

Mike Hedges, AM
Chair of Climate Change, Environment & Rural
Affairs Committee
National Assembly for Wales
Cardiff Bay
Cardiff, CF99 1NA

01 April 2019

Dear Mike

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

Thank you for the opportunity to talk to you and the committee about our performance for the period from November 2017, and the opportunity to provide further evidence following that session last Month. We have set out the additional areas of questioning in bold italics, as they appear in your letter dated 6 March, followed by our response. I hope this is all clear.

1. Performance measures

‘We would therefore welcome further clarification on this issue. We would like you to provide details of NRW’s long-term and medium-term measures, in particular what they measure, how they interact, and when and where they will be published’

We have consistently and regularly measured our performance since the production of our first Corporate Plan in 2014, as part of our performance framework.

In 2014 we developed an annual dashboard, aligned to our Business Plan, which provided a detailed report on the progress of some 20 measures and 15 indicators to our Board three times per year. Reports detailing the measures and indicators were published on our website following Board scrutiny.

Our second Corporate Plan, published in 2018, followed on from the Well-being of Future Generations (Wales) Act 2015 and the Environment (Wales) Act 2016. As we work within this new legislation, we have revisited our performance framework: we now report on our dashboard linked to the Business Plan four times a year rather than three. To afford greater scrutiny of in-year performance we increased the number of annual measures reported and re-evaluated how to best scrutinise indicators following publication of our first

State of Natural Resources Report. The dashboard is published separately and is part of our Annual Report.

Our medium-term measures have not been published as a separate set. We describe our progress in delivering our Corporate Plan in a more qualitative, narrative way in our Annual Reports, building on and complementing dashboard and long-term indicators.

Long-term indicators are being developed to sit alongside, and in some cases be included in, the Welsh Government's set of 46 National Indicators. Suggestions for these long-term indicators are given at the end of each Well-being Objective in our Corporate Plan to 2022. Further long-term indicators will be published as part of our second State of Natural Resources Report due to be published in December 2020, with an interim report prepared for December 2019.

2. Organisational redesign

“We would like details of any financial savings arising from the organisational redesign, as well as your longer-term plans to make up the estimated savings of £10 million per annum.”

The organisation design programme had two main objectives. The primary objective being to design a structure for the organisation that would facilitate delivery of NRW's new purpose, ambitions and our organisational design principles. The other objective is to ensure that the organisation is sustainable from a financial perspective into the future.

When we began to review our business in 2015-16 we had a target of realising revenue savings and achieving additional income of £15m per annum by 2019-20. That target was based on certain assumptions at the time about future income growth and Grant in Aid levels.

We realised £5m of savings through the implementation of the Senior Management Review and other measures before the beginning of 2017-18. We now have far more clarity on what our funding is going to be in 2019-20. The situation has improved – there has been no cash reductions in our revenue Flood Grant in Aid and our commercial income has improved significantly. Nevertheless, our revenue Non-Flood Grant in Aid has reduced by 5% per annum in 2018-19 and we expect another 5% reduction in 2019-20 (total reduction of £6m p.a.). These changes in our financial situation have allowed us to develop a structure that is 1,760 FTEs rather than the 1,600 FTEs originally planned.

We have designed the management and team leader structure to be resilient to future changes in funding. This means we have larger teams that can flex depending on the amount of funding available meaning future funding changes can be managed without recourse to significant structural re-design.

It is recognised, however, that the resource allocations and funding streams have different impacts on the different functions of the organisation. Whilst the overall numbers within the

organisation have not reduced there is an impact on those activities funded through the Grant in Aid (see below).

“We would like further details of how and when this monitoring work will be taken forward”

Monitoring how the new organisation is working, will require a range of measures to show achievement of the organisation’s structural principles and targets. We will need to show how the ways of working are improving not only external deliverables, but also the effective and efficient resource use, risk management and cultural improvements.

We will do this through our performance framework and delivery of business plan and corporate plan outcomes. There will be measures of internal effectiveness for budget and risk management, customer feedback, partner feedback and internal staff feedback.

