Distribution of grants from Gaming Machine (‘pokies’) Societies

An analysis of gaming machine funding in the Manukau Ward and Manurewa Local Board

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Overview

The purpose of this work was to gather more information from Class 4 societies and the not-for-profit community and charity groups about grant funding decisions. This report summarises the information received from Class 4 societies.

The Manukau Ward and Manurewa Local Board (the selected area) were chosen for analysis. Working collaboratively with the sector, the Department aimed to analyse grant allocations and any obstacles to delivering a high rate-of-return to the communities that generated the Gaming Machine Proceeds (GMP).

Summary of findings

Most societies that obtain GMP from the selected area have a localised returns policy with a desired percentage return. However, there was a significant variation in how these societies defined regional areas, with some indicating they gave grants to eligible applicants from just outside their territorial boundaries.

Most societies indicated they received sufficient applications from the selected area to meet their localised return targets. However, analysing grant requests received in 2012 reveals that the majority did not receive enough applications. This could suggest that community groups could benefit from improved information about where and how to apply for gaming machine grants.

The number and type of grant applications societies received from within the selected area varied significantly, with most societies requiring an increase in local applications (both in numbers and dollar terms), or an increase in applications from certain recipient types, for example, sporting groups. All societies were aware of some groups not applying for Class 4 grants on moral grounds, but did not consider this a significant factor affecting overall application numbers.

Transparency issues were a factor in determining the exact amount of funds that a geographical region received (as societies experienced difficulties in assigning particular grants to a specific area), and that grant reporting practices did not reveal whether an organisation’s funding application had been fully or only partially accepted.

The quality of applications was indicated as the predominant issue in returning funds to the selected area. This covered several areas, from applicants applying for funds that did not align with a society’s authorised purpose, to applicants not providing all the necessary information requested.

Societies outlined a number of activities they conducted to better educate community organisations about the grants process. They also raised concerns about the extent to which they were able to do so.

1 Not exclusive to all societies.
2 Authorised purpose includes a charitable purpose, a non-commercial purpose that is beneficial to the whole or a section of the community and promoting, controlling, and conducting race meetings including payment of stakes.
Introduction

Gaming machine societies in the Class 4 gaming sector\(^3\) are responsible for distributing the Gaming Machine Proceeds (GMP) generated from their machines.

The Department’s analysis shows that in 2012, a total of $64.1 million was extracted by Class 4 non-club societies in the selected area. The return through gaming grants during this period totalled $8.93 million.\(^4\)

This report outlines:

- societies’ policies for distributing grants to the local area
- how societies define geographical areas for grant distribution
- any challenges societies face in distributing grants back to the selected area, and
- any opportunities, from a society perspective, to increase funding returns to the selected area.

Most of these findings are aggregated as high level themes rather than focusing on each society’s practices.

Along with the document ‘Applying for Grants from Gambling (‘pokies’) Societies 2013: A Survey of Community and Charity Organisations in the Manukau Ward and Manurewa Local Board’ this report provides the Department with an understanding of the gaming machine funding environment in the selected area.

By comparing information from community organisations and societies, the Department can draw conclusions that may provide opportunities to increase the rate of grants returned to the selected area through targeted initiatives.

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\(^3\) Gambling on electronic gaming machines hosted in pubs, hotels and clubs is referred to as Class 4 gambling. This analysis did not include gaming machine proceeds from clubs.

\(^4\) Data extracted from the old Territorial Licensing Authority of Manukau City.
Methodology

The Department engaged with all Class 4 societies that obtained GMP from the selected area for the 2012 and/or first quarter of the 2013 calendar year. This ensured a holistic approach, taking into account significant variation among societies. This variation included, but was not limited to, the number of venues aligned with societies in the selected area and the amount of GMP societies generated from the selected area, and the organisational structure and authorised purpose of each society.

