

# Tauākī o Ngā Kawatau Whakatutuki Mahi

## Statement of Performance Expectations

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For the year ending 30 June 2024





NZBN 9429041917718

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

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# 1. Statement of authorisation – **Tauāki whakamana**

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

This SPE sets out our proposed performance targets and financial budget for the financial year 1 July 2023 to 30 June 2024. It is produced in accordance with section 149(E) of the Crown Entities Act 2004 and should be read together with our Statement of Intent 2021–2025.

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

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



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**Denese Bates KC**  
Chair  
Real Estate Authority  
20 June 2023

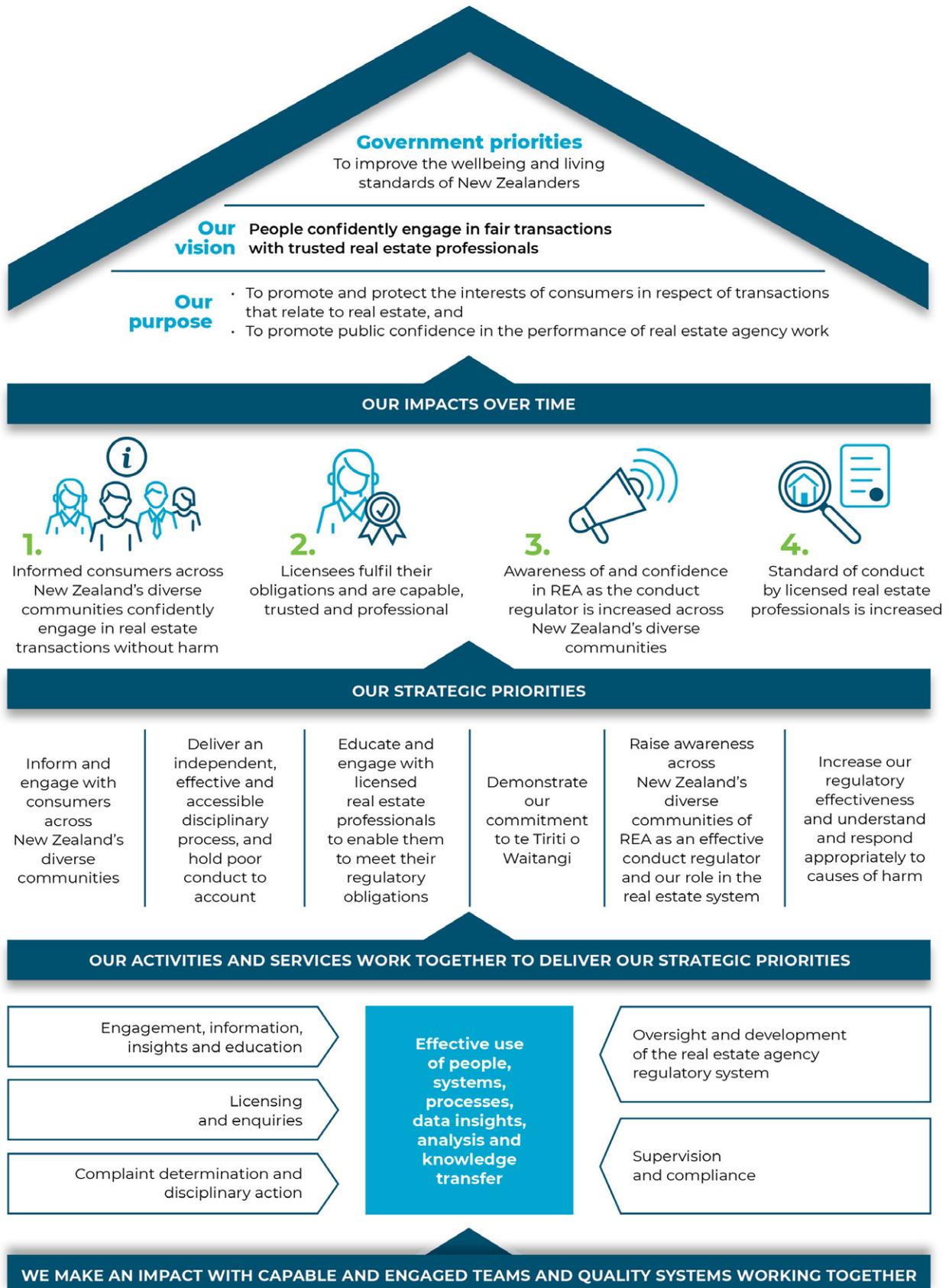


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**Vern Walsh**  
Chair  
Audit and Risk Committee  
20 June 2023

## 2. Strategic framework – Te anga rautaki

FIGURE 1: REA'S STRATEGIC FRAMEWORK



### 3. Introduction – Tīmatanga kōrero

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

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

We will report on how we have performed against these targets in the 2023/24 Annual Report.

