



# Ending community sector dependence on pokie funding

White Paper

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## ABOUT THIS PAPER

PGF Group, Hāpai Te Hauora and the Salvation Army have long been concerned at the reliance many community groups have on grants from pokie trusts or societies to underpin their operations.

Many of these groups share our concerns because of the ethical dilemma it poses for them. The services that these organisations provide are largely essential to many people and they deserve to have certainty and sustainability in their funding providers. The current system of funding from pokies does not provide that surety, relying on a small group of people in our poorer communities putting money into the machines.

A number of important community social services and sporting groups rely on community funding and know that in doing so the money is often coming from the very whānau and communities they are trying to support into wellbeing.

The COVID-19 Level 4 lockdown and the consequent closure of hospitality businesses has starkly highlighted the dependency of community organisations on grants from pokie machine losses in the Class 4 gambling sector.

There is no better time to look at reforming this system for funding community services to give more direction and certainty in a whole of community approach.

At this time, the system needs to be substantially supported. We believe there should be a publicly funded continuation of grant distribution for a year from the time of the beginning of the alert level 4 lockdown and there are a number of ways this could be done.



## EXECUTIVE SUMMARY

- From losses of \$939 million in pokie machines in pubs, clubs and TABs in 2019, a total of \$241 million was paid out in grants to community and sports groups

Community	\$122,224,627
Sports	\$119,032,220
<b>Total</b>	<b>\$241,256,847</b>

- Four of those groups received \$1 million in one year. The top 10 recipients in the calendar year 2019 are listed in the table below.

Community	
Supreme Sikh Council of New Zealand	\$4,241,691
New Zealand Flying Doctor Trust	\$2,513,000
Canterbury West Coast Air Rescue Trust	\$1,952,267
Bruce Pulman Park Trust 2018	\$1,947,789

Sports	
Auckland Rugby Union Inc.	\$1,520,000
Waikato Rugby Union	\$897,427
NZ Metropolitan Trotting Club	\$747,677
Bay of Plenty Rugby Union	\$707,914
Auckland City FC	\$639,213

- Problem gamblers contribute between 30% - 60% of the amount paid out in community grants meaning that problem gamblers either lose the amount equal to grants or considerably more: \$282m, \$376m or \$563m.

- Grants in 2019 totalled \$289 million.
- Fifty percent of the 15,476 machines (7,700) are in the most deprived communities (Decile 8-10).
- It is estimated that community groups and services would need up to approximately \$60 million to continue uninterrupted services to their communities and the wider public, for six months.
- It is estimated that sports groups would need about \$60 million to continue uninterrupted services to their respective disciplines for six months.
- However, government may want to review the larger Unions' needs in relation to measures they are taking themselves to manage the impact of COVID-19 level 4 and beyond.
- If pokie machine losses were replaced with a government grants programme, four things would be achieved:
  - Community and sports funding would be secured so services can continue to be delivered where they are needed.
  - Losses from the most deprived communities would stop being diverted to national public programmes and national sports interests.
  - Transparency about who gets what money and what it is used for would be provided.
  - Time would be provided to review the whole programme and manage the reintroduction of pokie machines in ways that did not exacerbate gambling harm and is manageable as the COVID-19 levels of lockdown are worked through.

# THE POKIE SYSTEM

Trusts and Societies were created to collect gambling proceeds and distribute grants. Together with clubs they make up the Class 4 gambling sector.

There are currently 34 Trusts and Societies holding licenses for the 15,470 Class 4 pokie machines. It should be noted that this excludes the 3078 pokies in casinos and casinos are sited as the largest contributor to problem gambling for the Asian community. A Trust or Society may be based in one location but will have their machines in venues across New Zealand.

