

Chapter 11- Small Towns in Europe: results, trends and options for policy development

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# TOWN

**Small and medium sized towns in their functional territorial context**

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# Chapter 11 – Small Towns in Europe: results, trends and options for policy development

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## 1. Introduction

This final chapter re-examines the questions contained in the project's terms of reference in order to assess our achievements and reflect on the implications of the research. The scientific report has consistently sought to address these research questions by combining and refining a set of methodological tools which allowed us to analyse the current and prospective role of SMSTs in their territorial and functional context. The following summarises the outcomes of the different streams of analysis to build coherent narratives, whilst simultaneously indicating potential contradictions, before finally drawing out a series of policy messages extracted from our research.

First of all we will remind the reader that the project specifications asked for supporting knowledge and evidence for the following three policy questions:

- “What kind of roles and functions do small and medium sized towns perform in the European territorial structure, e.g. as providers of employment, growth and services of general interest, that contribute to the Europe 2020 Strategy for smart, sustainable and inclusive growth?”
- What are the potentials and barriers for development of small and medium sized towns in different territorial contexts, and how can policy at different levels unleash the potentials and diminish the barriers in ways that strengthen their functional character?”
- What types of governance and cooperation arrangements exist at various levels aiming to support the development of small and medium-sized towns and their territorial context, and how can policy further support these types of arrangements in order to strengthen their contribution to a more balanced territorial development of the European regions?”

(ESPON, 2011: 6)

Based on these questions above and the outcomes of our research streams, this chapter is organised according to four subsequent sections. In section 2, we examine the spatial distribution of SMSTs across the ESPON space. We demonstrate the complexity of towns and the fact that different scales of analysis produce different insights. While 2.1 relies more on the descriptive findings of morphological interpretation (Chapter 2) and correlation with changes in population and GDP at NUTS3 (Chapter 8), section 2.2 provides evidence on socio-economic characteristics at the scale of towns, synthesising the findings from Chapters 6 and 9.

Section 3 reflects on the functional role of towns and the need to understand gravitational areas (functional micro-regionalism) and functional relationships with other settlements within regions; this is structured by the three types developed by the ESPON SMESTO project: (i) autonomous (isolated, self-standing) towns, usually found in peripheral rural regions; (ii) agglomerated towns that are integral parts of poly-nucleated metropolitan areas

and conurbations dominated by large cities/major metropolises; and (iii) polycentric networks of towns (ÖIR et al., 2006).

Section 4 explores the socio-economic characteristics of towns and their potentials for local development. It constructs hypothesis and analyses factors influencing change. Section 4.1. combines the results of the regression analysis and qualitative insights from the 31 case studies, whilst accepting that the latter is somewhat more limited in terms of general applicability than the former. Following on from this section 4.2 develops policy recommendations in the economic domain, drawing on our 31 case studies and the results of the wider project.

Finally, section 5 contains the policy recommendations in relation to the relevant potential stakeholders at different scales from the European to the local. This will include consideration of the influence that institutional arrangements have on the capacity of the relevant organisations, at different scales, to bring about change *vis-à-vis* SMSTs.

## 2. SMST in the EU in the context of multiscale complexity

### 2.1. Regional characterisation and socio-economic changes

In the TOWN project one of the key policy questions concerns the variety of roles and functions performed by SMSTs in the European territorial structure in relation to achieving the aims of Europe 2020 and its strategy for smart, sustainable and inclusive growth. This was initially addressed by examining a set of analytical issues:

- How are NUTS3 regions across the European continent characterized according to the dominating type of population settlements?
- What are the main territorial trends related to regions characterised by SMST as prevailing settlements?

We provide answers to these questions in the two subsequent subsections.

#### 2.1.1. NUTS3 region characterization of urban settlement structures across Europe

In Chapter 2 (see also Chapter 8) we carried out a morphological analysis of urban settlements based on the methodology developed by DG Regio – OECD in the document ‘The New Degree of Urbanisation’<sup>13</sup>. Using this methodology we derived the subsequent NUTS3-based representation that distinguished three main types of national urban settlement structures:

- Countries with a prevalence of urbanised population, clustered in high-density urban centres, as Belgium, Switzerland, Greece, the Netherlands, Spain, the UK, as well as smaller island states as Malta and Cyprus;

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<sup>13</sup> [http://ec.europa.eu/eurostat/ramon/miscellaneous/index.cfm?TargetUrl=DSP\\_DEGURBA](http://ec.europa.eu/eurostat/ramon/miscellaneous/index.cfm?TargetUrl=DSP_DEGURBA)

- Countries with a more balanced repartition of population between classes of high-density urban clusters and small and medium towns, like Austria, Bulgaria, the Czech Republic, Denmark, Estonia, Latvia, Poland, Portugal, Romania, Sweden and Slovenia;
- Countries with an overrepresentation of population living in smaller settlements, like France, Ireland, Lithuania, Luxembourg, Norway and Slovakia.

Going beyond the scale of countries, our analysis highlighted that the central region of Europe, partly overlapping with the 'Pentagon' or the 'blue banana', is the most densely populated area of the ESPON space. While this region contains high-density urban clusters (London, Randstadt, Ruhr, Milano...) it also includes a large number of urban settlements that we have classified as SMSTs, throughout an area that stretches from the South of England across the Benelux countries and West of Germany to North-West and North-East Italy (see Chapter 2, Figure 2). Other clusters of SMSTs are to be found in the industrial belt of South-Eastern Germany and Poland, and throughout the Western Mediterranean arc from Spain to Italy, in which coastal sprawl is a relevant issue that has a strong effect on the 'small-and-medium-sized-ness' nature of the urban dimension to be found here. At the same time, it was shown how in the interior of France, North-Eastern Spain, the Alpine arc, and the Eastern side of the Pentagon area, SMSTs are far less prevalent as a 'characteristic' of the prevailing urban structure. The bulk of the population in such areas is somewhat dispersed in 'very small towns' (with less than 5.000-residents, the threshold set in the terms of reference of the project), or in "other settlement types" (mainly in areas characterised by sparse settlements that are under the threshold of 300 inhabitants per km<sup>2</sup>).

This diversity of these urbanisation structures has various origins, among which the most obvious ones are:

- Persistent geographical constraints: for instance, the regions across the Alps clearly tend to favour small-scale communities over SMSTs in the valleys, and thus we cannot identify any significant presence of SMSTs across large parts of Switzerland and Austria. On the other hand, the specific nature of islands can lead to the prevalence of high-density urban centres, as in Malta and Cyprus. In this sense our results are consistent with previous findings on the territorial diversity of urbanisation patterns across the European space (Gløersen et al., 2010).
- Different historical urbanisation processes that affected each European country over the last 100-200 years. A range of both country specific factors and more trans-national ones can be cited, such as the nature of industrialisation in the 19<sup>th</sup> century as well as suburbanisation processes in the 20<sup>th</sup> century. Moreover, for much of this period settlements located in the proximity of national borders have experienced the effects of a peripheral location.
- At the same time the significance of pre-National State territorial patterns have (re)emerged in recent decades due to the progressive weakening of national borders and the effects of increasing trans-border flows and activities, especially in the central areas of Europe (between France, Belgium and Germany) and in the eastern region through the former border between the EU-15 countries and ECE countries such as the German-Polish border, or in the polycentric systems between Vienna, Bratislava and Brno.

It is important to emphasise that the central region of Europe contains numerous clusters of SMSTs, not only does this area host a large part of the EU population, but it also contributes the largest share of its GDP. This implies *de facto* the importance of settlements of a 'small urban size' that are strongly represented in the core of the European continent. Given this they are crucial to the realisation of the EUs current priorities, not least that of the Europe

2020 Strategy for smart, sustainable and inclusive growth. The human resources that are to be found in such SMSTs make a crucial contribution to production and innovation in Europe. Thus the question needs to be asked: does the Europe 2020 Strategy fully acknowledge this contribution and promote the forms of territorial diversity that would support SMSTs, or does it implicitly favour large-scale human settlements? This question is also valid when examining the policy interventions of the national and sub-national levels of government.

Our results also show that the role of SMSTs is less significant in areas of Europe characterised by a more polarised population structure, where the presence of a few important urban areas is counter-balanced by a diffuse distribution of smaller settlements that constitute the prevailing living environment for a large part of the EU population. This result represents an important finding of the TOWN project, because it indicates that despite the conventional wisdom that there has been an urban shift of the global population (also questioned by Brenner and Schmid, 2013) the situation in Europe is more complex. Our results indicate that almost half of the EU population does not live in a metropolitan urban context, but rather in settlements that are of a smaller urban scale that are linked to and embedded within their local environment and surrounding rural areas. For these areas, the need to adapt the aims of the EU2020 strategy to support smaller urban settlements is crucial to their future development and the well-being of their populations and by extension of a significant percentage of Europe's population. Moreover, it also represents a key component of European territorial, economic and social cohesion and the operationalisation of the notion of 'strength through diversity' (CEC, 2008) and the associated place-based approach (Barca, 2009).

In terms of territorial cohesion, the central EU area represents a striking example of polycentricism based on large urban regions (the largest and the most dynamic ones across Europe). This point can be cautiously extended to all the urban regions in the EU territory, albeit in a manner that recognises the specific nature of their urban/settlement structures and the relations within them.

An initial, and somewhat superficial, observation would suggest that large urban regions are in most cases dominated by one (or a few) large high-density urban clusters. In this regard, our results complement those produced by the OECD (2012) that focussed on functional urban areas with a population of at least 500,000 inhabitants. However, this is a mainstream approach that perpetuates the interpretation of SMSTs as 'living in the shadow' of metropolitan areas. Our results, on the contrary, suggest that SMSTs play a crucial role in the economic growth of functional urban areas, not only through daily migration patterns, but also in terms of the deconcentration/concentration of firms and residents. Therefore, the delineation of SMST characteristics is a necessary first step in the further examination of whether the functions of agglomerated SMSTs are currently weakened, maintained or reinforced by their location and why.

Clearly SMSTs in other urbanisation contexts play different roles in the development trends of their regions. Hence, it is crucial to acknowledge the wide diversity of situations in which SMSTs are located and following on from this the variety of roles they can perform across regions, nations and the whole ESPON space. This is vital if we are to avoid advocating a single policy response (at a regional, national or European level), which in our view would lead to negative consequences (i.e. a 'one-size fits all approach' that is the very negation of the place-based approach).

Looking at the distribution of NUTS3 regions characterised by smaller settlements, we can see that there is a significant overlap with those that are border regions (internal and external), which means that border regions tend to be characterised by a low degree of urbanisation. This result for external-border regions is not surprising as they largely coincide

with sparsely population regions especially on the Eastern EU border, but the result for internal-border regions is worth noting. At the same time, with regard to the typology of urban-rural regions, while the association is to some degree built-in to the way our typology has been defined, it is still interesting to note (see Map 8 and Table A9 in Chapter 8) that low degrees of urbanisation are positively associated with all classes of non-urban regions, except that of intermediate regions close to cities.

Interesting insights can be derived from the correlation between regions with low degree of urbanisation and a typology of socio-economic status such as that of regions in industrial transition. Map 9 shows that there is an extensive representation of 'regions with industrial branches loosing importance' strongly characterised by smaller settlements. It indicates a general trend that characterises smaller settlements: a diminishing of the productive economy (due to delocalisation or concentration toward bigger urban poles) and an increase in the size and importance of the residential economy. There can be an absolute increase in the residential economy, for various reasons: the ageing phenomenon may generate growth in care and personal services; industrial workers that were made redundant may commute to other places in the region for work, but still spend a large part of their income locally. This shows that the increase in the residential economy is a fact, but not automatically a sign of hope. A similar argument could be developed about the presence of knowledge-based economic activities in towns: the case studies show that such activities can exist but that the knowledge-based economy still remains small and its prospects for growth in the future are unclear.

