

4 February 2016

Archwilydd Cyffredinol Cymru
Auditor General for Wales

The development of Natural Resources Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



I have prepared and published this report in accordance with the Government of Wales Acts 1998 and 2006.

The Wales Audit Office study team comprised Alastair McQuaid, Sophie Knott, Verity Winn, Rachel Harries, Paul Cunningham, Emma Giles, Bethan Davies, Richard Smith, Stephen Frank and Avril Watkins under the direction of Matthew Mortlock.

All photos courtesy of Natural Resource Wales

Huw Vaughan Thomas
Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

The Auditor General is independent of the National Assembly and government. He examines and certifies the accounts of the Welsh Government and its sponsored and related public bodies, including NHS bodies. He also has the power to report to the National Assembly on the economy, efficiency and effectiveness with which those organisations have used, and may improve the use of, their resources in discharging their functions.

The Auditor General, together with appointed auditors, also audits local government bodies in Wales, conducts local government value for money studies and inspects for compliance with the requirements of the Local Government (Wales) Measure 2009.

The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office, which is a statutory board established for that purpose and to monitor and advise the Auditor General.

For further information please write to the Auditor General at the address above, telephone 029 2032 0500, email: info@audit.wales, or see website www.audit.wales.

© Auditor General for Wales 2016

You may re-use this publication (not including logos) free of charge in any format or medium. You must re-use it accurately and not in a misleading context. The material must be acknowledged as Auditor General for Wales copyright and you must give the title of this publication. Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned before re-use.

If you require any of our publications in an alternative format and/or language please contact us using the following details: Telephone 029 2032 0500, or email info@audit.wales

Key facts about NRW

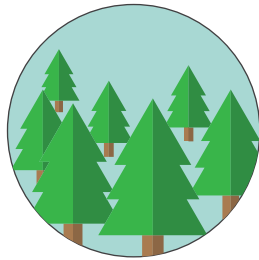
Creation date
1 April 2013

Countryside
Council for
Wales

Main
legacy bodies

Environment
Agency
Wales

Forestry
Commission
Wales



Number of
staff as at
October 2015
2,017

Manages
7%
of Wales'
land area

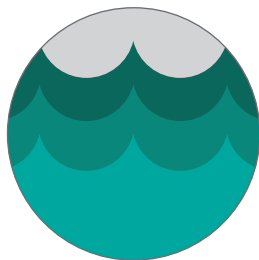
Annual
budget
for 2015-16
£187m



Actual
total benefits
at 2014-15
£7.5m

Forecast
total benefits
at 2018-19
£74.3m

Target
total benefits
at 2022-23
£158m



Contents

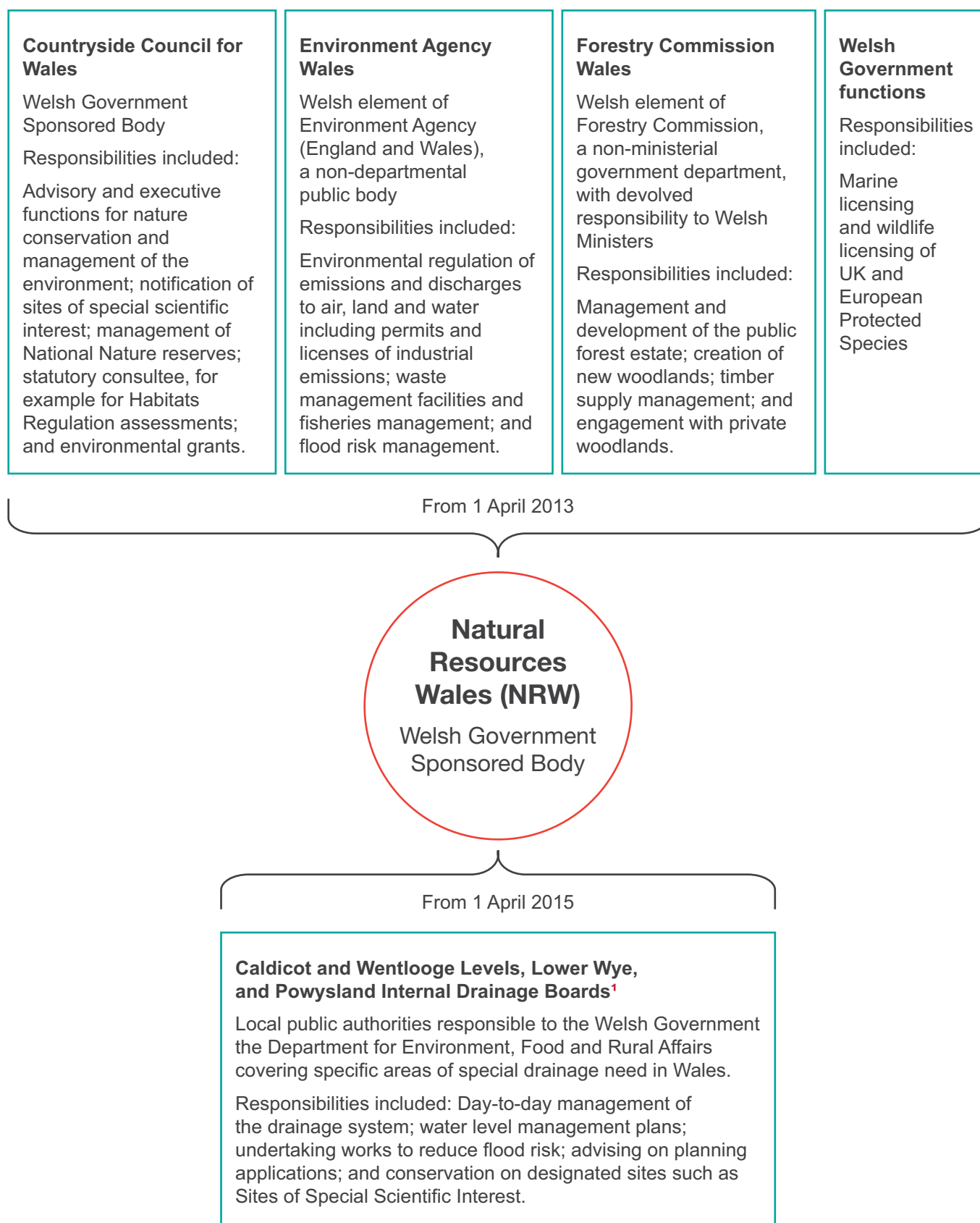
	Summary	6
	Recommendations	12
1	NRW adopted a sound and well-structured approach to meeting the significant challenges presented by its creation; ensuring continuity in delivering its wide range of functions, and with a clear focus on achieving the intended benefits	15
	NRW's successful creation involved significant challenges	16
	Since its creation, NRW has maintained business continuity and has also dealt effectively with some significant incidents	18
	NRW has taken a sound, well-structured and pragmatic approach to making the transition from the pre-existing arrangements to becoming a single body	25
	NRW has made good progress towards achieving financial savings and delivering other benefits intended from its creation	36

2	NRW has learned from progress made and challenges faced and is now proceeding with a more ambitious and comprehensive change programme, necessary to transform itself for the future and deal with legislative changes and resource pressures	42
	Although NRW's transition programme was extensive, there were constraints and limitations which NRW has now addressed within its transformation programme	43
	NRW is taking action to address identified weaknesses in its risk management, procurement and grants arrangements	50
	NRW has taken a pro-active approach to dealing with legislative changes and the prospect of new statutory responsibilities	54
	NRW recognises that there are some risks and significant internal and external challenges for it to address in order to sustain its planned pace of progress towards transformation, whilst continuing to deliver savings	56
	Appendices	63
	Appendix 1 – Audit scope and methods	64
	Appendix 2 – Indicative NRW responsibilities and timeline relating to the Well-being of Future Generations (Wales) Act 2015 and Environment (Wales) Bill, 2016 to 2020	67

Summary report



Figure 1 – Legacy organisations and their responsibilities



Note:

¹ Caldicot and Wentlooge Levels Internal Drainage Board operated wholly in Wales. Lower Wye and Powysland Internal Drainage Boards were split along the English and Welsh border, with the functions relating to areas in Wales transferred to NRW.

Source: Wales Audit Office, using information from Natural Resources Wales

- 1 Natural Resources Wales (NRW) is by far the largest Welsh Government sponsored body¹. It has an annual budget of £187 million for 2015-16 and as at October 2015 employed 1,941 permanent staff, 71 temporary staff and five apprentices throughout Wales. The Welsh Government created NRW on 1 April 2013, replacing three legacy bodies – the Countryside Council for Wales, Environment Agency Wales, and Forestry Commission Wales – as well as incorporating certain Welsh Government functions (Figure 1). On 1 April 2015, the Welsh Government transferred the functions of the three Internal Drainage Boards operating wholly or partly in Wales into NRW.
- 2 NRW has a wide and complex range of roles and responsibilities, which contribute to delivering Welsh Government policy objectives relating to the environment, economy and quality of life (Figure 2). The Welsh Government sets out the key priorities for NRW in annual remit letters.

Figure 2 – NRW's roles and responsibilities

Adviser	Principal adviser to Welsh Government, and adviser to industry and the wider public and voluntary sector, and communicator about issues relating to the environment and its natural resources.
Regulator	Protecting people and the environment including marine, forest and waste industries, and prosecuting those who breach the regulations that NRW is responsible for.
Designator	For Sites of Special Scientific Interest – areas of particular value for their wildlife or geology, Areas of Outstanding Natural Beauty, and National Parks, as well as declaring National Nature Reserves.
Responder	To some 9,000 reported environmental incidents a year as a Category 1 emergency responder.
Statutory consultee	To some 9,000 planning applications a year.
Manager/Operator	Managing seven per cent of Wales' land area including woodlands, National Nature Reserves, water and flood defences, and operating visitor centres, recreation facilities and a laboratory.
Partner, Educator and Enabler	Key collaborator with the public, private and voluntary sectors, providing grant aid, and helping a wide range of people use the environment as a learning resource; acting as a catalyst for others' work.
Evidence gatherer	Monitoring the environment, commissioning and undertaking research, developing knowledge, and being a public records body.
Employer	Of over 1,900 [permanent] staff, as well as supporting other employment through contract work and volunteering opportunities.

Source: Natural Resources Wales 2014-15 Annual Report

¹ Welsh Government sponsored bodies are public bodies funded by the Welsh Government that have a role in the processes of Government but are not part of Government departments. Each sponsored body has a framework agreement with the Welsh Government setting out roles and responsibilities. Sponsored bodies operate at arms-length from Welsh Government Ministers, but the Board of the sponsored body is accountable to Ministers through their sponsor department within the Welsh Government. Other sponsored bodies include, for example, the National Museum of Wales, the Care Council for Wales and Sport Wales.

- 3 The business case for setting up NRW identified a range of benefits that the Welsh Government expected to be realised through the creation of NRW, centred around better outcomes, better delivery for Wales and better value for money. The business case identified quantifiable benefits that the Welsh Government expected NRW to make, totalling £158 million over the 10 years to the end of 2022-23². The Welsh Government and NRW revised the business case in July 2013, varying the profile of forecast benefits per year but keeping the overall total 10-year forecast of £158 million the same³. The total expected costs of NRW's creation were £66 million in the revised business case, giving a forecast net saving of £92 million to 2022-23.
- 4 NRW's creation involved a range of potential risks and challenges and was subject to considerable scrutiny. Some organisations, particularly in the forestry sector, contested the original decision to replace the three organisations, raising concerns over continuity and a dilution of focus on their particular areas of interest. The original business case for the creation of NRW, prepared by the Welsh Government, identified several strategic risks including:
 - a negative stakeholder response;
 - b a lack of common purpose;
 - c adverse impact on staff and organisational performance;
 - d loss of organisational skills; and
 - e disruption to cross border working arrangements.
- 5 The National Assembly for Wales' Environment and Sustainability Committee considered some of these issues in its 2012 inquiry to assess whether the business case that informed the Welsh Government's decision to create a new body would deliver the natural environment outcomes the Government wishes to secure⁴. The Committee identified that it could not yet be confident that mechanisms would be in place to mitigate risks and concerns raised with the Committee; and recommended that the Welsh Government ensure there would be no weakening in performance during the transition period, and that commercial expertise from the legacy bodies would be mainstreamed into the work of NRW. The Committee's interest has continued since NRW was created, including a further inquiry relating to the public forestry estate in Wales and public consultation as part of the Committee's annual scrutiny of NRW.

² These benefits include both cash and other quantifiable savings of being a single, streamlined body, reducing duplication, simplifying processes, and achieving productivity gains.

³ The original November 2011 business case forecast total benefits of £158.4 million. The revised July 2013 business case forecast total benefits of £158.0 million.

⁴ **Report – The business case for a single environmental body**, National Assembly for Wales Environment and Sustainability Committee, May 2012.

- 6 Given the inherent risks in NRW's creation and the level of organisational change involved, and because NRW is a new organisation that utilises significant public resources in the course of discharging important functions, the Auditor General included an examination of the development of NRW in his programme of value-for-money examinations. Our study focused on whether NRW has in place, or is developing, effective governance arrangements that support delivery of its key priorities and outcomes. Further details of the scope of our work and audit methods are included in [Appendix 1](#). Although we did not examine the operational delivery of NRW's functions as part of our study, Wales Audit Office staff are currently preparing a report on managing the risks of coastal flooding and erosion that will include some consideration of NRW's role in this area. In addition, in the future, we expect to undertake audit work to follow up on our current studies; perform new audit work at NRW related to the Well-being of Future Generations (Wales) Act 2015 duties; and continue to include work in our value-for-money study programme that is relevant to NRW's functions.
- 7 NRW managed the first two years of its development as a 'transition' stage, aiming to manage continuity whilst bringing together functions from its legacy bodies. NRW has now reached a key development point as it moves from 'transition' into the 'transformation' stage of building the new organisation further. As part of this next stage, NRW faces the challenge of increasing statutory responsibilities under new legislation including the Well-being of Future Generations (Wales) Act 2015 and the Environment (Wales) Bill, due to be enacted by spring 2016 ([Appendix 2](#)).
- 8 **Overall, we have concluded that NRW adopted a sound and well-structured approach to quickly establishing the key systems and controls that enabled its smooth creation. These arrangements supported continuity in its operations in order to deliver its key priorities and outcomes. We consider that NRW has a solid platform for continuing to realise the benefits envisaged in the business case for its creation and for tackling the challenges of transforming NRW for the future, in light of anticipated funding constraints, new statutory responsibilities and stakeholders' expectations.**
- 9 We reached this conclusion because NRW's transition arrangements have supported business continuity in a period of ongoing organisational change during which NRW also had to deal with significant incidents of flooding and tree disease. We consider that NRW has made good progress towards achieving financial savings and delivering other benefits intended from its creation. NRW is now proceeding with a more ambitious transformation programme, using learning gained from its own experience, along with good practice from elsewhere. NRW has recognised the constraints and limitations of its initial change programme and has prioritised a focus on people management and communication within its transformation programme.

