed consumers
- **Impact 2:** Improved licensee standards

HOW WELL WE DELIVERED THIS OUTPUT

The following table provides an assessment of our delivery against the performance measures set out for this output in our 2016/17 Statement of Performance Expectations.

Measure	2016/17 Actual	2016/17 Target	2015/16 Actual
Awareness of the Authority amongst those who have had a real estate transaction in the last 12 months ⁶	No comparable measure	85%	59%
Prompted knowledge of what the Authority does amongst those who have had a real estate transaction in the last 12 months ⁷	31%	No target	Not measured
Percentage of those who have had a real estate transaction in the last 12 months who found information and guidance provided by the Authority useful ⁸	93%	97%	97%
Percentage of consumers who consider the guides (Agency Agreement Guide and Sale and Purchase Agreement Guide) useful ⁹	90%	85%	88%
Percentage of licensees who find the Authority's compliance guidance useful ¹⁰	88%	80%	86%
Percentage of licensees who agree the continuing education programme has improved their knowledge and understanding of the topic area ¹¹	86%	87%	86%
Percentage of licensees who plan to make changes to their practice as a result of continuing education ¹¹	77%	80%	74%

6 Source: REAA (2016). *Annual Perceptions Research (June 2016)* prepared by Nielsen. This result is expressed as a combined percentage of positive responses where respondents rated they 'know a little' to 'a reasonable amount' about what REAA does.

7 Source: REAA (2017). *Annual Perceptions Research (June 2017)* prepared by Nielsen. This result is expressed as a combined percentage of positive responses where respondents rated they 'know a little' to 'a reasonable amount' about what REAA does. This year, the prompted awareness question was asked after an unprompted awareness question, 'who do you think is the main organisation responsible for being the independent regulator of the real estate industry?'.⁷

8 Source: REAA (2017). *Annual Perceptions Research (June 2017)* prepared by Nielsen. This result is expressed as a combined percentage of positive responses where respondents rated REAA information and guidance as 'somewhat useful' to 'very useful' and excludes 'don't know' responses.

9 Source: REAA (2017). *Annual Perceptions Research (June 2017)* prepared by Nielsen. This result is expressed as a combined percentage of positive responses where respondents rated guides as 'somewhat useful' to 'very useful' and excludes 'don't know' responses. The 2015/16 Annual Report refers to these guides as the New Zealand Property Agency Guide and New Zealand Residential Property Agency Guide.

10 Source: REAA (2017). *Licensee Survey (July 2017)*. This result is expressed as a combined percentage of positive responses where respondents rated REAA compliance guidance as 'informative' to 'very informative'.

11 Source: REAA (2017). *Licensee Survey (July 2017)*.

AWARENESS

During the year, in-depth consumer brand research found that many consumers are confused about what REAA is and what it does. For example, there is some confusion between REAA and REINZ. As a result of this insight, the annual Nielsen survey was adjusted to provide a more accurate measure of awareness and consumer knowledge of REAA.

The 2017 Nielsen survey used an unprompted awareness question to ask consumers who they think the 'main organisation responsible for being the independent regulator of the real estate industry is'. Only 7% of consumers were able to correctly identify REAA. The new unprompted question was asked before the historically asked prompted awareness question, which asked how much respondents 'know about what the Real Estate Agents Authority does'. 31% of consumers knew either 'a little' (22%) or 'a reasonable amount' (9%) about REAA. This improvement to the survey has led to a more informed and accurate measure of the level of consumer awareness and levels of knowledge of what REAA does. This change has also meant that the result is no longer comparable to previous survey responses.

Output 2: Licensing

SCOPE

This output provides for managing and administering REAA's licensing regime, including:

- 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 to work in the industry
- processing new applications, renewals and voluntary suspensions of licences
- maintaining a current register of all approved licensees
- managing the Licensee Portal.

This output supports achievement towards the following impacts:

- **Impact 1:** Better informed consumers
- **Impact 2:** Improved licensee standards

HOW WELL WE DELIVERED THIS OUTPUT

The following table provides an assessment of our delivery against the performance measures set out for this output in our 2016/17 Statement of Performance Expectations.

Measure	2016/17 Actual	2016/17 Target	2015/16 Actual
Quality			
Percentage of applications approved where licensees at the time of approval are 'fit and proper' and meet the required professional standards ¹²	100%	100%	100%
Timeliness			
Percentage of new applications processed within three weeks ¹³	84%	87%	87%
Percentage of renewal applications processed within two weeks ¹³	97%	98%	98%

¹² This result is obtained through an internal ongoing quality review of all approved applications. Professional standards consider any previous criminal convictions, relevant education and character of licensees.

¹³ These results are obtained through a report extracted from REAA's data management system.

Output 3: Monitoring and enforcing

SCOPE

This output provides for the provision of monitoring the industry and taking action against non-compliance, including:

- responding to enquiries through information and advice
- receiving, assessing, managing and investigating complaints
- supporting Complaints Assessment Committees, Tribunal and court activities
- auditing real estate agency trust accounts
- establishing and maintaining a framework for collecting, collating and analysing data
- undertaking comprehensive assessments of the key issues and risks that exist in the real estate industry and shaping regulation, compliance and policy practices to address these risks
- undertaking targeted compliance campaigns.

This output supports achievement towards the following impacts:

- **Impact 1:** Better informed consumers
- **Impact 2:** Improved licensee standards
- **Impact 3:** Improved regulatory framework

HOW WELL WE DELIVERED THIS OUTPUT

The following table provides an assessment of our delivery against the performance measures set out for this output in our 2016/17 Statement of Performance Expectations.