Some exceptions to the overall tendency of de-industrialisation can be found in the central regions of Spain, in some eastern regions, particularly in Poland (which may an effect of macro-territorial delocalisation), Finland and in the south-west of Ireland (ICT-related innovative branches). By contrast the regions characterised by the widespread presence of smaller settlements that are experiencing industrial transitions are sparsely distributed, with a higher percentage of less-developed regions, in particular in the eastern countries. Nevertheless the proportion of regions with smaller settlements that have 'industrial branches loosing importance' is not significantly different from those that are characterised by bigger settlements (as shown in Table A8, Chapter 8). Thus we can identify a worrying trend that indicates the fragility of regions with smaller settlements compared to those with larger urban areas.

### *2.1.2. Main territorial trends related to regions characterised by smaller settlements*

In this section, we will focus on some of the evidence provided by the analysis of NUTS 3 regions characterised by smaller settlements and their changes in population and GDP between 2001 and 2010 (Map 11 and others, Chapter 8).

In terms of population change we can identify the dominance of a general territorial trend characterized by a shift of population shift from the East and the North to the South and the West of Europe (or a high out-migration rate in the former, and a high in-migration rate in the latter) that affects all types of regions. Here the trend previously identified in the ESPON ATTREG project in the period 2000-2006 (Russo et al., 2012) is confirmed, albeit with small variations that indicate a more moderate effect in the latter part of the decade. This may suggest that the financial crisis has had a greater impact on some of the booming – and most attractive – regions and that this has played a role in 'smoothing down' this macro-scale trend (see also the recent ESPON Evidence Brief 'Migration keeps Europe moving'). This movement of population was also articulated with a decrease in the intensity of the exceptional rates of interregional migration within the EU that took place after enlargement

in 2004. In this respect it is possible to argue that while a counter migration phenomena has taken place in some 'overheated' areas, it is a process that in most of the affected regions has not been able to reverse the overall balance, which is based on the variation between 2001 and 2010.

The general trend of population growth is present in most of the EU-15 countries with a few exceptions such as those areas affected by long-term economic downturn. This is the case in Southern Italy, Greece, most of the Portuguese regions, East Germany, some more remote areas such as the West of Scotland and other internal French and Spanish regions.

This overview of regional population performance changes when the variation of the population is compared to each national average as in Map 11. This perspective takes into account the need for contextualization and it is able to measure in more detail relevant spatial differences.

In some countries, such as Portugal and Spain, there is population growth in or around the capital region (Lisbon, Madrid), but the most important spatial dynamic is taking place in strongly or low-urbanized regions on the coast. This can provide a strong impetus for the development of SMSTs in such regions, but once again with the proviso that population growth requires a corresponding increase in the provision of services of general interest and that this is planned and shared between the relevant planning authorities. At the same time, the management of growth in the coastal areas often coexists with a general depopulation of the central regions, which means that SMSTs located there are declining. This is clearly the case in Portugal, Spain and France, but the trend may be the same in Central European countries, or in islands, as the case studies showed.

The core of Europe, consisting of Belgium, Western Germany and the Italian North-Eastern regions, shows a general growth trend both in the strongly urbanized regions and in those characterized by smaller settlements, with some irregularly distributed exceptions. Here we can assume that the general growing trend and the local suburbanisation processes have particularly affected the regions with smaller settlements. In contrast to this, a strong metropolisation process has taken place in Germany's Eastern regions, in Austria and the Scandinavian countries, where there has been an important shift of population from regions with smaller settlements toward the capitals and other larger urban areas.

From this vantage point the Eastern European regions present a rather different picture. While we can identify a general declining trend of population, except for the metropolitan areas, the picture of population growth in comparison with national average shows the importance of regions with smaller settlements. Again, there is a general interdependency between metropolitan areas and urban regions (e.g. Riga, Warsaw, Cracow, Prague, Brno, Bratislava, Budapest, Bucharest, Sofia) and their surrounding regions characterised by a lower degree of urbanisation (this represents an extension that goes much beyond what might be termed a functional region). This suggests the presence of 'saturation effects' in the relevant metropolitan areas that, together with the enhancement of mobility systems (mainly by road), has determined a delocalization shift of firms and population, and in general terms, of suburbanisation.

SMSTs agglomerated to large cities seem to face problems related to the danger of becoming 'dormitory towns'. We can even talk of 'station town' if they are just a multimodal stop in travel to work journeys, between a suburban very small town providing home and natural amenities and a very large city providing employment, higher education and metropolitan leisure. However, under specific geographical and institutional conditions (a strong local sense of identity and degree of institutional and fiscal decentralisation enabling proactive strategies) it is possible that the activities that have become rooted in such SMSTs have been better able to resist metropolitan dominance by establishing processes of synergetic

networking with larger urban areas. This may represent an example of 'borrowing-size' effect (Alonso, 1973; Meijers and Burger, 2010), according to which towns that are close to bigger urban areas are able to realise a 'virtual critical mass' in terms of accessibility to services and other urban characteristics due to this proximity.

In terms of regional GDP growth between 2001 and 2010 one overall result is that the GDP variation of regions compared to the EU average shows a reduction (i.e. a narrowing gap) for the all Eastern countries (with a few exceptions such as in some of the most remote rural areas) and some other objective-1 regions in the EU-15 (e.g. most of the regions in Portugal and in the north of Germany) (Map 12, Chapter 8). On the other hand, many EU-15 regions are characterized by below-average growth. Also the differences across Europe between macro areas are much more significant than those at a lower scale. In the EU-15 regions, however, it is worth noting two phenomena:

- The above average growth of GDP in some sparsely populated regions in Sweden and Finland;
- An erratic pattern of growth in the core EU areas (Belgium, Western Germany and Austria) in regions with a low degree of urbanisation. Here the interesting point to note is that the GDP growth tends to be higher in regions with smaller settlements and below the average in highly urbanized areas. The strength of these regions suggests the importance of a dense system characterized by smaller urban areas and at the same time a possible saturation effect in mature urban areas.

Obviously, the general picture changes significantly when GDP growth is compared to each country average (Map 13, Chapter 8). Here, we can distinguish four distinct territorial trends:

- In the eastern countries the spread between regions with smaller settlements in the proximity of highly urbanized regions and those far from them is evident. This is particularly the case in Poland, Slovakia, Romania, Bulgaria and the Baltic countries, albeit with different specific cases.
- In Scandinavia, there is an inverted trend compared to the population shift: despite having a higher increase in GDP, the less urbanized areas tend to lose population.
- The UK shows a polarization of growth in the extreme opposite regional types, i.e. in both the main urban areas and in the smaller settlements regions, at the expenses of those regions in which the population is evenly distributed in high urban clusters and smaller settlements.
- France presents a patchy picture, in which the second-tiers urban poles appear to play a strong role, confirming the results of Parkinson *et al.* (2012). In Spain, higher growth is registered mainly in the smaller settlement regions at the expenses of inner mixed urbanized regions. Finally, Portugal has a higher growth in most of the smaller-settlement regions.

Moreover, there seems to be an important message in terms of the EU-15, which has shows a general growth trend in the regions with prevailing prevalence of smaller settlements that were Convergence Regions in the Structural Funds scheme (e.g. the inner Portuguese and Spanish regions, most of the Scottish, Irish, English and Wales regions, Austria and some of the Scandinavian regions). In a sense, this could be interpreted as a good indicator of an on-going rebalancing trend and the effectiveness of Cohesion Policy. The fact that SMSTs appear to benefit from the Structural Funds suggests that they have helped the Convergence Regions to evolve while not significantly altering their urbanisation pattern (which would be the case where there was rural migration to large cities).

All in all, for regions predominantly characterized by smaller settlements, the analysis shows that there is a strong relationship with macro dynamics and macro territorial trends. These regions seem to have experienced less spatial inertia *vis-à-vis* larger-scale phenomena. On this basis we can suggest that the macro-dynamics of population changes tend to prevail in over regional specificities and that territorial characteristics offer limited 'bouncing back' capacities in the face of the macro trends of population dynamics. However, we find more territorial exceptions to this trend in the maps when related to GDP growth.

Together with these macro scale phenomena we need to be aware of the existence of macro/meso regional path dependency that can be seen both in wealthier areas of the central part of Europe ('the polygon') and more generally across Europe. There seems to be evidence of differences between the performance of regions with smaller settlements in the proximity of urban regions and those far from them. However, there are specific national differences, which may indicate that specific urban-systems features and national policies matter.

Another key message, which may appear to run counter to conventional wisdom, is that high per capita GDP growth does not always coincide with population growth. In fact it is more often a case of an inverted relationship: regions with smaller settlements that experienced an increase in population tend to have lower GDP growth and, vice versa, those with higher GDP growth tend to show a decrease in population. However, it is not possible to draw any firm conclusions regarding this phenomenon as there is insufficient reliable evidence available.

Also, our analyses reveal a general distinction between regions with smaller settlements in remote areas and those close to metropolitan areas/urban regions (the so called intermediate regions: – for the full debate: OECD, 2010; Dijkstra and Ruiz, 2010). While in general the former exhibit negative trends, the latter are characterized by better performances. But, as was said earlier, beyond positive population or GDP growth scores, it is crucial to understand whether such growth maintains (or even reinforces) the functional and territorial role of SMSTs. The possibility exists that agglomerated SMSTs are destabilised by suburbanisation, on the one hand, and by a re-concentration of jobs and services in cities, on the other. As we have noted above this is a crucial issue in some national and regional contexts as it threatens to undermine their existing roles as service and employment centres.

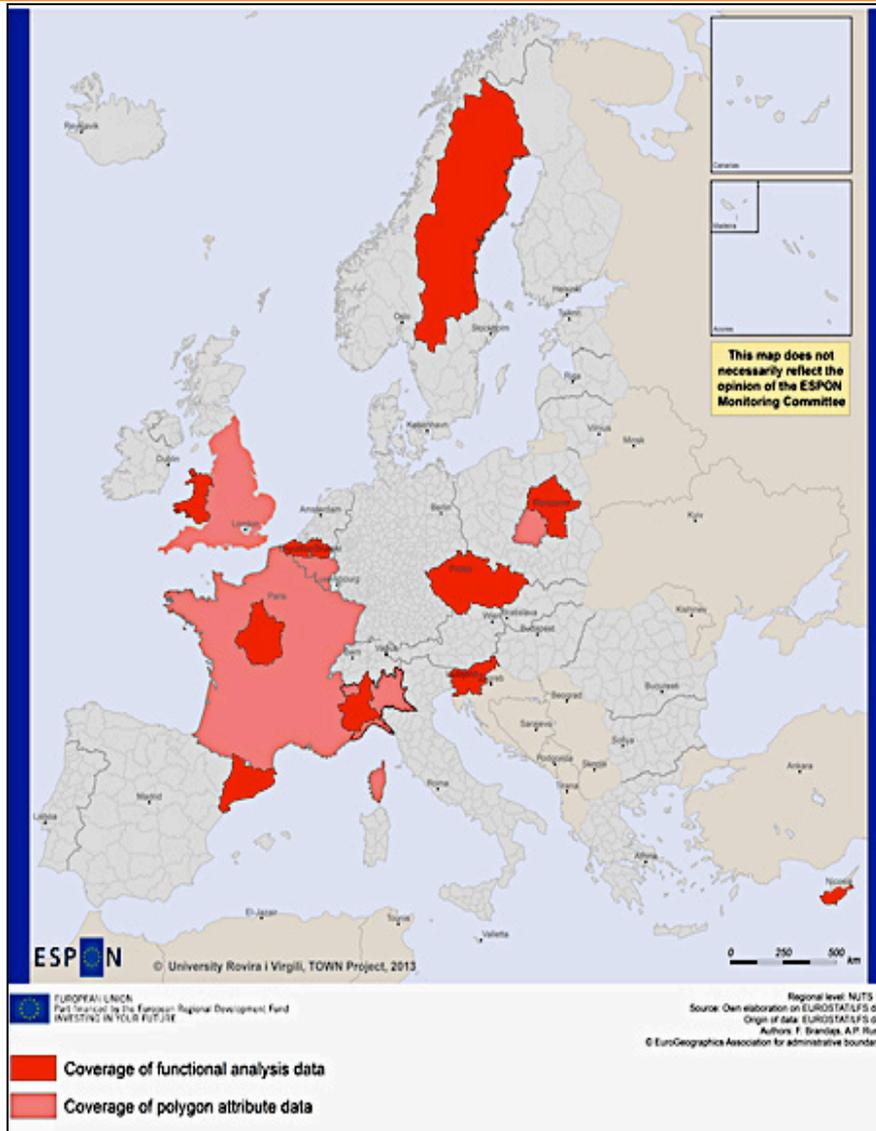
Finally, the map of population change compared to national average shows that there is an extensive distribution of regions with smaller settlements that have a higher rate of growth than other regions. In general, this result suggests that in central Europe this positive growth is at the expense of mixed and highly urbanized regions. In a way this is a surprising result. Of course it is necessary to also take into consideration the absolute value of GDP, but it may be an important indication of a rebalancing process.

