

Agenda – Y Pwyllgor Cyfrifon Cyhoeddus

Lleoliad:	I gael rhagor o wybodaeth cysylltwch a:
Ystafell Bwyllgora 3 – y Senedd	Fay Bowen
Dyddiad: Dydd Mawrth, 28 Mawrth 2017	Clerc y Pwyllgor 0300 200 6565
Amser: 08.30	SeneddArchwilio@cynulliad.cymru

(Cytunodd y Pwyllgor ar 13 Mawrth 2017 ar gynnig o dan Reol
Sefydlog 17.42 i benderfynu gwahardd y cyhoedd o Eitem 1 o'r
cyfarfod hwn.)

(Cyfarfod preifat cyn y prif gyfarfod 08.30–09.15)

- 1 Cyfoeth Naturiol Cymru: Sesiwn friffio gyda Cyfoeth Naturiol
Cymru**
(09.15 – 09.30)
- 2 Cyflwyniad, ymddiheuriadau, dirprwyon a datgan buddiannau**
(09.30)
- 3 Cyfoeth Naturiol Cymru: Craffu ar Gyfrifon Blynyddol 2015–16**
(09.30 – 10.45) (Tudalennau 1 – 128)

Papur briffio gan y Gwasanaeth Ymchwil

PAC(5)–11–17 Papur 1 – Cyfrifon Blynyddol Cyfoeth Naturiol Cymru 2015–16

PAC(5)–11–17 Papur 2 – Archwilydd Cyffredinol Cymru Memorandwm

Dr Emyr Roberts – Prif Weithredwr, Cyfoeth Naturiol Cymru

Kevin Ingram – Cyfarwyddwr Gweithredol Gwasanaethau Cyllid a Chorfforaethol,
Cyfoeth Naturiol Cymru



4 Cynnig o dan Reol Sefydlog 17.42 i benderfynu gwahardd y cyhoedd o'r cyfarfod ar gyfer y busnes a ganlyn:

(10.45)

Eitem 5

5 Cyfoeth Naturiol Cymru: Trafod y dystiolaeth a ddaeth i law

(10.45 – 11.00)

Mae cyfyngiadau ar y ddogfen hon



**Cyfoeth
Naturiol**
Cymru
**Natural
Resources**
Wales

Annual Report & Accounts 2015/16



Noddir gan
Lywodraeth Cymru
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Welcome

It gives me great pleasure to introduce Natural Resources Wales' Annual Report for 2015/16. This is the first Annual Report since I was appointed in December 2015. I am delighted to have the opportunity to Chair the Board of this unique, dynamic organisation. We are proud to lead the way to a better future for Wales by managing the environment and natural resources sustainably and to reaffirm this, our vision. The progress made by NRW, as a young organisation, gives me and the Board great confidence in our ambitious environmental agenda for the future.

Many of the things we rely on to prosper as people and as a nation are borne from our environment and the natural resources around us: the water we drink, the air we breathe, the natural surroundings where we live and work. A healthy and resilient environment helps sustain people and our economy, helping build a solid foundation on which our society can thrive. This report sets out how our work in 2015/16 has contributed to achieving a more successful, prosperous Wales, based on healthy natural resources.

We are committed to building on this work for a stronger more resilient future, even with all its uncertainties. The Environment (Wales) Act and the Well-being of Future Generations (Wales) Act together provide the framework for all of us to collectively use our resources for the best possible outcomes. Using this new legislation to work together with partners from the public, private, community and voluntary sectors gives us an exciting opportunity to make sure that the people of Wales benefit now, and in the future, from a more resilient, sustainable and prosperous environment.

Formally and sincerely I want to thank all those people who have worked so tirelessly over the past year to deliver the significant achievements in this report. My predecessor Professor Peter Matthews CBE, with his unstinting energy and commitment to the establishment of our organisation, made an amazing contribution to Wales of which he should be proud. In addition the original Board members whose term of office came to an end during the year: Professor Lynda Warren, Harry Legge-Bourke and Rev Hywel Davies. Our Chief Executive Dr Emyr Roberts deserves special thanks for charting a clear way through the many challenges the organisation has faced during the year. And, of course each and every one of our dedicated staff who are indeed our greatest resource and who bring their professional expertise and determination to play in their vital role in championing the environment. This report gives an indication of the huge amount of progress made over the past year, demonstrating the strength, innovation and passion of all the people who have worked so hard to get us this far along our journey.

In the coming year, along with my Board colleagues, I look forward to working with the Chief Executive, his Executive Team and all of our staff, leading the way to a better future for Wales by managing the environment and natural resources sustainably – effectively and enthusiastically delivering our vision.

Diane McCrea MBE
Chair



Performance Report

Overview

Last year, I described our position as challenging yet successful, and this has also been the position for 2015/16. Against a backdrop of reduced funding and staff numbers, we continued our journey to integrate the work of the three legacy organisations, and to manage Wales' natural resources sustainably. We have delivered a credible performance, which has helped to establish NRW as an organisation that delivers for the environment, economy and people of Wales. Such achievement over the last 12 months gives us confidence that we can deliver our ambitions for the future.

Challenges have come in the form of preparing for our new duties under the Well-being of Future Generations (Wales) Act and for our new purpose under the Environment (Wales) Act; as well as serious financial pressures which have required us to be clear about priorities and the way we use our money. In terms of environmental outcomes, overall water quality has not reached the good ecological status we would have liked to have seen by this point, while biodiversity remains fragile in many areas.

Our successes include the excellent work to secure a significant amount of carbon is locked in Welsh peatland, cleaner bathing waters and our efforts to reduce the spread of *P. Ramorum* across our forests. We have learned a great deal about the needs of local communities from our 'area trials', our customer service as measured by timeliness in response to planning applications continues to improve, we responded well to the winter weather, and we met our targets for marketing of timber. We are publishing more of our data online, such as information on river levels, which is helping our stakeholders to make decisions. I was also pleased to receive formal Ministerial Approval that we had completed our probationary period as a new Welsh Government Sponsored Body.

As ever, there is much more to do and areas to improve. We are keen to learn and listen to the feedback from our staff and customers. Hopefully this Annual Report will give you a flavour of the journey we are on.

Dr Emyr Roberts
Chief Executive and Accounting Officer



Introduction

We are a Welsh Government Sponsored Body, responsible for making sure that the *environment and natural resources of Wales are sustainably maintained, sustainably enhanced and sustainably used, now and in the future*. Wales is the first country in the world to create one organisation that brings together many of the tools needed to help manage our natural resources coherently. We can achieve much more by joining up our knowledge and services so they are working together to deliver sustainable outcomes. Our success depends on how we work together, living our values to create a better Wales.

Whilst our environment is worth £8 billion to the Welsh economy, we believe there is the potential to unlock much more for the people, communities and environment in Wales. We have the ability to adapt to the changing needs of society quickly – providing better services, making more informed decisions, and forming strong partnerships.

Our themes are integrated, demonstrating the multiple benefits our work has on the Welsh environment, economy and communities. They also support the following outcomes we share with the Welsh Government.

- Enhancing our environment
- Protecting people
- Supporting enterprise and jobs
- Improving the nation's health
- Viable and vibrant places
- Delivering social justice
- Supporting skills and knowledge

We have a wide range of 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 we are 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 our 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 our environment, commissioning and undertaking research, developing our knowledge, and being a public records body
- Employer: of over 1,900 staff, as well as supporting other employment through contract work and volunteering opportunities.

Our values:

- Passionate and ambitious about our work and the positive impact we will have
- Disciplined and focussed in our prioritisation and delivery
- Trusted and professional in our relationships with stakeholders, staff, and their representatives
- Taking a common sense approach to our work and being responsible and accountable for our actions.

Performance summary

We are still a young organisation but with a clear purpose and a determination to succeed. Moving into our third year, and the second year of our current Corporate Plan, our ambition was clear, but in common with other public sector organisations, we faced ongoing financial challenges and the need to prioritise our resources and find new and innovative ways of delivering services as efficiently as possible.

Our focus in our first two years has been to build the foundations of our standalone capability and preparing our organisation to fully deliver the sustainable management of our natural resources in Wales – over the last year we started to move into our transformation phase to ‘unlock our potential’ and become a high performing organisation.

We have continued to review our services to secure the environmental outcomes we want to achieve, and have worked to ensure that efficiency and improved customer care are delivered together. Our focus has been to develop natural resource management, improve our range of services to customers and partners, and support Welsh Government in developing new legislation and policy to progress green growth, tackle poverty, use resources efficiently and enhance resilience and diversity.

Looking ahead, the next year will be a year of enormous change and challenge for us, as it will be for our environment and for other public bodies in Wales – and we are ready to rise to that challenge. Both the legislative and the financial context we are working in mean that we will need to be transformational – prioritising effort where we can make the greatest contribution, forging new relationships with partners and communities, and addressing the fundamental issues that will increase the resilience of our natural systems and so enhance the services they provide to society.

We are, and will be, seeing significant changes in the environment of Wales – in terms of climate change, population and the economy, as well as public finances and new legislation. All of these factors will have a major impact on our organisation and there will need to be a huge shift in the way we work in future. We want to be bold and ambitious – both about how we in Wales achieve the sustainable management of our natural resources, and about how we change as an organisation to make sure this can happen.

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

Performance Analysis

As a Welsh Government Sponsored Body our primary role is to fulfil our statutory responsibilities and to meet the aims established for us by the Welsh Ministers. Our objectives are set both through a long-term outcome approach and an annual Remit Letter to establish areas of our work that require a particular focus. To meet these objectives we prepare a longer term corporate plan, supported by an annual business plan and performance framework. All of this information is available on our website at <http://naturalresources.wales/about-us/strategies-and-plans>

This is our second report against our Corporate Plan 2014 – 2017 and we use its five themes: Good Knowledge; Good Environment; Good for People; Good for Business and Good Organisation to structure our Business Plan 2015/16, Performance Framework and this Performance Report. As part of our Performance Framework, our dashboard tracks longer term trends through *indicators* that our work contributes to, as well as annual operational *measures* that we control delivery of. This year, of 41 indicators and measures, 28 met the target set, nine were within 10% of the target set, and four were not where we had planned to be. Our progress is monitored by our Board and Welsh Government and published on our website three times each year. The final performance dashboard for 2015/16 is available on our website at <http://naturalresources.wales/about-us/strategies-and-plans/how-well-are-we-doing>. The following sections of this report outline examples of outcomes achieved in line with our objectives as well as some of our key performance information.

Good Knowledge: gaining wisdom and understanding of our natural resources and how we affect them – using evidence and applying learning from experience, so that we make good decisions

Our role involves gathering evidence and offering advice on environmental matters in order to inform the decisions of others as well as our own.

Key Information

- All 102 Welsh Bathing Waters pass tough new EU Standards in 2015
- 96 data sets available online
- 11 funded partnership projects to deliver natural resource management in development

Clean bathing waters are important to the economy in our coastal communities and for wildlife in our seas. In 2015, all identified bathing waters in Wales met new stricter European classifications for water quality, a key measure that helps to ensure a seaside holiday or day out at the beach remains one of the most popular activities for many families. The results of our monitoring programme show that 82 of the 102 bathing waters in Wales achieved the higher classification of excellent, with 16 achieving good and four sufficient. No Welsh bathing water was classed as poor during the first year of these tough new standards. The challenge now is to maintain this standard, working with others to protect and enhance our natural resources so our coast and natural environment will continue to provide huge benefits to the people of Wales and our visitors.

In line with our commitment to be a trusted and professional organisation, we want our customers to access our data quickly, easily and, where possible, re-use it for personal, research or commercial purposes. With this in mind, we have fully transitioned to using the

Welsh Government Information Hub (Lle), a single data publishing service that allows us to publish our data in one place. We now have 96 open datasets available for external re-use, up from 78 in 2013, including the Ancient Woodland Inventory, Flood Maps and National Biodiversity Network Species Data. Our new open data policy will see this increase in the future.

Our new guide, '[Introducing Sustainable Natural Resource Management](#)' was published this year to outline the challenges and opportunities this new approach brings to managing our resources in Wales as well as the principles we, and others, should apply in order to address them. Demonstrating what this means in practice, we used case studies from our three area trails in the Dyfi, Tawe and Rhondda catchments. Highlights include working with the local wildlife trust to set up Rhondda's first nature reserve in 20 years, and work with multiple partners on tackling wildfires. In Swansea we have sought to improve access on the eastside of the city using our different roles and responsibilities to join up forest, nature reserve and river opportunities.

Work has also continued to produce Wales' first State of Natural Resources Report, due in September 2016. Working with academia to source relevant information and Welsh Government and partners to plan future evidence needs is helping to ensure this vital piece of work will inform the Welsh Government's National Natural Resources Policy every five years.

Good Environment: ecosystems are resilient and secured for the future, wildlife and landscapes are enhanced, and the use of our natural resources is carefully managed

Our roles as an operator, regulator and designator contribute to sustainably managing the land and water we're responsible for, protecting and improving the environment in Wales, halting biodiversity loss and making Wales more resilient to climate change.

Key Information

- 1,000 hectares of diseased larch tree cleared
- 82% of actions completed to improve the condition of designated sites
- 39% of water bodies across Wales met good overall status

Our environment is currently facing many challenges and demands on its resources. We are still below the 2015 target of 50% of water bodies meeting good ecological status (39%), while the quality of our seas, land and rivers remains unfavourable against the 95% target in the Wales Environment Strategy. We know that our work alone will not achieve the required improvements. As part of the Welsh Nature Recovery Plan we have achieved our planned target for getting actions underway and complete in bringing protected sites back into favourable condition and have made a number of improvements to help bring about the changes needed to the Welsh environment.

In recent months we have seen slight delays in our reviewing of evidence to support our first State of Natural Resources Report. This important report will highlight pressures and potential impacts on natural resources, give an indication of resilience, and include an assessment of the extent to which sustainable management of natural resources is being achieved. Benefits provided to the environment, people and economy of Wales will be

central to the report. We have put in place actions to ensure that we can still meet the September deadline for publication.

Examples of our work in improving the environment include:

- A new Site of Special Scientific Interest designation at a fossil forest in Brymbo, near Wrexham, is helping to safeguard this superb scientific and educational resource for future generations. The site contains a fantastic variety of 300 million year old fossilised plants and trees, making it a world class site for plant fossils. This site has an extraordinary story to tell and plans are now underway, led by Brymbo Heritage Group, to establish an excavation and visitor centre on the site that will ensure the right conditions to study and display these fragile fossils. This has the potential to be a popular tourist attraction, also contributing to the local economy of this area.
- More than 1,000 native white-clawed crayfish have been released into a tributary of the River Irfon, near Builth Wells as part of continued efforts to save the species from extinction. Reared at our Cynrig Fish Culture Unit, the crayfish have been released into the wild in a bid to offset the damage caused by the non-native American signal crayfish, climate change and the impact of pollution on habitat and water quality to the native crayfish population. In its third year, early signs suggest the project has been a success with crayfish found at release sites 15 months after the initial introduction. Establishing a healthy population of native white-clawed crayfish would be a good sign that water quality and habitats are being restored to a condition suitable for the crayfish to flourish.
- Two new species of marine sponges at the protected marine site around Skomer Island have been identified demonstrating that our conservation work contributes to a healthy environment for the species living there. Protecting our natural resources provides an important home to the rich, diverse and valuable wildlife we have in Wales, which in turn provides a fantastic habitat not only for lesser known wildlife like sponges but also for species like grey seals and sea birds which are a huge draw for tourists to the area. The number of sponge species recorded at Skomer has been steadily increasing over the last 30 years and currently stands at around 122 species.
- Work to restore Welsh peatlands is showing signs of success – but there’s a lot more to do. Due to damage from drying out over many years, Welsh peat is a source of greenhouse gas emissions, releasing around 550,000 tonnes of carbon into the atmosphere every year. Now, over fifty per cent of Wales’s semi-natural peatland habitats are being managed in a sustainable way, helping to lock in carbon that could otherwise be released into the atmosphere contributing to climate change. Over the last few years, at least 750 km of ditches have been blocked across Welsh peatlands to restore and re-wet them. Key areas include the uplands of Migneint, Hiraethog, Elennydd and Berwyn and lowland sites on Anglesey and the Llyn Peninsula, among others. Peatlands don’t just store carbon, they harbour a wealth of rare plants and wildlife; help store water which can reduce the risk of flooding in lower lying areas and help purify our water supplies. Cors Erddreiniog National Nature Reserve, Anglesey, was one of the major sites included in our Anglesey and Llyn Fens LIFE project. It is now locking in carbon that would otherwise be released into the atmosphere. We will continue to work on restoring priority peatland sites, using management agreements with landowners and partnership projects to continue to restore peatlands.

- Salmon and sewin are an important part of the health of our rivers and worth millions to Welsh economy, now thanks to an update to the fish pass on the River Tawe in Panteg the iconic species can access prime spawning grounds in the upper Swansea valley. A historic weir had an existing fish pass that had become virtually unusable due to erosion of the river bed downstream. Our focus is to make sure that our rivers are in the best possible condition so they can support healthy fish populations.

Good for People: people are safe, and enjoy and benefit from our natural resources and understand their relevance in our day to day lives

Our roles as an operator, regulator, responder and educator are keeping people safe and encouraging people to visit the Welsh environment.

Key Information

- 148,150 residential properties and 60,350 non-residential properties, approximately 11% of all properties in Wales, are at risk of flooding from rivers and the sea
- 98% of high risk flood assets maintained
- Our incident reporting line received over 10,000 calls and we attended 1,883 environmental incidents

We maintain 319 miles of flood defences, manage over 4,000 flood defence assets, support flood plans, and offer flood warning and flood forecasting services to help reduce the risk and increase preparedness in the event of a flood in Wales. Work to build new flood defences has reduced the risk of flooding to 511 houses and 145 businesses benefitting communities in Dolgellau, Ffordd Isa and the Caldicot levels, surpassing our target to benefit 500 properties this year.

To help people in Wales know what to do in the event of a flood, face to face flood awareness engagement work in 20 at risk communities across Wales has resulted in 193 new flood plans being created, and 671 new registrations on our Flood Warnings Direct service. These plans cover a range of businesses, medical premises, caravan parks, schools and homes. There are currently 280 flood plan leads or wardens supporting community plans across Wales in a voluntary capacity. In addition to this new work, 61 previously completed community flood plans were maintained, to ensure that they were still active and fit for purpose for the 19,241 people protected by them.

Our maintenance programme to high risk flood assets was hampered due to winter floods resulting in our maintenance level falling slightly to 98% against our target of 99%. Our teams re-prioritised their resources to carry out urgent asset repairs and blockage removal works; this had a knock-on effect on our ability to address the failing assets already identified. We are working to turn this around and develop new systems to ensure funding goes to the highest risk locations.

In partnership with Ford Motor Company, the Llynfi Woodland Project is working to transform a former colliery site near Bridgend into a sustainable woodland designed with people in mind. 60,000 trees have been planted so far creating a new 30 hectare woodland. This will not only provide a home for wildlife, help to reduce flooding and absorb carbon but in working with the local community to develop the plans to create the

woodland as a place for people to relax, exercise and socialise, it will also encourage people to spend more time outside and increase their activity levels. Over the next ten years, employees and local communities will play their part planting trees and developing green exercise facilities providing a space for health and wellbeing activities for the community.

Using our sustainable natural resource management approach, 10 biodiversity projects were funded as part of our plans to build and maintain flood defences. Building in steps to help local nature when delivering our schemes ensures we consider the impact our activities have on each other. Eight projects were completed this year creating 237.5ha of Biodiversity Action Plan habitat.

To help our customers get easy access to information they need to stay safe or to enjoy the natural environment, we launched our [River Levels Online](#) service in November 2015. This displays live river level data from sites around Wales on our website. The river level data that we collect has many applications within NRW and now our customers can also use it to decide how to respond to a flood event, or to see if levels are suitable for fishing or kayaking. Until now this information has been made available through the Environment Agency's website but our staff have designed, built and tested this updated service to make it easy to find and view river level information from our sites across Wales. The information can be accessed using an interactive map or by searching a list of the monitoring stations.

Providing opportunities for people and visitors to Wales to go outside and enjoy our natural environment is an important element of our work. This year, two of our most popular visitor attractions, Bwlch Nant yr Arian, near Aberystwyth and Coed y Brenin Forest Park near Dolgellau in the Snowdonia National Park have celebrated Gold Awards from Visit Wales after achieving excellence for their facilities and customer services. Providing valuable educational resources and a leading mountain biking centre along with popular catering facilities both sites have succeeded in what is a dynamic and exciting industry where the need to offer a memorable visitor experience is essential.

Good for Business: a 'location of choice' for business and enterprise, and a place where best practice environmental management is adopted and encouraged

Our roles as a manager, advisor, regulator and statutory consultee are supporting businesses working with the natural environment and benefiting the Welsh economy.

Key Information

- 91% of planning applications responded to within agreed timescales
- 91% of permits, licences and consents issued within agreed timescales
- We supplied over 800,000m³ of timber to the market

Our Energy Delivery Programme continues to meet the aspirations of Welsh Government's Low Carbon Economy agenda, contributing significantly to reducing the use of carbon and addresses the impact of climate change while protecting the environment. By supporting the Wind Energy Programme, Small Scale Hydro Programme and Third Party Accesses related to energy projects on the NRW Managed Estate, we are seeing direct financial

benefit for Welsh Government and NRW with these projects providing important opportunities for the supply chain and jobs in Wales.

We worked with developers to enable nine small scale hydropower schemes on the NRW Managed Estate. Due to reductions in Feed in Tariffs during the year, developers withdrew from a further 22 proposed schemes. We also identified 165,000 tonnes of wood material from the larch replacement programme and roadside vegetation management that was available for sale in late 2015 and received a single offer to clear the young larch and re-establish a crop for zero value.

Our enforcement action continues to help protect the environment while working to create a level playing field for legitimate businesses. A South East Wales recycling company failing to comply with their environmental permit, saw their Director receive a suspended custodial sentence and become disqualified from being named as a Director of a company for the next five years as well as losing a waste contract with a local authority as a result. Actions to treat and store increasing volumes of waste began to cause odour, drainage pollution and fly problems and the company failed to comply with enforcement notices to improve the situation. In taking action to ensure the environment and health of local people is protected, almost £200,000 of public waste contracts will be let to businesses who legally meet their environmental responsibilities.

This year, 110 prosecutions for waste, water quality and fisheries offences saw the Courts impose fines totalling £119,305.00 and award costs of £115,049.95 to NRW. Monies actually received in relation Proceeds of Crime Act Confiscation Orders relating to our prosecutions totalled £145,383.48.

We continue to be the largest supplier of certified timber in Wales, this year putting to market 800,000m³ overbark standing of timber. This sustainable woodland management supports further employment in the forestry sector across Wales.

Good Organisation: We want to be well led and well managed, with suitably skilled and experienced staff and effective underpinning systems and processes; transparent in our decision-making and continuously improving our service to customers and partners, benchmarking ourselves against the very best.

Our work as a manager and employer is helping our transformation to become an exemplar public service organisation.

Key information

- 5% reduction in our greenhouse gas emissions
- Retained our UK Woodland Assurance Standard
- Formally completed our probation period as a new Welsh Government Sponsored Body

The results of our recent People Survey show that we need to focus on those things that will build better engagement and communication across our organisation and encourage belief in our purpose to pursue the sustainable management of natural resources in everything that we do. A high response rate of 82% clearly shows that our staff are passionate about making NRW a better place to work. It also gives us a clear indication

that we must find ways to encourage a culture of trust and engage everyone far more in how we plan and run NRW to get the best from people and the collective skills we all have.

We had 10 lost time incidents reporting accidents involving staff from falls, burns, musculoskeletal injury, scalding and head impact. Our initial reviews indicate that there is no pattern connecting these incidents; we are reviewing each of them and lessons learned will be shared with the wider workforce to help prevent similar situations happening.

Work has continued this year to progress our stand alone capability and we have been able to reduce the amount we pay to legacy bodies for ICT services by £5.2m each year. Eighteen new ICT applications contributed to the reduction in our Information and Communications Technology (ICT) infrastructure from a total of 1,405 applications from all three legacy bodies down to 775 at the end of this year. Staff have worked hard on data migration and testing reporting processes as well as developing training packages including videos, courses and user guides to complement our new way of working. We are pleased to have established an agreed data sharing agreement with the Environment Agency (EA) and are now looking to deliver the remaining ICT deliverables that will allow us to finally close all the transition services with the EA and Forestry Commission GB by 31 March 2017.

Realising better value for money, we are expecting to generate benefits of £158 million over our first 10 years through the greater efficiencies gained by bringing three organisations into one. Currently we have successfully identified cash and non-cash realisable benefits of £147 million (93%). Although we are on target, we need to maintain a strong focus on making efficiencies, controlling costs and making sure plans to deliver the benefits are implemented. Work will continue to exit transitional EA and Forestry Commission GB services worth approximately a further £2.5 million in 2016/17.

Following our transition to a standalone organisation, we launched a major programme of Business Area Reviews to consider what we do, how we do it, and how we are structured to deliver our purpose effectively and efficiently. This will allow us to meet our new purpose, adapt to the changing legislative context in Wales, and to deliver our ambitions within a financially challenging environment. An overarching review of our senior management was included with the aim of delivering an operating model that meets the needs of our customers and partners, embeds sustainable management of natural resources in all we do, and delivers an affordable structure by the year 2020. It aims to ensure NRW is a great place to work and grow, so that people and teams can excel and deliver improved business performance on a sustained basis.

Following the [Wales Audit Office's Development of NRW Study](#) report, we were pleased to receive formal Ministerial Approval that we had completed our probationary period as a new Welsh Government Sponsored Body. This is an excellent result and an important milestone in the establishment of our organisation. The final report highlighted substantial challenges that have been overcome, while maintaining business continuity. The Welsh Audit Office recognised our *'adoption of a sound and well-structured approach'* so that we now have *'a solid platform for continuing to realise the intended benefits of creation and for tackling the future challenges'* we will face.

Our Carbon Positive project is progressing to establish our net carbon status, accounting for both greenhouse gas emissions emitted through our work and the carbon captured by

ecosystems across the whole of the NRW estate. The project is leading our approach to become an exemplar in carbon management. It will inform our wider work to tackle climate change by investigating and delivering measures to reduce our carbon impact, and planning future implementation of appropriate measures. Through sharing our approach and experiences, the Carbon Positive project will help to encourage best practice in carbon management across the Welsh public sector.

We have risen 78 places in the Stonewall Workplace Equality Index since last year and we are now placed 160 out of 415 top employers for lesbian, gay, bisexual and transgender workers in the UK and 14th place in Wales. We are pleased our swift progress over the past two years to provide an inclusive and diverse workplace has been recognised.

Dr Emyr Roberts
Chief Executive and Accounting Officer

Date: 2 March 2017

Accountability Report

Corporate Governance Report

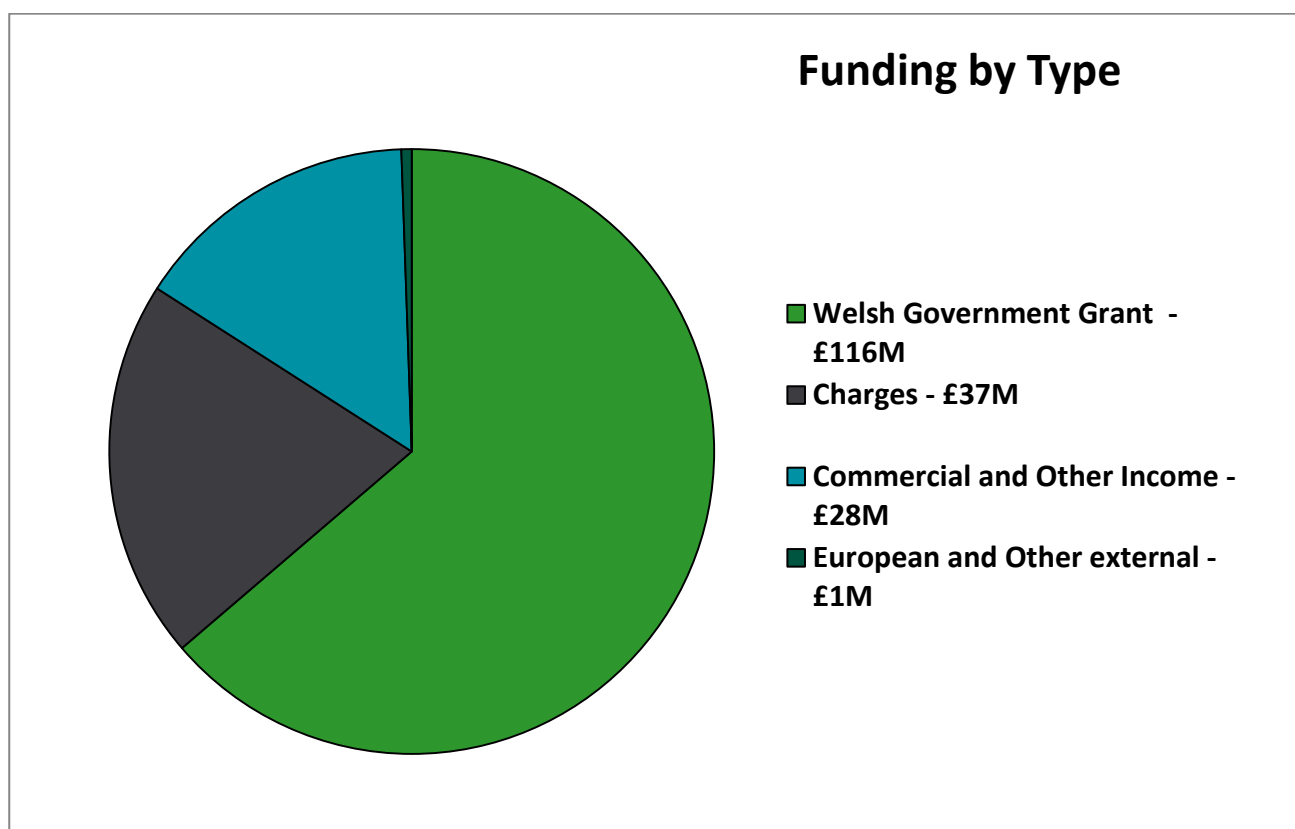
Director's Report

Managing our Money

Despite a £3.2 million reduction in our revenue Grant in Aid compared with 2014/15, we have successfully managed our expenditure in line with plans. As part of this, we instigated an efficiency campaign called 'Success with Less' which realised near £2.5 million of savings. We also exceeded our commercial income targets. This has been achieved whilst operating in a very challenging financial context in the current financial year and planning for future financial years. Our future financial viability, and achieving a financially sustainable organisation, is our major focus at the moment, and we have started to develop our Corporate Plan for 2017-2022.

