



Cynulliad Cenedlaethol Cymru **The National Assembly for Wales**

Y Pwyllgor Cyllid **The Finance Committee**

Dydd Iau, 28 Chwefror 2013
Thursday, 28 February 2013

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Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynddi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd.

The proceedings are reported in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included.

Aelodau'r pwyllgor yn bresennol **Committee members in attendance**

Peter Black	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Christine Chapman	Llafur Labour

Jocelyn Davies	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Committee Chair)
Paul Davies	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour
Ann Jones	Llafur Labour
Julie Morgan	Llafur Labour

**Eraill yn bresennol
Others in attendance**

Kevin Ingram	Darpar Gyfarwyddwr Gweithredol, Gwasanaethau Cyllid a Chorfforaethol, Cyfoeth Naturiol Cymru Executive Director designate, Finance and Corporate Services, National Resources Wales
Dr Emyr Roberts	Prif Weithredwr, Cyfoeth Naturiol Cymru Chief Executive, Natural Resources Wales

**Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance**

Dan Collier	Dirprwy Glerc Deputy Clerk
Gareth Price	Clerc Clerk

*Dechreuodd y cyfarfod am 9.03 a.m.
The meeting began at 9.03 a.m.*

**Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions**

[1] **Jocelyn Davies:** Welcome, everyone, to this meeting of the Finance Committee. I remind you to switch off your mobile phones and any other electronic equipment, as they interfere with the translation equipment. We are not expecting a fire drill, so if you hear the alarm, please follow the directions from the ushers. We have received apologies today from Ieuan Wyn Jones.

**Goblygiadau Ariannol Sefydlu Cyfoeth Naturiol Cymru
Financial Implications of the Establishment of Natural Resources Wales**

[2] **Jocelyn Davies:** Under this item, we are looking at the legislation that will create the natural resources Wales body. I thank the witnesses for attending today. The reason that the Finance Committee has called you is that we were invited by the scrutiny committee, in this case the Environment and Sustainability Committee, to consider the affordability of the programme when we considered the Government's draft budget. Also, of course, there have been concerns about the second Order and whether there would be sufficient scrutiny of the finances involved.

[3] I shall go straight into the first question, and then, if there is time at the end, if you have any further points to make, we would be happy to hear them. How has the

implementation timetable changed, compared to the one envisaged in the original business case, and on what basis were any decisions taken?

[4] **Dr Roberts:** I guess that the main change from the original business case is the timing of the ICT changes. It was decided before I arrived as the chief executive to separate out from the legacy body systems over a faster timetable. That has meant that there have been more upfront costs for ICT than were originally envisaged in the business case, but we hope to get to the benefits quicker, as a result. That was a decision that was taken by the Living Wales programme, which preceded my appointment as chief executive, but it is one that I agree with because I think that it is in everyone's interest to have as quick a separation as possible. Having said that, this is a fairly complex area so it will take some time to get a fully convergent information technology system, because there are three very different systems at the moment. That is the main difference from the business case.

[5] **Jocelyn Davies:** We know something about the IT system because we looked at that as part of our considerations on invest-to-save. Therefore, you have more costs earlier on than you envisaged but the savings will come sooner than you had envisaged.

[6] **Dr Roberts:** Yes, that is exactly right. On the benefits side of the equation, some of them will take a little longer to come through because we are tied into existing contracts—for instance, in relation to the fleet of vehicles that the organisations have. We are looking at that profile, which may be spread over a longer time period than originally envisaged in the business case.

[7] **Jocelyn Davies:** Therefore, the savings that you mentioned would come earlier are related to the IT, but there are other things in relation to which the benefits will be as originally envisaged.

[8] **Dr Roberts:** Yes, that is right.

[9] **Jocelyn Davies:** What input did you have in the decision-making process in relation to changes to the timetable, as you mentioned, as regards ICT?

[10] **Dr Roberts:** Kevin has been involved in the Living Wales programme so he is familiar with the figures on that. Since I have been in post, I have become a client for the business case in going forward, so I have had more and more input as we have gone through this. At the end of March or the beginning of April, there will be a further look at the financial forecasts and the benefits and costs. They will be handed over to natural resources Wales so that we know exactly what the expectation is as regards benefits and costs, so that we can profile those into our budgets in going forward. So, the figures will change again but, at the point of transfer, we will have a clear set of figures in front of us that we will work to.

[11] **Jocelyn Davies:** Are you comfortable with the input and influence that you have been able to have at this point in time?

[12] **Dr Roberts:** Yes, I am.

[13] **Ann Jones:** Much of the funding announced from the Government has been sourced from underspend in other areas. Were you aware that that additional funding was being made available to accelerate your spending in 2012-13?

[14] **Dr Roberts:** Yes, we were aware of that. That relates to the ICT costs—quite a bit of that expenditure has been during the current financial year. The Welsh Government has been very helpful, because otherwise those costs would fall on natural resources Wales if they went into the next financial year. We were aware of that and we are grateful for it.

[15] **Mr Ingram:** I have been involved in the Living Wales programme for the last year, leading on finance and assets. We were certainly made aware of that.

[16] **Ann Jones:** Had the Government not been able to source that additional funding from underspend, what would the impact have been on preparations for the go-live or investiture date?