Measure	2016/17 Actual	2016/17 Target	2015/16 Actual
Quality			
Percentage of complainants and respondents who consider the complaints process independent, fair and transparent ¹⁴	58%	60%	52%
Complaints Assessment Committee decisions that meet quality standards ¹⁵	81%	100%	90%
Number of judicial criticisms on the Complaints Assessment Committee decision process ¹⁶	5	0	0
Timeliness			
Percentage of complaints completed within one month ¹⁷	14%	45%	27%
Percentage of complaints completed within six months ¹⁷	67%	75%	61%
Percentage of complaints completed within one year ¹⁷	84%	95%	85%

14 Source: REAA (2016). *Complainants and Respondents Surveys (June/July 2016)*.

15 This result is obtained through an external review of a sample of Complaints Assessment Committee decisions. Each Complaints Assessment Committee decision is scored against three criteria: knowledge of the legislation and rules, analysis and procedural compliance.

16 Judicial criticism is assessed through a comprehensive review of each Tribunal decision, particularly Tribunal decisions that overturn Complaints Assessment Committee decisions. In each case, the reason for the overturn is assessed as to whether there is any judicial criticism of the original Complaints Assessment Committee decision.

17 These results are obtained through a report extracted from REAA's data management system.

JUDICIAL CRITICISMS OF THE COMPLAINTS ASSESSMENT COMMITTEE DECISION-MAKING PROCESS

There were five judicial criticisms received against a target of zero. From 2016, a change in chair and practice at the Real Estate Agents Disciplinary Tribunal has led to an increased focus on the procedure followed by Complaints Assessment Committees. In the last year, this process identified five criticisms out of 171 Complaints Assessment Committee decisions. We have increased our training to Complaints Assessment Committees to improve future results in this area.

TIMELINESS OF COMPLETING COMPLAINTS

The percentage of complaints completed within one month was 14% against a target of 45%. During the year, a number of factors influenced our ability to resolve complaints within 30 days, particularly the November earthquake and an increase in the number of complaints being resolved during early resolution. We closed 304 complaints – 20% more than the previous year and our highest ever number through our early resolution process. Although this is an increased volume, which is good, this more personable approach does generally take more time, hence the lower timeliness performance.

During the year, the early resolution process was improved to engage with both parties to the complaint early in the process and reduce the need to escalate to the Complaints Assessment Committee. While the target of 45% of complaints resolved within 30 days has not been achieved, the early resolution process delivered a higher percentage (66%) of complainants and respondents who consider the complaints process independent, fair and transparent.

Financial statements

Explanations of significant variances against budget are detailed in Note 27 on page 53. The statement of accounting policies and notes to the financial statements form an integral part of these financial statements.

Statement of Comprehensive Revenue and Expense

for the year ended 30 June 2017

	Note	Actual 2017 \$000	Budget 2017 \$000	Actual 2016 \$000
Revenue				
Operating levy received	1	10,095	10,100	9,775
Application and suspension fees	2	983	745	986
Other revenue	3	810	745	852
Total revenue		11,888	11,590	11,613
Expenditure				
Audit fee		58	55	61
Personnel costs	4	4,544	5,064	4,080
Finance costs	5, 18	-	-	51
Depreciation	13	55	84	44
Amortisation	14	732	1,011	389
Impairment loss	14	-	-	35
Specialist services	6	1,205	1,502	1,208
Legal fees		1,325	1,250	1,380
Board fees	4, 24	162	160	163
Complaints Assessment Committee fees		315	380	345
Miscellaneous expenses		104	13	24
Computer and telecommunications		1,089	818	828
Printing, stationery and postage		103	167	161
Travel, meetings and entertainment		215	268	218
Occupancy	15	542	393	406
Total expenditure		10,449	11,165	9,393
Total comprehensive revenue and expense		1,439	425	2,220

Statement of financial position

as at 30 June 2017

	Note	Actual 2017 \$000	Budget 2017 \$000	Actual 2016 \$000
Current assets				
Cash and cash equivalents	8	1,578	1,654	4,946
Investments	9	8,212	6,079	4,132
Debtors and other receivables	10	170	170	141
Prepayments	11	180	44	74
GST receivable/(payable)		74	160	(5)
Approved guide stock	12	18	37	19
Total current assets		10,232	8,144	9,307
Non-current assets				
Property, plant and equipment	13	124	63	134
Intangible assets	14	2,922	4,838	2,310
Total non-current assets		3,046	4,901	2,444
Total assets		13,278	13,045	11,751
Current liabilities				
Trade creditors and accruals	15	1,436	1,429	918
Employee entitlements	16	183	150	184
Deferred operating levy	17	5,794	6,579	6,223
Establishment funding from the Crown	18	-	-	-
Total current liabilities		7,413	8,158	7,325
Total liabilities		7,413	8,158	7,325
Net assets		5,865	4,887	4,426
Public equity				
Retained earnings		5,615	4,637	4,176
Litigation reserve		250	250	250
Total public equity	19	5,865	4,887	4,426

Statement of changes in equity

for year ended 30 June 2017

		Actual 2017 \$000	Budget 2017 \$000	Actual 2016 \$000
Public equity as at 1 July		4,426	4,462	2,206
Total comprehensive revenue and expense		1,439	425	2,220
Total public equity as at 30 June	19	5,865	4,887	4,426
Comprised of the following funds:				
Retained earnings as at 1 July		4,176	4,212	1,956
Total comprehensive revenue and expense		1,439	425	2,220
Total retained earnings		5,615	4,637	4,176
Litigation reserve as at 1 July		250	250	250
Movement in litigation reserve		-	-	-
Total litigation reserve		250	250	250

