



# **Guide:**

# **Pokies in New Zealand**

**a guide to how the system works**

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## Pokie system at a glance

1. The New Zealand gambling model returns millions of dollars to our community
2. Corporate societies own pokie machines
3. Venues such as pubs are paid by a society to host its machines
4. Payments to venues for machines are controlled and limited
5. Venues return pokie proceeds to corporate societies
6. Community groups can apply to corporate societies for grant funding
7. Corporate societies distribute proceeds to community groups

## Overview

More than \$200 million is returned annually to the community from the proceeds of gambling on electronic gaming machines, or pokies, in pubs and hotels.

To maximise the benefits of gambling to the community the sector must operate honestly, fairly and transparently.

Pokie machines are also called gaming machines, poker machines, and/or one-armed bandits.

The Department of Internal Affairs is responsible for regulating the gambling sector in New Zealand.

Corporate societies are licensed by Internal Affairs to operate pokie machines in clubs or in commercial venues (pubs and bars).

Gambling on gaming machines hosted in pubs, hotels and clubs<sup>1</sup> is referred to as Class 4<sup>2</sup> gambling. It does not include casinos.

This guide is focused on the pokie system in the pub and bar sector.

It is intended that Class 4 gambling is operated on a not-for-profit basis, with the overwhelming objective of generating revenue to return to communities via contestable grant processes.

A proportion of the money gamblers lose on pokie machines in pubs and bars is distributed to community groups by the corporate societies.

In 2013 pokie machines in the pub and bar sector (excluding clubs) generated \$594 million<sup>3</sup> of which \$249 million was returned to authorised purposes<sup>4</sup> in communities<sup>5</sup> by corporate societies.<sup>6</sup>

## Corporate Societies

Corporate societies are also called: gaming machine societies, gaming societies or Class 4 societies, and are sometimes referred to as Trusts or pokie trusts.

The corporate societies must comply with a range of regulatory requirements.

As of June 2014, there were 43 non-club corporate societies in New Zealand, operating 13,621 machines in 1,027 commercial venues, mostly pubs.

Sixty per cent or 8,109 of the machines in pubs are owned by six national corporate societies:

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<sup>1</sup> Clubs have 3,509 machines operating at 294 venues ((chartered clubs, sports clubs and RSAs) as at 30 June 2014.

<sup>2</sup> There are four classes of gambling along with casino gambling, sport and race betting, private gambling and Lotto which are authorised types of gambling under the Gambling Act 2003.

Classes 1 and 2 cover gambling involving smaller amounts of money, such as office sweepstakes.

Class 3 gambling includes activities such as bingo and larger raffles and requires a licence from the Department.

Class 4 gambling involves non-casino electronic gaming machines hosted in pubs and clubs.

<sup>3</sup> After prizes, including jackpots were paid.

<sup>4</sup> 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.

<sup>5</sup> Community funding examples: Between 2004 and 2012, St John Ambulance in the Northern region received nearly \$12 million. Other grants in that period include \$6.5 million to South Auckland Health Foundation, \$6.4 million to the Life Education Trust (which conducts drug education aimed at school children) \$4.5 million to the Bone Marrow Cancer Trust and \$4.4 million to the Christchurch Earthquake Appeal Trust.

<sup>6</sup> \$826 million was generated by all pokies operated by corporate societies *and* clubs (such as RSA's and Cosmopolitan Clubs).

These six largest societies are ranked below according to Total Proceeds<sup>7</sup>. Figures are for the 2013-14 financial year.

	Society (largest first)	Total Proceeds	Number of machines	Number of venues
1	The Lion Foundation	\$110.9M	2,163	163
2	New Zealand Community Trust (NZCT)	\$93.4M	1,994	148
3	Pub Charity	\$78.0M	1,735	147
4	Infinity Foundation Limited (IFL)	\$43.7M	837	50
5	The Trusts Community Foundation (TTCF)	\$29.9M	591	51
6	The Southern Trust	\$28.6M	789	77

Not all the money lost by gamblers on pokies is returned to the community.

About a quarter of the proceeds is spent on fixed costs such as government duties, levies and licensing fees. Another portion of the proceeds is used by societies to meet “actual, reasonable and necessary” operating costs which they incur in running their Class 4 operations.

What is left is called net proceeds and must be allocated to authorised community purposes.

The amount must be a minimum of 40 per cent of gaming machine proceeds, excluding GST, in each financial year<sup>8</sup>.

If societies are unable to meet this minimum rate, Internal Affairs can revoke or not renew their operating licence.

Corporate societies have an obligation to minimise costs and maximise the amount distributed to the community.

They are often able to distribute more than 40 per cent to the community.