#### *REA's role and function*

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

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

REA does not receive government funding. Our revenue is derived from levies paid by licensees, fines ordered by the independent Complaints Assessment Committees (CACs) and the Real Estate Agents Disciplinary Tribunal (READT), and other sources as detailed in the notes to our forecast financial statements.

#### *Operating context – external*

We continue to operate in an unpredictable economic and real estate environment.

Consumers and licensees are now experiencing a cooling market after two years of high price growth, with declines in median sale price, and longer average time to sell becoming common across the residential market in much of the country. While demonstrating less volatility, economic pressures are also impacting the rural, commercial and business broking real estate segments.

Despite lower prices, economic conditions of increased interest rates, higher cost of living and strict lending requirements continue to impact affordability and the ability to participate in the property market, particularly for first home buyers. Meanwhile for some current property owners, mortgage serviceability has become more challenging. Increases to the Official Cash Rate have seen interest rates reach a more than 14-year high. Coupled with high inflation and cost of living, conditions have shifted from New Zealand's 'hot' property market of 2020/21 where buyers moved swiftly, driven by a fear of missing out, to a more cautious cool market with buyers navigating a fear of overpaying, and vendors forced to adjust their price expectations.

Under these conditions, licensees must carefully balance the duty to act in the best interests of their vendor client to secure a sale price that meets expectations, whilst also ensuring fairness to all parties. Meeting disclosure obligations, ensuring parties have time to complete

their due diligence, and provision of up-to-date market appraisals are critical conduct requirements. It is in this environment that strong professional skills and high standards of conduct are critical to the fairness of the real estate transaction process.

More recently, many consumers across all real estate sectors and licensees in the North Island have been affected by Cyclone Gabrielle and other severe weather events. This has made buying and selling property more challenging where property has been damaged. In the long term, there may also be challenges around repairs and remediation, insurance/EQC claims, perceptions of risk and flood mapping. The requirement for both licensees and consumers to undertake comprehensive due diligence on properties is important in every transaction and will be particularly crucial to transactions in these affected areas.

Reflective of the market shift, the total number of active real estate licences, which reached a historic peak around September 2022, are gradually declining each month. The volume of new licence applications has been gradually trending downwards since mid-2021. In this context, as an agency funded almost entirely by licensee levies, we will continue to operate prudently with the aim of maintaining healthy reserves and operating within our means.

In contrast to the overall licensing trend, we have seen a small increase in the total number of new active Branch Manager licences. This follows the implementation of changes REA initiated to the real estate Branch Manager qualification, which took effect in 2022. These changes were designed to support growth in the numbers of this licence class, as Branch Managers play a key role in maintaining the standards of professional conduct across the industry, in particular by providing the formal supervision legally required for those holding the salesperson class of licence.

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

### **Operating context - internal**

REA is a small organisation, comprised of specialist staff. While there has been a slight reduction in new complaint volumes alongside the cooling real estate market, we have seen an increase in the complexity of consumer complaints and enquiries. Overall we continue to have a high level of regulatory activity to manage. In addition, like many entities, we have adjusted to a changing workforce that has been impacted by the labour shortage and restraints on pay. In this market retention and attraction have been challenges, compounded by restraints on pay. Given this, we have had and will continue to have an operational and strategic focus on our remuneration, recruitment and retention approach to ensure that REA continues to attract, retain and fairly remunerate a team of capable and committed people. Our resources over the past year have focused on reducing the number of aged complaints, which were impacted by delays arising from COVID-19 restrictions, high volumes during the earlier busy market and resourcing limitations.

A further key focus for our organisation internally has been to improve the efficiency of our regulatory services, while ensuring REA remains a workplace that attracts, develops and retains skilled and capable personnel. As we transitioned from an operating environment dominated by COVID-19, we retained the remote working capability that had been developed, in order to ensure we remain flexible and adaptable. Our people are able to operate from home if required. Our technology has been refreshed enabling more nimble use of office technology to support internal and external online engagement. The health, safety and wellbeing of our people has been and continues to be a critical priority.

We have made positive progress with our Complaints Improvement Project, which has now entered the implementation phase. Changes are being undertaken, designed to enhance efficiency at every stage of the complaint management process, from intake and triage through to jurisdiction and resolution or referral to the formal complaints process. The Complaints Improvement Project will reduce workloads for REA personnel and decrease wait times for complainants and licensees, while retaining the quality of the complaints process.

In the coming year, the Licensing Improvement Project is another priority. This seeks to identify and action opportunities to enhance the effectiveness of our licensing-related processes, tools and regulatory decision-making.

The improvement projects are supported by a Systems Enhancement Project. This project is specifically focused on determining and delivering a robust IT operating and infrastructure environment for our regulatory services.

