

Scrutiny of the Welsh Government's Draft Budget 2020/21

January 2020

On 16 December 2019 the Welsh Government laid its draft budget for 2020/21 before the National Assembly for Wales. This report outlines the Committee's views on the draft budget and recommendations.

Evidence

This report draws on evidence given to the Committee in a budget scrutiny session on 9 January 2020 by:

- Ken Skates AM, Minister for Economy and Transport
- Lee Waters AM, Deputy Minister for Economy and Transport
- Simon Jones, Director Economic Infrastructure
- Dean Medcraft, Director Finance and Operations
- Huw Morris, Group Director, SHELL

A proportion of the budget relating to the Committee's skills remit sits within the portfolio of Kirsty Williams AM, Minister for Education. In order to minimise burdens on committee and ministerial time the Chairs of the EIS and the Children, Young People and Education (CYPE) Committee were content that Hefin David AM, a member of both committees, would ask questions related to research and innovation, relevant to this Committee's remit, at the CYPE budget scrutiny session on 8 January 2020. This report reflects the answers given at that session and on the Welsh Government's written evidence.



Recommendations

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Recommendation 2. The Welsh Government should set out the budget allocations for each proposal and policy in Prosperity for All: A Low Carbon Wales related to the Minister for Economy and Transport’s portfolio..... Page 5

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Recommendation 4. In publishing the business case for Transport for Wales’ future role the Welsh Government should publish details of the transfer process for new responsibilities, including: predicted dates by which it expects individual responsibilities to be transferred during 2020-21; how the specific responsibilities have been chosen and how the transfer will benefit Wales; the additional funding which TfW will receive to manage these responsibilities; and the basis on which that additional funding is calculated. Page 6

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Recommendation 13. Welsh Government should provide further evidence to support its view that public ownership of airports is the standard international practice, including the basis for the statement that ‘only 14 per cent of airports have private sector interest in them’.....Page 10

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2019-20 budget was used. This should include any performance targets agreed. Welsh Government should also set out, in detail, the terms on which the new 2020-21 additional funding is to be distributed, the mechanisms in place to monitor its use, and the return on investment expected. Page 11

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Recommendation 20. Now that the Reid review recommendations will not be fully implemented before the UK leaves the EU, the Welsh Government should set out its alternative plans for replacing EU research and innovation funding post Brexit..... Page 14

Recommendation 21. The Welsh Government should provide the committee with the total quantum of research and development funding it provides and spends, broken down by areas of spend and the bodies to which is it disbursed or spent by..... Page 14

Recommendation 22. The Welsh Government should commission a review of the whole research and innovation landscape in Wales including both public and privately funded activity. This review should allow the government to gain a full understanding of its research and innovation spend, including improving the effectiveness of that spend. Such a review would also provide an evidence base for a cross-government research and innovation strategy to cohere Welsh Government research and innovation policy and funding around its prosperity goals. Page 14

Recommendation 23. The Welsh Government should provide the Committee with details of any specific allocations in the budget which will be used to support the steel industry. Page 15

Recommendation 24. The Welsh Government should provide the committee with as much detail as possible on the external consultants it has commissioned to work on the methodology for the indicative regional budgets (including who they are, what outputs are expected, what they are focusing on and what approach they are taking to their analysis). Page 15

Recommendation 25. The Welsh Government should provide the Committee with as much detail as possible on the work of the OECD experts who are looking at how the Welsh Government can measure the success of the Economic Action Plan. Page 15

Decarbonisation

1. The Welsh Government's Low Carbon Delivery Plan: Prosperity for All: a low carbon Wales highlights a target of a 14% reduction in transport emissions by 2020, and a 43% reduction by 2030, from the 1990 level. The focus on decarbonisation of transport is reinforced in the Government's Wales Infrastructure Investment Plan (WIIP) project pipeline, published in 2019, which states that "decarbonisation is at the heart of decision making for infrastructure developments". The Welsh Government also declared a climate emergency on 29 April 2019.
2. Despite this clear commitment to decarbonisation, the draft budget does not make it clear how much money is being dedicated to decarbonising transport, nor does it contain clarity on the funding allocations to support the policies and proposals included in the Low Carbon Delivery Plan.
3. In light of the declared climate emergency, and the role transport plays in generating carbon emissions, the Committee feels it would be appropriate to include a clear, easy-to-find section in this, and all future budgets, outlining decarbonisation allocations. This would help members of the public to understand exactly what is being spent on decarbonisation, and the Committee to hold Ministers to account.