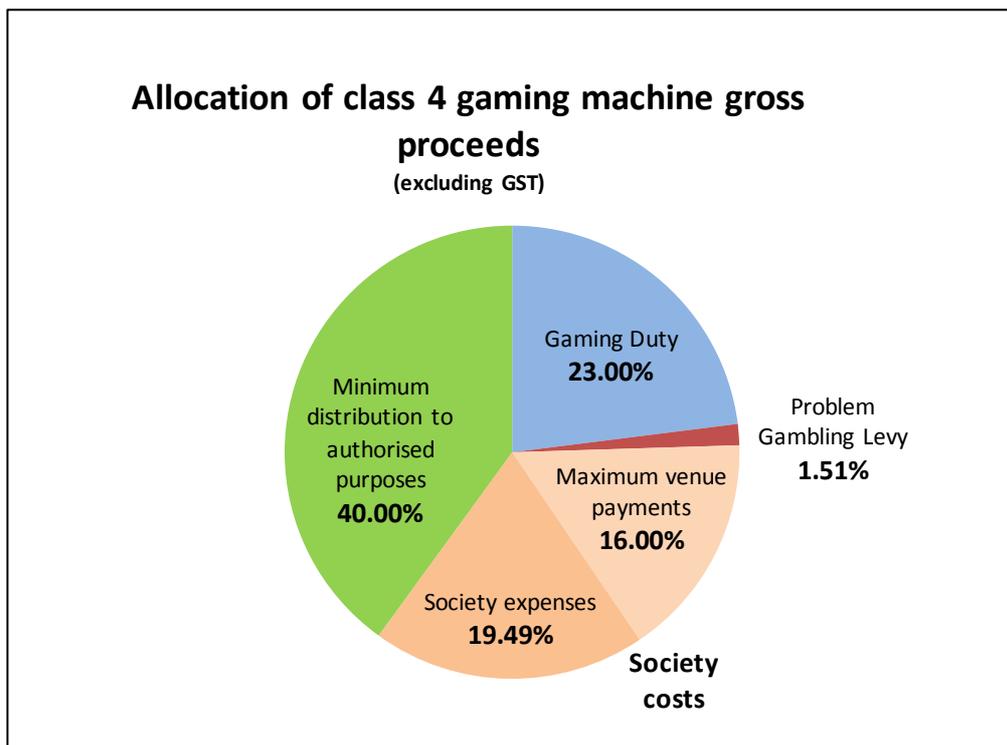
The average rate of return distributed to the community in 2013 was 42.11 per cent<sup>9</sup>. The 2013 table in Appendix A shows the range varied from 37.23 per cent to 62.95 per cent.

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<sup>7</sup> Total Proceeds includes Gaming Machine Profits (GMP) and income from other sources such as bank interest on savings.

<sup>8</sup> New regulations in effect from 4 September 2014 have increased the minimum rate of return from 37.12 per cent to 42 per cent staged over five years. <http://beehive.govt.nz/release/increased-returns-community-new-gambling-regulations>

<sup>9</sup> \$249 million was returned to the community by way of grants from the \$594 Million generated solely by pokies operated by corporate societies.



Corporate societies must own the pokie machines being operated at a venue.

They enter into agreements with venues to host the society’s gaming machines in return for a reimbursement payment.

The turnover from pokie machines depends on how many people use them and how often they are used. This can be determined by a variety of factors, such as where the pub is located.

Societies will generally want at least some of their pokie machines at pubs and bars where they will be played by a large number of people (a high turnover venue.)

Societies are known to sometimes compete for such venues.

## Venues

Pubs and bars that have gaming machines are termed venues.

The businesses operating the venues are known as venue operators, and the person responsible for the gaming machine operation is known as the venue manager.

Venue operators select which society they want to work with based on:

- Alignment with good causes (authorised purpose)
- Good service
- Reputation as an ethical and fair operator

Once selected, the venue hosts the gaming machines of the society it has entered into agreement with.

Venue operators do not exert control over societies or influence grant decision making.

Venues must keep gaming machine proceeds separate from all other funds. All gaming machines in Class 4 venues are electronically monitored to determine how much money has been put into each machine. From that it is determined what amount of money the venue is required to transfer to the society's bank account.

These proceeds are then provided to their respective corporate societies for distribution.

Venues only receive a (capped) payment for hosting machines that reimburses them for actual, reasonable and necessary costs of operating Class 4 gambling.

The system does not allow venues to profit from hosting gaming machines.

Venues are required not to rely on gaming revenue for survival.

## Community Grants

Corporate societies allocate money received from pokies for the benefit of the community.

Money can be granted to a specific authorised purpose if it is outlined in the society's trust deed<sup>10</sup>, 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.

Sporting organisations receive a high proportion of allocated grants<sup>11</sup>.

Money returned to authorised purposes through grants varies each year, but totals more than \$200 million annually. See Q11 in the FAQs for exact details.

The law currently requires societies to publish information about applications received for grants, and whether the applications were accepted or declined.

