

Mike Hedges  
Committee Chair  
Climate Change, Environment and Rural Affairs  
Committee  
National Assembly for Wales  
Cardiff Bay  
CF99 1NA

27 June 2017

Dear Mike,

### **Natural Resources Wales**

As you know, the Public Accounts Committee has been scrutinising Natural Resources Wales (NRW) on its Annual Report and Accounts 2015–16 and published a report on 15 June. The Committee undertook this scrutiny following the qualification of the Auditor General for Wales (AGW) regularity opinion on NRW's financial statements in respect of its award of timber sales contracts to a sawmill operator in May 2014.

Although the focus of the report was on the awarding of the timber sales contracts, the Committee also took the opportunity to consider a number of issues relating to the governance and management at NRW. This work took into account the Auditor General's Report – The Development of Natural Resources Wales – which was published in February 2016. The previous Public Accounts Committee had not been able to schedule any evidence sessions on this report due to the dissolution of the Assembly in April 2016. The Committee's views on the governance and management issues are contained in the annex.

During the evidence session on 22 May, NRW offered to send an update on their performance indicators together with a year-on-year comparison to show trends in performance for information. I have attached a copy of the letter for information



I am aware that the Climate Change, Environment and Rural Affairs Committee undertakes an annual scrutiny of NRW during the autumn term and I hope my Committee's comments on the development of NRW can be raised during CCERA's annual scrutiny of NRW in the autumn term.

Yours sincerely,

A handwritten signature in black ink that reads "Nick Ramsay". The signature is written in a cursive style with a long horizontal flourish at the end.

**Nick Ramsay AM**  
**Chair**



## **Natural Resources Wales annual report and financial statements for the 2015/2016 financial year.**

1.This is the first year that Natural Resources Wales (NRW) accounts have been scrutinised by the Committee. The accounts are subject to audit by the Auditor General for Wales and the audit opinion was signed on 2 March 2017. As with most audits, the introductory narrative was not subject to audit although the auditor does consider whether there are material inconsistencies with the accounts.

### **Use of Financial Information**

2.We asked NRW to explain their approach to making financial information more accessible and integrated with Welsh Government strategy and specifically how they will balance the implementation of your long-term strategic plan for 2017–22 with the priorities set for NRW in the Welsh Government’s annual remit letter.

3.Dr Emyr Roberts, NRW Chief Executive and Accounting Officer, told us that they have an ongoing relationship with the Welsh Government and are aware of policy developments working closely to ensure priorities set out in the remit letter are implemented.<sup>1</sup>

### **Governance and strategy**

4.We questioned NRW on their internal governance frameworks and how this provides the Accounting Officer with the necessary assurance to approve the annual accounts.

5.The Executive Director of Finance and Corporate Services of NRW, Kevin Ingram, explained that NRW had a well-developed governance framework including an audit and risk committee and remuneration committee set up to scrutinise parts of the business, senior management structures and clear lines of delegation within the organisation.<sup>2</sup> We were also told that there is an in house internal audit team alongside coming under the scrutiny of the Wales Audit Office.

6.We were interested in determining whether NRW's internal audit work programme had identified any significant control issues during the previous

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<sup>1</sup> PAC, RoP, 28 March 2017, paragraph 158

<sup>2</sup> RoP, 28 March 2017, paragraph 162



financial year. We were told that one area was identified as requiring strengthening and that was the management of risk. Mr Ingram stated:

'We already have a corporate risk register and different directorate risk registers, but we had a process there of sort of refreshing that and just checking those risks and corporate risks are clearly aligned with the outcomes that we're achieving'.<sup>3</sup>

## Key risks

7.The Annual Report notes the key risks facing NRW a key one of which is responding to the short-term reduction in our grant in aid and planning for continued financial challenges. We asked NRW what impact they believed budget cuts would have on NRW's ability to deliver its objectives.

8.Dr Roberts highlighted that NRW had around a 15 percent real-terms cut in their grant-in-aid over the last two years, which inevitably posed risks to their services.<sup>4</sup> To address these NRW have:

'...set up a review throughout the organisation of the activities that we carry out. So we call it 'the business area reviews'. We've got eight different projects, looking across the board at all the services that we offer, including enabling services as well. So, we're getting a picture of what we're doing, what our priorities are. In some areas, yes there will be an increase in risk, but we are managing those, we're putting mitigating actions in to actually manage those risks properly'.<sup>5</sup>

9.We wished to determine the practical effect of budget reductions on NRW's day to day business specifically with regard to the organisations ability to provide specialist advice. For example, we referred to the Swansea tidal lagoon, an area upon which NRW has been drawn into public debate on. We understand that it had taken nearly 3 years since the tidal lagoon submitted an application to NRW for a fishing licence and there has been a delay in reaching judgement, which potentially put the project at risk. We sought clarity on why this judgement had taken so long and there was still no prospect of judgement and whether this delay was related to resources.