Recommendation 1. The Welsh Government should set out a clear section in this and future budgets outlining more clearly how the economy and transport budget supports decarbonisation, including by detailing the specific budget allocations involved.

Recommendation 2. The Welsh Government should set out the budget allocations for each proposal and policy in Prosperity for All: A Low Carbon Wales related to the Minister for Economy and Transport's portfolio.

Transport

Transport for Wales and Railways

4. The Welsh Government's paper sets out that Transport for Wales (TfW) "has a clear, legal identity within a robust and well-established framework. There is a distinct separation between the Welsh Government and TfW, allowing TfW to make independent operational decisions."
5. The Committee has ongoing concerns around the transparency of TfW. As Transport for Wales is wholly owned by the Welsh Government and is funded through the Welsh budget the Committee expects dealings between the Welsh Government and TfW, and TfW's own internal workings, to be as transparent as possible.
6. The corporate budget for Transport for Wales is opaque in the format the budget is currently presented, as is the subsidy paid to TfW Rail Services. The Committee feels, considering the importance of TfW and the need for scrutiny of its role, that the Welsh Government should present TfW's budget, and that of TfWRail Services, in a much clearer way.
7. The Committee is aware that the Office of Rail and Road publish information of rail subsidies however the information is not always broken down by which government has provided what subsidy. Also the Committee feels the average Welsh citizen would expect this information to be available on the Welsh Government website.
8. The Committee welcomes the Minister for Economy and Transport's commitment to publish the long-awaited business case on the future development of TfW in the spring. However, while the Committee understands TfW will take on additional responsibilities when TfW's board judges the organisation is ready, the process by which the decisions are taken and responsibilities transferred is not clear enough.
9. The Committee was very interested to hear from the Minister that "performance plan notices were issued to KeolisAmey and that a work

stream of no fewer than 11 programmes is being undertaken and has been initiated”, and “something in the region of £2.3 million of penalty notices have been issued to KeolisAmey”. The Minister stated this money would be “reinvested into rail services”.

10. The Welsh Government should publish more detail on these penalties, particularly on how they are calculated, why they are issued and how the money will be reinvested. This is particularly important as TfW is wholly-owned by the Welsh Government and manages the Wales and Borders franchise delivered by KeolisAmey with both operating under the same brand. In the light of this complex relationship between the public sector and a private company it is particularly important for Members and the public to have full clarity on how public funds are being used to improve to transport in Wales.

Recommendation 3. The Government should provide greater and clearer detail on Transport for Wales’ corporate budget now, and ensure that this information is provided in future budgets.

Recommendation 4. In publishing the business case for Transport for Wales’ future role the Welsh Government should publish details of the transfer process for new responsibilities, including: predicted dates by which it expects individual responsibilities to be transferred during 2020-21; how the specific responsibilities have been chosen and how the transfer will benefit Wales; the additional funding which TfW will receive to manage these responsibilities; and the basis on which that additional funding is calculated.

Recommendation 5. The Welsh Government should publish details of the subsidies TfW Rail Services has received and is expected to receive, during the lifetime of the contract. This information should be made transparent to the public on the TfW website, not just to this Committee.

Recommendation 6. The Welsh Government should publish further information on the performance management regime for Transport for Wales Rail Services including the level of payments and penalties and more details on how penalty payments will be reinvested. As with subsidy information, this should be made transparent to the public on the TfW website, not just to this Committee.

Funding for public bus services

11. The Welsh Government's Draft Regulatory Impact Assessment (RIA) for their Public Transport (Wales) Bill White Paper states that in 2017/18 the Welsh Government provided £116 million for public bus support. The assessment states this funding "includes grants for the TrawsCymru bus service, securing socially necessary bus services which otherwise would not be delivered, supporting bus companies to achieve the Welsh voluntary Bus Quality Standard, contributing to the costs of the concessionary fares scheme (including a proportion of the reimbursement costs and administrative costs to local authorities) and other costs."
12. The RIA also includes a table which itemises the public sector spend on buses, by Welsh Government and local authorities, against different funding streams. The Welsh Government's 2017/18 figure for hypothecated 'direct support' in that table totals £88 million. When asked about the funding for 2020/21 the Minister stated "the figure for 2020/21, the hypothecated figure for 2020/21, from us is £94.138 million compared to the figure of £88 million for 2017/18." The Committee welcomes this increase in funding.
13. The table also provides data on the level of local authority support for bus services from their own budgets. It includes details of their additional spending on concessionary fares and discretionary spending from the unhypothecated Revenue Support Grant. A Welsh Government press release from 14 June 2019 stated "In recent years ... a small but significant number of councils have reduced or removed entirely from their budgets any funding to support bus and community transport services" and that the Bus Services Support Grant was effectively being used to replace this funding.
14. The Committee is concerned by the decision of some local authorities to cease bus funding, relying instead on the Welsh Government Bus Services Support Grant. Simon Jones outlined that Transport for Wales are undertaking work to "redesign the award criteria for BSSG over the coming year".
15. To fully understand the impact of local authority decisions on funding of bus transport and to be in a position to assess the success of Transport For Wales' redesign, the Committee will need regular access to the figures around local authority contribution to support bus funding.

