

Original Article

Local governments' financial support for sport during the COVID-19 pandemic based on the example of Toruń municipality

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Abstract

The outbreak of the COVID-19 pandemic has had a huge impact on the functioning of Polish society and economy. The pandemic has also significantly worsened the finances of local government units. The decline in own-source revenue, combined with the need to spend funds to combat the effects of the pandemic, has made it necessary for local governments to revise their plans for financial support of sport-related activities. The aim of this study is to determine the impact of the economic crisis caused by the COVID-19 pandemic and the reduced activity of society resulting from the need to observe social distancing on the amount of financial support for sports activities provided by the City of Toruń. The analysis of the budgets of the City of Toruń shows that in the years 2017–2019 there was a dynamic increase in revenue as well as expenditures, including in the area of sport funding. In the years 2020–2021, the amounts of realised and planned budget revenue and expenditures were relatively high, but especially in the case of expenditures, lower than those included in the Long-Term Financial Forecast of the City of Toruń for the years 2020–2050. In addition, in the said years, the share of own-source revenue in total revenue has decreased significantly compared to the earlier years of the analysis. This has resulted in reduced opportunities for funding investments, including in the physical culture section. The significant reduction in capital expenditures for sports facilities and a drop in the amount allocated to funding physical culture tasks has resulted in a decline in sports spending budgeted for the financial year 2021 to a record low of 3.3% of the city's total budgeted expenditures. As a result of the research, a conclusion was formed that the decreased expenditures in Toruń's budget in the physical culture section observed in the years 2020–2021 should be associated with the adverse impact of the COVID-19 pandemic. The pandemic has negatively impacted the city's finances and ability to fund property expenditures in the area of sport, and has limited the opportunities to play sports and participate in sporting events.

Key words: coronavirus, financing sports facilities, sports expenses, physical activity, local government units, social distance

Introduction

The introduction of social distancing by the government has made active recreation and participation in sporting events much more difficult. The closure of sports venues for weeks and cancellation of sporting events has disrupted sports organisations, teams, and athletes (Deloitte, 2020; Huth & Billion, 2021). It has also had an adverse impact on the lives of ordinary citizens, as physical activity makes an important contribution to the physical, mental, and emotional health of people (Hughes et al., 2020). The effects of the pandemic have also been felt by local governments which, as participants in the sports ecosystem, have had to take adaptive measures in the organisational and financial areas.

Toruń is a city that is strongly associated with sport. It is represented by the speedway club KS Toruń, football club Elana Toruń, women's basketball club Energa Katarzynki Toruń, and ice hockey club Energa Toruń. Its cyclists and rowers can boast of significant sporting successes on a global scale. Toruń's sports venues host international competitions, including the most famous Speedway Grand Prix at Motoarena and Copernicus Cup – an international indoor athletics meeting held since 2015 in Arena Toruń. The city also supports amateur sport through initiatives such as the Santa Claus Running Festival and the Plaża Gotyku (Gothic Beach) volleyball tournament, as well as general sport carried out mainly as extracurricular activities. The outbreak of the COVID-19 pandemic has forced the organisers of many sporting events to change their rules or cancel them. In turn, the need for a sanitation and social distance regime has significantly restricted the operation of municipal sports facilities such as swimming pools, football pitches, basketball courts, and outdoor gyms. Current research on the effects of the COVID-19 pandemic only sparsely addresses its impact on local budgets and sports funding. Our intention is to enrich the existing limited debate in this area. The aim of this study is to determine the impact of the economic crisis caused by the COVID-19 pandemic and the reduced activity of society resulting from the need to observe social distancing on the amount of financial support for sports activities provided by the City of Toruń.

