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## **Tendencies and Prospects of Public-Private Partnership Development in the Field of Physical Culture and Sport**

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### **Abstract:**

*Attraction of supplementary sources of funding into the sphere of the physical culture and sport (PhCS) is an acute issue in the Russian economy as well as in the countries with higher economic potential. In this connection, the authors of the article consider the public-private partnership (PPP) to be a perspective form of cooperation between the state and the private sector in the aspect of financing of the PhCS development.*

*The article provides the statistic data on the PhCS financing and examines the options of investment return by the private partner that depend on the concrete scheme of the PPP project implementation: further exploitation of the object by the public or the private partner.*

*The authors of the article summarize the foreign experience in the field of support and implementation of the PPP projects in the sports industry and suggest adopting the most effective, tried models of financing, that would allow making comparative evaluation and revision of the current practice of the project financing in Russia, and furthermore would lead to diversification of the services rendered.*

**Keywords:** *public-private partnership, physical culture and sports, concessions, life cycle contracts, profitability, sponsorship.*

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## Introduction

In terms of socio-economic and political transformation of modern Russia, important issues of strengthening of physical and spiritual health, healthy lifestyle are taking particular significance. It is recognized that the future of any country is determined by the health of society. Therefore, the active use of physical culture and sports helps to maintain and improve public health; improve the quality of life; prevent diseases and unite society. Due to their social importance, the issues of the physical culture and sports development are becoming one of the priority directions of the state policy.

However, today a low level of citizens' involvement in physical culture and sports appears as a serious problem. One of the main reasons for the situation is the weak infrastructural PhCS base. To solve this problem, and to develop successfully this sphere, there was established the state program which is named "Development of physical culture, sport, tourism and improving the efficiency of the implementation of youth policy in 2012 – 2020". The program will allow to create the most favorable conditions for people's health recovery in the workforce, in educational institutions, residential and recreational areas.

The most important tasks stated in the field of physical culture, sport, tourism and youth policy include (The program "Development of physical culture, sport, tourism and improving the efficiency of the implementation of youth policy in 2012 - 2020"): increasing the percentage of Russian citizens, systematically engaged in physical activity and sports from 18.5% in 2010 to 40 % by 2020; increasing the level of provision of the sports facilities for the population, based on facilities' simultaneous capacity from 24.7% in 2010 to 48% in 2020, etc. The main directions of budget expenditure of the Ministry of Sports of the Russian Federation are following: the development of mass physical culture; applied research in the field of physical culture and sports; the development of high-level sport and other issues in the field of physical culture and sports.

**Table 1.** *The budget of the Russian Federation Ministry of Sports on 2014-2016 (The main budgetary policy directions for 2015 and for the target period of 2016 - 2017)*

Indicator	2014	2015	2016
Ministry of sport of Russian Federation	68195832,6	69814835,2	69562420
Physical culture and sport	61901494,8	64091647,2	64776433,1
Mass sport	9242340,5	12832073,8	3910781,9
High level sport	51046128,5	50026205,8	59989810,8
There are the applied scientific researches in area of physical culture and sport	310183,6	305760,4	303949,3

Other issues in field of physical culture and sport	1302842,2	927607,2	571891,1
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Analysis on the data of Physical Culture and Sports financing (Table 1) shows that the largest part of expenditure accounts for high-level sport. This fact argued that professional athletes need constantly improve their physical skills and abilities, as well as participate in the training camps to promote sport in Russia.

### **Problem statement**

Maintaining both mass and professional sports activity requires significant financial investments, which, unfortunately, are not enough in the budget of the state. In conditions of mixed economy Physical Culture and Sport is funding by two groups of sources - budgetary and extra-budgetary sources. Budget financing involves the allocation of budgetary appropriations for their intended purpose in order to achieve national objectives or to cover the costs of industries, companies and organizations that are in full or partial state support.

Table 2 shows the structure and dynamics of federal budget expenditures on physical culture and sports in 2014-2017. The table shows that the budgetary allocations under the heading "Physical culture and sport", as compared to the amount approved by the Federal Law № 349-FZ, increased in 2015 by 25.6 bln. rubles, in 2016 compared to 2015 reduced by 5.5 bln. rubles, in 2017 compared to 2016, the expenditure decreased by 1.8 bln. rubles.