Statement of cash flows

for the year ended 30 June 2017

Note	Actual 2017 \$000	Budget 2017 \$000	Actual 2016 \$000
Cash flows from operating activities			
Cash was provided from:			
Receipts from licensees	10,225	10,516	10,669
Receipts from sale of publications	256	250	275
Interest received	145	215	265
Receipts from suspension fees	424	304	323
Receipts from fines	304	280	304
Cash was applied to:			
Payments to suppliers	(4,851)	(4,600)	(5,001)
Payments to employees	(4,372)	(4,869)	(3,755)
Net GST received/(paid)	(30)	(75)	63
Net cash flows from operating activities	2,101	2,021	3,143
Cash flows from investing activities			
Cash was provided from:			
Receipts from investments in term deposits	-	-	2,078
Cash was applied to:			
Purchase of property, plant and equipment	(45)	(64)	(117)
Purchase of intangible assets	(1,344)	(1,761)	(1,808)
Investment in term deposits	(4,080)	-	(27)
Net cash flows from investing activities	(5,469)	(1,825)	126
Cash flows from financing activities			
Cash was provided from:			
Cash was applied to:			
Repayment of establishment funding to the Crown	-	-	(1,164)
Net cash flows from financing activities	-	-	(1,164)
Net increase/(decrease) in cash and cash equivalents	(3,368)	196	2,105
Opening cash and cash equivalents	4,946	1,458	2,841
Closing cash and cash equivalents	1,578	1,654	4,946

Statement of cash flows (continued)

for the year ended 30 June 2017

Reconciliation of statement of comprehensive revenue and expense surplus/(deficit) to net cash flow from operating activities

	Actual 2017 \$000	Actual 2016 \$000
Net surplus/(deficit)	1,439	2,220
Non-cash items		
Depreciation	55	44
Amortisation	732	389
Provision for doubtful debts	80	-
Impairment loss	-	35
Imputed loan interest	-	51
Movements in working capital items		
Trade debtors, other receivables and prepayments	(215)	(42)
Movements in inventory	1	16
GST receivable	(79)	15
Trade creditors, other payables and provisions	519	188
Deferred operating revenue	(430)	199
Employee entitlements	(1)	28
Net cash flows from operating activities	2,101	3,143

Statement of accounting policies

For the year ended 30 June 2017

Reporting entity

These are the financial statements of the Real Estate Agents Authority (REAA), a Crown entity as defined by the Crown Entities Act 2004. REAA is domiciled in New Zealand. REAA's functions are defined in the Real Estate Agents Act 2008 and include administering the licensing regime for licensees, setting professional standards and providing services in relation to complaints determinations. REAA is a public benefit entity for the purposes of the New Zealand equivalent to the International Public Sector Accounting Standards (IPSAS).

The financial statements for REAA are for the year ended 30 June 2017 and were approved on 17 October 2017 by the Board.

Basis of preparation

STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS) and other applicable Financial Reporting Standards, as appropriate for Tier 2 public sector public benefit entities for which all reduced disclosure regime exemptions have been adopted.

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

MEASUREMENT BASIS

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

FUNCTIONAL AND PRESENTATION CURRENCY

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

Significant accounting policies

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

REVENUE

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

Under PBE IPSAS 9, REAA considers the revenue generated from operating levies to be exchange in nature as it is consideration for goods and services that REAA provides to licensed members and approximates the fair value of those transactions.

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

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

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

FINES

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

SALE OF PUBLICATIONS

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

INTEREST

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

Leases

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

Cash and cash equivalents

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

Investments

Investments include deposits held with banks with original maturities greater than three months but less than one year. Investments in bank deposits are initially measured at fair value plus transaction costs.

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

Debtors and other receivables

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

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

The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible, it is written off against the impairment allowance account for receivables.

Inventories

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

Property, plant and equipment

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

ADDITIONS

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

DISPOSALS

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the assets. Gains and losses on disposals are included in the Statement of Comprehensive Revenue and Expense.

SUBSEQUENT COSTS

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

DEPRECIATION

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

<i>Leasehold improvements</i>	4 years	25% straight line
<i>Computer equipment</i>	3 years	33% straight line
<i>Furniture and office equipment</i>	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 REAA are recognised as an intangible asset. Direct costs include the software development and consultants' costs. Costs associated with maintaining computer software are recognised as an expense when incurred.

AMORTISATION

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

The useful lives and associated rates have been estimated as follows:

<i>Acquired and developed software</i>	3–5 years	20–33% straight line
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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, which is expected to be settled within 12 months of balance date (or approval is gained to carry forward leave), and measured at undiscounted nominal values based on an actual entitlement basis at current rates of pay.

Superannuation schemes

Obligations for contributions to KiwiSaver are accounted for as defined contribution superannuation schemes and recognised as an expense in the Statement of Comprehensive Revenue and Expense as incurred.

Establishment funding

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

Goods and services tax

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

Taxation

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

Financial instruments

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

Statement of cash flows

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

Budget figures

The budget figures shown are derived from the 2016/17 Statement of Performance Expectations approved by the Board. The budget figures have been prepared in accordance with IPSAS, using accounting policies consistent with those adopted by REAA for the preparation of the financial statements. The budget figures have not been audited.

Equity

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

Changes in accounting policies

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

Critical judgements in applying REAA's accounting policies

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

Revisions to accounting estimates are recognised:

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

Judgements made by management in the application of IPSAS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Notes to the financial statements

For the year ended 30 June 2017

1. Operating levy received

New applications

Renewals

Total operating levy received

	Actual 2017 \$000	Actual 2016 \$000
New applications	1,463	1,439
Renewals	8,632	8,336
Total operating levy received	10,095	9,775

During the year to 30 June 2017, REAA processed 13,529 licence renewals, along with 2,279 new licence applications. Total active licences were 15,658 (2016: 14,947). This is an overall increase of 711 licences from the previous year.

