

Court of Auditors of Saxony-Anhalt

Audit of state funding for sports

**Lack of economic efficiency
running a sports center**



LANDESRECHNUNGSHOF
SACHSEN-ANHALT

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1. State funding for sports in Saxony-Anhalt (1)

State of Saxony-Anhalt

partially self-governing member state of the Federal Republic of Germany

Facts

- **Area:**
20.500 km²
- **Inhabitants:**
2.2 million
- **Population density:**
109 inhabitants per km²
- **Administrative structure:**
11 rural districts
3 urban districts



Budget

- **Total revenues / total expenditures**
€ 10.7 billion
- **Debts:**
ca. € 20 billion
- **State funding for sports:**
€ 29.2 million
0.28 percent of the expenditures



1. State funding for sports in Saxony-Anhalt (2)

Legal basis:

- Article 36 Section 1 of the Constitution of the State Saxony-Anhalt:
„Art, culture and sports are to be safeguarded and promoted by the state and its municipalities.“
- Sports promotion act of the State Saxony-Anhalt, since January, 1st 2013
- Gambling act of Saxony-Anhalt

Sports funding beneficiaries:

- Land Sports Federation
- Sports confederations, sports associations, clubs
- State trusts for sports and sports for people with disabilities
- Municipalities and private providers (sports grounds and facilities investments)



1. State funding for sports in Saxony-Anhalt (3)

Development of state funding for sports in Saxony-Anhalt:

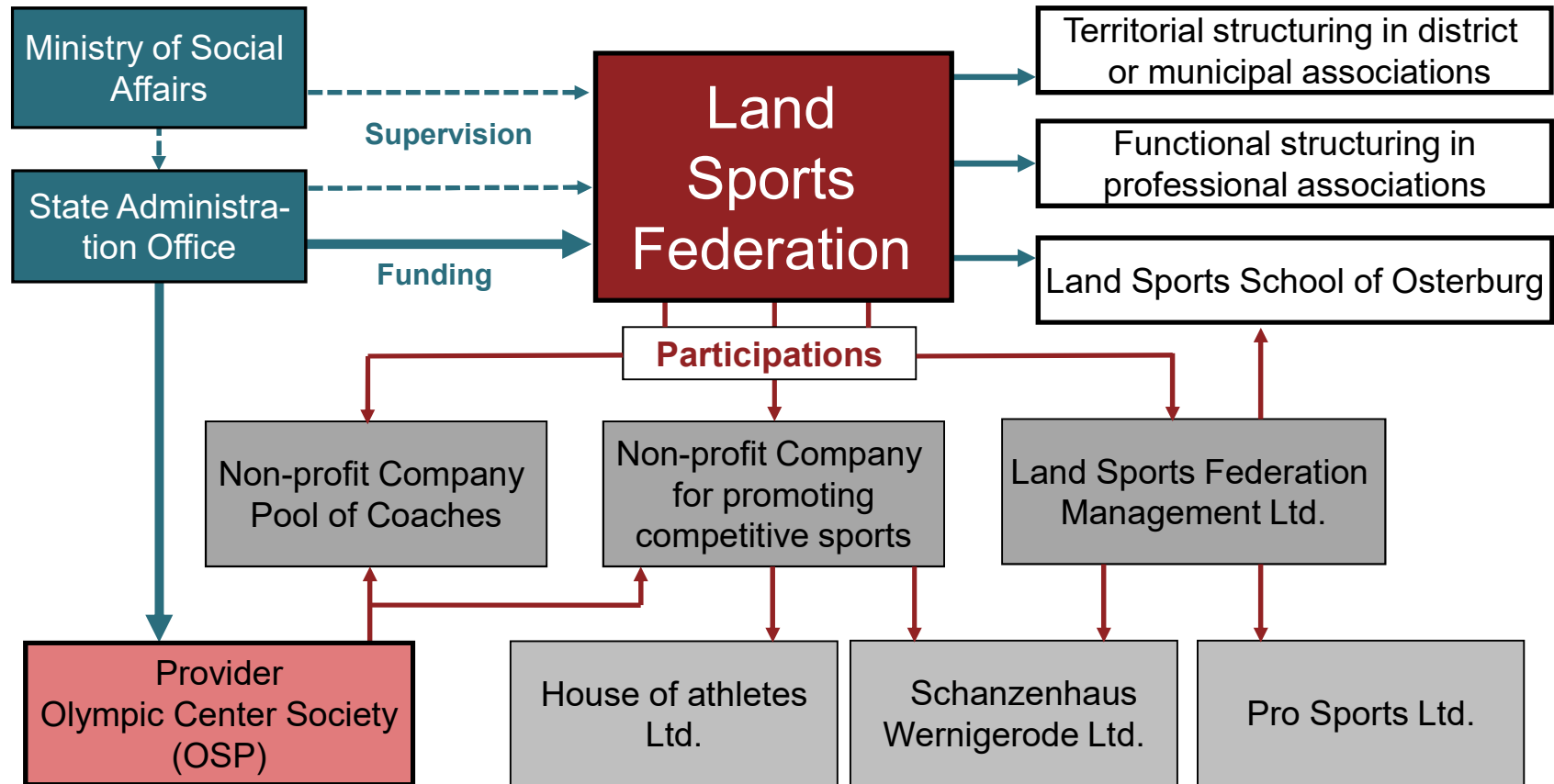
	2008	2012	2016
Land Sports Federation	2.6	2.7	2.1
Land Sports Schools	0.7	0.9	1.1
Coaches	2.2	2.2	3.1
Canteens and boarding schools	2.0	2.0	2.3
Structuring, clubs, projects	8.3	6.9	7.6
Olympic center, Olympics, NADA	0.5	0.5	0.7
Sports facilities including EU funding*	5.0	8.0	12.3
Total (in million €)	21.3	23.2	29.2