## **2.2. Qualitative and quantitative insights on socio-economic characteristics**

The research team constructed a database for all SMSTs and all HDUCs in France, Belgium, the Czech Republic, Slovenia and England and Wales and for all SMSTs and HDUCs in the regions of Catalonia, North West Italy, Northern Sweden and Mazovia. Given this limited database we can systematically develop a specific pan-European focus on the average characteristics of small towns with the aim of offering insights into general trends and relationships.

## Selected case study countries

## Selected SMSTs and number of inhabitants



<b>Aarschot (BE):</b> 28,636 inh
<b>Dendermonde (BE):</b> 44,257 inh
<b>Ieper (BE):</b> 22,051 inh
<b>Brandys nad Labem (CZ):</b> 16,247 inh
<b>Pisek (CZ):</b> 27,979 inh
<b>Usti nad Orlici (CZ):</b> 12,457 inh
<b>Cambrils (ES):</b> 34,919 inh
<b>Tarregà (ES):</b> 17,129 inh
<b>Vilafranca del Penedès (ES):</b> 41,322 inh
<b>Chinon (FR):</b> 5,355 inh
<b>Issoudun (FR):</b> 11,965 inh
<b>Vendôme (FR):</b> 8,578 inh
<b>Alba (IT):</b> 25,520 inh
<b>Ceva (IT):</b> 5,056 inh
<b>Fossano (IT):</b> 20,565 inh
<b>Garwolin (PL):</b> 15,478 inh
<b>Łosice (PL):</b> 6,194 inh
<b>Szydłowiec (PL):</b> 10,418 inh
<b>Kiruna (SE):</b> 16,368 inh
<b>Östersund (SE):</b> 39,843 inh
<b>Timrå (SE):</b> 9,268 inh
<b>Avesta (SE):</b> 21,583 inh
<b>Domžale (SI):</b> 23,793 inh
<b>Postojna (SI):</b> 7,581 inh
<b>Radovljica (SI):</b> 8,231 inh
<b>Colwyn Bay (UK):</b> 32,895 inh
<b>Llandrindod Wells (UK):</b> 6,450 inh
<b>Tredegar (UK):</b> 15,103 inh

Figure 1. Case study countries and SMSTs covered by this report. (Source: Own elaboration).

Our work involved comparing (and partitioning) the characteristics of nearly 2300 SMSTs and comparing them to the characteristics of under 300 HDUCs. At the same time, 31 urban municipalities in 10 NUTS2 regions were investigated for more specific qualitative insights (see figure 1). Of course, the limitation of the outcomes is that the analysis concerns only a small proportion of the EU territory, i.e. slightly more than 25% of the relevant European settlements (albeit widely distributed to grasp the rich diversity of places). The results are even more limited when referring to the 31 case studies.

Therefore, the following 2 subsections articulate a) the findings of the quantitative inquiry of the polygon-based dataset, and b) the qualitative considerations drawn out of the 31 case studies.

### 2.2.1. Quantitative insights

In general the data suggests that the characteristics of the morphological SMSTs are statistically different from the characteristics of larger cities (identified here as HDUCs). However SMSTs from individual countries and regions are statistically different from SMSTs in other countries and regions pointing to the fact that small towns are significantly influenced by the context in which they are located.

In line with the ESPON INTERCO project's (2013) conceptualisation of factors that articulate the notion of territorial cohesion and based on a pragmatic overview of available data in the dataset, the characteristics of SMSTs were grouped into five domains. The following domains are to be considered as a framework through which the characteristics of SMSTs reveal the specificities of towns in Europe compared to larger settlements, and for which it is worth thinking about specific tailored strategies: economic competitiveness, economic innovation, accessibility, equity, and culture and community (see Table 25, Chapter 9). Of course the information grouped should be considered as an available proxy for the domain in which are presented.

Overall we can observe that there are a bundle of characteristics that tend to define (small) towns as different from cities in the countries and regions covered by the database. In most contexts SMSTs in comparison to HDUCs present the following characteristics:

#### Domain 1 (economic competitiveness)

- Industrial employment has a greater proportion of employment while the service sector has a smaller proportion of employment (differences in relation to economic competitiveness);
- On average a significantly smaller proportion of jobs (on average) in private marketed services and in public services in comparison to HDUCs;
- Higher economic activity rates;
- A higher proportion of pensionable adults (unless in NW Italy) and more children (unless in England and Wales) (differences in relation to the Domain of culture and community);

#### Domain 2 (economic innovation)

- A lower proportion of working age adults with a degree (unless in England and Wales, and equal in Belgium) (differences in relation to economic innovativeness);
- In France, Central Poland and England and Wales, economic activity rates are statistically significantly higher in SMSTs than in HDUCs;
- In Catalonia and England and Wales, self-employment rates within SMSTs are significantly higher than in the equivalent HDUCs. This is not necessarily an indicator of innovation. It may be an indicator of the weakness of the local economy in the sense that there are few jobs and people become self-employed out of necessity and set up the sorts of businesses that are anything but innovatory – e.g. hairdressers, car repair businesses, etc. The people who do this often earn low incomes and the 'product' of the business makes little, if any, contribution to the local economy in terms of GVA. The levels of productivity in such firms are very low. This is certainly the case in the economically weaker regions of the UK – although in Germany this is different especially in those economically stronger regions where there are 'high-tech' and highly skilled SMEs.

### Domain 3 (accessibility to services and employment)

- Employment in the retail sector is significantly lower than in HDUCs in Italy, Northern Sweden and England and Wales;
- SMSTs have a lower proportion of who live and work in them than the HDUCs that are located in the same regions and countries (differences in relation to implied accessibility of employment). Overall this would indicate that workers in smaller towns may need to commute further afield (where there is an opportunity to do so) for work. We might expect to see variations in these measures in relation to the functional classification of settlements.

### Domain 4 (equity)

- Unemployment rates in SMSTs tend to be lower than for HDUCs in four of our countries (Czech Republic, France, North West Italy and England and Wales) which implies (in combination with high economic activity rates) that small towns residents in many parts of our studied area were able to find work successfully (in our base year) although this work may not necessarily be within the municipality they live in (or unemployed persons move to bigger urban areas)

### Domain 5 (culture and community)

- SMSTs can show a statistically significant difference in the proportion of school age children (higher with the exception of England and Wales);
- Concerning housing stock accounted for by secondary or holiday homes (Czech Republic, France, Slovenia and England and Wales) the SMST average is higher than that for the HDUCs.

These characteristics indicate how towns tend to be different on average from cities, but at the same time, how they are extremely different among themselves across Europe, to an extent that it is only in theory a conceptual category characterised by uniformity of problems.

#### *2.2.2. Qualitative insights from the case studies*

To support the last point mentioned in the previous section concerning the large variety of cases, we investigated in more depth 31 case studies urban municipalities within ten NUTS2 regions.

The zoom-in on these towns allowed us to carry out a more detailed investigation of their socio-economic characteristics. The general assumption of this analysis is that the capacity to create jobs, to provide services, to attract new population and to engage in inter-territorial and innovation networks is not only the result of a town's geographic proximity to large cities. Such a geographical determinism is contradicted – or at least differentiated – by a complex of factors among which is the socio-economic composition of the settlement itself and their inherent value within wider spatial divisions of labour. At the same time, the smaller size of the working population often leads to specialisation in some activities (manufacturing, tourism, etc.), while their fate is ultimately linked to economic and social change at regional, national or even international level. Therefore, we can assume that the socio-economic performances can be related to a range of factors which are a combination of geographic position, macro/regional trends, historical development and the ways in which these are understood by policy actors (i.e. their 'policy frames').

As regards the main characteristics of the local economy, we argue that different socio-economic profiles can be observed in towns, depending on the key sectors that form the basis of their local economy. Three economic profiles can be detected, which represent a combination of different sectoral specialisations: residential, productive and knowledge-based economies.

Some towns have their local economy oriented to external demand and base their activities on manufacturing, agriculture, business, and traded services. This “productive” economy of towns in developed countries is the result of the fact that they experienced the late phase of the industrialisation cycle during which towns experienced growth of population, industrial development and economic modernization. It was the period where towns were often selected for investment by companies whose rapid expansion was based on the production of standardized goods and services that required cheap and low-skilled workforce. In most European countries, the productive economy based on manufacturing and tertiary production systems was connected to larger cities and metropolises (e.g. Ile-de-France, London, München or Milano). At the same time, there are several towns which based their local economy on the agriculture sector and derived activities, e.g. agro-food, agro-tourism, etc.

According to the overview of 31 case study towns, the local economy of a large majority of them has a dominant productive profile, which is in line with the quantitative findings. On the one hand, the fact that most of these towns have retained their productive economic base demonstrates that production of traded goods and services is still important for the development strategy of such towns. However, several of our cases were experiencing delocalisation processes and transformation of their main economic drivers. This is also consistent with the perception that a number of the regions with smaller settlements are characterised by industrial branches losing importance, and confirms the fragility of their local economies and the need for support to develop their local economic base.

Other towns have a local economy that mainly relies on activities and services related to population needs and local demand (housing, public services, etc.; more detail on this in section 2.1 below). As our analysis will suggest, such “residential” local economy may be considered as one of the key drivers of town development in various countries (Belgium, France, Germany, The United Kingdom), especially in those regions benefiting from tourism activities (South of Portugal, coastal Catalonia in Spain) and in those in the proximity of urban regions (based on commuting patterns). In the current period of economic crisis, the residential economy may represent a stabilizing factor for towns since it allows them to ‘capture’ income and the jobs it generates are not directly exposed to global competition.

However, only a few of the towns studied had a local economy in which the residential profile was dominant. This might indicate that services to population and residential consumption are still seen in a majority of towns as complementary drivers to the general economy. Nevertheless, it is possible to identify different types of residential towns: those where tourism is the major driver in terms of activity and jobs; those with an over-proportion of elderly people in the population and where personal services and services related to healthcare have an important role for the local economy; and those located at a short distance from large cities that specialize in attracting commuters and their families.

Finally, there are towns whose local economy is either related to residential or external demand, but at least partly based on knowledge, innovation and creative activities such as higher education, design-based activities, etc. Through the implementation of favourable conditions for creative businesses (e.g. through provision of subsidies or tax incentives) and by improving the quality of life for the population, these towns were able to build on their resources (e.g. quality of place) and talents to attract new investment and new residents. In

addition, the “creative and knowledge economy” based on activities such as architecture, design, advertising and software creation may provide innovative inputs for other sectors, namely agriculture, handicrafts, furniture, textiles, tourism and gastronomy.

Towns characterised by a creative and knowledge-based profile have university branches, R&D activities that are promoted either by public institutions or by private investors; they have a highly educated population, and local firms participating in innovative clusters or creative networks. It is unlikely that in the case of such towns the creative and knowledge-based profile can supplant the more “traditional” ones - residential and productive profiles. Nevertheless, it may constitute an important dynamic input for the residential and/or productive economy where it exists in several economic sectors and activities such as creative and cultural industries, high-tech businesses, recurrent cultural events, etc.