Funding

Our total income for the year was £66 million. In addition, Welsh Government provided £116 million Grant in Aid towards a range of outcomes. £39 million was allocated to Flood Coastal Risk Management and £77 million to Non-Flood Coastal Risk Management. In the Accounts, Grant in Aid is treated as a contribution from a controlling authority and not a source of income. The chart below illustrates the distribution of our total funding:

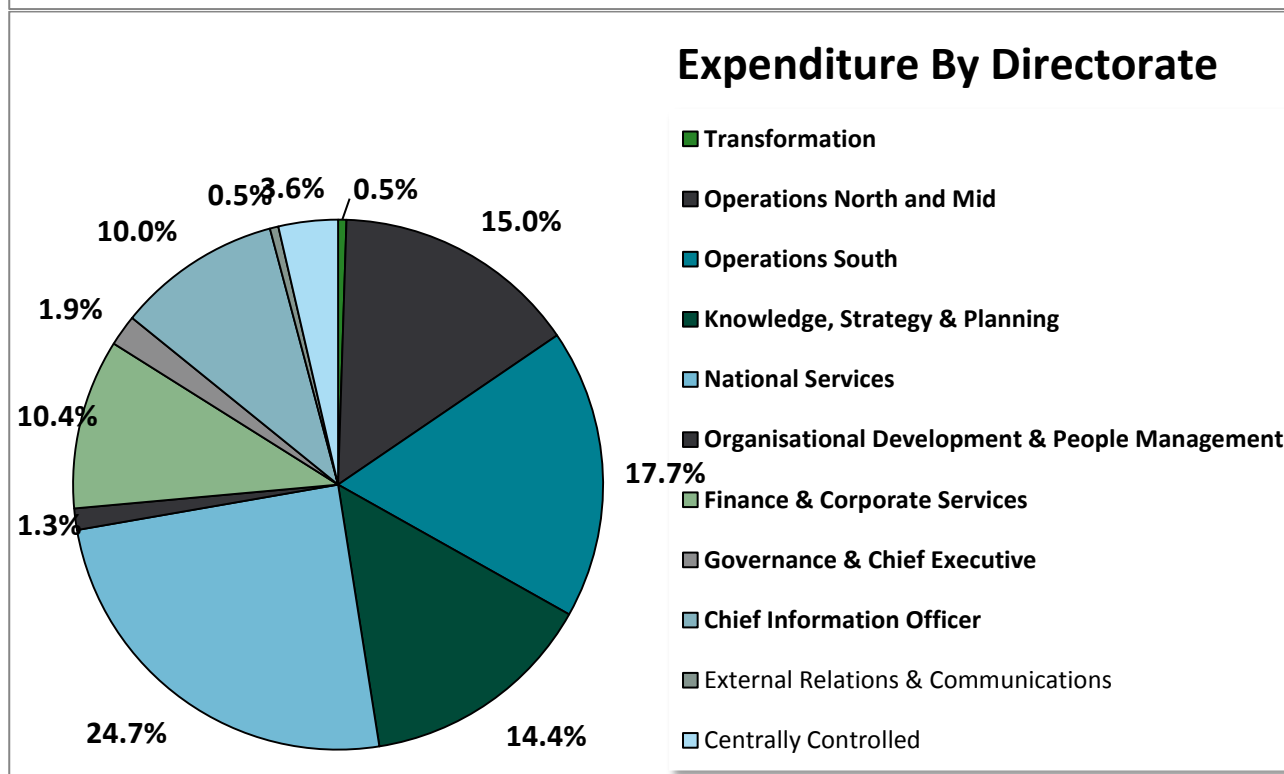
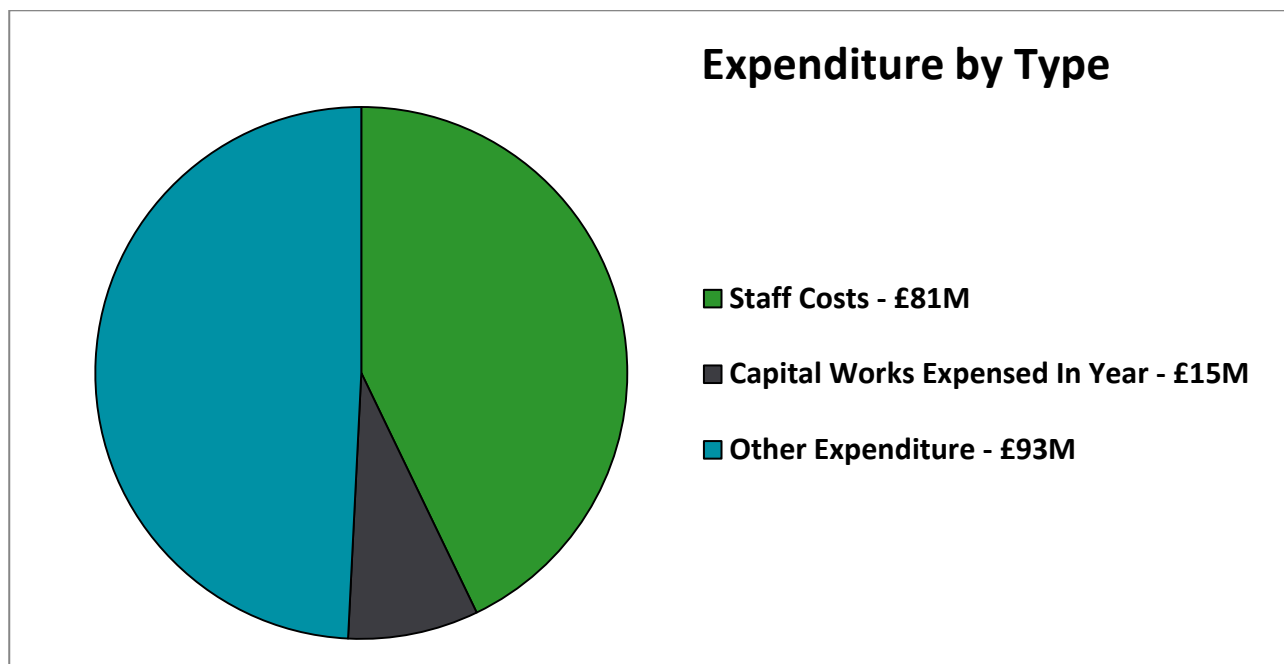


We have a number of funding sources which we keep discrete when planning and spending our resources. The main funding source of Grant in Aid is split between Flood and Coastal Risk Management and Non Flood and Coastal Risk Management – for both revenue and capital. We also have a number of Charge Schemes (see Note 6 of the

Financial Statements) which are based on the principle of 'cost recovery'. In addition, we apply and receive additional funding from a number of sources (such as European funding) which are spent on specific projects.

How we spent our money

Our total expenditure was £189 million. The detailed breakdown by category of spend can be found in Notes 5 to the Accounts and is also illustrated below:



Centrally controlled - Income and expenditure controlled centrally and not allocated to directorates. It includes depreciation, book value of fellings and year end accruals for provisions.

Note 2, 3, 4 and 5 of the Financial Statements details where the money was spent.

Success with Less Efficiency Campaign

Our 'Success with Less' campaign realised nearly £2.5 million of savings across a range of initiatives including changing the way we travel and use technology to communicate and letting better value contracts. Our campaign won the Wales National Procurement Award for Outstanding Contribution for demonstrating our unique and significant contribution in terms of implementing strategic public procurement initiatives and in driving change and leadership in order to help modernise Wales.

Future Developments

Funding for 2016/17 is particularly challenging due to further reductions in our revenue Grant in Aid funding from Welsh Government, and the costs of completing our transformation of Information and Communications Technology infrastructure which will allow to exit more services which are currently provided by the Environment Agency and Forestry Commission Great Britain.

We have implemented a range of measures to set an affordable budget for 2016/17, with several areas being reduced by over 10%, and we have continued with our tight workforce controls.

As part of our Roadmap we are in the process of implementing a significant programme of change and transformation that will allow us to meet our new purpose, adapt to the changing legislative context in Wales, and to deliver our ambitions within a financially challenging environment. This will help build our affordable Corporate Plan for 2017-2022.

Non-Current Assets

The value of our non-current assets was £874 million at 31 March 2016, a 12% (£97 million) increase compared to last financial year. The most significant component is the value of the forest estate and biological assets which accounts for £714 million of the value. We have undertaken an independent quinquennial revaluation of land and buildings and forest estate including biological assets and that has been incorporated into this result.

Quinquennial Revaluation

Every five years organisations undertake a thorough independent revaluation of most land, building and public use structures. This is the first time for NRW to undertake this exercise. As a result, the value of our non-current assets have increased by £95 million (compared to overall increase of £97 million). We are satisfied with the results of the valuation and it highlights the excellent commercial value that our asset base has. The main reasons for the increase of £95m is the improvement in the valuation of assets on our forest estate (£83 million), inclusion of assets that had not been previously identified as non-current assets such as Third Party access for energy projects, recreation, hydropower and mineral leases, car parks and trails (£9 million), increase in value of bike trails (£7 million) but offset by other movements including downward valuations of some of our assets (£4 million).

Payment of Trade and other Payables

Welsh Government has a commitment to pay 95% of suppliers within 30 days and we aim to meet this target wherever possible. By the end of the financial year our performance had

increased to 98%. Performance for the whole year was 91%. This helps to ease businesses' cash flow in the current challenging economic climate.

Going Concern

The Statement of Financial Position at 31 March 2016 shows positive taxpayers equity of £806 million. The future financing of our liabilities is to be met by Welsh Government Grant in Aid and the application of future income. We have already received approval for funding for 2016/17. Therefore, it is appropriate to adopt a going concern basis to prepare the Annual Accounts.

Estate Management

We manage Wales's public forest estate on behalf of the Welsh Ministers in accordance with our acquisitions and disposal policy and our Enterprise strategy. We also have Forest Plans for all the forests, which sets how each forest will be managed to deliver strategy objectives over the next 25 years.

We are also currently working to develop Natural Resource Plans that will provide a series of local plans/strategies which will guide the management of the estate and assets across Wales.

National Nature Reserves, which are owned or leased by us, are managed in accordance with an approved management plan, which include conservation objectives for all recognised features of interest and identifies necessary projects and work programmes. The plans are reviewed periodically and checked by our Conservation Management Team, through a rolling programme of reviews/environmental audits.

Pensions

The pensions liability are disclosed in the Annual Report and Accounts on the basis of IAS19. The liability has decreased for the LGPS pension scheme in the year due to an increase in the net discount rate over this period, the positive impact of which has outweighed the likely lower than expected asset returns.

This is different from the basis used for funding calculations. The last formal revaluation of the fund was undertaken at 31 March 2013 and showed an overall funding position of 86%.

Auditors

Our accounts are audited by the Auditor General for Wales. The audit fee for 2015/16 was £142,989.

Personal Data

There were no data losses reported this year.

Corporate Reporting

The following annual reports are also available on our website:

- [Equalities Report 2015/16](#)
- Wellbeing, Health and Safety Report 2015/16

Environmental Reporting

Over the coming years, we want to set the example in Wales in areas including our management and use of carbon, waste, water and land, as outlined in our Corporate and Business plans. Corporate reporting on our organisation's own environmental impact is included in Annex 1.

This year we have:

- retained ISO14001 and UK Woodland Assurance Standard (UKWAS) certification following independent external audits and verification, demonstrating our own commitment to achieving the highest possible environmental standards as an organisation
- increased our carbon footprint by 10% due to the increase in primary aggregate use in construction schemes
- met our target to reduce our carbon footprint by 5% in relation to occupied buildings energy use and business travel
- trained staff on key areas of our organisation's Environmental Management System

During the coming years, we will continue to improve our corporate environmental reporting in working towards Integrated Reporting.

Dr Emyr Roberts
Chief Executive and Accounting Officer

Date: 2 March 2017

Statement of Accounting Officer's Responsibilities

Paragraph 23 (1) of the Schedule to the Natural Resources Body for Wales (Establishment) Order 2012 required Natural Resources Wales to produce for each financial year a Statement of Accounts in the form and on the basis set out in the Accounts Direction.

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Natural Resources Wales and of the income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual (FReM) and in particular to:

- observe the Accounts Direction issued by HM Treasury including the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the FReM have been followed, and disclose and explain any material departures in the financial statements
- prepare the financial statements on a going concern basis.

The Additional Accounting Officer for Welsh Government has designated the Chief Executive of Natural Resources Wales as its Accounting Officer. The Chief Executive's responsibilities as Accounting Officer are the propriety and regularity of the public finances for which he is answerable; the keeping of proper accounts; prudent and economical administration; avoidance of waste and extravagance; and the efficient and effective use of all the resources as set out in the Memorandum for the Accounting Officer for Natural Resources Wales.

Governance Statement

As the designated Accounting Officer for NRW, I am responsible for maintaining a sound system of internal control that supports the achievement of our aims and objectives. My role is also to safeguard public funds and organisational assets by putting in place proper arrangements for the governance of our affairs and effective exercise of our functions. As a result I am personally responsible for this governance statement. The full scope of my responsibility is described in the Memorandum for Accounting Officer of Natural Resources Wales, issued by the Welsh Government and additional content is described in Managing Welsh Public Money.

I have outlined the following in order to demonstrate how I have fulfilled this role.

- Governance structure
- Review of effectiveness
 - Board performance
 - System of internal control
 - ARAC Annual Report
- Risk management framework
- Internal Audit opinion

Our Governance Structure

Our Board members are appointed by Welsh Ministers in accordance with the Code of Practice for Ministerial Appointments in Public Bodies, and as such our Chair is accountable to the Minister for Natural Resources. We currently have eleven Board members, including myself as an Executive member of the Board. We are led by our Chair, Diane McCrea MBE. The remainder of the Board is made up of ten non-executive members. During the year, the Welsh Government led a public appointments process and the Minister for Natural Resources appointed Diane McCrea MBE from 1 December 2015 as the second Chair of NRW, as well as five new Board members (Karen Balmer, Chris Blake, Howard Davies, Elizabeth Haywood and Zoe Henderson). Dr Madeleine Havard was appointed as Deputy Chair from 1 December 2015 and remaining members Dr Ruth Hall CB, Andy Middleton, Nigel Reader CBE and Sir Paul Williams OBE agreed new two year terms.

In advance, and in support, of the Welsh Government public appointment process to appoint our new Chair and new Board members, we organised a series of 'Come on Board' promotion events across Wales. The primary purpose was to promote Board membership to the full cross section of Welsh society by explaining more about the work of NRW, as well as the specific requirements of Board members. More than 120 people attended one of the three events in Merthyr, Aberystwyth and Llandudno, including several of the newly appointed Board members.

I would like to acknowledge the leadership and dedication of our first Chair, Professor Peter Matthews CBE, whose term of office finished on 30 November 2015. Three of our founding Board members left the Board on 31 October 2015 (Prof Lynda Warren, Rev Hywel Davies and Harry Legge-Bourke).

To support the Board as a whole, and in order to ensure business continuity, all new Board members have participated in an induction programme to appraise them of key policies, procedures, and the current position and scope of our work. I am grateful to the continuing

experienced Board members for supporting this work, as well as my Executive Team. This induction will be continued through our full Board development programme during 2016/17.

The role and responsibility of the Board is to:

- provide strategic direction and leadership, driving performance and hold us to account against our strategic and corporate plans
- ensure propriety, regularity, economy, efficiency and effectiveness in the operation of the body and adherence to the seven Principles of Public Life (the Nolan principles)
- ensure that we fulfil our statutory and regulatory duties, in the light of such guidance and direction Ministers may give it
- be a champion for the organisation and its aims and objectives, as well as a role model for staff and stakeholders
- work co-operatively to build relationships with all stakeholders, including the Welsh Government, businesses, communities and staff and their representatives
- demonstrate high standards of corporate governance at all times, including by using the Audit and Risk Assurance Committee to help address key financial and other risks.

We operate to the principles set out in the Code of Good Practice for Corporate Governance issued by HM Treasury. This year our focus has been on supporting the development and implementation of the Welsh Government's legislative programme, as well as moving the organisation from a transition phase to a transformation phase. During the year, the Board has been actively involved in reviewing the implications of the Well-being of Future Generations (Wales) Act, as well as considering proposals for how we should take forward our new statutory purpose and responsibilities under the Environment (Wales) Act. In addition, the Board has agreed NRW's Business Plan 2016/17 during the year and taken some preparatory steps for the development of our next Corporate Plan 2017-22. The Board has also overseen the development of NRW's 'Fit for the Future' programme, which aims to transform the organisation to be able to deliver integrated natural resource management, whilst achieving financial sustainability. As well as through the work of the full Board, I am grateful to individual Board members for supporting this work through direct engagement with staff groups, as well as membership of Business Area Review programme boards.

We have held four meetings in public across Wales during the year, as well as a number of other Development Board meetings. Standing items on our agenda include: in year finance and performance reporting, strategic and operational updates from the Chair, Chief Executive, Committees, and Board Groups. To support our commitment that our governance is transparent, open and accessible to all, we publish a wide range of information regarding our work on our website, including papers to be considered by the Board in advance of those meetings held in public. All future meeting dates and previous agendas, papers and minutes are available on our website naturalresources.wales/about-us/our-chair-board-and-executive-team

Board Member Attendance

	No. of possible meetings	No. of meetings attended
Professor Peter Matthews CBE (Chair)*	3	3
Rev Hywel Davies**	3	2
Dr Ruth Hall CB	6	6
Dr Madeleine Havard (Deputy Chair)***	6	6
Harry Legge-Bourke**	3	3
Andy Middleton	6	6
Nigel Reader CBE	6	5
Dr Emyr Roberts	6	6
Professor Lynda Warren**	3	3
Sir Paul Williams OBE	6	5
Diane McCrea MBE (Chair)***	3	3
Karen Balmer****	3	3
Chris Blake****	3	3
Howard Davies****	3	3
Zoe Henderson****	3	2
Elizabeth Haywood****	3	2

*End of term as Chair in November 2015

**End of term as Board member in October 2015

***Appointed as new Chair and Deputy Chair from December 2015

****Appointed as new Board member from December 2015.

Our Board has three **sub committees**, each chaired by a Board Member, and include at least two other Board members. We do not have a Nomination Committee as our members are appointed by Welsh Ministers. Membership of each committee was reviewed in January 2016 following the appointment of new Board members. Attendance records below reflect these changes. Where necessary, the full Board has reviewed and agreed the terms of responsibility for each of the following:

- Audit and Risk Assurance Committee
- Remuneration Committee
- Protected Areas Committee

Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee's (ARAC) principal role is to advise the Board and support the Accounting Officer in monitoring, scrutinising and challenging the arrangements in place for audit, governance, internal controls and risk management. As Accounting Officer I attend every meeting, along with our Executive Director of Finance and Corporate Services and Director of Governance.

This year ARAC addressed a range of issues including:

- Annual Report and Accounts 2014/15 and plans for this report, 2015/16
- External and internal audit plans and reports
- Corporate Risk Register including a number of 'deep dives' into specific risks

- Risk Management internal audit
- Audit arrangements for the Well-being of Future Generations (Wales) Act
- New Anti-Bribery and Corruption Policy
- Review of Complaints Policy
- Review of Conflicts of Interest Policy.

Board Member ARAC Attendance

	No. of possible meetings	No. of meetings attended
Nigel Reader CBE (Chair)	5	5
Dr Ruth Hall CB	5	5
Dr Madeleine Havard*	4	4
Andy Middleton*	4	4
Karen Balmer**	1	1
Chris Blake**	1	1

*Stood down from ARAC in December 2015

**Appointed to ARAC in March 2016

Remuneration Committee

The Remuneration Committee (REMCOM) considers matters relating to the pay and conditions of employment of our most senior staff and the overall pay strategy for all staff employed by NRW. The Committee also operates as the Transformation Advisory Group to monitor and review all transformation issues, including the delivery of the benefits identified in the business case for the creation of NRW.

As Accounting Officer I attend every meeting, along with our Executive Director of Organisational Development and People Management, and Director Transformation Portfolio.

The committee addressed a range of issues during the year including:

- Job Evaluation Scheme
- Voluntary Early Severance Scheme
- Changes to Pension Schemes
- Director appointments and remuneration
- Transformation programme.

Board Member REMCOM Attendance

	No. of possible meetings	No. of meetings attended
Sir Paul Williams OBE (Chair)	4	4
Nigel Reader CBE	4	4
Dr Ruth Hall CB*	3	3
Rev Hywel Davies*	2	2
Karen Balmer**	1	1
Zoë Henderson**	1	1

*Stood down from REMCOM in September 2015

**Appointed to REMCOM in March 2016

Protected Area Committee

The Board has delegated its statutory responsibilities in relation to objections to the notification and de-notification of Sites of Special Scientific Interest to the Protected Areas Committee (PAC). PAC members also support the Executive and full Board by providing advice on wider protected area issues and strategic casework.

During the year the committee considered objections and confirmed the designation of one new Site of Special Scientific Interest (SSSI).

Board Member PAC Attendance

	No. of possible meetings	No. of meetings attended
Andy Middleton (Chair)	1	1
Professor Peter Matthews CBE	1	1
Dr Ruth Hall CB	1	1
Dr Madeleine Havard	1	1
Sir Paul Williams OBE	1	1

Flood Risk Management Wales

This committee, although not a standing committee of the main Board, fulfils a number of statutory flood risk management functions of NRW in accordance with Section 106 of the Water Resources Act 1991. During the year, the Welsh Government reviewed the governance arrangements for flood risk management within Wales and through the Environment (Wales) Act will be implementing arrangements for a new Advisory Committee which will be accountable to Ministers from 2016/17. As a result of these changes, when the independently appointed Chair, Mr Deep Sagar's term ended in June 2015, the Minister for Natural Resources appointed NRW Board member Dr Madeleine Havard, as interim Chair to oversee the transition to the new governance arrangements. The remaining Committee members are Local Authority representatives and independent members, appointed either by Welsh Ministers or by NRW.

Board Groups

Outside of our formal meetings, Board members have played an active role in supporting the Executive in strategy development. The standing Board Groups until December 2015 were:

- Environment
- Communities
- Economy
- NRW Enterprise
- Knowledge.

These groups have provided an opportunity for Board members to contribute to the development of work at an early stage and allow the Executive to keep Board members informed of developments in specific areas of the business. Board members have also supported on 'task and finish' groups to provide advice on specific tasks e.g. performance reporting. The new Chair reviewed these arrangements on her appointment and, from January 2016, Board members were allocated to the following Board groups, which are all available to support the Executive when required:

- Knowledge
- Environment
- People (inc communities)
- Business (inc NRW Enterprise).

Board Effectiveness

Our Board held a session in July 2015 to review results of their previous Board effectiveness survey. The overall results showed continued progress in the maturity of the Board and key actions agreed included improving arrangements for engaging with stakeholders around Board meetings, better opportunity to input to strategy as a full Board via Development Board meetings, and improved arrangements for briefings on key operational activities by the Executive. New arrangements are in place in all these areas and improvements became evident during the second half of the year.

Due to changes to our Board membership close to the end of the financial year, and the prioritisation of the ongoing induction programme, we have decided to undertake a Board effectiveness review later in 2016. We are planning to use the indicators of High Performing Organisations developed by Academi Wales, to formally review Board Effectiveness.

Our new Chair, Diane McCrea MBE, has reviewed the membership of committees, as well as put in place new arrangements for informal support to my Executive Team as we develop proposals for the Board to consider. The new membership and arrangements has helped to blend the new Board members with the experienced Board members, building in continuity and resilience for the future.

In addition, Professor Peter Matthews CBE before the end of his term, conducted year-end performance appraisals for each Board Member. Our new Chair will be agreeing objectives and individual development plans for each Board Member for 2016/17.

The Audit and Risk Assurance Committee (ARAC) also conducted an annual review of its effectiveness via the completion of a questionnaire based on a checklist produced by the National Audit Office, the criteria for which are largely derived from HM Treasury's Audit Committee Handbook. Overall, the ARAC was considered to be very effective, with the majority of key arrangements and processes in place. However, the exercise highlighted that there are a small number of additional issues that the Committee could consider as part of its assurance role. As a result, an induction plan has been put together to support new ARAC members, as well as a plan to hold annual closed sessions with the Chief Executive and both Internal and External auditors to give an opportunity for greater independence and transparency if required.

Our Executive

Day to day management of our organisation is delivered through our Executive Team. As Chief Executive, I chair the meetings with six Executive Directors, three Directors, and our Chief Information Officer in attendance. We formally meet on a three weekly cycle. Our Business meetings deal with current and emerging issues, and monitor the performance of the organisation; Strategy and Policy meetings develop strategy for the organisation and recommend new policy positions to the Board; and we meet as a Change Programme Board to receive and consider updates on progress with the Change Programme.

Each Directorate has a Directorate Delivery Plan, which are linked to corporate targets and outcomes within the annual Business Plan. These are reviewed on monthly basis with their Leadership Team members and feed into the Corporate Performance Dashboard, which is reported to the Board and the Welsh Government three times a year.

Our Risk Management Framework

The Board has approved our Risk Management policy and is responsible for overseeing the implementation of the policy and process. Based on HM Treasury guidance for managing risks, the key objective is to ensure that we have a consistent approach to identifying, measuring, controlling, monitoring and reporting risks.

We face a broad range of risks across our responsibilities therefore it is not appropriate to make a single overarching statement of our attitude to risk. Instead, a range of risk appetite statements arising from different areas of our work have been agreed. The Board will be reviewing its risk appetite for our different activities in early 2016/17. This is in response to considering recommendations from our Business Area Reviews as part of our transformation to deliver integrated natural resource management.

Our day-to-day risks are identified, evaluated and managed at a number of different levels. Our Board is responsible for managing corporate risks in line with achieving strategic objectives. The Board retains ownership of the key corporate risks, but uses ARAC to exercise scrutiny over our risk management processes, as well as to drill-down into specific risks and issues. Executive Team members manage Directorate Risk Registers in line with achieving their targets and outcomes in their Directorate Delivery Plan. These are reviewed regularly and I discuss them during their performance reviews. Risk Registers are also in place for major projects and programmes and are reviewed at project and programme meetings.

Key risks that were identified and managed during the year included:

- responding to the short-term reduction in our grant in aid and planning for continued financial challenges
- ensuring that we are fully prepared for the new challenges arising from the Well-being of Future Generations and Environment (Wales) Acts
- responding to the spread of the *Phytophthora ramorum* tree disease.

Information Assurance

We are committed to ensuring data and information is well governed and managed and have continued to work to achieve the right balance between transparency and openness, and necessary information security. Our Director of Governance acts as the Senior Information Risk Owner (SIRO); we have concentrated our efforts during the year on consolidating the implementation of relevant Information Governance Policy and Procedures, as well as developing our information security incident handling arrangements.

In addition, we have progressed 22 Privacy Impact Assessments to cover a wide range of our activities where personal information is handled, as well as completed the training by the National Archives of the full cohort of Information Asset Owners.

Effectiveness of Internal Control

Members of my Executive Team have each signed a Certificate of Assurance and completed an Internal Control Checklist which required them to make an evidence based assessment of the effectiveness of the control framework in place for their Directorate;

Overall results this year show increased confidence in the control framework which is pleasing as this is evidence of systems and processes being embedded within the organisation after our first three years. However, information handling and security remain a concern as more information has migrated from legacy systems and staff are still developing their knowledge of our ICT system. This will be addressed with an Executive Team action plan through 2016/17.

We have an established whistleblowing policy and reporting procedure in place to raise serious concerns about malpractice or impropriety; this year there were no reported whistleblowing cases. This policy is due to be reviewed in 2016/17.

Our Internal Audit team have completed their annual audit plan, with regular progress and feedback to the Audit and Risk Assurance Committee. In year, it was noted that the number of outstanding actions was increasing. I have highlighted this to my Executive Team and, although the position is improving, it is something we will seek to address during 2016/17.

The opinion of the Internal Audit Manager (in a Head of Audit and Risk Assurance capacity), as set out in their annual assurance report is:

In my opinion, Natural Resources Wales can have Moderate assurance in the overall adequacy and effectiveness of its internal control environment, including its arrangements for governance and risk management.

During the year an audit of Risk Management identified weaknesses in control at a level such that only limited assurance was given. The management have given commitment to implement the recommendations made, addressing identified risks. However, the remedial work has taken longer than originally anticipated and further improvements are still required. Given that this is a key building block of good governance, this continued weakness has influenced the annual Audit Opinion.

External Audit

During the year, the Wales Audit Office's Development of NRW Study was undertaken to complete the Probationary Review of NRW on behalf of Welsh Government, and to prepare a Value for Money Report on behalf of National Assembly's Public Accounts Committee.

Following significant field work, I was pleased to receive formal Ministerial Approval that we had completed our probationary period as a new Welsh Government Sponsored Body. This is an excellent result and can be viewed as the final milestone in the setup of the new organisation. The final report highlighted substantial challenges that have been overcome, while maintaining business continuity. WAO recognised our 'adoption of a sound and well-structured approach' so that we now have 'a solid platform for continuing to realise the intended benefits of creation and for tackling the future challenges' we will face. An Action Plan has been developed in response to the final recommendations which I will now

oversee and report progress to our ARAC every six months in order to deliver the required improvements.

In early 2015, the Better Regulation Delivery Office undertook a review of our activities in line with the Principles of Good Regulation. I was pleased that their final report highlighted our broad understanding of the principles and that we have started to demonstrate these in our ways of working. Our follow up action plan in response to recommendations seeks to build on this and we will continue to engage with those we regulate or who are impacted by regulation to share their views as we develop our future approach.

Submission of Financial Statements

During the course of the annual financial audit the Auditor General for Wales became aware of an issue relating to the regularity of several long term timber sales contracts that had been let in 2014. The issue identified was complex and has required extensive evidence to be gathered and considered by the Auditor General for Wales. This review has identified some lessons to be learned for Natural Resources Wales and an action plan is being put in place that the Audit and Risk Committee will oversee.

The financial statements were originally submitted to the Auditor General for Wales on 23 August 2016. The delay caused by this additional review has resulted in the financial statements being resubmitted on 2 March 2017.

Dr Emyr Roberts
Chief Executive and Accounting Officer

Date: 2 March 2017

Remuneration and Staff Report (audited)

Remuneration policy

The Board has established a Remuneration Committee to consider matters relating to the pay and conditions of employment of the most senior staff and overall pay strategy for all staff employed by NRW. The Remuneration Committee is comprised of four non-executive Board members. The Board Chair is an ex officio member of the Committee.

The Chair and Board members' remuneration is set by Welsh Ministers. The terms of contract for senior employees (Executive Team members) is based on NRW terms and conditions. The remuneration policy for the most senior staff is not subject to collective bargaining and the remuneration package is set by reference to a set of benchmark roles in the Welsh public service and to comparable organisations based in the UK. Progression to the benchmark (rate for the job) is subject to satisfactory performance. Only on the basis of exceptional performance are the top two pay points used.

There is a social partnership agreement in place and the setting of terms and conditions for all other staff is through collective agreement with the social partners. The Welsh Government approves any changes to pay, terms and conditions and gives a pay remit to NRW within which it must deliver. A pay deal covering the period 1 July 2015 to 30 June 2016 was successfully negotiated in November 2015. Former Internal Drainage Board staff had a pay award from 1 April 2015 to 30 June 2016 to bring an alignment of pay award dates.

Service contracts

All appointments to the Board are made on behalf of the Minister for Natural Resources. Appointments are normally made for either two or three years.

The Chief Executive and Executive Team members are expected to be employed under permanent contracts. Appointments are made in accordance with our recruitment policy, which requires appointment to be made on merit and on the basis of fair and open competition.

Unless otherwise stated below, the Executive Team members covered by this report hold appointments which are open-ended. These officers and Board members are required to provide three months' notice of their intention to leave.

Salary and pension entitlements

The following sections provide details of the remuneration of members of the Board and the remuneration and pension interests of members of the Executive Team. Board members are not entitled to join the Civil Service Pension Scheme or receive other benefits. Early termination, other than for misconduct, would result in the Executive Team members receiving compensation in line with the Civil Service Compensation Scheme. Board members are not entitled to compensation.