### ***Delivering on our REA strategy 2021-2025***

We are entering year three of our four-year strategy for delivery of our role as an effective conduct regulator with a clear consumer protection focus. We have made strong progress in many areas of this strategy. We have maintained high-quality core regulatory services, licensing record numbers of individuals and agencies in the 2020-2022 period and dealing with a high volume of complex complaints under volatile market conditions.

We have published our Fit and Proper Guidelines following consultation with the industry, public and consumer advocates. The Guidelines provide transparency to the sector and public as to how REA applies the 'fit and proper' requirement for holders of a real estate licence, under the Real Estate Agents Act 2008.

We launched a refreshed set of consumer guides to the buying and selling process, newly available in seven languages (English, Te Reo Māori, Samoan, Tongan, Korean, Hindi, and Simplified Chinese). This has increased the accessibility of core consumer protection information to New Zealand's population and provided a foundation for REA to further develop awareness and engagement with diverse communities.

Within Pānui (newsletters) distributed to the sector, we shared illustrative case decisions which effectively highlighted key conduct obligations, and issued important regulatory information to licensees, including in relation to listing properties affected by natural disasters.

We have maintained our research programme publishing the Annual Consumer Perceptions Research report, which indicated significantly increased consumer confidence in how well-regulated, well-monitored, transparent, fair and professional the real estate industry is. Awareness of REA and the role we play has continued to increase with more consumers and members of the public aware of our work and where to raise complaints. We have identified baselines for awareness of Māori, Pacific Peoples and Asian groups against which we can better measure our impact across diverse communities.

In 2023/24, we will continue to improve and build on the progress made and complete initiatives that are underway to deliver against our six strategic priorities. This will include continuing to deliver our regulatory functions to a high standard and maintaining business services in a challenging economic and real estate market environment. We will increase our engagement with diverse communities to ensure access to our services by all who need them, continuing to raise awareness of REA, and maintaining and promoting our consumer information product [settled.govt.nz](https://settled.govt.nz). In light of this, we have forecast a modest increase in expenditure on travel, meetings and engagement activities. However, the overall spend remains below our pre-COVID-19 levels, taking account of the need to exercise restraint and to manage emissions.

In 2023 we are delivering the first topic in our Diversity and Inclusion Continuing Professional Development (CPD) programme focused on Te Tiriti o Waitangi and the needs and interests of Māori engaging in real estate transactions. We will expand on this programme in the reporting period, which will address issues impacting the wider scope of New Zealand's diverse communities. We will progress our own Māori engagement framework, continuing to grow our internal cultural capability and relationship with iwi. We look forward to implementing our regulatory tools framework and embedding the operational efficiencies developed for the complaints and licensing process.

### ***Looking to the future***

As we look to the future, we will continue to support licensees to fulfil their obligations and adapt to the pressures of the changing market. We will seek to build on the positive progress of increasing confidence in the fairness, professionalism and regulation of the real estate sector, despite any market uncertainty.

We will also continue our work to assess and report on our carbon emissions, to deliver against the expectations of the Carbon Neutral Government Programme reporting framework, and to meet government expectations for positive procurement practices.

Government has signalled its intent to regulate residential property managers and for REA to be the responsible regulator. We will continue to provide advice and guidance to the Ministry of Housing and Urban Development (HUD) in the development of this new regime and ensure that we are ready to take on this responsibility at the appropriate time.

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

### ***People and culture***

Importantly, we will continue to support and prioritise the health and wellbeing of our team of staff. After working in bubbles or rosters as part of maintaining operational resilience and continuity under the threat of COVID-19, we have a renewed focus on building cohesion and connection within our teams and workplace. Our intention is to help foster stronger relationships, engagement and collaboration in order to support performance and retain our capable staff team. In response to the regulatory demands on our services, and to support enhancements to the delivery of our core business, our staff numbers have grown from 50 to nearly 60 FTE. This growth is reflected in our increased forecast personnel cost.

We will embed our refreshed organisational values and drive our Kia Toipoto action plan to close pay gaps and foster equality, inclusion and fairness for our people. We will ensure that REA continues to be a great place to work where people can grow, thrive and be confident they are making a positive difference to the wellbeing and living standards of New Zealanders.

This SPE is provided in two parts:

### **PERFORMANCE ASSESSMENT AND EXPECTATIONS**

This section sets out our non-financial performance measures and targets for the year ending 30 June 2024 in accordance with the Crown Entities Act 2004. This section explains how our activities and services work collectively to influence and contribute to our longer-term outcome and the impacts we intend to achieve.

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

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

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

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

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

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

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

### **PROSPECTIVE FINANCIAL STATEMENTS**

The prospective financial statements provide all appropriate information and explanations needed to fairly reflect the prospective financial operations and financial position of REA for the year ending 30 June 2024 in accordance with section 149(G) of the Crown Entities Act 2004.

