

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

12 September 2018

Dear Nick,

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

In June I wrote to you to outline the approach we have taken in response to the original action plan following the Public Accounts Committee scrutiny of our Annual Report and Accounts 2015/16.

In advance of our session at the Public Accounts Committee on 24 September I enclose an updated action plan summarising further progress.

Since I wrote to you last, I have commissioned Grant Thornton LLP to undertake a comprehensive review of the key commercial business areas, governance arrangements and the behavioural and cultural aspects that led to the award of the Long-Term Timber Sales Contracts and the transitional arrangements that were subsequently put in place. Grant Thornton have already met with me, NRW Board Members and Wales Audit Office. I would note that parts of our original action plan may be supplemented by any recommendations or learning out of the Grant Thornton review.

I would like to take this opportunity to ask whether I am allowed to make an opening statement at our session on 24 September?

With best wishes,

Clare Pillman  
Prif Weithredwr, Cyfoeth Naturiol Cymru  
Chief Executive, Natural Resources Wales

A copy of this letter has been sent to:

- Andrew Slade, Director of Environment and Rural Affairs at Welsh Government
- Wendy Burris, Welsh Government Sponsorship Team
- Derwyn Owen, Wales Audit Office

**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	How we will do this	Status	Progress update
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	Consider the breadth of NRW operational and corporate work and acknowledge teams that are involved in contract management.	Completed	Teams Identified: <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>
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	Governance process mapping of Procurement (goods, works and services); Projects (non flood), Projects (flood); Timber Sales; Grants and Collaborative Agreements.  The following teams follow non flood project governance processes: Analytical Services, Energy Delivery, Future Regulation	Completed	A continuous improvement project was completed to process map decision making, approvals, roles and responsibilities within our contract management frameworks. This work was superseded by development of the Commercial Activity Governance Policy to support the Enterprise Plan.

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Action Ref.	NRW Action	NRW Lead	How we will do this	Status	Progress update
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>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 only one suitable or available purchaser; and</li> <li>the letting is subject to consideration of procurement regulations, State Aid and risk of legal challenge.</li> <li>Audit and Risk Assurance Committee will be briefed about the new controls for timber contracts let without competition, (by 7 June 2018)</li> </ul>	<p>Head of Commercial Services - Sales Contracts</p> <p>Head of Procurement - Purchase 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.</p> <p>The Head of Commercial Operations will be responsible for informing NRW's ARAC in the event that a contract without competition reaches this threshold.</p> <p>In addition, Head of (Timber) Sales and Marketing will develop a new Single Tender Action (STA) process which includes clear justification (like that used by Procurement) to document contracts awarded without competition. This process will consider State Aid compliance.</p>	<p>Completed</p> <p>On-going</p> <p>On-going</p> <p>Completed</p>	<p>Head of Sales and Marketing has developed a STA form and guidance.</p> <p>We continue to refine our reporting to ARAC and expect the external review by Grant Thornton to inform ways of working</p> <p>As part of the restructure, recruitment of a new Head of Commercial Services, reporting to Executive Director of Finance and Corporate Services, is underway.</p> <p>See above</p>
1.4	<p>Review and strengthen the controls around financial decisions and external commitments which involves commitments entered into without open competition.</p>	<p>Head of Commercial Services - Sales Contracts</p>	<p>Controls have been reviewed along with our financial scheme of delegation and the procedures for current and future activity under the Enterprise Plan.</p> <p>Clarify existing procedures for certain types of commercial agreements such as 3rd party Access requests Where there is no such process, we will develop a generic STA for non-timber</p>	<p>On-going</p>	<p><b>Grant Thornton are reviewing these controls.</b></p>