Interestingly, when it comes to changes in profiles over a 10-year period, most of our case studies with a dominant productive profile in the past have retained it over the last decade. However, we have observed towns that experienced a shift towards residential and creative and knowledge-based economic activities. In our case study set of 31 towns, over the past decade 10 cases experienced some of change in their profile (from productive to residential/creative; and *vice versa* from residential to productive/creative), which indicates that at least a third of the towns in our case studies are undergoing, to varying degrees, a process of structural change in their local economy. Moreover, in the context of economic downturn, it is possible that this process could continue in the years to come. At the same time, 42% of the sample is experiencing a restructuring process expressed in either growth in population but decline in employment, or growth in employment but decline in population. Finally there are towns that are deliberately attempting to develop a new strategy for local growth and are seeking to bring about change in their local economic profile.

### 3. The role of towns in functional and territorial terms

Recognising and documenting the complex roles of towns in functional and territorial terms is at the heart of this project. This section will bring together results stemming from several steps of our analytic work, namely the functional approach (Chapter 5), the performance of SMSTs measured in the 31 case studies (Chapter 6) and the regression analysis that was carried out in five countries (Chapter 10). At the beginning of the project, many typologies of towns based on the functions they perform served to stimulate the thinking of the research team (for instance, Bolay and Rabinovich, 2004; Hildreth, 2006; Sýkora and Muliček, 2009).

Among this body of work the ESPON 1.4.1. project is probably the most relevant here (ÖIR et al., 2006). As was said earlier, that project distinguished (i) isolated towns that serve as 'multi-functional centres' for their hinterlands; (ii) networked towns and (iii) towns that are part of large urban systems. While acknowledging the interest of this typology, to which we will go back later, we stress the complexity of situations of SMST, and subsequently we argue for the need to adopt a territorial and place-based approach that is based on an understanding of regional and sub-regional dynamics. Thus, for the sake of expositional clarity, we will organize the discussion around a multi-level approach, distinguishing two complementary visions of SMSTs: Section 3.1 will deal with SMST as centres that serve their immediate hinterland while section 3.2 will analyse SMST as part of urban systems, exchanging flows with large cities and other SMST.

### 3.1. SMST as functional centres

Given that most of the research on urban regions, including ESPON projects, focuses on major cities and their metropolitan areas, our starting point, following the terms of reference of the project, was that SMSTs are vital and important socio-economic territorial entities at the European scale. We calculated that there are 173 NUTS3 regions in Europe where the population living in SMSTs is more than 50% of the total population, and only 98 NUTS3 regions that do not include any SMSTs, most of the population living in high density urban clusters, i.e. large cities. But cities and towns should not be placed in opposition to one another: they have in common that they are centres which possess centrality functions that serve their immediate hinterlands, and in the case of large cities wide territories. Through the functional analysis performed in 10 NUTS2 regions, we have been able to identify, among all settlements of small or medium size, these SMSTs which play the role of urban micro-regional centres. It should be remembered that the centrality role performed by SMSTs contributes to territorial cohesion and therefore on this basis alone their role should be more firmly taken into account in EU, national and regional planning and development policies.

There are remarkable differences between our case study regions in terms of the number and share of municipalities that play the role of job centres. The major dividing line is between the highly urbanized regions of Flanders in Belgium with half of municipalities playing the role of job centre and other regions and countries where the share of municipalities performing the role of job centre ranges from 5% in Cyprus to 12 % in Catalonia, with Czechia (6%), North Western Italy (9%) and Poland (11%) in-between. Slovenia with 31% of municipalities having the status of job centre is in an intermediate position, signalling a specific feature of the Slovenian urban system characterized by the dominance of Ljubljana accompanied with high level of polycentricity characterising many other settlements.

Regarding the delimitation of micro-regions and identification of micro-regional centres, there are also quite significant differences between our case study regions in terms of the number of micro-regional centres and the share of all municipalities (or alternatively defined settlements) ranging from 2% in Cyprus to 42% in Flanders. While in some countries the delimitation of micro-regions and selection of micro-regional centres led to only a partial adjustment in the number of urban nodes, there was a remarkable shift in Cyprus and Catalonia. In Cyprus micro-regional centres accounted for only 37% of job centres. Similarly in Catalonia only 56% of job centres had the role of micro-regional centres. In Slovenia, Poland, Belgium and France, the share of micro-regional centres in terms of the total number of job/urban centres was above 80 %.

The functional analysis showed that the number of towns as micro-regional centres, their location and thus their functional and territorial role varies according to the region considered. Nevertheless the hinterland of small towns, which we have termed the functional micro-region, represents the territorial scope within which the daily life of the population takes place without the excessive need to travel for jobs and services to other areas or their urban centres. In policy terms, it seems important to provide support to consolidate the functions of these towns, as they considerably simplify the daily functioning of residents, but also of firms, thus contributing to economic efficiency. In large cities territorial development stemming from agglomeration economies and concentration of population and especially jobs can be effective in economic terms. But it has sustainability implications: it produces longer commuting distances, and reduced accessibility to jobs and services, particularly for less mobile citizens. It also further strengthens concentration effects in major urban areas and the on-going depopulation of rural and peripheral regions thus

undermining territorial cohesion and creating new (or reinforcing existing) socio-spatial inequalities. The need for 'balanced development' at European, national and regional levels is widely acknowledged and our results suggest that SMSTs have an important role to play in this process. In terms of territorial, economic and social cohesion, it is vital to support or even enhance the role of towns as employment centres and as providers of a wide range of services of general interest.

Therefore, the identification of functional micro-regions and the potential for developing the reciprocal roles of settlements in these areas is a key issue for a balanced and cohesive territory. Consequently, territorial cohesion can also have a local expression in terms of governance. Appropriate forms of cooperation between local authorities at the scale of the micro region should be encouraged, as they can help to ameliorate wider changes in the spatial distribution of activities and services, this is particularly important at a time when many countries and localities are experiencing significant reductions in public expenditure. National and regional authorities have a role to play and different institutional systems may encourage or discourage collaboration, but as we saw in Chapter 4, one cannot identify any clear relationship between the different institutional systems and the propensity to collaborate. A great deal seems to depend on a 'history of cooperation'. Even though a key characteristic of a town is their role as centres of a micro-region, towns and their micro-regions are different, not only in size and composition, but also in terms of their territorial capital.

### **3.2. SMST as part of urban systems: connections to other SMST and large cities**

In any policy approach, identifying the functional settlement context of an SMST is necessary to explain and to interpret differences in town's the development dynamics and performance of towns. But this analysis cannot, and should, not be restricted to the towns themselves, or even to towns and their hinterland as is too often the case. Hence, an essential element in an understanding of the socio-economic performance and development trajectory of a town is its functional interactions with other urban centres within relevant wider urban and regional systems.

Across our case study countries and regions, we found striking differences. The most exceptional are in Flanders, Belgium, with its highly urbanized landscape of large municipalities of which nearly 42% play the role of urban micro-regional centres, with large centres being decisive in terms of concentrating population, jobs and, especially, bringing into their 'orbit' and linking together neighbouring small and medium sized towns in their proximity. It seems that with evenly distributed growth between large centres, agglomerated and networked towns, all urban places benefit from this polycentric, yet large large-city city-dominated urbanization pattern.

We also found a significant share of municipalities retaining their role as urban micro-regional centres in Slovenia, a country with two key forms of territorial organization operating in a symbiotic manner: with the major role of the capital Ljubljana for the whole country and a polycentric arrangement of small and medium sized towns in the country's local sub-regions. In both Flanders and Slovenia, the large share of urban centres in the total number of municipalities can be partly explained by the existence of larger municipalities that are composed of several settlements. In these municipalities, part of the territorial division between centre and hinterland is already accommodated within municipal boundaries.

Both regions/countries can be seen as good examples of polycentric urban systems with a strong role for large centres. However, Slovenia differs in one substantial aspect which is the large share of population living outside urban micro-regional centres. In this aspect it is more like The Czech Republic, Catalonia or the Mazovian region in Poland. The Czech Republic and Catalonia have developed a range of forms of towns' territorial structures and thus exhibit considerable variation, while the Mazovian area has two mutually distinct forms: that of the large region of the capital city of Warsaw and, on the other hand, a ring of towns in the peripheral part of the region, somewhat squeezed between the large centres and extensive rural settlements. In this regard, there is some similarity with the French Centre Region, where the key role is played by large centres with a substantial share of population living outside of urban micro-regional centres, while the already smaller share of small and medium sized towns' population and jobs continues to shrink. Cyprus is a specific case, with tourist oriented coastal development, Nicosia's role as capital city and rural, sparsely populated areas in the inner parts of island.

Our work has also identified the functional roles of urban areas in a wider territory. Using the results of the ESPON 1.4.1 project, we distinguished three basic types of territorial arrangements:

- Autonomous (isolated, self-standing) towns, usually found in peripheral rural regions;
- Agglomerated towns that are integral parts of poly-nucleated metropolitan areas and conurbations dominated by large cities/major metropolises;
- Polycentric networks of towns.

The key objective here was to identify which type of spatial configuration performs best in population or employment terms. Unsurprisingly, in general large cities perform better compared with small and medium sized towns. The most pronounced difference was observed in the Czech Republic, where the number of jobs in SMSTs declined by 12%, while in large cities it increased by 11%. In England and Wales, such towns performed better than large cities. But there is a high degree of variability among towns, with many performing not only worse but also much better than large cities. Individual towns have a huge variability in their development and performance trajectories, and the performance of the regional economy appears to be a key structural factor influencing performance.

In general terms, we can conclude that there are many factors determining towns and cities development that cannot be grasped by a simple or multivariate analysis. But we were able to correlate the relationship between a low degree of urbanisation and deindustrialization. NUTS3 regions where more than the 70% of the population living in SMSTs, VSTs, or rural areas are 10 times more likely to have lost employment in manufacturing than to have gained it. In regions with a higher degree of urbanisation, the labour market has already shifted to tertiary occupations, in the sense that industrial transition is less visible. With regard to this, the case study evidence shows that towns that have diversified their local economic mix did better through the 2000s than those with a high level of dependence on any single 'sector'. As employment diversity declines on the whole with settlement size, there is therefore a disadvantage of being small.

In our work we also anticipated that whether the town is autonomous, agglomerated or networked would have an influence on the town performance. Where the data was available (Belgium, Czech Republic, France, Slovenia) we have sought to monitor the growth or decline of population and jobs. The main message emerging from this work is that while the distribution of population according to the place of residence was stable, the changes in

job distribution were quite significant. In Slovenia there was 13% job growth in large cities, 2% job growth in networked towns, and 4% decline in agglomerated towns. An almost identical change occurred in the French Centre Region, with 7% job growth in large cities, 1% in networked towns and 5% decline in agglomerated towns. Flanders differed with generally overall job growth in the whole region and specifically growing agglomerated towns. Within the Flemish polycentric urban and regional system, this can be related to job de-concentration dynamics.

In policy terms, this means that the attention of local authorities (especially those of agglomerated towns) should not be orientated exclusively towards simply increasing the number of residents (through granting permission for new housing development, for instance), but should try to consolidate the economic base, and more specifically its productive component. Apart from the case of Flanders, another key trend we can identify is competition from large cities vis-à-vis agglomerated towns and the rapid transformation of such towns from places of production and services to more residential suburban nodes. Diversifying the bases of economic development, and not only supporting the rise of the residential economy should be on the agenda. This can take various forms: engaging local firms in innovation clusters and networks, looking for niches of de-concentration of sections of metropolitan firms, identifying and valorising resources linked to the territory (natural and cultural heritage, among others). However, it is important that towns do this in a manner that builds upon/enhances their existing economic base and territorial assets. For agglomerated towns this may require that they cooperate with other similar towns in the area and/or the relevant large urban centre. This in turn will require the development of appropriate forms of governance and associated partnership structures.