**Table 2.** Structure and dynamics of federal budget expenditures on physical culture and sports in 2014-2017 (The main budgetary policy directions for 2015 and for the target period of 2016 – 2017)

	2014		2015			2016			2017		
	Federal law 201-FZ (bln. rub.)	% to total	project (bln. rub.)	% to the previous year	% to total	project (bln. rub.)	% to the previous year	% to total	project (bln. rub.)	% to the previous year	% to total
Total, including:	13 960,1	100,0	15 252,3	109,3	100,0	15 975,5	104,7	100,0	16 827,4	105,3	
Physical culture and sport	77,3	0,6	102,9	133,2	0,7	97,4	94,6	0,6	95,6	98,1	0,6

Increasing budgetary allocations in 2015 are related to the preparation and holding of the FINA World Cup 2015 in Kazan (extra 2 998.1 bln. rubles), as well as the implementation of preparation events for the World Winter Universiade 2019 in Krasnoyarsk (extra 683.1 bln. rubles). In addition, in the federal budget there were included the funds for the implementation of events of preparation program for the FIFA World Cup 2018 in Russia and for the maintenance of Olympic venues as the non-program part in 2015 (in total 32.2 bln. rubles).

The budget allocations were reduced in 2016 and 2017 due to the following facts:

- organization of Deaflympics Games 2015 in relevant years in Khanty-Mansiysk;
- Reduction of the reserved funds for the organization of the Preparation program for the FIFA World Cup in the Russian Federation in 2018, approved by Resolution of the Russian Government dated 20 June 2013 № 518, and delivering them to the relevant responsible Program executives.

No doubt, that government funding does not fully cover both high-level sport and mass sport development needs. Therefore, investments by the private sector are required. It follows that execution of relevant mechanism of public-private partnerships in the field of physical culture and sports is up-to-date.

### **Recent research and publications analysis**

Many foreign researchers studied the nature and the role of public-private partnership mechanism in modern economy. It is necessary to highlight following researchers among them: Chan, A.P.C. (2014), Javed, A.A. (2014), Kort, M. (2013), Spichiger, A. (2014), Woodson, T.S. (2016), Yuan, J. (2016). Characteristics of the main forms and models, peculiarities of public-private partnership, its economic and organizational capacity are considered in the works of Cabral, S. (2013), Deng, Z. (2016), Emek, U. (2015), Ke, Y. (2010), Zhao, Y. (2015).

Today the study of different aspects of public-private partnership in the social sphere are researched by the following authors: Kennedy, S.S. (2000), Liu, T. (2014), Ruckert, A. (2014), van den Hurk, M. (2015). In particular, the problem of interaction between the state and the private sector in the field of physical culture and sports are reflected in the works of Houlihan, B. (2008), Kušljčić, D. (2012), Matsudo, V. (2012), Matsushashi, T. (2015), Zhang, X.-P (2013).

The principal aim of this article is to consider the possibility of applying the PPP mechanism in the sphere of providing sports and recreational services; analysis of the level of investment in the development of the PhCS and prospects for future investments.

**Key research findings.** To develop and implement the mechanism of PPPs in the field of physical culture and sport it is necessary (Izaak S.I., 2011):

- to create regional centers. These centers will forecast and regulate the design and implementation process of regional and municipal programs of development of small and medium-sized enterprises, taking into account national, socio-economic, environmental, cultural and human characteristics of regions of Russia on the basis of the method of complex regional projects;
- to organize target training of personnel for their future work in the field of innovation management; a legally enforceable right of educational institutions to the PPP with business communities;

- to create regional centers, agencies, financial support foundations and to promote entrepreneurship in the sphere of physical culture, sports and domestic tourism (joint-stock investment funds, guarantee funds, the centers of the accreditation of public and private businesses, etc.).

Considering the form of cooperation between the state and business structures in the sports industry, the concession agreement is the most widespread. For example, one of such PPP projects at the regional level includes 3 sports and recreation complexes in Nizhny Novgorod region. The agreement was signed between the Government of Nizhny Novgorod region and JSC "Volga-Sport" for the period of 11 years, including the year of the construction. The volume of investments in this project amounted to 1 461.6 million rubles, which were attracted by the bond issue and placing them on the stock exchange of JSC "RTS".

Besides, JSC "Volga-Sport" also is a concessionaire in another concession 10 years-long project - the construction of the Ice Palace in Ulyanovsk, where the volume of private investment is 100% (1 300 million rubles). Construction of the Ice Palace will take place on-site of the "Torpedo" sports complex.

The mechanism BOT (Build, Operate, Transfer) is used as the main funding method in concessions. Within the framework of the implementation of the PhCS projects on a concession basis, the sports complex can be commissioned to the private partner. In this case, the following formula is used to calculate the profitability of the project (Schepalina A.N., 2015):

$$R = \frac{(Pr_{com} + Pr_{soc})}{I}, \quad (1)$$

where  $R$  – profitability;  $Pr_{com}$ ,  $Pr_{soc}$  - profits from commercial and social visits respectively;  $I$  – investments in the project.

State franchise is also a form of PPP in PhCS, which is close to concession. The subject of the state franchise could be not only the property and exclusive rights, but also a commission of the grantor (the state) to perform by the concessionaire (private business) production works for the sporting goods industry, as well as sports and recreation and education services in accordance with the terms of the contract. For successful implementation of the instructions, the grantor must create working conditions for the concessionaire within the framework of industry specific "protectionism".