*EU funding beginning 2016



2. Structure of the Land Sports Federation before the audit

Structure of the Land Sports Federation **before** the audit in 2008:



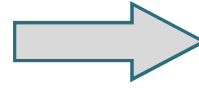
3. Findings of the Court of Auditors Saxony-Anhalt

Significant findings

Infringement of public procurement and allowance law



Operating in costly business areas



High level of borrowing by the Land Sports Federation



Impact on the Land Sports Federation

Improper use of subsidies in the amount of € 3.3 million

Lack of own resources for funding purpose "sport"

A third of all funding is used for debt services.

Bad management practices due to uneconomic and risky decisions



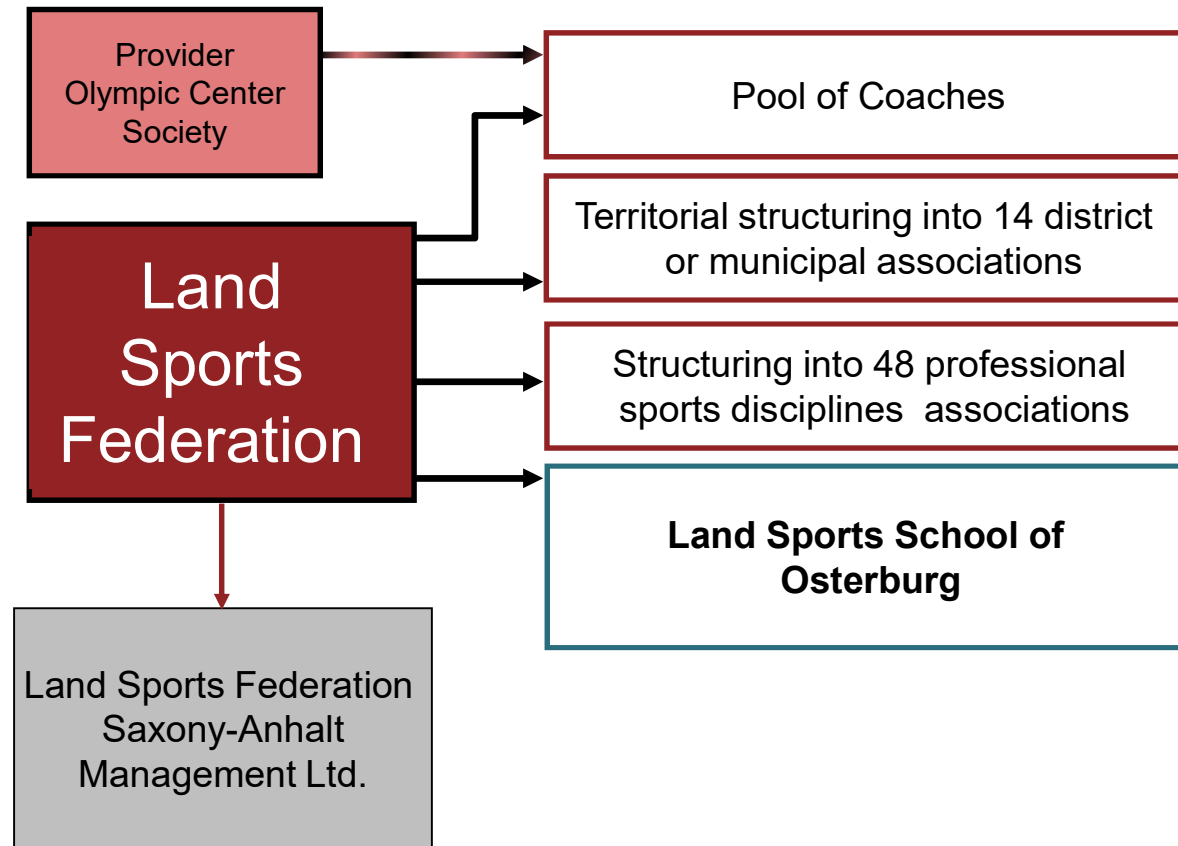