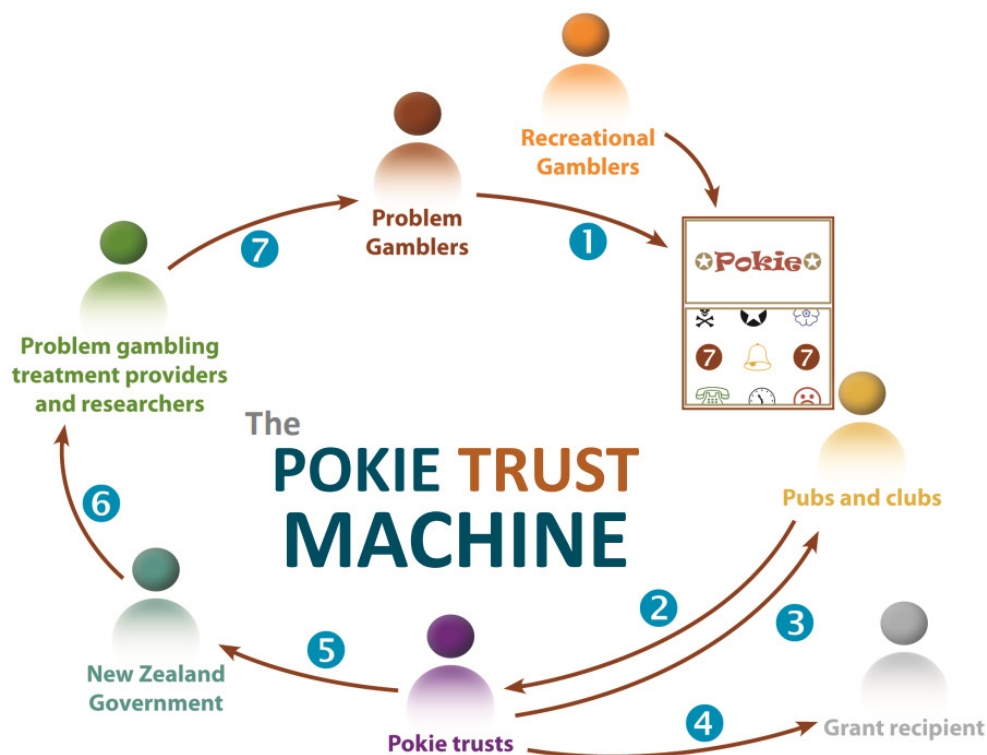
In the 2019 calendar year, Class 4 Trusts and Societies had a surplus of \$124 million<sup>1</sup> to run their operations which largely incur processing, management and machine replacement and maintenance costs.

There are 205 clubs with 2,702 machines reported in Department of Internal Affairs (DIA) gambling statistics who retain all gambling proceeds for the purposes of the club.

At Territorial Local Authority (TLA) gambling policy reviews, the Class 4 sector are well heard and often with legal representation. They are also supported by groups who receive funding in the form of grants. The voice heard the least is that of the problem gambler and their family and community.

There is also significant risk of self-interest and inequity in the system when the Boards of the Trusts and Societies are self-appointed and only accountable to themselves when deciding which groups do and do not receive the proceeds of pokie losses.

<sup>1</sup> Calculated using 40% of ex GST losses for the grants distributed and 16% of the ex GST losses for the venue payment



## WHERE IS THE MONEY COMING FROM?

In the 2019 calendar year, \$939 million (GST inc.) was lost in pokie machines in pubs, clubs and TABs (Class 4 gambling).

Only 1.3% of New Zealanders regularly use pub pokie machines<sup>1</sup>, and 50% of the 15,476 machines (7,700) are in the most deprived communities (decile 8-10). It is therefore reasonable to conclude that the majority of the money being paid out by Trusts and Societies to community groups is coming from the poorest New Zealanders.

There are a range of estimates on how much of pokie machine expenditure comes from problem gamblers, outlined in the table at Appendix 1. The rate of losses from problem gamblers is at best equal, but most likely exceeds the amount paid out in community grants that go back to the families and communities who lost the \$939 million in 2019.

At whatever percentage, it is evident that community grants come from a small number of people who cannot afford this level of losses and even less so now with the impacts of COVID-19.

We think there should be a publicly funded continuation of the Class 4 system payments for a year from the time of the beginning of the level 4 lockdown. This could be done in a number of ways, but services should get a roll-over to take them through this transition.

In doing so, groups can continue to support communities of interest or specific communities and provide wider population needs where for some time, there will likely be more not less demand.

The DIA estimate that 30% of Electronic Gaming Machine (EGM) expenditure is from problem and moderate risk-gamblers (2016). This is based on self-reported expenditure from National Gambling Study (NGS) participants. Self-reported EGM (pokie) gambling expenditure has historically been shown to be inaccurate.

Published sections of the NGS have already warned that self-reported expenditure does not often correspond to actual expenditure, especially for EGM gamblers<sup>2</sup>. The NGS self-reported EGM expenditure estimates for Class 4 gambling were \$296m in 2012, \$193m in 2013, and \$157m in 2014; the actual expenditure recorded by the DIA was \$854m, \$826m, and \$808m, respectively<sup>3</sup>. Similarly, an Australian study found respondents in the ACT reported an expenditure that was 45% of their actual spend<sup>4</sup>.