In contrast to an optimistic view (Knox and Mayer, 2009), the fact that some towns within metropolitan regions may benefit from the participation of local firms in an innovative cluster, or from the presence of a university branch does not appear to find a clear expression in the employment statistics or in the levels of qualification in our 31 case studies. And the fact that some towns with a beautiful natural environment may attract populations of commuters, second-home owners, or tourists without any disadvantage (i.e. a sharp increase of prices on the housing market) is not guaranteed to work elsewhere. In our view, clear and well defined development strategies are required, with strong support from regional and/or national authorities, as the local government of towns often lacks the necessary expertise and resources to develop and implement such strategies. In many of the case study towns there were issues around the 'capacity to act' (mobilisation). Also some towns demonstrated a much greater propensity to 'innovate' and adapt (e.g. Alba and Athienou) and this was strongly rooted in their local milieu. This does not take place in all SMST – for instance several of the isolated towns are losing young people (brain drain) which may well impact on their capacity to 'innovate' and diversify the local economy.

Even though our results do not show any clear differentiation in performance between autonomous, agglomerated and networked towns, the policy orientations that are developed need to be framed in relation to their regional/sub-regional context and based on their existing assets. Regarding agglomerated towns, the conventional wisdom is the following: while economies of agglomeration tend to work against them, they can benefit from being a “cheaper location to live, work and run a business if compared with large cities, because they have shorter commuting and lower land and wage costs” (Hildreth 2006: 16). But this will probably not be sufficient to stimulate sustainable economic development and better performance in the longer term. There will always be the danger that they can be undercut by lower costs (e.g. wages) elsewhere and it is not desirable to have a local economy that is overly reliant on a particular sector and/or firm – in other words diversity is a strength.

Regarding the networks of SMSTs, it is less clear whether they can substitute for agglomeration economies of large cities by borrowing some of the size advantages from large core metropolises, while avoiding their costs. The issue was tested by Meijers and Burger (2010), who came to a pessimistic finding that “a network of geographically proximate smaller cities cannot provide a substitute for the urbanization externalities of a single large city” (Meijers and Burger 2010: 1383).

Regarding autonomous SMST, as we said earlier, consolidating and if possible developing their centrality role should be a priority, in the interest of their existing residents and firms. However, as some of our case study towns suggest (e.g. Alba and Athienou) it is possible for such towns to develop a strong, locally embedded, economy that can grow and adapt to change and is open to the external world.

Overall, whatever the local conditions, there is a shared need for an integrated multi-level approach that situates towns in their regional and sub-regional contexts and takes into account their functional roles. But, depending on the three types, this means thinking quite differently about the relevant spatial planning approach, governance forms and 'policy bundles'.

What also seems to affect the propensity/willingness of SMST to collaborate is 'history' - Flanders with a longer tradition of such collaboration is a good example – here we are back to 'path dependency'. In France the central state has sought to encourage collaboration through the use of financial incentives and there has been varying degrees of success. This signals that a great deal depends on the relevant national and regional authorities and how they understand the role of SMSTs (if at all) and seek to support them. In Chapters 4 and 7, we did not detect a great deal of interest in national terms – only a few countries seem to acknowledge the role of SMSTs and even here it was often particular types (e.g. market towns). We will go back to this question in the last section of this chapter.

## **4. Socio-economic characteristics and potentialities for local development**

This section develops a series of propositions related to SMSTs based on our results and analyses factors influencing socio-economic change in towns. Section 4.1 combines the results of the regression analysis and qualitative insights from the 31 case studies, whilst accepting that the latter is somewhat more limited in terms of general applicability than the former. Section 4.2 develops policy recommendations drawing on our 31 case studies and the results of the wider project.

### **4.1. Factors of changes – some evidence**

The regression analysis performed with the polygon-based dataset associates the characteristics of small towns with measures of change in small towns for the period 2001-11. Here we sought to address two, related, questions: To what degree are changes in SMSTs between 2001 and 2010 explicable in terms of the characteristics of those SMSTs? Or can they mainly be explained in terms of the regional contexts in which SMSTs are located? We did not consider these two questions to be mutually exclusive, indeed our suspicion was that change would be a result of a combination of endogenous (i.e. related to SMST characteristics) and exogenous (i.e. related to the regional context) factors.

The findings from the multi-level regression model are restricted to SMSTs across the five countries for which we have complete data: Belgium, Czech Republic, Italy, France, Slovenia, and UK. An overview of population and employment changes are provided in two subsequent sections, with associated policy reflections. Clearly, given our limited data base, we need to be cautious in terms generalising on the basis of these findings, but they do provide important insights into a cross-section of European SMSTs that illustrate many of the issues/challenges facing SMSTs across Europe.

#### 4.1.1. Population change

An initial analysis of variance in the outcome variables to be analysed at SMST level (change in population and change in jobs) suggests that variance between settlements in different NUTS2 regions (calculated as a variance partition coefficient) accounts for about 31% of variance in demographic change but only about 20% of change in jobs. This confirms the value of a multi-level approach that can deal with each of these components of analysis (intra and inter-regional variance). The findings related to the regional-level variables are threefold:

- First, the most important factor which makes it possible to predict population change in SMST is the regional population growth rate. This significance is both statistical and numeric in the model. For each 1% change in regional population, there is a 0.8 percentage point change at the SMST level (taking all other variables into consideration).
- Second, climate has a relatively large statistical effect on predicting population change in SMSTs mirroring the findings of the ATTREG project (see Russo et al., 2012). Thus SMSTs in regions with a smaller difference between the average summer and winter conditions grew faster in the first decade of the 21<sup>st</sup> century, taking other factors into consideration.
- Third, proximity to larger urban areas (the HDUC) seemed to be less important when taken at the NUTS2 area level controlling for the other factors in the model. The proportion of a NUTS2 population living in a HDUC seemed to have no statistical impact on population growth. It indicates that several factors influence a town's population growth trend.

By contrast the town level variables have a much smaller effect on predicting population growth numerically but reveal some of the potential complexities that underpin successful SMSTs in the five countries for which we have a full set of data. Three results can be identified:

- First, SMSTs/VSTs that have greater autonomy and weight (e.g. as autonomous employment centres) appear to be doing less well. It confirms the intuitive idea that more isolated settlements are weaker and experience more fragile socio-economic conditions than other towns.
- Second, higher employment rates amongst the adult population and populations with a larger proportion of children (i.e. aged under 15 years) are associated with population growth in SMSTs/VSTs whilst larger proportions of adults of pensionable age are associated with population decline.
- Finally and perhaps counter-intuitively, SMSTs that appear to have more vacant houses seem to be growing faster than SMST with high levels of occupancy. This is probably related to the fact that second houses are located in areas of high environmental quality with associated amenities, which then attract tourism flows and related activities.

#### 4.1.2. Employment growth

Among regional-level variables, the most significant influences in predicting employment growth in SMSTs are the following:

- First, the growth rate of employment in the wider NUTS2 region;
- Second, the net migration rate calculated for the SMST itself (consistent with the earlier work by UWE et al., 2004);
- Third, proximity to a significant HDUC population.

Regarding town-level variables, it appears that:

- Relatively autonomous settlements (in terms of employment function) have performed less well between 2001 and 2010, taking the other variables into account.
- However, towns with higher employment rates and a greater proportion of working age adults with qualifications higher than ISCED level 3 (post 14 qualifications) appear to have performed better (controlling for the other variables in the model) than towns with lower levels of employment and lower levels of skills.
- Equally towns with larger numbers of businesses per head of population are associated with stronger growth than those with fewer businesses. This would imply that towns with an underpinning of small and micro businesses performed better than towns with fewer larger businesses.

Finally, the data suggests that the sectoral profile is important. As already pointed out in the previous sections, historically small towns have had some degree of competitive advantage in industrial employment (Massey, 1984). However, today this relative advantage may be problematic, as industrial employment (especially manufacturing) has become increasingly subject to global competition. All the streams of analysis seem to confirm that those towns with a higher proportion of employment in industrial activities tend to have negative trends. Thus SMSTs that had higher levels of industrial employment at the beginning of the period appear to be associated with lower growth rates through the 2000s.

Combining these results with the analysis of the 31 case studies (Chapter 6), a general worrying message emerges: industrial activities (and especially older plants and/or branch plants) are declining in SMSTs due to international competition, delocalization, concentration toward main urban areas, etc. This constitutes a major potential threat for many SMSTs. In policy terms, this requires a response that in the short to medium-term gives specific attention to developing ways of supporting the existing industrial sector(s) while in the medium to long-term seeks to bring about a change in the territorial roles of relevant SMSTs and a diversification of their economic sectors. Our results suggest that supporting the development of SMEs, based on a town's existing territorial capital, functional role(s) and socio-economic profile, is one way forward. However, in many cases where a SMSTs economy is based on declining productive sectors this is unlikely to be sufficient for the long-term sustainability of a town. This therefore needs to be supplemented by an approach that seeks to create new more innovative activities in existing sectors (e.g. the knowledge based economy, tourism, agriculture) that can enhance both the local economy and attract and the retain relevant populations (e.g. tourists, well qualified workers, young people) necessary for long term development anchored in the wider regional economy.

This is all the more important since the regression analysis cannot offer insights in terms of any positive associations between sectors of economic activity and positive employment growth. There was not a positive association between growth and the proportion of employment either in aggregate private services or with public services. This is consistent with the case study findings in that they did not suggest that any of the particular growth sectors identified in individual case studies were replicated across the case studies as a whole even if within particular case study towns they appear to be part of the explanation for their 'success'. Thus it is not possible to say: 'focus attention on supporting this sector or that sector' and this will lead to long-term sustainable growth in the economy and population. We simply know that having a larger number of businesses per head of population appears to be a positive factor.

The overall results can be summarised in the following points:

- Regional context is the single most important predictor of SMST performance, both in terms of job growth and population growth. The characteristics of the SMST itself can also be statistically significant but the effects are numerically less important than the regional dynamic.
- Population change at SMST level appears to be positively influenced by having higher employment rates, more families with children and being attractive for second home buyers. It appears to be negatively influenced by size, functional autonomy in terms of jobs and the presence of older adults (as a proportion of the population).
- Employment change in SMSTs is positively influenced by higher employment rates, a larger number of businesses per head of population (implying a small and micro-business structure) and a larger proportion of working age adults with better qualifications. On the contrary, autonomy in the employment structure, proximity of metropolitan areas and starting with a greater proportion of employment in industrial economic activities were all negative statistical influences on SMST-level job growth.

Taken together with the statistical evidence, a few fine-grain considerations can be developed based on the case study analysis. Despite noting the importance of regional characteristics and dynamics in influencing economic and social change in small towns, several specific potential factors can be extracted from the analysis. In particular, positive demographic change may be seen in towns with the following characteristics:

- proximity to a large city (market access);
- positive employment rate and housing occupancy.

Furthermore, the rate of job growth in SMSTs is related to the following characteristics:

- positive employment change within their wider region;
- presence of skilled-resident active populations and many existing businesses;
- close proximity to a large city and a local economy that is diversified (not predominantly based on either industrial or public sectors).

#### **4.2. Policy observations for the socio-economic development of towns**

The observations made in the previous section allow us to develop some general policy observations on the socio-economic development of SMSTs. Whereas policy makers can do

little about the climate, they can think about the public services and spatial policies that can enhance the following aims:

- attract and retain families that might be seeking a different way of life to that in larger cities;
- retain or bring back young people who might either leave to go to elsewhere to university or leave to get their first entry into their chosen labour market when they are older.

Towns that do not manage to achieve a demographic balance potentially end up with an aging and elderly population that is associated with demographic decline in this dataset.

Moreover, other specific aims can be developed at town level or – even better – in articulation with higher scales where there is the potential to build critical mass through territorial cooperation among towns and surrounding areas in order to make them more attractive. Strategies can address the following aims:

- Enhancing quality of the place and its attractiveness (touristic sector);
- Productive economy strategy (protection of local production, supporting innovation, etc.);
- Support of small and diversified businesses and a related development strategy.

