UNLOCKING POTENTIAL – MAINTAINING MOMENTUM: PROSPECTIVE PRIORITIES AND ASKS

A starting point for discussion by the new Kent and Medway Economic Partnership
November 2013

Version 1

THE STARTING POINT

This document is a starting point for discussion. It sets out some initial ideas for debate at the first meeting of the new Kent and Medway Economic Partnership - highlighting potential priorities and asks of Government. It is not just a bid for cash, but is also about the freedoms and flexibilities we want to seek to accelerate progress. Informing the development of *Unlocking the Potential* and the South East Strategic Economic Plan, it is not the final strategy, or a draft of the final strategy; it is a 'starter for ten'.

How we got here

Building on momentum

Last year, business and local government leaders agreed to prepare a new economic strategy for Kent and Medway, updating *Unlocking Kent's Potential*, the previous strategy prepared in 2008/09.

Working together, we have achieved much over the past five years. But the wider policy and economic landscape has changed radically. After financial crisis and deep recession, we are now seeing a slow return to growth: we should remain cautious, but unemployment in Kent and Medway has fallen for six consecutive months and businesses are reporting an upturn in trading conditions.

So this is the time to ensure that Kent and Medway is best placed to take advantage of emerging recovery – building on achievements and investment to date and clearly setting out our priorities.

Building investment

We also have a new opportunity to influence public sector investment in infrastructure, skills and support for business. Following **Lord Heseltine's Review of Growth**, the Government has asked each Local Enterprise Partnership to prepare a 'strategic economic plan', setting out its growth priorities and how it will seek to invest devolved funding from the UK Government's Single Local Growth Fund and the next round of European Structural and Investment Funds.

Potentially, this could mean around **£80-90 million per year for Kent and Medway**: while not all of this is 'new money', it nonetheless represents an opportunity to direct resources where they will best help to unlock growth – although devolved freedoms might be even more important.

However, we are in a competitive world. So the investment that we are able to secure from future UK and European funds will depend on the **robustness of our business case** and the clarity of our priorities.

Delivering growth – together: The past five years

Since *Unlocking Kent's Potential* was published in 2009, we have...

- Built a much stronger relationship between the public sector and **Kent business**, through the previous Kent Economic Board and Business Advisory Board linked with local and district forums;
- Secured Government commitment to some of our most pressing **strategic transport** needs. This would include a Lower Thames Crossing, the dualling of the A21 and faster connections on High Speed One;
- Delivered transformational cultural and tourism investment in **coastal Kent**, for example through the highly successful Turner Contemporary at Margate
- Attracted £40 million investment to bring **superfast broadband** to rural Kent – ahead of most other counties;
- Secured over £65 million investment from the **Regional Growth Fund** in East, North and West Kent – helping to create over 8,000 new jobs through direct finance to businesses with the appetite for growth;
- Delivered quality locally responsive **business support** services, supporting start-ups, high growth and low carbon businesses and promoting key sectors and trade opportunities;
- Helped xxx people into **employment** through initiatives such as the Kent Employment Programme and Apprenticeship Programme and Employ Medway
- Worked together as county, district and unitary authorities to plan for community infrastructure and **unlock major developments** – including sharing risk to bring forward a national priority for growth at Eastern Quarry;
- Delivered jobs and homes in key investment locations – continuing to develop **Kings Hill** as a flagship location to live and work in the west of the county;
- Developed new solutions to bring forward housing – such as the **Kier Kent** initiative, securing institutional investment in mixed tenure housing on public land
- Taken decisive action together with Government to establish a new future for **Discovery Park** following Pfizer's decision to exit – securing Enterprise Zone designation, new investment and over 1,300 jobs on site.
- Unlocked **better housing** through innovative solutions in using public sector land, providing finance for retrofit (including through the Energy Companies Obligation) and the re-use of empty homes
- Effectively **promoted Kent** through Locate in Kent, Visit Kent and Produced in Kent and supplementing it with major campaigns such as Kent Contemporary and Grow for It!

Despite difficult economic times and a constrained public spending climate, we have a positive record of achievement. With local government and business working more closely than ever before, we have built a strong momentum with which to move forward.

A new approach for Kent and Medway

In Kent and Medway, we are preparing a strategic economic plan jointly with Essex and East Sussex through the **South East Local Enterprise Partnership** – England's largest strategic LEP, established to reflect the scale and importance of the opportunities, challenges and infrastructure requirements that we share with our neighbours.

Kent and Medway is at the heart of the South East LEP. As part of the LEP, we need a strong voice through a growth alliance of government and business leaders to attract new investment, plan for the future and take action to remove the barriers to growth. So we have established a new **Kent and Medway Economic Partnership** with a business majority and with fully devolved powers and funding from the South East LEP.

It is proposed that the new Kent and Medway Economic Partnership will consist of 21 members, made up of:

Business:	11 members (including Chair)
Kent County Council:	1 member (Leader)
Medway Council:	1 member (Leader)
Kent Districts:	6 members (Leaders)
Higher education:	1 member (Vice-Chancellor)
Further education:	1 member (Principal

Plus non-voting participants from key partner bodies (such as the Homes and Communities Agency). Draft terms of reference will be discussed at the first meeting of the new Partnership.

Future investment: What's on the table?

There are two main sources of government investment that will be available to support economic growth in the next few years: the Single Local Growth Fund and European Structural and Investment Funds.

The **Single Local Growth Fund** is worth just over £2 billion nationally in 2015/16 (with potentially similar amounts in future years). The majority of this funding is from Department for Transport, with additional funds provided for skills – and it also includes part of the **New Homes Bonus** receipts currently retained by local authorities and which we must secure.

This could mean roughly **£70-80 million** for Kent and Medway per year, if strong proposals and a robust overall strategic case is made – although it should be noted that the scale of transport allocations so far has been limited and public finances remain constrained.

The **European Structural and Investment Funds** offer support for skills development and access to the labour market, and funding to support business growth projects, including direct access to finance.

There is about £165 million in European funding across the South East LEP between 2014 and 2020 – which equates to about **£9-10 million** per year for Kent and Medway.

The allocation of these sources of investment is closely associated with the development of the strategic economic plan required by Government. But while significant, they are limited compared with the scale of total private and public investment in overall economic growth – and with the scale of our ambitions and our funding requirements. So alongside prioritising SLGF and European funding, we will need to demonstrate how it unlocks and adds value to other investment.

Where we're going

The Strategy: What we're aiming to do
Unlocking the Potential has **three key goals**:

Firstly, it must set out our **ambition and our strategic priorities for the next 5/10/15 years** – looking at the challenges and opportunities that the county faces and identifying medium and long term solutions to break down barriers to growth, including (where appropriate) specific freedoms from regulation that we will need to negotiate with central Government.

Secondly, in the context of these strategic priorities, it must set out our **overall investment requirements**, linking what we must do to unlock growth with what we need from the Single Local Growth Fund and European funding and the investment that we are already securing for the local economy as businesses, councils, universities and colleges.

Thirdly, it must set out **what success will look like** and how we will measure the success of our overall strategy and the specific interventions associated with it.

By linking our big ambitions for the future of Kent and Medway with our specific investment priorities, we aim to develop a robust strategy for the county and a credible pitch for maximum Government investment – recognising that national policy will change over time, economic shocks will inevitably occur, and we need to remain flexible.

What we've done so far…
So far, we have…

- Prepared a draft **Kent and Medway Economic Review**, summarising the state of the county's economy and its prospects for the future - comments and input would be welcome
- Discussed **broad principles** for *Unlocking the Potential* with Business Advisory Board, Kent Council Leaders, the sub-county partnerships in North, East and West Kent and with a range of local business forums
- Identified key locational **priorities for growth** at sub-county level
- Established the new **Kent and Medway Economic Partnership**, bringing business and local government leaders together in a stronger partnership for growth
- With partners in the South East LEP, developed a draft strategy for **future European funding** and worked on the principles of the South East Strategic Economic Plan.

What we need to do next
We now need to put more detail into the content of *Unlocking the Potential*, so that it reflects Kent and Medway's shared strategic priorities and makes the best possible case for our big investment asks.

But we don't have much time. Government wants to see a draft of the South East strategic plan by 19 December, and it is important that we feed into that. So although we can refine and develop *Unlocking the Potential* over the next few months, we need to have a clear idea of our broad shared priorities – and our investment asks – in the next few weeks.

A ‘starter for ten’

A starting point for discussion

To start to put some flesh on the bones of our priorities and investment asks, this document provides a ‘starter for ten’ for discussion by the new Kent and Medway Economic Partnership.

It is not intended to be a draft strategy. But it is intended to set out some broad priorities, potential solutions and issues for debate which business and government leaders can discuss, challenge, pull apart and add to.

If we have a strategy that we can all buy into, then we have a strategy that we can all sell – to the LEP, to Government and to business.

So – within the broad headings within this document, what is missing? What needs to be changed? What is unrealistic – or not ambitious enough? What should we be asking of Government?

A bigger conversation with business – and with elected Leaders

The new Kent and Medway Economic Partnership will have the key role in considering and approving *Unlocking the Potential*. But it is essential that there is wider input into its development. The next meeting of Kent Council Leaders on 20 November will therefore take place in joint session with Business Advisory Board members.

In addition, it is also proposed that we hold a series of focused workshops with key business sectors, over the coming month, including:

- Life sciences
- Manufacturing
- Creative and media
- Green technology
- Land based
- Tourism and cultural
- Development and construction
- Health and social care

In addition, we will shortly launch a wider business survey, capturing the views of the broader business community, alongside discussions with business in forums at county, sub-county and local level.

