



# Message to Licensees



The Real Estate Agents Authority has sought comments from real estate licensees, consumers and others with an interest in the industry on proposed levies to apply from 1 January 2011. As part of this process, the Authority has made information available through its website at [reaa.govt.nz](http://reaa.govt.nz) which includes:

- a copy of material being presented in three consultation briefings being held in Auckland, Wellington and Christchurch
- a submission form with instructions for anyone wishing to make a submission
- a link to the Authority's Statement of Intent 2010 - 2013, tabled in July this year.

The Authority made this information available on Monday 11 October and will continue to accept submissions from interested parties through to 31 October.

The Real Estate Institute of New Zealand has raised a number of important questions, this was the intention of the consultation process from the outset. However, REINZ has made a number of errors when they have been communicating with you which we would like to correct. We have responded to them directly and are providing this information to you to ensure you are as well informed as possible.

## **More than Double Income - Not True**

REINZ has said that the Authority's income will more than double from \$2.825m to \$6.630m when comparing actual income to 30 June 2010, with forecast income to 30 June 2011. This is not correct.

Here's why:

1. The bulk of the Authority's income is received when licensees renew their licences leading up to March each year. Because the financial year ends in June, only 25% of the income the Authority receives is recognised in the financial year in which it is paid. The rest of that income has to be deferred to the subsequent financial year.
2. The Authority undertook a cost analysis very early in the development of its Business Plan and reduced costs to the level shown in the Statement of Intent. The Authority had initially estimated a levy of \$928 per licensee would be required to recover from its first year deficit in its second year of operation.

At this time, the Authority believes \$928 per licensee to be too high. By reducing the proposed levy by nearly \$200, to \$760, the Authority will take three years to recover from its first year operating deficit, instead of one.

## Massive Reductions in Complaints - Not True

REINZ has said that the average number of complaints being received by the Authority has reduced from 55 per week to 14 per week. This is not correct

Here is why:

1. In the week of 12 March 2010, the Authority received 55 complaints about licensee conduct.
2. On average, since 17 November 2009, the Authority has steadily received about 14 complaints about licensee conduct per week.
3. The Authority considers this number to be stabilising and it is consistent across the entire time we have been operating.

## Grant Thornton Analysis - Misleading

REINZ has said the analysis provided by Grant Thornton shows that the Authority's complaints process has cost \$9,297.63 per complaint and that it is forecast to cost \$6,490.38. This is not correct.

Here's why:

1. Grant Thornton has been asked to analyse costs based on the proposed \$760 levy. The levy includes \$33 per licensee which the Authority forwards to the Ministry of Justice to pay for costs arising from proceedings of the Real Estate Disciplinary Tribunal and \$75 per licensee which the Authority ring-fences to pay the Ministry of Justice for the costs of setting up the Authority and the Disciplinary Tribunal.

The Levy not only pays for the complaints management process, but also pays for the licensing regime and the operational costs of the Authority to keep the system running.

The Authority's Statement of Intent details output costs of \$10.9m for the year, including Capital Expenditure. Of this, \$3.7m is allocated to the complaints process, while a further \$2.5m has been allocated to the investigation and prosecution of those complaints.

The cost of managing 1040 complaints is forecast to cost \$3,600 per complaint. Of those 1040, the Authority anticipates needing to investigate 90% or 936 at an additional cost of \$2,700 per investigation, the decision to investigate a complaint is a decision made by a Complaints Assessment Committee, not the Authority.

This compares with the report from Grant Thornton estimating costs of \$9,297.63.

2. Comparisons to the previous year are also misleading. When the Authority was established by the Ministry of Justice, it was not known how many licensees would renew their licence and in fact, far fewer did than expected. This lowered the income expected. Against that, the Ministry of Justice forecast that only about 50% of complaints would be investigated at the direction of Complaints Assessment Committees, in fact, that figure was closer to 90%.

This meant income was much lower than expected, the volume of investigations work is much higher and we still have to ensure that funding is handed to the Ministry of Justice for the Disciplinary Tribunal and the Costs of setting up the new regime.

3. Comparisons to other organisations is misleading. Uniquely, the Authority must receive any complaint that meets requirements in regulations, having done that, they must then be referred to a Complaints Assessment Committee.
4. None of the organisations against which the Authority is compared must manage licensing, complaints and support services to their independent complaints body. Or they have only reported the complaint component of the levy, rather than the full levy charged to licensees - such as with the Plumber, Gasfitters and Drainlayers Board.

### **System Overloading - Not True**

The Authority was alarmed to hear that according to REINZ, our system had been overloaded as a result of the number of submissions being received. This is not correct.

The Authority's system and submission management process are and have been working just fine. So far, just over 2000 submissions have been received from licensees, consumers and others interested in the real estate industry. Those submissions have been counted and filed and we have already been able to undertake some initial analysis.

We encourage licensees and consumers to put in a submission and don't believe that any barriers should be put in your way to making a submission to us. If you are having difficulty, please visit [reaa.govt.nz](http://reaa.govt.nz) where you will find all the information you need on making a full submission.

### **Thank You**

Having received just over 2,000 submissions so far, we are heartened in the growing interest in our work being shown. Since replacing the previous industry-based complaints and disciplinary system, the Authority has been transparent about the costs of operating a new, independent and consumer focussed regulatory regime.

We remain committed to keeping any costs increase to the industry sustainably low. The forecast increase in costs reflects the high number of complaints, the amount of work required to manage them and the requirements of the legislation. We are confident we have the balance right.

The Authority's first priority is making sure that consumers are protected and well-informed in what for most, is the most significant purchase they will ever make.

Margaret Steel

Chief Executive

Real Estate Agents Authority

visit: [reaa.govt.nz](http://reaa.govt.nz)

