

# Growth, productivity, accountability: Strong relationships, new solutions

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## **Kent and Medway's prospectus for devolution**

**Initial draft for consideration by Kent and Medway Leaders**

**June 2016**

**A note on the discussion draft**

This document is the first draft of a devolution prospectus for Kent and Medway, for discussion by Leaders on 27 June. It sets out proposals for devolved powers from Government, building on the Leaders' discussions in May and in the context of the work already underway to support more responsive and better integrated joint working across local government in Kent and Medway. It also outlines proposals for strengthened governance.

This devolution prospectus seeks to be ambitious and specific to Kent and Medway's opportunities and challenges. So while we have reviewed the content of Devolution Agreements that have been concluded in other parts of the country, we have not adopted them wholesale: the prospectus reflects local conditions, not a national template.

However, there may be areas where the draft could be more ambitious or innovative – or realistic. Throughout the document, we have highlighted specific questions for comment and discussion.

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## Summary: Strong relationships, new solutions

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This is Kent and Medway's prospectus for a new devolution agreement with Government. It seeks to unlock our ambitious levels of growth, develop our skills to become increasingly productive and competitive in the global economy and better manage the opportunities and challenges of neighbouring the UK's only global city. It sets out our proposed solutions and the arrangements we will put in place to deliver them, building on strong local partnerships.

### Strong relationships

Devolution is about strong relationships, where local responsibility, trust and accountability drive better decisions and better outcomes. Our devolution agreement will drive stronger relationships across local government, with business, with Whitehall and with our neighbours:

**A strong relationship with Government:** We do not seek the transfer of powers and functions for the sake of it. Nor do we want a devolution agreement that is a carbon copy of one prepared for a different place at a different time. Instead, we want to forge a new, strategic, mutually beneficial and locally-specific relationship with central Government, where nationally and locally we contribute to shared objectives. Where we do seek the transfer of powers or functions, we will do so on the basis of clear, evidence-based business cases setting out our capacity and capability to deliver.

**A strong relationship between councils in Kent and Medway:** We are proud of our local government structures in Kent and Medway. Working together, there is much that we have achieved. We will build on this, strengthening joint services in our sub-county areas in North, West and East Kent and decentralising where decisions can best be taken locally. Through our proposed Kent and Medway Devolved Powers Board, we will strengthen governance, where devolution will drive greater joint decision-making and shared accountability.

**A strong relationship with business:** Our devolution proposals will support growth and greater productivity. But it is our 58,000 businesses, most of them SMEs, that will employ, train, trade, make and invest – the activities that drive the economy. We have a long-standing partnership between business and local government both at strategic and local level, and there is a strong role for Kent and Medway Economic Partnership in our proposals.

**A strong relationship with London and the South East:** Kent and Medway is a clearly-defined historic, political and economic unit. But our links with London are vitally important, and will become more so as the capital expands. Our position as the gateway to continental Europe as well as part of the growing Greater South East also presents us with unique challenges as well as opportunities. Through our proposals, will strengthen our links with our neighbours.

## New solutions

The success of devolution will be measured by the tangible benefits it offers for our residents and businesses. So within this prospectus, we propose a series of measures which will deliver better coordinated government, more innovative financing solutions and greater responsiveness to local need. Focused on the three drivers of growth – infrastructure, skills and innovation – we have set out 21 proposals for discussion with Government:

### New solutions for housing and infrastructure

- To ensure a more strategic approach to development and the infrastructure it requires, we seek to prepare a **Statutory Spatial Plan for Kent and Medway**, to be unanimously agreed by Kent and Medway’s planning authorities and building on the Growth and Infrastructure Framework (Measure HI1, page 25)
- To support the development of the Spatial Framework and to provide oversight and coordination of agencies with a role in development (including the HCA and the Environment Agency), we seek to establish a **Housing, Planning and Infrastructure Commission**, independently chaired and with Government participation (Measure HI2, page 25)
- To build better coordination across London and the South East, we will support a new **strategic transport partnership for the South East and a Standing Conference on Growth in the South East or similar body**, provided that these include the participation of the Greater London Authority and Government (Measure HI3, page 26)
- To increase capacity within Local Planning Authorities to more effectively support major applications, we seek Government support for **regulatory change to devolve the setting of planning fees** to the Kent and Medway Devolved Powers Board, subject to a target-linked commitment to reduce administrative costs (Measure HI4, page 27)
- To create a simpler and more efficient approach to local infrastructure funding, we seek a **new deal on the use of the Local Growth Fund**. This would consist of a block allocation of funds to Kent and Medway based on the proportion of England’s housing growth we will deliver, linked with a housing delivery target and future allocations dependent on performance (Measure HI5, page 27)
- To consider mechanisms to bridge the longer term infrastructure funding gap, we recommend the establishment of a **Greater Thames Estuary Infrastructure Finance Review**, with the involvement of the Infrastructure Commission (Measure HI6, page 28)
- To improve the quality and use of our public transport network in the context of growth, we will **carry out a review of the case for bus franchising**, with a view to seeking franchising powers and we will continue to work with the Department for Transport to influence the specification for the new South-Eastern rail franchise and with DfT and Transport for London for Southeastern Metro services (Measure HI7, page 29)
- To ensure the resilience of Kent and Medway’s major local routes in the context of increasing use, we will explore the potential for designation of a **Key Route Network**

with the potential to share maintenance budgets with Highways England (Measure HI8, page 30)

#### New solutions for employment and skills

- To increase the employer voice in planning future skills provision, and to enable future devolution of commissioning powers, we will secure **more formal status for the Kent and Medway Skills Commission** (Measure ES1, page 33).
- Following the formalisation of the Skills Commission and in the light of the outcomes of the forthcoming Area Review of further education, we will seek **devolution of commissioning powers over 16-19 funding**, with commissioning powers to be transferred to the Kent and Medway Devolved Powers Board (Measure ES2a, page 34).
- Using the same mechanism, we seek **devolution of the Adult Skills Budget**, recognising the need to deliver greater value from a diminished overall budget (Measure ES2b, page 34).
- To ensure that the **Adult Education Budget** is responsive to local economic need, we will explore with Government the potential for the allocation of the AEB as a block grant as part of our devolution agreement (Measure ES2c, page 35).
- Depending on future funding and linked with the enhanced role of the Skills Commission, we will ensure the full devolution of any future **Skills Capital funding** to Kent and Medway, so that it can be allocated in accordance with a clear strategic plan (Measure ES2d, page 35).
- We will ensure that the new **Advanced Learner Loan facility** is effectively marketed for qualifications where there is an economic demand and we will explore with Government the potential for additional subsidy for borrowers in areas within deprived communities where there is evidence of low take-up (Measure ES3, page 35).
- To ensure that careers services are better coordinated and better linked to local business intelligence, we seek devolution of the funding for the **Careers Enterprise Company** in the short term and the integration of all other publicly-funded careers services over the longer term (Measure ES4, page 35).
- To enable greater flexibility and better targeting towards priority sectors or clear skills shortages, we seek **devolution of the Apprenticeship Grant for Employers**, linked with our wider business support programme (Measure ES5, page 36).
- To support more people back into work – especially those furthest from the labour market – we will use our strong employer links to co-design the delivery of the new **Work and Health Programme** when it starts to come into effect from 2017 (Measure ES6, page 36)

#### New solutions for innovation and growth

- Building on the success of our Regional Growth Fund programmes, we will **consolidate our direct business finance schemes into a Kent and Medway Business Finance programme**. We will explore with Government the extent to which this could consolidate

a range of other funds operated by the British Business Bank and other Government agencies (Measure IG1, page 39).

- We will integrate our finance programmes with our wider business support offer. Following this, we seek **direct Government funding and recognition of the Kent and Medway Growth Hub** and we will seek a direct discussion with BIS to determine how national programmes can be most effectively linked (Measure IG2, page 40).
- We will **strengthen university links with the local economy** and we seek Government support for a more integrated system for coordinating the support offered by universities to innovative SMEs (Measure IG3, page 40).
- To support growth in specific locations, we will consider the case – and seek Government support – for **new Enterprise Zone designations** where there is a clear sector focus and potential for high-value business growth (Measure IG4, page 40).
- To make the most effective use of available funding, we will seek a **fresh conversation with Government regarding the management of the European Structural and Investment Funds** (Measure IG5, page 41).

### **Clear targets**

We will measure the success of the proposals set out in this prospectus through two clear, long term targets for growth and productivity:

- We will deliver **planned growth of 158,500 net additional homes** over the 2011-31 period. This will mean a step change in delivery: to meet the target, we must deliver 8,391 homes each year for the remainder of the period – substantially in excess of historic rates of delivery.
- We will **increase Kent and Medway's productivity to the UK average** by 2031. This will mean that we will need to significantly change our growth trajectory, delivering productivity growth greater than that of the UK as a whole.

These targets are ambitious. They will only be achieved if we unlock the infrastructure, skills and innovative capacity that the measures set out in this prospectus seek to achieve. But we believe they are attainable – indeed, we must achieve them if we are to make our full contribution to national growth.

We believe that this prospectus sets out a programme for devolution that is ambitious, pragmatic and focused on growth. We welcome the views of Government and we look forward to building a strong partnership for delivery.



# 1. Context: Opportunities and challenges

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This prospectus sets out our ambition for a new relationship between central and local government in Kent and Medway to accelerate housing and employment growth, create a more productive economy and ensure greater accountability to our citizens.

Starting from an analysis of the challenges and opportunities facing Kent and Medway over the next 10-20 years, it outlines our shared local strategy. It presents a series of proposals for devolved powers and better joint working with national Government and a new model for clearer, more accountable governance.

Devolution is a long term endeavour and building new relationships takes time. However, the gain from the greater productivity and efficiency that devolution could yield is significant. We invite Government to join us on this journey.

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## 1.1. A new approach to local leadership

1.1.1. It is now widely acknowledged that England is one of the developed world's most centralised countries. Setting out the new Government's approach in May 2015, the Chancellor of the Exchequer resolved to change this:

*"We all know that the old model of trying to run everything in our country from the centre of London is broken. It's led to an unbalanced economy. It's made people feel remote from the decisions that affect their lives. It's not good for our prosperity or for our democracy.*

*[So] today I can tell you we will go much further and deliver radical devolution to the great cities of England... It is time for you to take control of your own affairs."<sup>1</sup>*

1.1.2. Since then, individually negotiated 'devolution agreements' have been concluded with eight city regions. This approach has also been extended to areas outside the major cities, with an agreement concluded with Cornwall and further agreements being progressed with Greater Lincolnshire, East Anglia and Cambridgeshire and Peterborough. Each agreement sets out how they could achieve better economic and public service outcomes if provided with devolved powers to effect change. However, each agreement is also unique, reflecting the specific priorities and circumstances of the area.

1.1.3. Over time, it is likely that devolution agreements will expand, as they demonstrate success and local arrangements become established. So specific, individual deals

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<sup>1</sup> George Osborne, 14 May 2015

could lead to a longer term change towards a mutually beneficial relationship between central and local government.