Outline structure

Earlier this year, Kent Council Leaders and Business Advisory Board agreed that *Unlocking the Potential* should be focused around the three interlinked themes of Unlocking Infrastructure, Unlocking Business Growth and Unlocking Skills.

Building on progress to date, the remainder of this document focuses on:

- How do we bring forward our **places for growth** - through infrastructure investment and measures to unblock housing and commercial development?
- How do we drive the potential of **business** – through access to finance, support for growth and a refreshed sector focus?
- How do we unlock the potential of **people** in Kent and Medway - strengthening skills, supporting access to employment and reducing dependency?
- How do we promote renewal throughout Kent and Medway – especially addressing the challenges of our **coastal** communities

BIG OPPORTUNITIES - AND BIG CHALLENGES

We have a growing population, growing business stock and improved infrastructure. But the world is competitive and we still face barriers to business growth. The Kent and Medway Economic Review sets out the opportunities and challenges we need to address to unlock growth.

Opportunities and strengths	Challenges
Population	
• Population growth – including a rising working age population	• Rising dependency ratio (fewer workers as a proportion of a growing population base) • Delivering housing and services to meet rising and changing demand
Strategic infrastructure	
• Internationally-important road, rail and port infrastructure • Major investment in high speed rail – opening up opportunities in North and East Kent • Commitment to Third Thames Crossing and improved A21 • Under-exploited assets (e.g. Manston and Lydd airports) • Easy access to markets in London, the rest of the UK and Europe	• Massive constraints at Dartford Crossing and bottlenecks on strategic and local road network • Slow – and in some cases deteriorating – services on 'classic' rail routes • Extensive inter-urban road traffic • Limited rural digital connectivity – although being addressed through major investment

Opportunities and strengths	Challenges
Growth locations	
• Major growth locations of national importance, especially in Ashford and the Thames Gateway • Return to housing market growth following Government stimulus schemes (e.g. Help to Buy) • Significant critical infrastructure in place • Cost of land relative to location near London and near Europe	• Viability gaps on key developments • Major gaps in funding to provide transport and other infrastructure to bring key sites forward – especially in East and North Kent • Slow delivery in some cases as developers risk-averse • Therefore lower housing delivery than required to meet demand
Business growth	
• National return to growth • Relatively high resident earnings – reflecting strength of commuter market • Growing and diverse business stock • Strong presence in key sectors	• Continued reluctance of banks to lend, despite emerging economic recovery • Persistent lag in GVA between Kent & Medway and the rest of the UK • Relatively low workplace

Opportunities and strengths	Challenges
with growth potential Very strong recent growth in knowledge economy employm	wages– although this suggests a price advantage and an opportunity
Employment and skills	
• Resilience in recession, with unemployment lower than in previous downturns, and currently falling • Changing employment demand – creating new opportunities in higher-value activities • High overall economic activity rates • Improving qualifications for new entrants to labour market • Significant HE presence, with four universities in Kent	• Persistently higher unemployment, especially in coastal Kent • Significant vocational skills gaps and opportunities, impacting on sectors with growth potential • Workforce qualification rates lag behind national average • Links between business and universities and further education variable • Negative impacts of competition between providers
Resilience	
• Overall industrial base comparatively resilient to impact of rising energy costs	• Some key sectors (land-based, manufacturing) vulnerable to rising natural resource and energy prices • Local concentrations of worklessness and deprivation exacerbated by welfare reform

In summary…

The good news is that **Kent and Medway has positive long-term prospects for growth**. We are adjacent to Europe's richest and biggest metropolitan area, with easy access to markets and job opportunities. Our transport infrastructure has improved over the past few years and we have Government commitment to vital strategic links. The county's economy has been relatively resilient in recession, and we have growing strengths in a number of key sectors.

Despite these positive prospects, **our growth potential is constrained** by three key factors. Firstly, the gap between the costs of the **infrastructure** needed to open up new growth opportunities and the receipts that these developments will yield is wide, and getting wider – impairing our ability to deliver the growth that the county and the UK need.

Secondly, in common with much of the UK, persistent **skills** challenges limit our ability to respond to changing employer demand – especially as the delivery of alternative approaches to vocational skills comes under pressure from changing Government policy.

Thirdly, concentrated worklessness compounded by local market failures means that we **waste resources** in mitigating deprivation, instead of promoting local growth.

So how do we overcome our constraints to unlock our potential?

BIG QUESTIONS: HOW DO WE UNLOCK THE POTENTIAL?

With the prosperity of London on our doorstep – and made closer by High Speed One – how do we attract the value, wealth and dynamism out to Kent and Medway?

- How do we unlock our **key locations** for housing and commercial growth (such as Ashford and the Thames Gateway), where they remain difficult to bring forward despite a return to growth – and how do we make the most of major growth opportunities in coastal Kent?

- We have key **sector strengths** and growth opportunities – so how do we build momentum, accelerate progress and understand what business is telling us?

- How do we address persistent **skills** challenges and build on good practice to develop a new approach for Kent and Medway?

and…

- How do we develop a more comprehensive, integrated approach to **coastal renewal** – preventing progress being undermined by benefit reform?

- How do we best **promote** Kent and Medway as a place to live, work and invest?

- What should our approach be to future **energy and resource constraints** – and are there opportunities for Kent and Medway?

PLACES FOR GROWTH

Kent and Medway is growing rapidly. By 2031, the county will have an additional 218,000 residents – equivalent to a new city the size of Southampton. But if we are going to accommodate this anticipated level of growth, we will need to ensure that we bridge the infrastructure funding gap – and find new solutions to unlock delivery.

The potential…

Kent and Medway has grown significantly over the past 30 years. Since 1981, the population has risen by 16%, but as lifestyles have changed and household sizes have become smaller, our housing stock has risen by around a third over the same period.

Over the past decade, much of this growth has been in the county's **growth areas**, especially in the Thames Gateway and at Ashford, linked with the availability of brownfield land and greatly improved transport infrastructure – and with the delivery of additional employment land.

Planned growth means the delivery of about 6,900 units each year to 2031. This is somewhat higher than the ten-year historic trend – but there is significant capacity for growth, with planning permission granted – but development yet to start – for around 35,000 dwellings across the county.

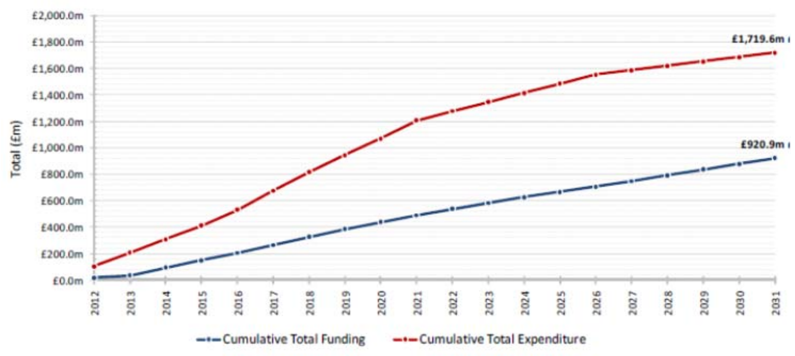
The challenge…

We have plans for growth. But delivery is slow – in 2012/13, we only built half as many homes as in 2007/08.

The housing market has shown signs of a return to growth as the Government's Help to Buy scheme increases access to mortgages and drives up demand. But **development on many key sites is stalled**: recent work in the Thames Gateway found that almost half of all sites (delivering 43% of jobs and 46% of homes) were either delivering more slowly than forecast or not at all. With high latent demand and developers reluctant to commit, there is a risk that rising access to credit will translate into higher prices for constrained supply, rather than additional delivery.

We also know that receipts from the **Community Infrastructure Levy**, S106 contributions and the other 'levers for growth' introduced by Government in recent years are likely to fall far short of delivering the infrastructure required to bring sites forward.

Total funding v. total expenditure, 2012-31 (KCC area)



This wide gap between CIL and other receipts and infrastructure costs is especially great in parts of North and East Kent, partly reflecting relative values, and partly reflecting the high infrastructure costs associated with developing many of the county's key brownfield sites.

So, we have capacity for growth and demand is being restored – but high costs, low receipts and developer unwillingness to bring units forward in volume mean that we are not currently meeting demand.

However, there is no alternative to development in the Thames Gateway and in key growth locations such as Ashford if the country is to deliver the additional housing that London and the wider South East need in order to meet their potential and contribute to national growth. The scale of the gap means that we can't deliver growth on our own - so we need a new deal with Government to address our key challenges.

Solutions…

As part of our Growth Deal with Government, potential solutions include:

1. Linking investment from the **Single Local Growth Fund** (albeit limited) to projects that will directly unlock infrastructure to bring forward key sites
2. Developing new approaches to **infrastructure financing** on a recyclable or gap funded basis
3. Selective **devolution** of delivery for priority transport infrastructure schemes, where these are critical for growth
4. Developing new solutions to the use of **public sector land** to help bring forward development
5. Creating new solutions to **housing growth** - bringing a greater diversity of tenure choice, attracting new sources of investment and ensuring that our existing stock is fit for purpose

1. Directing SLGF investment to unlock critical infrastructure

Investment in Kent and Medway's **nationally-significant infrastructure** is critical for the county's growth. So the Government's decision to proceed with a third Thames Crossing is very welcome – **and it is vital that we have an early decision on the preferred route for the Crossing** so that work can begin to secure private sector finance and plan for delivery.

