

## WHEN NORMATIVE PLANNING FAILS SMALL TOWNS

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**Abstract:** *Small towns, with populations amounting to less than 20,000 inhabitants, pose a disconcerting challenge to normative planning practices, mainly because of their dwindling financial resources and increasing democratic deficits. However, there are very few recent works that explicitly combine these two phenomena into simple conceptual models, useful for problem-oriented regional management. Against this background, we feel that there is a strong need for experimental approaches, aimed at developing supplemental instruments to normative planning.*

*Hence, our idea is simple: to develop an experimental, problem-oriented regional management model, aimed at replacing currently ineffectual normative planning practices for Romanian small towns. Therefore, we have constructed a model that links land resources available to municipalities to a more direct community involvement in matters related to public finance.*

*The model works in three stages, using a combination of local and regional scales. Thus, within a first stage, municipalities pool unincorporated areas at their disposal for joint projects, aimed at increasing budgetary revenues. In a second stage, each municipality uses these revenues for reforming their respective tax collection systems. After this financial exercise, municipalities then negotiate a set of regional amenities, which cannot be covered by direct local expenses.*

*The research behind this paper rests partly on an on-going background study, concerned with updating the section examining the settlement network within the Romanian National Spatial Plan. In addition, we have undertaken an extensive empirical study of 221 small towns in Romania, focusing on demographic, budgetary and land use analysis.*

**Keywords:** Problem-Oriented Regional Management Model, Public Finance, Negotiating Platform for Tax Reform

### 1. Introduction

Although more than 38% of Europe’s population lives in small towns (DG Regio, 2011 *apud* Servillo *et al.*, 2014), they are very rarely considered to be worthy subjects of research (Bell and Jayne, 2009). Unaided by continuous scholarly efforts, small towns generally need to focus on local solutions and capitalise upon their endogenous potential, mainly through strengthening their social and cultural networks (Austrian Institute for Regional Studies and Spatial Planning *et al.*, 2005; Engel and Harteisen, 2012).

#### 1.1 Policy Support for Small Towns

Governments generally consider supporting smaller towns as a necessary effort, for reasons related to efficiency, to equity, and to the failure of trickle-down mechanisms, especially within the countries facing a process of transition from a totalitarian regime to a democratic government, and from a

centrally planned economy to a functional market economy. In addition, some studies have unearthed a strong link between urban and rural development (Rondinelli, 1983). Against this background, small towns can work as focal points for rural development (Leeuwen, 2010).

Nevertheless, social and economic changes in recent years, along with the changes in agriculture and the reduction of transport costs, has led to a weakening of the links between small towns and adjacent rural areas, which tend to become better connected to larger cities situated at greater distances (Courtney and Errington, 2003).

Public policies targeting the development of small towns can be diverse and specifically tailored to different types of small towns, ranging from the ones located in less developed rural areas to the ones located in strongly urbanised and industrialised areas (Tacoli, 2004). Local development in small towns tends to be best served by two options: First, by policies focusing on slightly larger towns, with populations reaching or surpassing the 20,000 limit, in areas where employment in agriculture is above the national average. The second option is a set of policies stimulating the growth of service-based industries, accompanied by an active promotion of residential and business development and fostering locally grown business start-ups (Mayfield *et al.*, 2005).

## 1.2 Aims and Scope of the Paper

Aim of this paper is to develop an experimental, problem-oriented regional management model, closely linked to possible public policy and spatial planning measures, that can aid the development of small towns in countries with rather obsolete, normative planning systems. This is the case of Romania's planning system, whose legislative flaws relate mainly to a lack of operationalization of the law's provisions and the lack of a coherent law on property rights (Ianăși, 2008). The task of Romania's spatial planning field is thus harder than in developed countries, with the legal, regulatory and institutional framework evolving continuously during the past 20 years, struggling to redefine a new aim of spatial planning functions (Ionescu-Heroiu *et al.*, 2013).

Small towns are known to have a reduced resilience as they face economic decline (Austrian Institute for Regional Studies and Spatial Planning *et al.*, 2005). In the case of Romania, small towns have often been the result of a process of forced urbanization during the socialist regime, with a host of rural communities being declared towns between the years of 1945 and 1989. Centrally-planned industrialization was directly related to urbanization in the communist era, with small towns often considered to be mono-industrial and suffering from important economic decline (Dumitrescu, 2008). After the fall of the communist regime, public authorities continued conferring the urban status upon a wide array of communal seats (Săgeată, 2006).