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

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

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

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

IMPACTS	KEY PERFORMANCE MEASURE	TARGET 2025	ACTUAL 2022	ACTUAL 2021
Informed consumers <sup>1</sup> across New Zealand’s diverse communities confidently engage in real estate transactions without harm	Percentage of consumers who are aware of settled.govt.nz is increased <sup>2</sup>	35%	39%	35%
	Percentage of consumers who feel empowered to participate effectively in the real estate transaction <sup>3</sup>	85%	86%	84%
Licensees fulfil their obligations and are capable, trusted and professional	Percentage of licensees who agree REA’s CPD programme has improved their knowledge and understanding of the topic area	85%	73%	82%
	Percentage of licensees who find REA compliance guidance useful in understanding their regulatory obligations is increased	90%	97%	92%
	Percentage of consumers who have confidence that the real estate industry is professional <sup>4</sup>	85%	86%	87%

<sup>1</sup> ‘Consumers’ refers to people who have bought or sold a home in the last 12 months or who have tried to do so but were unsuccessful.

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

<sup>3</sup> Consumers who feel somewhat to very empowered.

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

IMPACTS	KEY PERFORMANCE MEASURE	TARGET 2025	ACTUAL 2022	ACTUAL 2021
Awareness of and confidence in REA as the conduct regulator is increased across New Zealand's diverse communities	Percentage of New Zealand public aware of REA and the services it provides is increased	45%	51%	43%
	Percentage of New Zealand public who have confidence that the real estate industry is well regulated <sup>5</sup> is maintained	85%	70%	67%
Standard of conduct by licensed real estate professionals is increased	Percentage of licensees subject to a formal complaint found to have breached conduct rules and requirements is decreased <sup>6</sup>	20% <sup>7</sup>	14% <sup>8</sup>	26%
	Licensed real estate professional conduct, practices, policies and/or procedures are improved following action taken by REA or a CAC/Tribunal decision	5 case studies	5 case studies	New measure

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

<sup>6</sup> A formal complaint is one that has been received by REA under s74(2) of the Real Estate Agents Act 2008. The percentage is calculated according to the findings of breach by a CAC and/or the Tribunal determined in the reported period.

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

<sup>8</sup> The 56 licensees that were found to have breached conduct obligations may not all relate to the complaints received in 2022, which is being used as the denominator. This is because some complaints may take longer than a year to be determined.

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

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

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

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

COMPREHENSIVE REVENUE AND EXPENDITURE		BUDGET 2023/24 \$000
<b>Revenue</b>		
<b>Total revenue</b>		<b>9,996</b>
<b>Expenditure</b>		
Output 1: Informing consumers, educating and engaging with licensees		3,194
Output 2: Regulatory effectiveness through licensing, interventions, disciplinary and complaints processes		5,930
Output 3: Oversight and development of an effective real estate agency regulatory system		2,652
<b>Total expenditure</b>		<b>11,776</b>
<b>Total comprehensive revenue and expense (deficit)</b>		<b>(1,780)</b>

## **Output 1: Informing consumers, educating and engaging with licensees**

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

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

We promote and protect the interests of consumers and empower them to confidently engage in real estate transactions by providing information that is accessible and clear through a range of digital and non-digital channels. Our consumer website [settled.govt.nz](https://settled.govt.nz) is a core service, providing independent, trusted and comprehensive information for buyers and sellers. We will continue to maintain and promote *Settled* for consumers. Our consumer guides are another key consumer resource, now translated into seven languages. This year we will work to ensure these reach the community through a range of digital and non-digital engagement channels.

To be an effective regulator and to promote confidence in the real estate sector, it is critical that all people across New Zealand's diverse communities are aware that REA exists. Our aim is that all people from different cultures, backgrounds and abilities are aware of and can access and benefit from the regulatory framework and the services that we provide.

Over the last two years, we have increased our understanding of the diversity within the consumer and licensee communities that we serve. Following the release of the translated consumer guides, we are seeking to support the sector to enable greater accessibility to and participation in the property transaction process for disabled consumers. We are working with sector leaders and community advocates to ensure sector wide best practice. We will continue to contribute thought leadership and insight on issues of significance in the real estate sector through media engagement.

We will continue our work to understand and respond to the needs of Māori consumers and licensees in the context of real estate transactions and to increase our own internal cultural capability. We will support increased awareness, knowledge and understanding across the sector of the needs and interests of Māori and Te Tiriti o Waitangi and its relevance to real estate agency work, through our CPD programme and information and guidance channels.

We will explore ways to improve the efficiency and effectiveness of our CPD programme to ensure that it is effective and responsive to the learning needs of the sector that will prevent consumer harm and grow licensee capability.

Working with the sector is key to ensuring we understand the risks and issues arising and provide regulatory stewardship. We will continue our engagement programme through our Real Estate Leaders Forum, Industry Advisory Groups, and hosted *Conversations with REA* in the regions.

