Real Estate
Agents Authority

Real Estate Agents Authority

Annual Report

For the period ended 30 June 2012

Contents

Foreword from the Board Chair

This annual report, our third, clearly demonstrates the steps we are taking to raise the standards of professionalism of licensees, increase protection for consumers and make a credible difference as the regulator of the real estate industry.

I believe we are making a difference. For the most part the industry appears to have accepted and welcomed our approach and is actively working with the Authority to raise standards.

In the past year we have focussed on improving our core business and processes. We have introduced a new compliance model to help us respond more effectively to the more than 700 complaints we receive each year. We have approved over 17,000 licensing applications, including welcoming over 1,100 new licensees into the real estate industry, and we have undertaken significant and continuing work to enhance our systems and processes to improve the timeliness and quality of our work.

One significant improvement has been a reduction in the time taken to process licence applications. For renewal applications this has reduced from an average of 53 days in 2010/11 to 8 days in 2011/12. The process to renew a licence is now being automated; this will bring further time savings to the process before the renewal round in March 2013.

On 1 July 2011 we introduced a new approach to handling complaints. This approach allows us to respond to less serious matters with more appropriate and simpler interventions. These include providing advice on compliance and mediation as alternatives to the more formal complaint committees used for serious matters. This approach has freed up time and resources internally and both those lodging a complaint and those subject to a complaint have indicated greater satisfaction with the process.

However, we acknowledge that our average times for resolving complaints could be further reduced and this continues to be our aim. A complaint can be a stressful and difficult time for all parties involved, and we are aware that serious matters do take time to investigate thoroughly.

This year we have introduced compulsory continuing education requirements for licensees to complete 20 hours of training each year. The aim of this is to raise knowledge and practising standards through a combination of on-the-job learning and specific education topics selected by the Authority.

We look forward to continuing our working relationships with the industry and consumer groups and welcome opportunities to work with others to improve standards and thus bring about better protection for consumers involved in real estate transactions. Therefore, I would like to acknowledge the significant contributions many have made to help us.

It is with pleasure that I present our annual report for the period to 30 June 2012.

Kristy McDonald QC

Part ONE

Our role

The Real Estate Agents Authority was established in November 2009, by the Real Estate Agents Act 2008 (the Act), to respond to the identified need for independent oversight of the real estate industry. Before our establishment, the Real Estate Institute of New Zealand (REINZ) operated a self-regulatory regime, established under the Real Estate Agents Act 1976.

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. Our functions and responsibilities include:

- informing, educating, advising and influencing consumers and licensees to support the integrity of real estate transactions
- establishing, monitoring and developing entry, continuing education, and professional conduct and client care standards for the real estate industry
- licensing real estate agents, branch managers and salespersons (referred to collectively as licensees) and maintaining a public register of licensees (www.reaa.govt.nz/registry/search)
- responding to enquiries and complaints, investigating problems in the real estate market and ensuring appropriate action is taken to sanction any unsatisfactory conduct, misconduct or illegal behaviour.

Who we work with

We work with the real estate industry, consumer groups and government agencies to fulfil our role.

Consumers'

Consumers' benefit from our work in three ways. First, licensees are required to provide buyers and sellers of real estate with information the Authority produces that informs them of their rights and what to expect from their licensees. Standards and expectations of licensees are set out in the Code of Conduct and the Act. Second, when things go wrong we provide an avenue to address the public's concerns. Third, the Authority aims to ensure licensees' behaviour is consistent with consumers' reasonable expectations and interests.

To develop guidance and information for consumers we also liaise with consumer groups such as the Citizens Advice Bureau and the Home Owners and Buyers Association of New Zealand to ensure the guidance we develop is relevant and meets the needs of consumers'.

Working with the industry

We interact directly with licensees by providing information and advice on licensing and compliance matters. To build on and continually improve our knowledge of current and emerging industry practice we organise industry forums and maintain effective working relationships with industry participants and representative groups including the Real Estate Institute of New Zealand (REINZ). This contact assists work such as evaluating the Act and developing the Code of Professional Conduct and Client Care.

Working with other government agencies

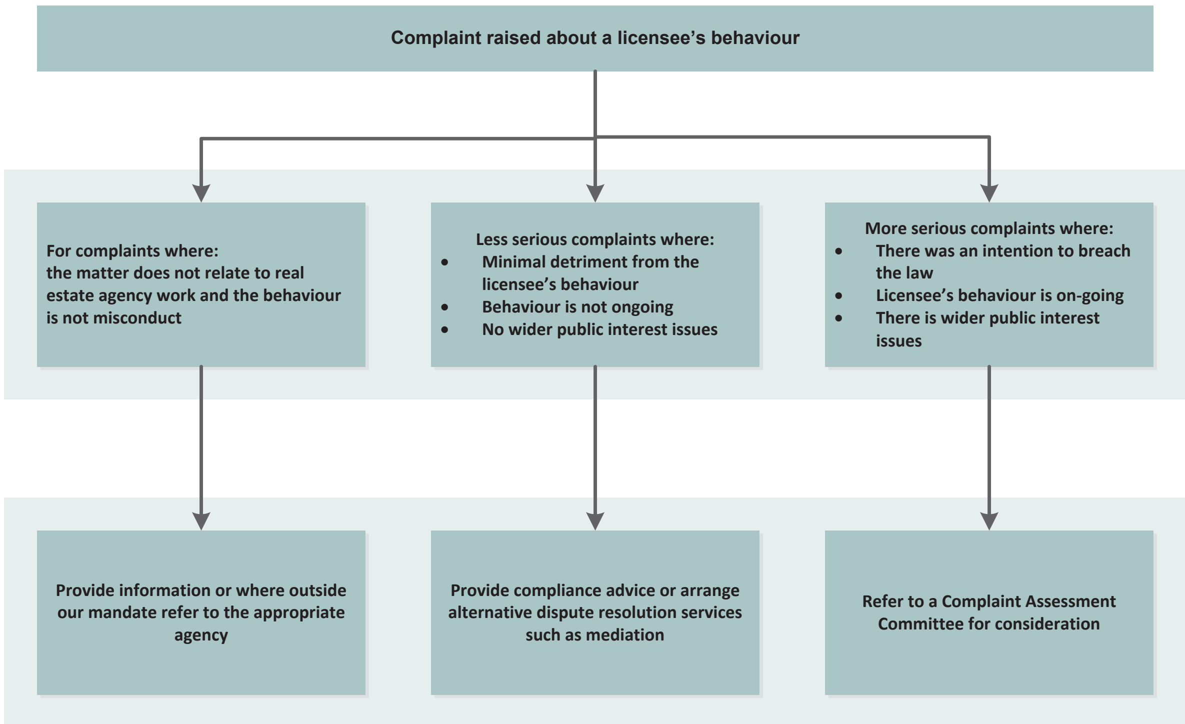
The Ministry of Justice (the Ministry) is responsible for administering the Act. We work closely with the Ministry to review and evaluate the Act. As part of our licensing, monitoring, and enforcing role we also work with the Police, Commerce Commission, Serious Fraud Office, Department of Internal Affairs, Financial Markets Authority and the Ministry of Consumer Affairs. We also exchange information with other agencies carrying out comparable regulatory roles to help inform improvements to the way we perform our work.

Our compliance model

On 1 July 2011 we introduced a new compliance model to improve our approach to managing complaints raised about licensee behaviour. Before 1 July 2011, all complaints received were referred to a Complaints Assessment Committee for consideration. Although thorough, this approach resulted in significant time and resources being invested in resolving less serious matters that could be dealt with more appropriately through informing and advising, rather than through more formal enforcement procedures. Under the new compliance model we introduced a range of tools and interventions to help with and respond to the range of complaints received. These include informing and advising in less serious cases while still referring more serious cases to a Complaints Assessment Committee. Irrespective of the resolution we consider appropriate for resolving a complaint, consumers can still request for their complaint to be considered by a Complaints Assessment Committee. While we prefer to focus the majority of our resources on helping licensees to comply we do take enforcement action as needed.

The simplified process, outlining the main criteria for assessing responses to complaints raised about a licensee's behaviour, is outlined in figure 1 below.