Our new Director of Corporate Strategy and Development will undertake the work to identify the measures to be tracked from 2020-21 when the Organisation Design Programme has completed, and ways of working have had time to be embedded. The outcomes of this will be reported at the end of the 2022 Corporate plan cycle.

“We would like details of the findings of this work, as well as the steps taken to address pay differentials if any were found”

Our Job Evaluation Scheme, which was implemented from 1 January 2018, enabled us to apply a fair methodology to assess the relative ranking of all roles in NRW and provided the opportunity to develop a new salary scale for all grades using a pay modelling process.

In developing our pay model, we agreed some principles with the Trade Unions, these being:

- a) it had to meet all legal obligations
- b) to have grades for similar roles considered to be broadly of the same ‘value’ and
- c) to deliver a sustainable and affordable model.

We worked with external professionals who provided their independent expertise throughout the pay modelling process to consider and provide:

- a) current equal pay scenarios and how they could be incorporated into the design of the pay model
- b) Equal Pay audits of the current and future position
- c) a full Equality Impact Assessment to ensure that the gender pay gap was acceptable within the guidance issued by the Equalities and Human Rights Commission.

The model agreed through collective bargaining successfully eliminated any pay differentials and this was endorsed by a full Equality Impact Assessment that concluded:

- The proposed pay structure improves the gender pay gap on a grade by grade basis. As employees progress through the structure with annual increments the gap will narrow even further on a grade by grade basis.

- The application of the Job Evaluation process and design of the grading structure is acceptable and demonstrates a consistent approach to the development and implementation of the new structure.
- The positioning of grade lines although varied in grade width does not appear to have adversely affected the gender pay gap. The model has been developed with understanding of the organisational hierarchies and the line of best fit through the Job Evaluation outcomes.
- The number of scale points or years of progression within the grades are within acceptable criteria.
- The proposed changes bring a consistent and simplified approach to pay this should lead to a more fair and equitable system.

3. Annual Report and Accounts

“We would like you to expand on your assertion and to explain how you will satisfy yourself that you have obtained sufficient and appropriate assurance before signing off next year’s Annual Governance Statement and accounts, including the Governance Statement”

When I gave evidence to the committee relating to the potential that NRW’s accounts may be qualified for 2018-19 due to historical issues I was referring to the fact that we may have received income during 2018-19 from a type of contract (standing sales plus) that had been agreed in previous years, which the Grant Thornton Review identified as potentially irregular. As part of our on-going action plan in relation to this we have stopped letting any new standing sales plus contracts and are looking to close down ongoing contracts in negotiation with our customers.

I am, as the Accounting Officer, personally responsible for the Governance Statement, which outlines how I have discharged my responsibility to manage and control the organisation’s resources during the course of the year. A key component of the Governance Statement is to demonstrate corporate governance and risk management. The statement is informed by work undertaken throughout the accounting period to gain assurance about performance and risk management.

In its preparation I will be informed by:

- the views of NRW’s Audit and Risk Assurance Committee on the assurance arrangements;
- the opinion of NRW’s Head of Internal Audit and WAO external audits on the quality of the systems of governance, management and risk control;
- assurances from senior staff using a Certificate of Assurance that is supported by an Internal Control Checklist that each of my Executive Team is required to complete
- feedback from within the organisation about our work, the use of resources, our approach to risk management responses to risks, and the extent to which in-year budgets and other targets have been met.

4. Area Statements

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

Work to develop Area Statements could not formally start until the Natural Resources Policy (NRP) was published by Welsh Government. The NRP was published at the end of August 2017. This was five months later than originally anticipated. In our Corporate Plan to 2022 and Business Plan 2018/19 we have been clear that we are working to a timeline of publishing Area Statements by the spring of 2020, i.e. by the end of financial year 2019/20.