#### ***This output includes:***

- informing and engaging with consumers about their rights, the real estate transaction process and associated risks

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

**Output 1 primarily contributes to the following impacts:**

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

**Output 1 performance measures**

OUTPUT 1: MEASURES <sup>9</sup>	TARGET 2023/24	FORECAST 2022/23	ACTUAL 2021/22
SPE 1.1 Percentage of consumers who find information provided by REA useful	90%	90%	97%
SPE 1.2 REA Pānui (newsletters) are published to keep stakeholders informed	>6	16 <sup>10</sup>	31
SPE 1.3 Media releases are issued on matters of strategic importance (high public interest, provide guidance to consumers or licensees on regulatory issues)	>6	7	6
SPE 1.4 REA undertakes targeted initiatives to provide information and resources to New Zealand’s diverse communities	5 or more initiatives	Achieved	Achieved

<sup>9</sup> Previous measures reporting on the usefulness of rea.govt.nz and settled.govt.nz content have been removed, as the measures only captured a small percentage of viewers and was not meaningful. The effectiveness of REA consumer information and engagement is measured through SPE 1.1, SPE 1.6 and SPE 3.3. Usefulness of guidance and information provided to licensees is measured through the SOI measures.

<sup>10</sup> This number includes special Pānui issued with information on updated COVID-19 guidelines, CPD compliance requirements and Cyclone Gabrielle, plus advising the publication of the Fit and Proper Guidelines, refreshed Consumer Guides, Consumer Perceptions research and other corporate documents, in addition to six general Pānui.

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

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

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

Through the licensing process, we ensure that all licensee applications are dealt with in a timely way and that all licensees meet the licensing requirements under the Act. This includes the 'fit and proper person' requirements as described in the Fit and Proper Guidelines published in August 2022. Through the complaints and disciplinary proceedings, we deliver an independent, effective and accessible disciplinary process and hold poor conduct to account. We investigate and respond to actual or potential harms arising from licensee conduct.

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

It is important that the complaints process is effective, fair and transparent and that the decisions are fair, clear, soundly reasoned and consistent. The decisions not only respond to conduct issues but also provide guidance to the sector as to the standard of conduct expected. We will review a selection of decisions again this year to test their impact and quality. Through the complaints and disciplinary process, we aim to maintain a high level of trust and confidence in the real estate industry standards system.

Over the last two years we have faced challenges clearing the complaints backlog and addressing new issues under appeal whilst managing resourcing constraints. The ongoing steady stream of complaints, and new and complex issues have resulted in matters taking longer than we had hoped to complete. We are committed to substantially improving these timelines in the year ahead through a range of processes and implementation of our Complaints Improvement Project (CIP) recommendations.

CIP, the Licensing Improvement Project and the Systems Enhancement Project are all designed to optimise an effective regulatory service. Our focus this year is to complete delivery of these projects to support a high-performing and robust regulatory system. We will also complete the design of our regulatory tools framework to support transparency and understanding in the regulatory interventions we may use in our work to protect consumers and raise confidence in the sector.

#### ***This output includes:***

- managing the licensing scheme to ensure that, at the time of approval, all active licensees are fit and proper and meet the required professional standards
- processing new applications, renewals and voluntary suspensions of licences
- managing the licensee portal and maintaining a current register of all licensees
- auditing real estate agency trust accounts

- delivering an independent, effective and accessible complaints and disciplinary process and holding poor conduct to account
- monitoring and acting on non-compliance using the full range of regulatory tools
- supporting CACs, READT and court activities
- triaging and resolving low-level complaints
- regulatory effectiveness across all of our regulatory services and responding appropriately to causes of harm.

**Output 2 primarily contributes to the following impacts:**

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

**Output 2 performance measures**

OUTPUT 2: MEASURES	TARGET 2023/24	FORECAST 2022/23	ACTUAL 2021/22
SPE 2.1 External assessment of CAC decisions is conducted to assess whether decisions are well reasoned, consistent and accurate	At least 5 CAC decisions <sup>11</sup>	Achieved	Achieved
SPE 2.2 Percentage of judgments on appeals taken to the Tribunal are analysed to enable improvements to REA's regulatory decisions and processes	100%	100%	100%
SPE 2.3 Percentage of new licence applications processed within three weeks	85%	90%	92%
SPE 2.4 Percentage of licence renewal applications processed within two weeks	95%	98%	98%
SPE 2.5 Percentage of complaint enquiries completed within one month	95%	98%	95%
SPE 2.6 Percentage of formal complaints resolved or determined under s74(3) within three months <sup>12</sup>	70% <sup>13</sup>	35%	39%
SPE 2.7 Percentage of formal complaints completed within one year	90%	75%	82%
SPE 2.8 Percentage of parties to a complaint agree that the complaints process is independent, fair and transparent	75%	75%	75%

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

<sup>12</sup> Formal complaints resolved by withdrawal of complaint, compliance advice or consumer information or determined under s74(3)(a)-(d) of the Real Estate Agents Act 2008.