Apart from the investment that we require in national schemes, we anticipate that Kent and Medway could receive **£70-80 million from the Single Local Growth Fund in 2015/16** (based on a rough pro-rata calculation), with the prospect of similar amounts in future years. Of this,

£35-50 million is likely to be allocated from the Department for Transport through three main funding streams. However, the SLGF is in principle un-ringfenced, so we could choose to allocate a higher amount of it to transport schemes, if they unlock housing and employment growth.

However we choose to allocate it, we need to compete for this funding with the rest of the country and the key to success will be the extent that we can clearly demonstrate that our priorities unlock housing and jobs. In Kent and Medway, transport schemes present the largest single infrastructure cost barrier to bringing major development sites forward – for example, Junction 10a on the M20 at Ashford will cost around £36 million to deliver, but is critical in enabling around 10,000 new homes to come forward. So we have a strong – and vital - case to make.

The Government has requested a six-year schedule of priority transport infrastructure investments linked with the delivery of new jobs and homes, against which SLGF monies will be allocated. Work is currently underway to define the schedule and to prepare business cases for those schemes that are able to come forward at an early stage, so that this can be reflected in both *Unlocking the Potential* and the South East LEP's Strategic Economic Plan.

At this stage, the emerging priority schedule identifies schemes to the value of £439 million over six years, with an anticipated requirement in SLGF funding of £265 million (and the balance made up of CIL receipts and other contributions).

This means a transport programme funded through SLGF worth around £44 million per year – just under 70% of the total amount of SLGF funding that Kent and Medway might expect to secure in an median scenario.

A summary of our transport investment priorities for SLGF and other funding is set out overleaf. Based on the work of the sub-county partnerships and Local Planning Authorities' Infrastructure Delivery Plans, further work is underway to specifically link the contribution of each scheme to unlocking housing and jobs growth and to set out the wider public and private sector contribution to bringing each scheme forward so that in *Unlocking the Potential* and our business case to Government we can demonstrate how our transport priorities deliver growth and lever additional investment. But of course, this does not include the major national schemes that are also critical for the county's growth.

Solutions: Transport infrastructure to unlock growth

Solution 1: A SLGF transport allocation to deliver our growth aspirations
Kent and Medway's growth aspirations are of national significance. But some of our most important sites are held up by major transport constraints – which are also already impacting on the wider economy. So we need a SLGF allocation of around £44 million per year over the next six years, matching our transport investment needs *and* the growth that this will unlock.

We will set out our requirements linked with economic outcomes, total scheme delivery costs and other contributions ahead of the submission of the Strategic Economic Plan.

We ask Government to provide us with the investment package that delivers our planned growth aspirations.

DRAFT Priority transport schemes and indicative SLGF allocations[1]			
Scheme	**Total cost**	**SLGF**	**Delivery by**
North Kent			
A2 Bean Junction			
A2 Ebbsfleet Junction			
A226 London Rd	£8.7 million	£4.2 million	2018/19
Dartford town centre	£4.5 million	£1 million	2017/18
Northfleet station and link	£12 million	£7 million	2018/19
A226 Thames Way dualling	£8.9 million	£4.9 million	2020/21
A289 Four Elms	£16.3 million	£11.1 million	2016/17
A228 Grain Crossing	£15 million	£15 million	2019/20
Chatham town centre	£4.9 million	£2 million	2015/16
Chatham station public realm			
Strood town centre	£10 million	£9 million	2017/18
LSTF Medway City Estate	£2 million	£2 million	2017/18
M2 J3 capacity improvements			
A2 Corridor improvements	£2 million	£2 million	2015/16
Medway Tunnel maintenance	£5 million	£5 million	2016/17
LSTF Medway cycling plan	£3 million	£2.5 million	2016/17
Sittingbourne town centre	£4.5 million	£1 million	2017/18
Sittingbourne Northern Relief Rd	£28.6 million	£23.1 million	2020/21
A249 Grovehurst junction	£8.5 million	£1.7 million	2019/20
M2 Junction 5A Kent Science Pk			
M2 Junction 5 improvements			
A249 Stockbury – Maidstone			
M2 J7 Brenley Corner			
East Kent			
M20 Junction 10A	£35.9 million	£19.7 million	2017/18
A28 Chart Road	£19.5 million	£10.2million	2018/19
Ashford public transport	£10 million	£10 million	2018/19
Ashford International stn/ access			
Ashford spurs signalling			
Sturry Link Road	£28.6 million	£5.9 million	2019/20
A28 Sturry Rd integrated transpor	£0.5 million	£0.25 million	2015/16
A2/A28 off-slip/ link, Wincheap	£12 million	£2 million	2018/19
A2 dualling Lydden - Dover			
Dover bus rapid transit	£5.6 million	£3.1 million	2018/19
A256 Duke of York, Whitfield	£5.5 million	£5 million	2019/20
Newingreen Junction	£0.7 million	£0.4 million	2016/17
Folkestone Harbour maintenance	£0.5 million	£0.5 million	2015/16
Margate junction improvements	£10 million	£6.5 million	2019/20
Westwood Relief Strategy	£9.2 million	£5.3 million	2017/18
Thanet Parkway	£12 million	£7 million	2016/17
Ashford-Ramsgate rail imp's			
Maidstone			
M20 Junction 7 P&R	£9.5 million	£7.6 million	2015/16
Maidstone Gyratory Bypass	£5.7 million	£4.56 million	2015/16
Linton Crossroads P&R	£6.3 million	£1.3 million	2015/16
West Kent			
M25/M26 connectivity			
M20 J4 Eastern overbridge	£4.4 million	£2.2 million	2015/16
Direct rail to City			
North Farm Relief Strategy	£10.5 million	£8.5 million	2020/21
Tunbridge Wells P&R	£10 million	£8.5 million	2017/18
A26 London Rd/ Speldhurst Rd jct	£2 million	£1.75 million	2015/16
A21 dualling Tonbridge -Pembury			
County-wide strategic			
Third Thames Crossing			
Op Stack/ Overnight lorry park	£18 million	£10 million	2017/18
Op Stack/Additional lorry park	£18 million	£15 million	2020/21
Other			
Door to door LSTF	£12 million	£10 million	2019/20
Congestion management	£12 million	£12 million	2020/21
Growth delivery interventions	£40.5 million	£10.5 million	2020/21
Medway Integrated Trans Block	£6 million	£6 million	2020/21
Total	**£438.5 million**	**£265.3 million**	

	HA/ Network Rail schemes
	Already funded via LTB

[1] Note that this schedule is indicative, and not all schemes listed have been fully approved.

Delivering Growth without Gridlock

In 2010, we published *Growth without Gridlock*, our delivery plan for Kent's strategic transport needs. This focused on the road, rail, air and sea infrastructure that we require to support the growth of the UK and local economies, and set out a high-level funding plan concentrating on the potential for private sector investment.

Alongside the development of *Unlocking the Potential* and our priorities for transport investment over the next seven years, we are refreshing *Growth without Gridlock*, and a new draft will be prepared shortly for consideration by the Kent and Medway Economic Partnership. This will directly inform and be informed by *Unlocking the Potential* – ensuring that our economic strategy and our transport priorities work together for growth.

2. Developing new approaches to infrastructure financing

In addition to direct transport investment, there may be a case for creating additional sources of finance to bridge the funding gap in paying for flood defence, remediation and other infrastructure works.

We have explored a number of solutions to infrastructure financing. The established East Kent Spatial Development Company is already delivering a pipeline of projects; while in 2010, we investigated the potential of a larger scale Kent and Medway Investment Fund.

Is there a rationale for a larger-scale public sector land development fund? We need to do further work to establish this, and in particular to understand the nature of the market failure that any new solution might seek to overcome.

However, options which might be explored further include:

- **Fully recyclable development funds**, along the lines previously proposed for Kent and Medway Investment Fund (and as operated by EKSDC). Such a fund could seek to invest in mixed-use and commercial development schemes on an equal basis with the private sector, with the returns reinvested in the Fund. Potentially, a development fund could be supported by the European Regional Development Fund, although European-backed land funds can be complex to establish and generally preclude residential development.

- **Gap funding and semi-recyclable solutions:** A fully recyclable fund may help to bring forward some schemes that are commercially viable and near to market. But in some cases, there may be a need for upfront gap funding on a grant or partially-recoverable basis to support high infrastructure costs.

  At the same time, we can expect to receive around £15.2 million from **New Homes Bonus** receipts as part of Kent and Medway's overall Single Local Growth Fund settlement. This funding is directly linked to housing delivery and has previously been held by local authorities.

  We believe that we must retain the delivery incentive embedded within the original New Homes Bonus model, and ensure that funds raised as a result of housing delivery in Kent and Medway are used to generate further growth in the county.

Depending on a full business case and market assessment, we could create a **Kent and Medway Housing Growth Fund**, using the county's share of pooled NHB receipts to fund projects (on a grant or loan basis as determined) that will bring forward additional housing – maintaining the housing growth incentive and increasing the size of the Fund over time in line with delivery. Potentially, this Fund could also absorb unspent Growing Places Fund balances, placing them under local accountability.

- **Demand incentives**: Help to Buy has provided a major stimulus to the housing market – and developers are reporting that it is working. But delivery on many of our major sites remains slow, and if we are going to achieve our objective of capturing more of London's prosperity, we may need more targeted, localised incentives.