2. Application and suspension fees

New application fees

Suspension fees

Total application and suspension fees

	Actual 2017 \$000	Actual 2016 \$000
New application fees	561	663
Suspension fees	422	323
Total application and suspension fees	983	986

During the year to 30 June 2017, REAA processed 2,279 new licence applications and 3,286 voluntary suspensions.

3. Other revenue

Interest

Sale of publications

Fines imposed by Complaints Assessment Committees/Tribunal

Insurance proceeds from 14 November 2016 earthquake

Total other revenue

	Actual 2017 \$000	Actual 2016 \$000
Interest	183	234
Sale of publications	221	275
Fines imposed by Complaints Assessment Committees/Tribunal	371	343
Insurance proceeds from 14 November 2016 earthquake	35	-
Total other revenue	810	852

4. Personnel costs

Salaries and wages
Other personnel costs
Employer contributions to KiwiSaver
Compensation and other benefits
Employee entitlements

Total personnel costs

	Actual 2017 \$000	Actual 2016 \$000
Salaries and wages	3,767	3,498
Other personnel costs	684	407
Employer contributions to KiwiSaver	88	90
Compensation and other benefits	10	56
Employee entitlements	(5)	29
Total personnel costs	4,544	4,080

Other personnel costs include temporary staff for permanent roles, additional resources for temporary roles, recruitment costs, employer ACC levies, allowances and training. During the year ended 30 June 2017, one employee (2016: four employees) received compensation and other benefits in relation to cessation totalling \$10,000 (2016: \$56,000). Employee entitlements represent the movement in annual leave balances between 30 June 2016 and 30 June 2017.

Employee remuneration

Remuneration and other benefits of \$100,000 per annum or more (excluding payments for compensation or other benefits in respect of employment cessation) received by employees in their capacity as employees were:

Remuneration range

\$100,000–109,999
\$110,000–119,999
\$120,000–129,999
\$130,000–139,999
\$140,000–149,999
\$150,000–159,999
\$170,000–179,999
\$230,000–239,999

Total employees

	Actual 2017 \$000	Actual 2016 \$000
\$100,000–109,999	2	2
\$110,000–119,999	2	3
\$120,000–129,999	2	1
\$130,000–139,999	-	-
\$140,000–149,999	-	1
\$150,000–159,999	-	1
\$170,000–179,999	3	-
\$230,000–239,999	1	1
Total employees	10	9

Board remuneration

The total value of remuneration paid to Board members during the year was:

	Actual 2017 \$000 Board fees	Actual 2016 \$000 Board fees
John Auld (Chair)	40	40
Denese Bates QC	20	20
Aaron Bhatnagar	20	20
Marion Cowden	20	16
Elizabeth Nidd	20	16
Anthony Stack	20	16
Karin Thomas	20	-
David Russell	2	20
Barrie Barnes	-	5
Denise Bovaird	-	5
Joan Harnett-Kindley	-	5
Total Board remuneration	162	163

No Board members received compensation or other benefits in relation to cessation. Board members receive a set fee of \$20,000 per year, with the Chair receiving \$40,000. Karin Thomas was appointed as a Board member from July 2016, replacing David Russell.

5. Finance costs

Imputed interest expense (refer to Note 18)

Total finance costs

	Actual 2017 \$000	Actual 2016 \$000
Imputed interest expense (refer to Note 18)	-	51
Total finance costs	-	51

6. Specialist services

Investigations support
Bank, merchant service and payroll processing fees
Advertising and publicity
Approved guide management
Accounting support services
Media and communications
Alternative dispute resolution (ADR) services
Other specialist services

Total specialist services

	Actual 2017 \$000	Actual 2016 \$000
Investigations support	88	216
Bank, merchant service and payroll processing fees	54	134
Advertising and publicity	126	55
Approved guide management	75	75
Accounting support services	12	21
Media and communications	164	76
Alternative dispute resolution (ADR) services	41	21
Other specialist services	645	610
Total specialist services	1,205	1,208

7. Operating lease commitments

Less than one year
Later than one year and not later than five years

Total operating lease commitments

	Actual 2017 \$000	Actual 2016 \$000
Less than one year	-	305
Later than one year and not later than five years	-	613
Total operating lease commitments	-	918

The operating leases are largely for the lease of Level 2 Deloitte House, 10 Brandon Street, Wellington. REAA renewed its lease, which commenced 1 July 2013 and terminates 30 June 2019. REAA does not have the option to purchase the leased asset at the expiry of the lease period. Following the 14 November 2016 Kaikoura earthquake, negotiations commenced to exit lease commitments for 10 Brandon Street. The negotiations were finalised in September 2017, accordingly there are no operating lease commitments as at 30 June 2017.

8. Cash and cash equivalents

Cash at bank and on hand
Funds held on call

Total cash and cash equivalents

	Actual 2017 \$000	Actual 2016 \$000
Cash at bank and on hand	1,578	631
Funds held on call	-	4,315
Total cash and cash equivalents	1,578	4,946

9. Investments

Term deposits

Total investments

	Actual 2017 \$000	Actual 2016 \$000
Term deposits	8,212	4,132
Total investments	8,212	4,132

10. Debtors and other receivables

Trade debtors
Accrued interest
Provision for doubtful debts

Total debtors and other receivables

	Actual 2017 \$000	Actual 2016 \$000
Trade debtors	192	122
Accrued interest	58	19
Provision for doubtful debts	(80)	-
Total debtors and other receivables	170	141

Trade debtors represent the value of unpaid fines. The carrying value of receivables approximates their fair value. As at 30 June 2017, all overdue receivables have been assessed for impairment and \$80,000 (2016: nil) were assessed as impaired.