Board Members' Remuneration

Board Member	Employment Contract	Salary 2015/16 (£5,000 range)	Salary 2014/15 (£5,000 range)
Karen Balmer ⁶	9-11-15 to 8-11-17	0-5	0
Chris Blake ⁶	9-11-15 to 8-11-17	0-5	0
Dr Michael Brooker	01-11-12 to 31-10-14	0	10-15
Howard Davies ⁶	9-11-15 to 8-11-17	0-5	0
Rev Hywel Davies ⁷	01-11-12 to 31-10-15	10-15	20-25
Dr Ruth Hall CB ¹	01-11-12 to 31-10-17	15-20	20-25
Dr Madeleine Havard (Deputy Chair) ^{1,5}	01-11-12 to 31-10-17	20-25	20-25
Elizabeth Haywood ⁶	9-11-15 to 8-11-17	0-5	0
Zoë Henderson ⁶	9-11-15 to 8-11-17	0-5	0
Harry Legge-Bourke ⁷	01-11-12 to 31-10-15	10-15	20-25
Diane McCrea (Chair) MBE ⁹	1-12-15 to 30-11-18	5-10	0
Prof Peter Matthews CBE (Chair) ⁸	01-08-12 to 31-11-15	30-35	50-55
Andy Middleton ^{1,4}	01-11-12 to 31-10-17	15-20	20-25
Nigel Reader ^{1,2} CBE	01-11-12 to 31-10-17	20-25	25-30
Prof Lynda Warren ⁷	01-11-12 to 31-10-15	10-15	20-25
Sir Paul Williams ^{1,3} OBE	01-11-12 to 31-10-17	20-25	25-30

¹ These members have been reappointed for another 2 years from November 2015 until 31 October 2017.

² Nigel Reader is Chair of the Audit and Risk Assurance Committee.

³ Paul Williams is Chair of the Remuneration Committee and the Transformation Advisory Group.

⁴ Andy Middleton is Chair of the Protected Areas Committee.

⁵ Madeleine Havard was appointed as Deputy Chair from December 2015 to October 2017 and was appointed as the Chair of Flood Risk Management Wales in June 2015.

⁶ The full year equivalent salary is £12,600.

⁷ The full year equivalent salary is £21,000.

⁸ The full year equivalent salary is £50,000.

⁹ The full year equivalent salary is £28,000.

Executive Team's Remuneration

Executive Team Member	Salary		Benefits in kind ⁶		Pension benefits ⁷		Total	
	(£5000 range)		(nearest £100)		(nearest £1,000)		(£5,000 range)	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
Dr Emyr Roberts (Chief Executive)	145-150	145-150	0	0	45,000	61,000	190-195	205-210
Martin Britton ¹	0	125-130	0	0	0	0	0	125-130
Martin Britton ²	65-70	15-20	0	0	26,000	6,000	95-100	20-25
Ceri Davies	95-100	95-100	2,400	2,000	47,000	24,000	145-150	120-125
Elizabeth Davis ¹⁰	0	35-40	0	0	0	59,000	0	90-95
Ashleigh Dunn ⁸	90-95	30-35	0	0	35,000	12,000	125-130	45-50
Graham Hillier ³	5-10	90-95	0	3,600	11,000	21,000	15-20	115-120
Kevin Ingram	90-95	90-95	4,000	2,600	35,000	53,000	130-135	145-150
Tim Jones	90-95	85-90	2,700	2,400	40,000	30,000	130-135	120-125
Gareth O'Shea ⁴	85-90	0	2,800	0	179,000	0	265-270	0
Trefor Owen ⁵	90-95	90-95	0	0	34,000	17,000	125-130	105-110
Niall Reynolds	75-80	75-80	0	0	(7,000)	19,000	70-75	90-95
Catherine Smith ⁹	75-80	70-75	0	0	29,000	23,000	100-105	90-95
Clive Thomas	75-80	70-75	0	2,300 ¹¹	48,000	22,000	120-125	95-100

¹ Martin Britton fulfilled the role of Chief Information Officer on the Executive Team under contract with his employment agency until January 2015. This action had been approved and supported by the Remuneration Committee, based on the exceptional circumstances involved with setting up our ICT services. For 2014/15 the figure reported as his salary above represents the agency costs incurred by NRW (excluding expenses) from 1st April 2014 until January 2015.

² Following a review by the Chief Executive and confirmation by the Remuneration Committee it was decided to appoint a permanent Chief Information Officer. The successful candidate was Martin Britton and he was a full time employee from 1st February 2015 to 31st December 2015. The relevant salary costs for February 2015 to March 2015 and April 2015 to December 2015 are reported above. The full year equivalent salary for 2014/15 and 2015/16 is £90-95,000.

³ Until 26th April 2015. The full year equivalent salary is £90-95,000.

⁴ Gareth O'Shea was appointed as Director of Operations South on 27th April 2015. The figures quoted are for the period 27/04/15 to 31/3/16. The full year equivalent salary is £90-95,000.

⁵ Trefor Owen finished on the 31st March 2016.

⁶ Relates to the provision of an allocated car.

⁷ The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (contributions made by the individual). The real increases exclude increases due to inflation or any increases or decreases due to a transfer of pension rights.

⁸ Ashleigh Dunn was appointed as Director of Organisational Development and People Management on 17th November 2014. The figures quoted for 2014/15 are for the period 17/11/14 to 31/3/15. The full year equivalent salary is £90-95,000.

⁹ Catherine Smith was appointed as Director of External Relations and Communications on the 22nd April 2014. The figures quoted for 2014/15 are for the period 22/4/14 to 31/3/15. The full year equivalent salary is £75-80,000.

¹⁰ Elizabeth Davis was working as part of the Welsh Government's Living Wales Programme and on formal secondment from WG from 1 April until 31 July 2014. The full year equivalent salary is £105-110,000.

¹¹ Until 5th November 2014.

Salary

Salary covers both pensionable and non-pensionable amounts and includes gross salary, overtime and any allowances or payments that are subject to UK taxation. It does not include amounts which are a reimbursement of expenses directly incurred in the performance of an individual's duties.

Performance related pay

For the Executive Team, movement between the pay points is subject to performance assessment by the Chief Executive and moderation by the Remuneration Committee. Any movement beyond the benchmark point will only be for consistent outstanding performance as assessed by the Chief Executive and confirmed by the Remuneration Committee.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the HM Revenue and Customs as a taxable emolument. The ones shown above relate to the provision of lease cars.

None of the Board members or senior staff received any remuneration other than shown above.

Pension Benefits

Executive Team member	Accrued Pension at pension age as at 31/3/16 £000	Accrued Lump Sum at pension age as at 31/3/16 £000	Real Increase in pension at pension age £000	Real Increase in Accrued Lump Sum at pension age £000	CETV at 31/03/16 ⁴ £000	CETV at 31/03/15 ⁴ £000	Real Increase in CETV £000
Dr Emyr Roberts (Chief Executive)	60-65	185-190	0-2.5	5-7.5	1388	1251	43
Martin Britton ¹	0-5	0	0-2.5	0	14	3	6
Ceri Davies	30-35	60-65	2.5-5	0-2.5	597	533	26
Ashleigh Dunn	0-5	0	0-2.5	0	40	10	22
Graham Hillier ²	50-55	15-20	0-2.5	0-2.5	722	714	7
Kevin Ingram	25-30	35-40	0-2.5	0-2.5	343	303	14
Tim Jones	35-40	105-110	0-2.5	5-7.5	703	611	33
Gareth O'Shea ³	35-40	75-80	7.5-10	15-17.5	574	422	119
Trefor Owen	40-45	0	0-2.5	0	720	634	26
Niall Reynolds	30-35	65-70	0-2.5	(2.5-5)	599	582	(15) ⁵
Catherine Smith	0-5	0	0-2.5	0	31	13	10
Clive Thomas	20-25	60-65	2.5-5	0-2.5	390	327	29

¹ until 31/12/15

² until 26/4/15

³ from 27/4/15

⁴ the factors used to calculate the CETV were reviewed by the scheme actuary in 2015, so the tables of factors used to calculate the CETV in 2015 are not the same as those used to calculate the CETV in 2016.

⁵ taking account of inflation, the CETV funded by the employer has decreased in real terms.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Fair pay disclosure

NRW and similar bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce. Total remuneration includes salary and benefits in kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

In 2015/16, no employees (2014/15: none) received remuneration in excess of the highest-paid director. The banded remuneration of the highest paid Director in the financial year 2015/16 was £145,000-£150,000 (2014/15 £145,000-£150,000). This was 5.2 times (2014/15, 5.0 times) the median remuneration of the workforce which was £28,215 (2014/15 £29,535). The change in median pay is due to harmonised pay scales and more staff employed at lower rates of pay. Staff pay scales range from £12,250 to £64,624. Directors' remuneration is shown in the table above.

Staff report

Number of staff by headcount and full time equivalent (FTE) at 31st March 2016.

	Male		Female		Total	
	Headcount	FTE	Headcount	FTE	Headcount	FTE
All employees	1222	1197.8	886	802.5	2108	2000.3
of which:						
Leadership team	21	21.0	8	7.1	29	28.1
Executive team	6	6.0	3	3.0	9	9.0

Average number of full-time equivalent persons employed during the year was:

	2015/16			2014/15
	Permanent Staff	Others	Total	Total
Directly employed	1,855	57	1,912	1,905
Agency and contract staff	0	89	89	47
Total	1,855	146	2,001	1,952

The average full time equivalent number of staff employed on capital projects was 75.8 (50 in 2014/15)

Staff costs

	2015/16			2014/15
	Permanent Staff	Other Staff	Total	Total
	£'000	£'000	£'000	£'000
Wages and salaries	57,822	7,747	65,569	62,372
Social security costs	4,724	100	4,824	4,739
Other pension costs	13,452	13	13,465	12,177
Total net salary costs	75,998	7,860	83,858	79,288
Other expenditure for staff				
Exit package costs			132	2,790
IAS 19 (Pensions) additional service charge			8,325	7,323
Less early retirement pension costs			(144)	(97)
Less in-year LGPS pension contributions			(7,936)	(7,216)
Transfer to Provision for Annual Compensation Payments			(2)	5
Other staff costs			341	0
Movement in Accrued Holiday Pay			(159)	81
Total other expenditure for staff			557	2,886
Less amounts charged to capital projects			(3,176)	(2,019)
Total staff costs			81,239	80,155

Details of NRW's pension arrangements can be found in note 13.

Details of the remuneration of Board members and directors are in the remuneration report.

Bought in services in Note 5 (Other expenditure) includes £6.58m of expenditure on consultants.

Pension schemes

NRW is a member of two pension schemes. The Principal Civil Service Pension Scheme is an open scheme and is the scheme for the former Countryside Council for Wales and Forestry Commission Wales staff and new members of staff. NRW is a closed member of the Environment Agency's pension fund (a Local Government pension fund) under a community admission agreement. Further details of these pension schemes shown below.

Principal Civil Service Pension Scheme contributions

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) - known as "alpha" are unfunded multi-employer defined benefit scheme but NRW is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation at: www.civilservicepensionscheme.org.uk/about-us/resource-accounts/

For 2015/16, employers' contributions of £5,663k were payable to the PCSPS (2014/15 £4,931k) at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2015/16 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Stakeholder partnership pensions

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £44k were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable earnings up to 30 September 2015 and from 8% to 14.75% of pensionable earning from 1 October 2015. Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £2k, 0.5% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

No contributions due to the partnership pension providers at the balance sheet date, and no contributions were prepaid.

Local Government Pension Scheme contributions

NRW makes payments to the Environment Agency Pension Fund (EAPF), as the administering authority for the Local Government Pension Scheme (LGPS) via Capita, the pension fund administrators.

The LGPS is a funded, statutory, defined contribution public service pension scheme. Hymans Robertson, the actuary for the EAPF, carries out a triennial valuation of the fund's assets and liabilities in order to ensure that LGPS benefits are properly funded. The assets of the fund are for meeting future pension liabilities. The main purpose of the actuarial valuation is to review the financial position of the fund and to set the level of future contributions for employers in the fund. The latest valuation was carried out as at 31 March 2013 for the three year period from 1 April 2014 to 31 March 2017.

NRW has a community admission agreement with the EAPF in order to participate in the LGPS, which was approved by the Secretary of State for Communities and Local Government in respect of former Environment Agency Wales staff who transferred to NRW on 1 April 2013. The liabilities for former members employed by the Environment Agency in respect of Welsh functions (pensions in payment and deferred members) also transferred. Welsh Government has entered into a guarantee with the EAPF to indemnify them for any liabilities that arise from the participation of NRW in the EAPF.

For 2015/16 the employer's contribution rate was 21.2%. (Contribution rate in 2014/15 was 20.2%). In 2015/16 employer's contributions of £7,936k were paid to the LGPS. (Contributions in 2014/15 were £7,216k)

Exit packages

The number of staff receiving redundancy payment by cost band:	2015/16	2014/15
Under £10,000	4	0
£10,001 - £25,000	3	10
£25,001 - £50,000	0	18
£50,001 - £100,000	0	29
£100,001 - £150,000	0	1
Over £150,000	0	0
Total	7	58

Total resource cost for 2015/16 was £63k. (Total cost of £2,884k in 2014/15)

There were no compulsory redundancies in 2015/16 or in 2014/15.

The voluntary exit costs have been paid in accordance with provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year they are agreed.

Where the legacy bodies agreed early retirements, the costs were accounted for in full in the year when they were agreed and a provision made for future commitments. The annual compensation payments in respect of these are shown in Note 12 (Provisions).

Ill-health retirement costs are met by the pension schemes and are not included in the table.

Sickness Absence (Unaudited)

Our sickness absence rates as at 31 March 2016 showed an average of 5.2 days lost per employee and equates to 2.37%. This was against a target of an average of up to 7 days lost, which equates to 3.1% of available working days.

Off payroll engagements (Unaudited)

In 2012 the Treasury announced a review of the tax arrangements of public sector appointees in order to determine the extent of arrangements which could allow public sector appointees to minimise their tax payments. The review concluded that:

- the most senior staff must be on the payroll, unless there were exceptional temporary circumstances which would require Accounting Officer sign-off and could not last longer than six months
- departments (and their arm's length bodies) must be able to seek formal assurance from contractors with off payroll arrangements lasting more than six months and costing over £220 per day that income tax and national insurance obligations are being met. If that assurance is not provided, contracts should be terminated
- Departments (and their arm's length bodies) are required to report to Parliament as part of their Annual Report and Accounts on the outcome of applying the above principles.

The following tables show our position in relation to these conclusions.

For all off-payroll engagements as of 31 March 2016, for more than £220 per day and that last for longer than six months	Number of contractors
The total number of existing engagements as of 31 March 2016	27
of which:	
The number that have existed for less than one year at time of reporting	6
The number that have existed for between one and two years at time of reporting	18
The number that have existed for between two and three years at time of reporting	3
The number that have existed for between three and four years at time of reporting	0
The number that have existed for four or more years at time of reporting	0

For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016, for more than £220 per day and that last for longer than six months	Number of contractors
The number of new engagements, or those that reached six months in duration, during the time period.	12
The number of these engagements which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations.	12
The number for whom assurance has been requested	5
of which	
• The number for whom assurance has been requested and received.	5
• The number for whom assurance has been requested but not received	0
The number that have been terminated as a result of assurance not being received	0

Parliamentary and Audit Report (audited)

Losses and special payments

Welsh Government's Managing Public Money rules require disclosure of losses and special payments by category, type and value where they exceed £300k in total and for any individual items above £300k.

Individual losses of more than £300k

There were no losses or special payments over £300k throughout 2015/16.

A provision for of £1,201k was created for the Communities and Nature project in 2014/15 which was used during 2015/16. It is therefore not included in Note 5 in these accounts.

Losses and special payments by category

The table below provides the number of requests for write offs and special payments approved in the year.

Category or type of loss	2015/16 Number	2015/16 £'000	2014/15 Number	2014/15 £'000
Write-off of irrecoverable debts	56	280	38	187
Write-off of Communities and Nature Project	1	57	1	455
Assets written off	135	456	145	626
Loss of assets	0	0	3	320
Other losses (cash losses, fruitless payments, unenforceable claims, special payments or gifts)	15	57	20	178
Total	207	850	207	1,766

Dr Emyr Roberts
Chief Executive and Accounting Officer

Date: 2 March 2017

The Certificate and Report of the Auditor General for Wales to the National Assembly for Wales

I certify that I have audited the financial statements of Natural Resources Wales for the year ended 31 March 2016 under paragraph 23 of the Schedule to the Natural Resources Body for Wales (Establishment) Order 2012. These comprise the Statement of Comprehensive Net Expenditure, Statement of Financial Position, Statement of Cash flows, Statement of Changes in Taxpayers Equity and related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for preparing the financial statements, in accordance with Paragraph 23 of the Schedule to the Natural Resources Body for Wales (Establishment) Order 2012 and Welsh Ministers' directions made there under and for ensuring the regularity of financial transactions.

My responsibility is to audit, certify and report on the financial statements in accordance with applicable law and with International Standards on Auditing (UK and Ireland). These standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. I consider that the audit evidence I have obtained is sufficient and appropriate to provide a basis for the qualified regularity audit opinion.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Natural Resources Wales' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Natural Resources Wales; and the overall presentation of the financial statements.

In addition, I obtain evidence sufficient to give reasonable assurance that the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate and report.

Opinion on Financial Statements

In my opinion the financial statements:

- give a true and fair view of the state of Natural Resources Wales' affairs as at 31 March 2016 and of its net operating costs for the year then ended; and
- have been properly prepared in accordance with Welsh Ministers' directions issued under Paragraph 23 of the Schedule to the Natural Resources Body for Wales (Establishment) Order 2012.

Basis for qualified regularity opinion

Note 6 to the accounts records timber income of £16.5 million in 2015/16.

Under Natural Resources Wales' framework of authority it is required to refer any activities which appear novel, contentious or repercussive to its sponsor department within the Welsh Government. Natural Resources Wales did not refer its decision to enter into a series of interrelated timber sales contracts, which I consider to be contentious and repercussive, to its sponsor department. I therefore consider the transactions relating to these contracts to be irregular. As these transactions are material to the financial statements, I have qualified my regularity opinion accordingly.

Furthermore, there was an insufficiency of evidence to form a conclusion in respect of these same transactions on both the lawfulness of decision-making and compliance with State aid rules. I was therefore unable to satisfy myself as to the lawfulness of the transactions and I have therefore also qualified my regularity opinion accordingly.

Further details on these matters are set out in my accompanying Report on pages 43 to 47.

Qualified opinion on regularity

In my opinion, except for the effects of the failure to comply with its framework of authority and the possible effects of insufficient evidence to conclude on compliance with public law principles in decision making and compliance with state aid rules, as described in the above 'basis for qualified regularity opinion' paragraphs, in all material respects the expenditure and income in the financial statements have been applied to the purposes intended by the National Assembly for Wales and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Welsh Ministers' directions made under Paragraph 23 of the Schedule to the Natural Resources Body for Wales (Establishment) Order 2012; and
- the information in the Annual Report is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- the Governance Statement does not reflect compliance with Welsh Ministers' guidance;
- adequate accounting records have not been kept;
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- information specified by Welsh Ministers regarding the remuneration and other transactions is not disclosed.

Other than in respect of the transactions referenced in the above 'basis for qualified regularity opinion' paragraphs, I have received all of the information and explanations I require for my audit.

Huw Vaughan Thomas
Auditor General for Wales
2 March 2017

Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Report of the Auditor General for Wales Timber Sales Contracts

1. Natural Resources Wales (NRW) is a Welsh Government sponsored body created for the purpose of ensuring that the environment and natural resources of Wales are:
 - sustainably maintained;
 - sustainably enhanced; and
 - sustainably used.¹
2. NRW became operational from 1 April 2013, taking over responsibility for delivering the functions of the former Countryside Council for Wales, Environment Agency Wales, and the Forestry Commission Wales. 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. In February 2016, I published a Value for Money report on the development of NRW concluding that: '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'.² Notwithstanding the matters raised in this report, I remain satisfied that NRW's approach to managing the transition stage was sound and well-structured.
3. Under paragraph 23 of Schedule 1 to the Natural Resources Body for Wales (Establishment) Order 2012 (the 'Establishment Order'), I am required to examine, certify and report on the statement of accounts of NRW. My audit certificate on pages 41 and 42 contains my opinion that the financial statements give a 'true and fair view'.
4. My certificate also includes my 'regularity' opinion, i.e. my opinion on whether the expenditure and income shown in the accounts have been applied to the purposes intended by the National Assembly for Wales and whether the financial transactions conform to the authorities that govern them. This year I have qualified my regularity opinion on the basis that the agreement of eight inter-related timber sales contracts did not comply with the framework of authority under which NRW was operating and, furthermore, on the basis of the information provided by NRW in relation to its decision-making procedure, I have not been able to satisfy myself that the decision to agree those contracts was lawful and did not involve the provision of State aid.
5. It was necessary to undertake extensive unplanned audit enquiries to enable me to give my 'true and fair' audit opinion and my regularity opinion. The issues encountered are legally complex and have necessitated NRW gathering a significant quantity of documentation. It was also necessary for auditors, acting on my behalf, to review that documentation and obtain external legal advice on the issues.
6. The Establishment Order sets a deadline for laying the certified statement of accounts and my audit report before the National Assembly for Wales of within four months of NRW submitting the financial statement to me for audit. NRW submitted its statement on 23 August 2016, so the deadline for laying was 23 December 2016. That timetable, however, is not the only statutory requirement applying to the audit. I am also under a statutory duty to comply with the Code of Audit Practice (the 'Code') pursuant to section 10 of the Public Audit (Wales) Act 2013 (the '2013 Act'). The Code includes several requirements, reflecting the

¹ The Environment Wales Act 2016 amended the general purpose of the Natural Resources Body for Wales to: "The Body must pursue sustainable management of natural resources in relation to Wales, and apply the principles of sustainable management of natural resources, in the exercise of its functions, so far as consistent with their proper exercise."

² The Development of Natural Resources Wales, February 2016

http://audit.wales/system/files/publications/Development_of_Natural_Resources_Wales_English_2016.pdf

need to undertake audit functions properly, including offering audited bodies and relevant third parties the opportunity to comment on findings.

7. In the circumstances, it has not been possible to meet both the requirements of the 2013 Act and the timetable set by the Establishment Order. I am advised by my legal adviser that given the conflicting statutory duties, it was appropriate to give more prominence to the requirements of the 2013 Act and the Code, and I have therefore completed my audit accordingly. It was important to complete the investigatory process properly, including seeking comments from the audited body and relevant third parties to satisfy the requirements of the Code and also to ensure that the audit conclusions are sufficiently rigorous.
8. One of the key operational challenges which had been facing the Forestry Commission in Wales prior to the merger was how to manage and control the spread of *Phytophthora Ramorum* (*P Ramorum*) in larch forests and woodlands. *P Ramorum* is a fungus-like pathogen which causes extensive damage to, and kills a wide range of trees and other plants. *P Ramorum* was detected in Japanese larch in Wales in 2010. Efforts were made to manage the spread of the disease through targeted felling, but the disease spread rapidly. Following its establishment, NRW inherited this challenge and was faced with having to take urgent action to manage and control the disease. During the summer months of 2013, NRW identified that there was a rapid increase in the spread of *P Ramorum* and had to find a long-term solution to combating the disease. I have been told by NRW that its intention in meeting this challenge was primarily and overwhelmingly to increase capacity for dealing with diseased larch and avoid disruption to existing trade in other types of timber.
9. In May 2014, NRW entered into a Memorandum of Agreement with a sawmill operator ('the sawmill operator'). The Memorandum of Agreement related to eight connected timber sales contracts. Under the contractual terms, NRW agreed to sell both standing trees and pre-felled timber to the sawmill operator. The sawmill operator also agreed, as a condition of the contract, that it would construct and operate a new saw line at its Welsh premises by 31 March 2016.
10. In my estimation, the purchase price the sawmill operator agreed with NRW amounts to approximately £72 million over the ten year duration of the contracts. However, the sawmill operator is entitled to deduct from the purchase price agreed costs for felling, extraction, haulage and management fees. In consequence, NRW estimates that the contract value to NRW will be approximately £39 million over the ten year contractual period.
11. NRW has estimated that the annual volume of timber sold to the sawmill operator under the terms of the contract to be between 20% and 25% of the annual total timber released by NRW per annum.
12. During the course of my audit of NRW's 2015/16 accounts, I received correspondence from an interested party raising concerns regarding the way in which NRW awarded contracts to the sawmill operator in May 2014. These concerns included:
 - (a) NRW awarded the contracts for the sale of spruce without seeking competition from the market;
 - (b) lack of transparency within NRW's decision-making processes;
 - (c) the required contracted investment in the operator's Welsh premises had not been made;
 - (d) the impact on the wider supplier market of awarding high volume long-term contracts to one supplier; and
 - (e) whether the decision to award the contracts to the sawmill operator represented good value for money.
13. These concerns appeared to me to raise questions about the regularity of transactions relating to the contracts signed in May 2014, and I have examined the award of the timber sales contracts accordingly.

14. I have not sought to examine whether the contracts entered into by NRW represented value for money. This is because such value for money examinations do not form part of my financial audit of the financial statements, which is performed in accordance with legislation and United Kingdom auditing standards prescribed by the Financial Reporting Council.
15. My main conclusions are as follows:

Compliance with framework of authority

16. The decision to award a number of very significant contracts to the sawmill operator was, in my view, contentious and repercussive. This was due to a combination of factors, in particular:
 - The size of the contracts.
 - The contracts for larch and spruce were awarded following a competitive tender for larch contracts (in which the sawmill operator was not the winning bidder. However, NRW decided to offer contracts for larch to all three bidders) and therefore no other potential purchasers were given the opportunity to purchase the volume of larch and spruce timber which was ultimately awarded to the sawmill operator. NRW contends that there was no market for diseased larch based on (a) the lack of interest shown in the sale of 21 individual parcels of trees offered to the market and (b) that only three bids were received in response to a tender issued in April 2013 for two long-term contracts (LTCs) for clearance and marketing of infected Larch stands over a five year period. In my view, the size of those parcels and the tender offer are not comparable to the offer of eight LTCs for both diseased larch and spruce, particularly as the sawmill operator itself made clear that four LTCs for larch would be insufficient for it to invest in the new saw line. The contract volume awarded to the sawmill operator was designed to enable it to make major investment in its sawmill. This investment enabled the sawmill operator to significantly increase its processing capacity. NRW contends that it was highly unlikely that any other operators would have been interested in such significant volumes of diseased larch and in the timescales in which NRW had to act. NRW has told me that it was aware of the risk of challenge on this point but that their 'professional view was that there was no alternative'. However, there is little within the contemporaneous documentation to evidence that NRW officials gave careful consideration to whether higher volumes might draw interest from a wider range of timber companies (ie, companies that did not bid in the 2013 competition) nor whether those volumes might have sufficed to encourage other competitors to invest in additional capacity. In my view, the commitment of NRW to sell the sawmill operator a high volume of timber over a ten year period would appear to be an opportunity which other operators may have been interested in.
 - The decision to award the contracts was not informed by relevant market testing.
 - NRW acknowledged in its internal documents that the award of the contracts in this way gave rise to risks including the risk of challenge by another operator.

17. Under the terms of the Framework Agreement provided to NRW by the Welsh Government³, and the then extant Welsh Government publication: 'Managing Welsh Public Money'⁴, NRW was required to refer to the Welsh Government activities which appeared novel, contentious or repercussive.
18. NRW officials did inform the Board and the Welsh Government that it was seeking to negotiate with the sawmill operator and to warn the Welsh Government that the sawmill operator might seek to lobby Welsh Ministers because the sawmill operator was unhappy with a contract offer NRW had made to it in August 2013. However, NRW did not refer its proposal to contract with the sawmill operator in May 2014 to the Welsh Government as a contentious or repercussive proposal. NRW has told me that at the time it did not regard the award of the contracts as contentious or repercussive. In my view, NRW should have referred the matter and therefore did not operate within the framework of authority to which it was subject. In consequence, the contractual transactions with the sawmill operator were in my view irregular.

Compliance with public law principles in decision-making

19. The decision-making process which led to the award of contracts to the sawmill operator in May 2014 was in my view neither robust nor transparent. NRW has not been able to provide me with sufficient contemporaneous documentation to adequately demonstrate the considerations it took into account in deciding to enter into these contracts with the sawmill operator. NRW considers the decision to enter contracts with the sawmill operator was taken lawfully, however, in the absence of sufficient evidence, I have been unable to satisfy myself that NRW's decision to enter into these contracts with the sawmill operator was taken in accordance with public law principles. I note that NRW disputes this conclusion.
20. Whilst I have significant concerns regarding the decision-making process, the evidence is not sufficient for me to reach a conclusion that the decision to enter into the contracts was in breach of public law principles. My uncertainty does not mean that the contracts should now be regarded as unlawful, nor does it mean they represent poor value for money. The decisions to award the contracts remain valid in the absence of any challenge and quashing by a Court. My conclusions arise in the context of my audit functions and do not bear on the validity or enforceability of the decisions taken by NRW (and I note NRW's point that none of the industry representatives sought to bring a challenge to the award of the contracts). My regularity opinion, however, takes the form of positive assurance, which means that I state whether transactions are in accordance with the authorities that govern them. Given the significant uncertainty, I am unable to give an unqualified regularity opinion on the financial statements.

Compliance with State aid rules

21. Under Article 107 of the EU Treaty on the Functioning of the European Union, State aid is aid granted from State resources in any form which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods, in so far as it affects trade between Member States. The provision of State aid is unlawful unless authorised in advance, whether by an existing 'block exemption' or by individual authorisation granted by the European Commission in response to a notification from the relevant State. I have sought legal advice on whether or not the award of the contracts constituted a grant of State aid to

³ The NRW Framework Document was drawn up by the Welsh Government in consultation with NRW. It sets out the broad framework of accountabilities within which NRW operates and details the terms and conditions under which the Welsh Ministers provide grant-in-aid to NRW.

⁴ Managing Welsh Public Money sets out the framework and principles which must be applied by the Welsh Government, its sponsored bodies, the NHS in Wales, its commissioners, the Education Workforce Council, Estyn and the Welsh Government's subsidiary bodies.

the sawmill operator. I am advised that this turns on whether or not those contracts constituted the provision of an 'economic advantage' and the value of that advantage was potentially material to inter-State trade (a benchmark for materiality in this context is the European Commission's State aid *de minimis* threshold of €200,000). There would be no such advantage if the contracts were concluded on market terms. NRW considers that the contracts were on market terms but it is apparent from the contemporaneous documents that the terms of the contracts were not determined either by the outcome of a competition for meeting NRW's relevant requirements, or by other relevant market testing focused upon those requirements.