Figure 1: Complaint assessment and resolution process

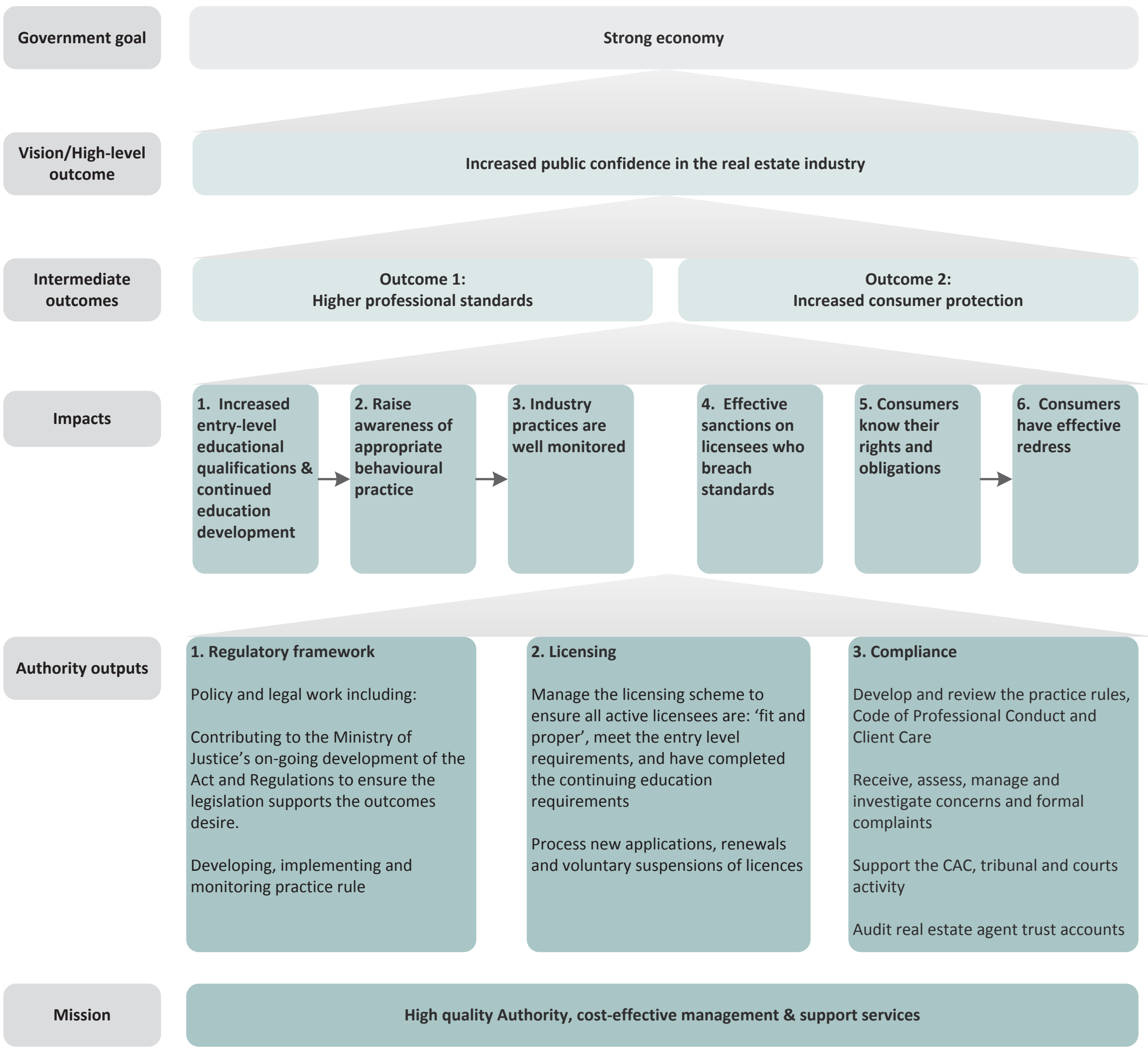


Part TWO:

Performance against our 2011 – 2014 Statement of Intent

Our outcomes framework below sets out our strategic direction during 2011/12. Work to achieve our intermediate outcomes, and indicators of progress made towards achieving these, is described on the following pages.

Figure 2: Outcomes Framework for 2011/12



Indicators of high-level outcomes

The indicators used to monitor our high-level outcomes depicted in figure 2 are described in table 1 below. The first three columns were set out in our 2011-2014 Statement of Intent and the fourth column provides either commentary on progress or reference to where this is located in this document.

Table 1: Indicators of high-level outcomes

Outcomes	Indicators	Changes in the indicators and progress to develop indicators	Progress during 2011/12
Vision/high-level outcome *'Increased public confidence in the real estate industry'* and **Intermediate outcome** *'Increased consumer protection'*	A consumer feedback survey	A survey will be developed in 2011/12 to assess public confidence in the real estate industry.	A survey was undertaken in July 2012. Key results are included on page 11 and 13.
	UMR Mood of the Nation Survey - Occupational respect	The UMR survey on occupational respect shows a continued increase in the public's respect for real estate agents (licensees).	Results of this survey are on page 15.
	Volume of cases[1], the nature and significance	The Authority forecasts the receipt of 740 cases in 2011/12, which is more than the estimated forecast of 672 cases for 2010/11. The Authority will develop further indicators of the nature and significance of matters.	749 cases were received during 2011/12. Analysis of the categories of complaints is included on page 16. We are continuing to develop further indicators as our information on the industry and complaints increases.
Intermediate outcome *'Higher professional standards'*	Percentage of licensees undertaking further educational requirements	The Authority is yet to collect this information and plans are in place to collect it through the 2013 licensee renewal period as part of implementing continuing education practice rules.	Uptake of the continuing education programme is being monitored. We have processes in place to ensure that licences will only be renewed in 2013 for those licensees that have completed the continuing education requirements.

1 A case is a catch-all term that includes complaints and allegations and Authority initiated investigations.

Outcome one: Higher professional standards

During 2011/12 we undertook a number of activities aimed at raising standards of professional behaviour of licensees. These included:

- introducing continuing education requirements
- reviewing the Code of Conduct
- providing information and guidance to assist licensees.

> ***From 1 January 2013 all licensees, as a pre-requisite to renewing their licence, will have had to complete 20 hours of continuing education***

Introducing continuing education

From 2012 onwards all licensees[2] are now required to undertake 20 hours of continuing education in order to have their licence renewed the following year.

Each year licensees have to complete 10 hours of continuing education, through one of 23 providers on topics set by the Authority, and a further 10 hours of structured training (that a licensee considers will further their professional development).

Continuing education is one of the primary compliance tools we use to help raise standards, protect consumers and raise confidence in the real estate industry.

Reviewing the Code of Conduct

The Professional Conduct and Client Care Rules 2009 (the Code of Conduct) represents minimum standards for real estate licensees and is a reference point for disciplinary action against them.

The current Code of Conduct transitioned licensees from their previous self-regulatory model to the new independent regulatory model and has helped raise industry standards since 2009. After more than two years of operation we are now reviewing the Code of Conduct to ensure that it is still appropriate and fit-for-purpose.

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2 Some licensees will qualify for an exemption from continuing education. If a licensee has completed one of the National Certificates, or the National Diploma in Real Estate then they will be exempt from continuing education in the year they complete the qualification and the following calendar year.

Consultation has taken place and the review is likely to result in some changes. Changes being considered include, requiring licensees to recommend that a prospective client or customer obtain legal advice before signing contracts, better disclosure of individual financial rewards by listing licensees and specific rules for buyers' agents.

We expect the revised Code of Conduct to be approved by the Minister towards the end of 2012. It will come into effect three months later to give licensees time to familiarise themselves with the new requirements.

Providing information and guidance to help licensees comply

During 2011/12 we released a number of information sheets to help licensees comply with their obligations under the Act, regulations and practice rules. These include licensees' obligations relating to:

- checking of property titles
- agency agreements (in conjunction with REINZ)
- providing an appraisal of a property
- information that needs to be disclosed when buying or selling unit titled properties (in conjunction with REINZ and HOBANZ).

We work with industry and consumer bodies to develop guidance and information that's relevant for licensees, buyers, and sellers

We also provide regular newsletters to licensees to raise awareness of recent Complaints Assessment Committees and Real Estate Agents Disciplinary Tribunal (the Tribunal) decisions and how they may impact on real estate practices, inform them of changes in the industry and inform them of upcoming events.

In our recent survey of licensees to assess satisfaction with our services during 2011/12 82% found the licensee newsletters informative, and 80% found information on the licensing process clear.

Outcome two: Increasing consumer protection

During 2011/12 we undertook a number of activities to increase buyers' and sellers' protection in real estate transactions. This included:

- providing guidance and information material for buyers and sellers
- proactive investigations into unlicensed real estate activity
- providing fair and effective forms of redress.

Providing guidance and information material for consumers

We provide information and advice to consumers through a variety of channels, including online and published guidance material, as well as interacting directly by phone and email to respond to specific queries.

This year we have also been trialling a series of online advertisements targeting buyers and sellers early in the process to outline key considerations before committing to a real estate transaction. Initial indications are positive, with greater traffic to our website as a result. We are also considering how to use social media to engage with both buyers and sellers and the industry, and are looking to work with consumer organisations buyers and sellers engage with.

In our recent survey of consumers 85% of New Zealanders feel at least somewhat empowered and able to participate effectively in real estate transactions

Proactive investigations

We have commenced a number of proactive investigations to identify unacceptable behaviour in the industry. This has included investigations into unlicensed real estate activity. This activity involves businesses or individuals acting as the facilitator between buyers' and sellers' in property transactions without holding a licence to do so.

Unlicensed real estate agency work is concerning, as it poses a risk to consumers' protection. Those undertaking real estate agency work without a licence are unlikely to have been subject to the new rigorous entry requirements and, are not subject to our ongoing continuing education programmes. As well, consumers are not provided with our key guidance material that licensed professionals are required to provide.

Over the past year we have had several successful prosecutions of this activity. These prosecutions send a clear message to those engaging in this type of activity that it will be identified and prosecutions will be sought. Over the next

12 months we intend to continue to target this type of activity and other examples of individuals engaging in real estate agency work without a licence.

Providing fair and effective forms of redress

Maintaining fair, impartial systems for managing complaints against licensees ensures the integrity of the system and public confidence in the industry. One of the principles of our new compliance model introduced in 2011/12 is to ensure responses to offending behaviour are proportionate to the offence. To respond to less serious offences we have introduced a number of lower level interventions such as providing compliance advice and mediation services. For more serious offences, we continue to take enforcement action. Over the past year several significant prosecutions have sent a clear message to the industry that for serious offences, serious penalties will be enforced.

Our new compliance model introduced on 1 July 2011 set out new approaches for responding to complaints. Now, less serious complaints can be resolved through lower-level interventions such as mediation or providing compliance advice

Cases of misconduct, and their penalties, determined during 2011/12 include:

- The licensee forged a signature on a settlement notice for the purposes of showing that a sale had taken place when it hadn't.
  The licensee's licence was cancelled
- The licensee misappropriated money from a residential property management trust account.
  The licensee's licence was cancelled
- The licensee acquired an interest in a property belonging to clients, for whom the licensee was acting, without informing and obtaining consent.
  The licensee was fined $10,000 and ordered to pay $5,000 in costs to the Authority and licence suspended for 6 months
- The licensee behaved in a verbally and physically threatening or aggressive manner towards the complainant.
  The licensee was fined $2,000
- The licensee failed to disclose that they may benefit financially from the sale of the property to the complainant.
  Licensee fined $4,000 and ordered to pay the complainant $450

Decisions from Complaints Assessment Committees and the Real Estate Agents Disciplinary Tribunal are published on our website: http://decisions.dotnous.com/reaa/.

Industry performance over time

We review and analyse industry, complaints and licensing data to help us target our resources to where they will have the most effect. An outline of the main information that we use is set out below.