11. Prepayments

Prepaid salaries
Prepaid data-sales and licences
Prepaid insurance
Prepaid continuing education materials
Prepaid other
Total prepayments

	Actual 2017 \$000	Actual 2016 \$000
	47	63
	79	-
	11	11
	25	-
	18	-
	180	74

12. Approved guide stock

Approved guide stock at beginning of the year
Plus: Guide stock purchased during the year
Less: Guide stock cost of sales
Total approved guide stock

	Actual 2017 \$000	Actual 2016 \$000
	19	35
	46	45
	(47)	(61)
	18	19

REAA produces three types of guides for licensees:

- Real Estate Agents Act (Professional Conduct and Client Care) Rules 2012
- New Zealand Residential Property Agency Agreement Guide
- New Zealand Residential Property Sale and Purchase Agreement Guide.

The costs of guide production, distribution and management are recovered directly from licensees at the point of sale. Approved guide stock held at year end is recorded in the statement of financial position as a current asset, with the cost of goods sold recognised as an expense in the Statement of Comprehensive Revenue and Expense.

13. Property, plant and equipment

COST OR VALUATION

	Computer equipment \$000	Furniture and fittings \$000	Leasehold improvements \$000	Total \$000
Balance at 1 July 2015	342	139	14	495
Additions	24	93	-	117
Sales/transfers	-	(15)	-	(15)

Balance at 30 June 2016	366	217	14	597
Additions	45	-	-	45
Sales/transfers	-	-	(14)	(14)

Balance at 30 June 2017	411	217	-	628
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ACCUMULATED DEPRECIATION

Balance at 1 July 2015	297	125	12	434
Depreciation expense	25	17	2	44
Sales/transfers	-	(15)	-	(15)

Balance at 30 June 2016	322	127	14	463
Depreciation expense	34	21	-	55
Sales/transfers	-	-	(14)	(14)

Balance at 30 June 2017	356	148	-	504
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NET CARRYING AMOUNTS

At 1 July 2015	45	14	2	61
At 30 June 2016	44	90	-	134
At 30 June 2017	55	69	-	124

Capital commitments

There are no capital commitments at 30 June 2017 (2016: nil).

14. Intangible assets

COST OR VALUATION

Opening balance
Additions
Disposals/sales/transfers

Closing balance

ACCUMULATED AMORTISATION

Opening balance
Amortisation expense
Impairment loss
Disposals

Closing balance

NET CARRYING AMOUNT

At 1 July 2015

At 30 June 2016

At 1 July 2016

At 30 June 2017

	Actual 2017 \$000	Actual 2016 \$000
Opening balance	3,340	1,532
Additions	1,344	1,808
Disposals/sales/transfers	-	-
Closing balance	4,684	3,340
Opening balance	1,030	606
Amortisation expense	732	389
Impairment loss	-	35
Disposals	-	-
Closing balance	1,762	1,030
At 1 July 2015		926
At 30 June 2016		2,310
At 1 July 2016	2,310	
At 30 June 2017	2,922	

Included within intangibles is REAA's core business systems upgrade, which, at 30 June 2017, had a carrying amount of \$2,710,000 (2016: \$1,982,000) and a remaining amortisation period of 3.0 years (2016: 4.0 years). Other intangible assets include software licences and security access software.

In assessing the useful lives of software assets, a number of factors are considered, including the period of time the software is intended to be in use, the effect of technological change on systems and platforms and the expected timeframe for the development of replacement systems and platforms. An incorrect estimate of the useful lives of software assets will affect the amortisation expense recognised and the carrying amount.

Capital commitments

There are no intangible capital commitments at 30 June 2017 (2016: nil).

15. Trade creditors and accruals

Accrued expenses
Trade creditors
Disciplinary levy payable to Ministry of Justice
Other payables

Total trade creditors and accruals

	Actual 2017 \$000	Actual 2016 \$000
Accrued expenses	400	250
Trade creditors	1,006	627
Disciplinary levy payable to Ministry of Justice	28	25
Other payables	2	16
Total trade creditors and accruals	1,436	918

Trade creditors and accruals are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of creditors and accruals approximates their fair value. Accrued expenses includes an accrual for exit of lease commitments for 10 Brandon Street following the 14 November 2016 Kaikoura earthquake. Consequently, Note 7 Operating lease commitments has been reduced to nil as at 30 June 2017.

16. Employee entitlements

Annual leave (current portion)

Total employee entitlements

	Actual 2017 \$000	Actual 2016 \$000
Annual leave (current portion)	183	184
Total employee entitlements	183	184

17. Deferred operating levy

For licence renewals

For new applications

Total deferred operating levy

	Actual 2017 \$000	Actual 2016 \$000
For licence renewals	5,192	5,565
For new applications	602	658
Total deferred operating levy	5,794	6,223

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

18. Establishment funding from the Crown

Opening balance

Current year interest recognised

Less: Repayments to the Crown

Closing balance

Represented by:

Current portion of loan

Non-current portion of loan

Closing balance

	Actual 2017 \$000	Actual 2016 \$000
Opening balance	-	1,113
Current year interest recognised	-	51
Less: Repayments to the Crown	-	(1,164)
Closing balance	-	-
Represented by:		
Current portion of loan	-	-
Non-current portion of loan	-	-
Closing balance	-	-

The establishment funding was non-interest bearing. REAA had applied the same interest rate as the 2015 Crown capital funding (8%) (2016: 8%) to calculate the imputed interest. The Crown expected REAA to repay the full value of the Disciplinary Tribunal and REAA's establishment funding over a five-year period. The total value of funding advanced was \$6.207 million. REAA made a payment of \$1.164 million in April 2016 as full and final settlement of the establishment funding.

19. Public equity

REAA has an equity balance of \$5.865 million, compared with an equity balance of \$4.426 million in 2016.

20. Financial risk management objectives

REAA does not enter into or trade financial instruments for speculative purposes. REAA's activities expose it primarily to the financial risks of interest rates.