  One option could include helping to **reduce the prohibitive cost of commuter rail fares**. While High Speed One has slashed journey times to London, ticket prices remain some of the highest in Europe – so while the journey between Ebbsfleet and St Pancras is equivalent to a Tube ride from Zone 3, a peak ticket costs as much as an off-peak ticket to [Birmingham].

  Working with Southeastern and the development industry, we could examine a number of new solutions to reduce Kent's rail price penalty – including temporary subsidies for occupiers in new developments, learning from the budget airline industry to develop lower cost ticketing options and establishing how raising overall demand could help to increase service frequency on key routes.

- **Access to finance for smaller developers:** We often focus on our major sites. But over the next five years, an estimated xxxx new homes will be delivered on sites of less than 50 units, often with fewer infrastructure constraints and by smaller developers with strong local supply chains.

  However, access to finance for smaller developers is constrained for both commercial and residential development, as banks remain risk-averse despite the current return to growth. Building on the experience that partners in Kent and Medway have in managing a range of other business finance solutions (including Expansion East Kent, TIGER and No Use Empty), we could investigate the potential for a credit facility for smaller developers.

Solutions: Infrastructure finance

Work that we have done in the Thames Gateway and across Kent and Medway suggest that there may be a need for public sector intervention in development finance, levering in additional private sector investment.

We will investigate the market gap and the rationale for public sector intervention against a range of finance and governance options, based on the clear goals of housing delivery and job creation, focused on:

Solution 2: The potential for a recyclable investment fund to help bring forward near-to-market sites
Solution 3: Targeted gap funding and softer public sector financing packages to overcome key infrastructure constraints
Solution 4: Increasing demand by reducing the Kent rail price penalty
Solution 5: Supporting access to credit for smaller, local developers

3. *A more pragmatic relationship with regulatory bodies*

Many of Kent and Medway's key growth sites are in complex locations – subject to flood risk, environmental limits and constrained existing infrastructure. So national regulatory bodies and utilities providers have a central role in working with private developers and local authorities to strike a balance between preserving environmental and infrastructural resilience and delivering the economic growth that society needs.

In Kent and Medway, we have examples of excellent co-operation between regulatory agencies, developers and local authorities. At Sandwich, a positive and pragmatic response by the Environment Agency to the need for vital flood defences helped to safeguard the future of Discovery Park and secure Enterprise Zone designation.

But this positive approach is not always shared by other agencies. In particular, it is especially important that we develop a better relationship with bodies such as Natural England, so that they understand and engage with the local growth agenda.

Solutions: Better regulation

Solution 6: Working with regulatory agencies
Building on our positive relationship with the Environment Agency and the HCA, we will invite other regulatory bodies to the Kent and Medway Economic Partnership so that we can develop more creative solutions to meeting differing objectives.

But where the actions of Government agencies impede the delivery of nationally-important growth locations, we expect Government to take a firmer pro-growth stance.

4. *Devolution for smarter delivery*

Much of Kent and Medway's transport infrastructure is critically important to the UK economy, and it is right that it is nationally managed.

However, in some cases, Highways Agency processes and contingency standards mean that delivery of relatively simple trunk road improvement schemes cost far more than they would if they were delivered by the local authority. For example, Kent County Council estimates that the cost of the dualling of the A21 between Tonbridge and Pembury could be reduced by around xx% (from £70 million to £xx million) were it to be locally delivered. However, the Government has historically been unwilling to concede devolution, perhaps because of concerns over the liability for cost overruns or future maintenance costs.

Where relatively straightforward schemes can be delivered more quickly and cost-effectively and where they will unlock additional economic opportunity, we could seek a more pragmatic deal with Government.

Solutions: Smarter strategic transport delivery

Solution 7: Selective devolution of strategic transport schemes
Based on the local highways authority's track record in delivering major schemes on time and within budget, we will seek to agree a **Selective Devolution Protocol** with the Department for Transport which will allow us to undertake the delivery of specific schemes where there are cost, time and economic advantages in doing so, with risks shared between central and local government.

5. *Smarter use of public sector land*

Combined, central and local Government hold extensive stocks of land across Kent and Medway, which are no longer required for operational public service purposes. These could be part of a part of the solution to bring forward development land – but at present, represent a missed opportunity.

- **Securing the value of the HCA economic asset portfolio:** At present, the HCA has ownership of around xxx hectares of land, including major Thames Gateway sites such as Northfleet Embankment, Chatham Maritime and Queenborough and Rushenden. Largely inherited from SEEDA's portfolio of regeneration sites, these have the combined potential to deliver up to xxx homes and create around xxx new jobs.

  While some sites are unlikely to be brought forward in the short-to-medium term, it is estimated that the eventual disposal of the HCA's economic assets will yield a receipt of around £xxx million by 2020. This could be recycled within Kent and Medway, or used to match European funds invested in a development fund (see **Solution 2**), should the Kent and Medway Economic Partnership decide to establish one. However, at present, all receipts default to central Government – so although we have an excellent working relationship with the HCA in managing the portfolio, we have no guarantee of an eventual return to the local economy.

Solutions: Smarter use of public sector land

Solution 8: Securing HCA economic assets
As part of a coordinated approach to bringing forward key development sites, including the creation of public sector-supported funding solutions, we will examine the viability of securing local control of receipts from the HCA's economic assets – and potentially other Government assets - in Kent and Medway (either at Kent and Medway strategic level or at local authority level as economically appropriate), ensuring that land receipts can be recycled locally.

- **Better coordination of public sector assets:** With the HCA now also operating as the Government's land agent, our positive relationship could help Kent and Medway to develop a broader strategy for the exploitation of public sector land assets.

  In times of significant public spending restraint, the default for many public sector agencies in both central and local government is to focus on the short-term financial gains from asset disposals. But short-term financial gain may be at the cost of longer-term economic value – so by pursuing short-term interests, we miss the bigger prize.

  Recognising this, the Government has agreed to collaborate with local partners in a number of metropolitan city regions to develop a comprehensive register of public sector assets, so that these can be considered in relation to local economic ambitions and possible marriage opportunities and private sector investment can be explored.

As part of a coordinated effort to make the most of our locally held assets alongside those of central Government, we could take a similar approach in Kent and Medway, linked with potential new funding solutions.

Solutions: Smarter use of public sector land

Solution 9: Public sector land register
We will seek Government agreement to cross-departmental cooperation in the preparation of a comprehensive public sector register of non-operational assets. Not restricted to those sites formally deemed to be surplus to requirements, this exercise could take a broad view of total land holdings, informing a further analysis by private and public sector experts of the potential to extract maximum long-term economic value for the county.

6. New solutions to housing growth

House prices relative to average earnings remained high throughout the economic downturn, exacerbated by constraints on access to mortgage credit. Government stimulus measures – pioneered in Kent and Medway through the Local Authority Mortgage Scheme – have increased demand, but the prices to earnings ratio is set to worsen. So we need new solutions to help households on average incomes to access housing with greater choice in tenure options.

Building on the approach set out in the Kent and Medway Housing Strategy and linked with our proposed commitments above to make better use of public sector land, Kent County Council, in partnership with Kier, launched the **Kier Kent Initiative** earlier this year. This deal packages together KCC-owned sites in Sevenoaks, Canterbury and Swale and brings in institutional investment to build new homes for affordable, intermediate and private rent and open market sale, enabling new affordable homes to be delivered without Government grant.

We know that there are a growing number of institutions seeking investment opportunities in housing, and there is the potential to expand mixed tenure schemes on public sector land and to raise interest in the potential of institutional investment in the private rented sector.

Linked with this, a number of local authorities in Kent and Medway also have the appetite to invest in the expansion of their own housing stock (potentially enabling additional private sector development alongside it), but are currently prevented from doing so by the cap on the maximum amount of housing debt that can be held by the authority (the **Housing Revenue Account debt cap**). Lifting the HRA debt cap would be a relatively straightforward measure that Government could take, matched by a local commitment to develop.

Solutions: New approaches to housing growth

Solution 10: A new market for institutional investment
As part of a new approach to maximising the economic value of public sector land, we will seek to extend opportunities for private institutional investment in new models for housing development, creating a new mix between private rent, affordable housing and market ownership to respond to the challenges of the housing market and increased demand for choice and flexibility.

Solution 11: Linked with a clear local appetite to expand housing development, we will seek Government action to lift the HRA debt cap and will work to quantify how this extra flexibility will translate into new housing delivery.

In addition, we retain a positive relationship with the **Homes and Communities Agency**, and through effective planning and coordination by Kent and Medway's local authorities and housing associations, we have secured substantial HCA investment.

We could seek to build on this by establishing a more formal Kent and Medway-HCA relationship, giving the county's businesses and local authorities a stronger role in setting HCA investment priorities.

Solutions: Building on our relationship with the HCA

Solution 12: A new commissioning role
Together with the HCA, we will consider how a new role for the Kent and Medway Economic Partnership in setting broad housing and infrastructure priorities could help the HCA in delivering its objectives – while maximising investment in Kent and Medway and directing it to places where it can best support growth.

7. Making sure our existing housing stock is fit for purpose

Delivering new homes is vital for growth – but most of the housing stock that we will be using in 50 years' time already exists, and much of it is vulnerable to pressure from rising energy costs. Over half the homes in Kent are insufficiently insulated, and over 13% of the county's residents live in fuel poverty. However, addressing the problem yields both a social and an economic gain: if all of the homes in Kent and Medway requiring better energy efficiency were to be retrofitted, it could help generate up to 7,000 jobs.