Financial risks amounting to € 8 million,
Misuse of subsidies,
Insolvency of three companies

CONSOLIDATION AGREEMENT

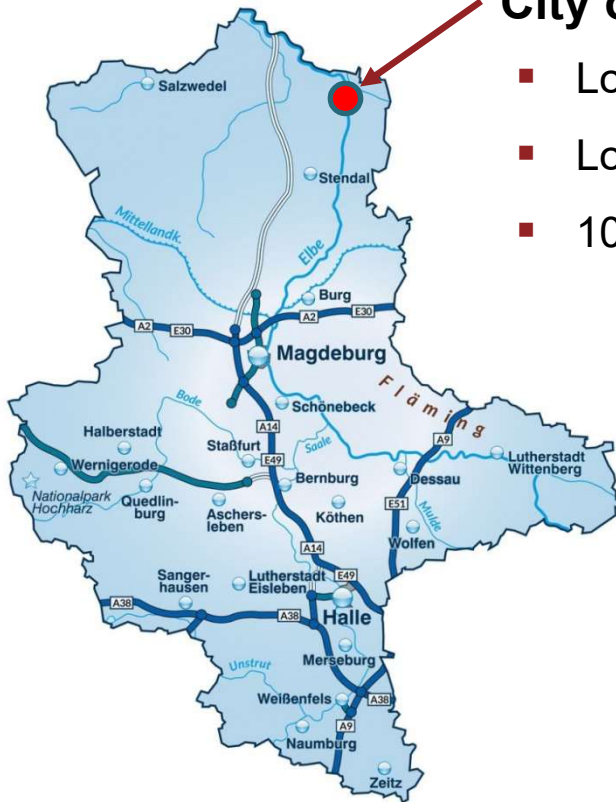


4. Structure of the Land Sports Federation after the audit

Structure of the Land Sports Federation **after** the audit:



5. Land Sports School of Osterburg (1)



City of Osterburg

- Located about 100 km north of the City of Magdeburg
- Located in a rural area
- 10.000 inhabitants

History of Land Sports School of Osterburg

- 1961 Founding as District Sports School in the GDR
- 1991 Acquisition by the State of Saxony-Anhalt
- 1995 Acquisition by the Land Sports Federation
- 1999 Refurbishment and new construction
- 2001 Reopening and enlargements



