

## Case study: proposal on restructuring of sport support in the city of Litoměřice in the favour of grant-oriented support

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**Abstract:** *The case study proposes a new approach to restructuring of sport financing for a municipality with 24 thousand inhabitants. The methodical approach is based on the analysis of financial flows of institutional and non-institutional sport support, analysis of municipal budget, analysis of current sport infrastructure and current grant policy. By using comparative methods with other cities in the Czech Republic, it was discovered that Litoměřice has above average percentage share for the operating financing of sport (2.9 – 11.3 % of the municipal spending), high ratio of institutional subsidies (72 – 97%) and low but increasing share of non-institutional sport support (3 – 28%). Based on the analysis, there is no need to increase financial means for sport, which could have negative budget impacts in the future. Instead, the proposal focuses on rebalancing the institutional support in favour of demand driven non-institutional support - in particular the use of grant policy with the help of program financing.*

**Key words:** institutional support; budgetary implications; municipal sport; grants; municipalities.

**JEL Classification:** D61, D62, H71, H75, I38.

## 1. Introduction

The decisive support of sport in the Czech Republic is achieved from public financial means through municipal budgets. According to studies and statistic data [1, 2], 4/5 of the total support is provided by municipalities and 1/5 is represented by direct expenses from the state budget, which is primarily aimed on the support of professional sport and national representation. Municipal financial means aim on the broader support of all sport activities of their citizens, including their active recreation. Municipalities divide the financial flows in sport into two streams – into the premises in their possession (institutional support of sport) and by grants into other subjects (non-institutional sport support). The non-institutional sport support comprises in the Czech Republic approximately 10 – 35%. In the absence of a methodological framework or normative base, municipalities direct their decision by political influences (Hobza et al, 2013; Numerato, 2009).

The framework for financing sport by two basic financial flows (institutional and non-institutional) was initially presented and advocated on the RASM conference in Istanbul 2013 in the section Sport politics. It was further verified on four cities in the Czech Republic, published [5, 6, 7, 8] and practically applied in the city of Litoměřice [9].

Scientific literature discusses the financing of sport by outsourcing public services, however there are different views on their efficiency [10]. The case study further develops research in the application of outsourcing of public services on municipal level [11, 12] and applies the principles of outsourcing in grant policy.

The city of Litoměřice has 24.3 thousand inhabitants and is administratively located in the Ústí region (Ústecký kraj). Sport activities are administered through a contributory organization Městská sportovní zařízení (MSZ i.e. city sport facilities), which was founded by the city of Litoměřice. Subject of their activity is the operation and administration of sport facilities and the provision of sport services. The organization currently manages independent subjects: Kalich arena (ice arena), swimming stadium, outdoor swimming pool and football stadium. Other sports are managed by local clubs.

## 2. Methods

The proposal of grant support in the form of rebalancing sport subsidies is part of a more comprehensive research study: "Economic analysis of sport financing in the city of Litoměřice", carried out as contract research [9]. This paper only summarizes selected chapters relating to the grant policymaking.

The data for the analysis of actual financial spending were obtained from budget sections of the city, from primary internal sources of city departments ensuring sport development and physical education, from accounting records of sport facilities (MSZ Litoměřice, s.r.o.), from official city web pages and with the help of city hall employees from the department for sport and physical education. The comparison was done with cities: Olomouc, Mladá Boleslav, Český Těšín and Němčice nad Hanou. The comparison includes cities with categorically different number of inhabitants (from 4 to 100 thousand) which have complete grant documentation and were willing to cooperate for the research.

The methodical approach to analysis of financial flows – sport expenses of municipal budgets – is based on theoretical knowledge of outsourcing [13], outsourcing in public sector and related risks [12] and the efficiency and flexibility of expenditures [14, 15].

The principle of analysis of sport financing lies in the methodology (see 2.1, 2.2) which sorts sport support as “institutional” and “non-institutional” expenses, the later representing outsourced financial services sport support. In line with theoretical findings, the higher proportion of non-institutional sport support should bring higher efficiency in sport spending and their better flexibility.

Based on the comparison of sport spending in various cities (per capita/year), it is possible not only to evaluate the level of financing in a city (total expenses), but it is also possible to define measures leading to higher flexibility and cost-effectiveness of sport spending through the revitalization of grant support.

Institutional and non-institutional support is in the study defined as follows:

### **2.1. Institutional support of sport**

This is the main stream in the development of sports infrastructure and offers stable cash flows (costs of operation, maintenance, renovation and new investments, etc.) directed towards entities owned by municipalities (CIS). Institutional support includes:

- Physical education at schools (set by law).
- Sports facilities (athletic stadiums swimming pools, ice arenas etc.).
- Physical recreation (water parks,

playgrounds, recreation areas, bike paths, etc.).