22. In my view, NRW's decision to award the contracts to the sawmill operator was not informed by relevant market testing, and was also not supported by persuasive reasoning to support a conclusion that seeking alternative providers would inevitably have proved fruitless. In my view, NRW failed to follow appropriate processes for ensuring that the outputs for which it contracted with the sawmill operator were obtained on market terms. This failure gives rise to doubt as to the compliance of the contracts with the State aid rules. In view of this uncertainty, I am unable to give an unqualified regularity opinion on the financial statements. I note that NRW disagrees with my analysis of the State aid position and relies on legal advice (which it sought during the course of my audit and shared with me) to the effect that among other things, the award complied with State aid rules.
23. The Chief Executive of Natural Resources Wales has told me that he considers that qualification of the regularity opinion is disproportionate to the shortcomings identified and that he disagrees with my conclusions and relies on legal advice which NRW sought during the course of my audit. However, I have sought my own legal advice from Counsel (including in relation to NRW's legal advice) and I agree with the advice I have received, which is to the effect that there is insufficient evidence to conclude that the decision-making process was in compliance with public law principles and State aid rules. The significant uncertainty which exists means that I consider the correct and proportionate action for me to take as the auditor of NRW is to qualify my regularity opinion.

FINANCIAL STATEMENTS and NOTES TO THE ACCOUNTS

for 2015/16

Statement of Comprehensive Net Expenditure

For the year ended 31 March 2016

	Note	2015/16 £'000	2014/15 £'000
Staff costs	3	81,239	80,155
Capital works expensed in year	4	14,834	15,518
Other expenditure	5	92,737	102,427
Total operating expenditure		<u>188,810</u>	<u>198,100</u>
Charge income	6	(36,969)	(38,027)
Commercial and other income	6	(27,735)	(28,726)
European and other external funding	6	(1,540)	(2,287)
Total operating income		<u>(66,244)</u>	<u>(69,040)</u>
Net operating expenditure		<u>122,566</u>	<u>129,060</u>
Financing on pension scheme assets and liabilities	13.3	2,439	2,116
Net expenditure for the year		<u>125,005</u>	<u>131,176</u>
Other comprehensive net expenditure			
Net gain from transfer of functions	1.6	(275)	0
Pension actuarial remeasurements	13.3	(33,179)	24,778
Revaluation			
Net loss / (gain) on revaluation		15,996	(19,996)
Total comprehensive net expenditure for the year		<u><u>107,547</u></u>	<u><u>135,958</u></u>

The notes on pages 53 to 81 form part of these accounts.

Statement of Financial Position

As at 31 March 2016

		31 March 2016	31 March 2015
	Note	£'000	£'000
Non-current assets			
Property plant and equipment	7.1	752,001	644,900
Heritage assets	7.1	6,432	6,432
Biological assets	7.1	102,450	117,881
Intangible assets	7.2	13,340	8,397
Financial assets		140	220
Total non-current assets		<u>874,363</u>	<u>777,830</u>
Current assets			
Assets held for sale		180	979
Inventories		759	835
Trade and other receivables	9	16,496	17,460
Cash and cash equivalents	10	22,735	26,798
Total current assets		<u>40,170</u>	<u>46,072</u>
Total assets		<u>914,533</u>	<u>823,902</u>
Current liabilities			
Trade and other payables	11	(19,568)	(25,911)
Provisions	12	(1,582)	(2,955)
Total current liabilities		<u>(21,150)</u>	<u>(28,866)</u>
Assets less current liabilities		<u>893,383</u>	<u>795,036</u>
Non-current liabilities			
Pension liabilities	13.3	(46,957)	(76,104)
Financial liabilities	8	(39,991)	(39,973)
Total non-current liabilities		<u>(86,948)</u>	<u>(116,077)</u>
Assets less liabilities		<u>806,435</u>	<u>678,959</u>
Taxpayers' equity and other reserves			
General fund	SoCTE	197,532	211,460
Revaluation reserve	SoCTE	655,860	543,603
Pensions reserve	SoCTE	(46,957)	(76,104)
Total taxpayers' equity		<u>806,435</u>	<u>678,959</u>

The notes on pages 53 to 81 form part of these accounts.

Dr Emyr Roberts
Chief Executive & Accounting Officer

Date: 2nd March 2017

Statement of Cash Flows

For the year ended 31 March 2016

	Note	2015/16 £'000	2014/15 £'000
Cash flows from operating activities			
Net operating expenditure	SoCNE	(122,566)	(129,060)
Adjustment for non-cash transactions		17,902	15,245
(Increase)/Decrease in trade and other receivables	9	802	1,865
Increase/(Decrease) in trade and other payables	11	(8,112)	8,199
Increase/(Decrease) in provisions	12	(1,356)	861
Net cash flow from operating activities		<u>(113,330)</u>	<u>(102,890)</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	7.1	(2,606)	(7,457)
Purchase of intangible assets	7.2	(6,627)	(2,934)
Proceeds on disposal of property, plant and equipment		1,130	631
Net cash flow from investing activities		<u>(8,103)</u>	<u>(9,760)</u>
Cash flows from financing activities			
Cash receipt on transfer of functions	1.6	927	0
Grants from Welsh Government	SoCTE	116,443	124,337
Net Financing		<u>117,370</u>	<u>124,337</u>
Net increase in cash and cash equivalents in the period		(4,063)	11,687
Cash and cash equivalents at the beginning of the period		<u>26,798</u>	<u>15,111</u>
Cash and cash equivalents at the end of the period	10	<u><u>22,735</u></u>	<u><u>26,798</u></u>

The notes on pages 53 to 81 form part of these accounts.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2016

	General Fund £'000	Revaluation Reserve £'000	Pension Reserve £'000	Total £'000
Opening balance	211,460	543,603	(76,104)	678,959
Comprehensive net expenditure for year	(107,547)	0	0	(107,547)
Transfer of function adjustment	(359)	0	(1,348)	(1,707)
In-year movement				
In year revaluation	0	120,287	0	120,287
Realised revaluation	8,030	(8,030)	0	0
Actuarial gain on pension scheme	(33,179)	0	33,179	0
Increase in pension liability	2,684	0	(2,684)	0
Total in-year movement	(22,465)	112,257	30,495	120,287
Funding				
Grants from Welsh Government	116,443	0	0	116,443
Balance at 31 March 2016	197,532	655,860	(46,957)	806,435

General fund - reflects the cumulative position of net expenditure and funding from Welsh Government.
 Revaluation reserve - reflects the cumulative balance of revaluation and indexation of non-current assets.
 Pension reserve - reflects the cumulative position of the net liabilities of the pension scheme.

The notes on pages 53 to 81 form part of these accounts.

Comparative figures for the year ended 31 March 2015

	General Fund £'000	Revaluation Reserve £'000	Pension Reserve £'000	Total £'000
Opening Balance	188,256	511,056	(49,200)	650,112
Comprehensive net expenditure for year	(135,958)	0	0	(135,958)
In Year Movement				
Opening balance correction	183	(183)	0	0
Assets from previous years	160	0	0	160
In year revaluation	0	40,308	0	40,308
Realised revaluation	7,578	(7,578)	0	0
Actuarial loss on pension scheme	24,778	0	(24,778)	0
Increase in pension liability	2,126	0	(2,126)	0
Total in-year movement	34,825	32,547	(26,904)	40,468
Funding				
Grants from Welsh Government	124,337	0	0	124,337
Balance at 31 March 2015	211,460	543,603	(76,104)	678,959

Note 1 Accounting policies

1.1 Requirement to prepare accounts

The financial statements have been prepared in accordance with the 2015/16 Government Financial Reporting Manual (FReM) issued by HM Treasury and with the accounts direction given by the Welsh Government in accordance with paragraph 23(1) of the Natural Resources Body for Wales (Establishment) Order 2012.

The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM allows a choice of accounting policy, these accounts follow the policy which is most appropriate to give a true and fair view for Natural Resources Wales (NRW).

The policies adopted are described below and in the various notes to the accounts. They have been applied consistently in dealing with items considered material to the accounts.

The preparation of financial statements requires various estimates and assumptions to be made that affect the application of accounting policies and reported amounts. All such estimates and judgments are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. All estimates are based on knowledge of current facts and circumstances, assumptions concerning past events and forecasts of future events.

The most significant areas of estimation and critical judgements are shown against the relevant notes. Please note that the actual future results may differ from these estimates.

1.2 Accounting convention

These accounts have been prepared on an accruals basis, under the historical cost convention, modified to account for the revaluation of property, plant and equipment, intangible assets (apart from vehicles and assets under construction) to fair value as determined by the relevant accounting standard.

These financial statements are based on the going concern principle.

1.3 Income, expenditure and grants

The accruals basis of accounting means that income and expenditure disclosed in the accounts are accounted for in the year that it takes place, not when cash payments are made or received, apart from option fees income received from windfarm operators which is included in the year in which it is received. The full value of windfarm option fees is shown within renewable energy income in note 6, and the net payment to Welsh Government included in operational costs in note 5.

Income received in advance of the work being done is treated as deferred income.

Where income and expenditure have been recognised but cash has not been received or paid, a payable or receivable for the relevant amount is recorded in the Statement of Financial Position. Where debts may not be settled, the balance of receivables is written down and a charge made to the Statement of Comprehensive Net Expenditure for the income that might not be collected.

All grant contributions received have been recognised as income within the Statement of Comprehensive Net Expenditure.

1.4 Value added tax

NRW is classified as a body to which section 33 of the Value Added Tax (VAT) Act 1994 applies and accordingly recovers tax paid on both business and non-business activities. The recovery of VAT on exempt supplies is dependent on the threshold for exempt activities. In all instances, where output tax is charged, or input tax is recoverable, the amounts included in these accounts are stated net of VAT.

1.5 Grant in aid

Grant in aid and other grants received from Welsh Government are treated as financing received from a controlling party and are credited directly to the general fund.

1.6 Internal drainage districts and transfer of functions

On 1st April 2015 the functions, staff and assets of the Caldicot & Wentlooge, Lower Wye and Powysland internal drainage boards transferred to NRW. In accordance with the FReM, this transfer will be accounted for as a transfer by absorption and as such, there is no requirement to restate comparatives in primary statements nor adjust the carrying values of assets and liabilities to fair value. The net assets of £275k will be recorded through the Statement of Comprehensive Net Expenditure as a net gain from the transfer of functions. Adjustments of £84k required to achieve uniformity of accounting policies are shown against the general fund.

Analysis of gain on transfer of functions

	£'000
Non-current assets	777
Other assets	83
Cash	927
Pension liabilities	(1,221)
Other liabilities	(291)
Total	<u>275</u>

NRW now acts as the drainage board that runs these internal drainage districts, along with eleven other internal drainage districts located in North Wales. The work undertaken in each district is funded by a combination of drainage rates levied on occupiers of agricultural land and special levies paid by local authorities in respect of non-agricultural land.

NRW is required by section 40 of the Land Drainage Act 1991 to set drainage rates, and by regulation 7 of the Internal Drainage Boards (Finance) Regulations 1992 to issue special levies before the 15th February of the financial year preceding the year to which they relate.

The three internal drainage boards approved the work programmes and associated drainage rates and special levies for 2015/16 that NRW inherited. The drainage rates, special levies and precepts for 2015/16, in relation to the existing eleven internal drainage districts were set by NRW, acting as the drainage board. This income is included in Note 6.

1.7 Adoption of new and revised IFRS or FReM interpretations

FReM

Every year HM Treasury issues a new FReM which interprets IFRS for the public sector. The form and content of the annual report and accounts for 2015/16 has been changed in line with the amendments made to the FReM reflecting the outcomes of the Simplification and Streamlining Statutory Annual Report and Accounts project. The main changes include the introduction of three parts to the Annual Report and Accounts and the requirement to disclose policies and notes for material items only. Categories within statements and notes have been merged where appropriate, and figures for 2014/15 restated accordingly.

IFRS

In accordance with IAS 8, NRW has considered the impact of standards and interpretations which have been issued but are not yet effective and which have not been adopted early by NRW. With the exception of IFRS 16 Leases, it is anticipated that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of NRW. The impact of IFRS 16 Leases which has been issued by the IASB but not yet been adopted by the European Union and will apply from 2019-20, can not be estimated at this stage.

1.8 Financial provisions (Landfill sites)

For all landfill sites, financial provision arrangements need to be established before a permit is granted. The financial provision arrangements must be in place prior to the commencement of disposal operations, and such provisions need to be sufficient (in monetary terms), secure and available when required. Landfill sites include all waste sites that are subject to the landfill directive.

The following are the principal mechanisms that NRW will accept for demonstrating financial provision arrangements:

- Renewable bonds (shown in note 11)
- Cash deposits with NRW (shown in note 11)
- Escrow accounts
- Local authority deed agreements
- Parent company guarantees
- Umbrella agreements (covering a number of sites)

1.9 Notes to the accounts

Note 2 provides an analysis of income and expenditure to operating segments.

Notes 3 to 13 provide analysis of material figures reported in the statements of comprehensive net expenditure, financial position and cash flows.

Notes 14 to 20 relate to figures not disclosed elsewhere in these accounts.

2. Analysis of net operating expenditure by segment

For year to 31 March 2016

	Transformation	OD & People Management	Finance & Corporate Services	National Services	Operations North & Mid Wales	Operations South	Knowledge Strategy & Planning	Chief Executive, Governance & Planning	External Relations & Communications	Chief Information Officer	Centrally Controlled	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Reported by segments												
Expenditure	956	2,467	18,873	44,907	27,909	33,041	27,117	3,584	980	12,725	16,251	188,810
Income	0	0	(36,216)	(23,278)	(4,019)	(2,893)	(1,877)	0	0	(27)	2,066	(66,244)
Total	956	2,467	(17,343)	21,629	23,890	30,148	25,240	3,584	980	12,698	18,317	122,566
Capital expenditure	0	0	703	1,820	358	320	4	0	0	6,207	9	9,421

These segments are components for which financial information is managed and reported internally.

Income and expenditure shown above were directly attributed to the segments

Description of segments

Transformation	Manages the transformational programmes for NRW to enable us to be self sufficient.
OD & People Management	Provides organisational development and staff resource management.
Finance & Corporate Services	Provides financial and procurement support. Manages Natural Resources Wales's buildings and fleet.
National Services	Delivers a range of services for whole of Wales. There include flood and coastal risk management, capital programme management, forestry harvesting and the customer contact centre.
Operations North & Mid Wales	Delivers statutory purposes and aspirations, at an operational level and via a network of local teams, within the seven counties of North Wales, Ceredigion and the Montgomery and Radnor areas of Powys.
Operations South	Delivers statutory purposes and aspirations, at an operational level and via a network of local teams, within the counties of South Wales and the Brecknockshire area of Powys.
Knowledge Strategy & Planning	Manages the strategic, environmental and spatial planning functions.
Chief Executive, Governance & Planning	The Chief Executive is also the Accounting Officer and is personally responsible for the proper stewardship of the public funds within his charge, for the day-to-day operations and management of the NRW. Governance provides and delivers legal services; planning, performance & reporting; audit & risk assurance and secretariat and information governance.
External Relations & Communications	External Relations and Communications provide an integrated communications and marketing service.
Chief information officer	Delivers ICT 'business as usual' services and transformation services.
Centrally Controlled	Income and expenditure controlled centrally and not allocated to directorates. It includes depreciation, book value of fellings, year end accruals for provisions.

In 2015/16 the ICT Service was transferred from Finance and Corporate Services to Chief Information Officer.

Analysis of net operating expenditure by segment (continued)

Comparatives for year to 31 March 2015

	Transition	OD & People Management	Finance & Corporate Services	National Services	Operations North & Mid Wales	Operations South	Knowledge Strategy & Planning	Chief Executive, Governance & Planning	External Relations & Communications	Centrally Controlled	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Reported by segments											
Expenditure	6,435	5,529	31,323	44,004	25,603	32,275	28,864	3,847	1,073	19,147	198,100
Income	0	0	(36,081)	(25,269)	(3,132)	(1,643)	(2,998)	(354)	0	437	(69,040)
Total	6,435	5,529	(4,758)	18,735	22,471	30,632	25,866	3,493	1,073	19,584	129,060
Capital Expenditure	6,874	0	1,501	1,673	217	409	0	0	0	0	10,674

3 Staff costs

Details of staff costs and numbers are now disclosed in the Accountability section on page 36.

4. Capital works expensed in year

	2015/16	2014/15	31 March 2016	31 March 2015
Categories	Actual £'000	Actual £'000	Committed £'000	Committed £'000
Operational Work	13,368	13,480	2,304	6,486
Capital grants	1,466	2,038	1,481	0
Total	14,834	15,518	3,785	6,486

Capital works expensed in year relates to expenditure which is capital in nature but where NRW does not retain the related risks and rewards of ownership or cannot reliably estimate the useful life of the asset. This includes items such as :

- Flood defence assets built on land which is not owned by NRW but where it has permissive powers to maintain the defence.
- Assets where it is not possible to check for impairment, for example beach replenishment, so it is more prudent to write the asset off in year.

Operational work includes:

- Work to ensure that the condition of the flood defences are retained in the appropriate condition and restored to that condition as necessary.
- Creation, improvement or heightening of embankments along watercourses to reduce the risk of the water escaping from the river channel.
- Production of multi-layered maps which provide information on flooding from groundwater, rivers and the sea for Wales, and including information on flood defences and the areas benefiting from those flood defences.
- Installation of piles along the river banks to strengthen them and secure the adjacent land and prevent landslips into the river causing obstructions. These works would largely be below ground.
- Repairing or replacing culverts under land, roads and properties and channel improvements that assist the flow of watercourses.
- Development of strategies to provide long term flood risk options to cover a large area. It is from the long term strategies that individual flood risk projects are developed.
- Preparation of Water Level Management Plans and Catchment Flood Management Plans, improvements to locks and other waterways, telemetry replacement and fish habitats improvement.

Capital grants

These are grants, mostly to Local Authorities, which fund work of a capital nature. It includes work on the Wales Coast Path, the Right of Way Improvement Programme, and also grants to assist with purchase of land.

5. Other expenditure

	2015/16 £'000	2014/15 £'000
Cash items		
Bought in services	20,324	18,919
Service levels agreements	9,535	14,607
Reservoir operating agreements	6,892	6,938
Grants	5,384	8,222
Materials and equipment	4,073	2,931
Forest roads network maintenance	3,955	3,365
Office running costs	3,871	5,010
Operational costs	3,609	3,686
ICT costs	3,086	6,222
Collaborative agreements	2,894	2,899
Fleet costs	2,794	3,613
Travel and subsistence	2,360	3,077
Staff related costs	2,026	1,639
Rents	2,007	1,938
Fees and court costs	852	1,103
Rates	795	780
Statutory audit fees	143	171
Write-offs and special payments	57	498
Finance lease interest	51	40
European grants	33	474
Donations	0	5
Sub-total	74,741	86,137
Non-cash expenditure		
Depreciation and amortisation	9,787	7,211
Value of felled trees	6,970	6,644
Prior year expenditure on assets	794	801
Write-offs	793	642
Asset review adjustments	85	626
Movement on provision for doubtful debt	57	(427)
Movement on other provisions	(17)	1,072
(Gain) / Loss on disposal	(473)	(279)
Sub-total	17,996	16,290
Total	92,737	102,427

Details of write-offs and special payments are now shown in the Accountability section on page 40.

6. Income analysis

	2015/16 £'000	2014/15 £'000
Abstraction charges	18,797	20,434
Environmental permitting regulations: water quality	6,272	6,523
Environmental permitting regulations: installations	3,033	3,028
Environmental permitting regulations: waste	2,183	2,432
Nuclear regulation	1,765	1,336
Fishing licences	1,380	1,468
Other environmental protection charges	1,218	917
Hazardous waste	1,013	981
Water resources rechargeable works	675	453
Marine licensing	322	184
Emissions trading and carbon reduction commitment	311	271
Charge Income	36,969	38,027
Timber income	16,475	16,336
Renewable energy income	4,927	7,522
Income from estates	2,917	2,512
Internal drainage district income	1,401	472
Provision of information and services	923	1,194
Legal costs recovered and Proceeds of Crime Act income	589	468
Income towards site clean up costs	500	0
Interest receivable	55	41
Miscellaneous income	(52)	181
Commercial and other income	27,735	28,726
European income ⁺	792	2,080
Grants and contributions	748	207
European and other external funding	1,540	2,287
Total income	66,244	69,040

+ Including income claimed via Welsh European Funding Office or the Welsh Government for european funded projects.

6.1 Analysis of fees and charges

Year ending 31 March 2016	Income billed £'000	Expenditure £'000	Surplus/ (Deficit) £'000
Abstraction charges	17,613	18,797	(1,184)
Environmental permitting regulations: water quality	6,506	6,272	234
Environmental permitting regulations: installations	3,380	3,033	347
Environmental permitting regulations: waste	2,111	2,183	(72)
Nuclear regulation	1,709	1,765	(56)
Fishing licences	1,380	1,380	0
Other environmental protection charges	1,002	1,218	(216)
Hazardous waste	959	1,013	(54)
Water resources rechargeable works	675	675	0
Marine licences	322	322	0
Emissions trading and carbon reduction commitment	298	311	(13)
Total	35,955	36,969	(1,014)

Comparative figures - year ending 31 March 2015	Income billed £'000	Expenditure £'000	Surplus/ (Deficit) £'000
Abstraction charges	20,225	20,434	(209)
Environmental permitting regulations: water quality	6,562	6,523	39
Environmental permitting regulations: installations	2,946	2,939	7
Environmental permitting regulations: waste	2,319	2,432	(113)
Nuclear regulation	1,600	1,336	264
Fishing licences	1,468	1,468	0
Other environmental protection charges	828	917	(89)
Hazardous waste	1,101	981	120
Water resources rechargeable works	453	453	0
Marine licences	184	499	(315)
Emissions trading and carbon reduction commitment	271	271	0
Total	37,957	38,253	(296)

Income from charges for the regulation of businesses in Wales to monitor and control their impact on the environment, whether air, water or land, is derived from a combination of fees and charges.

Accumulated surpluses and deficits are treated as deferred income or accrued income depending on whether the charging scheme is in surplus or deficit. These balances are only treated as deferred or accrued income where there is an expectation that the balances will be recoverable over a reasonable period of time. The balances are considered when setting future years' fees and charges, to enable a break even position to be achieved over a reasonable time period, which is currently considered to be three years.

The above table of fees and charges differs from income reported in note 6 due to the policy stated above. The cumulative surpluses and deficits are included in accrued and deferred income in notes 9 and 11 respectively.

Costs funded by grant-in-aid have been excluded from the table above. The above table does not include the effect of IAS 19 pension adjustments as these costs/benefits are not passed on to charge payers. The financial objective is full cost recovery including current cost deciation and a rate of return on relevant assets.

The key activities of each area are listed below:

- Abstraction charges – charging for businesses using water abstraction from rivers or groundwater. The income reported also includes other elements of water resources income.
- Water resources rechargeable works - income to recover NRW water resources effort on the ground, such as operational costs in the Upper Severn catchment (on the welsh side of the boundary), which falls under Environment Agency jurisdiction.
- Fishing licences – charging individuals for licences to fish.
- Environmental permitting regulations: water quality – charging for discharges from businesses into the environment.
- Environmental permitting regulations: installations - permitting to control and minimize pollution from industrial activities
- Environmental permitting regulations: waste – waste management licensing and exemptions.
- Hazardous waste – licensing for producing, transporting, or receiving hazardous waste.
- Emissions trading and carbon reduction commitment – regulation of businesses under EU schemes.
- Nuclear regulation – regulation of nuclear and non-nuclear sites, and nuclear new build sites.
- Marine licences – charging individuals for boat licences.
- Other environmental protection – licensing for registration of waste carriers and brokers, transfrontier shipments, producer responsibility licensing for waste electronic and electrical equipment , end of life vehicles, polychlorinated biphenyls and regulation of businesses under such schemes as control of major accident hazards.

7. Non-current assets

There are two categories of non-current assets - tangible assets shown in Note 7.1 and intangible assets shown in Note 7.2.

Recognition

All land is capitalised regardless of value. The threshold for capitalising other assets with a useful economic life of more than one year is £5,000. Individual items costing less than £5,000 can be grouped as one asset if the total cost exceeds £5,000 and these assets operate as part of a network. Subsequent expenditure on an asset is capitalised if the criteria for initial capitalisation are met, it is probable that additional economic benefits will flow to NRW and the cost of the expenditure can be reliably measured.

Measurement

All non-current assets apart from heritage assets and assets under construction are reported at either current value in existing use or fair value in the Statement of Financial Position.

Assets classified as heritage assets comprise land within designated conservation areas. This land is held in support of NRW's purpose. Because of the diverse nature of the land held and the lack of comparable market values, NRW considers that obtaining external valuations would involve disproportionate cost. Heritage assets are therefore held at cost. Preservation costs (expenditure required to preserve the heritage asset) are recognised in the Statement of Comprehensive Net Expenditure when they are incurred. Further information on heritage assets can be found in Note 7.1.2.

Assets capitalised as under construction are carried at cost and transferred to the appropriate non-current asset category when completed and ready for use.

Indexation and Revaluation

All assets apart from heritage assets, vehicles and those under construction are indexed annually using an appropriate index under the modified historical cost convention.

Land and buildings and public structures (reported within operational structures) are subject to professional revaluation every five years in accordance with the Royal Institution of Chartered Surveyors (RICS) valuation standards. These assets were professionally revalued at 31st March 2016 by chartered surveyors and signed off by a registered valuer. The chartered surveyors were John Clegg & Co, Cooke and Arkwright, Lambert Smith Hampton, Llewellyn Humphreys, Williams Rural & Commercial, Strutt & Parker, Bidwells and internal land agents.

All valuers who undertook the quinquennial revaluation, are members of the RICS and are Registered Valuers in accordance with the RICS Valuer Registration Scheme, apart from those valuers who have undertaken certain infrastructure valuations on heritage assets. Those valuations have been quality assured by the NRW Principal Surveyor. All valuers have sufficient current local and national knowledge of the particular market, and the skills and understanding to undertake the valuation competently.

All our freehold and leasehold offices commercial properties were valued on 31st March 2016 by external valuers, Elizabeth Hill and Alan Jones of Cooke & Arkwright Chartered Surveyors.

The valuations of other land, public structures and specialist assets were arranged by our in-house team of Chartered Surveyors, under the direction of the Principal Surveyor.

For those assets where we have future rental income on our land we used external professional surveyors. Cefn Croes Windfarm was valued by Bidwells and the telecommunications portfolio by Strutt & Parker.

For specialised assets where there are no market comparables, the estimate of 'fair value' has been estimated using a depreciated replacement cost approach.

Operational structures are used in NRW's service delivery and are specific in nature, location or function. It is not possible to revalue these assets effectively using market comparatives or professional valuations.

Adjustments arising from indexation and revaluations are taken to the revaluation reserve unless the reserve balance in respect of a particular asset has been fully utilised against downward revaluation, in which case the movement is recognised in the Statement of Comprehensive Net Expenditure. Any permanent reductions in value are transferred to the Statement of Comprehensive Net Expenditure.

Depreciation

Land is not depreciated, unless it forms an essential element of an operational structure. These assets are being depreciated over the life of the relevant operational structure. Assets under construction are not depreciated until they are capable of operating in the manner intended by management.

Vehicles shown in the plant and machinery category are depreciated on a reducing balance basis at a rate of 21%. All other assets are depreciated/amortised on a straight line basis over their expected useful economic life. Depreciation is charged in the month of disposal to the Statement of Comprehensive Expenditure, but not in the month of acquisition.

The estimated asset lives are reviewed, and adjusted if appropriate, at each reporting date. The principal economic lives used for depreciation purposes are:

Asset category	Principal economic life
Tangible assets	
Operational structures	5 - 100 years
Buildings and dwellings	10 - 60 years
Plant and machinery	4 - 25 years
Information technology	3 - 10 years
Intangible assets	
Software licences	5 - 25 years
Other licences	5 - 100 years
Software development	3 - 10 years

The range in the economic lives reflects the variety of assets within the asset categories.

Disposals

When an asset is disposed of, its carrying amount is written off to the Statement of Comprehensive Net Expenditure as part of the gain or loss on disposal. Receipts from disposals (if any) are also credited to the same line. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the General Fund.

Revaluation Reserve

The revaluation reserve shows the gains made by NRW arising from increases in the value of non-current assets. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost.
- Used in the provision of services and the gains are consumed through depreciation.
- Disposed of and the gains are realised.

An amount representing the difference between the depreciation charged on the revalued assets and that which would have been charged if the assets were shown at cost is transferred from the revaluation reserve to the general fund.

Impairment

Non-current assets are subject to annual impairment reviews. Impairments are recognised when the recoverable amount of non-current assets falls below their net book value, as a result of either a fall in value owing to market conditions or a loss in economic benefit. Downward revaluations resulting from changes in market value only result in an impairment where the asset is revalued below its historical cost carrying amount. The FReM requires that the effect of downward revaluation is firstly set against any accumulated balance in the revaluation reserve. Any amount in addition to this is recognised as impairment through the Statement of Comprehensive Net Expenditure. Any loss of economic benefit is recognised in full against expenditure. An amount to the value of the impairment is transferred from the revaluation reserve to the general fund for the individual assets concerned.

Non-current assets held for sale

Non-current assets are classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continuing use. Depreciation ceases immediately on the classification of the assets as being held for sale. They are stated at the lower of their carrying amount and fair value less costs to sell. They are recorded as current assets in the Statement of Financial Position.

Non-current assets are only deemed to be assets held for sale if management is committed to a plan to sell and if the asset is being actively marketed in its present condition at a price which is reasonable in relation to its current condition.

7.1 Tangible non-current assets

	Forest estate	Other land	Buildings	Plant and machinery	Information technology	Operational structures	Assets under construction	Total Property Plant & Equipment	Biological assets	Heritage assets	Total Tangible Assets
Cost or Valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2015	524,297	39,657	20,881	23,756	13,912	58,909	3,025	684,437	117,881	6,432	808,750
Additions from transfer of function	0	152	364	758	19	180	0	1,473	0	0	1,473
Additions	0	206	0	140	0	21	2,427	2,794	0	0	2,794
Assets commissioned in year	0	101	0	1,213	0	566	(1,880)	0	0	0	0
Asset review adjustments and write-offs	0	(95)	0	(238)	(1,195)	(540)	0	(2,068)	0	0	(2,068)
Prior year costs expensed	0	0	0	0	0	(436)	(387)	(823)	0	0	(823)
Disposals	(33)	(469)	(225)	(1,272)	(19)	0	0	(2,018)	0	0	(2,018)
Movement from/(to) held for sale	9	788	0	0	0	0	0	797	0	0	797
Fellings	(5,072)	0	0	0	0	0	0	(5,072)	(1,822)	0	(6,894)
Indexation and revaluation	92,602	12,556	(8,274)	16	177	9,283	0	106,360	(13,609)	0	92,751
Reclassification	0	1,022	36	0	0	(329)	0	729	0	0	729
At 31 March 2016	611,803	53,918	12,782	24,373	12,894	67,654	3,185	786,609	102,450	6,432	895,491
Depreciation											
At 1 April 2015	0	0	5,320	16,245	3,299	14,673	0	39,537	0	0	39,537
Additions from transfer of function	0	0	193	516	14	57	0	780	0	0	780
Charged in year	0	0	644	2,187	3,858	1,751	0	8,440	0	0	8,440
Asset review adjustments and write-offs	0	0	0	(208)	(1,172)	(156)	0	(1,536)	0	0	(1,536)
Prior year costs expensed	0	0	0	0	0	(48)	0	(48)	0	0	(48)
Disposals	0	0	(191)	(1,161)	(15)	0	0	(1,367)	0	0	(1,367)
Indexation and revaluation	0	0	(5,718)	7	79	(5,566)	0	(11,198)	0	0	(11,198)
Reclassification	0	0	67	0	0	(67)	0	0	0	0	0
At 31 March 2016	0	0	315	17,586	6,063	10,644	0	34,608	0	0	34,608
Carrying amount at 1 April 2015	524,297	39,657	15,561	7,511	10,613	44,236	3,025	644,900	117,881	6,432	769,213
Carrying amount at 31 March 2016	611,803	53,918	12,467	6,787	6,831	57,010	3,185	752,001	102,450	6,432	860,883
Asset Financing											
Owned	568,985	49,516	12,467	6,120	6,831	57,010	3,185	704,114	102,450	6,432	812,996
Leased	42,818	4,402	0	667	0	0	0	47,887	0	0	47,887
Carrying amount at 31 March 2016	611,803	53,918	12,467	6,787	6,831	57,010	3,185	752,001	102,450	6,432	860,883

Buildings include dwellings with a carrying amount of £350k. Our other buildings are offices and workbases.