Within the Romanian dedicated literature, small towns are widely considered to be the urban territorial administrative units with a population of a maximum of 20,000 people (Cucu, 1984). In theory, they can either act as a relay between middle-sized towns and rural areas, thus being a strong link between rural and urban communities. In reality however, most of them stagnate or face decline, as a result of their fragile socio-economic structures. There is a small proportion of small towns that fare better, mostly due to their location in peri-urban areas. In such instances, they have the option of enhancing either their touristic or their industrial functions (Zamfir *et al.*, 2009).

While the structural problems of small towns in Romania are most evident, the current planning system lacks operational instruments for dealing with these issues. Consequently, there is a need for devising new models of intervention in small towns, besides the mostly ineffectual, building and

zoning ordinances, such as the General Urban Plans, and the local development strategies, which often propose development projects that require a great amount of co-financing from the local public authorities.

## **2. Methodology**

This paper emerged out of a background study, commissioned by the Romanian Ministry for Regional Development and Public Administration in the summer of 2013. Following from the call for tenders, the study forms the basis for a future update of the fourth section of the National Spatial Plan, concerned with the settlement network.

### **2.1 Research strategy**

While working on the background study, we noticed that most small towns do not really deserve the town status, as they lack most amenities necessary for an urban lifestyle. Pragmatically, Romanian legislation sets minimal standards for determining whether a given municipality deserves its urban status. If these standards are not met, the municipality is rural in character. This simple observation is most disconcerting, as most small towns, especially the new towns appearing after the fall of the communist regime, have not really earned their urban status. This implies a not very transparent political decision. Nonetheless, most small towns have ceased to fulfill their functions because of structural changes, i.e. the end of the industrialisation process and the subsequent declines in populations and income levels.

Hence, after a perusal of the dedicated literature, we started looking at the structural changes over the past quarter of a century. We then checked whether normative planning took these changes into account. Unfortunately, this was not the case. This was the final argument in convincing us of the need for a problem-oriented regional management model, which we present in this paper (*cf.* Löb, 2006; Janssen-Jansen *et al.*, 2008; Alterman, 2010; Hoffmann-Axthelm, 2010).

### **2.2 Data Collection and Quality**

We mainly worked with datasets provided by the National Institute of Statistics (NIS) and its online database. We obtained the relevant information on municipal budgets through the official briefings of the Ministry for Regional Development and Public Administration.

We have taken all datasets at face value, since a coherence and consistency check was nearly impossible, given their levels of aggregation. However, we did notice some inconsistencies, especially in demographic data, which we corrected whenever possible.

### **2.3 Data Processing**

In order to assess the current social and economic situation in small towns in Romania, we concentrated on analysing population dynamics, the change in the average number of employees and the number of functional public hospitals, during the period between 1990 and 2012.

Furthermore, we undertook a budget analysis for the year 2013, taking into account the following elements: total revenue, total expenditure, revenue from own sources, pre-financing (EU funds), co-

financing and public investment. As a result, the overall profit, percent of revenue from own sources, percent of pre-financing from total revenue, percent of co-financing from total expenditure and percent of investment from total expenditure was determined.

Subsequently, we determined the likely impact of normative urban plans, by comparing the increase in built-up areas from 1993 to 2012. We then compared this data to the rise in number of dwellings between the same years, in order to determine whether the increase in built-up areas was justified.

We then focused on analysing available land, i.e. unincorporated surfaces, within the territorial administrative units of small towns (LAU 2). We accompanied this exercise with identifying the main categories of unincorporated land under public property, at the national level.