[17] **Dr Roberts:** It would have been slower in the sense that we could not have put that investment into information technology upfront. From a natural resources Wales point of view, many of those costs would have fallen into 2013-14, which we would have had to find one way or another. Meeting those costs upfront accelerated the work and the Welsh Government met the costs directly.

[18] **Paul Davies:** Byddaf yn gofyn fy nghwestiynau yn y Gymraeg. Rwyf am ofyn i chi am y ffigurau diweddaraf a'r dystiolaeth a roddodd y Gweinidog i'r Pwyllgor Amgylchedd a Chynaliadwyedd. Mae'r ffigurau a amcangyfrifwyd yn ddiweddar yn dangos bod y costau yn mynd i fod £20 miliwn yn uwch dros gyfnod o 10 mlynedd a bydd y buddiannau tua £5 miliwn yn uwch nag y rhagwelwyd yn yr achos busnes gwreiddiol. A ydych yn cytuno bod y costau diweddaraf yn adlewyrchiad teg o ystyried y cynnydd presennol a'r newidiadau sy'n cael eu gwneud ar hyn o bryd i'r amserlen adnoddau?

Paul Davies: I will ask my questions in Welsh. I would like to ask you about the latest figures and the evidence that the Minister gave to the Environment and Sustainability Committee. The recent estimated figures show that the costs are going to be £20 million higher over a period of 10 years and that the benefits will be £5 million higher than was predicted in the original business case. Do you agree that the updated costings are a fair reflection, given the current progress and the changes that are being made at present to the resourcing timetable?

[19] **Dr Roberts:** Ydw. Rydym ni yn ymwybodol a'r prif reswm pam fod y costau wedi cynyddu yw pensiynau. Gofynnaf i Kevin ddweud gair neu ddau am hynny. Rydym yn ymwybodol bod y costau wedi cynyddu, fel y mae'r buddiannau, fel y dywedoch. Rydym yn gyfforddus gyda'r ffigurau, ond, fel y dywedais eisoes, byddwn yn ailedrych ar y ffigurau ddiweddd mis Mawrth neu ddechrau mis Ebrill i sicrhau ein bod yn hollol sicr o'r amcangyfrif sy'n cael ei roi ar y costau a'r buddiannau yn mynd ymlaen. Felly, bydd adolygiad erbyn hynny.

Dr Roberts: Yes, I do. We are aware of that and the main reason why the costs have increased is the pensions issue. I will ask Kevin to say a few words about that. We are aware that the costs have increased, as have the benefits, as you said. We are comfortable with the figures, but, as I have already said, we will be looking at the figures again in late March or early April to ensure that we are absolutely sure of the estimates of the cost and benefits going forward. So, there will be a review by then.

[20] **Paul Davies:** Beth oedd eich cyfraniad chi at y gwaith o gyfrifo'r ffigurau diweddaraf hyn?

Paul Davies: What was your contribution to the work of estimating these latest figures?

[21] **Dr Roberts:** Mae Kevin wedi bod yn trafod y ffigurau gyda'r Llywodraeth a gyda'r bobl pensiwn yn Asiantaeth yr Amgylchedd.

Dr Roberts: Kevin has been discussing the figures with the Government and with the pension people in the Environment Agency.

[22] **Mr Ingram:** I have certainly been involved on the pension side. I provided information on pension contributions over the coming years, which have come from the Environment Agency pension scheme actuaries. I have been doing financial and funding

projections for NRW for the first few years of the body and the pension contributions to Environment Agency pension fund are rising significantly over that period, mainly due to the funding position of the Environment Agency pension scheme, which, last October, was about 80% funded. It is now up to about 84%, but it is fluctuating quite a lot. The main issue is increased funding contributions over the next number of years. If you look back at the economic case in the business case, you will see that the impact of that sort of pension funding issue would not have been built in to the pension case at the time. Environment Agency Wales, which is funded by the Welsh Government, would have had to find the money for that additional funding, whatever the decision of the new body. So, although those figures released were showing the funding and financial position currently, if you look strictly at the economic case of the business case and the revised numbers, they are pretty much in line with what was in the business case itself.

[23] **Paul Davies:** Rydych wedi sôn am bensïynau; ac eithrio costau sy'n gysylltiedig â phensïynau, a allwch gadarnhau p'un a yw'r sefyllfa net gyffredinol ynghylch costau a manteision wedi gwella neu wedi gwaethygu o gymharu â ffigurau'r achos busnes gwreiddiol?

Paul Davies: You have mentioned pensions; excluding the costs relating to pensions, can you confirm whether the overall net position in terms of costs and benefits has improved or worsened compared with the figures in the original business case?

[24] **Dr Roberts:** Rydym yn dal i edrych ar y sefyllfa honno. Y peth gorau i'w wneud yw edrych ar y ffigurau ddiwedd mis Mawrth i weld yn hollol beth yw'r costau a'r buddiannau bryd hynny. O'r ffigurau y mae'r Gweinidog wedi'u paratoi, mae wedi gwaethygu ychydig, ond nid wyf yn meddwl ei bod wedi newid yr achos busnes cymaint â hynny.

Dr Roberts: We are still looking at that situation. The best thing to do is to look at the figures at the end of March to see exactly what the costs and benefits will be then. From the figures that the Minister has prepared, it has worsened somewhat, but I do not think that it has changed the business case substantially.