10 We note there are significant internal and external challenges for NRW to address to transform itself for the future. NRW has taken a pro-active approach to dealing with legislative changes and new statutory responsibilities. However, there is uncertainty regarding any additional funding for this work. In December 2015, the Welsh Government confirmed to NRW a cash-terms reduction of eight per cent on a like-for-like basis in the revenue grant-in-aid funding for 2016-17 related to non-flood risk management, and a five per cent reduction in flood risk management grant-in-aid⁵. The Welsh Government has maintained capital grant-in-aid at current levels. NRW has modelled a range of budget scenarios to plan for potential funding reductions year on year; however, the level of funding beyond 2016-17 is unknown at present⁶. Funding pressures combined with the need to realise existing savings commitments whilst delivering new or enhanced responsibilities creates significant challenges for NRW in medium-term financial and service delivery planning. Responding to these multiple pressures will require NRW to have an integrated approach to all aspects of its activities.

5 The reduction in flood risk management grant-in-aid in 2016-17 may be mitigated in-part by funding that NRW intends to carry forward from 2015-16; and, following flooding incidents in December 2015 and January 2016, additional Welsh Government funding sourced partly from its own budgets and partly from an uplift in its block grant from the UK Government following an announcement of additional support for England.

6 The Welsh Government published its 2016-17 draft budget in December 2015, which provides high-level details for one financial year. The Welsh Government subsequently confirmed to NRW its specific budget allocation. More detail on future years' budgets will not be available until the publication of the new Programme for Government, following the May 2016 National Assembly elections.

Recommendations

- 11 In making our recommendations we recognise that NRW has already been subject to a range of additional internal and external reviews, which resulted in a number of recommendations. These include a Better Regulation Delivery Office review; Environment and Sustainability Committee inquiries; a procurement self-assessment, with an expected formal Welsh Government assessment in 2016; and internal audit reviews such as on risk management. NRW is implementing action plans to address these recommendations and therefore, we have not repeated existing recommendations in these areas. Similarly, NRW has already taken action in response to a number of other issues we raised during the course of our study fieldwork.

Recommendations

To provide clarity on future funding arrangements and agree on key priorities given resource pressures

- R1 NRW is likely to face significant and continuing financial pressures in future years, given cuts to grant-in-aid funding for 2015-16 and 2016-17. NRW also has increased statutory responsibilities, which may or may not attract additional funding. The public and stakeholders may not fully understand the exact nature of NRW's role and the size of contribution that NRW can be reasonably expected to make towards environmental targets, particularly in light of budget pressures ([paragraphs 2.30 to 2.33](#) and [paragraphs 2.38 to 2.41](#)).
- a **To enable NRW to undertake more robust medium-term planning, the Welsh Government should provide NRW with more certainty over future funding arrangements, particularly for the next three years, including whether additional funding will be available for the increased statutory responsibilities; and**
 - b **NRW should engage in dialogue with the Welsh Government and stakeholders to agree on the key delivery priorities for NRW over the next five years, and to manage expectations of its role and its contribution to environmental outcomes, given reduced funding.**

To agree the future approach to benefits realisation and management

- R2 While we consider that NRW has a sound platform for continuing to realise the benefits envisaged in the business case for its creation, it is becoming increasingly difficult and resource intensive to separate benefits arising specifically from NRW's creation from the impact of actions required to address further budgetary pressures ([paragraph 1.51](#)). **NRW and the Welsh Government should agree an appropriate approach to monitoring and reporting benefits realisation in the context of the wider action that NRW is taking in response to budgetary pressures.**

Recommendations

To develop the functions that support delivery of the accommodation strategy

R3 NRW is delivering an accommodation strategy, part of which involves appraising options for rationalising accommodation sites (paragraphs 1.39 to 1.44). Although NRW has made good progress, NRW could improve its ability to deliver the strategy by:

- a considering NRW's long-term accommodation needs; and
- b making more effective use of data in order to track sites' usage, expenditure, and performance; and to assess effectiveness of the rationalisation programme.

To ensure that job evaluation is effective in meeting the future needs of NRW

R4 NRW is currently undertaking an extensive job evaluation exercise. The current timeframe of completion by February 2016 is very challenging. At present, the extent to which role descriptions and job design are aligned with new service delivery arrangements, organisation development, and staff training and development is not fully clear (paragraph 2.9). **NRW should ensure that the approach to job evaluation is flexible enough to meet NRW's future business needs.**

To review the effectiveness of its staff and stakeholder engagement

R5 Since its creation, NRW has undertaken a range of internal and external communications activities, including publishing a three-year communications strategy in October 2014. However, NRW recognises the need for improvement and is implementing activities to improve staff and stakeholder engagement (paragraphs 2.12 to 2.17). **NRW should review its staff and stakeholder engagement activities to demonstrate value, effectiveness and alignment to organisational purpose, priorities, and the transformation programme activities and outcomes.**

To improve the use and reporting of workforce-related data

R6 NRW has experienced issues with the accuracy of some workforce data but has recently developed data in areas such as vacancies and is now building an approach to electronic data collection (paragraph 2.11). **NRW should monitor its use of workforce-related data to ensure it is meaningful and accurate and reported appropriately through to the executive team and Board, and to other Committees where relevant.**

Recommendations

To maintain the effectiveness of the NRW Board

- R7 The original NRW Board in place from its creation was well run, with evidence of robust challenge and decision-making and annual assessments of board effectiveness. From November 2015, alongside some changes in the membership of the Board, the Welsh Government is reducing the number of days' time per Board member and the new appointments have a shorter tenure of two years ([paragraphs 2.46 to 2.48](#)). **The Welsh Government and NRW should ensure that they set out clear guidelines on the expected role of Board members given the reduction in time, and keep under review whether the reduction in time has any impact on the effectiveness of the Board.**

Part 1

NRW adopted a sound and well-structured approach to meeting the significant challenges presented by its creation; ensuring continuity in delivering its wide range of functions, and with a clear focus on achieving the intended benefits



- 1.1 This section focuses on the creation of NRW and its operation within its initial two-year transition period, including its progress in achieving the benefits intended from its creation. Section two looks at the arrangements NRW is putting in place to support its transformation phase, including in relation to areas emerging during the transition stage that NRW is now giving more focus to, such as staff and stakeholder engagement.

NRW's successful creation involved significant challenges

- 1.2 There were some substantial challenges to overcome in NRW's creation, particularly because the three legacy organisations had different governance arrangements, operating systems and organisational cultures, and there was a short handover period:
- a The three legacy organisations carried out a range of diverse activities, such as constructing and managing flood defences; managing the Welsh Government-owned forestry estate; and advising the Welsh Government on nature conservation and enhancement (Figure 1). The scale of their responsibilities took in the whole of Wales, and Forestry Commission Wales alone was responsible for managing around seven per cent of land in Wales. The functions encompassed key statutory responsibilities set out in Welsh, UK and European legislation.
 - b Two of the three legacy organisations operated within complex governance arrangements, because they were part of wider geographical bodies:
 - Forestry Commission Wales was part of the overall Forestry Commission that covered England, Wales and Scotland, but with devolved responsibility to Welsh ministers. From its head office in Edinburgh, Forestry Commission GB delivered all financial and human resources activities for Forestry Commission Wales.
 - The Environment Agency Wales was part of the Environment Agency, a non-departmental public body covering England and Wales. The Environment Agency provided all the ICT support and much of the strategic technical guidance to Environment Agency Wales.

These arrangements presented challenges in terms of separating certain functions from their larger parent organisations because the Welsh bodies lacked their own local capacity and capability in some areas. Achieving the benefits identified in the business case for NRW's creation, totalling £158 million over the 10 years to the end of 2022-23, depended in part on quick separation of duties to end reliance on services provided by the legacy bodies.

- c The culture and ways of working at each legacy organisation were different, compounded by the varying professions and skills of staff.
 - d In November 2011, the then Environment Minister announced the replacement of the three legacy organisations with a new body to be operational from 1 April 2013. The Welsh Government legally established NRW on 18 July 2012. Subsequently in August 2012 and October 2012, the Minister announced the Chair and the Board members of NRW, resulting in a short, five-month shadow period for the new members. Further time pressures were created as 1 April 2013 represented a 'hard launch' date, with the legacy bodies undertaking operations up to this date, and NRW taking over operations from that date. Had NRW failed to deliver the day-to-day operations of the legacy bodies on handover, the impact would be high, particularly in terms of the future reputation of NRW.
- 1.3 Nevertheless, the three organisations did share a number of features that contributed to a smooth creation. For example, all had some accountability to Welsh ministers and played an advisory role to the Welsh Government; delivered a regulatory function to help protect and enhance the natural environment; and worked to support public use of the areas that they managed.
- 1.4 The Welsh Government provided £3 million in Invest-to-Save funding⁷ to facilitate setting up NRW, largely for ICT costs. NRW repaid £1.5 million of this sum in 2014-15 and is repaying the remaining £1.5 million in 2015-16.

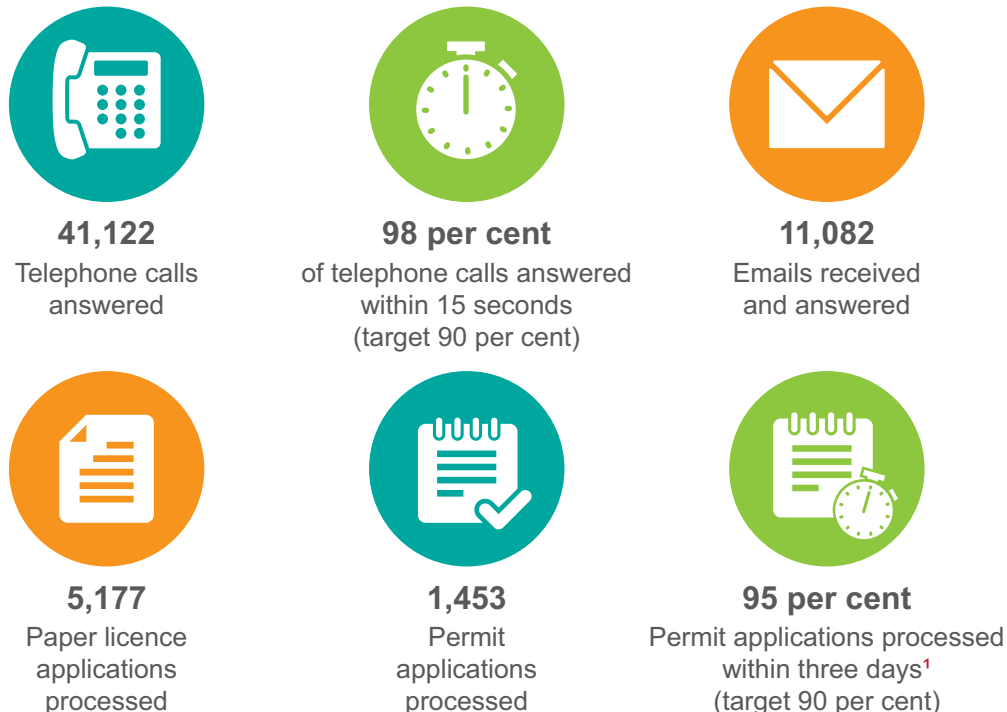
⁷ The Welsh Government also provided NRW with an additional £6 million of Invest-to-Save funding for the costs of two voluntary exit schemes.

Since its creation, NRW has maintained business continuity and has also dealt effectively with some significant incidents

Supported by a clear corporate plan and performance framework, NRW has continued the services of the legacy bodies, although it is difficult to assess trends in performance

1.5 NRW has continued the day-to-day services provided by the legacy bodies, by bringing services in-house and by taking over or renegotiating service level agreements. NRW also took over the provision of some services previously provided by Welsh Government, including marine licensing and wildlife licensing of UK and European Protected Species⁸. To help maintain a smooth service for customers, NRW established a customer care centre, in operation from vesting day, which reduced the number of contact telephone numbers from 10 to one. The centre processes permit and licence applications, and responds to calls and emails, dealing with issues relating to any aspect of NRW's functions. The centre deals with approximately 90 per cent of queries, with 10 per cent referred on to other departments. Figure 3 shows some data on the performance of the centre in 2014-15.

Figure 3 – Performance data of NRW's Customer Care Centre, 2014-15



Note:

1 This relates to the Customer Care Centre's process of checking applications and processing relevant payments before moving the application to the wider permitting teams.

Source: Natural Resources Wales

8 Marine licences are required under the Marine and Coastal Access Act 2009 for activities such as river dredging or harbour construction. Protected species licences are required for a range of activities that may affect certain species classified as protected under UK and European law. Activities include undertaking building work that could disturb a protected species; and use of protected species for scientific or educational purposes.

1.6 In its first year of operation, NRW produced a three-year Corporate Plan for 2014 to 2017. This plan focused on indicators and outcomes based around five ‘Good’ themes (Box 1) on which NRW currently apportions its activity and reporting. NRW developed the corporate plan through consultation with stakeholders, staff, the Welsh Government and the wider public. The plan demonstrates that NRW has established a clear vision and purpose. The corporate plan references the areas of potential benefits and savings set out in the business case; and aligns with NRW’s one-year business plans which focus on measures and outputs. NRW has recognised that its strategies and plans below the corporate plan and business plan level have developed in a range of formats, and is currently undertaking further work to link planning more clearly at all levels of the organisation. NRW is creating a standard template to express all future strategies as an ‘Enabling Plan’ consisting of a strategic statement linking to the corporate plan; a results-based accountability plan linking to the performance framework; and an action plan linking to the business plan, and directorate, team and individual delivery plans.

Box 1 – NRW ‘Good’ themes

- **Good Knowledge** – good information helps us to make good decisions.
- **Good for the Environment** – to ensure that our ecosystems are resilient, that our wildlife and landscape are enhanced and that our natural resources are carefully managed.
- **Good for People** – to ensure that people are safe, that they are able to benefit from and enjoy our natural resources and they understand the relevance of these resources to our day-to-day lives.
- **Good for Business** – Natural Resources Wales aims to make Wales a ‘location of choice’ for business and enterprise and a place where best practice environmental management is adopted and encouraged.
- **Good Organisation** – to make Natural Resources Wales the best organisation it can possibly be.

Source: Natural Resources Wales

1.7 NRW’s performance measurement framework tracks progress against the three-year Corporate Plan and annual Business Plan, and business case targets relating to benefits and intended savings. Indicators also link to ministerial priorities and corporate risk areas. NRW reports progress to the Board every four months, with Board papers available on the NRW website. Some of the indicators reflect aspects of NRW’s day-to-day operations, and as such contribute to stakeholders’ understanding that NRW is continuing to deliver its core functions. For example, there are indicators that cover managing the Welsh Government Woodland Estate to meet industry standards; timescales for issuing permits, licences and consents; and the publishing of information on flood risk management.

1.8 The business plan performance dashboard for 2014-15 showed 28 green 'on target' indicators out of 41 (Figure 4). One of the red indicators related to long-term issues of the condition of Natura 2000 sites⁹, and the other red indicator related to actions to halt biodiversity loss, both of which are not solely reliant on NRW input. NRW did not give two indicators a rating due to a lack of baseline. NRW's internal audit team gave substantial assurance¹⁰ on the accuracy of reported performance in the 2014-15 dashboard in May 2015.