### **3. Findings**

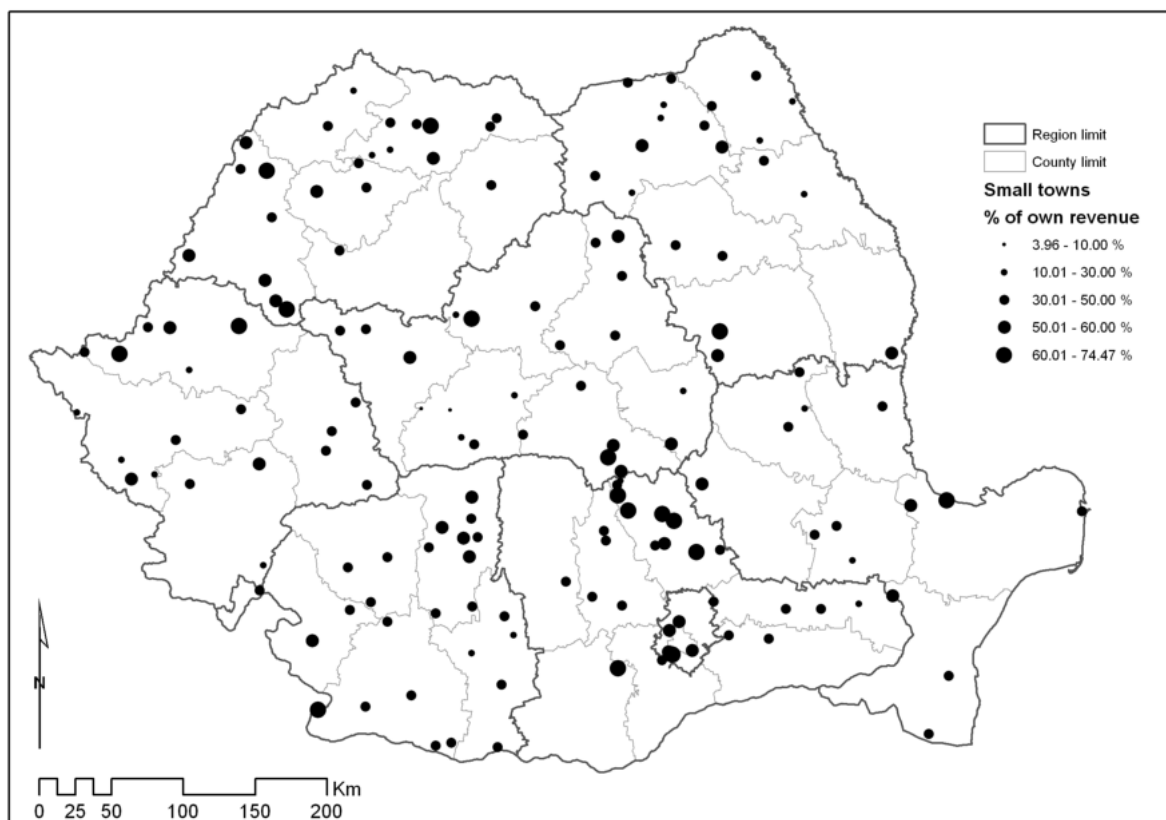
There are currently 221 small towns in Romania, with a combined population totaling 2,195,038 inhabitants, i.e. about 70% of the total number of towns and cities, and housing approximately 10% of the total population.

However, the total population residing in small towns has diminished over the last two decades by about 8%, with individual values ranging from 52% to 141%, while the entire population of Romania dropped from 23,211,395 inhabitants in 1990, to 21,355,849 inhabitants in 2012 – a total decline of 7.99 %.

Thus, the decline in the populations residing in small towns accurately mirrors the national decline. Of the 221 small towns, only 34 have had a positive evolution in population of over 5% since 1990, most of them being located near large urban centres, especially around the capital.

Furthermore, between 1992 and 2012 the average number of employees in Romania's small towns has decreased by about 54%. Only 19 towns have had a positive evolution in this timeframe, with most of them having either a touristical function, or being located near larger urban centres. Besides the economic decline, there has also been an important decline in the provision of social and health services provided: thus, between 2002 and 2012, 35 public hospitals have been closed in small towns, mainly due to under-financing from the central government, following the 2008 economic crisis.

Regarding the local authorities' budget analysis, an overall value of approximately 47% of the total revenue of these small towns comes from own revenues, i.e. local taxes (*cf.* Figure 1). The rest comes from state financing, under various guises, accompanied by a meagre share, of about 7%, of EU pre-financing revenues. However, individual values for state financing ranging between 8.11% and 91.16%.