<sup>13</sup> In 2021 the Tribunal determined that decisions of the Registrar under s74(3) may be subject to review by the Tribunal. REA has adjusted its procedures to take account of this process, which has increased the time spent on these cases. COVID-19 has also impacted on timeliness including with regard to response times by participants.

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

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

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

Our research and insights programme has helped us to identify barriers to participation that diverse communities may face when engaging in real estate transactions. We will use this to help inform our programme of work to identify ways in which the real estate sector can address these barriers from a regulatory system perspective.

Our newly-developed Data and Insights Strategy sets the direction for improving the definition, acquisition, storage, and use of data at REA. Implementation of this strategy will allow us to turn our data more effectively into actionable insights, supporting our objective of ensuring an evidence-based real estate agency regulatory system. A key aspect of this output is our role as part of the broader regulatory system and our work with others to provide stewardship of the real estate regulatory system. We will engage, collaborate and partner with the industry, government entities, iwi and the private sector to leverage capability and support an effective regulatory system that can anticipate and respond to the needs of the industry, while also protecting consumers from harm, in the face of change over time.

We will complete our desktop review of emerging real estate business models to assess potential regulatory compliance risks that may require particular guidance. We will also complete our engagement with the sector around different supervision approaches, to identify whether our Code of Conduct and existing Standards are responsive to the different ways in which real estate services are offered. We will develop our regulatory policy approach to ensure we are up to date with changes across the property system that may impact on real estate agency work, ensuring knowledge transfer to our engagement and education teams, and onward to the sector.

We will continue to provide advice and guidance to policy officials in their work to progress the development of the regulation of property managers regime.

#### ***This output includes:***

- identifying and understanding the drivers of risk that cause harm in the real estate industry
- understanding licensee and consumer behaviour and vulnerabilities across different communities
- shaping regulation, compliance and operational policy practices to address actual and potential risks in the real estate industry
- developing and issuing best-practice guidance, rules and standards to support high standards of conduct in the real estate industry
- developing strategic relationships with property system stakeholders
- providing advice and guidance to policy makers as required

- demonstrating our commitment to Te Tiriti o Waitangi by engaging with and understanding the needs of Māori in the real estate agency regulatory context
- working with stakeholders across the real estate system.

**Output 3 primarily contributes to the following impacts:**

- Impact 1: Informed consumers across New Zealand’s diverse communities confidently engage in real estate transactions without harm.
- Impact 2: Licensees fulfil their obligations and are capable, trusted and professional.
- Impact 3: Awareness of and confidence in REA as the conduct regulator is increased across New Zealand’s diverse communities.
- Impact 4: Standard of conduct by licensed real estate professionals is increased.

**Output 3 performance measures**

OUTPUT 3: MEASURES	TARGET 2023/24	FORECAST 2022/23	ACTUAL 2021/22
SPE 3.1 REA reviews a standard or issues guidance in consultation with industry that help raise industry standards	1	Achieved	Achieved in part
SPE 3.2 Licensee practices, procedures or conduct are improved following issue of REA decision, research or guidelines/information. Assessed by case studies <sup>14</sup>	Achieved – 3 case studies	New Measure	New Measure
SPE 3.3 Engagement by Māori in services offered by REA is increased	Baseline to be set this year	68%	67%

<sup>14</sup> SPE 3.2 replaces the previous measure which stated: *Commission and publish research that analyses the drivers of risk in real estate agency work and is considered as thorough and valuable to development of standards and/or future regulation*

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

REA has made several assumptions to develop these prospective financial statements. The specific assumptions that impact the financial statements are detailed in the sections below. Items that require further explanation are also detailed in the additional information section below. Each year's budget is independent and include forecast assumptions made at the time of preparing the 2023/24 budget.

### Specific assumptions

As the primary source of revenue is levies from licensees, the number of licences significantly affects projected revenue. In 2021/22, due to the anticipated fluctuations in licensee numbers and ongoing uncertain environment, REA operated against a conservative budget assuming that the number of active licences would reduce to 14,750 during the period 2021/22. This did not materialise, with active licensee numbers reaching 16,692 at 31 March 2022. In 2022/23, REA forecast on an assumption that the number of active licences would average 16,000. Through 2022/23 there was a gradual decline in licence numbers, reflecting a shifting marketing and challenging economic environment. In March 2023 there were 16,099 active licences. Accordingly, for budget purposes, it has been assumed that the number of active licences will average 15,000 during 2023/24.

In 2022/23, REA continued to encounter recruitment challenges, with a number of vacancies throughout the year. As at 30 June 2022, REA employed 50 full time equivalent (FTE) employees. Through the 2022/23 year we have worked to fill most vacancies. By 31 March 2023 we had a staff team of 53 FTE, supported by 5 secondees, temps and contractors. In response to changing business needs and to achieve our strategic objectives, REA forecasts an increased personnel budget to support approximately 58-60 FTE. This increased headcount along with supporting training and professionals fees sees an increase in the personnel cost line.