## 1. 2. Kent and Medway's strategy: Five key principles

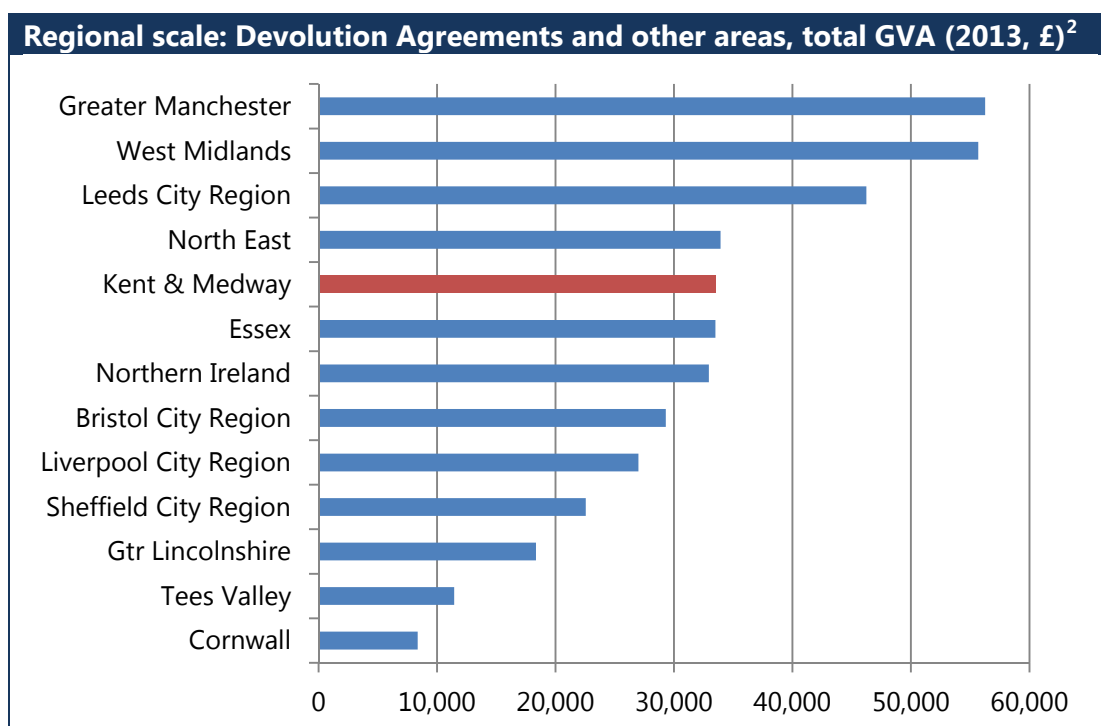
- 1.2.1. In Kent and Medway, we welcome the Government's offer. We believe that devolution presents significant opportunities for accelerating economic growth and reforming public services. We are pragmatic: we seek better outcomes for our businesses and residents, not powers and governance changes for their own sake. This prospectus therefore sets out our proposals for devolution, within the context of a strategic approach based on five key principles:

### Kent and Medway's five key principles

1. Kent and Medway is the right geography on which a devolution agreement should be based...
2. Local leadership and decentralisation to Kent's districts and sub-county areas are integral to our proposals...
3. We will work better together with Greater London and the rest of the South East, recognising our symbiotic economic relationship and the impact of and opportunities for growth.
4. Our proposals are based on a clear analysis and understanding of the specific opportunities and challenges that Kent and Medway face...
5. We take a pragmatic approach to governance, ensuring that the form of governance follows the practical functions that we seek to devolve or change.

*Principle 1: Kent and Medway is the right geography on which a devolution agreement should be based*

- 1.2.2. Credible proposals for devolution are based on coherent, stable geographies that align with public services and economic reality. In addition to its strong historic identity, there are three reasons why it is clear that Kent and Medway provides the most appropriate geography for devolution and strategic joint working.
- 1.2.3. First, with a population of over 1.7 million, **Kent and Medway is comparable in size with the major city regions** with which the Government has already concluded devolution agreements. With GVA of around £35.9 billion, the Kent and Medway economy is in fact somewhat larger than that of the Liverpool, Sheffield and Bristol city regions. Since it is growing faster than all of these cities and faster than the UK as a whole, it will over time account for a greater share of the national population.



- 1.2.4. Second, the established Kent and Medway geography is a **'functional economic area'**. While commuter flows to London are high (and London is of vital importance to the Kent economy), the local labour market is relatively self-contained within the county, as are the travel-to-learn areas of our further education providers. Kent and Medway's peninsular geography provides a logical framework for considering strategic transport: the county contains all road and rail infrastructure south-east of London and is largely coterminous with the South East rail franchise area.
- 1.2.5. Third, the Kent and Medway geography also **aligns with the boundaries for a range of public services and partnership bodies**. There is an established history of joint working between its 14 local authorities (Kent County Council, Medway Council and 12 District authorities). The office of the Police and Crime Commissioner and the Kent Fire and Rescue Authority both operate to the Kent and Medway boundary, while the Kent and Medway Economic Partnership (effectively the county's LEP) brings business and local government together to take a strategic, county-wide view. Within the complex health economy, a single Sustainability and Transformation Plan for health and social care integration is being developed.

<sup>2</sup> ONS, NUTS2/3

*Principle 2: Local leadership and decentralisation within Kent and Medway are an integral part of our devolution proposals*

- 1.2.6. Kent and Medway is a coherent, stable geography – but it is also inherently complex and diverse. There is no single, dominant centre, and the county’s administrative, educational, cultural and economic infrastructure is distributed across its main towns and cities. Economic opportunity and the capacity and viability for growth vary substantially and our communities range from the urban and industrial to the deeply rural and coastal.
- 1.2.7. This presents us with a challenge that is different, and in some ways greater, than that presented to the city regions. In particular, it means that our strategy for economic growth and public service reform must be responsive to local dynamics as well as operating at scale, taking into account the opportunities and challenges highlighted opposite. **So, integrated with our proposals for devolution from central Government to Kent and Medway is a commitment to build stronger, more decentralised relationships at sub-county and local level.** This commitment will also make many of the measures set out in this prospectus more deliverable, allowing initiatives to progress at sub-county level, where there is local support and ambition.
- 1.2.8. There are already established partnerships in West Kent, North Kent and East Kent, involving the local authorities as well as other partners. These partnerships will be central to delivering the measures set out in this prospectus. Work is underway to establish where services can be shared across partners or devolved from county to sub-county or local level, where they can be made more responsive and deliver savings to the public purse. This work is integral to our plans for devolution and service transformation and is reflected in our proposals.

*Principle 3: Our devolution proposals take account of growth in the wider South East*

- 1.2.9. Kent and Medway is a sensible geography for devolution, but clearly it does not sit in isolation from the rest of the South East. London has always been vital to the county’s economy as a source of demand for goods and services and as an essential labour market; with Greater London’s rapid expansion as Britain’s only world city, the opportunities for (and growth pressures on) Kent and Medway will continue to grow. At the same time, Kent and Medway clearly benefits from the infrastructure of the Greater South East (such as the airports at Heathrow, Gatwick and Stansted) and the wider strategic transport network, just as the rest of the country benefits from Kent’s position as a gateway to continental Europe.

North Kent	
Dartford, Gravesham, Maidstone, Medway, Swale Population: 784,000; New homes, 2011-31: 74,800	
<b>Opportunities</b> <ul style="list-style-type: none"> <li>• Government priority for investment in the Thames Estuary</li> <li>• Major infrastructure investment, including Ebbsfleet International and high speed rail</li> <li>• Proximity to London and London infrastructure</li> <li>• University investment at Medway</li> <li>• Strong manufacturing base</li> </ul>	<b>Challenges</b> <ul style="list-style-type: none"> <li>• High costs associated with brownfield development impact on viability</li> <li>• Relatively weak productivity and workforce skills base compared with other London growth corridors</li> <li>• Strategic transport constraints along A2/M2 corridor and associated with Dartford Crossing</li> <li>• Significant concentrations of deprivation</li> </ul>
East Kent	
Ashford, Canterbury, Dover, Shepway, Thanet Population: 641,900; New homes, 2011-31: 60,100	
<b>Opportunities</b> <ul style="list-style-type: none"> <li>• Greatly improved access following HS1</li> <li>• Nationally-significant university presence at Canterbury</li> <li>• Presence in growth sectors, including at Discovery Park</li> <li>• Land for development, with local ambition to bring forward</li> <li>• Investment in coastal regeneration</li> <li>• Nationally-important port infrastructure</li> </ul>	<b>Challenges</b> <ul style="list-style-type: none"> <li>• Comparatively small business base and productivity challenges</li> <li>• Major developments faced with viability challenges</li> <li>• Significant coastal deprivation challenges</li> <li>• Pressure from high freight volumes as Port and Eurotunnel use expands</li> <li>• Continuing – although changing – perceptions of peripherality</li> </ul>
West Kent	
Sevenoaks, Tonbridge and Malling, Tunbridge Wells Population: 358,342; new homes, 2011-31: 22,800	
<b>Opportunities</b> <ul style="list-style-type: none"> <li>• Dynamic business stock, particularly in growth sectors</li> <li>• Proximity to London</li> <li>• Relatively high levels of GVA and disposable income</li> <li>• Buoyant housing/ development market</li> <li>• Attractive investment location</li> </ul>	<b>Challenges</b> <ul style="list-style-type: none"> <li>• Clear environmental limits to growth (including metropolitan Green Belt and flood risk)</li> <li>• Constrained infrastructure</li> <li>• Relatively high house prices and tight labour market</li> </ul>

1.2.10. There is no conflict between devolution to city and county-regions and a wider strategic view: in the North of England, Manchester, Liverpool, Leeds and Sheffield work together as part of the 'Northern Powerhouse' to progress actions that can best be delivered at strategic regional level, without compromising their own autonomy or identity. As part of our devolution proposals, **we will continue to work closely with the Greater London Authority and with councils and partnerships surrounding London** to ensure that the growth of the South East is sustainable and managed, and that Kent and Medway benefits from it.

*Principle 4: Our devolution and integration proposals are based on a clear analysis of Kent and Medway's opportunities and challenges*

1.2.11. In Kent and Medway, **we only seek additional powers and flexibilities to the extent that they will lead to public service and economic benefits**. So, reflecting the Government's intention that devolution agreements should be individually negotiated and bespoke to local conditions, we have started with an analysis of the challenges and opportunities that we face, and considered what we need to change in order to address them. A summary of our challenges and opportunities is set out in the next section, with a full analysis contained within a separate Evidence Base.

1.2.12. In some cases, we can already effect change locally: where this is the case, we are doing so. However, where devolved powers are required or stronger partnerships must be built with central Government and its agencies, we have set out the case.