5. Land Sports School of Osterburg (2)

Accommodation facilities

Accommodation and catering for 156 people



Multi-purpose sports swimming pool



Several gymnasia



Fitness center



Three soccer and other playing fields



Athletics field

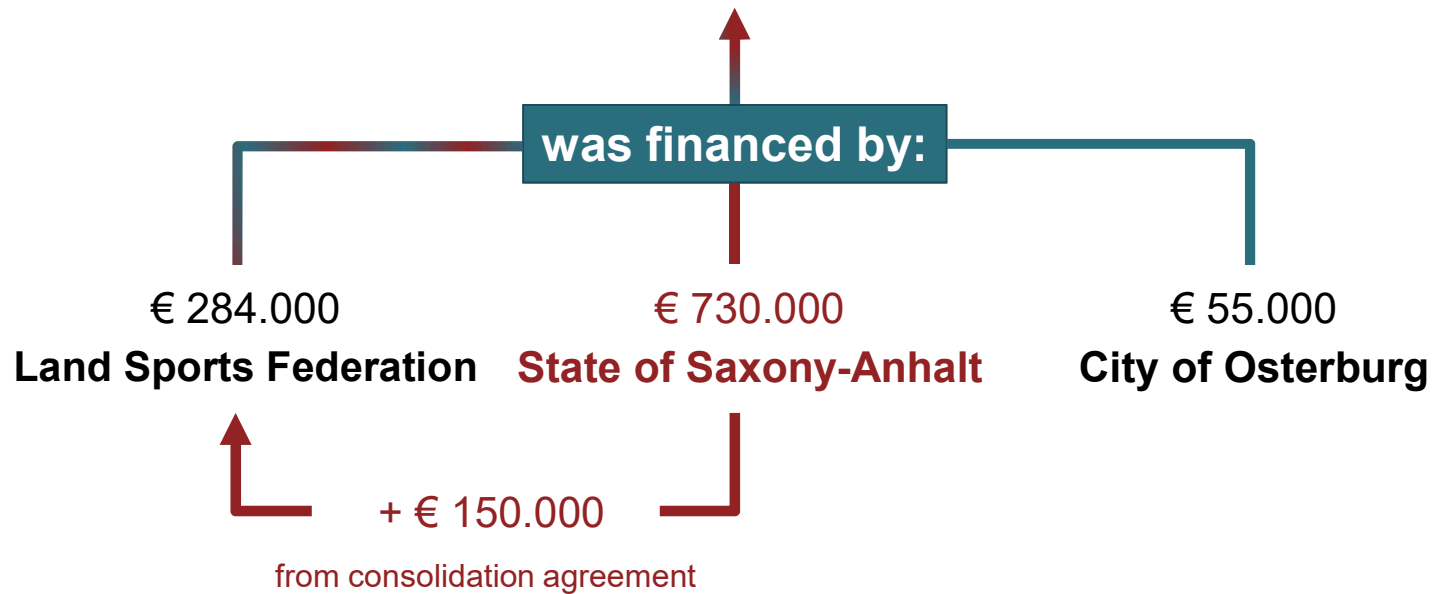
5. Land Sports School of Osterburg (3)

