



**Cyfoeth  
Naturiol  
Cymru  
Natural  
Resources  
Wales**

Ein cyf/Our ref: NRW17-058

Ty Cambria / Cambria House  
29 Heol Casnewydd / 29 Newport Road  
Caerdydd / Cardiff  
CF24 0TP / CF24 0TP

Ebost/Email:

[kevin.ingram@naturalresourceswales.gov.uk](mailto:kevin.ingram@naturalresourceswales.gov.uk)

Ffôn/Phone: 0300 065 4323

Mr Nick Ramsey  
Chair  
National Assembly for Wales, Public Accounts  
Committee  
National Assembly for Wales  
Cardiff Bay  
Cardiff  
CF99 1NA

29 November 2017

Dear Nick,

**Natural Resources Wales Response to Annual Report and Accounts Scrutiny  
2015/16**

As agreed by our former Chief Executive, Dr Emyr Roberts, I am writing to update you on the progress NRW has made in addressing the recommendations of the Committee following your report on the above earlier this year.

Please find enclosed a summary of our position against the recommendations and an updated action plan. Our Audit and Risk Assurance Committee are overseeing our progress against this action plan.

A copy of this letter has been sent to Andrew Slade, Director of Environment and Rural Affairs at Welsh Government, and our sponsorship team.

With best wishes,

Kevin Ingram

Prif Weithredwr Interim, Cyfoeth Naturiol Cymru  
Interim Chief Executive, Natural Resources Wales



**PAC Recommendation 1: We recommend that Natural Resources Wales undertake a full evaluation of its governance arrangements relating to contracting processes, clearly setting out lessons learned with specific reference to timber sales contracts referred to in this report.**

Governance process mapping of Procurement (goods, works and services); Projects (non flood); Projects (flood); Timber Sales; Grants and Collaborative Agreements has been completed. Resulting in

- Updated controls in our Timber Management Platform
- 'Significant' contracts have been defined as £5m for Procurement and £0.5m for Commercial Activity
- 'Significant' in the context of contracts let without competition shall be the OJEU limit, currently set at £106k. Head of Procurement and Head of Commercial Activity will inform our Audit and Risk Assurance Committee in the event that a contract without competition reaches this threshold.
- Ongoing development of a Commercial Activity Policy and appropriate procedures to ensure appropriate and consistent scrutiny and approval of current and future commercial activity aligned to our new [Enterprise Plan 2017-22](#).

**PAC Recommendation 2: We recommend Natural Resources Wales review its delegation arrangements alongside its awareness raising of State Aid law, public law and the processes for awarding contracts. We recommend the findings of this evaluation are shared with the Public Accounts Committee to enable this Committee to monitor implementation and progress against identified changes.**

We have reviewed our internal schemes of delegation.

- The financial scheme of delegation is to be strengthened with broader examples of appropriate escalation.
- Our non financial scheme of delegation requires significant updating due to our organisational design programme. Novel, contentious and repercussive decision making will be made clear in the updated scheme.

State Aid training has been designed and provided by an external law firm to 60 staff in identified teams, with Public Law training to follow before the end of this financial year.

**PAC Recommendation 3: We recommend that Natural Resources Wales review its internal governance arrangements to ensure that its accounting officer, Executive Team and Board should have a much greater role in scrutinising contracting processes and the awarding of contracts. It is imperative that these processes are robust with a clear and demonstrable audit trail that decisions have been taken on a fair and sound basis.**

- We have reviewed the Terms of Responsibility of our Board and Sub Committees
- Meeting documentation templates have been updated and are to be rolled out to all staff shortly to ensure consistency.

**PAC Recommendation 1: We recommend that Natural Resources Wales undertake a full evaluation of its governance arrangements relating to contracting processes, clearly setting out lessons learned with specific reference to timber sales contracts referred to in this report.**