Consumer respect for real estate agents

In UMR's annual Mood of the Nation survey respondents are asked to rank their respect for a number of occupations including real estate licensees on a scale of 1, being the lowest, to 10, being the highest. The results from the last four years of the survey are:

Year	**2008**	**2009**	**2010**	**2011**
Result	4/10	4.1/10	4.5/10	4.1/10

Over a number of years, we would expect that the increased professionalism that we are working with the industry to achieve will impact positively on consumer respect of real estate licensees. Other indicators that we track do show an improvement in consumer confidence. For example, in our recent consumer survey, over half of respondents rated their licensee as 'very good' or 'excellent'.

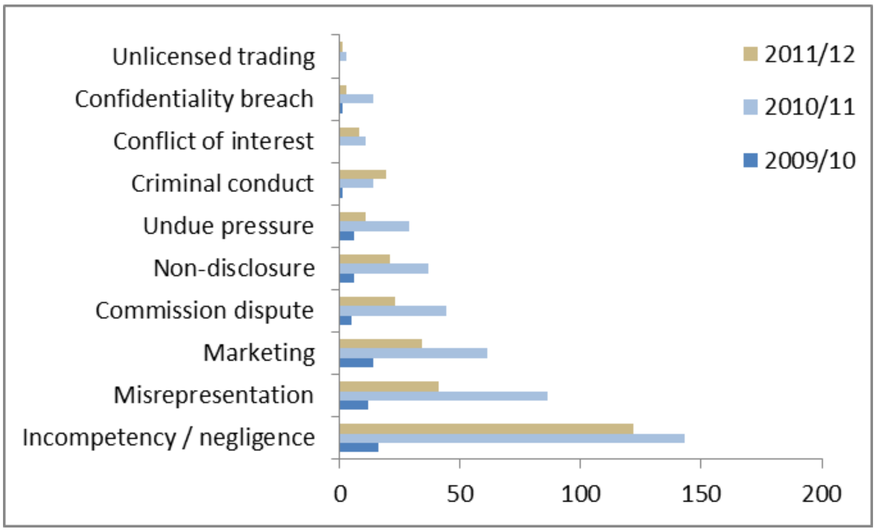
In our recent buyers and sellers survey over half of respondents rated their real estate agent as 'very good' or 'excellent'

Complaint categories

Figure 3 outlines the categories of complaints by volume for the past three financial years. For the past two financial years the top three complaint categories have been incompetency/negligence, misrepresentation and marketing. Our topics for the continuing education programme are influenced by analysing the most common categories of complaint. For 2013, the topic for verifiable continuing education will relate to the description and representation of a property. Licensees will be given training on titles, building structures, council planning and other relevant land transfer law.

Complaints normally relate to more than one category. For this reason the total sum of complaints does not equal the total number of complaints by type. 2009/10 was our first year of operation and so only a few complaint decisions were made during this period.

Figure 3: Categories of complaints by financial year



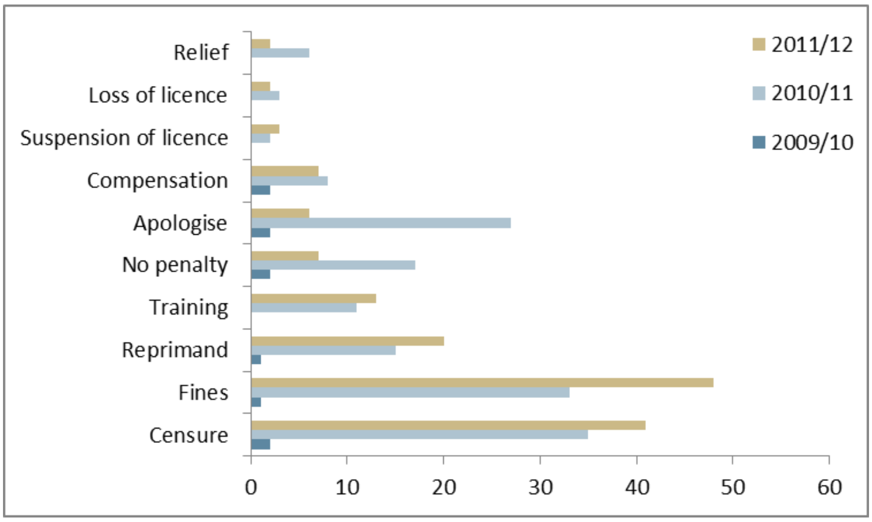
During 2011/12 approximately 1 % of residential property transactions resulted in a complaint being laid with the Authority

Complaint decisions

Figure 4 outlines the penalties ordered by a Complaints Assessment Committee or the Tribunal for published decisions of unsatisfactory conduct or serious misconduct over the last three financial years. During 2011/12 there was a significant reduction in the lower level enforcements of 'no penalty' and 'apologise'. This was because of our new compliance model, introduced on 1 July 2011, that provides alternative resolution methods such as compliance advice or mediation for less serious complaints.

During the 2011/12 financial year there were 11 published cases of serious misconduct and 96 published cases of unsatisfactory conduct

Figure 4: Penalties



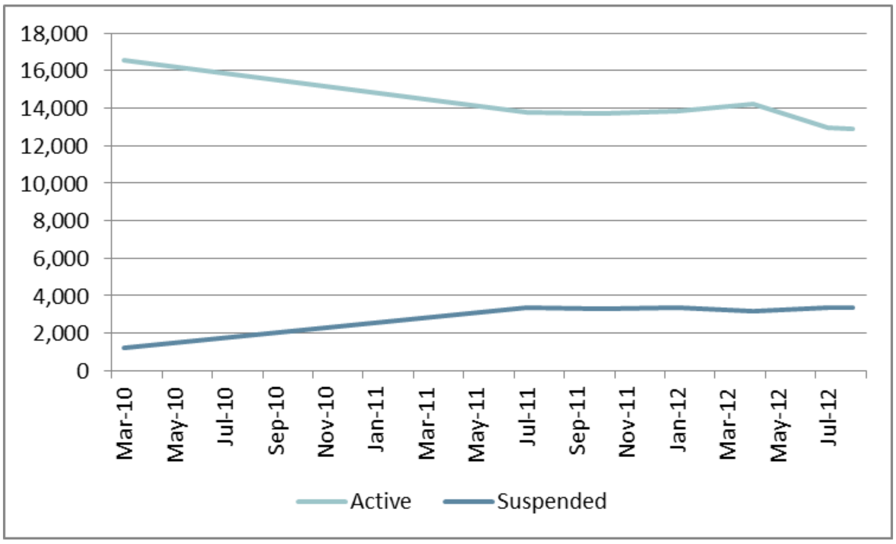
Licensing volumes

As at 30 June 2012 there were just over 12,850 active licences and 3,350 voluntarily suspended licences. This is slightly fewer than in 30 June 2011, where there were just under 14,000 active licences. The table below sets out the licence volumes as at 30 June 2012.

Table 2: Licensing volumes as at 30 June 2012

	Agent	*Branch manager*	*Salesperson*	*Company*	*Total*
Active	*1,928*	*472*	*9,648*	*814*	***12,862***
Suspended	*303*	*85*	*2,876*	*92*	***3,356***
Total	***2,231***	***557***	***12,524***	***906***	***16,218***

Figure 5: Licensing volumes March 2010 - July 2012



Licence determinations

The Authority issues licences and has the power to decline an application for a licence if it is deemed the applicant is not a 'fit and proper' person. In these situations an applicant can appeal to the Tribunal to review the decision. In the year ended 30 June 2012 two new applications for licences were declined; one of these decisions was successfully appealed and the Tribunal granted the licence.

Part THREE

Our organisation

Our Board

We are governed by a Board that reports to the Associate Minister of Justice. Our Board is made up of experienced practitioners from many professional fields; bringing together expertise in law, real estate, risk management, finance and consumer rights. At least two members of our Board are required to be licensees or former licensees.

As at 30 June 2012 our Board members were:

- Kristy McDonald, QC (Board Chair)
- John Auld
- Barrie Barnes
- Denise Bovaird
- Joan Harnett-Kindley
- Peter McDermott
- David Russell.

Equal employment opportunities

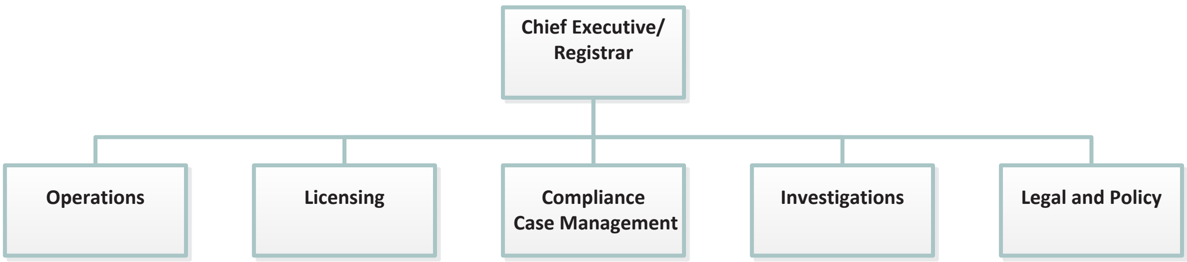
We realise the importance of having a diverse workforce and the benefits that a mix of skills, abilities and cultural perspectives contributes to our success as an organisation.

Workplace profile

As at 30 June 2012 we had 37 full time equivalent staff on permanent or fixed term contracts. We are a small organisation and so do not report our staff profile in a statistical format. We have a slightly higher proportion of women than men, and our staff fit within a wide range of ages and identify with a number of ethnicities. No staff have identified as having a disability. We have policies in place to ensure our recruitment and selection processes are fair, transparent and accommodate any specific requirements from candidates.

As presented in figure 6, the Authority is structured into business units.

Figure 6: Our organisational structure as at 30 June 2012



Being a good employer

We strive to be a good employer and an attractive place to work. We regularly review our organisational policies to ensure they continue to be fit-for-purpose. The specific initiatives we have underway against each of the State Services Commission seven 'good employer' elements is set out below.