Revenues and expenditures of the Land Sports School in 2012

Own revenues € 1.15 million

Total expenditures € 2.22 million

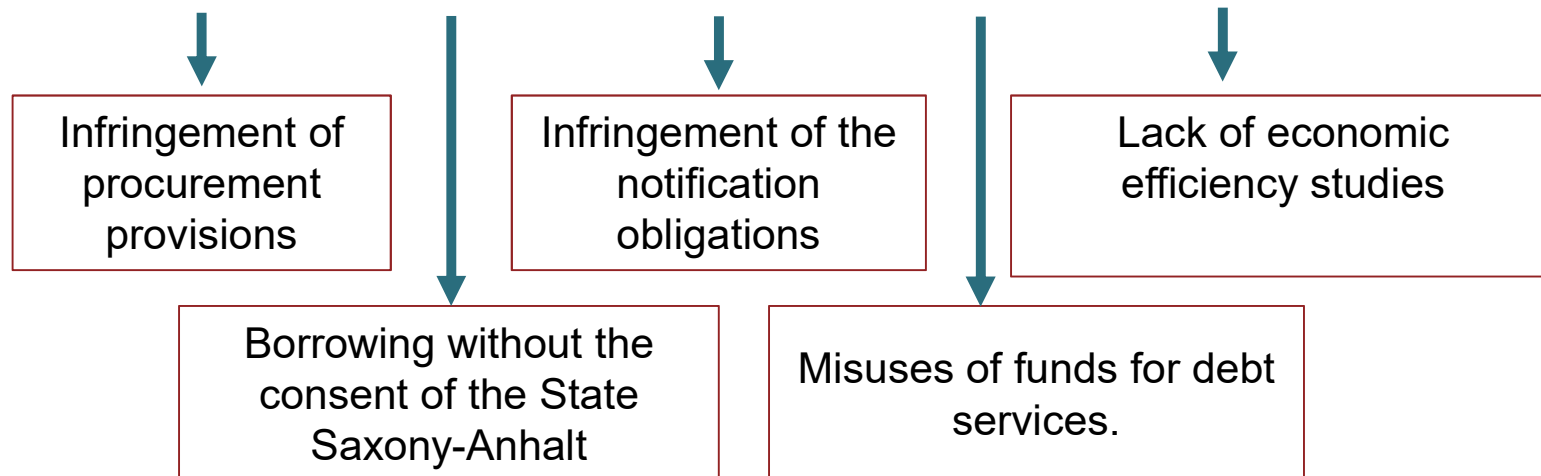
Deficit € 1.07 million



5. Land Sports School of Osterburg (4)

Findings by the Court of Auditors on the Land Sports School

- Lack of economic efficiency
- Cost estimates with errors, non-transparent financing flows
- Improper cross-subsidizing of other business areas
- Risk distribution to the detriment of the State Saxony-Anhalt
- **Infringing of budgetary provisions of the State Saxony-Anhalt**



5. Land Sports School of Osterburg (5)

Significant risks

For the Land Sports School

- No cost recovery in medium or long terms
- More than 20 per cent of overall expenditures for debt service
- 53 per cent annual average degree of capacity utilization
- Low level usage of the sports swimming pool (only 4.100 users p.a.)

For the State Saxony-Anhalt

- The debt service of the Land Sports Federation is partially financed by subsidies.
- Subsidies are not sufficiently collateralized by mortgages.
- In case of insolvency the property of encumbered real estate goes to the state.
- Lack of legal independence of the Land Sports School

The current deficit may lead to insolvency for the Land Sports Federation



6. Previous economic efficiency studies

Significant findings of external economic efficiency studies

Usage / Degree of utilization

- 62% Members of Land Sports Federation
- 18% Pupils (Schools)
- 20% Individuals etc.

- 57% Kids and teens
- 43% Adults

Low utilization rate of accommodation and sports facilities

Low utilization rate of the sports swimming pool

Economic assessments

Revenues only 52 % of expenditures

Too high level of personnel and material costs per overnight stay

Unacceptable credit exposure

Miscalculations of catering

7. Activities to improve the status quo (1)

Organizational activities

- Performance-based business management
- Strict cost management
- Value retention and extension of facilities and equipment
- Additional staff for extended tasks
- Increasing remuneration

Activities to improve the degree of utilization

- Active and offensive marketing
- Offers for sports and health tourism
- Extended courses and qualification offers for paid usage especially outside busy periods
- Development of performance diagnostics



7. Activities to improve the status quo (2)

Implementation costs of the activities

Singular investments 2012: € 120.000

Additional annual follow-up costs:

Activities	Annual expenses in €
Increased expenditures for service, maintenance of equipment and smaller investments	180.000
Additional staff (3 persons)	80.000
Salary increase of all employees	162.400
Total	422.400



7. Activities to improve the status quo (3)

The activities have not been effective so far:

	Before (2012) in €	Afterwards (2017) in €	Differences
Revenues before funding:	1.149.000	1.415.200	+ 23 %
Expenditures:	2.218.100	2.723.500	+ 23 %
Thereof personnel expenses	767.200	1.294.200	+ 69 %
Thereof other administrative expenses	913.500	969.600	+ 6 %
Deficit	1.069.100	1.308.300	+ 22 %
State subsidies Saxony-Anhalt	729.600	1.180.400	+ 62 %
Other subsidies from Land Sports Federation and third parties	339.500	127.900	- 65 %

8. Criticism of the Court of Auditors Saxony-Anhalt (1)

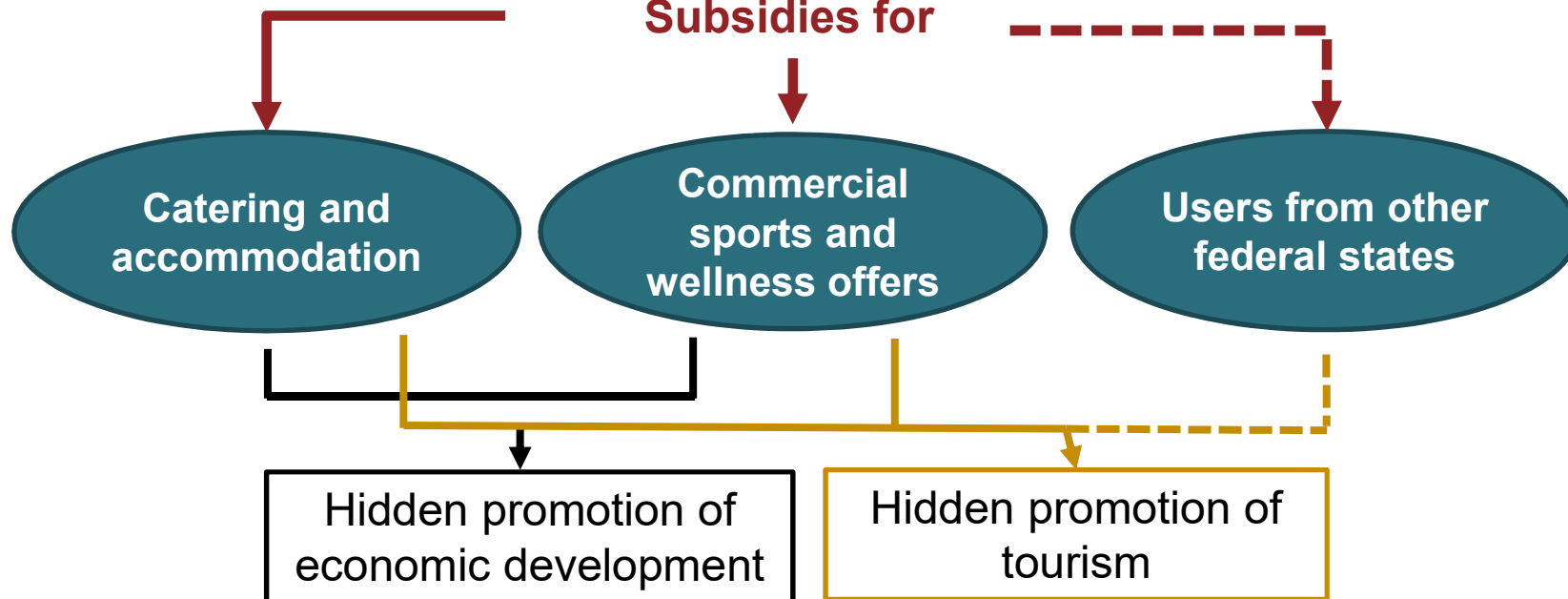
- The activities for the improvement of economic efficiency have been generally ineffective.
- The additional expenditures have not led to an expected revenue growth.
- In 2017 an increase of five and a half jobs is planned. That leads to extra costs of more than € 250.000. The state of Saxony-Anhalt has to pay half of it.
- Valid figures for current utilization degrees are unknown.
- There are so far no solutions for operating the sports swimming pool economically.
- Sports complex is not sufficiently funded by the Land Sports Federation (planned expenditures: 2017 = € 72.800; 2018 = € 6.100).