Grant Donation Managers (or equivalent staff) from societies with venues in the selected area were invited to attend one of two workshops:

- Wellington – 21 October 2013

The workshop purpose was to gather information from a society perspective about the funding environment in the selected area. The workshops were an open forum; societies were asked a range of questions about their grant funding practices, both in general and specific to the selected area. Participants were also provided with opportunities to raise other observations or questions.

Following the workshops, participants were asked for the selected area’s grant data for the 2012 calendar year and the first quarter of 2013, as well as 10 standardised questions on grant practices.

Themes

The information gathered enabled the Department to examine the following themes about grant returns to the selected area. Some of these themes were also examined with community organisations through the community survey:

- localised returns policy
- defining regional areas for distributing grants
- visibility of societies among community organisations (do societies receive enough applications from this area to return a set percentage of grants?)
- whether the grants process has barriers for grant applicants
- lack of transparency regarding grant beneficiaries (determining which areas actually benefit from grants once they are issued and to what extent), and
- ethical issues where applicants do not wish to apply for ‘pokie’ money.

Other considerations emerged that were specific to societies, including:

- changes in grant funding practices, and
- the narrow authorised purpose of some societies.
Localised return policies

All societies that participated in this analysis supported the concept of localising returns.

Nine of the 15 societies (60 per cent) had a localised return policy. The desired return percentage for these societies varied from 70 per cent through to 100 per cent, with a median of 85 per cent. The return policies generally distinguish between local, regional and national grants. Some societies consistently exceeded or met their targets, according to their own records. For other societies the targets were aspirational, although they were confident they were generally on track to meet them.

The societies that did not have a localised return policy indicated that was due either to their specific authorised purpose, or because an informal localised return policy existed for their directors or grant decision makers.

Defining regional areas

There was significant variation in how societies defined regional areas.

Five respondents used the new Auckland City Council boundary, while three respondents used the old territorial boundary of Manukau City.

A minority of societies defined areas down to a specific ward or local board, while other societies issued grants to community organisations located within a certain radius of their venues.

Visibility of societies among community groups

Applications received

Most societies indicated in the workshops that they received sufficient applications (both numerically and in dollar terms) from the selected area to return their desired localised percentage. However, overall application numbers varied significantly among societies. Analysis of the 2012 grant data revealed that most societies did not receive enough applications as indicated by the monetary value of applications received against their GMP in the area.

Many societies allocated their grants proportionally by recipient type, (e.g. to community organisations that fall under specific categories such as education, sport, health etc). They sometimes needed to seek additional applicants from within a particular category. This funding practice could potentially see the rate of return to a particular area reduce if more applications for a specific recipient type were received from a neighbouring area. Alternatively, the problem could be addressed by increasing the ratio of funding given to national organisations.
Activities undertaken to increase visibility

Societies spoke in general terms about some of the activities they undertook to increase funding applications. However, these activities were not undertaken regularly in the selected area. The activities included:

- providing information on-line about available grants
- newspaper advertising of available funds, ranging from prominent publications to smaller, more targeted community newspapers
- holding a funding forum/grants’ road show to educate community groups about the process as well as raising the availability of the society’s available funds – particularly if a society was not receiving enough grant applications from a specific region
- participating in a funding forum held by another entity for example, local government councils, Sport Auckland
- approaching local councils about potential applicants in their area
- sending letters to local organisations advising them of available funding (how their distribution lists were developed was not canvassed), and
- staff (including at General Manager/Board level) visiting current and potential grant recipients.

Organisational structure

The organisational structure of individual societies could also impact on the number of grants received. Several societies (predominantly the larger ones) developed Regional Advisory Committees, or similar bodies, consisting of individuals with strong community networks in a particular region or regions. These bodies reinforced a society’s commitment to return funds locally, and gave societies a greater local presence. They also gave societies a better understanding of the impact their grants had in a particular community over time. These benefits need to be balanced with the additional cost of establishing such bodies.