Recommendation 7. In order to provide clarity on the relative contribution of local government and the Welsh Government to supporting bus services, the Welsh Government should update and publish the table provided in its draft Regulatory Impact Assessment for proposed legislative change, including data for 2018-19 – 2019-20 as soon as possible. Data for 2020-21 should be added as soon as local authority data are available. The Welsh Government should publish these figures every year going forwards. In responding to this report the Welsh Government should provide details of how and when this information will be published annually.

Active Travel

16. The Committee recognises the need to mainstream active travel investment and the wide ranging benefits this will bring. To this end the Deputy Minister stated “the important thing about the active travel agenda is seeing it as a normal part of transport . . . Therefore, it should be part of the transport budget. So, active travel infrastructure should be funded by our department.”
17. The Minister went on to state that “what other departments should be doing is funding the additional things like the behaviour change.”
18. The Committee welcomes this approach to funding active travel infrastructure and it would be interested in some more detail. In particular, the Committee is interested in whether capital projects from other departments support active travel infrastructure, and if so how. For example, whether schools constructed under the 21st Century Schools programme budgets include active travel infrastructure in the form of on-site paths and facilities, or fund investment in related highway investment such as junctions and access roads. The Committee is also keen to understand the levels of investment being made in behaviour change across Government.

Recommendation 8. The Committee recommends that the Welsh Government provide further details on cross-government discussions on behaviour change investment for active travel, and details of the level of investment in behaviour change programmes from other departments for 2020-21.

Recommendation 9. Welsh Government should clarify whether capital budgets from other departments support active travel infrastructure investment when investing in projects such as schools and hospitals.

Cardiff Airport

19. The Welsh Government recently agreed a new loan of £21 million for Cardiff Airport. This loan was issued on top of an existing £38 million loan the airport has already drawn down. The Committee explored with the Minister the basis on which the loans were made and the expectations around repayment. Simon Jones of Welsh Government stated that “advice around the loan was given to us by an external third-party professional adviser, particularly with experience in the state aid sector looking at airports.”
20. The Committee welcomes Welsh Government’s undertaking to write to the Committee to outline when the Government expects repayments of these loans to begin, and provide more details on the advice the Government received prior to issuing the latest loan.
21. Members were also interested in when, or whether the airport would make a profit. The Minister noted that airports “generally, globally, are valued on the basis of their EBITDA” (Earnings Before Interest, Taxes Depreciation and Amortisation), but the Committee noted that this EBITDA data is just one measure of financial performance.
22. The Minister was keen to highlight the wider economic benefits the airport provides, he stated “whilst you may look at these smaller figures concerning profit or loss, actually, the contribution to the economy is significant indeed—it amounts to hundreds of millions of pounds.” He also stated “anybody would want to see any form of transport infrastructure and facilities make a profit, but you have to accept that it's not going to always make a profit if it carries a wider social benefit.”
23. The Minister also highlighted that public ownership of airports was the standard international practice stating “If you look globally, 86 per cent of airports are in the hands of the public; only 14 per cent of airports have private sector interest in them.”
24. The Committee notes this apparent change of focus from the airport making a profit to its role supporting the Welsh economy and is keen to hear more detail how the Government has estimated the benefits it brings.

Recommendation 10. Welsh Government should publish the advice received prior to issuing the latest loan to Cardiff Airport, and if this is not possible it should provide a summary of its conclusions, and details of the company or person who provided the advice.

Recommendation 11. Welsh Government should provide up to date details of its research and evidence base for the wider economic impact of the airport.

Recommendation 12. Welsh Government should publicly state whether the airport is being run on a commercial basis, in the expectation that it would ultimately generate a profit, or if it is being supported as an infrastructure asset to benefit the Welsh economy.

Recommendation 13. Welsh Government should provide further evidence to support its view that public ownership of airports is the standard international practice, including the basis for the statement that ‘only 14 per cent of airports have private sector interest in them’.