A NZ study relating time and money spent gambling with quality of life measurements noted that their use of self-reported expenditure data likely underestimated losses, and their results would have been stronger if they had an objective way to measure expenditure<sup>5</sup>. Whatever estimate is applied, it is problem gamblers who support the community funding scheme and many of the recipients perform necessary and valuable services to the community and the public of New Zealand.

1 Health Promotion Agency (HPA) 2018. *Kupe 2016: Health and Lifestyles Survey [data file]*. Retrieved from <http://kupe.hpa.org.nz/>

2 Abbott, Bellringer, Garrett, & Mundy-McPherson, 2014, pp. 140–141; Bellringer, Garrett, Kolandai-Matchett, & Abbott, 2015

3 Bellringer et al., 2015, p. 72

4 Australian Institute for Gambling Research, 2001

5 Lin et al., 2010

## THE FUNDING MODEL

The money lost on pokie machines is called Gross Machine Proceeds (GMP). GMP is the amount wagered, less the amount paid back as prizes. The money collected is applied in a complex model before it can be distributed in grants.

**Venue Payments** A Trust can pay up to 1.28% of the venue's turnover that week to a venue as commission, meaning higher earning venues can be paid proportionately more.

Prior to 2016, venues were paid on a fixed rate. Payments to all venues across the financial year must still not exceed 16% of losses for that year.

**Problem gambling levy** The levy is 0.78% of GMP and funds treatment services, public health and research.

**Trust Operating Costs** These must be kept as low as possible and only used for "reasonable" costs. The true proportion will be unique to each Trust based on their grant contributions etc. but estimated at 20%.

**Regulator fees** Fees are 3% and are paid to the Department of Internal Affairs.

**Gaming duty** Duty is 20% (paid to the Crown): Section 12C of the Gaming Duties Act 1971.

**Community grants** Grants must be 40% of GMP but Trusts can pay more.

The table at Appendix 2 details the source of GMP and the amount distributed in grants for the year ended December 2019. The Department of Internal Affairs publishes GMP figures quarterly.

## GRANT DISTRIBUTION

In the year to December 2019, a total of 13,000 organisations received approximately \$241 million in grants. PGF categorises grants into community services, community groups and sports groups.

Community services are classified as groups that provide paid and volunteer services. Community groups are classified as groups that service a discreet population and include faith-based groups but also include arts societies and some research groups.

Sports groups include everything from large Unions to local tennis clubs and children's sports. Grants are generally shared 50/50 between sports groups and community groups and services.

For grant recipients, many of which support laudable causes and communities, the Class 4 community funding programme represents revenue of between \$250 million to \$300 million per year. Few community recipients can see any alternative to meet their revenue needs.

### 2019 calendar year grants split

Community	\$122,224,627
Sports	\$119,032,220
<b>Total</b>	<b>\$241,256,847</b>



## CLASS 4 GRANTS FOR COMMUNITY SERVICES

The types of community groups that benefit from Class 4 funding include amateur dramatics, arts groups and recreational groups outside clubs.

It also includes health, mental health and social services groups, often working with vulnerable people and communities. Other groups might include groups like those involved in public-benefit research but who aren't providing any services, for example some medical researchers.

The community services which benefit from the community funding scheme are all services which the whole of the New Zealand public benefit from either directly or indirectly.

The existence of an ambulance service, for example, may not be used by each of us, but that it is there for those who do, is a benefit to all New Zealanders.

These groups of beneficiaries are more difficult to plan for because they are often small and are only known in their immediate communities.

A way of dealing with this is to provide more government support to the Community Organisation Grants Scheme (COGS). An alternative model is to utilise the regional community foundations.

Government guidance could be provided for the philanthropic sector on applications and criteria but recognising these programmes often service valuable niche and localised organisations. At current grant levels the funding programme would be about \$60 million per annum. Community group dependency is significant.

A categorised list of community funding recipients can be found at Appendix 3.

## CLASS 4 GRANTS FOR SPORT

Approximately \$140 million, or about half of the money raised through the Class 4 community funding scheme, goes to sports.

National sports bodies and community sports groups are now highly dependent on Class 4 gambling losses. This dependency, in terms of the history of New Zealand sport is relatively contemporary.

While there may be long standing relationships and "rollover" application processes in place between some sports groups and some Trusts or Societies, this is not the case for all. For some groups the annual and uncertain application cycle limits development.