Selected aspects of the impact of the coronavirus pandemic on society, the economy, and the state of public finances

The COVID-19 pandemic, because of its enormous impact on the functioning of societies and economies, cannot be considered solely in medical terms. One of the economic impacts of the pandemic is increased unemployment. In the United States, the unemployment rate increased from 3.5% recorded in February 2020 to 14.7% in April 2020 (Horsley, 2020). Poland also saw an increase in this indicator from 5.4% in March 2020 to 6.2% in December 2020 (Statistics Poland, 2021). The relatively small increase in the number of unemployed is partly due to the positive effect of government programmes offering support for entrepreneurs, including those operating in the field of sport. However, the small increase in the unemployment rate is also related to the fact that not all people who lost their jobs during the pandemic period registered as unemployed. In particular, we are talking about owners and employees of hotels, restaurants, but also gyms, amusement parks, swimming pools, and ski resorts not providing services to customers for several weeks or months due to decisions made by the government to block their activities.

The pandemic outbreak has also had a huge impact on the value and dynamics of changes in GDP (Şerbănel, 2020), both for the global economy and for Poland. The World Bank estimates that in 2020, GDP worldwide fell by 4.3% (The World Bank, 2021), while a 7.4% reduction in GDP is projected for the European Union (Clark, 2021). The median forecast presented by 23 professional analysts surveyed by Narodowy Bank Polski at the turn of 2021 indicates that Poland's GDP in 2020 will decline by 2.9% compared to 2019 (Narodowy Bank Polski, 2021). The scale of the negative impact of the pandemic on Poland's economy is highlighted by the fact that the percentage decline in the value of GDP recorded in 2020 is the worst result since 1991. Even during the global financial crisis triggered by banks' reprehensible practices in subprime lending and asset securitisation and during the debt crisis of peripheral Eurozone countries, Poland's GDP change always remained positive.

The poor condition of Poland's economy translated into a decline in tax revenue in 2020 and the need to amend the budget law. This fact is important for local governments, as targeted subsidies and subventions from the central budget are important sources of funding for their activities. Bearing in mind the size of the general subvention for local governments which was not reduced during the budget amendment and amounted to about PLN 67 billion in 2020, while in the state budget for 2021 it is envisaged in the amount of over PLN 70 billion, one can have the impression that state financial aid for local governments is increasing (Ministry of Finance, 2020). A conclusion on the improvement of the financial condition of local governments in Poland can also be drawn from comparing the amounts of targeted subsidies transferred from the state budget to local government units, or more broadly, by analysing the total revenue of local governments in Poland in 2019 and 2020. In the opinion of the local government officials, the aforementioned increase in revenue does not reflect the real financial situation of communes and poviats in Poland, as it results mostly from higher transfers for tasks performed by local governments on behalf of the state. This phenomenon was also noticeable in other states' local government budgets (Economics Observatory, 2020). A true picture of the financial situation of local governments in Poland and their ability to finance their own tasks, including sport, is presented by the level of own-source revenue (Nelicki, 2020).

The negative impact of the COVID-19 pandemic on the revenue and expenditure side of local government budgets, like the pandemic itself, is a worldwide phenomenon. Bonaccorsi et al. (2020) analyse the impact of the pandemic on the economic conditions of local governments in Italy. The results reveal a significantly negative effect on local government fiscal revenue which is stronger in municipalities with higher financial capacity. In the UK, the COVID-19 crisis is both increasing councils' spending and reducing the revenue that they can raise themselves (Economics Observatory, 2020; Ogden & Phillips, 2020). For example, the impact of COVID-19 in the year 2020/21 on London local government finances is estimated at £1.9 billion: including £1.1 billion of lost revenue and £767 million of increased expenditure. Considering £499 million of government funding support for London boroughs, the estimated remaining funding gap was £1.4 billion (Honeyben, 2020). In turn, Gordon, Dadayan and Rueben (2020) and Sheiner and Campbell (2020) indicate that the United States have experienced very deep declines in state and local personal income and sales tax revenues which together account for more than 60 percent of general own-source funds. Cities and other local governments around the world are reporting increased spending due to new obligations to provide a variety of safety measures, such as personal protective equipment and disinfection of public spaces. The increase in local government spending is also due to the need to provide help for the elderly, and virtual schooling (Economics Observatory, 2020; Gordon et al, 2020; Auerbach, Gale, Lutz, & Sheiner, 2020). Ahrens and Ferry (2020) note that one of the effects of the COVID-19 pandemic takes the form of aggravated problems with the financial resilience of English local governments. In turn, Maher, Hoang and Hindery (2020) find that one strategy for local governments to respond to fiscal shocks may be to focus on reducing spending. An OECD (2020) survey of 300 representatives of subnational governments of 24 EU countries shows that 85% of respondents see the negative impact of the socio-economic crisis caused by the pandemic on their finances. The literature also presents a view regarding the adverse impact of the pandemic on local government spending in the area of sport. The results of studies conducted in the Czech Republic and Slovakia indicate that the effect of the COVID-19 pandemic is that municipalities are reducing service provision, especially in the areas of culture and sport (Nemec & Špaček