For this purpose, cities (usually those of more than 20 thousand inhabitants) have established specific organizations (contributory organizations, limited liability companies etc.) that bring together the sports facilities of the city. Physical education in schools in the Czech Republic is funded through the budgets of schools and money invested in the operation of school sports facilities is not currently accounted for separately and is not included in the financial flows of these case studies.

Financial flows in this area are selected from municipal budget in the form of a table, which contains summarized and analytical spending items, for example: total municipal spending, operating expenses and investment expenses for sport premises, investment expenses and operation of Youth home (Domov dětí a mládeže) etc..

### **2.2. Non - institutional support of sport**

Non-institutional support consists of expenditures to support sport (CNO), which are not designated for facilities owned by municipalities and comprises two types of sports funding: expenditures for support through grants (CNOG) and non-grant policy (CNOP):

- Support through grants is characterized by pre-established principles and rules of the grant competition and is designed to effectively provide for current needs, fluctuations in demand and to supplement the offering of specialized sporting events. It may be conceived of separately, or it can be treated

as a follow-up to “complement” existing institutional support for sport and physical education. Grant support is therefore based on the objectives of an established concept for the development of sport and physical education, is not a one-time act,

- Non-grant policy - this is the allocation of funds from municipal budgets without firm criteria at the discretion of the competent decision-making bodies. This is often mistakenly referred to as grant aid and, to a considerable extent, such decisions are based on contentious opinions, beliefs, and political or partisan positions (which are always present). Funding decisions are not made on the basis of parametric methods but rather on the basis of “custom” (automatic support for certain sports and clubs), or on the basis of political considerations.

Financial flows included in non-institutional sport support (in the case study Litoměřice) were selected from the municipal budget in the form of a table, which contains the selected cost items: grants and contributions for sport events, subsidies on sport or sport-related events organized by the city, support for the operation of sport clubs, subsidies for the organization of significant sport events etc.

In accordance with the terminology thus established, the following indices were evaluated:

$$II \text{ (index of institutional support)} = \text{CIS} / (\text{CIS} + \text{CNO})$$

$$INO \text{ (index of non-institutional support)} = \text{CNO} / (\text{CIS} + \text{CNO})$$

$$INGP \text{ (index of non-grant policy)} = \text{CNOP} / \text{CNO}$$

The case study, which uses the methods given above, was prepared based on steps as

follows:

- Budget analysis in relation to public finances for sport development
- Analysis of internal development of municipal support of sport in the share of institutional and non-institutional support
- Recommendations on the restructuring plan
- Expansion of grant support based on the results of study on the lifestyle of school aged children (HBSC study) in the city of Litoměřice

### 3. Results and Discussion

#### 3.1 Budget analysis in relation to public financial means for sport

Table 1 represents total expenses (operating and investing) from the city budget on financing sport. The city has a ratio of sport support from budget between 6.9 – 24.9% of total budget spending (ISP% = 6,9 – 24,9 %). ISP% in compared cities:

- City of Mladá Boleslav: : ISP%: 3.6 – 13.6 %
- City of Olomouc 4.2 – 6.6 %.

The volatility in sport spending between years 2009 – 2014 has deeper roots in one-off investment spending for sport infrastructure. After exclusion of the investment, variance of budget spending of compared cities is lower:

- City of Litoměřice: 2.9 – 11.3 %
- City of Mladá Boleslav: 3.4 – 11.8 %
- City of Olomouc: 3.7 – 3.8 %.

Table 1 indicates that the city of Litoměřice contributes to sport above the average: Mladá Boleslav reached a share of 11.8% only in one year due to financing of a significant international event (World Ski Championship).

Table 1. Share of expenses on sport from the municipal budget (Source: Authors)

(amounts in CZK thousands)	2009	2010	2011	2012	2013	2014
City of Litoměřice – total budget expenses	963 871	763 031	606 058	397 097	414 938	459 823
Total expenses on sport support	240 186	118 712 +208 125	41 712	45 018	46 087	46 104
Operating expenses on sport support	27 948	40 465	40 036	44 381	46 057	45 704
I <sub>SP%</sub> (of total sport support)	24.9 %	15.6 %	6.9 %	11.3 %	11.1 %	10.0 %
I <sub>SP%</sub> (of operating sport support)	2.9 %	5.3 %	6.6 %	11.2 %	11.1 %	9.9 %

Legend:

ISP% ... percent share of expenses on sport from the city budget

Per inhabitant rate can also be used for the evaluation of normative expenses level (Table 2):

Table 2. Average values of sport support (excluding investment) in compared cities (calculated as CZK per inhabitant per year). (Source: Authors)