Table 3: State Services Commission good employer elements

Element	Initiatives conducted during 2011/12
1. Leadership, accountability and culture	We ran an annual staff survey to evaluate levels of staff engagement and identify any areas for improvement. We provided opportunities for staff to give feedback on organisational policy changes that may impact them. We hold fortnightly meetings for all staff, led by the Senior Leadership Team, to facilitate discussion on organisational priorities, changes and developments.
2. Recruitment, selection and induction	Our recruitment processes are based on fair and transparent selection policies that are reviewed on a regular basis. All new staff go through an induction process.
3. Employee development, promotion and exit	We have policies in place that outline staff training and development, professional development, and educational assistance available for all staff.
4. Flexibility and work design	Where possible we accommodate flexible working hours, working from home and requests for leave without pay.
5. Remuneration, recognition and conditions	We run annual pay reviews that provide for performance recognition where appropriate.
6. Harassment and bullying prevention	We have an anti-harassment policy that sets out our expectations for staff to be treated in a fair, respectful manner and to work in a safe environment. It also sets out the processes for dealing with behaviour that contravenes these expectations.
7. Safe and healthy environment	We have a range of support available to promote a safe and healthy work environment including: • Access to the Employee Assistance Programme for staff • Active social committee • Ergonomic workstation assessments • Eye tests and contribution to corrective lenses

Part FOUR

Statement of responsibility and independent auditor's report

In the year ended 30 June 2012, the Board and management of the Real Estate Agents Authority were responsible for:

- the preparation of the annual financial statements, the Statement of Service 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 Authority's financial reporting.

In the opinion of the Board and management of the Real Estate Agents Authority, the financial statements and the Statement of Service Performance for the year ended 30 June 2012 fairly reflect the financial position and operations of the Authority.

Kristy McDonald, QC
Board Chair
Real Estate Agents Authority

18 October 2012

Denise Bovaird
Audit and Risk Sub-committee Chair
Real Estate Agents Authority

18 October 2012

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF
REAL ESTATE AGENTS AUTHORITY'S
FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2012

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 the Authority, to carry out the audit of the financial statements and statement of service performance of the Authority on her behalf.

We have audited:

- the financial statements of the Authority on pages 30 to 64, that comprise the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and

- the statement of service performance of the Authority on pages 26 to 29.

Opinion

In our opinion:

- the financial statements of the Authority on pages 30 to 64:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect the Authority's:
    - financial position as at 30 June 2012; and
    - financial performance and cash flows for the year ended on that date.
- the statement of service performance of the Authority on pages 26 to 29:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects, for each class of outputs for the year ended 30 June 2012, the Authority's
    - service performance compared with the forecasts in the statement of forecast service performance for the financial year; and
    - actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 18 October 2012. 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, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and statement of service performance are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Authority's financial statements and statement of service performance that fairly reflect the matters to which they relate. We consider internal control 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.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board

The Board is responsible for preparing financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect the Authority's financial position, financial performance and cash flows; and
- fairly reflect its service performance.

The Board is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error.

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

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

In addition to the audit we have carried out assignments in the areas of assistance with the 2011 annual report and financial statements. Other than the audit and these assignments, we have no relationship with or interests in the Authority.

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

Matters relating to the electronic presentation of the audited financial statements and statement of service performance

This audit report relates to the financial statements and statement of service performance of the Real Estate Agents Authority for the year ended 30 June 2012 included on Real Estate Agents Authority's website. The Real Estate Agents Authority's Board is responsible for the maintenance and integrity of Real Estate Agents Authority's website. We have not been engaged to report on the integrity of Real Estate Agents Authority's website. We accept no responsibility for any changes that may have occurred to the financial statements and statement of service performance since they were initially presented on the website.

The audit report refers only to the financial statements and statement of service performance named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and statement of service performance. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and statement of service performance as well as the related audit report dated 18 October 2012 to confirm the information included in the audited financial statements and statement of service performance presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Part FIVE

Statement of service performance

Output Class: Operate the Real Estate Agents Authority

We have one output class through Vote Justice. This output class funds all of our work. This output class has three outputs: Regulatory framework, Licensing, and Compliance. For each of these outputs we have developed performance measures to assess progress. Where possible we have included performance measures from previous years to enable comparisons to be made on performance across years. However, where there have been new performance measures added, and no data was previously collected, this has been noted.

Table 4: Revenue and expenditure

Revenue and expenditure	2011/12 Actual ($000)	2011/12 Budget ($000)
Total revenue	**10,014**	**9,779**
Output expenditure:		
Output 1: Regulatory framework	2,433	1,667
Output 2: Licensing	1,344	1,501
Output 3: Compliance	5,222	6,127
Total expenditure	**8,999**	**9,295**
Total comprehensive income	**1,015**	**484**

Output 1: Regulatory framework

This output covers the costs of policy and regulatory work. It includes the development and review of practice rules, and the Code of Professional Conduct and Client Care that together set a benchmark for professional behaviour and discipline. This output also covers:

- our contribution to the Ministry of Justice's on-going development of the Real Estate Agents Act 2008 and regulations
- monitoring expenditure to ensure we have sufficient resource
- operational policy activities to support the Authority's systems and processes.

Table 5: Performance measures for Output 1

Performance measure	2011/12 Forecast	2011/12 Actual	2010/11 Actual	2009/10 Actual[3]
Quality				
Ministry of Justice satisfaction with the Authority's contribution to the regulatory framework[4]	Satisfied (The rating scale ranges from; Very good, Good, Satisfied, Poor, or Very Poor).	Satisfied	Not assessed	Not assessed
Quality				
Quality requirements[5] for policy advice are met in the development of practice rules	Met (Quality dimensions include: purpose, consistency, logic, options, consultation, practicality, presentation, and impartiality).	Met	Not assessed	Not assessed

3 The Authority was established on 17 November 2009 and so performance for 2009/10 is not based on a full-year.

4 Ministry of Justice (MoJ) is at least satisfied with the Authority's contribution to the on-going development of the 2008 Act and Regulations. The Authority will invite the MoJ to comment on the Authority's contribution each financial year.

5 The Authority's legal manager will assess the quality of advice.

Output 2: Licensing

This output funds the management and administration of the licensing regime, including ensuring all licensees are 'fit and proper' and meet the required professional standards to work in the industry. The required professional standards are criteria that licensees must meet to become licensed. The professional standards consider any previous criminal convictions, relevant education, and character of licensees. This output also funds the processing of new applications, renewals and voluntary suspensions, and maintenance of a current register of all approved licensees.

Table 6: Performance measures for Output 2

Performance measure	Target 2011/12	2011/12 Actual	2010/11 Actual	2009/10 Actual[6]
Demand driven				
New applications	1,200	1,111	1,281	1,827
Renewal applications	13,000	12,628	11,812	15,030
Suspended applications	1,200	3,584	2,662	1,113
Quality and timeliness				
Complete[7] applications processed[8] within 6 weeks	95%	99%	98%	100%
Quality				
Licensees that consider Authority staff competent and reliable[9]	70%	86%	78%	Did not survey

Comment on notable variances:

Demand driven: The number of suspended licences is significantly higher than forecast. This could be attributed to the current economic climate.

Quality and timeliness: During 2011/12 we reviewed and streamlined our licensing processes. This enabled us to exceed the target licensing processing times for 2011/12. For 2012/13 our target processing times have reduced from six weeks in 2011/12 for both new and renewal applications to 15 working days for new applications and 10 working days for renewal applications.

Quality: Our quality target was exceeded. This is likely to be attributed to the more streamlined licensing processes that have freed up licensing staff time to provide higher-levels of customer service to licensees.

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6 The Authority was established on 17 November 2009 and so performance for 2009/10 is not based on a full-year.

7 This includes new licence applications with all required documentation.

8 Processed is the final state for licensees whereby a licensee is informed of whether they are approved or not. Licensees are sent approval notification via email, followed by a letter.

9 The level of licensee satisfaction is determined from two questions in the State Services Commission's Common Measurements Tool; namely staff competency and reliability. Respondents are deemed to be satisfied if they provide, from a 1-5 scale, a 3, 4, or 5, for the two questions. The survey is run at the end of the financial year.

Output 3: Compliance

This output covers the cost of the Authority's compliance activities, including: educating, investigating and enforcing the work of Complaints Assessment Committees and the Tribunal. This work contributes to increasing industry professionalism, raising consumers' awareness of their rights, and providing consumers with effective processes for redress if things do go wrong.

Table 7: Performance measures for Output 3

Performance measure	2011/12 Target	2011/12 Actual	2010/11 Actual	2009/10 Actual[10]
Demand driven				
New cases[11]	740	749	598	531[12]
Quality and timeliness				
Complaint closure[13] within 32 weeks	80%	40%	72%[14]	Not applicable [15]
Quality				
Complainants' satisfaction survey[16]	70%	67%	64%	61%
Judicial criticism	None received[17]	No adverse judicial criticism received	No adverse judicial criticism received	No adverse judicial criticism received

Comment on notable variances:

Quality and timeliness: Over the 2011/12 financial year our complaint closure times were tracking significantly below target. This prompted a review of the complaints handling process. As a result we have implemented several changes intended to reduce the time taken to process complaints. Early indications suggest that this is having a positive impact on processing times. We are aiming for significant improvements in our complaint closure times and have reflected that expectation by reducing the target from 32 weeks for the 2011/12 financial year to closing 75% of complaints within 23 weeks for the 2012/13 financial year.

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10 The Authority was established on 17 November 2009 and so performance for 2009/10 is not based on a full-year.

11 A case is a catch-all term that includes complaints and allegations and Authority initiated investigations.

12 This figure is higher than the reported 456 complaints and allegations published in the Annual Report 2009/10. The revised volume is a result of improved measurement systems.

13 A closed complaint means that the Authority's work is complete. The complaint may still proceed through to higher jurisdictions, such as the Real Estate Agents Authority Disciplinary Tribunal.

14 In the 2010 – 2013 Statement of Intent this performance measure was described as 160 working days rather than 32 weeks. However, this refers to the same period of time.

