

Date: 31 October 2001

Venue: Committee Room 1, National Assembly for Wales, Cardiff Bay

Title: ECONOMIC ANALYSIS: IMPROVING THE EVIDENCE BASE

Purpose

1. The Economic Development Committee's (EDC) report on the "*Review of Business Support and Development Services*" included proposals to improve the knowledge base for policy-making and related action. This paper responds to these recommendations and addresses the related commitment in the Partnership Agreement to establish a "funded partnership to undertake research and evaluation into the impact of the Assembly's economic policy activities".

Summary

2. The Assembly Government has decided to:
 - **Support an Economic Research, Analysis, Monitoring and Evaluation Programme;**
 - **Establish an Economic Research Advisory Panel;**
 - **Set up an Economic Research and Evaluation Unit in the National Assembly;**
 - **Explore ways of strengthening external research capacity.**
1. The Committee is invited to note the action which the Assembly Government will be taking.

Main Findings

2. Following the Committee's Report earlier this year, I commissioned a study on what our needs were and how we might develop a practical research programme to meet them. This work is now complete, and takes account of experience elsewhere in the UK and in Ireland. The main conclusions are:
 - Our understanding of the economic issues affecting Wales, the impact of policies and programmes, and the quality of our data, while improving steadily, needs to improve further.
 - We need to make even greater efforts to commission practical research to inform policy and secure even better value for money. We do not have robust arrangements for co-ordinating economic research, so there is a risk of overlap.
 - Capacity for economic analysis in Wales is limited and is spread thinly.

- Evaluation tends to focus on measuring activity rather than assessing impact.
- Cross cutting research is limited.

Government Response

1. The following measures have been agreed:
 - **An Economic Research Advisory Panel** – to bring together representatives of the main ASPBs, social partners, academics, applied researchers and officials in the relevant Assembly policy groups. The job of this panel will be to advise us on a specific programme of practical economic research and evaluation, and ensure that results of the programme are used well to help develop policy: it will have a key role in helping the Assembly Government keep its economic development strategy relevant and fresh.
 - **An Economic Research, Analysis, Monitoring and Evaluation Programme** – to cover the breadth of the economic agenda (including economic development and aspects of education, lifelong learning, rural development, community regeneration, environment, planning and transport policy). This should focus on priority policy areas, including those which cut across policy fields. Examples of the kind of studies that could be included are at Annex 1. A programme of work will be *developed* by the panel in consultation with the relevant interests. It will be *approved* by Cabinet. Most of this work will be commissioned from external centres of excellence, and its outputs would be publicly available.
 - **An Economic Research and Evaluation Unit** will *manage* the programme within the Assembly. The Unit will work closely with policy groups and others to ensure that its work directly impacts on and improves the effectiveness and allocation of spend. The published work of the Unit will be peer reviewed to promote a high standard of analysis.
 - **Strengthening external capacity** - to bring the latest thinking to bear on solving the problems of the Welsh economy, we will encourage our Higher Education Institutions in Wales to give more attention to practical economic research and to promote greater collaboration within Wales and between Welsh institutions and centres of excellence outside Wales. The Economic Research Advisory Panel will have a role in *advising* on capacity-building measures for Wales-based institutions.
1. ASPBs and Assembly administration policy groups will retain their existing responsibilities for carrying out research and evaluation linked to policy and product development, the delivery of services and the evaluation of individual programmes. However, broader research and evaluation activity should be integrated with the programme of economic research. This will ensure that capacity is maximised, potential duplication is removed and that collaboration between all partners is achieved.

Conclusion

2. I believe that these measures meet the needs set out in the Committee's recommendations. Our aim is to make the Welsh economy work faster and fitter. Taken together, these measures will add significantly to our understanding of economic issues, interventions and the impact of policies. The Economic Research Panel will strengthen collaboration between the Assembly Government, social partners, HE and the key economic agencies and bring greater co-ordination to our research activities.
3. I am not convinced of the need to go further and create an Economic Policy Board. It is premature to move in this direction when the new ELWa and the newly merged and expanded WDA need more time to bed down. I am also wary about creating elaborate overarching structures which might divert resources from the acquisition of economic intelligence which should inform our policy-making into unnecessary institutional churn and upheaval.

Rhodri Morgan
First Minister and acting Economic Development Minister

Annex 1

ECONOMIC RESEARCH, MONITORING AND EVALUATION PROGRAMME

The overall objectives of the programme are to strengthen the information base on economic issues affecting Wales, to improve the economic analysis capacity and to ensure that research is used actively and effectively within the Assembly, ASPBs and other partners in Wales for policy development. This paper gives examples of research needs and how they might be tackled.

Impact of government interventions in economic development

The Assembly budget for economic development programmes is over £400 million. Although information is collected on individual programmes, their combined impact on the economy is not fully understood – for example, the net additional effect of these programmes on business activity and employment.

Impact of transport infrastructure improvement on economic development

Research suggests that improved transport links provide economic benefit overall, but they can increase as well as decrease regional inequalities. Whilst they lower costs for businesses in such areas, they can also lead to the centralisation of economic activity. There is no simple rule which can be applied to predict the regional outcomes of transport projects, and regional characteristics need to be assessed. A case study examination of the specific factors which

influence the nature of regional markets would better inform the appraisal of future schemes or strategies.

Employment policy measures

The Department for Work and Pensions is the government department with responsibility for employment policy and welfare reform. The Assembly has supported a number of related interventions in the 'intermediate labour market' to help people back to work. Although it is recognised that the characteristics of the labour market in Wales are different from those of other parts of the UK, we need to better understand the cyclical and structural dimensions of workforce participation. We also need to examine more closely the relative contribution of Assembly policy in these areas, in order to develop specific measures that will add value in Wales.

Best practice review of measures to promote Entrepreneurship.

An examination of the effectiveness of direct and indirect interventions in promoting entrepreneurship, reviewing different approaches to changing attitudes, encouraging risk taking, providing incentives etc. For example, we might undertake a cohort study on how to encourage redundant workers in high-tech industries to set up in business.

Innovation

Increasing innovation is a priority objective within the National Economic Development Strategy. A study in this area would collect the best international practice for encouraging innovation, and review existing and planned programmes to ensure they are as effective as possible for encouraging business innovation.

Economic returns to public sector investment in training

OECD research suggests that skill levels (broadly interpreted to include social skills) are one of the most important factors influencing economic performance. Working with the relevant partners, a review would draw together the current knowledge on economic returns to public investment in training. This would help inform the development of policy solutions to questions of targeting finite resources.

Creating dynamic rural centres

Many rural areas have close economic ties with surrounding areas and urban centres. The picture is very mixed across Wales. Research could help to identify factors which make certain local areas more successful than others.

Opportunities and threats from EU enlargement

Better information is needed on the economic opportunities presented by enlargement.

Evaluation

A number of priorities for evaluation have been identified including the Entrepreneurship Action Plan, provision of finance to business and inward investment policies.