Figure 4 – 2014-15 Business Plan Dashboard performance indicator summary



Source: Natural Resources Wales 2014-15 Annual Report

1.9 It is difficult to assess trends in performance because 2014-15 performance indicators were not directly comparable to 2013-14 indicators or to historic measures used by the legacy bodies. However, in some cases, there are mixed views to indicate whether NRW has maintained the level of service previously provided by the legacy bodies (Case Study 1).

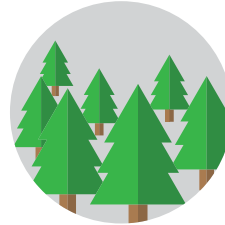
⁹ Natura 2000 sites are an ecological network of protected areas across the European Union set up to ensure the survival of Europe's most valuable species and habitats.

¹⁰ A Substantial level of assurance is the highest level of assurance out of four possible ratings, and is defined as 'the framework of governance, risk management and control is adequate and effective'.

Case Study 1 – Examples relating to NRW's continuity of day-to-day operations

Forestry estate

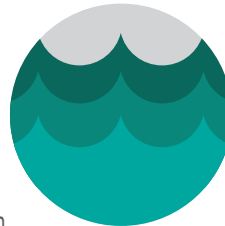
NRW has increased the supply of timber to the market. In 2012-13, Forestry Commission Wales supplied 801,000m³ of timber to the market. In 2013-14 and 2014-15, NRW supplied 887,000m³ and 869,000m³ of timber to the market respectively.



However, evidence to the National Assembly's Environment and Sustainability Committee's 2014 inquiry on the public forestry estate detailed that some external bodies felt there had been deterioration in the commercial focus and management of the public forestry estate since NRW's creation. The Committee noted that processes were embedding and communication had improved between NRW and other bodies. NRW accepted the Committee's findings and NRW, the Welsh Government, the Wales Forest Business Partnership and Confor (a membership organisation promoting sustainable forestry and low-carbon businesses) agreed in December 2014 a joint action plan to address them, which they are working to implement. NRW provides updates on progress at six-monthly forestry business sector meetings, which show that NRW has completed several agreed actions and is continuing action on outstanding areas.

Hydropower permitting

NRW took over the function of hydropower licence applications from Environment Agency Wales. The number of licences issued rose from nine in 2010 to 99 in 2014. NRW changed the approach to assessing the impact of hydropower schemes from April 2014 including issuing new guidance co-produced with a Hydropower Stakeholder Group. This reduced the proportion of invalid applications from 52 per cent between August 2013 to June 2014, to 20 per cent between July 2014 and March 2015. The average time to process an application internally reduced from 91 days to 53 days in the same period, providing an improved service to customers.



Source: Forestry Commission Wales 2012-13 Annual Report; Natural Resources Wales; National Assembly's Environment and Sustainability Committee **Inquiry into the public forestry estate in Wales**

- 1.10 For 2015-16, NRW has used the 2014-15 indicators as the basis for the indicators in its updated business plan performance dashboard in order to assess progress more easily. Thirty-two indicators have remained largely the same but with updated targets, and nine have been replaced with new indicators, or in some cases multiple indicators.
- 1.11 Data for 1 April to 30 November 2015 show the number of green and amber ratings has remained largely the same as for 2014-15 (Figure 5). However, where indicators relate to annual targets, during the year NRW typically rates these as amber, even if progress is consistent with achieving them at the year-end. Therefore, NRW expects some indicators that are currently amber to progress to green by the year-end.

Figure 5 – Business Plan Dashboard performance indicator summary, 1 April to 30 November 2015

Rating	Indicators carried forward from 2014-15		New indicators
	2014-15 year-end rating	1 April to 30 November 2015	1 April to 30 November 2015
Green	22	20	6
Amber	6	7	3
Red	2	5	0
No rating	2	0	0

Source: Natural Resources Wales

- 1.12 Of the two red indicators at the 2014-15 year-end (paragraph 1.8), the indicator relating to halting biodiversity loss has progressed to green, while the indicator relating to the condition of Natura 2000 sites has remained red. The four new red indicators relate to:
- Compliance with the ‘good status’ under the Water Framework Directive¹¹ (not rated in 2014-15).
 - Staff engagement, which NRW will assess in its February 2016 People Survey (not rated in 2014-15).
 - Delivery against NRW’s Recreation and Enabling Access Plan, where the target of four exemplar Recreation and Access plans by March 2016 will not be met in order to achieve fewer, higher-quality plans (rated green in 2014-15 when the target was to complete the overarching Plan).

¹¹ Following its March 2015 report on the Glastir agri-environment scheme, the National Assembly’s Public Accounts Committee sought evidence from the Welsh Government about the specific proportion of Water Framework Directive failures that could be attributed to land managed by NRW. In response, the Welsh Government emphasised that there is a mixed tapestry of land ownership in the catchments affecting the failing water bodies. As a consequence, both private and public land owners have their part to play in resolving the issues. The Welsh Government has outlined in its evidence to the Public Accounts Committee work that NRW has undertaken to both understand and propose remediation of the causes of these failures.

- An increase in the number of incidents involving NRW staff that have resulted in time off (rated green in 2014-15). To reduce the number of incidents NRW is currently reviewing them in order to identify preventative measures and share lessons learned.

1.13 The Welsh Government assesses the performance of NRW against its annual remit letter to NRW. The letter sets out the key deliverables for NRW; and targets in the letter reflect NRW's long-term strategic vision. NRW incorporates the remit letter priorities into its annual business plan. Performance reports to the NRW Board are subject to formal scrutiny by the Welsh Government in four-monthly sponsorship meetings¹². From the sponsorship meetings, business plan and corporate plan, the Welsh Government is clear what NRW is intending to deliver to meet the remit letter priorities. Sponsorship arrangements appear resilient and sustainable and both the Welsh Government and NRW view their relationship as constructive and positive.

1.14 In January 2014, the Welsh Government's internal audit services reported on the sponsorship arrangements for NRW and noted that significant progress had been made in establishing sponsorship arrangements with an overall finding of substantial assurance. The report made five main recommendations to strengthen sponsorship controls, largely relating to improving monitoring arrangements. The Welsh Government addressed all five recommendations by October 2014.

NRW has dealt effectively with significant incidents such as the coastal floods of December 2013 and January 2014 and tree disease

1.15 Since April 2013, there have been two very large coastal flooding incidents: on the north Wales coast in December 2013 and in south and west Wales in January 2014. During December 2013 and January 2014, NRW issued eight Severe Flood Warnings and over 100 Flood Warnings¹³. NRW reported that the severity and number of warnings was unprecedented in recent years, with evacuation procedures initiated in a number of locations. Following the coastal floods, the Minister for Natural Resources and Food commissioned NRW to undertake a review of the flooding. The review concluded that the operational response by NRW, and other relevant authorities¹⁴ was 'coordinated, effective and proportionate'. The review made 47 recommendations in six priority areas to help to deliver a more resilient coastal flood risk and erosion management service. A forthcoming Auditor General for Wales report will examine how the Welsh Government is working with NRW and other relevant stakeholders to manage the risks of coastal flooding and erosion.

¹² These meetings are between the NRW Chief Executive and executive team; and Welsh Government directors and deputy directors of relevant policy areas.

¹³ Severe Flood Warning is the highest alert and means 'Severe Flooding. Danger to Life'. Flood Warning means that 'Flooding is expected. Immediate action is required'.

¹⁴ There were 31 flood Risk Management Authorities in Wales, including NRW; the 22 local authorities; utility companies, for example, Dŵr Cymru Welsh Water; and the three Internal Drainage Boards operating wholly or partly in Wales, which are now part of NRW.

- 1.16 Since NRW's creation, there has been a significant increase in the spread of the tree disease *Phytophthora ramorum*, which primarily causes infection and fatality in larch. The disease was first found in Wales in May 2010 and has since become the most serious disease to affect forestry in Wales, infecting over six million trees predominantly on the Welsh Government's woodland estate¹⁵. NRW identified the spread of the disease in its first month of operation, and has implemented a number of approaches to date to try to tackle the disease. Some witnesses to the National Assembly's Environment and Sustainability Committee 2014 inquiry on the public forestry estate in Wales were critical of NRW's response to the outbreak, stating the initial response was too slow¹⁶. However, the Committee noted that the timing was unfortunate and would have caused significant problems for any organisation. In January 2014, a University of Cambridge study found that where resources are limited, the most effective method of disease prevention is through the felling of outlying infections, mirroring the approach taken by NRW and the Welsh Government.
- 1.17 Between April 2013 and March 2015, NRW replanted over 1.75 million trees to restock areas affected by disease, replacing larch with a mixture of species to enhance tree diversity and build greater resilience to any future disease outbreaks. This restocking is in addition to around 5.5 million trees replanted in the same period to regenerate forests after felling for timber production.

¹⁵ **Forestry in Wales**, National Assembly for Wales Research Service, November 2013, ***Phytophthora ramorum***, National Assembly for Wales Research Service, September 2015

¹⁶ **Inquiry into the public forestry estate in Wales letter**, National Assembly for Wales Environment and Sustainability Committee, October 2014.

NRW has taken a sound, well-structured and pragmatic approach to making the transition from the pre-existing arrangements to becoming a single body

NRW established a sound transition programme for its first two years, learning lessons from elsewhere and revising its plans to ensure focus on priority areas

- 1.18 From its creation in April 2013, NRW undertook a wide-ranging transition programme to progress the organisation. The programme focussed on achieving transition to establish NRW as an independent body and realise some early benefits of integration. The target completion date for this first phase was March 2015. In December 2013, NRW appointed external reviewers to undertake a formal 'gateway' review of the programme. The review found that NRW was unlikely to complete phase one in full by March 2015, and NRW reviewed its phase one plans to focus on key deliverables within the original timeframe. This resulted in changes to the schedule for the rolling out of NRW's ICT systems and exits from legacy systems.
- 1.19 The transition phase programme has been extensive with good linkages between activities across it. The change programme portfolio comprised 25 sub-programmes with over 120 projects, each comprising further sub-projects. The final transition programme progress update in April 2015 showed almost all sub-programmes were complete or on target for the transition stage, following the revisions made in relation to the gateway review (Figure 6). NRW classified one programme, Sampling and Analysis, as amber due to delays in implementing a 'lab information management system' although this is currently in progress and on-track to be delivered by the end of March 2016.

Figure 6 – Transition programme progress at April 2015



Source: Natural Resources Wales

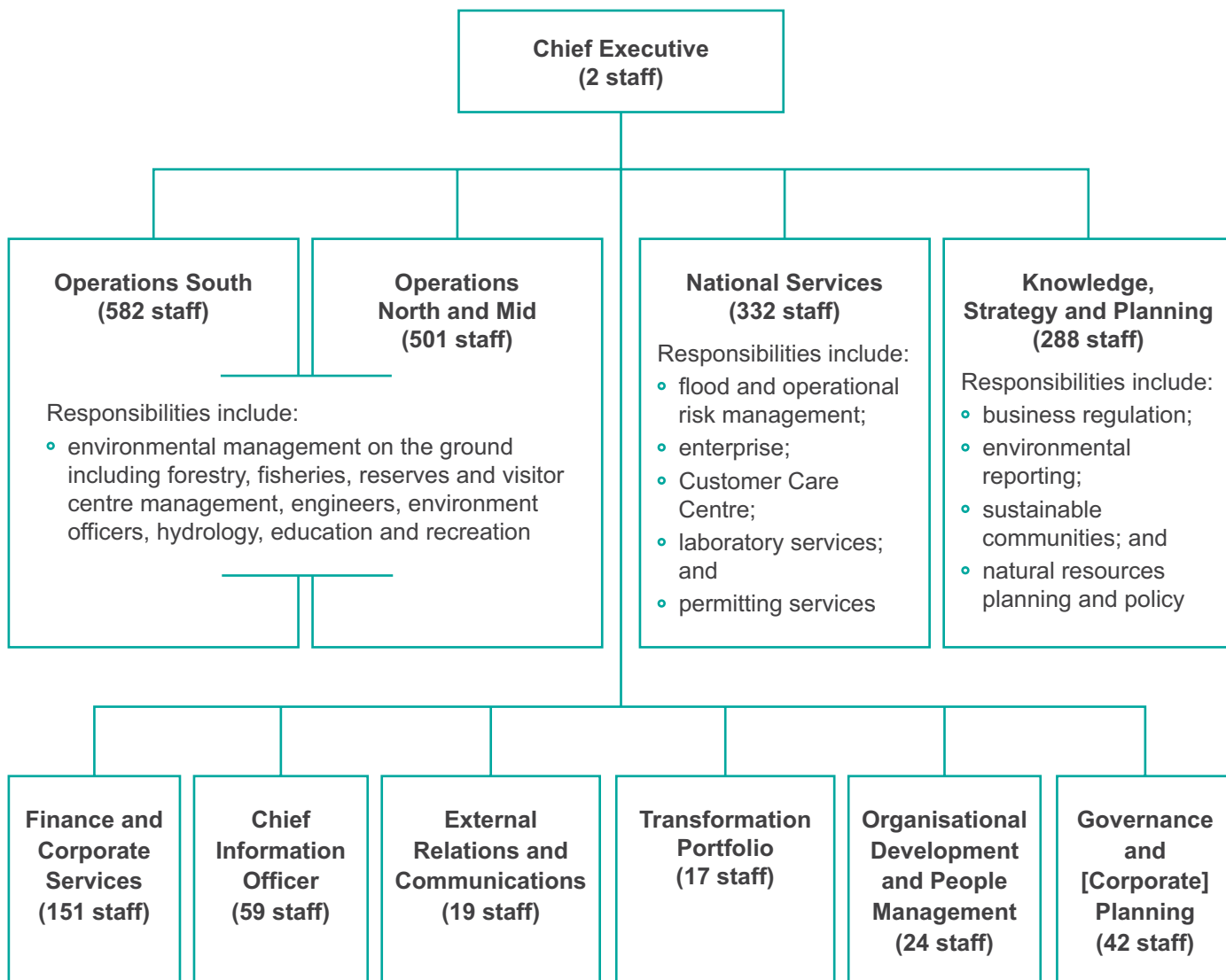
1.20 There is evidence of a very structured and systematic approach to the management of performance around the change programme, including its co-ordination by a transition team and wider reporting through to the NRW Board. NRW has identified good practice from Ofcom, Natural England and the Royal Mint in relation to designing, managing, monitoring and communicating its change management programme. NRW has adapted and adopted this good practice within its transition programme.

From April 2013, NRW established an organisational structure focussed on combining legacy departments on a geographic basis, and NRW has further evolved the structure to increase efficiencies and take into account new legislation and ways of working

1.21 Prior to NRW's creation, the shadow arrangements mapped out the overarching directorates and teams within NRW's organisational structure. The structure created operational directorates based on geography and function, and brought together staff undertaking similar corporate roles or delivering similar activities in the same area. NRW implemented this structure from the day of creation on 1 April 2013.

1.22 **Figure 7** shows NRW's current organisational structure at a directorate level. The directorate structure has remained largely the same since vesting day. However, within directorates, NRW has revised structures through the transition programme to create better alignment and integration; and recognise the effects of exit from legacy body arrangements in functions like finance and ICT. NRW has undertaken two voluntary exit schemes to support these changes (**paragraph 2.42**). NRW has also evolved structures to consider future legislative responsibilities and new ways of working based around natural resource management. NRW has indicated to us that it will be undertaking further structural changes based on what is needed to deliver the organisation's purpose.