REA's strategic priorities include engaging with the sector to support licensees to fulfil their obligations and engaging with New Zealand's diverse communities to better understand and respond to their needs both within the sector and consumers groups. Our increased forecast budget for travel meetings and entertainment compared with 2021/22, will support the activities that underpin these priorities. In the event revenue does not meet forecast budget, we will make reductions across our variable costs as appropriate.

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

### Additional information

#### *Revenue recognition policy*

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

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

### *Explanation of significant variances*

REA forecasts an increased spend in personnel costs reflecting a number of vacancies being filled and additional resourcing in place to deliver the strategy and increased regulatory activity across licensing and complaints. The forecast spend in specialist services is aligned with the proposed operational plan for 2023/24, with a particular exceptional cost arising from the Systems Enhancement Project. We anticipate drawing on available total working capital to support this project if required. We will continue to manage costs prudently and to demonstrate restraint to enable us to continue to build and maintain healthy reserves.

### *Planned deficit*

This year, we have forecast a deficit as a result of an anticipated reduction in levy revenue and costs arising from planned projects and resources required to meet our statutory obligations. We note that the actual impact on our revenue is difficult to forecast in the face of changing licensee numbers. We expect to draw on our cash reserves, which have been built up for the purpose of supporting projects and responding to fluctuating levy income. We will continue to operate prudently throughout the year to minimise the deficit where possible. Notwithstanding the deficit, we will continue to have healthy cash reserves in line with our financial management policy. Our public equity position remains strong, which is intentional given that we do not receive public funding, and market forces could result in a reduction of levy revenue. Reserves will be drawn on to support any funding shortfall, and to support planned work to replace and/or upgrade aging information and communication technology systems.

## Statement of Prospective Comprehensive Revenue and Expense

for the years ended 30 June

	Actual 2021/22 \$000	Budget 2022/23 \$000	Budget 2023/24 \$000
<b>Revenue</b>			
Operating levy received	10,142	9,552	8,955
Application and suspension fees	1,022	985	799
Other revenue	214	242	242
<b>Total revenue</b>	<b>11,378</b>	<b>10,779</b>	<b>9,996</b>
<b>Expenditure</b>			
Audit fee	57	60	60
Personnel costs	5,934	6,639	7,411
Depreciation	153	147	64
Amortisation	61	13	0
Specialist services	1,026	1,527	1,413
Legal fees	335	394	398
Board fees	145	160	160
Complaints Assessment Committee fees	286	258	270
Computer and telecommunications	1,171	1,356	1,276
Printing, stationery and postage	23	34	34
Travel, meetings and entertainment	19	164	177
Occupancy	442	510	491
Miscellaneous expenses	22	71	22
<b>Total expenditure</b>	<b>9,674</b>	<b>11,333</b>	<b>11,776</b>
<b>Total comprehensive revenue and expense</b>	<b>1,704</b>	<b>(554)</b>	<b>(1,780)</b>

## Statement of Prospective Financial Position

as at 30 June

	Actual 2021/22 \$000	Budget 2022/23 \$000	Budget 2023/24 \$000
<b>Current assets</b>			
Cash and cash equivalents	9,696	3,938	3,158
Investments - short-term deposits	1,223	6,100	6,117
Debtors and other receivables	34	15	13
Prepayments	194	193	202
GST receivable/(payable)	(101)	(41)	(39)
Approved guide stock	8	10	9
<b>Total current assets</b>	<b>11,054</b>	<b>10,215</b>	<b>9,460</b>
<b>Non-current assets</b>			
Property, plant and equipment	209	129	81
Intangible assets	13	-	-
<b>Total non-current assets</b>	<b>222</b>	<b>129</b>	<b>81</b>
<b>Total assets</b>	<b>11,276</b>	<b>10,344</b>	<b>9,541</b>
<b>Liabilities</b>			
Trade creditors and accruals	878	1,078	1,395
Employee entitlements	279	255	290
Income In Advance	378	-	-
Disciplinary levy payable	-	30	28
<b>Total current liabilities</b>	<b>1,535</b>	<b>1,363</b>	<b>1,768</b>
<b>Total liabilities</b>	<b>1,535</b>	<b>1,363</b>	<b>1,768</b>
<b>Net assets/equity</b>	<b>9,741</b>	<b>8,981</b>	<b>7,773</b>
<b>Public equity</b>			
Retained earnings	7,787	9,285	9,303
Litigation reserve	250	250	250
Current year surplus/(deficit)	1,704	(554)	(1,780)
<b>Total public equity</b>	<b>9,741</b>	<b>8,981</b>	<b>7,773</b>