*Principle 5: Our form of governance follows from our proposals for change*

1.2.13. Our proposals for devolution follow on from our analysis of what we need to achieve. It therefore makes sense that our approach to delivery is based on how we can most effectively bring forward these proposals.

1.2.14. It is obvious that a simple strategic governance model is more challenging to achieve in a multi-centred county across 14 local authorities with different powers than it is across half a dozen metropolitan boroughs that have already shared metro-wide functions for the past thirty years – so we will not concentrate on governance at the expense of delivery. As part of our proposals, we will therefore take a **pragmatic approach to governance arrangements**, ensuring that form follows function and that we remain open to future change.

### Questions for discussion

The principles outlined above aim to link devolution to Kent and Medway and decentralisation and better joint working *within* Kent and Medway. They also set out an approach that argues for a specific and unique deal for Kent and Medway and a distinct local governance model. Do you agree with these principles and do they reflect a fair starting point for discussion? Should any be added or deleted?

## 1.3. Opportunities and challenges

1.3.1. Looking ahead to the next 15-20 years, the following paragraphs consider the major opportunities and challenges that Kent and Medway will face – and which our proposals for devolution and partnership reform must address. We have identified three key areas of opportunity and challenge:

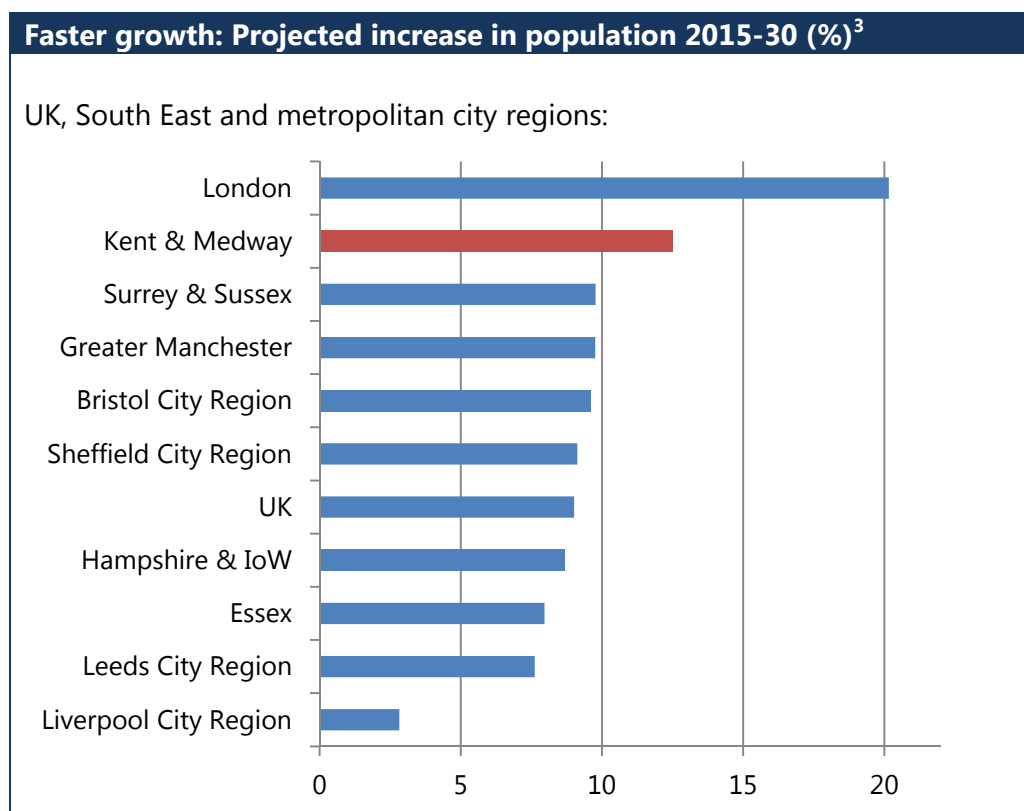
- **Growth:** Managing, supporting and maximising the potential of a growing and changing population;
- **Productivity:** Creating an increasingly productive, innovative and skilled economy;
- **Efficiency:** Delivering better social outcomes at constant or reduced cost to the taxpayer

### *Growth*

1.3.2. **Kent and Medway is growing rapidly.** Over the period to 2031, our population is expected to rise by 293,000. This is an increase of 17% –equivalent to the current population of Medway and substantially greater than the rate of increase in most other parts of the country. Much of this above-average growth will be driven by significant in-migration, especially from London as the capital's dynamic economy continues to create employment opportunities but limited housing – and rapidly rising house prices – increase demand in neighbouring counties. In the decade to 2011, Kent and Medway saw net in-migration of about 110,000 people from London: given continuing economic growth set against London's fairly poor record in delivering new and affordable housing, this trend is likely to continue. As in the rest of the country, our population is also ageing: by 2031, 18% of the county's population will be aged over 70, compared with 13% today.

1.3.3. **We have a strong understanding of the drivers and constraints on growth.** Last year, we commissioned the Kent and Medway **Growth and Infrastructure Framework**, setting out infrastructure requirements to support planned growth across Kent and Medway, the costs associated with this and the likely funding gap,

taking into account anticipated developer contributions, public funding and commercial delivery. Shaped and endorsed by all the local authorities in Kent and Medway, the Growth and Infrastructure Framework provides a strong strategic evidence base to support local planning and priorities.



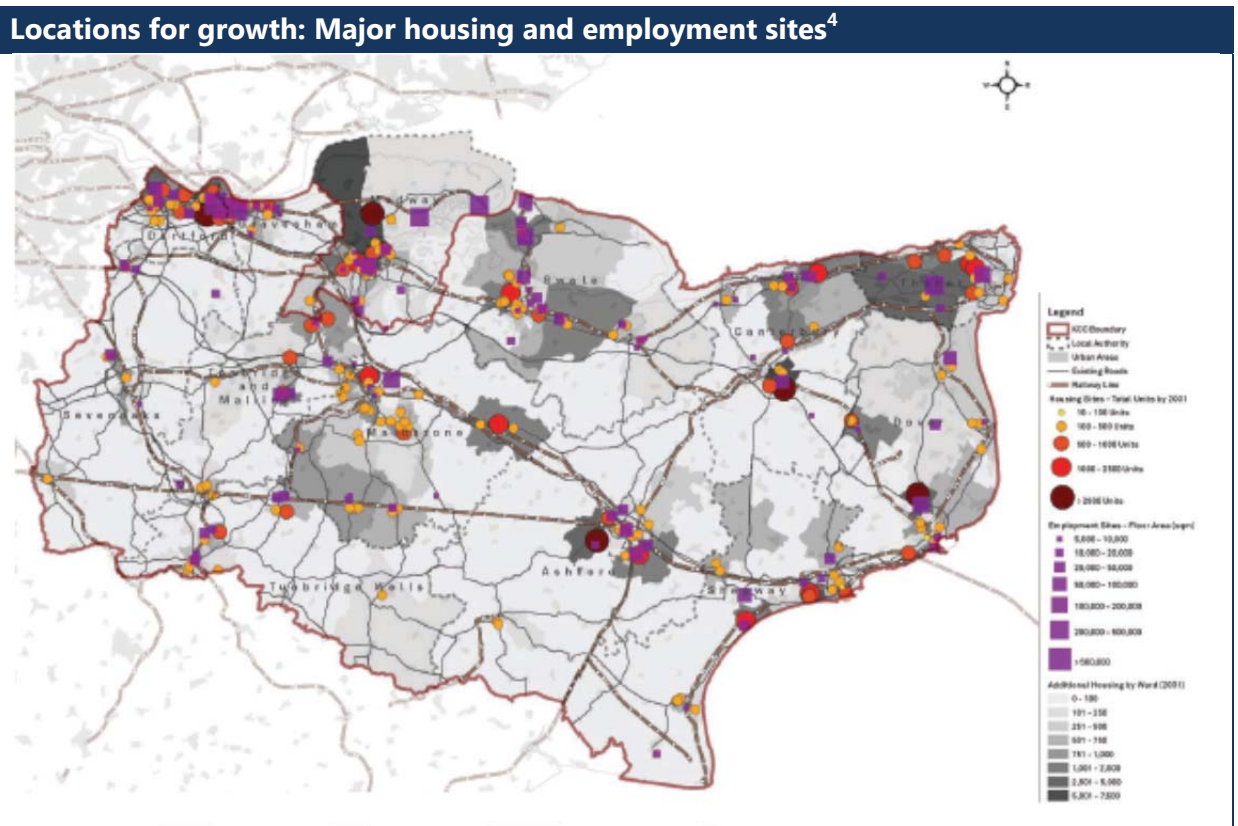
1.3.3. The Growth and Infrastructure Framework demonstrates the opportunities that growth creates for Kent and Medway. Obviously, the county benefits from London employment: over 100,000 people in Kent and Medway currently commute to the capital, while overall employment in London is expected to rise by 41,000 jobs a year over the next twenty years. Our scope to benefit from these has been reinforced through new infrastructure, with High Speed One bringing towns and cities such as Folkestone and Canterbury to within an hour of central London and opening up new potential on the Kent coast. With many Kent and Medway businesses serving markets across London and the South East, a growing population is a significant business opportunity.

1.3.4. We therefore welcome growth - and we recognise that Kent and Medway is vital to the wider growth of the South East. The development of a new Garden City at

<sup>3</sup> Eurostat (2016), Main scenario demographic balances for NUTS2 regions. These projections are comparable across regions; they differ from the GIF projections, and are more conservative.



Ebbsfleet and the recent proposals for a Garden Town at Otterpool near Folkestone both present opportunities for housing and employment growth of national significance, complementing growth within the county's established towns and cities.



- 1.3.5. However, if we are to achieve our potential, there are challenges that we must overcome, and which we will seek to address through our devolution and integration proposals:
- 1.3.6. First, **delivery is hampered by high infrastructure and environmental costs which compromise viability**. Generally, the greater the distance from London, the greater the infrastructure funding gap – so while there is capacity for growth, viability is often very challenging, especially in parts of East and North Kent. The Growth and Infrastructure Framework identified a total funding gap of £2.01 billion to 2031 (equivalent to £118 million per year, excluding the costs of the new Lower Thames Crossing), which will need to be bridged if planned levels of growth are to be delivered.
- 1.3.7. Second, **traffic volumes on our road network are rising**, driven by population growth and increased local demand and by high freight volumes due to Kent's position as the gateway to Europe – so maintenance costs rise and the opportunity

<sup>4</sup> Kent County Council (2015), Growth and Infrastructure Framework. **Insert better map for final version**

for new development to come forward in the absence of significant new investment is limited. However, although the scale of growth in Kent and Medway is substantially greater than that which will be experienced in most city regions, **our mechanisms for strategic planning and co-ordination are limited** (both within Kent and Medway and in liaison with neighbouring authorities across the South East) and limited capital funding sources (such as the Local Growth Fund) are centrally controlled, uncertain and allocated on a project-by-project basis, rather than strategically.