15 No complaint exceeded 32 weeks from 17 November 2009 until 31 July 2010 because the Authority did not operate for 32 weeks in its first financial year.

16 The level of complainant satisfaction is determined from two questions in the State Services Commission's Common Measurements Tool; namely staff competency and reliability. Respondents are deemed to be satisfied if they provide, from a 1 –5 scale, a 3, 4, or 5, for the two questions. The survey is run at the end of the financial year.

17 None of the judicial decisions from the Real Estate Agents Disciplinary Tribunal, High Court and Court of Appeal contain any substantive criticism of the Authority's work.

Part SIX

Financial statements

Statement of Comprehensive Income

For the year ended 30 June

	Note	Actual 2012 $000	Budget 2012 $000	Actual 2011 $000
Revenue				
Operating levy received	1	8,740	9,083	7,252
Application and suspension fees	2	650	430	403
Fair value imputed loan interest		-	-	587
Other income	3	624	266	391
Total revenue		**10,014**	**9,779**	**8,633**
Expenditure				
Audit fee		54	40	49
Personnel costs	4	3,545	3,483	3,380
Finance costs	5, 19	939	565	596
Depreciation	14	116	133	112
Amortisation	15	473	829	864
Specialist services	6	1,143	942	937
Legal fees	7	995	710	544
Board fees	8, 25	138	180	165
Complaints Assessment Committee fees		314	500	381
Miscellaneous expenses		40	53	31
Computer and telecommunications		601	626	550
Printing, stationery and postage		157	459	142
Travel, meetings and entertainment		160	361	132
Occupancy		324	414	316
Provision for doubtful debts		-	-	197
Total expenditure		**8,999**	**9,295**	**8,396**
Total comprehensive income		**1,015**	**484**	**237**

Explanations of significant variances against budget are detailed in note 30 on page 62.

The Statement of Accounting Policies and Notes to the Financial Statements form an integral part of these Financial Statements.

Statement of Financial Position

As at 30 June

	Note	Actual 2012 $000	Budget 2012 $000	Actual 2011 $000
Current Assets				
Cash and cash equivalents	9	5,950	9,659	2,876
Investments	10	3,082	-	4,700
Debtors and other receivables	11	117	8	591
Prepayments	12	88	-	83
GST receivable		11	-	42
Approved guide stock	13	34	-	29
Total current assets		**9,282**	**9,667**	**8,321**
Non-Current Assets				
Property, plant and equipment	14	215	86	211
Intangible assets	15	230	1,060	694
Total non-current assets		**445**	**1,146**	**905**
Total assets		**9,727**	**10,813**	**9,226**
Current Liabilities				
Trade creditors and accruals	16	691	539	492
Employee entitlements		117	80	96
Deferred operating levy	17	5,965	6,800	6,165
Establishment funding from Crown	18	1,261	127	-
Total current liabilities		**8,034**	**7,546**	**6,753**
Term Liabilities				
Rent rebate		45	90	91
Establishment funding from Crown	18	3,001	5,032	4,750
Total term liabilities		**3,046**	**5,122**	**4,841**
Total liabilities		**11,080**	**12,668**	**11,594**
Net assets		**(1,353)**	**(1,855)**	**(2,368)**
Public Equity				
Crown funding		2,078	2,078	2,078
Retained earnings		(3,681)	(4,183)	(4,696)
Litigation reserve		250	250	250
Total public equity	19	**(1,353)**	**(1,855)**	**(2,368)**

Explanations of significant variances against budget are detailed in note 30 on page 62.

The Statement of Accounting Policies and Notes to the Financial Statements form an integral part of these Financial Statements.

Statement of Changes in Equity

For the year ended 30 June

	Note	Capital Funding From Crown	Retained Earnings	Litigation Reserve	Total Public Equity
Actual 2012					
Public equity at beginning of year		2,078	(4,696)	**250**	**(2,368)**
Total comprehensive income		-	1,015	-	**1,015**
Litigation reserve		-	-	-	-
Public equity at end of year	**19**	**2,078**	**(3,681)**	**250**	**(1,353)**
Budget 2012					
Public equity at beginning of year		2,078	(4,183)	250	(1,855)
Total comprehensive income		-	484	-	484
Litigation reserve		-	-	-	-
Public equity at end of year		**2,078**	**(3,699)**	**250**	**(1,371)**
Actual 2011					
Public equity at beginning of year		2,078	(4,683)	-	(2,605)
Total comprehensive income		-	237	-	237
Litigation reserve		-	(250)	250	-
Public equity at end of year		**2,078**	**(4,696)**	**250**	**(2,368)**

Explanations of significant variances against budget are detailed in note 30 on page 62.
The Statement of Accounting Policies and Notes to the Financial Statements form an integral part of these Financial Statements.

Statement of Cash Flows

For the year ended 30 June

	Note	Actual 2012	Budget 2012	Actual 2011
Cash Flows from Operating Activities		$000	$000	$000
Cash was provided from:				
Receipts from licensees		9,234	10,229	8,588
Receipts from sale of publications		235	120	178
Interest income		252	50	151
Suspension fees		321	-	-
Refunded Withholding Tax		57	-	-
Receipts from fines		116	50	35
		10,215	**10,449**	**8,952**
Cash was applied to:				
Payments to suppliers		(4,213)	(5,233)	(4,996)
Payments to employees		(3,203)	(3,060)	(2,965)
Payments to Inland Revenue for Resident Withholding Tax		-	-	(60)
Interest		(166)	(156)	(156)
Net GST (paid)/received		109	-	(62)
		(7,473)	**(8,449)**	**(8,239)**
Net cash flows from operating activities	**20**	**2,742**	**2,000**	**713**
Cash Flows from Investing Activities				
Cash was provided from:				
Sale of property, plant and equipment		**-**	**-**	**5**
Cash received from investments		2,700	-	-
		2,700	**-**	**5**
Cash was applied to:				
Purchase of property, plant and equipment		(17)	-	(41)
Purchase of intangible assets		(8)	(1,200)	(206)
Investment in term deposits		(1,082)	-	(4,700)
		(1,107)	**(1,200)**	**(4,947)**
Total cash flows from investing activities		**1,593**	**(1,200)**	**(4,942)**
Cash Flows from Financing Activities				
Cash was applied to:				
Repayment of establishment funding to Crown		(1,261)	-	-
Total cash flows from financing activities		**(1,261)**	**-**	**-**
Net (decrease)/increase in cash and cash equivalents		**3,074**	**800**	**(4,229)**
Cash and cash equivalents at the beginning of the year		**2,876**	**8,859**	**7,105**
Cash and cash equivalents at the end of the year	**9**	**5,950**	**9,659**	**2,876**

Notes to the Statement of Cash Flows The GST (net) component of operating activities reflects the net GST paid to, and received by the Inland Revenue Department (IRD). The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

Statement of Accounting Policies

For the year ended 30 June 2012

Reporting entity

These are the financial statements of the Real Estate Agents Authority (the Authority), a Crown entity as defined by the Crown Entities Act 2004. The Authority is domiciled in New Zealand.

The Authority'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.

The Authority is a public benefit entity for the purposes of New Zealand International Financial Reporting Standards (NZ IFRS).

The financial statements for the Authority are for the year ended 30 June 2012 and were approved on 18 October 2012 by the Board.

Basis of preparation

Statement of compliance

The financial statements of the Authority 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.

The financial statements comply with NZ IFRS and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

Measurement system

The financial statements have been prepared on an historical cost basis except for the establishment funding from the Crown which is at fair value.

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 the Authority is New Zealand dollars.

Comparatives

The following changes have been made since the last financial statements. Comparatives have been restated to align with the current period's presentation.

Financial statements referred to	
Statement of Comprehensive Income	**Specialist services** The following cost categories have been consolidated into "Other Specialist Services" for the table on page 45 – Note 6. In 2010/11 these were separately disclosed.

Other specialist services	Actual 2012 $000	Actual 2011 $000
Auditors - other services	3	8
License processing	13	12
Transcription and translation services	10	15
Trust account services	6	37
Property specialist services	5	2
Human resources support services	5	5
Specialist services for hearings	3	22
Write off of provision for plastic licenses	-	(143)

Auditors – other services is assistance provided by BDO Wellington in the 2011 annual report and financial statements (2011: additional accounting services work performed by BDO Wellington to assist in completing the financial statements for the year ended 30 June 2010 and reviewing the Authority's draft Statement of Intent 2011-14).

Note 23 **Categories of financial assets and liabilities**	The establishment funding was previously classified as financial liabilities measured at amortised cost. The correct classification is financial liabilities at fair value through profit or loss.

Standards and interpretations effective in the current period

Minor amendments to NZ IFRS and improvements to NZ IFRS took effect during the year ended 30 June 2012 and have been adopted by the Authority for the first time. These amendments and improvements did not have a significant impact on the Authority's financial statements.

New and amended financial reporting standards (not adopted early by the Authority)

At the date of authorisation of the Authority's financial statements for the year ended 30 June 2012, the following standards and interpretations were in issue but not yet effective:

Standard/Interpretation		Effective Date
NZ IFRS 9	Financial Instruments	Annual periods commencing on or after 1 January 2015[18]

NZ IFRS 9 Financial instruments

The Authority will adopt NZ IFRS 9 for the first time for the year ending 30 June 2016. This standard reduces the number of categories of financial assets from four to two categories. All financial assets will either be measured at amortised cost or at fair value. The classification is based on the Authority's business model for managing the financial asset and contractual cash flow characteristics. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus/deficit.

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, the Authority is classified as a Tier 2 reporting entity and it will be required to apply Public Benefit Entity Accounting Standards (PAS) with reduced disclosures. These standards are being developed by the XRB based on current International Public Sector Accounting Standards. The effective date for the new standards for public sector entities is expected to be for reporting periods beginning on or after 1 July 2014. This means the Authority expects to transition to the new standards in preparing its 30 June 2015 financial statements. As the PAS are still under development, the Authority is unable to assess the implications of the new Accounting Standards Framework at this time.