Barriers for grant applicants

Poor quality applications (that were therefore declined or unable to be considered) emerged as one of the most significant challenges faced by societies in returning grants to the selected area. Most societies indicated that the majority of applications they received were not correct, fully completed or compliant. This could require the society to go back to applicants to clarify or request further information, or decline the applicant outright.
Some of the key problems associated with applications included:

- the grant request did not meet the society’s authorised purpose\(^5\)
- necessary documentation or information (including signatures) was not provided
- the organisation was not a charitable or incorporated group (a requirement as part of the society’s application process)
- the request was retrospective (so the money had already been spent)
- previous audit information had not been received or a refund had not been returned from the applicant, so the society was unwilling to consider issuing another grant
- the society believed there was a conflict of interest, and
- the society received information that the applicant had received funding from other sources.

Analysis of the declined data provided by societies also revealed the following common reasons for declining grants:

- insufficient funds
- the grant request was for an area of low priority (that is, not a priority of the Trust), and
- the application was from outside the area/there were no machines in the area.

**Activities undertaken to educate grant applicants**

Societies indicated they undertook a number of steps to educate applicants about the general process of applying for funds. These included:

- supplying funding information and requirements on their websites and/or grant application forms
- providing an 0800 customer service telephone number, and/or an email address where potential applicants could ask questions about the grants process
- referring applicants who did not meet the society’s authorised purpose (or were outside the geographical area to which the society returned funds) to other agencies where they could apply for funding; holding or participating in funding forums (as discussed in the visibility section), and
- increasingly moving to on-line applications that cannot be submitted until all the relevant information is provided.

\(^5\) Money can be granted to a specific authorised purpose if it is outlined in the society’s trust deed, or be allocated to a wide range of authorised purposes. For example a society set up solely for the development of amateur rugby in South Auckland may not lawfully allocate the proceeds from its gaming machines to any other purpose.
Although these problems occurred nationwide, most societies believed poor quality applications were more prevalent in the selected area. One anecdotal reason was that a high proportion of organisations had a low level of maturity, for example, they were not well-established from a fiscal or governance perspective and therefore did not have the capacity or experience to successfully apply for funding.

Societies also commented on variation among recipient types. A key group needing more assistance with the grants process in the Manukau area were applicants seeking funding for educational purposes. Sporting groups, however, generally produced good quality applications.

Analysis of the grants data for 2012 confirmed that a high proportion of approved applications were for groups with a sporting purpose. However, sporting groups represented a high proportion of all applications received, and therefore had a similarly high number of declined applications.

Societies indicated these issues could lead them to approving a greater proportion of grants to applicants who had previously been successful, and were known to comply with requirements. Although this streamlined the process for repeat grant applicants, societies acknowledged they did not want to create an expectation of uninterrupted funding for any particular organisation. Given limited funds, it could also decrease the likelihood of new grant applicants being successful.

**Resource capacity**

Most societies indicated that they wanted to do more to help educate community groups about the grants process; the key obstacle to conducting this work, they indicated, was lack of resource. Societies also commented on attempts to ensure that, in order to comply with the Gambling Act, any costs spent were actual, reasonable or necessary.

A lack of resource created the following obstacles for most of the societies:

- they were unable to carry out or attend educational activities such as funding forums as often as they would have liked
- applications that were significantly below the required criteria level were unable to be rectified and would therefore be rejected or declined, and
- societies unable to conduct the desired due diligence around organisations they might have concerns about (from a governance or fiscal perspective) were more likely to decline or reject the application outright.

Many respondents indicated they carried out educational activities (over and above responding to general queries) ‘when they could’.
Concerns over educational activities

There were two major concerns raised by societies over proactively educating community groups about the grants process:

- an immediate increase in grant applications that would exceed supply, and
- community organisations which had previously been assisted could acquire a false sense of expectation that their application would be approved.

Societies indicated that these two issues would need to be considered if any initiatives were launched to better educate community organisations about the grants process.

Opportunities for better education

Many societies felt there was an opportunity for the Department to play a greater role in facilitating funding forums or other educational activities (possibly in collaboration with other agencies). Societies believe such activity could include greater awareness of the requirements an organisation had to meet once it had received a grant. A common problem identified was when grant recipients requested funding for one activity but then spent the funds in another area, creating a compliance issue for the society.