Our Well-being Objectives and Statement were published on 31 March 2017. This document included a statement that we would “Develop Area Statements covering the whole of Wales co-productively by March 2019”. Our Well-being Objectives and Statement were produced ahead of the Welsh Government NRP, with limited insight into when it would be published. The NRP defines the priorities and opportunities that Welsh Government Ministers expect to see reflected in the Area Statements. Hence formal work could not start on Area Statements until the NRP was published. Following publication of the NRP, we and our partners needed to spend some time reflecting on the information in the NRP to understand the priorities and opportunities. Inclusion of the date of March 2019 in the Well-being statement in hindsight was a mistake.

We are confident we are on track to publish Area Statements by the end of March 2020. We have clear governance and milestones in place to ensure that we are managing the risks appropriately. It’s important to remember that we are applying new ways of working in the preparation of Area Statements, which themselves are new “products” introduced in the Environment (Wales) Act 2016.

5. Funding

“We seek further clarification on existing and potential sources of income generation, including how much of this income can be retained by NRW and how much is returned to the Welsh Government.”

We are currently focussed on growing our commercial income streams in line with our Enterprise Plan and are recruiting a new Head of Commercial to lead this work.

We are working with Welsh Government to reduce any barriers to commercial development. An example of this is where we are taking joint legal advice on how we can increase our powers to trade so that we can develop new hydropower schemes on our land.

NRW retain all income that we manage apart from income from energy development in respect to windfarms on the Welsh Government Woodland Estate. The level of income surrendered to Welsh Government is expected to be in excess of £6m next financial year.

We believe that this income should be retained to be invested for the benefit of natural resources in Wales and specifically the Woodland Estate. This would help mitigate the large real-term funding cuts that impacted on our services since we were created.

“We would like you to provide specific examples where services and/or activities within these areas, and any other areas, have been affected by budgetary cuts, and the implications of this.”

The reduction in Grant in Aid has meant we have had to reduce work across a range of services including changes to bathing water monitoring frequency, reduction of monitoring of terrestrial and marine biodiversity, reduction in Management Agreement funding, focusing on high risk Flood Risk Asset inspections, focusing on the attendance at higher impact environmental incidents, reduce reporting on Water Framework Directive progress, and reduction of Climate change policy resources.

Where possible we have changed our delivery or used evidence to help our decisions, so that we are mitigating the impact of reducing these services but we are aware that even so there will be a lower level impact that will become more visible in the longer term.

In paragraph 54 of our written evidence we indicate that additional money has been released to support the new ways of working in our operational teams. In particular additional resource is targeting the work of teams leading engagement with PSBs, implementing the Sustainable Management of Natural Resources and biodiversity enhancement. In addition, our Board has committed an additional £800,000 over the next financial year to support biodiversity outcomes plus £2 million through our grants programme.

“... we would like you to provide details on the total cost associated with NRW's programme of work for reservoirs, including timescales you are working towards.”

There are two elements to the cost requirements. The first is for capital works to do significant structural improvements to reservoirs when this is required by the independent engineers who are required by law to assess our reservoirs. Our planned capital works in 2019/20 are £5.7m, for which we have budget from Welsh Government. The future requirements are estimated at £7.7m - £10.7m for 2020/21 and £4.1m - £6.1m for 2021/22. There is a range quoted for these figures because it depends on the detailed work specifications which are currently under preparation. We have to bid for capital funds year-on-year at present.

The second element is for ongoing maintenance work funded through revenue budgets which is crucial to prevent deterioration and to maintain good operational performance of the reservoirs. Our requirements for this are more steady state at £900k per year. We have £300k of this baselined into our budgets (provided budgets are maintained and account for inflation). The other £600k has to be bid for year-on-year at present. There will be variations in the revenue requirements if for example we have short term staff requirements for a particular need.

Please note that we make a distinction internally between our reservoirs that are there for a Flood Risk Management (FRM) purpose (e.g. to hold waters to prevent flooding to properties) and those that are there for other purposes (e.g. water supply, nature reserves, recreational purposes etc.). Part of the reason for that is that the funding for the two types of reservoirs comes from different Welsh Government budgets – the first from Flood Risk Management Grant in Aid and the second from general Grant In Aid. The figures quoted above are for all reservoirs.