Action Ref.	NRW Action	NRW Lead	Update	Status
1.1	Identify the key areas of the organisation that are charged with entering or the ongoing management of contracts.	Executive Director of Finance and Corporate Services	<p>Teams Identified:</p> <ul style="list-style-type: none"> <li>Enterprise: Timber Production; Energy Development; Other Estate Income; Recreation and Tourism; Analytical Services.</li> <li>Corporate: Procurement; Grants &amp; Partnerships, Future Regulations and initiatives delivered jointly with other bodies</li> </ul>	Completed
1.2	Review the process of evaluation, negotiation and awarding of contracts and other external commitments for the key areas identified in action 1.1	Head of Governance and Planning	<p>Governance process mapping of Procurement (goods, works and services); Projects (non flood), Projects (flood); Timber Sales; Grants and Collaborative Agreements has been completed.</p> <p>The following teams follow non flood project governance processes: Analytical Services, Energy Delivery, Future Regulation</p>	Completed

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Action Ref.	NRW Action	NRW Lead	Update	Status
1.3	<p>Review governance arrangements of Sales and Procurement contracts to ensure all ‘significant’ contracts let without competition (individually or collectively) are:</p> <ul style="list-style-type: none"> <li>• considerate of the approval limit within the FSoD of the letting of timber sales contracts</li> <li>• reported to the Audit and Risk Assurance Committee (as single tender actions) for scrutiny;</li> <li>• the rationale for letting contracts without competition is documented, including clear evidence of matters such as urgency and market conditions or evidence that there is a single source of supply or single unique supplier; and</li> </ul> <p>the letting is subject to a legal assessment which takes into consideration procurement regulations, State Aid and risk of legal challenge.</p>	<p>Head of Commercial Services for Sales Contracts</p> <p>Head of Procurement for Procurement Contracts</p>	<p>Significant has been defined as £5m for Procurement and £0.5m for Commercial Activity.</p> <p>It has been determined that significant in the context of contracts let without competition shall be the OJEU limit, currently set at £106k. Head of Procurement and Head of Commercial Activity will inform NRW’s ARAC in the event that a contract without competition reaches this threshold.</p> <p>In addition Head of Commercial Activity will look to use a new STA process which includes clear justification (similar to that used by Procurement) to document contracts awarded without competition. This process will ensure that legal assessments are carried out prior to letting. This documentation is currently being developed.</p>	Ongoing
1.4	<p>Review and strengthen the controls around financial decisions and external commitments which involves commitments under market value.</p>	<p>Executive Director of Finance and Corporate Services</p>	<p>Controls have been considered along with our scheme of delegation review, and the procedures for current and future activity under the Enterprise Plan. Although infrequent, there are situations where timber could be sold without negotiation and which <u>have the potential</u> to be sold below market value. Such as</p> <ul style="list-style-type: none"> <li>• very small amounts of timber as described in our <a href="#">Timber Marketing Plan for 2017-22</a>.</li> <li>• price indexing mechanism variations</li> <li>• small Long Term Contracts for niche products or Community Groups.</li> </ul>	Ongoing

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			In these circumstances the matter is referred to the Head of Sales and Marketing for consideration in line with e.g. business priorities and targets, customer capacity etc. Potential sales with significant risk to NRW (reputational / delivery of objectives) would be escalated further and all decisions on sales awarded are recorded within our e-sales document management system.	
1.5	Ensure teams handling contract decisions are aware of NRW response to improve quality of documentation and records of decision making (See action 3.4)	Head of Governance and Planning	Teams identified above will receive targeted communications in line with roll out of action 3.4	Ongoing
1.6	A protocol is put in place for handling post contract negotiations and evidence requirements of any amendments.	Head of Commercial Services	Business rules for changes to contracts (duration and quantity) have been built into Timber Management Platform with appropriate escalation in system.	Completed
1.7	Enterprise Programme Board to review their process to ensure they are effective in challenging/scrutinising all aspects of new enterprises.	Head of Commercial Services	Following approval of our new Enterprise Plan July 2017 a Commercial Activity Policy Project has been set up to develop governance and scrutiny arrangements of current and future activities under the new structure.	Completed

**PAC Recommendation 2: We recommend Natural Resources Wales review its delegation arrangements alongside its awareness raising of State Aid law, public law and the processes for awarding contracts. We recommend the findings of this evaluation are shared with the Public Accounts Committee to enable this Committee to monitor implementation and progress against identified changes.**