[25] **Paul Davies:** Felly nid ydych yn credu y bydd y ffigurau'n gwaethygu hyd yn oed yn rhagor ar ôl ichi ystyried y ffigurau ymhellach.

Paul Davies: So, you do not believe that the figures will deteriorate even further after you have considered the figures further.

[26] **Dr Roberts:** Mae'n anodd rhagweld unrhyw newidiadau mawr eraill yn dod i mewn ar hyn o bryd. Yr unig beth sy'n rhaid inni edrych arno yw'r costau dros y blynyddoedd—pryd y bydd y costau a'r buddiannau yn dod i mewn. Felly, efallai bydd y proffil yn newid tipyn bach, ond nid wyf yn meddwl y bydd llawer o gynnydd neu ostyngiad yn y costau eu hunain.

Dr Roberts: It is difficult to foresee any other significant changes coming in at the moment. The only thing that we have to look at is the costs over a period of years—when the costs and benefits will kick in. So, the profile may change somewhat, but I do not think that there will be any increase or decrease in the costs themselves.

[27] **Paul Davies:** O ystyried y dyraniadau ychwanegol yn 2012-13 a 2013-14, a ydych yn hyderus y gallwch sicrhau'r buddiannau a ddisgrifiwyd yn yr achos busnes gyda'r cyllid sydd ar gael ichi?

Paul Davies: Considering the additional allocations in 2012-13 and 2013-14, are you now confident that you can secure the benefits laid out in the business case with the funding that is available to you?

[28] **Dr Roberts:** Byddwn yn adolygu'r ffigurau hynny i gael yr union ffigwr ar gyfer y flwyddyn nesaf. Rydym yn ceisio gwneud

Dr Roberts: We will be reviewing those figures to get the exact figure for next year. We are trying to ensure that we can meet the

yn siŵr y gallwn gwrdd â'r costau yng costs in the national resources Wales budget
nghyllideb cyfoeth naturiol Cymru a chael and ensure those benefits.
buddiannau allan.

[29] **Paul Davies:** Felly, ar hyn o bryd, **Paul Davies:** So, at present, you are still not
nid ydych yn siŵr o hyd beth fydd y sefyllfa. sure what the situation will be.

[30] **Dr Roberts:** Nid ydym yn siŵr o'r **Dr Roberts:** We are not sure of the exact
union ffigurau, ond rydym yn gweithio'n figures, but we are working closely with the
agos gyda'r Llywodraeth i wneud yn siŵr ein Government to ensure that we understand
bod yn deall beth fydd y ffigurau hynny. what those figures will be.

[31] **Peter Black:** I have a question on the letter that you wrote to the Chair of the
Environment and Sustainability Committee. There is a table at the back of that that has the
cash realisable benefits.

[32] **Dr Roberts:** It was not our letter, I do not think.

[33] **Peter Black:** It is the Minister's letter, sorry. There is a list of benefits there and it
says that there is a 'CIS net benefit' of £6.4 million. Could you clarify what that is?

[34] **Jocelyn Davies:** Do you have that?

[35] **Mr Ingram:** I do not have that.

[36] **Jocelyn Davies:** We will show you now.

9.15 a.m.

[37] **Mr Ingram:** I do not have that. I know what the—I am sorry, you said CIS. It is
another acronym for ICT costs. I am aware of that acronym. I do not recognise the number,
but that is what that stands for.

[38] **Peter Black:** Right, so the Minister is now saying that the CIS—the ICT net benefit
costs are £6.4 million over the total period.

[39] **Dr Roberts:** Yes, I think that that is right. What that represents is that although we
are putting in the investment upfront on IT, we will get benefits from that kind of profile over
the years. The existing contract with the EA is quite expensive. So, when we come out of that,
we expect to make savings.

[40] **Peter Black:** We might come back to ICT later, but you are using Atos, the
Government contractors, are you not, for your ICT?

[41] **Dr Roberts:** Yes, currently.

[42] **Peter Black:** Is Atos your proposed—

[43] **Dr Roberts:** No decision has been taken on that. We will need to develop an
information strategy, including a supplier. So, that is the current position.

[44] **Mr Ingram:** That is getting us ready for day one.