INTEREST RATE RISK

Fair value interest rate risk is the risk the value of a financial instrument will fluctuate due to changes in market interest rates. Cash flow interest rate risk is the risk that cash flows from a financial instrument will fluctuate because of changes in market interest rates. REAA is exposed to cash flow interest rate risk as it has cash on call at floating interest rates. REAA manages its interest risk by investing in on-call and short-term deposits of less than one year with financial organisations in accordance with section 161 of the Crown Entities Act 2004.

REAA's interest rate risk is limited as the interest rate on investments is fixed and investment terms are less than one year.

CREDIT RISK MANAGEMENT

Credit risk is the risk a third party will default on its obligation to REAA, causing REAA to incur a loss. Financial instruments that potentially subject the entity to credit risk principally consist of bank balances. REAA very rarely extends credit, and it deposits its cash with Westpac, BNZ and ANZ, all of which are AA institutions under Standard & Poor's investment grading criteria.

Maximum exposures to credit risk at reporting date are:

	Actual 2017 \$000	Actual 2016 \$000
Non-cash items		
Cash and cash equivalents	1,578	4,946
Investments and term deposits	8,212	4,132
Debtors and other receivables	170	141
Total	9,960	9,219

No collateral is held on the above amount. There is no maturity date on the current bank balances as these represent cash held in transactional and cash management accounts. Term deposits classed as cash and cash equivalents have a maturity date of less than three months.

FAIR VALUE OF FINANCIAL INSTRUMENTS

REAA considers the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

LIQUIDITY RISK

Liquidity risk is the risk REAA will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. REAA aims to maintain flexibility in funding by keeping committed credit lines available.

All of REAA's commitments owing at balance date, comprising creditors and accruals, have a contractual maturity of less than six months. REAA has sufficient cash on hand to meet these commitments as they fall due. Refer to Note 15 for the liquidity risk of trade creditors and accruals.

The table below analyses financial liabilities (excluding derivatives) into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

CONTRACTUAL CASH FLOWS FROM FINANCIAL LIABILITIES

	Carrying amount \$000	Contractual cash flows \$000	Less than 6 months \$000	6–12 months \$000
2017				
Creditors and other payables	1,436	1,436	1,436	-
Total	1,436	1,436	1,436	-
2016				
Creditors and other payables	918	918	918	-
Total	918	918	918	-

CURRENCY RISK

Currency risk is the risk the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. REAA is not subject to currency risk as it does not participate in any such financial instruments.

21. Capital management

REAA's capital is its equity comprised of accumulated funds and other reserves. Equity is represented by net assets. REAA is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which impose restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities and the use of derivatives. REAA manages its equity through prudently managing revenue, expenses, assets, liabilities, investments and general financial dealings to ensure REAA effectively achieves its objectives and purpose whilst remaining a going concern.

22. Related-party transactions

REAA is a wholly owned Crown entity. REAA has entered into a number of transactions with government departments, Crown agencies and state-owned entities on an arm's length basis and in the course of its normal dealings. Where those parties are acting in the course of their normal dealings with REAA and the transactions are at arm's length, related-party disclosures have not been made.

During the year ended 30 June 2010, REAA received an interest-free loan of \$6.207 million from the Crown. REAA made the final repayment of the loan in April 2016. There is no outstanding balance as at 30 June 2017. Details of the loan are included in Note 18.

REAA repaid capital funding from the Crown in the 2015 financial year and paid no interest on capital funding in this financial year.

During the year, REAA collected \$519,000 (2016: \$502,000) of Disciplinary Tribunal levies on behalf of the Ministry of Justice. These levies are paid directly to the Ministry in the month following their collection.

Intergen Ltd provides IT support and development services to REAA. REAA paid Intergen Ltd \$1,035,000 (2016: \$1,397,000) this financial year. There is no commitment to spend over the next year. The Chair of the Board John Auld's son Christopher Auld was previously the CEO of Intergen North America.

23. Categories of financial assets and liabilities

2017

Current financial assets

	Loans and receivables \$000	Financial liabilities measured at amortised cost \$000	Financial liabilities at fair value through comprehensive revenue and expenses \$000	Total carrying amount \$000	Fair value \$000
Cash and cash equivalents	1,578	-	-	1,578	1,578
Investments	8,212	-	-	8,212	8,212
Debtors and other receivables	170	-	-	170	170
Total current financial assets	9,960	-	-	9,960	9,960
Total financial assets	9,960	-	-	9,960	9,960

Current financial liabilities

Trade creditors and accruals	-	1,436	-	1,436	1,436
Total current financial liabilities	-	1,436	-	1,436	1,436

Term financial assets

Establishment funding from the Crown	-	-	-	-	-
Total term financial liabilities	-	-	-	-	-
Total financial liabilities	-	1,436	-	1,436	1,436

2016

Current financial assets

Cash and cash equivalents	4,946	-	-	4,946	4,946
Investments	4,132	-	-	4,132	4,132
Debtors and other receivables	141	-	-	141	141
Total current financial assets	9,219	-	-	9,219	9,219
Total financial assets	9,219	-	-	9,219	9,219

Current financial liabilities

Trade creditors and accruals	-	918	-	918	918
Total current financial liabilities	-	918	-	918	918

Term financial assets

Establishment funding from the Crown	-	-	-	-	-
Total term financial liabilities	-	-	-	-	-
Total financial liabilities	-	918	-	918	918

24. Key management personnel compensation

The compensation of the Chief Executive/Registrar and the Board members is set out below:

	Actual 2017 \$000	Actual 2016 \$000
Fees, salaries and annual leave	397	393
Total key management personnel compensation	397	393

25. Contingent liabilities

There are no contingent liabilities at reporting date (2016: nil).

