

## Class 4 sector submission

This submission is prepared by Bridget Frame, an independent consultant looking at the grant making ecosystem. I have had over fifteen years' experience in corporates, working in marketing and business management. I had a stint at a not for profit, and spent some three years at a community trust assessing applications post Christchurch earthquake.

I have seen a need for greater cohesion both in the grant making space, given the huge impact of grant makers on the funding of many community organisations, and in the community sector, where we now have over 50,000 Not for Profit entities. Indeed, I spoke at TedXCHCH in 2015, where I talked about where the funding comes from, where it goes and how it gets there. The supply of community funds, the demand for community funds, and the value chain on how it gets into the community, is where I believe significant change can be made: I personally believe there is enough funding within the grant ecosystem, and if NZ Inc can work on efficiency, then more money can be made available for effective organisations. By my reckoning, a 20% reduction in costs within the application chain (both for grant makers and those receiving grants) to help funds get into the community will increase the total funding pool by just over \$50m.

The macro numbers referred to in my response are not just the numbers relating to Class 4 providers, rather they relate to the entire grant making ecosystem. A strategic response to Class 4 will need to take into account other funders.

I am not convinced that society is better off by having gaming machines as a source of community funding, however the reality is that they are in existence, they do provide a significant amount of funding into the community, so the onus is on the community to ensure they maximise return to the community.

I welcome this opportunity to contribute to the Class 4 review discussion. I am not representing any special interests looking to hold status quo, rather looking at the whole ecosystem around this space.

## Legislative restrictions on the class 4 sector

**Given the changes in the sector since 2003, are the purposes of the Gambling Act still fit-for-purpose?**

I am not that familiar with the Act. The consequences of decision making can have some very large repercussions on NFP organisations. There is also huge potential for “boys club” decisions. There needs to be strong management, and scrutiny, of the sector.

**Do you think the recent stabilisation of class 4 gambling expenditure is due to economic/population changes or changes within the class 4 sector (or both)?**

I believe this is caused by changes in spending habits of those people who use pokies. I have no data to substantiate this, but am thinking that the drop is due to both other costs within budgets (housing) and entertainment alternatives to gambling.

**Do you think any changes should be made to the requirements on the class 4 sector? If so, what changes?**

I would like to see more joined up thinking by the class 4 sector, especially around the grant making process. It’s an interesting model, in that its competitive in attracting and retaining venues, but yet, in order to do the “most good”, needs to be collaborative at the spend end of the value chain. Interestingly, some of those within the philanthropic space do not see these organisations as “professional”.

They also tend not to belong to Philanthropy NZ, which, while not having the monopoly on wisdom around making effective grants, suggests that they have little appetite for learning around making effective grants, nor being part of those conversations. Indeed, after the earthquakes, Canterbury funders came together to optimise their funding. However, gaming trusts chose not to be part of those discussions.

This also signals that, for those who are not a “for purpose” Class 4 operator, that they see themselves more as gaming machine operators, rather than a part of the grant making ecosystem.

**What would the impact of any changes be on the responsibility to prevent and minimise harm from gambling?**

No comment

**Do the provisions in the Act go far enough in ensuring funds to communities are maximised?**

No. The Act by default assumes that all money to NFPs will maximise returns to communities. However, as many in the NFP space can attest, some NFP organisations are better than others: I have heard some say that 80% of money hits its mark, others say that as little as 10% of the \$700m given by grantmakers actually results in a better community.

Focusing on the metrics is reasonable, but if we are talking about the maximum return to the community, we need to put more scrutiny on the groups that money ends up at.

Minimisation of operating costs is not necessarily a good thing either: in many instances as a grant maker the correct decision is a no: it takes time and effort, and costs up to \$360 to decline the application (see <http://www.delfi.co.nz/blog/just-say-no> ).

I address some of this in the questions below, but see that a good starting point to ensure funds to communities are maximised is through greater transparency – where the money comes from, where it goes and how it gets there.