Skills

Apprenticeships

25. When asked about the Welsh Government’s strategy for funding apprenticeships, and specifically the practice of keeping back some of the apprenticeship budget to target at high demand areas identified by regional skills partnerships (RSPs) the Minister for Economy and Transport stated “We’re moving away from that now, albeit we are going to be setting targets for training providers”. The Committee is very interested in this change of policy would like to have sight of the new approach to distributing nearly £100 million of public funding.

Recommendation 14. Welsh Government should set out its approach to distributing funding for apprenticeships in the academic year 2020/21 including an explanation of the overall approach, all demand management mechanisms and exceptions, and how the model will meet pinch-points of high demand.

Regional Skills Partnerships

26. The Minister repeated the Welsh Government’s commitment to reviewing the Regional Skills Partnerships (RSPs) during 2020-21 and stated “although I wouldn’t want to pre-judge what any review is going to conclude, I think it’s fair to say that an increase in RSP budgets will be required.” At the same time, Welsh Government accepts that that the research and data analysis capability of the partnerships must be improved, in-line with the findings of the Committee’s recent review into RSPs.

27. Currently, RSPs are making recommendations that influence college curriculums and set parameters for clawing back funding, without stakeholders having full confidence in the data on which the recommendations are based.

28. The Committee feel that offering the RSPs a modest amount of money to commission research leading to better data this budget year would be a good next step in the partnerships journey to maturity. Such a modest sum would enable the partnerships to develop their research networks and expertise at commissioning research ahead of the forthcoming review, beginning to directly address the shared concerns around the under-resourcing of their research capacity.

Recommendation 15. Welsh Government should provide the Regional Skills Partnerships with an interim, modest, sum of funding in the 2020-21 final budget to enable them to commission a small amount of rigorous research to improve their analytical capability.

Airbus and automotive manufacturers

29. The Minister's evidence paper contains a funding line for skills titled "Airbus and regionally important automotive manufacturers." The Minister stated this money has been used to "futureproof the business to make sure that they're training in fields such as artificial intelligence and robotics and so forth" and that they had been invited "to overtrain for the Wales-based supply chain".

30. The Minister stated they had "been recruiting at a rate of approximately 100 more per year in order not just to boost the prospects of their future business but also to assist the supply chain." As these payments are being made to large private sector companies the Committee feels there needs to be clarity around how the funding is being used and what benefits Wales is receiving from the spend.

Recommendation 16. The Welsh Government should set out the details of how the funding it has provided Airbus and the automotive sector in the previous 2019-20 budget was used. This should include any performance targets agreed. Welsh Government should also set out, in detail, the terms on which the new 2020-21 additional funding is to be distributed, the mechanisms in place to monitor its use, and the return on investment expected.

EU Funding

31. The Welsh Skills budget is a beneficiary of European Union funding. Huw Morris, from Welsh Government, stated “In a typical year it provides 14 per cent to 20 per cent of the funding for apprenticeship programmes, so we're very conscious of what that will do to provision post 2023, because there is in the current plan for transition a tapering-out period.”
32. Members were concerned about how Brexit will affect the skills budget and were interested to hear what preparation the Welsh Government have made. Mr Morris told the Committee that “over the last three years or so we've convened a group . . . which brings together all of the key stakeholders” and that a lot of analysis had been undertaken on the matter.
33. Mr Morris stated the Welsh Government was “very conscious of what that will do to provision post 2023, because there is in the current plan for transition a tapering-out period” and that a no-deal Brexit would be cause for concern. He also stated that the Welsh Government has contingency plans but that what he was “less confident about is the scale of funding that we might receive from the UK Government to replace the EU money that was previously provided.”
34. Members would like more clarity on the planning which has taken place and forward plans for the loss of EU funding to the skills and employability budget.

Recommendation 17. The Welsh Government should provide a copy of the analysis on the contribution EU funding makes to skills and employability programmes Welsh Government explained it has conducted . Welsh Government should also provide the Committee with copies of the plans and planning assumptions it says it has drafted to address skills funding post Brexit.

Gender budgeting

35. Welsh Government has stated it wants to be a 'feminist government' that has gender 'at the forefront' of all decision-making. One of the agreed principles of achieving this is putting “a gender perspective at the heart of decision-making, resource and budget allocation”. Skills and training play an important role in supporting women to progress in the work place and to close the gender pay gap. The Committee would like to see how the Government is working towards its ambition of being a feminist government in practice with regards to skills funding, particularly

considering the well-known issues around the gender balance on particular courses such as engineering.