Based on the analysis of the economic profiles of our 31 case studies, some more specific tailored recommendations can be proposed. As summarized below (see Table 1.), the three profiles can be differentiated along four key dimensions: (i) the groups of actors targeted; (ii) the factors of attractiveness; (iii) the specific drivers; and (iv) the policy tools developed.

	RESIDENTIAL	PRODUCTIVE	CREATIVE-KNOWLEDGE
Target groups	Residents, commuters and tourists	Business actors	‘Creative class’ and innovative firms
Factors of attractiveness	Good living environment, heritage, quality of provision of services, culture, health and schools, real estate conditions	Competitive business environment, labor skills, availability of premises and of land	Image, Connectivity, Creative environment, quality of provision of services
Specific drivers	Diversity of equipment and amenities, accessibility	Sectoral specialisation, concentration of business activities	Innovation systems and knowledge-based activities, concentration of entrepreneurial activities
Policy tools	Improving public and private services for the population, developing/improving cultural, leisure and touristic infrastructures, investing in transport facilities and green spaces, preserving the environment and the cultural heritage	Creating/improving the quality of business areas, developing supporting services to business, lowering professional taxes, subsidies to targeted businesses	Developing/encouraging clusters, networks and creative "arenas" creating/attracting higher-education and research institutions, developing incentives to entrepreneurship

**Table 1. Main characteristics of the three local economy dominant profiles in SMSTs (Source: Own elaboration).**

It is important to recognise that the above table provides generic indications of general forms of action that could be pursued in relation to each socio-economic profile. In each instance specific, locally relevant policies/initiatives will need to be developed to address the individual factors of attractiveness in a manner that will support/enhance them and act as a 'driver of local development'. However, we need to bear in mind that in each SMST these profiles are articulated in different ways and the general indications in the table cannot be applied in a 'mechanistic' manner. Attempts to develop policies to support the relevant assets must be carried out on the basis of a clear analysis of these assets and the role they play in each SMST. On this basis, and with appropriate support from higher scales (e.g. in terms of a regional/sub-regional spatial plan), SMSTs can then develop an overarching and integrated strategy within which they can develop particular 'policy bundles' and allocate resources (in other words a place-based approach) taking into account wider spatial and socio-economic relations.

As it is unlikely that the local economies of SMSTs can be self-sustaining they need to be orientated to relevant external markets (in case of productive economy or knowledge-creative based economy), and/or to internal (local) demand (in case of residential economy). A combination of a local and external orientation is likely to be the most sustainable long term approach to developing the economy of an SMST. In the first instance it is important that SMSTs 'recognise what they have' (in terms of identifying existing strengths and weaknesses), build their strategy around developing those place-based resources that are positively correlated with growth as these are likely to be the initial potential key drivers of development, whilst simultaneously addressing weaknesses/deficiencies. In the longer term it will be necessary to develop not only existing assets but also to support the development of new, albeit related, assets that will support a more diversified local economy. In the case where the residential economy is dominant, it is the mix of amenities (e.g. services), the natural and built heritage, and quality of life, which seem to be the keys to development. Whereas in the case of the productive economy specialized skills, know-how and professional skills are strong assets for external investors and markets but will also stimulate the development of related small local businesses anchored in the local economy thus making them potentially more resilient to external shocks. In both cases, social networks (related to both locally embedded knowledge and social cohesion/capital) may help counterbalance the geographical factors which favour large cities by offering alternatives to companies and populations that are seeking to escape the constraints associated with over-concentration and declining quality of life in larger cities. This argument, which has been put forward in the literature (Carrier et al. 2012), is also significant when knowledge-based activities grow in SMSTs.

Finally an in-depth analysis of the local economy provides information on the type of performance sources and of target groups (firms, new entrepreneurs, residents, commuters, tourists, etc.) who contribute to economic development within a SMST context. This must constitute the basis of an integrated strategic approach. In the case of the productive economy, competitiveness is based on human and/or physical capital in relation to external market demand; in the case of residential economy, the advantage of the SMST is in its quality of life and amenities; whereas in the creative-knowledge economy it is the vibrant and creative environment, the connectivity of the town to metropolitan areas, and also the quality of life, which may attract creative people and innovative firms.

In each case a strategy needs to be developed that supports the factors relevant to the local economy and develops them in ways (through various forms of support such as investment in the relevant infrastructure, provision of incentives, collaboration between relevant/complimentary sectors, taking care not to overdevelop in ways that threaten environmental and amenity values, etc.) that are sustainable. This requires not only specific

policies (or bundles of policies) to be developed and deployed but also associated forms of governance to be developed that provide a sense of 'local ownership'. At the same time it is necessary to avoid becoming too 'inward looking' and maintain/develop an external orientation.

However, as highlighted in the overview of the institutional contexts (Chapter 4), the capacity to develop and implement strategies that deal with these aims is significantly affected by the type of institutional system and national government policies and regulatory framework in which town's local economy and policies are embedded. The relevance of the institutional system for the performance of towns is related to the distribution of power and resources between the State and sub-national authorities (regions or provinces, counties and urban municipalities). As part of this, specific attention needs to be given to supporting/developing the mobilisation capacity of SMSTs through the provision of resources, technical/administrative support. Such support can where relevant be supplied by a combination of European, national and regional sources.

Of course, geographic factors affecting the development of SMSTs are closely related to the effects of spatial proximity and concentration of socio-economic activities. As towns fulfil diverse functions in the urban hierarchy, their development depends on the exploitation of comparative advantages as well as on the nature of relations with other surrounding urban and rural settlements. This latter point may be of considerable significance for all types of SMSTs in that our case studies revealed a great deal of variation in the capacity/willingness of such towns to engage in collaborative/cooperative actions with other proximate SMSTs in terms of developing common projects (other than for basic services such as waste collection and water) and sharing of services (e.g. education and health care). Generally speaking the collaborative capacity of SMSTs was weak, and where it exists seems to depend on developing shared norms and establishing collective organisations that embody such norms and are articulated both locally at higher scales (as in the case of West Flanders). What tended to be lacking was a wider 'polycentric vision', embedded in the wider region, for the particular sub-regions that could frame a long-term development process that is of benefit to all relevant SMSTs. Developing such a 'vision' will need to be a collaborative venture involving regional and local actors who can work together in partnership (see OECD, 2013; Pucher et al, 2012).

In terms of the above a flexible institutional setting, including patterns of behaviour, the legal framework, power structures, local agents and their modes of interaction, policies and regulations may play a facilitative role in creating an encouraging environment for towns. The inter-connectedness of geographic and institutional factors and their co-evolution in the course of time reflects the complex relationships of mutual influences. SMSTs need to be inserted into these relationships and able to actively play their part in shaping them in the future otherwise their fate will largely lie in the hands of others. However, individual SMSTs are unlikely to be able to directly participate in these debates and therefore it is important that they develop sub-regional organisations that are able to represent their collective interests to higher levels (as we saw in the case of West Flanders).

A final consideration should be given to upper-scale institutions and associated policies. Here it is necessary that a stronger voice in regional debates be given to smaller settlements. It is clear that towns play an important functional role for their territory and that they have factors of attractiveness that differ from those of large cities. In fact, they are often very dynamic in terms of population and employment, thus their fate may be different from the one typically painted for SMSTs of decline and inertia.

In this context the European level can potentially encourage a focus on small towns, but not an exclusive one, within the relevant national/regional contexts, particularly through the

Cohesion Funds (and the integration between these). However, much depends on the 'guidance' contained in the Common Strategic Framework and how this is 'interpreted' by national authorities and included in Partnership Agreements and then utilised by Management Authorities in terms of drawing up Operation Programmes: how SMST feature in these (also the roles assigned to local authorities - for instance are they involved in drawing up the OP or merely 'recipients') and the associated use of new instruments such as Integrated Territorial Investments, integrated sustainable urban development and Community-Led Local Development. Regardless of which specific instruments are utilised they need to be combined into 'coherent packages' relevant to each region/area - a place-based approach that is inclusive and genuinely engages a range of stakeholders.

Therefore, towns should not be excluded from public debate on the future development of the European territory. On the contrary, given their significant and growing share in total European population, they should be considered, seriously, as a key component of the territorial European landscape in terms of employment and population location, and of spatial mobility dynamics and economic development.

## **5. Policies, Governance and Collaboration: recommendations**

In this section we seek to draw out the policy and governance implications of our work for SMST in terms of three levels – European, national and regional/local. It is important to bear in mind that, as we have noted on a number of occasions, the term SMST covers a wide variety of such towns across Europe and even within countries there is considerable variation between them, not least in terms of the types of SMST we analysed through the functional analysis (agglomerated, networked and autonomous/isolated) or in the socio-economic analysis (productive, residential, creative). Therefore it is necessary to once again caution against the adoption of any simplistic 'one-size fits all approach' and to recognise the importance of developing a genuine place-based approach (Barca, 2009) that situates SMST in their local and regional context whilst paying due attention to their relationships and interactions with different scales (national and international).

This approach also requires the development of forms of governance and spatial planning that can facilitate and support the utilisation of a place-based approach that builds upon Europe's rich territorial diversity (CEC, 2008). Moreover, we need to be aware of the importance of ensuring that the approach adopted reflects the key aims of the Europe 2020 (CEC, 2010) strategy (smart, sustainable and inclusive growth) and the associated aims of the Territorial Agenda (Hungarian Presidency, 2011). In relation to this it is essential to take into account the post-2014 Structural Funds, which seek to create an appropriate overarching framework and support the pan-European achievement of the priorities of Europe 2020 in order to bring about greater economic, social and territorial cohesion across the EU and at national and sub-national levels.

Equally importantly we also need to recognise that Member States have a crucial role in this process in terms of 'translating' the guidelines contained in the Common Strategic Framework (CSF) "...into the programming of the CSF Funds in the context of their specific needs, opportunities and challenges." (CEC, 2012a, p3; see also CEC, 2012b). Thus the drawing up by Member States of Partnership Agreements and the National Reform Programmes are of critical importance. This requires engagement with national, regional and local stakeholders in order to identify and operationalise the relevant principles and aims vis-à-vis the partners at national and regional level. In addition it also requires

integration with other relevant national funding streams so that they and the CSF funds are utilised in a coordinated and focussed manner to achieve the best possible outcomes.

Given the above there is an important governance dimension to how all of this will be achieved. This requires the existence of appropriate and interconnected governance arrangements in terms of:

- multi-level governance (European, national, regional and local),
- horizontal governance to facilitate coordination and integration at each level, and
- territorial governance to ensure the development of an integrated territorial approach vis-à-vis the use of CSF, national and other funds (e.g. regional and local).

In terms of this general context it is then necessary to focus more directly on SMSTs and on the basis of our work consider their position and role(s) in terms of our basic typology of towns (agglomerated, networked and autonomous/isolated). However, we constantly need to be mindful of the different contexts and the institutional and socio-economic (macro) regional profile within which SMST exist, albeit without assuming that these factors inevitably pre-determine their fate.

This in turn requires that we bear in mind questions such as:

- How can the overarching European and national framework support SMST?
- What role can SMST themselves play in achieving the aims of Europe 2020?
- How can SMST, either individually or in collaboration with other towns and cities, develop responses to their situation by building on and developing their assets?

On the basis of the foregoing we will finally seek to provide more general insights into the possible types of policy approach that can be developed and are potentially generalised to other similar SMST.

In what follows we address the above issues in terms of three levels: European, national and regional/local.

## 5.1. The European Level

The overarching European framework is provided by Europe 2020 with its focus on smart, sustainable and inclusive growth through achieving its five headline targets (research and innovation, climate change and energy, employment, education and poverty reduction) and the associated Territorial Agenda so as to ensure that economic, social and territorial cohesion is at the core of the approach. Whilst SMST are not referred to in Europe 2020 their role is acknowledged in the accompanying Territorial Agenda in terms of contributing to "...common European territorial priorities. "(Hungarian Presidency, 2011, p5), helping promote polycentric and balanced territorial development particularly at regional level, encouraging integrated development and providing services of general interest in all areas (especially in rural areas).