**Figure 1.** The Share of Own Revenues within the Budget of Small Towns

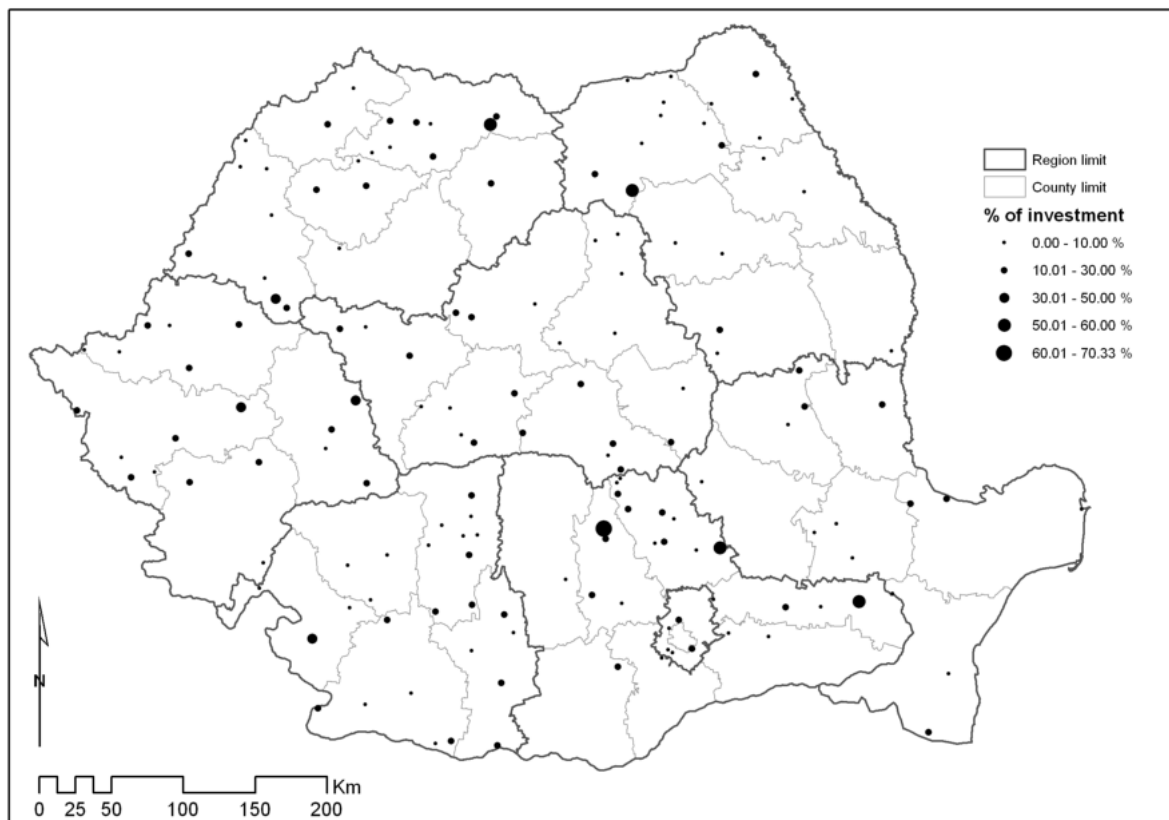
*Source:* The Authors.

As far as the expenditures are concerned, an overall value of approximately 14% are made of public investments, while about 10% represent co-financing of EU funded projects. These values illustrate the rather low expenditure of small towns in development areas and the fact that large amounts of funds are directed into areas such as education, healthcare, social services or public administration personnel costs (*cf.* Figure 2).

Table 1 provides a synthetic review of the main findings, with 93.67 % of the small towns in Romania having under 30 % of their expenditure dedicated to public investment.

**Table 1.** A Budget Analysis for Romanian Small Towns

	<b>Percent of Own Revenue from Total Revenue</b>	<b>Percent of Public Investment from Total Expenditure</b>
<b>Total Value</b>	47.36 %	14.04 %
<b>Maximum Value</b>	91.89 % - Otopeni	0 % - Calafat
<b>Minimum Value</b>	3.96 % - Negrești	70.34 % - Călan
<b>Values under 10%</b>	2 small towns	115 small towns
<b>Values between 11 and 30%</b>	28 small towns	92 small towns
<b>Values between 31 and 50%</b>	107 small towns	8 small towns
<b>Values between 51 and 60%</b>	54 small towns	5 small towns
<b>Values over 61%</b>	30 small towns	1 small town



**Figure 2.** The Share of Investment Out of the Total Revenues

*Source:* The Authors.

The reliance of small towns on own revenues has very often determined the gradual incorporation of more and more lands in the built-up areas, in the hope of increasing the taxes collected by the municipality.

