

Sports, Law and Finance Conference

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PRIVATE AND PUBLIC FINANCING OF SPORT AND (NON)ECONOMIC LOGIC OF EVALUATING INVESTMENTS IN SPORTS FACILITIES

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Questions

1. How do resources for financing sport vary and what (if any) is the influence of the economic situation on this?
2. How does understanding of public and private sources for financing sport help us better understand the evaluation of investment in sports facilities?

Goals

- to compare different sources of financing sports in Slovenia, especially in light of the changing economic situation,
- to argue about the reasons for public and private funding of the sports facilities
- to shed light on the logic of different approaches to the evaluation of investments in sports, especially in sports facilities

Data

- only secondary

Part1

FINANCING SPORTS IN SLOVENIA

Distribution of sources for sport financing

- Public
 - (1) government (together with EU sources)
 - (2) local communities (municipalities)
 - (3) Foundation for sport
- Private
 - (1) residents
 - (2) businesses

Private sources for sport financing in Slovenia

- more than 85% of all resources
- by far the largest are the expenditures of residents => more than 3/4
- expenditures of businesses => less than 1/4
- the sport financing model is very similar to the models that are typical in the EU

Public sources for sport financing in Slovenia

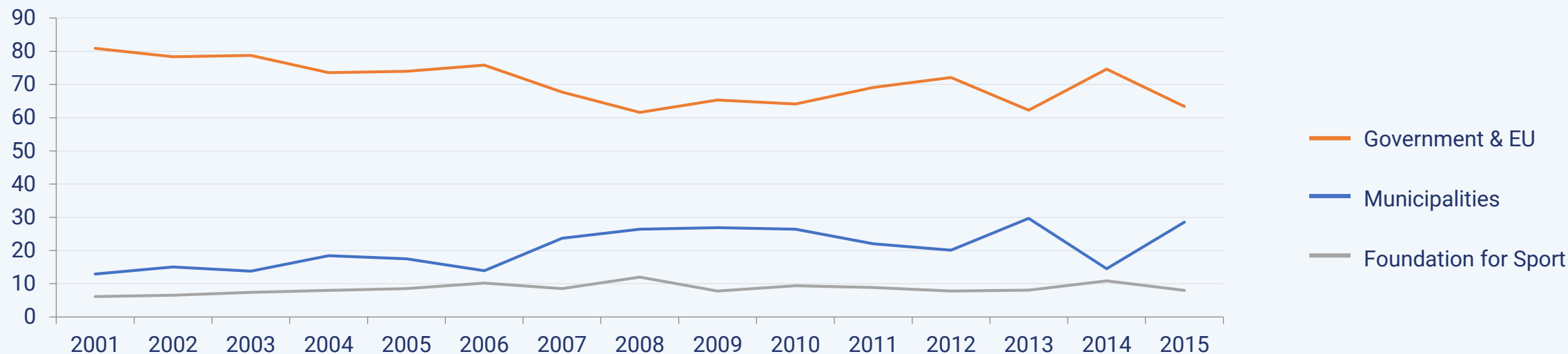
- less than 15% of all resources
- this proportion is even lower than in neighboring and developed EU countries
- the special feature is that, due to the small market (the loss of sponsorships and funding from TV rights compared to major European countries), top-level sport still depends heavily on public finances

The amount of public sources for sports 2001-2015 (in mil. €)

Public sources	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total	63.4	68.7	80.6	73.2	78.5	100.3	100.7	112.2	130.2	143.3	150.8	114.3	143.4	102.4	130.5
Government and EU	8.2	10.4	11.1	13.5	13.7	14.0	23.9	29.6	35.0	37.9	33.2	23.0	42.6	14.9	37.3
Local communities	51.3	53.8	63.5	53.9	58.1	76.1	68.2	69.1	85.1	91.9	104.3	82.4	89.3	76.4	82.7
Foundation for sport	3.9	4.5	6.0	5.9	6.7	10.3	8.6	13.5	10.2	13.5	13.3	8.9	11.5	11.1	10.5

The structure of public sources for sports 2001-2015 (in %)