[45] **Peter Black:** Okay, I do not want to—

- [46] **Jocelyn Davies:** How will you select your supplier?
- [47] **Dr Roberts:** First of all, we will decide what we want to do and what kind of system we want. We will probably tender for it.
- [48] **Jocelyn Davies:** It will probably go out.
- [49] **Dr Roberts:** Yes.
- [50] **Jocelyn Davies:** Julie, we will go on to your question.
- [51] **Julie Morgan:** Good morning. At what point does the responsibility pass to you, the executive, from the Welsh Government, namely the responsibility for resourcing, managing et cetera?
- [52] **Dr Roberts:** On 1 April, it will come across to us.
- [53] **Julie Morgan:** On 1 April, that will come across.
- [54] **Dr Roberts:** That is right.
- [55] **Julie Morgan:** How will you monitor and evaluate the performance against the benefits estimated in the business case and ensure that they are delivered at least equally to what is proposed?
- [56] **Dr Roberts:** It is important to us and to the board. We will put in place a benefits realisation plan. We will monitor the benefits, and part of Kevin's job will be to monitor those benefits, make sure that we are recording them and can be scrutinised on them. That is very important to us.
- [57] **Julie Morgan:** How will you report that to the Welsh Government?
- [58] **Dr Roberts:** We have an arrangement that we report every quarter on our business figures, so that will be part of that report to the Welsh Government. Our board will also want to see those figures.
- [59] **Julie Morgan:** That is fine.
- [60] **Christine Chapman:** Further to that, what would be the impact if the cost or benefit position is different from anticipated in either the short or the long term?
- [61] **Dr Roberts:** If we cannot meet the benefits or if the costs are higher, we will have to look at that in the context of our overall budget. Part of Kevin's job, again, will be making sure that we can afford that and any other pressures that might happen to come our way. In fact, at the moment, and we had a discussion at the board yesterday about this, we are setting our budget for 2013-14. So, we are making sure that we are capturing all those costs and benefits that we have and that that is affordable at the end of the day.
- [62] **Christine Chapman:** To follow that, we know that the Minister said in his evidence that the assumptions in the business case are nearly two years old now and that your executive will need to revisit them. What plans do you have to update these assumptions on which the predicted costs and benefits in the business case are based?
- [63] **Dr Roberts:** This is part of what I was saying to Mr Davies. What will happen is that we, and Kevin in particular, will be working with the Welsh Government, so that we have the

final forecasts of costs and benefits set out clearly at the end of March or beginning of April. They will effectively be handed over to us. The benefits that the Minister expects will be in our remit letter for 2013-14. So, those will be our targets to meet going forward. It will be very transparent from that point on.

[64] **Mr Ingram:** We are doing that at the moment. It is an ongoing process over the next few weeks.

[65] **Jocelyn Davies:** So, you accept that the assumptions are outdated. They are two years old—

[66] **Dr Roberts:** They certainly need updating, yes.

[67] **Jocelyn Davies:** How do you have updated figures from outdated assumptions?

[68] **Dr Roberts:** Some of the costs have changed anyway, because the pensions, for instance, are a new factor coming in. We have a clearer idea of the IT profile now on the cost side, and we have a better idea of the benefits profile as well. I have come into this with a fresh pair of eyes, and so I am seeing things in there and asking, 'How are we expected to meet those kinds of costs?' That is part of the discussion that we are having. I do not think that it affects the overall position, but, as I said to Mr Davies, it is the profile that might vary.

[69] **Jocelyn Davies:** So, the figures that are now being presented are not actually based on the two-year-old assumptions. Those assumptions, in fact, are being updated, but we have not actually seen them. Is that the case?

[70] **Dr Roberts:** We have started with those and we are updating from that. The headings, and everything like that, are absolutely correct, but what we are trying to do is put a bit more accuracy into the figures going forward.

[71] **Jocelyn Davies:** Chris, are you happy with that?

[72] **Christine Chapman:** Yes, thank you.

[73] **Jocelyn Davies:** Mike, we will move on to your questions.

[74] **Mike Hedges:** Could you update the committee on progress towards a functioning IT system for the start date?

[75] **Dr Roberts:** There is a lot of work going on at the moment, so we will have a fully functioning system. We will have an e-mail system across natural resources Wales and a telephony system. We are putting an intranet in place. We will have the internet and a document management system in place across natural resources Wales. However, as I intimated earlier, the real challenge is to converge what are essentially three quite distinct systems into one. We have set ourselves a target of doing that within two years, maybe a bit longer. The Environment Agency IT system is particularly complex, with a number of applications, and I want to be absolutely sure that we are able to cover those applications if we need to use them before we withdraw from the EA system. We need to look at that in its entirety.

[76] **Mike Hedges:** I remember going through local government reorganisation, and we took a very simple approach—we took one of the systems and merged everything into that one system. You have not taken that approach. Why?

[77] **Dr Roberts:** That is probably what we will be doing. We will be setting out our own

information system, but it is that transition from the legacy systems into that that will bring the complexity. The difference is that most of the systems—particularly that of the Environment Agency, and to some extent the Forestry Commission—are very complex. On some of the systems there is restricted access, and these are systems that have been developed over years, so in moving to that we need to make sure that we do not drop anything. We are quite clear about the implications of that.

[78] **Mike Hedges:** Thank you for that answer. Two points come out of it. First, surely every system has restricted access and levels of control. You would not want everybody to act as a systems manager, would you? Secondly, which of those systems have you chosen as the one to build upon?

[79] **Dr Roberts:** It is perfectly possible that, for some of the systems, there will be very restricted access because we will be accessing police databases and things like that. That will continue, and we will have to find a way through that. In the longer term we might be adopting a cloud-based system, so we might be going in that direction as opposed to effectively taking one of the existing legacy systems.

[80] **Mr Ingram:** During my involvement over the last year we have not just been talking about three different systems. There are three core finance and HR systems across the three organisations, but then around that there are several hundred different applications, some of which are integrated into those systems and some of which are standing alone. It is a fairly complex situation, and I guess that the systems that I am closely involved with, which are the finance and HR systems, have very different functionality. Obviously the forestry system is based very much around the sale of timber, and EA's is very different. We are going through that, looking at what the requirements of the new organisation are before we make that decision.