Figure 7 – NRW’s organisation structure at directorate level, October 2015¹



Note:

1 Between April 2013 and October 2015, the External Relations and Communications, and Governance and Planning directorates have replaced a Governance and Communications directorate; and the Transformation Portfolio directorate has replaced the Transition directorate.

Source: Natural Resources Wales

NRW's arrangements for governance and financial management are generally sound, although there have been issues with internal audit capacity and staff perceptions of leadership

- 1.23 From vesting day, the Welsh Government had established a governance framework agreement for NRW in consultation with NRW's shadow arrangements. The framework sets out the responsibilities that the Welsh Government has delegated to NRW and the standards expected. NRW and the Welsh Government undertook a formal review of the framework in the summer of 2014 and agreed the framework was working well.
- 1.24 NRW publishes details of its governance arrangements in its Governance Statement within the NRW Annual Report. The 2014-15 statement includes details on the governance framework in place; the roles and responsibilities of the Board, sub committees, and executive team; mechanisms to review internal control and risk management. Our financial audit of NRW reviewed the governance statement and found it to be consistent with our knowledge of the arrangements in place.
- 1.25 NRW has a well-run Board in place, with three formal sub-committees comprising an Audit and Risk Assurance Committee, Remuneration Committee and Protected Areas Committee, which have additional sub-groups. Both the Board, and Audit and Risk Assurance Committee conduct annual effectiveness reviews with workshops and action plans developed in response. Observation of a board meeting showed robust decision-making processes, and appropriate challenge and scrutiny. Relationships amongst Board members and the senior leadership team are generally constructive and effective. Some staff highlighted past issues with a lack of clarity of responsibilities between the Board and the senior leadership team, but which they felt had been resolved.
- 1.26 NRW demonstrated to us open and inclusive leadership and the senior leadership team appear united in wanting to present a clear message. However, evidence from NRW's first staff survey in February 2015 identified concerns about leadership and change management; only 14 per cent of respondents answered positively that change is managed well; and 20 per cent answered positively that the organisation as a whole is managed well. NRW has committed to improving staff engagement and has an action plan to respond to the issues raised by comments in the staff survey.
- 1.27 NRW has made good progress on harmonising corporate policies and processes. **Box 2** gives examples of areas in which NRW has developed common policies. NRW manages compliance with a range of legislation largely through individual officers in relevant parts of the business, for example, an Equalities Advisor, Head of Well-being, Health and Safety, Senior Access to Information Advisor, and Governance Partner.

Box 2 – Examples of NRW's corporate policies

Since creation, NRW has harmonised corporate policies to create single common policies on a range of areas including:

- human resource issues such as expenses, performance management and sickness absence;
- equalities;
- well-being, health and safety;
- whistleblowing;
- complaints;
- fraud prevention and detection;
- environment management; and
- managing conflicts of interest.

Source: Natural Resources Wales

- 1.28 From April 2013, NRW introduced financial and non-financial schemes of delegation. These provide common policies across the organisation for financial activities and decision-making. During 2014-15, NRW implemented a new single integrated HR and finance system, 'MyNRW', into which NRW has built-in its financial schemes of delegation. In 2015, NRW conducted a review of the financial scheme of delegation, involving consultation across directorates. The review found that the current scheme did not always provide the most effective approval route and could be confusing to staff. NRW has redeveloped the scheme, renamed as Managing Our Money. NRW benchmarked the new scheme of delegation against Managing Welsh Public Money, the governance framework, and internal policies, and conducted consultation with Internal Audit, to ensure the scheme complied with regulatory criteria and met NRW's vision and priorities.
- 1.29 Budget holders in each directorate manage NRW's budget on a day-to-day basis. The finance team produce monthly budget monitoring reports for directorates and budget holders, and provide financial support and guidance. The reports include monthly update papers for the Executive Team and further papers for each Board meeting tracking actual year-to-date progress against the budget and the forecast full-year outturn. NRW undertakes formal budget reviews with each directorate during the year to revise the budget and identify any significant issues that require escalation. For example, during 2013-14 NRW requested and obtained additional funding from the Welsh Government to contribute to a deficit on expenditure related to tree disease.

1.30 NRW aim to break even each year, with income equal to expenditure. However, NRW is able to carry forward from one financial year to the next up to five per cent of its Welsh Government grant-in-aid funding. It can also carry forward up to 20 per cent of non-grant-in-aid income, such as income from timber sales and other commercial income (excluding charge schemes). This provides some leeway in its financial budgeting and management, and can aid long-term planning. NRW carried forward the following income:

- a In 2013-14, NRW had a year-end carry-forward of £1.2 million in addition to £16.2 million of grant-in-aid and European funding that it had ring-fenced to carry forward to meet specific pressures in 2014-15, such as dealing with tree disease.
- b In 2014-15, NRW had a total carry-forward of £20.5 million, of which £18.2 million is for specific ring-fenced programmes.

NRW stated as part of its 2014-15 year-end financial analysis that it is a challenge to fully utilise funding meant for the construction of assets within a financial year which is subject to many factors such as the weather; and that it can be difficult to effectively plan and spend additional funding provided in-year for new Welsh Government priorities.

1.31 Our financial audit focuses on whether the financial statements give a true and fair view of the state of NRW's affairs. Part of this work involves understanding the financial processes and controls in place. Our financial audit raised no significant concerns regarding the financial management arrangements at NRW during 2014-15.

1.32 In 2014, the Welsh Government commissioned the Department for Business, Innovation and Skills' Better Regulation Delivery Office to undertake a review of NRW, against the principles of better regulation. The June 2015 report highlighted that NRW has a broad understanding of the principles of good regulation and is committed to embedding these in its ways of working. [Paragraph 2.17](#) provides more detail on the report's findings.

1.33 NRW's internal audit function generally provides adequate assurance to management of internal arrangements and controls. In both 2013-14 and 2014-15, the Head of Internal Audit gave moderate assurance¹⁷ in the overall adequacy and effectiveness of NRW's internal control environment. During 2014-15, internal audit gave substantial assurance to corporate governance and the performance framework. However, our 2014-15 financial audit of NRW noted that internal audit had provided an assurance role on the MyNRW Project Board but had not undertaken any detailed review of the new MyNRW financial systems. Internal audit has included coverage of the key financial systems in its 2015-16 annual programme, with work currently underway. Internal audit had also experienced some lack of capacity, due to staff being temporarily seconded to other NRW projects, which have now concluded.

NRW has successfully made major changes to its ICT systems, although work to fully integrate all ICT processes and embed new ways of working is still ongoing

1.34 NRW has made significant progress in rationalising its ICT arrangements, including migrating from three HR and finance systems into one new MyNRW system in 2014 (paragraph 1.28). This integration has contributed significantly to NRW's overall financial realisation of benefits with an estimated cash-realizable benefit over 10 years of £13 million including both ICT savings and staff cost savings. NRW has also created its own in-house ICT service, which NRW estimates has reduced the annual cost of ICT services from £13 million to £6 million. Across all its activities, NRW estimates its ICT savings will total £34 million over the 10 years from creation. However, some planned savings have not been realised as quickly as originally anticipated due to an underestimation in the volume of the work required and issues in exiting from legacy body contracts (paragraph 1.47).

1.35 As part of our 2014-15 financial audit of NRW, we reviewed the technical process and procedures followed by staff at NRW to merge financial management data from the previous systems. We did not identify any significant issues with the transfer of data into MyNRW or any material weaknesses in internal financial controls. However, our audit noted that the key financial systems within MyNRW had not been subject to any detailed internal audit coverage during the year (paragraph 1.33).

1.36 NRW has implemented cloud-based systems¹⁸ for all staff, the first public body in Wales to do so, and encourages use of technology through tablets, Yammer¹⁹ and Microsoft Lync²⁰. NRW has faced an additional challenge in terms of the levels of understanding of IT amongst its staff, some of whom have not used computers regularly, if at all, before. NRW has implemented a number of initiatives to support its staff to use new workplace technology and improve their understanding (Case Study 2).

17 A Moderate level of assurance is the second highest level of assurance out of four possible ratings, and is defined as 'some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control'.

18 The electronic applications that NRW uses, such as Microsoft Office, and all electronic documents are stored on remote servers and accessed via the internet. Benefits include easier remote working and sharing of documents; and reduction in some in-house IT equipment such as servers.

19 Yammer is a private online social network that enables employees within the same organisation to share conversations, documents and pictures.

20 Microsoft Lync enables instant messaging, and voice and video conferencing between users via the internet.

Case Study 2 – Improving staff knowledge of ICT

Given the large-scale ICT change and variance in the pre-existing knowledge of staff, one key task for NRW was to promote a greater understanding of IT amongst its staff. To address this, the Business as Usual team has established a number of innovations to improve and monitor user experience of ICT which include:

- YouTube guides viewable by any staff at their desk, via mobile devices or at home
- An ICT survey
- Yammer groups, which have had a very good uptake
- Helpdesk
- Workshops

In addition, the Chief Information Officer travels to offices meeting colleagues and providing face-to-face dialogue on digital issues and future developments.

NRW IT officers feel that staff awareness is improving based on staff feedback, but recognise there is more progress to be made in user perception of ICT, in particular, users' awareness of processes for accessing support when they encounter IT issues and problems.

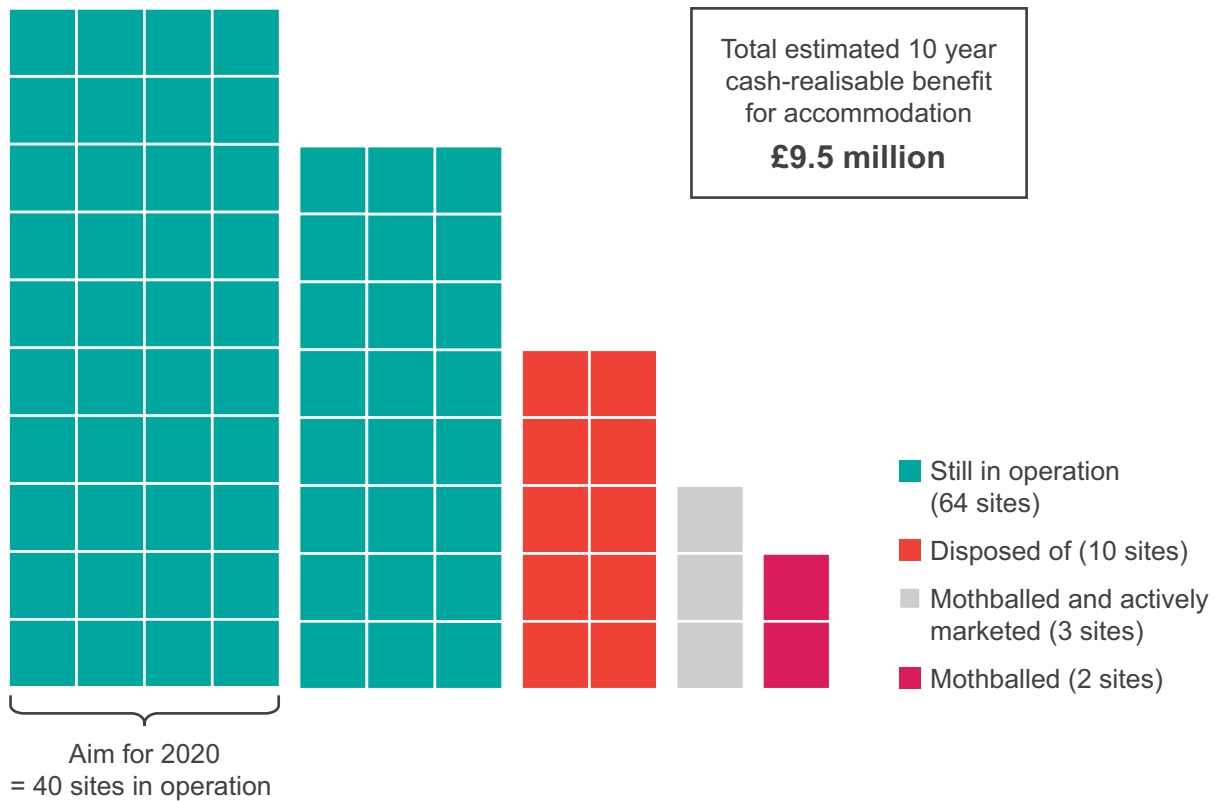
Source: Natural Resources Wales

- 1.37 NRW contracts an outsourced company to deliver support services for MyNRW, with a separate internal group called Business Support Service in place to manage this contract. Internal IT staff support NRW's Business As Usual functions. The Business as Usual team use a set of best practice guidelines for IT service delivery known as IT Infrastructure Library (ITIL). However, the good practice ITIL procedures were less well-established in the Business Support Service. There also seemed to be a very limited working relationship between the Business As Usual and Business Support Service teams rather than having a function embedded within the internal IT service that manages the relationship with outside suppliers on behalf of the whole organisation. Following early feedback from our study, NRW has now brought the Business Support Service into the 'Service Delivery and Support' umbrella within the internal ICT team, aligning them to the same ITIL-based processes and policies and transitioning the operational relationship with the outsourced company into ICT's remit.
- 1.38 NRW has been developing a new digital strategy and completed the framework and principles of this by the end of 2015. NRW had delayed full completion of the strategy until there was more certainty about the budget available for 2016-17.

NRW has made good progress in delivering its accommodation strategy by using a thorough appraisal process to reduce its number of sites by 19 per cent, although there is scope to improve capacity of the corporate assets function to deliver further benefits

- 1.39 A key area in which NRW expects to create savings and make efficiencies is in managing and rationalising its buildings, particularly given the duplication between the three legacy bodies of sites at some locations. NRW's sites include offices, depots used largely for equipment and vehicle storage, a laboratory facility, workshops and hatcheries. NRW has set out a clear vision and sense of purpose for asset management in its accommodation strategy, which links to a number of corporate objectives, and has taken into account wider strategic issues with board input where appropriate. The strategy outlines intentions to carry out an options appraisal for each accommodation site across Wales. NRW has also taken into account national work on asset management such as the National Assembly Finance Committee's 2013 report on **Asset Management in the Public Sector**. As part of this, NRW has engaged with the National Assets Working Group.
- 1.40 NRW has made good progress in rationalising its accommodation resources, although it has not met its target for the transition phase one, of reducing the number of sites by 20. From a starting point of 79 accommodation sites, NRW has put in place actions to reduce sites by 15 to 64 sites, a decrease of 19 per cent (Figure 8). The sites no longer in operation are distributed across Wales. The estimated annual savings from the sites no longer in operation are £362,000 with NRW estimating the total 10-year cash-realizable savings of the accommodation strategy at £9.5 million.

Figure 8 – Changes to the number of NRW sites following its accommodation rationalisation to October 2015



Source: Natural Resources Wales

1.41 As part of rationalisation, NRW has implemented a thorough options appraisal process for individual sites using the ‘Five Case Model’ as set out in HM Treasury’s Green Book. An example of this is the options appraisal for the laboratory services site in Llanelli ([Case Study 3](#)).