Comparative figures for period to 31 March 2015

	Forest estate	Other land	Buildings	Plant and machinery	Information technology	Operational structures	Assets under construction	Total Property Plant & Equipment	Biological assets	Heritage assets	Total Tangible Assets
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation											
At 1 April 2014	495,112	39,442	18,897	23,242	3,327	52,859	11,401	644,280	100,051	6,432	750,763
Adjustment to opening balance	0	(8)	0	(6)	0	0	(1)	(15)	0	0	(15)
Additions from verification	0	160	0	0	0	0	0	160	0	0	160
Additions	0	73	0	1,077	4,059	140	2,108	7,457	0	0	7,457
Assets commissioned in year	0	8	0	851	6,509	2,908	(10,276)	0	0	0	0
Asset review adjustments and write-offs	0	(39)	(142)	(1,099)	(112)	(405)	0	(1,797)	0	0	(1,797)
Prior year costs expensed	0	(129)	0	0	0	(75)	(189)	(393)	0	0	(393)
Disposals	(9)	(53)	0	(243)	0	(45)	(18)	(368)	(3)	0	(371)
Reclassified as held for sale	(9)	(969)	0	0	0	0	0	(978)	0	0	(978)
Fellings	(5,200)	0	0	0	0	0	0	(5,200)	(1,868)	0	(7,068)
Indexation	34,403	1,361	1,045	(75)	138	4,612	0	41,484	19,701	0	61,185
Reclassification	0	(189)	1,081	9	(9)	(1,085)	0	(193)	0	0	(193)
At 31 March 2015	524,297	39,657	20,881	23,756	13,912	58,909	3,025	684,437	117,881	6,432	808,750
Depreciation											
At 1 April 2014	0	0	4,157	14,820	2,257	12,507	0	33,741	0	0	33,741
Adjustment to opening balance	0	0	0	(6)	0	0	0	(6)	0	0	(6)
Charged in year	0	0	681	2,545	1,125	1,636	0	5,987	0	0	5,987
Asset review adjustments and write-offs	0	0	(142)	(869)	(108)	(89)	0	(1,208)	0	0	(1,208)
Disposals	0	0	0	(199)	0	(9)	0	(208)	0	0	(208)
Indexation	0	0	217	(46)	25	1,035	0	1,231	0	0	1,231
Reclassification	0	0	407	0	0	(407)	0	0	0	0	0
At 31 March 2015	0	0	5,320	16,245	3,299	14,673	0	39,537	0	0	39,537
Carrying amount at 1 April 2014	495,112	39,442	14,740	8,422	1,070	40,352	11,401	610,539	100,051	6,432	717,022
Carrying amount at 31 March 2015	524,297	39,657	15,561	7,511	10,613	44,236	3,025	644,900	117,881	6,432	769,213
Asset Financing											
Owned	508,915	36,429	15,561	6,519	10,613	44,236	3,025	625,298	117,881	6,432	749,611
Leased	15,382	3,228	0	992	0	0	0	19,602	0	0	19,602
Carrying amount at 31 March 2015	524,297	39,657	15,561	7,511	10,613	44,236	3,025	644,900	117,881	6,432	769,213

Buildings include dwellings with a carrying amount of £416k. Our other buildings are offices and workbases.

7.1.1 Forest estate

Legal ownership of the Welsh Government Woodland Estate is vested with the Welsh Ministers. It is included in Natural Resources Wales' Statement of Financial Position as it carries the financial risks and rewards associated with the estate and undertakes all estate management activities. The estate comprise land and growing timber. Legal ownership of timber, including uncut trees, is vested in Natural Resources Wales.

Woodlands and forests are primarily held and managed to meet the sustainable forest management objectives set out in Woodlands for Wales (The Welsh Government's strategy for woodlands and trees). Their purpose can be split between economic (contribution to a thriving and sustainable Welsh economy) and other (social, environmental, climate change). Under International Accounting Standard 41 (Agriculture), timber grown for economic purpose must be classified as biological assets. The rest of the timber, together with all underlying land, is classified as property, plant and equipment and referred to as the forest estate.

Assets in both categories are shown at fair value. External professional valuers undertake a valuation of the estate at five yearly intervals. John Clegg & Co were appointed as valuers for the last valuation as at 31 March 2016. In accordance with the Royal Institution of Chartered Surveyors (RICS)'s Appraisal and Valuation Standards (the Red Book), the estate is valued as appropriate for obtaining a fair value. In the intervening years, custom indices are used to restate values. Natural Resources Wales and its external professional valuers have developed processes, including key assumptions, which produce a reasonable estimate of a compliant valuation.

Adjustments arising from revaluation of the forest estate are taken to the revaluation reserve and released to General Fund when gains are realised in the felling of trees. Adjustments arising from revaluation of biological assets are recognised in the Statement of Comprehensive Net Expenditure in the year of revaluation.

Estimation techniques, assumptions and judgements

Elements of the valuation and therefore the accounting for these assets rely on estimation techniques.

It is not considered cost effective to carry out a quinquennial external professional valuation covering all areas of woodland. Following advice from qualified valuers, it is deemed that a reasonable valuation can be derived by carrying out on-site valuations of a random sample of sites representing between eight and ten per cent of the estate then extrapolating these for the whole, and using the factors of location, species, age and quality (yield class) of the trees.

It is also considered that the most appropriate market-based evidence of value is derived from the market for the sale of woodlands and forests over fifty hectares in area. It is recognised that even so there can still be a wide spread of values and these can be somewhat subjective judgements. Thus any valuation of woods will have a degree of reliance on professional opinion. The external valuers subsequently apportion values to land and timber. The value of leasehold land is estimated to be 15% less than freehold land.

The apportionment of trees between biological assets and property, plant and equipment was carried out by Natural Resources Wales staff using judgements and estimates. An assessment was made of the proportion primarily held for economic purposes and the resulting percentage was used to determine the value of trees classed as a biological asset. Should there be an acquisition or disposal of land that would create a total change in our forest estate land holding of ten per cent or more, an interim review of the assessment would take place. There was no such change during the period ending 31 March 2016. The percentage split is currently 26% for biological assets and 74% for Property, Plant and Equipment. As required under IAS 41, the fair value of biological assets is reduced by estimated costs to the point of sale. These costs are estimated at five per cent of timber values and reflect the costs of selling the woodland or forest.

Lake Vyrnwy joint afforestation scheme

Natural Resources Wales manages a forest in the Lake Vyrnwy area under a joint afforestation scheme with Severn Trent Water. Income is received and costs incurred by Natural Resources Wales and an annual payment of 50% of the operating surplus is paid to Severn Trent Water. Natural Resources Wales shows the value of 50% of the growing trees for this area of forest in the Statement of Financial Position, split between forest estate and biological assets. The value of the underlying land which remains Severn Trent Water's property is not included.

7.1.2 Heritage assets

Heritage assets are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for their contribution to knowledge and culture. They are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations.

Our National Nature Reserves meet the criteria for heritage assets. They comprise non-operational land within designated conservation areas which were set up to conserve and to allow people to study their wildlife, habitats or geological features of special interest. This land is held for conservation and for sustainable public use. Under the FReM interpretation of IAS 16 (Property, Plant and Equipment) these assets have been capitalised at cost.

As at 31 March 2016 Natural Resources Wales manages 58 of Wales's National Nature Reserves, either entirely, or in partnership and one Marine Nature Reserve (MNR). No material land purchases have been made during the last three financial years.

Further information on Natural Resources Wales's heritage assets and policies on the acquisition, preservation, management, disposal and access to heritage assets can be found on our website at:

<http://naturalresources.wales/conservation-biodiversity-and-wildlife/find-protected-areas-of-land-and-seas/?lang=en>

7.2 Intangible non-current assets

	Software Licences	Other Licences	Software Development Expenditure	Web Site	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation						
At 1 April 2015	5,130	2,607	4,554	165	862	13,318
Additions from transfer of function	8	0	0	0	0	8
Additions	377	0	0	0	6,250	6,627
Assets commissioned in year	632	0	0	0	(632)	0
Asset review adjustments and write-offs	(108)	0	(118)	0	0	(226)
Prior year adjustments	0	0	0	0	(19)	(19)
Disposals	(57)	0	0	0	0	(57)
Indexation and revaluation	(87)	541	(44)	(4)	0	406
Reclassification	0	(729)	0	0	0	(729)
At 31 March 2016	5,895	2,419	4,392	161	6,461	19,328
Amortisation						
At 1 April 2015	1,509	28	3,384	0	0	4,921
Additions from transfer of function	7	0	0	0	0	7
Charged in year	900	28	388	31	0	1,347
Asset review adjustments and write-offs	(98)	0	(118)	0	0	(216)
Disposals	(54)	0	0	0	0	(54)
Indexation and revaluation	(7)	0	(11)	1	0	(17)
At 31 March 2016	2,257	56	3,643	32	0	5,988
Carrying Amount at 1 April 2015	3,621	2,579	1,170	165	862	8,397
Carrying Amount at 31 March 2016	3,638	2,363	749	129	6,461	13,340
Asset Financing						
Owned	3,638	2,363	749	129	6,461	13,340
Carrying Amount at 31 March 2016	3,638	2,363	749	129	6,461	13,340

Comparative figures for period to 31 March 2015

	Software Licences	Other Licences	Software Development Expenditure	Web Site	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation						
At 1 April 2014	2,608	2,045	4,803	0	1,801	11,257
Additions	1,075	2	0	39	1,958	3,074
Assets commissioned in year	2,124	249	0	116	(2,489)	0
Asset review adjustments and write-offs	(937)	(23)	(487)	0	0	(1,447)
Prior year costs expensed	0	0	0	0	(408)	(408)
Indexation	260	141	238	10	0	649
Reclassification	0	193	0	0	0	193
At 31 March 2015	5,130	2,607	4,554	165	862	13,318
Amortisation						
At 1 April 2014	2,038	0	2,492	0	0	4,530
Charged in year	351	26	847	0	0	1,224
Asset review adjustments and write-offs	(937)	0	(155)	0	0	(1,092)
Indexation	57	2	200	0	0	259
At 31 March 2015	1,509	28	3,384	0	0	4,921
Carrying Amount at 1 April 2014	570	2,045	2,311	0	1,801	6,727
Carrying Amount at 31 March 2015	3,621	2,579	1,170	165	862	8,397
Asset Financing						
Owned	3,621	2,579	1,170	165	862	8,397
Carrying Amount at 31 March 2015	3,621	2,579	1,170	165	862	8,397

8. Financial liabilities and instruments

8.1 Financial liability

The financial liability of £39,991k reported in the Statement of Financial Position includes £39,844k of liability from reservoir operating agreements.

In 1989, to enable privatisation to occur, HM Government negotiated reservoir operating agreements with the water companies. These agreements included fixed payments (indexed annually on the Retail Price Index) payable in perpetuity to the water companies. Natural Resources Wales is now responsible for the payments to Dŵr Cymru Welsh Water.

As the total liability has been calculated as perpetuity on an amortised cost basis it will not change from year to year except in the unlikely event of an agreement ceasing. Natural Resources Wales is able to recover the full cost of reservoir operating agreements including the annual indexation through its charges for water abstraction.

£5,226k was paid to Dŵr Cymru Welsh Water during 2015/16 (£5,189k in 2014/15) for the indexed fixed payments. These are included with other payments under the reservoir operating agreements in Note 5.

8.2 Financial instruments

As the cash requirement of Natural Resources Wales is mainly met through grant in aid, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with Natural Resources Wales's expected purchase and usage requirements and Natural Resources Wales is therefore exposed to little credit, liquidity or market risk.

9. Trade and other receivables

	31 March 2016 £'000	31 March 2015 £'000
Trade receivables	6,520	5,951
Provision for doubtful debt	(413)	(355)
Accrued income	3,869	3,158
VAT receivable	3,129	3,102
Prepayments	2,009	1,740
Accrued European income	1,201	3,138
Other receivables	158	515
Deposit	23	211
Total	16,496	17,460

10. Cash and cash equivalents

	31 March 2016 £'000	31 March 2015 £'000
Opening balance	26,798	15,111
Net change in cash and cash equivalent balances	(4,063)	11,687
Total	22,735	26,798

The following balances were held at 31 March

Government Banking Service	17,695	32,075
Other bank accounts	5,039	(5,278)
Cash in hand	1	1
Total	22,735	26,798

11. Trade and other payables

	31 March 2016 £'000	31 March 2015 £'000
Trade payables accrual	7,273	13,956
Deferred income	6,705	6,007
Holiday pay	1,606	1,765
Trade payables	1,464	1,237
Finance leases	718	1,219
Customer deposits and receipts in advance	271	268
Other payables	106	55
Bonds and deposits	1,425	1,404
Total	19,568	25,911

12. Provisions

	Early departure costs	Other	Total
	£'000	£'000	£'000
Balance at 1 April 2015	415	2,540	2,955
Provided in the year	0	1,287	1,287
Released in year	(5)	(1,303)	(1,308)
Used in the year	(154)	(1,201)	(1,355)
Unwinding of discount	3	0	3
Balance at 31 March 2016	259	1,323	1,582
Estimated timing of discounted cash flows			
Due within one year	131	1,323	1,454
Due between one and five years	128	0	128
Total	259	1,323	1,582

In line with the requirement of IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), where material, Natural Resources Wales provides for obligations arising from past events where there is a present obligation at the reporting date, it is probable that we will be required to settle the obligation and a reliable financial estimate can be made.

Where material, the future costs of provisions are discounted using the rates directed by HM Treasury.

Provision for early departure costs consist of annual compensation payments to former staff who left under legacy bodies' early retirement programmes. These payments are indexed by the consumer price index and continue until each individual reaches pensionable age. The provision represents the cost to Natural Resources Wales, using an indexation rate of 0% (2014/15 1.2%), and discounted by the HM Treasury discount rate of 1.2% (2014/15 1.2%)

Other provisions include £1,197k of grant offers to fund work to be undertaken up to 31 March 2016 but which will not to be claimed until June 2016 and £126k for other claims. It is expected that all of these will be paid within the next twelve months.

The cost of additional provision and changes in discount for the early departure costs provision are included in note 3. The costs of the additional other provisions are shown in note 5. The total provisions reported above are in the Statement of Financial Position under liabilities. The additional provision for doubtful debt, also shown in note 5, is included in total provision for doubtful debt in note 9 and included in the Statement of Financial Position under receivables.

13. Pension obligations

Natural Resources Wales (NRW) is a member of two pension schemes, the Civil Service Pension Scheme (CSPS) and the Local Government Pension Scheme (LGPS).

Civil Service Pension Scheme

CSPS is open to new employees.

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk

Local Government Pension Scheme (LGPS)

On 1st April 2013, the pension activities of Environment Agency Wales (EAW) were transferred to Natural Resources Wales pursuant to the Natural Resources Body for Wales Transfer Scheme 2013 under the Public Bodies Act 2011. The employees of NRW that were employees of EAW remain members of the Environment Agency Pension Fund (EAPF) as an admitted body.

EAPF operates a statutory, defined benefit pension scheme, administered in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007, the Local Government Pension Scheme (Administration) Regulations 2008 and the Local Government Pension Scheme (Transitional Provisions) Regulations 2008. It is contracted out of the State Second Pension. Further details on the pension fund including its annual report and accounts, are on the EAPF website, www.eapf.org.uk.

The total pension charge for NRW was £8.325 million. The pension charge relating to the scheme was assessed in accordance with the advice of an independent qualified actuary using the projected unit method of valuation to calculate the service costs.

The latest triennial actuarial valuation of the EAPF was at 31 March 2013. The assets taken at market value (£2.1 billion) were sufficient to cover 90% of the value of liabilities in respect of past service benefits which had accrued to members. NRW has accepted the independent actuary's recommendation in respect of future employer contributions. The next triennial actuarial valuation will be as at 31st March 2016 and will be used to set employer contribution rates for the three year period starting 1st April 2017.

The annual report and financial statements for the EAPF report that it had sufficient assets to meet 85% of its expected future liabilities at 31 March 2016 on an ongoing funding basis. NRW's share of the EAPF's liabilities as reported in these financial statements is calculated using different actuarial assumptions, required by IAS19, to those used in the EAPF's annual report. This leads to a different funding level to that reported by the EAPF.

The main difference in assumption is the discount rate used to value pension liabilities. The EAPF discount rate is based on long term UK government bond yields and assumes a level of future asset outperformance by the bonds owned by the EAPF. The discount rate used in these financial statements, as required by IAS19 is based on high quality corporate bond yields, with no additional asset performance assumption. The sensitivity analysis in note 13.4 indicates the sensitivity of the fund liabilities to a difference in discount rate.

A number of assumptions are made as part of the actuarial valuation process. The prudent actuarial assumptions used do not represent a view on what future pay movements may be. It has been assumed that present and future pensions in payment will increase at the rate of 1.9% per annum. The estimated contribution payable by NRW, excluding any discretionary lump sum payments, for the year to 31 March 2017 will be approximately £6.480 million.

The notes below set out the disclosure requirements of IAS 19 for the current year in relation to NRW's participation in the EAPF. All calculations have been made by a qualified independent actuary and were based on the most recent actuarial valuation of the fund at 31 March 2013 updated to 31 March 2016. The assumptions underlying the calculation of a net liability at 31 March 2016 are only used for accounting purposes as required under IAS 19. There is no requirement for the reported net liability to be met as a lump sum. Cash contributions paid by NRW to the pension fund will continue to be set by reference to assumptions agreed at each triennial actuarial valuation of the scheme.

13.1 Financial and longevity assumptions

Period Ended	31 Mar 2016	31 Mar 2015
	% p.a.	% p.a.
Pension Increase Rate	1.90%	2.10%
Salary Increase Rate	3.40%	3.50%
Discount Rate	3.50%	3.20%

Average future life expectancy at 65	Males	Females
Current Pensioners	22.6 years	24.5 years
Future Pensioners (People aged 65 in 20 years)	24.7 years	27.0 years

13.2 Fair Value of Assets for the year ended 31 March 2016

Asset Category	31 March 2016 (£'000)				
	Quoted	Unquoted	Undetermined	Total	%
Equity Securities:					
Common Stock	80,441	291	0	80,732	30%
Preferred Stock	0	0	0	0	0%
Rights/Warrants	0	0	0	0	0%
Other Equity Assets	817	0	0	817	0%
Debt Securities:					
UK Government Bonds	0	26,123	0	26,123	10%
Corporate Bonds	0	22,548	0	22,548	8%
Other	0	1,507	0	1,507	1%
Pooled Investment Vehicles:					
Equities	0	0	42,082	42,082	16%
Bonds	620	0	41,349	41,969	16%
Funds - Common Stock	1,146	0	8,869	10,015	4%
Funds - Real Estate	392	1,564	11,837	13,793	5%
Funds - Venture Capital	0	0	0	0	0%
Venture Capital and Partnerships:					
Partnerships & Real Estate	0	21,316	0	21,316	8%
Other Investment:					
Stapled Securities	488	0	0	488	0%
Derivative Contracts:					
Equity Derivatives - Futures	4	0	0	4	0%
Forward FX Contracts	0	0	98	98	0%
Cash and Cash equivalents					
All	5,179	(25)	744	5,898	2%
Totals	89,087	73,324	104,979	267,390	100%

13.3 Change in fair value of plan assets, defined benefit obligation and net liability

Period ended 31 March 2016	Assets	Obligations	Net (liability)/ asset
	£'000	£'000	£'000
Fair value of employer assets	258,249	0	258,249
Present value of liabilities	0	334,353	(334,353)
Present value of unfunded liabilities	0	0	0
Opening Position as at 31 March 2015	258,249	334,353	(76,104)
Service cost			
- Current service cost*	0	8,227	(8,227)
- Past service cost (including curtailments)	0	98	(98)
- Effect of settlements	0	0	0
Total service cost	0	8,325	(8,325)
Net interest			
- Interest income on plan assets	8,315	0	8,315
- Interest cost on defined benefit obligation	0	10,754	(10,754)
- Impact of asset ceiling on net interest	0	0	0
Total net interest	8,315	10,754	(2,439)
Total defined benefit cost recognised in Profit or (Loss)	8,315	19,079	(10,764)
Cashflows			
- Plan participants' contributions	2,111	2,111	0
- Employer contributions	8,080	0	8,080
- Contributions in respect of unfunded benefits	0	0	0
- Benefits paid	(6,993)	(6,993)	0
- Unfunded benefits paid	0	0	0
Effect of business combinations and disposals	2,432	3,780	(1,348)
Expected closing position	272,194	352,330	(80,136)
Remeasurements			
- Change in demographic assumptions	0	0	0
- Change in financial assumptions	0	(35,130)	35,130
- Other experience	0	(2,853)	2,853
- Return on assets excluding amounts included in net interest	(4,804)	0	(4,804)
- Changes in asset ceiling	0	0	0
Total remeasurements recognised in Other Comprehensive Income (OCI)	(4,804)	(37,983)	33,179
Exchange differences	0	0	0
Fair value of employer assets	267,390	0	267,390
Present value of funded liabilities	0	314,347	(314,347)
Present value of unfunded liabilities	0	0	0
Closing position as at 31 March 2016	267,390	314,347	(46,957)

* The current service cost includes an allowance for administration expenses of 0.4% of payroll.

13.4 Sensitivity analysis

Change in assumptions at 31 March 2016:	Approximate % increase to employer liability	Approximate monetary amount (£000)
0.5% decrease in Real Discount Rate	12%	38,207
1 year increase in member life expectancy	3%	9,430
0.5% increase in the Salary Increase Rate	5%	15,205
0.5% increase in the Pension Increase Rate	7%	22,262

14. Capital commitments

	31 March 2016 £'000	31 March 2015 £'000
Property plant and equipment		
Plant and machinery	24	34
Transport equipment	759	138
IT equipment	48	154
Operational structures	222	544
Total	1,053	870
Intangible assets		
Information technology - software licences	0	56
Information technology - software development	590	805
Total	590	861

15. Commitments under leases

The determination of whether an arrangement is, or contains, a lease is based upon the substance of that arrangement. An arrangement which is dependent on the use of a specific asset and which conveys the right to use the asset, is regarded as a lease.

A finance lease is one which transfers substantially the risks and rewards of ownership of an asset to the lessee. An operating lease is a lease other than a finance lease. Leases are assessed using the criteria laid down in IAS 17 (Leases). Land held under a finance lease is not depreciated.

Costs relating to operating leases are charged to the Statement of Comprehensive Net Expenditure on a straight line basis over the lease term and are shown in Note 5.

Finance leases are capitalised at commencement at the lower of fair value of the leased asset or the present value of the minimum lease payments. A corresponding debt due to the lessor is recorded. Finance charges are charged to the Statement of Comprehensive Net Expenditure. Vehicles held under finance lease are depreciated over the term of the lease.

15.1 Operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

	31 March 2016			
	Land £'000	Buildings £'000	Vehicles £'000	Total £'000
Obligations under operating leases are:				
Not later than one year	92	1,763	424	2,279
Later than one year and not later than five years	295	4,548	496	5,339
Later than five years	1,562	1,696	0	3,258
Total value of obligations	1,949	8,007	920	10,876
	31 March 2015			
	Land £'000	Buildings £'000	Vehicles £'000	Total £'000
Obligations under operating leases are:				
Not later than one year	115	1,700	1,204	3,019
Later than one year and not later than five years	386	5,221	918	6,525
Later than five years	1,756	1,829	0	3,585
Total value of obligations	2,257	8,750	2,122	13,129

15.2 Finance leases

	31 March 2016		
	Land	Vehicles	Total
	£'000	£'000	£'000
Obligations under finance leases are:			
Not later than one year	13	260	273
Later than one year and not later than five years	38	198	236
Later than five years	209	0	209
Total value of obligations	260	458	718

	31 March 2015		
	Land	Vehicles	Total
	£'000	£'000	£'000
Obligations under finance leases are:			
Not later than one year	13	243	256
Later than one year and not later than five years	38	716	754
Later than five years	209	0	209
Total value of obligations	260	959	1,219

16. Other financial commitments

Natural Resources Wales has entered into non-cancellable contracts not reported elsewhere. The total payments to which Natural Resources Wales is committed at 31 March 2016 are :

	31 March 2016	31 March 2015
	£'000	£'000
Not later than one year	18,241	34,878
Later than one year and not later than five years	18,971	19,081
Later than five years	3,895	708
Total	41,107	54,667

17. Lease receivables

Assets leased to external parties under an operating lease are capitalised under the appropriate accounting policy as outlined in Note 7. Operating lease income is accounted for on a straight line basis and the future minimum lease payments receivable under non-cancellable operating leases are as follows:

	31 March 2016
	£'000
Not later than one year	697
Later than one year and not later than five years	2,474
Later than five years	6,540
Total	9,711

No comparatives are available for 2014/15 as this is the first year of disclosure for NRW.

18. Contingent liabilities

Natural resources Wales has the following contingent liabilities:

	31 March 2016	31 March 2015
	£'000	£'000
Public and employee liability	605	30
Contractors' claims	0	250
Total	<u>605</u>	<u>280</u>

Natural Resources Wales discloses contingent liabilities in accordance with IAS 37.

The above table does not include values for the following contingent liabilities:-

Forestry Commission Wales was part of the Forestry Commission until 31 March 2013, and shared their VAT registration. An HMRC audit of the Forestry Commission's treatment of VAT and Income Tax is underway for the period 2012/13. An unquantifiable contingent liability is disclosed to recognise the present obligation of non-compliance liabilities arising from the audit. A reliable estimate of the amount of the obligation is not available.

There is a job evaluation process underway with the aim of creating a single, unified structure of jobs and grades that works for all in Natural Resources Wales. We are undertaking a pay modelling exercise to assess the impact and cost of the single unified structure. This exercise, whose results will not be known until the latter part of 2016/17, could identify back pay owed to staff whose role is judged to be of a higher grade than what they are being paid. The date from which back pay could be calculated is 1st April 2013.

19. Events after the end of the reporting period

We have considered the results of the United Kingdom's European Union referendum for its impact on the financial statements. We have concluded that it is not possible to quantify the risk at this time given the current uncertainty of impact and timing of potential changes. The elements of the financial statements that could be the most impacted in the future is the value of the pension reserve and the forest estate.

20. Related parties

Natural Resources Wales is a Sponsored Body of the Welsh Government, which is regarded as a related party. During the year NRW has had significant material transactions with the Welsh Government in the normal course of business (the grant-in-aid and grants received from WG during the year is reported in the Statement of Taxpayers Equity) and with other entities for which the Welsh Government is regarded as the parent department namely Welsh Local Authorities and National Parks.

In addition, NRW has had various material transactions with other government departments and other central government bodies. Most of these transactions have been with Department for Environment, Food and Rural Affairs (DEFRA), Environment Agency, Forestry Commission, HMRC and Natural England.

During the year NRW, in the normal course of its business, entered into the following transactions with the following organisations in which board and executive members or other related parties had an interest. The board and executive members have no direct involvement in the transactions with these related parties.

We have shown transactions for the full year including where members have joined or left during the year.

Organisation	Member	Nature of relationship	Total payments	Total income	Amount owed by NRW at 31 March 2016	Amount owed to NRW at 31 March 2016
			£'000	£'000	£'000	£'000
Aberystwyth University	Emyr Roberts	Council member	25	4	0	0
All Wales Partnership of the Canal and River Trust in Wales	Ruth Hall	Member	21	27	0	0
Cardiff University (Public Policy Institute for Wales)	Ruth Hall	Governor/Vice Chair	65	9	0	0
Dee Valley Water	Diane McCrea	Chair of Customer Challenge Panel	1	778	0	0
DEFRA including Joint Nature Conservation Committee and Support Company	Lynda Warren Peter Matthews Diane McCrea Madeleine Havard	Member of JNCC & Science Advisory Council Board Member of JNCC Board Member of JNCC Board Member of JNCC & NED of JNCC Support Co	30	0	6	0
Dwr Cymru Welsh Water	Diane McCrea	Chair of Customer Challenge Group	6,886	14,296	104	0
Glanusk Estate	Harry Legge-Bourke	Owner/Partner/ Trustee	3	0	0	0
Groundwork North Wales	Karen Balmer	Chief Executive	18	0	0	0
Leonard Cheshire Disability	Elizabeth Haywood	Board member and trustee	0	1	0	0
National Association of Areas of Outstanding Natural Beauty	Howard Davies	Chief Executive	48	0	0	0
National Trust	Ruth Hall	Council member	202	12	0	0
Natural England	Nigel Reader	Non-Executive Board Member and Audit Committee Chair	153	0	11	0
North East Wales Wildlife Ltd	Karen Balmer	Trustee	14	0	0	0
North Wales Wildlife Trust	Howard Davies	Trustee and Honorary Vice President	172	0	0	0
SP Energy Network Holdings Ltd	Elizabeth Haywood	Non-Executive Director	0	48	0	5
TGV Hydro Ltd	Chris Blake	Director	0	3	0	0

Annex 1 Corporate Environmental Report

Introduction

We have made the commitment that sustainable development will be at the heart of all our business decisions. Over the coming years, we want to develop ourselves as an exemplar organisation with regards to sustainability and environmental management in Wales, especially in our management and use of carbon, waste, water and land.

Our focus during this year has been to:

- reduce our carbon footprint
- embed our Environmental Management System (EMS) into the culture of our organisation
- integrate environmental, social and economic factors into our procurement activity and be an engaging and transparent organisation for our EMS stakeholders; and
- conform with the new ISO14001:2015 standard; and to establish a baseline for waste monitoring, reporting and reduction targets.

This report relates primarily to environmental sustainability, as distinct from wider sustainability actions or outcomes. Wider sustainability-related reporting can be found throughout our Annual Report and Accounts.

Summary of Performance

We have retained ISO14001 certification for our EMS, following independent external surveillance audits and verification. Our EMS⁵ now also includes all our forestry operations. Having an externally verified EMS allows us to demonstrate our own commitment to achieving the highest possible environmental standards as an organisation.

We have also retained woodland certification (the UK Woodland Assurance Standard) for the Welsh Government Woodland Estate we manage, following independent external audits and verification via Société Générale de Surveillance (SGS). This enables us to produce FSC/PEFC⁶ certified timber from the Welsh Government Woodland Estate we manage.