8. Criticism of the Court of Auditors Saxony-Anhalt (2)

The purpose of the funding by the State is the promotion of sports in Saxony-Anhalt

but

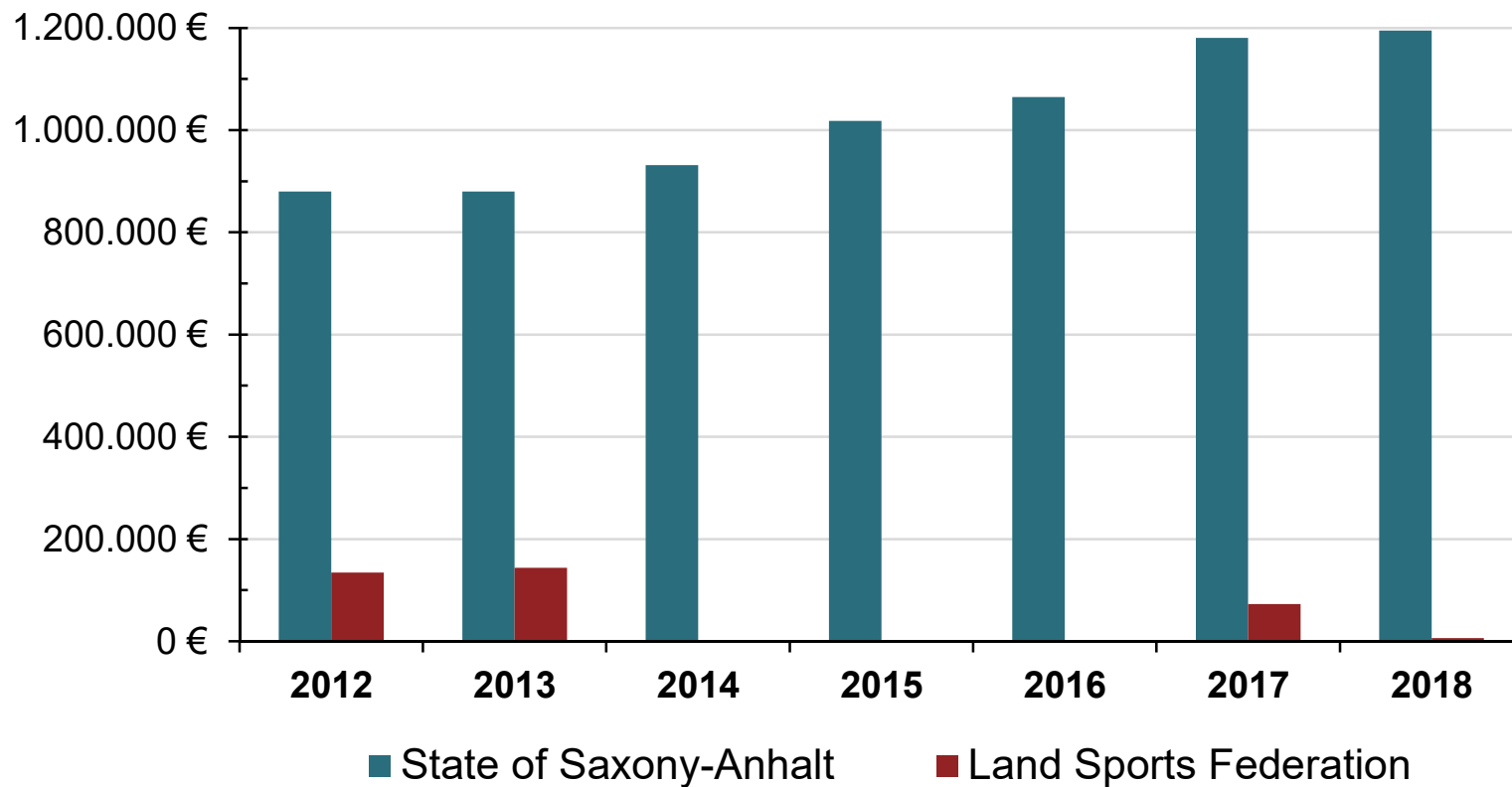
Subsidies for



Conflict of objectives: sports promotion ↔ efficiency

8. Criticism of the Court of Auditors Saxony-Anhalt (3)

**Increasing subsidies from the State of Saxony-Anhalt
but
Low financial contribution of the Land Sports Federation**



8. Criticism of the Court of Auditors Saxony-Anhalt (4)

Actions to be taken for the Land Sports School?

Increase of utilization



- On weekends and holidays not possible (already at 100%)
- In the remaining time only possible through more tourism
- Unfavorable location
- Lower demand due to demographic development

Increase in prices



- Non-profit structure of the facility
- No hotel business
- Structurally weak region with low purchasing power



Low chances for an economic operation of the Land Sports School

9. Other examples of inefficient management (1)

Funding the construction and operation of a stadium for a professional soccer club without benefit for the state Saxony-Anhalt

€ 6 million subsidies given by the state

To construct a stadium based on a funding guideline for non-commercial sports facilities