We have a hump of capital work for the next three years, partly because we have a batch of reservoirs that are falling under regulation for the first time, which in part is due to changes in legislation. Bidding for capital budget year-on-year is not ideal for capital jobs that may span several years.

“We would also like any assessment of the additional costs associated with regulating newly designed reservoirs that are not in your ownership, and how you intend to meet these.”

The change in legislation introduced in Wales increased the number of reservoirs that required legislation from 227 to 365, an increase of 60%. In order to regulate these effectively, we need to increase our staff resource by 2 FTE, at a total additional cost (with on-costs) of approx. £90k. We have received budget from WG for this up to end of 2020/21, but this is a continuous requirement and cost that we would wish to see baselined. If we cannot, we may need to cut our activities elsewhere, or lower our level of regulatory service, with subsequent risks. There are charges (to the owner) for reservoir regulation but these are not sufficient to cover our costs despite being set within the last five years at higher levels than previously. Increasing the charges again would be deeply sensitive, and of course unpopular.

6. Implications for NRW of the UK’s exit from the EU

“... actions NRW is taking to respond to the potential stockpiling of products and waste at ports in the event of a no-deal Brexit.”

NRW and Welsh Local Government Association are contributing to development of, and delivery of actions identified in Welsh Government’s Waste Risk and Mitigation plan. This plan has considered potential issues related to disruption in logistics, including ports and the potential for increased waste arisings. We are also involved in Defra/devolved administration and associated regulatory agencies waste contingency planning.

We are coordinating our efforts across our organisation on an approach to potential stockpiling. We have reviewed operator waste returns and other available data on waste movement to inform an assessment of potential disruption and capacity available in landfill, energy from waste and biowaste treatment sites in Wales. This work has indicated that most of waste generated in Wales is initially dealt with in Wales. There are limited exports of waste from Welsh ports. Of the amount that is exported to the EU, a significant % of this is metal (ferrous metals) which presents a low risk as the material is in a stable form

which can be safely stored at existing authorised facilities. There is a significant flow of waste that goes to England for processing into waste derived fuel and separate recyclates that gets exported to Europe. Disruptions at English ports may therefore restrict flow of these materials and result in “bottle necks” back along the chain to producers/generators. We have participated in UK and Wales wide stakeholder meetings to highlight to waste exporters the measures in place to help reduce border disruption in a no deal scenario. For example, we, along with other UK regulators, have contacted all EU competent authorities and secured agreement that all UK consents for shipments of notifiable waste that go beyond 29 March 2019 will be rolled over. We are encouraging operators to assess the impact that delays to waste exports may have on their operations and consider storage and alternative waste management options in case of disruption at ports. The key message given to operators of permitted sites is that the permit still applies and they are expected to continue to meet its conditions. We will be prioritising our compliance assessment activities on a risk basis.

We have also met with UK wide industry trade associations and encouraged operators to have contingency plans in place for the storage of raw materials, by-products, products and waste materials in the event that established transport routes are affected by EU exit. Feedback from industry indicates that arrangements have been put in place and no major disruption is expected in Wales. We will continue to engage with industry and the other UK regulators to ensure we are aware of any issues that arise.

“... discussions NRW has had with ports and how you have fed into the Welsh Government’s contingency plan for port traffic...”

NRW is working closely with Welsh Government and other agencies throughout Wales on potential issues at ports (including the ports of Holyhead, Pembroke, Fishguard, Barry, Cardiff and Newport).

NRW attends the Holyhead Port Multi Agency Plan Task & Finish Group, chaired by the North Wales Police Chief Inspector. NRW has been involved in a multi-agency desktop exercise at Holyhead and is due to attend a second exercise later in March. Contingency plans for port traffic developed by Welsh Government has involved close coordination with the Holyhead Port Multi Agency Plan Task & Finish Group and the relevant Local Resilience Forums.