More specifically the Structural Funds are to be utilised in a manner that will closely support these objectives. Thus the Commission has provided the CSF in order to achieve enhanced coordination between the different funds. The aim of the CSF is to "...increase coherence between policy commitments made in the context of Europe 2020 and investment on the ground. It should encourage integration by setting out how the funds can work together." (CEC, 2012a, p3). In addition new instruments such as Integrated Territorial Investment, integrated sustainable urban development and Community-Led Local Development (CCLD),

particularly in association with the general use of the LEADER approach, offer enhanced encouragement for Member States and Managing Authorities to adopt a more integrated and territorially focused approach that has a significant bottom-up' component.

Within this context SMSTs could become part of the focus developed by Member States and relevant regional authorities. Whilst it seems unlikely that the European Commission will single out SMSTs as a policy object at European level it could certainly signal the significance of SMST to territorial cohesion and local development in terms of the negotiations with Member States over Partnership Agreements (on these see Pucher, Naylor and Resch, 2012). This would provide a clear 'steer' to Member States and at least ensure that the roles and functions of SMST in are considered in relation to Operational Programmes and territorial development/cohesion in each country and region.

In terms of the Partnership Agreements (see Pucher, Naylor and Resch, 2012, for a more detailed consideration of their role) it will be crucial to ensure that a range of national, regional and stakeholders are involved in identifying the relevant priorities and ensuring that there is a clear integrated territorial focus and that CCLD is actively promoted as part of a wider territorial strategy. Although a report by CEMR (2013) did note that across Member States while local authorities have had some involvement in developing the Partnership Agreements the level of involvement had varied considerably. The evidence they collected also indicated that the new instruments referred to above seem likely to be used in a 'tentative manner', with many Member States adapting existing delivery instruments to meet requirements for greater (territorial) integration. Whether or not this will surmount longstanding sectoral divides and lead to the development of an integrated territorial focus must remain a moot point for the time being. Furthermore a report for the European Parliament on the legislative proposals for post-2013 Cohesion policy did note the need for the territorial dimension to be more explicitly incorporated into the new provisions governing policy, a failure to clearly define and operationalise territorial cohesion and clarify what an integrated approach to territorial development actually means in practice (see Mendez, Bachtler and Wislade, 2013).

The Commission has signalled there is an important role for CCLD (for more detail on this instrument see European Commission 2013) in the new programming period and that it is intended as a flexible instrument to be adapted to reflect regional/local conditions. Among the potential forms CCLD could take that are relevant to SMST are new forms of urban-rural partnerships (echoing recommendations in OECD, 2013) and the development of partnerships and strategies involving "Smaller cities, market towns and their surrounding rural areas." (ibid, p12). However, much will depend on the willingness of national and regional authorities to support and trust relevant local organizations and of course on their capacity to engage with the process. Thus as suggested in Chapter 7 there will need to be an ongoing element of technical support and capacity building at local level by national and regional authorities which the European Commission should positively encourage and support.

If these various instruments are to be utilised as part of a strategic and integrated territorial approach it will be vital that full use is made of the place-based approach. However, as was already shown in this report, such an approach cannot simply be focused on a SMST in isolation. Depending on the regional location it needs to be structured around: the relationships with larger urban areas (in contexts where SMST are agglomerated; on clusters of SMST (where they are networked); or on the relationship between an SMST and its rural hinterland (where it is autonomous/isolated). In each case the place-based approach must be utilised in a flexible and creative way that respects the regional and local context, actively involves a wide range of local actors and draws upon local knowledge to develop a strategic and coherent long-term approach (see Zaucha and Świątek, 2013). Such an approach needs

to recognise local specificities, including strengths and weaknesses in terms of territorial capital, build upon these and seek to remedy deficiencies whilst simultaneously being outward looking in terms of the wider regional, national and European contexts in order to insert each place into this complex nexus.

What the above indicates is that in terms of developments at European level within the structures and instruments of the new programming period there are potential opportunities for SMST to benefit. The European institutions could perhaps signal more clearly the need to take into consideration the role that SMSTs have in achieving the aims of Europe 2020, territorial development/cohesion. In this report we have seen that SMSTs can play diverse range of roles in different contexts which emphasise and build upon the territorial diversity of the European continent: within the 'pentagon' area they contribute strongly to GDP growth, in several Central European countries SMSTs help to counterbalance the tendency to metropolisation, in crossborder regions they contribute to polycentricity, etc. In addition there is a need to go beyond policies related to the Structural Funds and ensure that other European and national sectoral policies (e.g. employment, transport, services of general interest) are articulated with the territorial approach. Much, however, will depend on how Member State governments and regional authorities react to/interpret these opportunities, and it is to these we now turn.

## 5.2 The national and regional levels

As we noted in Chapter 7 no country has a specific policy focus on SMST, although in some countries there is a concern with specific types of towns that often include a significant number of SMST. In some countries or regions (e.g. Wales, Catalonia or the French Centre) we were able to see some evidence that relevant authorities recognised that SMSTs do have a significant role to play particularly in relation to their regional context. Nor were we able to identify any clear relationship between a country's institutional structure and the ability of SMSTs to develop their own policy responses. In Chapter 4, following Bobbio (2002)'s conceptualisation of the possible relationships between different layers of government (dependence, separation, cooperation and competition), we stressed that in many countries SMSTs experience a situation of dependence *vis-à-vis* the national level, and possibly the regional one in federal or regionalised states. Lower level governments have reduced competences, legal autonomy and tax-raising powers compared to upper levels. In our case study countries, this takes place typically in unitary states, especially Cyprus, Czech Republic, Poland, or Slovenia, where devolution is a recent process. In Slovenia or in the Czech Republic, the creation of levels of government that would be intermediary between the municipalities and the central state is not a priority. On the other hand, there are several examples of regional or national strategic plans which acknowledge and value the functions played by SMSTs. In the case of Wales, the Welsh National Spatial Plan (Welsh Government, 2008) included a comprehensive identification of all significant settlements in Wales. The fact that rural small towns often 'punch above their weight' (in the sense of carrying out functions usually associated with much larger places) has led to the recognition that smaller towns need to develop collaborative relationships and work together in a complimentary manner if they are to provide a full range of services to the relevant populations. In a different institutional context (substantial devolution but extreme municipal fragmentation), the regional authority of the French Centre Region has identified 16 'poles of centrality', each organised around a municipality of at least 5000 inhabitants and providing a wide range services to a hinterland. For these towns, the strategic plan makes it a priority to "guarantee a high level of superior services" (Région Centre, 2011, p. 119) while cautiously pleading for a progressive reorganisation of supra-municipal cooperation bodies at the level

of micro-regions (fr. *bassins de vie*). In sum, much depends on the attitude of national and regional authorities in terms of developing an over arching territorial policy framework that recognises the roles and functions of SMST in their regional context and is sufficiently flexible to accommodate their differences. At the same time, it is simply not possible (nor necessarily desirable) to give the same level of attention to all SMSTs. At a national or regional level, choices have to be made about which SMST to focus on and then how other (proximate) SMST will fit into the strategy. Based on our analysis, we can argue that the focus should logically be on SMSTs that are the economic and functional 'centres' of micro-regions, but also that such towns need to be nested in a wider territorial system.

In terms of the Structural Funds there is a greater likelihood of the European Commission being able to influence a Member State where the importance of EU funds is greater (e.g. the Transition and Less-Developed regions). Even in these cases much will depend on how national governments draw up the Partnership Agreements and decide to address the objectives of Europe 2020 in their particular context. The European Commission can attempt to 'steer' member states in particular directions but experience shows it cannot 'dictate' or 'police' every detail of their actions in relation to European Funds, nor would this necessarily be desirable as Member States need to address the priorities and challenges which they face and see as important. The problem vis-à-vis SMSTs is that we did see some evidence in our case studies that there is an existing tendency to focus on the major urban areas (especially capital cities) as the major drivers of growth and competitiveness and thus a danger that SMSTs will be relatively neglected. Moreover, in some countries there is no, or a limited, tradition of 'bottom-up' activity that does not bode well for CCLD or the development of the involvement of a wider range of stakeholders at national and regional level in drawing up the Partnership Agreements and the Operational Programmes. Much will depend on the prevailing culture of partnership building and who is involved. In part this about openness and transparency but also relates to the 'capacity to participate' and the extent to which this is actively encouraged and supported through capacity building activities.

Nor should we assume that in countries which are largely made up of More Developed regions there are not fruitful interactions with Transition and Less-Developed regions, with both learning from the experiences of each other in terms of regional and local development. Such countries (e.g. France, the UK, and Denmark) have a long tradition of developing national integrated approaches to urban development that includes a significant element of community participation. There are important lessons to learn from these experiences and there is evidence that similar developments have taken place in rural areas. Moreover, there have been on-going arrangements to share experience, knowledge and learning between local authorities and to transmit this to the European level through participation in a range of European networks (e.g. URBACT). Certainly lessons can be learnt from the way in which France, a country with large numbers of small municipalities, has used 'financial incentives' provided by the central state to 'persuade' or induce neighbouring municipalities to work together. In this sense it is possible at the national and regional levels to develop mechanisms that depending on the context encourage SMSTs to work together, cooperate with urban authorities or combine forces with their rural hinterlands.

This also highlights the importance of learning and knowledge exchange both within and between countries. The ways and means by which different forms of knowledge are integrated into the processes we are dealing with is of considerable importance for the development of the territorial and place-based approach. European, national and regional initiatives are important if this is to be encouraged and needs to be seen as central to the development of an integrated approach.

### 5.3 The Local level

The local capacity to act can be understood in terms of various spatial levels. At the European and national level, it is worth noting that in many countries the institutional structures/administrative boundaries have often 'lagged' behind the urbanisation processes. This has created a certain distortion between stable administrative boundaries and the processes which for a large part of the 20<sup>th</sup> century favoured the emergence of SMSTs as providers of services of general interest and (local) job opportunities. As we saw in Chapter 4, France, Italy, Spain have very fragmented municipal systems, which go back to the early 19<sup>th</sup> century, at a time when a majority of the population lived in villages or other rural settlements. In these areas no significant reform of the municipal territorial system has taken place since then. As a result, whatever the region considered, the morphological and functional definitions of the SMST are at odds with the administrative one. At the other extreme, Sweden shows institutional flexibility, where the boundaries and competences of local governments have been reshuffled to reflect wider changes. This was the case for municipalities between 1940 and 1970, and more recently a few counties were merged. We can interpret the Swedish case as an anticipatory move, as compared to policies trying to address territorial problems without changing the prevailing institutional structures. In effect today, whatever the country and its territorial local government system, the centrality role of many SMSTs seems to be being increasingly undermined because of declining and less active populations in less densely urbanised regions, or because they are becoming more and more integrated into wider urban regions offering economies of agglomerations to industries and tertiary activities. In this new context, to which we can add budgetary reforms in the public sector in many countries, the extent to which local institutional structures can help SMSTs to maintain their role of services and jobs providers is an important question. This is not an abstract one, as we can see different socio-administrative institutional frameworks in neighbouring countries, for instance in Germany and Belgium (and its difference between Flanders and Wallonia) at the core of Europe, have been more supportive of the centrality role of SMSTs even though the urbanisation patterns appear to be to a certain extent similar.

Considering local capacity, the point needs to be made that there are a variety of possible paths of development available to an SMST; in part this depends up 'deliberate choices' about the appropriate developmental path but it will also reflect a multitude of individual investment decisions (by businesses) and by individuals/families that local administrations can only indirectly influence. This places considerable limitations on what an SMST can actually achieve on its own and emphasises the need to developing an inclusive approach to developing local strategies. In a sense it is unrealistic to see SMSTs as 'masters of their own destiny', particularly in the context of the current globalised economy and increased levels of short and long distance mobility. However, this should not be taken as a message of despair. Our case studies do show that SMSTs can grow and adapt to changing external circumstances.