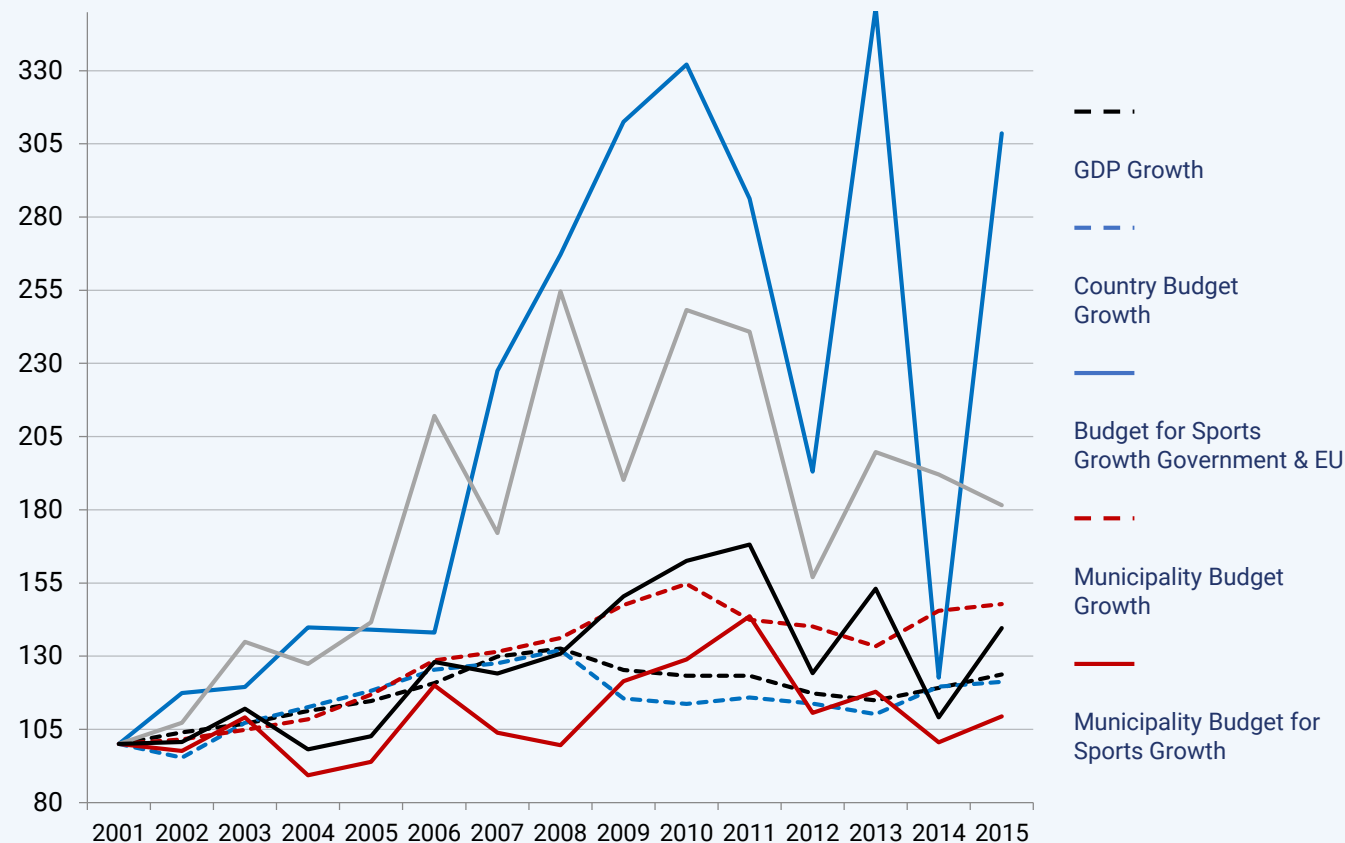
- local community sources with by far the largest share, although this share was declining: from 80.9% (2001) to 63.4% (2015)
- sources from the EU and the government in the second place and increasing: from 12.9% (2001) to 28.6% (2015)
- sources from the Foundation for sport with the smallest share, although this share was increasing: from 6.2% (2001) to 8.0% (2015)



Changes of public sources for sports 2001-2015 (growth in %)

Public sources	Nominal growth (in %)	Real growth (in %)	Real growth, perman. GDP (in %)
Total	106	39.6	12.9
Government & EU	350	208.6	149.4
Local communities	60	9.4	-11.5
Foundation for sport	170	81.6	46.8

Changes of public sources for sports 2001-2015 (growth indices based on 2001)



Sport is not independent of economic and wider social conditions

- although sport is important, it is not an urgent activity
- economic explanation: income elasticity of demand (relative change in demand due to relative change in income) > 1
- consequently: 1% decrease in GDP => more than 1% decrease in sport financing

Studies on the impact of the crisis on sports funding do not show uniform results

- less visible influence in European club football (especially in the major leagues)
- more visible influence in North America (both university and professional leagues)
- serious consequences reported from individual countries: e.g. Turkey, Moldova
- in Slovenia different influence on different types of sports organizations
 - least affected: non-professional SO due to stable revenue and cost structure
 - more affected: professional SO due to: (1) lower purchasing power => lower sales of SO's products and services, (2) inability to continue the positive trend of financing from public sources (the effect of "fiscal doping")

Correlation between public sources for sport and economic indicators

Variable	GDP growth	Growth of country budget	Growth of national and EU sources for sport	Growth of local commun. budgets	Growth of local commun. sources for sport	Growth of sources of the Foundat. for sport	Growth of total public sources for sport
GDP growth	1.000	0.885	0.645	0.804	0.358	0.817	0.608
Growth of country budget	-	1.000	0.329	0.584	0.087	0.665	0.295
Growth of national and EU sources for sport	-	-	1.000	0.748	0.614	0.701	0.899
Growth of local commun. budgets	-	-	-	1.000	0.588	0.809	0.774
Growth of local commun. sources for sport	-	-	-	-	1.000	0.647	0.891
Growth of sources of the Foundation for sport	-	-	-	-	-	1.000	0.805
Growth of total public sources for sport	-	-	-	-	-	-	1.000