## The role of local government through local venue policies

**What should the role of local authorities be in balancing the benefits of class 4 funding to their communities with the potential negative impacts?**

Councils effectively allow gaming trusts to operate within their area. Councils also tend to have a replicated funding system inside their own organisation. Given the councils give pokies a license to operate, would it be asking too much to give the councils a role in the spending of the gaming trust proceeds?

Councils tend to have a good handle on the community groups who operate in their area: in Christchurch there are teams of people who work with those groups, and provide significant funding to them through their own grants process.

As elected members, at least in theory, represent the community, having some form of council involvement in decision making will support the overarching goal of ensuring returns to the community are maximised, and that perfectly good money is not thrown at decidedly ordinary organisations.

**Are there any requirements in the Gambling Act related to venue policies that should be changed? If so, which requirements?**

No opinion.

**Is requiring councils to review their venue policies every three years a good policy? Should there be more or less time between reviews?**

No opinion. Seems sensible and aligned to election cycles.

**How have local venue policies impacted on both problem gambling and the sustainability of community grants from class 4 gambling?**

I did a piece on Canterbury and Otago funding. <http://www.delfi.co.nz/blog/dabbling-in-the-funding-ecosystem> This was based on some work done for Otago Community Trust on the ecosystem in their area. Otago has more pokies per capita (217 per head, as opposed to Canterbury's 274). However, Canterbury's seem far more productive, with Canterbury receiving \$73 per capita from pokies, while Otago received \$35. What this suggests (to me) is that the Canterbury machines are more productive than Otago's, and better utilised. Christchurch City of course has the sinking lid policy, and of course post earthquake conditions have probably driven some of this.

This suggests that the CCC's sinking lid policy has not had a large effect on spend.

## The Department's regulatory functions and the cost of regulating gambling

**What influence do the Department's regulatory functions and operational policies have on the sustainability of funding to communities?**

No comment

**Do you think the cost of regulating the class 4 sector is reasonable?**

No comment

**Are there ways of effectively regulating the sector at less cost?**

There could be some opportunities to effectively outsource the monitoring of non-club societies return to communities to ensure that it reaches the minimum required, using crowd sourced effort to cast some sunlight over the sector and over funding decisions. I have developed a model around this, and am happy to share if anyone is interested.

The outcome of implementation of this disruptive model would be more engaged communities, better scrutinised grant makers and recipients, and a better spend of community resources.

**What areas should the regulator focus on to reduce unwanted/illegal behaviour and problem gambling rates?**

No comment

**Are there more efficient methods of recovering costs from the class 4 sector than the current gaming machine-number based model?**

Turnover based would seem a better model: based on the analysis above of Otago and Canterbury, fewer machines seems to condense spend. A turnover based cost recovery system would future proof a bit for the Department.

## Problem gambling

**What is your experience of any changes in harmful gambling behaviour over time?**

No comment

**What is your view on the class 4 sector's approach to problem gambling?**

No comment

**Do you have suggestions for how problem gambling could be reduced or better managed, i.e. how can both the legislation and practice (e.g. compliance procedures, good host responsibility measures) be improved?**

No comment

## Non-club class 4 gambling sector

**Do you think there are an optimum number of non-club societies, venues and machines that would maximise sustainable funds to the community, while minimising harm from gambling? What would this be?**

38 seems too many. In a country the size of New Zealand, I would have thought a number of between 4 and 10 would be optimal. Without looking at the financial statements of the class 4 societies, there would be a mixture of fixed and variable costs. Systems costs will be largely fixed. The argument will be that the organisation needs to be in the area it operates to make community connected decisions: NZCT addresses this issue through subcommittees to ensure local input. The sheer number of operators does suggest there is profit to be made in operating the gaming machines.

**What criteria do you think should be considered to determine the optimum number of non-club societies?**

I really don't think the government has a role in establishing a target number for these societies.