A categorised list of sport funding recipients can be found at Appendix 4.



## IMPACT ON TAX COLLECTED

The benefits to government from gambling losses are made up of the:

- GST collected
- gaming machine duty and levy, providing problem gambling services and research
- community funding not demanded from Vote

The GST is a function of money spent and it seems very reasonable to assume that if the money spent on pokies in Class 4 was not spent there, it would be spent elsewhere, and with the possibility that a multiplier effect would see revenue to the government increased.

The gaming machine duty is an income/turnover tax proxy. As such, this may equal the amount of income tax the government

collects through businesses paying income tax on the level of income that would have been spent on pokies (ex GST). This approximation may overstate or understate the tax take by the government from taxable business activity.

A multiplier effect may act in the government's favour in this regard if the money was going through non-pokie businesses. The levy is derived from gambling losses and is a function of the size of the problem. Gambling treatment services are not taxpayer funded.

Government dependency is not significant with opportunity money spent for the tax gathered from losses, to be spent on other consumables.

## COVID-19

The grants system on which valuable community services survive is based on the assumption that it is acceptable for a small proportion of New Zealanders living in the poorest communities to lose money in support of a national benefit. Many community groups would rather not take pokie funding to deliver their programmes but have no other option.

There is little transparency about the application process and who gets what grants. In addition, some Trusts and Societies are approving grants from proceeds of pokie losses gathered from areas outside of which the community group may be operating. The Class 4 funding system may be seen as a way to keep the hospitality industry afloat at the time of this pandemic. The Gambling Act (2003) prohibits venues operating as pokie dens (section 69A(e) and 70 (1) (i)).

As lockdown levels change and pubs are permitted to operate, the license conditions for pokie machines must be maintained and monitored. If a pub with pokies does not reopen, then the machines cannot be moved to another location if the TLA gambling policy prohibits this. Nor can alternative venues increase their number of pokie machines, if the TLA policy precludes this.

Of note also is that gambling policy reviews are subject to TLA public consultation processes. As 50% of pokies are in the poorest areas in New Zealand and these areas are likely to be in need of significant COVID-19 income support for the foreseeable future, it would make sense to ensure that gambling harm is not further exacerbated, despite the need to support community and sports groups.

## AN INTERIM SOLUTION

Pubs and clubs face a long and uncertain future before revenue streams return. Even if pubs return to some normal operation it is likely that social distancing rules for various levels of lockdown may preclude some or all pokie machines operating in the same way.

Both limited patronage and the limited number of machines able to be used at any one time will impact on gambling losses. This is positive. However, it will also flow into less revenue for the community grants programme.

Most Trusts and Societies have suspended grants, effective from COVID-19 alert level 4 lockdown.

An interim solution is for the Government to directly fund current community and sports grant recipients as part of its COVID-19 support packages. This could be done for a six month period while the whole programme is reviewed.

It is estimated that community groups and services would need up to about \$60 million to continue uninterrupted services to their community groups and wider public, for six months. This will cover the period of level 4 lockdown through to September 2020.

It is estimated that sports groups would need about \$60 million to continue uninterrupted services to their respective disciplines for six months. However, government may want to review the larger Unions' needs in relation to measures they are taking themselves to manage the impact of COVID-19 Level 4 and beyond.

If pokie machine losses were replaced with a government grants programme several things would be achieved.

Firstly, community and sports funding would be secured so services can continue to be delivered.

Secondly, there would be transparency about who gets what money and what it is used for. This does not mean that funding would only go to approved government projects but does mean there can be some equity oversight.

Importantly, losses from the most deprived communities would stop being diverted to national interests.

Finally, this will provide time to review the whole programme and manage the reintroduction of pokie machines in ways that does not exacerbate gambling harm and is manageable as the COVID-19 levels of lockdown are worked through.

## ABOUT THE AUTHORS

### **PGF Group**

The Problem Gambling Foundation is now trading as PGF Group, with Asian Family Services, Mapu Maia Pasifika Service, and PGF Services, part of this overarching brand. The organisation is a Charitable Trust operating nationally with services delivered under contract to the Ministry of Health (MoH) and funded from the gambling levy.

Established in 1988 as the Compulsive Gambling Society, the organisation started out as a telephone service then expanded to include face-to-face services as demand grew. In 2001, the Problem Gambling Foundation succeeded the Compulsive Gambling Society and today, we deliver treatment and public health services nationwide. We have a skilled and diverse workforce with staff who are qualified in clinical work and in health promotion.