Obligations on energy companies to pay for carbon emissions by funding energy efficiency measures could provide a source of funding for retrofit, and the Kent and Medway Green Deal Partnership is launching a series of pilot projects funded through the **Energy Companies Obligation** (ECO), bringing around £xx million into Kent and Medway.

Through the management of the ECO pilots and previous retrofit initiatives and through the delivery of the successful **No Use Empty** programme, which brings empty residential properties back into use, we have demonstrated that we can successfully deliver complex funding programmes for existing homes – with district, unitary and county councils working together.

We could lever this experience further by seeking devolution of the administration of the Government's **Green Deal** programme, which is currently poorly marketed and has very weak take-up. While there are some challenges in the model (in particular the long-term repayment obligation attached to the property), there would be real synergy in promoting Green Deal alongside the ECO pilots and our other energy efficiency programmes. Given the importance and growth potential of Kent and Medway's green technology sector and the work that is currently underway in developing an energy efficiency and low carbon supply chain, there could be great opportunities to develop the local supplier market as well as promote improved resource efficiency.

Solutions: Improving the existing housing stock

Solution 13: Devolved Green Deal delivery
Based on our experience of delivering improvements in the existing housing stock, and linked to the Kent and Medway housing and environment strategies, we will consider how we could deliver better outcomes for the Government's Green Deal programme if funded delivery were to be devolved to Kent and Medway.

A fresh approach to coastal renewal

The Kent and Medway coast has great potential. Much has been achieved in recent years, as new investment has helped Turner Contemporary and Folkestone Creative Quarter open up opportunities in the cultural, creative and tourism sectors. Accessibility to most coastal towns has been transformed through High Speed One – with further improvements on the way.

Yet Kent's coastal and estuarial towns continue to face challenges that hold them back from reaching their full potential. Deep social problems in parts of Thanet, Sheppey and elsewhere hamper growth and waste human potential. With recent welfare reforms increasing the flow of vulnerable people to cheaper accommodation on the South East coast, we need to ensure that the progress we have made is not undermined by new problems made in Whitehall.

Potential solutions: Coastal Innovation Zones
We are making massive efforts to attract new investment into coastal Kent, with the Expansion East Kent and TIGER loan schemes and better transport links all helping. But there may be a case for a package of more localised, targeted interventions, focused on reducing concentrations of deprivation and housing market failure:

Solution 14: Tougher selective licensing: Thanet's selective licensing regime has helped to remove some of the worst poor quality accommodation in Margate and Cliftonville. But with a maximum fine of £20k and complex enforcement procedures, the sanctions on dilapidated, unfit properties are insufficient. We need far more draconian powers to shut down non-compliant landlords eradicate housing that is totally unacceptable in the 21st century.

We will consider the case (including the costs and likely impacts) of requesting that Government **increases the maximum fine and permits the local housing authority to retain fine proceeds** – ramping up the penalty and enabling a ring-fenced fund to be built up from fines collected to reinvest in measures to improve the local housing stock.

Solution 15: Reducing the flow of vulnerable people: Benefit-driven migration to deprived parts of coastal Kent neither works in the interests of the existing community nor that of the new arrivals. The weakness of the local employment market is compounded and the 'negative market' in low quality housing – paid for by the taxpayer and suffered by the intended beneficiary – persists. The outcome is partly a market failure, but it is more accurately a policy failure.

So we need to change the policy. We will consider imposing caps on the number of looked after children or total volumes of social housing within designated Coastal Innovation Zones, and with other parts of the South East we will seek dialogue with Government on measures to reduce demand for low-quality, low-cost housing.

A fresh approach to coastal renewal

We recognise that this could impose costs on 'sending' areas (especially London Boroughs that are already under financial pressure and having to respond to Government policy) and we will seek solutions that deliver a more equitable outcome.

Solution 16: Investing in market renewal: We are already investing heavily in housing market renewal through the Live Margate programme, although comprehensive renewal programmes are expensive and have lengthy payback periods. We will consider the potential for expanding existing interventions through the Single Local Growth Fund and, as part of an integrated package, through additional direct investment from the Homes and Communities Agency.

Solution 17: Promoting positive in-migration and access to employment: We need to develop measures that help to attract wealth and prosperity to coastal Kent, building on the real advantages that the area has and mitigating some of the disadvantages of distance and travel costs. Along with our proposal set out in Solution 4, we will discuss with Southeastern the viability of measures to reduce the High Speed One price penalty (either as temporary subsidy or through a change in pricing strategy)to make the area's attractiveness more consistent with its quicker journey times.

Improving links between disadvantaged communities and centres of employment is also a challenge, especially in relatively isolated locations, and we will consider the potential for improved community transport and other solutions to get people to work.

Solution 18: Coordinated local programmes: In aggregate, public sector spending in some of our most disadvantaged communities is substantial – taking account of social transfers, housing payments, investment in economic growth, additional health and education spending and so on. Major efforts are being made to ensure that all these join up, with the aim of reducing mitigation costs and increasing investment.

But do we need a more concerted and targeted approach? We could consider the case for this, ensuring that if a new strategic approach is warranted, it adds value to work that is already underway, joins existing programmes before creating new ones and makes sure that it does not create an additional bureaucracy.

BUSINESS FOR GROWTH

With a strong SME base and growing sector strengths, business in Kent and Medway will be leading the county's return to growth. So we must ensure that we have a positive environment for business expansion – where businesses with the appetite for growth can secure the finance, the land, the people and the ideas to create jobs and prosperity.

The potential...

Kent and Medway has an entrepreneurial economy, driven by thousands of small and medium-sized businesses. Of 63,650 businesses across the county, 89% employ fewer than ten people – and of these, most employ fewer than five. Throughout the recession, our business stock grew, with the potential to expand further as the economy returns to growth.

Our business base is also changing. The county's 'knowledge economy' remains relatively small. But it is growing at almost twice the national rate of growth. With economic recovery, a greater presence in higher value activities puts Kent and Medway in a stronger position.

We also have strengths in a number of key growth sectors, including life sciences, green technology, creative and media industries, land-based activity and manufacturing. Benefiting from improving transport links, easy access to large markets and forthcoming improvements in digital connectivity, the overall outlook for growth is positive.

The challenge...

Aside from the infrastructure and skills challenges set out elsewhere in this document, there are three key challenges for businesses seeking to grow.

Firstly, **access to finance** continues to be a constraint, with bank lending still lower than before the credit crunch, although with some recent signs of improvement. There are also well-evidenced gaps in the availability of equity finance on viable terms, especially for younger businesses with innovative – but therefore risky – propositions. This is a national challenge, but there is some evidence that it is a greater challenge outside the venture capital heartland around London, Oxford and Cambridge – so we need to attract more capital out to Kent.

Secondly, the business environment is becoming **increasingly competitive**. As emerging markets become increasingly sophisticated, the local – and UK – economy will need to become increasingly productive, generating more output with fewer human resource inputs. This will mean increasing our ability to create new products, processes and services, making it more important that those companies with the ability to grow and create jobs and wealth are able to access the finance and market intelligence that they need.

Thirdly, in an increasingly competitive world, the impact of **regulation** can be significant. Some regulatory costs are driven by unnecessary process and complexity, and can be reversed. But we know that some parts of the county's economy (especially parts of the manufacturing and land-based sectors) will be affected longer term by rising environmental legislation and resource costs which will need to be managed and mitigated if Kent and Medway is to remain competitive.

Solutions...

Business growth is dynamic – and **most business finance and most innovation will be delivered by the market in open competition**. And the way business works is changing as well: new technology means more diverse ways of working across more markets.

So we need to choose interventions carefully – acting where there is a clear added value. As part of our Growth Deal with Government, potential solutions include:

1. Bridging the gap to business finance
2. Understanding our key business sectors
3. A more integrated approach to innovation and growth
4. Supporting growth through trade and investment
5. Backing new – commercially-driven – solutions

1. Bridging the gap to business finance

The financial crisis destroyed small business lending in Britain. So the Regional Growth Fund is a massively powerful tool to back SMEs with the appetite for growth – and to help unlock private finance.

Kent and Medway currently benefits from a number of RGF-funded **business finance programmes**. Expansion East Kent and TIGER, both funded by the Regional Growth Fund, are fully operational. Escalate in West Kent will launch in early December and a smaller programme to support SMEs in the low carbon sector will launch in early 2014. In Medway, the successful Partners for Growth scheme has made flexible loans available to local small businesses for many years.

Experience so far shows that there is a high demand for loan finance targeted at those businesses with the strongest propositions for growth and job creation, with Expansion East Kent having already committed around £17 million of its £30 million allocation.

With effective systems in place and a focus on job-creation, innovation and private leverage strongly enforced by locally accountable decision-making boards, there is substantial scope to increase our existing programmes, including rolling out access to the schemes to businesses in those parts of the county that do not currently fully benefit.

In addition, we know that there is a gap in equity finance. But large, public-sector backed equity schemes have a mixed record of success – and there is no case for repeating the failures of the unaccountable schemes run by the former Regional Development Agencies.

Instead, there may be more scope in promoting the opportunities in Kent and Medway to potential investors, using local knowledge and potential co-financing on an initially small scale. This approach is currently being tested at Discovery Park as part of the overall goal of developing the life science sector at the Enterprise Zone.