**What are the advantages and disadvantages of a larger non-club sector versus a smaller non-club sector?**

The point made in the paper about “grass roots” funding that is responsive is not necessarily driven by the number of organisations, more driven by the process that any organisation has.

Issues lie where the funder may have tight parameters for funding: for example, their authorised purposes are weighted towards amateur sport. Industry consolidation will be difficult to achieve when funders skew their grants to specific sectors.

#### **What are the advantages/disadvantages of large vs small non-club societies?**

The advantages of numerous smaller groups relate to effectively private funding for some NFP organisations. I see no benefits of a large number of smaller organisations.

Some NFPs will feel that some funders are against them, or always turn them down, so will want to have numerous options. This of course is generally not the case, but can often come about because grant makers are not clear around their rationale for turning a grant down.

## **Non-club venues and their relationships with non-club societies**

#### **Do you think the relationship between venues and societies can create problems? If so, what problems and why?**

Yes. There are some concerns that the society will provide grants to NFPs where the venue has a relationship. While it’s difficult to prove undue influence, I have seen some NFPs receive significant sums of money from a society who has machines at a specific venue. That venue is then a sponsor of the NFP.

This is hard to track, and to say that the venue is influencing where the grant money is given.

#### **Are there alternative approaches to the venue/society relationship that may reduce these problems?**

I think its about disclosure, and a simple system for asking questions. This could be mitigated by a more community oriented panel for making funding decisions.

#### **Is competition for venues between societies desirable? Why?**

Yes. Competition is usually a good thing, and venues will want good service from the societies.

#### **What changes in the commercial environment for venues may have implications for their ability to host class 4 gaming machines?**

No comment

## **Clubs**

#### **How do you see the future of clubs and their operation of gaming machines? For example, how will demographic changes affect clubs’ membership?**

As someone who has never been to a club, it’s hard to see the consumer need that they meet. They seem to operate in competition with the private sector, and as such seem to be an anachronism.

The other thing is that sometimes the entity is tied to several other clubs, so it’s difficult to get a clear view of a particular club’s relationship with other clubs.

#### **Should clubs be supported to remain sustainable? If so, how?**

No. If they are not sustainable off their own membership and off the proceeds of their operations (which will include the gaming machines), then I see no reason why they should receive funding from another grant making body. In many cases, grant making is effectively subsidising a bar and social club.

## **Class 4 funding to communities**

### **Minimum rate of return**

#### **Is a minimum rate of return the best way to maximise funds to the community?**

No. Focusing on lowest cost is not necessarily the best way to maximise benefits to the community. As stated before, not all community demands are equal, and there will be some groups requesting funding who will be more effective than others.

#### **If not, can you suggest alternative tools to a minimum rate of return to maximise community returns?**

I guess the 40% is probably good enough: if an organisation can overshoot that then that's a good outcome. However, I note that, for example, NZRB is very proud of their 54.28% return in their 2015 return. However, as noted, a significant amount goes to their own organisations, where there is no public ability to scrutinise where the money goes. So, while the quantum of funds back to community, one could say is maximised, the actual community impact of those funds is far less transparent.

#### **Do you have any suggestions on how society costs could be lessened to improve the return to communities?**

Yes. Sharing of information, transparency of funding decisions, a different, disruptive way of assessing applications, and improved community involvement in decision making will all go some way to ensuring the best possible community outcome for the proceeds of gaming.

### **Grants Process**

#### **What is your experience of the grants process (e.g. application, notification, etc)?**

The process varies for different groups, but for the most part its fairly simple.

#### **Do you think the process is accessible for everyone?**

Technically yes, as the forms are pretty simple. However, it often comes down to knowing the organisation actually exists in terms of applying to them. DIAs website does advise this, as does Generosity, but it seems some NFPs are better than others at applying for money from specific organisations.