PGF Services provide free counselling, advice and support to gamblers and their families and work to ensure that support for our Māori clients fits a kaupapa Māori way of working. Our specialist teams provide culturally and linguistically appropriate support to Asian and Pasifika communities living in New Zealand.

### **Hāpai Te Hauora**

In 1996, Hāpai Te Hauora Tapui Ltd (Hāpai) was established as a regional provider of Māori public health services in the greater Auckland region. Hāpai was created from a tripartite Memorandum of Understanding between Te Rūnānga o Ngāti Whātua, Raukura Hauora o Tainui and Te Whānau o Waipareira Trust Board. The subsequent arrangement provided an integrated and collaborative entity that cemented regional Maori public health services in one place for Tāmaki Makaurau.

The mission and vision of Hāpai is to increase opportunities for Māori to enjoy good health and to be sustained by healthy environments. This is done by providing a strategic focus that is underpinned by our values, evidence based research, innovation and leadership for the advancement of health and well-being for all. Work is undertaken regionally and nationally to address health inequities and provide strategic solutions for long term outcomes across all areas of well-being.

### **The Salvation Army Oasis**

For over two decades, The Salvation Army has provided help to those impacted by harmful gambling. The Salvation Army Oasis was formally established in June 1997 in Auckland in response to growing evidence that the proliferation of gambling opportunities was having a negative impact on society. Prior to this in 1992 and 1995, services to support gamblers were established in Wellington and then Christchurch after the opening of the Christchurch casino. Consequently, the Army's reducing gambling harm services have expanded to seven regions across New Zealand.

We are funded by the Ministry of Health to provide preventing and minimising gambling harm clinical and public health services. We have a diverse team of professional and clinically qualified and registered counsellors and public health practitioners. Our team support and encourage wellbeing and reduce gambling harm through education, self-reflection and creative and research based therapies. Public health workers provide accurate information and education to raise awareness and support community and professional groups, services and Government to be free from gambling harm.

## APPENDICES

### Appendix 1: Problem gambler contribution to annual GMP

Rate of problem gambler contribution to losses	2019 Losses	2019 Grants	Contribution from problem gamblers
30% Department of Internal Affairs	\$939 million	\$289 million	\$282 million
40% Australian Productivity Commission minimum	\$939 million	\$289 million	\$376 million
60% Australian Productivity Commission maximum	\$939 million	\$289 million	\$563 million

### Appendix 2: 2019 GMP Sources and Distribution of Grants

2019 Calendar Year	\$ Millions	Non-club Class 4 operating payments
Class 4 losses	929	
Club losses	98	
Non-club losses	831	
GST on non-club losses	108	
Non-club losses less GST	723	
Machinhe duty (23%)	166	
Non-club tax paid losses	556	
Grants (40% ex GST losses)		289
Venue payments (16% ex GST losses)		116
Levy (0.78% ex GST losses)		6
Fees (3% ex GST losses)		22
Total gambling society operating payments	432	432
Gambling society surplus to run the trust	124	
Percentage of ex GST paid losses available to trust	17%	

### Appendix 3: 2019 Community Services and Community Groups sub-categories

Community groups	\$37,838,195
Education	\$23,466,718
Arts	\$12,952,443
Health related	\$10,446,792
Community services	\$10,420,915
Faith based	\$6,819,355
Search and Rescue (excluding surf clubs)	\$6,656,072
Māori	\$5,092,069
Kindergartens/Childcare/Plunket	\$2,452,638
Ambulance services	\$2,401,716
Council	\$1,516,343
Fire Services	\$748,819
<b>Total</b>	<b>\$120,812,075</b>

### Appendix 4: 2019 Sport Groups sub-categories

Rugby	\$19,982,236
Other sports	\$19,861,454
Soccer	\$11,295,064
Cricket	\$8,908,166
Water sports	\$8,046,758
Racquets	\$6,012,940
Sports stadiums/academies/events centres	\$5,478,896
Hockey	\$4,757,123
Basketball	\$4,743,441
Netball	\$4,524,828
Surf lifesaving clubs	\$4,438,863
Bowling	\$3,431,502
League	\$3,179,766
Racing	\$2,861,218
Cycling	\$2,695,279
Special Olympics/sports for the disabled	\$2,433,512
Gym sports	\$2,341,199
Softball	\$1,766,541
Athletics	\$1,412,553
Equestrian/pony clubs	\$1,303,274
Motorsports	\$970,161
<b>Total</b>	<b>\$120,444,774</b>