26. Subsequent events

There are no events subsequent to the reporting date REAA is aware of that would have a material impact on the financial statements for the year ended 30 June 2017.

27. Significant budget variances

Budget values are sourced from the forecast financial statements shown in REAA's 2016/17 Statement of Performance Expectations. Explanations of significant budget variances are provided on page 54.

Explanation of variances

Statement of Comprehensive Revenue and Expense

Revenue

OPERATING LEVY RECEIVED

Operating levy is on par with budget, but has increased from 2015/16 due to the higher number of licensees.

In February 2017, the Board approved a fees and levies change, which reduced the annual operational levy and application fee, and slightly increased the annual suspension fee. The financial impact on revenue will be apparent in the 2017/18 financial year.

APPLICATION AND SUSPENSION FEES

The actual number of new applications and suspensions of licences processed at 30 June 2017 was 2,279 and 3,286 respectively compared to budgeted volumes of 1,500 and 3,200 respectively. Accordingly, fee revenue from new applications and suspension is \$238,000 more than budget.

OTHER REVENUE

Fines imposed for 2016/17 were \$91,000 above budget due to increased civil action resulting in judgements against licensees. Following the 14 November 2016 earthquake, a business interruption claim was lodged with our insurers. An interim payment has been received for \$35,000, but the claim is still open pending resolution of occupancy lease. With lower interest rates in 2016/17, interest is below both budget and 2015/16 figures. Sale of publications is below budget by \$29,000 with lower volumes occurring.

Expenditure

PERSONNEL COSTS

During 2016/17, REAA has continued focusing and repositioning its efforts. It has taken longer to find the right people to fill revised and/or vacant positions. As a result, personnel costs are below the budget but are above 2015/16 figures.

AMORTISATION

Amortisation is below budget by \$279,000 partly because of the Licensee Management System (LMS) being delayed with phase 1 being completed in November 2016 and phase 2 being completed in May 2017. There were also some delays to other IT projects that will now be completed in the 2017/18 financial year.

SPECIALIST SERVICES

With the delays to find the right people for positions, there have been lower levels of advertising, publicity and media communications than expected, and specialist services is below budget by \$297,000.

COMPUTER AND TELECOMMUNICATIONS

Partly as a result of wanting to secure an improved disaster recovery platform, transition costs to move to a new infrastructure as a service (IaaS) provider that occurred after 30 June 2017 resulted in actual costs being above budget by \$271,000.

Statement of financial position

CASH AND CASH EQUIVALENTS AND INVESTMENTS

The fees and levies review in February 2017 was expected to yield lower cash holdings and investments at 30 June 2017. However, with licensee numbers above expectations, cash has not decreased as much and surplus cash funds have been placed on term investment.

INTANGIBLE ASSETS

The LMS phase 1 was completed in November 2016 and phase 2 completed in May 2017, and full capitalisation has now occurred. Other IT projects were delayed and are being completed in the 2017/18 financial year.

DEFERRED OPERATING LEVY

Deferred operating levy has decreased against both budget and 2015/16, which is a reflection of the decreased levy following the fees and levies review in February 2017. The licence renewal is subject to revenue recognition over the next 12 months from licence renewal date.