[81] **Mike Hedges:** I will stop asking about IT—this will be my last IT question, honest.

[82] **Jocelyn Davies:** I know that Peter wants to come in on an IT point, but you have one more question.

[83] **Mike Hedges:** Payroll is always restricted in every organisation, and yours is probably even more restricted. When we put three very diverse organisations together—Lliw Valley Borough Council, Swansea city council and West Glamorgan County Council—we probably had more systems and a more diverse structure, but we still managed to use one as the base and then feed the others into it. Why would that not have been an easier and simpler option for you? I am still not quite sure about that.

[84] **Mr Ingram:** That may still be the outcome on the main finance/HR system. At the moment, rather than jumping to a decision on what is the best system, we are looking at the requirements and then we will consider the existing systems as well.

[85] **Mike Hedges:** Sorry—I lied about that being my last question. If the Forestry Commission has specific forestry things, why cannot you keep the forestry-specific systems, in the same way as West Glamorgan council kept the education-specific systems, and just integrate them into the system? Let us be fair: everything is held on ASCII code, is it not?

[86] **Dr Roberts:** That might be the outcome, but my understanding is that they are very different types of businesses. The other point, which as accounting officer I am very conscious of, is that some of these systems are quite expensive. When we invest in this, I want to make sure that we have a value-for-money system. We may not need the complexity of some of the existing systems. We need to look at this in the round and it will be my objective to get the best value for money out of a system going forward.

[87] **Jocelyn Davies:** Mr Roberts, if you get value for money out of an IT contract, you will get a St David award, I think. [*Laughter.*]

[88] **Peter Black:** I just want to come back to this £6.4 million of realisable benefits from the ICT system. Can you quantify where those benefits will come from?

[89] **Dr Roberts:** It will largely be, at the end of the day, withdrawing from the Environment Agency system, which is particularly expensive.

[90] **Peter Black:** It is costing that much money—

[91] **Dr Roberts:** It is costing more.

[92] **Mr Ingram:** We are currently in the process of agreeing service costs for the EA for the first year of the new body; we will be paying around £13.5 million to the Environment Agency. Of that figure, between £8 million and £8.5 million is for IT.

[93] **Jocelyn Davies:** When will you be in a position to be making the decision?

[94] **Dr Roberts:** What I want to do is develop an information strategy; that is a real priority for us going forward. I am hoping that we will be having that discussion and come to a decision within about three months of the formation of natural resources Wales.

[95] **Peter Black:** This £6.4 million will be identifiable in terms of the money that you are paying out for contracts, so you will be able to say, 'At such and such a stage, we are paying out £8 million to £9 million, and as of today, we are paying out £6 million to £7 million'. That is how you are going to be able to quantify that.

[96] **Dr Roberts:** That is correct.

[97] **Peter Black:** It is not in terms of efficiencies or stuff that is more difficult to quantify.

[98] **Mr Ingram:** No, it should be in terms of financial figures; we should be able to do that to specific contracts and third parties.

[99] **Peter Black:** Okay. I am surprised that the Wales Audit Office has not picked up on the Environment Agency ICT system.

[100] **Jocelyn Davies:** When figures are available to you, do you think that you could supply them to us?

[101] **Dr Roberts:** Yes, of course. I am expecting that the updated business case and figures at the end of March will be publicly available. I am sure that that will be the case.

[102] **Jocelyn Davies:** Okay, thank you. Mike, you have some other questions on back-office assumptions.

[103] **Mike Hedges:** Could you update the committee on how progress is being made in terms of setting up human resources and finance services in Wales, and how confident you are that these will achieve the savings assumptions in the business case and in your profile of savings?

[104] **Mr Ingram:** On the financial nature, this comes back probably to your previous

question about systems where we have the three finance and HR systems. The one point that I wanted to make before was that two of three systems are owned by parent body companies at the moment, and only one of those is within the control of the new body. So, the Forestry Commission Wales system is controlled by Forestry Commission Great Britain and the Environment Agency by the Environment Agency in England. What we are looking at is building the business requirements for a new system, and making a choice on whatever finance/HR system we are going to use, which could be the current Countryside Council for Wales system, and that will be the driver for change within finance and HR, which is the cost base that we have.

[105] Currently within the first year, on the finance side we will have three different finance teams, each operating on three different finance systems, doing three different lots of payable accounts, with two different payrolls, because one of those is being merged. However, when we go on to a new single system, which will hopefully be rolled out from April 2014 onwards, that will allow us to deliver the savings within the business case in finance and HR. I am confident that we will deliver those, and we should be able to deliver them at a quicker pace than stated in the business case.

[106] **Mike Hedges:** What I do not understand is why you cannot just put everything on the one payroll and transfer the data across and have everybody on one payroll, no matter which one it is. A payroll system is, in general, a relatively simple system.

[107] **Mr Ingram:** That is the plan, but within the timescale for day one, because we are running two different pension schemes, we could not get one of the existing payroll systems to do that. You are right; we will move to one payroll.

[108] **Mike Hedges:** Tell me if I am wrong, but all a payroll system does with pensions is take the money off and allocate it to a third party.