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Action Ref.	NRW Action	NRW Lead	How we will do this	Status	Progress update
			commercial agreements entered into without competition		
1.5	Ensure teams handling contract decisions are aware of NRW response to improve quality of documentation and records of decision making (See action 2.4)	Head of Governance and Planning	Provide training as part of the Public Law Training in action point 2.4	On-going	<p>Our Document Management System (DMS) provides our corporate repository of information and evidence which is used to inform future decisions, provide a clear audit trail and enable historical research,</p> <p>We have already provided staff across NRW with training on using the DMS which is a key tool in providing evidence of transparency and accountability through our decisions.</p> <p><b>Grant Thornton are reviewing these controls.</b></p>
1.6	A protocol is put in place for handling post contract negotiations and evidence requirements of any amendments.	Head of Commercial Services	<p>The Head of Sales and Marketing will assess the guidance that we have to ensure it fit for purpose</p> <p>An assessment will be made of the way in which the Timber Management Package (TMP) system embeds the guidance into the business process in a way that is proportionate to risk and the level of authority required.</p> <p>We will evaluate the potential to develop system reports in TMP to monitor performance.</p>	<p>On-going</p> <p>On-going</p> <p>On-going</p>	<p><b>Grant Thornton are reviewing these controls.</b></p> <p>Further development of the TMP is currently being assessed.</p> <p><b>Grant Thornton are reviewing these controls.</b></p> <p>See above</p>

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Action Ref.	NRW Action	NRW Lead	How we will do this	Status	Progress update
1.7	Enterprise Programme Board to review their process to ensure they are effective in challenging / scrutinising all aspects of new commercial 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.	On-going	Commercial Activity Policy approved by Executive Team in June 2018.  Detailed procedures are now being drafted.

**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	How we will do this	Status	Progress update
2.1	Review the Financial Scheme of Delegation (FSoD) to ensure that the appropriate checks / actions / escalation 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.	On-going	An amended definition describing novel, contentious and repercussive transactions was agreed at Executive Team in August 2018 and will be considered for NRW Board approval in September 2018. .
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.	On-going in line with OD timetable.	Organisational Design is on track for 1 April 2019.  As part of the restructure, recruitment of a new Head of Commercial Services, reporting to Executive Director of Finance and Corporate Services, is underway.
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	5 State Aid workshops have been delivered to 81 staff in identified teams.  A guidance document was prepared and shared with all attendees.

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Action Ref.	NRW Action	NRW Lead	How we will do this	Status	Progress update
2.4	<p>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):</p> <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	Provide a Public Law presentation to relevant NRW teams.	Completed	<p>8 Public Law sessions have been delivered to 166 staff in identified teams.</p> <p>This is now part of a programme of legal training for staff across the organisation. Further workshops in Autumn 2018 already have an additional 109 staff signed up.</p>
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	Action Plan progress was shared with the PAC in November 2017, a follow up letter in April 2018, and this action plan update in September 2018.



**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	How we will do this	Status	Progress update
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 Reference 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>Completed</p> <p>On-going</p>	<p>All Terms of Reference are reviewed annually.</p> <p>This review is integral to the work of the Business Boards that are being created as part of Organisational Design and how they will operate.</p> <p>New Executive Team ways of working have been implemented to ensure effective oversight of organisation.</p> <p>Senior management corporate governance training is booked in November 2018</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</li> </ul>	<p>Head of Commercial Services - Sales Contracts</p> <p>Head of Procurement - Purchase Contracts</p>	Significant has been defined as £5m for Procurement and £0.5m for Commercial Services	Ongoing	The FSoD Co-ordinator in consultation with the Enterprise team is working on ensuring that procedures comply with the thresholds set by NRW and this work will be included as an output of the commercial activity governance project.

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Action Ref.	NRW Action	NRW Lead	How we will do this	Status	Progress update
	<p>the letting of timber sales contracts</p> <ul style="list-style-type: none"> <li>• be referred to Executive Committee/NRW Board for approval; and</li> <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>				<b>Grant Thornton are reviewing these controls.</b>
3.3	<p>Roll out an initiative to improve the quality of</p> <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.	Ongoing	<p>Work continues on standardising Terms of Reference and associated documents for the various Boards, Committees and Senior Management Groups.</p> <p>See above re. Executive Team ways of working.</p>