2020). Mayer and Cocco (2021) also predict reductions in local government spending on sport-related infrastructure.

When analysing the expenditures of local governments in Poland executed or planned in the area of sport during the coronavirus pandemic, one should pay attention to such factors as: the amount of own-source revenue, implemented investments in sports infrastructure and limitations on physical activity of commune and poviát residents resulting from restrictions introduced by the government. Revenue including proceeds from property tax, agricultural tax, forestry tax, vehicle tax, a portion of PIT and CIT, and proceeds from fees and property management are important for supporting sports activities. This is because they are the basic source of financing of communes' own tasks.

The outbreak of the pandemic affected the size of local governments' own-source revenues in Poland. Local governments' expenditures in the area of sport are determined, among other things, by the scale of implemented investments. The outbreak of the pandemic has marginally reduced the implementation of multi-year investment programs. However, it has influenced funding decisions for new investments in sports facilities. The level of restrictiveness of social distance regulations, in turn, influences the scale of expenditures on the current operation of sports facilities and organisation of sports events. During the pandemic, many sporting events had to be cancelled and sports facilities such as swimming pools, sports arenas, soccer fields and other team sports were closed periodically.

Legal regulations regarding communes' support for sports activities

The commune is the basic unit of local government in Poland. In Article 7(1), the Act on Commune Self-Government of 8 March 1990 indicates that meeting the collective needs of the community is an own task of the commune. One of such tasks is the matter of physical culture and tourism, including recreational areas and sports facilities (Act, 1990). In Article 2(1) of the Act on Sport of 25 June 2010, physical culture is understood as sport along with physical education and physical rehabilitation. Sport, on the other hand, is defined as all forms of physical activity which, through *ad hoc* or organised participation, influence the development or improvement of physical and mental fitness, the development of social relations, or the achievement of sporting results at all levels (Act, 2010). Article 27 of the Act on Sport states that creating financial and organisational conditions conducive to sports development is an own task of local government units. In accordance with Article 14 of the Act on Public Finance, the local government's own tasks in the area of physical culture and sport, including the maintenance of recreational areas and sports facilities, can be carried out through local government budget-supported units. Another way to support the development of sport is to grant targeted subsidies from the budgets of local government units. Such a form of financing for entities not included in the public finance sector and not operating for profit is provided for in Article 221(1) of the same Act.

Targeted subsidies are to be used to achieve a public purpose related to the implementation of the tasks of a local government unit, as well as to subsidise investments related to the implementation of these tasks (Act, 2009). Pursuant to Article 28 of the Act on Sport (Act, 2010), a sports club operating within a given local government unit may use grant funds for: 1) implementing sports training programs, 2) purchasing sports equipment, 3) covering the costs of organising sports competitions or participation in these competitions, 4) covering the costs of using sports facilities for sports training, 5) financing sports scholarships and salaries of training staff. The use of grant funds should contribute to improving the conditions in which members of the sports club practise sport, or increasing the accessibility of the local community to sports activities conducted by the club.