There was general support for building capability within community organisations so that they were in a better position to apply for grant funding; the former Manukau City Council used to run sessions about this.

A further suggestion was for the Department to provide a resource kit that contains information on all societies’ funding practices.

Lack of transparency regarding grant beneficiaries

Geographical areas

Most societies agreed it was difficult to accurately determine the geographical area that grants would benefit, and that there was a degree of subjectivity in recording return percentages. The majority of societies reporting a set return rate, acknowledged that their actual rate in any given year could be a few percentage points above or below this mark.

An organisation’s physical location was generally considered the area that the grant would benefit. But for grants given to a wider regional or national body, most societies indicated they would consider what programmes or benefits that group would bring to local communities. Sometimes manual calculations were applied. For example, a grant to an organisation that supported all of Auckland might be considered to benefit the people of the selected area by a third. However, most societies indicated they did not have the ability to code this information easily, and to do so in future would be time-intensive or require new systems to manage their grants process.
The organisational structure of a society could also increase transparency over the areas that benefited from grants. Regional Advisory Committees, Net Proceed Committees or similar bodies whose composition included staff with local knowledge, helped societies determine a grant’s impact upon a specific community. Some societies indicated they were looking to increase their number of regional committees.

**Partial grants**

All the participating societies indicated that they counted a partial grant (where an applicant did not receive the full amount requested) as an approved grant. This, however, could create transparency issues over the extent to which community organisations benefitted from grant returns, as the amount requested by the community organisation was not displayed.

The predominant reasons outlined by societies for giving partial grants were:

- grant requests covered a number of requirements, some of which might not align with the society’s authorised purpose (and therefore could not be approved)
- societies did not want to create a ‘culture of dependency’ amongst community groups and needed to see evidence that the community group was financially viable
- the community organisation had not correctly taken account of GST
- the society might accept a lower value of quotes, and
- as part of their internal funding guidelines societies might try to be consistent with the amount of funding they gave for certain items or activities.

**Ethical Issues**

Societies were aware of potential grant applicants who would not apply for grants for ethical reasons. For example, a group concerned about problem gambling might refuse to apply for grant funding derived from pokie gambling. However, this was not considered a significant obstacle in receiving sufficient applications (and therefore returning funds to the selected area). A number of societies reported receiving grant applications for groups that represented religious interests.
Other considerations

Authorised purpose

A number of societies expressed concern that efforts to localise returns were negated by the narrow authorised purpose of some societies. Some societies stated that regions would struggle to get sufficient funds back if a high proportion of the venues in that region were owned by specific societies with a narrow authorised purpose. The predominant concern was the allocation of grants to the racing industry, with many societies expressing an opinion that the increase in the proportion of funds granted to this sector will continue.

Changes in grant practices

Many of the societies discussed how they had established funding parameters and principles that guided their funding decisions, and that these had changed over time. Examples discussed included changes to application criteria, such as some societies deciding to no longer fund salaries or overseas travel. Other changes included:

- societies encouraging recipients to apply for annual grants as opposed to more frequent applications
- asking recipients to prioritise the different activities they wanted funding for, and
- providing grants for areas that would provide a tangible impact (for example funding a public health programme but not funding health research).

Caveats

Not all societies which obtained GMP from the selected area participated in the information gathering exercise. This report reflects only the views of those that did participate. The response levels and amount of data provided also varied significantly; this affected the type of analysis able to be carried out. A number of the themes that emerged as part of the information gathering process were based on anecdotal comments that could not necessarily be verified. Information was not taken from society websites or submissions on the Class 4 regulatory proposals to support the themes outlined in this report.

The themes discussed were not indicative of any initiatives that were currently underway or being planned.

Some of the information obtained as part of the environmental scan was not included in the report if it did not relate directly to the themes discussed or was not prevalent among societies.

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