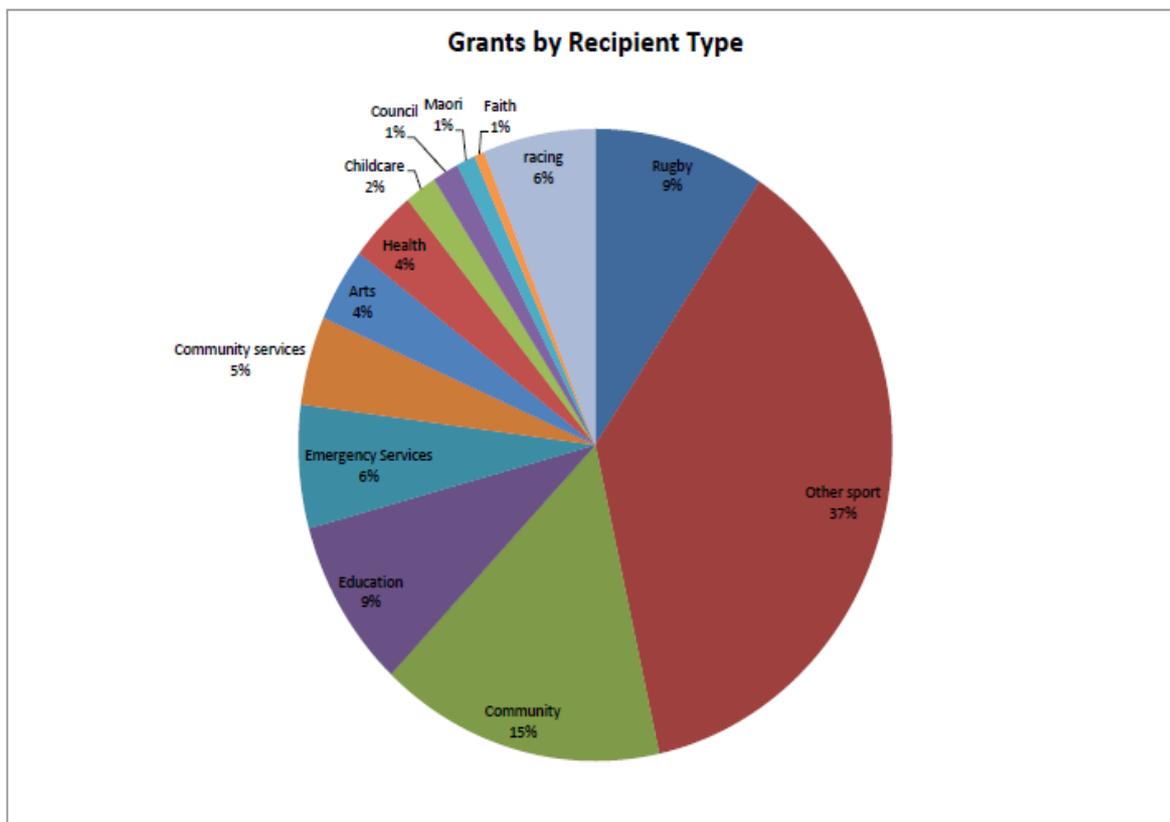
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<sup>10</sup> Constitution if the society is a company

<sup>11</sup> An analysis by DIA of grants between 2004 – 2012 shows 44 per cent of grants by value were allocated to sport (excluding racing). Rugby in particular receives significant funding.

### Major Recipients 2004 – 2012

Total grants = \$1.7 billion



## Applications for Grants

When grant applicants apply for funding their applications must include supporting documents, including those specifying reasons for the grant application, the total amount of money sought and other appropriate information.

It is a standard condition of receiving a grant that grant money must be used only for the specific purpose(s) for which the application was made and approved.

## The role of the regulator

As the regulator the Department of Internal Affairs ensures the integrity of the gambling system by:

- licensing operators and venues
- ensuring licenced operators maximise the return to the community
- deterring fraudulent activity in the gambling sector
- minimising harm caused by gambling.

The community funding aspect of the pokie system is unique to New Zealand. In most other jurisdictions gambling is a for profit activity.

# FAQs

## Machine numbers

### Q1: Is there a limit to the number of pokie machines a bar can have?

Yes, it varies between nine and 18, depending on when a venue’s licence was granted. If it was granted before October 2001 the maximum number is 18. For those venues granted a licence after October 2001 the maximum number is nine.

Territorial Authorities (local councils) also have Class 4 venue policies. Typically these policies might include:

- an ability to relocate 18 machine venues to new sites;
- caps on the number of venues;
- total gaming machine numbers; and/or
- a sinking lid policy which will see a gradual reduction in the number of gaming machines operating in their district.

### Q2: Is there any limit on the number of pokie machines in a district?

The Gambling Act requires every territorial authority to adopt a policy on the location of Class 4 gambling venues. The policy must specify whether or not Class 4 venues may be established in the territorial authority district and, if so, where they may be located.

It may specify any restrictions on the maximum number of gaming machines that may be operated at a Class 4 venue.

### Q3: How have non-casino gaming machine numbers changed over the years?

The number of licensed non-casino gaming machines peaked at just over 25,000 on 30 June 2003, the last full quarter before the Gambling Act 2003 became law. The number has been falling since. The table below sets out the number as at 30 June for each year from 2007 to 2014 inclusive.

Total Number of Machines operating on approved venues as of 30 June:							
2007	2008	2009	2010	2011	2012	2013	2014
20,120	19,856	19,479	18,944	18,309	17,943	17,534	17,130

There has also been a decline in licence holders and gambling venues. In the year to the end of June 2014 licence holders fell from 351 to 329 and venues declined from 1356 to 1321 compared to the previous twelve months.

The main reason for the decline is related to the policies regarding numbers of venues and pokie machines adopted by Territorial Authorities. There has also been some amalgamation of societies that may have fed into the downward trend.