Case Study 3 – Option appraisal for laboratory services

NRW identified that its existing facility for laboratory services in Llanelli was no longer fit for purpose due to health and safety risks, and the potential to develop services was severely restricted.

NRW undertook a thorough options appraisal for the service with the appraisal report containing the case for change, consideration of local economic issues, jobs, scoring of options, and a lengthy cost and project appraisal for each option. Each of the shortlisted options was evaluated through the completion of an outline business case using HM Treasury processes. This helps ensure value for money and a sound decision-making process.

The options appraisal process included a NRW business group holding quarterly meetings to receive progress reports and discuss added value.

The appraisal identified a preferred option at Swansea University, which the Project Board selected. However, during commercial negotiations, this site became unavailable. The Project Board performed a further thorough evaluation of two joint-second ranking sites from the original appraisal and identified another location at Swansea University as the preferred location. NRW is working with the University and remain on track to move to the new laboratory in September 2016.

Source: Natural Resources Wales

- 1.42 Although NRW has made progress, capacity within the corporate assets team for delivering the accommodation strategy has been limited. Capacity is now developing, with a greater number of staff involved in asset management, a re-formed working group and more responsibility devolved to area operational managers.
- 1.43 Phase two of the accommodation strategy during the transformation phase is likely to involve challenging issues and dealing with more difficult sites. NRW's approach needs to take a longer-term view based on the future needs of NRW and link better with future strategic areas of importance such as workforce planning. Senior managers recognise the organisation needs to change its ways of working and there are plans to look at how NRW can use agile working across the whole organisation, which may present further opportunities for rationalisation.

1.44 NRW has basic data on the performance of its accommodation assets and understands many of the industry accepted standards for accommodation. It is tracking the net internal area of its buildings, which has reduced by nine per cent since April 2013 against a target of 14 per cent. However, there is limited detailed data on the use of buildings or how effectively NRW is rationalising its facilities management contracts, other than tracking accommodation savings as part of the Finance and Corporate Services performance dashboard. Our 2013-14 financial audit of NRW also identified issues with the quality and accuracy of information held by NRW in relation to assets, with differences between the estates team records of land owned and the finance department's Fixed Asset Register. However, our 2014-15 financial audit noted that management had acted positively regarding issues relating to asset verification by undertaking a detailed verification exercise and addressing process and policy deficiencies.

NRW has made good progress towards achieving financial savings and delivering other benefits intended from its creation

1.45 In November 2011, the Welsh Government set out a business case for the creation of NRW, which identified the intended financial savings and costs of a single body over a 10-year period from April 2013 to March 2023. In July 2013, following NRW's creation, the Welsh Government and NRW agreed a revised business case. This revised business case amended the profile of expected annual savings; however, the target for total savings over 10 years was almost identical at £158 million in cash terms. These benefits include both cash and other quantifiable savings of being a single, streamlined body, reducing duplication, simplifying processes, and achieving productivity gains. The total expected costs were £68.7 million in the original business case and £66.0 million in the revised business case. These costs cover expenditure on areas such as aligning three sets of systems and policies; aligning staff terms and conditions, particularly an increase in pension costs; and new branding and communication. This results in a net saving in the revised business case of £92.0 million in cash terms to 2022-23.

1.46 NRW has made good progress towards achieving the total intended financial savings set out in the revised business case (Figure 9). NRW measures both cash-realizable savings, and non-cash realizable savings²¹. The latest forecast in September 2015 shows that NRW has identified gross savings of £0.8 million in 2013-14 and £6.7 million in 2014-15, and forecasts that benefits in the pipeline will increase this to £17.7 million per year by 2018-19. For the 10-year period to 2022-23, NRW is on target with cash-realizable savings, but has yet to identify £15 million of the £31 million target for non-cash savings. NRW is confident it will achieve the non-cash target from efficiencies through the process improvement projects in the current transformation programme; however, NRW cannot accurately quantify these yet. Given the further continuous improvement processes in place including a specific Improving Efficiency and Service Delivery Programme aimed at improving service while reducing expenditure (Box 3), there are indications that NRW will increase the value of its non-cash savings over future years. This lower forecast for non-cash realizable benefits is the main reason why the total forecast net saving of £76.3 million is £15.8 million lower than the revised business case figure.

Figure 9 – Forecast total financial gross savings, costs and net savings over the 10-year period from April 2013 to March 2023 in cash terms

	Business case ¹ £ million	NRW forecast £ million
Cash-realizable savings	127.2	128.9
Non cash-realizable savings	30.9	16.2
Gross costs	-66.0	-68.8
Total net savings	92.1	76.3

Note:

1 These figures are from the revised business case, which the Welsh Government and NRW agreed in July 2013. The revised profile reconfigured the savings and costs expected per year with the total targeted gross savings almost identical and the total costs slightly reduced.

Source: Natural Resources Wales

21 Cash-realizable savings are a saving in the actual cash spent, for example no longer paying for finance support from the Environment Agency. Non-cash realizable savings are when the level of cash expenditure does not fall but the value gained from the expenditure is increased, for example, staff being co-located increases productivity, which allows for more work to be performed for the same cash cost.

Box 3 – Improving efficiency and service delivery programme

The improving efficiency and service delivery programme aims to ensure that NRW undertakes a coherent efficiency programme, primarily through a series of business-led service reviews and a 'success for less' efficiency project.

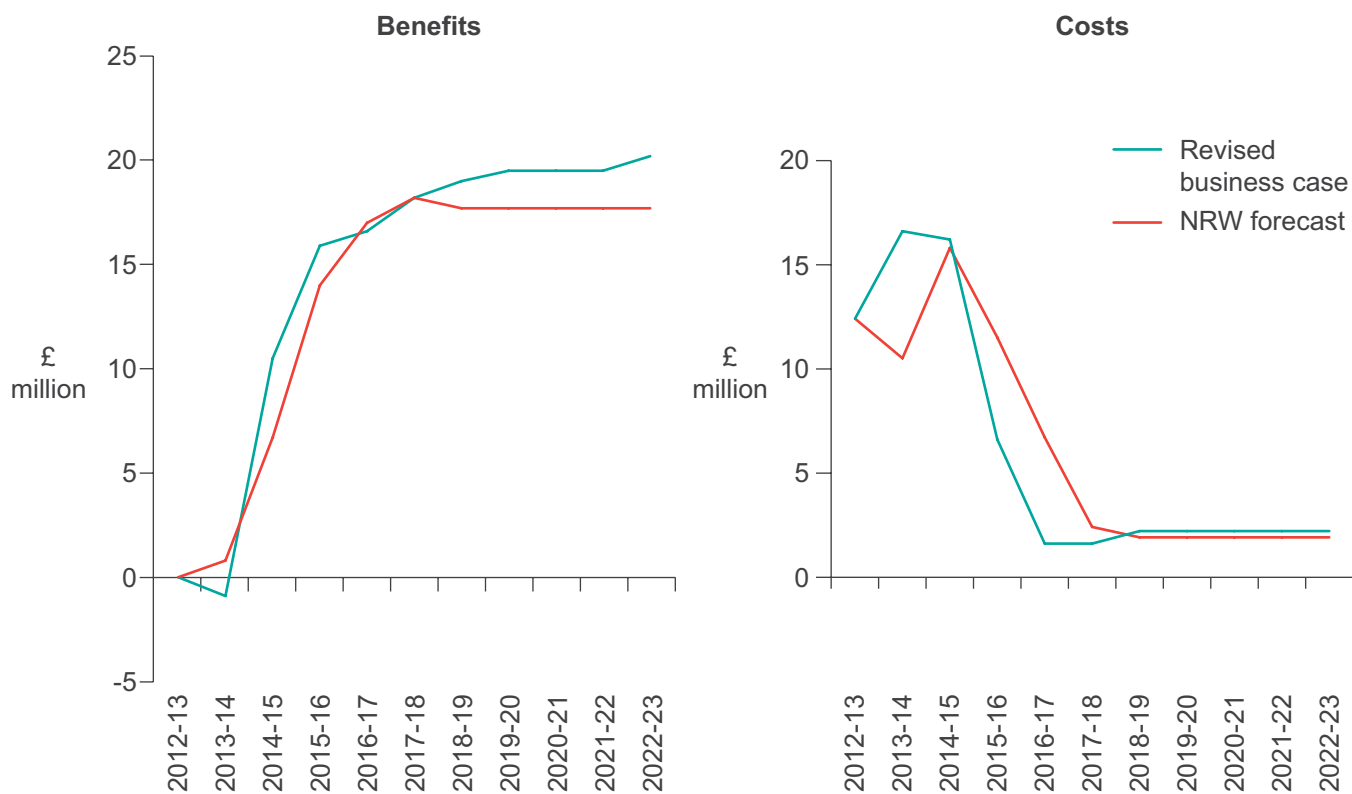
The objectives of the programme are:

- to ensure that all service reviews support the delivery of natural resource management;
- to ensure that all service reviews deliver an improved customer experience; and
- to ensure that all service reviews result in a service that is more affordable in the medium-term (through to 2020).

Source: Natural Resources Wales

1.47 NRW has identified costs of creation of £38.7 million over the three years from 2012-13 to 2014-15 and estimates total costs to 2022-23 of £68.9 million. This is £2.8 million higher than the revised business case. **Figure 10** shows the forecast distribution of costs and benefits by year. While costs were lower than forecast in 2013-14, NRW does not expect to achieve a reduction in costs or increase in benefits as quickly as it anticipated initially from 2014-15 onwards. In part, this was because NRW was unable to exit certain legacy arrangements as quickly as originally forecast. This resulted in a change in the cost and savings profile. In particular, negotiations to separate from the Environment Agency ICT provider Capgemini took much longer than anticipated resulting in exit costs being pushed back, and additional costs incurred of keeping the old arrangements for longer. NRW recognises that the scale and time required for some of the exit arrangements was underestimated in the business case.

Figure 10 – Per year distribution of estimated benefits and costs of NRW's creation, 2012-13 to 2022-23



Source: Natural Resources Wales

1.48 In order to track savings and wider benefits, NRW has a benefits framework in place. The December 2013 Gateway review of the transition programme (paragraph 1.18) identified that NRW had not, at that stage, put in place a benefits strategy and benefits realisation plan, and would be reliant on retrospectively measuring baselines and benefits achieved to date. Benefits tracking was difficult because even though NRW was able to draw upon a large amount of historical data, there was no single finance system, and a lack of agreed baselines. In the first half of 2014, NRW implemented a more robust framework for tracking the benefits of its creation, including a benefits realisation plan and framework. Now each directorate has benefits champions who collate and monitor benefits of the creation and other efficiencies. Officers document in detail benefits identified including a description and rationale for the benefit, any qualitative and quantitative benefits against a baseline, details of the previous legacy body arrangements, links to evidence sources, and other useful information such as risks or lessons learned.

- 1.49 After the year-end, NRW's finance department validates and amends the financial savings and costs identified through the benefits framework. This process takes into account the actual costs incurred by each directorate and what changes in costs can be attributed to NRW's creation. For example, the initial recording of a benefit may use an estimated annual staff cost saving, which does not equate exactly to the true cost saving. This process provides more accurate savings figures, however, it results in two systems for recording and in some cases, for reporting benefits. NRW has indicated that it is aiming to move to one, more integrated, system of recording.
- 1.50 The business case for the creation of NRW consolidated benefits identified by work streams relating to operational activities and corporate services. The work streams were established for the purposes of the business case and do not correlate to NRW's current organisational structure, or how NRW records the benefits. As such, NRW does not track benefits against these work streams and we have not sought to compare whether NRW is meeting the expected savings by work stream.
- 1.51 NRW is currently tracking all benefits, including those that have no financial saving, and those that have a financial cost but demonstrate non-financial benefits, such as more integrated working or improved communication with service users. Examples of benefits identified to date by NRW demonstrating cash, non-cash and no monetary benefits are in [Figure 11](#). However, NRW is finding it increasingly difficult and resource intensive to separate benefits arising specifically from NRW's creation from the impact of actions required to address further budgetary pressures.

Figure 11 – Examples of NRW benefits between 2013-14 and 2022-23

Name of benefit	Description	Total forecast 10-year cash realisable benefit	Total forecast 10-year non-cash realisable benefit
HR and Finance Services	Replacement of three HR and finance systems into one system with a single Business Support Service team, reducing staff required by 31 full-time equivalent	£13.3 million	–
Sample collection	Streamlined collection process and integrated IT systems resulting in faster results and more efficient route planning reducing miles driven and improving productivity.	£0.7 million	£2.3 million
Air quality emergency monitoring service	Service previously delivered under an Environment Agency framework contract with an external contractor now delivered in-house at a cost saving.	£0.3 million	–
Newborough Forest Integrated Approach	Creation of a single project team to manage a section of land comprising a designated bathing beach, National Nature Reserve, Site of Special Scientific Interest and forest.	No monetary benefits quantified, however, more consistent handling of issues and development of additional stakeholder communications including newsletter and drop-in sessions.	

Source: Natural Resources Wales

Part 2

NRW has learned from progress made and challenges faced and is now proceeding with a more ambitious and comprehensive change programme, necessary to transform itself for the future and deal with legislative changes and resource pressures



- 2.1 This section focuses on the arrangements in place for the next stage of NRW's change process, the transformation phase; the approach to dealing with legislative changes; and key internal and external challenges remaining.

Although NRW's transition programme was extensive, there were constraints and limitations which NRW has now addressed within its transformation programme

- 2.2 While NRW's transition programme was extensive ([paragraph 1.18](#)), the success of the programme was largely in putting in place required processes and strategies, with a tendency to achieve the 'low-hanging fruit' first. NRW gave less focus to more difficult and longer-term aspects such as culture change and people management. This was largely a result of time pressures. NRW has been open and frank about the work achieved to date and the limitations in what it has already implemented, recognising that it would have liked to have achieved more if additional resources were available. Senior staff have shown a high level of awareness of the key issues and the arrangements needed to move forward into the next phase of NRW's development.
- 2.3 NRW moved from its transition phase to a transformation programme from April 2015. The Gateway review of the transition programme in December 2013 recommended that achieving transformation for the organisation would be better effected with a more formal portfolio management approach to change given that the transition and transformation programmes consisted of multiple programmes in practice. NRW has incorporated this approach into its transformation programme. The change from the transition to transformation programmes has been a structured and well-managed process.
- 2.4 NRW's transformation programme demonstrates that it has prioritised areas that had been less well covered previously, such as people management, and that it is focussed on delivering NRW's vision and purpose. NRW has produced a report²² on the first two years in operation and has applied learning from experience gained during the transition phase to establish the transformation programme. NRW has also continued to use good practice from other sources to inform its transformation programme. NRW is engaging with the Wales Audit Office Good Practice Exchange team to facilitate sharing of its knowledge and experience across Welsh public services.

22 [Creating the Foundation for Delivery – Transition Report](#), Natural Resources Wales, November 2015.