Solutions: Enabling access to finance

Solution 19: Building on Expansion East Kent and TIGER
Based on our experience of our existing Regional Growth Fund programmes, we could seek additional investment to expand the provision of loans to business, linked with clear job creation and leverage targets. The new European Regional Development Fund programme could be a significant source of investment for this.

Solution 20: Pragmatic approaches to equity finance
Working on the basis of our sector-based strategy, we will explore the potential for public sector funding to match targeted investment by willing and appropriate commercial investors. We will also explore the potential to generate further interest in Kent from equity funds backed by Capital for Enterprise Ltd.

2. Developing our key business sectors

Following the publication of *Unlocking Kent's Potential* in 2009, we committed to building a much better relationship between the public sector and business, and to developing a much better understanding of our key business sectors. We have had considerable success, and the business-local government relationship is better now than at any time in

Key sectors for growth
The Kent and Medway Economic Review identifies the following sectors with prospects for growth:

- **Green technology**, including offshore wind, low carbon retrofit and construction, waste management and recycling and environmental technologies to support carbon reduction, supported by the national designation of the Kent and Medway CORE
- **Life sciences and medical technologies**, building on significant concentrations at Sandwich, Dartford and Kent Science Park (as well as at Medway and Ashford)
- **Creative and media industries**, with very high growth over the past decade, especially in the software and electronic publishing sub-sectors in West Kent
- **Food production**, with opportunities in particular arising from the increasing intensity of horticultural production and Kent's significant agricultural research presence
- **Manufacturing and engineering**, especially in Medway and North Kent, increasingly focused on SMEs, although with a number of larger businesses such as BAE Systems, Delphi and Cummins
- **Construction**, significantly impacted by the recent economic downturn but with strong future prospects associated with housing and commercial growth in the county
- **Higher education**, with concentrations at Canterbury and Medway and a significant role in the local economy
- **Tourism**, building on recent investment in cultural infrastructure and improved connectivity

the past. But there is more that we need to do, so over the coming month, we will be running a series of events with businesses in priority sector groups – understanding priorities from a wider range of businesses across the county.

3. Joining up national and local approaches to innovation and growth

A better understanding of our growth sectors will help to inform how schemes such as Expansion East Kent and TIGER can be best targeted, and how the county's skills and planning systems can respond to business need in creating an environment conducive to growth.

But it is important that we focus on those businesses with the greatest potential for growth. At present, a number of financial support and advisory schemes are offered to promote innovation and growth – and in five areas, there could be extra value through better coordination:

- Firstly, a disproportionate amount of new job creation comes from those businesses with the potential to achieve levels of growth of 20% or more per year. The Government's **Growth Accelerator** programme aims to support businesses in this category, offering business coaching with advice on access to finance, marketing etc. Locally, Growth Accelerator is complemented by **High Growth Kent**, which offers support to businesses at an earlier stage of development with aspirations of 'graduating' to Growth Accelerator.

  The Government has launched an 'opt-in' proposal through which Growth Accelerator could match ERDF funds in exchange for an enhanced local service. Rather than a simple opt-in to the Government's Growth Accelerator template, we could seek to ensure

'Opt-in' deals for European funding

All European funding programmes require match funding – usually of at least 50%. Within the guidance on the establishment of the 2014-20 European structural and investment funds programme, the Government has proposed a series of deals through which local enterprise partnerships can 'opt in' to a package of support, with a contribution from the LEP European funding allocation matched by Government.

There are six opt-ins proposed, from:

- Growth Accelerator (support for high growth businesses)
- UK Trade and Investment (trade development)
- Manufacturing Advisory Service
- Social Housing Retrofit (with European Investment Bank co-financing)
- Skills Funding Agency (programmes to support access to skills)
- Big Lottery Fund (projects to support social inclusion)

There is also likely to be a further opt-in proposal from the Department of Work and Pensions to support labour market inclusion programmes, although the details of this have yet to be published.

At this stage, it is unclear whether all of the opt-ins represent good value for money, although it does appear that in some cases, we may be able to negotiate better terms for Kent and Medway than those published in the Government's original guidance. But a strategic decision will need to be made regarding Kent and Medway's take-up of the opt-in proposals, set against other potential demands on ERDF and ESF funding.

that we agree a high growth package for Kent and Medway, linked with High Growth Kent and support for businesses with growth potential through our access to finance programmes.

- Secondly, in the **low carbon sector**, there is already a strong understanding of the local business base, linked with the Kent Wind Energy and South East Carbon Hub supply chain initiatives – and this helps in joining up local supply and demand and helping businesses access other support from the public and private sectors.

  Supporting the development of the low carbon economy will be a key theme in the European structural and investment funds programme and there could be an opportunity through ERDF funding to establish an expanded and better coordinated offer to low carbon businesses. Through effective negotiation of the proposed opt-in arrangement with the Manufacturing Advisory Service, this could also mean a better link between Kent Wind Energy, access to finance available via Expansion East Kent and TIGER, the offshore renewables grant scheme managed by MAS and programmes such as the Advanced Manufacturing Supply Chain Initiative (AMSCI).

- Thirdly, Kent and Medway's **university** sector offers a substantial potential, both for the development of new businesses established by university graduates and as a hub for research and knowledge which could have wider commercial application.

  There are several examples of strong university-business links (for example, the spin-out businesses supported by University of Kent and Canterbury Enterprise Hub, and the direct connections of University of Greenwich with Medway Innovation Centre). There are also good connections between university specialisms and local sector strengths (for example, University of Greenwich in relation to engineering, University for the Creative Arts and creative industries and East Malling Research and the land-based sector).

  But more could be done to link the universities' innovation support activities with the other services available locally – creating a more joined-up approach.

- Fourth, we must ensure that business in Kent and Medway benefit fully from national initiatives to promote innovation. We have successfully used High Growth Kent to generate a pipeline of businesses to the Government's Growth Accelerator, and we could potentially take forward a similar approach in relation to the **Technology Strategy Board** – using local programmes to drive local demand for TSB research and development competitions.

- Finally, across all sectors of the economy, the application of new technology will create new business opportunities – and make some existing activities obsolete. Alongside our current activity in Kent and Medway to increase **digital connectivity**, we also need to make a greater effort to drive up demand for new technology and identify ways in which this could be better supported locally – for example in new forms of workspace provision.

  The emerging Digital Action Plan will set out a basis for further demand stimulation activity – focused on understanding new opportunities and practical support, rather than conventional marketing approaches

Solutions: Joining up approaches to innovation and growth

Solution 21: High Growth Kent
Through local negotiation of the proposed 'opt-in' for the Growth Accelerator service, we will seek to ensure strong links to local businesses with high growth potential, developing a strong pipeline from Kent and Medway.

Solution 22: Low Carbon Kent
The potential of the low carbon economy in Kent and Medway is matched by the high priority the sector is given nationally as an area for growth. We could seek through ERDF funding and the proposed opt in arrangements to develop a better coordinated programme to support innovative low carbon business, adding to the activities that are already underway.

Solution 23: University-business links
Despite a strong university presence, links between higher education and business are not as deep as they could be. With universities wanting to develop a stronger relationship with the county's businesses and vice-versa, we could seek to develop a county-wide programme to enable our businesses to benefit from university research, expertise and people.

Solution 24: Better links with innovation
Building on existing programmes, we could seek to develop a more coherent relationship with Technology Strategy Board, linking local and national programmes – potentially linked with the approach to better university-business relationships described above.

4. Supporting growth through trade and investment

Next to the markets of continental Europe and the rest of the UK, Kent and Medway is well-placed to benefit from **international trade**. However, we know that Kent companies are less likely to export than firms elsewhere in the South East.

Through **Kent International Business**, Kent County Council, local business support providers and UK Trade and Investment (UKTI) are helping Kent and Medway firms to access new markets. There is substantial scope to expand this activity, linked with the development of the county's key growth sectors, and there is potential to secure additional investment in

trade development activity through UKTI as part of the 'opt-in arrangements proposed for the use of future European Regional Development Fund money.

On paper, the standard UKTI trade opt-in offer falls short of meeting Kent and Medway's needs. But the local UKTI team has expressed a willingness to be flexible, and a prospective joint programme is being developed, which could mean a better deal for Kent and Medway. However, if the Kent and Medway Economic Partnership does decide 'buy' the UKTI opt-in offer, we will need to be certain where accountability and control lies – making sure that Kent and Medway businesses and local government leaders are the commissioners, not central Government.

While a good local relationship has been forged with the trade development arm of UKTI, the latter's performance in supporting **inward investment** into Kent and Medway could be much sharper. With the county hosting a key Enterprise Zone at Discovery Park and some of the country's most important commercial development sites in the Thames Gateway and at Ashford, we need a new deal if we are going to attract the investment we need to unlock growth.

Fortunately, we have the basis of a deal with the investment that Kent County Council makes into Locate in Kent, the county's inward investment agency, which with a budget of £xxx, including support for foreign direct investment, makes it the largest inward investment body in the south of England outside London.

As part of our Growth Deal with central Government, we could seek the designation of Kent as a **UK inward investment gateway**, with a joint commitment from UKTI to match local support for inward investment activity, focused around those sectors in which the county has both national strengths and significant inward investment opportunities. As part of this commitment, local partners could offer a coordinated approach, linking our access to finance and innovation support described above in a clear offer to priority sectors that goes beyond marketing and promotion.