[109] **Mr Ingram:** It does, but, certainly within the local government pension scheme, there are different calculations about different contribution rates. We took advice on whether we could use one of the existing payroll systems to do that and we were told that that was not possible in the short term.

9.30 a.m.

[110] **Jocelyn Davies:** Is it because there are different terms for the pensions of the people coming together, and so it is a complication in terms of calculating how much to take?

[111] **Mr Ingram:** We will have two different pensions, but also four different sets of terms and conditions on day one, so there is quite a lot of complexity around payroll on day one.

[112] **Dr Roberts:** I think the answer to Mr Hedges's question is that they are three very different businesses; they are not all local authorities. That is why it is quite complex and why it will take time to select the right system here.

[113] **Mr Hedges:** Yes, but pension schemes are all relatively straightforward—you take a percentage of someone's pay off them and pay it into a scheme; that is what all pension schemes do. Have I missed a level of complexity in that?

[114] **Dr Roberts:** Well, there are two pension schemes here: one is funded and one is unfunded. They are not three local authority pension schemes.

[115] **Mr Hedges:** No, but—. Sorry, Chair, I will stop on this, but—

[116] **Jocelyn Davies:** We should say that you know a bit about pensions, because you are a pension trustee, as are Peter and I. So, we are not complete novices when it comes to pensions, although we do not have to do the taking of contributions. Do you want to press your point?

[117] **Mike Hedges:** No, I will not.

[118] **Peter Black:** May I ask a question? In terms of the data on the three separate systems, can you confirm that those data are compatible with the new system, because sometimes there are compatibility issues in setting up a new system?

[119] **Mr Ingram:** Sorry, you are asking whether it is compatible with the new system, are you?

[120] **Peter Black:** Yes. If there are three separate systems, there will be three separate issues in terms of compatibility and transferring the data into one system, and converting those data may involve quite a lot of person power. Have you accounted for that?

[121] **Mr Ingram:** We are not at that stage yet. We have looked at the business requirements and the business specification for a new system, but we have not looked at the specifics of how we would convert data. We have not chosen the new system.

[122] **Peter Black:** In terms of ICT systems, have you taken account of the transition costs for, again, transferring data, applications and so on in terms of costings and exiting existing contracts?

[123] **Mr Ingram:** Yes, we have.

[124] **Jocelyn Davies:** There is some experience of the merging of systems and of transferring people with different pension entitlements and so on. We have seen that in the past. Are you able to capitalise on past experience in Wales in terms of the issues that you mention today?

[125] **Dr Roberts:** That is a very good suggestion, Chair. We will be able to do that. We are conscious of the mergers of bodies into the Welsh Government in 2006, for instance. By all means, we will take advantage of that.

[126] **Jocelyn Davies:** There may very well have been issues around pensions in relation to that. People may still have headaches about that, I do not know, but let us not repeat past mistakes. Mike, have you finished your questions?

[127] **Mike Hedges:** I have one last one. Could you update the committee on progress on negotiations with the Environment Agency and Forestry Commission UK on charges for shared and expert services, and also on whether such charges are in line with assumptions in the original business case?

[128] **Dr Roberts:** Those are very well advanced; we have not signed them off yet, but we will do so before the end of March. We are currently looking at a service charge to the Forestry Commission UK of some £3.5 million and, as we mentioned earlier, a £13.5 million net service charge to the Environment Agency.

[129] **Jocelyn Davies:** Peter, shall we go on to your questions?

[130] **Peter Black:** Moving on to human resources issues, is the harmonisation of pay

grades and terms of conditions in the three organisations that are being merged as anticipated in the business case and how are you tackling that?

[131] **Dr Roberts:** On day one, everyone will transfer into natural resources Wales on their existing terms and conditions. We will then need to put a process in place for that harmonisation. We will need to work with the unions on that. So, that will start on 1 April.

[132] **Peter Black:** Are you expecting many redundancies? Are those in line with assumptions?

[133] **Dr Roberts:** As you may know, we have submitted an application to the Welsh Government for a voluntary early release scheme. Clearly, in some areas, three functions will merge into one, so, if people want to leave, we have to incentivise that. We are awaiting the outcome of that. However, if that is successful, yes, that will reduce the number of staff.

[134] **Peter Black:** So, has the number of staff leaving reached anticipated levels and do you expect any gaps in expertise as a result?

[135] **Dr Roberts:** Not to date; I do not think that we have seen a number of staff leaving.

[136] For completeness, I should say that we are in discussion with some senior staff members in terms of voluntary early release this financial year. That is a small number of senior staff. I am sorry, but what was the second part of your question?

[137] **Peter Black:** Are there likely to be any expertise gaps?

[138] **Dr Roberts:** Yes. We are very conscious of this, particularly, again, on the Environment Agency side, because of the separation. So, we have gone through an exercise to see what those skill gaps might be and we are recruiting into those posts as we speak.

[139] **Jocelyn Davies:** The business case had few details in relation to this aspect, so how did you set out about estimating the likely costs and the benefits in terms of redundancies?

[140] **Dr Roberts:** Based on experience with previous voluntary early release schemes, there is quite a quick payback from that. Can you talk about the estimates that we put in, Kevin?

[141] **Mr Ingram:** The estimates that we put in for the invest-to-save bid were based on history within the organisations that are coming into the current business. A bid went in for £5 million and we based that on the history on the benefits—

[142] **Jocelyn Davies:** So, does your invest-to-save bid, which we are not looking at today, of course, mirror what is in the business case?