NRW has increased its focus on people management, although job evaluation remains a key risk

- 2.5 During its transition phase, NRW managed a number of staff-related projects to form the basis of its approach to workforce and people management including:
- the TUPE transfer of staff from the legacy bodies;
 - two voluntary exit schemes;
 - harmonisation of staff terms and conditions;
 - a single pay policy; and
 - a Wellbeing, Health and Safety strategy.
- 2.6 In April 2015, NRW implemented a new performance management system to replace legacy arrangements. The new system includes the completion of a Performance and Development Plan to set performance objectives and identify training and development needs. At the end of October 2015, 1,425 staff had completed a plan and logged it in the HR information system, equating to 73 per cent of permanent employees. NRW expects that additional staff have completed plans not yet on the system. Directorates collated over 2,100 training requirements noted in the plans in addition to over 2,000 training requests previously submitted as part of the Well-being, Health and Safety strategy rollout. NRW is scheduling training courses and developing a learning programme, which includes, as a priority, a management development programme.
- 2.7 From April 2015, NRW has increased its focus on people management, with one of the five main transformation programme strands being 'Developing our People and Teams'. Work streams within this programme include: job evaluation; developing and implementing various people policies; management leadership and capability; transformation portfolio culture change; learning and development; and equality and diversity ([Case Study 4](#)).

Case Study 4 – NRW's current actions and future plans for equality and diversity

Since its creation, NRW has placed importance on equality and diversity. NRW operates an equality and diversity forum, and has published two annual reports on its achievements in relation to equality. NRW participated in the Stonewall Workplace Equality Index in 2014 and 2015, improving its ranking year on year.

NRW considers the need for an Equality Impact Assessment for all of its policies and Board papers.

In April 2015, NRW published a Strategic Equality Plan for 2015 to 2019. NRW's equality plan objectives stem from the 'Good For' principles of environment, organisation, knowledge, business and people. The objectives are explicit on setting clear standards and expectations in service delivery, by understanding how communities access the services it provides, and any barriers NRW's customers face.

Within the transformation programme, the equality and diversity work stream includes actions to:

- implement the strategic equality plan and report quarterly on progress into the corporate dashboard;
- build networks with external partners to share good practice;
- embed equality into the procurement guidance; and
- improve self-disclosure of individuals' equality and diversity data through MyNRW to inform reporting and future plans.

NRW aspires for the workforce to be more representative of the protected characteristics and to develop a culture where people feel able to be themselves at work and are valued and respected.

Source: Natural Resources Wales

- 2.8 Part of the people programme includes the development of a formal Organisational Development and People Management strategy. In June 2014, NRW published a basic 'People Strategy' in place for 2014 to 2017 with links to the corporate plan and business plan. NRW intends the new strategy to address aspects such as workforce planning, succession planning, and talent management. NRW aims to publish this strategy by April 2016. In May and July 2015, the senior leadership team undertook two workshops on workforce planning, with the aim of producing a separate workforce plan linked to key priorities and future delivery. This work has informed current strategic reviews of the business, which will in turn drive the workforce plan.

- 2.9 NRW is currently undertaking an extensive job evaluation exercise. NRW has contracted an external company to support the exercise through the development of a job matching methodology and generic role profiles. NRW has a proactive and productive relationship with the relevant trade unions, which should assist the job evaluation process and is also developing a staff communication plan to manage staff expectations and mitigate the risks to morale that are inherent in job evaluation. NRW plans to complete job evaluation by February 2016. This is a very tight timescale and some actions included within the original project plan for achieving it have already slipped, although the target completion date has remained the same. It is important that the job evaluation approach is flexible enough to meet NRW's future business needs. There is a risk that role descriptions and job design resulting from the job evaluation exercise may not align with new service delivery arrangements, organisational development, and staff training and development; particularly because NRW intends to complete the job evaluation exercise before the Organisational Development and People Management strategy is in place.
- 2.10 NRW produces comprehensive data on its workforce profile, such as by age, gender, disability and pay grade. NRW is considering this data as part of its workforce planning. Data presented to the May 2015 workforce planning workshop showed that 14 per cent of staff were aged 55 or over and an additional 14 per cent were aged between 50 and 55. As part of the May and July workshops, each directorate considered its workforce strengths and weaknesses, with the Knowledge, Strategy and Planning directorate identifying a weakness in the age profile of its 'experts' due to the number of staff nearing retirement, which could result in loss of expertise. Several directorates noted that they are looking to implement better succession planning.
- 2.11 NRW had experienced issues with the accuracy of MyNRW data, including on sickness absence rates, but is currently building an improved approach to data collection via the MyNRW system. It has recently developed data on the number of current vacancies across the organisation and aims to improve data on equal pay following the job evaluation exercise. Now, the executive team regularly receives data on workforce information such as vacancies and appraisals, with data reported to the Board focussing on wellbeing, and health and safety issues.

NRW is working to improve its staff and stakeholder engagement, following evidence of weaknesses during the transition phase

- 2.12 During its first year of operation, NRW engaged in direct dialogue with staff, including involvement with managers and the senior leadership team, to discuss change and transition, and also published various internal communications. In its own review of the transition programme, NRW recognised that the wider understanding of the change process was poor; there was limited communication of the drivers for change and the successes achieved; and it was difficult to achieve an appropriate balance with its communications.
- 2.13 In October 2014, NRW launched a three-year communication strategy. As part of this strategy, in order to communicate its vision and future transformation programme to staff and wider stakeholders, NRW developed a 'roadmap', which it launched in January 2015. The roadmap sets out NRW's transformation vision; values and behaviours; and a timeline of key events from 2013 to 2020. While the aim was to explain some of the complexities associated with the process, due to time pressures, NRW launched the roadmap before the detail of the transformation projects was fully constructed and populated. As the detail of the transformation projects has become available, NRW has communicated this to staff.
- 2.14 NRW undertook its first People Survey in February 2015 in order to inform its ongoing transformation, gauge staff opinion and create a baseline for future surveys. The response rate was 58 per cent and showed mixed results. The main areas with the least positive responses were leadership and change; pay and benefits; learning and development; and whether the organisation would take action from the survey. Some of these areas reflect the scale and significance of the changes at NRW, and the weaknesses in communication of the programme. The majority of respondents answered positively to questions on organisational culture, organisational objectives and purpose, and their work (Figure 12). NRW is implementing an action plan to address key issues, including in relation to communication.

Figure 12 – Most and least positive question responses from NRW People Survey, February 2015

Survey questions	Positive percentage
Most agreement	
I am interested in my work.	94
I have some really good friendships at work.	87
I am trusted to carry out my job effectively. I have the skills I need to do my work effectively.	86
I am sufficiently challenged by my work. My manager is considerate of my life outside work. The people in my team are encouraged to come up with new and better ways of doing things. I am treated with respect by the people I work with.	85
Least agreement	
I feel that the organisation as a whole is managed well.	20
When changes are made in the organisation they are usually for the better.	17
I think that the different parts of the organisation work well together.	15
I feel that change is managed well in the organisation.	14
The pace of change in NRW is monitored and adjusted when necessary.	12

Source: Natural Resources Wales staff survey results

- 2.15 NRW is working on its communication with staff to improve staff engagement and understanding of the roadmap. NRW is undertaking workshops and road shows on various topic areas, encouraging senior staff to regularly 'floor-walk', utilising Yammer, and planning a new People Survey around February 2016. Each directorate has developed and is implementing its own plan to improve engagement and other key issues following the staff survey.
- 2.16 NRW is also strengthening its engagement with external stakeholders. NRW maintains a list of all external stakeholders, with account handlers for key stakeholders. Evidence to the Environment and Sustainability Committee's 2015 annual scrutiny of NRW suggested some inconsistencies in the communications to stakeholders. In response, NRW stated it is 'redoubling our efforts to improve communication', including:
- contacting all stakeholders who gave evidence to ensure they have appropriate contacts within NRW;
 - instigating workshops with angling groups to discuss further hatcheries proposals; and
 - investigating options to best assess how planning advice is being received, how effective it is, and how customers view the advice and service to enable further improvement.
- 2.17 NRW has improved its customer call centre and website feedback forms to respond better to public queries. The June 2015 Better Regulation Delivery Office report on better regulation found that NRW recognises the value of engagement and has put in place a variety of mechanisms to ensure those they regulate or who are impacted by regulation have the opportunity to share their views. However, it highlighted that more work could be done on the NRW website to make it more business friendly. NRW has already started work on running focus groups on business engagement, with the potential of creating a separate business hub on the website.

NRW is taking action to address identified weaknesses in its risk management, procurement and grants arrangements

- 2.18 NRW has basic risk management arrangements in place, which are developing. The NRW Board approved a risk management policy in October 2014. One of the main aims is for risk management to be part of mainstream management. Until September 2015, NRW maintained an operational risk register cross-referenced to outcomes in the Corporate Plan. The Audit and Risk Assurance Committee discussed this as a standing item each meeting. In September 2014, the Committee requested a strategic risk register to consider the wider environmental and natural resource management risks and challenges that can impact NRW's work. This took longer than the Committee's target completion date but resulted in the creation of a single corporate risk register in September 2015.
- 2.19 In September 2015, NRW's internal audit reported limited assurance²³ on risk management. The audit used HM Treasury's Risk Management Assessment Framework, which generates a score from level one to level five²⁴. The report found that the overall score for NRW was level one, with some good progress to level two. It also stated that NRW has 'a reasonable approach to taking risk into account in its delivery and decisions' but had not yet fully embedded key risk processes. Some of the key recommendations of the report were to:
- establish, communicate and maintain risk management guidance and procedures relating to the risk management policy;
 - arrange for staff risk training to be delivered for key staff, including senior management;
 - include risk management in job requirements, induction processes and performance assessments;
 - ensure that risk management is further embedded in the decision making process below the Board and Executive team level; and
 - decide at Board level what risk maturity level the organisation should aspire to and undertake a gap analysis with actions identified to achieve the agreed level.
- 2.20 As part of the transformation phase, NRW has recognised the potential for effective procurement to save money and drive efficiencies, as well as to contribute to achieving corporate objectives. On 1 April 2013, Wales-based procurement staff from the legacy bodies transferred to NRW. These staff had varying levels of experience but due to the set-up of the legacy bodies' procurement functions did not have direct experience of procuring the full range of goods and services that NRW required. Initially, these staff typically operated under legacy ways of working using legacy systems. Following the recruitment of a new Head of Procurement in October 2013, NRW formed a 'NRW Procurement Team', which has utilised the MyNRW system as a central source of expenditure data and management information. NRW officers consider that the staffing levels, skills and experience within procurement have improved significantly.

²³ A Limited level of assurance is the second lowest level of assurance out of four possible ratings, and is defined as 'there are significant weaknesses in the framework of governance, risk management and control such that it could become inadequate and ineffective'.

²⁴ Level 1 is the lowest rating where there is evidence that the organisation has awareness and understanding; the highest score, Level 5, refers to an organisation where there is excellent capability established.

- 2.21 In November 2013, NRW performed a self-assessment of its procurement function using the Welsh Government Procurement Maturity Model, scoring 0.39 out of four ('non-conforming'). The lowest scoring areas within the assessment were contract and supplier management, and performance management; and none of the eight areas assessed scored higher than one ('developing towards conforming'). NRW considered some of the key reasons behind the low score were a lack of a joined-up approach across the organisation; areas of good practice not being consistently applied across the organisation; and limited alignment with the Wales Procurement Policy Statement on which the maturity model is based. NRW officers also considered that, given the maturity model assesses how effectively an organisation is using procurement to support the delivery of its corporate objectives, it would be difficult for any new organisation to achieve this in its early stages.
- 2.22 Following its self-assessment, NRW implemented the Procurement Change Programme, and produced a procurement strategy for 2015 to 2017 (Box 4). The key drivers for the strategy are to drive efficiency and contribute to achieving sustainable development in Wales. The procurement strategy incorporates specific actions aimed at achieving a minimum maturity model score of two (conforming). The Welsh Government has recently revised its maturity model, following publication in June 2015 of an updated Procurement Policy Statement, and produced an updated assessment tool. NRW is performing a pilot assessment to test the new model, which will enable an early assessment of progress made. The Welsh Government is also in the process of contracting a third party to perform a formal independent assessment of NRW's procurement function by the end of March 2016 as part of its wider programme of public sector fitness checks. Following these assessments, NRW expects to review its Improvement Plan and, in conjunction with the Welsh Government, develop its procurement strategy for 2017 to 2022.

Box 4 – NRW Procurement Strategy

NRW's vision for procurement is to ensure 'that we only buy goods, works or services that we really need, to get the best value for money, so as to optimise the impacts on the environment, on people and on the local economy'.

The objectives of the procurement strategy and its associated improvement plan are to:

- develop a strategic approach to the management of procurement across NRW;
- deliver a common, corporate process of strategic sourcing, supplier relationship development, performance reporting and contract management;
- drive efficiency, reduce costs and deliver qualitative benefits throughout NRW;
- ensure compliance with relevant legislation, policies and procedures;
- enhance leadership, governance and skills within procurement;
- give more opportunity to local and SME suppliers to participate by increasing visibility of our procurement plans and opportunities; and
- maximise innovation, sustainability and natural resource management through our procurement activities.

The procurement strategy outlines priorities and actions against four key areas:

- 1 Development – ensuring the procurement team, and others involved in procurement activity, have the required capability and capacity for providing procurement expertise and advice, and supplier management.
- 2 Engagement – lowering barriers of working with SMEs, social businesses and larger scale enterprises; ensuring that procurement processes are open and transparent; and engaging with staff to understand and manage their consumption of resources.
- 3 Efficiency and value for money – delivering best value for money at all times and achieving savings and benefits through better reporting and monitoring; optimising performance of key suppliers; and reducing waste.
- 4 Governance – improving the balance between delivery and oversight by establishing appropriate corporate processes and better management of key suppliers.

Source: Natural Resources Wales

- 2.23 NRW is strengthening its arrangements for awarding grants to third parties to aid in the delivery of outcomes. The Countryside Council for Wales previously held statutory powers to distribute grants, with limited grant funding from the other two legacy bodies. The final round of Countryside Council for Wales' grants ended in March 2015 and NRW has managed two rounds of grant funding since its creation for grants starting from April 2015 and April 2016, with total funding committed to date of around £9 million. NRW expects to run a further round in 2016 for grants starting from April 2017.
- 2.24 One grant scheme previously run by the Countryside Council for Wales was the Communities and Nature project, distributing £14.5 million of European, Countryside Council for Wales, other public sector and private sector funds. NRW took over the management of this project on vesting day until the end date of 31 August 2014. The project was subject to a number of reviews including a Welsh Government Funding Office inspection which identified weaknesses prior to NRW's creation in project management and controls. NRW has amended its processes to address the review's recommendations and lessons learned from other reviews.
- 2.25 NRW is clear about wanting to be a funding organisation and feedback obtained by NRW from external partners and internal practitioners found that great value is put upon working in partnership by all involved. However, NRW acknowledges that round one of NRW grant funding was rushed and the Environment and Sustainability Committee raised some concerns about grant processes in its 2015 scrutiny. NRW is confident that it has dealt with these concerns in round two and has improved processes for existing round one partners. For example, the application process for round two is more transparent, with better information provided on assessment criteria and governance arrangements; clearer links between grant awards and corporate objectives; and an earlier digital launch. NRW is clear on the risk of partners not delivering but is mitigating this through due diligence and monitoring processes. However, monitoring of grants awarded in round one is under the old Countryside Council for Wales' rules, which NRW is currently updating to meet its needs. NRW and the Welsh Government have regular meetings that provide an opportunity to discuss grant expenditure and monitoring of grants. NRW's business improvement team is also reviewing its grant processes against lean principles to identify any further areas for improvement.