Action Ref.	NRW Action	NRW Lead	Update	Status
2.1	Review the Financial Scheme of Delegation (FSoD) to ensure appropriate checks / actions / escalation that are required when dealing with novel, contentious and repercussive issues are included in sign off procedures.	FSoD Coordinator	FSoD has been reviewed. Instructions are clear however broader examples will be added during our next revision of the scheme.	Completed
2.2	Review Non-Financial Scheme of Delegation to ensure appropriate checks / actions / escalations that are required when dealing with novel, contentious and repercussive issues are included in sign off procedures.	Governance Partner	NFSoD requires full review in 2018 following Organisational Design restructure of the organisation.  Information on novel, contentious and repercussive decisions will be issued to staff before the end of 2017.	Completed
2.3	Develop a workshop to cover State Aid and deliver to staff in the following teams (deemed as most likely to encounter these issues): <ul style="list-style-type: none"> <li>• Grants and Partnerships,</li> <li>• New Enterprises,</li> <li>• Future Regulations</li> <li>• Procurement</li> </ul>	Head of Legal Services	State Aid workshops delivered identified staff during September and October 2017.  State Aid staff guidance document prepared.	Completed
2.4	Develop a presentation on Public Law including documentation of decision making and concepts of novel, contentious and repercussive issues; and deliver to staff in the following teams (deemed as most likely to encounter these issues): <ul style="list-style-type: none"> <li>• Grants and Partnerships</li> <li>• New Enterprises</li> <li>• Future Regulations</li> <li>• Procurement</li> </ul>	Head of Legal Services	Public Law presentation prepared to follow above State Aid training therefore will be delivered during November and December 2017.	Ongoing

Action Ref.	NRW Action	NRW Lead	Update	Status
2.5	Share results with Public Accounts Committee through this action plan and subsequent update.	Chief Executive	To be shared with PAC in November 2017.	Completed

**PAC Recommendation 3: We recommend that Natural Resources Wales review its internal governance arrangements to ensure that its accounting officer, Executive Team and Board should have a much greater role in scrutinising contracting processes and the awarding of contracts. It is imperative that these processes are robust with a clear and demonstrable audit trail that decisions have been taken on a fair and sound basis.**

Action Ref.	NRW Action	NRW Lead	Update	Status
3.1	<p>Review internal governance arrangements to ensure</p> <ul style="list-style-type: none"> <li>• clarity of the remit of Boards and Committees</li> <li>• appropriateness of the escalation routes</li> <li>• effectiveness of the oversight they provide</li> </ul>	Head of Governance and Planning	<p>Board and sub-committee Terms of Responsibilities reviewed during summer 2017.</p> <p>We are introducing standardised internal governance arrangements to address planning, performance, risks management, with new escalation routes and scrutiny.</p> <p>The planned schemes of delegation reviews as part of our organisational design will provide escalation in line with required external guidance e.g. Framework Document, Managing Welsh Public Money etc.</p>	<p>Completed</p> <p>Ongoing</p>
3.2	<p>Review NRW Governance arrangements to ensure all 'significant' income and expenditure contracts (above a financial ceiling to be set by NRW) should:</p> <ul style="list-style-type: none"> <li>• consider the approval limit within the FSoD of the letting of timber sales contracts</li> <li>• be referred to Executive Committee/NRW Board for approval; and</li> </ul>	<p>Head of Commercial Services for Sales Contracts</p> <p>Head of Procurement for Procurement Contracts</p>	<p>Significant has been defined as £5m for Procurement and £0.5m for Commercial.</p> <ul style="list-style-type: none"> <li>• Forthcoming workshop to determine escalation thresholds and governance arrangements.</li> <li>• Head of Sales and Marketing to be involved in workshop and development of thresholds and process.</li> </ul>	Ongoing



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	<ul style="list-style-type: none"> <li>be subjected to appropriate scrutiny which may include seeking legal advice on State aid rules and/or compliance with procurement regulations, and formal consideration as to whether the contracts should be referred to the Welsh Government as potentially novel, contentious or repercussive.</li> </ul>			
3.3	Roll out an initiative to improve the quality of <ul style="list-style-type: none"> <li>the documentation submitted to the Boards, Committees and Senior Management Groups</li> <li>the record taking to document decisions they make.</li> </ul>	Head of Governance and Planning	Revised templates have been established for Terms of Reference, Agenda Planning, Agenda Standing Items, Minutes, Actions Logs Risk Registers etc. Roll out plan to be addressed once formats agreed.	Ongoing