The support and promotion of physical culture and sport may also be carried out on the basis of Article 4 of the Act on Public Benefit and Volunteer Work. This regulation provides for a wider range of beneficiaries, including associations, foundations, and social cooperatives (Act, 2003). In addition to the above, the law also provides for the support of physical culture and sport by local government units through the provision of sports facilities on preferential terms to sports clubs and residents of communes, the financing of extracurricular sports activities, scholarships and prizes, as well as the creation or accession by the commune to commercial companies operating in the field of sport (Supreme Audit Office, 2012; Kowalczyk, 2019).

Material & methods

The research on the impact of the COVID-19 pandemic on the financial situation of the City of Toruń and the scale of financial support for sports activities included literature studies and a statistical analysis of annual budgets of the City of Toruń. Valuable information **on the directions for further development of the City of Toruń** was also obtained from the Long-term Financial Forecast for the years 2020–2050. The results obtained during the study will help verify the following research hypothesis H1: The negative impact of the pandemic on the finances of the City of Toruń resulted in a significant reduction in physical culture spending in the 2021 budget.

The annual budget is the basis for the financial management of the Municipality of Toruń. Table 1 presents financial data that serves to assess the financial situation of the Municipality of Toruń in the years 2017–2021 and to determine the importance of spending on sport-related activities during the said period.

Table 1. Basic financial data for the Municipality of Toruń in the years 2017–2021 (in PLN million)

Category	2017	2018	2019	2020*	2021**
Budget revenue	1089.4	1197	1288.6	1369.3	1352.2
Own-source revenue	629.2	703.7	720.2	645	662
Share of own-source revenue in total revenue	57.8%	58.8%	55.9%	47.1%	49.0%
Budget expenditures	1105.8	1248.9	1390.5	1467.1	1394.7
Deficit	16.4	51.9	101.9	97.8	42.5
Property expenditures	186	268	294.2	266	238.1
Share of property expenditures in total budget expenditures	16.8%	21.5%	21.2%	20.4%	17.1%
Expenditures in the physical culture section	45.4	55.9	61.5	60.4	45.9
Share of expenditures in the physical culture section in total budget expenditures	4.1%	4.5%	4.4%	4.1%	3.3%
Property expenditures in the physical culture section	19.5	30.4	35.4	38.3	24.3
Share of property expenditures in the physical culture section in total property expenditures	10.5%	11.3%	12.0%	14.4%	10.2%

* revised 2020 budget plan, current as of December 17, 2020.

** data scheduled for implementation in the FY 2021 budget.

Source: own study based on: Reports on the implementation of the budget of the City of Toruń in 2017, 2018, 2019 (Municipal Office of Toruń, 2021a) and Resolution of the Toruń City Council No. 548/2020 on the city budget for 2021 (Resolution No. 548/2020, 2020).

Table 2 presents the expenditures executed in the years 2017–2019 and planned in the years 2020–2021 in the physical culture section by the City of Toruń. Expenditures are presented by chapter corresponding to the budget classification. Property expenditures were distinguished from the sum of all expenditures.

Table 2. Classification of expenditures in the physical culture section in the Municipality of Toruń from 2017 to 2021 (in PLN million)

Category	2017	2018	2019	2020*	2021**
Expenditures in the physical culture section	45.4	55.9	61.5	60.4	45.9
Sports facilities	18.5	25.7	32.8	35.8	23.8
Institutions of physical culture	6.2	5.7	5.7	5.6	6.1
Tasks in the area of physical culture	18.9	19.2	20.0	16.1	15.2
Other	1.8	5.3	3.0	2.9	0.8
Property expenditures in the physical culture section	19.5	30.4	35.4	38.3	24.3
Investment in sports facilities	17.7	25.1	32.4	35.4	23.5

* revised 2020 budget plan, current as of December 17, 2020.

** data scheduled for implementation in the FY 2021 budget.

Source: own study based on: Reports on the implementation of the budget of the City of Toruń in 2017, 2018, 2019 (Municipal Office of Toruń, 2021a) and Resolution of the Toruń City Council No. 548/2020 on the city budget for 2021 (Resolution No. 548/2020, 2020).