NRW has taken a pro-active approach to dealing with legislative changes and the prospect of new statutory responsibilities

- 2.26 NRW appears to be planning effectively and proactively for its new duties associated with the Well-being of Future Generations (Wales) Act 2015 and also with the Environment (Wales) Bill, which is expected to be enacted in spring 2016 (Appendix 2). NRW has clear plans to prepare for and implement both pieces of legislation, including a range of projects. NRW has made good progress in refining its overall business objectives to incorporate key elements of the legislation.
- 2.27 An overarching theme of the Environment (Wales) Bill is natural resource management. One sub-programme of NRW's transformation portfolio is 'embedding natural resource management' and the programme board includes representatives from across the organisation to embed the principles across all directorates. NRW is also currently analysing all business activities in terms of the resources used against outcomes achieved to understand better how resources are used and the potential for using them differently, in line with the new legislation.
- 2.28 NRW engages regularly with the Welsh Government and external groups regarding the legislation and associated activities. NRW's natural resource management manager has fortnightly meetings with relevant Welsh Government policy leads to discuss their work programmes, and provide and receive guidance. NRW also sits on the Welsh Government's own natural resource management programme board and reference group. NRW engaged extensively with the Welsh Government and the Welsh Local Government Association to prepare for the introduction of the Well-being of Future Generations (Wales) Act; and the NRW Chair or a non-executive member selected by the Chair will sit on an Advisory Panel to the Future Generations Commissioner. NRW actively participates with relevant groups such as the Wales Environment Link group, and is developing its engagement activities with local authorities to join shadow Public Service Boards where they exist.
- 2.29 There are risk registers associated with developing the organisation in terms of the Well-being of Future Generations (Wales) Act and the Environment (Wales) Bill, and the 2015-16 performance framework features key performance indicators (KPIs) in relation to both pieces of legislation. Reporting on progress for April to November 2015 showed that:
- NRW was within 10 per cent of its target to prepare to deliver its responsibilities under the Well-being of Future Generations (Wales) Act, having completed a Project Charter, established a project group in relation to Public Service Boards and run workshops with current Local Service Boards; but is behind schedule in understanding the available data and evidence to produce the first local well-being assessments due by May 2017;
 - two KPIs related to natural resource management were on target; and
 - NRW was on target to deliver the State of Natural Resources Report by September 2016 as proposed by the Environment (Wales) Bill.

- 2.30 NRW is aware that additional funding may not be available to meet all future statutory duties but is working to develop the natural resource management approach and is confident that this will lead to longer-term savings. In relation to the Well-being of Future Generations (Wales) Act, operational staff currently engage with 14 Local Service Boards, which will increase to an expected 22 Public Service Boards from April 2016. NRW sees this engagement as part of its core business rather than an additional cost pressure. In preparation for the expected Environment (Wales) Bill duties, the Welsh Government Nature Fund allocated £1 million to NRW in 2014-15 for natural resource management trials and setting up natural resource management projects. In June 2015, the Minister for Natural Resources indicated to the Environment and Sustainability Committee that there will be transitional costs for NRW in developing the natural resource management approach in line with the Environment (Wales) Bill, which may be covered by additional Welsh Government funding, but this will lead to future savings.
- 2.31 Aside from these two key pieces of legislation, NRW has dealt with the transfer of the functions, assets and staff of the three Internal Drainage Boards in Wales into NRW from 1 April 2015, bringing 19 staff and £1.4 million of income²⁵. The Welsh Government touched on the potential transfer of functions in the initial consultation for the creation of NRW in 2012. In November 2013, the Welsh Government announced the decision to transfer the functions, following a Public Accounts Committee report on Caldicot and Wentlooge Levels Internal Drainage Board in October 2013. NRW put in place an Internal Drainage Board Transition Programme with multiple work streams. The transition work included: legal and financial due diligence on the three Boards; integration of financial systems; discussions with the UK Department for Environment, Food and Rural Affairs regarding English land within the three Boards; and regular reporting to the Board, and Audit and Risk Assurance Committee. The update at the March 2015 Audit and Risk Assurance Committee noted that stakeholder feedback on the management of the transition was very positive.
- 2.32 In June 2015, the Welsh Government announced a role for NRW when the devolution to Wales of Landfill Disposals Tax comes into force from 1 April 2018. The new Welsh Revenue Authority will undertake the collection and management functions for the tax, but will delegate the compliance and enforcement functions to NRW.

²⁵ NRW receives income on an ongoing basis largely through drainage rates collected by local authorities through council tax and non-domestic rates; or rates paid directly to NRW from agricultural landowners.

2.33 Given the increase in both NRW's and other public bodies' responsibilities, there could be a lack of understanding from the public and stakeholders on the exact nature of NRW's role and the size of contribution that NRW can be expected to make towards environmental targets. NRW's work relating to the Well-being of Future Generations (Wales) Act is partly reliant on other members of the Public Service Boards, including local authorities. Some of NRW's other desired outcomes have shared accountability across the UK, Europe and globally, and NRW is reliant on significant effort from a range of partners to achieve them, including other public bodies, private firms, and individuals. For example, NRW has KPIs relating to specific actions to help halt biodiversity loss by 2020, but NRW's actions alone would not guarantee full compliance with European biodiversity targets for 2020.

NRW recognises that there are some risks and significant internal and external challenges for it to address in order to sustain its planned pace of progress towards transformation, whilst continuing to deliver savings

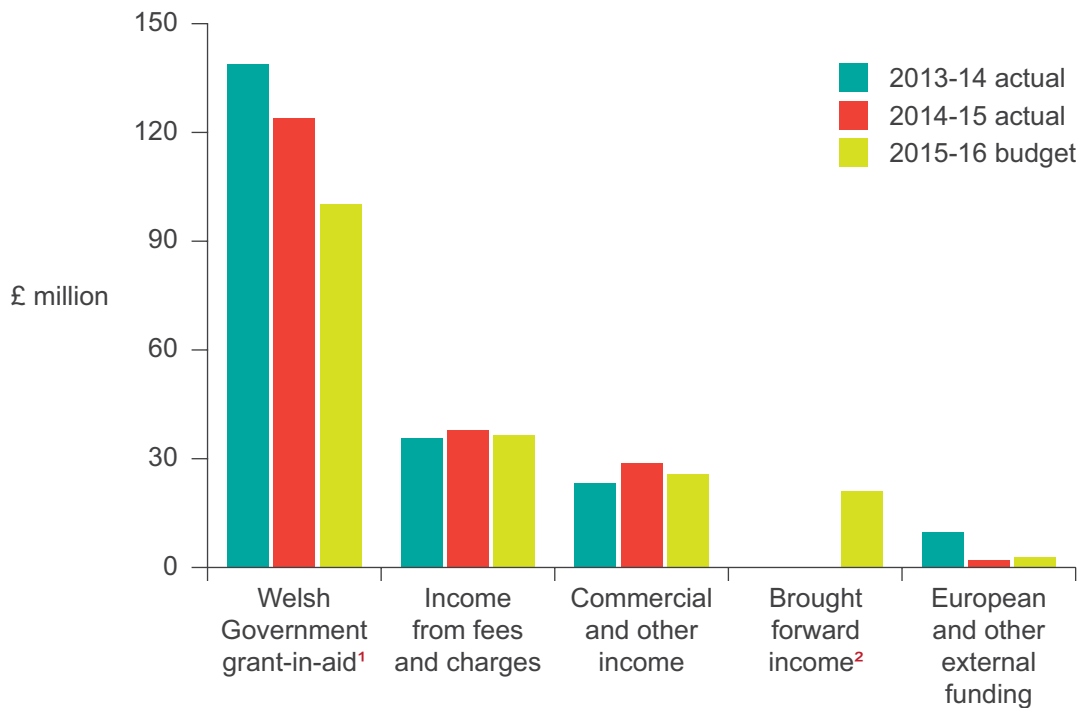
NRW is likely to face increased financial uncertainty and is modelling assumptions about future budgets and cost pressures to develop medium-term financial plans

2.34 NRW receives income from:

- grant-in-aid funding from the Welsh Government;
- fees and charges such as water abstraction charges to take water from rivers and groundwater; fishing licences; and hazardous-waste charges;
- commercial and other income such as the sale of timber and renewable energy; and
- European and other external funding.

2.35 **Figure 13** shows the income reported in the 2013-14 and 2014-15 annual accounts and the latest budgeted income for 2015-16 reported to the Board in October 2015. Total budgeted income for 2015-16 is £187 million; £6 million lower (three per cent) than 2014-15's actual income and £21 million lower (10 per cent) than 2013-14's actual income. Although income has reduced, and, in particular, grant-in-aid income has reduced significantly, the profile of income is impacted by one-off income granted in 2013-14 and 2014-15 for issues such as tree disease (**paragraph 1.16**) and transition costs. Core grant-in-aid funding reduced by £3.2 million in 2015-16.

Figure 13 – NRW income from 2013-14 to 2015-16 in cash terms



Note:

- 1 The profile of grant-in-aid income is impacted by one-off income granted in 2013-14 and 2014-15 for issues such as tree disease (paragraph 1.16) and transition costs.
- 2 Brought forward income relates to income from a number of sources, which was received in 2014-15 but specifically ring-fenced for projects in 2015-16.

Source: Natural Resources Wales

2.36 NRW also has the ability to carry forward income either for specific planned projects or because the Welsh Government has awarded additional grant-in-aid late in a financial year (paragraph 1.30). In 2015-16, NRW brought forward £21.2 million of funding.

2.37 NRW reports its costs to the Board based on staff costs, non-staff costs, revenue projects such as those relating to transformation, and capital projects such as the Flood Coastal Risk Management Programme. Figure 14 shows the breakdown in budgeted spend by category for 2015-16 as at April 2015. Latest analysis at the January 2016 Board meeting showed that NRW was below budget on expenditure to December 2015, due to planned underspend on capital projects. NRW is forecasting to maintain this underspend and carry forward income into 2016-17 to help mitigate expected reductions in income.

Figure 14 – Budgeted spend by category for 2015-16, as at April 2015

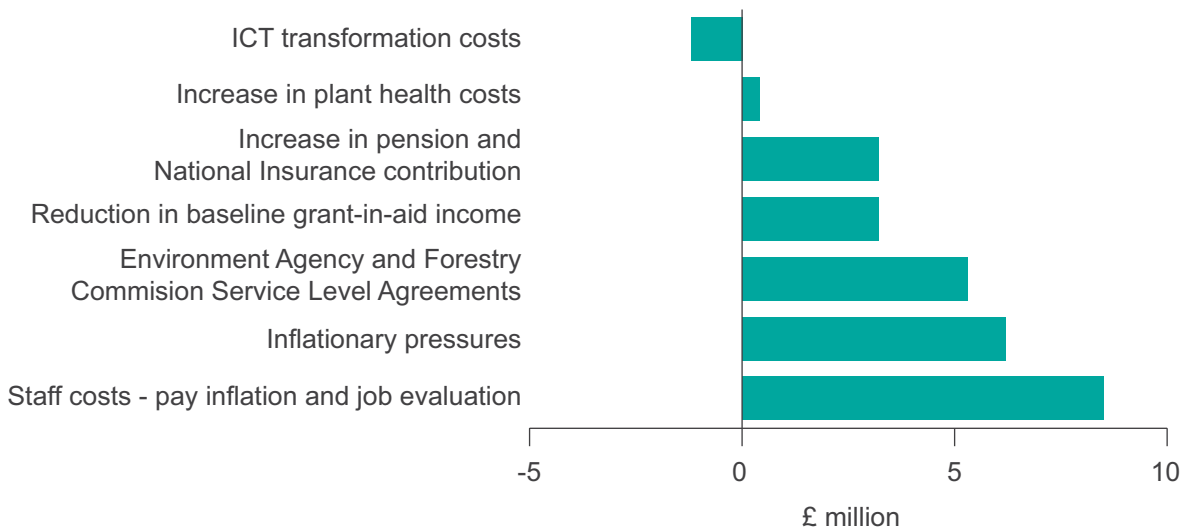
Type of expenditure	£ million
Staff costs	80.0
Non-staff costs	65.9
Capital projects	28.2
Revenue projects	12.9
Total expenditure for 2015-16	187.0

Source: Natural Resources Wales

- 2.38 Future budget reductions, in-year cuts in core funding and further financial pressures increase the risks of reductions in services and of NRW failing to achieve its outcomes. NRW models a range of budget scenarios to plan for the fluctuations in budgets. Prior to September 2015, NRW's long-term expectation was to make 25 per cent savings by 2020, based on a five per cent reduction in grant-in-aid in cash terms year on year. It had implemented a suite of efficiency measures to manage the impact of the current £3.2 million grant-in-aid funding cut and was identifying further strategies to achieve the 25 per cent cut. However, in September 2015 the Welsh Government asked NRW to consider scenarios for a higher level of reduction in grant-in-aid each year over the next three years, and indicated at that time that it was expecting to have to reduce the revenue grant-in-aid for 2016-17 by 10 per cent.
- 2.39 In December 2015, following the publication of its 2016-17 Draft Budget, the Welsh Government confirmed to NRW a cash-terms reduction of eight per cent on a like-for-like basis in the revenue grant-in-aid funding for 2016-17 related to non-flood risk management, and a five per cent reduction in flood risk management grant-in-aid. The Welsh Government has maintained capital grant-in-aid at current levels. More detail on future years' budgets will not be available until the publication of the new Programme for Government, following the May 2016 National Assembly elections.

- 2.40 NRW is still working to the assumption of total budget reductions of 25 to 40 per cent by 2020. NRW informed us it finds annual budget allocations from the Welsh Government restrictive but manages the impact through its financial planning and modelling. However, there is a risk that budget cuts require an even greater prioritisation of work with difficult decisions to be made, particularly given uncertainty over any additional funding for new statutory responsibilities (paragraph 2.30). NRW considers that the expected level of budget cuts will require fundamental changes to the purpose and structure of NRW.
- 2.41 As part of its financial modelling, NRW has estimated the additional cost pressures it incurs that were not included within the original business case costs. For 2015-16, NRW estimates additional cost and funding pressures of £26 million (Figure 15). NRW is aiming to mitigate these costs through delivering the cash-realizable benefits from the business case; reducing headcount; reprioritising activities; and driving efficiencies.