This is reflected by the fact that normative urban plans in the last twenty years have produced an average expanse in the regulated built area surface of small towns of approximately 115%, which was meant to be dedicated to real estate investors. However, these investors failed to materialise, since the overall increase in the number of dwellings between 1990 and 2012 amounts to only 14%. Nonetheless, repeatedly increasing the built-up area essentially means that the scope for extensive growth has been exhausted.

### 3.1 Two Types of Planning Responses to the Question of Small Towns

Basically, there are only two types of response that the planning system can offer to this state of affairs described above: firstly, planning authorities can establish land use patterns through normative plans, and secondly, the ministry can attach financial mechanisms to the spatial development strategies it produces.

The first type of response is in line with the orthodox perception of the role of planning. Within this perspective, planning is regarded to be a set of procedures, a process of determining future actions

through a sequence of choices (Davidoff and Reiner, 1962). Spatial planning has, on the one hand, a regulating function, as government authorities need to authorise some activities, and, on the other hand, a development function, as different structures need to develop instruments for providing services and infrastructure, determining directions for urban development or protecting natural resources (United Nations, 2008). These planning instruments can be further divided into four categories: national policy instruments, strategic instruments, framework instruments and regulation instruments (European Commission, 1997).

The second type of response revolves around financial mechanisms. These, in turn, are financed by structural funds, which yield to the priorities of the European Commission.

However, neither approach has yielded significant results with regard the development of small towns. This is evident from the data regarding the decline in the average number of employees. Moreover, normative planning has been used mainly as an instrument to increase built-up surfaces in order to increase tax revenue, while the financial instruments set in place for strategic planning have often failed because of issues related to the amount of co-financing the cities can afford.

However, small towns still have valuable land resources, with 91.56% of their territorial administrative surface consisting of arable land, forests, pastures, vineyards etc. As a result, if we take into account the available pool of unincorporated areas in public ownership at national level, it amounts to 6.37% agricultural lands, 50.43% forests and 27.32% unproductive lands. Thus there is ample room for leasing land to development projects.

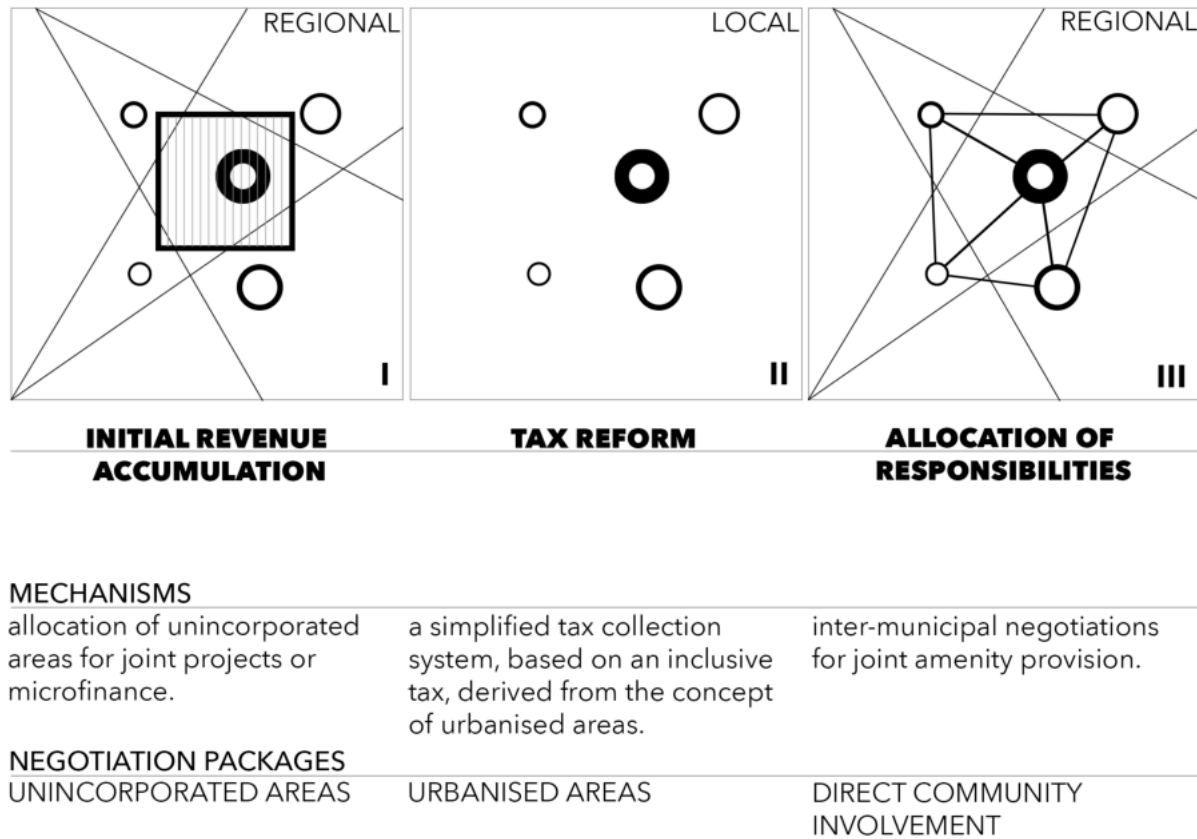
### **3.2 A Third Type of Response: The Management Model**