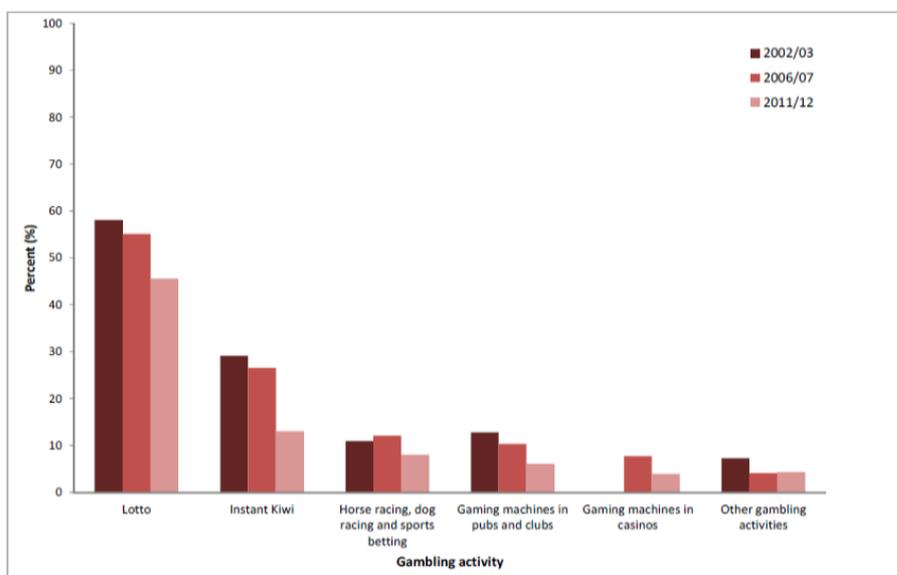
## Gamblers

### Q4: What’s happening with the number of people gambling on pokie machines?

A wide range of gambling activities are available in New Zealand, including casino gambling, electronic gaming machines, Lotto, Instant Kiwi (scratch tickets), track (horse and dog) betting, sports betting, Keno, housie (bingo), internet gambling and telephone gambling.

Overall, in 2011/12 about half ( 52.1 per cent) of New Zealanders aged 15 years and over (approximately 1.8 million people) had taken part in a gambling activity.<sup>12</sup>

Figure 1: Past-year gambling by type of activity, 2002/03, 2006/07 and 2011/12



In 2011/12, six per cent of those asked had participated in gambling on gaming machines in pubs and clubs.

More information is available here:

<http://www.health.govt.nz/system/files/documents/publications/problem-gambling-preliminary-findings.pdf>

### Q5: Is the amount of problem gambling going down or up? And by how much?

The Ministry of Health is responsible for monitoring the level of problem gambling in New Zealand.

<sup>12</sup> Source: July 2011–March 2012 NZHS, preliminary findings

The report *Problem Gambling in New Zealand Preliminary findings from the New Zealand Health Survey (July 2011 to March 2012)* states “there were no significant changes in the prevalence of problem gambling between 2006/07 and 2011/12.

However, the proportion of people who were low-risk and moderate-risk gamblers decreased over this period (Table 3). These decreases remained significant after age standardisation.

**Table 3: Prevalence of gambling by level of risk of gambling problems, 2006/07 and 2011/12**

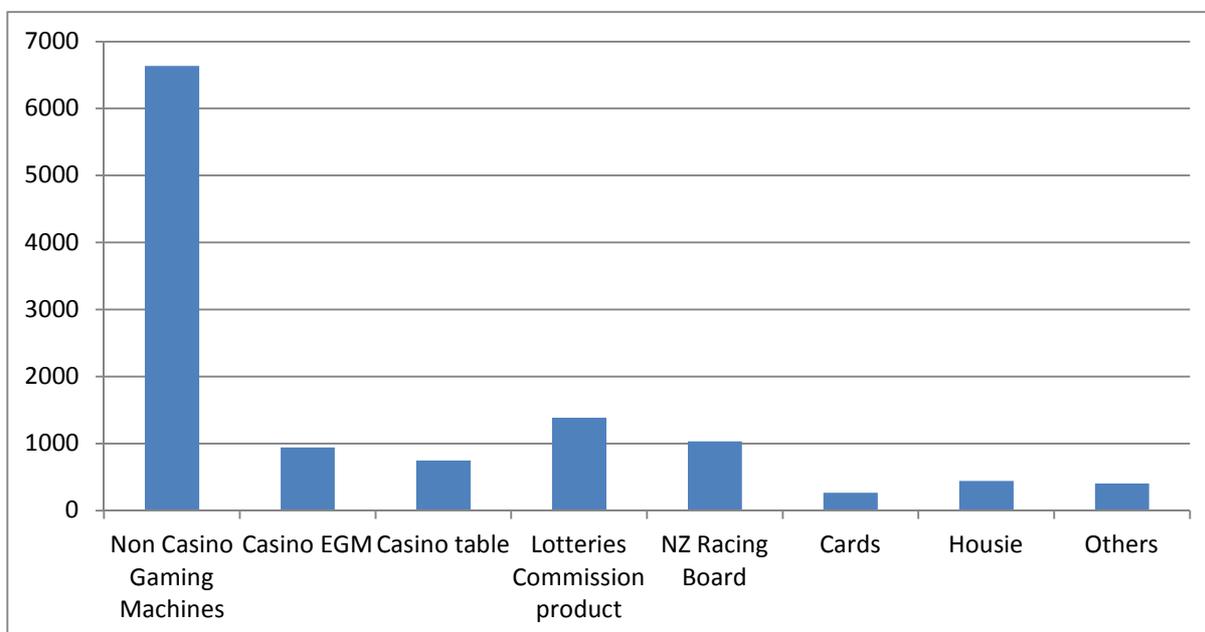
Problem gambling level	2006/07	2011/12
No gambling	34.9	47.9
Recreational gambling	59.9	49.0
Low-risk gambling	3.5	1.8
Moderate-risk gambling	1.3	1.0
Problem gambling	0.4	0.3