Figure 15 – NRW additional 2015-16 cost pressures compared with business case estimates

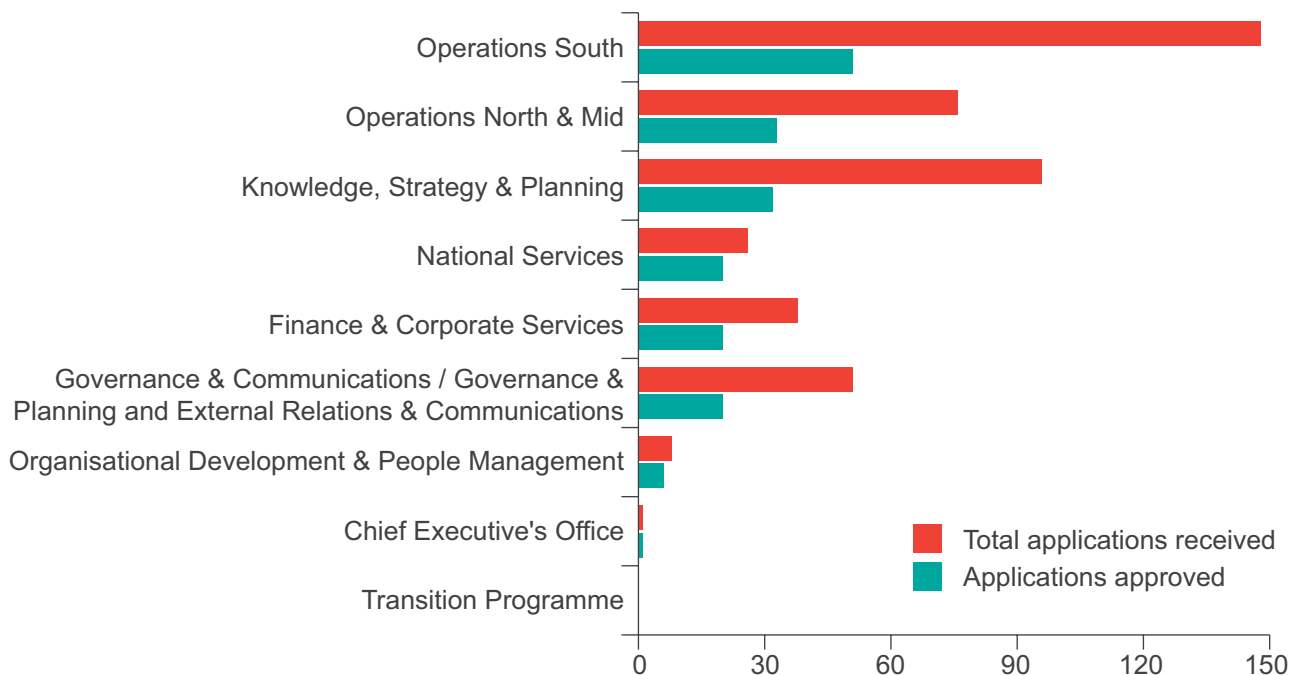


Source: Natural Resources Wales

NRW has reduced its headcount across business functions largely using voluntary exits however it has subsequently identified skills gaps in some areas and is likely to face further capacity pressures

- 2.42 NRW is likely to experience further resource pressures, given the reduction in the number of staff since its creation, the complex transformation programme underway, and additional statutory responsibilities (paragraph 2.25 and Appendix 2). NRW has reduced its staff numbers from 2,186 (2,082 full-time equivalents) on vesting day to 2,017 (1,919 full-time equivalents) in October 2015. NRW has achieved this decrease predominantly through two voluntary exit schemes. NRW funded the schemes using £6 million of repayable Invest-to-Save funding from the Welsh Government. NRW is repaying £2.5 million in 2015-16, and is due to repay £1.8 million in 2016-17 and £1.8 million in 2017-18.
- 2.43 NRW assessed all exit applications against criteria to determine if the skills could be lost, and a lessons-learnt review of the first scheme stated the scheme 'had minimal impact on the business and it is considered that the right staff were allowed to leave'. Across both schemes, NRW received 444 applications, of which it approved 183. Applications and approvals were spread across NRW's business areas, and some applications were rejected in all directorates bar the Chief Executive Office (Figure 16). Three of the approved applications were posts from the leadership team.

Figure 16 – Number of voluntary exit scheme applications received and approved, by directorate



Source: Natural Resources Wales

- 2.44 NRW is undertaking workforce planning to assess the remaining workforce against future requirements (paragraph 2.8). However, a recent workforce planning workshop highlighted a number of areas with skills gaps, and budgetary pressures could result in further staff cuts. One key directorate likely to face more substantial capacity pressures is Organisational Development and People Management, given the significant ongoing activity to deliver major projects under the transformation programme area 'Developing our People and Teams' (paragraph 2.7). In some areas, NRW is recruiting additional staff, however, niche posts, such as in nuclear regulation, have been hard to fill and, in some cases, the posts remained vacant for over four months but are now filled.
- 2.45 Given the capacity pressures, there is a further risk that additional resources required on matters such as job evaluation could cause distractions for other transformation areas and would result in slippages. This could lead to delays in achieving benefits and give a negative perception of the transformation process to staff, the Welsh Government and other external stakeholders.

NRW's Board is experiencing changes in relation to its membership, the time available for each member, and a shorter length of appointment

- 2.46 The tenure of the original NRW Board ended in October 2015. The Welsh Government invited five Board members to continue for a second term and looked to appoint a new Chair and five new members. The Welsh Government extended the tenure of the existing Chair from August 2015 to 30 November 2015, and on 3 November 2015, the Minister for Natural Resources announced the appointment of a new Chair and five members. Given the strength of the previous Board (paragraph 1.25), changes in membership could cause a lack of continuity and capacity and slow previous progress. NRW has developed a clearer induction process and materials for the next Board term and proposed a buddy system to pair new and existing Board members to try to mitigate this risk.
- 2.47 From November 2015, the Welsh Government is cutting the number of days each year per Board member from 60 to 36, with the number of members remaining the same as the original Board in operation from April 2013 at 10 members²⁶ plus the Chair and Chief Executive. All Board members are paid on a daily rate and so the changes will represent a financial saving. The Welsh Government considers the reduction in time reflects the move from transition to transformation, and the effectiveness of the executive team. However, continuing Board members have expressed concern that the reduction in time per member will impact negatively on the support they can offer.

²⁶ From January 2014 to October 2014, the NRW Board had nine members; and from November 2014 to October 2015, it had eight members.

2.48 We note that the tenure of Board members for the new term, excluding the Chair, will be two years from 1 November 2015 to 31 October 2017. This is shorter than the original Board tenure of three years and shorter than some other Welsh Government sponsored bodies, for example, recent appointments for the National Museum Wales advertised a tenure of four years, and Sport Wales has a current tenure of three years. The term of the new NRW Chair is three years. A shorter tenure could result in a risk of a lack of continuity and loss of experience after a short time period; and too much focus on the short term. However, we understand that the Welsh Government wanted the opportunity to be able to consider the dynamics and skills mix of the Board after two years, and will seek to reappoint members if it assesses that the Board is working well.

Appendices

Appendix 1 - Audit scope and methods

Appendix 2 - Indicative NRW responsibilities and timeline relating to the Well-being of Future Generations (Wales) Act 2015 and Environment (Wales) Bill, 2016 to 2020



Appendix 1 - Audit scope and methods

The scope of our work

The overall scope of our work was whether NRW has in place, or is developing, effective governance arrangements that support delivery of its key priorities and outcomes. Our examination covered progress against intended performance; vision and strategic direction; accountability arrangements; management of resources; sponsorship arrangements with the Welsh Government; and the way in which NRW has been preparing for the implications of the Well-being of Future Generations (Wales) Act and Environment (Wales) Bill.

The study focused on administrative aspects of NRW and the extent to which these support good governance and operational effectiveness. The study did not review NRW's operations or regulatory decisions in detail, nor did it examine the rationale for establishing NRW.

The Welsh Government has procedures to conduct a probationary review of newly formed sponsored bodies following two years of operation. Having already included this study of NRW in his work programme, the Auditor General confirmed to the Welsh Government that he expected that this review would cover the ground that would otherwise be in a separate probationary review, drawing also on our work in auditing NRW's annual financial statements. The Auditor General wrote to the Welsh Government in November 2015 to provide a summary of key findings relevant to the scope of the Welsh Government's probationary review requirements.

Audit methods

Our study fieldwork involved:

- interviews with NRW Board members, executives and staff;
- a review of documents provided by NRW and the Welsh Government; and
- attending and observing an NRW Board meeting.

We drew upon established audit methods and approaches in relation to governance, including our corporate assessments of local authorities in Wales and our annual 'structured assessment' of NHS bodies.

To avoid duplication, where possible, we drew upon the results of recent work, including work by NRW and the National Assembly, particularly:

- a staff satisfaction survey undertaken by NRW (February 2015);
- NRW's own review of its first two years of operation, **Creating the Foundation for Delivery – Transition Report** (November 2015);

- scrutiny of NRW by the Environment and Sustainability Committee of the National Assembly between May 2014 and July 2015, including responses to a stakeholder survey, evidence sessions, the Committee's final letter and NRW's response;
- internal audit work undertaken by NRW's internal audit team on a range of areas, and by the Welsh Government's internal auditors on the sponsorship arrangements with NRW; and
- a review of NRW against the Principles of Good Regulation by the Better Regulation Delivery Office.

The study team liaised with other Wales Audit Office colleagues in order to co-ordinate links with other financial and performance audit work, including:

- financial audit work undertaken as part of the annual external audit of final accounts, including following-up risks in relation to integration of financial systems, financial controls, the financial statements, responding to financial pressures, achieving savings, and the annual governance statement;
- the Auditor General's value-for-money studies on coastal flooding and erosion (ongoing); and **Managing early departures across the Welsh public bodies** (February 2015);
- the Wales Audit Office's Good Practice Exchange support to the NRW Board Members' development programme;
- links established with NRW by the Wales Audit Office Sustainable Development Manager in relation to implementing the Well-being of Future Generations (Wales) Act and preparing for the forthcoming Environment (Wales) Bill, which is expected to receive Royal Assent by spring 2016; and
- responses from the NRW Board and senior leadership team to the Wales Audit Office **Picture of Public Services** report June 2015 survey questionnaire.

Appendix 2 - Indicative NRW responsibilities and timeline relating to the Well-being of Future Generations (Wales) Act 2015 and Environment (Wales) Bill, 2016 to 2020

Responsibilities for NRW under the Well-being of Future Generations (Wales) Act 2015

The Well-being of Future Generations (Wales) Act 2015 requires NRW to sit on the Public Service Board for each local authority area. The aim of Public Service Boards, in operation from April 2016, is to improve the economic, social, environmental and cultural well-being of its area by working to achieve the well-being goals. Each Public Service Board must prepare and publish a 'Local Well-being Plan' setting out objectives and review the plan annually to show progress.

NRW must also meet the general requirements of the Act applicable to Welsh public bodies, including setting and reporting on its own objectives to achieve the seven well-being goals; and applying a sustainable development principle across all its activities²⁷.

Expected responsibilities for NRW under the Environment (Wales) Bill

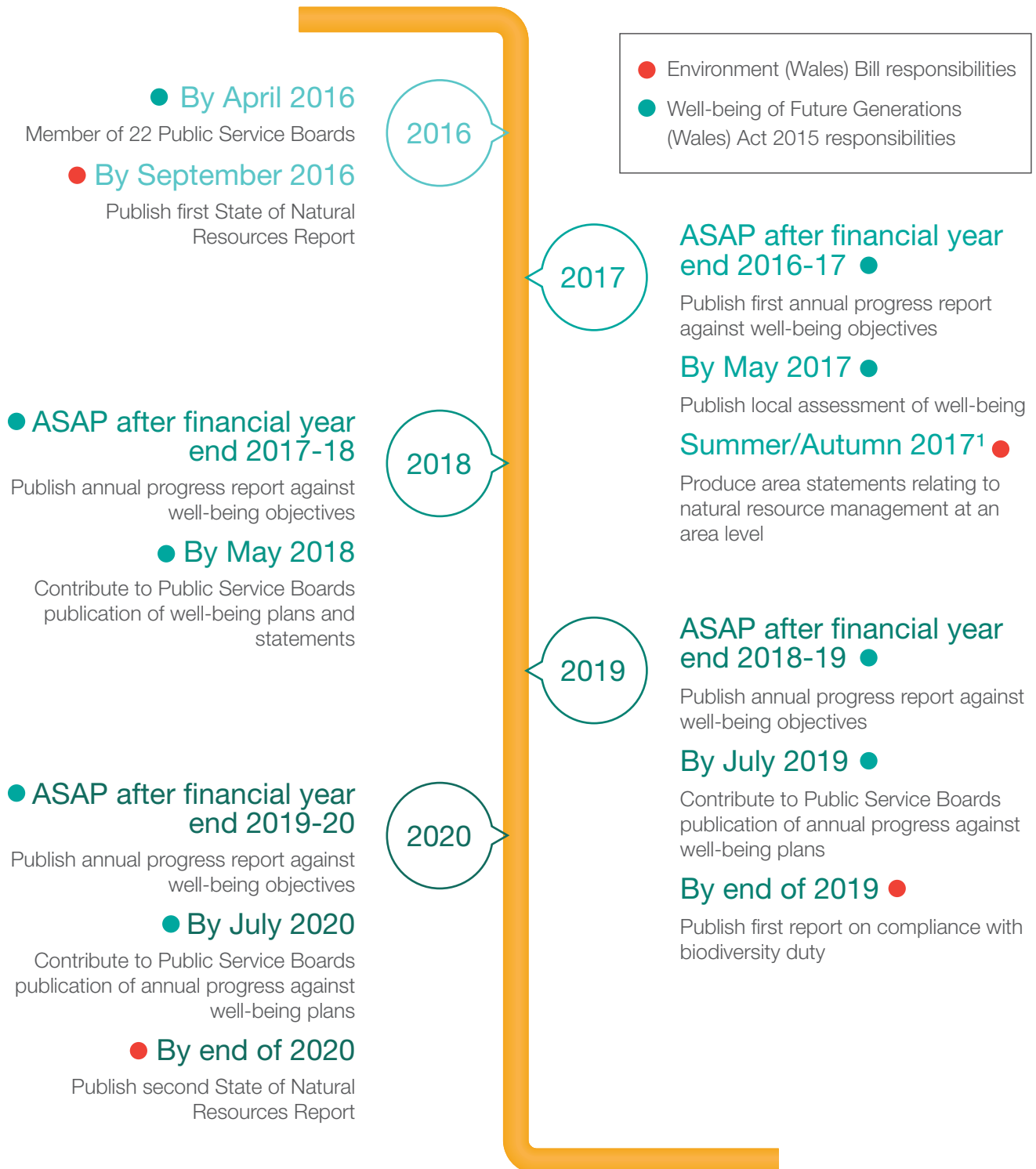
The Environment (Wales) Bill, due to be enacted by spring 2016, places specific responsibilities on NRW to produce:

- a State of Natural Resources Report every five years giving an assessment of natural resources and how well they are being managed in a sustainable way; and
- area statements to identify at a local level the priorities, risks and opportunities for managing natural resources sustainably and what actions to take²⁸.

²⁷ **Well-being of Future Generations (Wales) Act 2015 – The Essentials**, Welsh Government, June 2015.

²⁸ **Overview of the Environment (Wales) Bill**, Welsh Government, May 2015.

Timeline of key responsibilities



Notes:

¹ The exact timeframe for area statements has not yet been confirmed.

Source: Welsh Government

Wales Audit Office

24 Cathedral Road

Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

Swyddfa Archwilio Cymru

24 Heol y Gadeirlan

Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn Testun: 029 2032 0660

E-bost: post@archwilio.cymru

Gwefan: www.archwilio.cymru