⁵ Our EMS is currently applicable to: “Activities and services associated with the sustainable management of the environment and the natural resources of Wales”

⁶ Forest Stewardship Council (FSC). Programme for the Endorsement of Forest Certification (PEFC). As supported by our [UK Woodland Assurance Standard](#) (UKWAS) accreditation

Table 1: Corporate Environmental report summary table

Area	Units	2013/14	2014/15	2015/16	Change
Greenhouse gas emissions ⁷	Consumption (tCO ₂ e)	7,301	7,164	7,894	Increased
	Expenditure (£k)	3,323	3,345	2,961	Decreased
Estate energy	Consumption (million kWh)	7.0	6.3	6.9	Increased
	Expenditure (£k)	570	587	632	Increased
Estate waste	Consumption (tonnes)	400	419	752	Increased
	Expenditure (£k)	147	110	127	Increased
Estate water	Consumption (m ³)	86,486	29,455	78,304	Increased
	Expenditure (£k)	35	27	59	Increased

Table 1 reflects relative change for key areas in the last year. More detail around each can be found within the related sections of this report. In summary there has been:

- a 10% increase in greenhouse gas emissions primarily due to the increase in primary aggregate use in construction schemes
- a 10% increase in energy use due in large part to unmanned site electricity use
- a 68% increase in the reported amount of waste we handle, following the inclusion of additional waste streams in our reporting for the first time this year (primarily for offices and depots)
- a 160% increase in the reported amount of water we use largely related to a meter being repaired at Cynrig Fish Hatchery, which also resulted in under-reporting in previous years

We have targets in place relating to each of these areas in 2016/17 (as described in the next section).

Summary of Future Strategy

Over the next two years we intend to focus on:

- Achieving certification to the revised ISO14001:2015 environmental standard
- Aiming to maintain our UKWAS accreditation
- Cutting our carbon emissions from occupied buildings, business travel and water use by 5% from 2015/16 levels, year on year
- Fulfilling our commitments under the Sustainable Development Charter, taking forward the provisions of the Well-being of Future Generations (Wales) Act and work towards becoming an acknowledged exemplar of sustainability
- Ensuring our procurement practices are open and transparent, supporting the delivery of economic, social and environmental priorities and that our contracts are appropriately accessible for SMEs, social businesses and larger scale enterprises helping to support the Welsh Government's Tackling Poverty Action Plan
- Investigating scope for distributed energy / small scale renewable developments on land we manage, taking a positive, risk-based approach
- Developing our approach to Integrated Reporting including the delivery of our Business Case.

⁷ (Scopes 1, 2 and 3 including air/rail travel and excluding outside of scopes emissions)

Next year we want to

- Reduce our carbon footprint – and have set a target to reduce our carbon dioxide emissions from occupied buildings, travel and water use by 5% based on 2015/16 data
- Deliver our Carbon Positive Project - Progressing us towards becoming an exemplar in carbon management and sharing best practice for use across the Welsh public sector
- Meet the requirements of the new ISO14001:2015 standard
- Meet the requirements of our Incident Management Enabling Plan – Achieving UK Spill accreditation
- Continue to embed our EMS into the culture of the organisation – Raising staff awareness of the contribution they can make as individuals to environmental performance and how their work can contribute to the Sustainable Management of Natural Resources

Greenhouse Gas Emissions

Our greenhouse gas emissions are outlined below/right.

We set out a target to achieve a 5% reduction in CO₂e emissions from our business travel and buildings this year, and have achieved this, with a 10% reduction in CO₂e emissions overall from these areas. However, overall emissions have increased by 8% due to the increase in primary aggregate use in construction schemes.

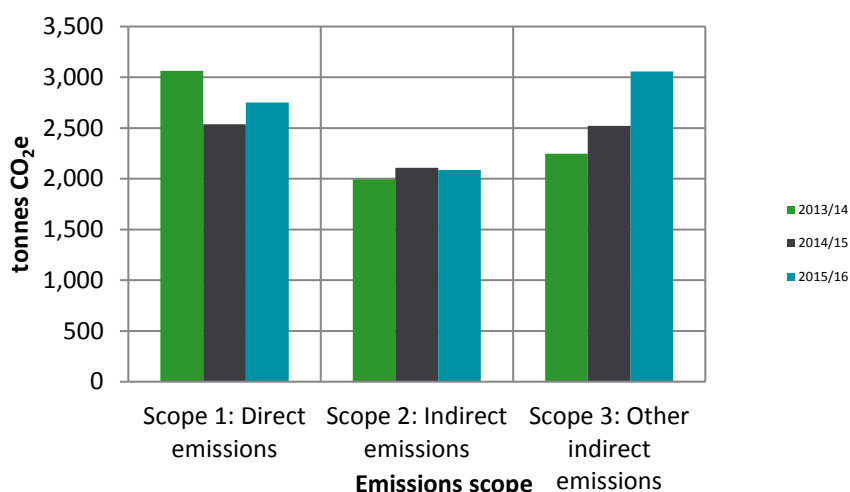


Table 2: Greenhouse gas emissions

Greenhouse gas emissions	2013/14	2014/15	2015/16	Change
Scope 1: Direct GHG emissions (tCO ₂ e)	3,064	2,537	2,752	Increased
Scope 2: Energy indirect emissions (tCO ₂ e)	1,993	2,107	2,086	Decreased
Scope 3: Other indirect GHG emissions (tCO ₂ e)	2,245	2,520	3,057	Decreased
Total gross GHG emissions (tCO₂e)	7,301	7,164	7,894	Increased
<i>Outside of scopes (i.e. biomass)</i>	180	176	248	Increased
<i>Carbon intensity (tCO₂e per £m expenditure)</i>	41.3	39.8	44.9	Increased

Waste Minimisation and Management

We have improved the number of waste streams we can report in line with our target to measure and report on all NRW waste streams consistently in 2015/16. This has particularly improved for our offices and depots. Our largest single source of waste is cess pit waste at our Pye Corner depot. Mixed municipal waste from our Coed y Brenin visitor centre is the second largest source of waste. We will be looking into ways to reduce these, and other, large areas of waste in 2016/17

Table 3: Waste Generated

Waste generated	Units	2013/14	2014/15	2015/16	Change
Landfilled	Consumption (tonnes)	80	64	216	Increased
	Consumption (tCO ₂ e)	23	18	80	Increased
	Expenditure (£k)	90	47	25	Decreased
Recycled / reused	Consumption (tonnes)	253	229	359	Increased
	Consumption (tCO ₂ e)	5	5	8	Increased
	Expenditure (£k)	57	Not available	101	Increased
Fly tipped	Consumption (tonnes)	37	95	45	Decreased
	Consumption (tCO ₂ e)	9	22	19	Decreased
	Expenditure (£k)	Not available	Not available	Not available	Not available
Incinerated	Consumption (tonnes)	30	31	132	Increased
	Consumption (tCO ₂ e)	1	1	3	Increased
	Expenditure (£k)	Not currently available[1]	Not available	Not available	Not available
Total waste	Consumption (tonnes)	400	419	752	Increased
	Consumption (tCO ₂ e)	38	46	110	Increased
	Expenditure (£k)	147	110	127	Increased

Use of Finite Resources

We have reported on our estate water and energy use below. The stones/aggregate used in construction projects is also one of our significant areas of resource consumption, and is reported in the Sustainable Construction section of this report.

Water: Our water use reporting was improved last year to ensure office water use figures purely reflect office water use (i.e. not including any combined use sites, depots, visitor centres, hatcheries, etc.). Our water use intensity is below average for water use⁸, and we have set a 5% reduction target for 2016/17.

Table 4: Water Consumption

Resource use – Estate water	Units	2013/14	2014/15	2015/16	Change
Water supplied: Office use	Consumption (m ³)	8,161	7,208	6,859	Decreased
Water supplied: Non-office use:					
- Mains supply	Consumption (m ³)	4,863	6,630	5,529	Decreased
- Abstraction	Consumption (m ³)	73,428	15,581	65,886	Increased
- Rainwater	Consumption (m ³)	34	35	30	Decreased
Water use intensity (for Office use)	m ³ per FTE	4.1	3.7	3.4	Decreased
Water supplied: Total	Consumption (m ³)	86,486	29,455	78,304	Increased
	Expenditure (£k)	35	27	59	Increased
	Consumption (tCO ₂ e)	30	10	27	Increased

Abstraction of water used to operate our fish hatchery site was the most significant water use this year, at over 60,000 m³. Much of the apparent increase in abstracted water use

⁸ Average = 4m³ per FTE (Source: Water Key Performance Indicators and benchmarks for offices and hotels. C657 CIRIA www.ciria.org)

relates to the repair of a non-functioning meter during the year, which meant 2014/15 water use is not reflective of usual site usage. Maintaining the wetland habitats at Newport Wetlands National Nature Reserve (designated SSSI and part of the Severn Estuary SPA, RAMSAR and SAC) was the second largest use⁹ this year, and largest in use 2014/15. We also abstract water at remote sites where mains water is not available.

Energy: Our energy use has increased this year, with the large part of the increase related to our unoccupied sites (electricity use in particular). In the last year we have also generated 1.5% of our own energy use from our buildings with onsite renewables (wind and solar power). Our largest renewable installation (photovoltaic panels at the Maes Y Ffynnon office in Bangor) generated 24,864 kWh during the year. We aim to increase the number of onsite renewables on our own buildings as and when funding becomes available and is economically feasible.

Table 5: Energy Consumption

Resource use – Estate energy	Units	2013/14	2014/15	2015/16	Change
Energy used: Occupied sites	Consumption (kwh)	6,026,274	5,361,986	5,502,994	Increased
	Consumption (tCO ₂ e)	2,151	2,081	1,990	Decreased
Energy used: Unoccupied sites	Consumption (kwh)	930,846	993,431	1,434,275	Increased
	Consumption (tCO ₂ e)	415	491	663	Increased
Renewable energy: Self-generated	Generation (kwh)	77,730	80,870	81,713	Increased
	Consumption (% of energy used)	1.3%	1.5%	1.4%	Decreased
Energy used: Total	Consumption (kwh)	6,957,120	6,355,417	6,937,269	Increased
	Consumption (tCO ₂ e)	2,566	2,572	2,653	Increased
	Expenditure (£k)	570	587	632	Increased
Renewable energy installations ¹⁰	Consumption (MW)	59	59 ¹¹	60	Increased

There is also large scale renewable energy generation on the wider estate we manage (the Welsh Government Woodland Estate) through the Cefn Croes wind farm, which has an installed capacity of 59MW. On a smaller scale, ~1,268kW of renewable energy has become operational in the last two years from small scale hydro generation we have enabled. We have an Energy Delivery Plan to develop further onshore energy projects (covering wind, hydro, solar, biomass, coal, oil and gas), through or over the managed estate. Over the next three years we are anticipating the amount of energy generated on

⁹ Abstracted water is used in dry hot weather to maintain the correct water and salinity levels in the Newport Wetlands Saline Lagoons, vital for the many species of water bird that rely on them. In the autumn, the abstraction is also used to ensure the reserve's lowland wet grassland is kept in the right condition to support overwintering birds.

¹⁰ Schemes on the estate we manage which involve developers leasing land we manage on which to site installations of renewables (e.g. wind farms). This figure also includes schemes that are only partially on the estate we manage (e.g. small scale hydropower schemes). Figures given reflect installed capacity of operational installations, as opposed to the actual energy generation

¹¹ Full figure is 60.3MW, when including the ~1,268kW of small scale hydro generation we have enabled

the estate we manage will increase significantly (in excess of 600MW additional capacity provided via renewables, enough to power ~350,000 houses).

Sustainable Procurement

Sustainable procurement takes into account the economic, environmental and social impacts in our buying decisions. It allows our organisation to meet its need for goods and services in a way that achieves value for money on a whole-life basis, whilst also providing opportunities for Welsh SMEs. These key principles are reflected in our Sustainable Procurement Strategy 2015-2017, and our progress is reported throughout the year in our Business Plan Dashboard.

We have developed a Market Approach Plan which allows requisitioners to question the need to buy, and to consider in practical terms the impact of their purchase and all available options before entering into a contract. The plan also contains the Sustainability Impact Assessment, which examines the impact of the purchase on a whole life cost basis, and identifies mitigation controls.

In the forthcoming year, we will be building on this approach to consider the environmental and socio economic impact of procurement by further aligning to, and integrating, the provisions of the Well-being of Future Generations and Environment (Wales) Acts, whilst also taking into account risk, scope and influence. This will enable us to work with suppliers ensuring their commitment to sustainability, and will help target areas where the best results can be realised. We will also continue to deliver community benefits introduced through key contract awards, and report on the outcomes delivered.

Travel

Our travel needs include: working to manage sites, responding to serious environmental incidents, taking samples, dealing with flooding, site meetings, etc. This year we have travelled ~9 million miles in undertaking our work an 18% reduction from our 2013/14 baseline year. We have a target of a further 5% reduction in travel emissions for 2016/17, which will be achieved by using lower carbon vehicles as well as reducing mileage.

Table 6: Travel detail

Travel by vehicle	Units	2013/14	2014/15	2015/16	Change
Owned vehicles	Miles travelled	6,562,934	5,416,119	5,833,839	Increased
	Expenditure (£k)	1,101	1,033	800	Decreased
Lease vehicles	Miles travelled	2,154,755	2,531,396	1,649,345	Decreased
	Expenditure (£k)	223	329	162	Decreased
Grey vehicles ¹²	Miles travelled	673,345	618,795	552,343	Decreased
	Expenditure (£k)	74	81	244	Increased
Hire	Miles travelled	326,810	357,526	256,654	Decreased
	Expenditure (£k)	14	N/A	N/A	No change
Train	Miles travelled	1,405,603	1,367,762	865,693	Decreased
	Expenditure (£k)	342	377	291	Decreased
Air	Miles travelled	27,997	30,221	18,898	Decreased
	Expenditure (£k)	8	11	6	Decreased
Bicycle	Miles travelled	4,812	804	1,944	Increased
	Expenditure (£k)	0	0	0	No change
Motorbike	Miles travelled	N/A	N/A	4,475	N/A
	Expenditure (£k)	N/A	N/A	1	N/A

¹² Grey vehicles are staff's own private vehicles

Travel by vehicle	Units	2013/14	2014/15	2015/16	Change
Total vehicle travel	Miles travelled	11,156,256	10,322,623	9,183,191	Decreased
	Expenditure (£k)	1,762	1,831	1,502	Decreased

As part of work to reduce our costs and environmental impact related to travel, we have a travel policy in place. Supporting the policy, we have created a travel decision tree which lays out the best to worst options for travel. We also operate a 'no fly policy' within Wales and England, requiring all air travel requests to be fully justified and cleared at Executive Team level. Our use of video/audio conferencing has increased significantly through the year, with increases in the number of users, meetings held and minutes recorded.

Environmental incidents

There have been 18 environmental incidents as a result of our work (or that of our contractors) and three near misses. This a 47% reduction compared with the 38 incidents reported in the previous year 2014/15. None of these incidents were classified as serious according to the environmental incident classification scheme that we apply to environmental incidents. Where incidents occur as a result of our work (or that of our contractors), we review what has happened, and act to address the root cause of the incident.

Sustainable Construction

Much of our construction activity is contracted out, and some of this activity is not covered by the figures below.

Aggregate/stone: This year, 22% of aggregate use has been from a secondary source. The construction of Sea Defence Improvements at Tabbs Gout involved most use of aggregate. Our use of aggregate has dropped significantly this this year for such schemes. Our use of primary aggregate on the Public Forest Estate is typically for infrastructure construction, maintenance and reinstatement, and amounted to 178,000 tonnes in in 2015, most of which was produced from minerals on the estate.

Table 7: Stones/aggregate use

Resource use – Stone/aggregate	Units	2013/14	2014/15	2015/16	Change
Stone/aggregate – primary source	Consumption (tonnes)	63,923	115,786	182,999	Increased
	Expenditure (£k)	526	538	555	Increased
	Consumption (tCO ₂ e)	703	1,274	2,013	Increased
Stone/aggregate – secondary source	Consumption (tonnes)	190,623 ¹³	13,102	51,945	Increased
	Expenditure (£k)	10	12	86	Increased
	Consumption (tCO ₂ e)	381	26	104	Increased
Secondary source use	Expenditure (£k)	536	795	641	Decreased
	(% by total weight)	75	10	22	Increased

Timber: We aim to ensure all the timber we use is from sustainable sources, and we also produce FSC/PEFC¹⁴ certified timber from the Welsh Government Woodland Estate we manage. This year, all timber used in construction¹³ has been from a sustainable source.

¹³ A large amount of aggregate was used in 2014/15 increasing river capacity in the Lower Swansea Vale

¹⁴ Forest Stewardship Council (FSC). Programme for the Endorsement of Forest Certification (PEFC). As supported by our [UK Woodland Assurance Standard](#) (UKWAS) accreditation

Table 8: Timber use

Resource use – Timber	Units	2013/14	2014/15	2015/16	Change
Timber	Consumption (tonnes)	115	32	56	Increased
– sustainable source	Expenditure (£k)	22	9	5	Decreased
Timber	Consumption (tonnes)	0	0	0	No change
– unknown source	Expenditure (£k)	0	0	0	No change
Sustainable source use	(% by total weight)	100%	100%	100%	No change

Site consolidations

When our organisation was formed, we inherited a large amount of accommodation (e.g. depots, offices), some of which fulfilled a similar function at similar sites. We are continuing to sell off spare sites, reducing our accommodation costs, and their related carbon footprint. We will continue to consolidate our sites over the coming years.

Behaviour change

As part of our work to embed our Environmental Management System (EMS) into the culture of our organisation, we have delivered a number of training courses (to ~1,800 staff). Training areas have included awareness raising around our key environmental procedures, waste management, timber procurement and incident response.

Governance and Reporting

We report on our carbon footprint as part of our performance framework, which is reported by the Executive Team to the Board (in open public session) three times each year.

We collect the data used within this sustainability report through a combination of meter readings (e.g. gas, electricity), invoices (e.g. fuel card purchases) and suppliers data (e.g. train miles), using the most accurate source/s we have available. We have improved our biomass and waste data reporting and baselines in this report. We also look to minimise use of any estimated data in our reporting, and we are working to improve in this area.



**Cyfoeth
Naturiol**
Cymru
**Natural
Resources**
Wales

Published by:
Natural Resources Wales
Cambria House
29 Newport Road
Cardiff
CF24 0TP

0300 065 3000 (Mon-Fri, 8am - 6pm)

enquiries@naturalresourceswales.gov.uk
www.naturalresourceswales.gov.uk

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WALES AUDIT OFFICE
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Memorandwm Atodol Archwiliwr Cyffredinol Cymru i'r Pwyllgor Cyfrifon Cyhoeddus – Contractau Gwerthiannau Pren

Date issued: Mawrth 2017

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Rwyf wedi paratoi'r memorandwm hwn ar gyfer Pwyllgor Cyfrifon Cyhoeddus Cynulliad Cenedlaethol Cymru i'w ategu wrth ystyried fy adroddiad ar y cyfrifon ariannol o ran Adnoddau Naturiol Cymru ar gyfer y flwyddyn a ddaeth i ben ar 31 Mawrth 2016 o dan Orchymyn Corff Adnoddau Naturiol Cymru (Sefydlu) 2012.

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Memorandwm Atodol

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Memorandwm Atodol

Cyd-destun

- 1 Corff a noddir gan Lywodraeth Cymru yw CNC, a grëwyd er mwyn sicrhau bod amgylchedd ac adnoddau naturiol Cymru yn:
 - cael eu cynnal yn gynaliadwy;
 - cael eu gwella yn gynaliadwy; ac
 - cael eu defnyddio yn gynaliadwy.¹
- 2 Daeth CNC i rym o 1 Ebrill 2013 ymlaen, gan gymryd drosodd y cyfrifoldeb am gyflawni swyddogaethau cyn-Gyngor Cefn Gwlad Cymru, Asiantaeth yr Amgylchedd Cymru, a Chomisiwn Coedwigaeth Cymru. Rheolodd CNC ddwy flynedd gyntaf ei ddatblygiad fel cyfnod 'trosiannol', gan anelu ar reoli cysondeb ac ar yr un pryd ddwyn ynghyd swyddogaethau'r cyrff a etifeddodd. Ym mis Chwefror 2016, cyhoeddais adroddiad Gwerth am Arian ar ddatblygiad CNC oedd yn canolbwyntio ar y canlynol:
 - creu CNC a'i redeg yn ei gyfnod trosiannol dwy-flynedd cychwynnol, gan gynnwys ei gynnydd o ran cael y manteision a fwriadwyd o'i greu; a'r
 - trefniadau yr oedd CNC yn eu gosod i gefnogi ei gyfnod trosiannol.
- 3 Canfûm fod: 'CNC [wedi] mabwysiadu agwedd gadarn ac wedi ei strwythuro'n dda at gwrdd â'r heriau sylweddol oedd yn ymhlyg yn ei greu; sicrhau cysondeb wrth gyflwyno ystod eang o swyddogaethau a chyda chanolbwynt clir ar gael y manteision a fwriadwyd, a [bod] CNC wedi dysgu o'r cynnydd a wnaed a'r heriau a wynebwyd ac yn fwrw ymlaen gyda rhaglen fwy uchelgeisiol a chynhwysfawr o newid, oedd yn angenrheidiol er mwyn trawsnewid ei hun at y dyfodol ac ymdopi â newidiadau deddfwriaethol a phwysau ar adnoddau'.² Er bod fy adroddiad ar gyfrifon CNC am 2015/16 yn datgan rhai pryderon penodol am reoleidd-dra contractau gwerthu pren a ddyfarnwyd gan CNC i weithredwr melin lifio ym mis Mai 2014, yr wyf yn fodlon o hyd bod agwedd CNC at reoli'r cyfnod trosiannol yn gadarn ac wedi strwythuro'n dda.

¹ Yr oedd Deddf Amgylchedd Cymru Act 2016 yn diwygio pwrpas cyffredinol Corff Adnoddau Naturiol Cymru i: 'Rhaid i'r corff reoli yn gynaliadwy adnoddau naturiol yng nghyswllt Cymru, a chymhwyso egwyddorion rheolaeth gynaliadwy ar adnoddau naturiol, wrth gyflawni ei swyddogaethau, cyhyd ag sy'n gyson â'u cyflawni yn iawn.'

² [Datblygu Adnoddau Natuol Cymru](#), Chwefror 2016

- 4 Un o'r prif heriau gweithredol fu'n wynebu'r Comisiwn Coedwigaeth yng Nghymru cyn yr uno oedd sut i reoli a chyfyngu ar ledaeniad *Phytophthora Ramorum* (*P Ramorum*) mewn coedwigoedd a choedlannau llarwydd. Pathogen tebyg i ffwng yw *P Ramorum* sydd yn achosi difrod helaeth i amrywiaeth eang o goed a phlanhigion eraill, ac yn eu lladd hefyd. Daethpwyd o hyd i *P Ramorum* mewn llarwydd Siapaneaidd yng Nghymru yn 2010. Gwnaed ymdrechion i reoli lledaeniad y clefyd trwy gwmpo wedi'i dargedu, ond buan y lledaenodd y clefyd. Yn dilyn ei sefydlu, etifeddodd CNC yr her hon, a wynebwyd hi â gorfod cymryd camau brys i gadw rheolaeth ar y clefyd. Yn ystod haf 2013, nododd CNC fod cynnydd sydyn yn lledaeniad *P Ramorum* a bod yn rhaid i CNC ddod o hyd i ateb tymor-hir a fyddai'n gwrthweithio'r clefyd. Dywedodd CNC wrthyf mai eu bwriad wrth ateb yr her hon oedd yn bennaf ac yn anad dim i gynyddu'r gallu i drin llarwydd oedd â'r clefyd, ac osgoi tarfu ar y fasnach oedd eisoes yn bod mewn mathau eraill o goed.

Cronoleg

Ymarferiad tendro am gontractau gwerthiant tymor-hir llarwydd

- 5 Yn gynnar yn 2013, penderfynodd y Comisiwn Coedwigaeth yng Nghymru, a hwythau'n wynebu nifer sylweddol o Rybuddion Statudol Iechyd Planhigion³ dros ardal ddaearyddol helaeth, y byddai angen cwmpo llarwydd ar raddfa fawr os am reoli *P Ramorum* yn effeithiol. Datblygwyd gwahoddiad i dendro (GiD), lle byddai partiön â diddordeb yn cael gwahoddiad i dendro i brynu pren llarwydd gan y Comisiwn Coedwigaeth yng Nghymru. Etifeddodd CNC y broses dendro gan y Comisiwn Coedwigaeth yng Nghymru ar 1 Ebrill 2013 o ganlyniad i'r uno.
- 6 Yn Ebrill 2013, cyhoeddodd CNC GiD am ddau gontract tymor-hir (CTH) 'i glirio a marchnata clystyrau o llarwydd heintiedig. Bydd pob contract yn 330,000m³obs [oddeutu 266,000 tunnell] dros gyfnod o bum mlynedd⁴. Dywedai'r GiD y dyfernid y contract 'ar sail o gyfuniad o'r pris fyddai'n cael ei gynnig a chysylltiadau clir y gellid eu dangos â'r modd y bydd y pren yn cael ei gynaeafu a'i brosesu gan darfu cyn lleied ag sydd modd ar yr adnodd cynaeafu neu brosesu presennol yng Nghymru'. Mae'n glir felly y byddai penderfyniad CNC ar ddyfarnu'r contract yn cymryd i ystyriaeth y pris ac ystyriaethau ehangach y farchnad o ran sut y caiff y pren ei gynaeafu a'i brosesu, gyda'r amcan o darfu cyn lleied ag sydd modd ar adnoddau cynaeafu a phrosesu yng Nghymru. Datganodd y GiD yn glir fod posibilrwydd y cynhelid trafodaethau pellach gyda bidwyr cyn dyfarnu'r.

³ Mae Rhybuddion Statudol Iechyd Planhigion yn mynnu bod y tirlfeddiannwr yn cwmpo, dinistrio a/neu yn cyfyngu ar goed heintiedig o fewn cyfnod o amser penodedig. Yng Nghymru, cyhoeddwyd y rhybuddion gan y Comisiwn Coedwigaeth tan 31 Mawrth 2013 ac yna gan Gyfoeth Naturiol Cymru fel rhan o'u swyddogaethau rheoleiddio.

⁴ m³ obs = metrau ciwbig trosrisgl yn sefyll, h.y., cyfaint o bren mewn coed oedd yn sefyll, gan gynnwys y rhisgl.

- 7 Derbyniodd CNC dri thendr, un wedi ei gyflwyno gan weithredwr y felin lifio. Yn ei ymateb i'r GiD, gosododd gweithredwr y felin lifio allan gynlluniau am fuddsoddiad mewn seilwaith yn ei eiddo yng Nghymru. Nododd y cyflwyniad: 'Po fwyaf y cyfeintiau o ymrwymadau contract tymor-hir y gellir eu cael mewn llarwydd a phyrwydd, mwyaf o sicrwydd a phwysau fydd i'r penderfyniad am y buddsoddiad hwnnw. Mae'n annhebygol y byddai sicrhau un yn unig o'r pecynnau y tendrwyd amdanynt yn rhoi digon o fas critigol er mwyn sicrhau cyllid i'r buddsoddiad ac o'r herwydd, cynigiwn ddau bris dechreuol sydd yn rhoi mwy o werth i CNC am y cyfeintiau uwch trwy ddyfarnu'r ddau gontract.' Mae'n glir o gyflwyniad gweithredwr y felin lifio fod gweithredwr y felin lifio yn ceisio cael y ddau gontract llarwydd wedi'u dyfarnu iddo, ac i CNC ddarparu ymrwymadau contractaidd tymor-hir yng nghyswllt llarwydd a phyrwydd, er mwyn sicrhau'r buddsoddiad yn eiddo gweithredwr y felin lifio yng Nghymru.
- 8 Gwerthuswyd y tendrau ar 19 Mehefin 2013 ar sail cyfuniad o bris ac agwedd gyffredinol pob bidiwr at gyflawni'r contract. Wedi'r gwerthusiad, cynhaliodd CNC drafodaethau gyda phob un o'r bidwyr, yn unol â'r GiD.
- 9 Yng Ngorffennaf 2013, cyhoeddodd CNC adroddiad ar y tendr. Dywedodd yr Adroddiad, ers cyhoeddi'r GiD, fod y clefyd wedi lledaenu'n sylweddol tua'r gogledd a'r dwyrain ac y byddai angen cwmpo o leiaf 350,000m3obs (c 282,000 tunnell) o larwydd bob blwyddyn am nifer o flynyddoedd i ddod. O ganlyniad, yr oedd amodau ac amcanion y tendr wedi 'newid yn sylweddol'.
- 10 Nododd adroddiad Gorffennaf 2013, er bod cyfaint cyffredinol y llarwydd oedd i'w cwmpo hyd at 2025/26 wedi aros yr un fath, yr oedd cynllun symud llarwydd CNC ym Mehefin 2013 angen cwmpo cyfaint uwch o larwydd yn y blynyddoedd hyd at 2019/2020 a llai wedi hynny (h.y. 'blaen-lwytho' y cwmpo). Yr wyf yn fodlon fod yr adroddiad wedi rhoi cyfiawnhad i CNC wyro oddi wrth y llwybr a osodwyd allan yn y GiD.
- 11 Cyfeiriodd yr adroddiad at y risgiau allweddol pe na fyddai CNC yn dyfarnu digon o gontractau oedd yn adlewyrchu'r cynnydd yn y rhaglen llarwydd. Mae'r adroddiad hefyd yn nodi fod y cynigion am linell logiau fechan y gweithredwr y felin lifio a gwaith pelennu Bidiwr 3 ill dau yn gyfystyr â chapasiti newydd ac effeithiol y byddai ei fawr angen er mwyn marchnata'r cynhaeaf llarwydd fyddai'n cynyddu. Yn fy marn i, yr oedd y rhain oll yn ystyriaethau perthnasol i CNC eu hystyried wrth bennu sut orau i fwrw ymlaen.
- 12 Mae'r adroddiad yn gosod allan asesiad CNC o'r tri ymateb i'r tendr ac yn edrych ar yr elw ariannol fyddai'n deillio ohonynt. Dyfarnwyd canran sgôr cyffredinol i bob bid fel a ganlyn:
- Bidiwr 1 – 92.78%
 - Bidiwr 2 – [tendr gweithredwr y felin lifio] – 79.31%
 - Bidiwr 3 – 75.42%

- 13 Mae'r adroddiad yn gosod allan fanteision ac anfanteision y gwahanol ddewisiadau i ddyfarnu; er enghraifft, dyfarnu cyfaint y cynnig yn unol â sgorio'r GiD i Fidiwr 1. Yn y pen draw, mae'r adroddiad yn argymhell cynnig y cyfaint gwreiddiol i Fidiwr 1 a/neu Bidiwr 3 a 'chynnig [i weithredwr y felin lifio] gyfaint sefydlog pellach i ymdrin â'r cynnydd enfawr yn y rhaglen LLD, ynghyd ag elfen log a bar'. Un o'r rhesymau a ddatganwyd am ffafrio'r dewis hwn oedd y byddai'n annog y buddsoddiad yn llinell lifio Gymreig gweithredwr y felin lifio, a gwaith pelennu ynni Bidiwr 3.
- 14 Yr oedd yr adroddiad yn cydnabod fod y ffordd hon a argymhellwyd o fwrw ymlaen yn gofyn am: 'gamu y tu allan i delerau'r tendr gwreiddiol o ran cyfaint a lleoliad mewn ymateb i'r galw o du'r cynllun cyfredol amnewid llarwydd'. Cydnabu'r adroddiad hefyd fod risg o her gan y proseswyr pren eraill, ond ym marn CNC, nad oedd yn debygol y deuai unrhyw fidwyr newydd i'r golwg petai'r ymarferiad tendro yn cael ei ail-gynnal. Dywedodd yr adroddiad fod y risg o gael her o ganlyniad i wyro oddi wrth y GiD, wedi ei gydbwyso yn erbyn y risg uwch na fyddai CNC yn gwneud digon o gofio lefelau cynyddol yr heintio a'r gofyniad marchnata/cyngaeafu, a'r risg y byddid yn colli llinell lifio Gymreig gweithredwr y felin lifio pe na bai CNC yn gweithredu. Dywedodd e-bost mewnol gan Bennaeth Gweithrediadau Coedwigoedd CNC ar 8 Gorffennaf 2013: 'fe allwn gynnal ymarferiad arall; fodd bynnag, rydym yn siŵr na fyddwn [ni] yn derbyn bidiau newydd gan neb ond y bidwyr presennol yn yr ymarferiad cyfredol – byddai methu â gwneud hyn yn golygu mwy o oedi cyn sefydlu contractau i drin y clefyd.