In presenting the issue of sports financing by the City of Toruń, it is worthwhile presenting basic information on sports infrastructure and its management. Toruń has a diverse range of sports facilities including stadiums, sports halls, swimming pools, ice rinks, tennis courts, volleyball courts, basketball courts, football pitches, field hockey pitches, tennis courts, outdoor gyms, a skate-park, a rally-cross track, and a carting track (Municipal Office of Toruń, 2021b). A significant number of these facilities are managed by the Municipal Sports and Recreation Centre (MOSiR) in Toruń. It is an organisational unit of the Municipality of Toruń operating as a budget-supported unit. The objectives of MOSiR are, among others: managing the entrusted municipal property, creating suitable conditions for sport and recreation, upgrading the sports base, and organising mass events of sports, recreational, cultural and educational character (Resolution No. 121/03, 2003). The City of Toruń also supports the development of sport by providing targeted subsidies to sports clubs operating in Toruń. This makes

the use of sports club facilities and services cheaper and more attractive to city residents (Huterska, Hutski, Zdunek-Rosa, & Łapińska, 2020). In 2020, through a competition, 29 clubs were awarded grants for the development of sport at the highest level amounting to more than 6.8 million PLN. Support was also provided for the organisation of events and participation of players in important competitions by providing 38 grants for these purposes in the total amount of PLN 594.5 thousand. A subsidy of PLN 425.5 thousand was also allocated for 39 projects involving the promotion and popularisation of physical culture and recreation (Municipal Office of Toruń, 2020a). The outbreak of the pandemic meant that some grants could not be used. According to City of Toruń data, at least 23 events out of the 95 planned for 2020 did not take place due to the existing restrictions on social distance and organisation of mass events (Municipal Office of Toruń, 2020b). Analysing the results of competitions for the implementation of tasks in the area of sport in 2021, one can see a significant reduction in the amount of grants. Within the framework of the public task "Development of sport at the highest level in the senior category", the Municipality of Toruń granted subsidies to 22 city's clubs in a total amount of approximately PLN 2.6 million (Municipal Office of Toruń, 2021c). In turn, the competition for the public task "Organisation of international and national sports events, memorials, and cyclical tournaments in Toruń creating the sports image of the City of Toruń" yielded 12 subsidies for a total amount of about PLN 225 thousand (Municipal Office of Toruń, 2021d). The decrease in subsidy amounts compared to 2020 can be associated with the deterioration of the financial situation of the City of Toruń as well as the reduced opportunities for organising sporting events due to the COVID-19 pandemic.

Results and discussion

The analysis of the data in Table 1 indicates a continuous increase in the budget revenue of the Municipality of Toruń from 2017 to 2020. While the amount of revenue projected for 2021 is lower than in 2020, it remains at one of the highest levels in the city's history. It is also worth noting that the budget revenue planned for 2021 in the amount of PLN 1352.2 million is higher than the PLN 1337.7 million assumed in the Long-Term Financial Forecast for the years 2020–2050 (Municipal Office of Toruń, 2019). However, it is worrying that in the years 2020–2021 the share of own-source revenue in the total budget revenue of the City of Toruń is lower than in earlier years by an average of about nine percentage points and does not exceed the level of 50%. This should be associated with the increasing share of funds from subventions and targeted subsidies in the budgetary revenue of the City of Toruń. This phenomenon should be deemed negative, as it means a reduction in financial self-reliance and thus in the ability to finance investments (Uryszek, 2013).

In each of the years analysed, budget expenditures exceeded the amount of revenue, resulting in deficits. Expenditures, like budgeted revenue, trended upward from 2017 to 2020 before being significantly reduced in the 2021 budget. It should be added that budget expenditures recorded in budget resolutions for 2020 and 2021 were lower than those included in the Long-Term Financial Forecast of the City of Toruń for the years 2020–2050.