Following from these findings we have constructed the conceptual model presented in Figure 3. It consists of three stages, which work as follows:

- The first stage implies a financially determined co-operation between municipalities. This co-operation seeks to involve municipalities either in common projects yielding high returns or, if this option does not prove feasible, their integration within existing commercial micro-financial cycles. Within this first stage, municipalities pool some of their available unincorporated areas for larger-scale projects, such as bio-energy production;
- Within a second stage, the initial capital thus formed is transformed into a negotiating platform for tax reforms, between administrations and their communities. A simplified tax collection system should revolve around an inclusive tax based on the concept of the urbanised area consumed by users. The urbanised area should contain all costs incurred by the municipality in the process of urbanisation. Repeated rounds of public negotiations ensure community involvement;
- The third stage implies a reactivation of the regional dimension. Thus, based on the previous negotiations, municipalities decide upon how many amenities can be provided from local taxes, and how many need regional co-operation or applications for state financing.

The most important point to be stressed however is that a problem-oriented management is logically possible, and, furthermore, that it can partially compensate for failures within spatial planning practices, at least until the planning system adjusts.

A CONCEPTUAL MANAGEMENT MODEL FOR SMALL TOWNS



**Figure 3.** A Conceptual Management Model for Small Towns

*Source:* The Authors.

#### 4. Conclusions and Open Questions

We set out to construct our model on a very simple question: How should municipalities react in times when money is scarce? The exercise proved highly rewarding, as it resulted in some new perspectives:

- First, by perusing the literature on the subject, we learned that there are very few authors who systematically engage with the relationship between spatial planning and municipal taxing systems, especially in the case of small towns;
- Second, by trying to construct a planning model centred around budgets, we found out that there is very little detailed data to support a complex model. This means, on the one hand, that there is little academic interest in such data, and on the other, that all current models should limit themselves to general assumptions, thus making them understandable to the public administration and to the general public alike;
- Finally, we became aware of the explicit ways in which the regional dimension becomes indispensable to local development, in the case of small towns.

Generally, questions regarding small towns have been addressed either in terms of demographic and economic profiles, or in terms of urban functions. However, there is little detailed research available on the topic of municipal finance in small towns. Similar to other European countries, municipal finance in Romania is subject to equalisation payments. The stated rationale for these payments is an offset of regional imbalance. However, when this dependence is significant, municipalities tend to become vulnerable to political pressure. Therefore, a higher degree of political immunity works as a strong incentive for municipalities to increase the share of their own revenues within their budgets.

This is essentially a question of tax reform. But given the fact that very few municipalities have the initial capital to start such a negotiation with their respective communities, there is a need for co-operation at the regional level within projects with high returns on investment. Thus, when viewed from this angle, the regional dimension to local development is determined financially.

There is, however, an additional local dimension to it: the need for a simplified tax collection system, which should link urban users to the public administration, via an inclusive tax on urbanised areas (*cf.* Hoffmann-Axthelm, 2010). In principle, this solution is possible. However, the following questions will need to be addressed:

- How much of the traditional tax collection system can be streamlined, in order to produce a single, transparent tax on urbanised areas?
- What is the degree of non-financial compensations that has to be allowed for in such a management model?
- And, most importantly, how open are normative planning systems to such experiments?

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