Correlation between public sources for sport and economic indicators

- almost all other variables have a statistically significant positive correlation with GDP growth: growth of the country budget ($R = 0.885$) and local communities budget ($R = 0.804$), growth of total public sources for sport ($R = 0.608$), growth of the national and EU sources for sport ($R = 0.645$) and growth of the sources of the Foundation for sport ($R = 0.817$)
- the amplitudes of changes of public sources for financing sport are much greater than the amplitude of GDP changes => two reasons
- (1) elasticity in non-essential goods > 1
- (2) volatile EU funds and funds from the Foundation for sport
- simultaneity of changes in public sources for sport from different sources
- correlations between changes in sources for financing sports from different budgets and changes in total amounts of those budgets: local community level ($R = 0.588$, statist. significant) $>$ country level ($R = 0.329$, not statist. significant)

Part2

ARGUMENTS FOR PUBLIC AND PRIVATE FINANCING OF SPORTS FACILITIES

Sport is a mixed (both public and private) good

- doing sports for your own pleasure => private goods => private sources
- benefits of sport also to the whole society => goods of social importance => public sources

Reasons for public/private (co)financing of sport facilities are classified according to two criteria

- (1) which sport market segment they relate to
- (2) economic vs. broader social reasons

Public (co)financing of sport facilities

- non-economic reasons more exposed than economic

Private (co)financing of sport facilities

- arguments are economic, social or the combination of both

Public (co)financing of sport facilities

Arguments for public (co)financing of sport facilities	Profess. sport		Sport recreac.		Youth sport	
	Ec.	Soc.	Ec.	Soc.	Ec.	Soc.
Construction of sport facilities => new jobs => positive effects on economy and society	●	●				
Top sport events at facilities are (1) the promoter of the region/country externally and (2) the builder of national identity internally	●	●				
Visits to facilities increase awareness of the need for sport => greater desire for one's own sporting activity	●	●				
Visitors spend money => greater economic activity in the region with multiplier effect	●					
The pride and satisfaction of local fans => wider social benefit		●				
Other semi-commercial or non-commercial events (e.g. celebrations, fairs, religious and political meetings etc.) also take place at sport facilities => these are typically unprofitable and therefore require public sourcing		●		●		●
Sport facilities are a basic prerequisite for actively practicing sport in many industries => positive impact on people's health, work ability and productivity => less susceptibility to negative impacts (especially important for children and young people)			●	●	●	●
Free or affordable use of sports facilities is also important because of the growing diversity in the distribution of wealth => the importance of the role of the government in the accessibility of sport facilities is increasing				●		●

Private (co)financing of sport facilities

Arguments for private (co)financing of sport facilities	Profess. sport		Sport recreac.		Youth sport	
	Ec.	Soc.	Ec.	Soc.	Ec.	Soc.
Sport facilities can be a medium for advertising in sports and through sports => private interest of companies (sponsors)	•					
Individuals attending matches at sport facilities pay for their own pleasure => private interest of individuals		•				
Sport recreation at sport facilities means private pleasure and care for your own long-term health => both uneconomic and economic private motive			•	•		
Redistributive effect related to sport facilities for children and youth (e.g. playgrounds for schools) => since private sources are insufficient to finance facilities for professional sport, public sources are used to co(finance) them => consequently (because there are not enough public sources) private sources are needed to (co)finance facilities for children and youth					•	•

Part3

(NON)ECONOMIC LOGIC OF EVALUATING INVESTMENTS IN SPORTS FACILITIES

Existing sport facilities

- in Slovenia mostly in private hands, or under the authority of public institutions or directly cities/municipalities
- financing partly by local community or rents paid by sport clubs or private tenants

Financing the construction of new facilities

- local community decisions are (will be) increasingly under scrutiny => the need for professional argumentation for major investments => first the economic evaluation and only then the evaluation from other (non-economic) perspectives

Economic evaluation of an investment

- methods: (1) net present value, (2) internal rate of return, (3) yield index etc.
- the result depends on (1) the evaluation of positive and negative cash flows, (2) the investment life span and (3) the discount rate
- there is almost no sport facility that is economically 100% justified

Economic impact studies

- they measure the economic impact of all events that will take place at the sport facility on the local (and possibly wider) community
- a broader assessment of what a local community (i.e. residents, not just the investor in the facility) receives in return for the sacrifices due to investment
- due to the multiplier effect, the real economic benefits resulting from all events at the sport facility are greater than if the multiplier effect was not considered
- but beware: studies should be based on realistic rather than inflated assumptions
- using an economic impact study, it is somewhat more likely that an investment in a sport facility will turn justified; nevertheless, many sport facilities will still not turn to be economically justified by using this method

Non-economic arguments for financing sports facilities: arguments on existence of sport facilities must not only be economic but also broader socio-political

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Thank you!

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