Analysing the share of property expenditures in total expenditures, one can notice a decrease in this relation in 2020 and a significant deepening of the decrease in 2021. A similar trend can be observed in the case of the share of expenditures in the physical culture section in total budgeted expenditures. In the years 2018–2019, the analysed relationship was at a high level of 4.4%–4.5%. In 2020, there was a decrease in the share of expenditures in the physical culture section in total budgeted expenditures, while a significant reduction in expenditures on sport in the 2021 budget may bring the analysed ratio to 3.3%. Although the share of sport expenditure in Toruń's budget for 2021 is the lowest in the analysed period, it is above the average level for local governments in Poland, which was 1.44% in the years 2015–2019 (Żołądkiewicz-Kuzioła, Krupa, & Walczak, 2020).

Analysing another figure, the share of property expenditures in the physical culture section in total property expenditures, it can be noted that in 2020 there was an increase in the ratio to a record level of 14.4%. This happened because a significant reduction in overall property expenditures – originally planned at PLN 328 million in the 2020 budget – was accompanied by a slight adjustment of expenditures in the area of sports. However, the figures included in the 2021 budget indicate a possible decrease in the analysed ratio to 10.2%, the lowest level recorded in the 2017–2021 period.

Analysing the data in Table 2, one can see a gradual increase in expenditures in the physical culture section from 2017 to 2019. In the first year of the COVID-19 pandemic, there was a slight reduction in the amount spent, while the FY 2021 budget provisions indicate a dramatic reduction in spending under this heading. In almost all analysed years, expenditures on sports facilities were the most prominent among expenditures in the physical culture section. Changes in the volume of expenditures in this category had the greatest impact on the level of expenditures in the physical culture section. On the other hand, changes in the amounts spent to finance investments in sports facilities had the strongest impact on the level of property expenditures in the physical culture section and on expenditures in the sports facilities category. In the whole period covered by the analysis, the largest cost item in sports facilities was the modernisation and expansion of the swimming pool building managed by MOSiR.

Expenditures classified as "Physical culture institutions" did not change significantly throughout the analysis period and amounted to approximately PLN 6 million annually. The main item in this category is the subsidy to MOSiR which is used to finance, among others, the maintenance of "Orlik" non-school sports fields.

In the case of funding for physical culture tasks, a decrease in spending for this purpose can be observed in the years 2020–2021. The reduction ranged from 20% to 25% in relation to the expenditures executed in 2019. The analysed category of expenditures includes: subsidies for tasks regarding top-level sport, subsidies for tasks regarding children and youth sport, sports events and foreign exchange, sports scholarships, subsidies for recreational activities, organisation of school sport, distinctions and awards for sports results, and subsidies for the organisation of youth sports camps.

Conclusion

The outbreak of the coronavirus pandemic resulted in significant socio-economic changes almost all over the world. The literature study conducted in this paper has shown that the introduction of social distance rules has significantly reduced the activity of the society in many areas of life. This was particularly evident in the case of sports, as many events involving both amateur and professional sports competition were cancelled. The lockdown resulted in rising unemployment levels and the economies of many countries entering recession. A negative consequence of these processes was a reduction in the level of revenue in state and local government budgets, with a concomitant increase in COVID-19 health and prevention-related spending. Under such circumstances, it often proved impossible for local government units to maintain sports spending at levels observed prior to the pandemic outbreak.

The research conducted in this paper has shown the significant impact of the COVID-19 pandemic on the finances of the City of Toruń. The negative impact of the pandemic is manifested, in particular, by a decrease in own-source revenue and a reduction in the amounts allocated to property expenditures. Despite the difficulties caused by the pandemic, spending on physical culture funding declined relatively little in 2020. This is related to the continuation of investments in sports facilities started in previous years. In contrast, an analysis of the 2021 budget has shown that the crisis caused by the COVID-19 pandemic has also negatively affected the level of planned spending in the area of physical culture. The amounts allocated to sports facilities and physical culture tasks have decreased significantly. Given the above, it can be concluded that there is no basis for rejecting H1.

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