- 1.3.8. Third, as well as increased demand on all services through aggregate population growth, demand for social care and health services is rising rapidly as our **population ages**. This will reinforce our programme of further integration of the health and social care system, building on the Kent and Medway Sustainability and Transformation Plan currently being developed.

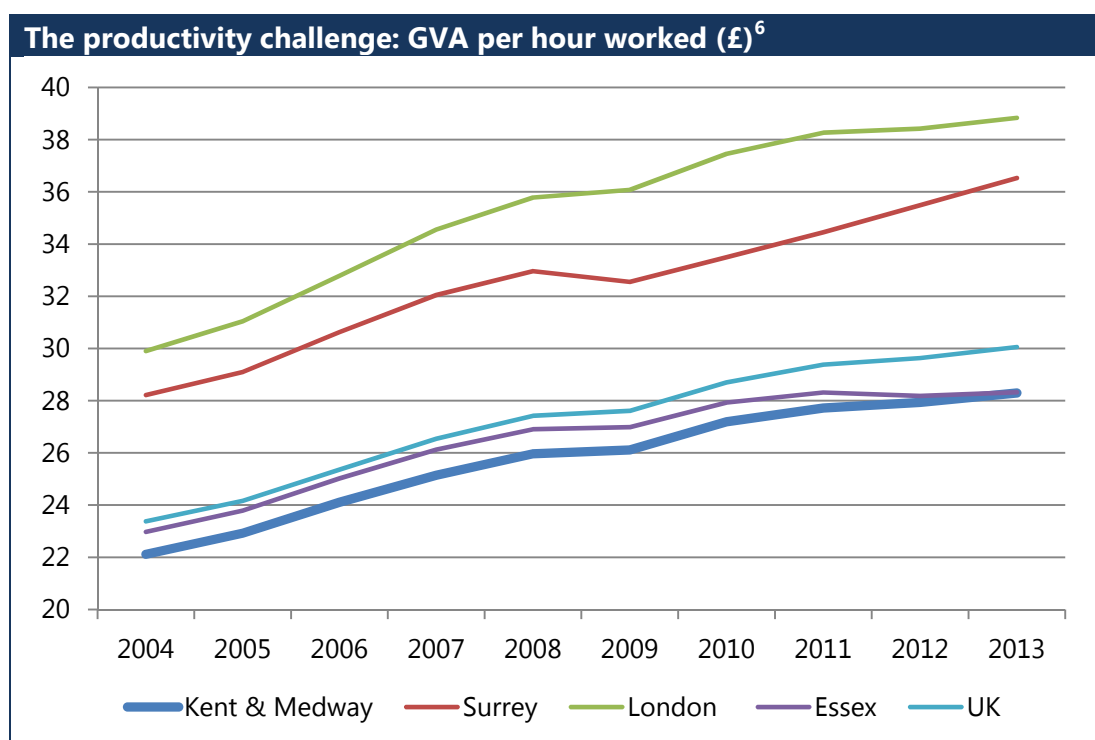
#### *Productivity*

- 1.3.9. The Kent economy faces a productivity challenge. This is both a national and a local issue. Despite rising employment and a growing economy, the UK's output per hour worked lags behind that of our major competitors. Bridging this gap is vital to our national prosperity: if Britain were to increase its productivity to that of the United States, we would raise GDP by around £21,000 for every household<sup>5</sup>.
- 1.3.10. In Kent and Medway, we have a double challenge. **Productivity remains persistently below the national average** and the gap has widened over the past decade. While to some extent this reflects the 'London effect' as people commute to higher value jobs, the gap cannot be explained entirely by this: commuting levels are similarly high in Surrey and other counties to the west of London, but labour productivity is significantly higher. More likely, Kent and Medway's productivity gap reflects a history of relatively low-value employment and an associated skills base.
- 1.3.11. If we are to raise the productivity of the UK overall, **we need to deliver a significant productivity improvement in Kent and Medway**. This is challenging, but linked with our ambitious growth aspirations, it is achievable. With over 58,000 businesses – 89% of which employ fewer than ten people – Kent and Medway has a strong, resilient and diverse business base which is set to grow as our population increases. Over the past decade, **our economy has become increasingly innovative**, with the proportion of the workforce employed in the 'knowledge economy' growing at twice the national rate. Better technology, combined with proximity to London and faster transport connections is supporting the growth of new sectors and business models, strengthening the county's attractiveness as an investment location. So we aim to

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<sup>5</sup> HM Treasury (2015), *Fixing the Foundations: Creating a more prosperous nation*

drive productivity improvements through a series of local programmes linked to the national economic agenda.



1.3.12. There is much that can be done locally to drive further improvements. Infrastructure improvements will reduce time delays and increase efficiency. A stronger voice for local employers and for economic evidence in the commissioning of skills provision will help to create a more productive workforce. And a more efficient way of integrating the often confusing range of government-backed business support programmes should help firms to innovate and grow.

#### *Efficiency*

1.3.13. The local authorities in Kent and Medway have an excellent record in improving efficiency through shared services and more effective commissioning. Since 2010/11, the 14 local authorities have made combined savings worth £x, at the same time as responding to rising demand pressures.

1.3.14. However, we will need to go further. Overall public expenditure will continue to fall as a percentage of overall GDP until 2020 and this will continue to impact local government finances, even as locally-generated income rises as a proportion of total local government revenue. Over time, the public sector is likely to become smaller relative to the private sector within the UK economy.

<sup>6</sup> ONS

1.3.15. This will mean that we will need to be more creative in our proposals for delivering the services and funding the infrastructure that our growing communities need, building on the principles of decentralisation within Kent and Medway set out earlier in this paper.

#### **1.4. Long term goals and targets**

1.4.1. Linked with our clear focus on growth and productivity, we have adopted two long term targets for the next fifteen years.

1.4.2. First, **we will accelerate housing delivery to meet planned levels of growth**. As set out above, we are ambitious for growth: we have sites available and in many cases consent granted that will see Kent and Medway outpace every neighbouring county and every city region outside London.

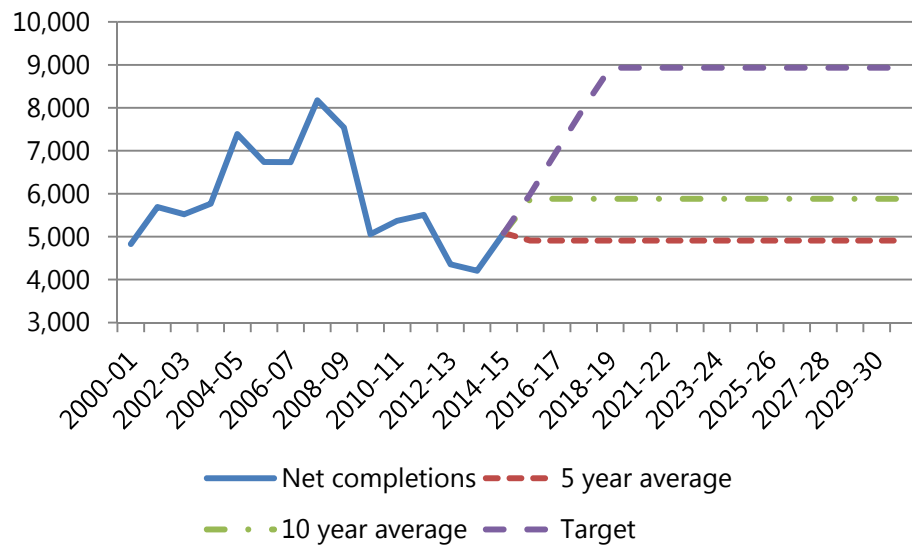
1.4.3. To meet these targets, we must deliver an average of 8,391 homes per year for the remainder of the period. But annual average rates of delivery fall significantly short of this, for the reasons explained above. So through the measures set out in this prospectus, we will aim to achieve the target set out in the Growth and Infrastructure Framework of 158,500 new homes between 2011 and 2031.

1.4.4. Second, **we will increase our productivity to the UK average by 2031**. As our analysis above sets out, Kent and Medway has for decades been comparatively unproductive. We must use the opportunity of growth to reverse this, building on faster connections, better use of technology and stronger skills to drive greater output.

1.4.5. Reaching this target will mean a step change in direction: if we continue at our current rate of productivity growth, the gap between Kent and Medway and the rest of the UK will get even wider. So we must start to outperform national growth: reaching the 2031 target will mean a 3.1% annual increase in GVA per hour worked.

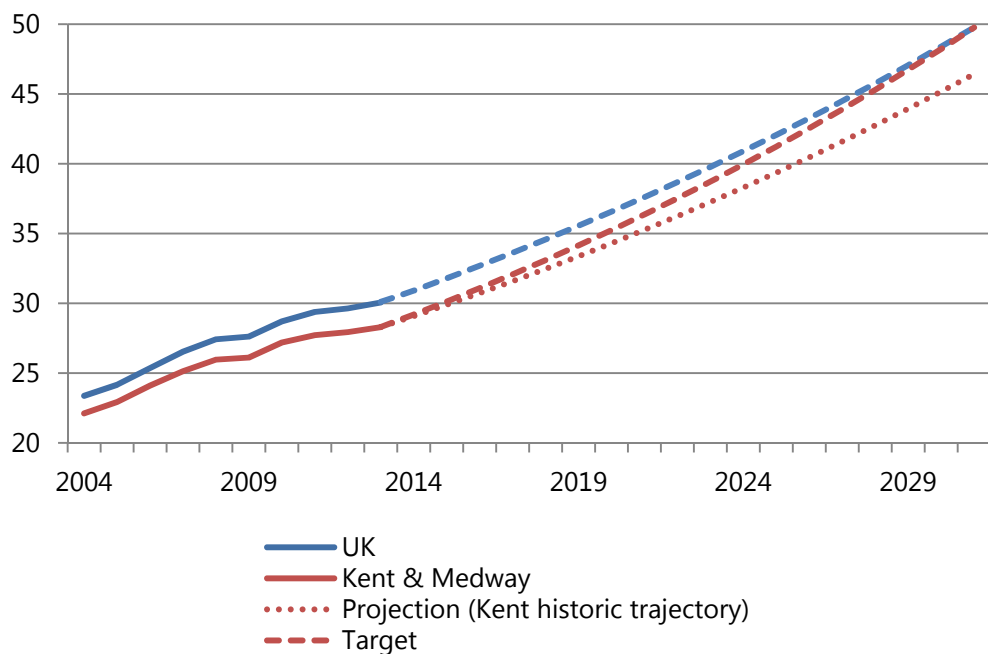
**Target 1: We will deliver planned housing growth by 2031**

Actual net completions and forward projections based on historic delivery and target<sup>7</sup>



**Target 2: We will reach UK levels of productivity by 2031**

Actual and projected productivity (nominal GVA per hour worked, £)<sup>8</sup>



<sup>7</sup> Growth and Infrastructure Framework; KCC/ Medway Council, Housing Information Audit

<sup>8</sup> ONS. Subnational productivity (August 2015). Projections based on historic trajectory.