€ 1,3 million local government subsidies

For a professional soccer club, including

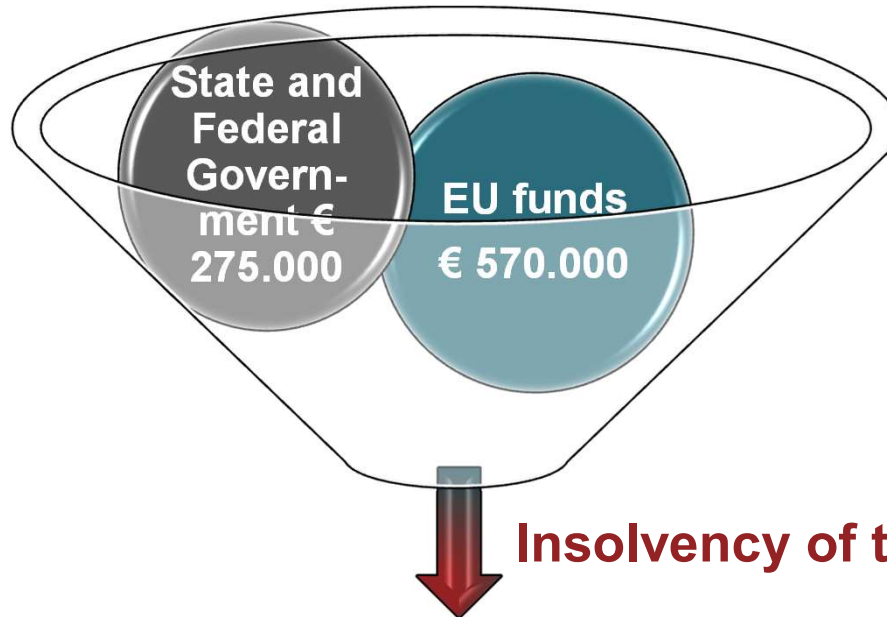
- Low rental payments of the soccer club to the City of Halle amounting for **€ 245.000**
- Additional operating subsidies given by the City of Halle in the amount of **€ 870.000**

State municipal supervision: hidden subsidies – breach of EU law

9. Other examples of inefficient management (2)

Renovation of a municipal gym by a private sports club

Financed with subsidies



- Unlawful funding due to the lack of public interest
- Infringement of public procurement law
- Insufficient supervision from the authorities
- Insufficient assessment of the overall financing scheme

Financial loss

Repayment of EU funds in the amount of € **570.000**

City guarantee for sports club credit in the amount of € **350.000**

10. Conclusion

Not only the
performance of athletes has
to be improved but also the
economic efficiency.



Court of Auditors of Saxony-Anhalt

**Thank you for your
attention!**

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LANDESRECHNUNGSHOF
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EURORAI; Kazan, 22nd to 24th of May 2017