Besides, an acceptable form of contract in the field of PhCS, in our opinion, is the life cycle contract (LCC). It is the contract where the first private partner at his own expense designs and creates the object, and then receives payments from the state for the object maintenance in accordance with the specified parameters. Partner expenses on investment phase can be compensated by the so-called "capital grant".

Such PPP models as DBFM (Design, Build, Finance, Maintain) and DBFO (Design, Build, Finance, Operate) correspond to funding model of LCC. In case of applying the last scheme, profitability of the project is calculated as (Schepalina A.N., 2015):

$$R = \frac{D \cdot n}{I}, \quad (2)$$

where  $D$  – income in the form of rent payment;  $n$  – project implementation period.

Comparative analysis of the concession and the life cycle contract reveals the advantages of the latter. One of the advantages is the fact that under the terms of the proper maintenance of physical culture and sports facilities, investment returns of the private partner don't depend on the generated traffic, and profit shortfall is compensated by the state due to the "service charges". This form of PPP has one more advantage, the investor has motivation under this contract - the private partner aims to optimize the ratio of "price / quality", because in case of dishonest performance of obligations his costs associated with the repair will increase.

Life cycle contract, as the PhCS's financing tool, is particularly relevant at the present stage of Russia's development, characterized by economic crisis, the decline in living standards and growing poverty of the population. In terms of the budget deficit, when the state is unable to participate in infrastructure projects which involve budget investments, this form is the most effective, and contributes to the realization of social policy.

After studying and analyzing the foreign practice of formation of funding sources for health and mass sports activities of the population, we cannot ignore such form of cooperation between the state and business as sponsored pools. A number of experts in the field of PPP, for example, Ignatyuk N.A., consider that sponsorship has no relation to the mechanisms of PPP, because this type of cooperation does not pursue public interest, but only private ones. However, we fully disagree with this statement.

Sponsorship has typical PPP features, which make it possible to allocate partnership in independent economic category. Firstly, the state and private business are the participants; secondly, the cooperation of the parties is confirmed on the official, legal basis (agreements, contracts, etc.); thirdly, the interaction has a clearly defined public and social orientation.

However, every year, according to experts' opinion, the quantity of sponsors in foreign countries is also reducing. For example, in the US, one of the limiting factors is the occurrence of intermediary - special sponsored agency between sport and business. According to experts, the future belongs to these agencies. Unfortunately, there are not such agencies in Russia. Currently, such foreign companies as "Reebok", "Adidas", "Nike", "McDonald's" actively support Russian sports.

However, in recent years there has been a social activity of the company JSC ANK "Bashneft", which illustrates the cooperation between the state and business in order to develop the physical culture and sports sphere. In 2009, an agreement on long-term cooperation was signed with the Government of the Republic of Bashkortostan. For 4 years, the company has funded more than 5.1 bln. rubles for the development of social infrastructure, including sports. Among these venues there were ice complex "Ufa-Arena", and skating rinks in Sibai and Tuymazy cities, Paralympic sport center and several fitness centers. In the general structure of "Bashneft"'s social expenditures, sport amounts to 27.7% of the overall costs in 2009-2012 (Tsepeleva A.D., 2015).

## **Conclusions**

However, in our opinion, the study and practical application of foreign experience in PPP tools usage in the sports industry is advisable, because it has proven its effectiveness. For example, the one of the ideas is as follows: funding the construction of a new sports venue is combined with investments in construction of new building, which is located nearby. For instance, it may be a shopping and entertainment complex, and thus, the complex will be popular with the sport fans. In this case, the partnership comes down to the fact that the state becomes the owner of a sports venue, and the private sector is an owner of shopping complex.

As for the preferences to attract population to physical training and sports, the number of countries uses following equalizing tax implications: the cost of children's visits to sports clubs is deducted from liable to tax part of individuals' income of the parent. It should be noted that in this direction and in Russia the situation is gradually improving. For example, during the Olympic Games in Sochi and the World Cup 2018, the state offers to investors a number of tax benefits: VAT, corporate income tax, property tax, land tax exemptions, as well as additional benefits according to investment and regional PPP laws.

Thus, to attract the population to sports, additional sources of financing of physical culture and sports are needed. That in its turn requires the creation of appropriate conditions for investors. Therefore, maintaining the priority development of small and medium enterprises, it is necessary to develop different forms of the PhCS and the PPP models, which must be implemented on the basis of selectivity and social responsibility principles.

PPP mechanism will improve the efficiency and quality of services; ensure competition in the sports industry, and each of the partners will benefit from the joint venture. The private partner will gain the opportunity for long-term investments and get a predictable rate of return over a long period of time. The state will solve the most socio-economic problems of certain areas and the country as a whole, increase the efficiency of property management and get additional revenue in the

budget at the expense of concession fees, participation in profit sharing, the revitalization of the business structures.

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