Source: 2006/07 NZHS, July 2011–March 2012 NZHS, preliminary findings

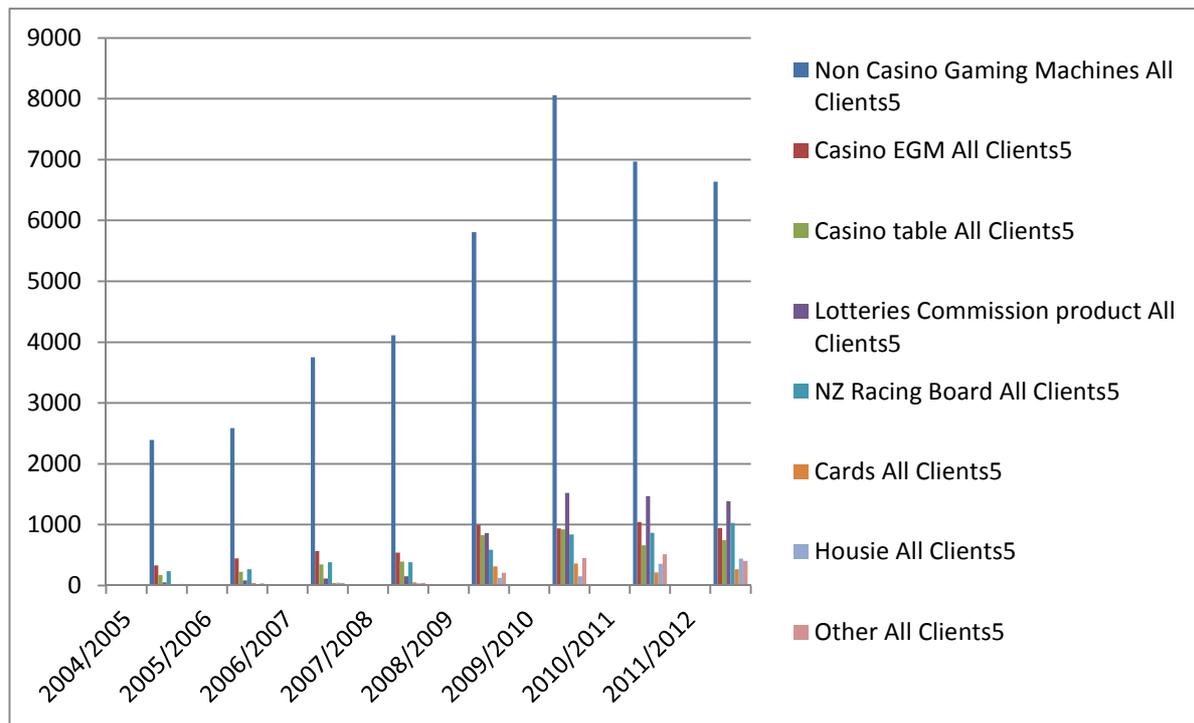
The majority of gamblers are recreational gamblers; very small proportions were at any risk of problem gambling.