36. The Committee was also interested to read in the budget narrative that the Welsh Government will be taking forward a gender budgeting approach as part of the two year Personal Learning Accounts pilot.

Recommendation 18. The Welsh Government should set out, using specific examples, how it has placed gender equality at the heart of next year's employment and skills investment and policy; and how it is using the skills budget to close the gender pay gap and support the progression of women in the workplace.

Recommendation 19. The Welsh Government should provide the Committee with more information on its gender budgeting approach in relation to its Personal Learning Accounts pilot.

Research and Innovation

37. Research and innovation are known to be crucial to increasing productivity and therefore crucial to achieving Welsh Government prosperity aims.

38. Wales will now leave the EU without having significantly implemented recommendations made by Professor Graeme Reid. The recommendations were intended to prepare the higher education sector for replacing EU research and development funding, as well as improving the competitiveness of Welsh universities at winning external funding.

39. The Committee is keen to understand why, despite the Minister for Education restating the Welsh Government's position of having "accepted the Reid review recommendations in principle", the Welsh Government has seemingly deprioritised Graeme Reid's research and innovation recommendations that are so strongly linked to achieving prosperity for all. As with the skills budget the Committee are concerned about preparation for replacing EU funding for research and innovation in the higher education sector.

40. Welsh Government research and development funding and activity is fragmented and found within several Ministerial portfolios. The Education Minister stated "because there are so many disparate funds in which Welsh Government is spending research and innovation money and supporting research and innovation, it is quite difficult actually to tot up exactly what the total quantum is" adding that "the Welsh Government, in a variety of

different ways, almost Byzantine in their complexity” and acknowledged that this was an issue that needed to be addressed.

41. As research and innovation spending is crucial to economic growth the Committee is extremely concerned about this fragmented approach to research and development funding, and is extremely worried in turn that the Welsh Government cannot in practice possess a coherent cross-Government research and innovation policy when it is not known exactly how much money it is spending on research and innovation and where that spending is falling.

Recommendation 20. Now that the Reid review recommendations will not be fully implemented before the UK leaves the EU, the Welsh Government should set out its alternative plans for replacing EU research and innovation funding post Brexit.

Recommendation 21. The Welsh Government should provide the committee with the total quantum of research and development funding it provides and spends, broken down by areas of spend and the bodies to which is it disbursed or spent by.

Recommendation 22. The Welsh Government should commission a review of the whole research and innovation landscape in Wales including both public and privately funded activity. This review should allow the government to gain a full understanding of its research and innovation spend, including improving the effectiveness of that spend. Such a review would also provide an evidence base for a cross-government research and innovation strategy to cohere Welsh Government research and innovation policy and funding around its prosperity goals.

Economic Growth and Regional Development

The Steel Industry

42. The Steel Industry is still in a precarious position, highlighted by Liberty Steel’s announcement, on the day of the EIS budget scrutiny session, that it would be cutting jobs in Wales. The Committee acknowledges the Minister for Economy and Transport’s assertion that “there are global problems; there are national problems; there are European problems; and then there are local problems” and understands that the Welsh Government is not in a position to solve all of these issues. However the Committee felt the draft

budget is unclear on exactly what financial levers the Welsh Government will be using to support people who rely on the steel industry for their livelihoods.

Recommendation 23. The Welsh Government should provide the Committee with details of any specific allocations in the budget which will be used to support the steel industry.

Regional Budgets

43. The Committee is very interested in the progress of the Regional Economic Frameworks and the Regional Indicative Budgets and looks forward to their publication in March. The Committee welcomes the Welsh Government's offer to provide more information on Foundational Economy Challenge Fund projects and the big investment opportunities in the three regions.

44. The Minister stated that, because the work was unprecedented, the Welsh Government had "external consultants working on the methodology, the formula . . . for each of the regional budgets." The Committee was very interested in this news and would like more information on the consultants and their work.

45. The Committee was also interested to hear that the Minister has "employed expertise within the Organisation for Economic Co-operation and Development to carry out work looking specifically at how we can measure success" and would be keen to know when they can expect this work to be complete and when it might see the outcomes.

Recommendation 24. The Welsh Government should provide the committee with as much detail as possible on the external consultants it has commissioned to work on the methodology for the indicative regional budgets (including who they are, what outputs are expected, what they are focusing on and what approach they are taking to their analysis).

Recommendation 25. The Welsh Government should provide the Committee with as much detail as possible on the work of the OECD experts who are looking at how the Welsh Government can measure the success of the Economic Action Plan.