## **1.5. Informing our programme of change**

- 1.5.1. Not all our challenges will be resolved through devolution. But building on the analysis of opportunities and challenges set out above, the next section sets out solutions that will help us to accelerate growth and raise productivity.

### **Questions for discussion**

The analysis above summarises the main challenges and opportunities that Kent and Medway faces, and to which the proposed solutions in the next chapter respond.

Has the analysis adequately reflected our main challenges and opportunities?  
Should any other issues be highlighted at this stage?

Are the long-term targets (for growth and productivity) the right ones? Should we be setting any more detailed targets?

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## 2. Solutions: Our programme for change

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Building on the opportunities and challenges we have identified, this chapter sets out our proposed solutions, focused on:

- Housing and infrastructure: Accelerating growth
  - Skills: Developing a skilled, productive workforce
  - Innovation and growth: Supporting higher value, growing businesses
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### 2.1. Housing and infrastructure: Accelerating growth

#### The case for change

- 2.1.1. Over the next fifteen years, around 159,000 new homes will need to be delivered in Kent and Medway to satisfy anticipated demand – and it is vital that these are accompanied by the right strategic and community infrastructure. However, as the previous section outlined, much of the infrastructure needed to support growth is currently unaffordable, with an estimated £118 million annual funding gap across Kent and Medway over the period to 2031.
- 2.1.2. This funding shortfall does not fall evenly across Kent and Medway. In parts of the county – especially the west – environmental constraints rightly limit the scope for new development: where sites are available, viability is generally high. But in East and parts of North Kent, where capacity is greater, unusually high infrastructure costs and lower land values frequently make development unviable, even though local authorities are ambitious for growth and planning permission is in place. We therefore have a perverse situation: where we have the capacity for new development and where growth would yield the greatest local economic benefits, it is often the most difficult to bring forward.
- 2.1.3. Overcoming this perverse situation is essential if Kent and Medway is to contribute to the recognised need for new housing in the South East. However, while the county contains some of Britain's most important development sites, we currently lack the tools for effective strategic planning.

#### What we have done already

- 2.1.4. We have started to fill the strategic infrastructure planning gap. The Growth and Infrastructure Framework published last year is now the most comprehensive

strategic infrastructure plan in the South East outside London, setting out the total infrastructure required to meet planned growth – taking into account nationally-funded infrastructure such as health and strategic transport, as well as local services. As the Growth and Infrastructure Framework develops, it will result in a clear set of priorities across Local Planning Authorities and infrastructure providers, helping us to future-proof major projects to avoid infrastructure constraints and support us in identifying and prioritising demands for new public investment.

- 2.1.5. We have also been successful in accessing new infrastructure support from the Local Growth Fund – around £149 million through the first two rounds. However, the scale of the Fund is limited in comparison with the identified infrastructure need and the requirement to bid on a project-by-project basis to central Government militates against a strategic approach. So while we have an excellent understanding of our infrastructure demands and costs, we lack access to the funding levers we need to deliver.

#### Proposed solutions

- 2.1.6. We do not expect Government to fully bridge the infrastructure funding gap. But we can help to provide greater certainty for developers, local authorities and infrastructure providers through a stronger strategic framework, a more predictable, targeted approach to public funding and innovative measures to increase the resources available to local authorities, where this will result in improved delivery.
- 2.1.7. We seek to achieve this through the following measures:

#### **Planning**

- HI1: A statutory Spatial Framework for Kent and Medway
- HI2: A Kent and Medway Housing, Planning and Infrastructure Commission
- HI3: A new relationship with London and the wider South East
- HI4: Stronger planning resourcing

#### **Finance**

- HI5: A new approach to consolidated and devolved infrastructure funding
- HI6: New approaches to long term infrastructure financing

#### **Transport**

- HI7: A better integrated public transport network
- HI8: Linking the strategic and local networks



***HI1: A statutory Spatial Framework for Kent and Medway***

- 2.1.8. The Growth and Infrastructure Framework provides a starting point for a more strategic approach to development across Kent and Medway – and it has been developed with Local Planning Authorities and infrastructure providers.
- 2.1.9. We seek to build on the success of the GIF and the Kent and Medway housing and environment strategies by developing a more comprehensive Spatial Framework, setting out overall strategic housing and employment targets for Kent and Medway built up from sub-county and district level, encouraging co-operation between local authorities and providing greater certainty.
- 2.1.10. The Spatial Framework will be unanimously agreed by Kent and Medway's Local Planning Authorities and approved by the Kent and Medway Devolved Powers Board (see Section 3) in consultation with the Housing and Planning Commission described below. We envisage an iterative approach to the production of the Spatial Framework: initially, it is anticipated that it will be a non-statutory document prepared as a further development of the Growth and Infrastructure Framework, which is currently being refreshed. However, over time and depending on the evolution of devolved governance arrangements for Kent and Medway, we anticipate eventual statutory status.

***HI2: A Kent and Medway Housing, Planning and Infrastructure Commission***

- 2.1.11. To support the development of the Spatial Framework and to provide greater coordination and oversight of those public bodies with a role in housing and spatial development, we will establish a Housing, Planning and Infrastructure Commission (HPIC), reporting to the KMDPB.
- 2.1.12. It is envisaged that the Housing, Planning and Infrastructure Commission will operate within the established sub-county structures for North Kent, West Kent and East Kent, reflecting the strong local authority planning cooperation within these areas and their distinct growth and development contexts. It is anticipated that the Commission will be independently chaired and will include representation from the Homes and Communities Agency and the Environment Agency (and potentially Highways England, Network Rail and utilities providers) as well as the local authorities, with associate consultative representation from Kent Developers Group. It will:
- Oversee the development of the Spatial Framework (and future iterations of the Kent and Medway Housing Strategy and similar documents) on behalf of the KMDPB;
  - Monitor and influence the investment plans of the HCA, Environment Agency and other central Government bodies where these impact on growth;

- Encourage greater access to specific Government funds to unlock development (such as the loan products managed by the HCA) and advise on strategic priorities;
- Develop proposals for the better shared management of public sector land, building on the success of the One Public Estate initiative and developing proposals to ensure that capital gained from the release of central and local government land to facilitate housing and commercial growth is reinvested into local infrastructure delivery;
- Consider the business case for new special-purpose vehicles (such as Local Development Corporations) to respond to local development priorities.

2.1.13. No devolved powers are required from Government to establish the HPIC, and we already have a good relationship with the HCA and Environment Agency on which we can build. However, we would welcome Government support for the establishment of the HPIC and Government direction to its agencies to operate within the oversight of the Commission.

***HI3: A new relationship with London and the wider South East***

- 2.1.14. In a densely populated area with efficient transport links and one of the world's great cities on our doorstep, planning for the future must take account of growth across the wider South East. For many years, our relationship with our neighbours has been piecemeal: the former South East Government Office region excluded London and the non-Kent parts of the Thames Gateway; the existing South East LEP covers only one part of the region and has no spatial planning mandate anyway. In the past, large regional bodies such as the Government Office and RDA were also unfocused, bureaucratic and expensive. We need a sharper, more flexible mechanism to work with our neighbours on matters of strategic concern.
- 2.1.15. Current legislation prevents Greater London from being part of a Sub-national Transport Board. However, a more coordinated approach, considering the relationship between London's growth and that of the rest of the South East, would be helpful. Given the size of the Greater South East region and the range of interests involved, it is unlikely that this will come forward without Government mandate.
- 2.1.16. Work is underway to consider a new strategic transport partnership for the South East, with the involvement of Transport for London and the Department for Transport, as well as authorities in Kent and Medway and beyond. This is welcome and we encourage Government support for this, either as an STB (subject to legislative change) or as an informal structure. We would also welcome participation in a Standing Conference on Growth in the Greater South East, or similar body, where this involves the participation of the Greater London Authority and has active Government support and involvement.

### Making the most of the Thames Estuary 2050 Growth Commission

Earlier this year, the Chancellor of the Exchequer announced the establishment of a new Thames Estuary 2050 Growth Commission, under the chairmanship of Lord Heseltine. The Commission brings together senior Government ministers with a number of leading figures from the worlds of development, planning, design and finance to examine the long term potential of the Thames Estuary, stretching from London Docklands as far as Thanet.

The development and regeneration of the Thames Estuary is the largest single growth opportunity in the Greater South East. So in Kent and Medway, we welcome the Commission's establishment. As the Commission begins its work, we urge the Government to ensure that it takes into consideration the significant infrastructure challenges that hold back the Estuary's potential and to consider the solutions that we have identified both in this document and in the evidence that we have submitted directly to the Commission.

#### ***HI4: Stronger planning resourcing***

- 2.1.17. Given the scale of growth with which they have to deal, Local Planning Authorities in Kent and Medway are under considerable pressure, with resource constraints compounded by the proximity of London and the buoyant market for planning professionals in the private sector. However, the charges that local authorities may impose on developers are fixed nationally – meaning that in some cases, the taxpayer effectively subsidises much of developers' planning costs.
- 2.1.18. Subject to a target-linked commitment to further reduce administrative costs through shared services, and subject to consultation, we seek Government support for to amend the Town and Country Planning (Fees for Applications, Deemed Applications, Requests and Site Visits) Regulations to **devolve the setting of planning fees in Kent and Medway to the KMDPB**, on the advice of the Housing, Planning and Infrastructure Commission, in order to increase capacity to more effectively support major applications.

#### ***HI5: A new approach to consolidated and devolved infrastructure funding***

- 2.1.19. At a time of constrained public expenditure, we do not anticipate an increase in aggregate Government capital investment. But a smarter, better coordinated approach could help to provide better value for central Government funds.
- 2.1.20. The current primary source of discretionary Government funding to unlock infrastructure is the Local Growth Fund. Overall, this is a significant fund, worth over £2 billion per year nationally. However, the system for accessing it encourages non-

strategic bidding and requires officials in Whitehall to assess multiple small-scale capital schemes, the impacts of which are entirely local.

2.1.21. We seek a **new deal on the use of the Local Growth Fund** in Kent and Medway. With our infrastructure priorities outlined in the Growth and Infrastructure Framework (and in the future in the new Spatial Framework), and with a Housing, Planning and Infrastructure Commission established to take a strategic view, we seek a block allocation of LGF funds to Kent and Medway based on the proportion of England's overall housing growth that the county will deliver. To incentivise delivery and to ensure that LGF funds are allocated to the most effective projects, our allocation would be linked to a housing delivery target attributable to the block grant, with future years' allocations dependent on performance. This will simplify the management of the Fund and remove the need for central Government to spend resources approving individual projects.

2.1.22. Linked with the devolution of the Local Growth Fund, we also wish to explore with Government the potential for regulatory change to enable us to integrate the use of developer contributions with our enhanced approach to strategic planning – enabling **Community Infrastructure Levy payments to be pooled within Kent and Medway's three sub-county areas**, where this will lead to housing growth. We wish to begin a dialogue with Government to consider how regulatory changes may be brought forward, recognising the size of the county and the significant imbalance between capacity and viability of growth.