As a member of the local resilience groups NRW has fed into the development of port contingency plans. NRW is supportive of the approaches set-out in the contingency plans as they seek to minimise wider disruption and help to ensure any potential accidents and incidents, such as pollution events, are contained and in areas with known drainage infrastructure and good access for emergency services.

“... what the £3.7 million requested by NRW from the Welsh Government to support Brexit-related work would be spent on, and the implications if you are unable to secure this funding.”

Our Initial bid for Brexit funding was made in February 2018 and was based on Brexit with a deal. The scope and scale of the work required was conservative and focused on providing specialist advice and guidance to Welsh Government and working with sectors in Wales and across the UK to review and inform the development of new environmental standards, policy and delivery mechanisms post Brexit. It was anticipated that this work would include:

- development of the post Brexit agricultural support scheme;
- development of the post Brexit marine fisheries scheme;
- strengthening and/or building new relationships with UK institutions picking up responsibilities previously undertaken by the Commission;
- building our International links with Environmental Protection Bodies in the EU and beyond, to ensure we draw on the best evidence and insight into new and innovative approaches to natural resource management.

There is significant uncertainty about the precise issues we will face in a no deal Brexit, but we are anticipating issues in for example:

- the waste sector – as mentioned above;
- the water sector;
- increases in pollution incidents potentially because of poor chemical or waste storage;
- additional applications for permits and licences in short timescales.

We are committed to working in a flexible and agile way to deal with the range of issues Wales will face in a no deal scenario and supporting our partners in the Local Resilience Forums as appropriate. This will inevitably mean that in the short term we will stop and/or slow down some of our core work areas to meet the new demands upon us.

Our submission to Welsh Government has not resulted in any additional funding for 2019-20 so we have agreed with officials to absorb the additional cost in 2019-20 using our underspend. We have the agreement of officials to submit a revised bid for additional funding for 2020-21 and 2021-22 to Welsh Government for consideration. By this stage we would expect to have greater clarity on the terms of the agreement that the UK has secured from Europe. If we are unsuccessful in securing funding in future years we will have to reprioritise our business plan which will have implications for our ability to contribute to Welsh and UK discussions on future environmental standards, regulation and advice responsibilities. It could also impact our core work programme and our ability to respond to environmental incidents.

7. Environmental Permitting

“We would like further clarification on this issue, including the timeframe you will be working towards for completion of the matrix.”

The statutory guidance on Part 1 of Environment (Wales) Act 2016, provides clarity on the application of our statutory purpose in our functional roles and duties. The guidance also provides clarity on how the requirements of the Environment (Wales) Act and Well-being of

Future Generations (Wales) Act work together. Our interpretation of the Guidance is that in applying our purpose – the objective and principles of Sustainable Management of Natural Resources (SMNR) - we also meet the requirements of the WFG Act in relation to the Sustainable Development principle. As we state in paragraph 69 of our written evidence Welsh Government Officials met with the FGC Office. We have not had any feedback from Welsh Government since that meeting that our interpretation of the statutory guidance needs to change.

We do not intend to do any further work on the matrix. As we state in paragraphs 65 and 66 of our written evidence and as we said during the committee session we intend instead to focus on how the purpose of SMNR and the principles apply to Environmental Permitting Regulations. We are following the process set out in Annex 1 of the statutory guidance. Work has started on this function first, because of the concerns raised by the FGC Commissioner. We intend to work on this approach with the FGC officers and Welsh Government officials. This “root and branch” exercise will be running throughout spring and summer of 2019. We will be using our 2019-20 Annual Report to set out our findings.

8. Community Engagement

“We would welcome further details on these projects, including the outcomes anticipated and how they will be measured.”