Also, we need to bear in mind that it is often difficult to replicate the conditions for 'success' in one place elsewhere as they appear to be deeply rooted in the local society and economy and may also reflect regional location. Indeed our work suggests that the regional context is a significant determinant of the socio-economic situation an SMST faces, while the national context can be crucial in institutional terms; although these are by no means the only factors and should not lead to a passive approach.

As we pointed out in Chapter 7 few of our case towns appear to have developed a 'meaningful policy' of their own. However, there were examples that did suggest it is possible for an SMST, or the relevant local authority, to develop a local strategy that

attempts to identify local territorial capital, recognise deficiencies in relation to that strategy and address them in a strategic way, although whether or not they have been 'successful' will only become clear over a longer period of time. It was possible to identify a 'driving force behind' these strategies: the public sector, at times in partnership with other sectors, played the leading role in developing and implementing the strategy. In turn this pointed to a worrying weakness in the private sector which may be typical of the situation in many SMST.

The point is that an SMST, and associated governance system, needs to act in a conscious and considered manner to do this. As noted above in most of our cases the public sector played the lead role and did so in partnership with other regional and local stakeholders, drawing on national and European support where available. To do this they developed new, often innovative, forms of formal and informal organisations that cut across traditional administrative and sectoral boundaries to create the necessary means for long term action. A significant part of this has been the inclusion of a wide range of local stakeholders who have been involved in decision making and the delivery of individual, often small scale, projects. In this sense where it is possible new European instruments such as integrated territorial investment, integrated sustainable urban development and CLLD should be fully utilised and combined with other policies/instruments to create a coherent package of policies that will bring about long term and sustainable change based on the strengths (in terms of territorial capital) of an SMST.

From a rather different perspective two of our autonomous case study towns (Alba and Athieniou) did show that it is not always the case that the public sector is the leading force. Here the towns were able to build on their local economy and it in a way that supported local endogenous development. Much of this 'success' seems to have been historically rooted in local social relations and the existence of a high level of social cohesion, trust and local 'know-how' (i.e. the local milieu). What took place was largely endogenously based local growth that exploited key aspects of local territorial capital in a positive manner and was able to adapt to changing external circumstances that overcame any size disadvantages associated with 'being small'. This seems to have been based on emphasising quality and a local economy focussed on traditional sectors that were able to modernise (e.g. in agricultural areas 'smart rural growth' based on linking traditional agricultural forms with modern businesses and other sectors such as tourism to provide new opportunities for cross fertilisation) as well as encouraging small businesses to grow and develop new products for external markets.

In terms of our agglomerated towns several of these appeared to be doing well, although much appeared to depend on their proximity to thriving large urban areas and the associated suburbanisation process. Indeed some of these faced the possibility of becoming 'dormitory towns' and this was often perceived as problem as in the longer term it threatened to undermine local social cohesion and service provision. Once again this should not be taken to imply that even when there is the presence of a dominant metropolitan centre a SMST cannot develop a distinctive approach of its own based on the territorial assets of the town and the surrounding region. If utilised in a constructive manner such a location can be the basis for long term development: for instance agglomerated SMSTs have clear advantage as places of residence compared to cities as they offer cheaper housing prices than at the heart of large cities or even in their immediate suburbs (Demazière et al., 2013). Thus they are highly likely to be affected by population deconcentration, since very small towns and other settlements around them offer even lower housing and land prices, as well as an image of a preserved countryside, which contrasts with the supposed ills of the urban environment conveyed by a SMST. In this context, the orientation of planning documents at a local, regional and national level is a key issue, as well as the fact that

planning has been decentralised in some countries, and not in others. For instance in France, as a result of the Gaullist period, the whole of the Ile de France is covered by a regional plan (fr. *Schéma Directeur Régional d'Ile-de-France*) that is able to guide development. However, there is no equivalent plan for the neighbouring regions of the Parisian Basin making it difficult to steer population growth to urban areas (which would be sensible as a full range of services are already available); the situation is further complicated by the fact that many Parisian Basin municipalities under 5.000 inhabitants have no local plan. This reveals the important role that regional authorities have to play in terms of providing an overarching planning framework that can steer development and support SMSTs.

In other countries where the national government has set spatial objectives for housing and jobs (such as the UK and its 'urban renaissance' policy during the 2000s) it is more feasible to orientate population deconcentration towards already existing towns, although even here the long-standing shift of population to rural areas continued suggesting that government has only limited capacity to influence such movement. Furthermore, several of our case studies show that there is strong resistance to the institutionalisation of metropolitan city-regions, in which SMST could play a part. In Italy, as defined by a law in 1990, the metropolitan city includes a large core city and the smaller surrounding towns that are closely related to it with regard to economic activities and essential public services, as well as to cultural relations and to territorial features that form its metropolitan area. But, as of 2013, none of these administrative authorities has been activated, for various reasons: firstly, because of the lack of clear indications that define the legal extent of the areas; secondly, because of the multiple levels involved (Municipalities, Provinces and Region), it was difficult to come to an agreement. Similarly, in Spain the possibility of establishing metropolitan areas is acknowledged in the Regulating Law of Local Regime 7/1985, but this kind of entity has not achieved any relevant institutional recognition (Gutierrez and Russo, 2013). Today, the Valencia and Barcelona metropolitan areas are exceptions, though in both cases the entity is in the early stages of development and acts primarily as an agency to promote collaboration between municipal governments and does not have any exclusive competences.

Our networked town case studies also provided us with variation in the capacity of SMSTs to work together in a collaborative manner. What successful examples of collaboration did exist suggest the need for an established culture of regional and inter-municipal cooperation in the region that can be expressed through a variety of forms of organisations/bodies that are able to articulate collective political interests and focus on developing approaches to common problems/issues while supporting individual municipalities. This is not to be taken to mean that there was no competition between individual municipalities, but that when required it was possible to engage in collective action. However, even in the 'best cases' there was no evidence of an overarching 'polycentric vision' for the towns for the region. It is perhaps unfair to expect SMSTs to develop their own 'polycentric vision' and it is more appropriate that this be left to regional authorities, in cooperation with the relevant SMST, to develop such an approach and distribute funding from EU, national and regional sources accordingly to support this vision. What is also important, as the OECD (2013) points out, is the development of 'models' of governance appropriate to the particular situation.

In relation to a spatial planning approach and the development of suitable 'policy bundles' it is neither possible nor desirable to rigidly prescribe a particular way of doing things because of the wide variety of regional situations and types of SMSTs. Spatial planning has a key role in terms of providing an analysis and framework for the development of a strategic approach to the relevant territory that identifies and comprehends its dynamic and fluid formation and articulation with other territories and thus is not restricted to existing administrative boundaries. Spatial planners need to work with regional and local stakeholders to produce a

shared vision of where territorial development is going and then can allocate investment (e.g. in infrastructure) to support that vision. This will need to be a nuanced vision encompassing the territorial as whole but also sub-regions and hierarchies based on the functional complementarities of SMSTs. In order to feel a sense of 'ownership' SMSTs will need to play a role in the production of this vision and framework. Then it will be possible to develop 'policy bundles' (reflecting Table 11.1, Chapter 6) to achieve the desired outcomes at different levels – regional, sub-regional and local. The outcome for the territory as a whole should represent a nested and integrated manner (i.e. in terms of a place-based approach - Barca, 2009).

#### 5.4. Final Thoughts

Overall there were a number of factors that influenced the development of SMSTs and the capacity to bring about change, there were:

- Attitude of national/regional government. Are SMSTs seen as an issue to be addressed – in some cases they are. In these cases we were able to see examples of action taken to support them, although the extent to which a coherent territorial approach was developed is debatable. The new EU Cohesion Funds allow the European level the opportunity to signal the importance of SMSTs and the need for member states to address their situation in relation to the use of the funds. The new emphasises on integrated territorial development contained in the CSF and associated new instruments (e.g. CCLD, Integrated Territorial Investment) for provide opportunities to develop regional strategies that include SMSTs and recognise their roles at regional and sub-regional level as well as their importance for more balanced territorial development and greater social and economic and territorial cohesion.
- A series of factors that can be included under the general heading of Governance:
  - Multi-level governance (including EU[where relevant], national and regional/local government). This is particularly important for SMSTs in terms of access to additional resources but also in terms of developing joint projects and sharing services. Can SMST insert themselves into such systems? Do they have the capacity/experience to do this? Only a few of our case study towns seem to be capable of doing this. In this sense it important to provide SMSTs with the necessary technical support and resources to engage in these forms of governance and be represented in the decision making processes that shape regional strategies.
  - Local capacity to act (mobilisation) and create working relationships (e.g. partnerships) with local stakeholders that are inclusive in order to bring together local knowledge and resources (territorial capital). This requires the creation of a 'development vision' for the area and the involvement of a wider range of stakeholders through the development of appropriate partnership structures to develop and support a long term local development strategy and its implementation. Once again it will be necessary to provide the appropriate level of support and resources.
- Territorial governance. This can be split into two, albeit interrelated, dimensions:

- The ability to engage with the wider regional/territorial system of governance and to insert themselves into the relevant regional or subregional strategies.
  - Can they collaborate with other proximate towns in ways that build on their individual forms of territorial capital and compliment one another? The case studies suggest there is some evidence of this in terms of common service provision (e.g. garbage and water/sewage projects). Generally it does not seem that they can go beyond more basic projects to engage in concerted actions to support collective local economic development or provision of services that could be used collectively based on an allocation of service functions within a polycentric region. This raises the issue of how to move from governance arrangements (or partnerships) designed for a single-purpose to more holistic or strategic partnerships (see OECD, 2013).
- The level of resources available to SMST that can be deployed – unfortunately we do not have much evidence on this. Although the general impression was that they lacked the resources needed to address their problems and therefore access to resources from higher levels (EU, national and regional) was crucial.
  - Appropriate spatial planning approaches and policies that allow for the identification of territorial dynamics and functional relationships, across different spatial and functional scales, whilst seeking to create a shared ‘nested vision’ for the relevant space (regional, sub-regional and local) which can then be supported through a coherent set of policies. Clearly these will vary depending upon the location of the SMST: for instance those influenced by their location in, or adjacent to, strong metropolitan regions will require a different approach compared to isolated SMST in more rural areas. SMSTs on their own will largely be unable to develop the necessary policies and therefore will need support particularly from the regional level. Our case studies suggest that generally there is an absence of such regional approaches, although in Wales, Flanders, Catalonia and France there is some evidence of the existence of such an approach and associated policies.
  - The role of Leadership. This can take the form of dynamic and well connected mayors who are in position for a long period of time and develop a clear long-term agenda and strategy for change (this runs the risk of stagnation and accusations of ‘despotism’). But it can also take a more ‘collective form’ in which a group of people (senior politicians and officers) provide the long-term agenda and strategy. Much seems to depend upon the knowledge/contacts/capacity to access a range of funds and combine them in a focussed manner related to the strategy. But some form of leadership is needed to drive the process.
  - The issue of ‘local identity’. This is a difficult question, but it does seem that those towns with a strong ‘local identity’ (or ‘sense of community’), and associated social cohesion/capital, are the ones that have been ‘more successful’ in developing their own strategies, but these may well represent ‘unique outliers’. Also it needs to be remembered that such places still need to be ‘outward looking’ in order to build links with other places.
  - Particularly in isolated rural SMST population loss (young people and women) is a real problem as is the aging population that remains. Whereas those located in, or close to, metropolitan regions run the risk of becoming ‘suburbs’, although some towns seem to benefit from this in terms of firms relocating there. In deindustrialising SMST there was also evidence of some population loss. These issues will need to be addressed through the provision of appropriate employment,

housing and service opportunities in the relevant populations are to be retained and new people attracted.

- Involving the private sector generally seemed to pose particular challenges, in most cases the public sector was the driving force and the private sector played a relatively minor role; in fact in some cases it seems to have been invisible. More generally this problem may reflect the weakness of the private sector and/or its lack of capacity to identify and represent its collective interests. It should be noted that the OECD (2013) noted a similar problem in its case studies of rural-urban partnerships, so this would suggest the issue is not one specific to our work.

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