***HI6: New approaches to longer-term infrastructure financing***

2.1.23. However, while these reforms offer a starting point, they will not address the major, long term infrastructure challenges that we face. So in parallel with relatively straightforward measures to increase the efficiency of the Local Growth Fund and the use of developer contributions, we seek a broader conversation with Government on longer term infrastructure financing.

2.1.24. Many of our greatest challenges – and our most significant growth locations – are situated in the Thames Estuary. We therefore recommend the establishment, with Government of a **Greater Thames Estuary Infrastructure Finance Review**, working with our partners elsewhere in the Estuary to consider the options for the future financing of infrastructure across the greater Thames Estuary area, including the A2/M2 and M20/A20 corridors as far as Dover. This would build on work already carried out locally to consider the potential for:

- Reinvestment of part of the proceeds of tolling on the Lower Thames Crossing to support future infrastructure improvements on the A2/M2 Corridor;
- Partial hypothecation charges for foreign HGVs entering the UK via Kent, compensating for the abnormal pressure on the county's road network;

- Tax increment financing, linked to the hypothecation of an element of stamp duty raised through the sale of new homes, where this will support advance delivery of new infrastructure;
  - The potential for Treasury-backed local authority bonds to encourage investment in transport infrastructure improvements;
  - Reinvestment of HCA capital receipts through the disposal of regeneration sites.
- ... as well as other infrastructure financing options

2.1.25. This approach would be consistent with the remit set by HM Treasury to the Infrastructure Commission in respect of the Cambridge-Milton Keynes-Oxford corridor. This states that *“the Commission should evaluate options for funding and financing in a way that minimises the taxpayer burden and ensures that those who benefit the most bear a fair share of the cost”*, sequential to an analysis of priority infrastructure<sup>9</sup>.

2.1.26. The future development of the Thames Estuary and the infrastructure associated with it is nationally significant, so it is vital that the Infrastructure Finance Review proceeds with active Government support. We will therefore seek Treasury support for a leading role for the Infrastructure Commission in taking forward the Infrastructure Finance Review, following the precedent in the Cambridge-Milton Keynes-Oxford Corridor. We recommend that the Review is prepared alongside the work of the Thames Estuary 2050 Growth Commission, with the aim of preparing a final statement by the Autumn Statement in 2017.

***HI7: Better integrated public transport***

2.1.27. Growth will bring increased commuting and increased pressure on our public transport network. This will mean a need for additional infrastructure, and we have set out in above our proposals for a better deal for infrastructure financing. In addition, we also seek to improve the operation of our public transport network. We are already influencing the specification for the new South-Eastern rail franchise which will run from July 2018; as part of this we are pursuing options for smart ticketing and other improvements. We are also working closely with Transport for London and DfT as they develop proposals for control by TfL over Southeastern Metro services from the new franchise period; through the proposals set out in Measure HI3, we will seek to develop a stronger relationship with TfL and the Greater London Authority that will support this.

2.1.28. Currently, Kent and Medway has a fully deregulated bus system. However, while this is effective in some parts of the county, users frequently report slow and complex journeys and the requirement for subsidy on some routes has become unsustainable.

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<sup>9</sup> HM Treasury (March 2016), A plan for unlocking growth, housing and jobs in the Cambridge-Milton Keynes-Oxford Corridor: Terms of reference

Linked with our growth agenda, we want to ensure that bus services are better coordinated, simpler to use and more attractive to a wider range of customers. We have already demonstrated through the Fastrack system in Dartford and Gravesham the effectiveness of a franchising model that provides for better control and planning.

- 2.1.29. The Bus Services Bill currently going through Parliament will enable ‘franchising authorities’ (in our case Kent County Council and Medway Council) to introduce a franchising scheme for all or part of their area, subject to the approval of the Secretary of State for Transport, where there is a strong local track record and an appropriate economic geography. **We will carry out a review of the case for bus franchising** taking into account the different service requirements of different parts of Kent and Medway. In preparing this, we will consult with Department for Transport officials in order to inform our case to the Secretary of State.

***HI8: Linking the strategic and local networks***

- 2.1.30. Kent and Medway’s strategic road network is of vital national significance and increasingly heavily used as cross-Channel freight increases at the same time as local growth accelerates. Government support for the new Lower Thames Crossing highlights this strategic significance.
- 2.1.31. Rapidly rising pressure on the strategic network has consequences for the local highways network as well. In particular, routes such as the A229 and A249 connect major urban centres and are critical links in joining the A2/M2 and M20 corridors, while the A299 forms the main strategic link to the Thanet conurbation. However, the resources available to maintain these essential connections fall significantly short of those available to Highways England for the strategic network.
- 2.1.32. We will explore the potential for the designation of a number of major highways as part of a **Key Route Network** with the potential to share maintenance budgets with Highways England where pressures on major local roads have the potential to impact the strategic network.

**Questions for discussion**

The focus of this section is on developing a more strategic approach to planning, with the aim of accelerating growth. How do you see a Spatial Framework for Kent and Medway working in practice? Would it have the effect of providing greater certainty and clarity – and how should it be developed to ensure that this is the case?

How should a Housing, Planning and Infrastructure Commission relate to the three sub-county partnerships?

The proposed devolution of infrastructure funding suggests a transfer of responsibility for allocation from the Kent and Medway Economic Partnership to the new Kent and Medway Devolved Powers Board, as described in Section 3. Do you agree with this?

The draft proposed an infrastructure finance review, recognising Government's lack of support to date for fiscal devolution and the nationally significant infrastructure gaps we need to bridge. Do you agree with this approach? If not, what should be explicitly asking for at this stage? Currently, the proposal is drafted as relating to the Thames Estuary, recognising the Government's priority for this area: is this right, or should we be asking for this to cover the whole of Kent and Medway?



## 2.2. Employment and skills: Developing a skilled, productive workforce

### The case for change

- 2.2.1. In Kent and Medway, there is much that has been achieved in recent years. We have a strong further education sector and improving attainment rates and we have launched shared, county-wide strategies for both young people and adults. Yet the skills system is often dysfunctional: employers find it hard to have a clear voice, funding regimes are poorly coordinated and perverse incentives within the system mean that young people frequently lack the right information about the opportunities that are available to them. This means that potential is too often wasted and productivity is often compromised: employers cite skills constraints as among the biggest barriers to growth.

### What we have done already

- 2.2.2. Labour and training markets are generally local, so it makes sense that efforts in driving improvements in skills provision should be locally led, with strong business involvement.
- 2.2.3. In Kent and Medway, we have established a new model to give employers a more central role in articulating economic demand. We have established a series of '**guilds**', sector-based, employer led forums working with providers to develop new pathways to learning and employment. There are currently seven guilds established and up and running, with the most recent – covering health and social care – focused on breaking down the barriers to individuals seeking to work across the two sectors.
- 2.2.4. Across the county, we have also established an independently-chaired **Kent and Medway Skills Commission**, with a business majority drawn from the membership of the guilds. Combining the practical employer voice with the robust labour market intelligence set out in the Kent and Medway **Workforce Skills Evidence Base**, the Skills Commission aims to set out what the economy needs and works with providers to focus on how these needs can be met within a demand-led system.

### Proposed solutions

- 2.2.5. Businesses are committed to making the Skills Commission work. Engagement is high and practical learner pathways have been developed. But without substantive commissioning powers and a mechanism to control disparate funding streams, there is only so far we can go in reorienting the skills system to the needs of the economy.



2.2.6. Later this year, the Government will carry out an **Area Review** of further education provision in Kent and Medway, as part of a national review programme, with a view to streamlining provision and supporting responsiveness to local economic need. In those areas with devolution agreements in place, there is a central role for the Combined Authority or equivalent body in leading the review process. Kent and Medway will not be in a position to take on this role at the point at which the Area Review is carried out; however, building on the establishment of the Skills Commission and following the outcomes of the Area Review, we propose the following measures to establish greater coordination of the local skills system:

ES1: Formal status for the Kent and Medway Skills Commission

ES2: Funding devolution:

a) 16-19 funding

b) Adult Skills Budget

c) Adult Education Budget

d) Skills Capital funding

ES3: Flexibility within the Advanced Learner Loan facility

ES4: Local coordination of careers services

ES5: Supporting employers in recruiting apprentices

ES6: Joint design of the Work and Health Programme

***ES1: Formal status for the Kent and Medway Skills Commission***

2.2.6. At present, the Kent and Medway Skills Commission is an entirely voluntary arrangement: it has no formal status or permanent secretariat. While it has a reporting line to Kent and Medway Economic Partnership, KMEP is itself an informal body. This limits the extent to which the Commission can operate as a planning body and act as a vehicle for devolved powers.

2.2.7. We will establish the Skills Commission on a stronger, more formal footing. In addition to its existing reporting line to Kent and Medway Economic Partnership, we will establish the Commission as a sub-group of the new Kent and Medway Devolved Powers Board (KMDPB), described in Chapter 3 and constituted in the first instance as a local authority joint committee. The Commission will be supported by the joint KMDPB secretariat, with an independent chair appointed through a public appointments process. Alongside this more formalised status – and as the role of the Commission increases – we will seek to expand employer involvement (including employers in the public and voluntary as well as the commercial sectors), both on the Commission itself and via the Guilds.

2.2.8. While we do not require any Government approval for the Skills Commission to be formally constituted in this way, we would welcome Government recognition of the KMDPB and Skills Commission as vehicles for devolution.

***ES2: Funding devolution***

2.2.9. The Skills Funding Agency and the Education Funding Agency currently administer a range of funding streams which support vocational and basic skills. We believe that where learners and providers are mainly locally based and where there is (or should be) a strong link between provision and employer demand, these funding streams should be devolved where possible so that they are responsive and coordinated. In the first instance, we seek the devolution of the 16-19, Adult Skills and Adult Education budgets so that they can be locally commissioned. Depending on the success of devolved commissioning, we may wish to explore the potential for removing un-ringfencing specific funding streams to create a Single Kent and Medway Skills Budget.

*a) Devolution of 16-19 funding*

2.2.10. Following the formalisation of the Skills Commission, we will seek devolution of commissioning powers over 16-19 funding.

2.2.11. Currently, colleges, schools, academies and other providers receive annual 16-19 funding allocations directly from the Education Funding Agency. These are based on a funding formula that takes account of student numbers, adjusted for subject and area costs. But the EFA, as a national agency, has no ability to consider local economic demand in its funding allocations: it runs a formula-based process, not an economy-based one.

2.2.12. In the past, local authorities have managed the process of 16-19 commissioning – so we know that a locally-managed system is viable. However, we recognise that a strong business voice is vital in the commissioning process. So we therefore seek commissioning powers to be transferred to the new KMDPB (or its successor bodies as appropriate), to be exercised in the light of the outcomes of the Area Review via the Skills Commission. We envisage that the KMDPB would receive an annual EFA allocation at least equivalent to the total allocation otherwise available to Kent and Medway, with the authority to commission according to local economic demand within that amount.