Due to the change in the Accounting Standards Framework for public benefit entities, it is expected that all new NZ IFRS and amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore, the XRB has effectively frozen the financial reporting requirements for public benefit entities up until the new Accounting Standard Framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

18 All standards and interpretations will be adopted at their effective date (except for those standards and interpretations not applicable to the entity).

Significant accounting policies

The following accounting policies that materially affect the measurement of profit and loss and financial position have been applied.

Revenue

The Authority derives revenue through; an annual charge to real estate licensees, the sale of publications, interest on investments, and the receipt of fees and fines.

The annual charge to real estate licensees has two components; an operational levy to cover the on-going service provision of the Authority, and a disciplinary levy transferred to the Ministry of Justice to provide funding for the Disciplinary Tribunal. In addition, an application fee is charged to recover the additional costs of registration. The Authority also charges a fee for suspending a licence. The suspended licence is valid for 12 months, after which it needs to be reactivated, re-suspended or cancelled.

Most licences expire on 31 March and the licence renewal is payable at this time, therefore the Authority generally recognises 25% of revenue from renewed licences in the financial year the operating levy is received. The remaining 75% of the operational levy collected is deferred to the following financial year.

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

Levies

Operational Levies

Operational Levies are recognised when earned and are reported in the period to which they relate.

Disciplinary Levies

Disciplinary Levies are paid on receipt to the Ministry of Justice and are not recognised as income.

Fees

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

Fines

Fines are recognised when due and receivable.

Sale of Publications

Revenue from the sale of publications is recognised when the sale is made.

Interest

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

Capital charge

A capital charge of 8.0% is applied to the $2.078 million capital funding received from the Crown and is recognised as an expense in the period to which the charge relates.

Leases

Leases that do not transfer substantially all the risks and rewards incidental to ownership of an asset to the Authority 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 Income.

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 method, less any provision for impairment. Impairment is established when there is objective evidence the Authority 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 the Authority 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, and capital work in progress.

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 the Authority 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 Income.

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 the Authority 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 Income 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:

Furniture and Office Equipment	5 years	20%	straight line
Computer Equipment	3 years	33%	straight line
Leasehold Improvements	4 years	25%	straight line

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.

Intangible assets

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 the Authority are recognised as an intangible asset. Direct costs include the software development and consultant's 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 Income.

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

Acquired and Developed Software	2-3 years	33%-50%	straight line

The above treatment has been adopted for all items of acquired and developed software with the following exception:

- In the year ended 30 June 2012 the remaining useful life of the Authority's registration database was reassessed following a delay in implementing a replacement system. Amortisation expense was reduced by $84,000.

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.

Provisions

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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 Income as incurred.

Establishment funding

The Crown has provided establishment funding to be repaid over a period of five years ending April 2016. This is initially recognised at fair value in the Statement of Financial Position and subsequently measured at fair value using a valuation technique. The valuation technique includes the use of the Crown capital charge rate and discounted cash flow analysis. All gains and losses are recognised in the profit or loss.

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

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

Financial instruments

The Authority 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 Income.

Statement of Cash Flows

The Statement of Cash Flows is prepared exclusive of GST, which is consistent with the method used in the Statement of Comprehensive Income.

Cash flows are classified into three activities:

- operating activities include cash received from all income sources
- investing activities include cash received for sale, and cash payments made for the purchase of investments and any other non-current assets
- financing activities include capital contributions and other transactions relating to changes in equity of the Authority.

Budget figures

The Budget figures shown are derived from the SOI 2011-14 approved by the Board at the beginning of the financial year. The budget figures have been prepared in accordance with NZ IFRS, using accounting policies consistent with those adopted by the Authority for the preparation of the financial statements. The budget figures have not been audited.

Equity

The Equity is the Crown's investment in the Authority plus any surpluses/less any deficits incurred through operations, and a litigation reserve for extraordinary unanticipated legal expenses.

Changes in accounting policy

The accounting policies are consistent with those used in the past-year except for the adoption of amendments to the New Zealand International Financial Reporting Standards. None of these amendments have materially changed the financial statements.

Critical judgements in applying the Authority's accounting policies

In the application of NZ IFRS, 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 on-going 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 NZ IFRS 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 2012

1. Operating levy received	Actual 2012 $000	Actual 2011 $000
New applications	583	-
Renewals	8,157	-
Total operating levy received	**8,740**	**7,252**

During the year to 30 June 2012 the Authority had 11,884 license renewals, along with 1,111 new license applications. Total active licenses were 12,628. This is an overall reduction of 924 licenses from the previous year.

The Authority began recording revenue from new applications and renewals separately in January 2012, so no prior-year comparison for these categories is available.

2. Application and suspension fees	Actual 2012 $000	Actual 2011 $000
New application fees	329	161
Suspension fees	321	242
Total application and suspension fees	**650**	**403**

During the year to 30 June 2012 the Authority had processed 1,111 new license applications, and 3,584 voluntary suspensions.

3. Other income

	Actual 2012 $000	Actual 2011 $000
Interest	273	173
Sale of publications	235	178
Fines	116	35
Gain on sale of assets	-	5
Total other income	**624**	**391**

Interest earnings incorporate accrued interest on term deposit investments held with approved institutions, along with the interest paid on call account and operating account balances.

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 the Authority and recorded as sale of publications.

4. Personnel costs

	Actual 2012 $000	Actual 2011 $000
Salaries and wages	3,205	3,022
Other personnel costs	269	243
Employer contributions to Kiwisaver	49	38
Termination payments	-	33
Employee entitlements	22	44
Total personnel costs	**3,545**	**3,380**

Other personnel costs include temporary staff for permanent roles, additional resources for temporary roles, recruitment costs, employer ACC levies, allowances and training.

No staff members were made redundant in the period ending 30 June 2012.

Employee entitlements represent the movement in annual leave balances between 30 June 2011 and 30 June 2012.

5. Finance costs	Actual 2012 $000	Actual 2011 $000
Fair-value imputed loan interest adjustment on Crown establishment funding	285	-
Fair-value interest expense	488	440
Interest on capital funding from Crown	166	156
Total finance costs	**939**	**596**

The Authority has brought forward and increased its first repayment of Crown establishment funding from $500,000 in April 2013 to $1.261 million in April 2012. The fair-value imputed loan balance was accordingly re-calculated for the new repayment term. This has resulted in an increased fair-value interest expense of $285,000 recognised in the current financial year. Refer to note 18 for the reconciliation of the establishment funding.

6. Specialist services	Actual 2012 $000	Actual 2011 $000
Investigations support	277	271
ICT & other systems consulting	185	180
Bank, merchant service and payroll processing fees	120	72
Advertising and publicity	78	58
Approved guide management	69	184
Accounting support services	53	78
Media and communications	41	117
Alternative disputes resolution services	38	-
Other specialist services	282	(23)
Total specialist services	**1,143**	**937**

Other specialist services include $123,000 for consultants costs associated with implementing the Authority's new operating model and adopting a "systems thinking" methodology to complaint and license processing. $62,000 was also spent on consultants to develop training materials for the continuing education programme.

7. Legal fees

	Actual 2012 $000	Actual 2011 $000
Legal advisory services	177	196
Disciplinary Tribunal prosecutions	273	213
Appeals to Disciplinary Tribunal	422	114
Licensing reviews	20	18
High Court appeals	78	1
Trust account audits	4	2
Prosecution for offences	21	-
Total legal fees	**995**	**544**

There has been increased activity before the Real Estate Agents Disciplinary Tribunal (Tribunal) and the courts. The past year has seen the Tribunal hear an increased number of both appeals and misconduct charges with a total of 52 decisions being issued in comparison with 18 for the previous year. The increased spend associated with the District and High Courts' is the consequence of a correlating respective increase in prosecutions and appeals being filed.

Forum	Actual 2012	Actual 2011
Disciplinary Tribunal	54	18
District Court	2	1
High Court	1	-
Total decisions	**57**	**19**

8. Board remuneration

	Actual 2012 Board Fees $000	CAC Fees $000	TOTAL $000	Actual 2011 Board Fees $000	CAC Fees $000	TOTAL $000
Kristy McDonald Q.C.	30	-	**30**	40	-	**40**
Peter McDermott	18	15	**33**	18	3	**21**
Joan Harnett-Kindley	18	13	**31**	22	12	**34**
Denise Bovaird	18	11	**29**	25	11	**36**
John Auld	18	7	**25**	18	11	**29**
Barrie Barnes	18	6	**24**	20	8	**28**
David Russell	18	6	**24**	22	6	**28**
Total board remuneration	**138**	**58**	**196**	**165**	**51**	**216**

The table above represents the total value of remuneration paid or payable to Board members during the year. Fees paid in 2011 include fees payable in 2009/10. Chair remuneration includes an adjustment for an accrual correction relating to 2010/11.

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.

9. Cash and cash equivalents

	Actual 2012 $000	Actual 2011 $000
Cash at bank and on hand	598	726
Funds held on call	5,352	2,150
Total cash and cash equivalents	**5,950**	**2,876**

10. Investments

	Actual 2012 $000	Actual 2011 $000
Term deposits	3,082	4,700
Total investments	**3,082**	**4,700**

The Authority has invested $3.082 million in two separate term deposits of 12 months or less duration (2011: $4.7 million invested in two separate term deposits of 12 months or less duration).

11. Debtors and other receivables

	Actual 2012 $000	Actual 2011 $000
Trade debtors	75	719
Less provision for doubtful debts	-	(207)
Accrued interest	42	22
Resident withholding tax receivable	-	57
Total debtors and other receivables	**117**	**591**

2012 Trade debtors represent the value of unpaid fines by licensees. Normally the Authority holds no debtors for unpaid licenses as these are payable on application. The balance of $719,000 shown in 2011 represents the total value of deferred invoices from Licensees who were affected by the Christchurch earthquakes.

Reconciliation of provision for doubtful debts

	Actual 2012 $000	Actual 2011 $000
Opening balance	207	-
Additions	-	207
Less: reductions	(207)	-
Total provision for doubtful debts	**-**	**207**

The 2011 provision for doubtful debts was not utilised in 2012 and was written back to income in January 2012.