Greener Grangetown - Greener Grangetown is an innovative £2 million partnership project between Cardiff Council, Dŵr Cymru Welsh Water and Natural Resources Wales, supported by the Landfill Communities Fund. The project uses the latest drainage techniques to catch, clean and divert rainwater directly into the River Taff instead of collecting and pumping it eight miles to a treatment works in the Vale of Glamorgan and then discharging it out to sea. The project also aims to use the introduction of Sustainable Drainage Systems (SuDS) to deliver multiple benefits for the community and the environment, making Grangetown a cleaner, greener place to live for generations to come, with less commuter parking, safer walking and cycling facilities, and increased biodiversity and green infrastructure.

The scheme has seen the creation of 108 rain gardens and kerbside planting areas. These areas not only help to improve local drainage, but also enhance local biodiversity and wildlife, and deliver important improvements to water quality in the River Taff. The scheme has 135 new semi-mature trees and 1,600m² of new green space, which is already providing new homes for wildlife and has opened up new opportunities for people to enjoy walking, cycling and other recreation close to where they live and work. There is overwhelming research that being closer to green space also improves people’s physical and mental well-being. At the same time, more greenery and tree planting will mean noise and pollutants should be better absorbed, and air will be cleaner too. Through Greener Grangetown, NRW always wanted to create a legacy to show how green infrastructure projects can create healthy and resilient local environments, and support economic and social prosperity for generations to come. We believe this scheme, in addition to the positive changes that last January’s SuDS legislation are already bringing, will enable us all to tackle local challenges a lot better across many towns and cities in Wales, including

Cardiff. The scheme was officially opened in October 2018 and has also attracted interest from around the world. It also won a 2018 Water Industry Award for UK Engineering Project of the Year.

Denbighshire Green Prescribing project – The Denbighshire Green Prescribing project ‘Nature for Health (NFH)’ received funding via our last SMNR Open Call grant scheme. Nature for Health is a collaborative 18 month environmental social prescribing project, jointly delivered by Denbighshire Housing and Countryside Service, funded through Natural Resources Wales, and supported by the health board and Bangor University. The project provides weekly on the doorstep opportunities to help people live healthier and more fulfilled lives through improved access to the natural environment. The scheme is operating in 4 pilot areas – Rhyl, Prestatyn, Corwen and Llangollen. The pilot areas were selected based on Denbighshire’s Housing Dept assets and associated community involvement.

The project further works with a range of working partners to actively promote the natural environment as an asset to improved health and well-being through encouraging and supporting individuals to get outside in their own community. The project works in partnership to deliver:

- Environmental health and well-being sessions with schools
- Develop training, walking and volunteering sessions
- Improve access to green spaces
- Attend and lead on wider community engagement activities

Currently there are 60+ people engaged in led walks and weekly volunteering sessions; regular meetings between NFH staff, Health Centres and referral agencies; 20+ weekly/monthly volunteer led walks across the county; a number of green spaces improved including access paths, wildflower area and creation of growing areas.

The outcomes of the project include:

- Created a partnership working approach to tackling health issues through the use of the natural environment.
- Created working relationship for future projects
- Established a monitoring and evaluation tool kit to be used / support on future environmental social prescribing projects
- Stronger strategic working partnership
- Participants feeling improved physical and mental wellbeing
- Participants taking part in self-motivated environmental social prescribing opportunities within their own communities
- Communities and Individuals are more aware of the benefits of environmental social prescribing
- Communities / individuals are more confident to take part in local environmental social prescribing activities
- Young members of the community have taken part on environmental / environmental social prescribing awareness sessions
- Community members trained up to deliver and support environmental social prescribing session.

The partnership has decided to use the Warwick Edinburgh Mental Well-being Scale (WEMWBS) as the evaluation toolkit to evaluate the benefits of regular participation in environmental activities. The health board will be providing the Elemental software to support evaluation as this will record the progress of social prescribing across North Wales. Case studies will also be used to share outcomes and promote the project.

As mentioned at the evidence session last month we would be pleased to offer the committee opportunities to see our work taking place across Wales and we would welcome the opportunity to facilitate some site visits for committee members.

Yours sincerely,

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