Proses ddeialog gystadleuol wedi'r tendr

- 15 Ar ddiwedd Gorffennaf 2013, ysgrifennodd CNC at y bidwyr i'w hysbysu am ganlyniad y broses dendro. Hysbyswyd gweithredwr y felin lifio na fu'n llwyddiannus yn y broses dendro, ond fod CNC yn barod i wneud cynnig i weithredwr y felin lifio am glwstwr o goed llarwydd yng Nghoedwig Llanyddyfri o 65,000m³obs (c 52,400 tunnell) y flwyddyn am bum mlynedd. Yr oedd y cyfaint hwn yn cyfateb i un o'r ddwy lot yn y tendr gwreiddiol. Yr oedd yr ohebiaeth hefyd yn dweud fod dewis i ymestyn hyn, a phosibilrwydd cyflenwad pellach o larwydd o gynhyrchu uniongyrchol fel rhan o gynnig y dymunai CNC drafod gyda gweithredwr y felin lifio 'er mwyn sicrhau'r cynigion oedd yn cael eu rhoi gerbron'.
- 16 Mae'n amlwg o e-byst cyfoes nad oedd gweithredwr y felin lifio yn hapus â'r cynnig, a'i fod yn cynnal deialog gyda CNC am hyn.

- 17 Ar 2 Awst 2013, ysgrifennodd gweithredwr y felin lifio at CNC yn dweud: 'fel yr esboniwyd yn ein sgwrs yn gynharach heddiw, rwyf wedi dychryn ac yn gresynu'n fawr fod CNC wedi trin gweithredwr y felin lifio mewn modd mor ddi-hid a di-weledigaeth Yn amlwg, mae CNC yn rhoi mwy o werth ar fusnes contractio cynaeafu a melin lifio o Loegr nac ar weithredwr y felin lifio, ac os erys y sefyllfa felly, byddwn yn buddsoddi ein hamser a'n harian yn rhywle arall y tu allan i Gymru. Mae'r 'cynnig' gan [y Pennaeth Gweithrediadau Coedwigoedd] yn hollol annigonol ac annerbyniol. Mae arnom angen ymrwymiad llawer cadarnach a helaethach os ydym am ymwneud eto â CNC. Byddwn yn dod i gysylltiad â chi gyda manylion penodol; fodd bynnag, mae amser yn bwysig, tra byddwn yn adolygu ein cynllun strategol yng Nghymru at y dyfodol ac yn hysbysu'r Gweinidogion o'n penderfyniadau.'
- 18 Cyfarfu CNC â gweithredwr y felin lifio ar 12 Awst 2013 i drafod contractau llarwydd a phyrwydd. Mewn e-bost ar 22 Awst 2013, dywedodd y Pennaeth Gweithrediadau Coedwigoedd wrth weithredwr y felin lifio fod CNC wrthi yn ystyried cynigion gweithredwr y felin lifio yng nghyswllt contractau pyrwydd a llarwydd ac, mewn egwyddor, nad oedd gan CNC wrthwynebiad i gynnig estyniad o'r CTH am gyfnod o rhwng pump a deng mlynedd.
- 19 Yn Awst 2013, paratôdd Pennaeth Marchnata Pren CNC bapur: **Datblygu dewisiadau i Fuddsoddiad Llarwydd gweithredwr y felin lifio a chanllawiau ehangach am amnewid CTH Pyrwydd**, i'w ystyried gan Dîm Gweithredol CNC. Er bod y papur wedi ei baratoi i'w ystyried gan Dîm Gweithredol CNC, nid oes digon o dystiolaeth gyfoes ei fod wedi ei ddarparu i'r Tîm Gweithredol na'i ystyried ganddynt.
- 20 Gosododd y papur allan gynllun clirio llarwydd diwygiedig dyddiedig Gorffennaf 2013 oedd yn mynnu bod hyd yn oed mwy i'w gwympto yn y blynyddoedd cynharach - 350,000m³obs (c 282,000 tunnell) y flwyddyn am y blynyddoedd 2014/15 i 2019/20. Nodwyd fod y llarwydd a gynigiwyd i'r farchnad gan CNC wedi eu hamsugno trwy amnewid, ond fod angen cynyddu'r gallu prosesu cyffredinol ar gyfer llarwydd.
- 21 Dywedodd y papur y cynigiwyd y ddau gontract sefydlog o 65,000m³obs (c 52,400 tunnell) yr un y flwyddyn am bum mlynedd i Fidiwr 1 ac un i Fidiwr 3, oll yn ardal Dosbarth Coedwig Coed y Cymoedd a chynigiwyd contract sefydlog arall am 65,000m³obs (c 52,400 tunnell) i weithredwr y felin lifio yn Nosbarth Coedwig Llanyddyfri, h.y. contract o'r un faint â'r naill neu'r llall o'r ddau gontract a hysbysebwyd yn y GiD, ond mewn lleoliad gwahanol. Nododd y papur nad oedd gweithredwr y felin lifio yn 'fodlon â'r cynnig a wnaed iddynt'. Aeth y papur ymlaen i esbonio fod CNC yn ymwybodol fod gweithredwr y felin lifio angen cyflenwad gwarantiedig pellach o gyfaint llarwydd cyn ymrwymo i gynyddu'r capasiti yn ei safle yng Nghymru, a'i fod wedi awgrymu na fyddai'r buddsoddiad yn y safle hwnnw oni ellid cynnig rhyw ernes iddo am gyflenwad cyson o elfen pyrwydd i'r felin. Yr oedd hyn yn adlewyrchu datganiadau gweithredwr y felin lifio mewn ymateb i'r GiD.

- 22 Gosododd y papur allan lawer dewis, ond daeth i'r casgliad ei fod yn hanfodol i sicrhau datblygiad arfaethedig yn eiddo Cymreig y gweithredwr 'gan y bydd yn rhoi ateb marchnata i'r elfen llifio logiau fydd yn deillio o'r saith miliwn metr giwbig posib o goed llarwydd sefydlog [o goetiroedd cyhoeddus a phreifat] fydd yn rhaid eu cwmpo yng Nghymru a'r Gororau dros y 10 i 12 blwyddyn nesaf'. Dangosodd y ddogfen hefyd fod cynllun clirio llarwydd CNC yn amcangyfrif y byddai'n rhaid i CNC glirio 2.8 miliwn metr giwbig o goed llarwydd erbyn 2025/26, a bod y clystyrau heintiedig oedd yno ar y pryd eisoes bron yn un filiwn metr giwbig ar y Stâd Gymreig, a bod heintiad pellach yn bosib.
- 23 Noda'r papur hefyd ei bod yn annhebygol y gwelai CNC gynnig cystal petai yn mynd at y farchnad, (er nad oes tystiolaeth yn y papur i gefnogi'r honiad hwnnw), a bod amser yn hollbwysig yng nghyswllt y buddsoddiad a gynlluniwyd yn safle Cymreig gweithredwr y felin lifio.
- 24 Argymhellodd y papur gynnig contractau am llarwydd a phyrwydd i weithredwr y felin lifio. Fodd bynnag, fel y nodwyd uchod, nid oes digon o dystiolaeth gyfoes fod y papur wedi ei gyflwyno i'r Tîm Gweithredol neu i Fwrdd CNC am benderfyniad. Deallaf felly fod y penderfyniad i fwrw ymlaen ar y sail hon wedi ei gymryd gan swyddogion CNC trwy arfer pwerau dirprwyedig. Dywedodd y papur y gellid synied am y dewis a argymhellwyd fel un cynhennus: 'yr ydym yn cydnabod fod perygl o edrych fel petaem yn ffafrio gweithredwr y felin lifio petai cyfaint oedd i fynd i'w cyfleuster hwy fyddai'r unig rai a gafodd estyniad contract tymor-hir, fyddai'n cael yr effaith o leihau cyfle i eraill mewn gwerthiannau yn y dyfodol'.
- 25 Nododd papur a gyflwynwyd i'r Bwrdd dyddiedig 15 Hydref 2013 dan y teitl: 'Cyfoesiad am *Phytophthora ramorum*' fod 'lefel gyffredinol diffyg cydymffurfio â Rhybuddion Statudol Iechyd Planhigion wedi codi'n sydyn ar ddiwedd Awst, gan mai dyma oedd y terfyn amser ar gyfer cydymffurfio, ac y nodwyd 2000Ha o heintiadau newydd ar Stâd Coetiroedd Llywodraeth Cymru yn y flwyddyn honno'. Yr oedd y cyfoesiad yn cyfeirio at y broses o fidio cystadleuol a'r contractau a gynigiwyd, gan nodi y gall fod y swm terfynol a gynigir fod yn uwch, yn dibynnu ar ganlyniadau trafodaethau ynghylch penderfyniadau buddsoddi gan y proseswyr. Fodd bynnag, nid oes digon o dystiolaeth fod manylion y trafodaethau wedi eu dwyn i sylw'r Tîm Gweithredol na'r Bwrdd ar y pryd.
- 26 Yn Nhachwedd 2013, ceisiodd y Pennaeth Gweithrediadau Coedwigoedd fwy o wybodaeth gan weithredwr y felin lifio er mwyn i CNC wneud penderfyniad terfynol. Ymatebodd gweithredwr y felin lifio ar 11 Tachwedd 2013.
- 27 Ar 14 Tachwedd 2013, e-bostiodd y Pennaeth Gweithrediadau Coedwigoedd weithredwr y felin lifio i gadarnhau, mewn egwyddor, fod CNC yn fodlon gyda'r mecanwaith brisio a'u bod yn dod i mewn i'r contract deng mlynedd. Ni allodd CNC ddarparu e-byst na dogfennaeth fewnol ynghylch eu ffordd o wneud y penderfyniad, felly ni allaf gadarnhau'r rhesymau mewnol dros y penderfyniad. Yn ei ebost ar 14 Tachwedd 2013, dywedodd y Pennaeth Gweithrediadau Coedwigoedd y byddai manylion i'w cadarnhau gyda gweithredwr y felin lifio gan y byddai hyn yn digwydd dros yr wythnosau nesaf.

28 Yn ddiweddar, rhoes CNC beth tystiolaeth gyfoes bellach i mi ynghylch y trafodaethau am y contract a ddigwyddodd rhwng Tachwedd 2013 a Mai 2014, er y nodaf yr erys rhai bylchau yn y ddogfennaeth.

Dyfarnu'r Contract

- 29 Ym Mai 2014, llofnododd cyn-Gyfarwyddwr Gweithredol Gwasanaethau Cenedlaethol CNC wyth contract gwerthu pren rhwng CNC a gweithredwr y felin lifio a Memorandwm Dealltwriaeth hollgyffredinol. Pennir dyddiad cychwyn y contract fel 1 Ebrill 2014. Erys y contractau mewn grym.
- 30 Mae'r wyth contract gwerthu coed cysylltiedig wedi eu gosod allan yn **Nhabl 1**.

Tabl 1: contractau gwerthu coed a ddyfarnwyd gan CNC i weithredwr y felin lifio ym Mai 2014

Contract	Math o contract	Cyfnod y contract (blynnyddoedd)	Teip o rywogaeth	Cyfaint y Contract (tunelli)	Cyfaint Blynnyddol (tunelli)
A	Gwerthu pren a gwypwyd	10	Pyrwydd	100,000	10,000
B	Gwerthu pren a gwypwyd	10	Pyrwydd	350,000	35,000
C	Gwerthu pren a gwypwyd	10	Llarwydd	70,000	7,000
D	Gwerthu pren a gwypwyd	10	Llarwydd	150,000	15,000
E	Gwerthu coed oedd yn sefyll	10	Llarwydd	525,000	52,500
F	Gwerthu coed oedd yn sefyll	10	Pyrwydd	162,000	16,200
G	Gwerthu coed oedd yn sefyll	10	Pyrwydd	242,000	24,200
H	Gwerthu coed oedd yn sefyll	5	Llarwydd	262,500	52,500
				1,861,500	212,400

Buddsoddi mewn llinell lifio newydd

- 31 Yn Awst 2015, ysgrifennodd cyn-Bennaeth Gweithrediadau Coedwigoedd CNC at weithredwr y felin lifio ynghylch pryder CNC na fyddai gweithredwr y felin lifio yn cwrdd â'i ddyletswydd contractaidd i adeiladu a dechrau rhedeg llinell lifio newydd ar ei safle yng Nghymru erbyn 31 Mawrth 2016. Ymatebodd gweithredwr y felin lifio gan osod allan y rhesymau pam yr oedwyd y prosiect, ac yn gofyn am estyniad i derfyn amser y contract. Ym Mawrth 2016, cytunodd CNC a gweithredwr y felin lifio ar amrywiad i'r contract lle'r estynnwyd y terfyn amser er mwyn i'r gweithredwr allu adeiladu a chychwyn rhedeg y llinell lifio newydd tan 31 Mawrth 2017.

Cydymffurfio â fframwaith awdurdod

Trefniadau dirprwyo mewnol

- 32 Mae swyddogaethau CNC wedi eu gosod allan yng Ngorchymyn (Sefydlu) Corff Adnoddau Naturiol i Gymru 2012 (Gorchymyn 2012). Mae'r swyddogaethau hyn yn cynnwys ymgymryd ag unrhyw swyddogaeth a ddatganolwyd i'r Comisiynau Coedwigaeth. Mae gan CNC y grym felly i reoli'r stad goedwigoedd sydd mewn dwylo cyhoeddus a gwneud y penderfyniadau angenrheidiol i gyflawni'r swyddogaeth honno yn effeithiol. Mae Gorchymyn 2012 yn datgan y gallai CNC ddirprwyo cyflawni ei swyddogaethau i bwyllgor, is-bwyllgor, aelod neu weithiwr CNC. Mae hyn yn cynnwys dod i gontractau gyda chyflenwyr a phrynwyr allanol.
- 33 Cymeradwyodd y Bwrdd 'Gynllun Dirprwyo Ariannol' oedd yn sicrhau fod holl weithgareddau ariannol CNC wedi eu dirprwyo i lefel gytunedig o awdurdod neu i ddeiliad swydd benodol. Caniataodd i'r Bwrdd a'r Tîm Gweithredol ddirprwyo'r cyfrifoldeb dros wneud penderfyniadau ariannol. Yr oedd y Cynllun Dirprwyo Ariannol oedd yn bodoli yn 2014 yn dirprwyo awdurdod i'r Pennaeth Menter i lofnodi contractau cynaeafu pren oedd yn werth dros £1 miliwn.
- 34 Rhoddwyd y llofnod terfynol i'r contractau gyda gweithredwr y felin lifio gan Gyfarwyddwr Gweithredol dros Wasanaethau Cenedlaethol CNC, a oedd yn aelod o Dîm Gweithredol CNC gyda chyfrifoldebau gweithredol dros weithrediadau coedwigaeth (a rheolwr llinell y Pennaeth Menter). Yr wyf o'r farn fod gan y Cyfarwyddwr Gweithredol dros Wasanaethau Cenedlaethol yr awdurdod dirprwyedig angenrheidiol i gynnal gwerthiannau pren o unrhyw werth.
- 35 Datganodd Cynllun Dirprwyo Ariannol CNC fod: 'yn rhaid i'r holl staff dynnu sylw eu rheolwr llinell os ydynt yn ymwneud ag unrhyw benderfyniadau ariannol lle, yn eu barn hwy, y dylai'r Prif Weithredwr a/neu y Bwrdd fod eisiau ymgynghori â hwy, yn enwedig os oes a wnelo ag unrhyw weithred newydd, anarferol, neu ariannol gynhennus'. Yr wyf yn ystyried fod y penderfyniad i gontractio gyda gweithredwr y felin lifio yn gynhennus ac yn ôl-effeithiol am y rhesymau a osodwyd allan ym [mharagraff 44](#).

- 36 Er bod CNC yn ystyried nad oedd y Cynllun Dirprwyo Ariannol yn mynnu y dylid cyfeirio'r mater at Fwrdd neu Dîm Gweithredol CNC, darparodd dystiolaeth fod y PSG a'r Bwrdd, o leiaf yn ymwybodol o'r trafodaethau gyda gweithredwr y felin lifio. Rhoddodd CNC lythyr i mi dyddiedig 16 Hydref 2016 gan gyn-Gyfarwyddwr Gweithredol dros Wasanaethau Cenedlaethol CNC lle dywed ei fod wedi rhoi gwybod i Brif Weithredwr CNC am y trafodaethau oedd yn digwydd ar y pryd gyda gweithredwr y felin lifio. Hefyd, darparodd CNC un o bapurau'r Bwrdd dyddiedig 15 Hydref 2013 oedd yn cyfeirio at y broses o fidio cystadleuol a bod trafodaethau pellach ynghylch penderfyniadau buddsoddi gan broseswyr (ond, fel y nodwyd uchod, ni roes y papur fwy o fanylion). Bu aelod anweithredol o'r Bwrdd mewn cyfarfod gyda gweithredwr y felin lifio yn Awst 2013 a darparodd CNC gofnodion y bwrdd sydd yn dangos i hyn gael ei drafod mewn cyfarfod o'r Bwrdd ar 3 Medi 2013.
- 37 Cadarnhaodd Prif Weithredwr CNC wrthyf ei fod ef a'r Bwrdd yn ymwybodol o'r trafodaethau gyda gweithredwr y felin lifio ac y cydymffurfiwyd â gofynion y Cynllun Dirprwyo Ariannol. Serch hynny, yr wyf yn pryderu nad ymddengys bod y Bwrdd a/neu'r Tîm Gweithredol wedi craffu ar y cynnig, na'i drafod, o ystyried ei faint ariannol a'i natur gynhennus ac ôl-effeithiol.

Gofyniad i gyfeirio gweithgareddau a chynigion newydd, ôl-effeithiol neu gynhennus at Lywodraeth Cymru i graffu arnynt a/neu eu cymeradwyo

- 38 Er bod CNC wedi cydymffurfio â'i drefniadau dirprwyo mewnol, y brif ddogfen sy'n darparu'r awdurdod dros drafodion CNC yw Dogfen Fframwaith CNC. Mae'r Ddogfen Fframwaith yn datgan fod talu cymorth grant i CNC yn amodol ar berfformiad boddhaol gan CNC o'i holl oblygiadau fel y'u datganwyd yn y Ddogfen Fframwaith, sydd yn cynnwys cydymffurfio a chyhoeddiad Llywodraeth Cymru, 'Rheoli Arian Cyhoeddus Cymru'. Mae a wnelo'r gofyniad i gydymffurfio â Rheoli Arian Cyhoeddus Cymru ag adran 70 (2) Deddf Llywodraeth Cymru 2006 (2) sy'n dweud: 'y gall Gweinidogion Cymru osod amodau i roi cymorth ariannol ganddynt; ac y mae'r amodau y gellir eu hatodi yn cynnwys, yn benodol, amodau ynghylch ad-dalu'r cyfan neu ran o unrhyw grant, neu wneud unrhyw daliadau eraill, dan unrhyw amgylchiadau.'
- 39 Dan y teitl 'Gwariant', dywed paragraff 3.9.1 o Ddogfen Fframwaith CNC: 'y bydd CNC yn cydymffurfio â'r dirprwyiadau a osodir allan yn Atodiad 5'. Dywed Atodiad 5 fod angen cymeradwyaeth y tîm noddï ar gyfer unrhyw gynigion newydd, cynhennus neu ôl-effeithiol.
- 40 Dywed paragraff 3.9.8 y Ddogfen Fframwaith fod yn rhaid cynnal gweithgareddau cynhyrchu incwm CNC yn unol â thelerau Rheoli Arian Cyhoeddus Cymru a'r Ddogfen Fframwaith. Hefyd, dywed paragraff 1.2.9 y Ddogfen Fframwaith mai Prif Weithredwr CNC, fel y Swyddog Cyfrifo, sydd yn bersonol gyfrifol am sicrhau cydymffurfio â gofynion Rheoli Arian Cyhoeddus Cymru.

- 41 Yr wyf wedi ystyried y fersiwn o Reoli Arian Cyhoeddus Cymru Llywodraeth Cymru oedd mewn grym ar yr adeg berthnasol. Dywed y ddogfen hon ym mharagraff 3.8.3: 'Mae'r ddogfen fframwaith y cytunir arni rhwng corff cyhoeddus a'i noddwr yn wastad yn rhagweld y bydd yr adran noddi yn arfer goruchwyliaeth ystyrllon dros strategaeth a pherfformiad y corff cyhoeddus, trefniadau ariannol a/neu drafodion ariannol mawr, e.e. trwy gyfrwng cofnodion misol, dirprwyo safonol, adrodd am eithriadau neu dechnegau eraill. Dylai cyrff cyhoeddus gyfeirio at eu hadrannau noddi unrhyw weithgareddau sydd yn ymddangos yn newydd, yn gynhennus neu ôl-ffeithiol; yn eu tro, gall yr adran noddi fod angen ceisio cydsyniad Uned Llywodraethiant Corfforaethol LICC.' Nid yw Rheoli Arian Cyhoeddus Cymru yn cyfyngu'r gofyniad i gyfeirio gweithgareddau newydd, cynhennus neu ôl-ffeithiol i wariant.
- 42 Yr wyf yn fodlon felly fod Rheoli Arian Cyhoeddus Cymru yn mynnu bod CNC yn cyfeirio unrhyw weithgareddau at adrannau noddi Llywodraeth Cymru petaent yn ymddangos yn newydd, yn gynhennus neu ôl-ffeithiol.
- 43 Nid yw'r Ddogfen Fframwaith na Rheoli Arian Cyhoeddus Cymru yn diffinio cynigion 'newydd, cynhennus neu ôl-ffeithiol', er bod yr olaf hwn yn rhoi rhai enghreifftiau. Mae pennu a yw cynnig neu weithgaredd yn newydd, yn gynhennus neu yn ôl-ffeithiol, yn fater o ffaith a barn.
- 44 Mae Geiriadur Prifysgol Cymru yn diffinio 'cynhennus' fel 'yn achos cynnen, yn asgwrn cynnen' a Geiriadur yr Academi yn diffinio'r enw 'repercussion' fel 'ôl-ffaith [digwyddiad neu weithred], sgil-ffaith'. (Nid yw'r ansoddair ôl-ffeithiol' yn y geiriadur). Dywedodd Prif Weithredwr CNC wrthyf nad yw'n ystyried bod y penderfyniad i gontractio gyda gweithredwr y felin lifio ym Mai 2014 yn gynhennus nac yn ôl-ffeithiol. Yr wyf yn anghytuno, ac yn ystyried ei fod yn gynhennus ac yn ôl-ffeithiol am y rhesymau a ganlyn:
- Yr oedd y contractau a ddyfarnwyd i weithredwr y felin lifio yn sylweddol iawn eu maint; amcangyfrifodd CNC fod cyfaint y pren a werthwyd gan y contractau hyn oddeutu 20 i 25% o gyfanswm y pren oedd ar gael ar y farchnad gan CNC dros gyfnod o ddeng mlynedd a chafodd dyfarnu contract mor fawr i un prynwr effeithiau ehangach ar y farchnad. Mae papur Tim Gweithredol CNC ar Awst 2013 yn cydnabod, o ganlyniad i'r contract arfaethedig gyda gweithredwr y felin lifio, mai 'ychydig iawn o byrwydd fydd i'w gynnig i fasnachwyr coed sy'n sefyll dros y pum mlynedd nesaf'.
 - Dyfarnwyd y contractau am larwydd a phyrwydd yn dilyn tendr cystadleuol am gontractau llarwydd (lle nad gweithredwr y felin lifio oedd y bidiwr llwyddiannus; er hynny, penderfynodd CNC gynnig contractau am larwydd i'r tri bidiwr) ac felly ni chafodd unrhyw brynwr posib eraill gyfle i brynu cyfaint y pren llarwydd a phyrwydd a ddyfarnwyd yn y pen draw i weithredwr y felin lifio. Barn CNC yw nad oedd marchnad am larwydd afiach, a hyn ar sail (a) diffyg diddordeb mewn 21 llain unigol o goed y ceisiodd CNC eu gwerthu rhwng Tachwedd 2012 a Medi 2013 y cyfeirir atynt ym mharagraff 71; a (b) mai dim ond tri bid a dderbyniwyd mewn ymateb i dendr 2013 y cyfeirir ato

ym mharagraffau 5 i 14. Yn fy marn i, nid yw maint y lleiniau hynny na chynnig y tendr i'w cymharu â'r cynnig o wyth Contract Tymor Hir (CTH) am larwydd a phyrwydd afiach, yn enwedig gan i weithredwr y felin lifio ei hun ddweud yn glir na fyddai pedwar CTH am larwydd yn ddigon iddo fuddsoddi yn y llinell lifio newydd. Cynlluniwyd cyfaint y contract a ddyfarnwyd i weithredwr y felin lifio i'w alluogi i wneud buddsoddiad mawr yn ei felin lifio. Galluogodd y buddsoddiad hwn weithredwr y felin lifio i gynyddu ei gapasiti prosesu yn sylweddol. Ystyria CNC ei bod yn anhebygol iawn y buasai gan unrhyw weithredwyr eraill ddiddordeb mewn cyfeintiau mor sylweddol o larwydd afiach a'r amserlenni pryd yr oedd yn rhaid i CNC weithredu a'u bod yn ymwybodol o'r risg o her y pryd hwn, ond 'eu barn broffesiynol hwy oedd nad oedd dewis arall'. Fodd bynnag, nid oes fawr ddim yn y ddogfennaeth gyfoes i dystio fod swyddogion CNC wedi rhoi ystyriaeth ofalus i weld a allai cyfeintiau uwch ddenu diddordeb o amred ehangach o gwmnïau pren (h.y., cwmnïau na fidiodd yng nghystadleuaeth 2013) nac a allasai'r cyfeintiau hynny fod wedi bod yn ddigon i annog cystadleuwyr eraill i fuddsoddi mewn capasiti ychwanegol. Yn fy marn i, ymddengys bod ymrwymiad CNC i werthu i weithredwr y felin lifio gyfaint uchel o bren dros gyfnod o ddeng mlynedd yn gyfle y gallasai cwmnïau eraill wedi ymddiddori ynddo.

- Ni fu profion ar y farchnad berthnasol yn sail i'r penderfyniad i ddyfarnu'r contractau.
- Yr oedd papurau mewnol a baratowyd gan CNC yn cydnabod y risgiau cysylltiedig â dyfarnu'r contractau hyn o gofio na fu gweithredwr y felin lifio yn llwyddiannus yn yr ymarferiad tendr a gynhaliwyd yn 2013. Yr oedd y papurau hefyd yn cydnabod y gallasai'r penderfyniad i ddyfarnu'r contractau i weithredwr y felin lifio fel hyn fod yn destun herio.

45 Ystyria felly y dylid bod wedi cyfeirio'r cynnig at adran noddi CNC yn Llywodraeth Cymru yn unol â gofynion y Ddogfen Fframwaith a Rheoli Arian Cyhoeddus Cymru.

46 Dywedodd CNC wrthyf ar y pryd nad oedd yn ystyried bod dyfarnu'r contractau yn gynhennus nac ôl-efeithiol. Dywedodd CNC hefyd wrthyf fod y Bwrdd a Llywodraeth Cymru yn ymwybodol o'r broses a rhoes CNC i mi gopi o ebost a anfonwyd at adran noddi CNC yn Llywodraeth Cymru ar 4 Awst 2013 (naw mis cyn cytuno ar y contractau). Anfonwyd yr ebost at Lywodraeth Cymru yn dilyn derbyn yr ohebiaeth gan weithredwr y felin lifio y cyfeirir ato ym mharagraff 17. Datganodd yr ebost at Lywodraeth Cymru bryder CNC y gallai gweithredwr y felin lifio geisio lobio Gweinidogion yn dilyn ei dendr aflwyddiannus a'i amharodwydd i dderbyn cynnig a oedd yn ei farn yn 'hollol annigonol ac annerbyniol.'

- 47 Nid yw'r ebost yn rhoi manylion y cynnig a wnaed i weithredwr y felin lifio a dywed: 'y byddwn yn parhau i siarad â [gweithredwr y felin lifio] a datblygu safbwyntiau i'w cymryd er mwyn cael deiliant da i bawb '. Nid wyf yn ystyried bod yr ebost yn gyfystyr â chyfeiriad at Lywodraeth Cymru. Yr wyf o'r farn mai'r diben oedd tynnu sylw Llywodraeth Cymru at lobio posib ac nid gwneud Llywodraeth Cymru yn ymwybodol o bwnc oedd yn gynhennus ac ôl-effeithiol. Ymhellach, fel ar 4 Awst 2013, nid oedd cyfaint y pren a gynigiwyd i weithredwr y felin lifio yn ddim ond 14% o'r cyfanswm a werthwyd yn y pen draw i weithredwr y felin lifio dan y contractau y daethpwyd iddynt ym Mai 2014, ac mai ar gyfer llarwydd yn unig yr oedd y cynnig.
- 48 Dywedodd Llywodraeth Cymru wrthyf, tra bod eu swyddogion coedwigaeth yn ymwybodol fod trafodaethau yn digwydd rhwng CNC a gweithredwr y felin lifio, nad oeddent hwy yn ymwneud â'r manylion. Ymhellach, rhoes swyddogion coedwigaeth Llywodraeth Cymru wybodaeth i'r Gweinidog perthnasol cyn ymweliad gweinidogol ag eiddo gweithredwr y felin lifio i'r perwyl fod: 'gan Lywodraeth Cymru ddiddordeb mewn sicrhau marchnad gystadleuol am goed, er lles y sector a'i referiw ei hun trwy werthiannau pren CNC. Dylid cydbwysu cyfleoedd i [weithredwr y felin lifio] ehangu gan farchnata pren yn deg, agored a thryloyw o'r stad coetiroedd [Llywodraeth Cymru].'
- 49 Ystyriaf felly na chyfarfu CNC â gofynion y Ddogfen Fframwaith na Rheoli Arian Cyhoeddus Cymru i gyfeirio cynnig cynhennus ac ôl-effeithiol i Lywodraeth Cymru. Ystyriaf fod y trafodion sy'n ymwneud â'r contractau a gynhwysir yn natganiadau ariannol CNC am 2015/2016 y tu allan i'r fframwaith awdurdod sydd yn eu llywodraethu a'u bod felly yn afreolaidd. O ganlyniad, yr wyf wedi amodi fy marn rheoleidd-dra am ddatganiadau ariannol CNC am 2015/2016.