Indicator (CZK/inhabitant/year)	Litoměřice	Český Těšín	Olomouc	M l a d á Boleslav	Němčice nad Hanou
Total operating expenses per inhabitant per year	1.635	601	765	2.054	707
Of which:					
- institutional support (IP)	1.301 (1.366)*	493	610	647	547
- non-institutional support (NIP)	334 (530)*	108	155	1.407	160
Of NIP:					
- grant support	334	12	69	1.403	52
- grant policy	0	96	86	4	108

\* brackets show the calculated indicator for the final year (2014) of the selected series

Municipalities shown in table 2 show similar ratio of expenses on institutional sport support (excluding investment) per inhabitant, ranging from 493 to 647 CZK, with the exception of city of Litoměřice. This indicator is not only dependent on the political will to resolve sport support by institutional

form but also by the financial viability of budgets. Wealthy cities or cities with high share of income from gambling and lotteries use non-institutional sport support (see Mladá Boleslav -wealthy city; and Litoměřice -income from lotteries and gambling). Other indicated values do not divulge from the range given by other cities.

### 3.2 Analysis of internal division of municipal sport support in the share of institutional and non-institutional sport support.

Table 3 documents spending on sport in the division on institutional and non-institutional sport support:

Table 3. Shares of institutional and non-institutional sport support on the total sport (II, INO).

(Source: Authors)

Indicator (in CZK thousand and index)	2009	2010	2011	2012	2013	2014
Litoměřice: Total spending on sport and physical education ( $C_{IS} + C_{NO}$ )	240 186	118 712	41 712	45 018	46 087	46 104
of which: institutional support - $I_1$ ...share of institutional support on total sport support	233 790 0,97	112 409 0,95	36 212 0,87	33 349 0,74	33 969 0,74	33 224 0,72
of which: non-institutional support - INO... share on non-institutional support on total sport support (index)	6 396 0,03	6 303 0,05	5 500 0,13	11 669 0,26	12 118 0,26	12 880 0,28

Data indicate the following findings:

- the city of Litoměřice relies on institutional sport support, for which it allocated approx. 72 – 97 % of sport support ( $II = 0.72 - 0.97$ ) in years 2009 – 2014 (including PPP projects); with a slowly declining tendency. Non institutional support constitutes approx. 3-28% of total sport support ( $INO = 0.03 - 0.28$ ) and shows strong growth.

### 3.3 Recommendation on restructuring of sport financing

Goal of the contract research for the city of Litoměřice was to conduct an analysis in sport financing and propose a form and

financial sources for sport support aimed at children and youth.

The recommendation for restructuring of sport financing resulted from analysis of financial flows and the demands of the city council to keep the actual amount of sport financing (stability condition), from the requirements on inhabitants for sport and healthy children and adolescence and as a result of concluded HBSC study. The strategic decision on the support of sport lies in:

- a) proposals of new grant programs,
- b) restructuring (rebalance) of financial flows in favor of non-institutional sport support.



Ad a) Following new programs were suggested for grant competition in the co-operation with sport committee, which represent sport clubs, municipal representatives and citizens:

- a1: Sport – sport for talented youth (all kind of sports)
- b1. Sport for health of the youngest children
- b2. Sport and outdoor activities
- b3. Sport and youth health (support of the most popular sports: swimming, soccer, running, skiing, skating, cycling)
- b4. Sport and youth health – new sports

Specific selection of a1 program was made based on the requirements of sport clubs in order to improve support of talented individuals across all sports. The support will be also focused on the final round of national project “Children Olympics” (Olympiáda dětí a mládeže).

Programs in the area of a healthy lifestyle (b1 – b4) are designed in relation to concluded HBSC study in the city of Litoměřice [16], of which programs b1, b2 are focused on improving lifestyle of children up to 4th grade of elementary school. Programs b3, b4 are designed for youth (5th -9th Grade of elementary school).

Ad b) The proposal on restructuring of financial flows in order to finance grant programs is prepared in two variants:

1st variant of sport financing- uses financial sources of MSZ (municipal sport infrastructure), DDM (Youth centre) and contributions from gambling and lottery companies (see figure 1).