Actually, I do think that money is almost too easy to get: for example, with schools, particularly higher decile, a grant will take an hour or two apply for, whereas a fundraising event can take months to organise. However, the community building aspect is then lost.

#### **How efficient do you think the process is?**

Not at all. There is so much duplication and repetition within the system. Each grant maker effectively asks for the same information, and makes an assessment on that. Having grants that are for specific items as well is a difficult thing to monitor as well, and difficult to show in the annual accounts. As a preparation for my TedTalk, I prepared some (very rough) numbers which suggested that NFPs receive some \$700m in funding from grant makers each year, and that they spend \$140m out of that to get that funding. The costs for grant makers is around \$0.17 per dollar given. Based on that \$700m, it therefore costs around \$120m to get grants out into the community. If we can get the process more efficient, there is opportunity to give more money to groups that are more effective.

### **How fair and transparent do you think the process is?**

Not at all. I don't think that grant makers are up front about the reasons their application is declined: the cop out answer is generally that funds were not available. However, there are many reasons which might mean the answer to the request is no: poor governance, poor results (or no measurement of results) no proof of best practice: the list goes on. While it can be hard to hear, NFPs need to understand this.

### **Do you have any suggestions for change that would benefit the community's ability to gain grants funding?**

Those asking for funds need to think about the alternatives for those funds. Can they hand on hearts say that this request is the best use of community funds? What is the role of the members in terms of subs?

Benchmarking needs to be better utilised: within sports clubs some ask for and receive an awful lot of money (generally for junior sport, but again, junior sport should not that expensive). I looked at football, and discovered that some clubs get nothing (so survive on subs and sponsorship) and some get over \$400 per registered player.

<http://www.delfi.co.nz/blog/sports-grants-focus-on-footie>

I believe a national database which shows who received what, for what and who gave, would be a good start. Further, something around declines would be useful as well: it could be a tool for grant makers to show which NFPs other organisations have declined, and the reason why. When I was working in grants, and had made a decline recommendation based on doubts particularly around the efficacy or the governance of a group, it concerned me that the group was receiving funding from an organisation who perhaps had not completed the same diligence.

Looking further, there are also opportunities through technology to disrupt the grant making process, driving lower cost to serve and improving the quality of decisions made. I am happy to discuss some ideas around this.

## **Distribution of grants funding**

### **What are your views on the current legislative settings around societies' authorised purposes?**

I think that much of this money misses the mark. Children's sport, for example, doesn't actually need that much money, especially when many grounds are provided by the local council. Also – the funding tends to migrate up into premier level.

Those “for purpose” Class 4 societies too have little transparency through to their supported organisations. For example, from the Racing Board gaming trusts, in 2015, almost \$6m went to the Racing Integrity Unit under their authorised purposes. However, financials of this unit are not publically available, so it’s difficult to see where the money goes. Similarly, Mainland Foundation provides funding for amateur rugby north of the Waitaki River. In the latest funding statement, it looked that CRFU received around \$2m in one year. Yet within the accounts for CRFU the professional and amateur are bundled together, which makes public scrutiny impossible. Air Rescue similarly has a significant amount headed to rescue helicopters: the charitable trust who receives over 50% of the grants then moves through, in 2015, 85% of its revenues a private helicopter company. There are also personnel linkages between gaming trust, charity and private business. There is no evidence that the price being charged by the private company to the charitable trust is out of line, but there is no data to make an assessment either way.