Cydymffurfio ag egwyddorion cyfraith gyhoeddus wrth wneud penderfyniadau

Effaith pryderon am gyfreithlondeb ar y farn am reoleidd-dra

- 50 Lle mae ansicrwydd arwyddocaol a yw trafodion yn gyfreithlon neu beidio, ni allaf roi barn glir. Mae hyn oherwydd nad oes modd yn rhesymol rhoi sicrwydd cadarnhaol lle mae ansicrwydd arwyddocaol yn bodoli.
- 51 Fel rhan o'm hystyriaethau yn arwain at roi fy marn rheoleidd-dra ar ddatganiadau ariannol CNC am 2015/16, fe ystyriais felly bryderon yn ymwneud â chyfreithlondeb trafodion cysylltiedig â chontractau y daeth CNC iddynt gyda gweithredwr y felin lifio ym Mai 2014. Pryderon oedd y rhain ynghylch a oedd penderfyniad CNC i ddyfarnu'r contractau i weithredwr y felin lifio yn gyfreithlon neu beidio o ran cyfraith gyhoeddus a rheolau Cymorth Gwladwriaethol.

- 52 Rwy'n nodi fod f'ystyriaeth o'r trafodion yn codi yng nghyd-destun fy swyddogaethau archwilio ac nad ydynt yn ymwneud â dilysrwydd y penderfyniadau a gymerwyd gan CNC na'r gallu i'w gorfodi (a nodaf bwynt CNC na cheisiodd yr un o gynrychiolwyr y diwydiant herio dyfarnu'r contractau). Erys y penderfyniad i ddyfarnu'r contractau yn ddilys yn niffyg unrhyw her a diddymu gan Lys. Mae fy marn reoleidd-dra, fodd bynnag, ar ffurf sicrwydd cadarnhaol sy'n golygu fy mod yn datgan a yw'r trafodion yn unol â'r awdurdodau sy'n eu llywodraethu neu beidio.
- 53 Mae f'ystyriaethau o'r materion hyn i'w gweld isod.
- 54 I benderfyniad gan gorff cyhoeddus fod yn gyfreithlon, rhaid ei wneud yn unol â'r ddeddfwriaeth gymwys ac ag egwyddorion cyfraith gyhoeddus (er enghraifft, ni ddylai'r penderfyniad fod yn afresymol). Dylai penderfyniad gael ei wneud yn unol â pholisïau'r corff cyhoeddus, onid oes rheswm da dros wyro oddi wrthynt.

Pwerau

- 55 Yr wyf wedi ystyried a oedd gan CNC y pwerau cyfreithiol i ddod i gontractau am werthu coed gyda gweithredwr y felin lifio ym Mai 2014. Ar yr adeg berthnasol, yr oedd Deddf Coedwigaeth 1967 (y 'Ddeddf') yn gymwys i CNC. Dan y Ddeddf, mae gan CNC ddyletswydd gyffredinol i hybu buddiannau coedwigaeth, datblygu fforestu a chynhyrchu a chyflenwi pren a chynhyrchion coedwigaeth eraill. Mae gan CNC y pŵer i werthu neu i waredu unrhyw bren sy'n eiddo iddynt ac yn gyffredinol i hybu cyflenwi, gwerthu, defnyddio a throsi pren.
- 56 Hefyd, yr oedd Gorchymyn 2012 yn darparu, ar yr adeg berthnasol, mai pwrpas CNC oedd sicrhau bod amgylchedd ac adnoddau naturiol Cymru yn: (a) cael eu cynnal yn gynaliadwy, (b) yn cael eu gwella yn gynaliadwy ac (c) yn cael eu defnyddio yn gynaliadwy. Dan Orchymyn 2012, mae gan CNC y pŵer i godi am 'waith y mae'n gyflawni ac am nwyddau, gwasanaethau a chyfleusterau y mae'n eu darparu'. Mae ganddynt hefyd bwerau achlysurol dan Orchymyn 2012 i 'wneud unrhyw beth sy'n ymddangos iddynt fyddai'n gymorth neu yn deillio o gyflawni ei swyddogaethau', ac yn benodol (ymysg pethau eraill) i ddod i gytundebau, a chael neu waredu eiddo.
- 57 Yr oedd CNC hefyd yn destun rhybuddion statudol dan Orchymyn Iechyd Planhigion (Coedwigaeth) 2005 yng nghyswllt y coed llarwydd afiach mewn ardaloedd penodol oedd yn mynnu cwmpo, dinistrio a/neu gyfyngu ar goed heintiedig o fewn amserlen a benodwyd. Yr oedd dyletswydd gyfreithiol felly ar CNC yng nghyswllt y coed llarwydd afiach ac fe wnaethant geisio cydymffurfio â'r ddyletswydd honno trwy arfer eu pwerau i ddod i gontractau i werthu coed oedd yn sefyll a phren a gwmpwyd.
- 58 Yr wyf yn fodlon felly fod gan CNC y pwerau angenrheidiol i ddod i gontractau gwerthu pren ym Mai 2014.

Polisiâu

- 59 Fel y nodwyd uchod, rhaid i gyrff cyhoeddus: (a) ystyried a (b) dilyn polisiâu perthnasol, onid oes ganddynt reswm da dros wyro oddi wrthynt, neu o leiaf fod ganddynt resymau a ddatganwyd yn glir dros y gwyro. Gall methu â gwneud hyn olygu bod penderfyniad, ac yn sgil hynny, eitem gyfrifo, yn groes i'r gyfraith. Mae'r gyfraith gyhoeddus hefyd yn mynnu cadarnhau a phrofi unrhyw resymau a roddir.
- 60 Gwelais beth tystiolaeth fod CNC wedi cymryd eu polisiâu i ystyriaeth ac wedi ystyried a oedd rhesymau da i wyro oddi wrthynt. Er enghraifft, yr oedd yr adroddiad gwerthuso tendr a gynhyrchwyd ym mis Gorffennaf a phapur y Tîm Gweithredol dyddiedig Awst 2013 yn cynnwys ystyriaeth o wahanol ddewisiadau, gan gynnwys mynd yn ôl at y farchnad.
- 61 Fodd bynnag, mae bwlch tystiolaethol (yng nghyswllt gwneud penderfyniadau mewnol CNC) rhwng papur y Tîm Gweithredol dyddiedig Awst 2013 a'r contractau y daethpwyd iddynt gan CNC ym Mai 2014. Pe na bai'r polisiâu wedi eu cymryd i ystyriaeth ond fod y penderfyniad er hynny yn amlwg yn dilyn y polisi hwn, byddai hyn yn annhebyg o beri bod y contractau a'r trafodion cysylltiedig yn anghyfreithlon. Yr wyf felly wedi ystyried a oes enghreifftiau o wyro oddi wrth bolisiâu CNC heb i resymau da dros wneud hynny gael eu datgan.
- 62 Yr oedd polisi gwerthu pren CNC ar y cyfnod perthnasol wedi ei gynnwys yn Strategaeth Marchnata Pren CCC 2011 - 2016. Yr oedd y ddogfen hon yn ymdrin â gwerthiannau coed oedd yn sefyll a phren wrth ochr y ffordd. Dywedai hefyd mai amcanion marchnata CNC wrth werthu pren oedd y buasent yn gwneud y canlynol:
- 'Sicrhau'r gwerth gorau o werthu pren trwy ei gynnig ar werth am mewn dull teg, agored a thryloyw;
 - cynnig pren ar y farchnad mewn ffyrdd sydd yn caniatáu i'r nifer ymarferol mwyaf o gwsmeriaid i gystadlu amdano ac mewn ffyrdd sydd yn cydnabod anghenion busnes cwsmeriaid CNC ac yn eu galluogi i ychwanegu'r gwerth mwyaf posib iddo;
 - cynnig pren mewn ffyrdd sydd yn cynnal buddsoddiad yn yr holl gadwyn gyflenwi, o gynaeafu trwedd at brosesu ac sydd yn canolbwyntio ar ardaloedd lle mae'r gadwyn gyflenwi honno yn wannach; a
 - cynnig pren mewn ffyrdd sydd yn annog ei ddefnyddio yn y modd gorau i helpu Cymru i ostwng ei ôl troed carbon.'
- 63 Yn yr achos hwn, ni chafodd y pren pyrwydd a llarwydd ei gynnig ar werth ar y farchnad, a allai fod yn groes i (a) a (b) uchod. Fodd bynnag, mae'r ddogfen hefyd yn cynnwys adran: 'Ymdrin â digwyddiadau annisgwyl' ac, yn benodol, datganiad a ddywed: 'Dan amgylchiadau eithriadol yn unig, gallwn benderfynu trafod gwerthu pren i gwsmeriaid a all ymateb yn sydyn i ddigwyddiadau.'

- 64 Mae CNC yn dadlau, ac wedi darparu tystiolaeth gyfoes i gefnogi hynny, fod yr amgylchiadau yr oeddent yn wynebu yn 2013, h.y. y cynnydd buan yn lledaeniad P Ramorum yn ystod misoedd yr haf, yn 'amgylchiadau eithriadol' oedd yn cyfiawnhau gwro oddi wrth eu hamcanion marchnata pren fel y'u datganwyd. Ystyriwyd bod angen hyn oherwydd bod yn rhaid i CNC weithredu ar frys i gael ateb tymor-hir i wrthweithio'r clefyd.
- 65 Yr wyf yn fodlon o'r herwydd fod CNC wedi dangos fod rheswm da dros wro oddi wrth eu polisi arferol a bod amgylchiadau eithriadol a allai beri iddynt benderfynu trafod gwerthu pren i'r cwsmeriaid hynny allai ymateb yn sydyn.

Proses

- 66 Ym mharagraffau 5 i 31 yr wyf wedi gosod allan yr hyn a ddeallaf i am y broses o wneud penderfyniadau a ddilynwyd gan CNC ac a arweiniodd at ddyfarnu contractau i weithredwr y felin lifio ym Mai 2014.
- 67 O ystyried y broses o wneud penderfyniadau yn ei gyfanrwydd, mae'n amlwg fod CNC wedi cymryd camau ar wahanol gyfnodau i asesu manteision ac anfanteision y dewisiadau oedd ar gael iddynt. Fodd bynnag, ac yn bwysig iawn, ni fedrodd CNC roi fawr ddim dogfennaeth i mi parthed eu penderfyniad i gytuno ar y contractau llarwydd a phyrwydd a'r Memorandwm Dealltwriaeth. Yn benodol, does fawr ddim dogfennaeth ynghylch y penderfyniad i ddod i'r contractau (yr ymddengys iddo gael ei gymryd ym mis Tachwedd 2013). Yn ddiweddar, darparodd CNC ddogfennaeth i mi am y trafodaethau a ddigwyddodd rhwng Awst 2013 a Mai 2014. Safbwynt CNC yw bod y trafodaethau hyd at 14 Tachwedd yn unol â'r modd o wneud penderfyniadau oedd yn deillio o bapur y Tîm Gweithredol a bod y contractau y daethpwyd iddynt i raddau helaeth ar delerau safonol y Comisiwn Coedwigaeth/CNC ac yn unol â'r strategaeth ym mhapur y Tîm Gweithredol. Yn fy marn i, ar sail y cofnodion a ddarparwyd gan CNC, nid oes digon o ddogfennaeth yng nghyswllt y penderfyniad i ddod i'r contractau ac nid oes modd bod yn sicr ynghylch pa ffactorau a ystyriwyd gan y sawl wnaeth y penderfyniad wrth ddod i'r contractau ac o ganlyniad a oedd y penderfyniadau a gymerwyd yn gyfreithiol ai peidio.
- 68 Oherwydd methiant CNC i gadw digon o ddogfennaeth gyfoes yn gosod allan eu penderfyniadau yn ystod y cyfnod hwn a'r rhesymau dros y penderfyniadau hynny, ni fedrais fodloni fy hun ar rai materion allweddol. Dywedodd CNC wrthyf, a hwythau newydd orffen ymarferiad marchnad agored am larwydd afiach, eu bod o'r farn fod y pwysau amser, o achos lledaeniad cyflym y clefyd, yn gyfryw fel y byddai ailadrodd yr ymarferiad yn oedi eu hymateb yn sylweddol o fisoedd lawer, a thybiodd eu tîm marchnata pren profiadol iawn y buasai'n dra anhebygol o ddenu unrhyw bartïon newydd fyddai â diddordeb.

- 69 Ni chefais fy mherswadio, fodd bynnag, mai'r angen brys am i CNC contractio er mwyn ymdrin â lledaeniad sydyn P Ramorum oedd y rheswm, neu'r unig reswm y daeth CNC i'r contractau gyda gweithredwr y felin lifio. Yr wyf yn pryderu mai un o ystyriaethau CNC, efallai, oedd sicrhau'r buddsoddiad yn eiddo gweithredwr y felin. Mae'n dra anhebygol y byddai hyn yn ystyriaeth gyfreithlon ynddo'i hun. Darparodd CNC beth tystiolaeth i gefnogi dyfarnu contractau ar sail brys, a dywedodd mai eu pwrpas oedd cynyddu'r capasiti i brosesu llarwydd afiach ac nad oedd unrhyw ddewisiadau eraill yn y farchnad, ond yn eu dogfennau mewnol, maent yn cyfeirio hefyd at yr amcan o fod eisiau cefnogi buddsoddiad gweithredwr y felin lifio.
- 70 Mynna CNC, ac yr wyf yn derbyn hyn, efallai mai ystyriaeth waelodol CNC oedd cynyddu capasiti fel ffordd o drin y swm cynyddol o larwydd heintiedig i'w brosesu yn y blynyddoedd i ddod. Er bod hyn yn gymhelliad a allasai fod yn ddilys, derbyniais sylwadau gan gynrychiolwyr y diwydiant i'r perwyl fod yn 2013 gryn gapasiti heb ei ddefnyddio mewn melinau llifio eraill yng Nghymru a fuasai wedi cymryd cymaint o bren ag y gellid ei gyflenwi, yn amodol ar bris. Os yw hyn yn wir, y mae'n amlwg yn ystyriaeth berthnasol y dylasai CNC fod wedi bod yn ymwybodol ohono. Os oeddent yn ymwybodol ohono, byddai'n codi cwestiwn ynghylch cymhelliad CNC i ddod i'r contractau hyn gyda gweithredwr y felin lifio. Mae CNC yn gwadu'n gryf yr honiad fod capasiti nas defnyddiwyd mewn melinau llifio.
- 71 Y mae CNC o'r farn nad oedd marchnad i larwydd heintiedig, oherwydd yn ystod Tachwedd 2012 i Fedi 2013 ceisiodd y Comisiwn Coedwigaeth/CNC werthu 21 pecyn unigol o larwydd heintiedig, ac o'r rhain, ni chafwyd bidiau o gwbl am saith, derbyniodd wyth un bid yn unig, ac ni dderbyniodd yr un pecyn fwy na thri bid. Hysbysodd CNC fi mai'r pris cyfartalog oedd pris negyddol o -£20.71 y dunnell. Mae CNC hefyd yn ystyried y dengys y tri bid a dderbyniwyd mewn ymateb i dendr 2013 nad oedd galw am newid i larwydd afiach, na'r capasiti i wneud hynny. Fel y crybwyllwyd uchod, yn fy marn i, nid yw maint y pecynnau hynny a chynnig y tendr i'w gymharu â'r contractau y daeth CNC iddynt gyda gweithredwr y felin lifio. Cynlluniwyd cyfaint y contract a ddyfarnwyd i weithredwr y felin lifio i'w alluogi i wneud buddsoddiad mawr yn ei felin lifio. Galluogodd y buddsoddiad hwn weithredwr y felin lifio i gynyddu ei gapasiti prosesu yn sylweddol. Ymddengys bod ymrwymiad CNC i werthu i weithredwr y felin lifio gyfaint uchel o bren dros gyfnod o ddeng mlynedd yn gyfle y gallasai cwmnïau eraill fod â diddordeb ynddo.
- 72 Yr wyf yn pryderu hefyd y gall CNC fod wedi dod dan ddylanwad datganiad gweithredwr y felin lifio a ddywedai, oni fyddai CNC yn newid eu safbwynt y buasai am fuddsoddi ei arian a'i amser y tu allan i Gymru (cyfeiriad ym [mharagraff 17](#)). Sylwaf fod CNC wedi hysbysu Llywodraeth Cymru trwy ebost ar 4 Awst 2016 fod gweithredwr y felin lifio yn defnyddio gosodiadau o'r fath i ddwyn pwysau. Nodaf hefyd i CNC ddweud eu bod wedi arfer â'r math hwn o ymddygiad, ac na fyddai'n dylanwadu arnynt. Er hynny, yr wyf yn dal yn bryderus y gall pwysau gweithredwr y felin lifio fod wedi dylanwadu ar CNC gan nad yw dogfennaeth CNC yn ei gyfanrwydd yn gosod allan gofnod clir o'r broses o wneud penderfyniadau.

- 73 Yr wyf o'r farn yr erys cwestiynau difrifol ynghylch pam, o gofio fod gweithredwr y felin lifio yn aflwyddiannus yn y tendr cystadleuol, y dyfarnwyd iddo yn y pen draw gyfaint mor uchel o bren ar sail fod CNC yn teimlo fod angen mwy o gapasiti. Y mae hyn yng nghyd-destun y ffaith nad aeth CNC allan i'r farchnad i weld a allai cwmnïau eraill gynyddu capasiti mewn modd fyddai'n rhoi gwell gwerth am arian.
- 74 Er bod gennyf bryderon ynghylch y broses o wneud penderfyniadau, nid yw'r dystiolaeth yn ddigonol i mi allu dod i gasgliad fod y penderfyniad i ddod i'r contractau yn torri egwyddorion cyfraith gyhoeddus. Nid yw f'ansicrwydd yn golygu y dylid synied yn awr am y contractau fel rhai anghyfreithlon fel sydd wedi ei osod allan ym **mharagraff 52**; fodd bynnag, y mae'n golygu na allaf roi barn reoleidd-dra ddiamod ar y datganiadau ariannol.
- 75 Dywedodd Prif Weithredwr Cyfoeth Naturiol Cymru wrthyf ei fod yn ystyried fod amodi'r farn reoleidd-dra yn anghymesur â'r diffygion a nodwyd a'i fod yn anghytuno â'm casgliadau ac yn dibynnu ar gyngor cyfreithiol a geisiodd CNC yn ystod f'ymchwiliad archwilio ac a rannwyd gyda mi. Fodd bynnag, yr wyf wedi ceisio fy nghyngor cyfreithiol fy hun gan Gwnsler (gan gynnwys yng nghyswllt cyngor CNC) a chytunaf gyda'r cyngor a dderbyniais, sef nad oes digon o dystiolaeth i ddod i'r casgliad fod y broses o wneud penderfyniadau yn cydymffurfio ag egwyddorion cyfraith gyhoeddus a rheolau Cymorth Gwladwriaethol. Mae'r ansicrwydd arwyddocaol sy'n bodoli yn golygu fy mod yn ystyried mai'r cam cywir a chymesur i mi gymryd fel archwiliwr CNC yw i mi amodi fy marn reoleidd-dra.

Cydymffurfio â rheolau Cymorth Gwladwriaethol

- 76 Arweiniodd penderfyniad CNC i ddod i gontractau gwerthu pren gyda gweithredwr y felin lifio heb agor y cyfle allan i'r farchnad ehangach fi i ystyried a roes CNC Gymorth Gwladwriaethol anghyfreithlon i weithredwr y felin lifio.
- 77 Cymorth Gwladwriaethol yw unrhyw gymorth a roddir gan Aelod-Wladwriaeth o'r UE neu trwy adnoddau'r Wladwriaeth ar ba ffurf bynnag, sydd yn anffurfio neu yn bygwth anffurfio cystadleuaeth trwy ffafrio rhai ymgymeriadau neu gynhyrchu rhai nwyddau, i'r graddau y bydd hynny yn effeithio ar fasnach rhwng Aelod-Wladwriaethau (Erthygl 107 o'r Cytundeb ar Weithredu'r Undeb Ewropeaidd). Mae darparu Cymorth Gwladwriaethol yn anghyfreithlon oni chaiff ei awdurdodi ymlaen llaw, boed trwy 'eithriad bloc' sy'n bodoli eisoes neu trwy awdurdodi unigol a ganiateir gan y Comisiwn Ewropeaidd mewn ymateb i hysbysiad gan y Wladwriaeth berthnasol.

- 78 Ceisiais gyngor cyfreithiol ynghylch a oedd dyfarnu contractau i weithredwr y felin lifio yn gyfystyr â Chymorth Gwladwriaethol i weithredwr y felin lifio neu beidio. Y cyngor a gefais yw bod hyn yn dibynnu oedd y contractau hynny yn gyfystyr â darparu 'mantais economaidd' i weithredwr y felin lifio neu beidio. Os oeddent, a bod gwerth y fantais honno o bosib yn berthnasol i fasnach ryng-Wladwriaethol (meincnod ar gyfer perthnasedd yn y cyd-destun hwn yw trothwy *de minimis* Cymorth Gwladwriaethol y Comisiwn Ewropeaidd o €200,000), yna bodlonir yr amodau eraill am Gymorth Gwladwriaethol hefyd oherwydd y byddai'r cyfryw fantais economaidd:
- yn amlwg yn cael ei roi o adnoddau'r Wladwriaeth, oherwydd bod asedau CNC (gan gynnwys coed y mae ganddynt yr hawdd i'w gwerthu) yn adnoddau'r Wladwriaeth, a bod penderfyniadau CNC i'w priodoli i'r Deyrnas Unedig fel Aelod-Wladwriaeth o'r UE;
 - yn amlwg yn 'ddetholus', gan y byddai'r fantais wedi'i rhoi yn benodol i weithredwr y felin lifio ac nid i weithredwyr melinau llifio eraill; a
 - hefyd yn dueddol o anffurfio cystadleuaeth ac effeithio ar fasnach ryng-Wladwriaeth, oherwydd (i) byddai'r fantais yn cryfhau safle economaidd cyffredinol y grŵp corfforaethol y mae gweithredwr y felin lifio yn rhan ohono, a (ii) bod y marchnadoedd (fel y rhai am bren a chynnyrch pren) lle mae'r grŵp corfforaethol hwnnw yn cystadlu yn farchnadoedd lle mae yn amlwg gryn dipyn o fasnach drawsffiniol yn yr UE.
- 79 Mae'r mathau o fesurau a all fod yn 'fantais economaidd' a ddarperir gan y Wladwriaeth yn cynnwys mesurau ariannol uniongyrchol (e.e. buddsoddiadau cyfalaf neu fenthyciadau di-log), mesurau ariannol anuniongyrchol (e.e. hepgor dyledion neu eithrio o drethi) a darparu asedau, gwasanaethau neu seilwaith unswydd am ddim neu am bris is na'r gwerth. Bydd dyfarnu contract yn gyfystyr â mantais lle mae ei delerau yn ormodol hael (o gymharu â 'telerau'r farchnad') i'r ymgymeriad, boed hynny oherwydd bod y telerau hynny yn darparu am gyflenwi nwyddau neu wasanaethau i'r ymgymeriad am bris sy'n is na'u gwerth, neu am eu bod yn trefnu i'r ymgymeriad dderbyn tâl am y nwyddau neu'r gwasanaethau mae'n eu cyflenwi ac sydd yn uwch na phris y farchnad.
- 80 Mae baich y prawf yng nghyswllt dangos fod y mesur yn fantais economaidd ar y person (y Comisiwn Ewropeaidd fel arfer) sy'n honni ei fod yn gwneud hynny. Mae'r Comisiwn Ewropeaidd, yn ei benderfyniadau a'i ganllawiau cyhoeddedig, wedi mabwysiadu'r safbwynt ei fod yn rheidrydd ar y corff Gwladwriaethol sydd yn dyfarnu contract, neu'n gwerthu tir neu asedau gwerthfawr eraill, naill ai i (a) gynnal proses gystadleuol neu, (b) lle nad yw'n ymarferol cynnal cystadleuaeth, o leiaf i ddefnyddio 'profi'r farchnad' neu fecanwaith arall ar gyfer gwirio bod y telerau y cytuna arnynt yn y pen draw yn unol â thelerau'r farchnad ac felly nad ydynt yn rhoi unrhyw fantais economaidd. Lle na wnaeth y corff Gwladwriaethol hynny, y safbwynt fel mater o gyfraith o hyd yw bod baich y prawf o fantais ar y person sy'n honni'r fantais. Serch hynny, bydd y Comisiwn Ewropeaidd fel arfer yn cymryd y safbwynt fod ganddo'r hawl i dybio o'r amgylchiadau (neu 'ragdyb gwrthbrofadwy')

fod telerau'r contract yn hael i'r ymgymriad o gymharu â'r telerau fuasai wedi deillio o broses gystadleuol.

- 81 Ni chyfyd unrhyw fantais economaidd lle mae'r Wladwriaeth yn gwneud rhywbeth (megis gwerthu darn o dir sy'n eiddo iddi) y gellir ei wneud hefyd gan endidau heb fod yn Wladwriaethau, a'i bod yn gwneud hynny ar delerau y gallasai endid heb fod yn Wladwriaeth mewn sefyllfa debyg fod yn barod i'w derbyn *am resymau masnachol*. 'Egwyddor gweithredwr economi'r farchnad' yw'r enw am hyn. Er mwyn cymhwysu'r egwyddor hon, rhaid cymharu ymddygiad CNC gyda'r hyn y byddai cwmni masnachol wedi ei wneud dan amgylchiadau tebyg. Gall hyn beri anawsterau tystiolaethol oherwydd nad yw tystiolaeth o'r hyn y gallasai cwmni masnachol fod wedi ei wneud ar gael ac oherwydd y gall fod lle i ddadlau ynghylch a ddylai rhai amcanion neu fuddiannau fod ymysg yr hyn sy'n cael ei briodoli neu beidio i'r cwmni masnachol damcaniaethol. Ni chefais fy mherswadio fod CNC wedi gweithredu fel y buasai cwmni masnachol wedi gwneud oherwydd mai un o resymau CNC dros geisio cynyddu capasiti i brosesu llarwydd afiach oedd sicrhau mwy o gapasiti, i stadau'r sector cyhoeddus a'r sector preifat, nad yw'n ystyriaeth y buasai cwmni masnachol wedi ei gadw mewn cof.
- 82 Safbwynt CNC yw nad oedd gan weithredwr y felin lifio nifer arwyddocaol o gwsmeriaid tramor ac nad oedd y contractau felly yn cael yr effaith ofynnol ar fasnach ryng-Wladwriaethol. Fodd bynnag, y cyngor a gefais i yw y rhagdybir bod mantais ddethol i gwmni penodol yn effeithio ar fasnach ryng-Wladwriaethol lle bo'r ymgymriad sy'n derbyn y fantais honno yn weithredol mewn marchnadoedd a nodweddir gan gyfeintiau arwyddocaol o fasnach ryng-Wladwriaethol. Mae hynny yn wir boed yr ymgymriad ei hun yn cyflenwi cwsmeriaid yn unrhyw un o Wladwriaethau eraill yr UE, neu fod ganddo bresenoldeb yno neu beidio. Mae masnach ryng-Wladwriaethol sylweddol iawn mewn marchnadoedd am bren a chynhyrchion pren, ac y mae gweithredwr y felin lifio yn masnachu yn drawsffiniol.
- 83 Mae'n amlwg o'r dogfennau cyfoes na phennwyd telerau'r contractau naill ai gan ganlyniad cystadleuaeth am gwrdd â gofynion perthnasol CNC, na chan brofion marchnad perthnasol eraill oedd yn canoli ar y gofynion hynny. Er bod profiad swyddogion CNC o'r bidiau a dderbyniwyd yn 2013 yn sail o wybodaeth iddynt, yr oedd y gwahaniaeth rhwng y cyfeintiau yn y gystadleuaeth honno, o gymharu â'r cyfeintiau oedd yn cael eu dyfarnu i weithredwr y felin lifio yn unig, yn sylweddol iawn. Nid oes fawr ddim yn y ddogfennaeth gyfoes i roi tystiolaeth fod swyddogion CNC wedi ystyried yn ofalus a allai'r cyfeintiau uwch ddenu diddordeb o du amrywiaeth ehangach o gwmnïau pren (h.y. cwmnïau na fidiodd yng nghystadleuaeth 2013, gan gynnwys o bosib gwmnïau heb fod â phresenoldeb ar y pryd yng Nghymru). Nid yw'n ymddangos chwaith iddynt ystyried a allasai'r cyfeintiau hynny fod wedi bod yn ddigon i annog cystadleuwyr gweithredwr y felin lifio oedd â melinau llifio yng Nghymru i fuddsoddi mewn capasiti ychwanegol er mwyn gallu trin y cyfeintiau hynny. Nid wyf yn ymwybodol o unrhyw dystiolaeth argyhoeddiadol a fyddai'n arwain at y casgliad y gellid wffio'r posibiliadau hyn fel rhai hollol afrealistig.

- 84 Petai telerau'r contractau yn adlewyrchu prisiau'r farchnad, yna ni fyddai unrhyw Gymorth Gwladwriaethol yn deillio o'r contractau, ac yr wyf yn derbyn y gall y contractau fod ar delerau'r farchnad. Fodd bynnag, nid oedd sail o brofion marchnad perthnasol i benderfyniad CNC i ddyfarnu'r contractau i weithredwr y felin lifio, ac nis cefnogwyd chwaith gan resymeg argyhoeddiadol fyddai'n cefnogi casgliad y buasai chwilio am ddarparwyr eraill o raid wedi bod yn ofer. Yn fy marn i, methodd CNC a dilyn y prosesau priodol er mwyn sicrhau y cafwyd yr allbynnau y contractiodd gyda gweithredwr y felin lifio amdanynt ar delerau'r farchnad. Mae'r methiant hwn yn codi amheuon ynghylch a yw'r contractau yn cydymffurfio â rheolau Cymorth Gwladwriaethol neu beidio. Yn wyneb yr ansicrwydd hwn, ni allaf eto roi barn reoleidd-dra ddiamed am y datganiadau ariannol.
- 85 Fel y nodwyd ym **mharagraff 75** uchod, dywedodd Prif Weithredwr Cyfoeth Naturiol Cymru wrthyf ei fod yn ystyried fod amodi'r farn reoleidd-dra yn anghymesur â'r diffygion a nodwyd a'i fod yn anghytuno â'm casgliadau ac yn dibynnu ar gyngor cyfreithiol a geisiodd CNC yn ystod fy ymchwiliad archwilio ac a rannodd gyda mi. Fodd bynnag, ceisiais fy nghyngor cyfreithiol fy hun (gan gynnwys yng nghyswllt cyngor CNC), y cytunaf ag ef ac a ddywed nad oes digon o dystiolaeth i ddod i'r casgliad fod y broses o wneud penderfyniadau yn cydymffurfio ag egwyddorion cyfraith gyhoeddus a rheolau Cymorth Gwladwriaethol. Mae'r ansicrwydd arwyddocaol sy'n bodoli yn golygu fy mod yn ystyried mai'r cam cywir a phriodol i mi ei gymryd fel archwiliwr CNC yw amodi fy marn reoleidd-dra.

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