5. Backing new – commercially driven – solutions

Most business advice, support and access to finance will be provided commercially, in the market place. So our focus in Kent and Medway is on adding value to the private sector, by supporting emerging sectors with wider growth potential, making funds available where they will lever additional private investment, or by providing services to business which would not otherwise be viable on a commercial basis.

Solutions: Promoting trade and investment

Solution 25: Kent International Business

To increase Kent and Medway's export ability, we will seek to maximise the potential of the proposed opt-in to UK Trade and Investment services – negotiating a local deal that secures a programme of locally commissioned activity to support SMEs in accessing new overseas markets.

Solution 26: A new deal for inward investment

We will seek to use the commitment that we already make locally to secure a better deal from UKTI – putting a national focus on those sectors and locations with nationally-significant growth opportunities. In the first instance, we could seek to secure UKTI commitment to a joint project focused on identifying nationally important assets and opportunities as the basis for a new joint approach.

Solutions: Clarity and accountability

Solution 27: Clear opt-in arrangements

The Government's proposals for 'opt-in' deals – allowing European funding to be used to bring in additional services with central Government funding as match – are a good idea in making EU funds go further and in ensuring that they are joined up with nationally-funded programmes.

However, the Government's opt-in prospectus is unclear where project commissioning and accountability lie. In Kent and Medway, we are clear that good management requires good governance and transparency – so clarity in contracting and management arrangements will be essential before we enter into any commitments for the use of the county's public money.

In addition, we also have a role in supporting innovation, for example by part-funding initial setup costs on projects that could ultimately become commercially sustainable. For example, recent investment by Kent County Council has enabled the **School for Creative Start-ups** to locate in Folkestone, providing a new, intensive, coaching service for young enterprises.

Similarly, we have made support available for new **workspace** where demand can be evidenced and where there are wider social and economic impacts (for example through the positive re-use of existing premises or in locations where viability is likely to be marginal).

There could be an opportunity to lever the value of our existing investment in new solutions and opportunity projects by using some of Kent County Council's capital Regeneration Fund as match to ERDF or potentially an element of Single Local Growth Fund.

Solutions: New innovation

Solution 28: A Growth Challenge Fund

KCC currently operates a Regeneration Fund, which can be used as entirely 'clean match' to other sources of capital funding, and which funds initial investment in projects which are additional to mainstream provision and which will lead to new jobs and business growth.

We could consider aligning the Regeneration Fund with ERDF or SLGF capital funds to create a £4-6 million Business Growth Fund for Kent, focused on new opportunities and innovation.

PEOPLE FOR GROWTH

Workforce skills are improving as are school attainment levels. But as the labour market becomes tighter, we must ensure that Kent and Medway has a workforce which can drive and benefit from the economic opportunities of the future.

The potential

Kent and Medway has major opportunities for new employment. Growth is forecast in key sectors, major developments (such as Swanscombe) offer prospects for large-scale job creation and opportunities in London – in commuting distance for much of the county – are set to increase.

At the same time, the recent recession saw a much smaller rise in unemployment than previous economic downturns, and unemployment is now falling – both among the workforce overall and among younger workers. With greater flexibility, the labour market should be able to respond more quickly as employment opportunities return.

We also have an increasingly skilled workforce. While workforce skills still lag behind the national average, the gap is diminishing and school attainment levels in Kent and Medway now outperform the rest of the country. The proportion of the county's workforce employed in the 'knowledge economy' is also rising, with total knowledge economy employment increasing by around 15% between 1998 and 2010, almost double the national rate of growth.

The challenge

Although Kent and Medway's workforce is growing, we know that in the longer term, the working age population is set to fall as a proportion of the population as a whole. So we will need to be delivering more value if we are to retain living standards – and we will need to think about how we train and retrain to maximise the potential of our workforce.

Yet at present, 20% of employers in Kent and Medway report skills shortages, higher than the national average – and many employers report concerns about work readiness and employability among new entrants into the labour market.

At the same time, developing the range and quality of vocational courses required to support employers and new entrants to the workforce is a challenge, especially in an environment in which competition for students often impacts on the viability and quality of provision and where vocational options remain perceived as of lower status within the education system. Although well-established apprenticeship programmes are highly regarded and are very competitive, there are still too few of them, and while demand for apprenticeship places is rising, the capacity of employers to provide them is limited, especially in an economy overwhelmingly dominated by SMEs.

Finally, while unemployment is falling, and the unemployment peak has been lower in the recent recession than during previous downturns, significant concentrations of worklessness remain, especially (although not exclusively) within Kent and Medway's coastal communities, impacting on individual life chances and acting as a drag on the economy as a whole.

Solutions

The previous version of *Unlocking Kent's Potential*, published in 2009, placed a strong emphasis on developing **a closer relationship between skills provision and the current and future needs of the local economy**. This led to a number of successful innovations, including the strengthened emphasis on apprenticeships, delivery of the Kent Employment Programme offering additional incentives to small businesses to take on apprentices and recent graduates, and the creation of new models of employer-led vocational training, such as Swale Skills Centre at Sittingbourne.

We need to maintain momentum in delivering a more employer-relevant offer. As part of our Growth Deal with Government, potential solutions include:

1. Improving market intelligence, linked with the needs of our key growth sectors
2. Developing a more comprehensive vocational offer for young people, better linked with the world of work
3. Increasing the ability of the existing workforce to train and retrain, increasing resilience as the economy changes
4. Increasing access to the labour market and tackling worklessness, especially in disadvantaged communities

1. Improving the market

Nationally, England has a market-based approach to skills provision, with providers competing for students. This competitive approach can help to drive responsiveness to learner demand, but its effectiveness is limited by four **market failures**, which we must tackle.

- Firstly, employers report skills mismatches – and providers are keen to respond. But the **labour market intelligence** that we have available is often insufficient, with knowledge of future demand across travel-to-work areas and its links with training provision more limited than providers would like.

  Significant efforts have been made to address this, through the provision of better information to schools and colleges on local economic growth opportunities. However, this could be developed further to create a stronger intelligence base.

- Secondly, alongside better market intelligence for providers, there is a need for higher quality **information, advice and guidance for**

learners. Businesses in a number of sectors – including those such as manufacturing, land-based industry and tourism which have significant growth potential in Kent and Medway – report that learner perceptions of employment prospects and earning potential are often underestimated, outdated and inaccurate.

The recent devolution of careers services to schools risks compounding this shortfall. In an economy which will see relatively fewer new entrants to the workforce over time, this presents a major challenge, as employers become unable to secure the skills they need. So there is a need for a more comprehensive information, advice and guidance offer.

- Thirdly, **competitive pressures** on schools to maximise student numbers can mean an over-provision of fairly limited course offers in school sixth forms, and an under-provision of often more expensive vocational courses requiring larger student numbers in order to be viable. While the market-led approach is unlikely to change (and also has benefits), better information could help to drive market improvements.

2. Developing a more diverse vocational offer

Since the publication of the previous Regeneration Framework, we have seen a significant expansion of alternative vocational opportunities, with **University Technical Colleges** planned for Dartford and Medway, complementing existing further education and skills centre provision.

Solutions: Making the market work more effectively

In Kent and Medway, we want better information so that the market for skills provision works as efficiently as possible – in the interests of learners and employers:

Solution 29: A stronger intelligence base
Using the Kent and Medway Employment, Learning and Skills Board as the skills commissioning arm of the Kent and Medway Economic Partnership and building on work already done at local level, we will design a better coordinated, accessible labour market information system, providing FE colleges, schools and private providers with the information on economic growth opportunities that they need in order to plan for the future.

Solution 30: A more joined-up approach to information, advice and guidance
While responsibility for careers advice rests with individual providers, we could ensure a stronger county-wide approach, linked with more accurate information on future employment prospects, building on existing routes to information (such as Kent Choices4u) and with employer leadership in designing access to advice and work experience.

There could be a number of ways in which a more joined-up offer could be designed: over the coming months, we could consider these with a view to commissioning a coordinated service, potentially with the use of ESF funds.

Solution 31: Avoiding wasteful competition
Through the better market intelligence set out above, we will seek to create a system which is better informed about opportunities and prospects, and better able to make choices in a competitive environment.

However, learners and employers still report that they are unable to access the provision that they need. Improving the flow of market information will help to change this to an extent, but we also need to increase the supply of vocationally-relevant provision. At the same time, employers in Kent and Medway can suffer from an outflow of skilled employment given the strength of the neighbouring London market – so we need to identify ways in which we can retain skills and talent and aspiration locally.

There are three aspects to our approach to creating a more diverse vocational offer:

- **Changing the focus of existing provision**, in response to greater employer input into curriculum development;
- **Developing new forms of provision**, through the use of further education capital funding incorporated within the Single Local Growth Fund; and
- **Developing new approaches** to ongoing skills development in response to identified needs in specific sectors, encouraging higher levels of employer involvement and greater retention of locally trained and qualified people within industry.

3. Increasing the ability of the workforce to train and re-train

While it is vital that the supply of new entrants to the labour market have the skills that employers need and are able to access quality jobs, most people who will be in Kent and Medway's workforce in 2030 are already working. As working lives get longer, and as the economy adapts to new markets and technology, it will become increasingly important that

Solutions: More diverse vocational options

Solution 32: A new focus to existing vocational provision

In Kent and Medway, the further education sector is the core of our vocational learning offer – in many cases, enjoying strong local employer links.