**Do you think the funding from class 4 gambling is achieving the maximum impact for the community?**

No. There is too much funding going into sport, and few checks and balances to ensure that it will actually make a difference to the community. Since the development of the grant making ecosystem, demand for money has shot up to suck up the funding. This has had the following effects:

- Reduction in volunteerism. A “paid for” coach, or staff in an NFP, reduces volunteerism amongst members.
- Self sustainability is reduced. In some clubs, fees and subscriptions are minimal. In most cases the members can actually afford to be part of the club – and if it is unaffordable if fully costed, then perhaps members will be less demanding when it comes to the offer of the club.
- The sports which are supported tend to be male dominated. In some work I did for Canterbury, netball, the first female dominant sport, came in at 11<sup>th</sup> on the list of funded sports. This is probably driven by demand (male clubs applying for the funds) and supply (many of the decision makers in the class 4 area are men).
- Some groups access hundreds of dollars of grant money per registered player, others none. There seems to be little to no consideration of “how much is enough” when making funding decisions. An entity can usually see opportunities for more funding to improve their members’ offer: it’s difficult to say whether the community will benefit from that. And there is the issue that improvements in one club’s offer will then put more pressure on competing clubs to up the ante. This then puts further pressure on community funds to support.
- Lack of co-ordination within the NFP area. Due in part to the relative ease of getting money, recipient groups have little incentive to work together and collaborate. This can be seen by the sheer number of both registered charities and incorporated societies who receive money. It can also lead to local organisations not working according to the strategic plan of the national body, as an ineffective NFP is propped up by grant funding.
- Undermining of community. Having fundraising as a purpose for a community (perhaps a PTA) helps to bring families together. Writing grant applications, although easier, will not have the (possibly more important) benefit of connecting a community.



### **If not, why and what could change?**

There should be requirements for community representation on the decision making panels for Class 4 organisations. Decision making panels should include men and women, cover a number of ages, and interests (not just sports people!). Some class 4 organisations have not had any change in decision making staff for many years. This will lead to a stagnant organisation, and stagnant community groups as they rely on that funding.

Any organisation receiving funding should be required to identify their grants and funders as separate items in their annual financial statements, which need to be publically available. Greater transparency is needed here to ensure funds go to where they are needed.

Improved assessments by grant makers will help to ensure that money goes to groups that are effective.

## **Diverse community needs**

### **Should societies return funds to the communities where they were generated? Why?**

Absolutely. The funding tends to be a transfer of money from low income people, transferred to middle income via the organisations who apply for funding. The issue of course is that some organisations who are best placed to support those communities may be a national body. This then encourages that group to set up locally, which drives a bunch of administration costs.

### **Overall, do you think the distribution of funding is equitable?**

Not at all. The funding tends to go to sports groups, which is generally based on the authorised purposes of the funder. The organisation receiving the funding simply needs to show that they have spent the money (in some cases) rather than showing how the community is better off for having spent it. This links a bit to the work being done in the charitable sector around improved reporting, although of course misses many groups receiving funding from this sector, who tend to be incorporated societies.

### **If not, why and what could change?**

Answers as above. Greater community representation in decision making. Greater scrutiny of where the funding goes, and greater scrutiny of those receiving money. More collaborative approaches to optimise the application process, and greater public accountability on those who are receiving funds to show the community benefit from those funds.

## **Online gambling**

### **Do you think the current policy settings for online gambling are fit-for-purpose?**

No comment

### **If not, how do we need to change the policy settings?**

No comment

### **Do you think other forms of gambling should be available online in New Zealand?**

#### **Why/why not?**

No comment

### **If yes, what gambling products should this include and how could we ensure gambling harm is minimised?**

No comment

**Do you think class 3 gambling operators such as the Heart Foundation and Coastguard NZ should be able to offer online lotteries?**

No comment

## **Further Ideas / Issues**

**Are there issues or questions not set out in this discussion paper that you think need to be considered in this review?**

No.

**Can you suggest any further options for improving the status quo that do not fit elsewhere in this discussion paper and do not increase gambling harm or drive growth in gambling?**

I have developed a concept around improving this whole value chain, around assessing NFPs, benchmarking organisations, and developing assessments which can then be utilised by grant makers. This model effectively outsources the assessment of organisations to a third party, and grant makers can make their decisions from there. The third party then has great data to evaluate the grant decisions made by those specific grant makers in an open transparent manner. I would appreciate a conversation with DIA to see if this model has any appeal.