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<sup>3</sup> RoP, 28 March 2017, paragraph 164

<sup>4</sup> RoP, 28 March 2017, paragraph 178

<sup>5</sup> RoP, 28 March 2017, paragraph 178



10. We are told by Dr Roberts that the delay was not related to resources and that discussions with the Swansea bay tidal lagoon company around evidence for their proposal was a 'fairly rigorous process', which was determined by European regulation. Furthermore, given that no one has built a tidal lagoon like this before, decisions would be effected by modelling on what might happen particularly with regard to fish migration. Dr Roberts added that discussions remained ongoing, involving experts from the company and NRW, and until those discussions are concluded NRW are not able to continue with the marine licensing process. We raised concerns that any delays in progressing these matters could be prohibitive.<sup>6</sup>

### **New legislation**

11. NRW's annual report refers to:

“Some examples of our changing context will see us working to implement the requirements of new legislation, particularly the Well-being of Future Generations (Wales) Act 2015, Environment (Wales) Act 2016, Planning (Wales) Act 2015 and the Historic Environment (Wales) Act 2016; addressing environmental challenges such as water quality, biodiversity, invasive species, air quality and climate change as well as managing our own operations to ensure we work within our means and work with our stakeholders – Welsh Government, other public service organisations, business and industry, citizens and communities to develop alternative public service delivery models”.<sup>7</sup>

12. We queried what NRW was doing to ensure assurance that appropriate steps are being taken to comply with new legislation and how the relationship between the executive team and board facilitate that.

13. Dr Roberts explained that the Board has a high degree of involvement and interest in this area and are kept informed of developments on a regular basis. He added that there was a programme of work ongoing to implement the requirements of the Acts, for example, making sure that the Well-Being of Future Generations Act 2015 is embedded into the corporate plan.<sup>8</sup>

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<sup>6</sup> RoP, 28 March 2017, paragraph 180

<sup>7</sup> [Natural Resources Wales Annual Report and Accounts 2015-16](#), page 7 (March 2017)

<sup>8</sup> RoP, 28 March 2017, paragraph 209



## Key Performance Indicators

14. As reported on page 7 of the Annual Report, as part of NRW's Performance Framework, there is a dashboard for tracking longer term trends through indicators that their work contributes to, as well as annual operational measures that they control delivery of. This year, of 41 indicators and measures, 28 met the target set, nine were within 10% of the target set, and four were not where NRW planned to be. NRW's progress is monitored by its Board and Welsh Government and published on its website three times each year.

15. We were keen to understand more about NRW's performance with regard to sickness absence. We noted that the annual report shows an average sickness absence of 5.2 days per employee, which exceeds the target and compares favourably to a number of organisations we've had before us to look at their accounts.<sup>9</sup> Given the difficulties arising from the merger of three individual organisations to form NRW and the poor results arising from staff surveys, we regard this to be an impressive achievement. We asked Dr Roberts what lessons could be learned from their approach and shared with other organisations.

16. Dr Roberts welcomed the feedback and commented that the organisation was managing well particularly against a backdrop of change. He added:

'We are particularly strong, I think, in our well-being. So we run a lot of support for members of staff who may be ill or suffering from stress or something like that. So, there's a very high degree of awareness within the organisation. I think that's really important for an organisation that's going through change, that we do invest in that'.<sup>10</sup>

17. In further correspondence, we were informed that NRW has developed and implemented a number of policies and procedures to manage staff sickness absence including access for staff to an effective occupational health and employee assistance service provision.<sup>11</sup> We were also told that NRW has

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<sup>9</sup> RoP, 28 March 2017, paragraph 231

<sup>10</sup> RoP, 28 March 2017, paragraph 232

<sup>11</sup> Written evidence, PAC(5)-15-17 Paper 4, 22 May 2017



committed to managing the risk of mental health absence through delivery of mental health first aid training and emotional resilience training, focussed attention on improving the quality and quantity of absence data to develop the way they monitor and manage sickness absence and have used multiple internal communication channels to raise awareness of the policies and procedures, a new recording system and support provisions to all staff in NRW.