### Q6: What proportion of people who gamble experience problem gambling issues because of pokies?

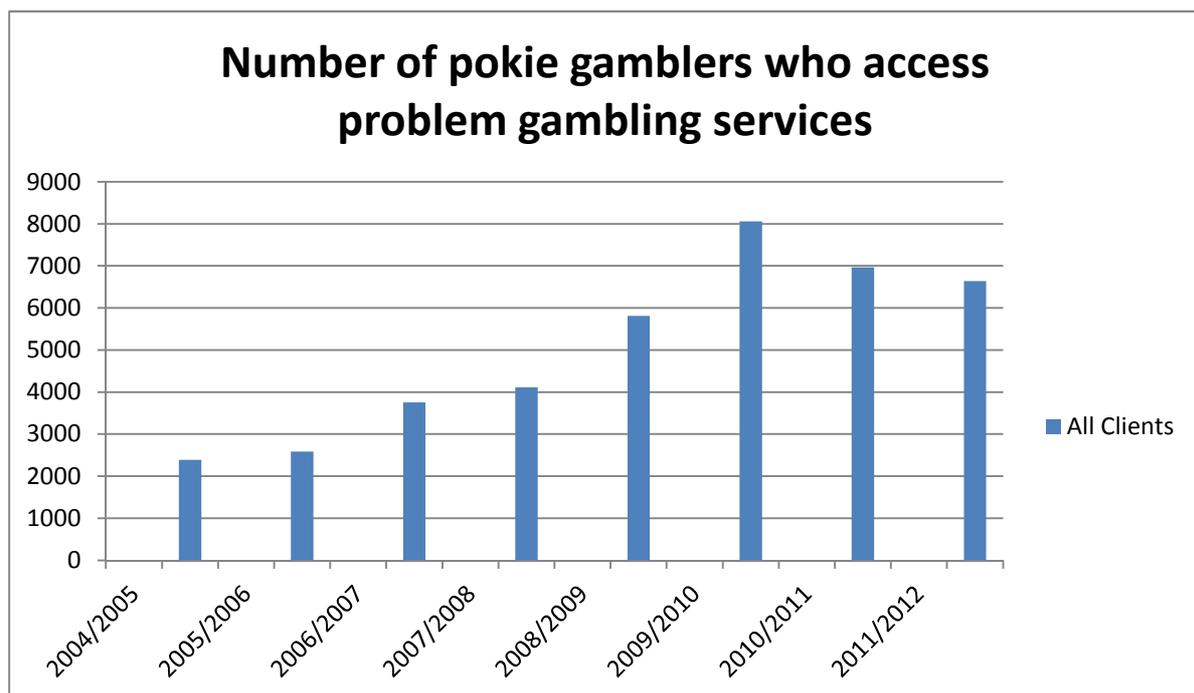
In the 2011/12 year more than 50 per cent of gamblers who accessed problem gambling services identified gambling on non-casino gaming machines as their primary gambling mode.



The chart below shows the trend since 2004/05



Data extracted from [here](#)



## Venues

### Q7: Do pubs which have pokie machines make money from them?

The regime envisages a cost neutral relationship between venues and societies.

Venues are able to claim actual, reasonable and necessary costs they incur from the society which owns the machines. These costs must not exceed cost schedules agreed with Internal Affairs or payment limits set out by Gazette notices.

The Gambling Commission has emphasised that all venue payments made in excess of actual, reasonable and necessary costs are an illegal use of net proceeds, and therefore a misuse of community money.

### **Q8: If not, what advantage does a bar gain from having pokie machines at its location?**

Venues may choose to host pokie machines in order to offer customers a range of entertainment at their pub or bar.

Some people believe that a venue with gaming machines may attract more customers, who may drink more and so increase the bar business. However, anecdotal evidence suggests that pokie gamblers at pubs tend not to drink very much alcohol. Gaming machines may also put off some customers from going to the bar.

Many venues are aligned with the broad community cause supported by the society which owns the gaming machines.

Any inducements from societies to encourage a venue to host its machines, such as trips to Australia or sports award dinner tickets, are illegal.

Breaches of the regulations can also occur when venues receive a sign-on fee and guarantees of maximum venue payments.

## **Grant distribution**

### **Q9: How do corporate societies decide on which organisations they distribute pokie funds to?**

Class 4 corporate societies that are licensed to operate gaming machines must apply the net proceeds of the gaming operation to authorised purposes.

Authorised purposes are:

- charitable purposes
- non-commercial purposes that have community benefits
- promoting, controlling and conducting race meetings.

The authorised purpose(s) of a corporate society are documented on the society's Class 4 operator's licence issued by Internal Affairs.

It may specify a particular authorised purpose or be allocated to a wide range of authorised purposes.

The use of funds for unauthorised purposes can lead to prosecution or licence cancellation.

- [Authorised Purpose Guidelines for Societies and Clubs](#)
- [Examples of Authorised Purposes](#)

### Q10: Who makes the granting decisions?

The distribution of grants is decided on by a society’s net proceeds committee.