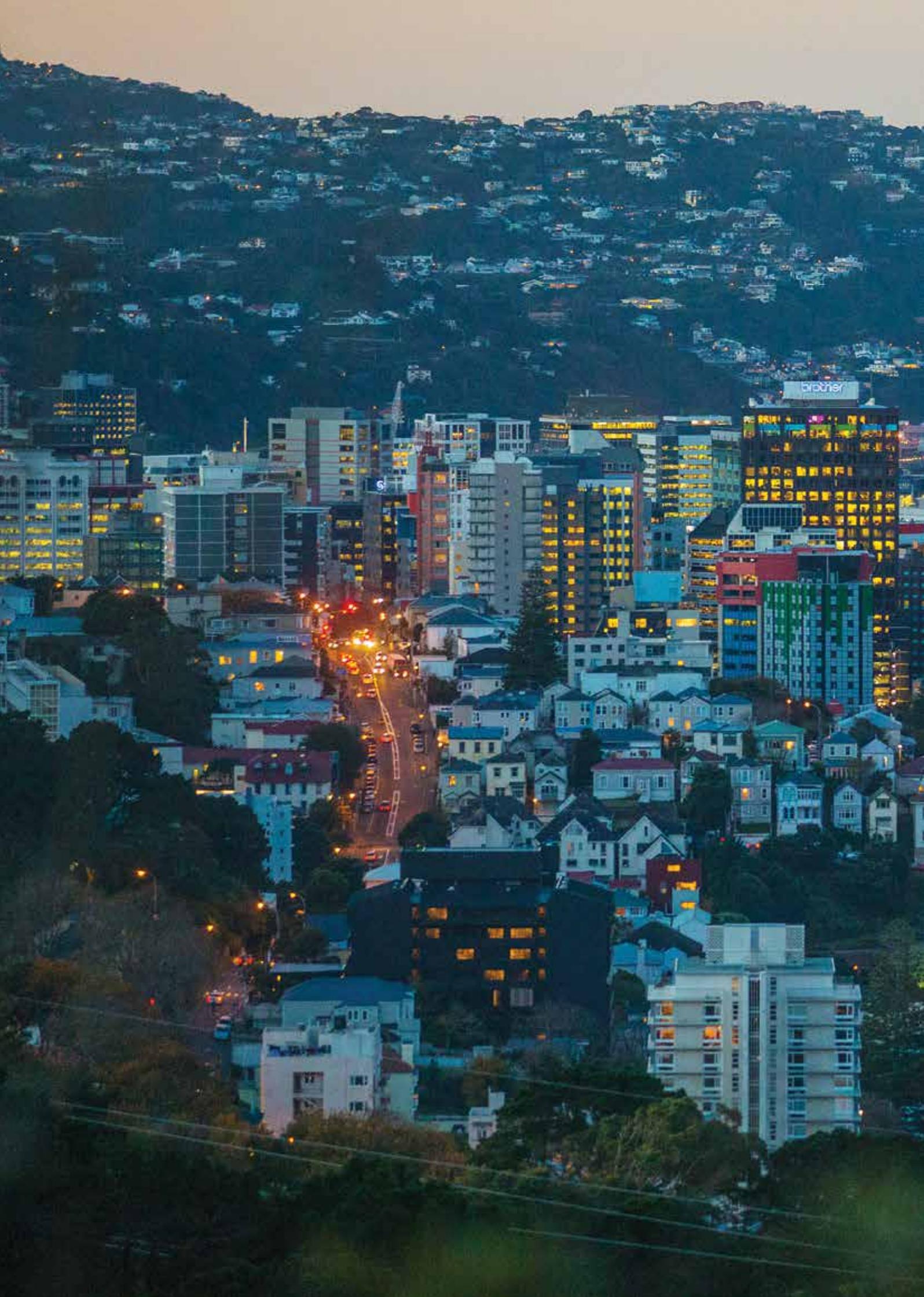
Statement of cash flows

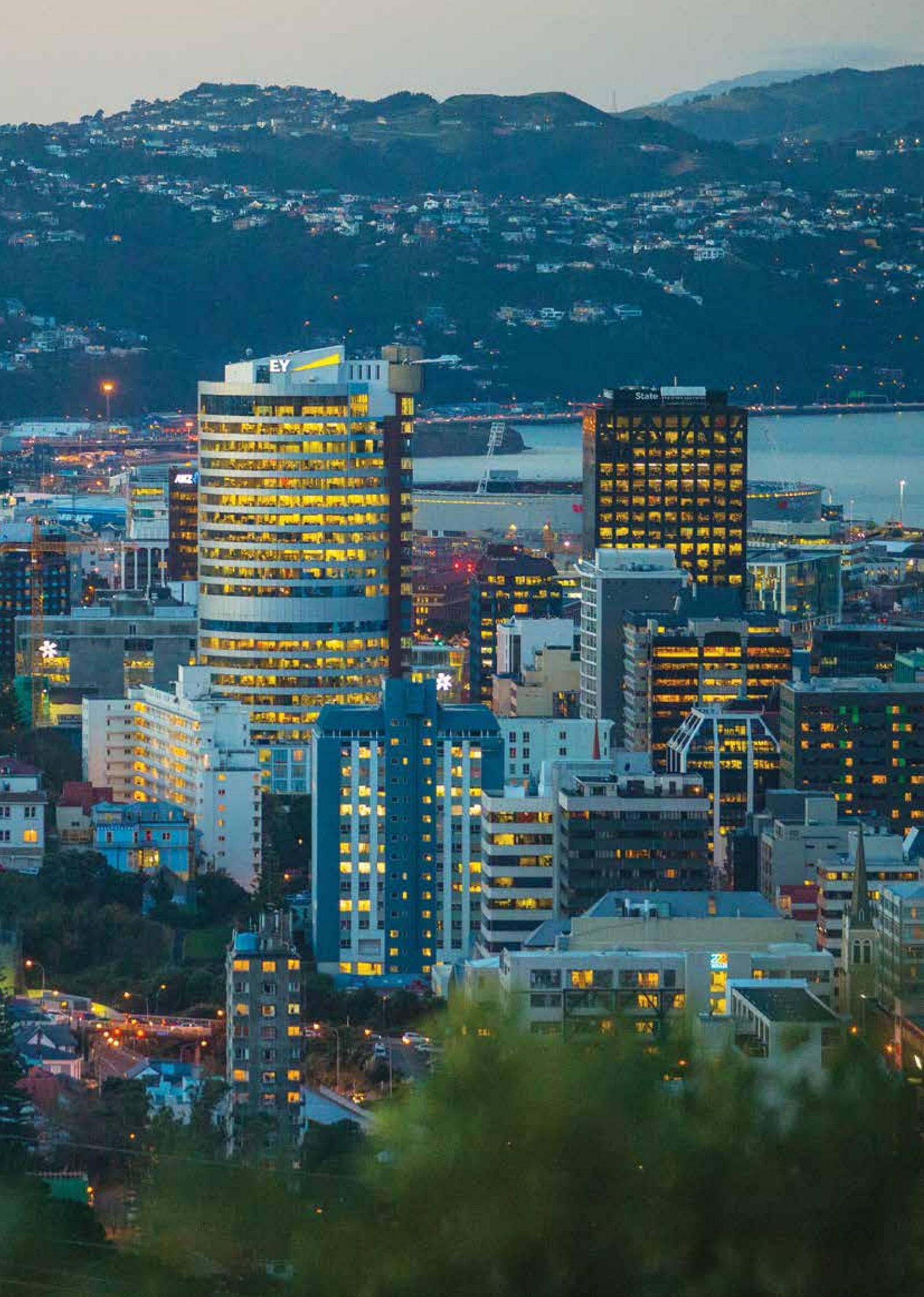
NET CASH FLOW FROM OPERATING ACTIVITIES

The fees and levies review in February 2017 has resulted in lower receipts from licensees, compared to 2015/16, and increasing staff numbers across the year has resulted in higher payments to employees compared to 2015/16. The end result is a lower net cash flow from operating activities compared to the 2015/16 financial year.

NET CASH FLOW FROM INVESTING ACTIVITIES

Lower than expected levels of intangible asset expenditure along with surplus cash funds being placed on term investments has resulted in a significant variation to net cash flows from investing activities compared to both budget and the 2015/16 financial year.







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