

Clare Pillman
Chief Executive
Natural Resources Wales

6 March 2019

Dear Clare

Annual scrutiny of Natural Resources Wales: follow up from 13 February meeting

Thank you for attending the Committee's meeting on 13 February to give evidence in connection with our annual scrutiny of Natural Resources Wales ('NRW'). The Committee was encouraged by your evidence and is keen to follow NRW's progress over the coming year under your leadership.

In light of your evidence, the Committee would like to make the following observations, and would welcome clarification and/or further details on the issues set out below.

Performance measures

According to NRW's Corporate Plan, medium-term measures to show how NRW performs over the lifespan of the Corporate Plan would be published alongside its 2018–19 Business Plan. In addition, it states that long-term measures are still being developed.

NRW told us that "the long-term measures and indicators are within the corporate plan" and "medium-term measures that should help [NRW] to deliver those longer term measures [are in the 2018–19 Business Plan]". Despite this, it does not appear as though the measures are contained within either of these documents. **We would therefore welcome further clarification on this issue. We would like you to provide details of NRW's long-term and medium-term measures, in particular, what they measure, how they interact, and when and where they will be published.**

Organisational redesign

In evidence to us, your predecessor suggested that NRW's organisational redesign could result in financial savings of £10 million per annum. However, you told us that NRW has



“not needed to make those savings” as a result of a “prudent but slightly more optimistic view of timber income” and the decision by the Welsh Government not to reduce your flood revenue budget. We question whether the organisational redesign represents a missed opportunity to make substantial, long-term financial savings. **We would like details of any financial savings arising from the organisational redesign, as well as your longer-term plans to make up the estimated savings of £10 million per annum.**

We note that NRW’s new structure following the organisational redesign should largely be in place by 1 April 2019 and that you intend to monitor and evaluate its effectiveness in due course. **We would like further details of how and when this monitoring work will be taken forward.**

The Committee was pleased to hear that NRW has undertaken work on equal pay as part of its Job Evaluation Scheme. **We would like details of the findings of this work, as well as the steps being taken to address pay differentials if any were found.**

Annual Report and Accounts

During your evidence session we asked you about NRW’s accounts, which have been qualified by the Auditor General for Wales for three consecutive years, including the 2017–18 financial year. We note that the accounts were qualified on the grounds of irregularities rather than inaccuracies. However, it remains the case that you, as Accounting Officer, signed off the accounts for 2017–18, a period in which several issues relating to the award of timber sales contracts came to light. You emphasised that these “historic issues...may mean that qualification [of NRW’s accounts for 2018–19] is unavoidable”. This does not provide us with the level of assurance that we are seeking. **We would like you to expand on your assertion and to explain how you will satisfy yourself that you have obtained sufficient and appropriate assurance before signing off next year’s Annual Governance Statement and accounts, including the Governance Statement.**

Area Statements

In your evidence, you explained that the three month delay in the publication of the Natural Resources Policy meant that the development of Area Statements has been delayed by the same time period. However, the Minister for Environment, Energy and Rural Affairs (‘the Minister’), has previously advised us that your anticipated timeframe for developing Area Statements has been delayed by almost a year (from April 2019 to



March 2020). **We would welcome clarification on when you anticipate Area Statements to be published and how this differs from your original timeframe. We would also like you to expand on the reasons for this delay.**

Funding

The Committee has previously raised concerns with the Minister about the considerable reductions to NRW's budget in recent years. In our report on the Welsh Government's draft budget 2019–20, we asked the Minister to report back to us on the progress of discussions relating to NRW funding, including options to increase NRW's ability to generate income.

We are expecting an update from the Minister in early summer. In her interim response, however, the Minister pointed out that "NRW already has the ability to generate income". It appears there may be a difference of opinion on and/or interpretation of NRW's ability to generate income. In your evidence to us, you suggested that much of any income generated must be returned to the Welsh Government. **We seek further clarification on existing and potential sources of income generation, including how much of this income can be retained by NRW and how much is returned to the Welsh Government.**

In our draft budget 2019–2020 report, we raised concern that prioritising funding to ensure the delivery of NRW's statutory duties could impact on the delivery of non-statutory services. In commenting on recent budget reductions, you told us that "when cuts have fallen, they have fallen disproportionately on particular areas of the business", including "natural resource management and biodiversity". **We would like you to provide specific examples where services and/or activities within these areas, and any other areas, have been affected by budgetary cuts, and the implications of this.**

When questioned on funding required to undertake work on newly designated reservoirs in your ownership, you told us that you had an on-going programme of work, which was currently funded on a "year-by-year basis". We note that £3 million additional funding will be made available in 2019–2020 for this work. You also told us that no additional funding had been made available to meet the cost of regulating newly designated reservoirs.

In responding to our draft budget 2019–2020 report, the Minister told us that discussions are underway with the UK Government to secure additional funding arising from the implications under the Reservoir Act 1975. The Minister has given a



commitment to report back to us in June 2019, and, depending on the outcome of those discussions, we may wish to continue to pursue this matter with her.

In the meantime, and in order to further assist us, **we would like you to provide details on the total cost associated with NRW's programme of work for reservoirs, including timescales you are working towards. We would also like any assessment of the additional costs associated with regulating newly designated reservoirs that are not in your ownership, and how you intend to meet these.**

Implications for NRW of the UK's exit from the EU

We note that NRW has been undertaking strategic contingency planning and business continuity management in case of a no deal Brexit. We would like further details on the following:

- **actions NRW is taking to respond to the potential stockpiling of products and waste at ports in the event of a no-deal Brexit,**
- **discussions NRW has had with ports and how you have fed into the Welsh Government's contingency plan for port traffic, and**
- **what the £3.7 million requested by NRW from the Welsh Government to support Brexit-related work would be spent on, and the implications if you are unable to secure this funding.**

Environmental permitting

We note that NRW had “paused work” with the Future Generations Commissioner on the matrix showing how the Well-being of Future Generations (Wales) Act 2015 should apply to environmental permitting decisions. This was because you were awaiting the publication of statutory guidance from the Welsh Government on this issue. We note that the guidance has now been published. In evidence to us, you told us that you were “restarting discussions” and suggested that work on the matrix would be resuming. We would like further clarification on this issue, including the timeframe you will be working towards for completion of the matrix.

Community engagement

The Committee was encouraged by the work NRW is undertaking to engage urban and semi-urban communities with the natural environment, in particular the ‘Greener



Grangetown' project and the Denbighshire project linked to 'green prescribing'. We would welcome further details on these projects, including the outcomes anticipated and how they will be measured.

Thank you again for attending the meeting. Our intention is to continue scrutiny of NRW on an annual basis. We do, however, reserve the right to invite you to give evidence at any time within the next 12 months, should the need arise.

It would be helpful if we could receive a response by 27 March.

Yours sincerely,

A handwritten signature in black ink that reads "Mike Hedges". The signature is written in a cursive, flowing style.

Mike Hedges AM

Chair of Climate Change, Environment and Rural Affairs Committee