[143] **Dr Roberts:** I do not think that there was an invest-to-save bid in the business case. I think that it was mentioned as a possibility, if I remember rightly.

[144] **Jocelyn Davies:** Yes, but are the figures that you put in for your bid the same as what was contained in the business case? Obviously, we would not see the invest-to-save bid. Are those figures what was contained in your business case in relation to this aspect?

[145] **Dr Roberts:** They will be reflected in the final figures that we agree at the end of March, yes.

[146] **Peter Black:** Are you aware of the merger having any impact on the three existing

bodies in terms of delivering services and meeting their priorities in 2012-13, and will you be able to hit the ground running as a result of all these changes and redundancies et cetera?

[147] **Dr Roberts:** I do not think that the merger has impacted at all on current performance. As far as I am aware, all three bodies are meeting their targets. As for hitting the ground running, yes, absolutely. There is a lot of work going into making sure that there is a smooth transition into the new organisation. So, we hope to get up to speed very quickly. Certainly, there is a lot of preparation work going into that.

[148] **Peter Black:** How long do you estimate it will be before you have your final staff structure in place, because it is not going to be at day one, is it? It will take two or three years to settle down.

[149] **Dr Roberts:** The process that we are going through at the moment is that we appointed the executive director team just before Christmas, we are now working on the next tier, the leadership team, and we hope to make those appointments by about the end of March or the beginning of April. We will then have a process of looking at each of the teams within natural resources Wales. Where it makes sense to integrate functions, we will do that. There might be some functions that are quite specialised, and we will leave those alone. It will take a few months to go through. The other thing that is important to me is that staff are engaged in that process, because they know the business and they know the links that they can make. So, I do not want to rush into that. We need to get that part of the process absolutely right. So, it will take a few months to get into that.

[150] **Peter Black:** It is just that the table that the Minister provided to the committee refers to quite substantial savings between 2018 and 2023. I think that the figure was £6.3 million on staff costs and £495,000 on senior management salaries. So, it seems to be a lot of savings later on, after the body has settled down.

[151] **Dr Roberts:** If I understand those figures correctly, they are aggregated over a number of years. So, that is why it appears—

[152] **Peter Black:** You have annual costs right up to 2018, and then there are continued savings right up to 2023.

[153] **Dr Roberts:** Obviously, if you take out certain costs now, those will carry on for 10 years.

[154] **Peter Black:** You cannot count them twice, can you?

[155] **Dr Roberts:** No, you cannot count them twice. As I understand it, this table is about ongoing savings, so it is—

[156] **Jocelyn Davies:** So, if someone is made redundant this year, you carry on saving their salary. Is that the way that it works?

[157] **Dr Roberts:** That is exactly right. Yes.

[158] **Jocelyn Davies:** I suppose that Peter's point is that you cannot keep double-counting.

[159] **Peter Black:** Your total cost is £6.3 million on staff costs.

[160] **Dr Roberts:** Yes. I get you. That is the cumulative figure over the 10 years. So, it is an average of £630,000 each year over 10 years. That is where you get your £6.3 million.

[161] **Peter Black:** Is that a new saving of £630,000 each year or is that—

[162] **Dr Roberts:** No, it is a continuation.

[163] **Mr Ingram:** Those are the assumptions that the business case used, from what I understand.

[164] **Peter Black:** Okay.

[165] **Jocelyn Davies:** Okay. Shall we go on to your question, Ann? We are back to pensions.

[166] **Ann Jones:** The Minister announced that the civil service pension scheme will be retained by NRW as the open scheme, and he has said that he estimates that the costs will increase by around £29 million over 10 years. Does that affect the overall affordability of the merger?

[167] **Mr Ingram:** The number that was quoted is in relation to the closed scheme, which is the Environment Agency pension scheme, and the funding position around that. The vast majority of that is related to the funding position of the EAPF in the early years, from 2014 onwards. On 31 March 2013, there will be the triennial valuation of the EAPF scheme, which will specify what that deficit is, and the deficit recovery programme. The assumption at the moment is that, from 2014 onwards, NRW will pay increased contributions—of, in that year, I think, about £4.5 million. Although that does not directly affect the business case and the options in the business case, because that would have been payable anyhow, what it does is put funding pressures on to NRW from that year onwards, and we will have to find the funding to pay those contributions.

[168] **Jocelyn Davies:** You say that it would have been payable anyhow, but it would have been payable by somebody else. So, that makes a big difference. Are you confident in the accuracy of that estimate?

[169] **Mr Ingram:** We will not know for certain until after the triennial valuation that will be carried out at the end of March. I am told that we will not have the final figures on that until five or six months later than that. The actual number itself is made up of two elements. One is the funding position, and the other is because we are moving to a closed scheme on the EAPF, so there will not be any new members coming into it. That also impacts on the way that that funding position is calculated. Those are the two elements. Those are the best figures that we have been given at the moment by the EAPF actuaries.

[170] **Ann Jones:** So it is a guesstimate; you have to wait and see. It could go up.

[171] **Mr Ingram:** It could—or it could come down, depending on the funds.