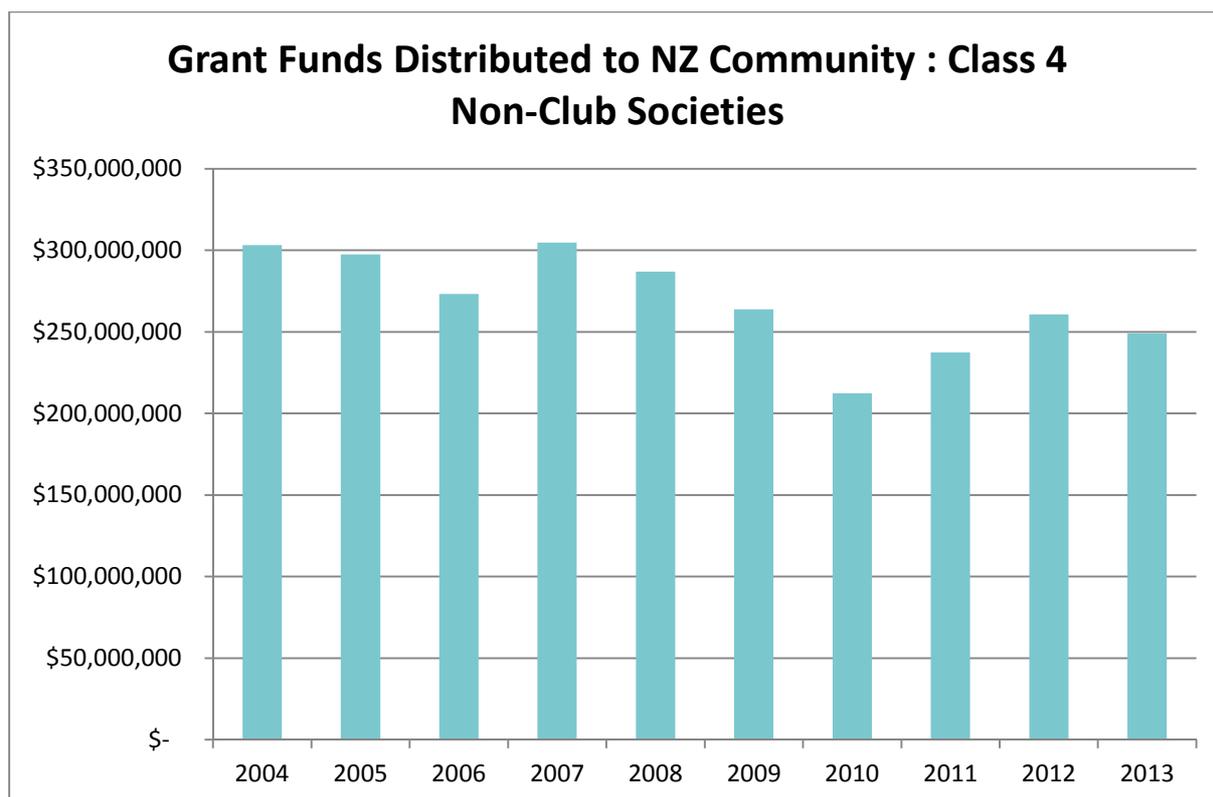
Gambling operators are required to establish at least one net proceeds committee to make decisions on the application or distribution of gambling net proceeds. Different committees may be established for specific reasons or districts, or for specific authorised purposes.

A committee must comprise at least three people who are key persons in relation to the Class 4 operator’s licence. A key person is a trustee, an office holder (or other officer), chief executive, or other person who exercises significant influence in the management of a corporate society that is an applicant for, or holder of, a Class 4 gambling operator’s licence.

### Q11. How much is distributed to communities?

In the 2013 year about \$249 million was distributed to authorised purposes by corporate societies.

The previous year (2012) the amount was about \$261million.



### Q12. Which societies manage to return more than the 37.12 per cent minimum of net proceeds to the community?

See Appendix A.

### **Q13: Sport receives a big proportion of pokie grants – how is that distributed among different sporting codes?**

In 2012 the sport and recreation sector received \$78 million from four main societies – Lion Foundation, NZ Community Trust (NZCT), Pub Charity and Southern Trust.

NZCT provides the highest proportion of its funding to sport and recreation (81 per cent) with the other three in the 30 per cent to 40 per cent range.

More information about gaming funding into the sport and recreation sector can be found at <http://www.sportnz.org.nz/en-nz/resources-and-publications/Reports-and-research/Gaming-Research/>

### **Q14: How much money does the racing sector receive from pokie grants?**

Between 2004 – 2012 racing received 6.12 per cent of grants from corporate societies. This figure excludes money the racing industry receives from the New Zealand Racing Board which operates gaming machines at TABs.<sup>13</sup>

During 2004 – 2012 a small number (8.8 per cent) of racing clubs received over 60 per cent of racing related grants. These clubs were mainly Harness racing clubs.

### **Q15: A story in the ODT in May 2014 said that racing grants have declined – why?**

It is up to gaming machine societies to decide how they distribute grants to authorised purposes.

The story in the ODT suggests that at least one society has voluntarily stopped distributing grants to the racing sector because of the on-going investigation by Internal Affairs and the Serious Fraud Office (Operation Chestnut) in to the alleged manipulation of gaming machine grants.

While racing is an authorised purpose we expect societies to exercise their responsibility to ensure the integrity of the grant funding process, including the use of grant funding by recipients, and to manage their operations and risks.

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<sup>13</sup> To operate pokie machines the NZRB must own or lease the premises where the machines are operating. This is different to other gaming machine societies in the Class 4 sector such as The Lion Foundation which own the machines and reimburse the venues (clubs and pubs) for having them on their premises.