Institutional sport support draws in 2014 total 33,224 thousand CZK of which:

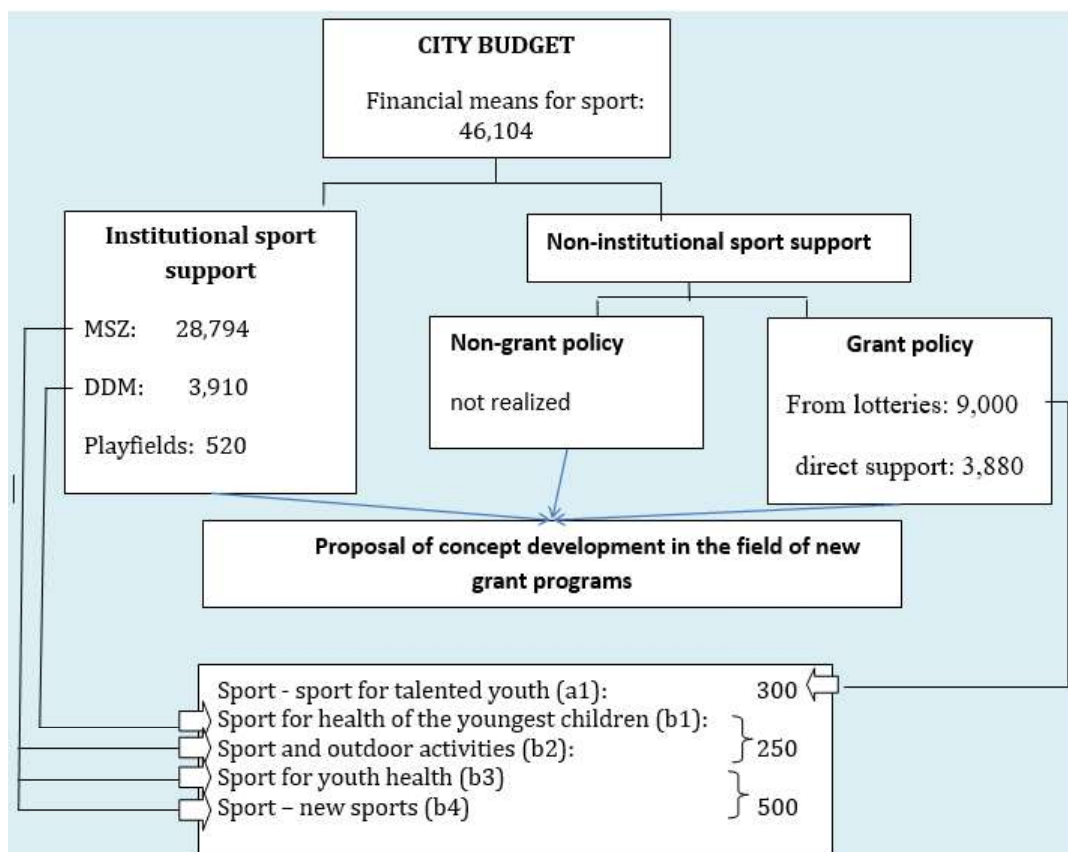
- MSZ: 28.794 thousand CZK, of which 500 thousand CZK is allocated for grants in the area Sport for youth health (b3, b4)
- DDM: from amount 3,910 thousand CZK is specifically allocates CZK 150 thousand for proposed grants b1 “Sport for health of the youngest.” The rest will be covered from MSZ sources i.e. CZK 100 thousand for grants “Sport and outdoor activities” (b2),
- it was recommended to further support the development of children playgrounds from the city budget (see HBSC study); in 2014, it was allocated CZK 520 thousand for this field, which represents more than 100% increase compared to previous year.

Non-institutional sport support draws in 2014 total CZK 12,880 thousand, of which:

- From lotteries and gambling (CZK 9,000 thousand) of which it is recommended to allocate:
  - approx.. CZK 300 thousand for grants “Sport – sport talented youth” (a1),
  - the remaining financial means (i.e. CZK 8,700 thousand) will be left for the support of sport clubs, providing that the guidelines for the allocation of subsidies are published (for example covering of operating expenses in full, tender quality, minimum membership, other).

The restructuring of financial flows is in detail displayed in figure 1.

Figure 1. The support of new grant programs in CZK thousand (Source: Authors)



2nd variant of restructuring financial flows:

New programs and grants will be financed in suggested amounts as in 1st variant but only by selecting financial means of non-institutional support from gambling and lotteries. This variant was however rejected by the city council.

#### 4. Conclusion

The paper shows new possibilities of dividing financial flows for sport support into institutional and non-institutional form. Using this as a base, the level of sport support can be compared between cities. The city of

Litoměřice shows above average sport support in the form of institutional sport support, which represents the support of own sport infrastructure. Above all, the study demonstrates the possibilities of stating a normative base for the financing of sport. If a particular municipality shows above average levels of sport support from local budget and intends to further support desirable sport activities of inhabitants, it is possible to make effective decisions in a grant competition; without necessary increase in financing by rebalancing of current financial flows.

New grant programs proposed for the city of Litoměřice do not threaten the stability of total financial means for sport, are actual and



focused on well-defined issues (for example: support of sport talents, sport for health, new sports etc.). Their advantage in comparison with institutional form is their extraordinary flexibility and timeliness.

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