However, we could provide a stronger basis for employer engagement through a clearer role for business in developing a skills framework to inform the course offer, linked with the more integrated approach to market intelligence described above.

We also recognise that while there is much good practice in Kent and Medway, there is no local monopoly of wisdom – so through the Kent and Medway Economic Partnership and the Employment Learning and Skills Board, we will seek to learn from best practice in other parts of the country.

Solution 33: Commissioning choice

Potentially, the incorporation of a proportion of future further education capital funding within the Single Local Growth Fund provides an opportunity for the Kent and Medway Economic Partnership to focus capital allocations on additional provision clearly linked with employer demand. Potentially, this could provide an opportunity for alternative forms of provision (such as building on the Skills Centre model) as well as for provision within the FE sector.

At this stage, the conditions on SLGF further education capital funding are unclear. However, as part of our Growth Deal, we will seek maximum flexibility in the use of the funding to respond to economic need, and – consistent with any regulatory requirements on the use of the funding – we will set out our commissioning plan for its most effective use.

Solutions: The Kent Guild Model

Solution 34: A new way to link employers with skills and careers development

Employers need new employees to know about opportunities in industry, and they need new entrants to the labour market to have relevant skills. But they also need to be able to retain good quality staff – creating positive cycle of good perceptions of the industry, good skills, good prospects and good retention.

In Kent and Medway, employers and colleges in the hospitality sector have recognised that while colleges have high progression rates into industry (98% of those leaving East Kent College's hospitality and catering courses go into the sector), retention in Kent is lower, and employer engagement in supporting ongoing career and skills development has historically been weak. This has potentially negative consequences for Kent's important tourism industry and for our skills base.

So work is underway with employers in the hospitality sector, further education providers and Kent County Council to develop a **Hospitality and Catering Guild** – an employer-led body setting out sector skill needs, informing the curriculum and agreeing quality standards for ongoing skills development and employer participation.

Potentially, this could serve as a model for other sectors, and we will explore as part of our Growth Deal with Government how it could be supported.

people are able to train and re-train as their careers change. There is potentially a strong sector-based approach to workforce development, as investment in the skills base helps the overall growth of Kent and Medway's key sectors. However, there is often a disincentive for employers to invest in training: costs to SMEs may be high (in time lost as well as direct financial outlay), and although there may be a long term benefit to the sector or the wider economy, that gain may not be captured by the individual employer.

Building on the thinking embedded within the Guild Model described opposite, we could develop an approach which seeks to incentivise greater employer leadership in workforce training, focused on key sectors or key competencies (such as leadership and management skills) identified by the Kent and Medway Employment, Learning and Skills Board.

This could involve the creation of a training fund to support employers in working directly with providers (in the public or private sectors) to develop training for staff where this will demonstrably support business growth and the wider economy.

Solutions: Supporting workforce development

Solution 35: Workforce Development Fund

Based on our key sector and business needs, we will investigate the potential for a Kent and Medway Workforce Development Fund to promote business growth and overcome market failures in workforce training.

This could also potentially include provision for key skills (literacy, numeracy, etc.) for adults, within the context of employer demand and opportunities.

4. Increasing access to the labour market

Unemployment is starting to fall. But in parts of Kent and Medway, too many people remain distant from the world of work. Across the county, over 100,000 people are in receipt of out-of-work benefits. This is more than 10% of the working age population, a proportion which rises to over 17% in Thanet, and which is much higher in several coastal and urban communities.

Improving access to the labour market, especially in areas of concentrated disadvantage, is a long standing policy objective – and a number of interventions are yielding success, such as the Employ Medway brokerage service and the Kent Employment Programme, which offers financial incentives to employers to take on new recruits.

However, worklessness is often 'sticky': as the economy returns to growth, cyclical unemployment falls fairly quickly, but those who are furthest away from the labour market continue to find it hard to engage, especially where they face multiple challenges to accessing employment and a benefits system which continues to penalise those who take on temporary or insecure employment and risk losing entitlements as a result. At the same time, we know that the adverse consequences of benefit reform (set out in the section on coastal renewal on page x) are serving to *increase* aggregate numbers of benefit-dependent households in Margate and other coastal towns – making the situation worse.

The national benefits system is complex and hard to change. But there is much that can be done locally to link people with economic opportunity and to make the system work more effectively.

Potentially, we could take a four-pronged approach:

- Firstly, **increasing demand** for workers at risk of unemployment and worklessness by incentivising employers to take on new staff – both through measures that reduce the complexity of the recruitment process and through financial incentive packages. This is likely to be of additional value in areas where the labour market is weak.

- Secondly, **better targeting skills and employment support** at people who are excluded, or who are at risk of being excluded, from the labour market. This could include adding value to the Work Programme by engaging the services of a wider range of providers in the voluntary and community sector (as well as the private and public sectors) and improving direct provision at local level.

- Thirdly, **improving physical access** to employment opportunities, recognising the spatial mismatch between areas of job growth and areas of concentrated economic inactivity, and the limits to the extent to which this mismatch can be overcome in the short to medium term.

- Fourthly, linking actions to increase labour market exclusion at local level with **wider community development** interventions – for example, the local housing market interventions described in the coastal renewal section and the Troubled Families initiative.

This approach could be partly funded through the European Social Fund, which already supports a range of activities delivered by the voluntary, private and public sectors. Within the Government's proposals for the use of European funding after 2014, the **Skills Funding Agency** has put forward an 'opt-in' proposal, which will link an element of ESF funding with an element of the funds that we will have available through the Single Local Growth Fund. The SFA has a strong track record in effectively commissioning and monitoring ESF-funded projects, so we will explore with the SFA how we can put together a commissioning plan for labour market access, potentially including the following solutions:

Solutions: Labour market access

Solution 36: Making recruitment easy
The Employ Medway scheme has demonstrated that a system of job brokerage which provides employers with a pipeline of candidates and helps jobseekers become employment ready can help to reconcile supply and demand for those at risk of labour market exclusion. We will consider how this model could be extended further.

Solution 37: Focusing on young people in the labour market
We could seek to extend the current Kent Employment Programme to offer a wider range of opportunities to drive demand for young people in the workforce – for example, adding to the current financial incentives for employers taking on apprentices with a further incentive package for employers offering temporary work placements for unemployed young people.

Solution 38: Better integrated skills and employment support
Through the new ESF programme, we could seek to focus on more localised solutions in targeted outreach locations, including linked with wider community support, and we will consider how this can translate into the new commissioning plan for Kent and Medway.

Solution 39: Transport solutions
Access to employment is frequently a barrier, especially in rural parts of the county. Subsidised public transport and pooled scooter/ car hire schemes on the 'wheels to work' model can be effective, and we will explore the potential of developing these further in Kent and Medway.

MOVING FORWARD

This document is a starting point in defining our asks and investment priorities as part of a new Kent and Medway Growth Deal. Over the next few months, we will need to clarify these further as we develop the new version of *Unlocking the Potential* and link this with the South East LEP's Strategic Economic Plan.

Comments and discussion

This paper is intended as a discussion document by members of Kent and Medway Economic Partnership and the wider local government and business community.

At this stage, it would be helpful to get a broad consensus on the asks and priorities. In particular:

- Does the high level narrative feel right? Does it broadly reflect Kent and Medway's priorities?
- Are there any areas missing that we should be focusing on?
- Are there any specific suggested solutions that could be discounted at this stage – and are there any on which there should be a particularly strong focus?
- Are there any other potential solutions that should be included?

Next steps

Following debate at the Kent and Medway Economic Partnership, there are (broadly) four strands of activity that need to take place in parallel:

- **Developing the Kent and Medway strategy**, through *Unlocking the Potential* – setting out the bigger picture for the county in the context of our broader opportunities, challenges and aspirations;

- **Developing the detail of our asks and investment proposals**, so that we have a credible 'growth deal' proposition to put to Government. As well as setting out the case for investment from the Single Local Growth Fund and European funding, this will also need to outline those areas in which we want to secure additional freedoms and flexibilities – which might potentially be more important than the financial allocations.

  We have made a start in this document in outlining some of these potential asks and priorities. But we do not yet know whether all of our proposals are viable or whether they would all deliver the consequences we would want to see. So substantial further work needs to be done against each of them to ensure that our eventual proposals are solid.

- **Linking our proposals with the Local Enterprise Partnership.** Although the South East LEP will operate on a devolved basis, with core functions residing at Kent and Medway level, the LEP needs to submit a coherent Strategic Economic Plan to Government, setting out a joint approach for Kent and Medway, Essex and East Sussex.

  We will therefore need to feed our emerging asks and priorities into the joint strategy that is currently being prepared. The LEP needs to submit a draft strategy (still at fairly high level) by 19 December, so we will need to influence that, and further work will continue at LEP level into the New Year until the final Strategic Economic Plan is produced in March/ April.

- **Developing commissioning arrangements**. It is anticipated that the Kent and Medway Economic Partnership will act as the key commissioning body for funding that is channelled via the LEP. The details of this are likely to be resolved at the next LEP Board, and the draft Kent and Medway 'bill of rights' sets out a potential basis for this devolution of responsibility.

  Based on this, it is likely that we will need to develop a commissioning plan or equivalent in the New Year, setting out the arrangements for working with any of the 'opt-in' deals proposed as part of the European funding package and outlining how we will bring programmes and projects forward.

Bringing the strategy together

The diagram below illustrates how the strategy for Kent and Medway should come together in the context of the LEP and the Strategic Economic Plan…