*b) Devolution of the Adult Skills Budget*

2.2.13. The Adult Skills Budget is administered by the Skills Funding Agency and supports learning provision primarily for people aged 19-23 undertaking Level 1 and 2 English and maths and vocational courses. Agreements concluded elsewhere in the country have included devolution of the Adult Skills Budget; in Kent and Medway, this would be welcome as it would enable the use of the budget to be commissioned through the same mechanism as proposed above for 16-19 funding, taking into account local economic demand and specific community needs. It should be noted that the Adult Skills Budget has been significantly reduced recently and is likely to diminish further

over the next few years: greater local coordination through a commissioning plan for the reduced pot of funding could help to deliver greater value.

*c) Devolution of the Adult Education Budget*

2.2.14. The new Adult Education Budget combines budgets for Community Learning, discretionary learner support and non-apprenticeship adult further education. It is the Government's intention to ensure that the use of the AEB is linked with local economic need and that it is focused on provision which cannot otherwise be paid for by employers and learners. We share these objectives.

2.2.15. Within this context, the Government has already indicated a willingness to make the AEB available via block grant as part of devolution agreements, where local partners can enter into local delivery agreements. As part of our proposed devolved funding package, we will seek to enter into such an agreement.

*d) More effective use of future Skills Capital funding*

2.2.16. It is unclear at present whether there will be any more Skills Capital funding allocated as a ringfenced sum within the Local Growth Fund. However, as part of our integrated approach, we seek devolution of any funding to the Skills Commission, where it can be allocated in accordance with a Kent and Medway skills strategy.

2.2.17. We do not require any agreement from Government to effect this change. Skills Capital funding is already devolved to Local Enterprise Partnerships, so we will ensure a direct transfer to control via the Skills Commission and the KMDPB under the federated arrangements that exist for the South East LEP.

***ES3: Flexibility within the Advanced Learner Loan facility***

2.2.18. Advanced Learner Loans are administered by the Skills Funding Agency and Student Finance England and are available to learners aged 24 and over to undertake courses leading to Level 3 and 4 qualifications.

2.2.19. There is no case for devolution of the loan facility, since it is clearly more efficient to run a volume loans system nationally. However, there is a role for the Kent and Medway Skills Commission in working with businesses and providers to ensure that loan availability is effectively marketed (and potentially subsidised by the private sector) for qualifications for which there is a recognised local economic demand. We also seek to explore with Government the potential for additional subsidy, funded from within the loan facility, for borrowers within deprived communities (such as in coastal East Kent) where there is evidence of low take-up.

***ES4: Local coordination of careers services***

2.2.20. The provision of careers information, advice and guidance is piecemeal and confusing. In addition to services provided by the National Careers Service, the

nationally-funded Careers Enterprise Service seeks separately to promote employer engagement with schools, while Jobcentre Plus also now has a remit to deliver careers advice services. This is overly complicated.

2.2.21. It is obvious that the task of linking local schools with local employers to provide information about local career opportunities should be managed locally. In Kent and Medway, the Skills Commission and the sector-based guilds also provide a mechanism to ensure greater employer involvement.

2.2.22. In the short term, when the contract for the Careers Enterprise Company comes to an end, we seek the devolution of the funding associated with it to Kent and Medway so that an alternative service can be commissioned locally. Over time, we will seek to integrate this with local commissioning of other nationally-funded careers services (such as those provided by Jobcentre Plus), so that we achieve a fully joined-up Kent and Medway careers platform.

***ES5: Supporting employers in recruiting apprentices***

2.2.23. The Apprenticeship Grant for Employers supports businesses to recruit people aged 16-24 through the apprenticeship programme, where they would not otherwise be able to do so. While the grant is offered nationally, it has been devolved in some areas, offering greater flexibility on eligibility requirements.

2.2.24. This greater flexibility would be welcome in Kent and Medway. It would enable the Skills Commission to focus access to the grant on small employers within priority sectors or working in activities where there is evidence of high skills demand. By linking the administration of the grant with our other grant and loan programmes for business, we will also be able to incorporate the Apprenticeship Grant within the integrated business support programme described in more detail below.

***ES6: Joint design of the Work and Health Programme***

2.2.25. A strong understanding of the local economy and strong links with local employers provide an opportunity to build a more integrated approach to helping people back into work.

2.2.26. The 2015 Spending Review announced the creation of a new Work and Health Programme (WHP) to support claimants with health conditions or disabilities and those unemployed for over two years back into work. This will replace the current Work Programme and Work Choice in 2017. Overall, the budget for the WHP is likely to be smaller than that for the predecessor programmes – but there is an opportunity with the launch of the new programme to create better local integration and relevance.

2.2.27. The Department for Work and Pensions has expressed a willingness to work closely with local areas, and co-design or co-commissioning arrangements have already been agreed as part of a number of Devolution Agreements. Building on these, we will seek **co-design of the Work and Health Programme by DWP and the KMDPB**. Through this arrangement, we envisage that within a funding envelope, the KMDPB will:

- Set out local outcomes that the WHP should deliver, in addition to core employment outcomes;
- Agree, with DWP, the contracting geography, taking account of the sub-county economic areas and determine tender evaluation together with DWP;
- Seek to join up public services – in particular in the Health sector – to improve outcomes.

#### **Questions for discussion**

Together, the proposals outlined above seek to consolidate a range of vocational and basic skills funding streams into a better coordinated, devolved package which is more responsive to employer demand. They also outline a stronger role for the Skills Commission, linked with a governance model described in greater detail in the next chapter.

Is the focus of our employment and skills proposals right? Are there other areas where we should be seeking devolved powers or funding? Do you agree with the increased formalisation of and proposed broader role for the Skills Commission?

## 2.3. Innovation and growth: Supporting higher value, growing businesses

### The case for change

- 2.3.1. Kent and Medway enjoys a strong and diverse business base. With the national economy growing, businesses report improved trading conditions, are optimistic about the prospects for growth and will benefit from the new infrastructure investment and development taking place in the county. However, as the previous chapter illustrated, productivity in Kent and Medway lags behind that of the rest of the South East: in part, this is due to skills and infrastructure challenges, but it also reflects capacity and resource constraints which limit businesses' ability to invest and expand.
- 2.3.2. The Government has streamlined the national support offer available to businesses, but the landscape remains complex and is often characterised by competing publicly-funded programmes. Building on our successful record in delivering support to business, we aim to deliver a better coordinated, integrated business support system.

### What we have done already

- 2.3.3. Across Kent and Medway, we have a strong record in delivering programmes to directly support business, driven by a long-established partnership between the public and private sectors. Since 2012, **we have delivered England's largest Regional Growth Fund programme**, investing £55 million in Kent and Medway businesses through loans and equity investments. To date, we have created almost 3,000 jobs and levered £xx million in private investment, and later this year we will start to reinvest as the original loan capital is repaid.
- 2.3.4. Since 2011, **we have delivered England's most successful Enterprise Zone**, at Discovery Park near Sandwich. Five years ago, this world-class pharmaceutical research facility was threatened with closure and blighted by flood risk. Today, it is in private ownership, hosting over 2,400 jobs in xx companies with plans for further expansion. Building on this success, the **North Kent Innovation Zone** brings EZ status to key growth locations at Ebbsfleet Garden City, Rochester Airport Technology Park and Kent Medical Campus at Maidstone.
- 2.3.5. We have focused resources on **key sectors with the potential for growth**. Building on the success of Discovery Park Enterprise Zone, we have offered targeted export support and seedcorn funding to life science businesses; we continue to back industry-led programmes to develop Kent's food sector and we support tourism in Kent through place marketing and product development.

- 2.3.6. We also offer **one of the country's most comprehensive inward investment services** through Locate in Kent, which since 201x has helped to attract xx,000 jobs into the county. We are in the process of developing this service by integrating it further with our wider business support offer.

Proposed solutions

- 2.3.7. Our aim over the coming year is to move beyond the efficient delivery of specific, separately managed support programmes, so that we start to deliver an integrated business support service, bringing together national and local products, sharing data to better serve the customer and targeting services based on better quality evidence.
- 2.3.8. We seek to deliver this through the following measures, the majority of which we will bring forward without the need for further powers from Government:

- IG1: Consolidating and developing our finance programmes
- IG2: Integrating our finance programmes with the wider support offer
- IG3: Strengthening university links
- IG4: Creating new Enterprise Zones
- IG5: Improving the effectiveness of European funding

***IG1: Consolidating and developing our finance programmes***

- 2.3.9. Following the success of Kent and Medway's Regional Growth Fund programmes, we have commissioned a comprehensive review of business demand and economic opportunity to ensure that as funds are reinvested, the programme is most effectively targeted. This will report in the summer, enabling a relaunched Kent Business Finance programme to open later in the year.
- 2.3.10. The new Kent Business Finance programme could offer a vehicle to simplify, consolidate and better target a range of other funds currently offered by Government, including loan products offered via the British Business Bank and Innovate UK and residual funds held by the South East LEP. We have already started discussions with the British Business Bank regarding the potential for greater joint working. Building on this and following our economic need and demand review, we will seek to discuss with Government the opportunity for the consolidation of additional funds within Kent Business Finance, linked with a clear investment strategy responsive to local economic need

**IG2: Integrating our finance programmes with the wider support offer**

- 2.3.11. There is a strong case for offering publicly-backed support to innovative SMEs – but as a recent Government review pointed out:

*“There seems to be a plethora of organisations charged with providing advice to businesses, especially SMEs.... If there is a logic behind the distribution of responsibilities across these organisations, it is not evident to the uninitiated, and the overwhelming impression is that the complexity of the landscape acts as a barrier and inhibitor for smaller businesses wishing to access support.”<sup>10</sup>*

- 2.2.11. We can't afford duplication and inefficiency. So this year, following a pilot project, we are re-commissioning the Kent and Medway Growth Hub, with a view to integrating it with our finance products and the support services that are offered by the universities and other partners. Linked with this, we seek a conversation at strategic level directly between BIS and Kent and Medway to determine how we can most effectively link national programmes with the locally integrated service that we are establishing. This should include formal recognition of the Kent and Medway Growth Hub by BIS, accompanied by direct funding.

**IG3: Strengthening university links with the local economy**

- 2.3.12. Universities are important drivers of innovation – and the four Kent and Medway universities do have strong employer links. However, with an economy overwhelmingly dominated by SMEs, we have a limited ability to generate business-university innovation partnerships on the scale of those found in areas with larger anchor businesses.
- 2.2.13. So we need to find new solutions that will enable local universities to respond more easily to business demand and enable SMEs to better access university expertise. Working with the higher education sector and building on the establishment of the innovative Engineering, Design, Growth and Enterprise (EDGE) facility at Canterbury and Medway, we will work with our higher education institutions to seek Government support for a more integrated system for coordinating the support offered to SMEs by universities, linked with support offered via Innovate UK, Kent and Medway's network of innovation centres and the Kent and Medway Growth Hub.