12. Prepayments

	Actual 2012 $000	Actual 2011 $000
Prepaid salaries	58	73
Other Prepaid creditors	22	2
Prepaid insurance	8	8
Total prepayments	**88**	**83**

The Authority pays staff salaries fortnightly in advance. The $58,000 prepayment above reflects the value of prepaid salaries for the week ending 6 July 2012.

13. Approved guide stock

The Authority produces 3 types of guides which are provided to licensees on a cost-recovery basis.

1. Code of professional conduct and client care
2. New Zealand residential property agency agreement guide
3. 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 is held at year end is recorded on the Statement of Financial Position as a current asset with the cost of goods sold recognised as an expense in the statement of comprehensive income.

Approved guides	Actual 2012 $000	Actual 2011 $000
Approved guide stock at beginning of year	29	-
Plus: Guide stock purchased during the year	38	29
Less: Total approved guide sales	(33)	-
Approved guide stock at end of year	**34**	**29**

14. Property, Plant and Equipment

	Computer equipment $000	Furniture and fittings $000	Leasehold improvements $000	Capital work in progress $000	Total $000
Gross carrying amount					
Balance at 1 July 2010	225	115	6	310	**656**
Additions	38	1	2	-	**41**
Sales/transfers	3	-	-	(283)	**(280)**
Write-off capital work in progress	-	-	-	(27)	**(27)**
Balance at 30 June 2011	**266**	**116**	**8**	**-**	**390**
Balance at 1 July 2011	**266**	**116**	**8**	**-**	**390**
Additions	3	8	6	103	**120**
Sales/transfers	-	-	-	-	**-**
Balance at 30 June 2012	**269**	**124**	**14**	**103**	**510**
Accumulated depreciation and impairment					
Balance at 1 July 2010	50	15	1	-	**66**
Depreciation expense	87	24	2	-	**113**
Sales/transfers	-	-	-	-	**-**
Balance at 30 June 2011	**137**	**39**	**3**	**-**	**179**
Balance at 1 July 2011	**137**	**39**	**3**	**-**	**179**
Depreciation expense	89	24	3	-	**116**
Sales/transfers	-	-	-	-	**-**
Balance at 30 June 2012	**226**	**63**	**6**	**-**	**295**
Net carrying amounts					
At 1 July 2010	175	100	5	310	**590**
At 30 June and 1 July 2011	129	77	5	-	**211**
At 30 June 2012	**43**	**61**	**8**	**103**	**215**

15. Intangible assets

	Actual 2012 $000	Actual 2011 $000
Gross carrying amount		
Opening balance	**1,866**	**1,385**
Additions	9	206
Transfer from capital work in progress	-	275
Sales	-	-
Closing balance	**1,875**	**1,866**
Accumulated amortisation		
Opening balance	**1,172**	**308**
Amortisation expense	473	864
Disposals	-	-
Balance at 30 June 2011	**1,645**	**1,172**
Net carrying amount		
At 1 July 2010	-	**1,077**
At 30 June and 1 July 2011	-	**694**
At 30 June 2012	**230**	-

The Authority's licensing and compliance database was subject to accelerated amortisation in the July-October 2011 period totalling $510,000. This accelerated rate of amortisation was applied in anticipation of the system being entirely replaced by November 2011. The project to implement the new system has been delayed and it is now expected to deliver in October 2012. Accordingly the remaining useful life of the asset has been revised and amortisation expense has been adjusted by $84,000.

Included in intangibles is the Authority's registration database, as at 30 June 2012 the carrying amount was $111,000 and the remaining amortisation period is 4 months. In June 2011 the carrying amount was $468,000 with a remaining amortisation period of one year. Other intangible assets include the Authority's website, knowledge-base and intranet, financial management information system and desktop software.

16. Trade creditors and accruals	Actual 2012 $000	Actual 2011 $000
Accrued expenses	550	302
Trade creditors	105	151
Other payables	25	4
Disciplinary levy payable to Ministry of Justice	11	35
Total trade creditors and accruals	**691**	**492**

The following table details the balance of accrued expenses:

Accrued expenses	Actual 2012 $000	Actual 2011 $000
Goods and services received but not invoiced	380	250
Legal fees	118	19
Complaints Assessment Committee Fees	38	33
ACC Levies	14	-
Total accrued expenses	**550**	**302**

17. Deferred operating levy	Actual 2012 $000	Actual 2011 $000
From license renewals	5,618	-
From new applications	347	-
Total deferred operating levy	**5,965**	**6,165**

As mentioned in note one, the Authority began recording revenue from new applications and renewals separately in January 2012. Consequently no prior-year comparison for these categories is available.

18. Establishment funding from Crown

	Actual 2012 $000	Actual 2011 $000
Opening balance	**4,750**	**4,897**
Fair value imputed loan interest	285	(587)
Adjusted balance	**5,035**	**4,310**
Current year interest recognised	488	440
Less: repayments to the Crown	(1,261)	-
Total establishment funding from Crown	**4,262**	**4,750**
Represented by:		
Current portion of loan	1,261	-
Non-current portion of loan	3,001	4,750
Total establishment funding from Crown	**4,262**	**4,750**

The Crown expects the Authority to repay the full value of the Disciplinary Tribunal and the Authority's establishment funding over a five year period. The total value of funding advanced was $6.307 million.

The key assumptions in determining the fair value on initial recognition and subsequent value at amortised cost is the discount rate and repayment plan. If the discount rate had decreased by 1% with all other variables remaining constant then the carrying value would increase by $86,000 (2011: increase by $155,000)

The terms of repayment agreed with the Ministry of Justice have been amended in the year ended 30 June 2012 and are now as follows:

- the first repayment of $1.261 million was made in May 2012
- annual repayments of $1.261 million will be made in April of each successive year until the loan is fully repaid in April 2016
- payments are subject to the Authority making an annual surplus, having a positive cash position and the ability to continue as a going-concern.

The Board consider it appropriate to continue to adopt the going concern basis in preparing these financial statements based on the following reasons:

- the Ministry of Justice will not call on the establishment funding beyond the Authority's ability to pay; and
- the repayment for the establishment funding has been agreed with the Ministry of Justice as per the Statement of Intent 2012/13 – 2015/16
- the Ministry of Justice will not request an accelerated repayment programme without first agreeing the terms with the Authority.

19. Public equity

The Authority has a negative equity balance of $1.353 million, as a result of retained earnings deficit of $4.696 million carried forward from 2010/11. The negative equity arose due to the significant setup costs when the Authority was first established in 2009/10. Setup of the Authority was funded by a loan from the Crown and Crown capital funding. The Authority is working toward restoring its equity through generating annual operating surpluses and is on target to achieve a positive equity balance by 2013/14, while at the same time maintaining a sufficient cash balance to enable it to meet its commitments including the establishment funding repayment to the Crown.

20. Net cash flows from operating activities

Reconciliation of Statement of Comprehensive Income surplus with net cash flow from operating activities.

	Actual 2012 $000	Actual 2011 $000
Net surplus for the period	**1,015**	**237**
Non-cash items:		
Depreciation	116	112
Amortisation	473	864
Gain on sale	-	(5)
Prior year capital work in progress expensed	-	32
Fair value imputed loan interest	285	(587)
Interest on establishment funding from Crown	488	440
	1,362	**856**
Movements in working capital items		
Trade debtors, other receivables and prepayments	455	(608)
Movements in inventory	(5)	(29)
GST receivable	31	113
Rent rebate received	(46)	(46)
Trade creditors, other payables and provisions	94	(1,468)
Deferred operating revenue	(200)	1,614
Employee entitlements	36	44
	365	(380)
Net cash flows from operating activities	**2,742**	**713**

21. Financial risk management objectives

The Authority does not enter into or trade financial instruments for speculative purposes. The Authority'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. The Authority is exposed to cash flow interest rate risk as it has cash on call at floating interest rates. The Authority manages its interest risk by investing in on-call and short term deposits of less than one year with highly graded financial institutions (AA or above). The Authority's interest rate risk is limited as the interest rate on investments is fixed and investment terms are less than one year.

	Weighted average effective interest rate %	Variable interest rate bearing	Non-interest bearing	Total
		$000	$000	$000
2012				
Financial assets				
Cash and cash equivalents				
- Cash at bank	*1.65*	598	-	**598**
- Call account	*3.10*	5,352	-	**5,352**
Investments - term deposits				
- UDC term deposit	*4.40*	2,066	-	**2,066**
- UDC term deposit	*4.50*	1,015	-	**1,015**
Total financial assets	-	**9,031**	**-**	**9,031**
Financial liabilities				
Establishment funding	*8.0*	-	4,262	**4,262**
Total financial liabilities	-	-	**4,262**	**4,262**
2011				
Financial assets				
Cash and cash equivalents				
- Cash at bank	*1.65*	726	-	**726**
- Call account	*3.10*	2,150	-	**2,150**
Investments - term deposits				
- Westpac term deposit	*3.60*	2,700	-	**2,700**
- UDC term deposit	*4.40*	2,000	-	**2,000**
Total financial assets	-	**7,576**	**-**	**7,576**
Financial liabilities				
Establishment funding	*7.5*	-	4,750	**4,750**
Total financial liabilities	-	-	**4,750**	**4,750**

The effective interest rate used for calculating the fair value interest charge for the establishment funding is the same as the interest rate applied to the Crown capital funding (8%), (2011:7.5%).

Credit risk management

Credit risk is the risk a third party will default on its obligation to the Authority, causing the Authority to incur a loss. Financial instruments that potentially subject the entity to credit risk principally consist of bank balances. The Authority very rarely extends credit, and deposits its cash with Westpac. Westpac and UDC are both rated as AA institutions under Standard and Poor's investment grading criteria.

Maximum exposures to credit risk at reporting date are:

Maximum exposures to credit risk	**Actual 2012 $000**	**Actual 2011 $000**
Cash and cash equivalents	5,950	2,876
Investments - term deposits	3,081	4,700
Debtors	117	534
Total	**9,148**	**8,110**

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.