[172] **Ann Jones:** It is whether the glass is half-full or half-empty.

[173] **Mr Ingram:** Those numbers were based on the situation at the end of October, when I think the EAPF funding position was 80%. The number I was given at the end of December was 84%, but, at the moment, I would not like to predict what that will be at the end of March.

[174] **Jocelyn Davies:** These are sums that you have absolutely no control over whatsoever. They are what they are, but they will fall on the new body.

[175] Chris, shall we come to your question?

[176] **Christine Chapman:** This is a short question, really. We know that the new body will become VAT-exempt at the end of March. I just wondered whether you could tell me what the implications of that would be, and also how the revenue-raising functions of Forestry Commission Wales would be treated in terms of value added tax.

[177] **Mr Ingram:** With VAT, you are correct: we are going for section 33 VAT status from day one. An Order has been laid in Westminster to put that through. That is going through at the moment, and it will have come through before 1 April. So, that will be in place. That will allow us to reclaim all of our input tax for the new body. The effect of that is between £1.2 and £1.3 million per year in benefit to the body, but what happens is that Treasury will then be reducing the grant that passes through to Wales and then to NRW by taking that off, so for NRW it will be neutral on that position. On output and any sales that we do, those are VAT-able sales and will remain so. The forestry commercial part of the business always applied VAT previously, and that will carry on after day one.

[178] **Jocelyn Davies:** So, then you will have surety in terms of the VAT situation, but there will be a slight decrease for the Welsh Government in terms of the block grant to account for it.

[179] **Mr Ingram:** Yes, it will be funding-neutral for NRW.

[180] **Jocelyn Davies:** Overall, it will be funding-neutral, but it makes a big difference to you, because you could have been paying VAT.

[181] **Peter Black:** If it is funding-neutral, what is the advantage of being VAT-exempt?

[182] **Jocelyn Davies:** Well, for the bodies it makes a difference because you would have been paying VAT and you would not have been having the money from the Treasury in the block grant. It is just being paid in a different way. It is funding-neutral—

[183] **Peter Black:** It just seems to add a bit of extra administration to the process.

[184] **Jocelyn Davies:** Well, it is funding-neutral for the Treasury.

[185] **Mr Ingram:** It is funding-neutral for NRW. You are right—there is no financial benefit to NRW, but we had to agree a common VAT approach for the new business, so it is allowing us to do one VAT approach and one VAT return. It gives us that consistency, but you are correct: funding wise, it does not give us any benefit.

9.45 a.m.

[186] **Jocelyn Davies:** The Treasury does not lose because it deducts it from elsewhere.

[187] **Julie Morgan:** Are you aware of any additional functions that you may have to take on that are either in the present Order or in a different Welsh Government policy that would mean that you would have to take them on? Will you be able to resource them?

[188] **Dr Roberts:** Again, I think that the Minister has explained that marine consents and the wildlife licensing functions are coming into natural resources Wales. We have reached agreement in terms of the financial transfer for marine consents, so that is coming into natural resources Wales. Some other functions are going out from legacy bodies into the Welsh Government—forestry policy, for instance. Those netting off examples are happening.

[189] **Julie Morgan:** Are the resources there? Are they costed in?

[190] **Dr Roberts:** Yes, we have reached agreement on marine consents. We have reached agreement on a figure, which is transferring in, and that will pay for staff to carry out those functions.

[191] **Jocelyn Davies:** When you create an environmental body, I can imagine that, in the future, you may very well be given other tasks to do, or there will be expectations about what you will do. What arrangement have you got with the Welsh Government in terms of extra duties in the future that may very well come your way?

[192] **Dr Roberts:** We have not had any formal discussions at all about that possibility, although I am aware that there are some suggestions in the air around that. It will be the same approach. There is a common methodology for agreeing financial transfers alongside functions. If we came to that point, there is a methodology that we would apply to transferring in. At the moment, the only functions that are transferring in are those that you know about.

[193] **Jocelyn Davies:** Mike, do you want to ask a question?

[194] **Mike Hedges:** I think that we have covered it.

[195] **Jocelyn Davies:** It was covered in the invest-to-save question, was it?

[196] **Mike Hedges:** Yes, you covered it earlier, Chair.

[197] **Jocelyn Davies:** Sorry if I stole your question by interrupting earlier.

[198] **Mike Hedges:** It fitted in better where you asked it.

[199] **Jocelyn Davies:** Thank you, vice-chair. [*Laughter.*]

[200] We have run out of questions before we have run out of time, so thank you very much. Is there anything that we have not covered that you would like to add?

[201] **Dr Roberts:** I do not think so. I will just say that we are on course for a successful launch on 1 April. There is a lot of work going on at the moment. We are pretty sure that the expectations are very high, but our job is to live with that. It is a fantastic opportunity for Wales, and we need to make the best of it. We are looking forward to that challenge.

[202] **Jocelyn Davies:** Thank you very much.

9.47 a.m.

Papurau i'w Nodi Papers to Note

[203] **Jocelyn Davies:** I have one paper to note, which is the minutes of the previous meeting. Is everyone happy with that? I see that you are. Dr Roberts, we will send you a transcript for you to check for factual accuracy.

*Daeth y cyfarfod i ben am 9.48 a.m.
The meeting ended at 9.48 a.m.*