# Appendix A: Rates of return of societies

## Summary of Gaming Machine Account Summary Returns for Societies' 2013 Financial Year

Society	Gross Proceeds	Net Proceeds	NP/GP	Distribution	Distribution/GP
Bluegrass Holdings Limited	\$9,787,018	\$5,152,318	52.64%	\$4,568,899	46.68%
Manukau Counties Community Facilities Charitable Trust	\$6,551,981	\$3,300,964	50.38%	\$3,213,269	49.04%
ILT Foundation	\$9,554,064	\$4,647,901	48.65%	\$6,014,032	62.95%
The Whitehouse Tavern Trust Board	\$1,295,562	\$628,246	48.49%	\$679,968	52.48%
The Runanga Community Swimming Pool Trust*	\$54,631	\$25,374	46.45%	\$21,600	39.54%
Mainland Foundation Limited	\$9,927,677	\$4,600,828	46.34%	\$4,624,319	46.58%
New Zealand Racing Board*	\$18,982,161	\$8,763,309	46.17%	\$7,304,714	38.48%
The Trusts Community Foundation Limited	\$29,957,488	\$13,602,739	45.41%	\$14,164,090	47.28%
Mt Wellington Foundation Limited	\$2,061,932	\$934,076	45.30%	\$964,089	46.76%
Oxford Sports Trust Inc	\$11,154,003	\$5,008,265	44.90%	\$4,991,300	44.75%
First Light Community Foundation Limited	\$1,689,870	\$748,217	44.28%	\$744,325	44.05%
The Akarana Community Trust Limited	\$2,111,313	\$930,449	44.07%	\$850,293	40.27%
The North & South Trust Limited	\$11,320,582	\$4,984,928	44.03%	\$4,644,539	41.03%
Grassroots Trust Limited	\$3,051,920	\$1,324,963	43.41%	\$1,336,000	43.78%
The Pegasus Sports Foundation Limited	\$668,194	\$289,818	43.37%	\$270,678	40.51%
Trust Aoraki Limited	\$2,775,728	\$1,202,828	43.33%	\$1,215,764	43.80%
Trillian Trust	\$15,700,868	\$6,698,475	42.66%	\$6,368,742	40.56%
First Sovereign Trust Limited	\$16,371,220	\$6,876,064	42.00%	\$6,673,254	40.76%
Kaiwaka Sports Association Inc*	\$176,276	\$73,585	41.74%	\$75,323	42.73%
Endeavour Community Foundation Limited	\$10,815,784	\$4,458,427	41.22%	\$4,629,094	42.80%
Infinity Foundation Limited	\$43,729,61	\$18,022,899	41.21%	\$17,531,558	40.09%
The Lion Foundation 2008	\$110,923,754	\$45,696,890	41.20%	\$45,088,608	40.65%
New Zealand Community Trust	\$93,379,000	\$38,272,000	40.99%	\$38,875,000	41.63%
Mana Community Grants Foundation	\$4,889,237	\$2,000,560	40.92%	\$2,077,665	42.49%
Redwood Trust Incorporated	\$985,919	\$393,852	39.95%	\$391,444	39.70%
Constellation Communities Trust Limited	\$2,038,647	\$808,662	39.67%	\$776,763	38.10%
Trust House Foundation	\$6,681,801	\$2,647,484	39.62%	\$2,792,091	41.79%
Bluesky Community Trust Limited	\$2,902,326	\$1,136,962	39.17%	\$1,101,419	37.95%
Christchurch Earthquake Recovery Trust	\$1,014,320	\$395,649	39.01%	\$388,827	38.33%
Pub Charity	\$78,016,933	\$30,222,604	38.74%	\$30,822,941	39.51%
Air Rescue Services Limited	\$17,959,658	\$6,954,247	38.72%	\$6,994,025	38.94%
Podium Sports Foundation Limited	\$922,575	\$356,333	38.62%	\$352,925	38.25%

Society	Gross Proceeds	Net Proceeds	NP/GP	Distribution	Distribution/GP
Huckleberrys Sports & Charitable Society Inc (no longer operating)	\$504,118	\$192,435	38.17%	\$202,295	40.13%
Four Winds Foundation Limited	\$14,564,161	\$5,495,084	37.73%	\$5,567,735	38.23%
The Southern Trust	\$28,620,727	\$10,776,544	37.65%	\$13,865,435	48.45%
The Bendigo Valley Sports and Charity Foundation	\$4,767,728	\$1,788,560	37.51%	\$1,812,321	38.01%
Dragon Community Trust Limited	\$3,119,387	\$1,168,192	37.45%	\$1,291,660	41.41%
Southern Victorian Charitable Trust Inc	\$1,403,487	\$522,023	37.19%	\$522,492	37.23%
Blue Waters Community Trust	\$1,288,716	\$466,826	36.22%	\$503,599	39.08%
Prime Community Trust*	\$1,067,159	\$384,826	36.06%	\$410,807	38.50%
Pelorus Trust	\$11,338,727	\$3,875,344	34.18%	\$4,245,581	37.44%
Ahaura/Grey Valley Lions Club Inc	\$149,879	\$50,997	34.03%	\$59,512	39.71%
Lions Club of Ohai/Nightcaps	\$114,465	\$36,722	32.08%	\$52,772	46.10%
Buller Community Development Company Limited (no longer operating)	\$88,171	\$23,624	26.79%	\$31,968	36.26%
The Brunner Rugby League Club* **					
Youthtown Inc* **					
<b>Total</b>	<b>\$594,478,777</b>	<b>\$245,941,093</b>	<b>41.37%</b>	<b>\$249,113,735</b>	<b>41.90%</b>
<b>Average</b>	<b>\$13,510,881</b>	<b>\$5,589,570</b>	<b>41.09%</b>	<b>\$5,661,676</b>	<b>42.11%</b>
* Mainly apply societies are not subject to Part 2 of Gambling (Class 4 Net Proceeds) Regulations 2004.					
** Financial information not yet available.					
NOTE: This information is taken from the Gaming Machine Account Summary return submitted with societies' applications for licence renewal. The data is self-reported, therefore indicative only and subject to individual follow-up by the Department. Some of the renewal applications are still under consideration by the Department.					