The following table shows debtors that are past due but are not impaired

	Actual 2012 $000	**Actual 2011 $000**
Current	-	28
0-30 Days	15	172
31-60 Days	4	500
61 and over	56	19
Total	**75**	**719**

Fair value of financial instruments

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

The establishment funding is carried at fair value in the Statement of Financial Position. The establishment funding is classified within level 3 of the fair value hierarchy. Level 3 are valuation techniques with significant non-observable inputs. Refer to note 18 for the reconciliation and sensitivity analysis.

Liquidity risk

Liquidity risk is the risk the Authority 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. The Authority aims to maintain flexibility in funding by keeping committed credit lines available.

All of the Authority's commitments owing at balance date, comprising creditors, provisions and accruals, have a contractual maturity of less than six months. The Authority has sufficient cash on hand to meet these commitments as they fall due.

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

Contractual cash-flows from financial liabilities	**Carrying amount**	**Contractual cash flows**	**Less than 6 months**	**6-12 months**	**Later than 1 year**
2012					
Creditors and other payables	667	667	667	-	-
Establishment funding	4,262	5,046	-	1,261	3,785
Total	**4,929**	**5,713**	**667**	**1,261**	**3,785**
2011					
Creditors and other payables	488	488	488	-	-
Establishment funding	4,750	6,307	-	-	6,307
Total	**5,238**	**6,795**	**488**	**-**	**6,307**

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. The Authority is not subject to currency risk as it does not participate in any such financial instruments.

22. Capital management

The Authority's capital is its equity comprised of accumulated funds and other reserves. Equity is represented by net assets.

The Authority 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. The Authority manages its equity as a by-product of prudently managing income, expenses, assets, liabilities, investments, and general financial dealings to ensure the Authority effectively achieves its objectives and purpose, whilst remaining a going concern.

23. Categories of financial assets and liabilities

	Loans and receivables $000	Financial liabilities measured at amortised cost $000	Financial liabilities at fair-value through profit and loss $000	Total carrying amount $000	Fair value $000
2012					
Current financial assets					
Cash and cash equivalents	5,950	-	-	5,950	**5,950**
Investments - term deposits	3,082	-	-	3,082	**3,082**
Debtors and other receivables	117	-	-	117	**117**
Total current financial assets	**9,149**	**-**	**-**	**9,149**	**9,149**
Total financial assets	**9,149**	**-**	**-**	**9,149**	**9,149**
Current financial liabilities					
Trade creditors and accruals	-	667	-	667	**667**
Total current financial liabilities	**-**	**667**		**667**	**667**
Term financial liabilities					
Establishment funding from Crown	-	-	4,262	4,262	**4,262**
Total term financial liabilities	**-**	**-**	**4,262**	**4,262**	**4,262**
Total financial liabilities	**-**	**667**	**4,262**	**4,929**	**4,929**
2011					
Current financial assets					
Cash and cash equivalents	2,876	-	-	2,876	**2,876**
Investments - term deposits	4,700	-	-	4,700	**4,700**
Debtors and other receivables	534	-	-	534	**534**
Total current financial assets	**8,110**	**-**	**-**	**8,110**	**8,110**
Total financial assets	**8,110**	**-**	**-**	**8,110**	**8,110**
Current financial liabilities					
Trade creditors and accruals	-	488	-	488	**488**
Total current financial liabilities	**-**	**488**	**-**	**488**	**488**
Term financial liabilities					
Establishment funding from Crown	-	-	4,750	4,750	**4,750**
Total term financial liabilities	**-**	**-**	**4,750**	**4,750**	**4,750**
Total financial liabilities	**-**	**488**	**4,750**	**5,238**	**5,238**

24. Related party transactions

The Authority is a wholly-owned Crown entity. The Authority 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 the Authority, and the transactions are at arm's length, related party disclosures have not been made.

During the year ended 30 June 2010, the Authority received an interest free loan of $6.307 million from the Crown. The outstanding balance of this loan as at 30 June 2012 is $4.262 million and the details of the loan are included in note 19.

The Authority paid $166,000 (2011: $156,000) of interest on capital funding from the Crown.

During the year the Authority collected $423,000 (2011 $458,000) 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.

25. Key management personnel compensation

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

	Actual 2012 $000	Actual 2011 $000
Short term employee and termination benefits	377	421
Post-employment benefits	2	4
Total key management personnel compensation	**379**	**425**

Short term employee benefits include salary, annual leave and board fees.

26. 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:

	Actual 2012 $000	Actual 2011 $000
Remuneration range		
$100,000 - $109,999	4	1
$110,000 - $119,999	3	4
$120,000 - $129,999	-	-
$130,000 - $139,999	1	1
$140,000 - $149,999	-	1
$150,000 - $159,999	2	1
Total employees	**10**	**8**

27. Commitments

(i) Capital commitments

There are no capital commitments at reporting date.

(ii) Operating lease commitments

Commitments for non-cancellable operating leases are as follows:

	Actual 2012 $000	Actual 2011 $000
Less than one year	311	310
Later than one year and not later than five years	15	326
Later than five years	-	-
Total operating lease commitments	**326**	**636**

The operating lease commitments are largely for the lease of level 2 Deloitte House, 10 Brandon Street, Wellington. The lease term is for six years, with a right of renewal on 1 July 2013, at the current market rental. The Authority does not have the option to purchase the leased asset at the expiry of the lease period.

(iii) Other commitments

The Authority has made the following other commitments:

- An agreement with Datacom Ltd to provide support of the Authority's physical network and software systems. This agreement expires in June 2013 and is charged at $26,000 per month.

28. Contingent liabilities

There are no contingent liabilities at reporting date, (2011:$nil)

29. Subsequent events

There are no events subsequent to the reporting date the Authority is aware of that would have a material impact on the financial statements for the year ended 30 June 2012.

30. Significant budget variances

Budget values are sourced from the forecast financial statements shown in the Authority's SOI 2011-14.

Explanations of significant budget variances are provided as follows:

Statement of comprehensive income

Revenue

Suspension fees: Actual volume of voluntarily suspended licenses at 30 June 2012 was 3,584, which is 2,790 more than forecast; accordingly fee revenue from suspensions is $245,000 more than the $76,000 budget.

Other Income: At the time the budget was prepared the Authority had not completed its investment plan. Accordingly interest was estimated at only $50,000, and actual interest earned was $223,000 more than budget. Fines and approved guide revenue has also exceeded forecast assumptions by $181,000.

Expenditure

Finance Costs

Fair-value interest expense has been adjusted to account for the early repayment of the Authority's establishment funding. This resulted in a fair value adjustment of $285,000.

Depreciation and amortisation

Under the original budget it was assumed that the Authority's Core Business Systems Upgrade project would be complete by 1 December 2011 at a cost of $1 million in the 2011/12 FY. Capital spend on the project has been delayed and by year end had only reached $103,000. Actual amortisation expense is accordingly lower.

Specialist services

Budget for bank, merchant service and payroll processing fees were originally included under computer and telecommunications costs, these costs are now recorded under specialist services however the equivalent budget has not been transferred. This accounts for $120,000 of the variance.

As the build phase was expected to commence in the 2010/11 FY operating expenditure costs associated with the Authority's Core Business System Upgrade Project were also not included in the 2011/12 budget.

With the adoption of its new operating model the Authority has incurred $120,000 of consultancy costs in changing its business processes and adopting a "systems thinking" methodology. The original allowance in the budget for this charge was only $60,000.

Legal fees

Legal fees are overspent mainly due to the unanticipated number of appeals to the Real Estate Agents Disciplinary Tribunal (the Tribunal). Since 1 July 2011, 82 appeals were lodged with the Tribunal. The budget estimate was based on a maximum of 50 for the entire financial year.

Total costs for the Tribunal appeals have reached $422,000 against a budget of $180,000. The following table demonstrates total legal spend against budget for each of the legal fee cost categories.

Table 8: Year to date legal spend against budget

Legal Fees ($000)	Actual 2011/12	Budget 2011/12	Variance
CAC appeals to READT	422	180	**(242)**
Legal advisory services	177	89	**(88)**
READT prosecutions	273	186	**(87)**
High court appeals	78	43	**(35)**
Licensing reviews	20	50	**30**
Trust account audits	4	39	**35**
Prosecution for offences	21	58	**37**
Legal contingency	-	65	**65**
TOTAL	**995**	**710**	**(285)**

Board and CAC fees

Board fees have been adjusted for an over-accrual in the 2010/11 FY and were also overestimated at the time the budget was prepared. Complaints Assessment Committee (CAC) fees vary on the value of time charged by CAC members every month. Fewer hours have been charged by CAC members than anticipated throughout the year. This reflects the reduced workload for CAC's following the introduction of the Authority's new operating model on 1 July 2011.

Printing, stationery and postage

Under-spend in this area is a result of a rebate received for overcharges on photocopier use, incurred in 2011, combined with lower than expected postage costs for mail-outs to licensees now carried-out electronically.

Travel, meetings and entertainment

Costs of travelling for investigators, expert witnesses and Tribunal hearings have been lower than anticipated and actively managed to a minimum.

Statement of financial position

Intangible assets

The project to deliver the Authority's new licensing and compliance database was originally expected to be complete by June 2012, this project has been rescheduled and the intangible assets to be created from it have been delayed accordingly.

Establishment funding from Crown

The first repayment of establishment funding was originally scheduled for April 2013 and was for $500,000. This was brought forward to May 2012 and increased to $1.2 million.

Statement of cash flows

Purchase of intangible assets

The project to deliver the Authority's new licensing and compliance database was originally expected to be complete by June 2012, this project has been rescheduled and the cash flows for the purchase of intangible assets have been delayed accordingly.

Investment in term deposits

The Authority had not yet developed its investment plan at the time the budget was set, so no cashflows from investments were included in the budget.

Repayment of establishment funding to Crown

The first repayment of establishment funding was originally scheduled for April 2013 and was for $500,000. This was brought forward to May 2012 and increased to $1.2 million.

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