## Statement of Prospective Changes in Equity

for the years ended 30 June

	Actual 2021/22 \$000	Budget 2022/23 \$000	Budget 2023/24 \$000
Public equity as at 1 July	8,037	9,535	9,553
Total comprehensive revenue and expense	1,704	(554)	(1,780)
<b>Total public equity as at 30 June</b>	<b>9,741</b>	<b>8,981</b>	<b>7,773</b>
<b>Comprised of the following funds:</b>			
Retained earnings as at 1 July	7,787	9,285	9,303
Total comprehensive revenue and expense	1,704	(554)	(1,780)
<b>Total retained earnings</b>	<b>9,491</b>	<b>8,731</b>	<b>7,523</b>
Litigation reserve as at 1 July	250	250	250
Movement in litigation reserve	-	-	-
<b>Total litigation reserve</b>	<b>250</b>	<b>250</b>	<b>250</b>

## Statement of Prospective Cash Flows

for the years ended 30 June

	Actual 2021/22 \$000	Budget 2022/23 \$000	Budget 2023/24 \$000
<b>Cash flows from operating activities</b>			
<b>Cash was provided from:</b>			
Receipts from licensees	10,616	10,021	9,238
Receipts from sale of publications	100	134	134
Interest received	58	52	52
Receipts from suspension fees	517	518	518
Receipts from fines	103	56	56
Receipts from other revenue	-	-	-
<b>Cash was applied to:</b>			
Payments to suppliers	(3,688)	(4,905)	(4,980)
Payments to employees	(5,629)	(6,197)	(6,971)
Net GST received/(paid)	(4)	20	37
<b>Net cash flows from operating activities</b>	<b>2,073</b>	<b>(301)</b>	<b>(1,916)</b>
<b>Cash flows from investing activities</b>			
<b>Cash was provided from:</b>			
Receipts from investments in term deposits	(13)	-	-
<b>Cash was applied to:</b>			
Purchase of property, plant and equipment	(117)	(55)	(28)
Purchase of intangible assets	-	-	-
Investment in term deposits	-	-	-
<b>Net cash flows from investing activities</b>	<b>(130)</b>	<b>(55)</b>	<b>(28)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,943</b>	<b>(356)</b>	<b>(1,944)</b>
<b>Opening cash and cash equivalents</b>	<b>7,753</b>	<b>4,294</b>	<b>5,102</b>
<b>Closing cash</b>	<b>9,696</b>	<b>3,938</b>	<b>3,158</b>
<b>Investments - short-term deposits</b>	<b>1,223</b>	<b>6,100</b>	<b>6,117</b>
<b>Total cash and cash equivalents</b>	<b>10,919</b>	<b>10,038</b>	<b>9,275</b>

## Statement of accounting policies

### *Reporting entity*

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

### *Basis of preparation*

#### **Statement of compliance**

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

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

#### **Measurement basis**

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

#### **Functional and presentation currency**

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

### *Significant accounting policies*

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

#### **Revenue**

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

#### **Operational levy**

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

In making a judgement as to the appropriate policy, REA considered if there is an indirect exchange of economic benefits or services to licensed members and whether the levy itself does not result in REA directly giving approximately equal value of this exchange. Based on REA's role as a consumer protection agency and conduct regulator, which includes industry regulation, upholding standards of conduct and providing resources for licensees and consumers, a continuing professional development programme and research about real estate matters, REA has determined the services provided for the operational levy are accounted for as non-exchange revenue as the benefits of REA's work are for the public good and wider than just licensees and PBE IPSAS 23 applies.

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

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

### **Fines**

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

### **Sale of publications**

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

### **Interest**

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

### **Leases**

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

### **Cash and cash equivalents**

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

### **Investments**

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

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

bank will enter into receivership or liquidation and default on payments are considered indicators the deposit is impaired.

### ***Debtors and other receivables***

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

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

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

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

### ***Inventories***

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

### ***Property, plant and equipment***

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

#### **Additions**

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

#### **Disposals**

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

#### **Subsequent costs**

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

#### **Depreciation**

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

- Leasehold improvements                      4 years                      25% straight line

- Computer equipment 3 years 33% straight line
- Furniture and office equipment 5 years 20% straight line

### ***Intangible assets***

#### **Capital work in progress**

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

#### **Software acquisition and development**

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

#### **Amortisation**

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

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

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

### ***Impairment of non-financial assets***

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

### ***Creditors and other payables***

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

### ***Employee entitlements***

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

### ***Superannuation schemes***

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

### ***Goods and services tax***

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

## ***Taxation***

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

## ***Financial instruments***

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

## ***Statement of prospective cash flows***

The Statement of Prospective Cash Flows is prepared exclusive of GST, which is consistent with the method used in the Statement of Prospective Comprehensive Revenue and Expense.

Cash flows are classified into three activities:

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

## ***Equity***

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

## ***Changes in accounting policies***

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

## ***Critical judgements in applying REA's accounting policies***

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

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

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

Judgements made by REA in the application of IPSAS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the significant assumptions section on page 18 of this Statement of Performance Expectations.



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