**IG4: Creating new Enterprise Zones**

- 2.3.14. Enterprise Zones are cost-effective and simple solutions to support growth in specific locations. In Kent and Medway, we have focused our Zones on specific sectors, such as life sciences at Discovery Park, medtech at Kent Medical Campus and engineering at Rochester Airport Technology Park, ensuring that we minimise displacement.

<sup>10</sup> BIS (2015), Dowling Review of University-Business Research Collaborations, p.63



2.3.15. Building on this approach, we will consider the case – and seek Government support where appropriate - for further Enterprise Zone designations where there is a clear sector focus, potential for high-value business growth and a business case demonstrating that the initial costs associated with business rates growth will be recouped through overall rates growth.

***IG5: Improving the delivery of European funding***

2.3.16. With public finances constrained, European funds are an important source of investment in business growth. The focused approach that we have taken in Kent and Medway has been highly successful, especially in supporting trade development and low carbon growth.

2.3.17. However, the nationally-run European Structural and Investment Funds programme in the South East fails to deliver its potential and is rapidly becoming a missed opportunity. The programme was launched in 2014: so far, it has failed to spend a pound from its European Regional Development Fund allocation – with the risk that funds will be decommitted unless progress is accelerated.

2.3.18. With four years of the programme yet to run, we need pragmatic solutions for more efficient delivery. We do not believe that devolving the administration of the programme at this stage is viable – but we will seek a fresh conversation with Government at strategic level to discuss how we can help deliver better management based on a clearer strategy.

**Questions for discussion**

Our focus above is on delivering a consolidated business support programme. Is this the right focus? Should we be more explicitly focusing on specific sectors or types of business, or should we be considering new types of intervention?

## 3. Delivery: Smarter, accountable governance

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To deliver the proposals set out in this document, we must adopt a new way of working. Although there are strong relationships in place between Kent and Medway's local authorities and with the business community, we need better mechanisms for joint decision-making. The Government is also clear that devolved powers will only be granted to places where there are robust governance mechanisms in place.

However, our plans for devolution and service integration are about delivery and growth, not bureaucracy. This section therefore sets out how we will put pragmatic, workable governance arrangements in place at the same time as ensuring that we make real progress on the ground.

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### 3.1. Our current governance model: Strengths and limitations

- 3.1.1. Today, Kent and Medway has a county-wide governance model based on an informal partnership structure. Kent and Medway Leaders meet regularly, supported by a dedicated secretariat. The Kent and Medway Economic Partnership, a 'federated' part of the South East Local Enterprise Partnership, brings business and local government leaders together to progress priorities to support economic growth. Within West Kent, North Kent and East Kent, there are also established sub-county partnerships that enable strong local collaboration.
- 3.1.2. There are advantages to this system: it is flexible and it involves minimal bureaucracy. However, it does not enable collective decision-making and its informality can mean that it lacks clarity. The absence of a clear, specific Kent and Medway institution also means that it is difficult for Government to devolve powers within the current structure.

### 3.2. A new approach

- 3.2.1. As we move forward to progress the measures outlined in this document, we will put in place a stronger governance model which can be delivered quickly, with the potential for it to be further strengthened over time, subject to consultation.
- 3.2.2. The proposed Kent and Medway governance model is illustrated below. It consists of:

#### **The 14 local authorities and three sub-county partnerships**

- 3.2.3. As we have set out elsewhere in this prospectus, Kent County Council, Medway Council and the 12 Kent Districts have a strong history of working together. Within our proposed structure, the three established sub-county partnerships have a central

role in setting priorities and identifying how services can be best coordinated. In parallel with the proposals set out in this document, work is underway to establish how functions can be devolved within Kent and Medway to West Kent, East Kent and North Kent – and to consider where functions can be pooled by participating local authorities within these groupings. Each sub-county area is supported by a partnership arrangement, and these will be represented on each of these on the Advisory Commissions and on KMEP.

**A Kent and Medway Devolved Powers Board (KMDPB)**

3.2.4. The KMDPB will consist of the leaders of the Kent and Medway local authorities, constituted as a Joint Committee under Section 101 of the 1972 Local Government Act. This enables local authorities to delegate specific powers and functions to be exercised jointly. Linked with the measures outlined in this document, the KMDPB will:

- With support of the Local Planning Authorities, approve the Kent and Medway Spatial Framework;
- Approve other joint strategies as required;
- Via an accountable body, hold devolved or pooled funds, determine their allocation and monitor their use;
- Jointly commission services (for example utilising the devolved skills budgets)
- Oversee the progress of all measures identified as part of a devolution and integration agreement.

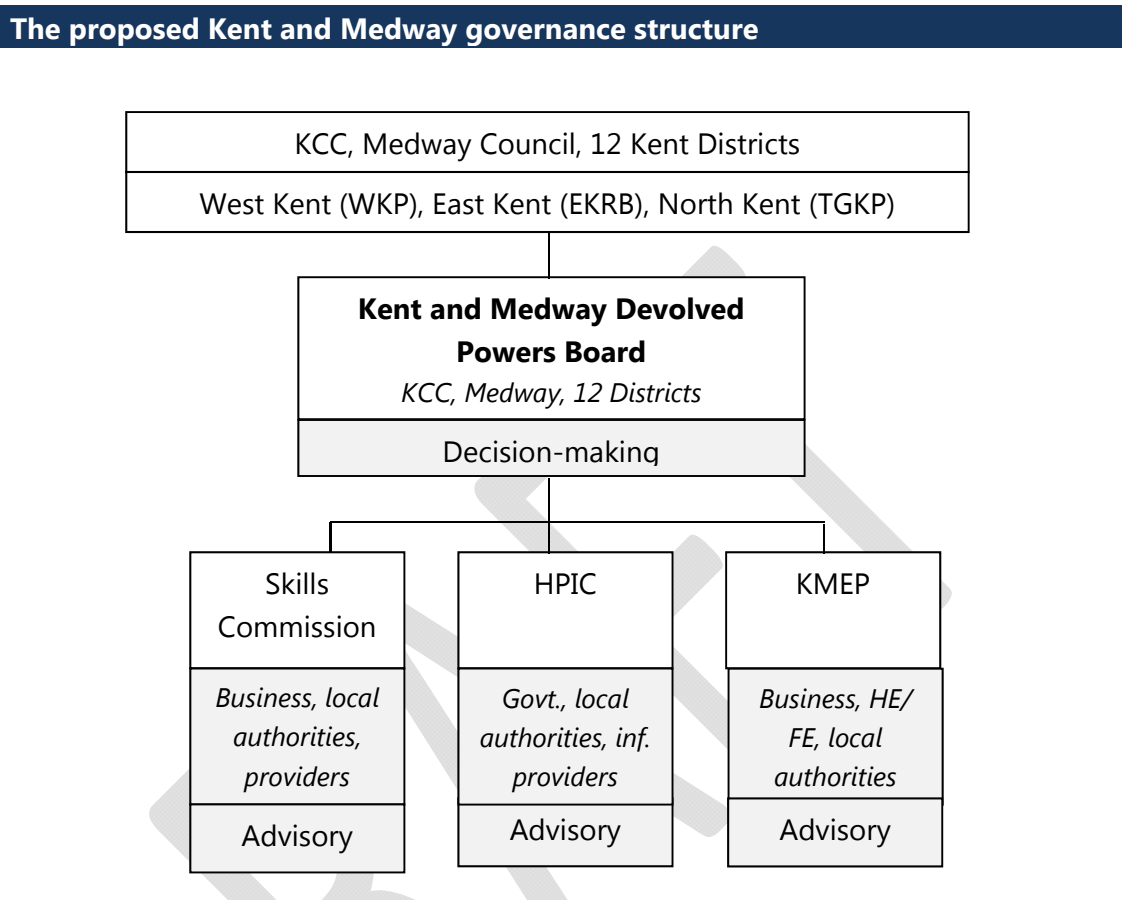
3.2.5. For other matters, the Leaders may of course continue to meet outside the formal structure of the KMDPB.

**Two advisory Commissions**

3.2.6. We will establish two Commissions to advise the KMDPB:

- a) **The Skills Commission:** This has already been established. It brings together businesses from the main economic sectors within Kent and Medway with learning providers and local authority representation to articulate economic demand. The Skills Commission will advise the KMDPB on the commissioning of services using devolved skills budgets and will be responsible for maintaining robust demand analysis;
- b) **The Housing, Planning and Infrastructure Commission (HPIC):** The HPIC will oversee the activities of those Government agencies in Kent and Medway with responsibility for planning and housing (principally, but not exclusively the Homes and Communities Agency and the Environment Agency). It will bring together local authority representatives from Kent and Medway's three sub-county areas with Government agencies, with associate private sector representation. It will

also oversee the preparation of the Spatial Framework, advise on Kent and Medway’s input into wider spatial planning across the Greater South East and support other strategic planning activities as appropriate.



**Kent and Medway Economic Partnership (KMEP)**

- 3.2.7. Kent and Medway Economic Partnership is the county’s primary public-private partnership. For most practical purposes, it functions as the Local Enterprise Partnership, with the ‘formal’ South East LEP now having an essentially residual monitoring role.
- 3.2.8. Through our new governance arrangements, we will clarify the role of KMEP, so that it functions increasingly as a strategic business advisory body, with increasingly diverse and representative membership, enabling devolved funding decisions to be made more transparently by the KMDPB. For clarity and to remove duplication, we would welcome the Government’s formal recognition of KMEP as Kent and Medway’s Local Enterprise Partnership, with the associated grant allocation following as appropriate.

### 3.3. Future evolution

- 3.3.1. We believe that the governance arrangements will be relatively straightforward to put in place. They do not require any formal consultation, Government approval or legal change. We will therefore seek to establish the KMDPB and its associated Commissions, and to change the terms of reference of existing bodies where required, by the end of 2016.
- 3.3.2. However, we recognise that as additional devolved powers are negotiated and as strategic joint working demonstrates success, there may be a requirement for more formal structures, such as a Combined Authority.
- 3.3.3. Given the requirement for formal consultation on a Combined Authority scheme ahead of Secretary of State decision, we will begin the process of considering the potential for a Combined Authority at an early stage. Once established, the KMDPB will be mandated to carry out a review of potential governance arrangements, including a Combined Authority option.

#### Questions for discussion

The governance arrangements outlined above seek to provide a more formal structure than exists at present. It would be fairly simple to set up a Kent and Medway Devolved Powers Board as a Joint Committee, and there are many examples of Leaders' Boards being constituted in this way. In practical terms, it is a viable option.

However, the Government's position has so far been clear: devolution agreements will only be concluded where there is a Combined Authority and a Mayor. The model outlined above clearly falls short of this; so far, where similar models have been put forward to secure devolved powers, they have been rejected.

Do you wish to put forward the governance option set above as a practical way forward, despite likely Government resistance, or would you prefer to commit at this stage to a more radical proposal?